BALANCED SCORECARD COLLABORATIVE
Hall of Fame

Nova Scotia Power

NOVA SCOTIA POWER
An Emera Company

Abstract

At Nova Scotia Power (NSPI), the principal supplier of electricity to the residents of Nova Scotia, employees understand the importance of keeping their customers connected. Using coal, oil, and hydro to generate the province's electricity, NSPI strives to be the customer's choice in energy and services. The company adopted the Balanced Scorecard in 1996, when new CEO David Mann wanted a measurement system to gauge the success of his new strategic plan. Mann also needed a tool that would unite newly reorganized strategic business units and ensure that they were moving toward the same overall goals. NSPI used its Balanced Scorecard to translate strategy into action and to measure performance against stakeholder requirements. The results were electrifying: steady earnings without price increases, fewer power interruptions, improved customer satisfaction, reduced employee accidents, and a higher number of employees who feel valued in the company. From businesses and hospitals, to schools and homes, NSPI brings power to the people.

Nova Scotia Power's Balanced Scorecard effort exemplifies the following principles of a Strategy-Focused Organization:

- Translate the Strategy to Operational Terms
- Make Strategy Everyone's Job

NSPI's Corporate Strategy

NSPI's Vision was "To be the customer's choice in energy and services"

In 1996 NSPI realigned itself into strategic business units, including three operating SBU's and a Corporate Resources SBU which encompassed all support service unit (SSU) functions, such as IT, Finance, HR, etc. Parts of these SSU's nest in the operating SBU's. These four SBU's include:

- Power Production
- Transmission and Distribution
- Customer Service and Marketing
- Corporate Resources

In the latter half of 1996, NSPI chose four strategic objectives to guide the company into a newly deregulated utility industry:

- Develop Employee Commitment
- Increase Customer Loyalty
- Build the Business
- Manage Costs

NSPI Corporate Strategy Map

The NSPI Balanced Scorecard in summary form shows the company's vision with strategic themes, perspectives and measures arranged in a vertical hierarchy.

BALANCED SCORECARD

SUMMARY OF RESULTS
August, 1999

Our Vision: To be the customers' choice in energy and services

Our Strategies:	Develop Employee Commitment	Build Customer Loyalty	Manage Costs	Build Business
Our Balanced Scorecard Perspectives:	Employee Learning and Growth	Customer	Internal Processes	Financial
Our Balanced Scorecard Measures of Success:	Safety	Customer Loyalty Rating	Environmental Performance Index	Net Earnings
	Employee Commitment Rating	Sales Volume	Operating Efficiency	
	Competency Attainment	Reliability	Number of New Products and Services	
			Percentage Capital Economically Justified	
			Year 2000	

NSPI Balanced Scorecard

NSPI projects strategic goals and measures five years out. In 2000, some of the company's 5-year Balanced Scorecard Measures are as follows.

Employee Learning and Growth

- All injury frequency
- High potential ratio
- Customer safety
- Competency Attainment
- Employee Commitment Rating

Customer

- Customer loyalty rating
- Reliability
- Sales volume

Internal Processes

- Environmental performance index
- Operating efficiency
- Asset utilization
- Customer focus
- Capital justification

Financial

- Net earnings

Each month, NSPI produces a summary report on their corporate Balanced Scorecard results.

Results

If unusually warm weather is factored out in 1998, weather-adjusted earnings would have increased by $11.2 Million to $96.6 Million for 1998--a 4.2% increase over 1997. This compares favorably with earnings in 1996, the year in which the BSC was first introduced corporate-wide. And performance for 1999 was record-breaking. CFO Jay Forbes' interpretation of these results in a regulated environment, where the government controls retail prices and legislation limits rates of return, is interesting:

"We have held price constant since 1996. We've had cost increases in some areas, but we've been able to absorb them and earn our allowed rate of return because we've been able to manage our costs more effectively through the use of the balanced scorecard. At the same time, we've also been able to improve our safety performance and our reliability performance—both of which should normally worsen under cost pressures without price relief. Customer service should also be worse—it's not. Employee commitment should be worse—it's not. Our fuel costs have gone up, but we've been able to manage our internal costs downward. And although pension funding rules (in Canada) have changed and we will have to absorb a multi-million dollar one-time charge, we are prepared to handle that because of the way we have managed costs, rather than just increase revenues, which would cause our customer loyalty to deteriorate. Otherwise, they would see us foisting our inefficiencies back onto them."

NSPI demonstrated these efficiencies (particularly "Total Manageable Costs per Kilowatt Hour Sold") in some of their scorecard indicators.

Customer Results:

NSPI customers' overall satisfaction (combining "excellent" and "good" ratings) for 1998 was 75%--20% higher than in 1997 and the highest since 1991. Even better news was that the percentage of "top box" (highest rating) respondents rose from 1997 to 1998 and accounted for most of that 20% overall satisfaction increase. This indicates that NSPI converted some of their previously "good" ratings into "excellent" ratings, and a number of their previously "fair" ratings into "good" ratings.

The "Total Number of Power Interruptions" and "Average Hours per Customer without Power" decreased in 1998 to record low levels.

Internal Results:

Accidents were reduced in 1998 by 25% over 1997 levels. This represented the lowest accident level since records were kept.

Learning and Growth Results:

NSPI’s Employee Commitment Survey (ECS) results showed that the number of employees who said they were "proud of working for the company" increased from 55% in 1997 to 75% in 1998.

The number of employees who "felt a greater sense of being valued" in the company more than doubled in 1998 over 1997.

The ECS also demonstrated a major increase in employee awareness of the NSPI’s vision and strategies.

As a measure of Employee Commitment, NSPI tracked four different measures:

- “Employee Commitment Rating”
- “Safety”
- “Competency Attainment: % with Development Plans”
- “Competency Attainment: % Achieving at Least One Goal

Make Strategy Everyone's Job

According to Paul Niven, former Business Performance Analyst, who helped spearhead the BSC introduction effort, the company undertook an extensive communication and education plan:

"The Corporate Scorecard was distributed to every manager in the company with accompanying notes as appropriate. We really followed a "personalization" strategy, i.e., we did a lot of personal presentations to groups throughout the province. My only job was Balanced Scorecard, and therefore I had the time and resources to travel throughout the province meeting with groups and discussing the BSC. I also personally facilitated many BSC development sessions at various levels of the company. Additionally, we used our corporate newsletter for updates on the BSC, as well as our intranet. Each business unit also did extensive communication work: presentations, newsletters, etc."

Jay Forbes, CFO at NSPI underscored the extent of awareness-building effort required to effectively implement the Balanced Scorecard:

"We did so much communication of this that Paul (quoted above) can't do it justice. Paul and I went to countless meetings and forums--'lunch and learns,' divisional meetings, managers' meetings. Any agenda that we could wiggle our way onto, we got onto it in order to try and help people to understand this.

"The cross-functional (corporate) committee were messengers for us and took the views throughout the organization. We created signboards about the Balanced Scorecard and posted them everywhere we could.

Dennis Barnhart took over the responsibilities for the Balanced Scorecard in January of 1999. His primary goal was to come down from the corporate office tower and spend time in the field, cascade the scorecard in a meaningful fashion further down through the organization.

Personal Scorecards

The Controller's Division is a good example of a team of people, working under the direction of the CFO, who aggregated their collective goals and measurements into a scorecard that was based on the corporate scorecard for the Finance function. The Treasurer's Division organized itself in a similar fashion with its own scorecard.

The Treasury Division at the time of BSC introduction consisted of 25 members, some of whom developed their own personal balanced scorecards during the first year of corporate implementation. They found it to be a very manageable structure at that level and have linked all of their variable compensation to the balanced scorecard for the past four years.

When asked if this particular group found that easier to do because performance outcomes in treasury services (and financial services groups generally) might be more naturally measurable than outcomes in other groups, Forbes' responded:

"Yes and no. Yes, when managing an interest budget or the exposure to foreign exchange fluctuations. But yet we also had a cash-processing group that was part of this treasury unit, and the metrics of success around that were much more difficult.

"Also, Investor Services had the view that they should be the first in line for any irate investor that called. So they measured their success by the number of calls received by the CEO or CFO during the year from irate investors, i.e., non-institutional investors. Their target is "zero"--they have no tolerance for error. So they needed to make sure that their ability to communicate with external audiences was well defined. They have a separate email address and a separate, dedicated telephone line. They need to resolve those matters sufficiently, or obviously those people have an avenue to come through the CEO or the CFO. At first you would think that this [measuring performance in financial services groups] would be quite easy, but we had instances like that within the group that required quite a bit of imagination and creativity to come up with the right measure of success."

In addition to the above samples of team-based scorecards, NSPI also implemented an array of personal scorecards, examples of which include the CFO's personal scorecard and a Regional Manager's personal scorecard. Each of these is linked to higher-level strategic objectives.

The CFO's Scorecard

Office of the VP and CFO
Balanced Scorecard
January 1999

On Target
Below Target
Target Missed
Results not yet available

OBJECTIVE	MEASURE	YTD TARGET	YTD ACTUAL	PERFORMANCE
FINANCIAL PERSPECTIVE				
Maintain Confidence of Investment Community: Provide a fair retur to investors by engaging in profitable activities to ensure last ing invest and market confidence.	**Net Earnings:** Net earnings for NSPI applicable to common shareholders.	$5 M	$ M	On Target
Build Business: Diversify and grow by investing in new business opportunities, with consideration given to strategic partnership s.	**Value of Projects:** Value of projects in which BOG provided assessment services. "Value" is calculated on an expected value basis by multiplying the total value of projects requiring BOG involvement by the likelihood of progressing (as expressed in % terms) .	$	$)	Results not yet available
Maintain Confidence of Investment Community: Provide a fair retur to investors by achieving optimal capital structure by providing the mo efficient balance of financing instruments relative to achieving the regulated return on equity.	**Weighted Average Cost of Capital:** Weighted average of a capital sources.	%	%	Below Target
CUSTOMER PERSPECTIVE				
Increase Customer Loyalty: Support our community by maintaining leadership positions in non -profit organizations.	**Contacts Made**: Percentage of Finance Group (VP and Dire Reports) with leadership positions in non -profit organizations.	%	%	On Target
Increase Customer Loyalty: Manage relationships with key customers to ensure valuable service delivery.	**Relationship Management:** Survey results of our internal customers re: degree to which our services met expectations.	%	%	Results not yet available
INTERNAL PROCESSES PERSPECTIVE				
Operating Efficiency: Operate the finance function in a cost efficient manner.	**Manageable Costs/kW.h Sold:** The manageable costs for the Finance Group divided by kW.h sold.	98% of budget		On Target
Optimize Capital Utilization: Optimize the capital utilization rate throu the use of stringent economic justification criteria.	**Capital Justification:** Percentage of 1999 capital expenditures economically justified.	%	N/A	On Target
Build Processes and Systems That Have Permanence & Value:				
BOG: Implement / operate a successful business develop. process	**BOG:** % of projects assessed at a total cost of <$20K + 0.075% of capital requirement of project.	%	%	Results not yet available
ERA: Implement a comprehensive risk advisory function.	**ERA:** Complete stated deliverables to satisfaction of steering committee.	%	%	On Target
IR: Restaff function & return to full operational effectiveness.	**IR:** CEO/CFO assessment of IR effectiveness based on their interactions with analysts and investors.	%	%	Results not yet available
Treasury: Create financing, accounting, and operational capabilities.	**Treasury:** NSPHI Financing & accounting capabilities in plac by June 30.	%	%	On Target
Prepare for the Year 2000: Ensure all Finance Group systems are 100% compliant.	**Compliance:** Mission critical systems compliant.	100% by 1999 06 30	%	On Target
LEARNING AND GROWTH PERSPECTIVE				
Develop Skill Sets: Stimulate resourceful, innovative thinking.	**Competency Attainment and Development:** % of employees with development plans as of January 1 successfully completing two of their PDP goals.	%	%	Below Target
Safety: Provide a safe work environment by promoting safe work practices.	**Loss Control Program:** Completion of 1999 Loss Control Program (Field Visits).	(1 per quarter)		On Target
Build Employee Commitment: Recreate the workplace to provide challenge and enjoyment.	**Employee Commitment Rating:** Increase employee commitment rating.	%	%	Results not yet available

Regional manager's scorecard includes PDP (Personal Development Plan) objectives that are mapped to the other business objectives. Forbes explained how core competencies were identified from the business objectives and translated into development plans:

"For us it was this whole issue of 'what competencies do we require'? Our HR group went through an analysis to determine what traits our employees needed to have--the characteristics they needed to have--if we were going to insure success. That, then, required a self-assessment on every employee in this organization to determine how he or she measured up against these competencies that we have articulated.

"There was an elaborate mechanism that took these self-assessments and validated them to make sure that they were appropriate--not done through rose-colored glasses, but not too negative, either--kind of an "alignment" process. It was a simplistic but effective '360'-feedback process. In doing so, we had individuals that understood where they needed to go, understood where they were, and now we are in the phase where we are building personal development plans for each and every employee. They are developing plans themselves which are validated by their managers and which bridge the gap that had existed in terms of their competency skills today versus what they needed for the future. That never existed in the organization prior to the prodding, the pushing that the balanced scorecard did on the whole issue of learning and growth."

Balanced Paychecks

The compensation of all non-union employees, from executives to the front line, is linked either to their personal scorecard or to their group scorecard.

According to Jay Forbes, 100% of the variable pay is linked to the Balanced Scorecard. Every vice-president's bonus is tied directly to his or her Balanced Scorecard. They will take a derivative of the Balanced Scorecard, sit down with the CEO and propose the objectives and measures and targets from the Balanced Scorecard that they believe are most important and most relevant, and are the ones that they should be measured on from an incentive compensation basis.

NSPI's corporate incentive program, called 'Partners for Success', clearly links compensation and bonus to the achievement of balanced scorecard objectives. Each group has set three targets for the following year--'threshold', 'midpoint', and 'stretch'--and their compensation is based on which of those targets they achieve.

Threshold' is the minimum amount to receive a bonus, 'midpoint' earns a moderate bonus, and 'stretch' earns the maximum possible bonus. Both group and individual awards are used. In general, managers have the latitude to measure people on either individual or group results, or both, depending on the nature of what they are trying to accomplish. Bonuses, therefore, tend to follow that pattern as well.

Forbes: “I cascade it (incentive compensation based on scorecard results) down to my direct reports, who cascade it down to their direct reports, and most of those cascade it down to their employees--and that takes it to the bottom of our organization.”

BSCol Hall of Fame

Balanced Scorecard Collaborative Hall of Fame winners have achieved breakthrough performance largely as a result of applying one or more of the five principles of a Strategy-Focused Organization: mobilize change through executive leadership; translate the strategy to operational terms; align the organization to the strategy; make strategy everyone's job; and make strategy a continual process.

Other selection criteria are: implement the Balanced Scorecard as defined by the Kaplan/Norton methodology; present the case at a public conference; achieve media recognition for the scorecard implementation; produce significant financial or market share gains; and demonstrate measurable achievement of customer objectives. Hall of Fame honorees are nominated by the Collaborative's in-house experts and are personally selected by Balanced Scorecard creators Dr. Robert Kaplan and Dr. David Norton.