The balanced scorecard

Lots of firms have got one, but has it done them any good? Sir Andrew Likierman discusses how to tell whether introducing a balanced scorecard has worked or not.

The balanced scorecard is one of the most widely used measurement frameworks in business. But, faced with the question: “How would you know whether it has been successful or not?” most companies would be forced to admit that they couldn’t.

That’s not really surprising. As with any management initiative, it’s hard to define all the costs and benefits. There are identifiable costs, including those of setting up the IT and hiring external help, but the cost of internal training and the opportunity cost of staff time are rarely tracked. The benefits are even harder to pin down. You may hope to achieve “better decision-making”, but how much better? And what about the negative consequences of dysfunctional behaviour or a lack of focus caused by too many measures?

Even process benefits cannot easily be isolated. Gut instinct tells us that integrated information will be better than fragmented data. But is gut instinct enough? I have set out a four-stage process to provide a basis for answering these questions.

1 Identify the measurement problems. The starting point is to clarify objectives. Without a clear idea of what the scorecard is intended to achieve, you can’t define, let alone measure, the benefits. According to CIMA’s official definition, the balanced scorecard is “an approach to the provision of information to the management to assist strategic policy formulation and achievement”. There’s nothing wrong with that, but it’s difficult to use it as a basis for defining success.

The next measurement problem is how to include all relevant costs and most benefits. The opportunity cost of time, which is often the largest single element when introducing new techniques, is rarely included in the calculation. The danger is that a few easily measurable costs are balanced against some hard-to-measure costs and a lot of hard-to-measure benefits.

Then there’s the question of comparison: should the scorecard’s effects be compared with what was happening before the scorecard was introduced, or compared with what would have happened if it hadn’t been? The former is often misleading, since whatever the new technique has sorted out may have needed fixing anyway. Strategy can be linked to performance in more straightforward ways than by bringing in a balanced scorecard.

The next issue is the need to take account of the unexpected effects of implementation. This can come about because of overoptimistic original proposals, or managerial overconfidence about its ability to introduce the new technique. Unexpected effects may also include flawed design and implementation – a regrettably frequent occurrence with scorecards.

Lastly, there is the problem of linking a technique to subsequent changes in performance, even in small companies, not least because of the time lags between actions and results. How difficult this is will depend on factors such as the time required for implementation, whether benchmarking is possible and whether there can be “before” and “after” comparisons.

Having identified the problems, you can take action before starting (section 2, below) and by improving the measures (section 3). But for some issues it’s crucial to understand that it may be possible only to mitigate them (section 4).

2 Take action before starting. The starting point is a monitorable specification of the assumed costs and benefits. “Monitorable” means setting them out in a form in which progress can be tracked, not squeezing them into an implausible numerical straitjacket. This specification will provide a basis for what needs to be tracked, so that these can be included in the tracking.

You should identify the way you will use information incorporating the new data as part of the specification, from corporate strategic decisions to individual incentive schemes. You also need to spell out the timescales involved.

You should identify all the risks to achieving the benefits, so that these can be included in the tracking. All initiatives have execution risks, caused not only by uncertainty over cost and time, but also by changing scope and specification. You need to build in
actions to meet risk into the programme before it is implemented. Targeted training, for example, could mitigate the danger that the scorecard will not be used because it is not understood.

As with other techniques, the actions you could take before starting a full rollout could include piloting, if internal comparisons are possible and you have enough time. A study by Andy Neely and others at the Advanced Institute of Management Research compared 156 branches of a company that used a balanced scorecard with the same number that did not. Few organisations will have a control group of this size, but the comparison can be made with much smaller numbers. Clearly, you must ensure that the comparisons are not only valid but seen to be so. Otherwise, there’s a risk of getting into endless arguments about the validity of the conclusions.

Above all, you must adjust expectations about what can be delivered before starting – a reality check is easier if new techniques are scoped out systematically. It will be hard to keep everyone’s feet on the ground if a technique is introduced as result of overblown promises. It will then be a case of separating what the organisation knows it can achieve from what those who are selling the technique claim might ideally be possible.

3 Improve the measures. Improvements can start only if you focus on outcomes. Because there is a demand for measures of some kind, companies usually choose input measures – eg, numbers of measures – since these are the most easily obtainable and there’s an assumption that they will be good proxies for outcome measures. Alas, they rarely are. Claims that 40 measures for a scorecard must be better than ten without a scorecard ring hollow if the result is confusion about the company’s priorities. In the case of activity – eg, use of the scorecard – this may be a necessary condition for success, but it’s certainly not sufficient. A new technique could distract attention from more important matters, be badly used or misused. Evidence of use is not enough.

Outcomes are harder to measure, but there is no reason why doing so should be either complicated or expensive. Managers already answer lots of questions, so it should be straightforward to ask, for example, whether they are using the information provided by the scorecard and whether it improves their ability to achieve their objectives. Such enquiries can be simple and do not need to involve structured questionnaires, but the questions should be asked over a period of time and be linked to the implementation schedule.

To obtain maximum value from feedback, it’s essential to embark on a process of consultation before introducing a new technique. In a case study of a financial institution in the Netherlands, Geert Braam and Ed Nijssen of Nijmegen School of Management showed how workshops and discussions helped to achieve a successful scorecard implementation where a previous attempt to impose it had failed. Consultation will not only achieve a wider understanding of what’s involved, but also help to win support from senior and line managers.

Better measures also mean understanding what others are doing. This may come from literature, conferences or direct experience. New recruits or outsiders such as non-
executive directors can add particular value if they have been involved in introducing a scorecard elsewhere.

Looking at the patterns of introduction elsewhere will help you to set milestones for costs, benefits and timing. This does not mean that there will be clear numbers; only that there will be a context for necessary decisions. It is easier to gain this context for the balanced scorecard than for many other management techniques, since many published case studies exist.

It's worth stressing that measurement does not mean quantification – many of the measures will be based on judgments – but nor does it mean vague statements that cannot be pinned down. For example, as part of the consultation process with senior and line managers, you need to spell out what “a better link between performance and reward” means in practice. The elements in the financial part of the scorecard will be a great deal easier than those for learning and development, but the temptation to go only for the easily measurable elements should be resisted. One of the reasons for introducing a scorecard is to get away from a simplistic approach.

Better measurement must also allow for flexibility, since there will be unexpected events that weren’t part of the original plan. New information made available by a scorecard could improve project planning more generally. You need to capture such benefits as part of the information-gathering process.

4 Mitigate the remaining problems.

Even after taking action under sections 2 and 3, there will still be measurement problems that can’t be resolved. You may then be tempted to take a sweeping and potentially misleading view based only on what is measurable. This is the moment for analysis based on evidence, which needs to come not only from finance but also from people on the ground. The evidence must be assessed dispassionately, particularly if the scorecard has been sold as the answer to a problem, with a bottom line or ROI. Far from demanding a spurious ROI based on a partial view of costs and benefits, you should base the analysis on a clear understanding that figures alone will be misleading.

It is, therefore, essential to provide a good written commentary. This should be realistic about the limitations of what has been measured, bearing in mind the length of time since the implementation began. Its conclusion should include both quantifiable and unquantifiable elements. So, for example, you should discuss any loss of focus caused by an excessive number of measures in terms of cutting the number of measures, not getting rid of the scorecard. The commentary could appear in a one-off report to senior management. Even better, it could be part of the regular reporting package to senior management on all new projects. Such reports provide a comprehensive view of how yesterday’s projections on the whole set of the organisation’s initiatives look today.

It is crucial to measure the success of adopting a scorecard in order to determine whether you can do anything to increase its impact, remedy any problems and assess the credibility of further proposals. Indeed, the same approach can be used for introducing other management initiatives. The business world is littered with discarded balanced scorecards. Better measurement greatly enhances the chances that yours won’t be among them.

References

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