A new perspective

Critics say the balanced scorecard is too arbitrary and doesn't deliver on its promise. But it can be improved.

■ BY GRAHAM KENNY

Read some of the reviews of the balanced scorecard on Amazon's website and it is clear the jury is still out. "After spending more than a year at it, the balanced scorecard was dropped like a hot potato", said one reviewer. "It is virtually incomprehensible to staff, encourages the worst kind of navel gazing… Even the paid consultants couldn't explain [it] in terms the average legislator could understand. This is really bad stuff."

Not so, says another commentator: "The balanced scorecard is the beginning of the practical period of maturity in the field of business strategy".

Year after year management is assailed with the next big idea. In recent times, there's been the Fifth Discipline, Business Process Re-Engineering, Total Quality Management and, of course, the Balanced Scorecard. Each of these, as well as a host of others, has promised significant business improvements. The question is: does the balanced scorecard deliver?

The balanced scorecard requires that performance measures be classified in four categories called 'perspectives'. There's financial perspective, customer perspective, internal business process perspective, and innovation and learning perspective. All organisations, whether they are hospitals, schools, churches, businesses or government departments, need to categorise their performance measures in these four boxes because, say the balanced scorecard authors, they are fundamentally valid for all organisations.

Within each category, performance measures are developed. The technique is based on interviews of managers by internal or external consultants that identify the "three or four strategic objectives" for each perspective. Next, via meetings with executives, specific measures are developed for these objectives. This list is then edited, resulting in a final scorecard.

To understand why the four categories exist, we need to go back to the origins of the balanced scorecard. It was developed about 10 years ago and announced via a *Harvard Business Review* article in 1992. Its authors, Kaplan and Norton, had modelled it on the 'corporate scorecard' of Analog Devices, which contained measures relating to finance, customers, manufacturing processes and new product development.

Clearly, these are very similar to the four perspectives of the balanced scorecard. While the four categories may have been right for Analog Devices at the time, are they necessarily right for all organisations in all situations?

There are problems in the field. Out there today, managers report having difficulty

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fitting what they think they need as performance measures into the balanced scorecard's four categories.

"Where do employees fit?" they ask. "Are students customers?" and "Where do suppliers come in?" "This does not seem to represent the rich set of stakeholders our hospital has." The responses go on.

That huge US department store chain Sears Roebuck rejected the balanced scorecard, with its four pre-set categories, as "a set of untested assumptions". Instead it chose to focus on its key stakeholders: employees, customers and investors.

On examination, the four categories are a strange set, indeed. The perspective called 'innovation and learning' is an internal business process, so why does it warrant a box separate from the 'internal business process' perspective? It doesn't. This reduces the boxes to three.

One of the three boxes relates explicitly to a stakeholder, the customer, whereas the other two boxes, finance and internal business process, do not. This seems inconsistent. Why aren't other stakeholders represented? Aren't financial measures relevant to the customer perspective as well? ➡

A **SUCCESSFUL** MARKETING STORY

Despite its shortcomings, the balanced scorecard has become very well known. There are at least seven reasons for this:

1. Right place, right time. The balanced scorecard came at a time when managers had lost patience with the detailed process measures derived from total quality management. They were eager for something new.
2. Great marketing. Can you imagine having your new business idea presented as an article in the *Harvard Business Review* and distributed to almost 300,000 influential readers? This is what happened to the balanced scorecard in 1992. There were subsequent articles in 1993, 1996 and 2000.
3. Legitimised by a Harvard professor. The idea emanated from the Harvard Business School, which is consistently rated among the world's top business schools.
4. Latched onto by large accounting and consulting firms. They grabbed this idea as an opportunity to generate revenue.
5. Enshrined by software companies. Many software companies saw the balanced scorecard as an opportunity to build software that would generate revenue, even if only loosely connected to the original concept.
6. Quickly adopted by CEOs. CEOs were influenced by the high-profile marketing of the balanced scorecard. In many instances, the CEO may have been 'sold' on it, whereas the rest of the management team remained dubious.
7. Lack of management scrutiny. As has happened with many a new idea, organisations have rushed in without fully investigating its theoretical robustness. Managers frequently do not have the time or are not so inclined. Frequently, they're simply looking for a 'quick fix'.

In which case, why is finance on its own? Every organisation has a myriad of internal business processes. So which ones should be chosen for this box? The questions and the apparent inconsistencies go on.

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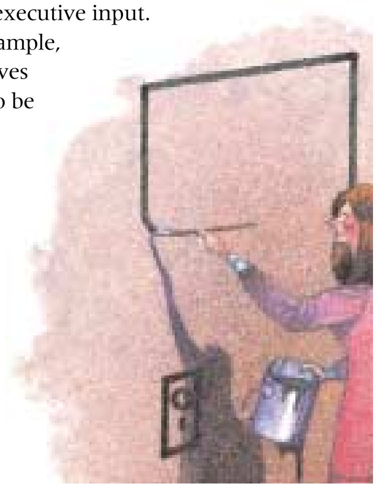
The balanced scorecard also lacks a theoretical framework to guide executive input. For example, objectives have to be set for each of the four categories, but no specific methodology or rationale is provided to managers on how to do this. They are left to their own devices.



Overall, there doesn't seem to be any theoretical justification for what appears to be a very ad hoc collection of categories and assemblage of measures. Because many organisations can't get answers to these questions, they refuse to implement the balanced scorecard. Others are pulling their hair out contorting and distorting their measurement systems to suit the scorecard format.

The authors of the balanced scorecard make numerous claims about its effectiveness. They point to improvements in various companies. We're sure that, in many cases, the balanced scorecard was an improvement on what these organisations had.

But, in any organisational intervention, we always have to be aware of the 'Hawthorne effect'. This takes its name from a number of experiments in the 1920s and 1930s conducted on a group of production employees of Western Electric. No matter how the experimenters changed lighting levels, up or down, productivity just kept improving. It was the attention placed on the activities being measured that led to performance improvements. This Hawthorne effect undoubtedly plays a part in Kaplan and Norton's interventions.

Many managers have heard about the balanced scorecard, but few really know it in detail. Others who claim to have a balanced scorecard in their organisation really mean that they have a combination of financial and non-financial measures in a table—nothing like what the originators intended. The words 'balanced scorecard' have become a generic term for any tabled set of financial and non-financial measures.

Distress signals are emanating from numerous organisations across all industries. The concern is about performance measurement: "The balanced scorecard's not working", managers say. "Is it us or it?"

Relax, you're OK. The problem is with the scorecard. But what do you do now?

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Here are some steps to improve the result:

1. Categorise measures by key stakeholder. Start your measurement activity by identifying the key stakeholders of your organisation, department, program or project—for example, customers, employees, suppliers and shareholders.
2. Link your measurement activity to corporate direction. Early in the process of developing your measures, absorb what you need of your organisation's strategic plan.
3. Develop measures of objectives and strategic factors.
4. Choose a short list of performance measures for your scorecard. These measures become your key performance indicators, and your scorecard is not so much "balanced" as "focused".
5. Set targets on your KPIs. Don't make this a haphazard affair. Model the cause and effect between key stakeholders and set targets through this model.

Organisations that follow these steps will produce a focused scorecard—one that produces key performance indicators that are outcome-focused and strategy-driven.

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