Achieving Top Quality

By Larry Weinstein

You can't successfully implement a balanced scorecard (BSC) in an organization that doesn't have a well-aligned management system. Alignment links a business's corporate mission, values, vision, and strategy with its plans, processes, and actions. To help management create an aligned organization to prepare for the balanced scorecard, the Malcolm Baldrige National Quality Award Criteria can provide the conceptual framework and process.

An organization's long-term success hinges on aligning current operations and strategic goals. Alignment allows the organization to view current operations and initiatives in the context of whether they move it closer to its strategic goals. These goals should be the focus of the management control system, and the performance measurement system should evaluate the organization's progress toward achieving those goals. But management often fails to translate the organization's strategy into effective action because it attempts to impose metrics on an enterprise that hasn't yet aligned its strategy and its performance.

Although many authors have described the balanced scorecard and the Baldrige program individually, none has specifically addressed the integration process in detail. This article describes issues that a company should address to accomplish this integration.
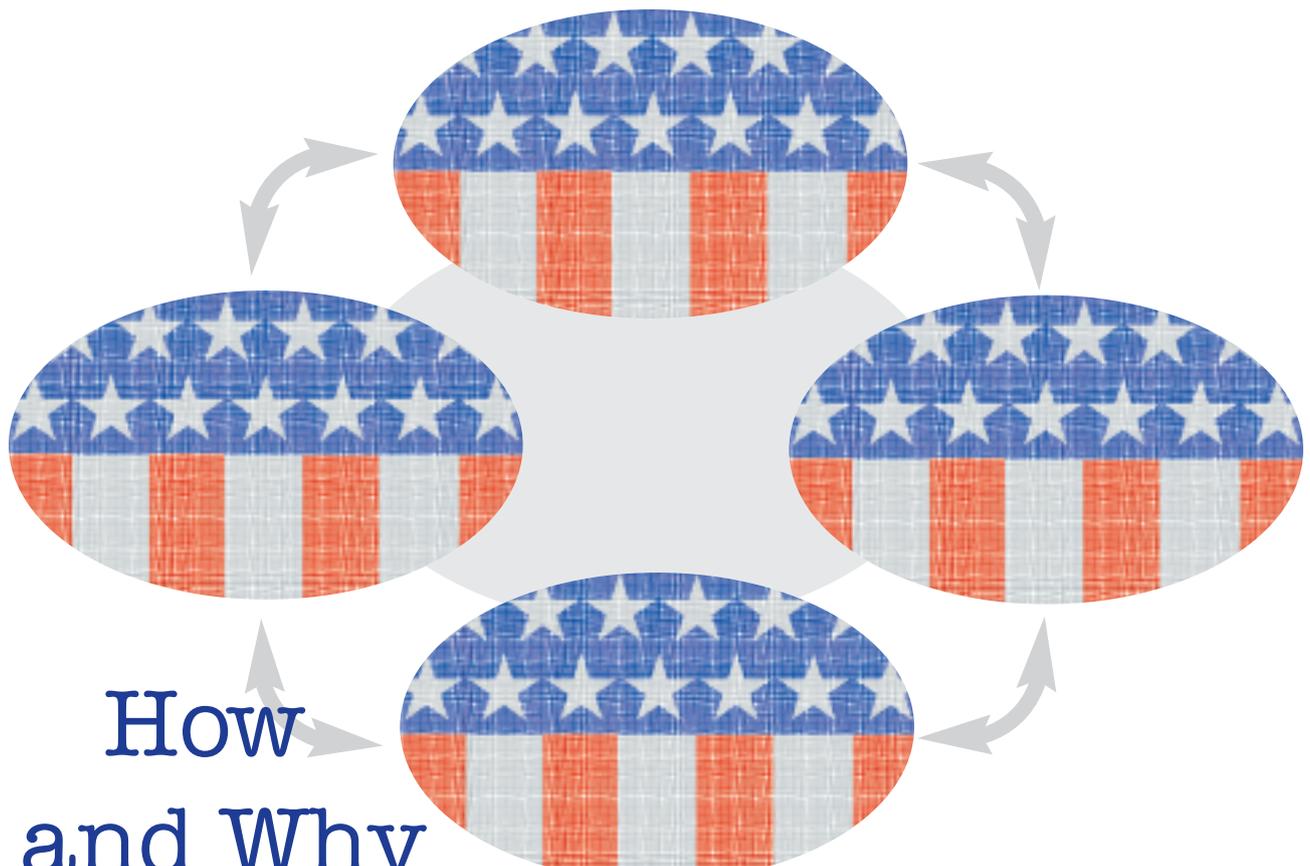
Too Focused on Financial Metrics

An estimated 60% of the metrics companies use for decision making, resource allocation, and performance management are financial in nature, but they don't provide an adequate picture of the organization's health by themselves. Neither are they sufficient for guiding decision making. One reason is that tangible assets no longer serve as a primary driver of a company's value. Today, intangible assets are the major source for competitive advantage. The book value of tangible assets often accounts for less than 20% of a company's market value.

Companies that want to create value are shifting their approaches from managing their tangible assets to developing knowledge-based strategies that create and deploy the organization's intangible assets. These assets include employee knowledge, customer relationships, and innovative cultures. Financial measurements also reflect past performance and are neither the best indicators of future performance nor relevant to many levels of the organization.

Unfortunately, many enterprises cling to financial measures as the cornerstone of their operational and management control systems. This problem is compounded when a company develops its financial measures independently of its strategy. In the extreme, the short-term focus on financial results may diminish the organization's ability to carry out its strategy as it passes over strategic investments in an effort to improve the financial statements. Often such an organization becomes measure focused rather than strategy focused.

Metrics shouldn't consist solely of financial indicators. In fact, value, not simply costs and revenues, drives today's markets. An organization's strategy must address both

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financial and nonfinancial outcomes, and its implementation must be evaluated through a mix of financial and nonfinancial metrics linked to the enterprise's critical success factors. Think of these like a dashboard on a car that has a few key gauges that need to be monitored regularly, a few that need to be looked at with less frequency, and some warning lights that alert us to possible problems. Metrics also include a mix of past, present, and future indicators. They should be based on the needs of customers and stakeholders, be defined at the highest level of an organization, and flow down to all levels and functions.

The Baldrige Process

The Malcolm Baldrige National Quality Improvement Act of 1987 established the Baldrige National Quality Award program. The Award is named for Malcolm Baldrige, who served as U.S. Secretary of Commerce from 1981 until his death in 1987. The purpose of the Act is "to help to stimulate American companies to improve quality and productivity…to establish guidelines and criteria that can be used by business, industrial, governmental, and other organizations in evaluating their own quality improvement efforts; and to provide specific guidance for American organizations that wish to learn how to manage for high quality…." Using the Baldrige Criteria to operationalize the balanced scorecard can be particularly effective with small and medium-sized enterprises as they proceed through organizational growth from start-up organizations and develop systematic management processes.

The Criteria for Performance Excellence of the Baldrige National Quality Program provide a seven-part, nonprescriptive framework for organizational excellence through deploying effective, systematic, aligned, and integrated approaches in the seven categories of leadership; strategic planning; customer and market focus; measurement, analysis, and knowledge management; workforce focus; process management; and results. The Criteria guide an organization in developing creative approaches that are aligned with organizational needs and provide the foundation for conducting organizational and third-party assessments. They provide a tool for achieving performance excellence through an integrated approach to organizational performance management. In turn, performance management enables an organization to improve its product or service quality, achieve organizational stability, enhance overall organizational effectiveness and capabilities, and increase organizational and personal learning.

An organization embarking on a balanced scorecard may choose two approaches when using the Baldrige Criteria: apply for a quality award through an established assessment program or use the Criteria for self-assessment. The Baldrige National Quality Program has fostered more than 50 similar programs at the state, regional, and local levels. These programs provide an opportunity for organizations that may not be ready to apply for the Baldrige Award to nevertheless receive feedback from trained and experienced examiners. Although the programs operate under varying rules and formats, they share common examiner training materials and sets of criteria for organizational assessment.

An organization doesn't have to wait until it's ready to apply to a formal award program to begin using the criteria for self-assessment and as an approach to align approaches, processes, and metrics. The Baldrige Criteria provide a model of business excellence against which an organization can compare itself through a cyclical, comprehensive, and systematic self-assessment process in order to clearly discern its strengths and weaknesses. Self-assessment provides a comprehensive portrait of the organization and helps a company develop short- to medium-term goals that link quality to the strategic planning process and focus attention on achieving better organizational performance. Then an enterprise can adjust the criteria and scoring to suit its specific situation and goals.

The Assessment Process

A company begins its assessment process by responding

to a series of approximately 200 questions to describe its performance management system, key organizational characteristics, and challenges. In the Organizational Description, it describes its operating environment and relationships with customers, stakeholders, suppliers, and partners. In the Organizational Challenges, the enterprise describes its competitive environment, strategic challenges, and system for performance improvement. In the seven categories following those steps, the organization describes its:

◆ Leadership system;
◆ Strategic planning and deployment systems;
◆ Processes for developing customer and market knowledge and supporting customer relationships;
◆ Systems for measurement, analysis, and improvement of organizational performance;
◆ Systems for ensuring workforce engagement;
◆ Systems for ensuring effective work-systems design, management, and improvement; and
◆ Results for products and service outcomes, financial and market outcomes, workforce-focused outcomes, process-effectiveness outcomes, and leadership outcomes.

Whether the organization uses a self-assessment procedure or participates in a formal third-party assessment, an important product of the process is the feedback report. This report consists of nonprescriptive comments from independent reviewers regarding how well the company's responses meet the criteria requirements. The report doesn't include recommendations as to how the company should address the examiners' observations. The organization's leaders have the responsibility to interpret the reviewers' comments and make improvements in anticipation of the next assessment cycle. Through this cyclical feedback and improvement process, management develops the internal alignment necessary for an effective balanced scorecard. For more detailed information regarding the Baldrige National Quality Program, visit http://baldrige.nist.gov.

Balanced Scorecard Basics

Developed by Robert Kaplan and David Norton, the balanced scorecard gives an organization an effective tool for performance measurement, organizational assessment, and operational alignment. It provides a framework to evaluate organizational performance as it relates to the organization's strategy, emphasizing the linkages among current operations, performance measurement, and strategy. The balanced scorecard also provides a set of indica-

tors to communicate to employees and external stakeholders the outcomes and performance drivers by which the organization will achieve its mission and strategic objectives.

An effective balanced scorecard begins with a clear mission and vision. The mission states the enterprise's reason for being, while the vision outlines what the company strives to be. First, leaders must clearly articulate their mission and vision so the company can create short- and long-term action plans and derive appropriate measures to monitor their progress. These attributes enable the organization to determine whether it is moving toward achieving its strategy.

Second, the enterprise determines its critical success factors (CSFs): activities it must accomplish if it is to succeed or those that will cause the organization to fail if it doesn't do them well. The list of CSFs for most companies is relatively small.

The third step is to determine the activities necessary to support the critical success factors and to identify the metrics for the activities supporting the CSFs. Think of the CSFs as focused goals and the supporting activities as those activities that must be completed successfully to achieve the goals the CSFs articulate. The organization must establish goals and targets for these metrics by carefully evaluating its performance capability and identifying benchmarks for performance comparison.

The balanced scorecard draws on four facets, or factors, of organizational performance to determine long-term success. These interrelated facets make up a performance measurement system that provides feedback on critical activities and guidance for future decision making.

The first of these facets represents the organization's financial performance. The financial measures provide feedback on the financial results of actions and decisions related to the enterprise's operations. The second facet is customer perspective, which focuses on the company's ability to satisfy its customers. The third facet is internal processes. This perspective evaluates how well the organization performs its core processes—those it must do well to succeed. The fourth facet, innovation and learning, evaluates how well the enterprise prepares for the intermediate to distant future. These four perspectives are interrelated, and the activities and measures for each must be chosen carefully to ensure that the perspectives reinforce each other through their linkages and ultimately with the organization's strategy.

Another part of the balanced scorecard development process is the strategy map, which depicts the relationship between the financial, innovation and learning, customer, and internal perspectives and the pursuit of the strategy. It illustrates how the enterprise's activities in each facet of organizational performance contribute to its pursuit of the strategy.

Developing an Aligned Balanced Scorecard

Many organizations are already using the BSC, so how should they proceed with incorporating the Baldrige principles to ensure alignment?

In their book *The Measure of Library Excellence*, Despina Dapias Wilson, Theresa Del Tufo, and Anne E.C. Norman describe a basic process for developing a quality plan: First, senior management must commit to the alignment process. It should establish a coordinating council to guide the initiative and to determine an implementation strategy. Among the necessary tasks it should oversee are the development of a clear mission, vision, and set of values for the organization; employee training; development and implementation of a comprehensive communication plan; establishment of a reward and recognition system; and identification of appropriate performance measures to track the program's progress.

Next, the coordinating council should establish a cross-functional team to develop the initial Baldrige document for assessment. A team of examiners then performs the Baldrige assessment and creates the feedback report. The coordinating council develops a process to evaluate and use the feedback report findings to improve its processes and organizational alignment, performs a gap analysis between current BSC metrics and those developed through the Baldrige process, and then revises its BSC metrics to eliminate the identified alignment gaps. The cycle of continuous quality improvement begins then with the updating of the Baldrige document and repeating the assessment and improvement process.

Once an organization has effectively implemented its program for Baldrige assessment and completed several cycles of assessment and improvement by responding to examiners' comments, it will find that the disconnects between the metrics it selects for Category 7 (Results) and those it had previously used in the BSC will become apparent. A formal gap analysis will be useful as a prelude to revising the BSC. In effect, a company can now use the balanced scorecard as a tool for organizing the data generated by the Baldrige process. But how?

There are many relationships between the seven

Table 1: Malcolm Baldrige Criteria for Performance Excellence (MBCPE) Categories and Balanced Scorecard Perspectives*

MBCPE CATEGORY	CUSTOMER PERSPECTIVE	INNOVATION AND INTERNAL PROCESS PERSPECTIVE	PERSONAL LEARNING PERSPECTIVE	FINANCIAL PERSPECTIVE
1 Leadership	X	X	X	X
2 Strategic Planning	X	X	X	X
3 Customer and Market Focus	X			
4 Measurement, Analysis, and Knowledge Management	X	X	X	X
5 Human Resource Focus		X		
6 Process Management		X	X	
7 Business Results				
7.1 Product & Service	X	X		
7.2 Customer-Focused	X			
7.3 Financial & Market				X
7.4 Workforce-Focused			X	
7.5 Process-Effectiveness		X		
7.6 Leadership			X	

*Adapted from "Operationalising the Balanced Scorecard Using the Malcolm Baldrige Criteria for Performance Excellence (MBCPE)" by Robert Vokurka in the *International Journal Management and Enterprise Development*, Vol. 1, No. 3, pp. 208-214.

Baldrige Criteria and the four perspectives of the balanced scorecard (see Table 1). The scorecard development team can use them to ensure that the metrics it selects will support alignment with the organization's strategy. For example, the customer perspective of the balanced scorecard relates directly to Category 3 of the Baldrige Criteria: customer and market focus. The customer perspective also relates to Item 7.2, Customer-Focused Outcomes. Category 3 criteria questions ask the organization to describe the processes by which it determines the requirements, needs, expectations, and preferences of its customers and markets. The enterprise must demonstrate that these processes are systematic and well deployed throughout the organization. Item 7.2 criteria questions ask the company to present data to demonstrate current levels and trends in key measures or indicators of customer satisfaction and value. The business needs to show how its results compare with the customer satisfaction levels of its competitors and other organizations providing similar products and services.

The results for Item 7.2 should be directly linked, not only to the processes identified in Category 3 but also to strategies and customer and market segments identified in the Organizational Profile. The results should be stratified for each customer group identified as well as for each product and service the organization provides. The customer-focused results should present data and identify appropriate benchmarks and a goal for each metric. The company should also describe its process for determining appropriate benchmarks in its Baldrige assessment documentation for Item 4.1a(2), one of the sections under "Performance Measurement."

The BSC development team should now determine where within the hierarchy of balanced scorecards it should place the metrics used for Item 7.2. Ordinarily these would be categorized as customer-perspective items. It then should continue this process, running through each metric in Items 7.1 through 7.6 and determining whether and where each might be incorporated into the balanced scorecard.

Several organizations have reported successfully integrating the Baldrige process with their scorecard processes. For example, a large healthcare provider and former winner of its statewide Baldrige-based program, reports:

The [Baldrige] examination process is a tremendous journey of self-exploration that has helped us identify and change weaknesses in our value chain, focus on core values, and successfully strive for higher quality in our services (OPE). The model was entirely consistent with the organizational culture we were already building. The model was comprehensive [and] supportive of our relentless and unending quest for excellence. We had leaders who were

willing to pay the price and we saw an opportunity to build a strategic partnership with [the state award program]. [The company requested anonymity.]

This organization began using performance improvement teams in the early 1990s as a Joint Commission on the Accreditation of Healthcare Organizations (JCAHO) requirement. These teams began to use the balanced scorecard process in 1999, and by 2002 the program had evolved to include all departments. In 2000, the first three organization leaders attended examiner training through the state Baldrige program, and, as of today, more than 80 employees have attended training and served as examiners in this program. Senior leaders report that they have created an environment for process improvement driven by measurement and analysis of metrics aligned with the organization's strategic values.

The Baldrige process was particularly useful in developing and deploying aligned performance metrics and fostering an appreciation by the business's leaders of the need to compare its performance against leading benchmarks. The Baldrige assessment and feedback process was tied to the company's strategic planning process. Today, the incentives of both employees and leaders are tied to aligned performance "measures that matter."

Employees at all levels have a stake in the performance of each strategic value database (SVDB) indicator since the annual bonus program is based on the percentage of indicators meeting short-term goals. Each SVDB indicator aligns with one of the company's five strategic values (safety, quality, service, relationships, and performance). The organization employs five strategic value leadership teams, each headed by a vice president. Each team reviews the organizational SVDB for a specific strategic value, analyzes the associated processes and outcomes, and develops action plans to reach indicator goals.

These five strategic values may be comparable in their role to the four balanced scorecard perspectives. For example, the financial performance perspective is analogous to the performance strategic value, and the customer perspective is analogous to the strategic value of relationships. The organization uses a periodic system review process to monitor, review, and update metrics. When actual performance doesn't meet or exceed its goal, an action plan is required at the organizational and departmental levels. Department-level teams and leaders prioritize action plans for implementation.

The enterprise recognizes that accurate and timely information in both electronic and paper formats is a critical tool to support clinical and operational processes.

Performance metrics appear on the organization's intranet so any employee can view them at any time. The company uses a systematic process to ensure that its data is accurate, reliable, timely, secure, and confidential. It also has processes to ensure the organization assimilates data—and then disseminates it—to appropriate internal personnel and stakeholders.

The BSC Evolution

The BSC implementation process is ongoing and doesn't end with its initial implementation. Just as a company's strategy evolves over time, so also must the performance measurement system that supports it. The scorecard requires ongoing reviews to ensure the relevance of performance measures. A business should conduct periodic formal reviews of its scorecard—from strategy through measures—to evaluate its effectiveness. Periodic assessment through the Baldrige process can drive the BSC evolution by identifying gaps that develop between revised strategies and performance metrics. Successfully integrating the Baldrige process requires a systematic and well-deployed process for using Baldrige feedback. Doing so will help the enterprise evaluate how effectively the BSC metrics drive the performance of day-to-day activities that support its goals.

Here is perhaps one of the major strengths of this integrative approach. The Baldrige process provides a tool to continuously assess the relevance of the BSC metrics. Certainly, introducing Baldrige principles and integrating them with the balanced scorecard may be a difficult and timely challenge to many organizations. To succeed, top management must provide visible leadership throughout the process as well as a commitment to improvement, innovation, and organizational sustainability. In the words of one officer of the healthcare group mentioned earlier:

We are all humans—until accountability measures are identified and connected to performance management, we all focus on what is most urgent, what is most comfortable, and what we want to. In healthcare, accountability for outcomes is a strategic imperative—we have to stay on top of these indicators of safety, quality, service, and performance just to maintain the level of reimbursement we currently have…not even to grow. **SF**

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