

Zen and the Art of the Balanced Scorecard

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The balanced scorecard is a management concept that can be approached in much the same way as Zen Buddhism. Just as the principle that reminds us that the journey is the destination, performance management should be a continuous process.

Today the use of balanced scorecards for performance management has become a hallmark of a well-run company. A recent study by Cranfield University showed that more than 50 percent of large enterprises use some type of a balanced scorecard. The concept is simple. In order for your business to succeed, you need a way to consider the factors that influence the organization's overall performance.

But simplicity can be elusive. The balanced scorecard is a management concept that has been so thoroughly boiled down to its essence that it no longer provides much application guidance. As a result, many of the best practices of the balanced scorecard are widely misunderstood. As much an art as a science, the balanced scorecard is a living process that must be adaptive to constantly changing external forces and internal course corrections. You learn as you go. Below are a few guiding principles that will help you along the way.

1. Capture a Balanced View

The four perspectives of a balanced scorecard serve as a good generic framework for most organizations. But don't feel limited by them.

The balanced scorecard enables companies to consider factors that influence performance in a manageable way. Typically, scorecards measure progress across four key areas:

- Financial Perspective: How are we perceived by the shareholders?
- Customer Perspective: How do our customers view us?
- Internal Process Perspective: How effective and efficient are our processes?
- Learning & Growth Perspective: How agile are we?

While most companies find these four perspectives to be sufficient and logical, there's no rule that says you can't have more or different perspectives. Some companies feel their scorecards should specifically address corporate social responsibility, so they have introduced a fifth dimension called "environmental perspective" or "societal perspective." Others add a perspective for suppliers and partners to cover this important constituency. Not-for-profit organizations often flip the relationship between the customer and financial perspectives, as the financials are a means to a non-financial goal. The four perspectives are a good generic framework that fits most organizations. Just don't feel limited by them.

2. Pinpoint the Right Number of Metrics

Many companies treat the balanced scorecard as a box-checking exercise, running down a laundry list of metrics that don't really offer much new insight. Or worse, they stubbornly stick to the rule of thumb of 15 or 20 metrics per scorecard. I've even witnessed organizations trying to "fill up" their under-populated innovation perspective with metrics from an overloaded customer or process perspective.

In determining the right metrics-and the right number of metrics-for your scorecard, it's not necessarily bad to start with an abundance of possibilities. You can't converge before you diverge. Working with the scorecard over time will help you identify the best business drivers for your organization and bring the number of indicators down to a suitable level.

3. Use Cascading Scorecards

In order to create alignment, scorecards should cascade into the organization, sometimes even down to the personal scorecard level. A common misconception is that scorecards must reflect the organizational structure, but this isn't necessarily so. Organizational alignment is not always achieved by giving every department its own scorecard. By simply stacking scorecards according to the corporate hierarchy, companies can miss important drivers of performance.

Take project scorecards, for example, that point out which innovative approach is used, whether the project is on track, how intermediate results are being viewed by internal clients, and how much money the project has saved or generated already. Projects represent a large part of an organization's activities and performance, but are not generally reflected in the organizational chart. Or consider customer contact channel scorecards which describe the unique characteristics of retail shops, the call center and the catalog. Channels aren't typically reflected in the organizational chart, but they are a crucial part of business performance given their focus on customer interactions. And what about the many successful supplier scorecards that help rationalize the number of suppliers with which an organization works. These scorecards fall outside of the organizational structure completely and yet they play a key role in elevating supplier relationships to a more strategic level.

4. Align with Strategy Maps

A strategy map describes how the performance indicators in a scorecard relate to each other, identifying cause-and-effect relationships. Statistically cross-checking these relationships is a good exercise-but don't go overboard. Quantitatively-oriented organizations tend to want to not only identify a relationship between indicators, but to model the impact and sensitivity and, if possible, even simulate results.

Strategy maps are not a predictive mechanism. A typical strategy map reasons that if you train staff well, they will run efficient processes, which will make customers happy, which will lead to a healthy bottom line. But in reality, relationships are not uni-directional, and the logic can be applied the other way around: Healthy financial results will provide a positive corporate image, which will attract new customers, allowing the organization to invest in new processes and attract and retain talented staff.

These relationships are also not linear. If a process is broken and customer satisfaction decreases, people need to be assigned to fix that process, which probably means taking their eye off the customer. Customer satisfaction may suffer temporarily, before it improves long-term. Keep in mind that strategy maps are an instrument to enable communication and collaboration more than an instrument of control.

Scorecards don't necessarily need to reflect the organizational structure to create alignment.

Strategy maps are instruments to enable communication and collaboration.

5. Incorporate Qualitative Insights

True insight into performance comes when we complement raw data with qualitative information. It's easy to get caught up in assigning numbers to everything. Particularly in the field of analytical Customer Relationship Management, organizations tend to go overboard with quantitative analysis. This may lead to a deep understanding of the numbers, but not necessarily of people's behavior. Some areas-such as customer satisfaction or supplier relationships-are better understood through qualitative analysis.

Consider the insights contained in 20 customer interviews. Although not statistically significant, the information gathered would likely provide a very clear and informative picture of how the organization is viewed by customers. I recently heard an example of a company that does qualitative analysis of supplier relationships. Periodically, both the procurement officer and the supplier rate their relationship on a scale from one to ten. Further qualitative analysis is performed when the two ratings are too far apart. Interviews and other qualitative data collection provide much richer content around metrics. And don't forget to simply stop and ask people if they are still satisfied.

6. Plan for the Unplanned

It's short-sighted to assume that everything will go according to plan. There will always be surprises that surface along the way-such as regulatory changes, the introduction of new competitive technologies, or sudden shifts in global economic conditions. Any number of factors can invalidate an existing strategy. Organizations should link their key performance indicators with key risk indicators-essentially linking Enterprise Performance Management with Enterprise Risk Management initiatives. This kind of upfront thinking about what could go wrong-and how to respond-improves a company's reaction time.

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More importantly, the resulting conversations regarding the possible downside of some initiatives can significantly raise the level of strategic discourse. Organizations that are willing to discuss and plan for possibly unpopular outcomes demonstrate discipline and are more likely to succeed. And a good balanced scorecard is a living process that adapts to constantly changing external forces-planned and unplanned-as well as internal course corrections, so companies can learn along the way.

7. Make Time for Reflection

Most scorecards are deployed as a control mechanism and too often companies let the numbers speak for themselves. The most important goal of a scorecard is to spark a discussion-and ultimately to help set the management agenda. Even the most hard-boiled numbers are based on strategic assumptions of what is good and bad. A smart scorecard presents you with important business dilemmas to ponder. These dilemmas require reflection and discussion, and confronting the true dilemma in a business issue is a sign that you really understand the problem before rushing to a solution.

In the practice of Zen Buddhism, the true master is able to discover the few key elements that drive all variables and bring them back to their purest form. The same goes with performance management. There are no quick fixes, if you want to do it right. Remember, the journey is the destination. And it's your journey. Copying best practices is a starting point, at best. But when you are able to make performance management a continuous process instead of a periodic exercise run by finance, you will see every day as an opportunity for new enlightenment.

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