

The Balanced Scorecard

Motivating employees to deliver your strategy.

You'll most likely have heard the saying "What you measure is what you get." This is something that's true across many areas of management – if you set people targets, and reward them when they meet these targets, they'll often do all they can to achieve them.

This is great in principle, but can be disastrous in practice: One problem is that it's much easier to measure financial results than it is to measure progress in other essential areas (such as staff satisfaction). This leads to an over-reliance on financial measurement. A second issue is that people will, quite rightly, drop other activities to meet challenging goals – this is part of why stretch goals are set. Taken together, this means that organizations often focus their efforts on short term financial results, at the same time that the underpinnings of their business wither away, neglected.

This is where the idea of the "Balanced Business Scorecard" is important – as a tool for improving the performance of a whole organization, a large department or a small team. The Balanced Scorecard or Weighted Scorecard helps you measure and improve performance in an integrated way.

Understanding the Theory

Developed in the early 1990s by Robert Kaplan from the Harvard Business School and David Norton, the founder of an IT consulting firm, this management system has been applied to many organizations and across many industries with great success.

The original article in the Harvard Business Review ("The Balanced Scorecard – Measures that Drive Performance", Harvard Business Review, Jan/Feb 1992) starts with the adage we quoted at the start of this article, "What you measure is what you get". The whole system is based on this premise.

Elaborating on what we've already said, companies have historically used financial measurements to gauge their success. The problem with this narrow approach is that not all business processes or operations contribute directly to bottom line financial measures like Return on Investment (ROI) or Earnings Per Share (EPS).

For example, if you have an objective to decrease operating expenses by 5%, you may set a goal to limit customer support calls to five minutes or less – this is designed to increase efficiency and directly cut cost. However, customer satisfaction may decline as a result, which would lead to lost customers, lost revenue, and so on. This means that this well-meaning financial objective actually damaged the company's overall performance.

When you achieve a goal in one area at the expense of operating performance in other areas, the results can be devastating.

Measurement Reinforcing Your Vision

The Balance Scorecard helps you set goals that give appropriate weight to financial and non-financial measures. It does this by starting with the vision and strategy that drives the business. From this, it identifies the drivers of success for that vision, and then develops targets that measure progress towards that success.

And because well-motivated, well-managed people will work to achieve these targets, this means that, by focusing on these targets, your team will adjust its efforts to focus on the successful delivery of your vision.

Not Getting "Bogged Down"

Now, it's easy to get bogged down in performance measurement using this approach. This is where the Balanced Scorecard approach limits measurement to the four critical areas of financial performance, customer service improvement, internal business processes streamlining and innovation and learning.

By identifying the key factors that contribute to organizational success – known as Critical Success Factors – the Balanced Scorecard limits measurement to the things that really matter.

And what really matters is that your company, department or team remains competitive. Both financial and non-financial measures are needed to achieve this, even if these non-financial activities have a less direct effect on the bottom line.

How to Use the Tool

The Balanced Scorecard works from the top down. The entire framework hinges on aligning performance with strategy, and strategy comes from the top: It comes from you, as the leader of the company, department or team.

The steps that follow are addressed to you as leader of your organizational unit, the one who sets the strategy and vision. From there, the Balanced Scorecard can be implemented as follows:

Step 1: Lead the implementation

Start with your strategy for your organization. Take the time needed to make sure that it is as well-thought-through, researched and tested as it can be (this will often take a lot of analysis and careful consideration). Everything else rests on this strategy being sound and well-considered.

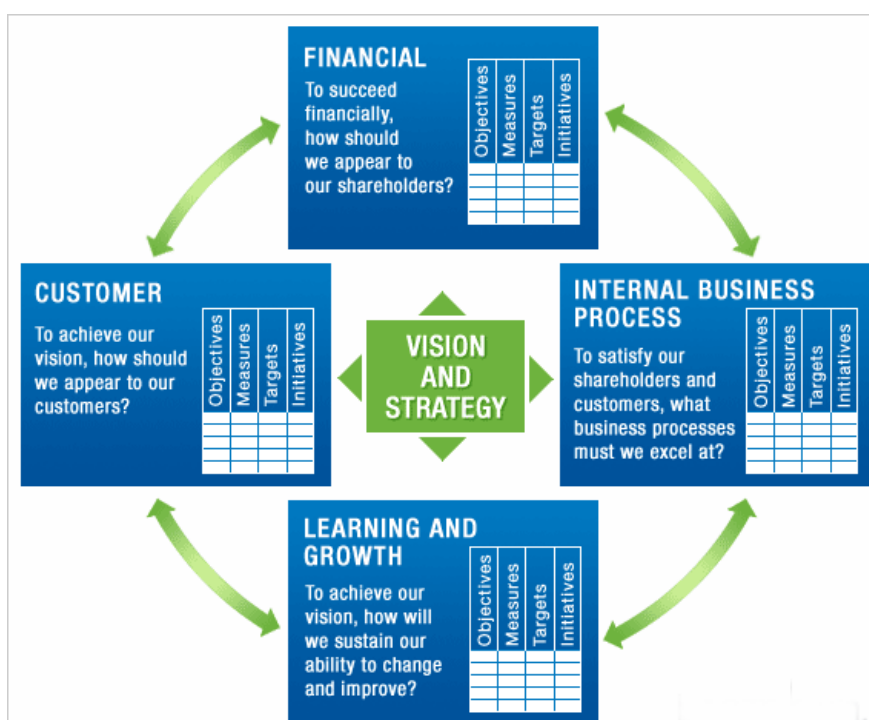
Step 2: Prepare for Change

Once you've decided to use the Balanced Scorecard approach, you'll need to set a plan in place to prepare the team and communicate the process for implementing the Balanced Scorecard – this will take a lot of work from managers at all levels.

More than this, you'll need a measurement "machinery" to be in place, if you're going to successfully measure people's performance. This needs to be implemented as well, with all of the issues associated with this.

Step 3: Develop Performance Measurements

Using your overall strategy as your guide, determine the critical success factors in each performance area, set related goals and then identify ways to measure results.



The Performance Areas are:

- **The Financial Perspective:**
This includes those traditional financial indicators which measure progress towards the achievement of your strategy, and which give your shareholders the information they need.
- **The Customer Perspective:**
Here, you set goals which relate to your customers' perception of your business. These could include measures like customer satisfaction levels, numbers of customer referrals, or target market penetration.
- **The Internal Business Processes Perspective:**
Here you look at your main business processes like production, logistics or sales and then set goals related to such things as quality, time/efficiency, and cost reduction. Here, you explore ways of improving your internal systems and functions.
- **The Learning and Growth Perspective:**
In this area, you examine measures relating to employee development, retention, and skills improvement. You also look at measures for research and development. The focus here is on continuous improvement and value creation, by using your people resources most effectively.

Step 4: Make Sure Measures Are Transmitted Throughout Your Organization

Achievement of your vision needs different actions from different groups of people and individuals. This means that you need to develop subtly different scorecards for each of your reports, and each of your reports needs to develop scorecards for the people who report to him or her. Scorecards need to "ripple down" through your organization if everyone is to work to achieve your vision, in their own particular ways.

More than this, you'll need to implement the systems needed to collect performance information.

All of this is time-consuming: Make sure that you leave plenty of time for it to happen, and that you keep an eagle eye on this strategy transmission process.

Step 5: Plan Initiatives

Once you have specific goals and targets in place, you plan the initiatives and actions needed to achieve them. Make these easy for your team to understand so they can follow the plan to completion.

Step 6: Follow-up and Evaluate

The chances are, the first time you use the balanced scorecard, some strange behaviors may emerge. Perhaps particular measures are misinterpreted, or errors develop as ideas are transmitted down through layers of management.

More than this, the measurement processes may fail or give spurious results.

Be alert to these issues, and monitor and correct performance closely. And where the scorecard itself is misleading, adjust it appropriately.

Key Points

The idea of the "Balanced Business Scorecard" is an important one for managing people to deliver the goals of your business.

"Balance" comes from the alignment of financial performance measures with those related to customers, internal business processes, and innovation and learning: Financial measures alone will not ensure success nor will any of the other performance measures taken in isolation.

The Balanced Scorecard is just that: Balanced. And while it will not measure the "correctness" of your strategy, it will help you monitor and measure the progress you are making to achieve that strategy across all areas of operations.

This correctness of strategy is a key part of leadership – after all, it's often said that "management is about doing things right, while leadership is about doing the right things." Leadership and management are different (but



complementary.)

The Balanced Scorecard is about managing the transmission of strategy, while leadership is about motivating people to give their best to achieve a worthwhile goal: These two different approaches work together in high performance organizations.



BALANCED SCORECARD ACTION PLAN

Name:	Project:
Location:	Date of Action Plan:

Objective	Measures	Targets	Initiatives	Stakeholders	When By
	1				
	2				
	3				

Notes: