

# Balanced Scorecard

## What is it?

A Balanced Scorecard is a Performance Management framework that “captures”:

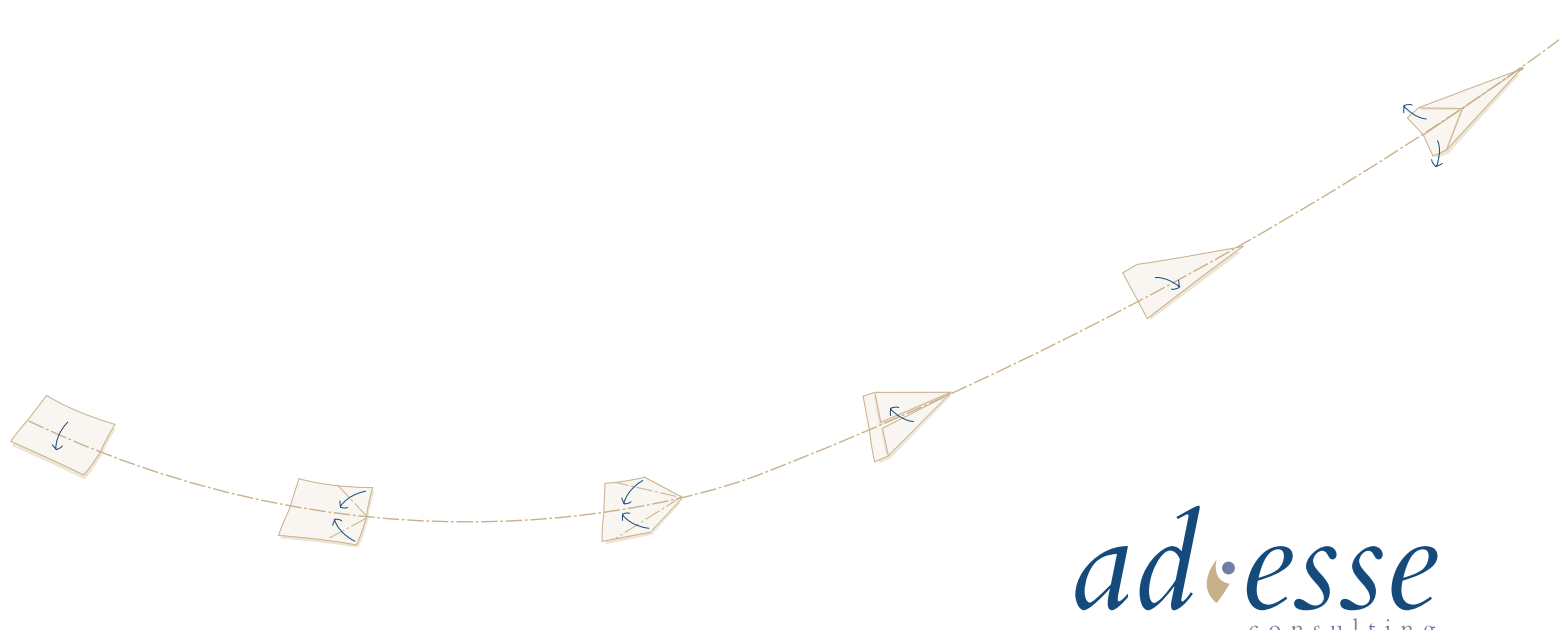
- strategically important objectives
- measurements that can be used to quantify progress towards these objectives
- targets for performance levels required (and timescales)
- the plans and actions that will be implemented to achieve the objectives

The Balanced Scorecard approach was developed in the early 1990s by Kaplan and Norton as a way of developing effective Strategic and Operational Plans. It is *not* simply a collection of current measurements, scattered around four perspectives.

“Balance” comes from:

- the adoption of several “perspectives”; typically: Financial, Customer, Process and Organisational Learning
- linkages between the perspectives, so that there is a clear cause and effect relationship between performance enablers and performance results
- a mixture of leading and lagging indicators
- a combination of an internal and an external focus

Understanding, and subsequent implementation, of Balanced Scorecards has developed significantly since Kaplan and Norton published their initial work in the early 1990s. The approach has been adopted in the private and public sectors, and this includes a very diverse range of organisations.



## WHY DO IT?

There are a number of characteristics that organisations display, that might suggest a Balanced Scorecard would add value:

- A lack of appropriate measurement systems
- A lack of understanding of why different, balanced, measurements might be of benefit
- A need to debate what is really important to measure at the highest level of the organisation
- Numerous existing projects and activities aimed at delivering results, but a lack of clarity about how their success will be measured
- Multiple customer groups, partners and stakeholders (often with conflicting, or differing, needs and expectations)
- A multitude of “**required measurements**” and a view that all of these are strategically important

So, any time you set out review your strategic objectives is an opportunity to adopt a Scorecard approach to develop associated measurements and linked/aligned action plans.

**We typically see three levels of maturity in the understanding and application of Balanced Scorecards:**

**1 - Dashboard:** At the most immature level, organisations view the Balanced Scorecard as four areas within which to select and track a few measurements. Typically, they take the four Kaplan and Norton perspectives and develop a set of measurements for each one. These measurements may be taken from existing Key Performance Indicators (KPIs), or they may have to be “**invented**” in order to fill the framework. This is likely to be little more than a “**dashboard**” of measurements, with no real understanding of any possible relationship to organisational strategy. There is likely to be a minimal understanding of the cause and effect relationship between components on the Balanced Scorecard, or of the interaction between leading and lagging indicators. The focus is on choosing (apparently) “**balanced measures**”.

**2 – Strategy Mapping:** More mature organisations adopt the Balanced Scorecard as part of their strategic planning process and it captures the essence of their existing strategy by translating it into balanced objectives and measures, with associated targets and action plans. The cause and effect relationships between objectives are captured in a Strategy Map and this forms a basis for senior management to discuss linkages between objectives. The development of a Level 2 Balanced Scorecard is likely to have more involvement of the senior management team than at Level 1, but it may well be delegated to a project team. The focus is on developing measures related to existing strategic objectives, not on challenging whether those objectives are the right ones. It is, however, likely to help highlight gaps and anomalies in existing strategic objectives and encourage a more holistic approach, by balancing objectives across all four perspectives.

**3 – Strategic Planning:** In the most mature uses of the Balanced Scorecard, it is integral to strategic planning and clearly seen as a senior management responsibility for its development. Strategy Maps are developed by the senior team, driven by their vision. Strategic options are considered and debated as part of the Strategy Mapping process. A small number of objectives are derived from the Strategy Map and from these, measures and targets are defined. Action plans and supporting “**projects**” and “**initiatives**” are aligned to the goals. The focus is on developing the strategy and it must therefore be led by the management team, perhaps with some facilitation support.

Level 3 is largely what Kaplan and Norton described, but is not what the early adopters necessarily understood or implemented!

## OUR APPROACH:

We help clients work through five key stages in implementing a Balanced Scorecard. Probably the most useful and typical starting point would be for the Senior Management Team to develop a collective understanding of what

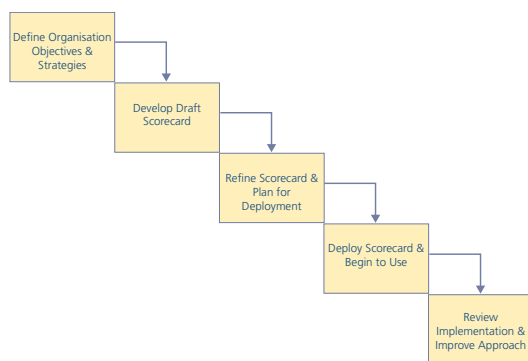
a Balanced Scorecard is and how it might be applied to their organisation. A workshop approach, covering the principles and examining good practice examples is a good way to identify how a useful Scorecard can actually be developed.

We would typically expect to be able to work with either a Senior Management Team after such a workshop, or a nominated project group, to develop a draft Scorecard within 4-6 weeks. It might take another month to get it to the point where the Senior Management Team was happy that they had something "to work with".

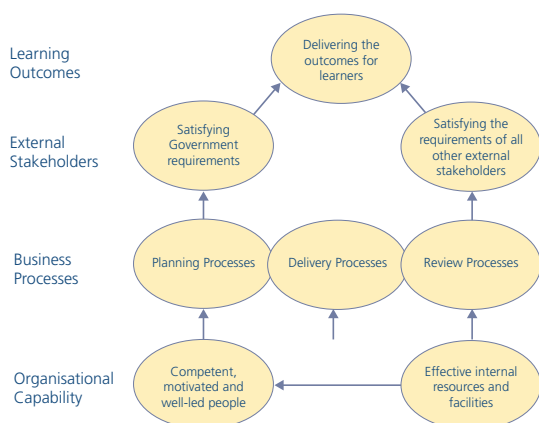
We strongly recommend that the Senior Management Team works with its Scorecard for a while before considering encouraging their direct reports to develop and cascade lower level Scorecards too far. This provides an opportunity to identify a good working approach that is actively led from the top.

For those organisations with well-defined business objectives and plans, the development of a Scorecard is obviously much easier. Those whose objectives and plans are weaker, or poorly defined, will take longer. To some extent, they might gain more benefit, more quickly, as the development process is a great way to enable senior management to reach consensus on the small number of objectives that are truly important to the success of the organisation.

### THE SCORECARD DEVELOPMENT PROCESS:



An agreed Strategy Map is the precursor to the development of a Scorecard. It captures, in pictorial format, strategic objectives and how they fit together across the different Scorecard perspectives.



The Strategy Map summarises our answers to four key Strategic Questions:

- How should we appear to our Stakeholders (typically Financial)?
- How should we appear to our Customers (may be different groups)?
- What are the processes at which we must excel (in order to meet Customer and Stakeholder needs)?
- How should we develop and sustain our capability to learn, grow and improve?

Kaplan and Norton give several examples of Strategy Maps in their original book and the majority of these are from private sector businesses. Many of our public sector clients need to adapt the four perspectives to ensure their strategic objectives can be aligned with the needs of their customers, service users and the expectations of their key stakeholder, the government.

The example below is a (simplified) Strategy Map from a public sector body responsible for providing funding for education and skills development. Here, the Scorecard perspectives have been tailored to reflect the Mission of the organisation, which was related to enabling improved learning and skills across a defined population. In other words, the ultimate “effect” in their cause and effect diagram was on delivering learning outcomes.

An extract from one perspective (Financial) of a high-level Balanced Scorecard is shown below:

FINANCE - How should we look to our Shareholders?					
CSF: We will have a steadily improving financial position that assures future stability	OBJECTIVE	MEASURE	TARGET	ACTION PLANS	OWNER
	Reduce operating costs	<ul style="list-style-type: none"> <li>Operating cost reduction vs. budget</li> </ul>	<ul style="list-style-type: none"> <li>Cost reduction of 2.5% at year end</li> </ul>	<ul style="list-style-type: none"> <li>Analyse margin/costs on quarterly basis</li> <li>Implement procurement cost savings project</li> <li>Apply Lean techniques in Area Z</li> </ul>	XYZ Director
	Increase profitability	<ul style="list-style-type: none"> <li>Contribution growth</li> <li>Sales growth</li> </ul>	<ul style="list-style-type: none"> <li>2% increase on last FY</li> <li>15% increase vs. last FY</li> </ul>	<ul style="list-style-type: none"> <li>PI projects for process review and efficiency improvement</li> <li>Implement ABC promotional plan</li> <li>Sales training programme</li> </ul>	Sales Manager AGF
	Reduce debtor days	<ul style="list-style-type: none"> <li>Debtor days</li> </ul>	<ul style="list-style-type: none"> <li>Under 45 days</li> </ul>	<ul style="list-style-type: none"> <li>Implement debt tracker software</li> <li>Appoint “Aged Debts Chaser”</li> <li>Appoint Factors for high risk accounts</li> </ul>	Accounts Clerk DJK
	Reduce RM stock levels	<ul style="list-style-type: none"> <li>RM Stock - turn days</li> </ul>	<ul style="list-style-type: none"> <li>Under 40 days</li> </ul>	<ul style="list-style-type: none"> <li>Implement Lean principles in Area X</li> </ul>	Ops Manager WSB

This clearly shows the Scorecard components of Objectives, Measurements, Targets and Action Plans, plus the critically important “ownership” role for each objective.

## OUR SERVICES:

The amount of consultancy support required for implementation of a Balanced Scorecard usually depends on the availability of skilled resource within the client’s organisation. Some clients appoint a dedicated project team to work with us, which helps develop local capabilities and can be more cost-effective.

Our support typically includes:

- Identification of available performance management information – e.g. from interviews with Senior Management Team members and other staff, as appropriate.
- Development of an outline Strategy Map.
- Preparation of first draft scorecard, including perspectives.
- Testing of first draft Scorecard.
- Reviewing and re-drafting of the scorecard as necessary.
- Ensuring measures are properly defined.
- Establishing what is currently measured and designing new measurement systems where needed.
- Establishing current performance levels.
- Setting up monthly reporting system.

- Assessing the impact on existing performance management issues.
- Follow-up and coaching for implementation, communication and further deployment.

We can also offer advice on software solutions that can help automate the capture, analysis and display of performance management information.

#### OUR EXPERIENCE:

Our consultants have experience of supporting Scorecard-based development and implementation of business planning in a wide variety of organisations:

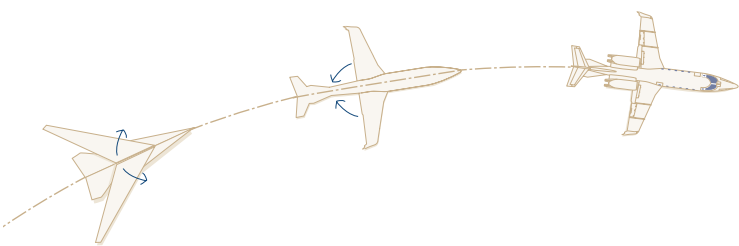
- Central government
- Local authorities
- Other decentralised government agencies
- Financial Services
- IT / Technology
- Manufacturing
- Media

We don't believe there can be an "off the shelf" solution, as every client's starting point and needs are different. We have, for example, helped clients develop Scorecards with three, four and five perspectives because these were more appropriate to their needs than the conventional Kaplan and Norton approach.

#### Typical client comments:

*"...a strong background in the development of performance management and business processes and an excellent technical understanding of the balanced scorecard"*

*"...effective when working with senior managers to draw out key principles and challenge positively ideas and concepts to support strategic development"*



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