

Research Report

A Practitioner's Guide to the Balanced Scorecard

A Practitioners' Report Based on:
'Shareholder and Stakeholder Approaches to Strategic
Performance Measurement Using the Balanced Scorecard'

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Preface

Kaplan and Norton's Balanced Scorecard is a concept still widely used and respected in today's business environment. What follows, provides guidance and advice on the development and implementation of a Balanced Scorecard for those organisations considering the introduction of a Scorecard or those that have adopted the approach with limited success. It is applicable for both public and commercial enterprises.

The Practitioner's Guide was written as part of a project receiving financial support from the Chartered Institute of Management Accountants Research Foundation. The project involved reviewing the current academic literature, followed by a telephone survey in which 460 major UK organisations, embracing both the public and commercial sectors, participated.

The telephone survey was the catalyst for a focused postal questionnaire survey of 60 of the organisations developing performance measurement systems. After the telephone survey semi-structured interviews were conducted in 45 of the organisations. Finally, a detailed investigation on a case study basis was carried out at each of ten major respondents.

Historically, the majority of organisations, particularly those in the private sector, have relied on financial and cost accounting measures to assess their performance. Financial measures continue to be of fundamental importance to organisations. However, there is a growing awareness that if an organisation is going to succeed in the contemporary business and political environment, it will have to generate and take account of a wider range of measures, reflecting the requirements of customers, shareholders, employees, and the communities around them.

Traditional financial and cost accounting measures record what has happened in a previous period and are often referred to as 'lag indicators'. Relying solely on this type of indicator has been likened to 'steering a ship by its wake' or 'driving a car viewing the route through the rear view mirrors'. In the early 1990s there was a growing awareness that organisations needed a wider set of measures, compatible with their increasingly complex operating environments and this was the catalyst that spurred Kaplan and Norton (1991) to develop the Balanced Scorecard.

The original Kaplan and Norton model illustrated leading and lagging indicators in four different perspectives: Financial; Customer; Internal Processes; and Learning and Growth. As Kaplan and Norton state:

'The name reflected the balance provided between short and long term objectives, between financial and non-financial measures, between lagging and leading indicators, and between external and internal performance perspectives'.

One of the major strengths of the Balanced Scorecard is its adaptability. Indeed, the originators make it clear that their four quadrants are only a template. Although the term, Balanced Scorecard, might conjure up an initial impression of a table of measurements or key performance indicators, it is in fact a process comprising of a number of carefully inter-linked steps. The real power of a properly developed Balanced Scorecard is that it links the performance measures to the organisation's strategy. Organisations implementing a Scorecard process are forced to think clearly about their purpose or mission; their strategy and who the stakeholders in their organisation are and what their requirements might be. They also need to evaluate quite clearly the time scales in which they hope to achieve their strategic objectives.

The Balanced Scorecard process involves bringing together the key members of an organisation to debate and reach a consensus on the purpose of the organisation, the requirements of its stakeholders and its strategy. By doing so, it moves beyond being a performance measurement tool to also being a useful aid to strategic development.

Many of the early adopters of the system were either large commercial operations in the USA, or organisations with strong American links. Consequently, much of the quite extensive management literature tended to be US-centric and weighted towards commercial organisations.

The research undertaken for The Chartered Institute of Management Accountant Research Foundation (CIMA) by The International Institute of Banking and Financial Services (IIBFS) was therefore specifically designed to provide an insight to management on the application of the Balanced Scorecard process based on the experience of UK organisations. The research also focused on the very important issue of stakeholder participation. The findings of the research indicated increasing stakeholder participation in the Scorecard process within the public sector. Indeed, the research highlighted how the Scorecard could embrace the UK Government's policies such as the 'Best Value Regime' with its requirements to 'Challenge, Compare, Consult, Compete and Collaborate'.

- **The Introduction** to the guidebook describes the research carried out and details Balanced Scorecard utilisation in UK organisations.
- **Chapter 1** deals with the history and development of the Balanced Scorecard and the contextual setting of the Scorecard relative to other common performance management and measurement systems.
- **Chapter 2** is particularly aimed at the reader who is encountering the Scorecard for the first time and provides a detailed explanation of the major components of a Balanced Scorecard process.
- **Chapter 3** describes the foundations to a cohesive and coherent Balanced Scorecard process and highlights the fundamental questions that the organisation must consider.
- **Chapter 4** reviews various design and implementation issues and draws heavily on the case studies that formed part of the research conducted by IIBFS, to outline a framework for developing a Scorecard in a commercial organisation.
- **Chapter 5** describes the critical issues of launching and communicating the Balanced Scorecard to the members of the organisation and to external stakeholders. It also 'completes the circle' by describing the feedback systems that allow the organisation to make refinements, and adapt to changing environments.
- **Chapter 6** fills a large gap in the existing literature by focusing on an example of stakeholder inclusion in the Balanced Scorecard. It provides an overview of how a public sector organisation, with a large number of stakeholders, may go about developing a Balanced Scorecard. This chapter overlaps with many of the themes in the preceding chapters but this has been necessary to maintain a cohesive structure useful for practitioner application. If anything, the overlaps reinforce some of the critical requirements for good Scorecard design in private sector organisations. The examples in this chapter are intended to be informative of the Scorecard approach and are not intended to reflect clinical or local authority best practice.
- **Chapter 7** highlights some of the key findings from the research and links them to more detailed work by Balanced Scorecard experts. The chapter draws conclusions from the research findings and identifies common threads between the private and public sectors.

Introduction

What is a Balanced Scorecard?

Although in recent years few managers will have managed to avoid a discussion of the Balanced Scorecard, many will not have a full understanding of the Balanced Scorecard process, how it works, what resources are required and whether it really is a new approach to performance measurement. The following paragraphs attempt to clarify some of these issues.

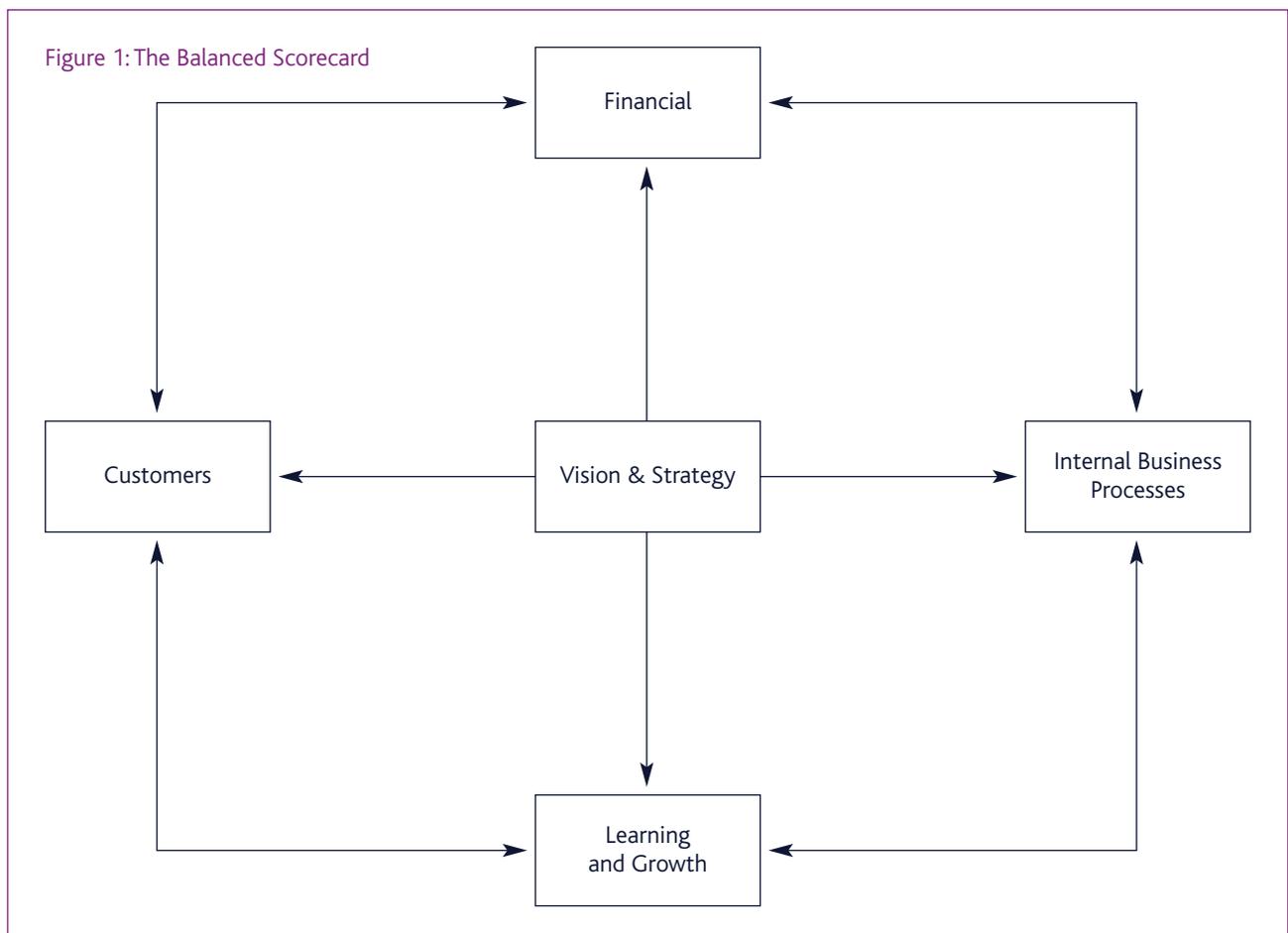
Perhaps the most obvious role of the Balanced Scorecard is the 'Scorecard' element i.e. to record and clearly illustrate the small number of key measurements (20-25) that allow busy executives to quickly evaluate what is going on in critical areas of their organisation. However, if the Balanced Scorecard is to merit its description as an innovative approach to performance measurement, it has to be much more than a scoring or results recording mechanism.

The use of the word 'Balanced' reflects the roots of the Balanced Scorecard in concerns that organisations were giving too much emphasis to short term financial and

budgetary issues. Many business leaders, academics and consultants recognised that a short term financial or budgetary focus could lead to other important, but perhaps longer term issues, such as customer development, changing markets, standards of service and organisational learning, being given insufficient attention or possibly neglected altogether.

In response to those concerns, Kaplan and Norton (1991) formulated an organisation model comprising of four quadrants to represent and focus attention on what they saw as the key components, timescales and perspectives of an organisation's strategy.

The Kaplan and Norton template, illustrated in Figure 1, suggests that a Balanced Scorecard will comprise of quadrants giving equal consideration to both long term and short term Financial Performance, Customer Issues, Internal Business Processes and Organisational Learning and Growth.



These quadrants may not be appropriate for all organisations but one of the strengths of the Balanced Scorecard process, which will be discussed in more detail in later chapters, is that organisations have the freedom to use whatever quadrants or perspectives that best suit their environment and strategy.

Perhaps more importantly, and what starts to differentiate a well-constructed Balanced Scorecard from other measurement systems, is that the Scorecard translates the strategy into relevant operational terms and reflects the organisation's detailed understanding of the causal linkages between measures and quadrants. Further, the Scorecard is groundbreaking in the balance provided by the recording of results achieved (lag indicators) and the illustration of expected results (lead indicators).

The research that underpins this guidebook highlights that the presentation of the key performance measures is only the 'tip of the iceberg'. Balanced Scorecard users are keen to emphasise that the process of designing a Balanced Scorecard with its debates about goals, quadrants, perspectives and critical measurements, is an extremely useful process of testing the strategy and aligning the organisation behind the strategic goals. The research highlights that a properly executed Balanced Scorecard process requires every level of the organisation to have a clear and agreed understanding of:

- Why the organisation exists – its fundamental goal;
- What the organisation values;
- The organisation's vision for the future;
- The critical measures that will make a real difference to the organisation's performance;
- Who the stakeholders are and how their views can be collected and reflected in the respective quadrants of a Balanced Scorecard; and
- How the quadrants and measurements link together (causal links) to ensure the organisation moves towards its strategic goals and objectives.

Is the Balanced Scorecard a new process?

Some critics have suggested that there is nothing new in looking beyond financial and accounting measures to evaluate an organisation. There is certainly a considerable body of evidence that leading experts, such as Hopwood, Argyris, Ridgway and Parker, were highlighting the inadequacy of 'single measures of success' many years before the development of the Balanced Scorecard.

For example, Lee Parker's (1979) 'Divisional Performance Measurement: Beyond an Exclusive Profit Test', suggests that:

'Further attention could usefully be paid to the development of divisional productivity indices, projected monetary benefits of the maintenance of certain market positions, costs versus benefits of product development, division social accounts for social responsibility, and human resource accounting for aspects such as personnel development, employee turnover, accident frequency etc'.

Hopwood's (1973) work provides a comprehensive overview of performance measures in an accountancy context and suggests, *inter alia*:

'While not denying that management is a multifaceted task, accounting systems do not aim to reflect all of its valued and important variety. Many crucial social behaviours are completely ignored, and although the narrowly economic implications of some others may be reflected, even such a limited representation remains incomplete and invariably occurs with a delay. But more than being partial, behaviours intended to improve the accounting indices can actually conflict with other equally necessary behaviours'.

In a similar vein, Ridgway (1956) also describes how measures need to be weighted in order to:

'adequately balance the stress on the contradictory objectives or criteria by which performance of a particular organisation is appraised'.

There is no doubt that this body of work by established scholars, reflects the concerns that may eventually have provided the catalyst for the development of the Balanced Scorecard. It may also be argued that a diligent and well-read manager could have pieced all of this work together and developed a balanced performance measurement system. However, it can equally be argued it took the Balanced Scorecard to make what was previously implicit, explicit, and in a way that captured the imagination of business leaders and managers.

It may also be argued that the Balanced Scorecard goes beyond the earlier work by taking performance measurement further than the boundaries of accountancy alone, and by bringing focus to the causal links between measures. It makes an explicit link between performance measures and strategy and provides a means for strategy to be translated into operational measures that are relevant to the people tasked with implementing strategy and change.

Olve, Roy and Wetter (1999) capture elements of this debate in their comment that:

'The scorecard often becomes a catalyst for discussions which actually could have been held without it but which become essential when it is used'.

Is it just another management fad?

Since its arrival in the United Kingdom in the 1990s the Balanced Scorecard has achieved significant penetration into a wide spectrum of commercial organisations. The growing popularity of the Scorecard has led to an explosion of interest in the use of this procedure, and Appendix 1 to this report highlights how 30% of the top 100 UK Corporates (by market capitalisation) have adopted the Balanced Scorecard.

It is perhaps fair to say that the UK public sector was slower to adopt the Balanced Scorecard process but at the time of this survey 31% of the 51 organisations contacted were using or intending to use the Balanced Scorecard. The current Labour Government's initiatives for modernisation of the public sector have led to a significant increase in interest in the Balanced Scorecard. Several Government publications have made reference to a Balanced Scorecard approach. For example, the Audit Commission's website provides a wealth of useful information, examples and a very helpful 'toolkit'¹.

If we accept conference proceedings, books and journal articles as an indicator of interest it would appear that the Balanced Scorecard is gaining an ever-increasing audience and is becoming a familiar tool in the modern manager's toolkit. With the rapid expansion in the implementation and use of Balanced Scorecards, it has become necessary to determine just how this approach to performance measurement is currently being used in the UK, and to identify and disseminate examples of best practice to aid UK management. This guidebook attempts to fill this gap and provide some of the answers to the above questions.

Does it work?

Although any Internet search will reveal a number of qualitative reports on Balanced Scorecard implementation, there is little quantitative evidence from UK organisations directly linking performance improvements and Balanced Scorecard initiatives. Nevertheless, there are a significant number of qualitative reports from satisfied users in both private and public sector organisations².

Frigo (2002) provides an interesting overview of the American Institute of Management Accountants' 2001 Performance Measurement study which highlighted that Balanced Scorecard users rated their systems as 'very good' to 'excellent' in supporting management's objectives, communicating strategy to employees, and supporting innovation. The response to questions about the effectiveness of performance measures saw financial measures receiving high ratings and customer, internal business processes, and learning and growth measures receiving progressively lower ratings. The learning and growth quadrant received the lowest rating and Frigo posits that this is not unexpected and highlights the challenges of measuring intangibles. He reflects that organisations, which relate intangible assets such as human and information capital to the value creation process, are more successful in developing performance measures in those areas. He also notes that many of the Balanced Scorecard users interviewed had 'significantly improved their customer performance measures by using the Scorecard implementation process as an opportunity to understand customer segments, expectations and value propositions.'

Not all experts support the Balanced Scorecard and some, such as Jensen (2002), contend that it is flawed because it does not actually give managers a score – 'that is a single-valued measure of how they have performed'. He proposes a process he calls 'enlightened value maximisation' and suggests that organisations should 'define a true (single dimensional) score for measuring performance for the organisation or division (and it must be consistent with the organisation's strategy). ...as long as their score is defined properly, (and for lower levels in the organisation it will generally not be value) this will enhance their contribution to the firm'.

Birchard (1996) suggests that the Balanced Scorecard is believed to be successful because of its ability to define the critical success factors and measures that focus on growth and long term success. However, Birchard also suggests that the Balanced Scorecard may be inappropriate for organisations with short-term financial problems or undergoing restructuring.

¹ <http://www.bvps.audit-commission.gov.uk>

² Wisniewski M, (2001), Rigby DK (2001), Goodman (2002), Brooke (2002) – see bibliography

Palmer and Parker (2001) provide an interesting and thought provoking perspective by applying 'physical science uncertainty principles' to performance measurement systems. Their report suggests that a key factor in developing a successful Balanced Scorecard is the identification of 'aggregate level measures' and in support of this argument they use Lucas's (Lucas 1995) study highlighting the difficulties 'in developing specific worker level measures that match higher level ones'. They highlight the similarity between the Balanced Scorecard's focus on critical success factors and examples from Activity Based Management (ABM) which suggest that 'rather than having accurate product costing as the focus', organisations can make large gains by identifying and focusing on 'one or two critical input drivers'. These drivers are very similar to the Balanced Scorecard's critical success factors, and in terms of physical science uncertainty principles can be represented as 'strange attractors'³ 'around which the system can organise itself at a new level of suitability'.

For readers who wish to have more quantitative evidence of the popularity or otherwise of the Balanced Scorecard and other management tools, Bain & Company carry out an annual survey to investigate the experience of companies adopting leading management tools. The results of this survey and other useful information are posted on their web site⁴.

3 Gleick, James, 1988 'Chaos-Making a New Science', London, Heinemann

4 [http:// www.bain.com](http://www.bain.com)

1. The History and Development of the Balanced Scorecard

The fundamental principles of financial accounting measurement were first developed centuries ago to support the methods of doing business that were prevalent at that time. The use of financial records has evolved with the development of business structures. Financial measures tend to reflect contemporary organisational thinking and industrialisation and mechanisation have both been strong influences in this regard for most of the 20th century. Since the Industrial Revolution bureaucratisation of the organisation and the division of labour have been dominant themes. As the German sociologist Max Weber (1947) noted: 'bureaucracy is a form of organisation that exhibits the mechanistic concepts of precision, regularity, reliability and efficiency achieved through the fixed division of tasks and detailed rules and regulations'.

1.1 The Organisation as a Machine

The industrial era was the era of the machine and this had a strong influence on accounting methodologies. It was relatively easy to use a machine metaphor to aid understanding of organisations (Morgan, 1997). Such thinking required top-down control, and so classical theorists developed the concept of organisations as rational systems that should be streamlined to operate in as efficient a manner as possible. The emergence of Scientific Management, as pioneered by Frederick Taylor, reinforced the concept of the organisation as a machine. Taylor was an American engineer and is best known for his time-and-motion studies, characterised by detailed observation of all aspects of a work process to find the optimum mode of performance.

These dominant schools of thought had a strong influence on the development of financial and cost accounting protocols. They evolved around issues such as how to deal with the capital cost of tangible assets and with measuring the efficiency of men and machines.

1.2 21st Century Models

As we move into the 21st century, the emphasis has moved from tangible assets to knowledge-based strategies founded on intangible assets, and a movement away from top-down strategic formulation. The new business environment of the so-called 'Information Age' has become dependent on control of such issues as employee knowledge (Stewart, 1997), organisational empowerment (Simons, 1995), competitive capabilities (Stalk et al, 1992), intangible resources (Hall, 1992), and core competencies (Prahalad and Hamel, 1990). In this regard, the fundamental accounting principle of placing a monetary value on the productive assets of organisations creates increasing difficulty. As Kaplan and Norton point out,

'Ideally, this financial accounting model should have been expanded to incorporate the valuation of a company's intangible and intellectual assets ... Realistically, however, difficulties in placing a reliable financial value on such assets as ... process capabilities, employee skills, motivation ... [and] customer loyalty... will likely preclude them from ever being recognised in organisational balance sheets'. (1996a:7)

Additionally, traditional financial accounting methods relate to specified periods of time and accounting systems, even at their most sophisticated, inform management as to how a corporation has performed in accordance with pre-determined standards within a specific period. If management is to lift its vision towards the competitive horizon, it needs to step back from the periodicity of pure accounting measurement. 'Performance', in this context, is usually measured in terms of transaction related activity (e.g. sales, direct costs, amortisation, etc.) conducted in the market place and completed within the period under consideration. Transaction dependent measures tend to emphasise the sequential value chain of business functions as products are supplied into a competitive market (Porter, 1985). By contrast, they may fail to recognise the value creating, cross-functional capacities and multi-period processes inherent to the organisation.

Accounting measures may provide little indication of the importance of change programmes undertaken within the organisation that, although not affecting current transaction activity, will have a significant effect on earnings in multiple future periods. Indeed, basing the criteria for performance success on financial results can lead companies to reward inappropriate behaviour by managers. Management may seek to enhance profitability in the current accounting period by eliminating valuable investment programmes and thereby damaging future competitiveness. Historical cost accounting methods have a limited role in forecasting future competitive success. Historical measures, such as Return on Investment (ROI) and Return on Capital Employed (ROCE), are poor tools for plotting the future direction of a company within its main markets and industry sector.

1.3 Tableau de Bord

The concept of taking account of more than just financial measures is not new, but it is one that has developed at an increasing pace with the advent of the Information Age. Perhaps the earliest formalised measurement system of this type was the French process of Tableau de Bord that emerged in the early part of the 20th century. Broadly translated from the French, 'tableau de bord' means a dashboard, a series of dials giving an overview of a machine's performance, such as the array of instruments used by car drivers or airline pilots.

The association with machines is not surprising as the system was first evolved by process engineers attempting to evolve their production processes by having a better understanding of the relationships between their actions and process performance; the cause and effect relationship. In an attempt to improve local decision making, the engineers developed separate tableaux for each sub unit that reflected the overall strategic aims of the organisation. As their objective was to study cause and effect relationships, the engineers did not limit their measurements to financial indicators and used a wide range of operational measures to evaluate local actions and impacts.

Although the Tableau de Bord has been around for over 50 years, it was only in the last quarter of the 20th century that the movement away from reliance on financial measures gained impetus. One of the main catalysts appears to have been increasing global competition.

1.4 The Performance Pyramid

McNair et al (1990) designed a model that they called the ‘performance pyramid’ based on the concepts of total quality management. The performance pyramid represents an organisation resolved into four interdependent levels. The first level is the traditional corporate management layer and the second; the company’s sub units. The third level is not a structural business unit but rather is a representation of all the processes that are critical to the organisation’s success – such as creating customer satisfaction. It is from this level that operational goals such as quality and delivery time, are derived. In the performance pyramid model, different measurement frequencies are adopted to meet the perceived requirements of different levels of management.

In the lower, customer facing or operational base of the pyramid, measures are relatively frequent, for example, in units of days or weeks. As we advance up the pyramid through the hierarchical levels of management, measurement frequencies reduce, and the emphasis is on financial measures. One of the strong themes underpinning this model, and one that has a resonance with the Tableau de Bord, is the concept of a strong cause and effect linkage between the lower operational measures and the higher financial measures and the use of the pyramid to illustrate this relationship.

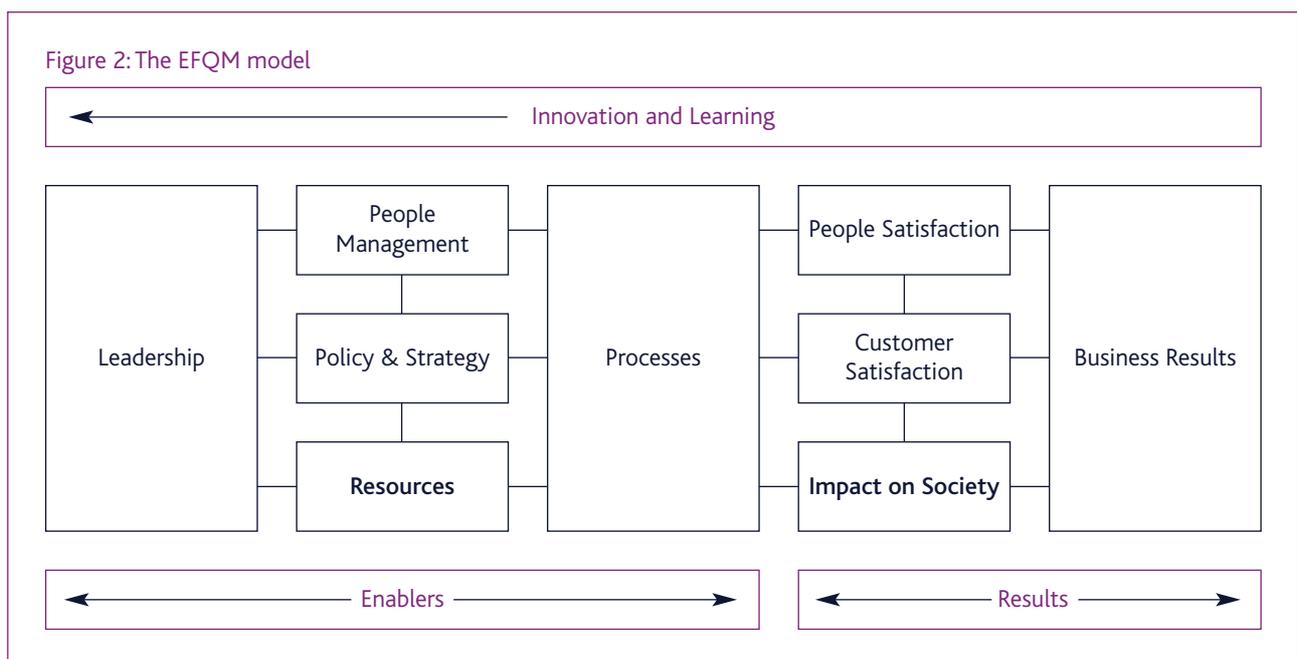
1.5 The EP²M Model

Adams & Roberts (1993) progressed the evolution of measurement systems by promoting their use as a means of fostering an organisational culture in which constant change is seen as normal and which has a fundamental requirement for effective measures that can be promptly reviewed and which provide rapid feedback to decision makers. Their model is encapsulated by the formula EP²M: Effective Progress and Performance Measurement, and stresses the importance of measures in four areas:

- External measures customers, markets, suppliers, partners, etc
- Internal measures efficiency and productivity of internal processes
- Top down measures implementing the strategy
- Bottom up measures empowering employees

1.6 The Malcolm Baldrige and EFQM Models

Two very similar, and quite prominent, measurement models were developed as a result of USA and European Government initiatives to counter the threatened Japanese domination of global markets. Both schemes feature awards for various classes of organisations. The American scheme is known as the Malcolm Baldrige National Quality award and its European counterpart is the European Foundation for Quality Management’s Business Excellence (EFQM) model. The familiar structure of the latter model is shown in Figure 2.



The Results section of the model describes what the organisation has achieved, and is currently achieving, whereas the Enablers show how those results are being achieved. The Business Excellence model is a way of auditing the performance of the organisation against each of the nine elements shown in Figure 2. Those elements are weighted and the overall score determines how the organisation is performing. The EFQM framework is predominantly used as a means of continuously improving processes, as well as a useful source of benchmarking data.

1.7 Origins of the Balanced Scorecard

In 1990, Dr David P. Norton and Professor Robert S. Kaplan conducted a research study project, sponsored by KPMG Peat Marwick, into the performance measurement systems of 12 companies. The emphasis of their research project, entitled 'Measuring Performance in the Organisation of the Future', was to investigate and address the limitations of traditional financial based systems for monitoring performance. Focusing on financial measures, it was argued, led companies to focus on the short term and, potentially, left them ill prepared for future competitive engagement.

Over the course of 1990, participants of the research study began to shape out the structure of the Balanced Scorecard. The results of the original study were subsequently published in an article in The Harvard Business Review (Kaplan and Norton, 1992). As corporate interest in their approach increased, Kaplan and Norton were able to further develop their ideas on the design and application of the Balanced Scorecard (Kaplan and Norton, 1992; 1996a-e; Norton, 1997).

Of all the models discussed, the EFQM, Business Excellence Model and the Balanced Scorecard have been the most widely adopted by UK organisations. Each model appears to have its own champions specialising in their implementation and promotion.

1.8 The Balanced Scorecard v The EFQM Model

Kaplan and Lamotte (2001) contend that there are five major ways in which the Balanced Scorecard exceeds the Business Excellence model:

- They suggest that the EFQM and Baldrige models verify that a strategy exists and is well followed. However, they contend that the links between the enablers and results are implicit. In contrast, they suggest the process of building tailored Balanced Scorecards gives much more emphasis to cause and effect linkages.
- The EFQM and Baldrige models evaluate internal process performances against benchmarked best practices and, as a result, focus on continuous improvement. In contrast, target setting with the Balanced Scorecard permits aspirations for radical performance allowing Scorecard organisations to become the benchmarks for others.
- Quality Models, such as the EFQM and Baldrige, strive to improve existing organisational practices but applying the Balanced Scorecard often reveals entirely new processes at which an organisation must excel.
- Quality programmes are often referred to as continuous improvement programmes. However, there is a danger with the EFQM and Baldrige models that scarce resources might be expended on incrementally improving inefficient but existing processes. Kaplan and Norton suggest that the Balanced Scorecard is a better tool for prioritising which processes should be allocated resources and which should be dropped.
- The Balanced Scorecard integrates budgeting, resource allocation, target setting, and reporting, and feedback on performance into ongoing management processes. Historically, the EFQM and Baldrige models evaluated and scored leadership and strategy setting as if they were independent processes. With the Balanced Scorecard they are inextricably linked together.

Nevertheless, Kaplan and Lamotte (2001) do concede 'that each model adds a useful dimension to the other, and in using the two together a management team leverages the knowledge and insights from each approach. Both approaches foster deep dialogues about performance, supported by management processes that link strategy to operations to process quality'.

Key Points:

- Financial models need to reflect contemporary organisational thinking.
- 20th century accounting systems reflected 'top-down' control and the influence of tangible assets such as machines.
- 21st century systems need to consider more intangible assets such as employee knowledge, core competencies, etc.
- The Business Excellence model and the Balanced Scorecard complement each other and can be used together to capture the knowledge and insights from each approach.

2. The Balanced Scorecard Explained

The Scorecard's guiding concept is to move managers away from focusing purely on financial outcomes and to consider a more balanced portfolio of multiple financial and non-financial measures closely linked to strategic objectives. After all, no single performance indicator can succinctly capture the complexity of how an entire organisation is performing. The Scorecard encourages managers not to rely solely on historical measures and emphasises the need for 'lead' indicators that point to the future direction of the organisation. The key question under consideration becomes less 'what have we achieved?' and more 'what are we likely to achieve in the future?' Enabled by this change of perspective, the emphasis of the Scorecard approach is to measure the strategic as well as the operational. Scorecard measures are selected to describe and monitor the organisation's progress in implementing and achieving its strategy. Monitoring these measures enables management to plot the future competitive direction of the organisation. This shift in focus, from operational activity to strategic guidance, has become increasingly important as external competitive environments have become more dynamic and internal organisational structures have become more fluid and complex.

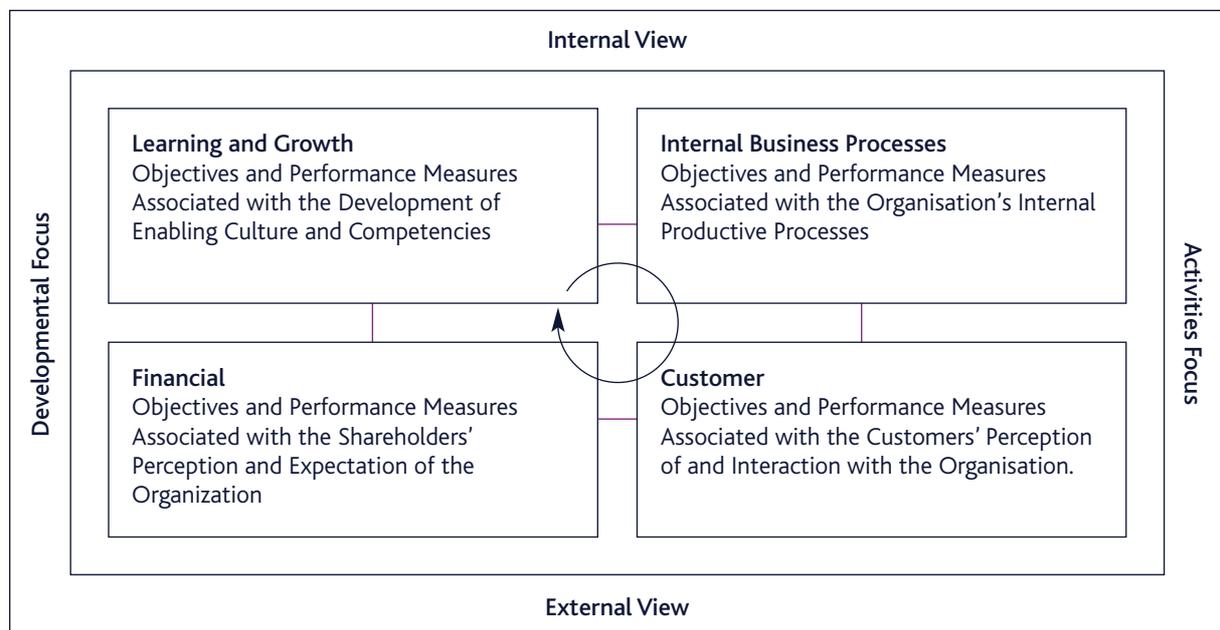
2.1 Balanced Scorecard Quadrants

The generic Balanced Scorecard proposed by Kaplan and Norton (1996a) consists of four interrelated quadrants, each containing objectives and measures from a distinct perspective (see Figure 3). These perspectives are termed:

- Financial
- Customer
- Internal Processes
- Learning and Growth

The scope of these perspectives is designed to cover the whole of the organisation's activities both internally and externally, both current and for the future.

Figure 3 : The Balanced Scorecard Quadrants



Once it has been formulated, the organisation's strategy is translated into specific objectives that can be classified within each of these four perspectives. Once these objectives have been identified, appropriate quantitative measures are

devised to report and monitor the success in achieving these objectives. Table 3 lists examples of objectives and measures that may appear in each of the four measurement perspectives.

Table 3: Examples of Quadrant Objectives and Measures

Learning & Growth		Internal Business Processes	
Objectives	Measures	Objectives	Measures
'To value our staff'	Employee Retention Index	'To continually challenge competitor products in the market place'	Time to Market for Next Generation of Products
'To maximise productivity'	Output per Head	'To compete on product reliability'	Production Defect Rates
'To develop a skilled workforce'	Number of Training Hours Completed Per Head	'To compete on competitive logistics capabilities'	Stock Replenishment Cycle Times
'To provide internal information'	Information Availability Survey Index	'To compete on product delivery channel mix'	Volumes of Transactions Conducted Through Each of Our Delivery Channels
'To create organisational alignment'	Peer Evaluation Measures Within / Between Teams	'To capture a unique supply chain'	Percentage of Supplier's Revenue Dependent on Us
'To cultivate a core competence in ...'	Skill and Technology Measures Related to Desired Competence	'To reinvent our value creation system'	Benchmarking Index for Supplier of Outsourced Activities
Financial		Customer	
Objectives	Measures	Objectives	Measures
'To achieve a higher return on investment'	ROI, ROCE	'To dominate our major markets'	Market Share
'To see significant revenue from our new product launch'	Revenue Growth on Selected Product Lines	'To delight our targeted customers'	Customer Satisfaction Survey Results
'To maximise profitability per transaction'	Unit Costs	'To increase revenue through repeat purchases'	Customer Retention Over Time
'To minimise our cost of obtaining funds'	Credit Rating	'To grow our business in a selected target group'	Customer Acquisition From Target Group
'To delight our shareholders'	Value Added Measures	'To add margin through image or fashion'	Marketing Spend as a Percentage of Sales
'To improve our cash flow'	Creditor Days	'To build customer recognition'	Corporate Image or Brand Awareness Polls

Suggested Measures: Kaplan and Norton (1996a)

2.2 The Financial Quadrant

The concept of using a balanced portfolio of both financial and non-financial measures does not detract from the importance of financial outcomes. Financial results have their own, if incomplete, message to tell and Kaplan and Norton (1996) see the Financial quadrant as acting as the focal point or culmination of all the objectives and measures in the other three Scorecard quadrants.

As previously explained, some experts such as Jensen (2002) eschew the Balanced Scorecard in favour of more 'shareholder value' oriented models. However, managers are not forced into an 'either or' choice because, as Kaplan and Norton suggest, the Balanced Scorecard is a template not a straight jacket. As can be seen from the many examples in this guidebook the Scorecard can be adapted to reflect any strategy and the Financial quadrant can readily accommodate both operational and shareholder derived measures.

It may even be argued that designing a Balanced Scorecard may provide the catalyst that spurs organisations to review their financial measurements and to select those that best reflect their strategy and incentivise their managers to achieve it.

2.2.1 The Public Sector

Although experts such as Olve, Roy & Wetter (2001) suggest alternatives to the financial quadrant for public sector bodies, this is not necessarily appropriate. After all, no publicly funded body acts in a financial vacuum and there will be pressure to confirm that 'value for money' is being achieved.

This is certainly the case in the current environment with the government appearing to prefer what Moore (1998) describes as:

'cost effectiveness analysis which find their standard of value not in the way individuals value the consequences of government policy but instead in terms of how well the program or policy meets objectives set by the government itself'.

Unfortunately, although the public sector has well established principles for evaluating public policy in respect of tax choices etc. (Cullis & Jones, 1998), it does not appear to have evolved operational financial measures such as those used by private sector managers and analysts. However, the modern public sector organisation generally has a wealth of data at its disposal that can be converted into financial data and measures that will help to drive the organisation in the direction of its strategy and policy objectives. The research showed that a typical public sector financial quadrant would include measures that indicate:

- Money has been spent as agreed and in accordance with procedures;
- Resources have been used efficiently; and
- Those resources have been used to achieve the intended result.

The Accounts Commission for Scotland has also developed a very useful guide to designing Scorecards for use in the public sector.⁵

2.2.2 The Commercial Enterprise

The following paragraphs highlight some of the key financial measures that could be used in the financial quadrant of a commercial or 'for profit' organisation. The quadrant may include measures that show how well an organisation is being run at the operating level and how well it is being run from the shareholder point of view. Although both perspectives rely on measurements of cash flow and profitability, they will have a different focus. It is likely that operational level analysis would start with operating profit before interest and tax whereas the shareholder analysis is likely to be centred on earnings after all such charges have been included.

There are a plethora of measures and a considerable ongoing debate about the most appropriate financial indicators. The Financial Times' publication, 'Financial Performance Measurement and Shareholder Value Explained' provides a thorough review of the various measures and their respective strengths and weaknesses.⁶

⁵ The Measures of Success: Developing a Balanced Scorecard to Measure Performance.(available on Audit Scotland web site: www.audit-scotland.gov.uk)

⁶ Warner,A., Hennel,A. (1998), Financial Performance Measurement and Shareholder Value Explained,London, Financial Times Management

Operational Measures**Ratio****Explanation****Weaknesses****Profit and Return on Sales (ROS)**

Operating profit/
Sales income

Perhaps the simplest and most widespread operational measure in the private sector is profit or return on sales (ROS). It is calculated by expressing the operating profit as a percentage of the sales income. Operating or trading profit is simply the monies left once the costs of producing and selling the product have been deducted from the sales income. As all the numbers come from the profit and loss account it is relatively easy to calculate and it can be used by managers to give a high level indication of progress and competitive position.

- ROS varies from industry to industry and it can be misleading if used to compare organisations.
- It concentrates solely on the profit and loss account and does not highlight cash flow or balance sheet issues.
- It does not give managers an insight into the investment required to generate the sales, interest paid, or tax issues.
- Increasing ROS does not necessarily lead to the creation of shareholder value.

Return on Capital Employed (ROCE)

Capital Employed = Fixed
Assets + Stock + Debtors –
Creditors

Return on capital employed is a more comprehensive measure than return on sales as it links the operating profit to the capital invested. The ROCE is calculated by expressing the operating profit as a percentage of the capital employed. The term 'capital employed' is not tightly defined and this has given rise a wide range of labels and definitions including return on capital (ROC), return on investment (ROI) and return on net assets (RONA). Although different organisations tailor the definition of capital employed to reflect their particular environment, a simple and robust calculation is provided by the formula opposite.

ROCE, ROI, RONA provide a link between the balance sheet and the profit and loss account and the actions of increasing profit and reducing assets required to increase ROCE should also improve cash flows. However, the use of ROCE/ROI/ RONA ratios have a number of weaknesses that can mislead and distort decision making, particularly when linked to manager reward systems. Emmanuel & Otley (1990) highlight the major difficulties with these ratios and offer a number of alternatives.

- ROCE can be very misleading if used to compare organisations or divisions operating in different market segments or areas where differing accounting standards are applied.
- The issues of asset valuation and the treatment of acquired goodwill are problematic and unless fully explored may make valid comparisons very difficult.
- It can encourage managers to favour shorter-term strategies that reduce capital investment with a resulting negative impact on the future of the business.
- It is not a useful measure for organisations with low levels of tangible assets e.g. consultancy firms, recruitment agencies etc.
- There is little correlation between ROCE and shareholder value.

The preceding table highlights that whilst a number of the measures may be useful performance indicators they are of limited use as drivers of shareholder value. Stakeholder ratios can also be resolved into two main groups; ratios derived from the organisation's accounts and ratios that link the organisation's accounts and stock market values. The following table gives a brief overview of these measures. For readers wanting a more detailed explanation the Financial Times guide will again prove very useful.

Shareholder Ratios

Ratio	Explanation	Weaknesses
Ratios derived from the Public Accounts		
Return on Equity (ROE) PAIT/ Ordinary share capital + Reserves	Return on equity is quite similar to ROCE and is calculated by expressing the annual earnings as a percentage of the shareholders' equity. The annual earnings are defined as the profit after interest, tax and all charges other than ordinary dividends. In this context equity is defined as the amount of cumulative share capital and retained profits that have been invested in the company since its foundation.	<ul style="list-style-type: none"> ● It is only a useful measure for shareholders who have been with the company since its foundation. ● Like ROCE there can be problems with the valuation of fixed assets and variations in the treatment of goodwill. ● ROE does not take account of share value in the stock market. ● The correlation between ROE and shareholder value is relatively low.
Earnings per Share (EPS) Earnings/Shares	This very popular measure is calculated by expressing the annual earnings as a percentage of the average shares in issue during the year. It is a simple calculation and very much a favourite with stock market analysts and the boards of public companies as it gives a robust indicator of the market's view of the company.	<ul style="list-style-type: none"> ● It is not a useful measure for comparing different companies as different companies are likely to have issued very different numbers of shares. ● It can encourage managers to manage stock market perceptions by holding back on the issue of new shares or by share buyback.
Dividend Cover Earnings/Dividend	This is an important measure for shareholders who focus on dividends paid as it highlights the proportion of earnings paid out in dividend. It is usually expressed as a multiple.	
Ratios linked to Stock Market Information		
Ratios based on stock market information can change every day as prices change to reflect market influences and perceptions. Whilst measures derived from published accounts can be influenced by managers, measures determined by stock market variables are much more difficult to manipulate.		
One of the key components of any stock market derived measure is market capitalisation and this can be simply expressed as the product of the total shares issued and the current share price. It is a useful measure as it normally provides the starting point for calculating the sums required for mounting a take-over bid for a public company.		
Price to Book Ratio Market capitalisation/Shareholders' equity		The ratio is only useful for comparative purposes in the context of a specific market sector but as a general rule from the shareholder perspective, the higher the multiple, the better.
Price Earnings Ratio Current share price/Earnings per share		The price to earnings ratio is usually expressed as a multiple and is probably the most useful comparative measure in the stock market. It provides a useful indicator of future expectations and the higher the multiple the more the market expects of future performance. Price earnings ratios again provide the best comparisons when benchmarked against companies in the same market sector.
Dividend Yield Dividend per share/Current share price		The dividend yield is expressed as a percentage. It is important to investors who are more interested in immediate income than capital growth.

Free Cash Flow

Although operational measures take account of operational cash flow, shareholders and analysts are likely to be more interested in full cash flow or, as it is sometimes called, free cash flow. The objective of calculating free cash flows is to assess what is available for shareholders before deciding on the distribution of discretionary profits. According to Hennel and Warner (1998) free cash flow analysis is a useful indicator if a company is generating enough cash to provide future value for its shareholders.

As one might imagine a negative or low cash flow projection may be an indication of trouble ahead. However, capital expenditure and the treatment of goodwill can distort the measure and analysts may attempt to account for any unusual fluctuations and normalise the capital expenditure figure.

A number of financial commentators have attributed the emphasis on cash to concerns and debates about the validity of conventional accounting measures and the issues surrounding the treatment of goodwill in company accounts. As a result of these concerns, analysts and business leaders evolved measures that embrace the more traditional profit indicators, cash flows and shareholder value. Perhaps the most prominent of these measures are economic value added (EVA) and market value added (MVA).

Economic Value Added (EVA)

A good basic formula is

EVA = Post-tax profit – a charge on capital employed

Although economic value added is heralded as a new measure, it is in reality a long established measure given a new acronym. In its original format the measure was called residual income (RI) and was in fairly widespread use in the USA in the early years of the 20th century. EVA and RI are closely linked by their objective of ensuring that the total costs of resources consumed in the period, including the cost of capital, are included in any profit calculation.

As a result of the focus on the cost of capital the EVA measure is very useful for bringing balance sheet issues into the profit and loss account and consequently raising their profile with managers. Unlike some of the more traditional measures which are expressed as multiples or percentages, EVA is expressed in actual monetary values and consequently can be a very meaningful management objective.

EVA can also be a very useful measure for evaluating whether new opportunities, business streams or investments will add value to a business. It can also send out a strong signal to analysts that the company has a strong focus on preserving or growing shareholder value. However, it is worth noting that despite its many benefits EVA is not a simple measure to understand. There can be a wide variation in the factors included in calculating profit and capital employed. Hennel and Warner (1998) report that a leading consultancy has identified 'a possible 164 adjustments which can be applied to the profit or capital employed numbers before arriving at EVA.'

Market Value Added (MVA)

The following formula has been generally accepted:

Current MVA = Present value of future EVAs

MVA is similar to both EVA and the price to book ratio. MVA is expressed as a money surplus rather than as a multiple and is a robust measure of value created. It can give a very clear indication of the link between shareholder value and management actions, and is generally accepted as a better indicator of longer term potential than EVA.

Lehn and Makhija (1996) provide a useful overview of EVA and MVA as well as providing an interesting insight by linking EVA and MVA to the rate of removal of Chief Executive Officers. Fera (1997) also provides a good overview of EVA and MVA and how they can be used as a tool for evaluating strategic choices.

2.3 The Customer Quadrant

In today's competitive markets, the key emphasis for most executives will be the customer. Many organisations have taken up the challenge of focusing on customer satisfaction, identifying customer needs and re-engineering their business capabilities from the customer interface. Many of the inspiring mission statements formulated by organisations will emphasise a commitment to delighting the customer at every turn. If these goals are to be achieved in a profitable business context, organisations need to monitor and manage their interaction with their chosen customer base. In the public sector there is, at least conceptually, the requirement for a customer focus and this is clearly outlined in contemporary government policies and their emphasis on stakeholder participation. (Many public sector organisations are uncomfortable with the word 'customer' and prefer to think in terms of recipients of their services, citizens, or stakeholders).

The objectives recorded within the Customer quadrant of the Balanced Scorecard may be both contemporary and future orientated. They may relate to both existing and potential customers and markets. Table 3 provides some examples of customer objectives and measures. Measures of customer satisfaction record the success the organisation has achieved to date in pleasing its existing customer base with its products and services. These measures may be collected through appropriate customer surveys. Measures of customer loyalty and retention can provide management with an insight into longer-term trends in its association with these customers. Measures of attitudes towards the organisation and levels of recognition within selected segments of the public can help identify markets for the future.

The key to selecting the most appropriate Customer quadrant objectives and measures is the identification of 'customer value propositions' that will meet the needs of chosen customer segments. In his best selling book *Competitive Advantage: Creating and Sustaining Superior Performance*, management guru Michael Porter states:

'An organisation's competitive advantage grows fundamentally out of the value a firm is able to create for its buyers that exceed the firm's cost of creating it. Value is what buyers are willing to pay'.
(Porter, 1985)

Porter (1980; 1985) describes how buyer value is created and imparted into goods and services through an organisation's value chain and how, in a competitive market, that value is made representative within the price paid at the time of purchase. From the customer's perspective, however, it should be remembered that 'value' is experiential. Public sector organisations also have value chains and 'leading edge' thinking in public organisations, such as the NHS, is encouraging health care providers to consider their service as it might be perceived by the patient travelling along the chain. The case study of English Nature in the Appendices, describes how it set about mapping and clarifying its value chain.

A customer's perception of the value received from the purchase will vary over the consumption lifespan of the product or service in question. The Customer quadrant of the Balanced Scorecard may be used to shed light on the customer's perception of the 'value' they receive from the attributes of the products or services that they purchase or receive.

To achieve sustained competitive success however, companies need to be focusing on far more than their current products and customers. Companies should strive to continually surprise their customers with products which meet needs that they never even knew they had (Hamel and Prahalad, 1996:118). In competing for future success, organisations need to be continually developing the value propositions to be made available to their customers for years to come.

2.4 The Internal Business Processes Quadrant

The Internal Business Processes perspective is about 'doing'. Objectives and measures in this quadrant of the Scorecard focus on the operational aspects of an organisation's activity. Non-financial measures are commonly used for monitoring operational processes; for example, in terms of quality, timeliness and output volumes. Such measures, in conjunction with activity based costing systems, provide a mechanism for control and improvement of an organisation's processes. It is in this quadrant that public sector organisations are likely to include measures relating to service delivery.

For the commercial company enhanced operational processes are a necessary but not sufficient condition for competitive success. In his 1996 Harvard Business Review article, 'What is Strategy?' Michael Porter draws a clear distinction between the need for operational effectiveness and strategic positioning. He notes that:

'The quest for productivity, quality, and speed has spawned a remarkable number of management tools and techniques: total quality management, benchmarking, time-based competition, outsourcing, partnering, re-engineering, and change management. Although the operational improvements have often been dramatic, many companies have been frustrated by their inability to translate those gains into sustainable profitability... A company can outperform rivals only if it can establish a difference that can be preserved'.

In the Balanced Scorecard of a commercial business, the Internal Business Processes objectives and measures should not focus solely on enhancing processes per se but should also focus on those capabilities that deliver competitive advantage. The objectives and measures should cover such areas as bringing new products to the market, production operations, logistics and delivery channels. Corporations in the computer industry for example, seek competitive advantage through the rapid development of new products that effectively make current products obsolete. Other manufacturing organisations may seek to differentiate their products on the basis of longevity and reliability and may need to focus on low-defect production quality measures and objectives. By contrast, Stalk, Evans and Shulman (1992) emphasise the way in which supply chain logistics capabilities can become the heart of competitive strategy in the retail industry. Within the financial services industry, objectives and measures relating to delivery channel usage are playing an increasing role in identifying competitive strategies.

2.5 The Learning and Growth Quadrant

The Learning and Growth quadrant focuses on enabling the organisation. The objectives within this perspective deal with the cultivation of an infrastructure for future development and organisational learning. These objectives deal with the strategic investment in people, processes, information systems and organisational culture. The identification of the key strategic measures to be used in this quadrant represents a challenge for management. Although most businesses would agree with the logic of investing in skills training and efficient information systems, it is not always clear how to identify the strategic significance of 'soft' issues such as team motivation, creativity cultures and knowledge management. Table 3 provides some examples of objectives and measures within the Learning and Growth quadrant.

Kaplan and Norton suggest that Learning and Growth measures should deal with issues of employee skills, motivation, and organisation alignment and information systems capabilities. In their research of US corporations, however, they discovered that the Learning and Growth quadrant was the most under-utilised. In 1996 they concluded that,

'When it comes to specific measures concerning employee skills, strategic information availability, and organizational alignment, companies have devoted virtually no effort for measuring either the outcomes or the drivers of these capabilities' (1996a: 144).

With issues such as human capital (Stewart, 1997), employee empowerment (Simons, 1995), and the 'strategizing' contribution of the individual (Hamel, 1996) increasingly on the management agenda, the Learning and Growth quadrant has an important role to play in the control of modern business. In their best selling book, *Competing for the Future*, business professors Gary Hamel and C.K. Prahalad (1996) put another slant on this notion of an enabling infrastructure. They suggest that the key to competitive success over time is to cultivate hard to replicate core competencies that can be leveraged to make a disproportionate contribution to customer-perceived value. Core competencies are defined in terms of bundles of skills and technologies that are resident across an entire organisation (Prahalad and Hamel, 1990). A core competence represents the sum of learning across individual skill sets and individual organisational units' (Hamel and Prahalad, 1996:223).

The Learning and Growth perspective may therefore be applied to monitor the acquisition, cultivation and exploitation of core competencies (Aisthorpe et al, 1998). With an enabling infrastructure in place, the organisation will need to apply this potential into developing the key internal processes at which it must excel in order to meet its customer objectives or service delivery agreements.

2.6 Outcome Measures and Performance Drivers

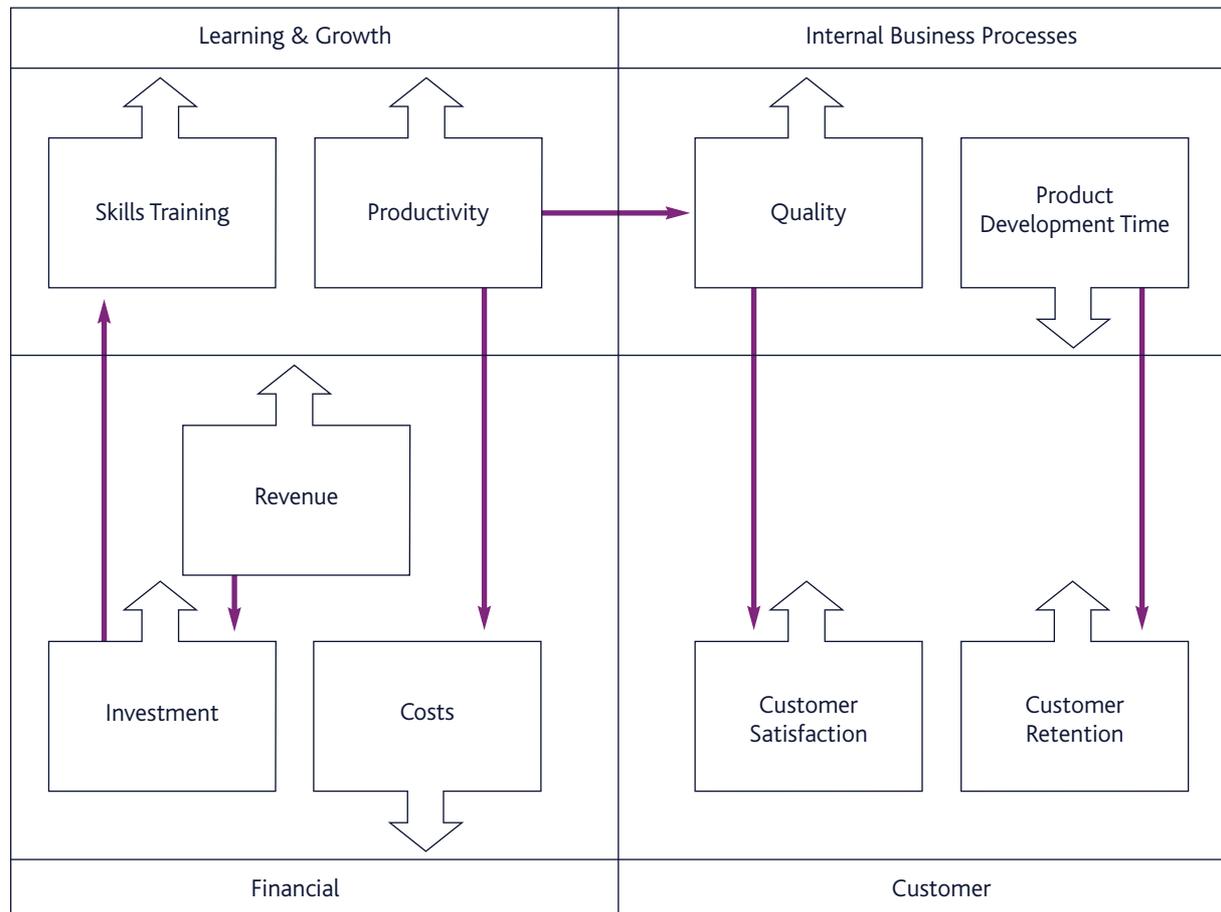
In the Balanced Scorecard there are generally two types of measures. The first are sometimes referred to as 'outcome measures' because they describe the results of past actions, such as the utilisation of resources or activities performed. This type of measure is normally found in the 'higher' quadrants of a traditional Scorecard – Financial and Customer. The second are referred to as 'performance drivers' because they represent hypotheses about actions that will determine or influence future outcomes. For example, if we improve staff training we will retain customers and earn higher margins. Well-designed Scorecards will attempt to combine outcome measures and performance drivers within and between quadrants.

2.7 Linking the Quadrants: Cause and Effect Relationships

Kaplan and Norton's (1996a) research highlights the cause and effect linkages between the measures in the various quadrants. When designing Scorecards, attention needs to be given to the understanding of cause and effect linkages. Figure 4, overleaf, shows some hypothetical linkages that may exist between performance measures in the various quadrants. For example, it may be hypothesised that an increase in production quality may flow through into a rise in customer satisfaction measures.

Some relationships between measures may be verified through experience and analysis. The perception of the validity of the linkages will often be strongly influenced by the time allowed for the desired effect to materialise. For example, solving a shortage of staff in an NHS hospital by implementing training may take several years; whilst reducing product development time could quite quickly influence customers' perceptions of a commercial organisation. Although cause and effect terminology can make linkages seem deliberate and positive, this may not in fact be the case. It is unlikely that managers will be able to anticipate all the effects of their actions and there may well be some unexpected and negative side effects. Organisations will need to remain watchful and ready to respond.

Figure 4: Hypothesising Linkages between Scorecard Measures



Each quadrant of the Scorecard reflects a key focus and the measures in each quadrant should be selected such that there are no 'perverse' measures; i.e. measures do not conflict with each other. However, it should not be assumed that all of the measures must necessarily be related to each other. As Olve et al (1999) comment,

'If we could relate all measures to each other, then we could put a monetary value on computer literacy or customer service for example'.

Kaplan and Norton (1996a) emphasise the Financial quadrant as the focus of all the objectives in the three other quadrants and, for many organisations, the Financial quadrant may also determine the pace at which strategic change can take place. For example, if an organisation needs to generate cash flow, this will set the priority for action. Similarly, if a public organisation is in danger of overspending its budget, it may have to compromise certain objectives and prioritise its actions.

Key Points:

- The Balanced Scorecard encourages managers to consider a portfolio of both financial and non financial measures.
- Balanced Scorecard measures are linked to the organisation's strategic objectives.
- The generic Balanced Scorecard contains four quadrants: Financial; Customer; Internal Business Processes; Learning and Growth.
- Contemporary Scorecard designs increasingly reflect the importance of the customer's (or citizen's) perspective.
- Balanced Scorecard measures should reinforce each other.

3. Balanced Scorecard Foundations

Whilst there may be many reasons for an organisation adopting a Balanced Scorecard, seeking to effect change which results in performance improvement is likely to be high on the list. As we have seen, the motive for Scorecard implementation is inexorably linked to organisational strategy. To make effective changes, an organisation needs to seek clarity in a number of interrelated areas if the resulting Scorecard is to provide a cohesive route to its chosen objectives.

3.1 Vision and Values

The organisation needs to have a clear and concise view of its purpose or mission; the reason why it exists, and the core values that will guide its actions. It needs a clear vision of how it wishes to evolve and a strategy of how to get there. Kakabadse (2001) describes a process he calls 'visioning' by which the key actors in an organisation reach a consensus about the future of the organisation. Whether an organisation is in the private or public sector, it is unlikely that it will have the ability to formulate a vision without taking account of a wide range of stakeholders. Senge (1990) also makes an invaluable contribution to the understanding of the process of building a shared vision and the role of mental models in his seminal work, *The Fifth Discipline- The Art & Practice of The Learning Organisation*.

3.2 Stakeholder Analysis

A stakeholder is defined, in the broadest sense, as anyone who has a legitimate interest in the performance of an organisation. Some will have more power than others and the prudent organisation will identify all of its stakeholders, rank them in a hierarchy and develop a process to understand their needs and aspirations. For the private sector organisation, the primary stakeholders are likely to be its shareholders and its key customer groups. Research conducted for this report shows that, for most organisations, strategy formulation remains an essentially internal process. This presents a challenge to organisations, particularly to the public sector where the Government is keen to establish much more stakeholder participation. The case study of Mersey Travel in Appendix 3 describes how one organisation has tried to reflect the views of a wide range of stakeholders in its planning and measurement processes.

3.3 Strategy Formulation

Once the organisation has clarified its vision, the core values of the organisation will define the manner in which the organisation will move towards that vision of the future. A detailed plan of 'how to get there' is then laid out in the organisation's strategy formulation. As part of this undertaking, the organisation may also need to clarify its ethical position, and unless its values reflect a culture of trust, empowerment and team working, it is unlikely that all the benefits of the Balanced Scorecard process will be achieved.

Whilst it is beyond the scope of this guide to detail the extensive literature relating to organisational strategy, there are a number of fundamental issues that need to be considered before starting to build a Scorecard. The first of these is the ongoing debate as to the relationship between the formulation of strategy and its implementation. This distinction between the 'determination of goals' and 'the adoption of courses of action necessary for carrying out these goals', was acknowledged as early as Chandler's (1962) popularisation of the concept of business strategy.

3.4 The Theory of Strategic Choice

This separation of strategy roles is often played out in accordance with the Theory of Strategic Choice, which states that organisations change in accordance with the vision, ideas and objectives of its strongest members (Stacey, 2000). The phenomena is often caricatured as the members of the senior management team locked in a darkened room until they develop the strategy that will subsequently be implemented by the rest of the organisation.

The management literature of the 1990s highlights this issue and advocates that strategy formulation should not be confined to the top of the organisational pyramid. Rather, strategy should enjoy a much wider constituency of participants in order to maximise the creative and informational input (see Simons, 1995; Hamel, 1996; Stacey, 2000; Stewart, 1997). The modern literature further claims that as today's corporations have to operate in increasingly dynamic and turbulent environments, strategy needs to be both forward looking and change orientated (Hamel & Prahalad 1996).

Industry case studies conducted for this report confirm the prevalence of the orthodox approach in UK organisations. In the cases examined, the organisations maintained a distinction between formulation and implementation, with the senior teams developing the strategy and then grappling with the issues of communicating and aligning the rest of the organisation to the strategy. There were some notable exceptions, with the case studies revealing that a few of the organisations had gone to considerable lengths to involve a broad cross section of staff in the strategy formulation process. For example,

'We set up a series of working groups effectively in all of the management areas in the business. Their challenge was to look at performance measures that were already used and decide whether those were adequate or whether they required change. The guide that was given was to say, think about what you actually talk about in terms of performance when you have your management meetings' (Major Power Company).

3.5 Strategic Architecture

Having noted that the strategy upon which the Balanced Scorecard process is based needs to be dynamic and future orientated, it is worth briefly considering a modern strategy formulation approach that encapsulates these principles. Hamel and Prahalad (1989; 1993; 1996) postulate a strategic management framework in which organisations pursue future competitive success through the re-invention of their markets and the deployment of 'core competencies' (Prahalad and Hamel, 1990). They call the formulation process through which an organisation translates its current core competencies into future competitive success, 'Strategic Architecture' (Hamel and Prahalad, 1996:117). Strategic architecture represents the information road map of the organisation's progress towards its anticipated competitive ambitions. Indeed, Hamel and Prahalad emphasise that,

'Strategic architecture is a broad opportunity approach plan. The question addressed by a strategic architecture is not what we must do to maximise our revenues or share in an existing product market, but what we must do today, in terms of competence acquisition, to prepare ourselves to capture a significant share of the future revenues in an emerging opportunity arena' (1996:121).

The road map to future success not only emphasises the organisation's destination but also informs about the route necessary to achieve it.

Whilst the appeal of capturing forward competitive success is compelling, Hamel and Prahalad's method for formulating strategy content presents certain difficulties. First, concepts which work well at a corporate level and generically between industries, may be difficult to translate into actual resource allocations in specific organisations (Hamel and Prahalad, 1996:223). Managers must be able to encapsulate and 'take hold of' information about core competencies and future competitive ambitions in a tangible way if they are to be managed. Second, a method is required to communicate strategic architecture throughout the organisation in order for it to form the basis of a shared dialogue about strategy and to generate strategic alignment.

One useful methodology which aids the 'solidity' of grasping strategic architecture construction and also creates a robust communication platform for strategy, is the use of 'Strategy Objects' (Littler et al, 2000). The methodology breaks down both strategy formulation and implementation monitoring into common building blocks. The 'gaps' between strategy formulation and implementation may be overcome by constructing the organisation's strategy for future success and its performance measurement system from these common elements.

3.6 Steps to Strategic Success

There are many different approaches to the formulation of strategy, but many strategists would agree key steps along the path to success include:

- Translating strategic vision into goals, objectives and measures;
- Identifying and adopting the courses of action, resource allocations and necessary routes to achieving these objectives;
- Communicating this vision to all relevant stakeholders and building consensus; and
- Monitoring and managing the implementation of these activities.

Key Points:

- The organisation needs to have a concise understanding of its purpose and core values.
- Prudent organisations conduct stakeholder analysis and understand stakeholders' needs and aspirations.
- Strategy formulation should not be confined to the top of the organisational pyramid.
- The Balanced Scorecard can provide a common language and architecture for formulating strategy.

4. Balanced Scorecard Implementation

Having been through the difficult process of formulating a strategy, the organisation needs to ensure that it has a systematic method for translating its newly developed strategy into operational objectives and measures. This is a critical transition and one that many organisations fail to make. In their book 'The Strategy Focused Organization', Kaplan and Norton (2001) provide evidence that the ability to execute strategy is more important than the quality of the strategy itself. They cite the frightening statistic,

'that only ten percent of effectively formulated strategies are successfully implemented.'

4.1 Executive Commitment

If this common experience is to be remedied, there are a number of key issues that will have to be addressed; but perhaps the most fundamental to successful strategy implementation is the total and visible 'buy in' of all members of the senior management team. The IIBFS research demonstrated that a number of change projects have run into difficulties because of a lack of commitment from senior management. An executive from a major power company made the following comments:

'We had one sort of false start in introducing it [the Balanced Scorecard]. The executive at that time was still very much preoccupied with managing the 'old world', which was a predominant thing, so they weren't really very enthusiastic about it'.

A similar problem was seen in water utility:

'It was a very drawn out process really and one of the key killers was that there was no support at the top table ... it was just another initiative like EFQM ... we didn't have significant buy-in. I think the buy-in was one of the critical items in the process'.

Some organisations gave a distinct impression that the Balanced Scorecard was only for middle management and below. The main board would concern themselves with the measures important to the 'City'. Quite how these organisations were seeking to achieve their strategic objectives was not apparent but there must have been significant difficulties in convincing employees to 'buy in' to a process that their leaders overtly disregarded.

4.2 Getting Started

The organisation needs to have the commitment of the senior executives and key opinion formers before it can start to develop its Balanced Scorecard. Once this is achieved there are a number of important stages to implementation. These suggested stages, along with some potential anticipated time requirements, are illustrated in the chart below.

The chart below can only be indicative of the time requirements. The actual requirement will be dictated by the main constraint, which is typically seen to be the availability of senior executives. This in turn will be dictated in some measure by the weight of emphasis the organisation's leaders give to the Scorecard process.

Figure 5: Key Phases in Scorecard Development

	Action	Duration Days	Month 1	Month 2	Month 3	Month 4	Month 5
1	Appoint champion	1	■				
2	Select implementation team	1	■				
3	Decide organisation units	1	■				
4	Overall scorecard design	7	■	■			
5	Interview & brief key players	21		■	■		
6	Refine strategy objectives	3		■	■		
7	Synthesise results of action	1			■		
8	Senior management workshop	1			■		
9	Agree SMART measures	5			■	■	
10	Sub group meetings	20			■	■	
11	Strategy mapping	7				■	
12	Draft scorecards	5				■	
13	Second workshop	1				■	
14	Agree all measures	7				■	
15	Devise appropriate reward system	3					■
16	Design implementation plan	5					■
17	Start implementation or pilot	1					■

4.3 A Scorecard Champion

Research indicates the importance of appointing a 'champion' or sponsor for the Scorecard process to act in the role of architect, and to lead the organisation through the implementation phase. Whilst it is not necessary for the architect to be a member of the top team, research has shown that this is a pivotal role requiring a strong and influential leader who can influence all levels in the organisation.

4.4 Choosing the Implementation Team

Once the champion has been selected, they will typically draw together a team to assist with the design and implementation stages of the Scorecard process. In many cases, a Scorecard system will involve people from different departments or functions within an organisation. It is important that all the diverse interests involved feel some sense of ownership for the project. A major pharmaceutical company took this approach:

'We set it up as a multi-functional team with a sponsor who actually is the Supply Chain and Manufacturing Director...right from the word go we wanted to make sure that the manufacturing and commercial people both had a stake in what we were doing ...'.

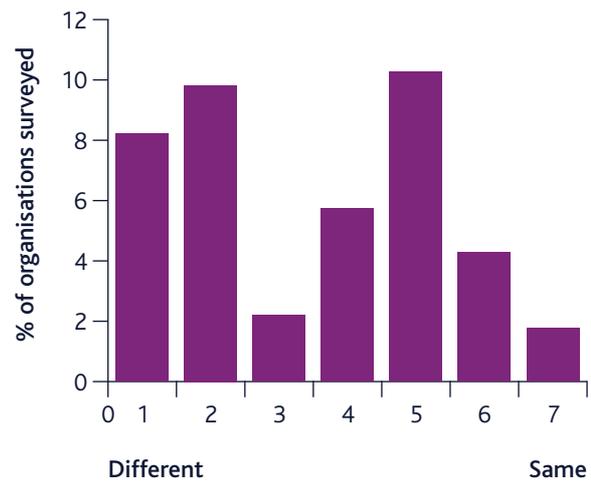
As well as a careful blending of functional skills, such as IT and human resources, it is worthwhile considering the personalities of the team members. Personality profiling (such as the Belbin process) will assist the architect in constructing a well balanced team.

4.5 The Overall Scorecard Structure

The next phase of the Scorecard process is for the overall structure of the Scorecard template to emerge from the team's deliberations. Research indicates that development teams do not need to be constrained by the template of the Scorecard as originally postulated. Whilst the Kaplan and Norton Scorecard process evolved around their four quadrants, many of the UK organisations used a different number of perspectives. This is highlighted in the survey results shown in Figure 6, opposite.

Figure 6: Conformance with the Generic Scorecard Design

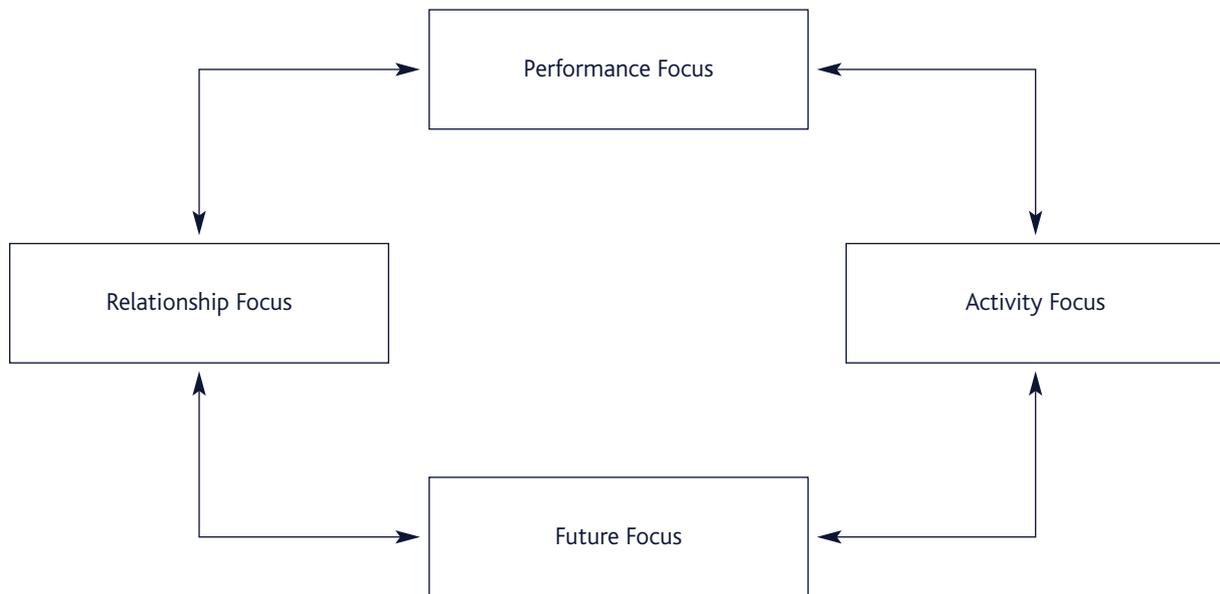
How closely does the design of your performance management system conform to the Balanced Scorecard as defined by Kaplan and Norton?



4.6 Quadrants

The most common deviation from the generic model is the number of Scorecard perspectives (for example, quadrants) and their focus. Many public sector organisations remain, for example, uncomfortable with the enduring prominence given to financial performance measures and commentators have suggested alternative designs that such organisations might be more comfortable with (Olve et al, 2000).

Figure 7: Alternative Scorecard Perspectives



In this alternative model:

- The financial sector is replaced by a performance focus recording the achievements of the public sector organisation;
- The customer focus is replaced by a relationship focus recording the organisation's interfaces with the citizens it serves;
- The activity focus records the internal activities of the organisation; and
- The future focus is similar to the learning and growth perspective and directs the public sector organisation's thoughts to the future. This will encompass demographic issues such as the future requirement for schools and roads. It will also consider the skills required for the future. For example, local government may have to consider the training and skill implications of 'E' government.

The choice of perspective could be directed and clarified by the organisational strategy, but the architect will need to ensure that the quadrants or equivalent are agreed before moving on in the process. Customisation, in general, allows a company to adapt the basic framework whilst adhering to conceptual ideas. In fact Kaplan and Norton (1996a) state:

'The Balanced Scorecard must reflect the structure of the organisation for which the strategy has been formulated'.

In attempting to reflect the structure of the organisation, the architect and the design team must evaluate if it is desirable and feasible to cascade the Scorecard structure down through the organisation, or across business functions. They also need to decide to what extent it is possible to tailor the Scorecard to the different levels of an organisation and for different divisions or departments without losing sight of the overall strategic priorities and objectives.

4.7 Cascading the Scorecard

There are clear theoretical advantages to cascading the Scorecard down through an organisation. It can encourage commitment to, and alignment with, the organisation's strategic objectives. It is important that the Scorecard templates in use are relevant to the actual activities of the people at the level to which it is addressed. If the Scorecard template is seen as too abstract or far removed from the actual work situation, it is likely to fall into disuse. On the other hand, it is important that the Scorecard templates are not set up in a purely expedient way, simply to provide some structure to the day to day activities of particular groups of employees. Throughout an organisation, scorecard templates should be designed with the overarching aim of being truly aligned with the strategic objectives.

Many organisations consider that it is advantageous for their employees to have an understanding of the strategy and their role within it. In some cases it is acknowledged that resources will be expended in creating this understanding, but this can be regarded as an investment for the future. For example, a major brewer expressed the following comment:

'We are investing a lot of time, in a practical sense, so they [employees] can be aware of everything that makes the numbers work'.

4.8 Scorecard Templates for Different Organisational Levels

Different approaches may be taken towards devising Scorecard templates for different organisational levels. To some extent, it appears there may be a trade off between obtaining the greatest possible strategic alignment for the whole organisation, and ensuring that each level is addressed by a Scorecard template which is closely tailored to the operational needs of that level.

The use of the Scorecard by the leisure retailing division of a major brewer provides a good case study of an organisation that has developed a number of Scorecard templates that are closely tailored to the specific operating circumstances of different levels. Within this division there is a hierarchy of Scorecards designed to match the organisational structure. Separate Scorecards operate at:

- Divisional level;
- Retail business manager level (covering between 8 and 22 retail outlets); and
- The individual retail outlets.

A key feature of the Scorecard system is that both the form and content of the Scorecard varies between each level reflecting the different management tasks predominant at each level.

The division level Scorecard is strategic in focus and closely aligned with the company's strategic aims, which were, in the example of the leisure and retail division, to reposition and expand the estate function and to improve employee productivity and motivation in order to maximise profits at the retail level. At the 'retail business manager level' the management task is partially shifted from strategy towards operational control and performance. The associated Scorecard therefore differs substantially from the divisional Scorecard.

There are linkages between the two Scorecards but the alignment of the four Scorecard perspectives is quite unlike that of the divisional Scorecard. The Scorecard, at this level, is used as a performance contract. The remuneration of the retail business manager is assessed on the basis of the success achieved in meeting targets across the four key dimensions of the Scorecard. At the 'outlet level' the focus of the Scorecard is on the promotion of teamwork and service delivery. The outlet Scorecard is physically implemented as a visible whiteboard display divided into four quadrants. The measures on the scoreboard are simple and directly related to the daily concerns of the staff in the particular outlet. The four quadrants for this tier of the Scorecard are:

- Daily sales Vs. Target
- Mystery customer score
- Staff hours and roster
- Staff notice board

In this example, a decision has clearly been made not to capture performance management information at the outlet level. This is partly on the grounds of cost and partly because the company has taken the view that it is not meaningful to analyse outlet performance across geographical areas or brand chain. The company does, however, believe that it is vital that there is an appropriate balance between the quadrants within each individual outlet ensuring that the service/profit value chains functions correctly.

4.9 Scorecard Templates for Different Divisions

Many organisations are faced with the task of implementing Scorecard templates across a number of operating divisions. Again there is a balance to be struck between Scorecard templates that are highly tailored to the operational characteristics of particular divisions and the need to create an overall sense of strategic alignment. Most organisations are also faced with the task of ensuring that particular divisions are convinced of the value of the Scorecard and are willing to support it enthusiastically. The comments regarding the position at a UK broadcasting company touch on many of the important issues:

'Once we have a high level divisional Scorecard, we would be encouraging our departments to develop their own Scorecards 'piggy-backing' on the key elements of the directorate level Scorecard, but obviously shaped slightly differently and much more specific to their own target audience. This has two advantages, not only does it get the department much more comfortable with using the Scorecard as a tool, it also makes it much more relevant to the departments concerned; it links the directorate strategy firmly into the departmental strategies and vice versa. It means that staff in those individual departments can see...how they contribute to the overall strategy ... and therefore it's a motivating factor in itself as well as a way of communicating the strategy.'

4.10 Integration of Scorecards

In cases where a number of Scorecards are in use across an organisation, the issue of how the Scorecards are integrated becomes quite important. In one major insurance company, for example, there were a plethora of Scorecards in place within the Operations division, employing approximately two-thirds of the insurance group's personnel. Every month each of the five senior managers within the Operations division, present a Scorecard to each other and to the Operations director. Each of the Scorecards conforms to a template. Interestingly, they do not attempt to aggregate the Scorecards to form a top-level Scorecard. The organisation expresses the maxim that:

'When you get very high level information that's an extreme aggregation of disparate entities ... you cannot manage for improvement'.

A further example is shown in a national catering company, where the 12 subsidiary businesses have their own Scorecard. These Scorecards are not identical so the various autonomous boards have the scope to include or exclude measures, as they deem fit. However, these subsidiary Scorecards all feed into a top level Scorecard. Review meetings are necessary to enable information from all the different companies to be collated. This collation of disparate information seems to be quite a major issue, particularly as the company has taken over many companies, all with different reporting and performance measurement systems. The company has sought to establish best practice and benchmarking techniques.

One way of managing the integration issue is to adopt an approach where the Scorecard system is driven from the top downward rather than built up in parallel in different divisions? This is broadly the model adopted by a major UK financial services institution, which comments that:

'Banking Services has two Scorecards, one of which is a global Scorecard used for upward reporting purposes ... then we say, this is what we have collectively got to deliver, this is what it means for you as a region, or you as a product area and we would cascade it down in this manner ... what you'll see in all our next line reports is that everybody has a share of their performance linked to the overall performance and linked to their own units' performance both counted in Balanced Business Scorecard terms. Where we can we translate the (global) Scorecard measure into their area and then add in other things as well, so we try to get absolute clarity.'

4.11 Briefing the Key Players

The Scorecard design phase provides a valuable opportunity to bring the organisation together and build a strong consensus around the vision and strategic direction. Indeed, many Scorecard users see this as one of the key benefits of the Scorecard process and at least as valuable as the measurements themselves. Olve et al describe this benefit very succinctly:

'The Scorecard often becomes a catalyst for discussions which actually could have been held without it, but which become essential when it is used'.

Kaplan and Norton suggest starting the process of essential discussion by preparing briefing documents for each member of the senior management team and other key opinion formers. This briefing, it is recommended, should include full details of the organisation's environment such as market conditions, legislation, policies, and financial data. In short, all the information that informed the strategy formulation process. It might also be useful to include a brief overview of the vision and strategy; an explanation of the key features of the Balanced Scorecard and a draft implementation timetable.

4.12 Structured Interviews for Identification of Measures

When the key players have had the opportunity to review the briefing, the design team should follow up with structured interviews with each key individual. By posing the same carefully selected questions to each individual, the team can begin to understand the key issues and what measures might be necessary. If they listen carefully at this stage, they may detect undercurrents that can be resolved rather than surfacing with a negative impact at a later stage in the Scorecard process. Preparing for the interview should help the individual managers focus on, and clarify their thoughts on, how to translate the strategy into operational measures. In a well-constructed process, the architect and his team might also interview influential stakeholders such as shareholders (or citizen groups) and ascertain their requirements.

4.13 Synthesising the Interview Results

When each of the key players and stakeholders has been interviewed, the design team may consolidate the findings and prepare a first draft of the Scorecard highlighting the key issues and measures relevant to each quadrant and perspective. This is preparatory work for a senior management workshop into the key measures and the next round of actions. The design team should review the measures suggested to ensure that they do not conflict with each other and that they generally drive the organisation towards its strategic goals. If there are any obvious conflicts they should be put on the agenda for the senior management workshop.

4.14 Utilising Senior Management Workshops

A key milestone in the Scorecard process is the successful use of a senior management workshop. The stage at which the workshop is utilised is found to vary between organisations, but it is seen as a significant advantage to the process of communication and obtaining cohesion within the Scorecard process. At the beginning of such a workshop it is anticipated that the organisation will know that typically around 20-25 measures are required for the average Scorecard and senior management will have been fully briefed on the findings from the preliminary interviews. By the end of the workshop, one measure of success would be that management has agreed upon the four to five critical measures for each of the selected quadrants of the high level Scorecard. The next step is to devise an action plan for developing complementary Scorecards for other parts of the organisation, where appropriate. It is argued that the first draft Scorecard should pass the 'acid test' of an impartial observer being able to deduce the organisation's strategy from the measures on the Scorecard.

4.15 Performance Measures

After the first senior management workshop the architect and the design team need to co-ordinate a series of meetings with the sub-groups to refine the strategic objectives and ensure they reflect the decisions made at the workshop. They need to ensure that all the proposed objectives are closely linked to the strategy. A measure, or measures, are then designed for each objective so that the full intent of each objective is captured. This exercise can be very demanding, particularly in UK public sector organisations that have Government imposed Public Service Agreements that may have hundreds of target measures. Whilst their strategy may be framed by many measures, it may prove confusing and unhelpful to try and highlight all of these measures on a Scorecard. The issue may be resolved by the production of several inter-linked Scorecards concentrating on specific segments of the framework. Some groups may take the approach of attempting to develop composite measures that allow the clustering of related measures but still ensure that the primary strategic objective is achieved. Whichever design is used, there are specific criteria that all good performance measures should meet. An example of performance measure criteria is provided in the government guideline Choosing the Right Fabric. Desirable characteristics include:

- Relevance – to what the organisation is trying to achieve;
- The avoidance of perverse incentives – to ensure unwanted or wasteful behaviour is not encouraged;
- Attributable – the activity measured must be capable of being influenced by the organisation and it should be clear where accountability lies;
- Well-defined – with a clear, unambiguous definition so that data will be collected consistently, and the measure is easy to understand and use;
- Timely production of data – to track progress;
- Reliability – accurate enough for its intended use and responsive to change;
- Comparable – with either past periods or similar programmes elsewhere; and
- Verifiable – with clear documentation, so that the processes which produce the measure can be validated.

Research for this report demonstrated the nature of performance measures used within UK organisations. A sample of 60 organisations utilising a Balanced Scorecard or similar performance measurement system, showed the frequency of utilisation of the following measures.

Table 4: Commonly Utilised Performance Measures in UK Scorecards

Performance measure	No of companies	% of companies
Profitability	59	98.3
Revenue growth	54	90.0
Return on investment/capital	48	80.0
Market share	45	75.0
Customer satisfaction	45	75.0
Cost reduction	44	73.3
Share price	43	71.7
Customer service level	43	71.7
Productivity	36	60.0
Employee satisfaction	34	56.7
Employee retention	30	50.0
Employee training/ competency levels	30	50.0
Supplier service levels	28	46.7
Process statistics	28	46.7
Process quality	27	45.0
Customer retention	22	36.7
Economic value added	21	35.0
Customer profitability	20	33.3
Brand value	19	31.7
Customer acquisition	15	25.0
Employee profitability	8	13.3
Human capital	4	6.7
Intellectual capital	3	5.0

Table 5, below, identifies the 'top ten' most utilised measures and locates them by their typical position in the classic Scorecard structure. The continued importance of financial measures is evident from the findings.

Table 5: Ten Most Popular Performance Measures

Financial (5 of 10)

- Profitability
- Revenue growth
- Return on investment/capital
- Cost reduction
- Share price

Customer (3 of 10)

- Market share
- Customer satisfaction
- Customer service level

Internal (1 of 10)

- Productivity measure

Learning & Growth (1 of 10)

- Employee satisfaction

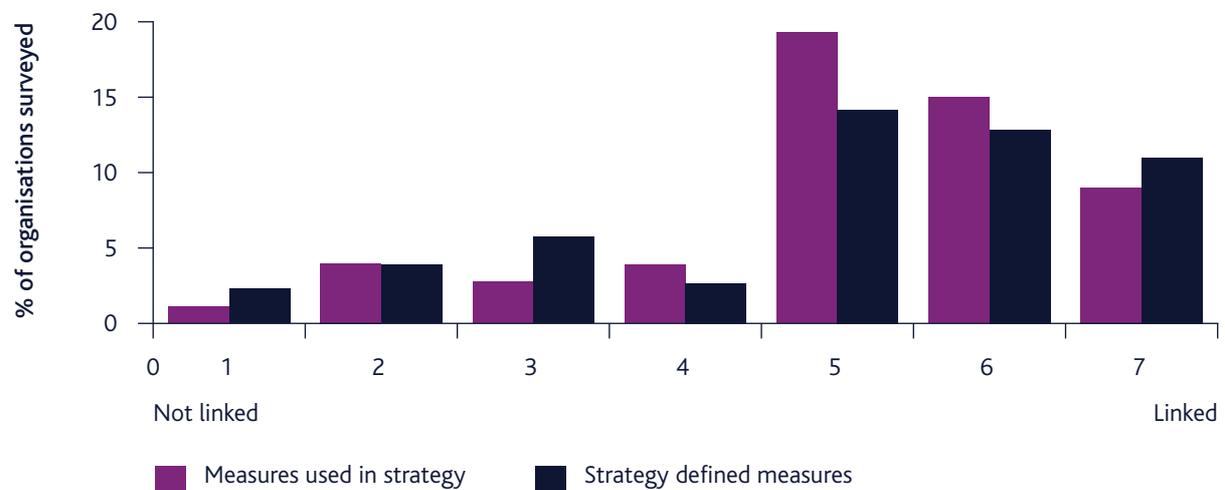
4.16 Availability of Information

Organisations can potentially become frustrated with the Scorecard process if they devise measures that are significantly beyond their current data collection capabilities. Unless the organisation is prepared to completely change its reporting and move significant resources into the project, the design team need to ensure the information required for a measure is relatively simple to access, or does not require fundamental and time consuming changes to existing management information systems. It is particularly important that information can be obtained in a timely manner so that the data is still relevant to events in the organisation.

4.17 Strategy Mapping

It is worth remembering that the process of linking measures to the strategy is one of the key aspects that differentiates the Balanced Scorecard from a static list of key performance indicators. Research has highlighted that UK organisations have understood and implemented this concept and this is illustrated in Figure 8, below.

Figure 8: Linkage Between Strategy and Measures



In complex organisations with many subsidiary Scorecards, it is essential that the architect and the team keep a clear overview of the relationships between the various Scorecards, the measures in each quadrant and the relationship of the measures to each other. In a relatively simple organisation it might be possible for the architect to retain this grand design in the form of a mental map but, clearly, this could be very demanding within complex organisations. If a coherent approach is to be maintained, some form of strategy mapping can prove very useful.

The strategic architecture described in Chapter 3 can provide a powerful tool for such an overview. In the Strategy Focused Organisation, Kaplan and Norton advocate the use of strategy mapping as a powerful tool for explicating the cause and effect relationships. It can also be a useful mechanism for ensuring that measures are aligned with the organisation's value stream and do not conflict with each other. By using the concepts of strategic architecture and strategy mapping, the team can produce the outputs equivalent to those which Kaplan and Norton suggest for this next phase of the process:

- A list of the objectives for the perspective, accompanied by a detailed description of each objective;
- A description of the measures for each objective;
- An illustration of how each measure can be quantified and displayed; and
- A graphic model of how the measures are linked within the perspective and to measures (or objectives) in other perspectives.

4.18 The Second Workshop

Once the design team is confident that they have a robust overview of the strategy, the hierarchy of Scorecards and the draft objectives and measures, they can arrange a second workshop. Bearing in mind that this is a consensus building meeting as well as a design meeting, a more diverse range of participants is useful. Experience has shown that this is a good stage to introduce middle and junior managers to the process. As for the first workshop, it is beneficial if all the participants are briefed on progress well before the meeting. The briefing pack should include all the details of the output of the first meeting. At the workshop, the champion and his team need to adopt a low profile and build consensus and commitment by letting the representatives of the sub-groups lead the Second workshop sessions. The groups studied in the research programme found it useful to break into working groups to weight the objectives and measures in terms of priority and timetables.

For example, the comment below shows the importance of obtaining commitment through ownership while developing the key measures.

Q: 'How did you come up with the 'key' measures?'

A: 'We gave them the opportunity, it was iterative really, we said, 'What does it mean to you?'... because they've got to own it.' (Water Utility)

The champion's role moves to that of conductor and facilitator for this phase. There is likely to be a high level of debate as various groups try to promote their particular interests. The process might become very political with some groups fearing their status in the organisation will be diminished unless their function or division is prominent on the Scorecard. The Scorecard champion needs to manage this and make sure the measures on the card reflect the strategic priorities, the critical success factors, the measures that will really make a difference, and that they link logically with the organisation's value chain.

4.19 Time Phasing

Considerable thought will have to be given to the time phasing and priority given to measures. Not all measures will have an equal effect and the organisation may require some immediate and significant effects to build confidence that it is capable of achieving longer-term objectives. Although some strategies have been developed around single themes, many organisations, including those in the public sector, have several strands or streams to their strategy. For example, the strategic themes for a large organisation might be resolved into short, medium and long-term components.

Short-term themes could be to cut costs and maximise profits. Medium term themes could be to become more customer focused. Longer term themes might include innovations such as a balanced portfolio of developing companies or products that will provide higher margins and future growth. By carefully planning the time phasing of these themes organisations can create sustainable profit streams, sustained growth in shareholder value and move purposefully to public service agreement targets.

During this meeting, the workload of implementing and cascading the Scorecard should move from the champion and the design team to the operational leaders and their units. The champion continues in the role of conductor and facilitator. At this stage in the process a number of the companies studied reported concerns that the new measures necessitated an entirely new management information system and a significant number opted for a pilot system to iron out difficulties.

4.20 Pilot Schemes

In some organisations the emphasis was very much on testing whether the whole Scorecard concept would prove to be worthwhile. After the second workshop, and if appropriate to the pilot study, the senior team should meet for a third time to establish final consensus on the measures and decisions reached. They need to consider how they can align reward and remuneration packages with the measurement system and plan how they are going to communicate the proposed innovations and changes to all members of the organisation.

4.21 The Balanced Paycheque

The IIBFS research illustrated a paradoxical relationship between strategic objectives and employee considerations that could undermine a strategy. Although employee satisfaction was one of the 'top ten' popular performance measures, the stakeholder rankings indicated that senior managers were treated considerably better than other employees. Indeed, the stakeholder rankings suggested that employee interests were ranked in the lowest levels of the survey. Whilst the research shows that the organisations studied did link target measures to remuneration, it was not apparent what weighting was given to the relative measures.

Table 6: Use of Target Measures

	Question	Yes	%
D11	Do you operate a planning process which includes the setting of targets for key performance indicators	55	91.7
			% of those responding YES to D11
D12	If yes, are such targets used as part of objective setting for managers	53	96.4
D13	If yes, is this target setting for managers linked to remuneration	48	87.3

The relative weighting given to measures is a key feature in aligning remuneration packages with strategic objectives and in underpinning the desired behaviour and culture. Just as the strategy can be deduced from the Scorecard, so the remuneration calculation reveals what the organisation truly values. If we take the example of the Chief Executive who addresses his employees and tells them that he values employee safety and customer service above all else. Will the employees accept this and adopt the necessary behaviour if, for example, their annual bonus is calculated 95% on the profit figure and 2.5% for safety and 2.5% for customer satisfaction measures? If the remuneration scheme is honest and properly aligned with the proposed Balanced Scorecard measures it will focus employee attention on the critical success factors. However, all strategies are hypotheses and the prudent organisation will allow a period of some months to ensure they have a robust strategy and reliable measures, demonstrably within the control of the relevant employees before negotiating associated employee remuneration packages. If these negotiations are to proceed smoothly it will be beneficial if everyone understands the strategy and the role they have to play if it is to be achieved. This will require a comprehensive communication programme and some key aspects are described in Chapter 5.

Key Points:

- Only a small percentage of effectively formulated strategies are successfully implemented.
- 'Buy in' from all members of the executive team is essential if a Scorecard process is to succeed.
- The process 'champion' is a pivotal role and should be given to a strong and influential leader.
- The Scorecard must reflect the structure of the organisation for which the strategy has been formulated.
- The Scorecard often becomes a catalyst for discussions which could have been held without it but which become essential when it is used.
- Not all measures will have an equal effect.
- The relative weighting given to measures in any remuneration package reveals what the organisation truly values.

5. Communication, Action, Reporting & Feedback

The illustrative organisations researched for this report took what might be considered a somewhat orthodox approach to strategy formulation, with those at the top of the management hierarchy planning the organisation's strategy and the resources required to achieve it. Typically, this 'top team' also debated and agreed the objectives and measures that would deliver the strategy. This chapter reviews the actions that such an organisation needs to take to launch the Balanced Scorecard process, to act on the measurements it provides, and to constantly review their reliability and continuing validity.

5.1 Aligning the Stakeholders with the Strategy

The Balanced Scorecard provides a common language and a useful instrument for communication within the organisation and with external stakeholders. If the explanation is well thought through and presented it can build consensus and ensure that all the stakeholders are aligned with the strategy. The following quotes from organisations taking part in the study confirm this use of the Scorecard:

'The Scorecard won't create strategy but it helps build consensus and helps deploy it.' (Utility Company)

'The reason we would use the BSC is because it aids getting everybody involved in your business objectives and understanding them.' (Major Insurance Company)

5.2 Internal Communication

In their book 'The Strategy Focused Organisation,' Kaplan and Norton (2001) make it clear that one of the key steps in successfully translating strategy into action is aligning the organisation to the strategy. This means ensuring that everyone at every level in the organisation understands the strategy and their role in achieving it. Disturbingly, the research for this report revealed that many organisations did not distribute management information to all employees. Respondents to the questionnaire revealed that few companies provided all information in the performance management system to all employees. On average, less than 50% of information was available to all employees, whereas more than 50% was available to all managers. Surprisingly, 8% of respondents stated that none of the information in the performance management system was available to all managers. If information on their performance is withheld, it is going to be difficult to get employees to change their behaviour or to provide valuable feedback. Furthermore, the case studies provided little evidence of organisations seeking the opinions and input of employees to the strategy formulation process. Communication appears to have been restricted to ensuring that employees fully understood their objectives and associated measures. Similarly, although a number of organisations had made reference to a wider range of stakeholders, none had a formal process for capturing stakeholder input. Whilst most had mechanisms for providing performance information to external stakeholders, the degree of transparency was very variable.

5.3 External Communication

As well as being reluctant to give information to all employees, many organisations are even more reluctant to give detailed information to external shareholders other than in carefully edited board reports. Government policies mean that public sector organisations, by contrast, have to have a higher degree of transparency and considerable emphasis is being given to publishing details of performance relative to clear performance targets.

Demand for more disclosure is growing in both the public and private sectors. Recent research indicates that as well as detailed financial information, analysts want more non-financial data that would help them to understand what an organisation was trying to achieve, the key risks and the depth of its competitive strategy. The analysts believe that well run organisations should promote this type of disclosure as it helps the analysts to give more informed advice on prospects for future earnings and share value.

Although the majority of the organisations studied recognised that the Balanced Scorecard could improve communication, there appeared to be quite a variation in the effort and resources invested in the communication process. Some of the organisations were content with little more than informal conversations between a few select employees, whilst others gave the issue considerable thought, invested significant resources and developed quite innovative approaches to communication.

5.4 A Benchmark Communication Process

Morrison Construction implemented a customised Balanced Scorecard that used a highly imaginative golf analogy. This assisted the communication of key messages regarding the performance management system.

The company discovered the Balanced Scorecard at a point where the management team was considering whether existing measures were sufficient. It made the team take a holistic approach and they developed 18 measures that were important to the business. After setting benchmarks for each measure, they called the initiative 'The Balanced Business Scorecard', and generated the golf analogy for ease of communication with the rest of the company.

The 18 measures were called 'holes', and each hole was the equivalent of a Par 4. They decided that the average golfer would be delighted if he achieved a round of 90 shots (i.e. 5 shots per hole), but as they considered themselves a 'very good golfer' they believed they could achieve a round of Par (i.e. 4 shots per hole = 72), or even aim for some 'birdies' or 'eagles' (i.e. shots of 3 or 2), bringing the score down even lower.

This tied in with their mission statement, 'We aim to be the best in the business through the strongest commitment to quality and customer satisfaction'.

When the Balanced Business Scorecard was first introduced, the company scored 75, but this has been decreasing with the aim of entering the top quartile of the industry within each measure.

'We feel that this is such a good way of conveying how we are doing and the contribution that people are making. This is well known within quality circles now.... there is a distinct advantage and we think it's a winner. Anything other than 18 measures would damage it.'
(Morrison Construction)

5.5 Translating the Strategy into Action

Formulating the strategy, the objectives, the critical success factors and appropriate measures are all key steps in the strategy process. However, if the strategy is to succeed, there is a need to ensure it becomes a 'living document'. The leaders of the organisation need to make the strategy come alive for all stakeholders. They need to demonstrate this by their actions, by providing all the necessary resources, and by a continuous communication process.

If an organisation is committed to the process, the Scorecard will become the focus of its management meetings, reporting and strategy development. Decision making is a very complex human activity but the Scorecard process can provide a framework for improving the rationality and consistency of the process. Some recent high profile business failures occurred in organisations that claimed to use a Balanced Scorecard process. Initial evidence suggests that, amongst other things, they chose to ignore what their performance measurement systems were telling them. Consequently organisations need to discipline themselves to understand what the system is telling them and to use the information, even if unpalatable.

Further, if employees are to fully participate in open decision making they must feel secure enough to admit mistakes and to not meeting targets. The organisation must create a truly enabling culture that encourages openness and collaborative methods. If this is to be achieved there needs to be a full understanding of the concepts that underpin the Scorecard, such as negative feedback, double loop learning and the requirements for well presented, reliable data.

5.6 Negative Feedback

Many of our current management concepts have roots in engineering and when we use measurements evaluated against a pre-determined measure or objective we are sometimes applying engineers' ideas of control to human activity. The simplest form of this type of control is known as 'negative feedback' and it simply means making the comparison of the outcome of our actions to any stipulated desired outcome – any discrepancy between the two is fed back into the system to instigate corrective action.

A typical monthly management review meeting provides a good practical example of negative feedback in action. Most readers are probably familiar with this scenario in which actual measured performance is reviewed against business plan targets. If the performance does not meet the monthly target, a series of corrective actions to bring performance back on target are agreed and implemented. Negative feedback loops are very efficient in machines carrying out well-established tasks and devoid of emotion. However, human activity systems are not always like this and managers need to be careful to understand that having a measurement system does not always, and consistently, lead to good decision making. Management also needs to be scrupulous in ensuring that measurements are as accurate as possible and aware that the people making decisions may have different objectives and priorities.

5.7 Presentation

In the previous chapter, we reviewed how the Scorecard measures needed to be appropriate to the level of the organisation that has to use them. This is very important, but it is of equal importance that the information is presented in a way that is meaningful to those who will be using it. The golfing Scorecard described earlier is one excellent example of how this can be achieved. Measurements do not always make for interesting reading and not all organisations have been as innovative. Numbers on their own can be intimidating and Scorecard designers need to ensure they make full use of visual aids such as graphs and charts. Measures can also be misleading, so it is important that any limitations of the data and contextual influences are explicit.

A number of the organisations studied in the research for this report used visual devices to enhance their presentation. For many organisations the concept of traffic lights is used to differentiate between measures that are meeting their target and those that are not. A green light indicates the target is being met; amber means a small negative variation or trend; red means a significant deviation. Whilst the traffic light provides a really useful high level indicator, it can have pejorative connotations and organisations need to be careful how they react to the 'signals'. If it really has an open and enabling culture, the reaction to a red light needs to be supportive and not the start of a 'witch hunt'. Unless the organisation takes this mature approach there will be attempts to hide missed targets, manipulate data and sweep mistakes under the carpet. A major pharmaceutical company used a system of dials to represent targets and measures as follows:

'We used the analogy of driving a car. When you drive a car you have big dials, such as the speedometer, that you frequently look at and they provide you with key information. You always want to know what's going on in terms of your speed. Then you get small dials such as the battery condition, the rev counter, things that you might want to refer to periodically...and then you've got warning lights, the classic one being something such as oil pressure, that says whilst its green or whilst its off you are not going to worry about it, but if it goes red you want to know immediately, because you are probably going to have to react fairly quickly.' (Pharmaceutical Company)

5.8 Checking the Measurements

If the organisation is going to make the Balanced Scorecard central to its decision making it needs to ensure that measurements are reliable, verifiable and have continuing validity. There are several statistical tools that can assist with ensuring that measurements are reliable but organisations need to be careful to ensure that an appropriate sample is used. A measure based on a very small sample of cases could give large fluctuations.

For the public sector the National Audit Office provides a wealth of performance information. It also provides a checklist for ensuring the provision of good quality information in its report: Good Practices in Performance Reporting in Executive Agencies and Non-Departmental Public Bodies.

If the measure is to be verifiable there needs to be a clear audit trail of documentation that renders the measurement process and its underlying assumptions transparent to all stakeholders.

5.9 Strategic Feedback and Double Loop Learning

Modern strategic management theory emphasises the need for a dynamic view of strategy formation (Hamel and Prahalad, 1996). When competitive environments are undergoing significant change, strategists need to focus ahead and try to envisage how markets will look in the future. They must then identify what abilities the organisation must develop in order to succeed in those markets. So, as well as reviewing actual performance against targets, the monthly review should include frequent reviews of the continuing validity of the strategy and the measures being used.

Where a formal planning approach is taken towards strategy formulation, the underlying assumptions of the organisation's strategy should be challenged by the reported outcomes of the strategy implementation. This is the process of 'double loop' organisational learning (Argyris, 1991). Feedback information should cause changes to the strategy formulation process. As one research interviewee stated about the Balanced Scorecard,

'My goal ... is to use this as a strategic tool and ask, 'why are we off on that particular measure? Are we measuring the right thing? Is it what we are doing is never going to deliver a good result, or is there something else going on here?'... and using it to inform and have an informal discussion about where we should be putting resource going forwards.'

In some cases, the Balanced Scorecard reporting framework may indicate that the selected strategy will not deliver the desired outcomes and a change of thinking may be required. The double feedback loop is the final stage of the Scorecard cycle with any requirement for change to the strategy triggering the sequence of actions described for the original strategy formulation.

Key Points:

- The Balanced Scorecard provides a common language for communicating strategy.
- One of the key steps in translating strategy into action is making sure every member of the organisation understands their role.
- Demands for disclosure are growing in both the public and private sectors.
- Few of the organisations studied had a formal process for capturing stakeholder input.
- If the Scorecard process is to succeed there must be an enabling culture that encourages openness and collaborative methods.
- Measurements need to be reliable, verifiable and have their strategic validity regularly checked.

6. Stakeholder Balanced Scorecards: Examples from the Public Sector

Although the primary focus of the research was on commercial enterprises, it was noted that new Government policies were challenging public sector organisations to take account of the views of a wider range of stakeholders. Although Government guidance notes on stakeholder frameworks for performance information cite the Balanced Scorecard, they only provide limited information on implementation techniques. Furthermore, the published textbooks on the Balanced Scorecard tend to focus on private sector organisations and do not fully satisfy the requirements of a public sector organisation seeking to implement a Scorecard process. This chapter attempts to fill this gap by exploring the background to these policy changes and uses examples drawn from a Health Action Zone (HAZ) to highlight some of the key issues in developing a public sector scorecard. The examples from the HAZ in this chapter are complemented by the case studies of English Nature and Mersey Travel that are detailed in the appendices.

For those readers not familiar with the detailed, and ever changing, NHS structure, Health Action Zones (HAZs) are local partnerships between the health service, local authorities, voluntary groups and local businesses. These zones cover inner-city, rural and former coalfield communities, and focus on issues such as programmes to stop smoking, children and young people's health, mental health, older people's health and the health of ethnic minorities. At the time of this research there were 26 Health Action Zones (HAZs) in deprived areas of England and four in Northern Ireland. There were similar programmes in Scotland where the Scottish Executive supported 48 Social Inclusion Partnerships.

In the sample Health Action Zone (HAZ), the area has a declining industrial base and social infrastructure. The main local industry is in a state of near collapse and there are fears that central Government may no longer believe that it is possible to regenerate the area. It has been noted that inner-city general practitioners (GPs) will have to be involved and committed to a number of the proposed projects. However, project leaders report that the ratio of GPs to patients is low and practice vacancies are not being filled. They also report that a significant number of GPs are not complying with agreed protocols.

Another of the HAZ projects focuses on developing a mental health framework to deal with vulnerable users of mental health services residing in the community. The balance between treatment and community safety is often a delicate and politically charged issue. In this particular HAZ the issue is exacerbated by the fears of one ethnic group that social services and the police may use the mental health process as an agent of social control.

This Health Action Zone is also endeavouring to introduce 'a whole systems approach' to the recuperation and rehabilitation of elderly discharged patients.

Stakeholder Measurements and Government Policies

Recent government reforms have concentrated on improving management performance in the public sector. The origins of these reforms can be traced to two initiatives in the Thatcher and Major administrations – Compulsory Competitive Tendering (CCT) and the Citizen's Charter. CCT was applied in successive waves to a wide range of local government services, starting with blue-collar services in 1980 (e.g. roads and housing repairs). The Citizen's Charter was a specific initiative of the new Major government in 1991. It capitalised upon the public's discontent with government and the need (expectation) for more open, responsible, and accountable government.

The Labour government accelerated this process and set out a comprehensive programme of reform for the public sector to ensure that citizens could participate in government and exert pressure for continuous improvement. This is often described as 'stakeholder participation' and reliable performance information is a cornerstone of this reform strategy.

There is a common and coherent theme to the government approach to performance measurements and this is captured by the acronym FABRIC:

- Focused
- Appropriate
- Balanced
- Robust
- Integrated
- Cost effective

This theme is replicated in the high level Public Service Agreements (PSAs) and Service Delivery Agreements (SDAs) that the Government has published for every government department.

The Best Value regime is a government innovation designed to replace CCT. In essence Best Value allows public authorities to set the level and standards of the service they provide. The measurement of 'Best Value' and the ability of councils to demonstrate this value will be critical to the success of this initiative. There is a range of dimensions against which 'Best Value' will be assessed.

The aim of the best value process is to secure continuous improvements in performance. Councils are expected to demonstrate that they have taken account of the '4Cs': Challenge, Compare, Consult and Compete.

As described in earlier chapters, private sector organisations formulate strategy to seek competitive advantage and create value for shareholders. They seek to do this by maximising existing opportunities and by developing innovative products and processes they anticipate will be required in their future environment. Public sector organisations have to take a more bounded approach to strategy development as their strategic priorities are laid out in Government policy and cascaded in a structured process as illustrated in Figure 9.



Consequently, where the private sector has to give emphasis to, and be highly innovative in, formulating competitive strategy, the public sector has to be highly innovative in how it achieves its performance targets and meets its service delivery agreements.

6.1 Organisational Structures

In any complex organisation the primary focus and priorities will change at different managerial levels and for different divisions. In our examples the organisations have taken an orthodox approach. The governing board and functional heads form a top team to decide on strategy and decide on priorities which are then cascaded down through the organisation. This group is referred to as the corporate team. If, as is likely, the emphasis of the corporate team is to be on governance, then a key issue that must soon be addressed, is the degree of involvement that the corporate team will have in the day-to-day operations of the subordinate management areas. There is much to commend pushing decision making out to the point of service delivery, and the organisations we studied adopted this approach. The corporate teams took responsibility for translating the bold aspirations of the policy documents into a coherent set of performance measures and targets with suitably rigorous performance reviews. They then formed project teams. These were for distinct streams of work designed so those individuals best placed to ensure delivery of targets, had real ownership for doing so.

6.2 Ownership of Targets

One of the first steps in ensuring 'ownership' of targets in any organisation is to ensure that its stakeholders share, as far as it is possible, a common understanding of the policy requirements and the values that will be needed to promote their attainment. This will help to create a shared purpose and help others understand:

- What must be accomplished;
- Why the work is worthwhile; and
- How the goals can be accomplished.

The organisations studied understood that the quadrants and measures in the Scorecard must be relevant to the employees whose behaviour they were seeking to change. They addressed this issue by constructing a 'corporate' Scorecard that reflected the values and beliefs; the bold aspirations, strategic aims and priorities; the key areas of action and the required time for their achievement. This corporate framework then became an overarching template that guided subordinate groups in developing their own Scorecards whilst ensuring a coherent set of performance measures and targets.

6.3 Building Corporate Balanced Scorecards

To develop a corporate framework the corporate team needed to develop a deep understanding of the issues facing the organisation. Essentially, this is the process of establishing the conceptual and operational model of the organisation; the narrative that explains how value is created and delivered, based on strategy, stakeholder interests, ongoing management initiatives, and other contemporary frameworks such as 'Best Value'.

6.3.1 Step one should include the following:

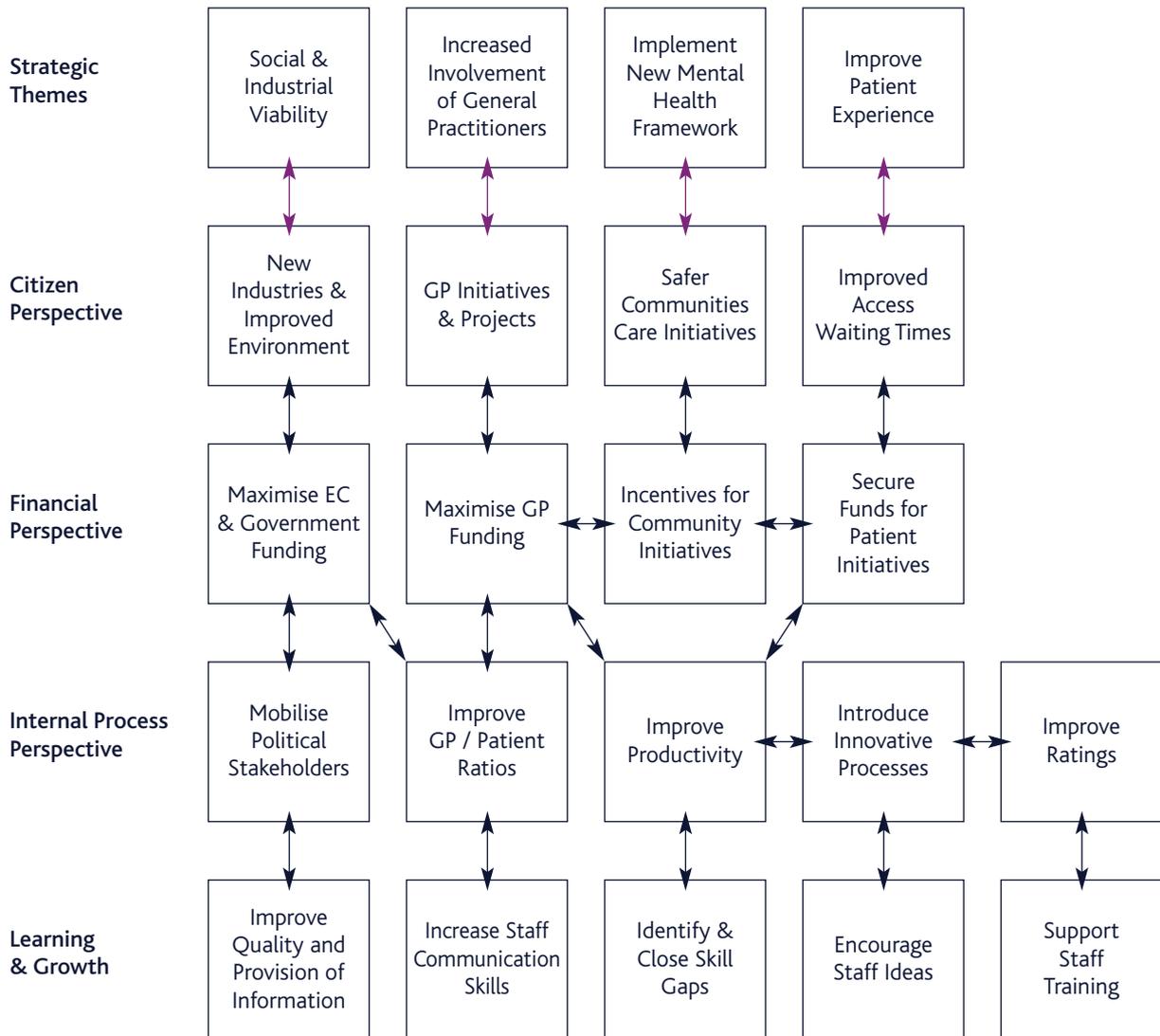
- Define the scope of the corporate Scorecard project;
- Understand strategic issues facing the organisation using whole systems analysis;
- Understand higher level guidelines, policies, strategic priorities;
- Define the Scorecard architecture – the design principles leading to the development of a template. There should be a focus on the critical business issues (CBI’s). CBI’s are the highest priority problems and opportunities that must be addressed if the strategic vision is to be fulfilled, and represent organisational level challenges; and
- Use strategic mapping to highlight the CBI’s.

It is important that this first step achieves the focus of identifying the key actions to be addressed and the processes that are needed to include stakeholders. Most importantly of all, however, there should be a focus on what tangible results

will need to be achieved and how such results will be demonstrated. In other words, the eventual Scorecard should be readily understood and accepted by the range of stakeholders. The measures will also have to be coherent and reinforce each other in the drive towards the organisation’s strategic goals. Strategy mapping is a useful tool for explicating the various cause and effect hypotheses and identifying any perverse measures. Kaplan and Norton [2004] confirm that strategy mapping is one of the more powerful tools for generating a clear overview of an organisation’s strategy and the associated measures.

The example strategy map on the following page illustrates how the Health Action Zone’s strategic themes are linked with complimentary measures in each of the Scorecard quadrants. The map gives a clear overview of the strategy and illustrates how the proposed measures reinforce each other.

Figure 10: A Strategy Map for Health Action Zone



6.3.2 Step Two – Draft the Scorecard

The second step is to design a draft Scorecard and this process replicates the procedure for private sector organisations described in Chapter 4. The key features are as follows:

- Review the Scorecard architecture;
- Build a draft Scorecard with preliminary performance dimensions and measures; and
- Develop a workshop package for use with a wider team of stakeholders.

The above process will lead to the definition of a preliminary corporate Balanced Scorecard; the definition of a Scorecard template that can be deployed in other areas of the organisation; the identification of Critical Success Factors (CSFs) and their associated measures – Key Performance Indicators (KPIs). CSFs are the variables that will most influence the organisation's future performance and one or more CSFs will normally be related to a Critical Business Issue (CBI).

When defining measures the following points should be considered:

- Do we have a balanced set of coherent measures covering all dimensions of the Scorecard?
- Do the measures reinforce each other?
- Are the measures acceptable, and fit for purpose?
- Are the measures likely to encourage people to do the things we want them to do?
- Can each measure be implemented in a reasonable time frame and at an acceptable cost?
- Does each measure have an owner; someone accountable for its implementation and operation?
- Do we have a management process for reviewing measures and ensuring they stimulate purposeful action?

A typical Corporate Scorecard may contain the quadrants and measures illustrated in Figure 11.

Our example Health Action Zone (HAZ) had eight major streams of work and each stream of work needed to be represented as a process on the Balanced Scorecard. These streams of work were at different levels of development and this guide has used the development of the project for the recuperation and rehabilitation of older citizens after hospitalisation to illustrate the Scorecard process.

The recuperation and rehabilitation stream of work was driven by evidence that the process was not meeting the needs of the elderly and was placing unnecessary financial burdens on the social service budget. Considerable work needed to be done to scope the extent of the problem and begin to develop a more co-ordinated and focused response across a range of health authority, hospital trust and social service departments. The issue for the HAZ corporate team was to identify the critical dimensions of each stream of work according to its stage of development, as achieving the status of a 'managed' process was an explicit objective.

Comparing the current stage of development of each stream of work against the attributes of a 'managed' process gave some indication of the process dimensions, but it is emphasised that these are dynamic and will change as the stream of work moves towards the objective of becoming a 'managed' process.

Figure 11: Typical Corporate Scorecard Quadrants and Measures

Stakeholder and Financial Measures

- Measures relating to key stakeholder groups
- Financial performance measures

Customers/Service Users

- Measures of customer perception of service effectiveness
- Objective customer measures

Internal Processes

- Measures of process efficiency and effectiveness

Learning and Growth

- Employee opinion measures
- Employee competency measures

Table 7 illustrates the early planning stages of developing process measures for the recuperation and rehabilitation of the elderly after hospitalisation.

Table 7: Recuperation and rehabilitation of the elderly after hospitalisation

Process Attribute	Stream of work stage of development
High level values and mission statement <ul style="list-style-type: none"> Consistent with core objectives and core values of the HAZ programme. 	<ul style="list-style-type: none"> Values and mission statement developed in consultation with professional stakeholder groups. HAZ board has a provisionally 'signed off' statement but requested further consultation with representatives of carers and elderly.
Quantifiable outcome target(s) <ul style="list-style-type: none"> Represents achievements of the values and mission statement. Contributes significantly to the overall aims of the HAZ. Represents 'Best Value' in terms of the resources being allocated. 	<ul style="list-style-type: none"> Target groups identified and quantifiable targets agreed. Outcomes consistent with values and mission statement and with the potential to make significant impact across a wide range of clinical, health care and social areas. Identify potential significant resourcing issues for particular clinical areas, then Challenge, Compare, Consult and Compete.
Quantifiable output target(s) <ul style="list-style-type: none"> With demonstrable and significant causal links with the outcome targets. Which are integrated into an effective performance management process. 	<ul style="list-style-type: none"> The causal links between discharge, community support, elderly independence and the long term financial consequences are increasingly being understood. Once the causal links are more fully understood targets that can be integrated into an effective programme will be developed.
Description of the process and significant sub-processes <ul style="list-style-type: none"> Which is mapped. Critical sub-processes named. Allocates roles and responsibility. 	<ul style="list-style-type: none"> Exist as a series of separate clinical, social service and administrative procedures. Not yet seen as continuous process, conflicting professional and budgetary issues. Roles and responsibilities exist with current procedures.

The critical issues for the HAZ corporate team were as follows:

CSF: Development of shared understanding of issues across key stakeholder groups.

KPI: Agreement on identified and prioritised list of critical success factors and critical business issues by steering group representing key stakeholder groups.

CSF: Mapping and understanding of existing process using flowcharting techniques.

KPI: Development of a detailed process map and identification of workloads and any discontinuities.

The following sections describe how critical success factors and key performance indicators were developed for each quadrant of the Scorecard.

6.3.3 Stakeholder and Financial Measures Quadrant

The focus here is on 'stakeholder relationship management' and the stewardship and accountability of public funds. The concepts of critical success factors (**CSFs**) and critical business issues (**CBIs**) are useful in developing stakeholder and financial measures. On completing its whole systems scanning and analysis, the corporate team of the Health Action Zone identified a number of critical success factors and linked critical business issues. The HAZ provided the following example of a stakeholder measure: The area has a declining industrial base and social infrastructure. The main local industry is in a state of near collapse and it is feared that the central government may no longer believe that it is possible to regenerate the area.

- **CBI:** Withdrawal or reduction in government funds would have a dramatic impact on the HAZ ability to motivate local political and community leaders.
- **CSF:** The need to maintain the motivation, commitment and involvement amongst political stakeholders and leaders of community groups.
- **Measure/KPI:** Allocation of central government and EU funds across a wide spectrum of areas in comparison with an identified 'family' of similar areas.

6.3.4 Internal Processes

The processes are the 'service delivery systems' for strategic goals, which the HAZ resolved into work streams or projects. The work streams might be at different stages of development and there needs to be a mechanism to move some items from concept and aspirations to 'managed processes'.

Initially the problem for the corporate team may be the disparate nature of the development of the various streams of work. These will vary considerably; some will be:

- Relatively mature but not 'managed' processes, especially where the work crosses institutional and professional boundaries;
- Ad hoc and fragmented, existing as clinical and non-clinical procedures without any process focus or ownership; or
- Non-existent either as a stream of work or clinical or non-clinical procedure.

In order to become a 'managed' process each stream of work needs to have the following attributes:

- High level values and a mission statement consistent with the core objectives and core values of the Health Action Zone programme;
- Quantifiable **outcome target(s)** – what an organisation is trying to achieve, i.e. better health;
- Represents achievement of the values and mission statement which contributes significantly to the overall aims of the Health Action Zone;
- Represents 'Best Value' in terms of the resources being allocated;
- Quantifiable **output target(s)** – the final products produced by the organisation for delivery to the customer, e.g. operations;
- Demonstrable and significant causal links with the outcome targets which are integrated into an effective performance management process;
- A description of the process and sub-processes (sometimes called the 'value chain') that will deliver the output and cause the outcome to be achieved in the targeted group (community, etc), which is mapped, e.g. using a high level flowcharting technique;
- The naming of critical sub-processes (sub-systems); and
- The allocation of roles and responsibility for the process and critical sub-processes.

The use of the process quadrant will allow a HAZ corporate team to continually evaluate its various streams of work irrespective of their state of development. It will allow early discussion on the viability of projects that encounter difficulty in the translation of aspiration into action. A fundamental test for the implementation team was to assess if the stream of work had the capability and capacity to achieve its outcome target?

Irrespective of the current stage of development of a stream of work, at some point it will need to become a 'managed' process if it is to achieve its full potential. This means that the information on the HAZ corporate Scorecard will need to be dynamic and show different information in relation to each stream of work and its stage of development. At some point when all the streams of work have achieved the level of a 'managed process', then the process dimension will focus on outcome and output targets.

6.3.6 Learning and Growth

The scale of the challenge presented to all HAZs clearly indicates that they will need to develop new organisational competencies and capabilities if they are to achieve their objectives. Indeed they may need to 'unlearn' existing values, skills and abilities. This quadrant addresses critical performance gap issues that would adversely impact on the achievement of the strategic objectives:

- Any significant gap between current performance and current requirements which cannot be effectively addressed through existing procedures; and
- The gap in competencies and capabilities between the current organisation and the competencies and capabilities required to achieve the HAZs long-term strategic objectives.

The HAZ, therefore, has to have a clear understanding of its current and future performance requirements. Essential to this is some form of rigorous and objective audit of the current organisation and its performance. There are a number of ways this could be achieved, for example:

- Whole systems to be scanned and analysed to identify and prioritise environmental challenges which will impact on the achievement of the strategic objectives, and indicate where the HAZ needs to learn how to work differently or acquire new competencies and capabilities; and
- The European Foundation for Quality Management (EFQM) 'Business Excellence Model' to enable individual HAZs to objectively self-assess themselves against a recognised objective criteria and begin to benchmark their performance against other HAZs or relevant best practice elsewhere.

The HAZ case study highlighted that the corporate team should have an overall 'organisational development strategy' to ensure that the learning dimensions are firmly focused on the strategic objectives of the Health Action Zone and overall responsibility for this element of the strategy should be assigned to a team member.

The degree to which the HAZ will need to learn new competencies and capabilities will depend not only on the gap between current and future organisational needs but also the speed of environmental change and the emergence of new threats and opportunities. Traditional diagnostic systems focus on the gap between current organisational requirements and current competencies and capabilities. The dynamic and turbulent environment within which the HAZ programme works suggests a need for some form of early warning system e.g. scenario planning, to prepare the HAZ for conditions not anticipated in the traditional business planning process. This requirement should be built into the learning dimensions.

6.3.7 Customers (Citizens, Service Users)

At the corporate level, the team is not attempting to track the perceptions and experience of all the customers of its various streams of work. Rather it is measuring the perceptions of the community in relation to the core objectives and core values (where directly relevant to customers) of the HAZ programme.

In shaping the focus of this measurement the HAZ will inevitably take into account the focus of its streams of work. For example, in the HAZ studied, a main stream of work concerned diabetes in its South Asian community. It had to develop a range of approaches for assessing the community's perception and experience, not only in relation to diabetes, but also to the more strategic issues. In this sense, the diabetes service becomes a proxy measure of improving health and reducing inequalities.

6.3.8 Presentation of Key Performance Indicators

For the process described in the previous paragraph to be effectively monitored, key performance indicators (KPIs) had to be developed. The conceptual model presented in Table 8 illustrates the KPIs that were used.

Table 8: Typical Key Performance Indicators for a Corporate Scorecard

Stakeholders and Financial Measures

- Position on league of local authorities receiving UK & EU grants
- Ratio of GP/patients in inner city
- No. and duration of GP vacancies
- Ratio of ethnic users of mental health services
- Exception reports across all work streams of issues critical to the management of stakeholder relationships

Internal Processes

- Diabetes
 - (i) Board agreement on realistic output targets
 - (ii) Development of process map with output targets
- Recuperation and rehabilitation
 - (i) Stakeholder agreement of CSFs and CBIs
 - (ii) Development of comprehensive process map
 - (iii) Modelling to test performance of critical variables
- Reduction in teenage pregnancies
 - (i) % of target group involved, degree of satisfaction and quality of data acquired
 - (ii) Production of focused social research

Customers (Citizens/Service Users)

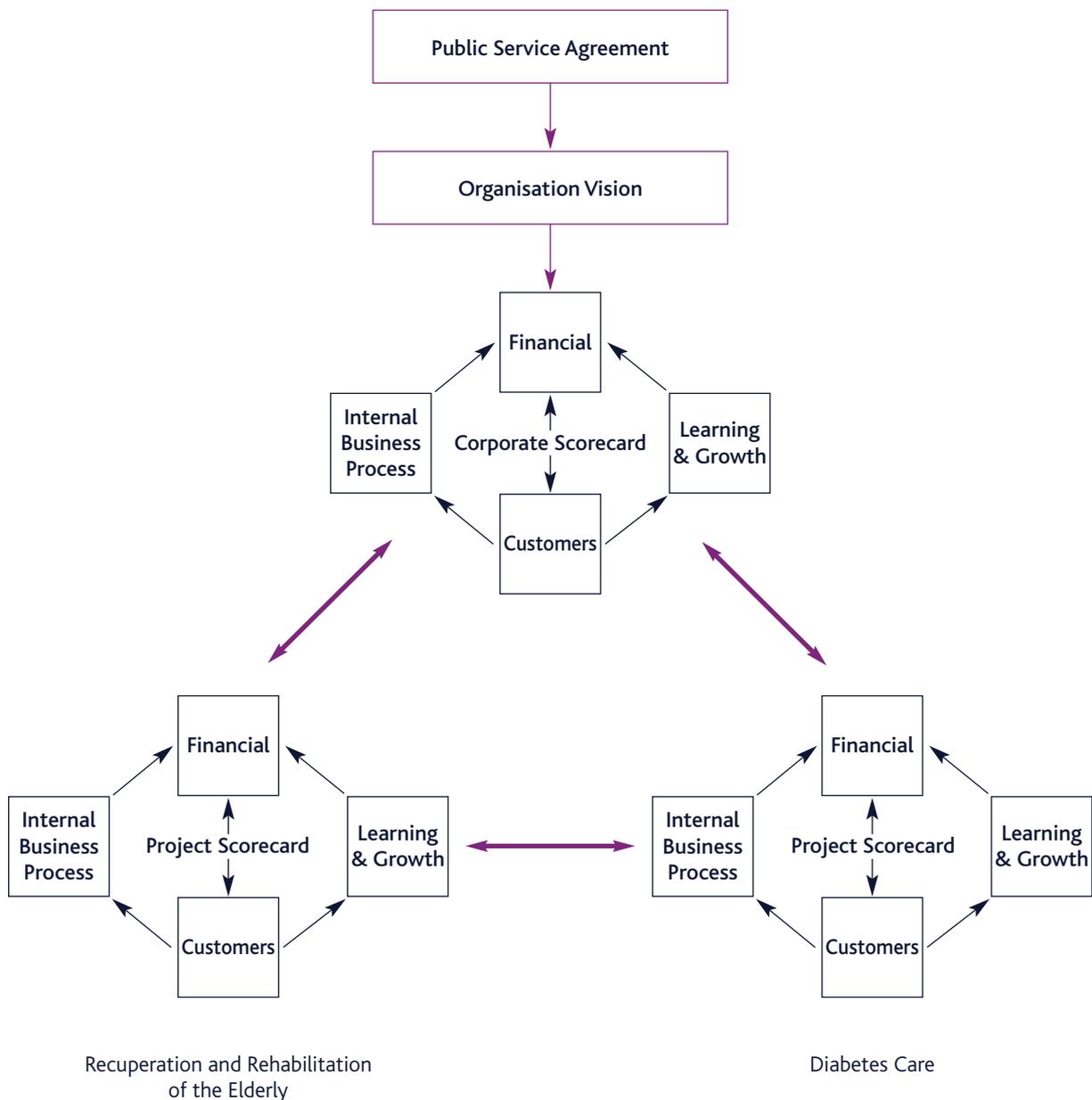
- Knowledge and access to diabetic services by targeted groups
- Increase in satisfaction with diabetic services amongst targeted group and families
- Degree of belief in involvement of development of new diabetic services by targeted group and families
- Degree to which targeted groups feel a service has been developed to their special needs

Learning and Growth

- Development of a programme to increase HAZ staff involvement in the community and develop their overall skills
- Developing cross disciplinary and cross organisational management skills
- Improving diabetes best practice amongst relevant primary and secondary clinicians

As mentioned in Section 6.1, in any complex organisation the primary focus and priorities will change at different managerial levels and for different departments. The HAZ in the study cascaded the strategy down through the organisation by developing project scorecards for the critical business issues (CBIs) identified in the Corporate Scorecard. Figure 12 illustrates this process.

Figure 12: Cascading Scorecards



6.4 Project Scorecard Template

In the example studied, a project team was given the responsibility for each stream of work and a Scorecard was developed for each team. To ensure a coherent approach the same four quadrants provided the framework for the project level Scorecard:

1. Stakeholder and Financial Measures
2. Internal Processes
3. Learning and Growth
4. Customers and Service Users

The concept of critical success factors (CSFs) and critical business issues (CBIs) is equally relevant to a Project Balanced Scorecard. The existence of high level values, a mission statement, and quantifiable outcome targets, provide a good foundation upon which to build and maintain the project focus. It will also be seen from the development of the Corporate Balanced Scorecard that at a project level these criteria may well be in an emerging and developmental state. The process may well be more 'messy' and integrative than traditional linear project planning.

The measures used in the various quadrants of the Project Balanced Scorecard are described in the following sections.

6.4.1 Stakeholder and Financial Measures

Rather than the concept of stewardship and accountability for public funds, the financial perspective of the Project Scorecard may focus on managerial accountability for allocated resources to action a specific task. Stakeholder relationship management remains important with perhaps more emphasis being given to professional, service recipient and community interest groups. The following description of the development of the stakeholder and financial measures of a project Scorecard for the recuperation and rehabilitation of the elderly, illustrates the key steps.

1. Although clinical and social care procedures for the discharge and assessment of needs of elderly patients existed, there was evidence that the approach was dislocated and not 'patient focused'. Developing a whole-systems perspective amongst those involved (including carers) increased the likelihood of a more effective and seamless process being designed and implemented.

CBI: The benefits of a new procedure may not be equally distributed amongst the key stakeholder groups. There may be adverse cost and resourcing implications for some groups.

CSF: Enthusiastic and committed involvement of all relevant stakeholder groups in whole system event(s) to identify the CSFs and CBIs in the current recuperation and rehabilitation procedures.

KPI: Involvement of the key stakeholders in whole system event(s) and agreement on CSFs and CBIs of current procedures.

2. More effective involvement of family carers in the recuperation and rehabilitation process would have a dramatic impact on: the quality of life of discharged patients; and on stretched social service budgets. Understanding how to support carers is also important.

CBIs: Carers often perceive themselves as a secret underclass. Their lifestyle and domestic pressures do not facilitate their active long-term involvement with traditional healthcare and social service procedures.

CSF: Development of a process that would make more effective use of carers. A particular objective would be to design a more effective and cost effective package of carer support measures.

KPI: Early identification of a resourced support package that would encourage carers to become more actively involved within the recuperation and rehabilitation process.

6.4.2 Processes

Developing the Corporate Scorecard entailed describing each stream of work as a high level process and detailing the critical sub-processes. This became the foundation for developing the KPIs in the process quadrant for each project Scorecard. To ensure that the project team can assess whether the total work of the sub-processes will collectively achieve the high level objectives of the project, the sub-processes need to be described in detail using flowcharting and modelling techniques. The following format could be used for each sub-process.

- a) Objective of the sub-process should be:
 - Consistent with the values and mission statement of the process e.g. diabetes.
- b) Quantifiable sub-process output targets should:
 - Represent achievement of the objectives of the sub-process;
 - Contribute significantly to the overall objectives of the whole process;
 - Represent 'Best Value' in terms of the resources being utilised; and
 - Integrate into an effective performance management process.
- c) A description of the sub-processes and critical tasks that will deliver the output to the next sub-process or to the end customer should:
 - Be mapped e.g. using detailed flowcharting techniques;
 - Identify critical tasks in sub-process; and
 - Allocate roles and responsibility for the sub-process and critical tasks.

The project team assessed the development and performance of each sub-process against these KPIs, which became the milestones in the development of the 'managed' sub-process, and monitored the performance against output targets.

6.4.3 Learning

At the project level, the learning quadrant will be concerned with developing the competencies of individuals and groups of individuals. Approaches such as 'whole systems scanning and analysis' and the Business Excellence Model are still relevant at this level in identifying performance gaps. Additional use can be made of training needs analysis (TNA) in relation to individuals and groups, particularly with reference to clinical and professional developments. For example:

Recuperation and rehabilitation

CSF: New home assessment procedures will require a training programme for social services personnel.

KPI: Development of a training programme that will transfer required skills to social services personnel.

6.4.4 Customers (Citizens, Service Users)

The focus of the Project Scorecard in the early stages of the HAZ project was on obtaining customer (citizen, service recipient) experiences and perceptions about an existing service, and identifying customer needs to be met by any new or modified service. Later, the assessment was concerned with the outcomes of the project, the impact on experiences, and customers' perceptions in terms of the service delivered. The customer quadrant is therefore dynamic and needs to be carefully tailored to the stage of development and performance of the project concerned. For example:

Recuperation and rehabilitation:

CSF: Accurate assessment of elderly patients on discharge. (Inaccurate assessment has been identified as impacting on the continuing quality of life of the elderly and on the social services budget.)

KPIs: Increase in perceived quality of life amongst discharged elderly patients. Percentage change in social service spending per discharged elderly patient.

Key Points:

- In any complex organisation the primary focus and priorities will change at different employee levels and in different divisions.
- One of the first steps in ensuring ownership of targets is to ensure that all stakeholders have a common understanding of the policy requirements and the values that will be needed to promote their attainment.
- Critical Business Issues (CBI) are the highest priority problems and opportunities that must be addressed if the strategic vision is to be fulfilled.
- Critical Success Factors (CSF) are the variables that will most influence future performance and will normally be related to a CBI.
- The eventual Scorecard design will need to have the quality of being readily understood and accepted by a wide range of stakeholders.

7. Common Threads and Conclusions

The organisations that participated in this study are perceived as being prominent in their sectors and they represent a broad spectrum of organisational types in both the public and private arenas. The organisation members who participated in interviews and responded to the survey were quite senior in their organisation's hierarchy. In both the private and public sectors, the interviewees were functional specialists tasked with implementing and promoting the Balanced Scorecard in their respective organisations. The private sector interviewees, although very senior, were generally at a level below the main or corporate board. The public sector interviewees, although answerable to management boards or other authorities, were amongst the most senior of the functional specialists operating in their field.

As all of the participants were, or had been, tasked with implementing a Balanced Scorecard in their organisations, it is not all that surprising that they were generally supportive of the Scorecard system. Nevertheless, many had encountered difficulties with implementation and the most common difficulties have been highlighted.

7.1 Innovation Fatigue

Perhaps the most widespread difficulty reported, particularly in public sector organisations, was that of 'Innovation Fatigue'. Many of the organisations in the study had been through a series of change programmes and had implemented some form of quality or total quality programme. The public sector organisations were either the result of, or had experienced, significant recent structural changes.

Chapter 4, Balanced Scorecard Implementation, highlighted some of the ways in which the participating organisations overcame 'innovation fatigue' and staff concerns about change. The case studies and indeed the Balanced Scorecard literature confirm that two fundamental pre-requisites of a successful implementation are:

- Executive Commitment and Leadership
- A strong and charismatic Scorecard Champion

7.2 Executive Commitment

A number of the Scorecard champions from the private sector reported that although their main board directors were supportive of the Scorecard initiative, they did not fully embrace the measures. This reportedly gave rise to a sense that the Balanced Scorecard measures were for middle managers, whilst the main board would continue to concentrate on the more traditional financial ratios favoured by stock market analysts and other financial experts.

Conversely, the organisations highlighted as examples of best practice and radical improvement in the established Balanced Scorecard literature, had secured total commitment at every level of the organisation. A number of the organisations interviewed had attempted to gain the highest levels of approval by demonstrating the benefits of the Scorecard in pilot schemes in a division or department. However, the most successful schemes were those that were instigated by a Chief Executive who had heard of, attended a conference or seminar on, or previously implemented a Balanced Scorecard process.

Although the interviewees invariably saw the lack of 'executive commitment' as a substantial communication problem, there may be more fundamental issues. Many organisational leaders have become tired of an ever-increasing portfolio of new management initiatives that appear to offer a quick and all embracing solution to their problems. These concerns are often heightened when the systems are intensively marketed and appear to develop their own 'high priests and gurus'.

7.3 The Scorecard as a Flexible Framework

As highlighted in the introductory paragraphs to this guide, a number of expert commentators have suggested that the Balanced Scorecard is not all that new or that there are alternative and equally viable models. There is undoubtedly a wide range of performance measurement models and this guidebook sets out to explain the Balanced Scorecard rather than to simply promote the system.

Nevertheless, the principles of the Balanced Scorecard appear to be well grounded in the earlier works of experts such as Argyris, Hopwood, Ridgeway and others. Perhaps doubts could be resolved if the Scorecard was seen as a well 'thought through' and designed framework that easily embraces a broad spectrum of traditional and innovative measures.

In this way, instead of having one set of measures for the main board and another for middle managers, organisations could agree measures that fully reflect their strategy and that are appropriate for all levels of the organisation. The research highlighted the flexibility and adaptability of the Balanced Scorecard and this is illustrated in Figure 6: Conformance with the Generic Scorecard Design.

7.4 Commonly Utilised Measures

The Commonly Utilised Performance Measures in UK Scorecards illustrated in Table 4 show the enduring popularity of financial measures and the relatively low focus on softer measures such as employee satisfaction. It should be noted that this table was drawn from a largely private sector sample and the results could be quite different if a wider sample of public sector organisations was included.

Nevertheless, the IIBFS findings are very similar to those reported by Frigo (2001) as arising out of the American Institute of Management Accountants 2001 survey. The survey of the Institute's 1300 members was designed, inter alia, to examine the effectiveness of performance measures within the four perspectives of the Balanced Scorecard. The IMA survey highlighted that financial performance measures received high ratings, while customer, internal business process, and learning and growth measures received progressively lower ratings. As in the IIBFS survey, the learning and growth perspective received the lowest rating.

Frigo (2001) attributes these results to the difficulties of measuring intangibles and goes on to suggest 'perhaps the greatest challenge managers face in performance measurement relates to intangible assets, specifically human capital and information capital'.

7.5 Value Creation through External Reporting

Although Section 5.3 highlights some aspects of dealing with these 'so called' intangible assets, it focuses on the issues of internal communication and external communication in the context of transparency and governance. However, in the period since the research was carried out much more work has been performed on identifying how value can be created through external reporting. According to Epstein and Wisner (2001), powerful stakeholder groups, such as analysts, investors and customers, see non-financial measures as increasingly important in building a fuller picture of an organisation and its likely future performance. To emphasize this point, Epstein and Wisner cite Ernst & Young's 1997 study, Measures that Matter. The report highlights that 35% of an investor's decision making process is related to non-financial issues.

Customers seem to follow a similar pattern and the growth of ethical funds and other financial products, as well as consumers' selection of 'green products', evidence this.

According to Epstein:

'By externally disclosing a more comprehensive set of measures, company executives are seizing the initiative to describe the company's strategy, set expectations, increase transparency, and ensure goal alignment between the company and its broad set of stakeholders'.

He then goes on to link this important aspect of internal communication:

'Full accountability comes only when a company combines broad public disclosures with extensive internal performance reporting. By doing so, companies are creating value for all stakeholders whose support they need to prosper – customers, investors, employees, communities, the public, and regulators and government officials'.

Although the comments above are substantially aimed at private sector companies, they are equally, if not even more valid, to public sector organizations. As outlined in the introductory chapters, the present government has committed to a programme of public service modernisation with the clear objective of ensuring that citizens can participate in government and exert pressure for continuous improvement.

Much work has still do be done on 'inclusion' and developing mechanisms for all citizens to participate in government. Nevertheless, as demonstrated by the example of the Health Action Zone in Chapter 6, and English Nature in the appendices, the Balanced Scorecard, as well as being a strategy focusing tool, can provide a powerful instrument for communicating what the organisation values, what its programmes are and what progress is being made with improvement initiatives.

7.6 Mental Models and Building a Vision

In Chapter 3, Balanced Scorecard Foundations, the research briefly touches on the issues of Vision and Values. The research highlighted that the process of agreeing on the vision and values helped to surface the mental models or deeply held assumptions that were being inculcated into employees of organisations. This appeared to be a particularly striking feature in public sector bodies. Senge's (1990) book – 'The Fifth Discipline' – gives an extremely thought provoking and in depth analysis of the role of mental models and the need for building a shared vision. If an organisation's Balanced Scorecard is to be sustained, sponsors need to follow the processes described in Chapter 3 to build such a vision. However they must be mindful that even if such a shared vision is constructed, if it is not fully supported, implemented, and clearly seen to work, there will be a tendency for the organisation to revert to the old established mental model.

7.7 Time Phasing

The research noted that in relation to the models that seemed to work, neither the private nor the public sector organisations had fully thought through the time relationship between initiating an action and obtaining results. This was particularly so in public sector organisations where relatively long periods of time elapsed between action and results. Most of the organisations surveyed took some relatively easy actions – picked the low hanging fruit – to convince stakeholders that the process could deliver results. Norton (2001) provides an interesting description of the importance of 'time phasing the strategy' and he comments:

'When we first conceived of the term 'Balanced Scorecard', our objective was to balance lag indicators (financial measures) with lead indicators (performance drivers). As we set out to uncover the performance drivers that help realise strategy; the lead indicators became more complex. That there are long lead indicators as well as short lead indicators is an important distinction, and one that has led to a more precise understanding of the role sub-strategies play in value creation'.

The best example of this balance of lead indicators uncovered by the research project was in the Health Action Zone described in Chapter 6. The team recognised that their streams of work were at different levels of development and adjusted their processes and measurements accordingly.

In conclusion, the fact that an organisation does not have a Balanced Scorecard, or measures some particular area of operation, does not necessarily mean it is neglecting that item. For example, just because an organisation does not have a set of well constructed external reporting measures on items such as environmental performance does not necessarily mean that it gives any less attention to these than a company that fully discloses this information in its Balanced Scorecard.

However, the Balanced Scorecard does provide a flexible framework that allows an organisation to make its strategy explicit and to communicate its values and operational performance in an entirely transparent and easily accessible format. The research demonstrates that it provides a powerful strategy-focusing tool and when closely linked to staff reward schemes it can be an extremely powerful tool for aligning the organisation with the strategic objectives and for delivering improvement.

Appendices

Appendix 1

The Research Process

The research work carried out by IIBFS on behalf of CIMA provides a significant insight into the use of the Balanced Scorecard in the UK. During the course of this research project the IIBFS directly contacted 591 private sector organisations and 51 public sector organisations. This element of the research was carried out using a telephone survey and the results are illustrated in Table 9.

Table 9: Determining the Frontiers of Balanced Scorecard Use in the United Kingdom

Telephone Survey of Private Sector Organisations

Balanced Scorecard Use Within the UK

Number of Companies Contacted	591
Number of Companies Using the Balanced Scorecard	91 (15.4%)
Number of Companies Not Using the Balanced Scorecard	258 (43.7%)
Total Number of Companies with a Performance Measurement System with Similar Characteristics to the Balanced Scorecard	62 (10.5%)
Total Number of Companies Unwilling or Unable to Take Part in the Telephone Survey	180 (30.4%)

Telephone Survey of Top 100 UK Corporates by Market Capitalisation

Balanced Scorecard Use Within the Top 100 Corporates

Number of Companies Using the Balanced Scorecard	30 (30.0%)
Number of Companies Not Using the Balanced Scorecard	29 (29.0%)
Total Number of Companies with a Performance Measurement System with Similar Characteristics to the Balanced Scorecard	11 (11.0%)
Number of Companies Unwilling or Unable to Take Part in the Telephone Survey	30 (30.0%)

Telephone Survey of UK Public Sector Organisations

Number of Public Sector Bodies Contacted	51
Number of Public Sector Bodies Using or Intending to Use the Balanced Scorecard Methodology	16 (31.4%)
Number of Public Sector Bodies Not Using the Balanced Scorecard	33 (64.7%)
Number of Public Sector Bodies Unwilling or Unable to Take Part in the Telephone Survey	2 (3.9%)

NB: The survey into Balanced Scorecard usage within the public sector was not a comprehensive exercise, merely a means of ascertaining how the approach to Balanced Scorecard design and implementation differed to the private sector in resolving shareholder/stakeholder tensions. As a result, only a relatively small sample of public sector bodies, local authorities and government agencies were contacted.

The telephone survey of 591 UK private sector corporations and other organisations, showed that some 15% of firms are actively applying the Balanced Scorecard.

The Balanced Scorecard is playing a significant role in the operation of private sector performance measurement in the UK. Of the largest 100 UK companies by market capitalisation (excluding financials), 30% are already actively engaging with the Balanced Scorecard performance measurement system. Recently, UK public sector authorities and agencies have also taken up the Balanced Scorecard approach, and of the sample considered by this telephone survey, 31% were utilising or intending to use the Balanced Scorecard.

A further part of the research project was a detailed postal questionnaire to which 60 of the targeted 200 companies, representing a wide spectrum of organisations from construction to retail banking, responded. One of the driving forces behind the development of the Balanced Scorecard was the growing realisation that contemporary organisations need to be aware of a much wider range of influences beyond those measured by traditional financial and accounting measures. They need to take account of the views of a wider range of stakeholders such as customers, suppliers, employees and neighbours.

Relative Ranking of Stakeholders

As part of the research project, IIBFS analysed what importance respondents to the questionnaire attached to the interests of key customers, employees, the local community, senior management and the environment, in comparison to those of shareholders (or other owners). In all cases, a score of 0 indicates that the relevant stakeholder is relatively not important and a score of 7 indicates that the stakeholders' interests are at least as important as those of shareholders. The relative rankings of the interests of stakeholders compared to the interests of shareholders are provided in Table 10 and further illustrated in Figure 13.

A Friedman Two-Way Analysis of Variance by Ranks test indicates a significant difference in the rankings of the interests of stakeholders ($\lambda^2 = 33.849$). As Table 10 demonstrates, the interests of all other stakeholders were, on average, considered to be less important than those of shareholders. Given the shift to customer relationship management across the UK, it is not surprising that

Table 10: Stakeholder Rankings

Stakeholders' Interests Relative to Shareholders	Mean Likert score
Customers	5.48
Senior managers	5.11
Environment	4.64
Employees	4.50
Local community	4.12

respondents considered the interests of customers to be the most important compared to the interests of other stakeholders, excluding shareholders. 37% of respondents considered that the interests of key customers were at least as important as those of shareholders. What is perhaps surprising is that a greater percentage of respondents did not consider the interests of key customers to be as important as those of shareholders.

After customers, senior management was next in terms of importance compared to shareholders. However, the interests of other employees were ranked low in terms of relative importance, and even below that of environmental interests.

The clear pre-eminence of shareholders and key customers within the private sector sample provided an initial perspective on the motivation for, and potential application of, the Scorecard process within such organisations.

Figure 13: Stakeholder Rankings



Appendix 2

Case Study: English Nature

Overview

English Nature is a public sector organisation responsible for managing many of England's nature conservation areas, in particular, Sites of Special Scientific Interest (SSSI). In recent years English Nature have transformed the science of nature conservation from a descriptive activity to a dynamic process focused on the notion of 'wildlife gain', an idea which could well be described as the ecological equivalent of EVA (Economic Value Added). This quiet revolution has led English Nature through a complete rethink of how the business of nature conservation should work, and this new understanding, or narrative, is now shared by every officer in the organisation and underpins the development of the organisation's Balanced Scorecard.

Introduction

English Nature was created in 1991 to promote the conservation of England's wildlife and natural features. The organisation was established by the Environmental Protection Act 1990 and is a statutory body funded by the Department of the Environment, Transport and the Regions. Currently, English Nature manages an annual budget of around £45 million.

English Nature's main areas of activity include:

- Providing advice and information on nature conservation to the Government and other organisations;
- Designating England's most important areas for wildlife and natural features such as Sites of Special Scientific Interest, National Nature Reserves and Marine Nature Reserves and securing the sustainable management of these sites; and
- Implementing, on behalf of the government, international conventions and EC directives on nature conservation, including the government's Biodiversity Action Plan in response to the 1992 United Nations Earth Summit in Rio.

Understanding "Wildlife Gain"

English Nature has a distinctive organisational structure. The organisation chart shows a conventional management hierarchy: Chief Executive, Directors, General Managers and Teams. The 31 Teams are divided into three types: 21 Local Teams each assigned to a geographical area of England; four Specialist Teams focusing on environmental impacts, maritime, lowlands and uplands issues; and six Services Teams dealing with strategy, finance, HR, IT, marketing and external relations.

However, the work that English Nature undertakes is organised into seven business processes, which overlay the organisational structure. There are three primary processes corresponding to the three main classifications of natural area in England: Uplands, Lowlands and Maritime; together with four business support processes: Influencing Strategic Allies, Gaining Supporters, Direction & Reporting, and 'Making English Nature Work Better' (HR, IT and Finance).

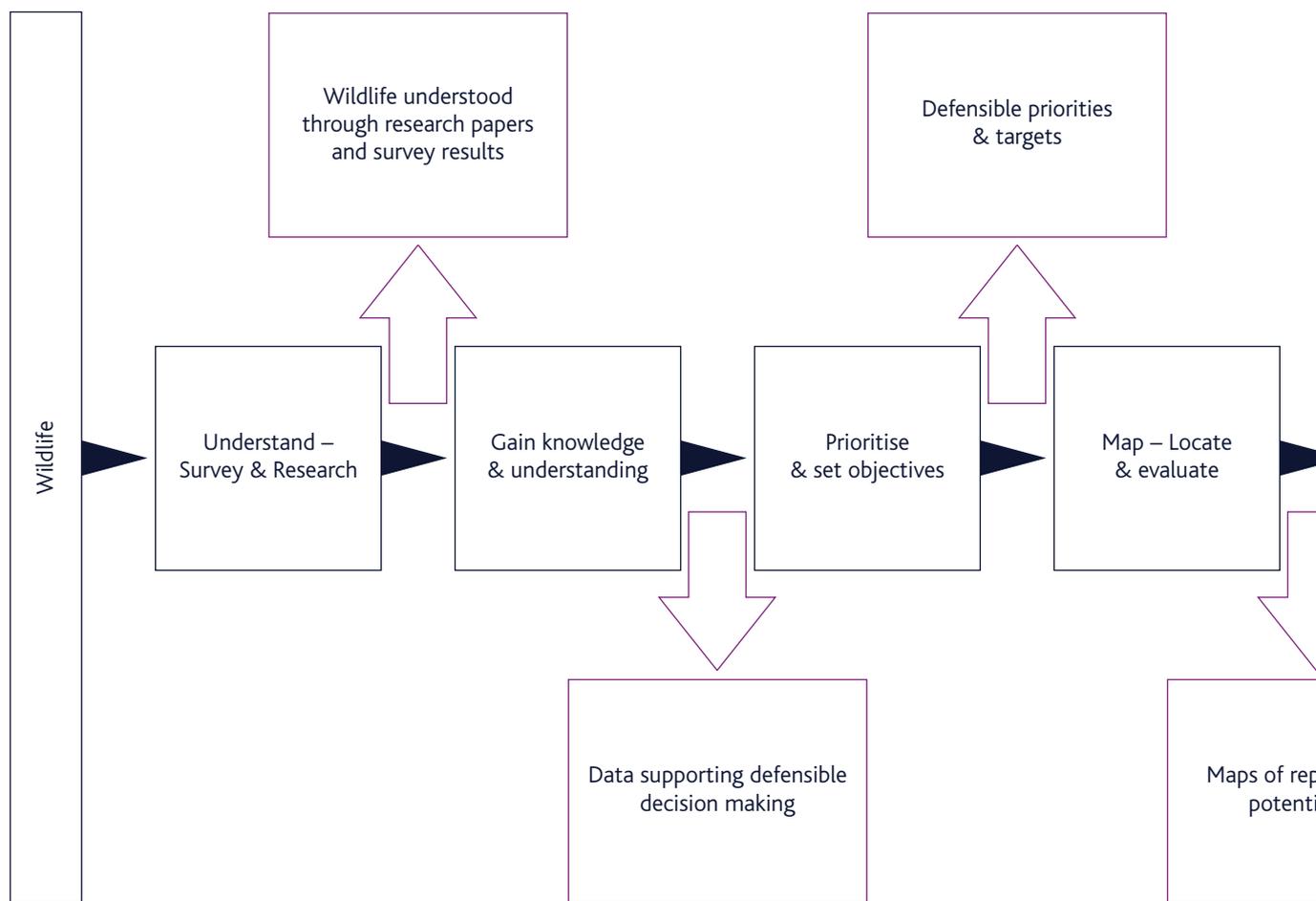
There is, therefore, a matrix management system in place at English Nature. However, the usual problem in such systems of managing conflict between powerful 'vertical' functional interests and 'horizontal' processes hardly exists, since business processes are paramount and vertical functions have been eliminated from the hierarchy. For example, the Lowlands Process Director also manages HR as a strand of the 'Making English Nature Work Better' process and has no direct control over the HR Services Team.

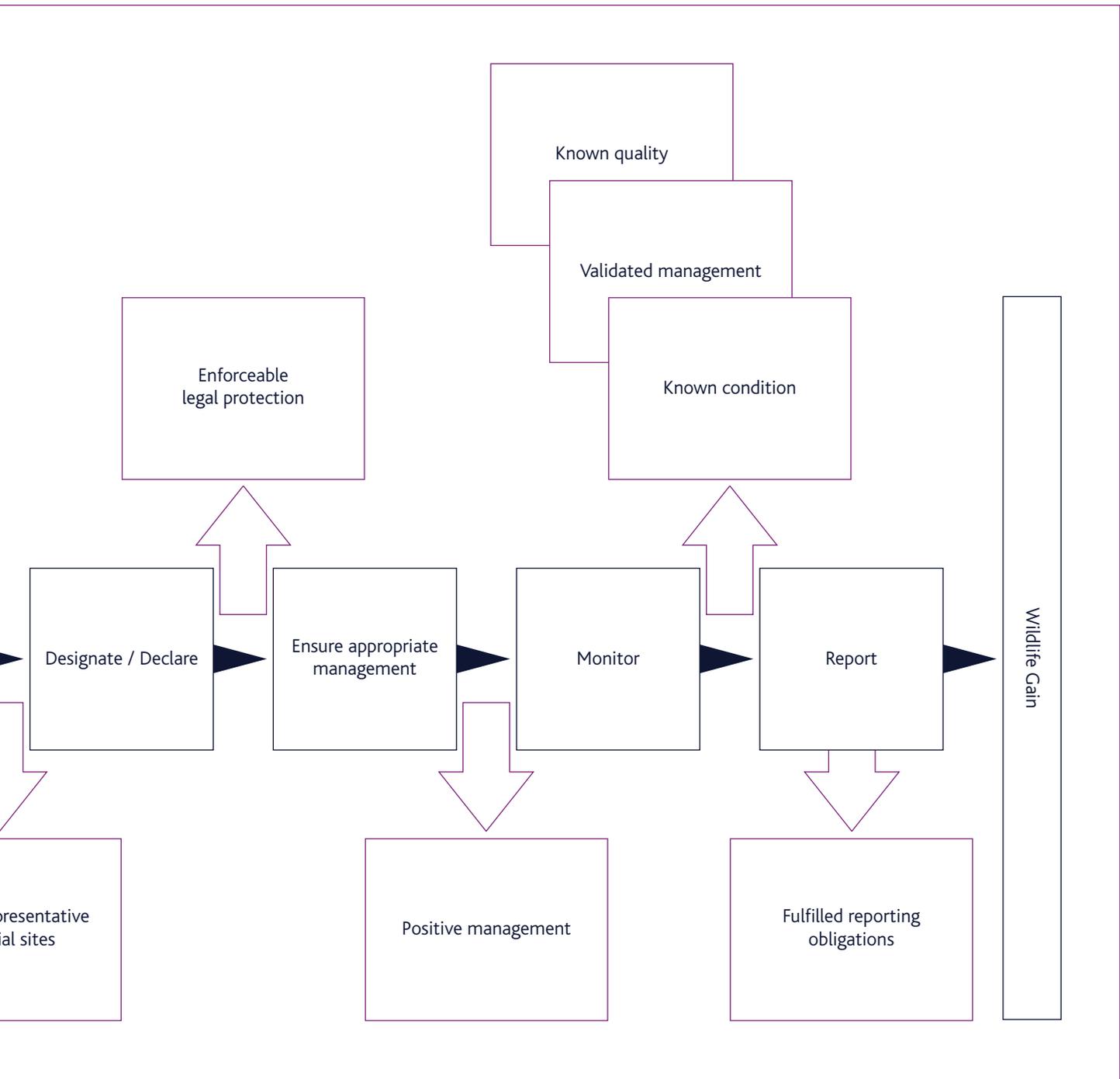
In operating a matrix management system, activities at Local Team level are undertaken which may fall into multiple business processes. For example, the Devon & Cornwall team will operate within all three primary processes being located in a geographical area, which includes upland, lowland and maritime features.

A business process is described by Strategy Manager, Mark Felton, as, 'a stream of work aimed at particular nature conservation outcomes'. Although the three primary business processes – Uplands, Lowlands and Maritime – are characterised by very different wildlife management issues, they share a common core of activities shown as a value chain in Figure 14, Primary Value Stream (PVS). This diagram represents a common approach to nature conservation in England. Each activity adds value as described in the boxes and the cumulative effect of these activities leads to the notion of 'wildlife gain'. This is in contrast to a typical commercial organisation where each step of the value chain adds financial value leading to profit and an increase in shareholder value.

The definition of the Primary Value Stream represents the establishment of best practice and transforms nature conservation from a passive descriptive process (where historically the aim was merely to understand wildlife and to designate protected areas), to an active dynamic process characterised by positive management of protected sites leading to an ongoing improvement in the state of England's wildlife.

Figure 14: The Primary Value Stream (PVS)
(Adapted from the original)





The Primary Value Stream (PVS) is a value chain and therefore represents a strategic view of the primary activities of the organization. As such, the PVS is a powerful aid in communicating the wildlife gain narrative – the 'story' of how value is created and delivered by English Nature. The PVS is also a source of Critical Success Factors (CSFs) and performance measures. However, the PVS is not the only device for explaining the narrative. As part of the information systems strategy, English Nature realised that it was vital to develop an IT system to support the management of wildlife based on the PVS. As part of this project, it became necessary to analyse the information requirements of the PVS and this resulted in the development of the data model shown in the Figure 15, Logical Data Structure for the Natural Areas Business of English Nature.

Business managers often have a natural aversion to IT data models which are usually rendered incomprehensible to mere mortals by the use of the Byzantine reasoning and fractured English required for computer programming. However the example shown below has been adapted for non-artificial intelligence! To understand the diagram the reader has merely to follow the arrows from one box to the next. For example, beginning at the top of the diagram, 'England is subdivided into Natural Areas', 'Natural Areas are made up of distinct Broad Habitats', and so on.

By comparing the data model to the value chain expressed in the PVS, it is relatively easy to understand the English Nature narrative. England contains a large number of conservation areas consisting of important natural features and representative species. Each conservation area requires very specific management techniques. Each conservation area is owned or used by a range of people – Customers – and the challenge is to persuade these Customers to manage their conservation areas according to the recommended management regime. In so doing, the net result will be an overall improvement in both the biodiversity and sustainability of the local wildlife.

In addition to the primary business processes there are supporting business processes which also contribute to the critical success factors and performance measures of the organisation. Particularly important are the processes which focus on key external stakeholders, i.e. the processes of Influencing Strategic Allies and Gaining Supporters.

The net result of considering all seven of English Nature's business processes is the definition of the 30 Critical Success Factors shown in Table 11, Balanced Scorecard Critical Success Factors. As can be seen from the table, the English Nature Balanced Scorecard is divided into six performance perspectives: Competent organisation, Growing the business, Image and reputation, Service to corporate strategic allies, Strategic change and Wildlife gain. These perspectives have been matched as far as possible to the Kaplan and Norton Balanced Scorecard, but differ significantly from the standard version due to the distinctive character and strategic intent of English Nature.

Figure 15: Logical Data Structure for the Natural Areas Business of English Nature

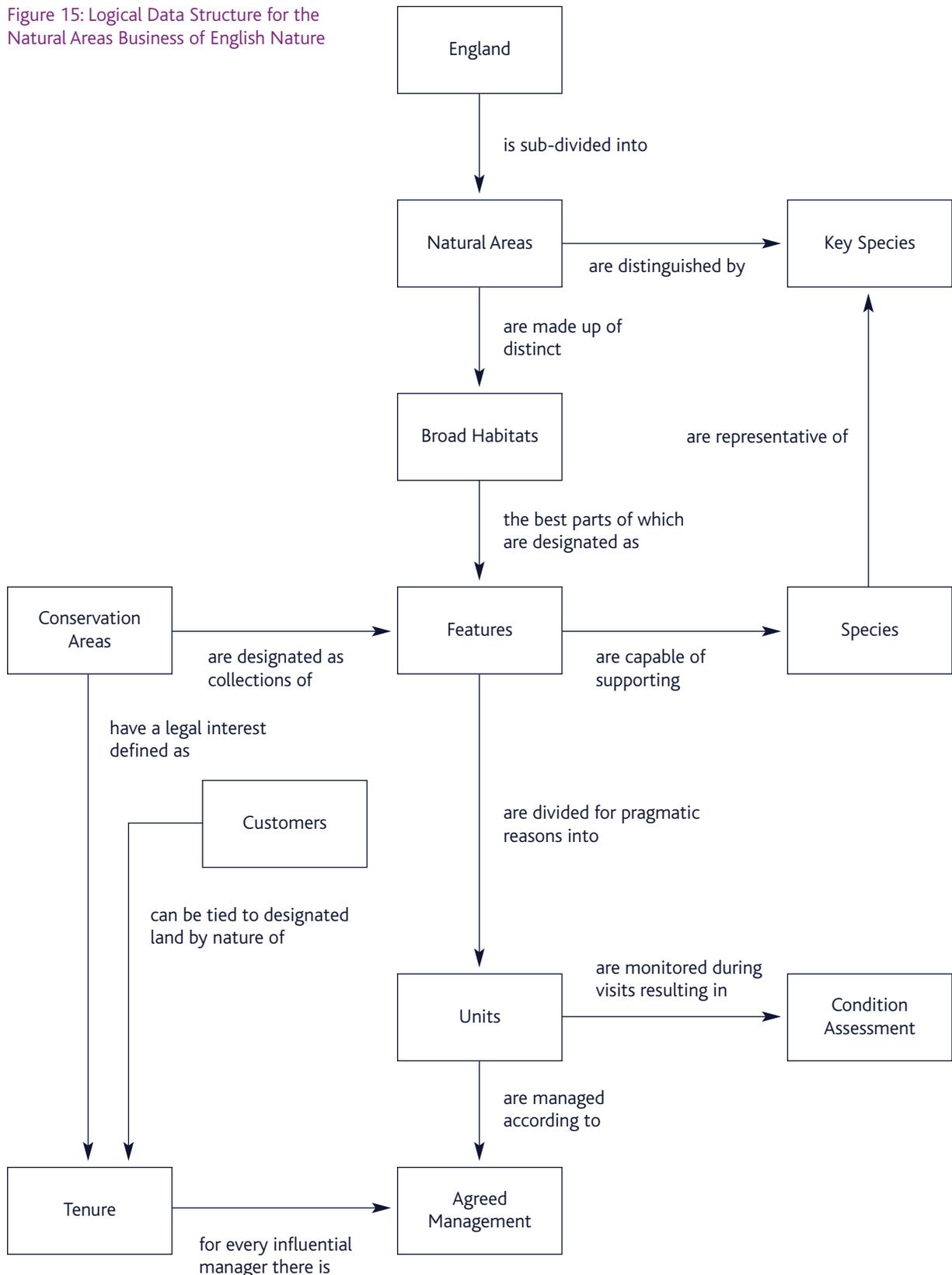


Table 11: Balanced Scorecard Critical Success Factors

		Wildlife Gain
		<ol style="list-style-type: none"> 1. Delivery of English Nature led Biodiversity Action Plans 2. Helping delivery of Biodiversity Action Plans by everyone 3. Favourable condition on conservation sites 4. Maintenance of Natural Area character
	Strategic Change	<ol style="list-style-type: none"> 1. Changing the rules of the game in ten sectors 2. Developing and championing biodiversity tests for each 3. Preventing damage and facilitating enhancement 4. Resources to fund sustainable land and water management and the care of the sea 5. Create a climate of public support for the need for rule changes 6. Articulate the need for behavioural changes
Customer Perspective	Service to Corporate Strategic Allies (CSAs)	<ol style="list-style-type: none"> 1. Championing delivery of Natural Area objectives by local action 2. Helping CSAs deliver our objectives and theirs – exploit current rules of the game for most effective contribution to wildlife gain 3. Deliver Relationship Management Plan activities 4. Excellent service to support owner occupiers of SSSIs
Stakeholder Perspective	Image and reputation	<ol style="list-style-type: none"> 1. Be an excellent public body; use resources wisely and effectively 2. Give sound advice which is acted upon by Government 3. Gain explicit support for nature conservation 4. Tell good stories
Internal Processes	Grow the business	<ol style="list-style-type: none"> 1. Maintain Grant in Aid (GIA) and flow of other funds 2. Become more efficient 3. Continuously improve delivery of services 4. Meet service standards 5. Manage National Nature Reserves excellently 6. Maintain Natural Area information
Innovation & Learning	Competent organisation	<ol style="list-style-type: none"> 1. Have knowledge at our fingertips: sectoral, customer and nature conservation 2. Sound judgements and effective learning
Supporting Processes		<ol style="list-style-type: none"> 1. Finance 2. Information 3. Human Resources 4. Facilities and assets

Summary

The development of the English Nature Scorecard illustrates an important factor in successful Balanced Scorecard design, namely that the standard four perspective Kaplan and Norton format is often inappropriate for many organisations. At English Nature there are a number of important influences leading to the development of a more distinctive performance management framework. Specifically:

- The perspective of Learning and Growth may often be divided into an array of perspectives such as HR issues concerning people's attitudes and competencies, strategic change, or the development of intellectual property.
- There is often a clear business distinction between Customers – those served by the organisation – and other external stakeholders with the power to influence or even control the organisation. Where such distinctions are important it may be necessary to create separate Customer and Stakeholder perspectives.
- The notion of value may change between organisations. In commercial, for-profit organisations, value is always financial, but in non-commercial, not-for-profit organisations value may be defined differently as in the case of English Nature where the aim is to create 'wildlife gain'.

The fact that the concept of 'value' to English Nature is concerned with wildlife gain and not with financial gain, is immaterial. An explicit shared understanding of how value is created and delivered within an organisation is required as a prerequisite for developing a successful Balanced Scorecard. Without this understanding it is not possible to be certain that the Scorecard contains an exact set of 'key' performance indicators – those indicators derived from the drivers of value, and no other superfluous measures. To take a legal parallel, a Balanced Scorecard should contain 'the truth, the whole truth, and nothing but the truth!'

English Nature has employed an innovative and imaginative approach to developing and defining its narrative – the story of how value is created and delivered – using value chain analysis and IT data modelling. The result has been the development of a shared vision and shared understanding of the importance of business activities across the organisation. Having made this business knowledge explicit, English Nature has developed the means to create a highly sophisticated Balanced Scorecard that is both relevant to employees and of practical use in fulfilling the strategic intent of a unique organisation.

Appendix 3

Case Study: Merseytravel

Overview

One of the characteristic features of the Balanced Scorecard is the emphasis placed on stakeholder interests. Most commercial company Scorecards focus solely on the expectations of shareholders, customers, employees and, to a lesser extent, suppliers, even though the same organisations would recognise the importance of other stakeholder groups such as regulators, the local community, and the 'environment'.

The decision as to whether a particular stakeholder group should be represented in the Balanced Scorecard depends on the direct impact that the stakeholder group has on the day-to-day creation and delivery of value. Many stakeholder groups do not qualify as direct contributors to the Balanced Scorecard, but nevertheless they may often have an indirect impact on performance since they influence the other forces that shape the Balanced Scorecard – strategy, planning and operations.

In general, public sector organisations are required to deal with a broad spectrum of stakeholder interests which add a degree of complexity to the planning process that most private sector organisations would find bewildering. Merseytravel, the Passenger Transport Authority and Executive serving the County of Merseyside, is such an organisation and has to take account of the interests of 42 separate stakeholder groups in its planning process.

Introduction

The origins of Merseytravel are complex. The Merseytravel Passenger Transport Authority (MPTA) and Merseytravel Passenger Transport Executive (MPTE) were first established under the 1968 Transport Act. Both became part of Merseyside County Council in 1974 although MPTE retained a separate identity. Merseytravel was re-established as the Passenger Transport Authority and Executive for the County of Merseyside in the Local Government Act 1985, and the Transport Act 1985 amended the functions to take into account bus deregulation and the privatisation of bus operations. Merseytravel employs around 800 people and manages a revenue budget of over £220 million and a capital budget of over £20 million.

Merseytravel ensures the availability of public passenger transport in Merseyside, including financial support for the rail network and the provision of bus services not covered by the private sector. It also promotes public transport by providing bus stations and infrastructure such as shelters, stops and operator travel information, comprehensive travel tickets and free travel with minor restrictions for the elderly and for those with mobility difficulties. Merseytravel also owns and operates the famous Mersey Ferries and Mersey Tunnels.

Merseytravel has developed some highly innovative transport solutions. An example is SMART, a unique package of high quality bus services. The original demonstration services were EU funded through the THERMIE programme. SMART brings together accessible low floor buses, high quality shelters, real time information screens and bus priority measures. The success of the pilot services has led to the SMART concept being extended to the commercial network in partnership with the bus operators and District Councils.

Merseytravel is subject to Government legislation and has had to consider Government White Papers such as, 'A New Deal for Transport'. This paper set out the government's position on the future of transport. It contained a number of important issues relevant to Merseytravel including bus and rail services, safer routes to school and a national public transport information system.

A second White Paper, 'Modern Local Government – In Touch with the People' is aimed primarily at local government, but does affect Merseytravel since Merseytravel is classed as a Local Authority. The key issue in this White Paper, which affects the planning process and performance management, is the notion of 'Best Value'.

In the late 1980s and 1990s local government was subjected to Compulsory Competitive Tendering (CCT). Under CCT, all Local Authorities were required to offer designated services for tender and the lowest cost tender is accepted. This policy delivered an important benefit – the reduction of service costs, but at the price, in many cases, of reduced customer satisfaction. Under Best Value, Local Authorities are required to address the issue of effectiveness as well as efficiency. Effectiveness is concerned with ensuring that services meet stakeholder expectations and this has underlined the importance of developing Merseytravel's stakeholder analysis process.

Stakeholder Analysis

Figure 16, Best Value Stakeholder Analysis, shows the 42 stakeholder groups that Merseytravel considers when making planning decisions. Stakeholders are by definition, groups, individuals or organisations that have an interest in the organisation. The analysis was originally formulated at a brainstorming session at which all business areas were represented. This information was supplemented with the findings of market research into various aspects of public transport provision across Merseyside, customer feedback and consultation with the community.

Stakeholder analysis forms a particularly important device in securing Best Value and the information forms a base from which to explore the service offered by Merseytravel and any gaps in service provision. The overall analysis assists in setting performance targets based on current service provision.

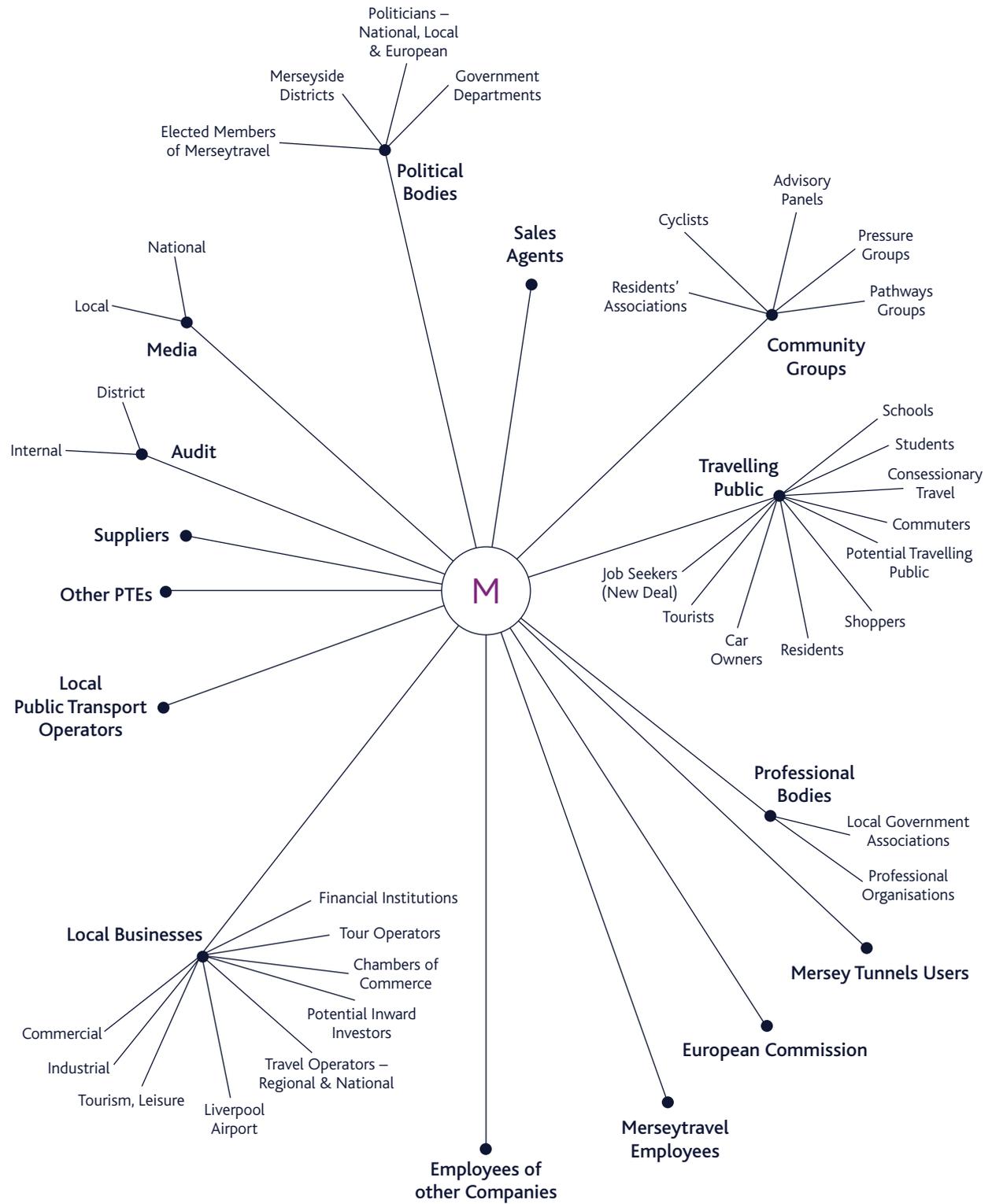
Behind each stakeholder group in the Best Value Stakeholder Analysis diagram there is a set of stakeholder expectations. For example, the stakeholder expectations of Shoppers, a sub-division of the Travelling Public stakeholder group, are:

- Frequent public transport services;
- Good interchange facilities (bus/train/ferry);
- Secure car parking at park and ride facilities (including ferries);
- Flexible ticketing (discount, through ticketing),
- Reliable public transport services;
- Safe environment on public transport and at associated facilities;
- Information on public transport services;
- Promotional tickets, e.g. offering travel and discount at shops;
- Cross boundary travel opportunities; and
- Hand luggage storage facilities.

Merseytravel operates a market research programme, an important part of the process of understanding stakeholder expectations. There are two quarterly tracing surveys. One is a general survey across all customer groups and the other focuses on 'opinion formers' and is designed to provide feedback on policy issues.

Annual ongoing customer tracking surveys are conducted on the bus and rail network. In addition to these regular surveys, there will be, in any one year, a number of supplementary surveys. In 1999, for example, extra information was sought from the business community and young people, and a large scale consultation on perceptions of the Government's Transport White Paper was undertaken. Merseytravel seeks to demonstrate progress by undertaking evaluation studies of recently completed infrastructure projects, for example, new railway stations and bus stations.

Figure 16: Best Value Stakeholder Analysis



Source: Merseytravel (1998) Policy & Expenditure Plan 1999-2004

The Planning Process

For the purposes of planning, Merseytravel is divided into nine Business Groups each with its own distinct internal or external market. The principal externally facing Business Groups accounting for over 80% of revenue expenditure are bus, rail, tunnels, ferries and travel concessions. The Business Groups comprise line managers and representatives from Finance, Transport Policy and Corporate Planning. To quote from the Merseytravel Business Planning Manual:

'We encourage involvement in the process by giving the managers and key officers who run the businesses the responsibility of producing the plans. The Corporate Planning section helps Business Groups throughout the cycle, and their other tasks ensure involvement in implementing the organisation's business strategy'.

And continuing from the same source:

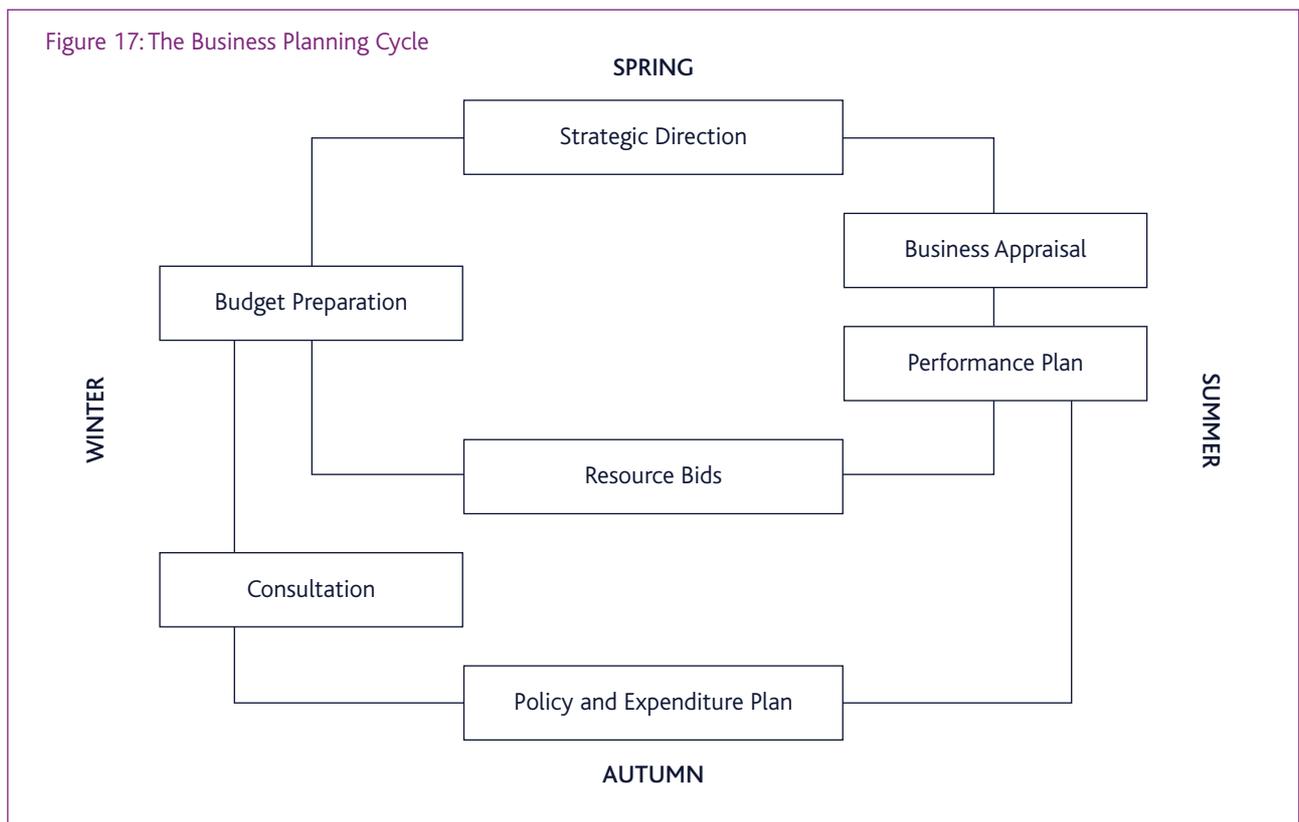
'We have designed the planning process to make the most of the knowledge and judgement of the participants so it is not solely a 'numbers game'. We use tools such as Stakeholder and SWOT analysis, and our Stakeholder requirements and service offered framework adds real-life to any statistics we may have. So the contribution each member of staff can make, either directly or indirectly to the picture is vital.'

This view of an inclusive planning process focused on stakeholders, and particularly on customers, supports the introduction of the Best Value initiative. As David Parry, Head of Business Strategy explains:

'We're starting to prepare for Best Value. We're focusing on the strategic management framework and adapting our existing systems in a direction that is compatible. We're tightening up on the formulation of objectives and performance measurement and we're starting to think how we organise the fundamental performance review process'.

The annual planning cycle itself is shown in Figure 17, The Business Planning Cycle. Strategic direction is set during Spring when the Strategic Plan, plus other guidance, is updated and business appraisals prepared. The business appraisal step results in the formulation of proposed plans set out in the Performance Plan and includes stakeholder analysis information. A Policy and Expenditure Plan is prepared for external consultation during Autumn along with Resource Bids containing implementation options. During Winter the budget is finalised.

In parallel with the business planning cycle there is also the ongoing process of monitoring and reporting progress against current plans. Business Groups meet at regular intervals, typically monthly, and receive reports on the performance of their budget and services. Progress is reviewed in relation to the implementation of business plan options and medium-term objectives.



Source: Merseytravel (1998) Business Planning Cycle Manual

The lead manager of each Business Group makes a formal report to the Management Team comprising the Chief Executive, other Directors plus the General Manager of the Tunnels on a two monthly cycle. Reports include financial and HR details, project implementation, service delivery and progress of medium-term objectives.

The Performance Plan is prepared within the context of the business strategy, recent commercial performance and the current stakeholder analysis. Because Merseytravel have implemented such a comprehensive stakeholder analysis process it is possible to readily identify the stakeholders that each planning proposal will affect and to ensure that likely impacts on these stakeholders are accurately assessed and proactively managed.

Summary

Stakeholder analysis is an important part of the business planning process, and some stakeholder expectations may be so important that their fulfilment must be tracked on a continuous basis within the Balanced Scorecard. A small number of stakeholder groups impact on performance to such an extent that whole perspectives of the Balanced Scorecard must be dedicated to them. This explains why most, if not all, commercial organisations include Customer and Shareholder (Financial) perspectives in their company Scorecards along with a strong emphasis on employees in their Learning & Growth perspectives.

The design of the standard Kaplan and Norton Balanced Scorecard owes much to the so-called service value chain. This is based on the hypothesis that motivated employees lead to efficient and effective processes resulting in higher levels of customer satisfaction and improved shareholder value. This hypothesis is built around the key stakeholder groups of employees, customers and shareholders and therefore steers adopters of the standard Scorecard towards serving the needs of these key stakeholders.

For most commercial organisations a focus on these three stakeholder groups is often sufficient. However, no organisation should be blind to the possibility that other stakeholder interests may have a significant effect on performance and the exercise of stakeholder analysis is therefore recommended as part of any business planning process.

As the Merseytravel case illustrates, the value of stakeholder analysis is not confined to Balanced Scorecard design and content. A robust and effective stakeholder analysis process offers significant benefits to the annual planning process by allowing the impacts that projects are likely to have on stakeholders to be assessed during project appraisal thereby giving managers a much better chance of proactively managing these impacts during implementation.

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