IMPLEMENTING THE BALANCED SCORECARD.

Checklist 154

» INTRODUCTION

Traditionally, managers have used a series of indicators to measure how well their organisations are performing. These measures relate essentially to financial issues such as business ratios, productivity, unit costs, growth and profitability. While useful in themselves, they provide only a narrowly focused snapshot of how an organisation performed in the past and give little indication of likely future performance.

During the early 1980s, the rapidly changing business environment prompted managers to take a broader view of performance. Consequently, a range of other factors started to be taken into account, exemplified by the McKinsey 7-S model (See Related Model below) and popularised by Peters and Waterman’s In Search of Excellence. These provide a broader assessment of corporate health both in the immediate and the longer term. This checklist focuses on the Balanced Scorecard, which was developed by Robert Kaplan and David Norton in the early 1990s with the aim of providing a balanced view of an organisation's performance.

The Balanced Scorecard has become an increasingly popular performance management and measurement framework and regularly comes in the top ten in Bain and Company’s most used annual management tools surveys.

» DEFINITION

The Balanced Scorecard is defined as a strategic management and measurement system that links strategic objectives to comprehensive indicators. The key to the success of the system is that it must be a unified, integrated set of indicators that measure key activities and processes at the core of an organisation's operating environment.

The balanced scorecard takes into account not only the traditional ‘hard' financial measures but three additional categories of ‘soft' quantifiable operational measures

- **financial perspective** - timely and accurate financial data continues to be essential
- **customer perspective** - how an organisation is perceived by its customers
- **internal perspective** - issues in which an organisation must excel through business process improvements
- **innovation, learning and growth perspective** - supported by knowledge management activities and initiatives, areas in which an organisation must improve and add value to its products, services, or operations.

Measurements taken across these four categories are seen to provide a rounded Balanced Scorecard that reflects organisation performance more accurately than one based solely on financial indicators. This in turn assists managers to focus on their mission, rather than merely on short-term financial gain. It also helps to motivate staff to achieve strategic objectives.

» ACTION CHECKLIST

Kaplan and Norton identified a number of stages for implementing the Scorecard. These include a mix of planning, interviews, workshops and reviews. The type, size and structure of an organisation will determine the detail of the implementation process and the number of stages adopted.

The main steps include:

1. Be clear about organisational strategy and objectives

As the Scorecard is inextricably linked to strategy, the first requirement is to clearly define the strategy and ensure that senior managers, in particular, are familiar with the key issues. Before any other action can be planned, it is essential to have an understanding of:

- the strategy
- the key objectives or goals required to realise the strategy
- the three or four critical success factors (CSFs) that are fundamental to the achievement of each major objective or goal.

Starting with strategy and objectives is vital and will help organisations to avoid doing the wrong things really well. See Related Checklists below for more on developing corporate mission and strategy.

2. Develop a strategy map

Strategy mapping is a tool developed by Kaplan and Norton for translating strategy into operational terms. A strategy map provides a graphical representation of cause and effect between strategic objectives and shows how the organisation creates value for its customers and stakeholders. Generally speaking, improving performance in the objectives under learning and growth enables the organisation to improve performance in its internal processes, which in turn enables the organisation to create desirable results in the customer and financial perspectives.

3. Decide what to measure

Once the organisation's major strategic objectives have been determined, a set of measures can be developed. It is vital to ensure that the measures chosen reflect the strategic objectives and help to align action with strategy. As a guide, there should be a total limit of 15 to 20 key measures linked to those specific goals (significantly fewer measures may not achieve a balanced view, and significantly more may become unwieldy and deal with non-critical issues).

Based on the four main perspectives suggested by Kaplan and Norton, a list of goals and measures may include some of the following:

Financial (shareholder) perspective

- **Goals** - increased profitability, growth, increased return on their investment
- **Measures** - cash flows, cost reduction, economic value added, gross margins, profitability, return on capital/equity/investments/sales, revenue growth, working capital, turnover.

Customer perspective

- **Goals** - new customer acquisition, retention, extension, satisfaction
- **Measures** - market share, customer service, customer satisfaction, number of new/retained/lost customers, customer profitability, number of complaints, delivery times, quality performance, response time.

Internal perspective

- **Goals** - improved core competencies, improved critical technologies, reduction in paperwork, better employee morale
- **Measures** - efficiency improvements, development/lead/cycle times, reduced unit costs, reduced waste, amount of recycled waste, improved sourcing/supplier delivery, employee morale and satisfaction, internal audit standards, number of employee suggestions, sales per employee, staff turnover.

Innovation and learning perspective

- **Goals** - new product development, continuous improvement, employee development
- **Measures** - number of new products and percentage of sales from these, number of employees receiving training, training hours per employee, number of strategic skills acquired, alignment of personal goals with the Scorecard.

4. Amend the Scorecard if appropriate

Each organisation must determine its own strategic goals and the activities to be measured. Some organisations have found that Kaplan and Norton's template fails to meet their particular needs and have either modified it or devised their own Scorecard. Public sector organisations, for example, may have different aims and objectives and may have to tailor the Scorecard to reflect this.

One way to do this to reflect the fact that people are a major cost item and also a major driver of value, is as follows:

- Financial – as above
- Customer – as above
- Internal – concentrating on systems and processes
- People – focusing on leadership, learning and development, performance management, employee engagement etc.

5. Finalise the implementation plan

Further discussions, interviews and workshops may be required to fine-tune the detail, and agree the strategy, goals and activities to be measured, ensuring that the measures selected focus on the critical success factors. At this stage, it is critical to be clear about 'what good looks like'.

It may be worth identifying the Key Business Processes, and drawing up a matrix of Key Business Process and Critical Success Factors. Key Business Processes that have an impact on many Critical Success Factors should attract more attention and improvement efforts than those which influence no or few Critical Success Factors.

Before implementation, targets, rates and other criteria must be set for each of the measures, and processes for how, when and why the measures are to be recorded should be put in place.

6. Implement the system

An implementation plan should be produced and the whole project communicated to employees. Everyone should be informed at the beginning of the project and kept up to date on progress. It is vital to communicate clearly with employees. Explain the purpose and potential benefits of the system to them and make sure that everyone is aware that they have a role to play in achieving corporate goals. There should be a 'golden thread' linking personal objectives to organisational goals. Ideally this will be achieved through an organisational performance management system.

The system for recording and monitoring the metrics should be in place and tested well before the start date, and, as far as possible, training in its use should be given to all users. The system should automatically record all the data required, though some of the measurements may need to be input manually.

7. Publicise the results

The results of all measurements should be collated on a regular basis - daily, weekly, monthly, quarterly or as appropriate. This will potentially comprise a substantial amount of complex data and it will be necessary to decide who will have access to the full data: senior management only, divisional or departmental heads, or all employees. Alternatively partial information may be provided on a need-to-know basis. Decide how the results will be publicised, through meetings, newsletters, the organisation's intranet or any other appropriate communication channels.

8. Utilise the results

Any form of business appraisal is not an end in itself. It is a guide to organisation performance and may point to areas (management, operational, procedural) that require strengthening. Taking action based upon the obtained information is as important as the data itself. Indeed, management follow-up action should be seen as an essential part of the process of appraisal.

9. Review and revise the system

After the first cycle has been completed, a review should be undertaken to assess the success, or otherwise, of both the information gathered and the action taken, in order to determine whether any part of the process requires modification.

Refrain from using the same Scorecard measures year upon year. Review the existing metrics and, where appropriate, remove flawed metrics and replace them with more reliable ones. Be prepared to introduce additional measures to reflect current circumstances, for example metrics measuring an organisation’s ethical performance.

» POTENTIAL PITFALLS

Managers should avoid:

- setting measures that don’t relate to critical success factors
- over-measuring the organisation
- allowing the measurement process to interfere with employees' ability to get on with the job
- adopting an off-the-shelf system not suited to the organisation.

» ADDITIONAL RESOURCES

BOOKS

Performance measurement with the balanced scorecard: a practical approach to implementation within small SMEs, Stefano Biazzo and Patrizio Garengo
London: Springer, 2012

Balanced scorecard Instant Manager, Mike Bourne and Pippa Bourne
London: Hodder Education, 2007

Beyond the balanced scorecard: improving business intelligence with analytics, Mark Graham Brown New York NY: Productivity Press, 2007

Alignment using the balanced scorecard to create corporate synergies, Robert S Kaplan and David P Norton Boston Mass: Harvard Business Review, 2006

Balanced scorecard step by step: maximising performance and maintaining results, 2nd ed, Paul R Niven
Hoboken NJ: John Wiley, 2006

This is a selection of books available for loan to members from CMI's library. More information at: www.managers.org.uk/library

JOURNAL ARTICLES

Mastering the management system, Robert S Kaplan and David P Norton
Harvard Business Review vol 86 no 1, 2008, pp 63-77

Strategy maps a step by step guide to measuring managing and communicating the plan, Cam Scholey
Journal of Business Strategy, vol 26 no 3, 2005, pp 12-19

The balanced scorecard measures that drive performance, Robert S Kaplan and David P Norton
Harvard Business Review vol 87 no3, 2005, pp 172-180

Putting the balanced scorecard to work, Robert S Kaplan and David P Norton Harvard Business Review, vol 71 no 5, 1993, pp 134-147

This is a selection of journal articles which can be accessed through CMI's library at www.managers.org.uk/library.

RELATED CHECKLISTS AND THINKERS

064 Strategic planning
067 Producing a corporate mission
Robert Kaplan and David Norton: the Balanced Scorecard

RELATED MODELS

McKinsey's 7S framework

INTERNET RESOURCES

Balanced Scorecard Institute www.balancedscorecard.org
Provides a range of articles and information on creating a Balanced Scorecard and the 'Nine Steps to Success' framework.

» NATIONAL OCCUPATIONAL STANDARDS FOR MANAGEMENT AND LEADERSHIP

This checklist has relevance for the following standards:

- LBA2: Provide leadership in your area of responsibility
- LEC3: Manage knowledge in your area of responsibility
- LEC5: Use information to take effective decisions

» MORE INFORMATION

e enquiries@managers.org.uk **t** +44 (01536) 204222 **w** www.managers.org.uk

p Chartered Management Institute
Management House, Cottingham Rd, Corby, Northants, NN17 1TT

This publication is for general guidance only. The publisher and expert contributors disclaim all liability for any errors or omissions. You should make appropriate enquiries and seek appropriate advice before making any business, legal or other decisions.

Revised July 2013