

PERFORMANCE MEASUREMENT – PROFIT IMPROVEMENT

Customizing the Balanced Scorecard

Translating a comprehensive set of objectives into performance indicators is difficult.

The Balanced Scorecard Overview

Originally designed by Norton and Kaplan and now utilized in one form or another by most Fortune 500 companies, the Balanced Scorecard is a powerful tool in defining what management means by "performance" and measures whether management, business units, or individuals are achieving desired results. Companies such as Exxon Mobile, Bank of Scotland, and American Express have comprised customized Balanced Scorecards to help measure the overall health and gain a better understanding of how their core activities align with their strategy. Ultimately, the Balanced Scorecard translates mission and vision statements into a comprehensive set of objectives and performance indicators that can be **quantified**. Typically there are four quadrants portrayed in the scorecard that include:

- 1) *Financial* (revenues, earnings, return on investment, cash flow)
- 2) *Customer* (market share, satisfaction, loyalty)
- 3) *Internal Business Processes* (productivity, quality measures, timeliness)
- 4) *Learning & Growth* (employee performance, morale, innovation, collaboration, turnover)

The Balanced Scorecard - A Powerful Tool

Quite often, employees, and sometimes even management, are unclear how their company's strategy should dictate the actions they take. An effective Balanced Scorecard will translate the mission and strategy of a business unit into tangible measures and objectives for employees to follow. The measures represent a balance between what is important to shareholders and customers (financial objectives, quality products, etc.) and the internal process, innovation, and growth necessities. The measures are further balanced between the results of past performance and metrics that will allow an organization to continue down a successful path into the future. The scorecard itself is balanced between quantifiable and the subjective measures that drive performance.

Business Benefits

The Balanced Scorecard presents many benefits if designed, developed, and implemented correctly for most organizations. It provides clarity and focus around Organizational Alignment, Performance Management, Accountability, and Vision. Additionally, a Balanced Scorecard provides an agreed upon, systematic, and unambiguous perspective of both leading (operational drivers of future performance) and lagging (financial results of actions already taken) which inevitably help in the management of true business performance. By implementing a comprehensive approach to performance measurement, the Balanced Scorecard allows a company to carefully monitor financial performance without ignoring the need to build and develop the intangible assets required for future growth.

Organizational Alignment

- It is a meticulous tool which translates strategic objectives into performance measurements used in the management of the business and provides a standard for feedback and review.
- Connects and communicates the strategy throughout the organization.
- Creates an environment in which management can agree on corporate strategies and measures while ensuring organizational alignment.
- The actual process and discussion of deriving a scorecard and its metrics can provide new, unique, and profound insights.

Performance Management

- It incorporates the critical aspects of performance into one document (i.e. scorecard).
- Facilitates the creation of a performance based culture.
- If used effectively can link strategy to the metrics at the executive, managerial and individual level.
- It broadens awareness of the different dimensions of business performance (i.e. four perspectives).

Accountability

- It creates a balance between quantitative and qualitative metrics.
- Its structure extends far beyond quantitative measures to leading indicators of performance.
- If implemented effectively can influence individual behavior to concentrate not only on their core day-to-day activities but ensure those relate in some way to the overarching corporate strategy.

Vision

- It is a management tool that can focus the business culture on the overall vision of the organization.
- Helps the business communicate, both internally and externally, as to what is important to continued success.

Best Practices – Developing Quadrants & Metrics

Most organizations use the Norton & Kaplan model as a baseline and customize the language and metrics used to evaluate the agreed upon measurements. Typical Balanced Scorecards encompass 4 quadrants (Financial, Customer, Internal, Learning and Growth) and 2-6 indicators per quadrant. When defining and developing the quadrants and metrics, every organization should go through a detailed process of ensuring the indicators are understood and measuring and encouraging the appropriate outcomes. Some Organizations, based on business needs and strategy, develop additional Balanced Scorecards that roll up into the original to help them determine the health of subsets or areas of their business.

Implementation – Critical Steps to Success

Once an Organization has defined and fully developed their Balanced Scorecard, the next critical step is the implementation phase. It is imperative that the vision, objectives, and specific metrics cascade down through the organization from Corporate to the individual business units and from the C-Level executives to the most junior level employees. Typically this is done over time where business unit objectives can be set and individual managers can lay out strategies and core activities for their department level subordinates in how their day-to-day activities relate to the overarching organizational strategy. These individual plans are then tied to, sometimes at a high-level, the Balanced Scorecard quadrants. This whole process helps to foster organizational alignment around key strategies and metrics.

It is also important to assign ownership of the scorecard to individuals in the organization; this is different than leadership support. Accountability for the update, display and input of metrics is a critical step towards successful implementation.

Lastly, ensuring transparency and consistent communication throughout all levels of the organization is important to align all staff and a step to ensure it becomes an engrained component of management decision making and reporting.

Key Success Factors for Successful Implementation & Subsequent Follow-Up

- Metric owners should be identified early in the implementation and a process tracking system (or proper controlled reporting process) should be implemented.
- Regular and timely communication to the management and stakeholder team.
- To eliminate uncertainty and ambiguity, metric calculations and delivery should be automated wherever possible.

Key Risk Factors Associated with Implementation & Subsequent Follow-Up

- Especially early on in the process, some individuals will naturally want to shift back to the project level detail measures and steer away from their Balanced Scorecard performance objectives.
- Most organizations will encounter individual behavioral resistance. However, management, having a thorough understanding of the subordinates' performance objectives, will be able to explain how each subordinate's performance affects the metrics in the overall Balanced Scorecard results.

Conclusion

Although every Balanced Scorecard is unique and requires customization and regular monitoring, it is a valuable and effective management tool when utilized in combination with key stakeholder buy-in and agreement. The Balanced Scorecard provides the instrumentation management needs to navigate for continued success. ✨