WHAT IS A BALANCED SCORECARD?

AN INTRAFOCUS GUIDE

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THE BALANCED SCORECARD

The Balanced Scorecard is a framework to implement and manage strategy by linking a vision and mission to strategic priorities, objectives, measures, and initiatives. The Balanced Scorecard provides a view of an organisation's overall performance. It integrates financial measures with other objectives and key performance indicators related to customers, internal business processes, and organisational capacity.

It was originally published by Dr Robert Kaplan and Dr David Norton as a paper[1] in 1992 and then formally as a book 'The Balanced Scorecard' in 1996. Both the paper and the book spread the knowledge of the Balanced Scorecard leading to its widespread success.

The Balanced Scorecard is not just a scorecard, it is a methodology that identifies of a *small* number of financial and non-financial objectives related to strategic priorities. It then looks at measures, setting targets for the measures and finally strategic initiatives (often called projects). It is in this latter stage that the Balanced Scorecard approach differs from other strategic methodologies. It forces an organisation to think about how objectives can be measured first and then what initiatives can be put in place to satisfy the objectives. The rationale is to avoid creating costly initiatives or projects that have no impact on the strategy.

The 'balance' that a Balanced Scorecard achieves is brought about by a focus on financial and non-financial objectives that are attributed to four areas of an organisation and described as *Perspectives*. They are: Financial, Customer, Internal Processes and Organisational Capacity.

[1] It is interesting to note that although Kaplan and Norton published the first paper, they anomalously referenced work by Art Schneiderman who is believed to be the creator of the Balanced Scorecard

THE FOUR PERSPECTIVES

Questions often arise about the four 'Perspectives' described in the Balanced Scorecard methodology. Why should we only look at Financial, Customer, Business Process and Organisational Capacity? Why not include Health and Safety? The answer is, of course, there is nothing stopping us. The four perspectives are simply a framework. However, over decades of use it has become clear that they work.

More importantly, there is a causal relationship between the perspectives. Working from the bottom to the top: Changes in Organisational Capacity will drive changes in Business Processes that will impact Customers and improve Financial results. If a new perspective were added, the causal relationship may not be maintained. The result might be a useful scorecard, but it would not, by definition, be a Balanced Scorecard.

In brief, the four perspectives are:

1. Financial – The high level financial objectives and financial measures of the organisation that help answer the question – How do we look to our shareholders?

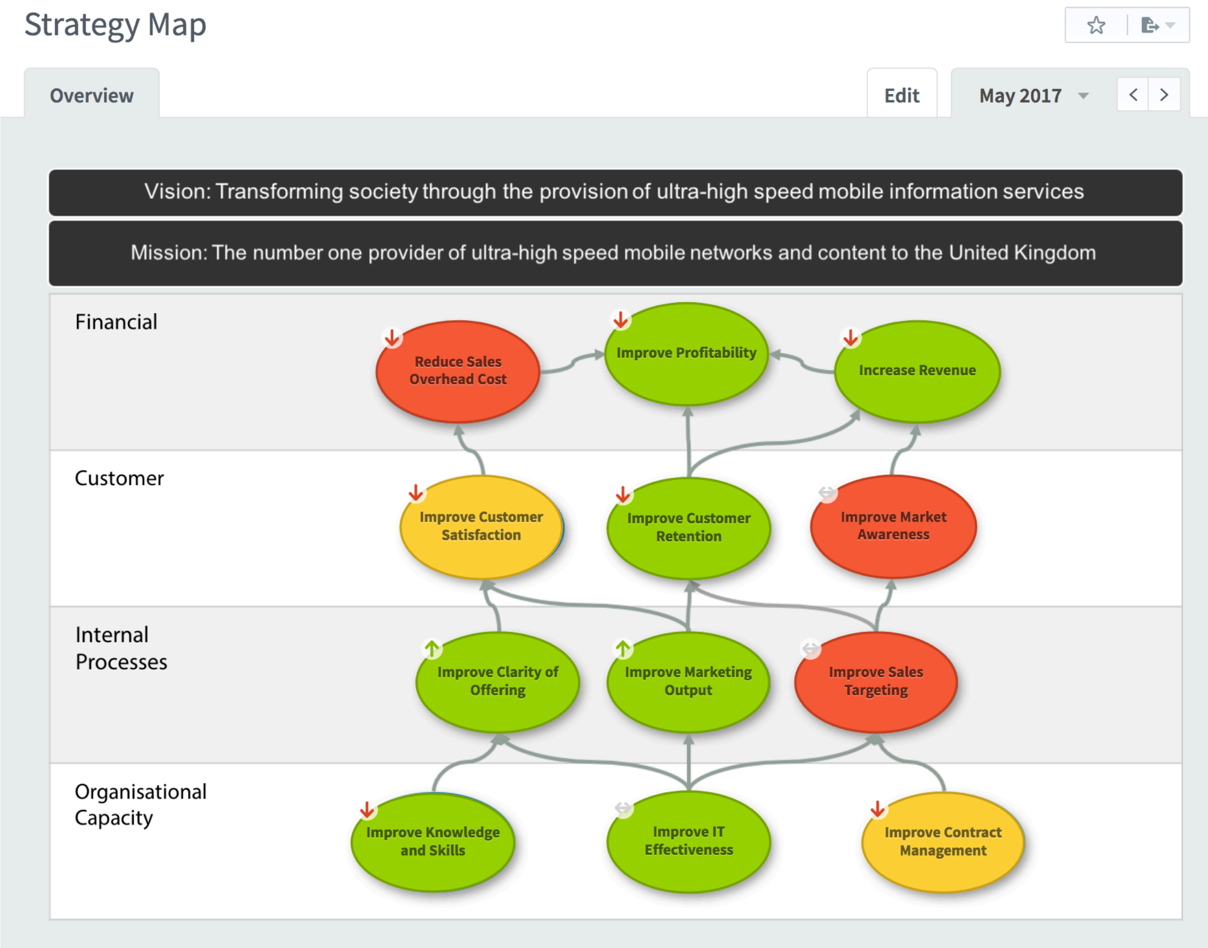
2. Customer – Objectives and measures that are directly related to the organisations customers, focusing on customer satisfaction. To answer the question – How do our customers see us?

3. Business Process – Objectives and measures that determine how well the business is running and whether the products or services conform to what is required by the customers, in other words, what should we be best at?

4. Organisational Capacity – Objectives and measures concerning how well our people perform, their skills, training, company culture, leadership and knowledge base. This area also includes infrastructure and technology. Organisational Capacity tends to be the area where most

investment takes place. It answers the question: How can we improve and create value?

The real value of the Perspective approach is that it provides a framework to describe a business strategy. It focuses on objectives and measures that both inform us about progress and allow us to influence activities to achieve the strategy.



The framework is often presented in the form of a Strategy Map, as shown above. The four perspectives are in a specific order and contain strategic objectives that contribute to a Vison and Mission. The objectives are linked in a causal way from the bottom to the top. The Strategy Map provides a very powerful tool allowing the user to talk about the causal impact of investment at the bottom to improved financial results at the top.

What is interesting here is that the diagram has been created by a software tool. Software is not required to implement a Balanced Scorecard, but it helps. Furthermore, good software tools will allow a user to 'drill down' to the underlying data should the need arise to question a specific activity, objective or performance measure.

STRATEGIC OBJECTIVES

Strategic objectives turn a passive strategy into an active one. An active strategy is one that motivates and drives people to do their best while they are doing their day job. It is not an additional or separate set of activities bolted on the side or something to be done when time allows.

In their book, The Institute Way, Howard Rolm and associates sum up Strategic Objectives by saying:

"*Strategic Objectives are considered the DNA of the Balanced Scorecard system*"

They recognise that in any strategic planning process, the way to bring a strategy alive is to create meaningful Strategic Objectives.

Do not be fooled into thinking strategic objectives are just part of corporate strategic thinking. Strategic objectives apply to all levels of an organisation. The statements used may be different in nature, but their impact will be the same. A corporate strategic objective may be more encompassing, for example 'Improve Customer Satisfaction'. Whereas a business unit or department level may be more specific for example 'Improve customer satisfaction through better customer contact'. And finally, at an individual level the strategic objective may be more specific still, for example 'Improve customer satisfaction by spending at least 40% time on the customer site'.

There is an interesting side note to be pointed out here concerning this 'personal objective'. An assumption has been made that spending 40% of their time on a customer site is a desirable activity. That is, it will improve customer satisfaction. This may be a valid assumption based on previous conversations with customers. However, it does raise the important question of how to measure success in this case. Clearly there must be a relationship between improved customer satisfaction and spending time on a customer site. There must be a relationship between the two measurements to determine the success of the strategic objective. They cannot be treated or measured in isolation. For more information on this subject see our white paper 'Developing Meaningful Key Performance Indicators'.

One of the most common pitfalls organisations fall into when creating Strategic Objectives is to describe activities rather than objectives. Projects and programmes fall into this area. For example, it may be a strategic imperative to "Create a new CRM system and roll it out". This however is not a Strategic Objective. The Strategic Objective that might include this project could be "Improve customer service through tools and technology". This is not a case of semantics either! "Create a new CRM system and roll it out" is an activity that will come to an end; it is not a continuous improvement objective. The only way to measure it is check milestones have been achieved and the project has been completed. There is nothing about the project that demonstrates a performance improvement. It is the *outcome* of the activity, that is, the results of putting the CRM in place that might (or might not) demonstrate a performance improvement.

Projects and initiatives have a place in performance improvement. It is important, however, to ensure we are not doing projects for project sake. The reason for the project must be clear and the 'outcomes' of the project must be clearly measurable. In this way, they can relate back to strategic objectives.

Strategic objectives are the building blocks of a good strategy. They give clear guidance to the organisation as to what is important. Through description and cascade they provide the means to ensure everyone is involved and aligned.

KEY PERFORMANCE INDICATORS (KPIS)

Once created, input to a Balanced Scorecard comes in the form of Performance Measures, often referred to as Key Performance Indicators (KPIs). A KPI provides information an organisation requires to determine whether it is performing well or not. Unfortunately, in some organisations KPIs have often become indistinguishable from operational measures. Organisations frequently take the view that everything should be measured and reported on. A KPI is a ***Key*** performance indicator. It is one of a small number of measures that are designed to reduce the complex nature of organisational performance and turn it into something that can be understood easily and acted upon quickly. Much in the same way as a doctor or nurse will monitor pulse rate and temperature to determine the overall health of an individual, managers can monitor KPIs to determine the health of an organisation.

Where to start is entirely dependent on the strategy an organisation is deploying at the time. There must be a direct relationship between what an organisation is trying to achieve (the strategic objectives) and what is being measured to determine progress towards the objective. Clearly there will be a lot of *operational* measures and some of these may contribute data to the Key Performance Indicators, but operational measures should be considered as 'housekeeping' and 'good practice' and should not be confused with KPIs.

The Balanced Scorecard gives us the framework to take a 'balanced' view across an organisation and define strategic objectives in the four perspective areas together with the associated KPIs. We must be careful not to define too many strategic objectives.

It is better to focus on a small number of things where a structure can be put in place to influence behaviours and outcomes rather than to spread the workload so thinly that nothing gets achieved at all. Business strategy consultants Franklin Covey put it very well:

If your strategy has 3 objectives you will succeed in all 3, if it has 4-10 objectives you will succeed in 1-2, if it contains more than 10 objectives you will succeed in none.

A simple case of the law of diminishing returns.

Finally, KPIs must contain both *leading* and *lagging* measures. Most strategic plans concentrate on lagging measures. Why? Because they are easy to measure and they are accurate. If I want to lose weight, I get on the scales, this gives me proof positive if I have succeeded or not. It does not give me any help to succeed. If I measure how many times I go for a run and how much I have eaten (and plan for this) then I have put in place two *leading* measures that will help me succeed. Leading measures are harder to identify but they are the ***only*** measures that can be influenced and therefore make a difference. We must not underestimate the importance of leading measures when creating a Balanced Scorecard, defining our strategic objectives and choosing our Key Performance Indicators.

BALANCED SCORECARD DEVELOPMENT

Organisations often begin the scorecard process by reading one of the many books on the topic, attending a seminar, or doing web research. The Balanced Scorecard is a mature methodology, and there are many resources for introductory education and training.

Once the organisation has committed to the methodology, a third-party facilitator (e.g. the Balanced Scorecard Institute) is often brought in to manage and bring an unbiased view to the scorecard development process. Scorecard development can be very rapid (a few weeks), or as long as a year, depending upon the scope and complexity of the scorecard and organisation. Many organisations elect to go with a rapid or intermediate approach, which insures project momentum while recognising that scorecarding is an iterative process. It is often better to make and correct mistakes early while the organisation is still excited about the methodology.

Initial scorecard work is typically done with Microsoft Excel, PowerPoint, or Word. As the scorecard matures, the methodology should be rolled out to the rest of the organisation. The goal is to connect all employees to the organisation's strategic objectives by using individual or group measures. To do this efficiently a software tool will be required.

Sustaining the Scorecard

The premise of the Balanced Scorecard is to provide an on-going, living framework that is communicated to the whole organisation. The scorecard needs to be sustainable and easy to roll-out. Scorecards should leverage technology to provide automation as far as possible. Ultimately, the scorecard should become part of the organisation's culture and employees' work experience. An easy to deploy and embrace web based system will allow for rapid roll-out and a sustainable scorecard.

Culture and Connection

Once the scorecard is developed, it is important to cascade it into the organisation. This will help link groups and individuals to the strategy. This is important because everyone needs to understand the cause-and-effect linkage of how they connect to the organisation's overall performance. The goal is to translate the strategy into the staff's "everyday speak" and identify measures of success that link to the overall strategic direction.

Using a software product will allow everyone in the organisation to clearly understand the cause-and-effect relationships so they can execute the strategy, align to the organisation, and provide measurement and a continuous feedback mechanism to make corrections if required.

KEY FEATURES

Web

Look for a solution where development and deployment is done through a web browser. Cross-browser compatibility is essential. Solutions using the latest developments in web technology are always preferable.

Ease of Use

Select a solution that is extremely easy-to-use. Choose a product that functions, as far as possible, like desktop software. Look for products where data can be entered through the web interface, uploaded from a CSV file, or automated with a database connection. Products should be as easy to use as browsing a web page or shopping on-line.

Strategy Maps

The key to a good Balanced Scorecard is the strategy map. Any product selected should be able to create strategy maps with drill-down capabilities. Strategy maps often start out as a blank canvas to which you add images, shapes, gauges, graphs, text, and numbers to create a visual representation of your data. Once you make a strategy map, however, the colours and numbers should automatically update based on the real data in your system. Strategy maps can also be used to track key metrics, visualise geographic data, and monitor trends.

Cascaded Scorecards

Organisation-wide Balanced Scorecard roll-outs require multiple cascaded scorecards. This allows the organisation to start at the top of the organisation and roll down into department, group, or even to the employee level. Look for products that allow for unlimited cascaded scorecards. Organisations should be able to drill-through to sub-scorecards or individual measure views. The entire organisation should be able to roll-up information from multiple scorecards into higher-level scorecards.

Communication

Look for products that allow for commentary on each level of the scorecard. It should be possible to create comments that are either general or period specific. Alerts, such as when your metric needs updating (Notification), or when your metric turns Red (Push) are essential communication components.

Alignment

A good solution will allow for Balanced Scorecard "Aligned Objectives" to be easily created, so that scorecards can show the performance of their own objectives and measures, or of supporting objectives across various scorecards.

Automated Scoring and Weighting

A scorecard tool should allow for automated scoring and weighting of structure elements. You should be able to build your structure, define the weighting, enter the measure values, and watch the scorecard "colour-up."

Initiative Management

Many initiatives will come out of the Balanced Scorecard process. Look for products that have good initiative management modules to manage these scorecard initiatives. It should be possible to create tasks and milestones and assign them to individuals or groups.

Report Writing

Getting the right information, to the right people, and at the right time is vitally important. A good solution will come with a built-in report writer that contains canned reports like Red Metrics Report, Grey Metrics Report (missing values), and Metric Comparison Report (compares metrics within and across scorecards). The tools should also allow the user to pull data out of a scorecard database for ad hoc reporting.

Integration to Desktop Tools

The solution should allow the user to export graphs, reports, and scorecards to desktop applications like Adobe Acrobat, Microsoft Word, Excel, and PowerPoint.

Briefings

The tool should be able to create on-line briefings to consolidate data for management, groups, or users. Briefings should be easy to set up by browsing the Balanced Scorecard model and adding views, reports, and graphs. Once the briefing is created, it should be easily viewed on-line or allow for export to Adobe Acrobat, Microsoft PowerPoint, Word, or Excel.

THE KEY BENEFITS

After decades since its introduction the Balanced Scorecard is now accepted by many organisations as the de-facto method to gather information, make decisions and implement strategy. It has been estimated more than 50% of medium to large organisations use the Balanced Scorecard approach to performance management. The key benefits are:

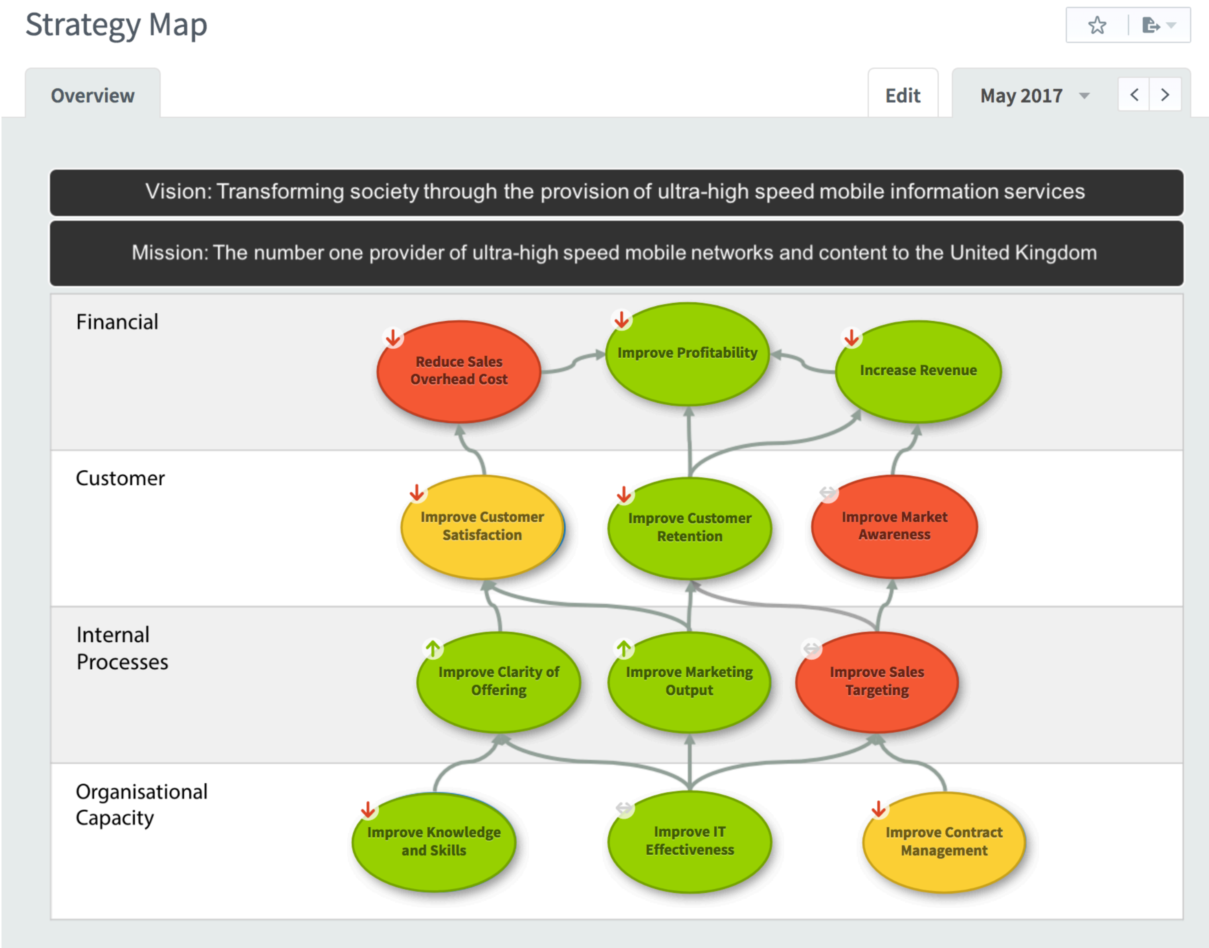
- **Improved organisational alignment and communication** – The Balanced Scorecard approach necessitates that the method is adopted by the whole organisation from department to division to enterprise. It becomes a single standard for all. The immediate benefit is a common language, common set of strategic objectives and common metric structure. This does not mean that the Balanced Scorecard must be implemented across an entire organisation immediately, indeed, the best approach is to start small (usually at the executive level) and roll out over a defined period.

- **Better strategic planning** – The creation of a Strategy Map using the Balanced Scorecard methodology forces an executive team to think hard about the relationship between a strategic objective, initiatives to fulfil the objective and the metrics required to both *help with* the success (leading measures) and *determine* actual success (trailing measures). The strategy map therefore becomes the cornerstone in strategic planning. It has the added benefit of being the communication medium of the strategy (and the way it will be measured) to the rest of the organisation.

- **Improved performance reporting overall** – The Balanced Scorecard focuses the mind on those things that *need* to be reported to the management and executive teams. There will be other things that need to be measured and reported upon, but the simple fact that the management and executive teams are clear on what they need will cause the whole organisation to think about what is required and more importantly why. One of the obvious benefits of this activity is that unnecessary reporting will be eliminated.

The Balanced Scorecard becomes an extremely powerful tool to ensure organisational alignment, to improve communications, achieve much stronger strategic planning and ultimately lead to a better preforming organisation that is in-tune with its business strategy.

APPENDIX 1 – STRATEGY MAP



A strategy map provides a good visual representation of the health of a business or organisation.

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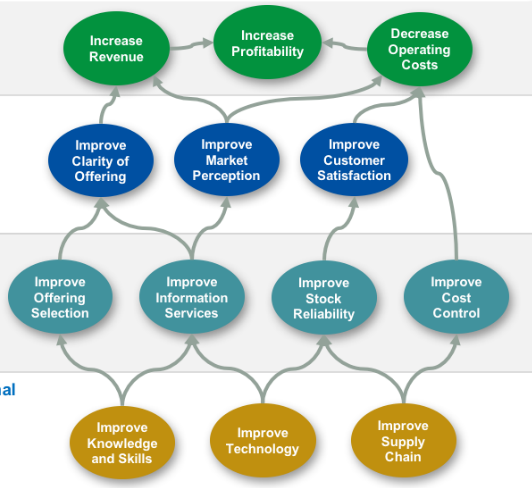
APPENDIX 2 – SCORECARD

Example of an Integrated Balanced Scorecard:

Vision	**Transforming society through the provision of ultra-high speed mobile information services**		
Mission	The number one provider of ultra-high speed mobile information networks across the United Kingdom and Europe		
Strategic Priority	***Content Partnerships***	***Customer Service***	***Brand Awareness***
Strategic Result	Strong supply chain for entertainment and information services, exclusive agreements	Clarity in offering that surpasses anything in the market today, best user interface	Reinvigorated brand based on successes, attract a wider and younger audience



Business Objectives and Strategy Map	Measures	Targets	Initiatives
Financial	• Net profit • Operating costs • Revenue in target markets	• ↑ 5% per year • ↓ 3% per year • ↑ 12% per year	• Implement new financial accounting system • Simplify billing operations
Customer	• % Market share index • % Customer satisfaction index • % Focus group user index	• ↑ 3% per year • 85% this year • > 90% each focus session	• Competitive end user requirements market studies for new UK regions • "Improve the Offering" two year programme
Internal Processes	• New products as % of sales • Brand awareness score • Cost efficiency index	• 12% this year • ↑ 5% per year • > 90% every reporting period	• Create improved offering selection process • Processes for 'Improve the Offering' programme above • Training programme for new offerings and user interface
Organisational Capacity	• Employee development plans • Technology training index • Supply chain efficiency index	• 95% in place • 90% efficient • 95%	• Product and marketing training programme • 2 year football and news supply agreements • Technology improvement programme

Customer Focus - Integrity - Quality - Helpfulness - Community - Efficiency

The Balanced Scorecard above is an example of an Integrated Balanced Scorecard. It includes all the elements of a strategy from Vison through to Initiatives. For more information on how to create an integrated strategy go to our Strategy Workshop pages.

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