intrafocus

BALANCED SCORECARD

What is the Balanced Scorecard?

January 2014

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The Balanced Scorecard

The Balanced Scorecard is an organisational framework for implementing and managing strategy at all levels of an enterprise by linking objectives, measures, and initiatives to an organisation's strategy. The scorecard provides an enterprise view of an organisation's overall performance. It integrates financial measures with other key performance indicators around customer perspectives, internal business processes, and organisational growth, learning, and innovation.

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 design of Balanced Scorecard concerns itself with the identification of a *small* number of financial and non-financial objectives related to strategy. It then looks at measures, setting targets for the measures and then measuring them on a regular basis to determine success or failure. Only when this is in place can strategic initiatives/projects can be considered. It is in this area 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 basis behind this is to avoid creating initiatives/projects to early and measuring success based only on initiative/project completion.

There are two aspects of this activity that need to be brought out:

1. The scorecard identifies a number of *financial* and *non-financial* objectives. These objectives are few in number and are the critical sustainability or growth the organisation. These objectives are related to four major categories to 'balance' the scorecard.

2. Measurement is a crucial part of the activity. Each objective must be measurable. These measures are often referred to as Key Performance Indicators (KPIs). They also must include both leading and trailing measures (see below 'Key Performance Indicators').

The 'balance' that a Balanced Scorecard achieves is brought about by a focus on financial and non-financial measure that can be attributed to four areas of an organisation that are described as *Perspectives*. These are: Financial, Customer, Internal Business Processes and Learning & Growth.

[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, given the plethora of activities any business may be involved in, should we look at Financial, Customer, Internal Business Process and Learning and Growth? Why not include "Health and Safety" if this of particular importance to a company? The answer is, of course, that there is nothing stopping us. The four perspectives are simply a framework. However, over decades of use it has become clear that they work and what's more work very successfully for most companies.

In brief, the four perspectives are:

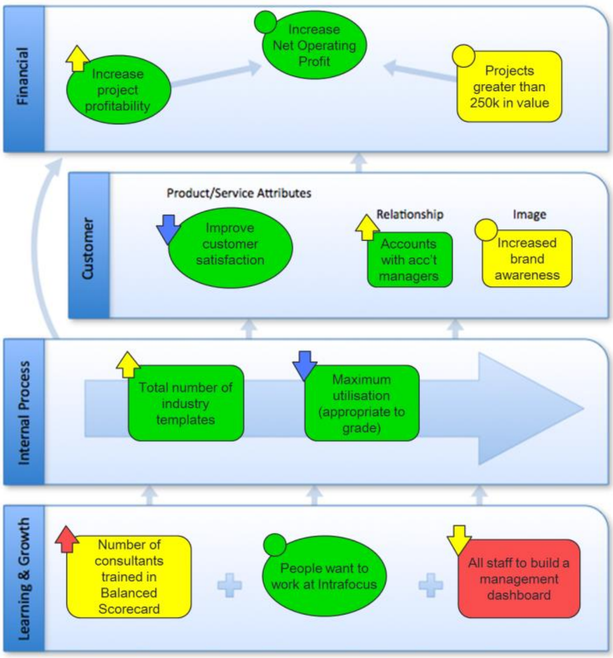
1. Financial Perspective – The high level financial objectives and financial measures of the organisation that help answer the question – How do we look to our shareholders?

2. Customer Perspective – All 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. Internal Business Process Perspective – The 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. Learning and Growth Perspective – The objectives and measures concerning how well our people perform, their skills, training, company culture, leadership and knowledge base. All aspects that lead to continuous improvement. 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 and to focus on objectives and measures that both inform us about progress and allow us to influence activities to achieve the business strategy. By using the framework as a diagram and physically plotting the most important objectives against specific perspectives it quickly focuses the mind onto what is really important.



The diagram to the right illustrates this. 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 the user to 'drill down' to the underlying data should the need arise to question a specific activity, objective or performance measure.

Key Performance Indicators (KPIs)

Input to a Balanced Scorecard comes in the form of Performance measures, often referred to as Key Performance Indicators (KPIs). A KPI provides the most important 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 and that these measure are KPIs. The clue however is in the title. 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 is the same way as a doctor or nurse will monitor pulse rate and temperature to determine the overall health state of an individual, with KPIs we are attempting to do the same for an organisation.

Where should we start when defining KPIs to run an organisation effectively? The answer is entirely dependent on the strategy the organisation is deploying at the time. There has to 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 have to be careful not to abstract to the highest level for every strategic objective. For instance, it is laudable to have a strategic objective of 'increased profitability' and also for 'increased revenue' and also for 'increased shareholder value' but to have all three at such a high level will mean: 1. we are focusing on too much and 2. The KPIs required will have to include just about everything the business is doing.

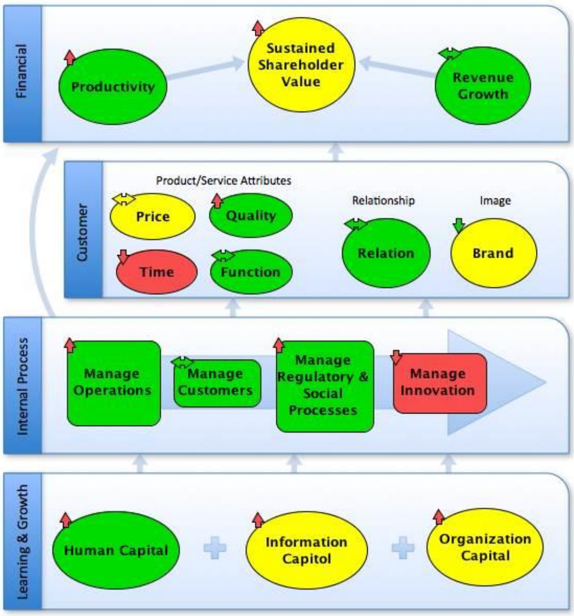
It is better to focus on a small number of things where a structure can be put in place to influence/change behaviours and outcomes rather than to spread the workload so thinly that nothing gets achieved at all. There is an old business strategy adage that states – *if your strategy has 3 objectives 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, your KPIs must contain both *leading* and *trailing* measures. All too often we concentrate on trailing 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 our choosing our Key Performance Indicators.

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, training, and consulting.

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 (five days), 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 score-carding 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, and/or Word. As the scorecard matures, the organisation should consider rolling out the methodology 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 that are "on strategy." This will help to institutionalise the new measurement framework within the organisation.

Sustaining the Scorecard

The premise of the Balanced Scorecard is to provide an on-going, living framework that is communicated to the organisation. The scorecard needs to be sustainable and easy to roll-out. Scorecards should leverage technology to provide automated links to measures, texts, and initiatives. 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 initiative.

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 he/she connects 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. As we connect and link, the culture of the organisation changes to be strategy focused.

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 the organisation to the strategy, and provide measurement and a continuous feedback mechanism to make corrections to reach the desired strategic state.

Balanced Scorecard Technology

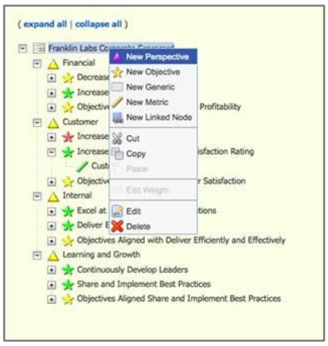
When choosing a Balanced Scorecard technology solution, an easy-to-use and powerful web-based solution that requires little or no IT involvement is essential. The solution should allow for either an on-demand hosted solution ("score-carding as a service") or local installation.

Key Features (what to look for when selecting a solution)

Web

Look for a solution where development and deployment is done through a web browser. Cross-browser compatibility is preferred. Solutions using the latest J2EE technologies and Ajax-style page updates are in-line with the latest developments in web technology.

Ease of Use



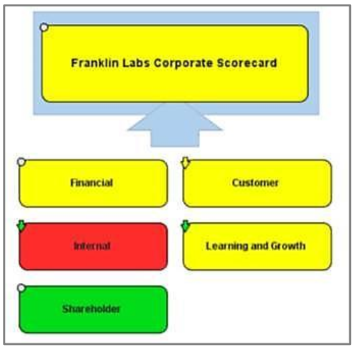
Select a solution that is extremely easy-to-use. Choose a product that functions like desktop software using left click to navigate and right click to develop. Also, look for products where data can be entered through the web interface, uploaded from a CSV file, or automated with a database connection. 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 have the ability to create strategy maps with drill-down capabilities. Strategy maps often start out as a blank canvas to which you add images, shapes, text, and numbers to create a visual representation of your data. Once you make a strategy map, however, the colours and numbers 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 house 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.



Balanced Scorecard Views

Organisations should select a solution that has many different ways to visualise Balanced Scorecard information. In additional to the Strategy Maps discussed above, other views could include Navigational, Executive, Overview, Metric, and Analysis.

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

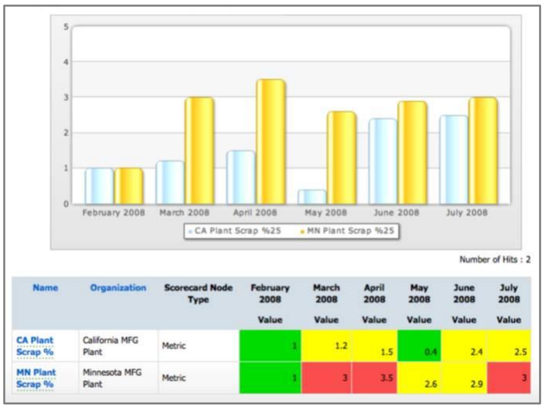
A scorecard tool should allow for automated scoring and weighting of structure elements. Build your structure, define the weighting, enter the measure values, and watch the scorecard "colour-up."

Initiative Management

Many initiatives will come out of the Balanced Scorecard process. Look for products that have full blown initiative management modules to manage these scorecard initiatives. It should be possible to create tasks and milestones and assign them to individuals or groups. All of the data should be visualised with sophisticated Gantt charts.

Report Writing

Reporting is still necessary in any scorecard initiative; getting the right information, to the right people, and at the right time is 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. The report writer should allow for slicing and dicing of performance data and the ability to create exciting Flash presentation graphs.



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.

Briefing Books

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

The Key Benefits

After 12 years since its introduction the Balanced Scorecard is now accepted by many organisations as the de facto tool 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:

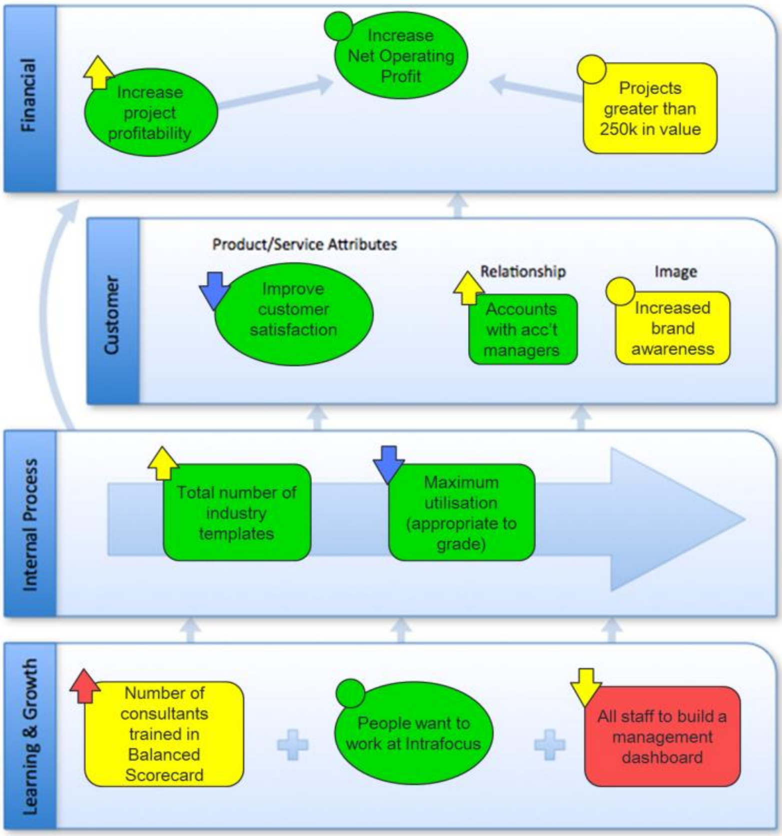
- **Improved organisational alignment and communication** – The Balanced Scorecard approach necessitates that the method is adopted by the whole organisation from department to division to enterprise. It becomes a single standard for all. The immediate benefit is a common language, common set of strategic objectives and common metric structure. This does not mean that the Balanced Scorecard has to 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 of time.

- **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 and 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 actually 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



Strategy Map

In this example we can see a mix of strategic initiatives (ellipses) and measures (rectangles) colour coded to represent thresholds e.g. Green - achieved, Yellow – potentially a problem, Red – a problem. There are also trend arrows/circles showing the previous state.

This strategy map provides a good visual representation of the health of the business

Appendix 2 – Sample Scorecard

Perspective	Objective	Measure	Target	Priority	Initiative	Data Owner
Financial	Increase Net Operating Profit	Net Operating Profit	10% end of year	High	Increase Project Profitability	Finance Director
		Projects greater than £250k	2 per month	High	Sales team to work with Industry consultants to promote industry projects	Consultancy Director and sales Director
Customer	Improve Customer Satisfaction	Customer satisfaction score	95% average	High		Support Director
		Accounts with Account Managers	70% by year end	Medium	Sales Director to assign accounts and balance existing workload	Sales Director
Internal Process		Number of industry templates	1 per month	Medium	Assign consultants to development of 1 industry template each per quarter	Managing Consultant
		Maximum utilisation	82% month on month	High		Operations Director
Learning and Growth	People want to work at Intrafocus	Number of CVs received	5 per month	Med	Set up team-training schedule	Training Manager
		Employee opinion survey	85% average on six month survey	Med	Conduct an employee opinion survey every six months	HR Director
		Number of staff trained in Balanced Scorecard	90% consultants by year end	High	Balanced scorecard training plan in place	HR Director
		All staff to build a management dashboard	100% by year end	High	Training from Consultants set aside in diary	Managing Consultant

The Balanced Scorecard above shows that the three Strategic Objectives have more initiatives and measures than presented on the Strategy map. This is entirely appropriate, not all strategic initiatives and measures need to be reported at the strategy level. The important factor should be that any 'additional' initiatives and measures should contribute directly to the strategic initiatives and objectives.