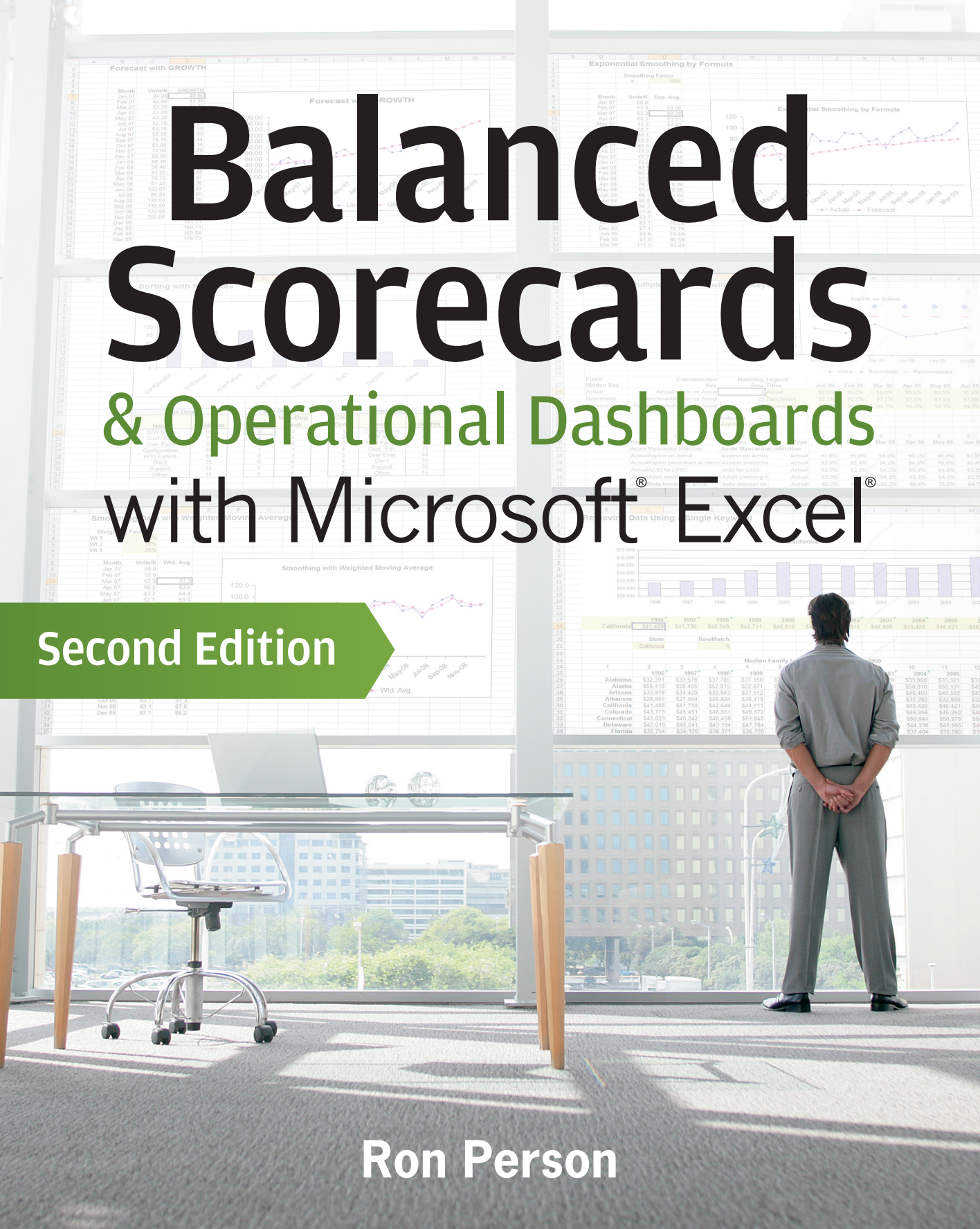
Balanced Scorecards

& Operational Dashboards with Microsoft® Excel®

Second Edition



Ron Person

Balanced Scorecards & Operational Dashboards with Microsoft® Excel®

Second Edition

Ron Person

WILEY

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My deepest love and gratitude to my family for their support and understanding.
I missed you and our time together during both editions of this book.
All my love to Barb, Annika, Rohan, Marjorie, and Anne.

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About the Author

Ron Person is a Sr. Consultant for Business Optimization for Sitecore. Sitecore is recognized as the innovation leader in software that helps organizations engage customers with online and offline marketing. Ron continues to use processes described in the first sections of this book to help Sitecore's partners and customers reach their business objectives.

In the 27 years prior to joining Sitecore Ron helped organizations create a competitive advantage through strategic execution and a culture of high-performance.

Ron worked with mid-sized organizations with revenues of $25 to $500 million. His clients in the United States and internationally have included hospitals, banks, biotech companies, medical device manufacturers, and financial services firms, spanning a diversity of organizations such as:

- Medtronic CardioVascular
- Bethanie Group (Western Australia's largest elder care and hospital system)
- Wells Fargo Center for the Arts
- U.S. Army Corps of Engineers
- U.S. Naval Undersea Warfare Center

Prior to consulting in performance improvement Ron has been:

- A manager of competitive analysis for a Fortune 500 corporation
- One of Microsoft's first twelve consulting partners
- The founder or co-founder of four companies, two of them high-tech
- The author of 26 business and computer books, including four international bestsellers with almost 4 million copies in print

He has personally conducted workshops for thousands of business people and has spoken before conferences and groups such as Vistage (the world's leading Chief Executive organization), Microsoft technical conferences, the American Society for Quality, APICS (the Association for Operations Managers), the Project Management Institute, PIHRA (the Professionals in Human Resources Association), and the American Association of Homes and Services for the Aging.

Ron's education and credentials include:

- Certification by the Balanced Scorecard Collaborative, the educational division of the founders of Balanced Scorecard, Drs. Kaplan and Norton. Only a few independent consultants each year pass this rigorous training and examination.
- Member of the California Awards for Performance Excellence™ Board of Examiners, 2008 (California's Malcolm Baldridge award for excellence in organizational performance)
- A Six Sigma Black Belt
- An M.B.A. in marketing and finance with highest honors
- An M.S. in physics
- Training as a facilitator for strategic planning by the Institute for Cultural Affairs and the Center for Strategic Facilitation

Ron supports his readers and subscribers through his website **Critical To Success** at `www.criticaltosuccess.com`. His website is dedicated to helping business owners, managers, and professionals improve their personal and organizational performance. Ron's website contains:

- Tips
- Tricks
- Tools
- Techniques
- Tutorials
- Toolkits

About the Technical Editors

Jim Coffey has lead Strategy and Strategy Execution engagements using the Balanced Scorecard for a wide variety of public and private sector clients, including the US Army, the FBI, FedEx, Crown Castle, and the USC LA County Hospital. In addition to his strategy work, Jim does executive coaching and organizational development consulting to help organizations successfully navigate the cultural aspects of strategy execution.

Previously, Jim was a manager with PricewaterhouseCoopers (PwC). While there, he led numerous project teams responsible for process reengineering, cost estimates, and market competitive analysis. Prior to PwC, he worked in the power industry as a nuclear power plant performance evaluator with the Institute of Nuclear Power Operations and as a start-up engineer with General Electric Nuclear.

As a result, Jim has:

- Over twenty years of experience supervising personnel, managing multiple diverse technical programs with budgetary, planning, and customer interface responsibility
- Over fifteen years' experience in organizational strategy management and performance improvement efforts using Balanced Scorecard/Strategic Performance Measurement System methodologies; including managing, aligning and linking multiple organizational performance projects and initiatives
- Extensive experience using automated, web-based Balanced Scorecard Collaborative/Strategic Performance Measurement certified applications and tools for scorecard development and reporting

Education: MBA from the University of Chicago; Bachelor of Science in Engineering from The Ohio State University

Michael Alexander is a Microsoft Certified Application Developer (MCAD) and author of several books on advanced business analysis with Microsoft Access and Excel. He has more than 16 years of experience consulting and developing Office solutions. Michael has been named a Microsoft MVP for his ongoing contributions to the Excel community. Visit him at `www.datapigtechnologies.com`.

Acknowledgments

With the second edition of this book I continue to realize how we help each other expand our knowledge, improve our lives, and improve our world. I am very grateful for the opportunity to have worked with so many outstanding people. It is to the many high energy, hardworking, and spirited people I've worked with that I dedicate this book.

I want to thank Michael Seifert, CEO of Sitecore, and Lars Petersen, Head of Sitecore's Business Optimization Services for the opportunity to work with a global group of dynamic, intelligent people who are changing the way the world does business.

James Coffey deserves praise for not just reviewing the sections on strategy and Balanced Scorecard, but also for adding depth that comes from his years of experience in Balanced Scorecard consulting and working for the Palladium Group, Drs. Kaplan and Norton's consultancy.

Michael Alexander had the difficult job of reviewing the technical sections that covered three versions of Excel. His experience added to those sections. Michael's expertise in Excel and Access is visible in his books for John Wiley & Sons as well as his consulting website, DataPig Technologies.

Having been a consultant for almost 30 years, I realize that one of the responsibilities of a consultant is collecting and filtering ideas that help clients, and then putting the best ones into practice in ways that make them productive and beneficial. There are many people and sources who have built the foundation of the ideas presented in this book. Here are a few I would like to thank.

Thank you to Drs. Kaplan and Norton of the Palladium Group for furthering the advancement of management science with Balanced Scorecards and Strategy Maps.

Each year, a few consultants complete the Balanced Scorecard certification program delivered through the Balanced Scorecard Collaborative, the educational division of the Palladium Group. Thank you to Edward A. Barrows, Jr., independent consultant and former Vice President of Balanced Scorecard Collaborative, a Palladium company, and Karen A. DiMartino, Manager, Advisory Services, for conducting excellent Balanced Scorecard certification programs.

The consulting profession can often be lonely, and the opportunities to develop our professional skills are neglected as we help clients and spend time with family. Many people have committed extra time to developing the professional skills of consultants, and we consultants owe them a debt of gratitude. Throughout the years I've enjoyed their camaraderie and shared learning. A few of these people in northern California are:

- Harry Chapman, Bay Area Consulting Group, founder of the Bay Area Consultants Network
- Rogene Baxter, the Bridgewater Group, former president of the Institute of Management Consultants, Northern California Chapter
- Jane Stallman, Center for Strategic Facilitation

After having written more than 20 books, I wasn't sure I wanted to write again, but working with a great team from Wiley Publishing has made it easy to get back in the saddle. Thanks to:

- Jim Minatel, Associate Publisher, for proposing and expanding on the second edition
- Carol Long, Executive Editor, for working out all the business details
- Sydney Jones Argenta, Project Editor, for being so easy to work with while maintaining an even flow of work. She seemed to magically make the work flow.

There have been many people who have reviewed this book, but the responsibility for accuracy and the descriptions of real-world business solutions lie with me. If you, the reader, find an error or something about which you have a question, please contact me through `www.criticaltosuccess.com`.

To Your Best Performance,

Ron

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Introduction

This book is a guide to how your organization can create a competitive advantage by successfully executing strategy and accelerating performance. You must begin with a vision held by and communicated through leadership to every employee. That vision is achieved when employees work in concert, knowing how they contribute to strategic success and operational performance. A Strategy Map and Balanced Scorecard are the tools you need to gather the information that shows you how you can achieve strategic success. Operational maps and operational dashboards are the tools and measures that show you how to accelerate operational success.

Since I wrote the first edition of this book, the world has undergone significant change. With continued globalization and the global recession, it's even more apparent that winning organizations possess two attributes. They must be flexible enough to pivot in new directions, and they must focus on their core strategic strengths:

- Winning organizations continually monitor their performance and are willing to pivot with a better strategy. To monitor their performance, they need operational dashboards that measure the Critical Few operational metrics specific to their organization.
- Winning organizations must focus their people, processes, and technology. To do that, they need a Balanced Scorecard that helps the organization stay aligned with its core strategic strengths.

As I move between organizations of all types, I am continuously amazed at the cultural differences between winners and those that just get by. The culture I see in winning organizations is one of high energy, proactive execution, and continuous learning. In general, everyone is aligned with the key strategic and

operational objectives. When an effort works, it's leveraged. When an effort doesn't work, time isn't spent on blaming. Instead, everyone works to improve performance. This attitude comes from the leadership and the people, but the tools that identify performance are operational dashboards and Balanced Scorecards.

I enjoy, and am continually heartened by, the 10 to 20 e-mails per week from readers. Among these is the occasional request for a list of generic metrics. This piques my curiosity, because one of my main reasons for writing this book was to emphasize the importance of the Critical Few objectives and metrics. The Critical Few are specific to your organization. The best way I've found to identify them is to use the group brainstorming and mapping processes described in this book. Don't pick metrics from a generic list! Use the processes described here to identify the Critical Few objectives, identify their drivers and success measures, and then look for metrics to measure their performance.

After 30 years as a road warrior consultant, I have amassed a huge performance-improvement toolkit. I want to share with as many people and organizations as possible this collection of tips, tools, and techniques. If you'd like to benefit from this collection, I welcome you to. Go to `http://www.criticaltosuccess.com`.

To your best performance!

Ron

Success through Strategic Execution and Accelerating Operational Performance

Business horror stories repeat themselves. We've all seen the numbers that define the stories:

- 90 percent of corporate strategies fail to achieve their expected results.
- 80 percent of projects are late or over budget.
- 70 percent of mergers fail to exceed the value of the original companies.

Those are pretty uncomfortable statistics. On the other hand, some organizations succeed well beyond expectations. One famous bank merger achieved a 19-fold profit increase in three years. One hotel chain increased its profit margin 3 percent over the industry average in three years. What is the difference between the terrible failures and the huge successes?

Whether at the macro level of executing your strategy and aligning your company or at the micro level of creating a project team that meets deadlines, a few core principles remain the same:

- Create a "burning platform" that moves people away from business as usual.
- Identify the objectives most critical to success.

- Define the initiatives that will make those objectives succeed.
- Select the Critical Few metrics that track performance and alignment.
- Create a culture of measurable high performance while breaking down silos.
- Maintain and sustain the high-performance culture.

Some of my clients who have been through the processes described in this book have said the following:

- "Our leadership team had the best strategic discussions they have ever had."
- "The budget process was significantly easier than in any previous year."
- "This process is changing our entire culture to keep up with our high growth."

Who This Book Will Help

This book is built to be a practical guide; it doesn't contain much theory. Many other books describe theory and case studies for Balanced Scorecards, Six Sigma, Lean, and other performance-improvement methods. This book is intended to be a guide for the people who take action. It will help you map your future, identify the Critical Few metrics, implement the Balanced Scorecard, and create operational dashboards.

This book has three different audiences: the executive sponsor or operations manager, facilitators and consultants, and software developers.

Executive Sponsor

Balanced Scorecards and performance-improvement programs don't succeed without an executive sponsor. Members of the executive leadership team and the senior managers who are team leaders should scan Parts I and II of this book to understand the time frames and commitments involved in creating success.

Members of the executive leadership team who have heard the term Balanced Scorecard may not know what it takes to drive strategic success with a Balanced Scorecard. They can scan Part I to see what is involved. It takes time and commitment from the executive leadership team.

Two telephone calls from senior managers remind me that many do not know what is involved in creating a Balanced Scorecard or how it affects an organization when implemented correctly. In one call, the manager said, "We're having a two-day corporate retreat for the executive leadership team. Could you do a Balanced Scorecard for us in two hours?"

Another call illustrated the business buzzword effect. It was from a manager whose division executive had heard about a Balanced Scorecard being used at a pharmaceutical competitor. He had been assigned to put together a Balanced Scorecard for the division within the next week.

Neither of these cases had executive commitment or the time frames necessary to create a Balanced Scorecard that drives success and creates a culture of high performance.

Facilitators and Consultants

Facilitators and consultants are vital to creating a Balanced Scorecard or operational dashboard. They are the guides who help the executive leadership team and managers through sticky spots. When discussions get too easy because no one is asking the hard questions, the facilitator must be able to step in and ask probing questions that put a tough issue in the spotlight so that it will be addressed. It is imperative, especially in the case of strategic Balanced Scorecards, to have a consultant who has no agenda and who is politically impartial.

Software Developers

The majority of Balanced Scorecards and operational dashboards are created in Microsoft Excel. You don't need to be an Excel Visual Basic guru to build them when you know the correct combination of worksheet functions. Part III describes most of the building blocks for creating and maintaining powerful scorecards and dashboards.

BUILD A SCORECARD OR DASHBOARD YOU CAN MAINTAIN

Part III covers the methods and tools necessary for building powerful decision-making aids in three different versions of Excel. But there is more to building them than just a few techniques. Make sure your Excel developer knows how to build systems that can be easily maintained and updated. Whether you use an internal or external developer, make sure he or she documents the system and shows others how to maintain it.

Additional skills the software developer needs are the ability to interview users to discover their needs, understand what is critical in a business process, design user interfaces, build maintainable architectures, and integrate live data.

How This Book Is Organized

This book has three parts. Part I covers the steps and processes required for building a Balanced Scorecard to execute strategy. Part II introduces the basics of mapping operational processes and identifying critical metrics. Part III shows intermediate-to-advanced Excel users techniques specific to creating dashboards.

Part I

Part I describes the journey of building and rolling out the Strategy Map and Balanced Scorecard. It is used by over 50 percent of Fortune 1000 companies and more than 70 percent of international corporations. It begins with an overview of the tools commonly used to develop organizational strategy. A chapter is devoted to building the Strategy Map, the diagram that visually defines the strategic themes on which the organization will focus and the objectives that will drive success. The next chapter describes how the Strategy Map must be converted into an action plan that details the initiatives to reach success and the metrics required to keep those initiatives on track and on time. Once the metrics are defined, the Balanced Scorecard can be developed and used—not just as a dashboard for strategic progress, but as a core mechanism to guide ongoing strategy meetings. The last chapter of Part I describes some of the communication and rollout processes necessary to communicate the change.

Part II

The three chapters in Part II describe a few methods of mapping operations. These include process maps and economic value maps, as well as how to use them to identify the Critical Few metrics that drive an operation and measure its success.

Part III

Part III gives many specific examples of how to use Excel 2003, 2007, and 2010 to build Balanced Scorecards and operational dashboards. Excel is the most widely used business analysis and graphics tool in the world; the majority of Balanced Scorecards and operational dashboards in the world are built using Excel. Scorecards and dashboards in Excel do not need to use Visual Basic for Applications, but they do need a good architecture, and they require a few little-known worksheet functions.

Free Resources That Extend This Book

There is much more to executing strategy and creating high performance than will fit in this book. You can find newsletters, articles, tools, video demonstrations, and software at http://www.criticaltosuccess.com.

Download Free Excel Sample Files

The Excel training examples featured in Part III are available for free download. Go to my website or the publisher's website:

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http://www.criticaltosuccess.com

http://www.wiley.com/go/scorecardsanddashboardswithexcel2E
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Free Balanced Scorecard and Operational Dashboard Tips, Tools, and Tutorials

Staying ahead of the competition and keeping your organization performing at its highest level is an ongoing process. To get a jump start on improving your execution and performance advantage, go to http://www.criticaltosuccess.com for additional tips, tools, tutorials, and videos.

While you are at the Critical To Success website, be sure to sign up for the newsletter. It will keep you up to date with the best tips to help you grow as a business owner, manager, or professional.

Videos and Online Tutorials

No book can convey all the lessons learned through years of experience. Some processes and techniques are just too difficult to convey completely in text. And many tips, templates, and toolkits just can't fit in this book.

To learn more about the video and online tutorials to help you and your organization improve, go to http://www.criticaltosuccess.com.

Part I

Strategic Performance with Balanced Scorecards

In This Part

Chapter 1: Accelerating Strategic Performance
Chapter 2: Developing Your Strategic Foundation
Chapter 3: Preparing to Build Your Balanced Scorecard
Chapter 4: Step-by-Step to Building Your Strategy Map
Chapter 5: Step-by-Step from Strategy to Action
Chapter 6: Step-by-Step to Selecting Metrics and Setting Targets
Chapter 7: Step-by-Step to Developing Your Implementation Plan
Chapter 8: Step-by-Step to Rollout and Strategic Reviews