

HOW TO BUILD A SUCCESSFUL BALANCED SCORECARD

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Abstract:

The Balanced Scorecard concept has been adopted by all types of organizations (manufacturing and service, for-profit and not-for-profit, private and public) in virtually every developed and developing nation in the world and it has evolved from its initial purpose of an improved performance measurement system to become the basis of a new management system, one that aligns and focuses the entire organization on implementing and improving its strategy. Niven's opinion is that Balanced Scorecard means three things: measurement system, strategic management system, and communication tool. The paper talks about the Balanced Scorecard philosophy and the issues that need to be solved for a successful BSC implementation and provides recommendations for the formulation and implementation of the Balanced Scorecard.

Keywords: balanced scorecard implementation challenge, management tools

Balanced Scorecard – conceptualization, motivation and benefits

Organizations in today's changing, highly competitive environment must devote significant time, energy, and human and financial resources to measuring their performance in achieving strategic goals. Despite all the substantial effort and related costs, a 2001 survey of American Institute of Certified Public Accountants and Lawrence S. Maisel found that only 35 percent of respondents rated their performance measurement systems as effective or very effective.

The role of strategy is more important today than it has ever been. In an era of globalization, customer knowledge, and rapid change the necessity of effectively executing strategy is crucial. But the sobering fact is that about 9 out of 10 organizations fail to implement their strategies.

Intangible assets such as employee knowledge, customer and supplier relationships, and innovative

cultures are the key to producing value in today's economy. In this context is needed is a measurement system that balances the historical accuracy and integrity of financial numbers with today's drivers of economic success, and in so doing allows the organization to execute successfully the strategy.

The initial purpose of Balanced Scorecard was to find an improved performance measurement system that would become the basis of a new management system and has evolved to one that aligns and focuses the entire organization on implementing and improving its strategy. Today the Balanced Scorecard assists organizations in overcoming two key issues: effective organizational performance measurement and implementing strategy.

The Balanced Scorecard has emerged as a proven and effective tool in the quest to capture, describe, and translate intangible assets into real value for all of an organization's stakeholders, and in the process allow

organizations to successfully implement differentiating strategies.

While many organizations have used a combination of financial and non-financial measures in the past, what sets the Balanced Scorecard apart is the concept of cause and effect linkages. A well constructed Scorecard will tell the story of an organization's strategy through a series of linked performance measures weaving through the four perspectives: Financial, Customer, Internal Processes, and Employee Learning and Growth.

Organizations around the globe have rapidly embraced the Balanced Scorecard and reaped swift benefits from its principles: increased financial returns, greater employee alignment to overall goals, improved collaboration, and unrelenting focus on strategy, clearer accountability, developing the link between short-term and long-term goals, better performance management, improved competitiveness and better strategy implementation. [5],[8]

The most important benefit from the use of the BSC is its role in helping communicate the organization's strategy. This is followed by its role in helping organizations align their activities. [5]

To obtain those results an organization must possess the tools necessary to craft an effective Balanced Scorecard.

Niven's opinion is that Balanced Scorecard means three things: measurement system, strategic management system, and communication tool.

The Balanced Scorecard allows an organization to translate its vision and strategies by providing a new framework, one that tells the story of the organization's strategy through the objectives and measures chosen. Rather than focusing on financial control devices that provide little in the way of guidance for long-term employee decision making, the Scorecard uses measurement as a new language to

describe the key elements in the achievement of the strategy.

Implementing Balanced Scorecard organizations reach the conclusion that this is a tool that helps them in aligning short-term actions with their strategy. Used in this way the Scorecard alleviates many of the issues of effective strategy implementation [8]:

- overcoming the vision barrier through the translation of strategy;
- cascading the scorecard overcomes the people barrier;
- strategic resource allocation overcomes the resource barrier;
- strategic learning overcomes the management barrier.

The most important benefit of the scorecard is its use in facilitating communication about strategy, not just at the top level, but throughout the organization.[7]

The Balanced Scorecard translates the strategy and tells the story to all employees. The scorecards become the direct communication process for linking overall corporate strategy with team and individual goals for achievement.[3]

In most firms, the employees fail to understand the business vision. It must be clearly and consistently communicated both internally and externally. Employees are the key assets in a knowledge-based business. Communication and understanding of the vision are the keys to successful execution. [2].

Sharing Scorecard results throughout the organization provides employees with the opportunity to discuss the assumptions underlying the strategy, learn from any unexpected results, and dialogue on future modifications as necessary. Understanding the firm's strategies can unlock many hidden organizational capacities as employees know where the organization is headed and how they can contribute during the journey. [8].

Balanced Scorecard philosophy

Sandy Richardson considers essential for the successful implementation of Balanced Scorecard the establishment of organization's Balanced Scorecard philosophy in the early stages of BSC development. This will ensure also ensure consensus between the Balanced Scorecard team members, senior management, and the organization.

A Balanced Scorecard philosophy is simply a clear statement that describes what your Balanced Scorecard will look like, how it will operate, how it will be built, and how the organization will use it.

The author suggests eight questions that need to be answered in order to define organization's Balanced Scorecard (B.S.) philosophy:

1. Which of our core values do we want to build our B.S. philosophy on?
2. How do you want to build our B.S./ the measures?
3. Who will use our B.S.?
4. How will they use it?
5. How will employees access our B.S.?
6. How will results data get into our B.S.?
7. How will we ensure data quality/integrity?
8. How will business performance results be communicated within the organization?

Defining Balanced Scorecard philosophy is an important aspect in the process of BSC adoption as it constitutes a solid base for a successful Balanced Scorecard development, implementation and for management decision as well.

Balanced Scorecard implementation issues

In his book "Balanced Scorecard Step by Step- Maximizing Performance and Maintaining Results", Paul Niven identifies ten issues of Balanced Scorecard implementation. These are barriers that need to be passed for a

successful Balanced Scorecard implementation.

Number 10: Premature Links to Management Processes

The transition from a measurement system to a strategic management system is a natural evolution for a successful Balanced Scorecard. Embedding the Scorecard into management processes such as budgeting and compensation allows organizations to tap the full potential of this dynamic framework. However, premature attempts to forge these links may cause a swift decline in Scorecard momentum.

Number 9: Lack of Cascading

Organizations of any appreciable size, must cascade the Scorecard from top to bottom if they hope to gain the advantages offered by this system. Front-line employees are so far removed from organizational strategy that a high-level Scorecard, while providing a modicum of learning and motivation opportunities, will do little to shepherd daily activities. It is only by cascading the Scorecard to all levels of the organization and allowing every employee to describe how they contribute to the organization's overall success that true alignment can occur.

Number 8: Terminology

Everyone needs to be speaking the same language if measurement is to be used in guiding change within an organization.

Number 7: No New Measures

Many of the measures needed to tell the story of the strategy may already be present, but in the vast majority of cases they must be supplemented with new and innovative metrics to ensure the execution of strategy.

Number 6: Consistent Management Practices

The Scorecard, as reflected by its name, represents a new paradigm of balance within an organization: balancing the needs of internal and external stakeholders, balancing short-term opportunities with long-term value creation, balancing lag and lead indicators of performance, and, of course, balancing financial and nonfinancial indicators. Effective use of the Balanced Scorecard dictates a genuine commitment to developing and engaging in managerial processes that are consistent with the holistic goals inherent in the Scorecard itself.

Number 5: Timing

Some organizations will not unveil their new Scorecard until every measure has been developed, data sources confirmed, and results ready to pour in. Scorecard benefits such as collaboration, information sharing, and group learning do not depend on having every single measure in place. The Scorecard should be launched once a critical mass of performance measures is available. The dialogue that ensues from reviewing Scorecard results more than compensates for the lack of a complete card. Reaching consensus on strategy, translating the strategy, developing objectives, measures, and targets – they all take significant effort. Often, the best results are achieved when organizations take the necessary time to let the ideas and discussions germinate, moving from concept to reality, and in so doing producing innovative new measures and solutions.

Number 4: No Objectives for the Balanced Scorecard Program

As organizations around the globe experience the multitude of benefits from Balanced Scorecards, the concept has gained wide acceptance and approval as a management tool. With its heavyweight status confirmed, some organizations will adopt the Scorecard

simply because it seems like the right thing to do. Certainly, it is the right thing to do, but that in no way excuses an executive team from determining the specific objectives it has in mind when turning to the Scorecard. With no clearly articulated goal for the program, it can be easily misunderstood and ultimately ignored until it simply fades from view.

Number 3: No Strategy

It is extremely difficult to implement a strategic management system without a strategy. At the very core of the Scorecard concept is the organization's strategy—guiding all actions and decisions, and ensuring alignment from top to bottom. A Scorecard can be developed without the aid of a strategy, but it then becomes a key performance indicator or stakeholder system, lacking in many of the attributes offered from a true Balanced Scorecard.

Number 2: Lack of Balanced Scorecard Education and Training

In their haste to build Scorecards, the vast majority of organizations sacrifice the up-front effort of providing meaningful and detailed Scorecard training to those expected to use the system. Awareness sessions are held, during which the Scorecard is trumpeted as a measurement system featuring financial and non-financial measures, but little is offered regarding the many subtleties and complexities of the model. It is often the deceptive simplicity of the Scorecard that makes people very susceptible to the false notion that in-depth training is not required. Believing that the Scorecard can be simply mastered, the organization will sponsor high-level training and then trust their employees' business instincts to kick in and fuel the development of powerful new performance measures. The cost of this decision will manifest itself in poorly designed Scorecards, lack of use, and weak alignment within the organization. Take the necessary time at the

beginning of the project to develop a comprehensive Scorecard curriculum that includes background on the concept, your objectives in implementing it, typical problems, success stories, and project details.

Number 1: No Executive Sponsorship

With tenacious leadership and support a Scorecard project could ultimately succeed despite a lack of training at the outset. Without executive sponsorship, however, the effort is most likely doomed.

Many Scorecard elements will take place in stages—first strategy is deciphered and translated; objectives, measures, targets, and initiatives are then developed; the Scorecard is cascaded throughout the organization; and, finally, it becomes embedded in the organization's managerial processes. Executive support and sponsorship is the common thread that connects the entire end-to-end process. Without a strong and vocal leader present at each and every juncture, the effort can quickly stall.

We can add to the first two lists the following recommendations for a successful Balanced Scorecard formulation and implementation:

- articulating the firm's business vision and strategy;
- identifying the performance categories that link vision and strategy to results;
- developing effective measures and meaningful standards (both short- and long term; leading and lagging);
- deploying appropriate budgeting, IT, communication and reward systems;
- viewing the BSC as a continuous process, requiring maintenance, reassessment and updating;
- believing in the BSC as a facilitator of organizational and cultural change.
- understand that the balanced scorecard is part of a bigger process that starts with strategy. The balanced scorecard framework forms one (key)

component in an integrated business performance management process that revolves around business strategy;

- start with a clear vision for your balanced scorecard;
- extend the balanced scorecard and make it "the way we work". Successful BSC organizations deepen alignment by mirroring their balanced scorecard framework and categories in as many business activities as possible: reward and recognition programs, individual goal plan formats, incentive compensation plan formats, strategic plan categories and format, etc.[4]

"Balanced Scorecard Interest Group" based on their personal experiences and insights from presentations by a wide variety of federal agencies compiled a list with ten key factors of the four key stages of a successful Scorecard effort: design, develop, implement and sustain its use (Table No.1)

Specialists' opinions are rather diverse when talking about the success factors of Balanced Scorecard. Some of them though sharply synthesize. Letza's opinion is that the balanced business scorecard should [5, pg.74-75]:

- deliver information which is the backbone of the strategy;
- function as the cornerstone of both the organization's current and future success by balancing short-term, essentially financial performance, with long-term growth opportunities;
- balance internal and external perspectives by ensuring that comparison against current competitors is undertaken, in addition to comparison with the organization's own past performance;
- highlight performance by adopting a broad perspective: financial, business processes, customer/market interfaces and employee motivation;
- act as an integrating tool, both horizontally (across functionality) and vertically (through levels of management), by communicating the business strategy and the organization's

priorities; serve as a dynamic, continuous process used to evaluate performance;

- redefine strategy and measures based on results.

Table 1

Ten key factors of a successful Scorecard effort

Key Factor	Stage
<i>1 Gain top leadership support.</i>	DESIGNING
<i>2.Measure the right things- things that customers, stakeholders, and employees find value in- not everything.</i>	
<i>3.Create a governance process that engages key stakeholders.</i>	
<i>4.Design the system to follow the actual work of the organization.</i>	
<i>5.Start development of measures at both the top and bottom of the organization and cascade them in both directions.</i>	DEVELOPMENT
<i>6.Create a communication campaign that explains how the Scorecard both reflects and drives a focus on mission.</i>	
<i>7.Align systems: tie them to the organization's planning, measurement, and budget cycles.</i>	IMPLEMENTATION
<i>8.Insure credibility of the process an honesty in reporting.</i>	
<i>9.Create transparency of information that is real-time as possible; this is key to its credibility and usefulness to both senior and frontline managers.</i>	SUSTAINING
<i>10.Align incentives: link rewards to performance through effective evaluation and performance appraisals.</i>	

Conclusions

In today's business environment strategy has never been more important. Yet research shows that most companies fail to execute strategy successfully. The Balanced Scorecard assists organizations in overcoming two key issues: effective organizational performance measurement and implementing strategy.

The starting point in adopting Balanced Scorecard is to define Balanced Scorecard philosophy describing how the Balanced Scorecard will look, how will be used, who will be using it and how it will be build.

The Gallup Organization has observed that when companies

implement a balanced scorecard approach, four elements are vital: focus, validity, connectivity, and integration. Focus and validity ensure that a balanced scorecard contains vital metrics that will move the organization in the right direction. For performance measures to have the desired impact, however, two more things must happen. First, each manager and workgroup must be connected to their scorecard in ways they understand and can influence. Second, scorecards must be integrated into a company's performance management practices or they won't change managers' or employees' behavior.

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