

Balanced Scorecard

Why it isn't working

“After spending more than a year at it, the balanced scorecard was dropped like a hot potato,” wrote one critic on the Amazon book website. “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, chimed another: “The balanced scorecard is the beginning of the practical period of maturity in the field of business strategy.” Who's right? Why? And does it really matter?

Year after year management is assailed with the next big idea. Recently there's been the Fifth Discipline, Business Process Re-Engineering, Total Quality Management and, of course, the Balanced Scorecard. Each, and others, have promised significant organisational improvements. Organisations have expended huge dollops of money and time both in buying and implementing these methods. This article takes a good look at one of them – the balanced scorecard – and thus, perhaps, save readers both time and money.

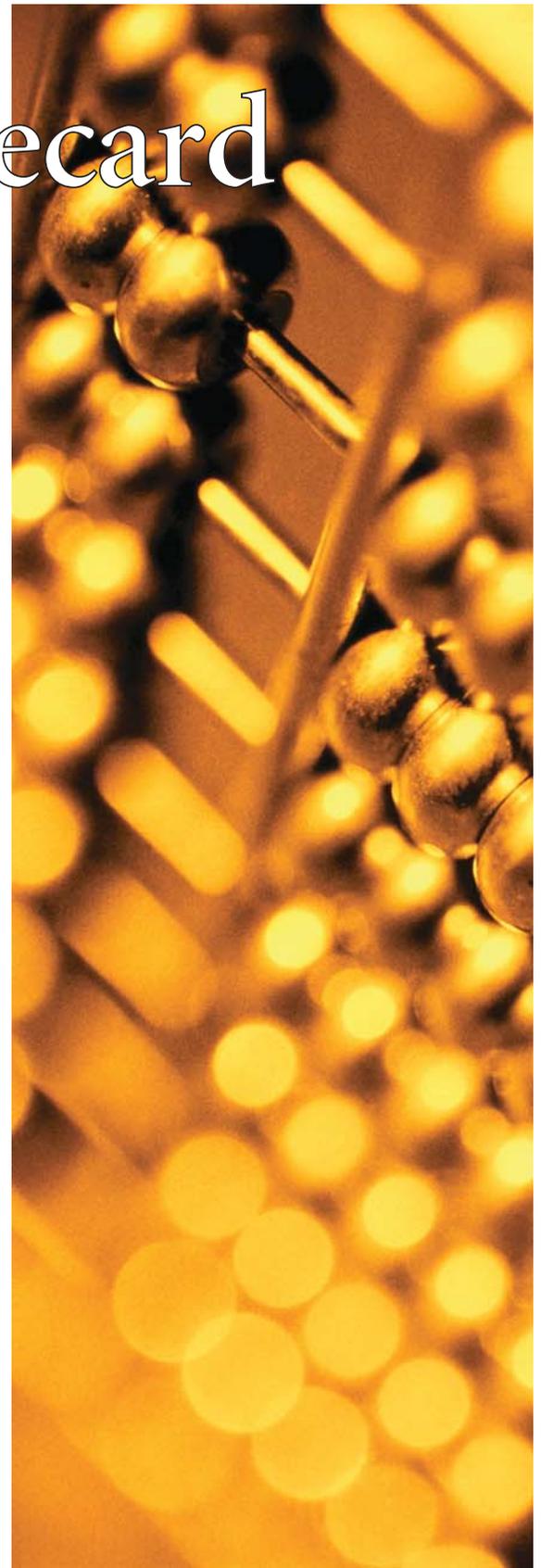
Fundamentals of the balanced scorecard

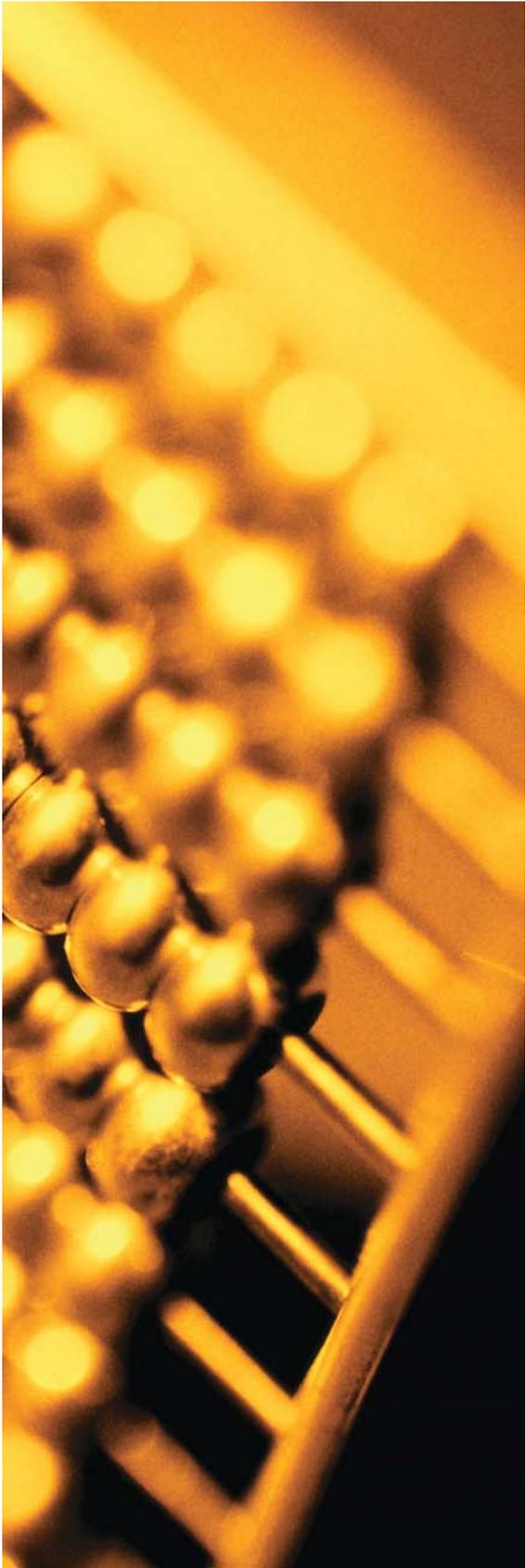
The balanced scorecard requires that performance measures be classified in four categories, called “perspectives”: financial, customer, internal business process, and innovation and learning. Every organisation, hospital, school, church, business or government department, must categorise its performance measures in these four boxes because, say the balanced scorecard authors, they are

fundamentally valid for *all* organisations – independent of industry type.

Performance measures are developed within each category. The technique is based on interviews with managers by internal or external consultants to identify the “strategic objectives” for each perspective – “three or four for each”, we're told. Then, through meetings with executives, specific measures are developed for these objectives. This list is then edited, leaving the performance measures in the final scorecard.

We need to go back to the origins of the balanced scorecard to understand why the four categories exist. The approach was developed about 10 years ago and announced via a *Harvard Business Review* article in 1992. Its authors, American academics Robert Kaplan and David Norton, modelled it on the “corporate scorecard” of Analog Devices, a Massachusetts-based company founded in 1965 that has built a reputation for technological innovation. Its corporate scorecard contained measures relating to finance, customers, manu-





facturing 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?

Problems with the balanced scorecard

The comments on the Amazon site clearly show there are problems. And this is by no means an isolated criticism. In my consulting work and public seminars on performance measurement, I am regularly confronted by managers who have difficulty fitting what they think they need as performance measures into the balanced scorecard's four categories.

"Where," they ask, "do employees fit?" "Are students customers?" "Where do suppliers come in?" "This does not seem to represent the rich set of stakeholders our hospital has." The responses are as varied as the situations.

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

On examination, the four categories are indeed a strange set. The innovation and learning perspective is an internal business process, so why does it warrant a box separate from the internal business process perspective? It doesn't, except that 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, don't. This seems inconsistent. Why aren't other stakeholders represented? Aren't financial measures also relevant to customers? 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? Aren't the business processes relevant to customers, for instance, represented in the cus-

tomers perspective? The questions and the apparent inconsistencies go on.

Because the framework is totally arbitrary, crucial measures are almost inevitably overlooked.

The balanced scorecard also lacks a theoretical framework to guide executive input. For example, objectives must be set for each of the four categories, but managers don't get any specific methodology or rationale on how to do it. They are left to their own devices. And there doesn't seem to be any theoretical justification for what appears to be an ad-hoc collection of categories and measures. Because many organisations can't get answers to these questions, they refuse to implement the balanced scorecard. Others pull their hair out contorting and distorting their measurement systems to suit the scorecard format.

The authors make numerous claims about the balanced scorecard's effectiveness. They point to improvements in various companies. In many cases, the balanced scorecard no doubt delivers improvements on what existed before. But almost any organisational intervention triggers the Hawthorne effect. This phenomenon gets its name from a number of experiments conducted in the 1920s and '30s on a group of production employees at Western Electric. They showed that no matter how the experimenters changed lighting levels, up or down, productivity just kept improving. The point is, the very fact that attention is placed on the activities being measured invariably leads to performance improvements.

Why so well known?

Most managers have heard of the balanced scorecard but, in my experience, few know it in detail. Those who claim to have a balanced scorecard in their organisation usually mean that they have a combination of financial and non-financial measures in a table – but nothing like the format the originators intended. The term "balanced scorecard" has become almost

strategy /

generic describing any tabled set of financial and non-financial measures.

Well then, if the balanced scorecard is so flawed, how come it's so well known?

There are at least seven reasons:

1. Right place, right time.

The balanced scorecard arrived at a time when managers had lost patience with the detailed process measures derived from total quality management. They were hungry for something new.

2. Great marketing.

Can you imagine having your latest 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 best.

4. Latched onto by large accounting and consulting firms.

They grabbed the idea as another 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. We've encountered many instances of the CEO having been "sold" on it, while the rest of the management team remains dubious.

7. Lack of management scrutiny.

As with many new ideas, organisations rush in without fully investigating their theoretical robustness. Managers fre-

quently lack the time and inclination to test an idea, looking instead for a "quick fix".

Where to from here?

Distress signals are emanating from organisations concerned about performance measurement. "The balanced scorecard's not working," managers cry. "Is it us or it?"

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

Here's what we suggest:

1. Categorise measures by key stakeholder. Start your measurement activity by identifying the key stakeholders of your organisation, department, programme or project, eg, 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. We provide a special methodology to do this, called the Strategic Factor System, which basically identifies those few things you need to get right in order to succeed.
4. Choose a short list of performance measures for your scorecard. These measures become your key performance indicators (KPIs), 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 throughout this model.

By following these steps you'll produce a focused scorecard – one that avoids the problems of the balanced scorecard and produces key performance indicators that are right for your organisation, are outcome-focused and strategy-driven. **M**



Graham Kenny is managing director of Strategic Factors, and author of the book *Strategic Factors: Develop and Measure Winning Strategy*.

Email: gkenny@strategicfactors.com