

# DOES YOUR SCORECARD NEED A WORKSHOP?

BSC AND CSA: MERGING MUTUAL COMPLEMENTS

BY HUGH PFORSICH

Many balanced scorecards (BSCs) are initiated with great promise but soon fade away. Why do they fail? More often than not, management doesn't systematically communicate strategies to all employees for practical implementation or obtain employee feedback that would generate innovative improvements and breakthrough capabilities. The missing link is a formal communication and feedback system. The solution may be found in a complementary, yet less known, management tool called Control Self-Assessment (CSA) that provides just the forum for communication, education, and feedback apparently lacking in most BSC implementations. Facilitated CSA workshops make strategy everyone's job by setting up a cycle of communication between management and employees. The goal? To enable the BSC to reach and maintain its full potential.

We'll first look at the BSC's role and explain the CSA workshops, which are already in practice in many internal auditing departments. While both tools have operated independently of each other for about a decade, merging the two can transform the BSC from a mere *measurement* system to a *management* system.

## THE BALANCED SCORECARD

As a strategic management tool, the balanced scorecard aligns financial, nonfinancial, quantitative, and qualitative performance measures with an organization's vision and mission. Traditional measures that summarize the financial and operational outcomes of an organization's past are balanced with and connected to forward-looking performance indicators of investments in intangible assets such as process innovations and improvements, new capabilities, and customer relationships. Aligning outcome measures and performance indicators across four organizational perspectives (financial, customer, internal business processes, and learning and growth) forms a cohesive and verifiable set of strategies that leads to creating future value and achieving the organization's overall mission.

Many organizations have benefited from the BSC since Robert Kaplan and David Norton introduced it in 1992. Examples of success stories include AT&T Canada, Chemical Bank (now J.P. Morgan Chase), CIGNA Property & Casualty, the City of Charlotte, Duke Children's Hospital, Hilton Hotels, Mobil North American Marketing & Refining Division, and United Parcel Service (UPS). These organizations excelled at implementing Kaplan and Norton's five principles of the strategy-focused organization:

1. Translate the strategy to operational terms,
2. Align the organization to strategy,
3. Make strategy everyone's job,
4. Make strategy a continual process, and
5. Mobilize change through executive leadership.

Hilton, Mobil, and UPS, in particular, stand out because of how they applied Principle #3: *Make strategy everyone's job*. They used a variety of means to apply this principle, including the following media:

1. Large town-meeting-style employee gatherings for executives to provide initial promotion and education of the BSC in a question-and-answer forum;
2. Inexpensive, broad-based, impersonal communiqués such as posters, paycheck stuffers, brochures, newsletters, and intranet postings; and
3. Formal and intensive training sessions that initially target top management and then all employees.

Some organizations have also found success in communicating BSC strategies at retreats and state-of-the-company meetings.

Although there are many success stories, the overall failure rate of BSC implementation is 70%, according to Paul McCunn, a KPMG management consultant. This reported failure rate is based on research conducted by Claude Lewy, a professor at the Free University of Am-

sterdam, and some possible reasons for this failure rate are reported in the BSC literature. For example, in 1996, Kaplan and Norton identified the primary barrier to BSC success to be the organization's inability to translate its vision and strategy into terms that employees can understand and act on. Based on survey results from hospital administrators, Chee W. Chow, accounting professor at San Diego State University, and his colleagues confirmed this notion, reporting in 1998 that although administrators were interested in adopting the BSC as a strategic management tool, they recognized two areas of difficulty: (1) translating general concepts into concrete action, and (2) operationalizing outcome and performance measures.

In many cases, the BSC implementation process appears to break down somewhere between the boardroom—where the vision, strategy, and performance measures are devised—and the back room, shop floor, and customer service counter—where the actual implementation is put into action. Chow recommended that the process of selecting performance measures for each BSC goal should include widespread participation throughout the organization. But even among successful companies the methods to inform and involve employees at all levels are mostly from the top down. In fact, most employees participate in the BSC implementation process in only two ways: (1) They become aware of the management-created strategies, and (2) they construct a personal scorecard aligned with the scorecards at their business-unit level and higher.

Another reported barrier is the lack of feedback from employees to management on how the strategy is being carried out and whether it's working. Instead, failed BSC systems may provide feedback that is merely tactical regarding short-term, operational performance. Without strategic feedback, organizations have no way to review, test, or improve on their strategies, and the BSC becomes ineffective as a management tool. Control Self-Assessments may provide just the forum for communication needed to overcome the BSC's implementation barriers.

## CONTROL SELF-ASSESSMENTS TODAY

Although CSA has yet to gain prominence in strategic management circles, the internal auditing community recognizes its benefits. The Institute of Internal Auditors (IIA) supports CSA by offering many services such as a website at [http://www.theiia.org/iaa/index.cfm?doc\\_id=31](http://www.theiia.org/iaa/index.cfm?doc_id=31); a CSA newsletter; a Center for CSA publications, seminars, and conferences; and a Certification in Control Self-Assessment (CCSA).

In more and more organizations, CSA has been established as an important internal control-assurance mechanism. According to the IIA, CSA improves the control environment of organizations by:

- ◆ Increasing the awareness of organizational objectives and the role of internal control in achieving goals and objectives.
- ◆ Motivating personnel to carefully design and implement control processes and continually improve operating control processes.

With CSA, employee teams and management at local and executive levels continuously maintain awareness of all material factors that affect the likelihood of achieving the organization's objectives. The most common form of CSA is a facilitated workshop in a structured environment where innovation, learning, training, empowerment, and communication occur across job functions and within a business unit.

Management initiates the CSA process by developing a list of objectives pertinent to their particular business unit. With the help of workshop facilitators, employees who carry out the daily operations in that business unit identify the successes and obstacles related to each objective and develop potential action plans or controls to ensure that they achieve each objective. For each business unit objective, participants are asked to vote, assigning a score to the likelihood of achieving the objective both before and after the action plans are carried out. Care is taken to ensure that the workshop atmosphere for discussion is constructive, criticism of ineffective practices will be kept confidential, and brainstorming new, sometimes unconventional, ideas is encouraged. In addition, the business unit management assures the workshop participants that their suggested action plans will be seriously considered for implementation. After the workshop, the discussion minutes circulate among participants for editing and then are reported to management with an executive summary.

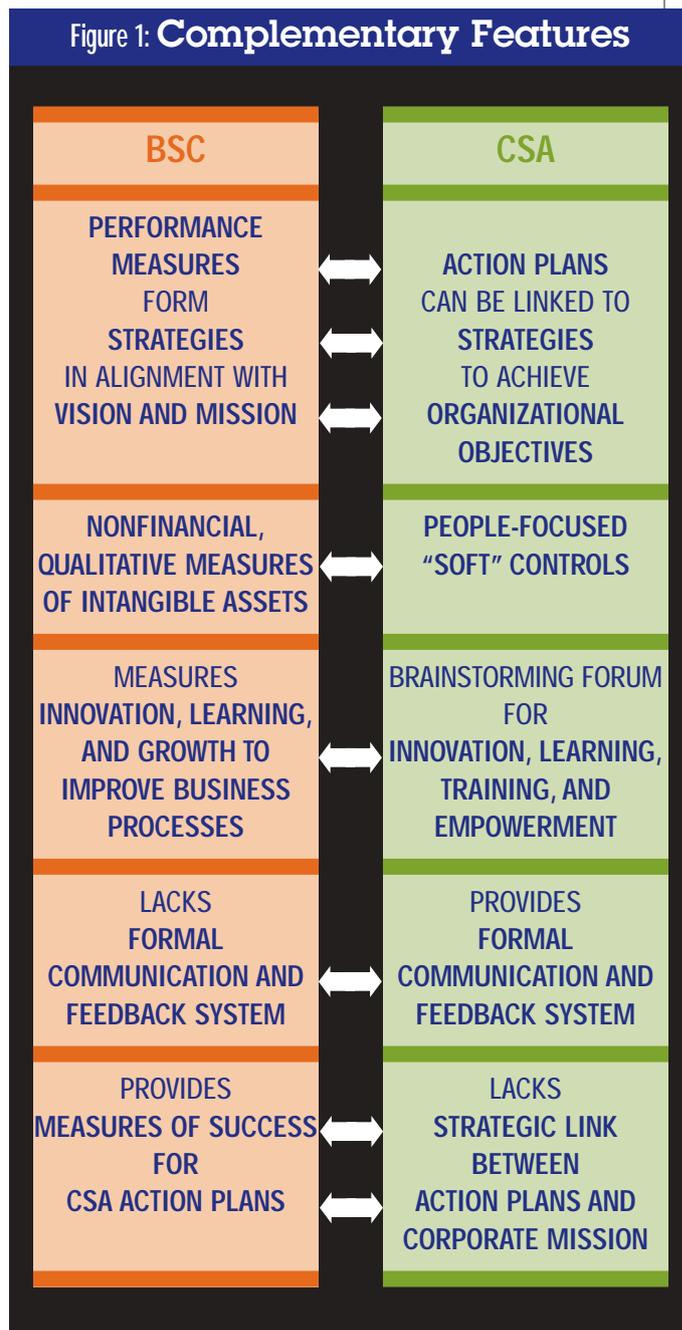
Whereas formal accounting controls are intended to safeguard critical assets and are legitimately indispensable in this regard, the CSA workshops stress the importance of "soft" controls that involve people-focused aspects of an organization such as communication, vision, understanding information, trust, integrity, ethics, management's tone at the top, and corporate culture. Although these elements are vital to a company's success, they're outside the realm of formal accounting controls. Thus, CSA workshops are well suited to complement the BSC in developing action plans, performance indicators, and strategies that help achieve the organization's vision and mission.

## USING CSA AND BSC IN TANDEM

When CSA and the BSC are used together, the CSA workshop shifts from a business-unit-focused exercise to one that helps achieve company strategy (see Figure 1 for some complementary features of the two). The BSC broadens the impact of business-unit-level CSA workshops by explicitly linking the action plans designed to improve personnel capabilities and business processes to the organization's overall strategic mission. See the sidebar, "CSA Workshop Example (with BSC Implications)."

To implement and improve the balanced scorecard, CSA workshop facilitators teach participants how to

Figure 1: Complementary Features



## CSA Workshop Example (with BSC Implications)

A CSA workshop was recently conducted to assess the internal business processes of a large health service organization's collections department. In terms of the BSC, the organization was investing resources in the learning and growth of its collections department employees by holding the CSA workshop under the direction of its internal audit department.

First, 13 workshop participants were asked to develop action plans to improve communication between work groups in the collections department. Because the participants had firsthand knowledge of the communication problems in the department, they designed a comprehensive strategy with specific action plans in about three hours. The information technology work group in the department was then able to devise measurable performance indicators to document and track the improvements in communication. These nonfinancial measures were then aligned with the financial measures for the department—an increased collections/receivables ratio and reduced uncollected receivables.

By adding measurable performance indicators to the action plans brainstormed in the CSA workshop, strategic feedback was provided to management for the achievement of the organization's business objectives. Furthermore, the CSA workshop instructed the participants about management's objectives and empowered them to address problems that they were uniquely qualified to solve.

At present, this particular organization employs both the BSC and CSA workshops, but not in tandem. Given their complementary features (see Figures 1 and 2), these two management tools could easily be merged to ensure the success of their BSC and strengthen their internal audit function.

develop measurements for their proposed action plans. These measurements, or performance indicators, should align to formulate a set of strategies across all four BSC perspectives—financial, customer, internal business processes, and learning and growth. CSA participants should help build the BSC for their particular business unit and align it strategically with the objectives of both the next level and those of the organization overall. For each BSC perspective, employees at the operational level are the best qualified to translate and connect their proposed action plans to the overall vision and strategy set. With guidance in the workshop setting, they will construct the most appropriate performance indicators that drive the outcomes and strategies to support mission achievement.

Workshop participants should also be taught to offer strategic feedback; to test prior hypotheses so that if a

hypothesis is proven false, the strategy can be revised; and to solve problems through experience-based brainstorming. This will allow them to learn to distinguish strategic performance indicators from diagnostic measures and avoid dropping down to a merely tactical level and discussing only short-term, operational performance.

Brainstorming for the objectives of their particular business unit will not only include action plans to implement the soft controls but also four sets of measures leading to the BSC's mission-achieving strategies, as follows:

**1. Financial Perspective**—Outcome measures (“lag” indicators) of their business unit's past performance.

**2. Customer Perspective**—Performance (“lead”) indicators and outcome measures of how their business unit creates value for current and future customers.

**3. Internal-Business-Process Perspective**—Performance indicators and outcome measures of how their business unit enhances future internal capabilities.

**4. Learning and Growth Perspective**—Performance indicators of how much the organization invests in this business unit's people, systems, and organizational procedures necessary to improve future performance.

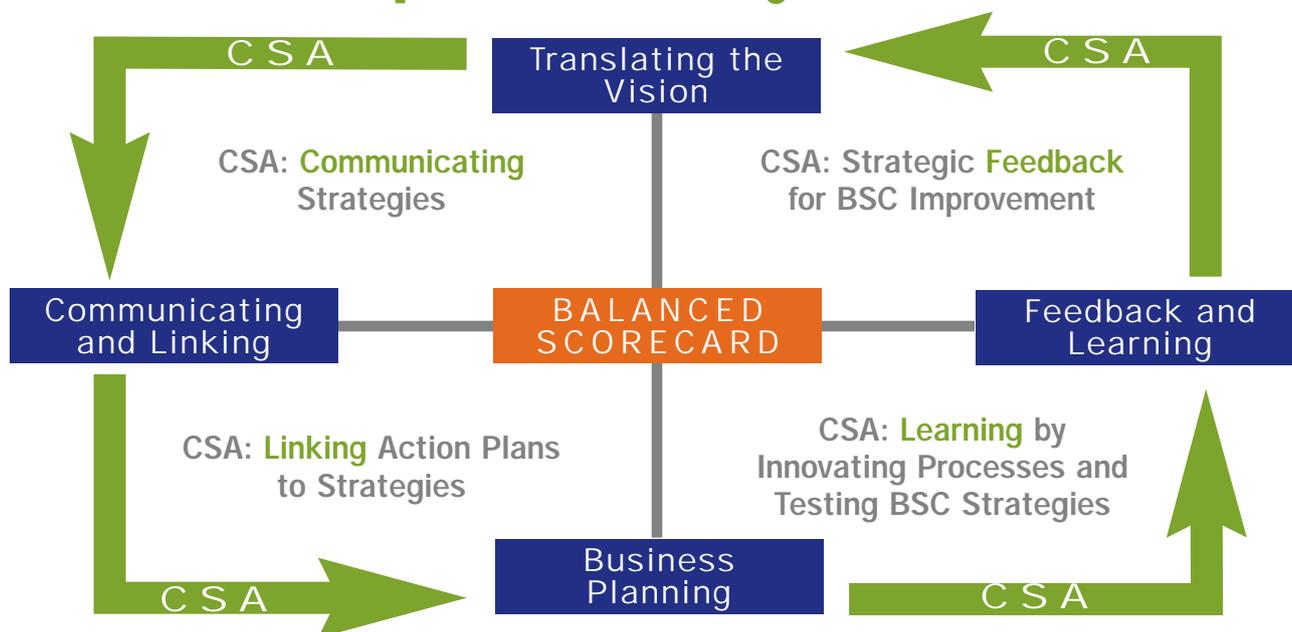
Systematically using the CSA workshop at regular intervals will complement the BSC process by adding to it four important elements related

to soft controls (see Figure 2):

1. Ongoing *communication of the corporate strategy* throughout the organization.
2. Structured and systematic collaboration between the organization's leadership and operations personnel to *link action plans to strategies* in a constructive setting that both motivates and empowers employees to carry out their duties in a way that achieves the overall mission.
3. A collective brainstorming process that cultivates *learning by innovating business processes* to breakthrough levels and *testing BSC hypotheses*.
4. A formal system of *strategic feedback*, which Kaplan and Norton referred to as “double-loop learning,” that results in an iterative process of continuously improving the BSC.

These four elements will help transform the BSC from a mere *measurement* system into a *management* system. For

Figure 2: **BSC: Strategic Management System**  
**CSA: Cyclical Flow of Strategic Information**



Adaptation of Figure 1-5 from *The Strategy-Focused Organization: How Balanced Scorecard Companies Thrive in the New Business Environment* by Robert Kaplan and David Norton, Harvard Business School Press, 2001, p. 24.

the implementation stage, Chow recommended at least a two-year period, including roughly four months of executive strategic planning and identifying objectives for each of the four BSC perspectives, then seven months devoted to iteratively communicating the strategies and objectives and seeking feedback from all employees to revise and improve the BSC. This period of broad involvement throughout the organization is particularly well suited to CSA workshops. After a company implements the balanced scorecard, CSA workshops can take place on a regular, but possibly less frequent, basis to continue their complementary role to improve and monitor the BSC.

### HOW BSC BENEFITS CSA

The benefits of using Control Self-Assessment and the balanced scorecard don't accrue only to the improvement of the BSC. CSA, as an internal auditing tool, also stands to benefit greatly from the unique features of the BSC because the scorecard measures the success of CSA action plans by strategically linking them to the corporate mission. Some of these benefits to CSA include:

- ◆ The *attachment of measurements* to the soft controls and action plans that are presently generated in the workshops, and
- ◆ A bottom-up *strategic connection* between the process-oriented action plans of CSA workshops for a particular business unit and the macro-level mission of the

organization by including the BSC's customer and financial perspectives in the CSA process.

These two benefits will extend the CSA function from the diagnostic and control level of contribution to the organization, which remains critical, to a strategic level that taps the CSA workshop participants' grassroots expertise in business process operations. This approach grounds the strategic planning process in practicality.

CSA workshops are truly an investment in achieving a successful BSC. These workshops provide the formal communication and feedback systems that are missing in BSC implementations. So now when you view the BSC's learning and growth perspective, you should consider CSA workshops as an investment in innovation, learning, training, empowerment, personnel, systems, and organizational procedures. You can expect such an investment to realize future returns in breakthrough capabilities that will elevate internal business processes, further satisfy customers, and improve the organization's financial performance. ■

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The balanced scorecard is a topic at IMA's Annual Conference June 18–22. For details, visit [www.imanet.org/boston](http://www.imanet.org/boston).