

IMPROVEMENT SKILLS CONSULTING LTD.

“Simply, improvement...”



Does your Balanced
Scorecard add value?

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“Weighing the pig every day will not make it fatter.”

Introduction

We’ve been helping organisations to design and implement Balanced Scorecards since shortly after Kaplan and Norton launched their ideas in the early 1990s. Although the Balanced Scorecard was initially seen as a private sector tool, it is now widely being adopted within both the public and voluntary sectors.

In this article we want to share some of our design and implementation learning points. We’ll show you the three “Value-add Tests” you should apply to your Balanced Scorecard.

First principles:

The Balanced Scorecard is a strategy development and performance management framework. It’s not just a “set of metrics” (measurements) scattered across four quadrants. It captures objectives, measures targets and actions. It may not necessarily have Kaplan and Norton’s four perspectives: Finance, Customer, Process and Learning/Growth.



In the public sector, in particular, it is important to agree “perspectives” that reflect the focus of your organisation, so you may wish to include an “Outcomes” perspective, or include one for “delivery partners”.

The other important principle is that a Balanced Scorecard is developed top-down, not bottom-up. That’s not to say you can’t involve staff in its design, just that direction has to come from the top!

There are typically three levels of Balanced Scorecard maturity that we see:

-  Level 1: A Dashboard – a set of metrics, positioned across four perspectives, selected with little reference to strategy or balance
-  Level 2: Drawn from current strategy – a balanced set of objectives, measures, targets and actions derived from today’s strategies and plans, probably created by a “Planning Group” or Balanced Scorecard project team
-  Level 3: Strategically designed – a balanced set of objectives, measures, targets and actions derived from a Strategy Map created by the senior management team

What adds value?

Any of the three levels of Balanced Scorecard maturity can add value, but we’d argue that most added value comes at Level 3.

The problem with many Level 1 Balanced Scorecards (Dashboards) is that they simply capture some of “today’s measurements” and many of those might be no use at all in helping the organisation to improve performance or achieve its strategic objectives (assuming it has some!).

People who compile a Dashboard typically include measures that are already available, rather than those that are needed to improve performance.

Dashboards may also be just that – sets of measurements, with no reference to objectives and targets, and probably not linked to any actions required to achieve improvement. (Hence our quote at the start of this article.) In fact, if you’re really unlucky, the chosen set of measures will be driving unwanted behaviours because people may be incentivised to focus on achieving the wrong things.

If you have a Dashboard and expect to see performance improvement happen, you might have a long wait. There are certainly UK public sector examples of what we’d call Dashboards, albeit called things like “Weighted Scorecards” or

“Performance Frameworks” that track performance, but do little to help drive improvement.

Value-add Test 1 therefore is:

- **Does your Balanced Scorecard capture Objectives, Measures, Targets and Actions?**

At Level 2, most Balanced Scorecards are at least derived from existing Objectives and Plans. They can be developed fairly quickly as they draw on readily available information sources and they may only require a moderate degree of senior management commitment and involvement in their development phase.

Often, they are designed outside the Senior Management Team, often by a project team, presented to them and then “signed-off” for use by the organisation. They may, if designed well, take into account the organisation’s unique objectives and operating environment and comprise a different set of perspectives to the Kaplan and Norton four.

Where there is good senior management engagement in the design process, there may also be some useful challenge of existing strategies, with a view to making incremental improvements to existing plans. These improvements are likely to include making plans more “balanced” by identifying current gaps, adding “better” measures, by identifying what really needs to be measured, instead of just using existing measures. More balanced also means a set of measures that combine leading and lagging indicators within and across each perspective.

Value-add Test 2 therefore is:

- **Do your Balanced Scorecard perspectives reflect what is important to your organisation (are they designed for your needs, are the component objectives balanced and are the measures really useful)?**

A key differentiator at Level 3 is that the Balanced Scorecard is designed with a high degree of involvement of the senior management team and they spend time making it work for them, before trying to drive it down too far through the organisation.

Given the higher degree of management involvement, it’s more likely that a Level 3 Balanced Scorecard will have been created as part of a Strategic Planning process, rather than as a bolt-on. Ideally, it will have been developed from a Strategy Map that presents the cause and effect relationships between objectives. It may therefore have given rise to more challenge about what is

strategically important and encouraged management debate about Strengths, Weaknesses, Opportunities and Threats.

Value-add Test 3 therefore is:

- **Do you have a Strategy Map which was the foundation for designing your Balanced Scorecard and is it a clear picture that shows how your organisation's strategic priorities link together?**

Implementation challenges

Given the three maturity levels, it's pretty clear that one of the major implementation challenges is getting senior management to understand:

- What a value-adding Balanced Scorecard looks like
- What their role will be in creating it
- What the likely implications will be once they begin implementation.

So, the importance of senior management education and engagement cannot be underestimated. If they don't know "what good looks like" and its potential benefits, don't be surprised if your Balanced Scorecard is not on their agenda and doesn't deliver much performance improvement.

Other implementation challenges are usually around the need to identify and create new measurements. It's highly unlikely that your organisation's current set of measurements will be the right ones if you either don't have a Balanced Scorecard already or, at best, have a Dashboard.

Developing new measurements can be time-consuming and will certainly delay the point at which you will have sufficient trend data to identify any improvement needs. You may therefore have to be prepared to live with a few gaps in the first year of implementation, or to work with some proxy measures.

Getting started

If you've not yet got a Balanced Scorecard and are thinking of starting to develop one, here are our key learning points to bear in mind:

- Don't assume that Kaplan and Norton's four perspectives will be appropriate for your organisation – think about why you exist and who your stakeholders are
- Try to build a Strategy Map so you can show people how your objectives are linked and how they enable you to achieve your Mission

- Keep focussed on what's really strategic – you need a small number of objectives in each Scorecard perspective
- Start with Objectives, then identify Measures, Targets and Activities (don't start from the activities and initiatives you currently have underway)
- Ensure there is a senior management sponsor and top-level engagement

Our track record

Our consultants have been helping organisations in the private and public sectors to manage and improve their performance management systems for nearly two decades. We've supported the design and implementation of Balanced Scorecards in the private and public sectors.

We are not wedded to a particular methodology. We help clients identify their improvement goals and then develop an approach to achieve these; invariably ensuring their people develop the skills to make further improvements themselves.

Please contact us for more information about how we can help you to manage and improve your processes.

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