Avoiding the Most Common Mistakes in Balanced Scorecard Design, Implementation and Use so You can Make a Difference in Your Organisation

Part 1: The Big Picture

Four critical things you must know to make your Balanced Scorecard effective.

This paper describes part of our Fourth Generation Balanced Scorecard Approach to managing Strategy and Performance.

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1 INTRODUCTION

Welcome. If you can avoid problems with your balanced scorecard, you are more likely to deliver results for your organisation, your team and yourself.

If your balanced scorecard includes these mistakes, at best it will fail to engage people, be ineffective and be treated as “yet another measurement system”. At worst, it could demotivate people, create dysfunctional behaviour and be resented.

Avoid these mistakes and you are more likely to have a successful implementation that engages people, delivers change and results in improvement. It will help you address strategy, performance, and how the organisation learns.

1.1 IN THIS PAPER: THE BIG PICTURE

In this paper we start off with four surprisingly common mistakes that are very fundamental to balanced scorecard design.

Even though you might know some of these four principles, it is important to be reminded of them. Though they are fundamental, consultants and practitioners often miss them, and some do not even realise they are making these mistakes.

1.2 HOW CAN YOU USE THE INFORMATION?

You can apply the advice and lessons in this paper when you are designing a new balanced scorecard and when you are assessing the one that you have at the moment.

You can use this when reviewing your performance management approach and when considering how to manage the implementation of your strategy.

You can also use the advice to support the case for a better approach to managing people and getting results. We treat this as an approach that puts human beings back into how performance is managed.

1.3 PART OF A SERIES

This paper is one of a series. Each one covers different aspects of implementing strategy, and managing performance and improving decision making. Each one covers mistakes to avoid in different aspects of Balanced Scorecard design, implementation and use.

Together the series will help you influence individual behaviour, the culture of teams and how the whole organisation learns and develops. Each paper in this series is a part of our approach, The Fourth Generation Balanced Scorecard Approach to managing strategy, people and performance. It is an approach that builds upon the work of the originators,

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Norton & Kaplan. It takes their work further, given nearly twenty years of implementation and the demands of the current environment in which we work, manage and lead.

1.4 TOWARDS FOURTH GENERATION THINKING & PRACTICE

As I am sure you know the Balanced Scorecard approach is about executing an organisation’s strategy better. It is a system of management for strategy, rather than merely operations or merely measurement. It is strategic management and performance management.

Through this paper and the series, we can take you through from basic scorecards that act as measurement systems, to fourth generation strategic balanced scorecard thinking.

Fourth generation thinking and practices are about how organisations learn, how they use judgement and evidence, connecting with their environment to be more responsive and adaptive. They are about how the model of customer relationships has changed and that has affected the way organisations need to think about their strategy.

Fourth generation balanced scorecards also provide a robust framework for not for profit and public sector organisations to capture the particular demands on their strategy and performance.

Fourth Generation Balanced Scorecards are about delivering strategy and performance through leadership, good management and your people.
2 IGNORING THE PRINCIPLES OF THE ORIGINATORS

Mistakes to avoid:

One of the biggest mistakes made in balanced scorecard projects is to fail to understand the thinking and principles that underpin Balanced Scorecards as a tool for managing strategy in organisations. To understand any tool it is important to understand what the originators intended and sought to achieve.

In this case there is a surprising connection with Sesame Street: a connection which, if lost, completely undermines a fundamental principle of the balanced scorecard approach. Unfortunately many practitioners miss this and so destroy the effectiveness of their strategy map and scorecard.

2.1 WHAT DID THE ORIGINATORS INTEND?

To understand any approach it is vital to understand where the originators were coming from. Back in the early 90’s when Norton & Kaplan came together it was never their intention merely to create a system of measurement. They were looking for a system of strategy driving the value of an organisation.

Professor Bob Kaplan was at Harvard Business School specialising in Finance. Whilst specialising in management accounting and activity Based management, his concern was with organisational value and valuing an organisation. The valuation of most businesses based on assets alone completely missed the value that the management and organisation added. In fact most company valuations were perhaps ten times the asset value. Clearly there was a need to understand the other elements that drove value and performance.

David Norton came from a background of engineering and IT. He ran various consultancies (Nolan Norton, which later became a part of KPMG Consulting). His background was systems thinking, and its application to strategy and its execution.

2.2 THE SOURCE OF THE IDEA: IMPLEMENTING STRATEGY

They were looking for ways to measure performance in the organisation of the future. Together these two researched methods for measuring strategy and organisational value. They came across Art Schneiderman in Analog Devices, who was using four perspectives in a cause and effect relationship to describe strategy, measure performance in a more balanced way, and manage the implementation of their strategy. Thus the concept of the Balanced Scorecard as a tool of strategy execution was born.

By December 1990 they decided it would help to expand an organisation’s scorecard to be organised around four perspectives and published their work as the first balanced scorecard Harvard Business Review paper in Jan 1992. However, as it says in the preface to their first...
AN EXCITANT WHITE PAPER: AVOIDING COMMON MISTAKES WITH BALANCED SCORECARDS (PART 1)

book, The Balanced Scorecard, “Most organisations implementing performance measurement were NOT linking their measures to strategy.” Sound familiar? It is still very common. The very first organisations to try out the new balanced scorecard approach immediately started to expand the approach because they wanted to align their organisations and communicate the strategy. This was reflected in their second HBR article “Putting the balanced scorecard to work”

By 1993 Norton (with some others) had formed Renaissance Worldwide to use the balanced scorecard as a vehicle to help companies translate strategy into action. “Translating strategy into action” was the tag line to the first balanced scorecard book.

Question: Are you treating your Balanced Scorecard as a tool of strategy execution and implementation? Or as an operational tool?

The reason for telling this story is to introduce an important player who influenced Balanced Scorecard thinking from the start, Harry Lasker.

2.3 THE SESAME STREET CONNECTION

To fully understand the balanced scorecard's origins you need to know some of the other players they involved when they formed Renaissance Worldwide to deliver balanced scorecard consultancy. They involved two other people, Dave Lubin and Harry Lasker. Dave Lubin was an internet technology specialist and brought the thinking and capability to implement strategy quickly using internet based solutions. Harry Lasker had worked on Sesame Street. Harry Lasker’s contribution is the forgotten story of Balanced scorecard design.

Sesame Street was noted for its innovative approach to teaching young children. Each programme was carefully tested on the audience and if any lost interest for a minute, the scenes were re-cut and re-tested. Harry Lasker came from Harvard and specialised in cogitative learning processes.

When he joined the Balanced Scorecard team he brought his cognitive learning processes so that he could apply them to the idea of how organisations learn and develop: organisational learning.

This made two important contributions. The most obvious one is the emphasis of the whole approach on how the organisation learnt and grew and developed. This is most apparent in the name given to the fourth perspective. It is called “Learning and growth” deliberately to reflect this emphasis, their thinking and its importance.

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Understanding the influence of different people is really important. Often you will find practitioners renaming the fourth perspective, "People" or something similar. When they do this they take away an important principle of Balanced Scorecards: That it is about how organisations learn and grow and develop. If you rename the perspective the approach becomes more static and operational and focused on control, not learning.

Keep the fourth perspective "Learning and growth" and you invite the organisation to ask, "What do we need to learn and grow and develop as an organisation to be more successful and deliver our strategy?"

This question changes the whole nature of a balanced scorecard project, its approach and its potential value. Now you can see why the Sesame street connection is so important.

<table>
<thead>
<tr>
<th>Question: Look at your existing balanced scorecard. What is the lower perspective? Is it “Learning and growth”? If it is not, why not? Who changed it? Do you know why they changed it?</th>
</tr>
</thead>
<tbody>
<tr>
<td>Does organisational learning occur anywhere in your scorecard? (We don’t mean “training”). If not, why not?</td>
</tr>
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</table>
3 WHAT PROBLEM ARE YOU SOLVING?

Mistakes to avoid:

Have you ever wondered why many balanced scorecard implementations are less effective than they should? One of the biggest mistakes made is the failure to understand how the proposed balanced scorecard fits into the existing governance process of the organisation. As a result the team can lose sight of the real purpose of the exercise and assume they know what the managers want: a scorecard.

If this happens, the project will quickly become a measurement exercise or technical project. Trying to be all things to all people, it ends up being useless for everyone. Ownership will be lost. The product of the project will not be used for managing performance or making decisions.

3.1 HOW DO WE AVOID THIS?

1) Consider the wider picture of governance from the Learning Board model.
2) Ensure the approach integrates with existing performance mgt approaches
3) Be clear what problem you are solving and what may need fixing first.

3.2 THE LEARNING BOARD MODEL

The first thing to realise is that organisational governance and performance management takes several forms. From the Board’s perspective it has a responsibility to set and monitor various aspects of the organisation it governs.

This is well explained by figure 1 which is adapted from a model in Bob Garrett’s book, “The fish rots from the head”. Aply named, he argues that, if the board fails to govern across all these aspects systematically, then the whole organisation is affected. This diagram refers to the cycle of the “Learning Board” or the “Learning Board Model”

In summary, the board has responsibility for accountability, policy formulation, strategic thinking, and supervisory

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management. Most importantly, it has a responsibility not to get stuck in any one mode but to cycle around ensuring all are covered. Any performance management approach must account for these various demands, providing the board with information to inform and demonstrate accountability, policy implementation, strategy implementation and operational management.

The same is true at any level of an organisation. This ripples through the organisation placing governance demands on each level of management. Consequently if there are problems at the top, these too will ripple through the organisation (the fish rots from the head).

Some organisations, and some management teams, get stuck in one particular mode. They are focusing on (today's) risks or operational detail rather than tomorrow's strategy and purpose. This is the problem Balanced Scorecards originally sought to re-dress. They can’t see the wood for the trees, and are unclear what the few things that will make the biggest difference are (strategic performance management).

**Exercise**

Score yourself (marks out of 10), how well do you manage each of these aspects of governance today? If you are having problems with accountability or operational/supervisory management, then these often prevent management of policy and the strategy.

<table>
<thead>
<tr>
<th>Question: How well does Governance operate today in your organisation?</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accountability. Score/10: Reason for score...</td>
</tr>
<tr>
<td>Supervisory Management. Score/10: Reason for score...</td>
</tr>
</tbody>
</table>

**3.3 HOW GOVERNANCE MIGHT AFFECT YOUR BALANCED SCORECARD**

If there is an imbalance in the needs or application of governance then this can indicate problems in how the organisation (and performance) is being managed and controlled.

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Why do some balanced scorecards help with strategy whilst others remain operational? The answer is simple. The designers were responding to differing governance demands, using different approaches to understand, influence and change their organizations. You need to be aware how yours fits in to this picture.
Mistakes to avoid:

Never, ever, try to build a balanced scorecard for a whole organisation. This will lead to a scorecard with potentially hundreds of measures and little focus.

If you try to build one balanced scorecard for a whole organisation, it will be extremely wide and detailed in its scope and it will not be clear what is important for whom. Who will use the information? What use will they be put to? What level of detail do they want? As a result you will end up with “scorecards” with hundreds of measures “just because someone asked for them” yet that no-body wants or uses.

4.1 BEING CLEAR WHO YOU ARE BUILDING THIS FOR

One of the most common problems I see with balanced scorecards is too many measures: often over a hundred. Clearly this is not focussed in any way and often represents too much detail so you can’t see the wood for the trees. Perhaps the most common question I get asked is how do you select only 20-25 and keep the number down? With so many to choose from it is tempting to add yet another measure into the set.

How do we avoid this? The answer to this is very simple, but relies on understanding an important principle of balanced scorecard and strategy map design. This is best embodied in the phrase

“Do not design a balanced scorecard for an organisation.”

Immediately when I say this I can see surprise in people’s eyes. What should we do then? The answer is again simple,

“Design A balanced scorecard for A management team”.

When you do this you are asking the question, what would be useful for this team and what are the few things that this management team need to pay most attention to? The fuller answer makes this even clearer.

“Design a strategy map and its balanced scorecard, for a management team.
Design a set of strategy maps and their balanced scorecards for an organisation”

Now the design considerations are:

“What does this team need to concentrate on”
and also
“What do we choose to delegate responsibility to the teams that are beneath us?”

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This clarity of thinking dramatically changes the way people think about the approach. You will be clear what each team need to focus on and what they may wish delegate, and it is easy to narrow down the measures to a smaller number.

Also when you are designing for the executive team you are not looking for detail that might be relevant for a team two or three management layers down in the organisation. The scope is still the whole organisation, but from that management team’s perspective.

The same is true when thinking from the perspectives of other parties. What do the Board want, specifically? What do we need for the Auditors? What do support functions need? What do suppliers and customers need? In each case you look for what is useful to that team when making decisions and from their perspective on governance.

When you now add in that you are designing a strategy map for each team (behind which the scorecard part of the balanced scorecard system fits), it becomes clearer that the question is about “What is strategic for this team and what operational detail do they want?” Understand what they need, what decisions they need to make, their scope, their strategy and what they are willing to delegate and monitor by exception.
So you need to plan out the whole cascade through various teams and you start to think through what each team should be responsible for, what is in their scope of control and what exception reporting should exist.

Importantly, from a project perspective, you know when that team have enough and have something useful, so it is time to move onto the next team.

4.2 IMPORTANT LESSONS TO TAKE AWAY

1) Do not design a balanced scorecard for an organisation
2) A strategy map, and its balanced scorecard, for A management team
3) Design a cascade of strategy maps (and their scorecards) for a whole organisation
5 STRATEGY OR OPERATIONS

Mistakes to avoid:

It is vital to recognise the difference between managing strategy and managing operations. These create two quite different types of balanced scorecards. Operational views tend to gather lots of operational information to manage operational performance. Strategic balanced scorecards are looking for the drivers of change to manage that change.

How do we avoid this?

The basic approach to performance management tends to take a simple view of a loop. Targets are set and communicated, the people or processes operate them and they are monitored and reviewed. The loop continues. In reality this is far too simplistic a model to manage performance, as this loop actually sits in a wider context of the strategy and the organisation changing.

In this thinking strategy formulation is often treated as an annual process where the rest of the year is used for implementation. Only when the year has been completed can the strategy be revisited. Strategic balanced scorecards support this annual strategy formulation and planning approach.

In reality we know that things change, the strategy needs to be tested and revised as well, and “stuff happens” that requires change and refinement. Unfortunately, this annual approach is also driven by the demands of annual budgeting and resource forecasting: an approach that is losing favour to rolling budgets and greater adaptability.

Question: What would you gain if your strategy was more flexible and responsive?

5.1 MAKING STRATEGIC MANAGEMENT A MORE CONTINUOUS PROCESS

With a balanced scorecard as a strategic management approach, we take a much wider approach that is more flexible. This includes the second important contribution of Harry Lasker: That of thinking of strategy as a learning processes rather than one of, design the strategy followed by execute the strategy. In contrast, the approach is one of strategy as a process of learning.
In the strategic learning process there are two control loops: one loop that addresses operational processes and a second learning loop that addressed the strategy. This is based upon the work of Chris Argyris and his double loop learning approach. So in the basic strategic learning approach we have the lower process of performance management and the higher process of strategy management, as shown below. Again this thinking dates back to the original work of Norton & Kaplan and Lasker.

At Excitant we have developed this model further over the years. We call this fuller, richer version, the Strategic Learning Model. In the fuller version we include extra aspects and links that reflect how strategy really happens.

We include an explicit “communicating strategy” link from strategy to operations to ensure that the strategy itself is communicated, rather than just the plans, resources, budgets, measures, targets, programmes and projects.

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There is an extra feedback loop on the right hand side. This loops at the operational performance and considers whether it is possible that the strategy is wrong. We expand this model further by explicitly including feedback from the external environment. At a strategic level you are looking for changes in the environment that may affect the underlying assumptions or premises about the strategy. At the operational level you are asking, is the feedback from the market providing us clues that our operations or strategy need to be refined.

We include an explicit view of the future, which is captured using a Tangible Future. Again, as the strategy is developed it is possible to refine and change your view of the future as you learn and know more.

Finally, organisational values underpin the way in which people should think and work. Interestingly, if you just look at the frame of vision, values and external environment, it describes leadership. We call this the strategic learning model.

5.2 HOW DO THE BALANCED SCORECARD COMPONENTS SUPPORT THIS?

As you can see the three main Balanced Scorecard components support this strategic learning process:

1. **The tangible future** describes how the external environment and organisation will change over the forthcoming years.
2. **The Strategy Map** supports the strategy management process. It describes how change will happen in the organisation.
3. **The Balanced Scorecard** supports the alignment and operational performance management. It contains the details of the objectives, measures, targets, actions, projects and responsibilities.

Managing your strategy this way, communicating it, learning from its execution and refining it as you implement it, is central to Fourth Generational Balanced Scorecards.

**Important lessons to take away**

1) A scorecard alone will only handle the operational management process. You need a strategy map to manage the strategic management process
2) Strategy is a continuous process, rather than event that takes place once a year. The general trend in organisations is to be more responsive to change and to avoid being locked into assumptions and forecasts that are only reviewed once a year.
3) The three components of the balanced scorecard, The Tangible Future, Strategy map and scorecard each support different aspects of strategic thinking and the strategic learning process.

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6 WHAT NEXT?

Having read this paper we encourage you to think through and answer the various questions that have been posed.

As you are thinking through the implications, do drop us an email with any questions. You now have some insights into our approach and how it creates a sustainable strategic performance management approach in an organisation. We must emphasise this has been just a part of the story. We are happy to talk about what you found and the potential implications for your organisation’s strategy.

In the other papers in this series we will build upon these principles to help you manage strategy, people and performance better.

Excitant is a niche consultancy. We specialise in Fourth Generation Balanced Scorecards that improve how you manage strategy and performance. We are experts in making Balanced Scorecards work as a tool of strategy and performance. We help you to manage such organisations better, so you can get the best out of your people and measurably improve your financial performance and results.

What makes us different?

1) We want to pass our skills to you, our clients, as quickly and effectively as possible. That way you get sustainable results and we get a good reference site.

2) We don't hold back. We ask hard questions and push our clients to uncover and address the deeper elements that stop performance happening.

3) Deep expertise: Our skills are based on practical experience and research, so you can improve and develop.

To find out more

For more information or to have an informal discussion about your needs, call Excitant directly and ask for Phil Jones. The number is 08456 809 208 (in the UK) or from outside the UK +44 1780 784 887. Or send our Managing Director, Phil Jones, an email via info@excitant.co.uk, Thanks.
7 REFERENCES

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1 Art Schneiderman's website describing how he and Kaplan first met. [http://www.schneiderman.com/Concepts/The_First_Balanced_Scorecard/The_Kaplan_Connection.htm](http://www.schneiderman.com/Concepts/The_First_Balanced_Scorecard/The_Kaplan_Connection.htm)

2 Norton & Kaplan, The Balanced Scorecard: Translating Strategy into Action, Preface, page vii,

3 Bob Garrett, The fish rots from the head