The Balanced Scorecard

The Balanced Scorecard is a strategic performance management framework that has been designed to help an organisation monitor its performance and manage the execution of its strategy. In a recent world-wide study on management tool usage, the Balanced Scorecard was found to be the sixth most widely used management tool across the globe which also had one of the highest overall satisfaction ratings. In its simplest form the Balanced Scorecard breaks performance monitoring into four interconnected perspectives: Financial, Customer, Internal Processes and Learning & Growth.

Balanced Scorecard Perspectives

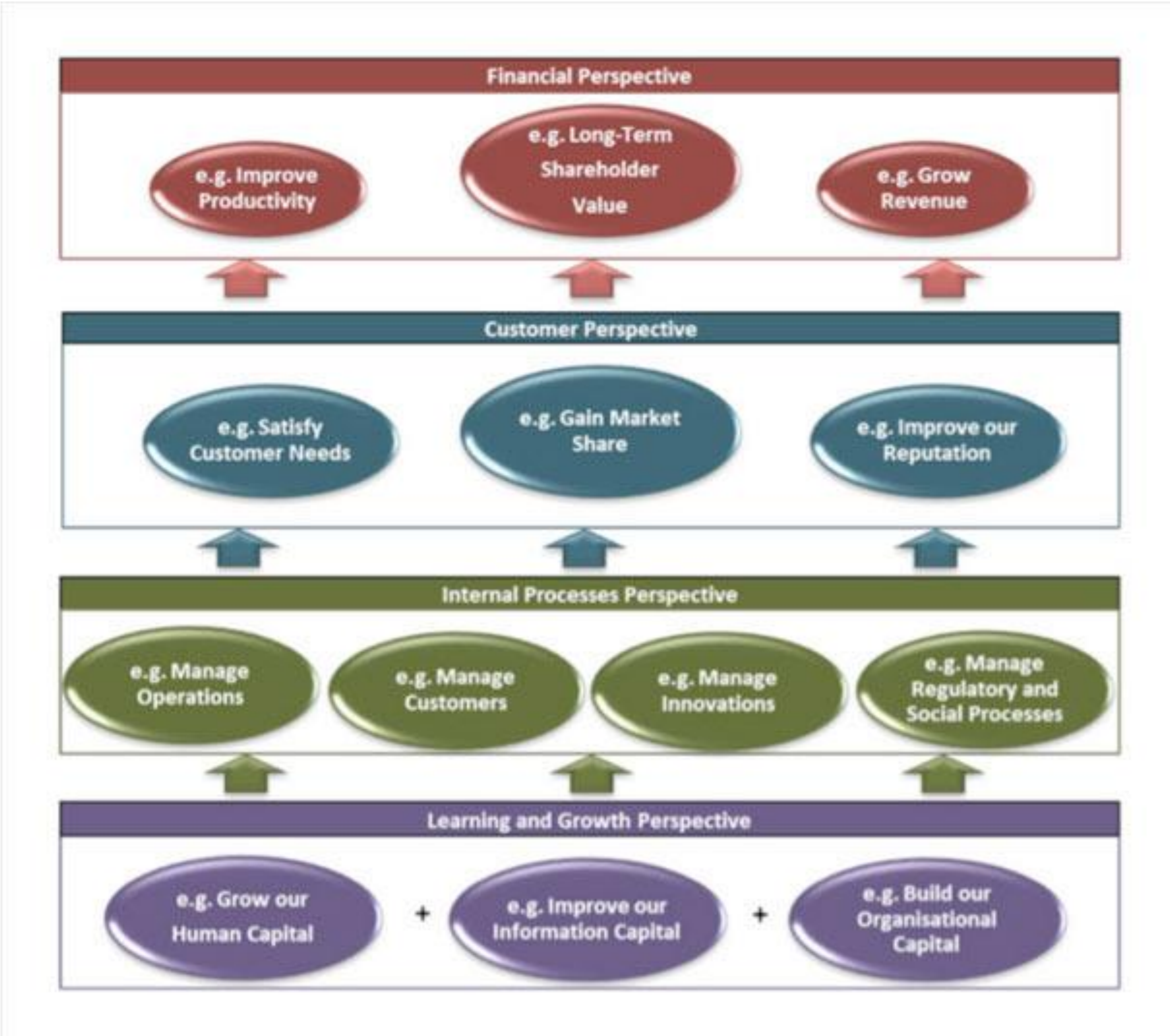
Here are the definition for the four Balanced Scorecard perspectives:

- The **Financial Perspective** covers the financial objectives of an organisation and allows managers to track financial success and shareholder value.
- The **Customer Perspective** covers the customer objectives such as customer satisfaction, market share goals as well as product and service attributes.
- The **Internal Process Perspective** covers internal operational goals and outlines the key processes necessary to deliver the customer objectives.
- The **Learning and Growth Perspective** covers the intangible drivers of future success such as human capital, organisational capital and information capital including skills, training, organisational culture, leadership, systems and databases.

From Measurement Dashboards to Strategy Maps

When it was first introduced the Balanced Scorecard perspectives were presented in a four-box model (see Figure above). Early adopters created Balanced Scorecards that were primarily used as improved performance measurement systems and many organisations produced management dashboards to provide a more comprehensive at a glance view of key performance indicators in these four perspectives.

However, this four box model has now been superseded by a Strategy Map (see Figure below for the generic template), which is at the heart of modern Balanced Scorecards. A Strategy Map places the four perspectives in relation to each other to show that the objectives support each other. For more information see also our white papers 'What is a modern Balanced Scorecard' and 'How to create a strategy map'



Cause-and-Effect Logic

A Strategy Map highlights that delivering the right performance in the one perspective (e.g. financial success) can only be achieved by delivering the objectives in the other perspectives (e.g. delivering what customers want). You basically create a map of interlinked objectives. For example:

- The objectives in the Learning and Growth Perspective (e.g. developing the right competencies) underpin the objectives in the Internal Process Perspective (e.g. delivering high quality business processes).
- The objectives in the Internal Process Perspective (e.g. delivering high quality business processes) underpin the objectives in the Customer Perspectives (e.g. gaining market share and repeat business).
- Delivering the customer objectives should then lead to the achievement of the financial objectives in the Financial Perspective.

Strategy maps therefore outline what an organisations wants to accomplish (financial and customer objectives) and how it plans to accomplish it (internal process and learning and growth objectives). This cause-and-effect logic is one of the most important elements of best-practice Balanced Scorecards. It allows companies to create a truly integrated set of strategic objectives on a single page. For a large number of real-world best practice examples please visit our case study section

The danger with the initial four-box model was that companies can easily create a number of objectives and measures for each perspective without ever linking them. This can lead to silo activities as well as a strategy that is not cohesive or integrated.

How many companies use the Balanced Scorecard?

More than half of major companies in the US, Europe and Asia are using Balanced Scorecard approaches. The official figures vary slightly but the Gartner Group suggests that over 50% of large US firms have adopted the BSC. A recent global study by Bain & Co finds that the Balanced Scorecard is one of the top-ten most widely used management tools around the world. The widest use of the BSC approach has traditionally been in the US, the UK and Northern Europe, but there is very strong growth in Balanced Scorecard adoption in South America, the Middle East and Asia.

What are the Key Benefits of using Balanced Scorecards?

Research has shown that organisations that use a Balanced Scorecard approach tend to outperform organisations without a formal approach to strategic performance management. The key benefits of using a BSC include (see Figure below):

1. **Better Strategic Planning** – The Balanced Scorecard provides a powerful framework for building and communicating strategy. The business model is visualised in a Strategy Map which forces managers to think about cause-and-effect relationships. The process of creating a Strategy Map ensures that consensus is reached over a set of interrelated strategic objectives. It means that performance outcomes as well as key enablers or drivers of future performance (such as the intangibles) are identified to create a complete picture of the strategy.
2. **Improved Strategy Communication & Execution** – The fact that the strategy with all its interrelated objectives is mapped on one piece of paper allows companies to easily communicate strategy internally and externally. We have known for a long time that a picture is worth a thousand words. This 'plan on a page' facilities the understanding of the strategy and helps to engage staff and external stakeholders in the delivery and review of strategy. In the end it is impossible to execute a strategy that is not understood by everybody.
3. **Better Management Information** – The Balanced Scorecard approach forces organisations to design key performance indicators for their various strategic objectives. This ensures that companies are measuring what actually matters. Research shows that companies with a BSC approach tend to report higher quality management information and gain increasing benefits from the way this information is used to guide management and decision making.

4. **Improved Performance Reporting** – companies using a Balanced Scorecard approach tend to produce better performance reports than organisations without such a structured approach to performance management. Increasing needs and requirements for transparency can be met if companies create meaningful management reports and dashboards to communicate performance both internally and externally.
5. **Better Strategic Alignment** – organisations with a Balanced Scorecard are able to better align their organisation with the strategic objectives. In order to execute a plan well, organisations need to ensure that all business and support units are working towards the same goals. Cascading the Balanced Scorecard into those units will help to achieve that and link strategy to operations.
6. **Better Organisational Alignment** – well implemented Balanced Scorecards also help to align organisational processes such as budgeting, risk management and analytics with the strategic priorities. This will help to create a truly strategy focused organisation.

These are compelling benefits; however, they won't be realised if the Balanced Scorecard is implemented half-heartedly or if too many short cuts are taken during the implementation. For a more in-depth discussion of the main pitfalls please read the API white paper 'What is a Balanced Scorecard'.

Government and Not-for-Profit Balanced Scorecards

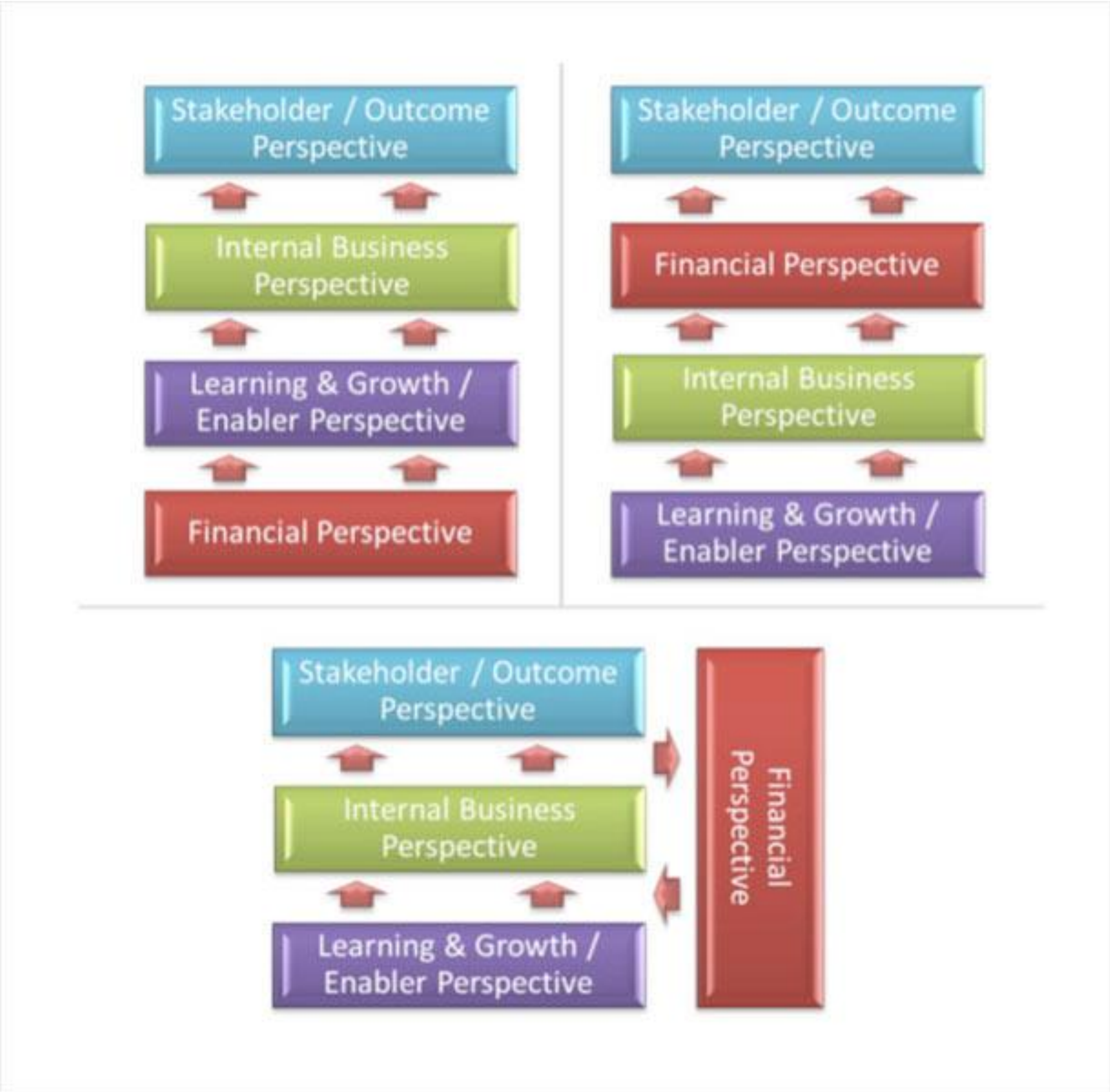
While the Balanced Scorecard was initially designed for commercial companies, the framework has found wide-spread use in the public and not-for-profit sector. However, it is important to make a few changes to the strategy map template in order to make it suitable to government, public sector and not-for-profit organisations:

- Move the Financial Perspective from top spot on the strategy map template. The overall objective of most public sector, government and not-for-profit organisations is not to make money, maximise profits or deliver shareholder return. While finance is important, it is usually not the overall reason why the organisation exists.
- Instead, the main objective of public sector, government and not-for-profit organisations is to deliver services to their key stakeholders, which can be the public, central government bodies or certain communities. This perspective usually sits at the top of the template to highlight the key stakeholder deliverables and outcomes.
- A decision that needs to be made is where to put the financial perspective? Here organisations have basically a number of options:
    a. Put the financial perspective at the bottom of the template. Here, money and infrastructure are seen as important resources that have to be managed as effectively and efficiently as possible to enable the delivery of the strategic output and outcome objectives.
    b. Put the financial perspective in second place underneath the stakeholder perspective. Here, making money is still seen as an important accomplishment of the organisation but delivering services to the beneficiary stakeholders is still the primary reason for its existence. The problem with this option is that it breaks the

cause-and-effect logic and can therefore cause unnecessary confusion about the strategy.

c. Put financial perspective next to the stakeholder perspective. Here, the strategy map indicates that these two perspectives are equally as important. For example, an organisation has to cover its costs to continue to operate and deliver benefits to its stakeholders.

d. Run the financial perspective alongside the other perspectives. This is probably the most popular and sensible option as it indicates the organisational logic on the left but highlights the importance of finance across all objectives. (see the Figure below for the options a, b and d)



- Strategy maps have to represent the strategy of the organisation. Since the strategies of public and not-for-profit organisations differ widely, there are no right or wrong answers

as to where the financial perspectives should go. For example, the American Diabetes Association has embedded the financial perspective within its stakeholder perspective while others have embedded it into their internal process perspective (e.g. delivering value for money processes).
- The two remaining perspectives will largely stay as they are. Any public sector, government and not-for-profit organisations needs to build the necessary human, information and organisational capital to deliver its key processes to support its overall objectives of serving its stakeholders.

For a more in-depth information of how government, public sector and not-for profit organisations have put scorecards into practice please read our white paper 'How to create a public sector scorecard, our report 'Balanced Scorecard for the Public Sector' or browse the many case studies featured in our knowledge hub. For a complete overview read our books "More with Less: Maximizing Value in the Public Sector" or "Managing and Delivering Performance: How Government, Public Sector and Not-for-Profit Organizations can measure and manage what really matters".

Conclusion

The idea of the Balanced Scorecard is simple but extremely powerful if implemented well. As long as you use the key ideas of the BSC to (a) create a unique strategy and visualise it in a cause-and-effect map, (b) align the organisation and its processes to the objectives identified in the strategic map, (c) design meaningful key performance indicators and (d) use them to facilitate learning and improved decision making you will end up with a powerful tool that should lead to better performance.

Practical Balanced Scorecard Examples

The API Knowledge Hub includes many examples, white papers, research reports and best practice case studies on how organisations have put the Balanced Scorecard concept into practice. Explore the white papers, case studies and articles for more in-depth information on this fascinating subject.

Performance Management

Performance Management is what organisations do to become more successful and stay ahead of their competitors. In fact, managing performance is THE most critical task of any executive or manager. If organisations get it right, their performance management processes allow them to define and communicate their strategies, measure, report and monitor progress in order to manage and improve business performance.

Towards better decision making

Performance Management can basically be defined as a set of management processes, often supported by information technology, that help to improve the strategic decisions people make every day. In the end it is the quality of those decisions that will separate successful companies from the rest. Performance Management is therefore a modern umbrella term for a set of management approaches that enable organisations to define and execute their strategy, and to measure and monitor performance in order to inform strategic decision making and learning.

Balanced Scorecard Implementation Pitfalls to Avoid (part 2)
There are many Balanced Scorecard implementations where companies don't seem to get all the benefits described above. Research and experience have identified various traps and pitfalls main ones to avoid are listed below.

- **Seeking Perfection in a Balanced Scorecard.**
  There are some companies that spend forever trying to create a perfect Balanced Scorecard and therefore never actually start using it. It is important to realise that there will never be a perfect Balanced Scorecard. The world around you changes constantly and therefore the Balanced Scorecard needs to change too. However, in order to be practical it is important to agree on one Balanced Scorecard and run with it for a while instead of waiting forever to create something perfect.

- **Lack of Senior Management Support for the Balanced Scorecard.**
  Not having the buy-in and support of key manager and executives can jeopardise the success of any Balanced Scorecard implementation. It is important that key individuals in an organisation are committed to the strategic objectives and performance indicators identified in the Balanced Scorecard. The best way to achieve this is to closely engage them in the process of designing the Balanced Scorecard.

- **Not Involving Staff and External Stakeholders in the Balanced Scorecard design.**
  The Balanced Scorecard is often seen as a top management initiative in which they define what needs to be done and what needs to be measured. However, creating a Balanced Scorecard is a fantastic opportunity to engage with a wider group of internal staff and key external stakeholders. Involving them will yield a better Balanced Scorecard and most importantly help to create buy-in and support.

- **Lack of Balanced Scorecard Understanding.**
  Many organisations assume that once senior management have agreed on their Balanced Scorecard, strategic map and their indicators everyone will happily implement it and collect and report the data. Don't underestimate the need for training and communication about the Balanced Scorecard initiative and its aims and objectives. Again, this is especially important since there are so many different interpretations of what a Balanced Scorecard is and what it is for. Experience has shown that the support of lower and middle tier managers is essential for the success.

- **Using the Balanced Scorecard for Additional Top Down Control.**
  As I have outlined in my book "Strategic Performance Management", one of the main problems with Balanced Scorecards arises when senior managers use the performance indicators identified to apply a command-and-control approach in which they use the indicators to punish or reward people. This creates fear, resistance and cheating. Instead, managers should use their Balanced Scorecards to foster a learning culture where everybody is encouraged to collect performance information to improve future performance.

For more information, articles and case study material on balanced scorecard and performance management, please visit the resources section of the Advanced Performance Institute website.

The Advanced Performance Institute (API) is a world-leading independent research and advisory organisation specialising in organisational performance. The institute provides expert knowledge, research, consulting and training on concepts like balanced scorecards, performance measurement and corporate performance management.

The aim of the API is to provide today's performance-focused companies, governments and not-for-profit organisations with insight, advice and services that help them deliver lasting change and superior performance.

PERFORMANCE MGT
The basic performance management model integrates processes for defining strategic objectives, measuring performance, analysing performance and reporting and reviewing performance and aligning people and culture. All of these are focused on performance improvement which is the central premise of performance management (see Figure below).

Beyond People Management and Performance Monitoring

The following processes and terms are often associated with performance management: strategic planning, performance measurement and monitoring, business intelligence, analytics, people management, reporting, financial planning & budgeting, forecasting, data warehousing, risk management, project & programme management, business process optimisation, knowledge management, dashboards, scorecards, metrics and key performance indicators.

Modern performance management approaches bring together these key aspects of management to form an integrated approach. In the past, performance management was sometimes narrowly associated with either people management (e.g. performance appraisals and dealing with underperforming individuals) or performance monitoring (e.g. collecting and reporting of performance indicators). To avoid this confusion, new terms such as EPM, CPM or SPM have been created.

Integrated Performance Management

Organisations that are serious about managing performance will move beyond the basic model shown in the figure above and integrate it with other key business processes (see Figure below).

In order to gain maximum benefits from performance management initiatives organisations need to ensure they align and integrate processes including financial planning and budgeting, project and programme management, people management and rewards, performance reporting, risk management as well as business intelligence and analytics.

Enterprise Performance Management – the Basics

Using the basic strategic performance management model, organisations start with defining their strategy, then move on to measuring performance, then use these indicators to analyse performance in order to extract insights and make better informed decisions which lead to actions and performance improvements (see again the first Figure). Let's briefly look at each of these steps:

- **Strategic Planning** – This step involves creating a business model and strategy (either corporately or for a business unit). State of the art tools that are commonly used here include Balanced Scorecard Strategy Maps and value-driver mapping. Informed by strategic analyses organisations identify what strategic objectives they plan to accomplish and how they plan to accomplish them.
- **Performance Measurement and Monitoring** – Here organisations design key performance indicators (KPIs) to measure and monitor how well they are delivering on their strategic objectives. Most important is to ensure the metrics are relevant and meaningful. Many fall into the trap of measuring what is easy to measure instead of what will provide the best insights.
- **Business Intelligence (BI), Analytics and Modelling** – In this step organisations use their performance data and metrics to analyse performance. This step is all about creating a solid evidence-base to inform decision making. Examples of analytics, BI and modelling approaches include marketing and sales analytics, customer analysis or click stream analysis.

- **Reporting & Reviewing Performance** – In this step organisations translate the insights gained from their performance information into management reports and dashboard and put the review processes in place to act on the data. It is all about evidence-based decision making facilitated by the performance review processes. Leading edge organisations put in place performance improvement meetings to create a dialogue about performance leading to joint decision making.
- **Aligning People and Culture** – In this final step organisations ensure the people, culture and leadership approaches are focused on performance improvement. It is about creating the soft elements of a high performance organisation to ensure the performance management processes actually lead to improved performance. This means organisations have to close the knowing-doing gap and act on the insights gained and decisions made in order to generate real performance improvements.

Integrated Enterprise Performance Management

More advanced performance management approaches integrate with other key management processes. Here we briefly look at some of those processes in turn and explore the need for alignment.

- **Financial Planning, Consolidation & Budgeting** – By integrating your budgeting and financial planning with your corporate objectives and priorities you ensure that the financial resources are spent on the things that actually matter the most. Some of the leading organisations are now able to update their budgets and forecasts on the fly, based on a continuous inflow of both financial and non-financial data.
- **Project and Programme Management** – The delivery of projects and programmes needs to be aligned with the corporate objectives and priorities in order to ensure efforts are focused on what matters the most. The activities (projects and programmes) need to be prioritised based on strategic needs and therefore have to be aligned with the strategic performance framework of an organisation.
- **People Performance, Rewards and Recognition** – For most organisations their people are their most valuable and most expensive assets. In the end it is people who deliver the projects and implement the strategic plans. By aligning budgets and projects with the strategic performance framework you have made major steps towards alignment. However, by further aligning reward and recognition systems as well as personal performance management processes to the performance framework you can create a tight integration between what matters the most and what people perceive as important.
- **Risk Management** – The management of risk is too often narrowly focused on just financial risks or the disaster risks to buildings and infrastructure. While these are important, they are not enough. The performance framework has identified the key drivers of future performance (e.g. staff with the right competencies, corporate reputation or key partnerships) and it is therefore important to assess and monitor any risks in relation to all your performance drivers in order to achieve alignment between your risk management and what matters the most for future performance.
- **Performance Reporting, Dashboards and Scorecards** – Relevant performance information is not only crucial for better decision making and performance improvement, it is also a requirement for most organisations to demonstrate to external stakeholders and regulators that they have delivered desired levels of performance and that they have

complied with rules and regulations. Integrated SPM solutions allow organisations to use any of their data to produce and deliver reports, dashboards and scorecards for their stakeholders – internally or externally.

- **Business Intelligence and full analytical integration** – By aligning and integrating the above processes with the performance framework organisations create an invaluable set of data which they can use, in an integrated way, to inform decision making. For example, the information on value driver analysis, customer relationship management, financial forecasting, and risk logs can be used to challenge, test and revise corporate strategies.

Performance Management Technology

The full level of integration between performance management and other key management processes can only be achieved with the support of technology. Corporate Performance Management (CPM) or Enterprise Performance Management (EPM) software suites create a systematic and integrated approach that links corporate strategy to core processes and activities. State-of-the-art software systems support strategic performance management activities by (see Figure above):

- bringing the data together into one single database
- providing integrated analytics and business intelligence capabilities
- integrating applications to create a tightly aligned and integrated approach to corporate management

For an up-to-date list of the major software vendors and applications please see the listing and links in our knowledge hub

Practical Performance Management Examples

Browse the Knowledge Hub for many examples, best practice case studies, research and white papers of how organisations have put enterprise performance management into practice. Explore the white papers, case studies and articles for more in-depth information on this fascinating subject.