BI and Balanced Scorecards: Key Tools in the Performance Management Toolkit

by Steve Williams

Over the past decade, more and more companies have adopted the Balanced Scorecard (BSC) as a key framework for managing their businesses. In addition to being a strong tool for communication of key strategies, the BSC provides clear linkages between strategies, the business processes by which the strategies are executed, and the key measures needed to gauge business performance. From a performance management perspective, the BSC provides the baseline for performance measurement, and according to industry research, many companies who adopt the BSC are satisfied with the method and plan to continue its use. Whether you call it enterprise performance management, business performance management, or corporate performance management, there is no denying that the ability to measure performance from financial, customer, operational, and learning perspectives is valuable.

Another view of the BSC and performance measurement is as a recurring management process. After the initial strategy maps have been created and cascaded, the objectives have been decided, and the targets have been defined, there is a regular performance measurement and reporting cycle, which is often monthly. As you might imagine, for a company of any size and complexity, the number of measures to be reported every month as the measures are "cascaded" into the organization can become unwieldy. Further, the scope of business information required to report the measures can be quite broad and may require data integration from several sources. Many companies use largely manual methods for BSC reporting, expending large sums of money to produce monthly BSC reports - in some cases spending more than $1 million per year. While the costs may not reflect incremental cash flows, they are certainly opportunity costs, and they have an adverse impact on productivity. ***Given the current state of BI practice and tools, there is no reason why the recurring BSC reporting process cannot be automated and based on integrated data***.

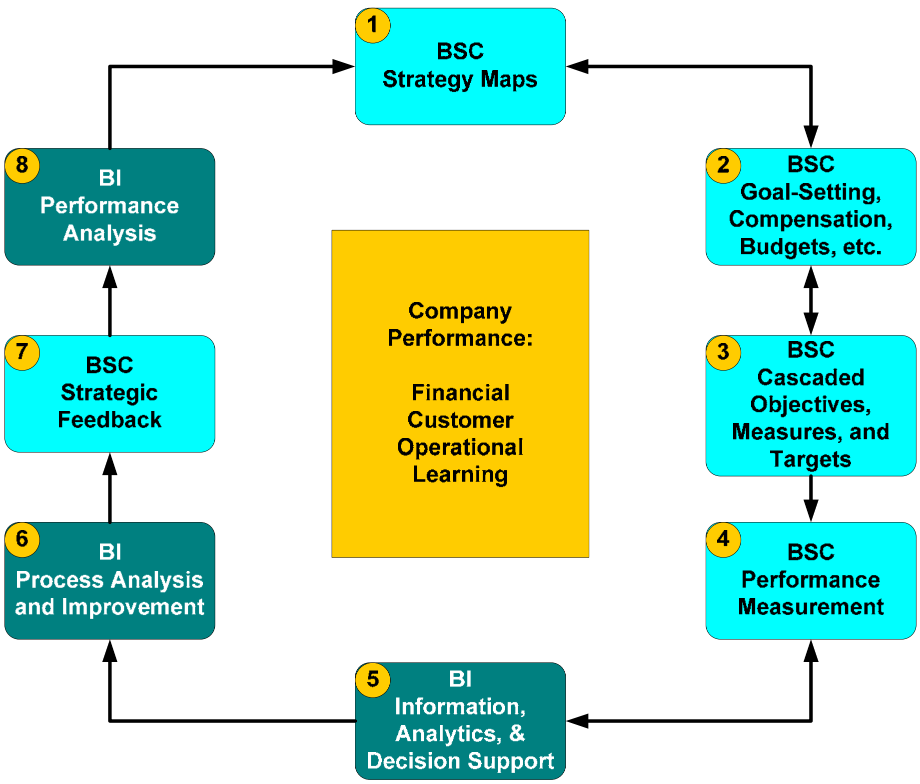
More broadly, performance measurement is only one part of the performance management cycle. To illustrate, let's say that an enterprise level BSC measure is order-to-cash cycle time. Let's further assume that this measure has been cascaded down to the component business processes, e.g. order-to-schedule cycle time, manufacturing cycle time, finished goods-to-shipping cycle time, and so forth. At the end of a reporting period, the designated executive and managers receive the measures appropriate for their positions, e.g.:

- Enterprise Level — 53 days, and target is 49
- Order-to-Schedule — 3 days, and target is 2
- Manufacturing — 45 days, and target is 43
- Finished goods-to-Shipping — 5 days, and target is 4 days

From this performance measurement data, we see a couple of areas where targets were not met. Specifically, the Order-to-Schedule process was late by a day, Manufacturing was late by 2 days, and Finished goods-to-Shipping was late by a day – resulting in an overall unfavorable performance variance of 4 days. That being said, ***these measures – and the BSC in general – do not provide the business information, analytical tools, and structured decision support that is needed to actually improve business performance in relation to specified targets***. For that we need BI.

Looked at holistically, the BSC establishes a performance measurement baseline. BI can automate the performance measurement process, and it can deliver business information, analytical tools, and structured decision support to improve the core processes that drive the ability to achieve targeted business performance Accordingly, BSC and BI should be aligned to work together as complimentary tools in the performance management toolkit. This idea is shown in Figure 1.

Figure 1. BSC and BI in the Performance Management Toolkit



Viewed as a whole, Figure 1 illustrates how BSCs and BI can be aligned and interleaved to create a dynamic performance management asset. At the center of it all, of course, is company performance, which in a BSC environment is viewed from the four key perspectives: financial, customer, operational, and learning. BI is also focused on company performance, particularly if guided by business-driven design and portfolio management methods.

Moving to the top of Figure 1 and moving clockwise, Step 1 of the performance management cycle starts with using the BSC method of strategy mapping to link company strategies to the core business processes via which the strategies are realized. This sets the stage for Step 2, whereby the BSC strategic management framework is used to guide goal setting, compensation alignment, budgeting, improvement initiatives, and so forth. We show a bi-directional flow between Steps 1 and 2 because of the possibility of budget and resource constraints shaping business strategy.

The goal-setting part of Step 2 sets the stage for cascading objectives, measures, and targets throughout the organization. These can be simple hierarchical cascades or quite complex cascading to cross-functional business processes based on different organizational roles. In any event, the objectives, measures, and targets need to be relevant and clearly tied to business processes that drive company performance. Skillful completion of Step 3 establishes the performance measurement framework and baseline, which when linked to compensation and artfully reinforced will ensure management attention to the business processes that contribute to strategic success.

Step 4 is the recurring management process we described earlier. Generally on a monthly cycle, but possibly more frequently depending on the level within the company and the appropriate operational control cycle, the BSC performance measurement framework is used to report actual performance results from the four BSC perspectives. Often the publication of the BSC report triggers variance analysis, management reviews, and corrective action planning. In larger companies, the process of generating the measures, formatting the BSC reports, and variance analysis/corrective action planning can be complex and manually-intensive. This is why we show a bi-directional flow between Step 4 and Step 5 – whereby BI can be used to automate this recurring management control process. That being said, the BSC report is a kind of BI and is a key driver of management motivation to use BI to understand unfavorable variances and develop improvement strategies. More specifically, BI can be used to drill down into the root causes of performance variances and to improve the underlying core business processes that drive the actual performance measured and reported by the BSC. This is reflected by the interplay between Step 5 and Step 6.

In addition to the specific process analysis and improvement capabilities delivered by the BSC/BI combination, the results of Steps 4 through 6 provide strategic feedback, as shown by Step 7. For any given BSC reporting cycle, there are actual performance measures and BI-enabled analysis of variances and improvement opportunities, which provide valuable strategic learning that feeds into a higher-level company performance analysis during Step 8. The performance management cycle is then able to close the loop by interjecting strategic feedback and enterprise performance information into the BSC strategic planning process. Steps 7 and 8 are more likely to be done on quarterly or annual basis, whereas Steps 4 through 6 should be recurring management processes.

Moving back to an overall performance management perspective, we see that the BSC and BI are compatible and complimentary tools that focus on company performance. If we drop BI out of the equation, we see that the BSC is very suitable for establishing the strategic management framework and performance management baseline, and it can be used for timely performance measurement. But measurement alone is not enough. Managers have continually expressed the need for business information, analytical tools, and decision support so that they can improve the actual processes that drive the performance measurement numbers. And that is what BI is about. Taken together and skillfully aligned, the BSC and BI provide a robust toolset for enabling highly effective performance management, which is ultimately management's most essential and fundamental task.