Strategy Scorecard

Stay focused on the right things.

by Graham Kenny

SCORECARDS ARE A great way to get managers to focus on the right things and lift performance. But only a sound scorecard design method will steer managers towards measuring outcomes—and strategy. In this article, I examine one of them—the balanced scorecard.

Fundamentals of the Scorecard

The balanced scorecard classifies performance measures in four categories or perspectives: 1) financial; 2) customer; 3) internal business process; and 4) innovation and learning. These categories, say balanced scorecard authors, Robert Kaplan and David Norton, are valid for *all* organisations.

Performance measures are developed within each perspective. The technique is based on interviews with managers by internal or external consultants to identify the three or four 'strategic objectives' for each perspective. 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.

Robert Kaplan and David Norton modelled the balanced scorecard on the 'corporate scorecard' of Analog Devices, a company that had built a reputation for technological innovation. Its scorecard contained measures relating to finance, customers, manufacturing processes and new product development. Clearly, these are 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?

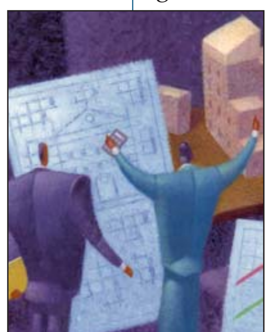
Problems with the Scorecard

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.

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. Aren't financial measures also relevant to customers? Why aren't other stakeholders represented? Every organisation has a many internal business processes, so which ones should be chosen for the internal business process box? Aren't the business processes relevant to customers, for instance, represented in the customer perspective as well? The questions and apparent inconsistencies go on.



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

There doesn't seem to be any theoretical justification for what appears to be an ad-hoc collection of categories and measures. Since many organisations can't get answers to these questions, they refuse to implement the balanced scorecard. Others distort their measurement systems to suit the scorecard format.

In many cases, the balanced scorecard delivers improvements on what existed before. But almost any intervention triggers the *Hawthorne effect*: the fact that attention is placed on the activities being measured invariably leads to performance improvements.

Why so Well Known?

Few managers know the balanced scorecard in detail. Those who claim to have a 'balanced scorecard' 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 generic, describing any tabled set of financial and non-financial measures. So, if the balanced scorecard is so flawed, why is it so well known? There are at least seven reasons:

1. It 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—it ran as an article in *Harvard Business Review* in 1992 and distributed to 300,000 influential readers. There have been numerous articles and books on it since.

3. It was legitimised by a professor at the Harvard Business School, rated one of the best business schools.

4. It was latched onto by large accounting and consulting firms as another way to generate revenue.

5. 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. It was quickly adopted by CEOs who 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 often rush in without fully investigating the theoretical robustness of a method. Managers frequently lack the time and inclination to test an idea, looking instead for a 'quick fix'.

Where to from Here?

Here's what we suggest:

1. Categorise measures by key stakeholder. Identify 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 developing your measures, absorb what you need of your strategic plan.

3. Develop measures of objectives and strategic factors. We provide a way to do this, the Strategic Factor System, which 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).

5. Set targets on your KPIs. Model the cause and effect between key stakeholders and set targets.

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

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ACTION: Create a strategy scorecard.