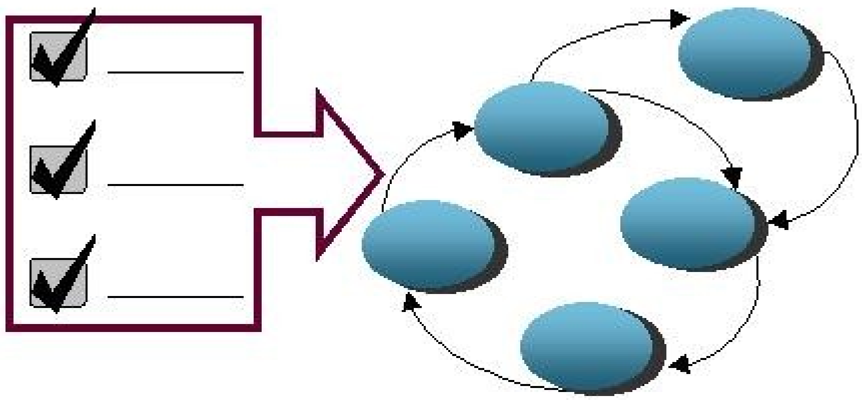
Beyond Balanced Scorecards

You can't use a golf scorecard for a tennis match.
Understand the game you're playing before you fix on key measures.



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A not-for-profit employment agency I know was recently quite frustrated. It had spent more than a million dollars with a large international consulting firm developing its one-page (one table really) scorecard of numbers to assess organizational performance. The problem was that it wasn't sure what to make of the results. Costs, processing times, job placement rates . . . the table had more than forty measures - with the ability to disaggregate by region and by business unit. The problem was that senior management didn't know what to make of the numbers. Not surprisingly, employees quickly grew to mistrust the initiative, a work stoppage ensued, and the system fell into disrepute.

A Problematic Pathology

Several efforts at balanced scorecard[(1)] implementation have suffered a similar fate. It seems that all too often senior managers decide that a scorecard a.k.a. 'dashboard' will provide the answers they need for accountability and key decisions. Once approved, the effort is delegated (sometimes abdicated?) to a team of specialists - often led by outside consultants - to implement the initiative.

Using Kaplan and Norton's book, The Balanced Scorecard, and other general texts as a guide, the team proceeds to investigate and consult with managers and staff. Unfortunately, in the "hurry-up" 90s, this can often mean a perfunctory effort - more designed to sell staff on the idea of a balanced scorecard than to truly solicit their input.

The need to keep things simple, with a few key measures rolled up to the corporate level, means that the implementing team usually can't tolerate too much diversity and therefore cannot truly incorporate many line-manager ideas. Furthermore, a balanced scorecard is often invoked in conjunction with another current management fixation - benchmarking. You need common measures for benchmarking. Therefore, you can't be tailoring measures to the specific nuances of your particular operations.

In the end, despite cosmetic changes to the naming and positioning of 'perspectives'[(2)], groups often sadly end up with a generic set of measures, foisted on the organization from the top-down. There is little or no attention paid to the key elements of strategy, roles, and relationships and the logic of the 'performance story' underneath the measures.

The Need to Understand

Consider, for example, high technology companies in fields like biotechnology and more recently Internet services. Many of these firms have been valuated by capital markets in the billions, even though the majority of balanced scorecard measures would suggest that they should have a negative net worth. (That is, in some cases, these firms are not profitable nor particularly efficient. In a few cases, they have yet to make any sales.) Clearly the measures being used by investors are either based on weighted subsets of conventional balanced scorecards or measures which are not on the conventional scorecard at all.[(3)]

Measurement scorecards must take into account the nature of the enterprise, its sector, the target market's product or service cycle, and the competitive strategy adopted by the enterprise. An enterprise with a low-cost strategy in a mature market will likely need a different scorecard than a high tech start-up with an aggressive growth strategy. The performance logic will be different. The measures should follow the logic.

Scoring Versus Learning

With due respect to Kaplan and Norton, the later chapters of their book discuss the need to link measures to strategy and logic.[(4)] Unfortunately these elements are frequently lost through corporate impatience. The term scorecard implies scoring, and senior management is usually anxious to get to it. Copying measures from a generic menu speeds up the process.

Thus, we have the *'anti-strategy'* nature of score-carding. Consider the consequences of copying a generic scorecard before considering strategy. Michael Porter has suggested that North American firms have largely followed one strategy for almost three decades - "make it faster, make it cheaper."[(5)] With a balanced scorecard which includes 'financial' and 'internal process' perspectives as two out of four key perspectives (usually the two with the most readily available measures), we find enterprises of all kinds rushing to benchmark themselves on efficiency while losing sight of effectiveness. (Hospitals take note: cost per patient day and length of stay by procedure type are measures of process - they say nothing about value added to clients!)

Conclusion: Insight to Incite

In summary, there are five problems or pitfalls which can frequently occur when taking a score-carding or dashboard approach to performance measurement and analysis.

1. Top-down direction may alienate staff - making 'buy-in' and therefore support for the system difficult.
2. An inclination to keep things simple and *'benchmarkable'* could result in generic (and non-meaningful) measures.
3. Lack of staff involvement, due to points 1 and 2 above, will not only reduce support but may also inhibit your ability to establish measures that represent true performance.
4. Due to points 1, 2, and 3 above, balance scorecard measures may promote an unconscious focus on strategies which do not represent the true 'performance story' for the enterprise.
5. Due to all of the points above, a balanced scorecard may not encourage people to think about cause and effect and therefore will not promote organizational learning.

In order to address these problems, organizations should:

1. Ensure that the vision, mission, strategic directions and performance 'logic' for an enterprise are articulated before measures are developed.
2. Take a systems view of the enterprise which includes consideration of enterprise process linkages to clients, non-clients, partners / co-deliverers, communities of interest, and other marketplace actors and stakeholders.
3. Involve staff at the work team level - even if this means slightly different measures for different groups.
4. Measure what is relevant - not what is easy. Measures should be selected first for their relevance and validity. The ability to 'roll-up' the numbers and to 'benchmark' should be secondary considerations.
5. Given the first four points above, senior management must show patience and leadership in using measures to learn and adapt, allocate resources, and improve processes - rather than using them to reward and punish.

Avoiding the above five pitfalls and following the above five principles should help organizations to use performance information to understand the game they are in - before they start scorekeeping for wins and losses.

For more information on the development of plans and measures which follow these principles, see Refocus Your Questions for Better Business Planning and/or contact info@pmn.net.

FOOTNOTES

1. Kaplan and Norton, Translating Strategy into Action: The Balanced Scorecard, Harvard Business

School Press, 1996.

2. Four perspectives as defined in Kaplan and Norton's The Balanced Scorecard: Financial Perspective, Customer Perspective, Internal-Business-Process Perspective, and Learning and Growth Perspective.

3. As an example, the 'eyeball share' measure is used by many analysts to valuate Internet stocks. Technically, this is not 'market share' as conventionally understood and used by traditional scorecards since it doesn't represent a share of paying customers. The measure does represent the reach of potential users and the relative popularity of a given site. See Joseph Nocera, *Do You Believe? How Yahoo Became a Blue Chip*, Fortune, June 7, 1999, pp 76-92. For an example of these measures in graphic form, click here.

4. See Kaplan and Norton, *Chapter 7: Linking Balanced Scorecard Measures to Your Strategy*, Translating Strategy into Action: The Balanced Scorecard, 1996, pp 147-166. Note that these sections evolved after the initial balanced scorecard discussion in the 1992, 1993 and 1996 Harvard Business Review articles.

5. See Michael E. Porter, *Operational Effectiveness Is Not Strategy,* in Harvard Business Review, November-December 1996.