

The Balanced Scorecard – Translating Strategy into Action



Introduction

Public transport organizations face many barriers when trying to execute the strategy formed by their corporate managements. Some of these common barriers include:

- The vision barrier, which arises when most managers and employees do not really understand the organization's strategy.
- The people barrier, which arises when only a small portion of managers have some incentives regarding strategy and performance.
- The management barrier, which arises when most management teams spend only a small amount of time discussing strategy.
- The resource barrier, which arises when most of the business units fail to link their daily work and therefore their budgets to the overall strategy.

Most of these barriers can be overcome by using the Balanced Scorecard, which combines the historical accuracy of financial numbers with the drivers of future performance. The

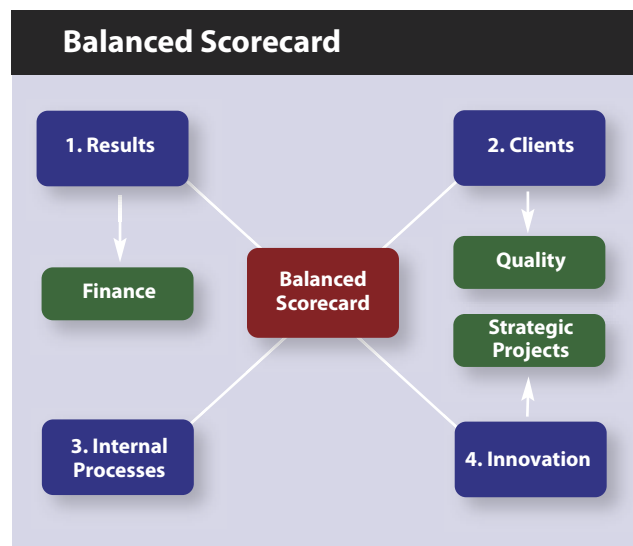
Balanced Scorecard was developed by Robert Kaplan, a professor at Harvard University and David Norton, a consultant from Boston. They began developing the approach after leading a research study of a dozen companies exploring new methods of performance measure. Kaplan and Norton put together a system that was able to measure a variety of activities throughout the organization: customer issues, internal business processes, employee activities and the concerns of shareholders. Under the Balanced Scorecard system, a company's financial results are "balanced" and interlinked with all of these perspectives. This scorecard was successfully adopted by a number of organizations and the results summarized in a book *Balanced Scorecard*, published in 1996. Since then many organizations have adopted the approach and shown how effectively there are fulfilling their missions. The system has also grown in popularity among Public Transport companies.

Using the Balanced Scorecard

In addition to financial measures, the Balanced Scorecard (BSC) employs three other perspectives, each with its own

objectives, measurements, targets and initiatives. All four perspectives are outlined below. The latest thought in this regard is that companies cannot be properly managed by financial figures related to the past (i.e. decisions taken, market developments, etc.) and which describe the current situation merely as a snap-shot. In terms of managing companies in a sustainable way, it tends to be more meaningful to consider "softer" aspects related for example to customers and human resources. The strong impact and interrelations of these various aspects to a firm's financial results have long been neglected. Also taking into account company and market developments, which change much more slowly than financial results but better describe a firm's ability to fulfil future performance targets, these perspectives are lifted to the same level as the purely financial perspective and thus a balance is achieved.

The BSC includes the following perspectives or quadrants:



Financial Perspective

In general, the financial perspective is how a stakeholder views a company's plans for growth, handling risk and making a profit. It evaluates how well a strategy is being executed, as reflected in improved bottom-line results.

Some examples:

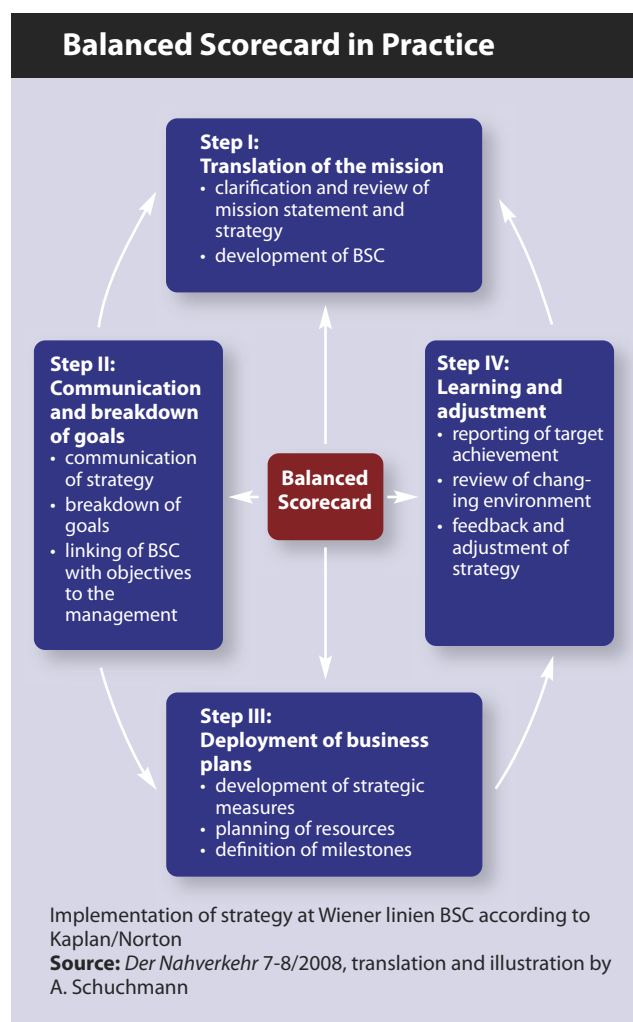
- Reduced operating expenses: cutting costs is important if a company is to gain a competitive edge, but this can be balanced against other scorecard measures such as customer satisfaction and quality.
- New services or products: these reflect how much revenue has been earned from the introduction of new services within a set time frame.

Customer Perspective

The Balanced Scorecard also measures a company's ability to attain its strategic objectives in terms of customers and the marketplace. For example, a public transport company might wish to become the market leader in delivering value to passengers. Customer measures are necessary because the only route to long-term financial success is to deliver the services demanded by customers. The basic core measurements could include customer satisfaction, customer acquisition, customer retention and customer profitability. These measures provide managers with a clearer idea of who their customers are, how to earn profits from them and what their customers value. The ultimate goal is to create a portfolio of services that delivers superior value for the targeted customers.

Internal Process Perspective

This category focuses on internal operations and emphasizes how a company delivers services according to the various modes of transportation offered. IN this category, physical internal drivers with a direct impact on economics are often described, such as schedule efficiency, average wage level, absenteeism ratio. Possible measures could include service quality with possible indicators on accessibility, availability,



reliability, safety and comfort. Several other factors can be measured to ensure that a company's internal operations are aligned with its goals.

Learning and Growth Perspectives/Innovation

A company needs well-trained, highly skilled employees if it is to excel in the first three strategic perspectives. Educational goals drive the attainment of other strategic objectives. Invest in human capital by spending money on employee capabilities, information/knowledge systems and motivation, empowerment and alignment.

These factors can be measured by assessing employee satisfaction, skills and productivity. Other possible measures include productivity levels, training and skill levels, performance improvement and individual performance goals that align with the objectives of the Balanced Scorecard (BSC).

According to BSC inventors Kaplan and Norton, the key to a company's long-lasting success is achieving a well-balanced performance of the above four perspectives.

The Balanced Scorecard in Practice

According to Public Transport International (June 2005), Belgian public transport company De Lijn decided to introduce the Balanced Scorecard (BSC) in 2003, first at corporate level and later at the regional and departmental level. According to BSC principles, key performance indicators were defined for each of the four perspectives: finance/results, customers, processes and innovation.

Public transport companies typically include non-financial key performance indicators (KPIs) within the finance/result perspective. Of course, budget compliance and financial performance stand at the core of this perspective, but it is equally important for the company to live up to the commitments described in the management contract with the public authority.

For example, contributing to traffic safety is an important objective for public transport. De Lijn's BSC finance/result perspective quadrant therefore contains KPIs on tram and bus accidents. Likewise, the steady increase in the number of passengers is a management contract commitment and therefore appears in the form of a KPI in the finance/results quadrant of the BSC.

The process quadrant is made up primarily of human resources indicators. This includes data on productivity, but also on industrial relations, competence management, personnel flow, etc.

The client quadrant mainly contains KPIs on customer satisfaction as measured by both satisfaction surveys and spontaneous customer reactions by phone or mail. The introduction of the BSC by De Lijn prompted a project on integration and further development of all quality-related data in a new "quality barometer."

The innovation quadrant is intended as a follow-up to various strategic projects. These are identified as having a direct link to the company's strategic objectives and having an impact throughout the whole organization. De Lijn, for example, developed a new electronic registration, ticketing and onboard computer system and deployed a new extended release of

its IT-based operations planning system.

To take another example, Vienna's public transport company Wiener Linien used the introduction of a BSC to enable the implementation of its strategy.

In the case of Wiener Linien, the individual business units, established as separate profit centres, had to achieve some sort of balance to improve the level of economic responsibility at this organizational level. To optimize the efficiency of the overall company, a superior system of targets was required and the BSC was chosen for this purpose. As a consequence Wiener Linien's scorecard was broken down into separate profit centre scorecards, leaving the individual units with responsibility for their respective decisions.

Implementation of a Balanced Scorecard Program

Phases of Implementation

When starting a Balanced Scorecard program it is essential to have key performance indicators (KPIs) in place. The company has to reach a consensus about what exactly has to be measured and which scores will trigger yellow or red alerts. This can be a lengthy process, involving discussions at different management levels. Also, making good use of the BSC involves the willingness and cooperation of all participants. Even if the BSC has been conceived as a management instrument rather than a control tool, there is still the risk of the program being perceived as a threat to management autonomy. Diagnosis using the BSC has to be followed up with further analysis and, where appropriate, targeted action.

The implementation of a BSC program consists of three major phases: planning, development and communication.

The planning phase lays the groundwork for a successful project. This phase creates a BSC development plan and may include the following steps:

- a) Development of objectives for the BSC.
- b) Determine the appropriate organizational unit for a pilot scheme.
- c) Gain the support of top management.
- d) Form a BSC project team.
- e) Create a project plan.
- f) Develop a communication plan to inform others in the organization about your project.

In the development phase, the following steps can be followed:

- a) Gather and distribute background material to give a clear picture of the organization's competitive position and employee competencies.
- b) Develop or confirm the company's mission, values, vision and strategy, drawing on the findings from step a).
- c) Conduct executive interviews to receive feedback on the organization's competitive position, key success factors and possible BSC measures.
- d) Develop objectives and measures in each of the BSC per-

spectives; organize executive workshops and gather feedback from middle management as well as employees.

- e) Establish targets for the measures to be undertaken, to show whether improvement efforts lead to acceptable results; gain a final consensus on the final BSC products.
- f) Draw up a BSC implementation plan, which develops a measurement tool as the basis for the new management system.

Companies should expect to spend six to 12 months on the development phase. The amount of time involved depends on many factors, including the commitment of the executive team, the size and complexity of the organization, and its willingness to change.

In the communication phase the company must communicate its BSC goals in order to build awareness of the BSC at all levels and encourage participation in the process. Team results must be disseminated rapidly and effectively.

Alignment

Another key to success is to cascade the BSC to create organizational alignment. For example, the Corporate Scorecard for customer satisfaction can be cascaded down to create a Marketing Scorecard and a Customer Service Scorecard by looking at internal processes and redesigning them to achieve the same objective. This type of cascading down within the organizational hierarchy may create dozens of Balanced Scorecards within a company, all aligned with the company's overall goals but describing key performance indicators, which can be influenced at the respective organizational levels.

Note: This document is based on both the cooperative desk research of Sputnik project partners and input from public transport practitioners.