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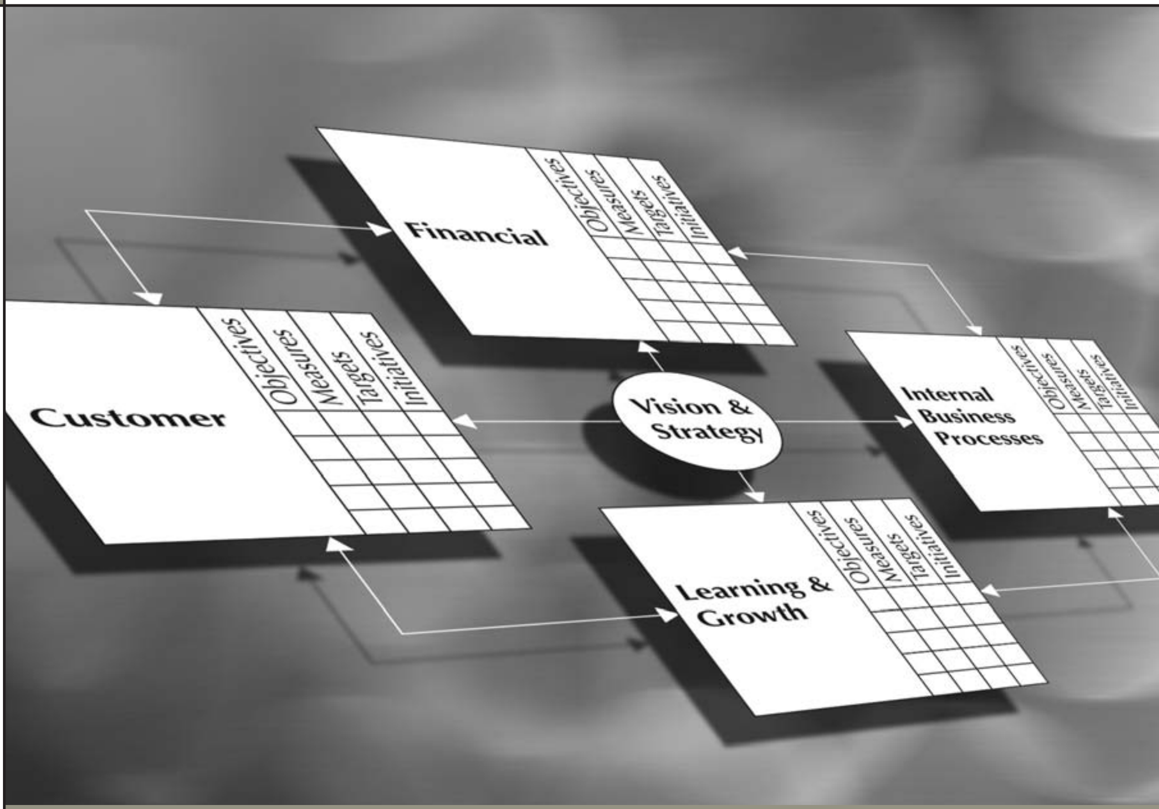
Using the Balanced Scorecard: Lessons Learned from the U.S. Postal Service and the Defense Finance and Accounting Service

Managing for Performance and Results Series



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F O R E W O R D

On behalf of the IBM Center for The Business of Government, we are pleased to present this report, "Using the Balanced Scorecard: Lessons Learned from the U.S. Postal Service and the Defense Finance and Accounting Service," by Nicholas J. Mathys and Kenneth R. Thompson.

The balanced scorecard approach to managing organizations was first broached in a 1992 *Harvard Business Review* article by David Norton and Robert Kaplan. It swept the business world and became an accepted management approach in over half of the *Fortune* 500 companies.

The public sector was less quick at adopting this approach. Oftentimes, it was piloted in small units or in support functions. But when an agency leader made a sustained commitment, this approach contributed to enormous differences in performance. This report showcases two large federal agencies that adapted the balanced scorecard approach to their operations and have used it for more than five years to drive improved performance.

The challenge, Professors Mathys and Thompson note, isn't creating a scorecard; it's getting its elements to align and link to each other and to the operations of the agency. They tell the compelling stories of how the U.S. Postal Service and the Defense Finance and Accounting Service did just that. They conclude with nine action steps that other agency leaders might adopt if they too want to achieve similar improvements in performance.

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EXECUTIVE SUMMARY

The call for greater responsiveness and performance measures in the government sector has never been greater and will continue to be a clarion call, particularly with the shortfall of the government's response in the aftermath of Hurricane Katrina. Government organizations *must be responsive, use their resources well,* and *provide good value* to the user and *accountability* to the taxpayer. One method that has had significant demonstrated success to improve process efficiency, timeliness, and customer satisfaction in business is the balanced scorecard. This approach also has been applied in government sector organizations with success. We examined two federal organizations, the Defense Finance and Accounting Service (DFAS) and the United States Postal Service (USPS)—two organizations with different missions and different types of operations. We wanted to learn how they developed the balanced scorecard, how they modified the approach to meet their needs, what lessons were learned in its application, and what organizations might do to increase their success with the balanced scorecard approach.

The results show that both organizations had successful applications of the balanced scorecard. Performance improved on all the key areas that each organization measured. In addition, employee satisfaction improved in both organizations. This was especially significant for DFAS, as they had undergone some very dramatic reductions in force. Finally, customer satisfaction improved dramatically in both organizations and value added improved in the multiple measures that were used.

However, at the time of our interviews, both organizations still were having some difficulty deploying the scorecard throughout the organization. Union or civil service work rule restrictions, reliance on tradition, and difficulty with translating personal development goals into unit goals seem to be part of the problem. However, we also saw problems in the application of the scorecard itself. First, there is the traditional focus in most organizations on financial performance. While the scorecard expands traditional financial performance assessment to include customer satisfaction, process management, and organizational development and learning, often there are not strong linkages between these elements in many applications of the scorecard. These linkages are essential in building a high-performance organization as demonstrated in the Baldrige Award criteria. The National Institute for Science and Technology (NIST) reviews the top-performing organizations to determine if they meet these criteria. The Baldrige criteria reflect the effective business practices of high-performing organizations. In November 2005, Congress authorized NIST to expand the Baldrige program to include government and not-for-profit organizations. A significant aspect of the criteria is the importance of goal alignment throughout the organization.

To meet the complexity of aligning elements, we advocate a much more stringent approach to the scorecard that carefully links elements and expands definitions to match the differences found in the nature of government organizations. Missions and a customer/stakeholder focus drive the organization, followed by financial performance measures that meet the needs of key stakeholders (government authorizing and funding bodies). Internal performance measures are based on the key processes that drive customer and stakeholder satisfaction and influence financial performance. Organizational learning and development aspects focus on improvements that directly affect the key value-added performance measures that support customer/stakeholder satisfaction measures. We address this alignment issue after our review of each organization's approach to the scorecard.

Introduction

The balanced scorecard (BSC) approach has been used extensively in for-profit organizations since its popular inception with the work of Norton and Kaplan in 1992.[1] Only recently has the approach been advocated in public sector organizations by such groups as the Balanced Scorecard Interest Group sponsored by the American Society for Public Administration.[2] While there have not been many controlled experiments that provide convincing proof of the efficacy of scorecard use, the scorecard is built on solid principles that have demonstrated their effectiveness through various rigorous research designs. The efficacy of goal setting, the alignment of quantified targets across departments, the use of contingent reinforcements based on performance, and the development of commitment through effective two-way communications are all principles that have been demonstrated as effective business tools and are part of the balanced scorecard philosophy.

Government organizations are like businesses; businesses that may not be run for profit but rather are organized to meet a social goal in an effective and efficient manner. In this report, we focus on two federal organizations and report on their use of the balanced scorecard. Our goal is to show what each organization did to make the program successful and what they are doing to sustain and improve their efforts using the balanced scorecard approach. We also consider the "lessons learned" in their adaptation of the balanced scorecard. In the final section, we take the lessons learned coupled with our analysis of their success and provide our own road map of *action steps* to guide the leaders of other public sector organizations who may be thinking of applying a BSC approach or are grappling with some of the issues in using the scorecard.

What Is a Balanced Scorecard and Why Use It?

Reliance exclusively on financial performance measures is similar to "trying to drive an automobile by looking in the rearview mirror rather than the road ahead." The balanced scorecard, or BSC, is an attempt to achieve a more proactive, forward view to managing an organization while still taking into account traditional measures. It does this through a "balanced" perspective of measures that assess the effectiveness in meeting the organization's vision and strategy. Four areas are considered in Norton and Kaplan's model: Financial, Customer, Internal Business Processes, and Learning and Growth.[3] Visions and strategies are translated into objectives, measures, targets, and initiatives that answer the questions in each of the four categories:

- For the *financial* category, the main question is: "To succeed financially, how should we appear to our shareholders?"
- For the *customer* category, the focus is: "To achieve our vision, how should we appear to our customers?"
- The *internal business process* category focuses on the question: "To satisfy our shareholders and customers, what business processes must we excel at?"
- The *learning and growth category* focuses on answering the question: "To achieve our vision, how will we sustain our ability to change and improve?"

Why Is Balance Important?

Each of these four areas needs to be addressed to have a "balanced" methodology in reaching the organization's vision and strategy. That is why each of the four areas is linked in the Norton and Kaplan model; it demonstrates that each of them is important in linking actions to meet the overall vision and strategies of the organization. The scorecard then becomes a driving force to guide organizational actions and create a culture of "clarifying and translating the vision and strategy to actions, communicating and linking these actions to all levels of the organization through planning and setting quantified targets and aligning these targets to meet the goals in each of the four balanced scorecard areas."[4]

Traditionally, performance measures used to assess success were financial in nature. This allowed only one view of what happened. The measure is complete only at the moment, and there are limited indications where current operations are effective or ineffective as the measures are historical in nature. Financial measures are outcome measures that show what has happened in the past. A more forward-looking set of performance measures, like those used in the BSC, tells managers and employees where they are headed, what aspects of the organization are succeeding, and what aspects need improvement to effect future successful outcomes. For example, customer satisfaction levels tell us something about the future predisposition of customers to use our service in the future, which relates to future financial measures. In the same manner, if we know there is a connection between meeting customer requirements and internal process measures that are tracked, then we have a clear sense of what we need to do in managing our processes in order to meet customer needs.

Why Is Linking or Aligning Performance Measures Important?

Performance measures provide the link between strategies and actions. Many businesses have strategic plans and business strategies. The real issue is how to implement these strategies in a meaningful way, in a way that is shown to affect the success of the business. However, that success has to be measured. To do this, the BSC links these strategies to organizational operations. Essentially, BSC serves to link the long-term goals of an organization with short-term operational control by means of a cause-and-effect model. It attempts to determine on a daily, monthly, and annual basis what is working to achieve organizational success (cause) and what, in fact, is limiting that success and should be changed. It not only does this at a high management strategy level, but also communicates this down to an operational level.

To do this, the balanced scorecard needs to be considered more in terms of a hierarchical relationship that aligns elements of the organization into a cohesive set of actions to meet the desired strategy. For a for-profit organization, this would place elements more in a hierarchical relationship, much as Kaplan and Norton provide in a later article.[5] They viewed that through strategic mapping, the scorecard items were hierarchically related.

- *Vision and strategies* are met through meeting *financial outcome goals*.
- *Financial outcome goals* are related to meeting *customer satisfaction measures*.
- Both improving *customer satisfaction and financial outcomes* are directly related to effective and efficient *internal business process management*.
- *Learning and growth* aspects are focused on improving *internal business processes* in order to improve output goals.

The key in aligning these elements relates to measures, and linking the measures to that one level relates to another level. "Inappropriate measures lead to actions incongruent with strategies, however well formulated and communicated. Appropriate measures should provide and strengthen this link, and both lead to attainment of strategic goals and impact the goals and strategies needed to achieve them."[6] In order to use the BSC measures correctly (or any other performance measurement system), using the proper measures for the present business environment is crucial for the alignment that is needed so that effort is focused in the organization.

Abbreviations and Acronyms

BEA	Business Environmental Assessment
BSC	Balanced Scorecard
BSI	Balanced Scorecard Institute
CE	Client Executive
CFO	Chief Financial Officer
DA	Developmental Assignment
DBE	DFAS Business Evolution
DFAS	Defense Finance and Accounting Service
DoD	Department of Defense
EAS	Executive and Administrative Schedule
ELFM	Entry Level Financial Managers
ELPA	Entry Level Professional Accountants
FFMIA	Federal Financial Management Improvement Act
FTE	Full-Time Equivalent
GMRA	Government Management Reform Act
GPRA	Government Performance and Results Act
NIST	National Institute of Standards and Technology
NPA	National Performance Assessment
OMB	Office of Management and Budget
PCES	Postal Career Executive Service
PES	Performance Evaluation System
REDRESS	Resolve Employment Disputes Reach Equitable Solutions Swiftly
SPSG	Strategic Planning Steering Group
SWOT	Strengths, Weaknesses, Opportunities, and Threats
USPS	United States Postal Service

The Balanced Scorecard as a Management Tool to Improve Performance

While many organizations use the balanced scorecard as an *evaluative* tool, we strongly support the notion of a BSC as a *management* tool. What is the difference? As an evaluative tool, the focus is more on using the scorecard for the assessment of (individual) performance, which leads to many different sorts of behavioral consequences that may not support organizational performance improvement. For example, increased pressure to reach targets often will lead to increased pressure to reduce those same targets in order to increase the likelihood that targets will be reached. As a management tool, BSC focuses on improving organizational performance and clarifying where the organization should focus its efforts toward mutual problem solving. As a by-product, BSC acts as a guidepost that also helps to improve individual performance.

According to a Conference Board study,[7] "poor and insufficient feedback" was the number one cause of poor performance in the workplace and resulted in 60 percent of performance problems." This factor was 20 percent higher than the next cause. The study further states that proper performance feedback requires performance expectations to be communicated and understood, and to lead to *mutual* agreement on problem solving. With BSC, there is a clear set of goals aligned to the vision and strategy of the organization. This allows management to communicate objective expectations for performance, while also allowing a greater understanding of those objectives. This empowers both management and staff to make agreed upon improvements.

BSC allows managers to get and give feedback from all units and all levels of the organization; this results in focusing resources where they are needed most and where they will be most effective in changing overall performance. BSC allows an organization to avoid such costly misallocations while reaping the benefits of proper allocation. Because of the focus of this approach, questions will be asked such as "How does this allocation or program expenditure relate to improving our key internal processes?"—which are then related to improve financial and customer satisfaction measures.

In addition, because of the quantified measures and target of performance created in a BSC system, fact-based management can replace intuition or the educated guess. Management develops a greater ability to trace its actions, and the actions of a particular unit, to business outcomes. Conjecture and the causes of poor projections are reduced significantly. In fact, it has been found that when more *non-financial* measures are used, earnings projections become more accurate.[8] This forward perspective shift contributes to a new management style, one in which future outcomes can be anticipated.

The BSC also allows best practices to be identified. As inefficiencies are uncovered, high-performance areas can be defined and the successful activities of these high performers adopted in areas where appropriate.

Differences in the BSC Between Private and Public Sectors

Using the same performance metrics in the public sector as the private sector is likely to be ineffective since public sector goals differ drastically from those of the private sector. Private sector focus is primarily on *shareholder* value: *the bottom line*. Funding comes from various sources, and as long as shareholder financial needs are being met, the company can function as it pleases (see Table 1).

The public sector faces a quite different environment. Public sector funding comes, in most cases, from the taxpayers it is servicing. The measure of success is not shareholder value or profit but rather *how well the agency is meeting the mission* given to them by congressional statute or executive order. Although the agency can oftentimes perform this mission in whatever way it sees fit, it is still bound by the directive of the mission. Thus, strategic value comes in the form of fulfilling the mission, and fulfilling the mission comes down to customer satisfaction with the agency's service. However, defining customer needs is a bit more complex.

A second difference evolves through the number of customers or stakeholders that a public sector organization must serve. Financial measures in the BSC relate to financial performance, which is a means to satisfy investors (shareholders, investment firms, bondholders). In the public sector organization, the financial measures are just part of what is needed to please the "investors," which in this case would be the funding agencies. While private sector clients are not concerned with an organization's internal efficiency so long as their product, price, and service needs are met, internal efficiency is of great concern to the public sector's stakeholders, who also are its source of funding. Taxpayers also require accountability that their tax dollars are being used effectively and efficiently. Therefore, program performance, efficient use of resources, and satisfaction with the service by the public are additional key issues.

These differences lead to a different sort of hierarchical model for the balanced scorecard, as seen in Figure 1 on page 10.

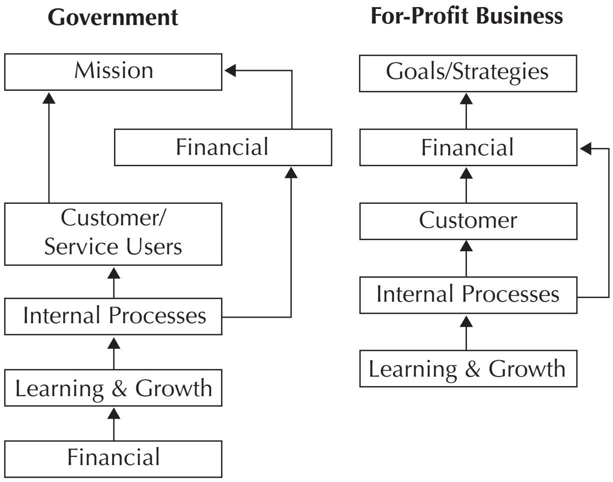
First, as increasing shareholder wealth does not have primacy in a governmental operation, financial performance becomes less critical. However, reaching the mission of the organization is of key interest to those who fund the organization. Hence, the government model needs some changes in the hierarchical ordering compared to how Kaplan and Norton arranged the hierarchical ordering in their mapping article.

Some public sector balanced scorecard advocates have put financial measures at the bottom of the model to indicate the importance of having adequate funding as a precursor to developing the organization, as done in Figure 1. However, to be

Table 1: Comparing Balanced Scorecards in the Private and Public Sectors

Features	Private Sector	Public Sector
Focus	Shareholder value	Mission effectiveness
Financial goals	Profit; market share growth; innovation; creativity	Cost reduction; efficiency; accountability to public
Efficiency concerns of clients	No	Yes
Desired outcome	Customer satisfaction	Stakeholder satisfaction
Stakeholders	Stockholders; bondholders	Taxpayers; legislators; inspectors
Who defines budget priorities	Customer demand	Leadership; legislators; funding agencies
Key success factors	Uniqueness; advanced technology	Sameness; economies of scale; standardized technology

Figure 1: Comparing the Scorecards for Government Versus For-Profit Organizations



consistent with usage in the private sector, we look at financial measures as output measures that are precursors to meeting the mission, which will in the end lead to adequate future funding.

Internal process management would be similar for government and for-profit organizations as both relate to the key value-added processes that the organization provides. For a car manufacturer, the key process would be producing automobiles and trucks. For the government agency, it is providing the service promised through its mission. For the United States Postal Service, the mission is delivering mail. For the Defense Department's Defense Finance and Accounting Service, the key process is taking invoices it receives from its customers and translating those into payments.

Internal processes are important to improving financial and customer satisfaction measures of performance. This is why there is a direct line from internal processes to both customer/user satisfaction and to financial performance. In the for-profit world, the financial ties directly to the overall goal; in government organizations it is only one part of fulfilling the mission, with customer/user satisfaction the other part. In both cases, learning and growth support the development of internal processes.

In summary, the balanced scorecard is an effective management tool that can support improvements in government sector organizations. There needs to be some modification in the basic strategic mapping model provided by Kaplan and Norton to align elements in the BSC to correspond to the environment faced by government organizations. This allows a focus on the mission of the organization as the focal point rather than return to shareholders.

We now focus on two government organizations that have adopted the balanced scorecard as a major part of the management effort. First, we look at the Defense Finance and Accounting Service and what they did to develop the organization culture as they introduced the scorecard. In the second case, the United States Postal Service, the focus is on the difficult time they had in enacting the scorecard and how reinforcement systems became an important part of their process. Both cases provide two different sorts of initial organizational cultures and environments that needed different approaches to effect a quality scorecard introduction and deployment.

Defense Finance and Accounting Service

Legislative Environment of the 1990s

In 1990, the Chief Financial Officers (CFO) Act was enacted by the United States Congress to improve the financial management practices of the federal government, and to ensure the production of reliable and timely financial information for use in the management and evaluation of federal programs. One of its major provisions was to establish a chief financial officer position for all federal agencies.[9]

Within this legislative environment, the Defense Finance and Accounting Service (DFAS) was created by the secretary of defense in 1991 to reduce the cost of Department of Defense (DoD) finance and accounting activities and to strengthen financial management through consolidation of finance and accounting activities across DoD. DFAS inherited 330 finance and accounting locations and over 320 different finance and accounting systems. More than 27,000 people were members of finance and accounting operations in DoD that were capitalized into DFAS.[10] When DFAS was created, it became a fee-for-service organization and operates as a working capital fund. It receives no appropriations directly from the government and is financed by its customers, primarily the military departments and defense agencies.

The continued concern in government circles to improve performance, reduce costs of all government agencies, and make them more like private sector organizations resulted in new legislation focused on improved performance and results as well as amendments to the CFO Act of 1990. The Government Performance and Results Act of 1993 (GPRA) required all agencies to set strategic goals, measure performance, and report on the degree to which goals were met. In addition, much like private sector practice, it required an annual performance plan that could provide a direct link between the strategic goals of an agency and employees' daily activities. The Government Management Reform Act (GMRA) of 1994 furthered the objectives of the CFO Act and GPRA by requiring that all federal agencies build or strengthen the management capacities that form the foundations of high-performing organizations. These capacities included:

- A clear mission and vision for the organization and a sense of direction that is clearly and consistently communicated by top leadership
- A strategic planning process that yields results-oriented program goals and performance measures that flow from and reinforce the organization's mission
- Organizational alignment to achieve goals
- Sound financial and information management systems
- The strategic use of technology to achieve mission-related goals
- The effective management of human capital—the organization's employees—including ensuring that the right employees are on board and provided with the training, tools, incentives, structures, and accountability needed to achieve results[11]

Two years later, the Federal Financial Management Improvement Act of 1996 (FFMIA) was passed. It continued to advance federal financial management practices by ensuring that federal financial management systems provide accurate, reliable, and timely financial management information to the government's managers. The intent and the requirements of this act required that agencies publish audited financial reports.[12]

By the mid-1990s, DFAS made significant progress in consolidating and reconciling the different systems used by the four military services and defense agencies. Finance and accounting operations were consolidated and realigned to fewer locations, causing many independent installation offices to close and personnel to be reduced. Unfortunately, political considerations prevented achieving some economies envisioned by DFAS. For example, DFAS desired to consolidate all its operations at fewer sites called "megacenters," but pressure from some members of Congress required DFAS to continue operations at 21 operating locations. By its 10th anniversary in 2001, DFAS operated from 26 locations with 18,400 personnel and had reduced the number of accounting and finance systems in use to 76.[13] By 2011, DFAS is projected to reduce to three locations from its present 26.

While consolidation was progressing, it was based on an assumption that finance and accounting functions within the Defense Department were inherently governmental. However, in compliance with the Federal Activities Inventory Reform Act, DFAS completed a position-by-position review in 2000. The review determined that 82 percent of its full-time equivalent (FTE) employees were commercial in nature, and no specific military requirement dictated that these business functions be performed by government employees. In fact, a majority of the activities performed by DFAS were commercially available in the competitive private sector. At the same time, the services provided by DFAS were considered to be too expensive, of poor quality, and untimely by its customers. Since many large and well-run corporations outsourced many finance and accounting tasks, it was suggested by the Business Executives for National Security, a nationwide, nonpartisan organization, and some senior executives in the Office of the Secretary of Defense, that DFAS be outsourced.[14] Because of the service-provider relationship with its customers, DFAS had an opportunity to seek continuous innovation and improvement quality of services, but the agency was more involved with conducting operations instead of improving performance.

Beginning of Major Changes

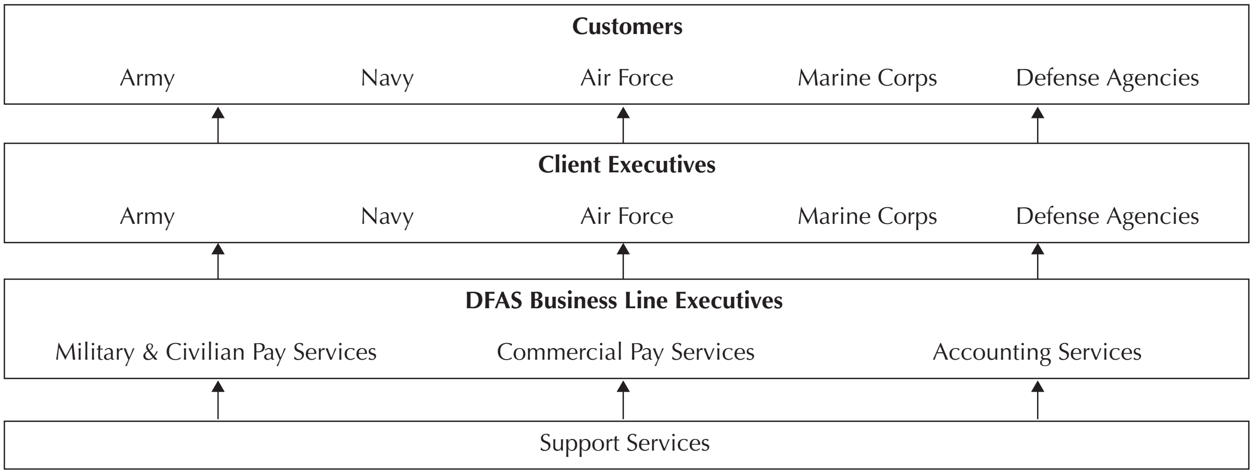
In May 1999, Thomas R. Bloom was appointed by DoD as the new director of DFAS. He immediately recognized that the organization was providing poor services and determined that significant changes were needed. One of the first steps he took was to visit many high-performing private corporations to understand their business models and establish a Leadership Council of the top 18 executives at DFAS that would provide a collaborative decision process to lead DFAS into the 21st century.

Using the Leadership Council to dissect these models and separate the good from the bad, Bloom proposed implementing a new business model called the DFAS Business Evolution (DBE). It outlined steps to strengthen customer relationships and improve business processes to deliver "best value" services to its customers: soldiers, sailors, airmen, marines, civilians, military departments, and defense agencies. As a result, three business lines—Military and Civilian Pay Services, Commercial Pay Services, and Accounting Services—were established. Within each business line, different product lines such as civilian pay, military pay garnishments, contract pay, and vendor pay became business units. With the establishment of these units, DFAS became more aligned to commercial business practices. Additionally, it redefined internal DFAS executive responsibilities and relationships and led to the development of distinct *initiatives* that concentrated solely on *specific* products for *specific* customers. This improved the focus on customer needs and more clearly identified access to and accountability for each DFAS service. Figure 2 shows the DFAS organizational relationships under the DBE. The DBE also set the stage for the creation of an environment for innovation and professional growth for every DFAS employee.[15]

Client Executive Role

With implementation of the DBE, a new Client Executive (CE) role was established to serve DFAS customers. The CE serves as a steward for customers, helping them find solutions to their needs. To assist the CEs in accomplishing this, each business line conducted a needs analysis and customer survey to better understand the critical areas needing improvement. Additionally, DFAS used an Activity-Based Costing analysis to conduct an end-to-end analysis on all major processes to identify ways to improve quality and lower costs. While implementing these improvements, DFAS remained focused on achieving 100 percent of its Agency Performance Contract commitments as well as the goals outlined in the Financial Management Improvement Plan.

Figure 2: DFAS Reorganization Using Client Executives



Strategic Planning Improvements

Although DFAS had a good strategic plan, when Bloom became the director he quickly learned that it was a plan that was not really used. In October 2000 after the DBE was implemented, he held a three-day planning session with 20 top executives to develop a revised, usable strategic plan. At the beginning of the session, and after completing a detailed SWOT (strengths, weaknesses, opportunities, and threats) analysis, his leadership team finally realized that "our platform is on fire" and all functions within the agency were prime candidates for outsourcing.

What could be done and how should DFAS react? From the planning session came new strategies that would allow DFAS to become competitive with private sector companies. This meant world-class performance was needed. As a result, a new DFAS strategic plan was published in November 2001 that outlined clear goals and objectives focused on improving quality and performance and reducing cost.

The leadership team quickly determined that it did not have a mechanism in place to monitor and manage progress or evaluate performance toward achieving strategic goals and objectives. Hence, Lee Krushinski, director of Accounting Services, with the assistance of Ed Kufeldt, director of Plans and Requirements, was put in charge of finding a solution and communicating the new strategy to the organization. As part of this charge, they visited private sector firms and evaluated some public sector organizations involved with changing focus to become more strategy and performance centric. This led to the recommendation to develop and implement the Kaplan and Norton balanced scorecard, or BSC, methodology. As a result, they created the strategic bridge (see Figure 3 on page 14) from the site-focused organization to the new business enterprise. Including the balanced scorecard into the strategy development model supported the case for change and provided a sound foundation for linking goals, objectives, measures, and targets to outcomes.

Introduction of the BSC into the Planning Process

DFAS actually started defining its balanced scorecard process by first updating its strategic plan and vision with assistance from a consulting firm. (The box below provides the revised mission and vision

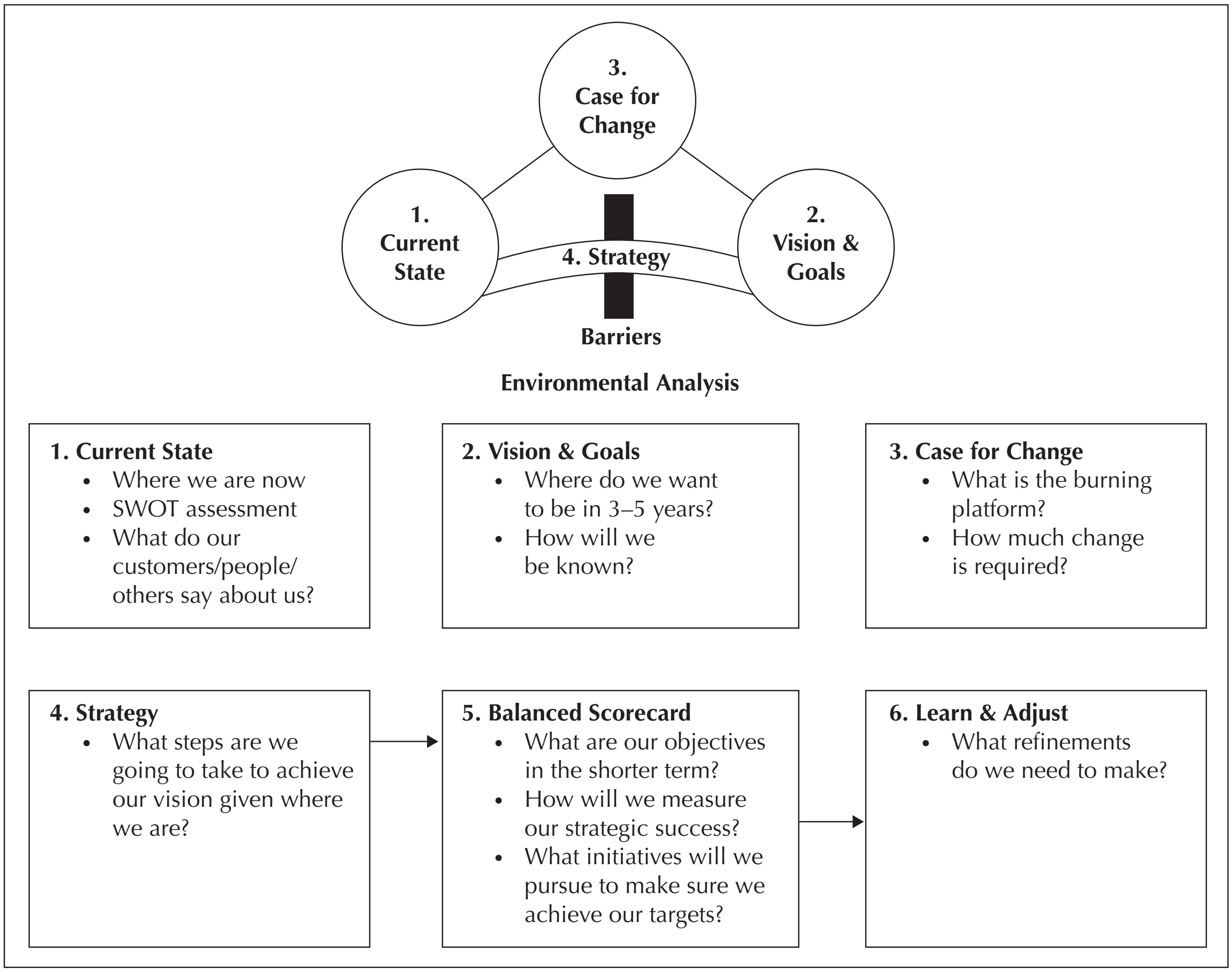
The DFAS Mission and Vision

Mission: Provide responsive, professional finance and accounting services for the people who defend America.

Vision: Best value to our customers

- World-class provider of finance and accounting services
- Trusted, innovative financial partner
- One organization, one identity
- Employer of choice, providing a progressive and professional work environment

Figure 3: Strategy Development Model



statements). Additionally, a review of public and commercial scorecards, like Mobil Oil's, assisted in identifying useful measures. DFAS was already using a system that identified performance management indicators. However, it was strictly a report card approach that measured about 350 items and was viewed by many as a non-value-added activity that required significant time for data gathering and did not receive much attention.

The director understood that most strategic plans die a very slow, dusty death in someone's bookcase, and he didn't want that to happen. He wanted to ensure that the strategic plan remained vibrant and that DFAS could measure how successful it was in achieving its strategic targets.

At first there were some false starts as the executive team struggled with the revision of the strategic plan and identification of possible tools for tracking execution. When Accounting Services Director Krushinski tasked his staff to research tracking tools, they identified an organization called the Balanced Scorecard Institute (BSI) that had some potentially useful tools. Their further research and persistence resulted in Krushinski reading *The Balanced Scorecard* by Kaplan and Norton.[16]

At a subsequent monthly meeting of the Leadership Council, Krushinski introduced the balanced scorecard as a framework for strategic planning that could provide the necessary linkage to the already developed strategic initiatives.

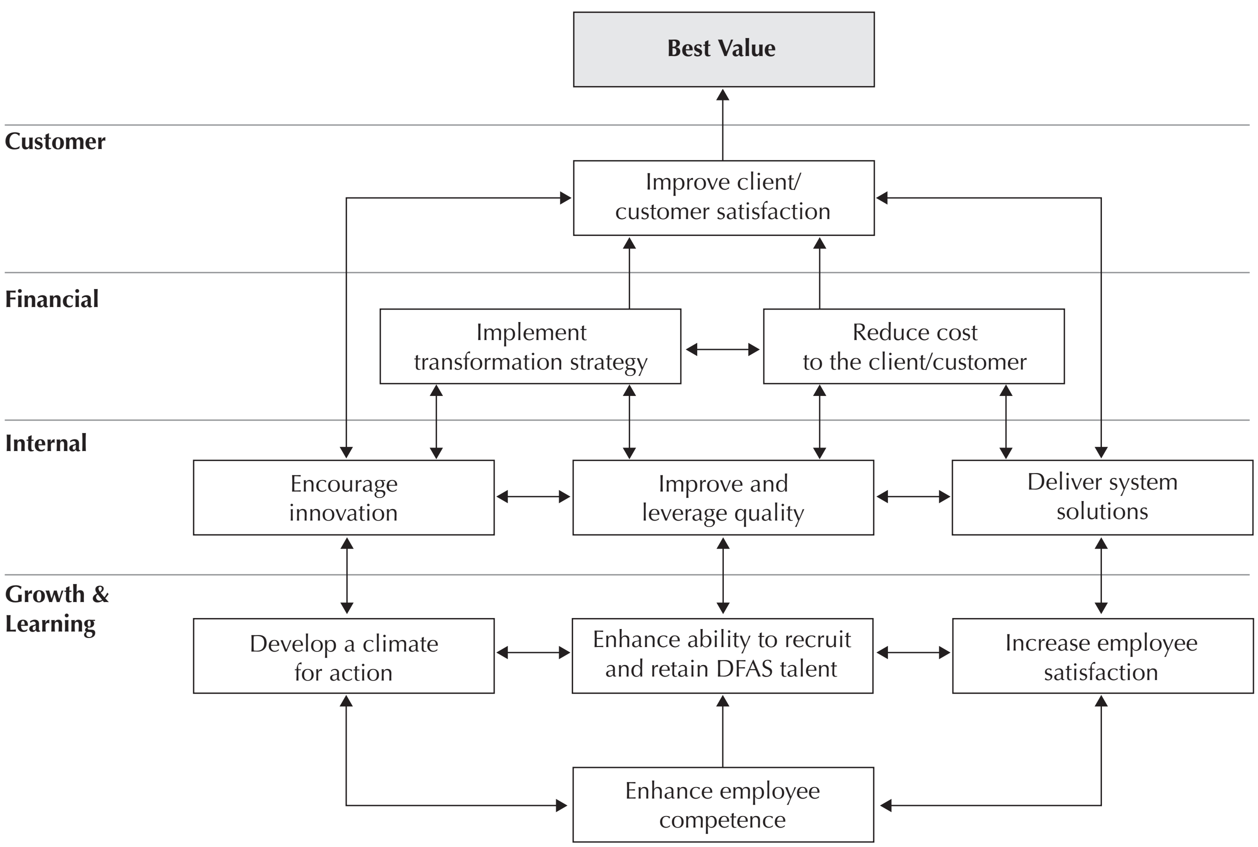
After this briefing, it was clear that the director supported the value of the BSC approach and that all the members of the Leadership Council realized that even though the budget drove most of what the organization tried to accomplish, it wasn't the only important target. Many other factors were also important: customer satisfaction, process improvements, and the role of the employees. The council members realized that all this "other stuff" also needed attention in order to achieve the new DFAS vision.

Before the BSC approach was implemented, DFAS concentrated primarily on the financial perspective without considering its interrelationship with other areas. For example, a cost reduction target of 5 percent for the year would be established without understanding what was needed to achieve it. Using the BSC approach made leadership realize that incremental improvements in quality brought about by new processes or "employee growth or learning" meant less rework and higher customer satisfaction. These improvements, in turn, meant fewer workers were needed and translated into a cost reduction. Leadership realized that while cost reduction may be the ultimate goal, concentrating on the enablers—people, internal processes, and customers—was more important and would achieve the desired cost reduction as a by-product. At the same time, the new processes improved quality, and the cost reduction could be passed on to the customer with a resulting overall increase in customer satisfaction. Consequently, all four perspectives of the scorecard were met.

In arriving at this understanding, however, the Leadership Council for a long time wrestled over the relationship among the four BSC perspectives. They finally agreed that because DFAS is a service, public sector organization, the key driver was the customer and that the foundation was its people. Improving the skill level of its workforce would allow the talent of the employees to identify the "best" way to improve processes and would solve the problems or needs of the customer. The use of this intellectual talent would improve internal processes, reduce costs, and ultimately achieve better customer service. The DFAS pyramidal BSC model (see Figure 4) was developed to explain the interrelationships among the perspectives to employees rather than to represent any hierarchy among each of the perspectives.

While the BSC pyramid explained the relationship among the four perspectives, balancing the importance of the four perspectives remained a significant

Figure 4: Balanced Scorecard Hierarchy



challenge. DFAS was still under severe pressure to reduce costs by 5 percent in absolute terms per year, and the director was keenly aware that if costs were not significantly reduced, the future of DFAS was not guaranteed.

Integrating BSC into Strategic Planning

The DFAS mission and vision reflect a conscious decision by DFAS to be more customer focused. The DFAS strategic plan focuses on goals and objectives to advance the DFAS mission and to attain the vision. Through the balanced scorecard process, the directors of all product lines and support services participated in developing goals and objectives and linking together all DFAS organizational initiatives. Additionally, to help achieve its vision to be world-class in the finance and accounting industry, DFAS used the "best practices" of other world-class organizations as gauges to measure its performance. Thus, the strategic plan became a product of DFAS internal expertise, external benchmarking, legal and regulatory guidance, and industry consultation.

In developing strategy, DFAS analyzed its current state, articulated its desired future state, and identified the case for change. Starting in 2001, DFAS began to build on its strengths and create new synergies to advance its desire to be more customer focused. The Leadership Council met monthly to monitor the key strategic initiatives being pursued to transform the organization. These initiatives concentrated on opportunities to deliver outstanding customer service and to firmly imbed the strategic planning process into the agency's organizational culture.

Establishing a Governance Structure

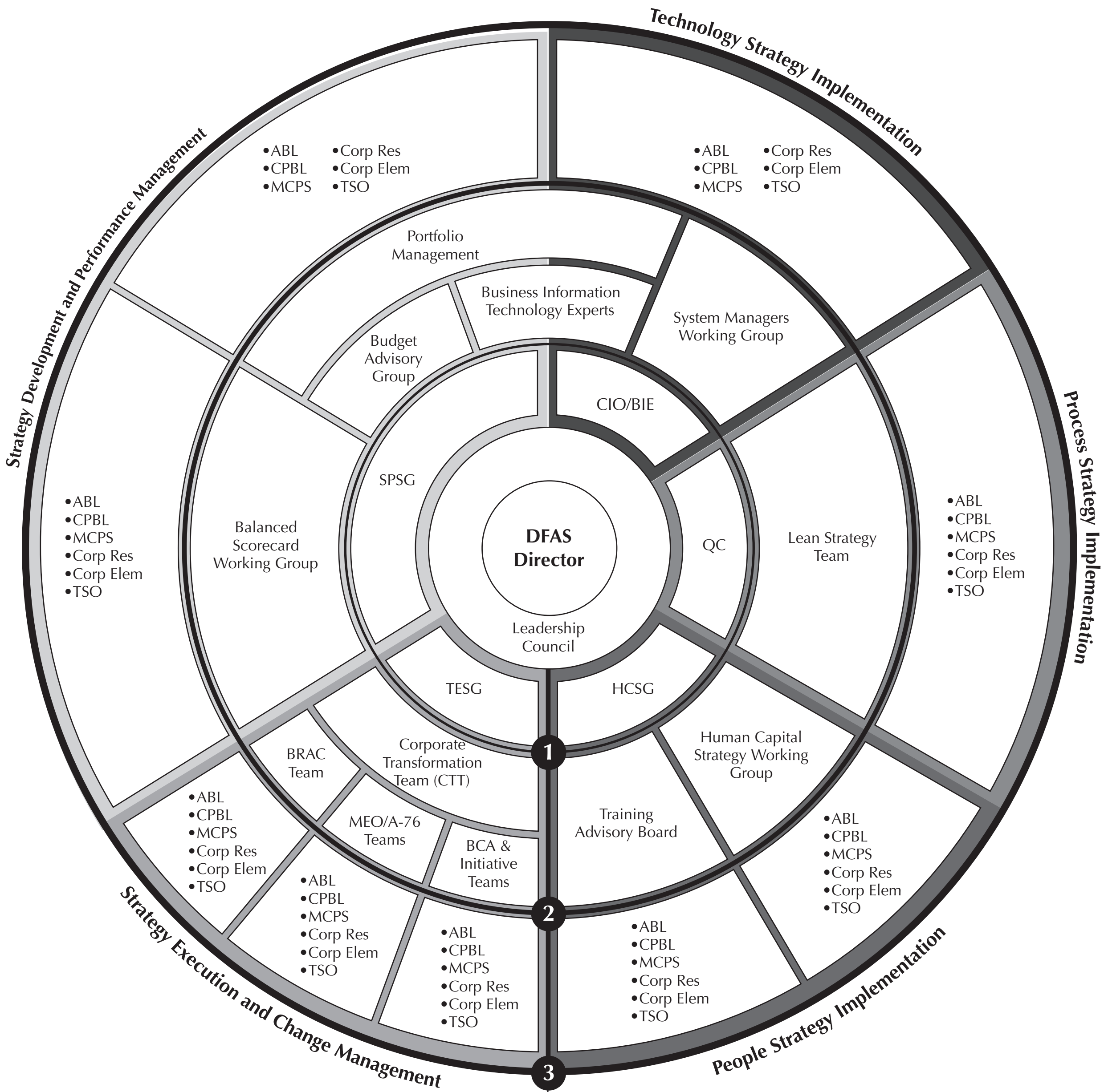
Lee Krushinski played an important part in this effort by working with individual employees and groups to identify initiatives that supported the strategy and then acting as their champion. Additionally, he convinced the director to establish a Strategic Planning Steering Group (SPSG), composed of seven Leadership Council members, as a means to further improve the governance process. This group included representatives from key business lines, the chief information officer, the human resource director, and the chief finance officer. They were tasked to develop a new strategy and implement a new strategic plan that embodied the DFAS vision to become a world-class financial and accounting organization. Additionally, Bloom believed that a strategic plan only works when embraced by all the employees in the organization and integrated into their day-to-day events; the key to ensuring this was to communicate the agency strategy using all the means of communication available, including face-to-face communication as well as electronic and print media. Figure 5 describes the governance structure relationships. A Balanced Scorecard Working Group also was established to involve representation from across all business lines and support organizations. The working group worked closely with the SPSG and developed proposed scorecard measures and targets, formulated definitions, monitored the scorecard process, and reviewed data for integrity.

To support monitoring the implementation of the strategic plan and measuring progress toward achieving the DFAS vision, the balanced scorecard process was designed and implemented in Fiscal Year 2001. The first step in designing and rolling out the BSC was to understand and identify the four broad areas, or perspectives, to be measured: Customer, Financial, Internal Business Processes, and Growth and Learning. At the same time, feedback mechanisms were established to ensure progress in these areas and proper alignment to DFAS strategy.

Gaining Acceptance and Aligning the BSC

Although the Leadership Council was primarily responsible for developing the BSC at their monthly meetings, leadership was committed to ensuring employee participation at all levels through open communication. Establishing the governance structure, described in Figure 5, provided a means for all managers and employees to provide input into the process. Timelines, seen in Figure 6 on page 18, were established to ensure an effective coordination and feedback process among the various committees. Scorecard results were reported to business unit directors on a monthly basis, and every quarter the Leadership Council conducted a two-day review of these scorecards with the business unit directors. This interchange between business unit directors and their managers provided an opportunity to resolve any misunderstandings or other issues. It didn't take long for everyone to understand that the BSC wasn't just about "keeping score"; it was about moving the organization forward to achieve the goals of the

Figure 5: Establish a Strategic Governance Structure for DFAS



❶ **Executive Level**

Establish Strategic Planning Steering Group
- Consists of senior executives from business lines and support organizations
- Reviews and evaluates agency progress in achieving strategic objectives through BSC
- Oversees alignment of budget to strategy actions

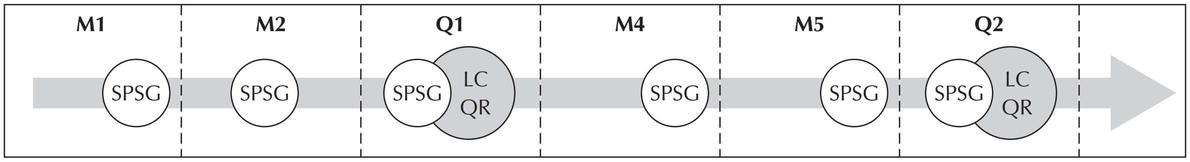
❷ **Integrated Operations Level**

Establish BSC Working Group
- Cross-organizational representation
- Develop definitions, monitor implementation, review data integrity

❸ **Project/Tactical Level**

Cascade the BSC to Sub-Orgs
- Business line and support service scorecards drive initiatives to lower levels
- Aggressive BSC reviews by business lines and support service leaders
- Provides an integrated view of strategic performance

Figure 6: Timeline of BSC Discussion



Monthly
- Measure experts develop Memorandum for Record for trouble spots
- SPSG conducts monthly session focused on corporate BSC
  - Emphasis on a particular perspective (Customer & Financial, Internal, G&L)
  - Reactive & Preemptive Recommendations: Root cause analysis
- SPSG provides Executive Summary to LC

Quarterly
- Measure proponents provide LC with detailed analysis
- Identify strategic course correction and strategic initiatives

Notes:
SPSG = Strategic Planning Steering Group
LC = Leadership Council
QR = Quarterly Review

strategic plan. The Leadership Council also instituted a BSC day, which provided each unit of the organization the opportunity to present their BSC to the council. Both of these changes resulted in improved communication and consistency among the BSC and reporting methods. Small but important things like disseminating meeting information early to allow review by committee members resulted in most deadlines being met on time. Measurement proponents and experts were chosen to ensure consistency of measures across the organization; they were mainly business unit executives (see Figure 7). Measure proponents, in turn, selected measure experts—employees who were viewed as “up-and-comers” and who were willing to take on the added responsibility. This reinforced commitment to the process.

From the outset, Director Bloom supported the use of the BSC as a management tool rather than a report card. This alleviated employees’ fears by emphasizing relative improvement rather than the need to meet an absolute target, as was previously practiced within the agency. Previously, management tended to focus on the score (red, yellow, or green).[17] There was no analysis of trends, direction, or impediments. A red score now was evaluated as to whether improvement was being made and not as an indication that the sky was falling. As one executive stated, “We’re red here, but the percentages are getting better and it’s going in the right direction. That’s good.”

Looking at something other than financial measures was much more rewarding. Seeing the interrelationships between the perspectives was challenging and intriguing. One could see the effect that making small changes had on all the various measures, not only the bottom line. Seeing the influence on all four BSC perspectives helped everyone to focus on how they might do their jobs differently and to identify areas and processes that could be improved. This was especially helpful for the corporate staff. As one executive said, “The easy job was identifying all of our different processes, but we had a hard time trying to identify what were the processes that we performed, especially the oversight processes.”

Communicating the status of the BSC to the entire workforce at the end of the year provided excellent feedback on how the organization as a whole had performed. Results were even placed on the e-portal for everyone to see. The BSC acted as a communication mechanism to provide performance feedback to employees and to instill a sense of achievement in them. It also provided them insight into how they and their jobs affected the entire organization as well as helped to clarify their part in achieving the established business goals. The philosophy was the more people who got involved in the BSC process, working on goal setting and measures, the more familiar and embedded it would become throughout the organization.

The strategic plan became an integral part of everything that was done at DFAS every day. With the strategy clearly in mind and present at every operational level, DFAS continued to strengthen customer partnerships, improve quality, and reduce costs.

Innovative solutions were sought out to maximize the infusion of technology to meet customers' needs.

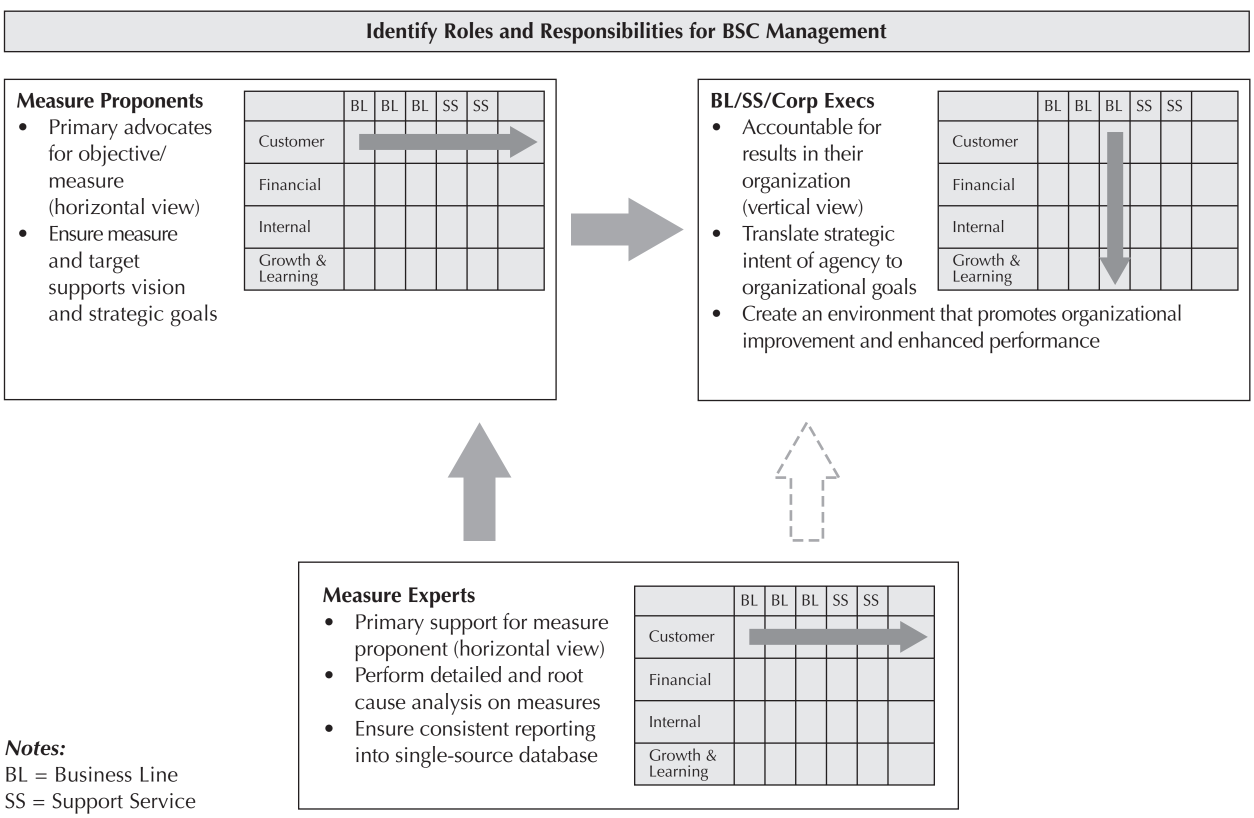
Developing Metrics: Problems and Obstacles

One of the most difficult behavioral issues or challenges faced by DFAS in implementing the BSC process was the development of metrics. The Leadership Council had great difficulty determining goals and identifying appropriate measures. Finally, they reached a general consensus on 80 percent of the scorecard goals and measures and decided, rather than spending another five months debating an issue, that the BSC should be implemented and monitored for potential problems and required changes. At times, what was thought to be the right measurement was found to be deficient—it wasn't measuring the right thing. Leadership realized this initial scorecard was only a first step. It could be improved and adjusted over time. Continuous learning was the key and resulted in BSC revisions each year to include more meaningful metrics and provide better indication of progress in meeting overall strategic goals.

Even though the BSC included some erroneous metrics, use of the BSC approach and the analysis of the results clearly demonstrated that it was contributing to improvements across the agency and was leading to better products and improved customer service. One of the early meetings with the consultant, who assisted in development of the BSC, revealed a key example of the new thinking that was required to develop the BSC. A metric—"98 percent of accounts are paid correctly"—was proposed. Most of the team thought that this was a useful goal until they realized that since DFAS paid 5 million people each pay period, this meant 100,000 people would be paid incorrectly. This pointed out that identifying the proper metric or target was critical to the successful implementation of the BSC.

An additional revelation for executives and managers during the BSC development process was the fact that measuring what was already known only got one to where you currently were. The real challenge was how to develop a metric for a goal that could not be directly measured. For example, how could the success of the Client Executive role be measured? The CEs were senior executives aligned to specific

Figure 7: Roles Played in Strategic Governance Structure



Notes:
BL = Business Line
SS = Support Service

customers and tasked with handling their issues. A measure was needed to track how effective the CEs were in resolving customer issues. The metric decided upon was "number of interactions with the customer per month"—an activity measure. While at first, this might seem too basic, when related to the other scorecard measures like "customer satisfaction" and some of the process changes that involved the customers, it was obvious that the greater the number of interactions, the greater the direct dividends in other areas of the scorecard. However, because the CE role became so institutionalized after two years, this measure became meaningless.

Another example of an extremely difficult metric to develop was related to the great number of finance and accounting systems being used by DFAS. The first measure selected, "Percentage increase in electronic commerce used to service the customer," didn't work. For one business line, the measure stayed almost static. Additionally, the metric lacked consistency and compatibility across business lines; every location was measuring it differently because each business line had a different system or way of gathering the information. As a result, DFAS developed the Wide Area Workflow System, which allowed electronic exchange of invoices and reports and ensured greater consistency of data reporting and a meaningful metric.

A third example of a poorly developed metric dealt with the issue of employee empowerment. Employees expressed that they were not able to influence how operations were conducted at DFAS; they were not really being empowered. The director wanted a metric that indicated whether supervisors were empowering the workforce. Since DFAS had a suggestion program called "Bright Ideas" to which any employee could contribute, the metric decided on was the "Number of 'bright idea' suggestions per quarter submitted by a manager" (another activity measure). This resulted in the submission of many meaningless recommendations, like restriping the parking lots, just to increase the number of "bright ideas" submitted. Obviously, this was not the effect desired, as it was being used as a report card rather than a management tool. The metric was quickly dropped.

The final example dealt with the need to identify and track rework, since an important goal was to reduce rework as a cost-savings measure. A BSC metric was identified and a system built to measure and track rework. The BSC measure kept going down and down. However, since BSC measures are linked, there should have been changes in other measures like increased quality and reduction in cost. This was not happening. Managers soon discovered that the amount of rework had not decreased; employees were merely not charging for rework. This measure was replaced by another measure that could be "managed." A measure that appeared on the surface to be a useful measure was unrealistic because employees were quickly able to figure out how to beat the system.

While it was fairly easy to develop metrics for business lines that were revenue producing, it was (and continues to be) much more difficult to develop measures and objectives for supporting staff units that were not revenue producing.

Continued BSC Development

The scorecard wasn't initially deployed throughout the entire organization. However, by its second year of usage, management—especially in the business units—recognized that additional deployment farther down, through lower levels of the organization, would be extremely valuable. Business unit executives placed more emphasis on full deployment by communicating to their department heads and employees the importance of the scorecard to the success of DFAS. Although each business unit implemented unique incentives and approaches to gain acceptance of the BSC process, the communication process started to have an effect. Now it is unusual to visit any employee workplace and not find some linkage back to the BSC.

Differences Among Units

As balanced scorecards were developed, it became clear that certain measures were not appropriate for all business units and that individual scorecards needed to take into account the differences between business units. For example, DFAS uses different pay systems to support the various business areas—Army, Air Force, Navy, Marines, and other defense agencies. Under these circumstances, it became readily apparent that a single business line productivity rate measure was not possible. While highly desirable, DFAS still has not been successful in identifying a singular productivity rate measure that would be applicable across all business units.

Some areas like systems development that have specific schedules and milestones don't easily fit into a monthly BSC, because the timeline between key milestones could be as long as six months. In these cases, measures were developed that reflected only success in meeting the approved development schedule and customer satisfaction with the development process. More specific "hard" metrics were not possible. In general, it is felt that the balanced scorecard is more suited to measuring operational performance than success of acquisition programs.

Early on, DFAS realized the importance of process metrics, since one of its most important goals is cost reduction. When compared to performance benchmarks in private industry, DFAS's three main activities—pay people, pay bills, and account for those payments—were not competitive, and if the goal to become world class was going to be achieved, DFAS needed to identify metrics that measured its ability to deliver world-class service. Theses metrics would then allow root-cause analysis and identification of the gaps that needed to be closed. In Fiscal Year 2005, DFAS revised its BSC to incorporate an improved focus on customer-oriented outcomes.

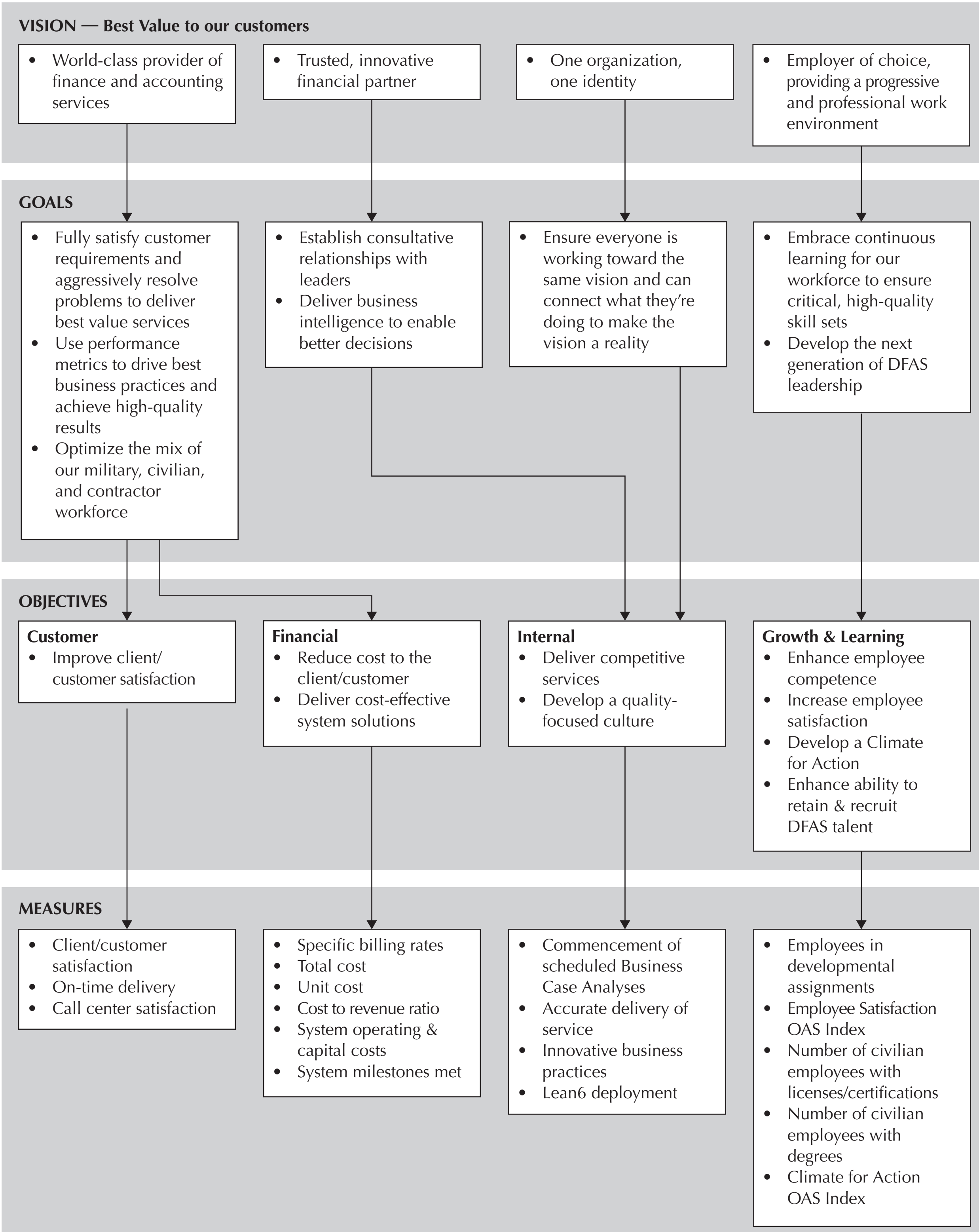
Cascading Goals in BSC

Even when DFAS was reorganized by business lines in 2000, it still processed vendor pay at 23 different locations. Because many of the locations used different processing systems, each location collected and measured performance data in different ways. A major effort was required to establish standards and ensure consistency in measurements so that the overall business line performance could be measured accurately. With these 23 locations using some 350 different metrics, reconciliation to standard, consistent metrics was an overwhelming task. This same reconciliation process had to be repeated for some of the BSC metrics. While this may have been an extremely difficult task, an even more difficult task involved standardizing metrics across business units and support services organizations. Because of this, and faced with the pressure to improve service and reduce costs, the operational business units implemented the BSC first. To assist in standardizing measures and speed up implementation of the BSC in the support services organization, measure advocates, usually senior executives, were designated; they became an expert or advocate for a specific measure. This facilitated coordinating a specific metric across the whole organization, ensured greater consistency, and dramatically improved the execution and deployment of the scorecard.

The BSC became the link to the goals and objectives developed in the strategic planning process (see Figure 8 on page 22). The Leadership Council developed the corporate-level goals and corresponding metrics, which were then cascaded down in the various BSCs to individual employee targets and metrics. Figure 9 on page 23 shows an example of this cascading effect. Corporate-level objectives and measures were established first. Managers in each business line then were brought together to develop the business line balanced scorecard. Following this, each product line within the various business lines and site developed its own scorecard right down to the employee work area. Each individual employee had his or her own balanced scorecard, which was often posted in the work area, thereby providing a clear visualization of how individual job performance affected corporate outcomes and customer satisfaction.

Two of the areas considered more important when cascading the BSC down to the employee level were the Growth and Learning and Customer perspectives; for most employees, both involved training and providing service to customers. For some employees, like the unit that performs document imaging, the customer is an internal customer; for other employees in the Accounting business line or Military and Civilian Pay Services business line, the customer could be an active duty military service member, retired service member, or DoD civilian employee. The Growth and Learning perspective of the BSC involved the employees becoming smarter at what DFAS does. Within this perspective, management strived to create an environment for innovation and creativity so that employees could look at their work processes differently because they were more knowledgeable. This allowed them to identify ways to improve these processes, and cost savings became a by-product of this effort. Currently, the continued deployment of the BSC down to the employee level remains a target for accomplishment for DFAS.

Figure 8: The Linkage Between Strategy and Measures



The Importance of Growth and Learning and Individual Developmental Assignments

To achieve their strategic planning goals, DFAS management was keenly aware that each employee needed to acquire and develop additional skills. Management identified and defined the core competencies needed by the workforce for successful mission accomplishment and committed to spending 5 percent of its labor budget on training to enable all employees to acquire the competencies needed to provide world-class service. In FY 2003, DFAS spent $1,811 per employee on training—or nearly 3.8 percent of its total payroll. This was more than double the average U.S. industry training expenditure of $826 per employee in calendar year 2002.

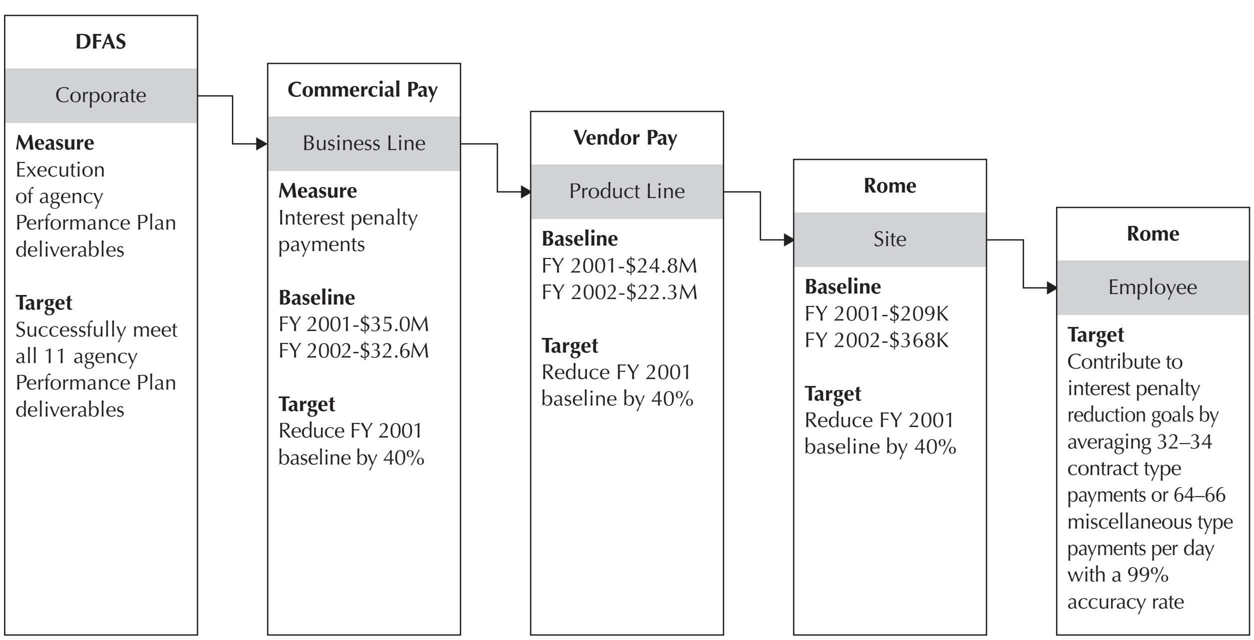
Coupled with this increased emphasis on training, all individual performance plans included a metric related to performance in a developmental assignment (DA). In DAs, employees had an opportunity to work for at least one week in an area completely different form their normal business duties. While employees initially viewed this as a benefit that provided a nice opportunity to get away from the daily grind, managers soon realized that this time could be valuable in helping to fix problems faced by their organizations. Developmental assignments allowed managers to identify good people, free up their time, and use them to help solve departmental problems. This had an extremely positive effect on employees, who felt good about being able to learn new skills and also able to contribute to solving problems within their work organization.

Some managers, especially ones in the more production-oriented units, initially resisted the use of developmental assignments because of concerns that their people did not have enough "free" time for additional projects. However, the Leadership Council stressed the importance of DAs and emphasized that if DFAS was really serious about the value of its people, developmental assignments needed to be established and used. The use of developmental assignments became so successful that when removal of the metric from the 2005 BSC was proposed, lower-level managers and employees strongly demanded its retention.

Employees generally had great freedom to integrate their individual performance plans within the framework of their business unit scorecard measures. Each employee was asked to identify "what is important to them" as a means to help them define goals for their individual performance plans. Employees were provided much assistance in developing their individual performance plans to ensure that their individual goals meshed with business line and corporate goals. This process included individual one-on-one visits with employee teams at

Figure 9: Cascading DFAS Corporate Goals to Business Line Goals

CUSTOMER PERSPECTIVE—Corporate Measure: Commitments Met Performance Plan



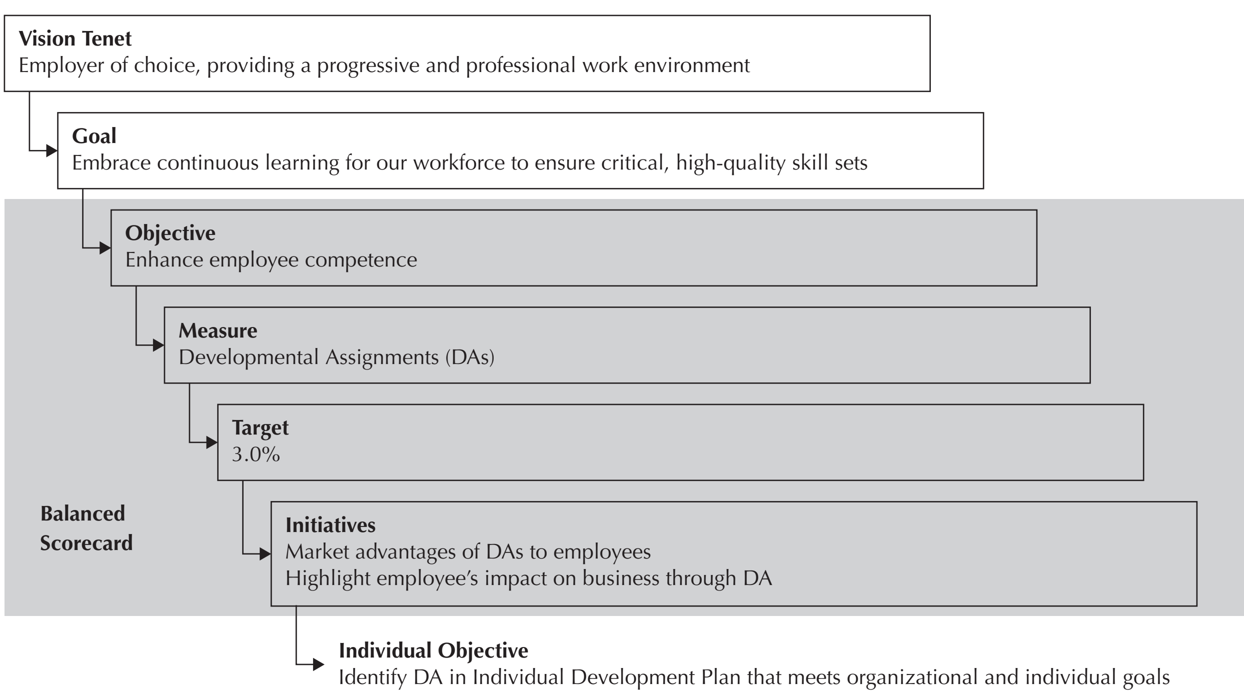
different locations and at which all employee questions were openly answered. This created trust with managers and emphasized individual ownership of the plan. Figure 10 shows an example of cascading the BSC to an individual employee's performance goals and developmental assignments.

Employee and union involvement. Initially, some of the goals established in various BSCs created problems because they were "stretch" goals. For example, the target of one metric was "zero defects." This goal extremely frustrated employees because the BSC system measured success only in terms of a red, yellow, or green rating. As a result, even though employees had improved their performance, they still remained red or yellow on the scorecard. One or two $13 transactions out of a 70-billion-dollar-a-month business may have been in error and didn't make sense because there were always some transactions that were outside an employee's control. When processing 13 million transactions a month, one or two errors made the unrealistic target unachievable.

Correctly identifying performance goals was a significant problem. If performance goals were set such that every individual was successful but the organization failed, then the standard was obviously set too low. If the standard was set so high that it was not achievable (like the zero defect target), both the individual and organization failed. As a result, a review process was quickly developed to revise unrealistic targets when they were uncovered, which exemplified the openness, flexibility, and refinement of the BSC process to all employees. The best choice turned out to be defining a range for a specific goal based on historical performance data. Any goal could then be adjusted upward based on future technological improvements affecting productivity or lower if it was unrealistic.

Although "stretch" goals remained important, emphasis was placed on continuous improvement in BSC measures, where trends were more important than the final score. Understanding why a target was not reached was considered more important than reaching a target that was set too low. If an individual performance plan had all greens and no reds or yellows, the goals were probably not set high enough. On the other hand, if an individual finished the year with eight greens and a couple of yellows and reds out of 14 measures, this was not viewed negatively if improvement had been demonstrated in the majority of the areas measured. This was a powerful motivator to the workforce.

Figure 10: Cascading DFAS Corporate Goals to Individual Developmental Assignment and Objectives



From the very first, the union was fully involved in any goal setting or performance rating changes for its members. It was critical to the success of the BSC process to make the union part of the team and get them fully on board. Key management briefed the union leadership early in the process and explained the benefits of using the BSC as a management tool. The union resonated with the Growth and Learning perspective, which they felt was really directed toward providing additional benefits to the employees. Additionally, as the scorecards were being developed, one business unit invited a union representative to participate, who helped to establish range-based standards that had the necessary flexibility to ensure employees as well as the business unit could be successful. The scorecards allowed performance measures to be compared against performance plans each quarter and individuals to be rewarded (monetarily or in some other manner) who met or exceeded the performance measures.

Recruiting activity. Despite the staff reductions resulting from process improvements, DFAS still needed to acquire new talent to replace its aging workforce. This was especially true in those business lines that required professional accountants and other college graduates to accomplish the work. To meet this need, DFAS established a college recruiting program for entry-level accountants. This formal three-year program, called ELPA (Entry Level Professional Accountants), hired college students as interns for positions in various developmental assignments; they were hired upon graduation into permanent positions if they demonstrated satisfactory performance during their internship.

The success of this program soon led DFAS to realize that many of its existing employees also were very interested in continuing their formal education by obtaining a college degree or additional technical qualifications they needed to advance. Responding to the employees' desires, a new program called ELFM (Entry Level Financial Managers) was developed to meet the career needs of a number of employee groups. It was specifically set up to meet the needs of mostly lower-grade technicians who also were attending college part-time and working toward a degree. This program also greatly benefited DFAS.

Reward system link. In developing an individual's performance plan, all four perspectives of the BSC were not necessarily represented. For example, one business line required that every individual identify at least one additional metric besides a Growth and Learning metric that linked their individual performance plan to the BSC. The rationale for this requirement was based on the feeling that if an employee's performance was not linked to the BSC, then either the BSC wasn't measuring the right thing or an employee was doing the wrong thing.

Because of implementing the BSC, DFAS also attempted to de-link employees' performance rewards from the annual performance appraisal review system (which was used to determine when employees were eligible for rewards). Rewards (or counseling) are now given to employees based on results achieved in meeting BSC and an individual's performance plan goals.

Ongoing Changes

In 2002, DFAS implemented a customer satisfaction survey process. The customer satisfaction survey measured nine separate components, including key measures directly related to the BSC such as problem resolution, access, recovery, knowledge, quality, and courtesy. The results of these surveys indicated that customers were recognizing the process improvements being implemented by DFAS as improved satisfaction; it validated the efforts being undertaken by DFAS and made everyone in the agency aware that there was a *real* linkage between scorecard results and customer satisfaction.

The customer satisfaction surveys not only allowed tracking the overall number for customer satisfaction to previous years, but also allowed tracking each specific component. This allowed the identification of specific customer-related problems. For example, when business lines examined how well they were doing in a specific customer satisfaction area—recovery—they were able to form customer focus groups and identify potential ways to improve performance. By monitoring implementation of these improvements through the BSC, DFAS was able to improve customer satisfaction.

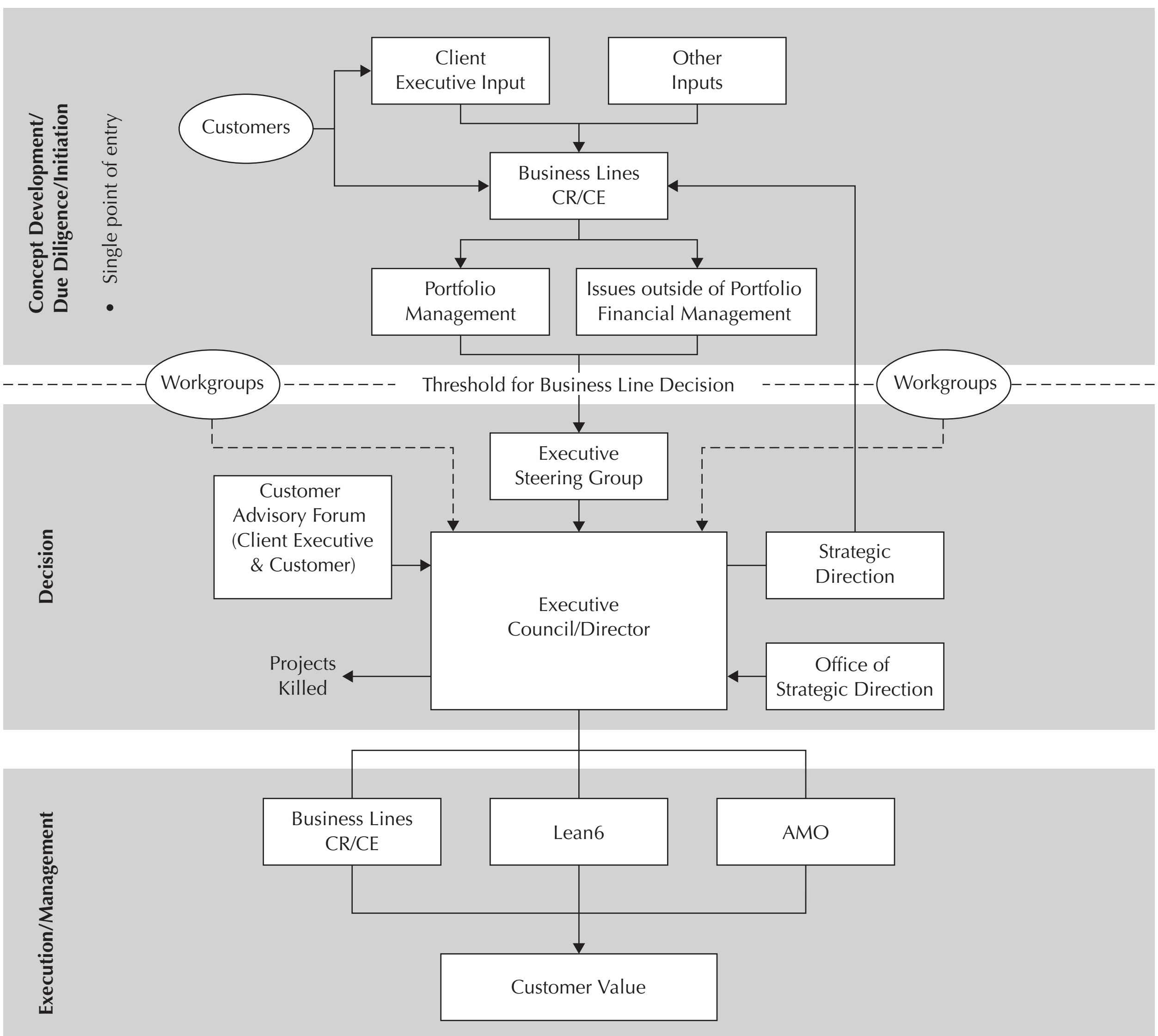
The fact that all business lines and support services groups had BSCs that were aligned to the corporate scorecard provided a synergistic effect in improving performance. For example, when the human resources group met its goal to turn around personnel actions within seven days, it helped a business unit's Growth and Learning perspective by bringing new employees on board in a more timely manner and ensured applicants would be more likely to accept the position. It also enabled the business unit to improve customer satisfaction through improved responsiveness and increased quality.

A New Leader Appointed

With the appointment of the new director, Zack Gaddy, in May 2004, executives were encouraged to include some external stakeholder measures at the DoD controller level in their BSCs. Up to this time, the BSC was used mainly as an internal management tool. Now DFAS needed to find ways to capture two areas of concern: measures to track internal improvement and measures needed to track external concerns. This change primarily stemmed from Office of Management and Budget (OMB) guidance for meeting the President's Management Agenda goals, which implemented a government-wide scorecard to track agency management capacity.

Since becoming the director, Gaddy demonstrated that he fully supports the balanced scorecard, but made some notable changes reflected in the scorecard process. First, he changed the governance model (see Figure 11) by replacing the SPSG and

Figure 11: Improved Business Value Model—DFAS Governance Process



other steering groups with one organization, the DFAS Executive Steering Group. This has streamlined communication now that the BSC is in its maintenance stage. Secondly, Gaddy meets monthly with the business line executives and the support organizations that have a scorecard and reviews the status of each measure. As a result of these meetings, he emphasized the importance of using the BSC for managing the improvement of performance and, likewise, held his direct reports more accountable for achieving the desired outcomes.

BSC Benefits

The key benefit of the BSC has been to help managers/supervisors to identify and focus on specific goals to achieve improved performance and, in doing so, to make them better managers. The BSC goals, in turn, were communicated to all employees and helped to align managers and employees by focusing them on the same targets. When BSC targets were achieved, DFAS performance improved, managers reduced costs, employees were proud of their accomplishments, and the customer was more satisfied. Publishing BSC results every month to all employees made the BSC process extremely visible. Everyone was able to see that it was really used and that it really contributed to improvement in the agency. The BSC established a common language or platform and, no matter how much work areas and job functions differed, all managers still focused on the same goals. Even employees in rather unique areas were able to focus on group goals and actually pull together with the rest of the agency as a team to improve overall agency performance. Figure 12 on page 28 shows an example of the positive results achieved from FY 1999–2005. Despite a significant decline (roughly 30 percent) in the total workforce in the past five years, there has been consistent improvement in employee and customer satisfaction. At the same time, process costs to DoD have been cut almost in half.

One of DFAS's vision statements is, "One organization and one identity." Actually, this vision grew from the fact that DFAS came into existence by consolidating many separate organizations, each serving a specific military service or defense agency. One of the Leadership Council's more important tasks was to unite all these various segments toward common goals. Implementing a corporate BSC linked to business line scorecards and individual performance plans was a key step in focusing all levels of the agency on common goals. The BSC was a natural step in an overall process to attain the corporate identity required to achieve DFAS's strategic goals and become a world-class provider of finance and accounting services. It provided a tool for senior leadership to focus on the most important issues. As one executive stated, "We take care of a very, very important customer base: people who defend America. So when improvements are made in service deliveries, we're doing it for very important people and that's rewarding."

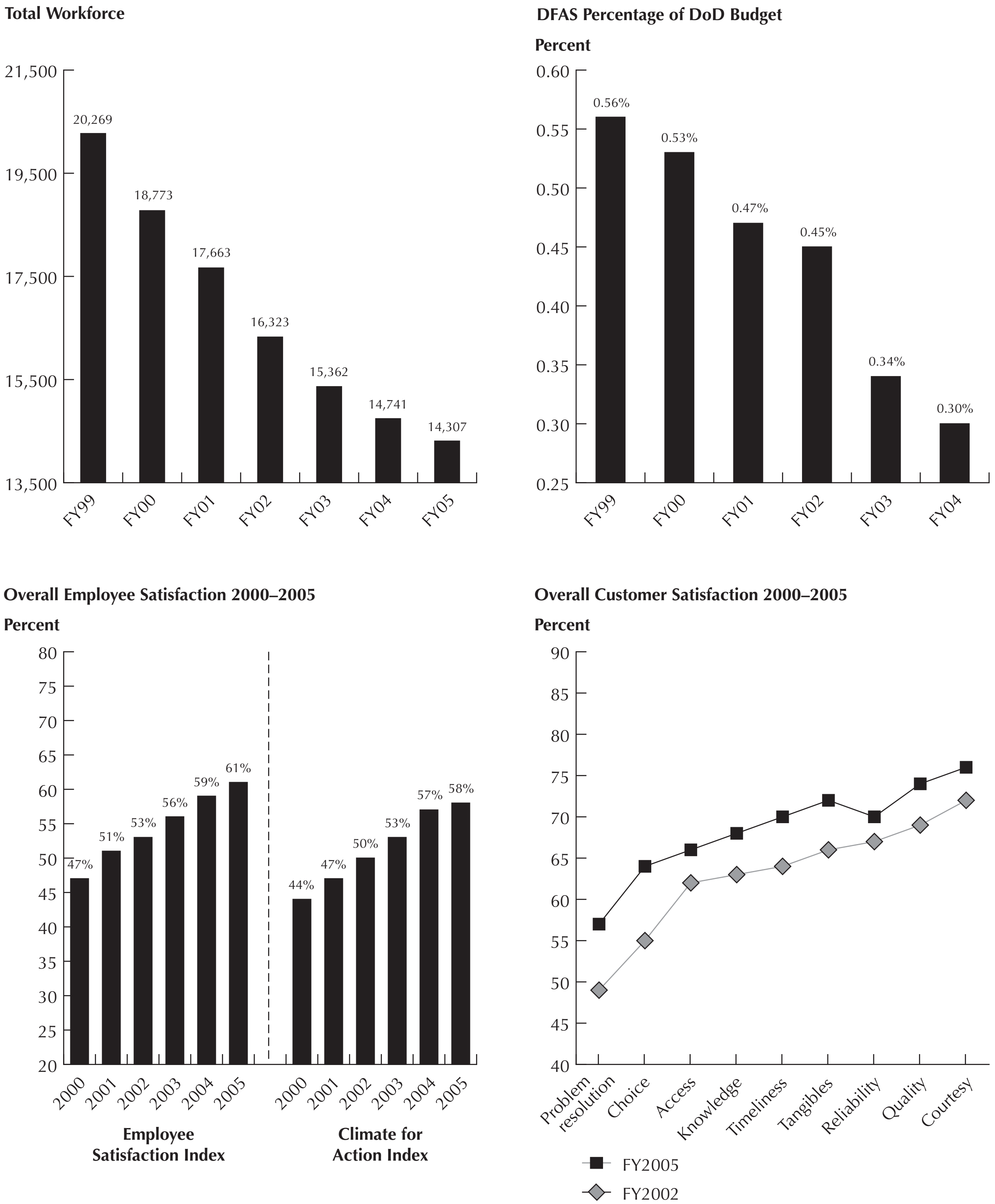
Best Practice

As DFAS communicates its accomplishments in using the balanced scorecard, it is being recognized as a best practice within the Defense Department and the federal public sector. On September 22, 2005, DFAS was selected for the prestigious Hall of Fame award by the Balanced Scorecard Collaborative for achieving exemplary results using the scorecard. In presenting the award, Dr. David P. Norton stated that "DFAS has achieved breakthrough results using the balanced scorecard and is truly a strategy focused organization."[18]

In a testimonial and reiteration of the importance of using the scorecard at DFAS, Director Gaddy said:

> The balanced scorecard has turned our vision and strategy into a meaningful set of performance measures and targets. It has become a management and diagnostic tool that measures our performance at multiple levels, and we use it to assess the health of our organization and demonstrate our progress on completing key initiatives. At the organizational level, the DFAS business lines and support organizations use the balanced scorecard to show their contribution to the corporate vision and goals. At the individual level, the balanced scorecard allows each employee to track their contribution to their organization and, finally, to the corporate whole. Using the balanced scorecard has helped us achieve dramatic improvements in our performance. I am personally committed to expanding our use of the balanced scorecard to meet the challenges we face.

Figure 12: DFAS Organizational Results



The United States Postal Service

The United States Postal Service (USPS) has evolved a planning process over the past several decades that has used principles of the balanced scorecard approach. This section traces the evolution (from 1970 to the current state) of strategy development and goal setting, the innovative reinforcement structure that supports performance management, and the results obtained through continuous improvement in the use of this approach.

Overview of the Postal Service

The Postal Service employs roughly 700,000 workers, with a fleet of over 200,000 vehicles driving about a billion miles a year to deliver more than 206 billion pieces of mail to over 142 million delivery points. It operates one of the largest facilities networks in the nation, with about 38,000 retail offices. About 1.8 million new deliveries are added every year. The annual revenue was about $69 billion in 2004.

The Postal Service is charged by Congress with the mission of "binding the nation together through the personal, educational, literary, and business correspondence of the people.… it shall provide prompt, reliable, and efficient service to patrons in all areas and shall render postal services to all communities at 'fair and equitable' prices."[19] The Postal Service is at the center of a larger mailing industry that generates an estimated $871 billion in commerce annually and employs nearly 9 million.[20] Despite the emergence of direct alternatives and technological substitutes, a healthy postal service remains essential to the economy.[21]

Structural Changes and the Evolution of the Postal Environment

The Postal Reorganization Act of 1970 redefined the Post Office Department into the United States Postal Service to accomplish a variety of policy objectives. The new law created an "independent establishment of the executive branch."[22] Instead of fragmented congressional control, with management and supervision largely provided by political appointees, the legislation established that the new postal organization would be managed by career professionals, led by a private-sector style Board of Governors.

The Board of Governors consists of nine presidential appointees who are confirmed by the Senate. In an attempt to reduce political interference, no more than five board members could be of the same party, and board members serve staggered seven-year terms. The board appoints the postmaster general and the deputy postmaster general, both of whom also serve as members of the board. Another major objective of the legislation was to reduce the burden on taxpayers by requiring the new Postal Service to reach a financial "break-even" point.[23] At the time, about a quarter of the postal budget was subsidized. The Postal Reorganization Act was part of an effort to bring "businesslike" practices to government agencies. An assessment of performance was conducted in 1977,[24] and by 1983, an assessment by the National Academy of Public Administration concluded that the Postal Service had accomplished an outstanding implementation of the act.[25] One of the benchmark accomplishments was the achievement of "break-even" status and the elimination of the public subsidy.

While the structure of the Postal Service was changing, so was the business environment. Private package delivery corporations provided increasing competition. United Parcel Service became a nationwide delivery organization, and in 1971 Federal Express entered the market. By the mid-1980s, competition from facsimile services and the emergence of e-mail further threatened the traditional protected status of the Postal Service. Since then, the development of electronic bill presentment and payment services and other Internet-based applications have reduced the Postal Service's historic growth rates.

The Emergence of a Balanced Scorecard Approach

The Postal Service had traditionally been able to depend on the growth of the economy to drive mail volume and revenue increases in a protected environment. It was becoming clear that this planning assumption could no longer be taken for granted. The Postal Service had fairly sophisticated operational planning, and in fact successfully deployed a massive automation program (Corporate Automation Plan) to reduce the number of manual processes in mail processing. The Postal Service also developed a rigorous financial planning process, including rate case and capital investment planning, but something more was needed since service performance and customer satisfaction were declining.

Anticipating the need for substantial change, the Board of Governors appointed Marvin Runyon as the nation's 70th postmaster general in July 1992. Formerly a senior executive with Ford Motor Company, and the first president and CEO of Nissan America, Runyon came to USPS fresh from a stint at the Tennessee Valley Authority, one of the earliest experiments in government-sponsored enterprises.[26] In these positions, Runyon had successfully applied quality management principles to focus the organization toward improving performance and better meeting the needs of customers. He established a quality group at the senior management level of the Postal Service.

Changes often come to an organization experiencing a crisis or from new leadership with a vision. USPS had both. In November 1993, problems in the Chicago post office pointed to critical problems in the Postal Service. Postal inspectors found mountains of unsorted mail at several Chicago offices. One pile was 800 feet long, nearly the length of three football fields. Inspectors found one carrier with 40,000 pieces of undelivered mail stashed in his truck, and another had 20,000 pieces in his basement. Inspectors found nearly 200 pounds of commercial mail burning beneath a railroad viaduct and other mail dumped in sewers and vacant lots. Information and complaint phones rang scores of times before being answered, if they were answered at all.[27] The problem was not isolated in Chicago, and poor postal performance in New York City and Washington, D.C., raised even more complaints in Congress.

Runyon had a town hall meeting in May 1994 at the Chicago Armory and faced hundreds of angry customers for two and a half hours.[28] Runyon had begun an assessment of the Postal Service in 1993, using the national Baldrige Quality Award criteria.[29] In 1995, the results of that process led to the creation of what was called *CustomerPerfect!*, now known simply as the management cycle. This internal initiative was reinforced by the enactment of the Government Performance and Results Act of 1993. The act required federal agencies, including the Postal Service, to prepare five-year strategic plans, annual performance plans, and performance reports. Agencies were expected to describe their mission, establish specific performance goals and annual improvement targets, and measure performance using valid indicators and reliable measurement systems.[30]

One of the critical features that emerged was the development of strategic goal areas of emphasis called "voices": Voice of the Customer, Voice of the Employee, and Voice of the Business. This was the beginning of the balanced scorecard approach in the Postal Service and served, according to Suzanne Medvidovich, senior vice president, human resources, as a major focal point toward developing a quality approach. A senior management committee was established to set goals and improvement targets, and to develop specific performance indicators and measurement systems. This committee came to be known as the *Establish* Committee, part of a four-part management cycle.

The Postal Service went through a full-fledged Baldrige examination in 1998, conducted by an independent outside organization of qualified examiners. The Postal Service used the criteria for business excellence, since Congress did not authorize the development of criteria for public organizations until 2005. The examiners conducted site reviews including postal headquarters, all 10 field operation areas, and over 120 facilities, and interviewed more than 1,500 people. According to Linda Kingsley, vice president of strategic planning, "the Postal Service worked to design itself to better focus on meeting the needs of its customers by improving communications with its employees and unions,

The Malcolm Baldrige National Quality Award

What is the Malcolm Baldrige National Quality Award?

The Baldrige Award is given by the President of the United States to businesses—manufacturing and service, small and large—and to education and healthcare organizations that apply and are judged to be outstanding in the following seven criteria: leadership; strategic planning; customer and market focus; measurement, analysis, and knowledge management; human resource focus; process management; and results.

Congress established the award program in 1987 to recognize U.S. organizations for their achievements in quality and performance and to raise awareness about the importance of quality and performance excellence as a competitive edge. The award is not given for specific products or services. Three awards may be given annually in each of these categories: manufacturing, service, small business, education, and healthcare. In October 2004, President Bush signed into law legislation that authorizes the Malcolm Baldrige National Quality Award Program to include nonprofit and government organizations. The program may begin to solicit applications from nonprofit organizations in 2006 for a pilot program, with awards commencing in 2007. The U.S. Commerce Department's National Institute of Standards and Technology (NIST) manages the Baldrige National Quality Program in close cooperation with the private sector.

What are the Baldrige criteria?

The Baldrige performance excellence criteria are a framework that any organization can use to improve overall performance. Seven categories make up the award criteria:

- **Leadership**—Examines how senior executives guide the organization and how the organization addresses its responsibilities to the public and practices good citizenship.
- **Strategic planning**—Examines how the organization sets strategic directions and how it determines key action plans.
- **Customer and market focus**—Examines how the organization determines requirements and expectations of customers and markets; builds relationships with customers; and acquires, satisfies, and retains customers.
- **Measurement, analysis, and knowledge management**—Examines the management, effective use, analysis, and improvement of data and information to support key organization processes and the organization's performance management system.
- **Human resource focus**—Examines how the organization enables its workforce to develop its full potential and how the workforce is aligned with the organization's objectives.
- **Process management**—Examines aspects of how key production/delivery and support processes are designed, managed, and improved.
- **Business results**—Examines the organization's performance and improvement in its key business areas: customer satisfaction, financial and marketplace performance, human resources, supplier and partner performance, operational performance, and governance and social responsibility. The category also examines how the organization performs relative to competitors.

For many organizations, using the criteria results in better employee relations, higher productivity, greater customer satisfaction, increased market share, and improved profitability. According to a report by the Conference Board, a business membership organization, "A majority of large U.S. firms have used the criteria of the Malcolm Baldrige National Quality Award for self-improvement, and the evidence suggests a long-term link between use of the Baldrige criteria and improved business performance."

Source: *The Baldrige National Quality Program website at www.quality.nist.gov.*

developing a strategic human resource plan aligned with organizational business strategies, and standardizing core processes across the entire organization to improve operations."

One of the first areas of emphasis was the "Voice of the Employee," which focused on providing a safe and secure workplace in response to instances of violence and poor employee relations.[31] A second major initiative, the "Voice of the Business," focused on the "Breakthrough Productivity Initiative," while the third area, the "Voice of the Customer," focused on providing timely, reliable delivery.

The Need for Balance

Like most organizations, the Postal Service has multiple stakeholders. However, the scope and scale of postal operations makes balancing the interests of its stakeholders somewhat more complex, especially since there are no direct "shareholders" that command precedence in determining organizational priorities. As a public institution, the Postal Service has numerous responsibilities and accountabilities not shared by typical private sector organizations.

According to Kent Smith, manager of strategic business planning, the Postal Service has a comprehensive outreach program to its various stakeholders. The Postal Service sponsors customer satisfaction and market research, maintains Postal Customer Councils in many communities to connect with small businesses, operates a Mailer's Technical Advisory Committee to work out operational issues with major mailers and their associations, and has a significant consumer affairs and customer service operation.

Like many businesses, the Postal Service conducts a Business Environmental Assessment (BEA) to review economic, demographic, and social trends; customer needs; competitor initiatives; market requirements; technological changes and business process improvements; and workforce and workplace changes in order to adjust its strategies. The business situation, which includes the BEA; the findings from the various outreach programs; and reviews of current capabilities, performance, and financial position are used to support the *Establish* phase of the management cycle.[32] As mentioned previously, the *Establish* phase sets the goals and annual performance improvement targets, and reviews the performance indicators and measurement systems.

The *Establish* phase of the management cycle is followed by the *Deploy* phase, also called "Catch Ball." According to Richard Strasser, chief financial officer, "Catch Ball" is an iterative process of negotiation between headquarters, functional departments, and field operating units, led by Finance and tied to the budget function, that determines how resources will be deployed to achieve the performance improvement targets. This is followed by the *Implementation* phase, where programs are put into action to achieve the goals. A *Review* process, which evaluates performance, is ongoing throughout the year.

This process is similar to the strategic mapping advocated by Kaplan and Norton.[33] In their 2000 article, they advocated a well-connected mapping that leads from the main strategy to Financial, Customer, Internal Process, and Learning and Growth perspectives. Each element works to support the strategic objectives in a linked process. Learning and growth ("Voice of the Employee" in postal terms) supports improved internal processes ("Voice of the Business"), which support customer satisfaction ("Voice of the Customer"). Customer satisfaction leads to the desired financial outcome, which in the case of the Postal Service is sufficient revenue to support the universal delivery service mission. This is the basis of the balanced scorecard.

The Application of the Balanced Scorecard to USPS

Most organizations adapt the scorecard to their own conditions, which is why it is difficult to assess the effectiveness of the approach across organizations. At USPS, they were responding to performance gaps in three specific and critical areas. As indicated by Suzanne Medvidovich, then-senior vice president of human resources, one of the critical areas that needed improvement in the labor-intensive Postal Service is the workplace environment. This is what USPS calls the "Voice of the Employee." The process evolved from the specific situation described earlier that resulted in a call to action. A strategic goal was established and indicators were developed to measure annual improvements. As the senior vice president for human resources, Medvidovich had "ownership" of this process as part of the Establish Committee, along with the chief operating officer. This process is shown in Figure 13.

The primary indicators of performance in this category of the scorecard were safety, based on the requirements of the Occupational Safety and Health Administration, and employee satisfaction. Employee satisfaction is measured by a survey of all employees that is conducted annually but can be tracked monthly by each unit.

Richard Strasser, the chief financial officer, also part of the Establish Committee, had ownership of the "Voice of the Business" issue, along with the chief operating officer. This issue went through a similar process of situation analysis, call to action, and establishment of strategic goals, with the development of annual performance objectives, performance indicators, and measurement systems, as shown in Figure 14.

The Voice of the Business is now separated into two areas—one represented by a productivity measure and the other by a revenue generation measure.

The last major area of strategic emphasis, "Voice of the Customer," is owned by the chief marketing officer in partnership with the chief operating officer, as shown in Figure 15. The primary indicator was a set of delivery service measurement systems.

Guided by the Establish Committee, these three improvement processes were implemented simultaneously, and the organization's efforts were focused on achieving specific, measurable results in each area.[34] From the above approaches, a balanced scorecard consistent with the Norton and Kaplan recommendations was constructed, as shown in Figure 16 on page 34. As demonstrated by the arrows, there is an implied alignment from the performance-driven culture reflected in human capital improvements, to operational efficiency, to improvements in customer satisfaction, all of which will improve financial stability.

Figure 13: Voice of the Employee

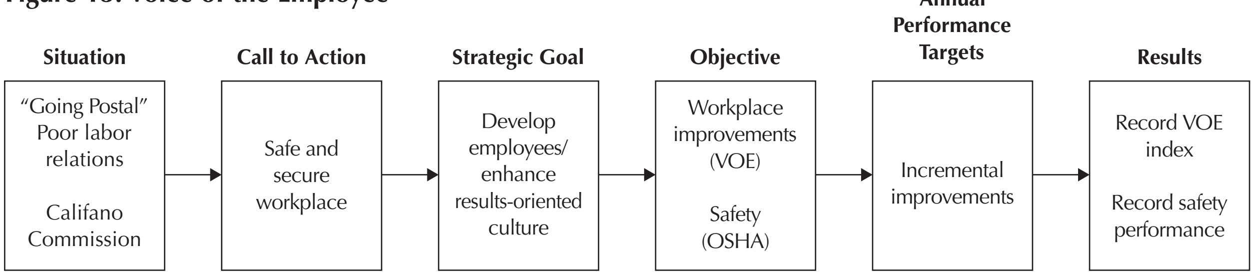


Figure 14: Voice of the Business

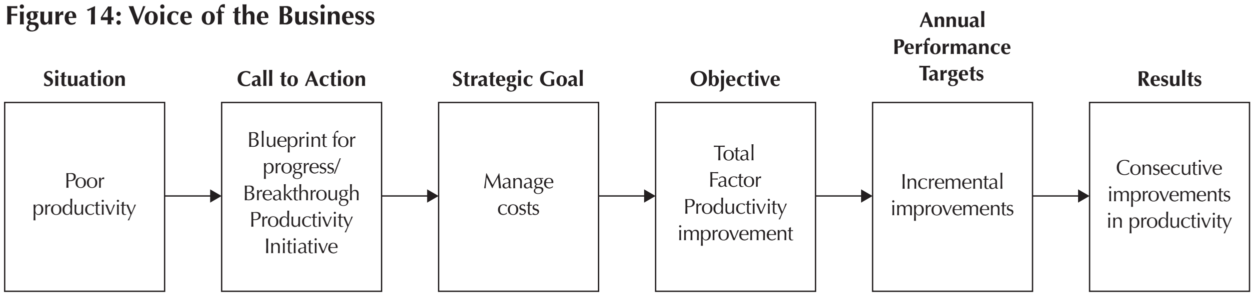
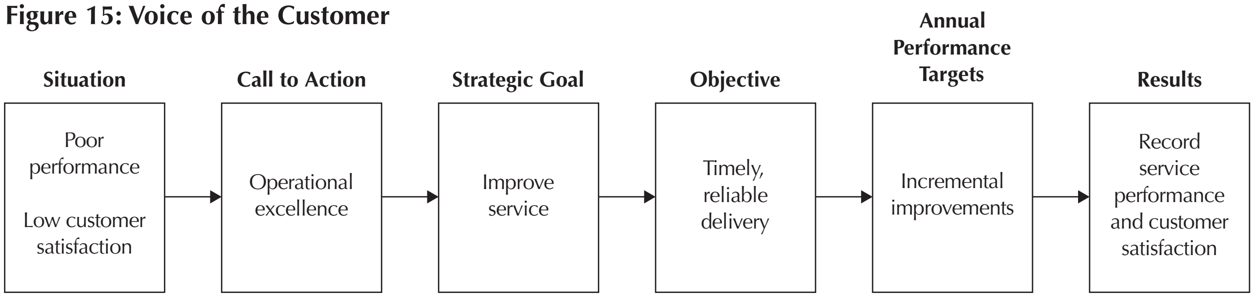


Figure 15: Voice of the Customer



The Postal Service adapted this approach, and has been using the "PMG Star" (see Figure 17) as a communication device to drive the concept of multiple, balanced goals throughout this large and complex organization. Each point of the star represents an area of the scorecard. Financial measures are focused on growing revenue. Operational efficiency is focused on managing costs. The reason for the fifth point of the star, also reflected in Figure 16 as "structural modifications," was the Postal Service's efforts to obtain policy changes in the Postal Reorganization Act of 1970 to gain greater levels of operational and market flexibility.

As Strasser noted, the goals and measures were deployed by specific goals relevant to the functional and operational units involved. According to Pat Donahoe, previously the chief operating officer and now deputy postmaster general, "there are 10 corporate-level measures, which relate directly to the five corporate goals.[35] Since the goals are long term and strategic, they do not change significantly. Each of the indicators is weighted to reflect its relative importance, and the weights are adjusted annually. Senior officers, through the planning process, may adjust corporate objectives, measures, and targets each year." Table 2 on page 36 provides details of the link between specific goals, performance objectives, and measures, and their FY2005 target.

Planning in an organization is one thing. Execution is often another. The Postal Service addressed this gap by developing a rigorous performance review process tied to achieving the targets set by the Establish process. Ann Wright, then-manager of performance assessment, stated, "The USPS has developed a National Performance Assessment (NPA) system, which provides detailed measures for each of the corporate-level indicators, that provides a line-of-sight link to unit and individual performance down to the frontline supervisor. These are consistent across operating areas and job categories within the operating units.[36] Each of the indicators is objective and measurable, and focuses on results or outcomes rather than activities or processes."

The National Performance Assessment Program

Individual and unit performance within organizations is driven, in large part, by the focus given to specific activities (in postal terms, "manage what they measure") and by the incentives associated with achievement of the specific goals. The NPA system provides a systematic approach more akin to the private sector, and, in fact, the Postal Service has been a forerunner of "pay-for-performance" approaches now being implemented elsewhere in the federal government.

Figure 16: The USPS Balanced Scorecard

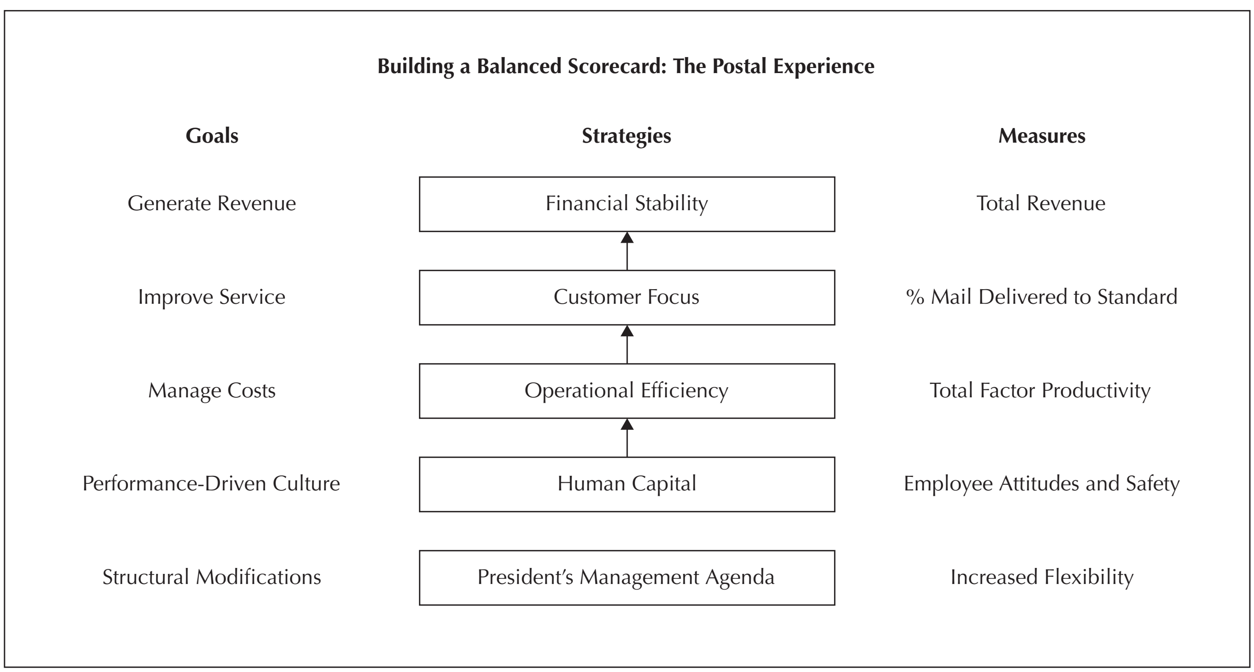
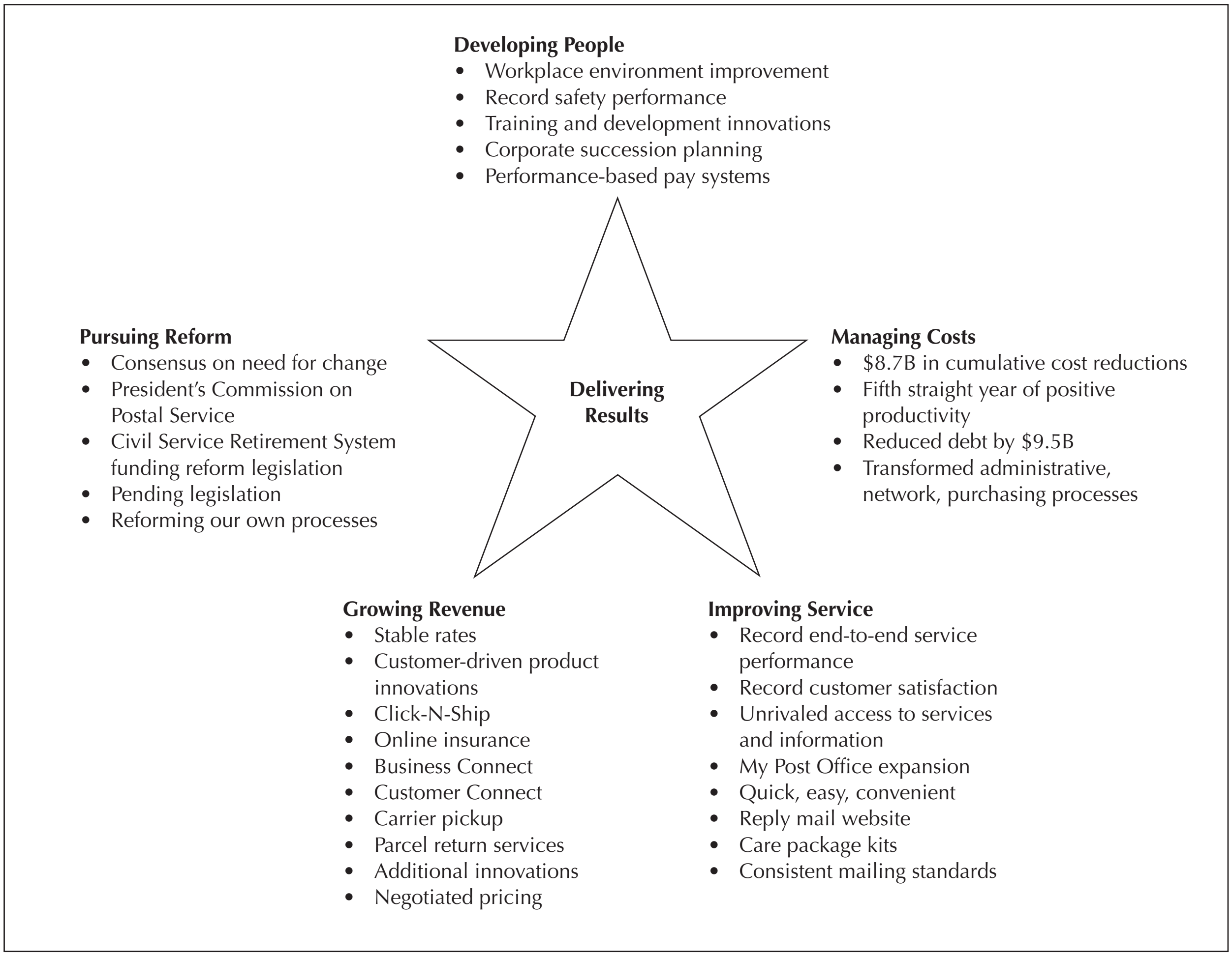


Figure 17: The Postmaster General's 'Star'



Since the Postal Service is a complex, linked operating system, it carefully constructed a family of measures that helped to ensure performance maximization. The performance on many key measures depends on establishing teamwork on a common goal; this common goal is a central part of the NPA. Furthermore, postal management wanted to create an incentive for sustained improvement, whether the unit was far below or far above the performance target.

The matrix or range of performance approach was developed to encourage reaching performance targets for each measure. A sample of this matrix appears in Figure 18 on page 37, which is indicative of the range of performance indicators that was developed for each of the key organizational goals.

The national target of 6.12 (in cell 6) is highlighted in the lower part of Figure 18. The cell selection is based on historical performance and the desired performance target. The array establishes a normalized curve in which the majority of units are clustered around a midpoint, with a few units at the ends to the right and left of the midpoint. The system is designed so that every unit can strive toward a higher cell or performance level. For example, if a unit were currently at a performance level of 54.9 for this particular measure, it would be placed in cell 3. The gap between their current position and the national target of 61.2 in cell 6 might seem insurmountable. However, moving from cell 3 to cell 4 (57.1) is probably achievable. This improvement would place the unit in the "contributor" category for this indicator.[37]

The same is true for a high-performing unit (with a score of 66.6, for example). Normally they would have little incentive to improve if the national goal were 61.2. However, using the matrix approach, the high-performing unit still has room to improve by moving from cell 10 to cell 11.

Table 2: Strategic Goals, Performance Objectives, Measures, and Targets

Strategic Goal	Strategic Objective	Performance Measure	FY 2005 Target
Develop people	Enhance performance-based culture	Safety—OSHA Illness and Injury rate	Better than same period last year
		Workplace improvement—employee survey results	Better than end of year 2004
Manage costs	Increase productivity	Total Factor Productivity	Achieve plan
Improve service	Timely, reliable delivery	Priority Surface	Proprietary
		Priority Air	
		Express Mail	
		First-class mail overnight	95.0
		First-class mail 2-day	91.0
		First-class mail 3-day	90.0
Grow revenue	Sufficient to cover costs	National total revenue	Achieve plan

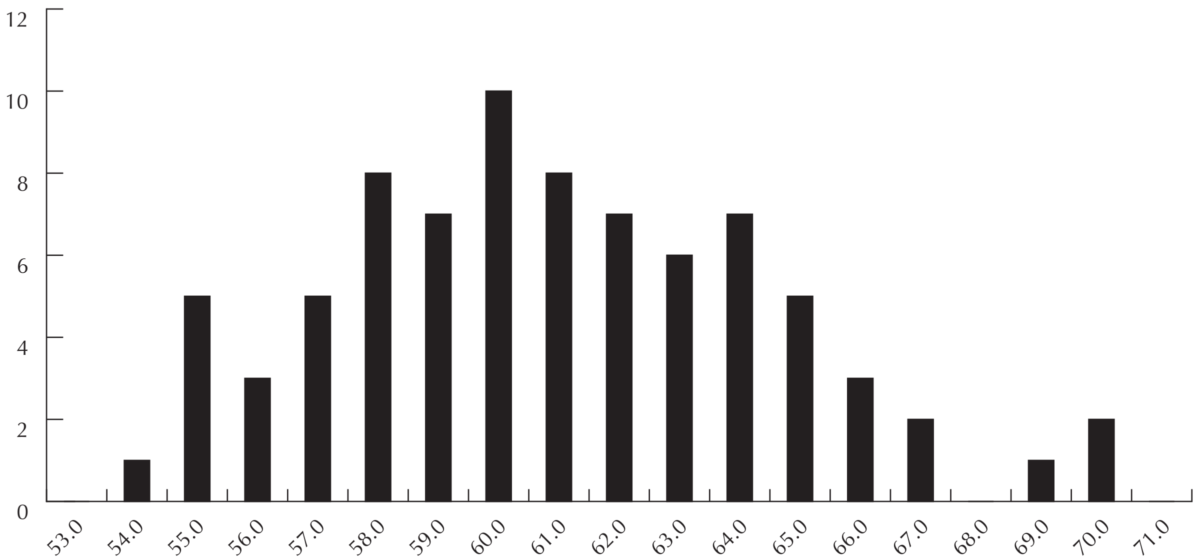
Each unit can track its performance on many operational and financial issues on a daily basis. Each unit receives a monthly scorecard comparing the current level of performance to the desired goal and the national norm. In addition, each unit receives a detailed NPA score based on the cell achievement and the importance of that indicator (its weighted value for that unit).

This report includes the performance on the 10 key corporate indicators and on a variety of sub-goals that support goal achievement. Different units, depending on size or function of the unit, focus attention on critical sub-processes that are under the control of local managers. Individual performance objectives are set in a similar fashion, down to the supervisor level for many functions. The relative weighting of individual to unit performance indicators is dependent on the sphere of influence. That is, an area vice president (representing control of postal operations in a multi-state area) may have a performance rating weighted 80 percent on corporate goals and 20 percent on unit goals, while local postmasters may have a performance rating based 30 percent on corporate goals and 70 percent on the performance of goals relative to their office. A sample of the Composite Report Card can be seen in Figure 19 on page 38. In this sample, corporate measures accounted for 75 percent of the weight of the individual's evaluation and unit performance was worth 25 percent.

The Postal Service makes performance data widely available internally. All people working in a unit can go to the scorecard page on the USPS internal website and find the performance score for their unit. They also can see the performance of their unit relative to all others in the country. To improve organizational learning and performance, the website provides contact information to find out how other units have improved their performance on any given indicator.

Figure 18: Example of a National Performance Assessment 15-Cell Matrix

Index Performance—Cluster Frequency



Indicator for the Voice of the Customer Survey Results

Non-Contributor			Contributor						High Contributor			Exceptional Contributor		
1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
52.1	53.5	54.9	57.1	59.3	61.2	62.3	63.7	65.2	66.6	68.0	69.5	70.9	72.3	73.7

The NPA score for that unit is entered into the Performance Evaluation System (PES) along with individual goals and performance. The PES system then develops additional compensation amounts added to the base salary for each participant, based on corporate, unit, and individual performance. The pay-for-performance premium can be 10 to 15 percent of base salary.[38] In Fiscal Year 2003, all Postal Career Executive Service (PCES) employees were part of the balanced scorecard and National Performance Assessment program.[39] In FY 2004, all Executive and Administrative Schedule (EAS) employees were included in the program.[40] Some jobs are very difficult to measure, such as those at headquarters in planning, long-term marketing, law, IT, and engineering. Because of the more difficult-to-measure tasks or tasks that may be multi-year in their outcomes, these jobs are measured through setting individual performance goals that are as objective, measurable, and outcome focused as possible, but by their nature some goals may be more process based.

Performance Results

The results of the management planning cycle, the postal adaptation of the balanced scorecard, and the reinforcing pay-for-performance system have delivered impressive results in each of the areas of strategic concern.

The Postal Service has improved its performance on those measures assessing a safe and secure environment. USPS has been recognized as one of the best places for minorities to work.[41] The Postal Service's implementation of the REDRESS (Resolve Employment Disputes Reach Equitable Solutions Swiftly) program has received national recognition.[42] The USPS OSHA Illness and Injury rate, shown in Figure 20 on page 39, improved to 6.3 in 2004 from 8.7 in 2000.[43]

The results of the annual employee satisfaction survey, expressed as an index for six key questions (where a larger index indicates improvement), have advanced from 57.5 in 2000 to 62.1 in 2004, as shown in Figure 21.[44]

Figure 19: Composite Report Card—Cluster Leaders Team (National Performance Assessment)—June (FY 2005 Year-to-date)

	Unit Type: Cluster Leaders Team						Non-Contributor			Contributor						High Contributor			Exceptional Contributor		
	Depth	Target	Weight	Cell	Score	Indicator	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
Corporate 75%	Cluster	95.0	7.5%	3	.2250	Priority Surface															
	Cluster	90.0	7.5%	3	.2250	Priority Air															
	Cluster	95.0	5.0%	10	.5000	Express Mail															
	Cluster	95.0	10.0%	5	.5000	First Class ON					94.5	95.0	95.2	95.4	95.7	95.9	96.1	96.3	96.6	96.8	97.0
	Cluster	91.0	5.0%	5	.2500	First Class 2-Day					90.0	91.0	91.6	92.1	92.7	93.2	93.8	94.3	94.9	95.4	96.0
	Cluster	90.0	5.0%	5	.2500	First Class 3-Day					89.8	90.0	90.4	90.9	91.3	91.8	92.2	92.7	93.1	93.6	94.0
	Cluster	6.0 0.0	10.0%	7 9 8	.8000	OSHA I&I Avg.		8.0		5.6			-11.1%		4.7 -9.0%	4.2 -12.0%	3.7 -15.0%	3.3 -18.0%	2.9 -21.0%	2.5 -24.0%	2.3 -27.0%
	Cluster	6.0 0.2	10.0%	7 11 9	.9000	VOE Survey Avg.		9.0			64.2			4.1%		67.9 3.1%	69.4 3.9%	70.8 4.7%	72.2 5.4%	73.6 6.2%	75.0 7.0%
	National	0.6	20.0%	10	2.000	Tot National Rev										2.1	2.3	2.6	3.0	3.5	4.5
	National	0.0	20.0%	9	1.800	TFP									.50	.60	.80	1.0	1.3	1.5	2.0
Unit 25%	Cluster	6.0 5.0	5.0%	6 9 9	.4500	BMEU Prof (best of)		9.0			696.0			13.0%		723.0 13.9%	732.0 16.1%	741.0 18.3%	750.0 20.6%	759.0 22.8%	768.0 25.0%
	Cluster	6.0 0.0	10.0%	12 9 11	1.100	Retail CSM Avg.			11.0			650.7				16.7%		640.0 26.5%	657.0 31.0%	673.0 33.5%	675.0 35.0%
	Cluster	96.0	5.0%	7	.3500	Parcel Select DDU							96.4	96.6	96.9	97.2	97.5	97.8	98.1	98.4	98.7
	Cluster	6.0 0.0	5.0%	9 6 8	.4000	Wait Time Avg.		8.0		92.2			0.1%		91.7 24.0%	93.1 32.0%	94.4 40.0%	95.8 48.0%	97.2 51.0%	98.6 76.0%	100.0 100.0%
	Cluster	6.0 0.0	5.0%	5 6 6	.3000	MVA Avg.	6.0		10.5		-1.9%		9.3 -4.0%	8.6 -8.0%	7.9 -12.0%	7.1 -16.0%	6.4 -20.0%	5.7 -24.0%	5.0 -28.0%	4.0 -32.0%	3.0 -36.0%
	Cluster	3.0	5.0%	6	.3000	Sfty Pgm Eval Guide						3.1	3.3	3.5	3.8	4.0	4.2	4.3	4.5	4.6	4.8
	Cluster	42.5	0.0%	6	.0000	EEO Conversion Rate						41.1	41.0	39.5	38.0	36.5	35.0	33.5	32.0	30.5	29.0
	Cluster	6.0 6.0	10.0%	6 15 11	1.100	Cases Pending Avg.			11.0			-10.3				4.40%		-16.7 5.60%	-17.8 5.53%	-18.9 5.47%	-20.0 5.40%
	Cluster	0.0	35.0%	6	2.100	TOE % Plan						-0.1	-0.5	-1.0	-1.5	-2.0	-3.0	-4.0	-6.0	-8.0	-10.0
	Cluster	2.4	10.0%	5	.5000	Retail Rev % Plan					2.3	2.4	3.0	3.6	4.3	4.9	5.5	6.1	6.8	7.4	8.0
	Cluster	2.5	10.0%	9	.9000	Ret. Alt. Access Rate									3.4	3.6	3.9	4.2	4.4	4.7	5.0

Corporate Summary Score 7.45
Unit Summary Score 7.50
Composite Summary Score 7.47

* Due to data issues, Express Mail June scores are the same as May scores.
- Non-Contributor
- Contributor
- High Contributor
- Exceptional Contributor

Cluster Leaders Team Composite Summary
Corporate Summary 7.45 x 75.0%= 5.59
Unit Summary 7.50 x 25.0%= 1.88
Composite Summary 7.47

The improvements in the workplace, along with aggressive implementation of automation and other management investments, have led to a remarkable growth in postal productivity that has outpaced the growth of productivity in the U.S. economy, as shown in Table 3 on page 40. The result is that the Postal Service is delivering more mail to more places, with fewer employees. Figure 22 on page 41 graphically shows this productivity improvement.

Total operating revenue also has improved from $64,540 million in 2000 to $68,960 million in 2004[45] (Figure 23 on page 41), with postage rates increasing below the rate of inflation. This is an average annual increase of 2 percent, even though the volume of first-class mail declined by 5.4 percent (FY 2004 compared to FY 2000) and lower margin standard mail increased by 6.1 percent.[46]

Postal delivery service also has improved significantly. First-class mail performance has improved from the crisis days of Chicago to over 95 percent of overnight mail being delivered on time, with improvements in other categories of first-class mail, as shown in Figure 24 on page 41.[47]

Summary

One way to summarize the effectiveness of the postal implementation of the balanced scorecard approach is to refer to the assessment of the American Society for Quality in their annual American Customer Service Index, where they described the Postal Service in their 2004 survey as "the most improved organization" since the comparative measurement program began in 1994 (see Table 4 on page 42). In an overall comparison to industry ratings of customer satisfaction, the Postal Service ranked above the Transportation, Telecommunications, and Utilities averages, and about equaled the Services industry.[48] Although there may be many other factors involved in the recent success of the Postal Service, the balanced scorecard approach certainly has played an important role as part of a sustained and focused performance improvement effort.

Figure 20: OSHA Safety Performance

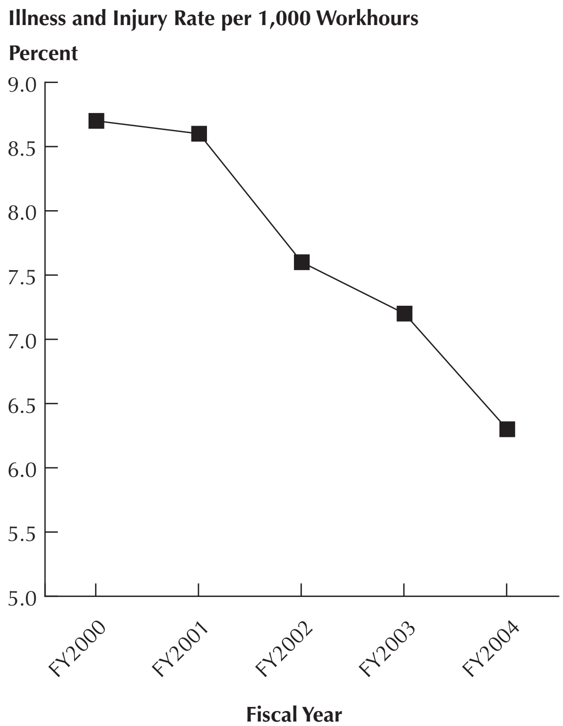


Figure 21: Voice of the Employee Survey Performance

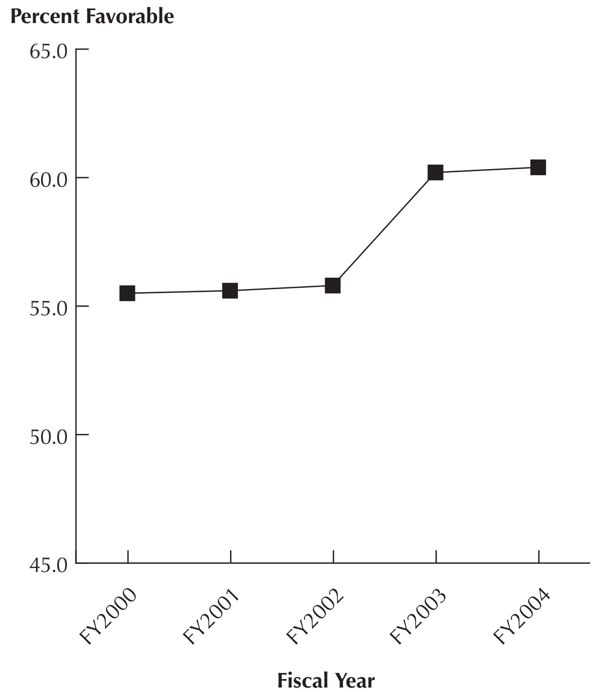


Table 3: Productivity Comparisons 1990–2004

Productivity Since 1990						
	Total Factor Productivity (TFP)		Output per Workhour[1]		Multifactor Productivity[2] (MFP)	
	Annual[3]	Cumulative from 1972	Annual	Cumulative from 1972	Annual	Cumulative from 1972
1990	2.9	8.6	3.4	13.9	(0.0)	11.3
1991	(1.8)	6.8	(0.1)	13.7	(1.0)	10.2
1992	0.4	7.2	1.0	14.8	2.0	12.2
1993	3.8	11.0	4.6	19.3	0.5	12.7
1994	(0.2)	10.9	0.8	20.2	1.0	13.7
1995	(1.9)	8.9	(1.3)	18.9	0.4	14.1
1996	(1.3)	7.6	(0.1)	18.8	1.4	15.5
1997	1.3	8.9	1.7	20.5	1.0	16.5
1998	(1.0)	7.9	1.2	21.7	1.2	17.7
1999	(0.1)	7.7	0.9	22.6	0.7	18.4
2000	2.2	9.9	2.0	24.6	1.4	19.9
2001	1.7	11.6	1.7	26.3	(1.1)	18.8
2002	1.0	12.6	2.2	28.5	2.0	20.8
2003	1.8	14.4	2.3	30.8	2.7	23.5
2004	2.4	16.8	2.4	33.3	2.8	26.3

1. Output per Workhour measures the changes in the relationship between workload (mail volume and deliveries) and the labor resources used to do the work. The main output is delivering mail and services to an expanding network.

2. 2002–2004 MFP data are estimates of Global Insights, Inc. Bureau of Labor Statistics (BLS) data for these years have not yet been released.

3. Historical data is subject to revision as certain data used in calculating productivity are periodically revised. Price indexes released by the BLS and the Bureau of Economic Analysis that are used to calculate resource usage are subject to historical revisions by these agencies. When historical revisions are released, they are incorporated into the TFP calculation, which can result in historical TFP revisions. TFP for the reporting year is also subject to revision when final Postal Service cost data for the reporting year are available. Generally, this revision occurs in April of the following year.

Figure 22: Postal Productivity Improvements

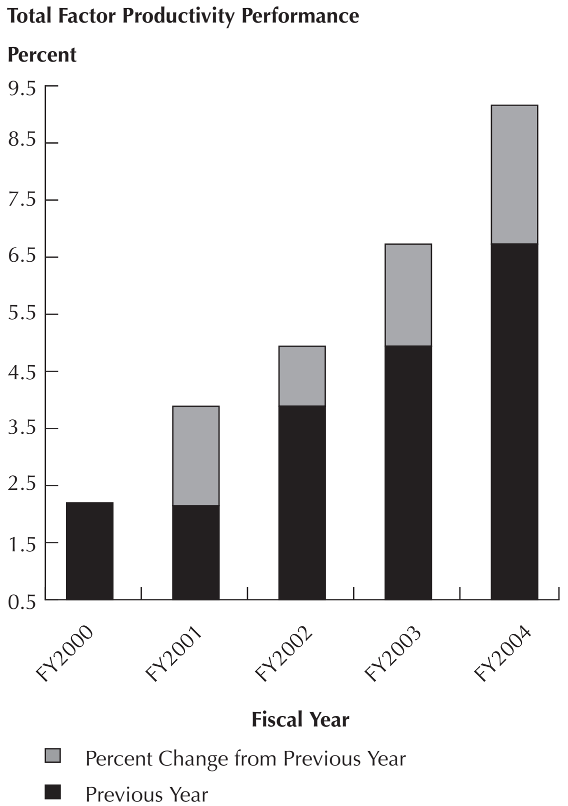


Figure 23: USPS Operating Revenue Improvements

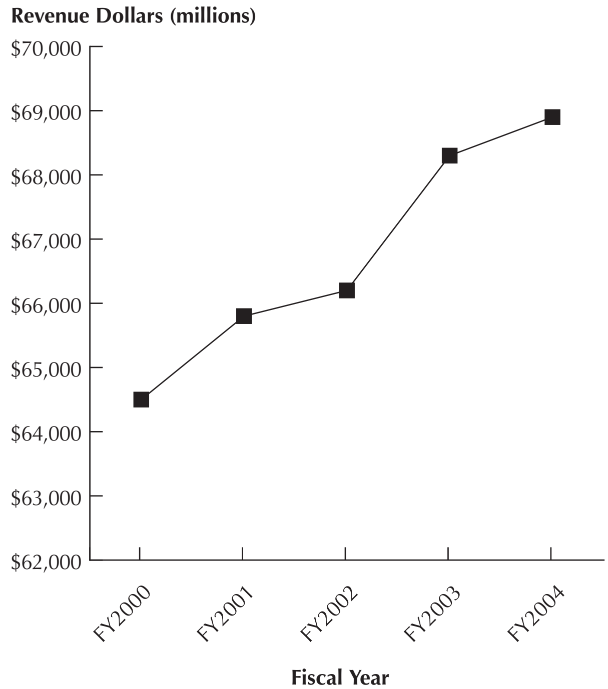


Figure 24: First-Class Mail Delivered within Standard

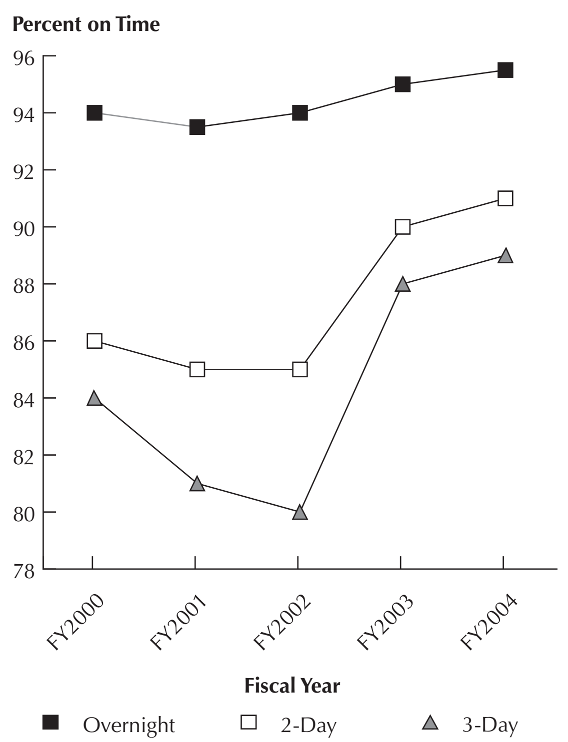


Table 4: Comparative Customer Satisfaction Index Ratings

Firm/Industry	Baseline (Summer 1994)	2004	Change from Baseline (%)
U.S. Postal Service	61	74	21.3
U.S. Postal Service (Parcel/Express Services)	69	77	11.6
Parcel/Express Delivery Service Industry	81	81	0.0
Scheduled Airlines	72	66	-8.3
Telecommunication Services	81	71	-12.3
Energy Utilities	75	72	-4.0
Hotels	75	72	-4.0
Transportation, Communication and Utilities Industry	75.5	69.7	-7.7
Service Industry	74.4	74.7	0.4

Source: *2004 Transportation/Communication/Utilities and Services Industry Report, American Society for Quality.*

Building a Balanced Scorecard Using Lessons Learned from DFAS and USPS

The balanced scorecard, or BSC, is primarily a tool for translating an organization's *strategy into action* through the development of performance objectives and measures in order to fulfill its mission. For many organizations, strategy may be a new destination, somewhere that has not been traveled before. The BSC is a method to document and test the assumptions inherent in that strategy.

A well-designed BSC describes strategy through specific objectives and measures. These measures should link together in a chain of cause-and-effect relationships from the performance drivers in the employee Learning and Growth perspective all the way through to improved customer (stakeholder) outcomes as reflected in the Customer perspective. Strategy is documented through measurement, making the relationships between the measures explicit so they can be monitored, managed, and validated.

We considered different ways to present the findings from our study of the Defense Finance and Accounting Service and the United States Postal Service, and decided to link what we have learned to an action-oriented *process map* (or road map) that leaders of an organization can follow step by step as they develop their own balanced scorecard. Within our discussion, we give examples of how each of the organizations approached the action steps on their journey in developing their own variation of the scorecard. We have adopted the more aligned version of the scorecard and one that more closely matches effective Baldrige principles. We hope that by presenting how others have approached scorecard development and clarifying the sequential action steps needed, future organization leaders will be helped in their journey toward performance improvement.

In Table 5 on page 44, we have included nine action steps along with other supporting activities, the key groups of employees to involve, and the training focus needed to facilitate the development and deployment of the balanced scorecard. What follows is a more detailed explanation of each of the nine steps and how DFAS and the USPS applied them. This will serve as a useful guide to be applied in other government organizations.

Action Step 1: Develop a Clear Mission Statement

At the onset, both organizations had clear mission statements. The DFAS mission statement is provided in the box on page 13. The United States Postal Service mission statement appears in the box on page 45.

A mission statement provides direction to the organization by outlining in the broadest terms what the purpose of the organization is, what the organization values, and how it views its relationship with its customers and key stakeholders. The mission statement provides a start by clearly stating publicly what it values and plans to do that will *guide* the behavior of its employees.

Key groups involved: If not present already, senior leadership should develop a mission statement. Early drafts of the mission statement should be shared with internal and external stakeholders of the organization in order to get their input, concurrence, and acceptance. Of particular importance is the acceptance of the mission statement by employee groups. The mission statement can help start building a culture that works toward accomplishing the mission. While the mission statement cannot make that culture happen, it is a beginning, a means to bring together disparate groups to gather under the values and goals of the organization.

Table 5: Action Steps for Developing and Maintaining a Balanced Scorecard

Action Steps	Key Groups to Involve/ Supporting Activities	Training Focus/ Competencies Needed
1. Develop a clear mission statement.	Senior Leadership Team, with input from *key* stakeholders	How to develop a governance structure and mission statement?
2. Define key customer and stakeholder requirements.	• Market Research Group • Key stakeholders • External consultants	• How to determine key customer requirements? • How to conduct focus groups?
3. Develop a quantified strategic and budgetary plan.	Senior Leadership Team using a catch-ball approach with other functional leaders & stakeholders	• Catch-ball training • Training in empowerment • Organization design
4. Set direction and key outcome measures.	• Senior Leadership Team • Key functional leaders	• SWOT analysis understanding • Process mapping skills • Balanced Scorecard training • Team building
5. Define key internal processes and measures of performance related to step 4. Identify needed changes in these processes to improve the measures in stakeholder satisfaction and financial performance.	• Functional/Cross Functional Teams • Key Area Champions • Key Measurement Champions	• Process mapping skills • Process management skills • Performance measurement skills • Change management skills
6. Translate needed process changes into learning and development plans.	• Functional & Cross Functional Teams • Key Area Champions • Key Measurement Champions	• Process management skills • Performance measurement skills • Performance assessment skills
7. Put the balanced scorecard together and align with elements of a performance-centered culture.	• Senior Leadership Team • Key Area Champions • Key Measurement Champions	• Performance reinforcement • Performance measurement skills • Performance assessment skills
8. Develop action plans. Define accountability for performance changes to align individual performance with desired organizational performance.	• Functional Area Leaders • Cross Functional Teams	• Performance reinforcement • Performance measurement skills • Performance assessment skills
9. Actively work to manage and continually develop the scorecard. Monitor outcomes in four BSC areas; modify specific steps as needed; periodically review this process. Strategic planning should be reviewed on an annual cycle.	• Senior Leadership Team • Key Area Champions • Key Measurement Champions	• Correlation analysis • Assessment and data analysis • Team building • Leadership development • Communication skills

Action Step 2: Define Key Customer and Stakeholder Requirements

The approach that we advocate for government organizations is consistent with the approaches used by DFAS and USPS. This parallels what Norton and Kaplan advocate in their 2000 strategic mapping article.[49] The process is depicted in Figure 25. The organization and environmental assessment (1) along with the key customer and stakeholder requirements (2) for each key segment becomes the basis for organization strategies (3) (thin arrows). The

Discussion of the Postal Service Mission, Vision, and Objectives

In 1970, Congress enacted the Postal Reorganization Act, transforming the former Post Office Department into the United States Postal Service. The intent was to ensure that the former department became a self-sustaining federal entity, operating more like a business. The Postal Reorganization Act states that the Postal Service will have the "basic and fundamental" responsibility to provide postal services to bind the nation together through the personal, educational, literary, and business correspondence of the people. Prompt, reliable, and efficient postal services must be extended to patrons in all areas and to all communities.

The objective of transformation was stated in the April 2002 Transformation Plan and the Strategic Plan 2004–2008. The plans acknowledge the assistance of the full range of stakeholders in the postal industry and a firm commitment to all stakeholders, especially our customers. In order to maintain our financial viability and fulfill our universal service mission, we commit that we will:

- Foster growth by increasing the value of postal products and services to our customers;
- Improve operational efficiency; and
- Enhance the performance-based culture.

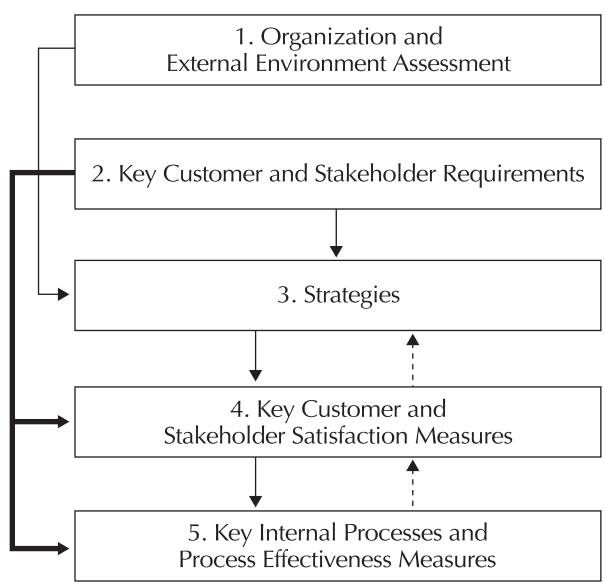
key requirements then are translated and aligned to key customer satisfaction measures (4) and key process performance requirements (5) (bold arrows). As the *dashed* feedback arrows suggest, meeting the process requirements will directly relate to improving satisfaction measures, which will directly relate to meeting key strategies of the organization.

Knowing key customer and stakeholder requirements for the organization is critical in developing strategies, budgets, and process requirements. These requirements are the drivers of what the organization will do. If you do not meet the needs of these key groups, you will not get the degree of customer and stakeholder satisfaction that may be necessary to ensure a sustainable and effective organization.

Key groups involved: Focus groups or surveys with open-ended questions can be used to determine what is important to each customer and stakeholder segment. Focus groups often offer a good start by narrowing down issues before an organization sends out more broad-based survey questionnaires. Focus groups can help to identify relevant customer and stakeholder segments as well as the issues important to these segments. This is done in focus groups by using open-ended questions that will allow the respondent to articulate key requirements. Then surveys can be used to validate the information gained from focus groups. Important in this step is to have a process, a systematic set of actions that can be used to determine the segments and their needs. Making guesses may miss critical information.

Once focus groups provide a sense of key customer and stakeholder requirements, then the organization can use customer and stakeholder satisfaction surveys to track how well the public perceives the organization is doing on these key dimensions. Both DFAS and USPS used surveys to assess their performance, and the questions range over many of the

Figure 25: Relationships Between Key Customer Requirements, Process Requirements, and Customer Satisfaction



items important to customers. Other stakeholders, like funding agencies, are critical in this process as well. The government organization needs to know the pulse of these funding organizations to determine what the expectations are for the organization and how well they are meeting expectations. This may be done less formally, but it still is critical so that the organization is "in sync" with funding group expectations. For example, having data and data analysis in a form that supports the need of the funding group would be a key area.

Just knowing the key requirements is helpful, but translating these elements into some quantified measure is critical so the level of expectation becomes clear. For example, stating that quick resolution of a complaint or concern is important is helpful for the organization to know. However, this does not tell the organization what is meant by "quick" or "resolution." If the customer is expecting all issues will be solved in a maximum of four business days while the organization considers quick resolution in terms of one month, there is a significant disconnect between expectations and performance. The result is customer dissatisfaction. Hence, it is imperative to translate customer and stakeholder needs into some quantified measures of performance. This becomes the means to translate customer requirements to organization strategies, to develop the means to assess customer satisfaction measures, and to create performance requirements for the key processes that deliver the services important to the customer. These relationships are indicated in Figure 25 by the bold lines flowing from the key customer and stakeholder requirements.

The Postal Service translated customer expectations into specific performance targets related to their process of delivering mail. They have specific time expectations for delivering priority airmail, priority surface mail, and first-class mail divided into overnight, two-day, and three-day delivery goals. Processes and reinforcements are then designed to meet these customer expectations. The Postal Service then samples deliveries to track how well its key processes (delivering the mail) meet the key customer requirements or expectations. By meeting these needs, USPS expects that customers will be satisfied and will be more inclined to use the Postal Service, helping USPS meet its revenue target. In the same manner, DFAS has tracked its costs as a percentage of the Department of Defense budget, an important stakeholder concern, while making dramatic increases in overall customer satisfaction.

Both organizations we studied had made progress in determining key customer and stakeholder requirements and translated them into quantified measures. They then applied the measures to their strategies, customer satisfaction measures, and established performance measures for the important processes that would meet customer needs. Each step is essential; organizations need to understand what their customers expect. Determining those expectations and quantifying them comes from initially interacting with customers to determine what is important to them. Assuming what those needs are could leave the organization in peril. The quantification of requirements needs to be based on what the customer expects, not the organization's current capabilities. With quantified customer requirements in hand, the organization can build a set of strategies and process requirements that will enhance the organization's ability to meet the needs of customers and key stakeholders.

Action Step 3: Develop a Quantified Strategic and Budgetary Plan

According to the Baldrige criteria, an effective organization is built upon a fact-based leadership approach and a well-quantified strategic plan.[50] Building a fact-based culture and a solid strategic plan dictates use of a systematic process to analyze the organization and the environment in which it operates. An effective balanced scorecard depends on defining appropriate strategies. Appropriate strategies evolve by scanning the external environment so that appropriate actions can be taken by the organization based on the current strengths, weaknesses, and competencies of the organization. SWOT (strengths, weaknesses, opportunities, and threats) analysis is an effective approach to do a systematic analysis. However, it is quite important that the organization focus on defining its customers and other stakeholders, find meaningful segments of each group, and determine the key requirements of each segment.

Key groups involved: Strategic planning requires the time and attention of senior leaders as well as the willingness to provide sufficient resources to carry out the planning activities. Key functional managers need to provide an accurate internal scanning of strengths and weaknesses. Opportunities and threats as well as key stakeholder requirements and concerns need to be discerned by task forces composed of organizational members most knowledgeable about the external environment.

Both DFAS and USPS conducted assessments of their external environments and the strengths and weaknesses of their organizations as part of broader transformation plans. For example, in their transformation document, USPS defined their major customer and stakeholder groups along with expectations of each group. In addition, the Postal Service focused on changes in the external environment that would affect the competitive environment and expected resulting demand for their particular services in the future. DFAS did similar data analysis. These analyses are essential for both organizations as they plan infrastructure and the changes each organization must make to remain competitive. DFAS, as a younger organization, had the additional problem of trying to merge many different operating systems that were inherited into a more cost-effective and responsive process.

Sometimes lost in the SWOT assessment is the need to stress, as these organizations did, the importance of identifying customer and other stakeholder segments and the key requirements of each group. Also essential is the need to align organization focus toward meeting those needs. This is as true for nonprofits or government organizations as it is for profit-based organizations. If key stakeholder requirements are not understood by the organization, it will be difficult, if not impossible, to develop strategies that are responsive to customers and to other stakeholder needs.

Assessing an organization's internal strengths and weaknesses, as well as the opportunities, threats, and trends that they face in the external environment, can be done by involving key leaders in the organization along with representatives from each of the key customer and stakeholder segments. This provides input from many different perspectives. However, that is not enough; the organization needs to develop a process to gather and analyze data in the external environment that is germane to understanding trends affecting demand for its services or changing requirements in those services. In addition, for government-funded operations, knowledge of the changing funding patterns and philosophies regarding the role and size of government are critical factors that can shape the mandates affecting how the government organization operates in the future. For example, like many government agencies, DFAS faces the possibility that their function could be outsourced to the private sector. This can affect their planning horizon, their ability to gather resources to improve operations, and their ability to recruit new employees.

Connect Strategy to Budget Process

A major problem that often occurs when developing a sense of strategic direction is not tying the budgetary process into the strategic process. Since the budgetary process allocates the resources of the organization, the strategic planning process is virtually meaningless if not tied to a consideration of how resources will be allocated over the many competing needs of the organization. Both DFAS and USPS connected the scorecard very early on to resource allocations; this enables the organization to make the changes needed to meet scorecard targets.

Key groups involved: To deal with this issue, some organizational redesign may be required to ensure a smoothly running organization. At the very least, task forces or committees made up of members from appropriate areas need to be established and led by a senior leadership team. We advocate this broader systematic view in any adoption of the balanced scorecard.

Action Step 4: Set Direction and Key Outcome Measures for the Organization

Once the organization assessment is completed and the key requirements are identified for the key customer segments and stakeholders, the organization needs to identify key organizational goals and strategies that support meeting those requirements. Kaplan and Norton advocate that elements in the balanced scorecard flow from the strategy of the organization.

Key groups involved: Key players in establishing direction are the strategic planning group along with the senior leadership team. Of course, a well-developed strategy requires input from various levels and operating groups in the organization. A well-designed governance structure that encourages open communication facilitates the two-way feedback process.

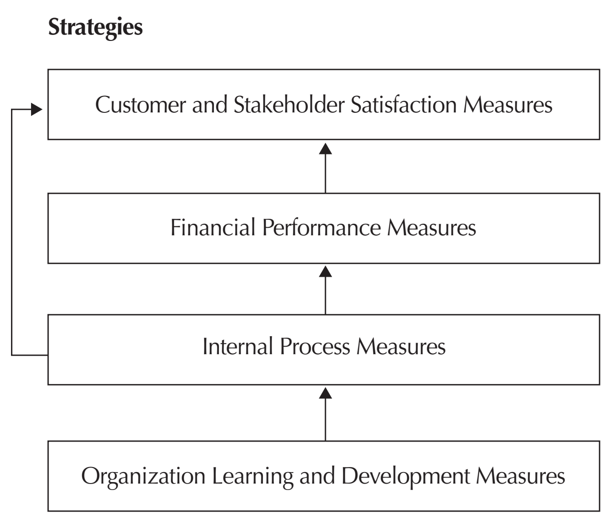
Traditionally, the strategy flows from the mission, vision, and some key goals of the organization. However, in both DFAS and USPS, the strategies were directed toward meeting key measures identified in the scorecard, primarily measures of customer satisfaction reflecting the importance of meeting the mission. This is a rational adaptation of the scorecard, which is very appropriate and necessary to reflect the conditions that the organization faces. This is particularly true in government organizations where the traditional measures of a for-profit organization (i.e., making a return to investors) are not the only valid indicators of performance (see Figure 1 on page 10 and the surrounding discussion). Both DFAS and USPS focused on meeting customer requirements, which led to improved customer satisfaction. The measures they used to assess that performance usually are obtained from periodic customer satisfaction surveys.

In this action step of our process map, the focus is on developing direction and key measures for the organization; in the next step, we translate them to process requirements. From the organizational and external environment assessment, organization strategies are developed. However, the key customer and stakeholder requirements probably shape the choice of strategies more profoundly. Assuredly, key customer and stakeholder requirements should be the basis for strategies, as meeting customer needs should be paramount to the mission of the organization. In addition, meeting stakeholder requirements is essential for a government organization to ensure adequate funding levels will be provided in the future.

We take a very strict interpretation of measuring customer and stakeholder satisfaction in that these measures should be just that—tracking measures and trends of customer and stakeholder satisfaction. These measures should be focused on assessing those dimensions that have been considered key customer and stakeholder requirements. So if "the time it takes to obtain a change in pay" is a key customer requirement for DFAS, then what should be tracked might be an item such as "How satisfied am I with the time it takes to receive a change in pay status?" There might be a five-point scale to which one can respond from "very dissatisfied" to "dissatisfied" to "neither satisfied nor dissatisfied" to "satisfied" and "very satisfied." The organization would track "the top two boxes," or the percentage of people that respond "satisfied" or "very satisfied." Some organizations also would track those who are dissatisfied as well. This is all consistent with Baldrige standards of performance.[51] Similar measures would be used to establish satisfaction metrics for key stakeholders.

Alignment between key customer requirements, strategies, and customer and other stakeholder satisfaction measures is critical. Through these linkages, the organization responds to the needs of its customers and stakeholders. Financial dimensions in a government organizational setting are still important, but in a different way than they are in a for-profit organization. In a for-profit, the organization needs to meet the needs of its shareholders and bondholders. Thus, many of the financial measures are focused toward these stakeholders. In a government setting, however, stakeholders such as funding agencies also want to ensure that the public is being adequately served. Therefore, we agree with the approach of Niven[52] and recommend that the strategic map developed in the 2000 article by Norton and Kaplan be modified so that financial items appear as a subsidiary measure to customer and stakeholder satisfaction. Figure 26 presents an example of how this realignment might appear.

Figure 26: Revised Strategic Map



Financial measures might include examples of the following: the cost of processing an employee pay change at DFAS or the several different cost measures that relate the amount of annual surplus or deficit at USPS. Items such as contributions from each product line, contributions from each postal unit, average cost of processing a first-class letter, and so on would be measures that would be of interest to some key stakeholders of each organization either through a funding organization or through the board that would approve a rate hike for USPS.

Action Step 5: Define Key Internal Processes and Measures of Performance

The financial and customer/stakeholder satisfaction measures are outcome measures to ensure that organizational objectives are met. Internal processes are needed to ensure these outcome measures are met. (A process is a set of repeatable steps to complete an activity). For example, at USPS there is a process for gathering mail and shipping it to regional units for sorting. There is a sorting process, a transportation process, and a process for final sort and delivery. These processes are designed to meet the outcome measures of timely delivery. Recently, organizations began to realize that the key to performance management is to define the key processes of the organization and work to design and manage these processes effectively. For example, the United Parcel Service (UPS) Chicago Area Consolidated Hub, where many parcels are sorted, improved the volume of accurate sorts through process design and management. Their initial expectations were that half a million packages would go through the facility per day. Through process design and management, they have had 1.84 million packages go through the facility at one time, with a current day-to-day average of 1.3 million to 1.6 million packages per day.[53] Organizations need to define processes so they can understand what is related to getting something done in the organization. By physically charting the key processes, the organization gains a better understanding of the important activities required to meet organization goals. Once the entire process is understood, the organization can work to improve it—to make it better, faster, more reliable, and cost-effective. However, this cannot be done until there is an understanding of all of the steps that are involved in the activity. Which processes are critical? There should be a direct relationship between the processes identified and meeting the measures identified in customer/stakeholder satisfaction and financial measures. The alignment becomes critical between processes, satisfaction measures, financial measures, and meeting key customer and stakeholder requirements.

For example, customer requirements for first-class mail delivery are that the letter arrives in a reasonable number of days. Let us say it should take three days to deliver a letter from Harrisburg, Pennsylvania, to Tulsa, Oklahoma. That expectation is then translated into a customer satisfaction measure that is tracked: "How satisfied are you with the timeliness of deliveries?" with a response from "very dissatisfied" to "very satisfied." Doing this helps the organization to track how well customers think the organization is doing. We advocate that customer satisfaction measures be used to assess customer satisfaction directly, rather than relying on the use of performance dimensions themselves as an indicator of consumer satisfaction. The process that relates to the delivery of mail can be oversimplified, as done in Figure 27 on page 50. This process is really the combination of many different processes, but these processes in combination is what is essential to reach the needed process requirement of "delivering a first-class letter within three days."

The complexity of this process and the need for all elements to work together to meet these process requirements led USPS to set their performance system to encourage units to work together to meet these process requirements. In a similar manner, each key customer requirement is linked to a satisfaction measure, which, in turn, is aligned with a process. That process also has measures that relate to the customer satisfaction measure and, most likely, some measure of financial performance as well.

Key groups involved: *Measurement champions* play a key role in this process by ensuring consistency across the organization. *Area champions,* on the other hand, ensure consistency within organizational units as the measures are deployed down through the unit. These individuals act as "the eyes and ears" of the senior leadership team by reporting periodically regarding problem areas that may arise. Appropriate modifications or adjustments in measures can be taken to ensure the active commitment of employees and managers throughout the organization.

Figure 27: Relationship of Key Customer Requirements to Customer Satisfaction Measures and to Process Definition and Requirements

Customer Requirement: First-class mail should be delivered within 3 days of posting.

Customer Satisfaction Measures: Percentage of survey respondents that respond "satisfied or very satisfied" with the time it takes to deliver first-class mail.

Simplified Process Map of Mail Delivery:

1. Pick up mail from local mailbox
2. Gather at local post office
3. Transport to regional sort facility
4. Sort to destination regional sort facility
5. Transport to destination regional sort facility
6. Sort and bundle for local post office
7. Transport to local post office
8. Sort mail to specific route
9. Sort route mail to specific address
10. Deliver to location

Process Requirements or Performance Measures for the Process:

- 3-day length of the process
- Percentage of mail sorted correctly at each sort stage
- Percentage of transported mail arriving at destination on time
- Cost of processing and transporting at each step in process

Learning and Development: Supporting the future and current development of the process and providing employees learning and development opportunities

Action Step 6: Translate Needed Process Changes into Learning and Development Plans

The last of the four components in the balanced scorecard framework is called the Learning and Growth perspective.[54] The role of learning and development supports the current and future development of knowledge and skills (competencies) needed to perform identified key processes adequately. Improving both the technical, operational, and human aspects of the processes is done in this part of the balanced scorecard. Without providing people with needed competencies, the other perspectives (parts) of the BSC *cannot* be realized fully. This is why alignment of different parts of the scorecard is so important. It is like trying to build a skyscraper without a strong foundation. These development needs can be of three types: (1) looking at new ways to address needs, (2) making modifications to an existing process, and (3) developing employees and leadership to improve the operations and management of processes.

Coming up with long-range and innovative approaches to improve key processes is one aspect of learning and development. Both of the profiled organizations had extensive development work in that area. For example, DFAS worked to reduce the many different systems that it inherited in order to speed processes, reduce errors, and reduce costs. In addition, it worked with military branch customers to improve each other's processes. For example, in submitting a change in personnel status and therefore a change in pay, the personnel action is done by the specific branch of service while the change in pay is processed by DFAS. If the service branch process is lengthy or inaccurate, then the whole process suffers. DFAS worked with each military branch (or what it calls one of its customers) to improve processes on both sides. Likewise, USPS dramatically improved some of its key processes by working with partners. For example, it collaborated with Federal Express in hauling mail to improve USPS's ability to meet its process goal of delivering various classes of mail in the standard allotted time.

Key groups involved: A second type of change focuses more on the continuous improvement aspect of processes. Here the focus is on how the organization can make it better, faster, more reliable, and less costly. These changes include improvements such as adjusting schedules, modifying work procedures, and improving quality control. In our interviews with both steering groups (DFAS and USPS), we learned that continuous improvement was a day-to-day part of each leader's job as well as on the minds of those who worked with the balanced scorecard. The makeup of the focus groups involved representatives from various functional departments. This was done to break down the traditional management culture of being concerned with only what happens in one's unit. A functional culture is frequently at odds with what is needed for a strategy-focused organization, especially when processes that transcend departments need to be streamlined.

Focus groups met on a regular basis to determine how to improve performance and better meet the needs of the customers. In fact, Ann Wright, one of the team members interviewed at USPS, was between meetings when we met. She had just returned from Chicago, having worked with employees there to improve their handoffs. After our interview, she was off to Pittsburgh to work on problems that both her unit and Pittsburgh had in common.

The third dimension of learning and development is the learning component. Learning relates to the improvement of (1) skills to perform the technical aspects of the process, (2) leadership skills to manage the process or build the culture, or (3) communication skills of employees or leaders to interact better with their customers and stakeholders. However, in a fact-based organization this training also should be focused on those activities and behaviors that have a direct effect on process improvement. Training in areas of process improvement techniques, as well as performance measurement and assessment skills, becomes important. This requires training assessment that goes beyond assessing the degree of satisfaction that the participant has had in the training program. There also needs to be an assessment of the actual skills or behavior gained, whether the skills are practiced on the job and, of most significance, whether the training made a difference in process performance. While both organizations had extensive training programs and most were tied to resolving specific performance issues, it was not clear if they had (as most organizations do not) the means to assess the link between training activity and job performance or process improvement.

For most organizations, training in how to improve treatment of customers should receive higher priority. Satisfaction with service often relates to the quality of the behavioral interactions. In fact, that is why some organizations are backing away from the use of automated answering systems; customers who need help want to talk to people, not machines. Customers also want to be treated fairly, with respect, and have their concerns adequately addressed. Sometimes just explaining the process to the customer—that is what can or cannot be done and when—is all that is needed. For example, Amtrak, the national railroad passenger corporation, under then-CEO George Warrington, realized that just explaining the reasons for delays, showing concern, and keeping passengers informed reduced many of the complaints that Amtrak received about service.[55]

Action Step 7: Put the Balanced Scorecard Together

All four traditional components of the balanced scorecard are now assembled (action steps 4–6). If the organization follows the Norton and Kaplan strategic mapping article, which is consistent with the Baldrige criteria, there would be a *strong alignment between items* from learning and development to internal process measures to financial and customer and stakeholder measures. This alignment strongly supports a high-performance organization. In both organizations studied, some alignment efforts occurred. Both used this hierarchical ordering of items (or perspectives). As both organizations continue to use and gain experience with the scorecard, we expect that the alignment between the four perspectives of the BSC will improve. They certainly seem to be moving toward greater alignment. There are many examples of a mature alignment development; one investment company has statistical relationships between what an incremental improvement in a process measure would do to customer satisfaction levels.[56] In a similar way, School District 15, in Palatine, Illinois,[57] a Baldrige winner, calculated the relationship between some of their processes and improvements on standardized test scores.

Focus on the Vital Few Goals

The improvements that both DFAS and USPS have made using the balanced scorecard and their focus on performance measures have transformed them into *fact-based, performance-focused organizations*. It was clear in interviews with top leaders and business unit leaders that there is a focus on the elements of performance *critical* to the success of the organization. In our view, this focus is a direct result of using the BSC as a management tool. The focus is on actual measures and performance, rather than mere platitudes and guesses on what will happen and what one should do. The focus for government organizations on customer and stakeholder satisfaction is an important means to redirect the organization to do those things that will matter for the longer-term success and survival of the organization.

It is critical, however, that organizations *focus on the vital few goals*. What we have seen in our experience is that many organizations create a huge number of metrics and goals to follow. This leads to confusion and, often, conflicting goals. The organization needs to decide what are the vital few items that they need to focus on and build the scorecard to meet those vital few. While the number of goals that should be articulated depends on many things, both organizations in this study seem to have a manageable number. Of the two organizations, DFAS has fewer metrics that seem to be related to the type of operations. USPS has more metrics, reflecting their varied product line and the expectations of its different customer base. For a new adopter of the scorecard or a seasoned user, there often is a push to add more metrics and measures to reflect everyone's specific areas of expertise. However, many of these special issues might be accommodated better at the unit scorecard level as part of a unit or personal development plan. This should occur as the scorecard is deployed to different groups in the organization.

What is the 'right' number of goals? We agree with other experts who recommend that the organization should strive for no more than 15 total scorecard measures, and 10 would be better. According to the Hackett Group survey, companies report that an average of 123 measures are reported to senior management on a monthly basis—nearly nine times the number of measures in most effective scorecards.[58] The goal is to focus behaviors on key and critical performance goals; too many measures lead people to focus on their preferred goals and not the key needs of the organization.

Outcome goals are desired over activity goals. When goals are selected, they should focus on those items that lead to performance results. For example, the number of hours in training is an activity goal. Just being in training does not lead to performance improvements. On the other hand, measuring the skills acquired in the training program and if they are used on the job are outcome goals. Outcome goals focus on assisting people directly to reach the goals of the organization as reflected in the balanced scorecard. If measures do not directly support an organizational goal, the question becomes why they are being used.

Develop a Team to Champion the Scorecard

Teams have become a popular concept in organizations. What should be their makeup? The team should not consist of executives only, but should draw from a broad base of support. It should represent all areas of the organization that will use the scorecard. Both DFAS and USPS drew on a broad base of people and got them involved in the process. They used the Catch Ball process to obtain input into processes and goals, and area and measurement champions to involve more people. These area and measurement champions were drawn from lower levels in the organization and paved the way for the successful deployment of the scorecard. DFAS also had a host of different teams to support their approach. These approaches resulted in more ideas and input into the process, increased ownership, and greater acceptance of the BSC program as it was deployed. The teams helped the organization to accept and adapt the approach more quickly than it would have without the degree of input and ownership.

Put in Place a Management Governance Structure at the Top

This is needed to guard against a change in leadership style at the top. A leader who emphasizes vision, communication, involvement, and employee innovation and initiative fosters a performance-focused culture in the organization. If someone who manages in a command-and-control style replaces such a leader, the positive effects of scorecard development could disappear. Some of the key management positions and the roles they play in the scorecard development include:[59]

- Director of strategic planning—clarifying and translating vision and strategy
- Chief financial officer—planning and target setting

- Director of human resources—communicating and learning
- Chief information officer—strategic feedback and learning

Many organizations find it difficult to make one of these executives solely responsible for the operation of the total system. Of course, the chief executive officer or director is the ultimate owner. However, what is needed is an executive team that is filled with members who encourage innovation and are willing to experiment so that learning and growth are enhanced during the journey of continuous performance improvement. In addition, there needs to be a link established between improved performance and individual or group rewards, whether intrinsic or extrinsic. In interviews with the key leadership at DFAS and USPS, it was clear that both leadership teams shared these qualities and concerns.

Use Reinforcement Systems to Support the BSC Approach

Both organizations provided significant reinforcement so managers would focus on performance and had significant performance improvements as a result. The well-documented and quantified USPS system might seem a bit cumbersome, yet it was needed in order to cover the diversity of operations and tasks within the organization. Measurement standardization was needed to build employee trust in the system. Weighting of results addressed the issue of fairness and the need to reflect the different contributions made by different operations to overall organization success. The system seems to be accepted and trusted by those we interviewed and is a model of a reward system that is linked to continuous performance improvement.

However, both organizations indicated some frustration with not being able to include all employees. DFAS referred to this situation as a *thermal layer* below which there was difficulty in getting people motivated, especially at lower organization levels. USPS also referred to their problem with going beyond the management units to the bargaining units. These present real deployment issues and ones that each organization is continuing to resolve. Some of that will evolve as the BSC approach is deployed through individual performance plans in which a significant part of an individual's performance is tied to reaching his or her individual performance objectives that relate directly to attaining unit and organization goals. While reinforcement approaches may not be fully applied because of the current limits of collectively bargained agreements, objective measures of performance still can be used to guide individual performance and support improved unit performance. Linking the organization's balanced scorecard to unit and personal performance plans is a key factor in the deployment process.

Action Step 8: Develop Action Plans

The balanced scorecard is not a freestanding management tool. If all the organization has is the strategy followed by the balanced scorecard, then it is not doing an effective job in deploying the scorecard throughout the organization. Proper deployment is essential to get the best use of the scorecard and is essential in any performance management system. In the Baldrige criteria, deployment is a central part of the whole Baldrige process and, more specifically, is related to the strategic planning process in category 2.2, strategy deployment.[60]

Deployment takes two major forms. In one respect, it relates to how well goals are translated from higher organizational levels down to the unit level and ultimately to individual personal performance plans. Secondly, it relates more to the extent of the translation of these goals. The basic deployment issue is how well all the applicable goals are translated to the relevant parts of the organization. For example, USPS did not translate all goals to all employees in the organization. Some of the goals simply did not relate to the employee's performance effort. However, there was good linkage between individual performance goals and the goals of the unit, which then were aligned to the goals of the organization.

The difference between alignment and deployment relates to scope. *Deployment* relates to connecting individuals to the organization plan. *Alignment* relates to how well the goals of the individual or unit are aligned to meeting the organizational goals. In both cases, DFAS and USPS took great pains to ensure that there was good deployment and alignment of goals to all levels of the organization. However, both organizations had difficulty getting performance improvement at all levels of the organization. In our analysis, this was due to the reinforcement system rather than a lack of articulation or deployment of goals. In both organizations, there were artificial barriers that created some difficulties with providing pay for performance. In USPS, it related to the bargained agreement between USPS and the unions. With DFAS, it related to work rules. Research has repeatedly demonstrated that goal setting with pay that is linked to performance can enhance performance outcomes.[61]

The nature of these deployment goals should be different from simply using the same outcome goals of the organization. The unit or individual performance goals should be more closely related to upstream or in-process measures that provide a meaningful early indicator of those performances and lead to reaching the organizational goals. The term *upstream* relates to outcome measures that are leading indicators of the desired outcome measures. *In-process measures* relate to those measures that are *one* part of the defined process. They are early indicators of the quality or timeliness of the *total* process performance. For example, assessing that a hamburger is cooked properly immediately at the end of the cooking stage helps to ensure a quality end product that will not make someone ill. Taking this measure at the end of the cooking stage saves resources (by less wasted condiments and buns) than if the measurement is not taken until the end of the entire process.

For example, tracking sort times, the quantity of mail that missed the day's delivery cutoff times, or the number of trucks delayed all support the larger goal of having the mail delivered in the desired time. By focusing and even making statistical comparisons on what factor is related to better outcome performance, organizations can better align their actions through focusing on in-process or upstream measures.

Key groups involved: Deployment is a central part of making the scorecard effective. Without deployment, it is like a ship without a rudder. The captain may have plans on where the ship should go, but does not have the tools to make it happen. Deployment using upstream or in-process measures ensures more consistent actions aligned with the desired goals of the organization. Some organizations fall short of complete deployment by failing to involve the teams and/or individuals who actually make the needed changes or improvements. This requires the involvement of key functional workgroup leaders and cross-functional teams at every level of the organization. In both organizations, we saw signs of the development of this effective deployment approach.

Action Step 9: Actively Work to Manage and Continually Develop the Scorecard

Once the scorecard is in place, the mission still is not accomplished. There needs to be concerted action to ensure that the scorecard continues to be an effective leadership development tool. This is done through several different actions that consistently support the scorecard and help to improve its role in creating a *performance-centered culture*. The following *action* steps provide some specific direction upon which organizational leaders need to focus their efforts.

The management governance structure put in place should ensure that *timely communication and feedback* occur throughout the organization. This requires that committees and task forces be formed and their roles defined. DFAS did this by establishing a Strategic Planning Steering Group, or SPSG, made up of senior executives from business lines and support functions that reported to the Leadership Council. Then, a Balanced Scorecard Working, or BSW, group was established to develop definitions, monitor implementation, and review data integrity. The BSW group was cross-functionally represented and reported to the SPSG. Measure experts were appointed to ensure consistent application across the organization. There were monthly meetings held to track and compare short-term performance against the annual targets established in the budgeting and strategy process. Quarterly reviews examined linkages to the longer-term scorecard measures.

Because organizations face different challenges, for the BSC to be effective it should reflect the strategic vision of the senior leadership group, not merely be copied or borrowed by emulating the best measures of the best organizations. At the other extreme, it also is detrimental to attempt perfection in scorecards. The balanced scorecard should be *dynamic*; it should be continually reviewed, assessed, and updated to meet the new conditions and challenges that arise. For these reasons, the scorecard (and the leadership behind it) should be flexible, adaptive, and innovative.

Traditional measures are often *lagging*, i.e., they report how well an organization's strategy worked in the past. This is good for keeping score but not for communicating to employees what they need to do well to affect *future* performance. It is important, therefore, to develop a balanced set of measures, both outcome and performance drivers, lagging and leading indicators, which are linked to achieving long-run performance. This is done in the scorecard through the deployment and alignment process, which always needs to be tested. Units may want to have their own "pet" measures to be included. Some units may relate to reaching organizational goals while others may be fairly distant or may emphasize an activity goal that is not effective. Overall, the scorecard team needs to manage the number of measures used at the organization, unit, and individual level. *Focus on the vital few goals* that direct key areas of performance rather than many insignificant ones that confuse and reduce organizational focus. This may not be easy, but is essential to support an effective scorecard approach.

Develop a Strategic Feedback System That Is Designed to Test, Validate, and Modify the Hypotheses Embedded in Strategies

The cause-effect relationships embodied in BSC allow executives to establish their best estimate concerning the impact that changes in performance drivers might have on changes in one or more outcome measures. There are always some areas in an organization where linkages between the performance drivers and outcome measures are more difficult to determine. Support service areas like human resources and engineering are examples. Often activity measures are used initially. For example, DFAS used employee developmental activity (hours of training) as a starting measure for Growth and Learning. However, now they are attempting to link the length of time it will take for a specific employee to reach competency level in the trained attribute.

There are a number of documented approaches that can be used to determine cause-effect relationships within the scorecard. They include correlation analysis, scenario analysis, anecdotal reporting, initiative review, and external peer review. All of these mechanisms enable an organization to review and think about its strategic direction on a regular basis. By this step, some of these mechanisms should be embedded into the review process. For example, DFAS uses initiative review to establish accountability, to ensure against conflict targets or measures, and to help in developing a stronger action plan.

Use the Scorecard as a Management Tool, Not as a Performance Evaluation Approach

If used properly, the BSC becomes a valuable tool that organizations can use to improve organizational performance. But like many effective management tools (Management By Objectives programs, Total Quality Management, and even the Baldrige process), it can easily be misapplied by a well-intentioned management group. Using the BSC as a performance evaluation approach will dilute its value as a management tool. As a tool, the focus is on how *management and employees can work together* to improve the numbers. If the scorecard is used only as a performance evaluation device, the ground rules change. Subordinates begin to look for ways to dilute the scorecard, performance targets, and scope of outcomes so that the unit has "better numbers." These latter activities take away from the essential mutual problem solving that should occur. We strongly advocate that the scorecard be used as a management tool and that performance reinforcements be based on performance improvements rather than "reaching or not reaching" goals or the number of "reds, yellows, and greens."[62]

Actively Work to Sustain the Culture

The scorecard is only part of the process of building a performance-focused culture in the organization, albeit an important part. At the heart of any major program to improve performance in organizations is the fact that it is likely to require a change in culture to drive the needed organizational improvements. Quality management expert Joseph Juran observed that all organizations, like individuals, possess immune systems. On the positive side, this "immune system" resists foreign ideas that might be harmful, but it also has the undesired effect of resisting and rejecting beneficial changes.[63] The requisites detailed below help to overcome this resistance to change. They are certainly applicable in facilitating the integration of a balanced scorecard into an organization's management practices.

Maintain Top Management Commitment

Employees are inundated with a variety of new management tools and concepts. Thus, they quickly learn that the best strategy is to give lip service, because it is usually just a matter of time until management declares victory and moves on to the next fad. W. Edward Deming recognized this in the very first of his 14 points: "Create constancy of purpose."[64] Senior management demonstrates its commitment to the desired change not only by its words but also by its deeds. It takes every opportunity to promote the desired change by stressing its relevance to future success, the possibilities that the change creates, how the change will be accomplished, and each person's role in creating that change. Management deals with failures in a constructive and nurturing way, without reverting to blame, and celebrates individual and team successes. At both DFAS and USPS, senior management was involved intimately in the creation and implementation of their balanced scorecards. For example, at DFAS, senior managers, through the Leadership Council and the Strategic Planning Steering Group, played significant leadership roles in the design and development of its BSC. From the time DFAS Director Bloom initiated the process and tasked senior management to develop the BSC quickly (it was completed within six months), he was kept informed of progress on a continuous basis.

Establish Organizational Support Systems

To be adequately prepared for change, organizations require certain support systems to be in place. Training is one aspect, but training is not the only support needed to foster the balanced scorecard. Other elements include the provision of required support staffs that can facilitate and provide expert advice. Selection of these people should not be based on who is available, but on a carefully designed set of requirements that are right for the organization and its prevailing culture. These staff can be employees or outside consultants who are willing to commit sufficient time and energy.

For a change initiative like the balanced scorecard to work, it must be seamlessly integrated into an organization's ongoing management systems. This occurs in several ways. For instance, over time many organizations integrate their scorecard into all of their other planning and management systems. If the BSC represents strategically important issues to the organization, then it should provide the justification for most resource allocation and capital investment decisions, including each business unit's annual budget. At the individual level, it should be linked to each employee's performance assessment and plan. The balanced scorecard should never say to do one thing while a different management system produces an opposing signal.

Foster Communication and Ownership

The process of communicating with others in the development of the BSC, rather than the "story" of its adaptation, often is of most value to the organization. Employees have the opportunity to participate with senior managers in a structured process that helps both sides gain a better understanding of the link between the organization's strategy and what has to happen for that strategy to be executed successfully.

One potential complication in the deployment of scorecards is the conflict between organizing by function or by process. Most strategic BSC measures relate to overall organization processes that are cross-functional in nature. Changes that might adversely affect one function involved in the process may be resisted even though they are in the best interest of the overall organization. Both organizations we studied wrestled with this difficulty. At first, DFAS gave senior executives dual roles (functional business line responsibilities and specific client responsibilities). This proved to be a mistake, and separate Client Executive roles were finally developed. At USPS, regional units were traditionally held accountable only for their territorial performance. Now they are being held accountable for how they affect the entire process of mail delivery across the country.

Conclusion

In the end, the balanced scorecard is a management tool that helps executives solve their most central issue: how to implement strategy, particularly when it requires radical change. It does this by giving organizations, often for the first time, a clear picture of the future and a path for getting there. In the two cases that have been reviewed in this report, DFAS and USPS, we have seen some dramatic improvements in their performance resulting from the use of the balanced scorecard and the organizational culture of performance and fact-based improvement that are part of the process. We saw a dedicated staff championing the approach and committed to the performance excellence that occurs when performance goals are articulated, deployed, and reinforced in a manner that leads to sustainable improvements in the organization. It takes a focused leadership approach to make this happen, and this focus must continue to maintain and improve on the quality results achieved so far. The balanced scorecard is not a magic pill, but an approach that can lead to a sustained culture of quality.

Endnotes

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34. Detailed information on the measurement systems used is available in the Five-Year Strategic Plan on the USPS website, usps.com.

35. Performance measure for "improve service" in Table 2 actually represents six different categories of mail, each of which has separate improvement targets.

36. This assessment does not apply to bargaining-unit or craft employees. Associations representing postmasters and supervisors are involved in the crafting of the goals.

37. Overall performance ratings for the unit are based on the weighted total of all relevant indicators, making it possible to achieve higher ratings through a wide variety of approaches appropriate to local conditions.

38. This process replaced traditional civil service time-in-grade or annual step increases.

39. The PCES category of employees includes the senior executives and senior managers of the Postal Service. PCES executives are equivalent to Senior Executive Service (SES) employees in the federal government.

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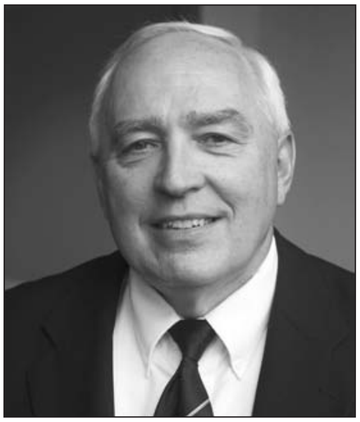

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Mathys' dissertation focused on the career paths of CEOs of Fortune 500 companies. He continues to be interested in many issues related to career management as evidenced by two books he co-authored: *Human Resource Planning and Career Management in Organizations*.

Before becoming an academic, Mathys was a plant engineer for Eaton Manufacturing and also worked in sales positions at several organizations. In addition, he has consulted with or given management development workshops to a variety of organizations. A partial list includes Bethlehem Steel Company, the Electromotive Division of General Motors, Commonwealth Edison (now Exelon Corp.), the International Bank of Asia (Hong Kong), Integrated Project Management, Inc. (a project management consulting organization), and Silver Cross Hospital.

Mathys has always been interested in improving the productivity of both for-profit and nonprofit organizations. For the past four years, he has served as an examiner evaluating organizations for the Lincoln Quality Award. The Lincoln Award is the State of Illinois' highest quality award and uses Baldrige methodology, which provides a performance-based, fact-based management approach to for-profit, nonprofit, and government organizations.

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For the past nine years, Thompson has been a senior lead examiner evaluating organizations for the Lincoln Quality Award. The Lincoln Award is the State of Illinois' highest quality award. In addition, he has been a Baldrige examiner for the past two years. The Baldrige Award is the top award in the United States for quality given to businesses and education and healthcare organizations. He has lobbied to obtain passage of the bill that would expand the Baldrige Award process to public sector organizations and non-profits. In 2004, that bill was passed and funding was approved in 2005.

From 1984 to 1986, Thompson was the director of the Center for Management and Executive Development for the University of Arkansas and was a major developer of the Walton Institute of Leadership. In that role, he worked directly with Sam Walton and other Wal-Mart executives in developing training programs for store managers and assistant managers at Wal-Mart. In 1994, he completed a six-month internship in curricular design at the Galvin Center at Motorola. Before that time, he was at Notre Dame as an assistant professor of management. At that time, he consulted for General Motors in setting performance objectives in the Parts Division.

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COMPETITION AND CHOICE

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