

What is a Balanced Scorecard?

A Balanced Scorecard monitors the performance of all or part of an organisation, towards strategic or operational goals. It uses financial and non-financial performance measures (normally less than 25, spread across two or more 'perspectives') to highlight areas where the organisation is failing to do what is required or was expected. Popularised in the early 1990s, Balanced Scorecard is widely adopted across the private, public and NGO sectors.

To be useful, a Balanced Scorecard has to include the right measures and targets – a difficult thing to do. Modern Balanced Scorecard design methods make choosing these easier and more reliable.

In slightly more detail...

The Balanced Scorecard was first brought to public attention through an article in the January 1992 edition of the Harvard Business Review. The article, by Robert Kaplan and David Norton, drew upon the prior experiences of several firms, including Analog Devices, which is reputed to be where the idea was first developed in the mid 1980s.

At its core, the Balanced Scorecard is simply a table with a few numbers recording features associated with an organisation matched to 'target' values for each. The table is reviewed periodically, and by comparing actual performance achieved against the 'target', managers can spot issues more easily and choose to intervene in the organisation to correct these issues before they become problems. The challenge with Balanced Scorecard is not the concept, but rather the content. Balanced Scorecard is useful only when the measures and targets chosen are appropriate. But working out what these are is not easy, and so the method of choosing is critically important for Balanced Scorecard to be successful.

Early ('First Generation') Balanced Scorecard designs featured a small number of performance measures typically spread across four perspectives. Kaplan & Norton proposed a set of perspective names (Financial, Customer, Internal Processes, Learning & Growth) to help with the design process (that is to say, 'to work out what measures to use, you should think about choosing five or six measures from each of these categories'). Nonetheless organisations found the selection of measures and targets difficult, and many early Balanced Scorecards failed. One reason for the failures was that the Kaplan & Norton 'standard' perspectives were simply inappropriate for many organisations. Many suggestions have since been made for changes to the names and number of these perspectives to address the issue. However, the causes of early Balanced Scorecard failure went beyond the choice of perspective headings, and First Generation Balanced Scorecards continued to fail.

By the end of the 1990s many Balanced Scorecard designers were using a substantially improved design process that had begun to emerge in the middle of that decade. This new approach aimed to initially describe the Balanced Scorecard in terms of a set of high-level 'objectives' to be achieved: measures were then chosen for each objective as part of a second design step. These new 'Second Generation' design methods illustrated how the

various objectives were related using a diagram called the 'Strategic Linkage Model' or 'Strategy Map'. Using objectives and linkages helped to provide a stronger basis for choosing measures, and for justifying these choices to others. However, it did little to help with the setting of targets for the measures chosen, or to allow multiple Balanced Scorecards within an organisation to be aligned, constraints that continue to substantially limit the value of Second Generation design methods.

The process of design method improvement continued, and since 2000 a 'Third Generation' of Balanced Scorecard design methods has emerged. We believe these methods are genuinely easier to use and implement than any earlier version. Their common design feature is time spent at the beginning of the design process building consensus on what future success for the organisation would be like - assuming the strategy or operational plan is implemented successfully. This establishes a common view about what the strategy or plan is attempting to achieve, and can provide a strong foundation for both building targets for measures and for aligning the objectives of various units in an organisation. See our related FAQ 'What is current best practice Balanced Scorecard?' for more on this most modern design process.

Reflecting the changes in the design process that require more explicit disclosure of the underlying strategy and goals the Balanced Scorecard is becoming the focus of a wider strategic management process – a framework for strategic management and control rather than just a performance measurement device.

Why would I want one?

2GC Active Management has very broad experience – having worked with over 100 organisations in 42 countries across public, private and NGO sectors on the design, introduction and use of over 200 Balanced Scorecards. We have also run and published a Survey of Balanced Scorecard usage for four years. Our clients tell us they are looking for Balanced Scorecard to help them:

- To provide reliable information to reassure leadership teams that their strategic plans are being implemented efficiently and effectively and are having the impact they expect;
- To enable improved alignment behind strategic goals across the whole organisation;
- To instil greater clarity and consensus within management teams concerning their shared goals and priorities, and to provide them with unambiguous feedback on their progress in achieving them;
- To strengthen existing management processes, making them more focused on achieving and maintaining performance improvements;
- To provide a better and wider understanding of the role and contribution of shared services (e.g. HR, Finance) within the overall strategic context;
- To provide a more reliable basis for the awarding of incentive based pay.

2GC • FAQ Answer

Can I build one myself?

Many organisations do, and often successfully, however, the design work is resource intensive, and benefits hugely from experience of having done it before. 2GC is one of several organisations offering training courses in how to develop a Balanced Scorecard (see our website 2GC.eu for more details). It is not uncommon for organisations that develop a Balanced Scorecard to end up calling in outside expert help. They take the view that getting the design work done quickly and reliably will improve the probability that the Balanced Scorecard is adopted quickly and effectively by the organisation. This, after all this is the most important goal; for your Balanced Scorecard to be used.

More information

A full discussion of Balanced Scorecard evolution can be found in:

Lawrie, G J G and Cobbold I (2004). 'Third-generation Balanced Scorecard: evolution of an effective strategic control tool', *International Journal of Productivity and Performance Management*, Vol. 53, No. 7, pp. 611-623.

The Resources section of the 2GC web site contains a wealth of useful information on Performance Management in general and the Balanced Scorecard in particular. In addition to answers to other Balanced Scorecard FAQs, the Resources section contains longer papers on a variety of topics, case studies and various short presentations, all of which can be downloaded without charge. The website also has recommendations for books and articles on the subject and links to useful web sites. For information on 2GC's professional services including consultancy and training programmes, visit the Services section of the web site or email info@2GC.eu.

About 2GC Active Management

Established in 1999, 2GC is a specialist strategy implementation consultancy and thought leader in the Performance Management field. With offices and partners spanning the globe, we have a diverse range of clients in the commercial, public and NGO sectors both in the UK and worldwide.

2GC is dedicated to bringing the sharpest focus to its clients' strategic and operational activity. To achieve this we work on the alignment of strategy, operations, teams and individuals, helping organisations to design and implement tailored performance management systems.

2GC's methods are proven and reliable. They enable leaders to control the broad spectrum of strategic and operational issues their organisations face every day. Our consulting processes achieved the prestigious ISO 9001 accreditation in 2012.

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