

Balancing Your Scorecard via Action Learning

By

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## Abstract

Strategic planning! Just hearing the phrase tends to trigger apprehension in most of us. Annually, many organizations produce a strategic plan that sits on the shelf for the rest of the year. The problem with most strategic plans is that they encourage the perpetuation of what has worked in the past - focusing primarily on past financial successes. The Balanced Scorecard helps break the mold of focusing solely on the financial aspects of a strategic plan and provides an effective vehicle for moving forward. The question remains, how does an organization populate the Balanced Scorecard without the stress that is typically associated with strategic planning? A process, utilizing Action Learning, is proving to be both effective and efficient solution.

Over the last year, significant work has been done with clients to streamline the approach to populating the Balanced Scorecard. The developed process combines the skills of a Balanced Scorecard facilitator and an Action Learning Coach. The group involved in the pilot study of this program felt the technique allowed them to both brainstorm and focus – creating a thoroughly populated Balanced Scorecard in significantly less time than their counterparts who used a standard facilitation for populating their Balanced Scorecard.

### *Strategy*

Porter describes strategy as the ability of an organization to create a unique and valuable position. He goes on to identify three sources of strategy: 1) Serving few needs of many customers; 2) Serving broad needs of few customers; and 3) Serving broad needs of many customers in a narrow market. A key element he defines, in an organization's ability to identify a competitive strategy, is to be able to identify what they will not do; as well as, the ability to choose strategies that fit within the organization's activities (Porter, 1985; Porter, M., 1987; Porter, M. E., 1987; Porter, 1996).

Done well, a strategy will give a organization a competitive advantage - where competitive advantage are the various activities for creating, producing, selling, and delivering the organization's product or service. Porter defines operational effectiveness to be the ability to perform these activities better than the competition can (Porter, 1985). The problem with operational effectiveness is that others can easily emulate the techniques. Once an organization determines how to do something better, the competition will notice these activities. This is particularly true of activities where organizations develop benchmarks. As other organizations start to use the same benchmarks, the ability to create substantial difference in effectiveness diminishes. Through benchmarking, the competition knows what they need to do to be better. Organizations need to develop leading indicators to stay ahead of the competition.

Organizations attempt to maintain their strategic position by preserving their distinctive activities, however, Porter goes on to warn that because the environment is constantly changing, organizations must have flexible strategies (Porter, 1985).

Ultimately, strategy is about being different. Vaill uses the metaphor of permanent white water to describe the rapidly changing environment in which we now live and work (Vaill, 1989). He describes this permanent white water as a condition of life. It is full of surprises, it is novel, and it is often “messy.” This white water condition is ill structured and frequently costly. At the very least, it is obtrusive and recurring. To survive in today’s world of permanent white water, organizations must develop an environment that supports continuous learning and development (Vaill, 1996).

#### *Traditional Strategy Generation*

Typically, strategic planning starts with the vision statement and some long-term objectives. From this, organizations identify desired goals and objectives. Next, the current situation is analyzed, as well as looking at historical information. They follow this with the identification of assumptions that are no longer valid. Next, they dissect the advantages and disadvantages of alternative strategies. From this, they chose one or more alternatives. With each of these, they identify the result (if things go right). Finally, they identify next steps and action items.

The problem with this method is that organizations typically do strategic planning on an annual basis. Current methods of strategic planning encourage the continuation of what has worked well in the past. It does not anticipate the rapidly changing environment.

#### *Balanced Scorecard*

Kaplan and Norton developed the Balanced Scorecard (Kaplan & Norton, 1992) as a means of capturing all the aspects of a successful strategy. A distinct feature of the Balanced Scorecard that does not exist within other strategy development tools is the inclusion of learning. Additionally, the scorecard synergizes three other perspectives with

the learning. These are the financial, customer and internal perspectives. It is an ideal tool for taking the goals set by the senior executives translating them into what they mean to the frontline employee. This measurement system reports on past operating performance as well as watching what will drive future performance.

The financial perspective seeks to answer the question, “How should we appear to our shareholders?” For the customer perspective, the key question is, “How should we appear to our customers?” The question in terms of internal business processes is, “To satisfy our shareholders and customers, in what business processes must we excel?” Finally, from the learning and growth perspective we seek to answer the question, “How will we sustain our ability to change and improve?” (Kaplan & Norton, 1992)

Using the Balanced Scorecard the team develops strategic themes incorporating elements of the four perspectives, including the linkages between them. Then for each objective, they identify measures, targets, and initiatives for each theme. Where objectives are what the strategy is trying to achieve, measures are how to evaluate the performance against objectives; targets are the required level of performance or the rate of improvement; and, initiatives are an action program to achieve the target.

#### *Traditional Balanced Scorecard Approach*

In *Balanced Scorecard Step-by-Step: Maximizing Performance and Maintaining Results*, Paul Niven (2002) describes a seven-step development process for populating a Balanced Scorecard. He indicates traditionally this process takes four to twelve months. On pages 61 through 63, he outlines these steps as:

- 1) *Gather and distribute background material.* The Balanced Scorecard team must be familiar with the organization’s mission, vision, values,

strategy, competitive position, and the core competencies of employees in order to generate a Balanced Scorecard that accurately reflects the company's strategy.

- 2) *Develop or confirm mission, values, vision, and strategy.* This step is to ensure consensus of the items gathered in step one. If any of the items are missing from step one, the team will need to develop them in this step.
- 3) *Conduct executive interviews.* Executive commitment to the scorecard is a key element to its success. The purpose of these interviews is to get feedback from the executives in terms of key successes, potential measures, and factors for a successful future.
- 4) *Develop objectives and measures in each of the Balanced Scorecard perspectives.* During this step, the team will translate the organization's strategy into objectives based on the four perspectives of the Balanced Scorecard.  
  
This phase includes meetings with groups throughout the organization:
  - a) *Executive workshop.* Gain senior management consensus of objectives and measures identified by the team.
  - b) *Gather employee feedback.* Poll managers and employees to ensure the team captured critical elements for success in the scorecard.
- 5) *Develop cause-and-effect linkages.* The team needs to identify the interrelationships between the measures and objectives described in the scorecard for it to be effective.

Within this phase is a second workshop with the executives.

a) *Executive workshop*. In this step, senior management will debate the degree and timing of the cause-effect relationships.

- 6) *Establish targets for your measures*. The team determines targets that the organization will use to determine if improvement efforts are yielding acceptable results.

This phase includes the third workshop with the executives.

a) *Executive workshop*. This session is to gain the final consensus of the executives.

- 7) *Develop the ongoing Balanced Scorecard implementation plan*. In this step, the measures of the scorecard are disseminated to the organization, cascading accountability to lower levels of the organization. (Niven, 2002, p. 63)

### *Fast Track Approach*

*In Fast Tracking Your Balanced Scorecard: A Balanced Scorecard Collaborative Net Conference*, Fenwick and Downing (2000) streamline the scorecard population effort to a four-stage approach, reducing the development time to six to eight weeks. A consulting team is used to minimize the amount of organizational, particularly executive time needed to populate the scorecard. They describe the four stages as:

*Stage 1: Strategy Review and Workshop Preparation to Develop a Straw Model Strategy Map*. In this stage, the consulting team reviews the organization's mission, vision, and value statements; strategic and operational plans; as well as, financial projections and budgets. The consulting team confirms strategic direction and priorities

with leadership and prepares an initial strategy map. From the documents they collect, the consulting team prepares materials for the first development workshop. These materials are then distributed as pre-reading to the organization's Balance Scorecard team.

*Stage 2: First Development Workshop to Map Linked Objectives and Develop Initial Measures.* This is a one-day workshop with the leadership team. The outputs from this session are: 1) a draft strategy map that includes an initial set of strategic measures, 2) a Balanced Scorecard template to complete scorecard development encompassing objectives, measures, targets, and initiatives, 3) a detailed approach to facilitate refinement and consensus development.

*Stage 3: Refinement and Consensus Building Through Exposure to the Wider Organization.* The consulting team refines the strategy map and scorecard by exposing it to a wider group of people. The consulting team meets with key interest groups to refine the definition of measures, set targets, identify the sources of the measures, and map initiatives.

*Stage 4: Finalization and Implementation Workshop.* The consulting team holds a final one-day workshop with the leadership team. This presentation includes the strategy map with defined objectives, measures, targets, and initiatives. A detailed implementation plan is developed at this session. The implementation plan includes: 1) means to communicate the strategy throughout the organization; 2) plans for cascading the scorecard to lower levels; 3) linkages to compensation; 4) an integrated resource and budget allocation plan; and 4) a plan for integrating the scorecard into existing planning and management processes (Fenwick & Downing, 2000).

### *Action Learning*

Action Learning is a powerful concept for building into the learning organization what Freire (2000) called epistemological curiosity. It teaches people to continually question, creating an environment where “because that’s the way we have always done it” becomes an unacceptable answer. It sets up employees to be able to handle the permanent white water that has become a part of every day life. It sets the wheel in motion to allow strategies to be continually flexible.

Action Learning is a dynamic process for solving-problems, building teams, and developing leaders. It consists of six components: 1) the problem, 2) a group of 4 to 8 members, 3) a process that encourages questioning and listening, 4) a resolution to take action, 5) a commitment to learning, and 6) an Action Learning coach (Carson & Marquardt, 2004; Marquardt, 1999).

Action Learning is effective for solving problems of all sizes. It is most powerful for solving those that require creative, out-of-the-box solutions. It is ineffective for solving puzzles, that is, a problem with a single solution. Porter (1985) describes competitive advantage as being able to do something in a way distinctive from the competition. Action Learning encourages this distinctive thought process. Senge (1994) describes a need to get away from institutional training and generate a learning environment. Action Learning creates this environment. It teaches people to question and think about how to do it better, rather than continue the old ways of doing tasks.

### *Action Learning Method*

The coach is the element of Action Learning that brings the full power to the process. The primary role and focus of the Action Learning coach is to facilitate the

group's ability to grow and learn so that it, in turn, can better solve the problem. The focus and objective of the Action Learning coach must always remain on the learning, and not the problem. Learning will provide the leverage for continuously improving group performance.

The Action Learning coach takes the power of coaching to the group level, where it is even more powerful because Action Learning groups only work on real problems requiring real solutions. The Action Learning coach not only establishes rapport with the group members but also builds rapport between group members. Through the Action Learning process the group members self-awareness is not only raised by the coach, but by virtue of the of the process (Carson & Marquardt, 2004). Rather than setting goals for the group, the coach leads the group to being able to set their own goals. The feedback the coach gives moves the group to a deeper level of learning. Instead of just focusing on "what" has transpired; the coach takes the group to understanding the "how" and "why" of their actions. Finally, by focusing the group on learning rather than just solving a problem, the coach takes the group to extraordinary levels of renewal and growth. The Action Learning process on the surface appears simple, but from this simplicity extremely powerful, out-of-the-box solutions emerge.

A typical Action Learning session starts with the coach establishing the ground rules; the two most critical ones being: 1) statements can only be made in response to questions, and 2) the coach has ultimate power. The latter one is needed because when the coach intervenes in the problem solving, to work on the learning, everyone stops and focuses on the coach's questions; the problem solving does not resume until the coach gives permission. Once the ground rules have been established, the coach determines

which leadership competencies each member wants to work on; typically posting them as a gentle reminder throughout the session. With that, the coach will have a person state the problem the group needs to work on in two to three minutes. The time limit on this prevents the team members from being led down a specific path (Carson & Marquardt, 2004).

At this point, the problem solving begins. Team members ask questions of the person who presented the problem and of each other, as well as the presenter asking questions of the team members. The first stage of the Action Learning session is to reach agreement regarding the problem that needs solving. Frequently, the problem, as it is presented, is merely a symptom. With each question, the seeds of the solution are planted, but the team does not move to discussing solutions until there is unanimous consensus as to what the problem truly is.

During the questioning, the coach listens for learning opportunities; they present themselves in several forms. The simplest is an early intervention. This one takes place typically within the first ten minutes of a session. The purpose is to determine how the group has started as a team, but more important, it is a time to ensure everyone is participating. The coach will insist that each person answer “well” or “not well” to the basic question “how are we doing?” By requiring each participant to answer, the coach pulls all team members into the conversation – their silence has been broken. Once each person has spoken, the coach follows up with the deeper questions (Carson & Marquardt, 2004).

The other two opportunities the coach looks for are: 1) when things are going astray, or 2) when things are going particularly well. Again, the coach will test how the

participants feel they are doing, digging deeper at this time. Through this process, the team will discover if there are issues they have been hiding below the table and surface them, allowing the air to be cleared and the group to focus its energy on being a better team and solving the problem. During these interventions, the coach will also ask questions of each person related to the leadership competency they are exploring. These questions will lead the individuals to understand how the competency is being emulated or how it should be improved.

When the coach intervenes, she brings the learning to the forefront; during these times the problem continues to mull around in the members subconscious. When the group returns to problem-solving, the problem moves to the forefront and the learning moves to the subconscious. This flip-flopping of conscious and subconscious processing has a phenomenal impact; with each flip from subconscious to conscious there is a leap in performance, from both the processing and learning aspect.

The coach will save the last ten to twenty minutes of a session to work on a final intervention. Again, probing questions about process and leadership competencies will be investigated, and also questions around what has been learned and what actions will be taken.

The Action Learning process tends to show that groups develop similar patterns. The process starts slowly, the members typically finding it hard to ask questions. After the first intervention, the pace begins to pick up, the coach drawing all members into the conversation and helping them to figure out how to benefit from Action Learning. In addition to determining how to ask better questions and work more effectively as a team, the coach probes to ensure the members know why certain actions will produce more

beneficial results. Action Learning coaches restrict their participation to asking questions, letting the members find the answers for themselves. This questioning process forces the participants to reflect - thinking about the impact of their actions. With each intervention, the participation becomes more intense. Particularly exciting sessions have occurred when the group reconvenes after taking a night off. The subconscious uses the techniques learned during the day to work on the problem all night and ignites an intense fire when the group reconvenes in the morning. This new relationship between the group members infiltrates their day to day to activities from that day forward. Conversations shift from statements to questions, when those who have participated in Action Learning realize the real power in a team is determining what is not known – not showing off what is known. The Action Learning coach is the catalyst that causes this transformation to emerge.

#### *Action Learning Approach to Balancing the Scorecard*

Using Action Learning to populate the Balanced Scorecard presents an interesting situation – the problem is predefined. Because of this, in addition to the role as learning coach, the coach also acts as a guide to populating the Balanced Scorecard. The coach's primary function is to stay focused on the learning; however, by acting as a guide to populating the scorecard the coach can accelerate the process. The Action Learning / Balanced Scorecard team consists of members who are knowledgeable about the organization's mission, vision, values, operational plans, and financial projections.

The coach opens the session by guiding the team through defining the strategic themes of the organization. With each theme that is suggested, the coach will ask, "how does that relate to our mission / values / vision?" By doing this, not only is the team able

to identify valid themes quickly, but they are also able to filter out themes that are not aligned with the strategic direction of the organization.

To identify the objectives within each of the four perspectives – financial, customer, internal processes, and learning and growth -- the coach uses this same method. However, rather than simply brainstorming, the objectives are identified using a focused approach. As the team identifies an objective within a perspective, the coach again asks the question, “How does that relate to our mission / values / vision?” as well as asking, “How does it fit within the strategic theme?” Rather than allowing brainstorming to take over at this point, the team works to identify objectives in the other perspectives that link to the one already there. This allows the team to develop the linkages as the Balanced Scorecard is populated. Again, by using the focused approach rather than brainstorming, the team identifies appropriate objectives and filters out inappropriate ones. This technique accelerates the process, because the team does not waste energy on objectives that do not fit within the corporate strategy.

While the strategy map is being populated, measures, targets, and initiatives that surface, which are related to an objective, are recorded. During this phase, the team does not make a deliberate effort to fill out these elements; however, the coach writes down any linkages to the strategy map that become apparent. Once the strategy map is fully populated the team goes back to fill in the remaining measures, targets, and initiatives. Where the team needs additional information, individuals are assigned action items to acquire it before the next session.

By using the Action Learning process to populate the Balanced Scorecard, the teams have seen several positive results. First, the team members truly listen to each

other, because participants can make statements only in response to questions. The team members do not just shotgun their ideas without hearing what the other participants are saying; rather they listen to each other and build on each other's thoughts and themes.

Second, valid objectives surface quickly, and invalid ones filter out. Because the team does not use brainstorming, they focus on pieces that fit rather than those that do not. This is not to say that new and innovative ideas are discouraged, rather they are encouraged – but the team tests the validity of a new theme immediately, rather than firing off random ideas.

Third, because the nature of questioning forces people to think outside the usual box, the team generates new and relevant objectives they had not thought of in the past. Finally, because the coach continues to focus on the learning of the team, the process is continually improved. Using this approach, the team documents the objectives, measures, targets, and initiatives for a theme in a matter of hours.

These sessions are extremely intense. Everyone on the team stays engaged for the entire session. The questioning process does not allow the participants time to zone out. Instead, they remain actively engaged throughout the entire session. Because of this intensity, it is recommended that each session is restricted to four hours. If multiple sessions are scheduled for a single day a minimum of a two-hour break should be planned between sessions.

### *Conclusion*

In today's permanent white water, it is imperative to develop strategies that are both distinctive and flexible. The Balanced Scorecard is an ideal start to developing plans that encompass all the elements of an effective strategy. However, it falls short in forcing

the creative thinking required for the distinctive strategies that will be necessary to survive.

To take the Balanced Scorecard to the next level, the creative thinking pervasive in Action Learning is necessary. The most common remark made by those in these sessions was “Action Learning prevented us from talking over each other.” In other words, those who were involved in the session listened to each other; they gave more thought and insight to their responses. They built on each other’s remarks and developed a more useful product for guiding and measuring the organization’s performance. At the end of the session, no one felt any stress and they all had a sense of a broader understanding of the elements that would produce a truly powerful strategy.

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