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Making Scorecards Actionable

Balancing Strategy and Control

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Introduction

The Balanced Scorecard concept was first presented in the early 1990s. It has been picked up by many organizations — some surveys indicate that a majority of firms in the United States, the United Kingdom and Scandinavia use scorecards or intend to do so soon. The number of software packages for scorecards on the market is also growing and now exceeds 100.

At the same time, there are reports of high failure rates, with firms abandoning their scorecard efforts. Others are struggling against the perception of the Balanced Scorecard as yet another fad propagated by consultants. But just as Total Quality Management, Business Process Re-engineering and Activity-Based Costing have become integrated into standard practices in modern management, the Balanced Scorecard is likely to remain an enduring tool.

What is a Scorecard?

A Balanced Scorecard is a format for describing the activities of an organization through a number of measures, usually formulated around four perspectives:

- **Financial Perspective** — profitability, growth, debt/equity ratio and other metrics.
- **Customer Perspective** — customer satisfaction, new clients or other measures.
- **Process Perspective** — efficiency, utilization of assets and the like.

- **Development Perspective** — learning, adding new skills and other foundational factors.

Some might say this is just another performance report, combining financial and non-financial metrics. But there's more to the scorecard than immediately meets the eye:

- The scorecard is balanced. The four perspectives aim for a complete description of what you need to know about the business. First there's a time dimension, going from the top to bottom, with current profitability and other factors largely a consequence of what was done last quarter or last year, while the development processes are likely to pay dividends down the road.
- The scorecard is balanced by also showing both internal and external aspects of the business. The internal processes must be running effectively but customers' impressions are also vital to success.
- Finally, the scorecard is linked through cause-and-effect assumptions. It leads us to reflect on how strong these linkages are, what time delays are involved and how certain we can be about them in the face of external competition and change.

Tools for Communication

Scorecards are tools for communication. They're used to align business activities to the vision and strategies of a firm, monitor performance in the dimensions used in the scorecards, and take action appropriate for realizing the intended strategy. A

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good scorecard documents a strategic logic: cause-and-effect relationships between current activities and long-term success. Scorecards aim to change behavior through communication in order to realize the intended strategy.

The particular efforts an organization makes in order to learn or improve its processes or make its customers happier must be based on its conviction that these efforts constitute the best path to future success. The links in a good scorecard will visualize a “business logic”: how doing the right things now is expected to produce long-term rewards. In this way, scorecards translate strategy into terms that are meaningful for members of the organization in their everyday activities.

Introducing a Scorecard

Since the idea of a scorecard is so simple, it's important not to underestimate the need for resource commitment and top management focus. A scorecard project can easily be perceived as just some kind of elaborate performance management project, which may lead to antagonism among employees who see it as a new way to inspect their work. More commonly, scorecards are initially received well but when employees get the (sometimes correct) impression that managers aren't themselves really engaged in using scorecards to discuss business and performance in new ways, enthusiasm evaporates.

It's important at the outset to determine the business activities for which there should be scorecards. Some organizations start their scorecard projects with the higher echelons while others begin with a pilot project somewhere down in the organization. Some never roll out the scorecards to reach the highest ranks while others develop scorecards even for individual employees.

Also, it needs to be determined which dialogues will be prompted and informed by scorecards. A department scorecard could be used entirely for internal processes, such as motivating employees. It would normally also be used to agree with, and report on, performance to higher levels of management.

The unit chosen for an initial scorecard needs to be fairly complete and self-contained, or have a clear task and vision assigned by its principals. If it doesn't, the attempt to develop a scorecard will only result in a host of questions about the unit's vision and logic (although that can be useful — some scorecard projects result in

a “proposal” from a subsidiary to corporate management about the role it wants to play).

Extending scorecard work down to individual employees may be useful when they have independent tasks. Otherwise, teams would be the normal level at which to stop. The issues involved include the improvements aimed for in the project, links to discussions about individual development, and effects on remuneration.

Preparing the Project

The organization needs to decide the scope of its scorecard project. It should answer questions such as:

- What is our level of ambition? Is it a corporate scorecard or a focus on a subsidiary? Is the intent just to develop a map of the strategy of the firm, through the links in the scorecard, or will this be implemented as a full-blown control process?

- What is our time schedule? There should be at the minimum a shared view of what will be achieved during the next 12 months.

- Who will be responsible for what? Various competencies will be needed and it's essential to include important people and groups within the organization in the planning. But will they have the time and commitment to engage in this effort?

- Should we use consultants? They can provide experience, a fresh perspective and work capacity to the project. On the other hand, it's important that the project not be perceived as something consultants do for the organization — the whole responsibility has to rest with the internal project team.

So the first step is to collect material on the characteristics and requirements of the industry and the company's current position and role. This can be done through individual interviews with top management and with the most influential opinion leaders in the company. Significant customers, suppliers and public institutions should also be included in this research phase. In that way, a platform can be built for elaborating the vision and future strategies.

Running the First Seminar

In preparing for the first seminar on developing the scorecard, it's useful to document the results of the initial interviews, particularly any dissenting views on essential issues. During the first seminar you need to confirm — or in some cases establish — the company's vision.

It's important to learn if this vision is jointly held. The simple format of a scorecard changes things dramatically. Existing strategies become concrete and realistic, rather than a set of beautiful and non-committal words.

The next step is to choose and establish the different perspectives on which to build the scorecard — whether to use the four most common perspectives or establish different (or additional) foundational elements for the scorecard. You then have to break the vision down for each of those perspectives, formulating a series of strategic aims and identifying the critical factors for success.

For example:

- Under the Financial Perspective you might choose as goals improving profitability and attaining stronger finances.
- Under the Customer Perspective you might select increasing the customer base and having more satisfied customers.
- Under the Process Perspective the intention might be to increase customer service and increase efficiency.
- Under the Development Perspective the plan might call for establishing new markets, improving sales staff skills and improving technology.

There will be linkages among these different scorecard elements. Improving sales skills (Development) should increase customer service (Process) which should lead to more satisfied customers which in turn will lead to an increased customer base (Customer) and that should combine to improve profitability and strengthen finances (Finance).

It doesn't stop there, since strengthened finances allow more Development activities, be it establishing new markets, training to improve sales staff, or improving technology — and that feeds back into the other scorecard elements. A diagram of these interconnections illuminates the strategy map for the company.

There's an element of invention in drawing this strategy map. It can be an intense and fascinating process, but requires the right participants, enough time and a discussion leader who knows how to challenge a group.

The greatest challenge is to find clear cause-and-effect relationships and to create a balance among measures in the different perspectives.

The next step is to derive lower-level scorecards

from the top-level one. All employees should see clearly how the company vision and overall goals affect day-to-day operations.

Challenges in Using Scorecards

Six critical issues arise in introducing and using scorecards:

- **Strategy Maps** — or, more generally, expressing strategy in scorecards, linking objectives and measures. How can this be done best?

It's important that a large number of employees, probably the majority, should know about the scorecards and take part in dialogues about them. Otherwise, measuring and monitoring the new metrics will be perceived as a meaningless ritual, a burden, or even a threat. Only through involving people in discussions about the intended logic, and how the metrics relate to it, will everyone start taking an interest in the measures.

- **Dialogues** — when and where are scorecards to be used? For scorecards to be meaningful, constant discussion of their underlying logic is essential. The Balanced Scorecard has to be perceived by employees as part of a living dialogue about what's worth doing and how performance relates to organizational objectives. This requires management to encourage and engage in such dialogues at all levels of the company.

- **Roles** — what responsibilities have to be assigned for scorecards to function and have effect? These should cover a variety of aspects of living with scorecards. Obviously every manager whose unit is part of the new control system is accountable for proper attention to its scorecard. As well, the "technology" of scorecards — definitions, formats, timetables and information provisions — needs to be the responsibility of someone, often in the controller's department. During the first year or two, somebody may also have to be in charge of promoting and training for scorecard use. If software is introduced for the scorecard, somebody in I.T. will usually take charge.

- **Interfaces** — how the scorecard relates to different parts of the organization. Sometimes there's an expectation that scorecard measures should be uniform throughout an organization and aggregated the same way that financial numbers are. In practice, conditions in different units often make it natural to use widely different measures.

- **Incentives** — what rewards are needed for score-

cards to work? For some time directly after introducing scorecards, the attention paid to the new (or apparently new) measures encourages performance improvements — especially for employees involved in setting targets. But for a lasting impact, non-financial measures have to be made competitive with the financial and traditionally more visible ones. It's easy for a scorecard's impact to be blunted because the company's incentive system favors certain aspects of the Balanced Scorecard over other elements.

- **I.T. support** — how should data be handled? Is an I.T.-based system necessary, or can the scorecard be handled with simple software like Microsoft Word and Excel? If more advanced technology is required, how will the choice be made among the alternatives? The preference should usually be to start in a quick and simple way, even if this requires manual work. In the longer run, most organizations benefit from having scorecard information readily available over an intranet.

Conclusion

Introducing a Balanced Scorecard into an organization is perhaps best viewed as creating a business language. The words and phrases that are needed in the

language will depend on each organization's situation and intentions. The main thing, however, is to get the communication going. **e**

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Related Reading

The Balanced Scorecard: Translating Strategy into Action, by Robert S. Kaplan and David P. Norton, Harvard Business School Publishing, 1996, ISBN 0875846513.

Performance Drivers: A Practical Guide to Using the Balanced Scorecard, by Nils-Göran Olve, Jan Roy and Magnus Wetter, John Wiley & Sons, 1999, ISBN 0471986232.

What's the Big Idea? Creating and Capitalizing on the Best Management Thinking, by Thomas H. Davenport and Laurence Prusak, with H. James Wilson, Harvard Business School Press, 2003, ISBN 1578519314.