The golden rules for implementing the balanced business scorecard

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The balanced business scorecard is a widely-used management framework for optimal measurement of organizational performance. Explains that the scorecard originated in an attempt to address the problem of systems apparently not working. However, the problem proved to be less the information systems than the broader organizational systems, specifically business performance measurement. Discusses the fundamental points to cover in implementation of the scorecard. Presents ten "golden rules" developed as a means of bringing the framework closer to practical application.

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The Nolan Norton Institute developed the balanced business scorecard in 1990, resulting in the much-referenced *Harvard Business Review* article, "Measuring performance in the organization of the future", by Robert Kaplan and David Norton. The balanced scorecard supplemented traditional financial measures with three additional perspectives: customers, internal business processes and learning and growth.

Currently, the balanced business scorecard is a powerful and widely-accepted framework for defining performance measures and communicating objectives and vision to the organization. Many companies around the world have worked with the balanced business scorecard but experiences vary. Based on practical experiences of clients of Nolan, Norton & Co. and KPMG in putting the balanced business scorecard to work, the following ten golden rules for its implementation have been determined:

1. There are no standard solutions: all businesses differ.
2. Top management support is essential.
3. Strategy is the starting point.
4. Determine a limited and balanced number of objectives and measures.
5. No in-depth analyses up front, but refine and learn by doing.
6. Take a bottom-up and top-down approach.
7. It is not a systems issue, but systems are an issue.
8. Consider delivery systems at the start.
9. Consider the effect of performance indicators on behaviour.
10. Not all measures can be quantified.

There's no one to copy

Rule 1: there are no standard solutions: all businesses differ

The CFO of an Australian service organization once asked me "Can you supply me with some examples of how other companies define their non-financial indicators?" with the idea of finding a quick way to develop a balanced scorecard for his company.

Although looking at other companies will stimulate the learning process it will not give you a completed solution. In this case, after a number of discussions about what his business wanted to achieve, the CFO realized that a unique set of non-financial measures would need to be developed, based on the new strategy that was being developed for the company.

Although generic measures such as revenue growth and customer satisfaction can and will be applied in many organizations, it should always be borne in mind that there is no standard solution for measuring performance in an organization. The balanced scorecard gives a framework but it is not a pre-analysed performance management framework which is right for every organization. It will vary according to the internal and external environmental factors which have given rise to the decision to implement such a framework. Considerable effect on the ultimate organization-specific design of the framework can be expected on the individuals in the organization, the market position of the company and the culture of the organization.

Take it from the top

Rule 2: top management support is essential

The business insurance division of a large multinational insurance company headquartered in The Netherlands was pursuing a strategy-led business process re-engineering programme that led to fundamental changes in business processes, organizational structures and organizational positions. This programme that focused on key performance measures of the organization and the redesign to achieve radical improvement in performance, delivered very valuable input for a new performance measurement framework. As the top management team had changes during the process some of the work had to be revisited to gain the maximum support from the management team and to gain the credibility of middle management.

Sponsorship at the top level of the organization is essential and must be apparent to everybody involved in the design and implementation of the balanced scorecard. Change in the measurement in an organization can be threatening to individuals because the things they were used to doing, to achieve "good performance", may be insufficient or even irrelevant. The increased transparency

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of their performance may call the existence of their role into question. Therefore middle managers may try to block any changes unless there is high-level sponsorship apparent.

Do you know where you're going to?

Rule 3: strategy is the starting point

The senior executives of a European retailer envisaged that to take fullest advantage of the new possibilities of information technology (IT), a new strategy was required to transform their organization. This new vision needed to be translated into a manageable and realistic action plan. Strategic objectives for the organization were discussed intensively as were the likely measures of these, and this led to new insights. The retailer had been very successful for 50 years, continuously growing in both revenue and profits. Using the balanced scorecard framework challenged the executive team to set ambitious objectives regarding the development of customer knowledge, creation of customer satisfaction, radical improvement of the quality and effectiveness of some key logistical and customer service processes and the design of new marketing, sales and distribution processes enabled by electronic commerce. The new vision, key objectives and measurements formed the basis for a transformation programme which will lead the company to a further 50 years of success.

The starting point of a balanced scorecard project should always be to understand the strategy of the business. Understanding those issues of major or minor importance both within the market and within the organization is vital to achieve agreement to a final framework. It is not unusual for different executives to have conflicting views of what is important. If these issues are not resolved until later in the process, earlier work may be rendered useless.

Ideally, the fundamental organizational structure will be agreed on prior to commencing a review of performance measures. If this is not done, the business processes may be altered to the point where it will be necessary to re-analyse them. Then again, measurement may lead to better insights, adaptation of strategy and change in the organizational structure.

Think *inside* the box

Rule 4: limited and balanced number of objectives and measures

Measures should be few in number, but highly relevant and focused on improvement (which is a trajectory) rather than the achievement of a measure. Measures developed for an organization should always be balanced (as suggested by the four categories of the scorecard) and measures should always be easy to interpret. If too many measures are used it is likely that balance will be lost and it will be impossible to focus on the important issues. Care should be taken, however, not to summarize lower level data into meaningless ratios.

Many companies have a large number of key performance measures of which only a few – and sometimes none – are actually used by management to measure performance. It is not the number and reach of the measures that is most important. It is the relevance. The setting of appropriate parameters for relevant measures and the adherence to and monitoring of the measures inside those parameters are key to successfully implementing.

No money down: pay as you go

Rule 5: no in-depth analyses up front, but refine and learn by doing

It is far too common for an organization's strategy makers and consultants to seize on a good idea and invest too much time in its analysis. This can detract from the very elegance of the original idea, weighing it down before it has had a chance to be tested in a practical sense. Since a great deal of the successful implementation of the scorecard hinges on organizational change, it is important to allow the approach to accommodate *ad hoc* changes and incorporate learning.

It is best to make an approximate analysis and implement a pilot, before learning, refining and broadening the implementation. This approach will allow inductive determination of the best measures by trying them and seeing which are useful. It also enables quicker benefit capture and thus prevents the project sponsors from losing confidence in the process and avoids measurement of issues which have become irrelevant because of long time gaps between analysis and implementation.

It needs to be a participative approach to maximize the acceptance and commitment to the measures by key managers. It is also important to understand that measures will change as the experience with the measures expands.

Both ends against the middle

Rule 6: take a bottom-up and top-down approach

A large, successful Canadian bank identified a significant gap between its planned operations and the real operations. One of the major contributors to the problem was the fact that the distance from vision to on-the-ground troops was too vast. Organizational change was prescribed and a balanced scorecard approach was used to enable that change. Project deliverables from the Scorecard initiative were a coherent planning process, performance measures down to the individual and a multi-year skills development programme.

Performance management assignments will always benefit from both bottom-up and top-down analysis. If this is not done there is a risk that the measurement will not be grounded in the strategic objectives of the firm and therefore may drive behaviour in the wrong direction. Alternatively, the strategic measurement may bear no relation to the business activities of the firm and therefore cannot be used to manage effectively. Business units need to focus on their own scorecards but need to have common elements with the corporate scorecard. Measurement should be part of a focus on continuous improvement and should therefore be a continuous process.

Isn't it a systems thing?

Rule 7: it is not a systems issue, but systems are an issue

The very origins of the development of the scorecard (driven by a complaint that "systems aren't working") suggests the strong ties between information systems and performance measurement approaches. These very ties may lead to an over-enforcing of that connection.

It is important not to assume that the gathering and reporting of information must always be automated. Often there is a gap between expectations and reality regarding systems and the capability of existing systems to give the information necessary for measurement automatically.

It is important that new performance management systems are not immediately linked to pay. This is because the performance measures may not be right the first time through, and the system must be left to settle in before giving incentives for individuals to distort it.

It is a systems thing

Rule 8: consider delivery systems at the start

In cases where it is obvious that information systems of some scope will be necessary to implement the agreed measures, it is not too early to begin consideration of the system's design criteria from the outset. Many organizations usually have an incoherent combination of financial measures produced by the finance department and a plethora of key performance indicators (KPI) which are produced by a single head-office unit.

The delivery system needs to be considered from the beginning, otherwise expectations may be raised which are not fulfilled by the ultimate system. Where relevant, IT departments should be involved early on in the project. Furthermore, the delivery system should be made as simple in design as possible, otherwise it may not be possible to keep it updated with current issues.

It is important that measurement is embedded in something the company is already doing. Building something totally separate will be very frustrating and time-consuming. Furthermore, it is important not to throw away what is already in place.

Behave yourself

Rule 9: consider the effect of performance indicators on behaviour

When changing measures, consider the effect on behaviour. If this is not done, people may find ways of behaving which deliver the targeted measure but do not deliver the intended benefit to the organization. Measures need to encourage improvement, not penalize lack of performance.

Measurement should focus on areas where managers have influence over performance. Carefully consider overlaps where a single manager does not have direct responsibility, but shares responsibility with another. Organizational changes may need to allow for this; otherwise performance can "fall through the cracks" with no one accepting responsibility. In many cases, however, if an issue is important for the business it may still be useful to measure even if the business can exert no obvious control over it.

If you can measure it…

Rule 10: not all measures can be quantified

Not all measures can be quantified. It is therefore important to assume that the measures will be both quantitative and qualitative. Accounting accuracy is unnecessary in cases where only approximations are possible, and pursuit of it will be unhelpful in design, implementation and use. It is more important to identify and track an indicative trend rather than an isolated number.