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Implementation and Practicalities of Balance Scorecard: A Case Study

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ABSTRACT

The balanced scorecard is a strategic planning and management system that is used extensively in business and industry, government, and non-profit organizations worldwide to align business activities to the vision and strategy of the organization, improve internal and external communications, and monitor organization performance against strategic goals. It was originated by Drs. Robert Kaplan and David Norton as a performance measurement framework that added strategic non-financial performance measures to traditional financial metrics to give managers and executives a more 'balanced' view of organizational performance. While the phrase balanced scorecard was coined in the early 1990s, the roots of the this type of approach are deep, and include the pioneering work of General Electric on performance measurement reporting in the 1950's and the work of French process engineers in the early part of the 20th century.

Keywords: Strategy mapping, strategic planning, performance, vision and strategy.

1. INTRODUCTION

The balanced scorecard is not a strategy-formulation tool. Strategy formulation may be viewed as an art, and long term plan. For organisational performance to be of a value exceeding that of the sum of its parts (the composite business/organisational units and departments), the activities of each must be linked, and mutually re-enforcing, via the organisational strategy. This literature outlines variations on Kaplan and Norton's strategy-mapping theme used to translate the strategy from a notional concept into a schedule of actions and key performance measures: an organisational plan. Strategic themes and priorities must be embedded within reporting structures to enable a consistent message and set of corporate strategic priorities to permeate each part of the organisation. Financial services industry, where reporting structures are required for regulatory requirement compliance, it may be necessary to add a supplementary reporting structure. In other circumstances, a new reporting structure that addresses the balanced scorecard themes and priorities may simply replace the existing performance reporting structure.

2. LITERATURE REVIEW

Kaplan and Norton's work shows that the common thread to the successful implementation of the balance scorecard lies in companies' ability to realise consistent strategic alignment and focus. An organisation might best achieve focus by developing and communicating a number of strategic themes. Corporate or organisational strategy generally encompasses two or three complementary and mutually supportive strategic themes that allow organisations to balance and focus potentially conflicting long- and short-term priorities.

2.1 The strategic themes

- Reflect what must be done internally to achieve identified strategic outcomes; and
- Provide a way of segmenting the strategy into several general categories, or projects.

Typically, strategic themes relate to internal business processes, and each acts as a 'pillar' supporting the over-arching corporate strategy. Each theme contains its own strategic hypothesis, its own set of cause-and effect relationships and occasionally its own scorecard. In many large organisations, the balanced scorecard is developed first at corporate level to articulate a company's vision, and how it will be delivered. Kaplan and Norton suggest that the corporate scorecard can clarify two elements of corporate-level strategy:

- Corporate themes – the values, ideas and beliefs shared throughout the company; and
- Corporate roles – the actions that create synergy and value at business-unit level.

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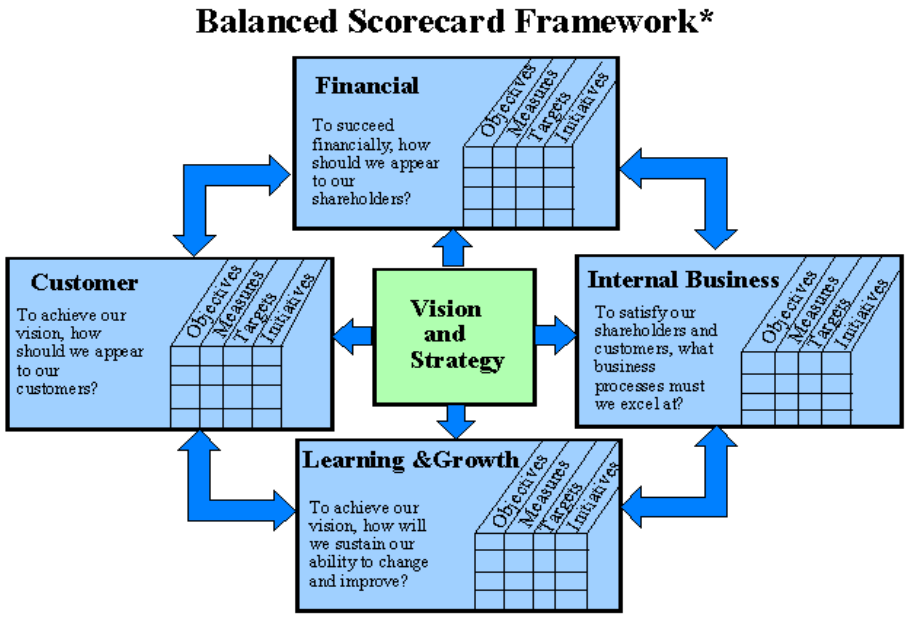
From this corporate scorecard, the strategic contribution of the supporting business units/divisions is clarified, and scorecards which are consistent with, and reinforce the corporate level scorecard, can be developed for each. The framework allows the continued communication of strategy throughout the organisation. Scorecards developed at corporate level can be deployed throughout departments and divisions, and may prompt such units clearly to define their contribution to overall strategy execution.

Thus begins a communication process from division or department level to corporate head, facilitating refinement of strategy and strategy management plans throughout the organisation. In reality, this is often a process of negotiation and discussion until objectives and priorities are agreed. including performance measurements and rewards, available technology, structure, people skills, and organisational culture and processes –are influenced.



* Adapted from Kaplan & Norton 1996. *The Balanced Scorecard*. Harvard Business School Press: 9. Original from HBR Jan/Feb 1996, p. 76.

2.2 Make strategy everyone's job

For the balanced scorecard to be fully effective as a strategic and communication tool, it is imperative that all employees understand the strategy and conduct their business in a way that contributes to its mission and objectives. Where higher-level scorecards are 'cascaded' to lower-level departmental– and even where individual scorecards are used – employees must 'buy in' to the organisational strategy for effective implementation. In the majority of cases, where due diligence has been observed in cascading a corporate scorecard to departmental or project-team level, the value of the scorecard as a tool for ensuring strategy is executed is optimised. It may be valuable to cascade the scorecard down to individual level so that each employee has a personalised scorecard which could then be used as the basis of their performance appraisal. This way they can track their own personal contribution to departmental and divisional objectives, and ultimately to the achievement of corporate goals, strategy and mission.

Kaplan and Norton cite three processes as vital in aligning employees to the strategy:
- Communication and education;
- Developing personal and team objectives; and
- Incentives and reward systems linking performance and reward.

2.3 Launching a strategy

To launch a strategy requires:
- Education (strategy awareness);
- Testing that employees understand the strategy (strategy mind share);

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● Checking that employees believe the strategy is being followed (strategy loyalty); and
● Determining how many employees are teaching others about it

To be of lasting impact, however, the actual methods used must be consistent with the organisation's culture. While there may be some value in 'handing out' strategy from corporate to departmental level and expecting the required degree of compliance from employees, in practice this approach may prove too simplistic and detached to be effective. Ownership of strategy can be better fostered where appropriate managers and perhaps front-line staff are involved through workshops in identifying key performance drivers and the important activities and processes needed to support these.

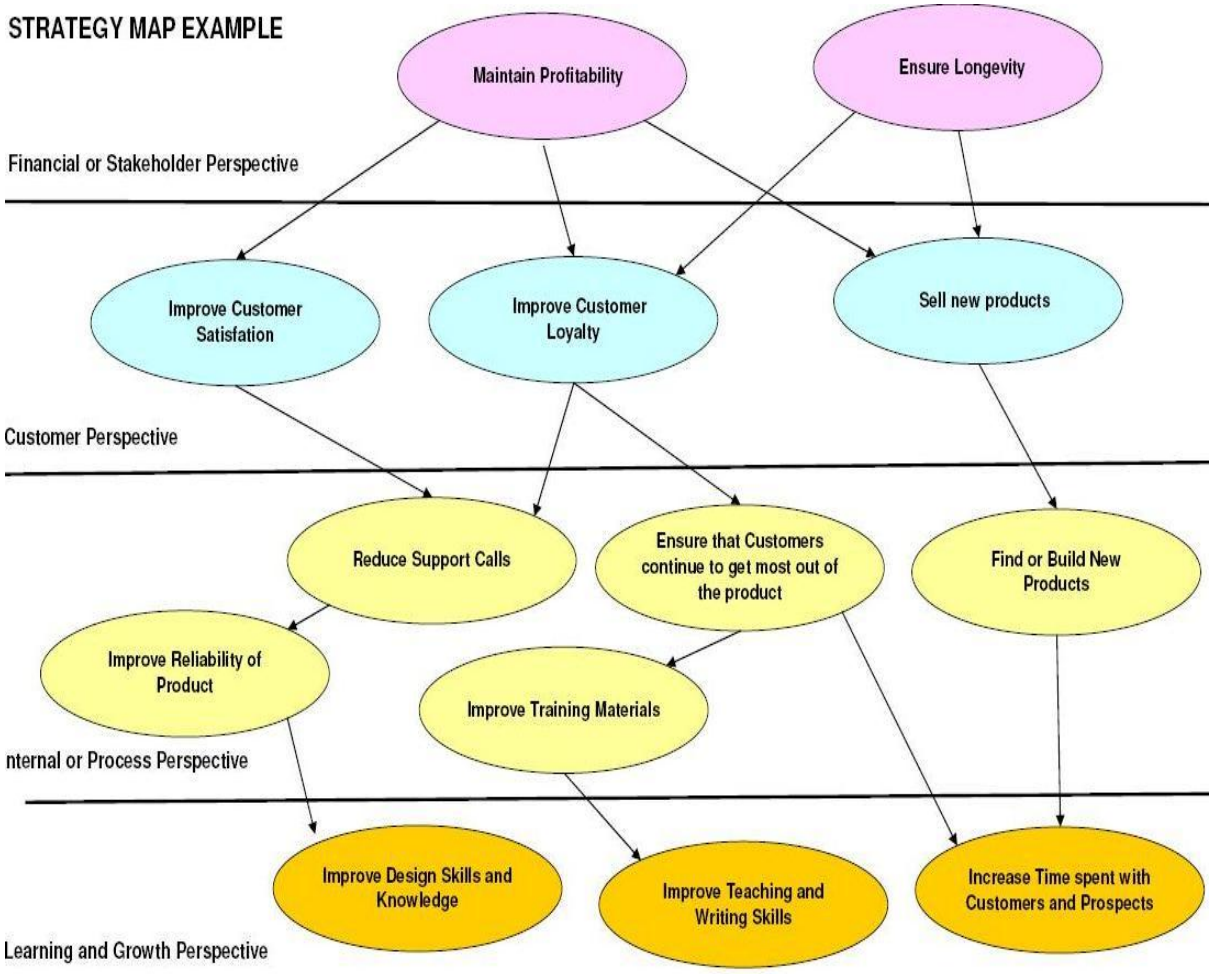

Fig.2. Effective Performance Management Implementation and practicalities

2.4 Some alternative approaches suggested by Kaplan and Norton include

● *The 'super-bowl' approach:*

A high-level team sets corporate targets drawn from different scorecard perspectives, and explains to all employees their role in hitting the targets; if the targets are met, employees can be rewarded through performance-related pay.

● *Alignment with strategic initiatives approach:*

Scorecard measures that link day jobs to programmes or projects are developed; a work team takes ownership for one or more specific projects or programmes and a tool, such as a one-page report for each project, is developed.

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● *Integration with existing planning and quality processes approach:*
Integral to the introduction of quality management initiatives. The key performance targets developed for balanced scorecard implementation should be consistent, at least in part, with the quality-related measures. In this way, regional, business unit and corporate scorecards that are consistent with and reinforce existing quality initiatives can be installed.

● *Integration with human resources processes approach:*
Using strategic themes, companies can roll out a balanced scorecard approach by establishing links from financial objectives to objectives in the other three scorecard perspectives. Measures can be linked to specific employee development and change programmes.

● *Personal balanced scorecard approach:*
The corporate scorecard is cascaded down, first to business-unit level, where corporate goals are translated into business-unit level goals, and from there to personal performance objectives. This approach gives employees the facility to develop their performance objectives based on a clear understanding of corporate and business unit objectives.

2.5 Make strategy a continual process – strategy management meetings and the learning process
As operating conditions change continuously, so must the business strategy, and hence a process for strategy management is required. Successful balanced scorecard companies implement a process for strategy management, which integrates the management of tactics, and the management of strategy into a seamless and continual process.

In these organisations, the role of the budget may change. Budgets can be an inflexible tool for managing operations; however few organisations have any tool at all for managing strategic progress. For organisations using a balanced scorecard, this may be used as the link between operations and strategy. In managing and controlling operations, the budget defines both resources allocated to business unit operations, and the associated performance targets.

Three themes emerge in the implementation of a learning process. First, strategy is linked to the budgeting process, and spending decisions are analysed for their strategic impact. Such analysis has led some companies to operate two kinds of budget:
● An operational budget which functions as a management tool to guide the day-to-day expenditure necessary to run the business; and
● A strategic budget which protects long-term strategic initiatives from the pressures of short-term financial performance.
● Customer focused innovation;
● Technology, brand, reach, reputation;
● Talented and diverse pool of employees; and
● Strong business principles and sustainable development

Finally, in taking steps to make strategy a continual learning process, the balanced scorecard is based on the cause and effect linkages between individual/departmental/business units actions. Once the scorecard is put into action, and feedback processes report progress, the hypotheses on which such cause and effect linkages are based can be tested, either statistically or qualitatively.

The scorecard operates by monitoring and measuring actions and the impact that they have, and by allowing managers to manage assets used to deliver value to identified stakeholders. An effective scorecard design must therefore reflect the contribution of these assets by generating appropriate performance indicators. If the strategy is inappropriate or invalidated due to changing market conditions, a balanced scorecard approach, if implemented in the right way, should allow for organisational learning. This means that the inherent performance measurement system is providing appropriate information to help management to challenge its existing assumptions of the business model. By using a balanced scorecard as the agenda for strategy management meetings, and exceptional reporting, investigation and remedying of anomalous performance results, the underlying causal links and ultimately the validity of current strategy can be considered.

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Effective Performance Management Implementation and practicalities Different organisations have developed different ways of communicating the information necessary for effective strategic performance reporting.
Although organisations need to ensure that the appropriate data required for compliance reporting is being collected, using a balanced scorecard approach means that the entirety of the compliance-driven data is not necessarily included in strategic reporting. Computerised performance-reporting and management systems can be developed and configured specifically to facilitate predictive analysis of performance against scorecard targets, and to alert organisations to unexpected deviations from expected performance outcomes.

2.6 Sustaining the value of the scorecard investment: **(Reviewing causal modeling over time)**
A frequent error in scorecard adoption is to pursue an organisation-wide exercise involving strong executive leadership and wider involvement through workshops to build a causal model of the business, and then stop the process. Once developed, adopted and fully integrated into the organisation, the scorecard arguably facilitates improved performance at the front-line. Furthermore, regular review of performance levels and performance metrics is vital overtime. Evaluating results and testing the way people think about the business should be regular. Over time an organisation will gain a deep understanding of its value drivers. Consequently, both the value and nature of the selected performance measures need to be reviewed frequently, at the very least through the planning and forecasting/budgeting process.

3. DISCUSSIONS

3.1 Analytic methods – hypothesis testing and dynamic simulation
Dynamic simulation modelling is an established methodology that can be applied to inform strategic thinking. Statistical analysis can be helpful in testing the hypotheses supporting the causal links in the strategy maps. In theory,

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and for those prepared to commit the necessary financial and employee or IT resources, statistical (factor or cluster) analysis may be used to test assumed relationships between actions. For example, improvements in the workplace (a learning and growth/internal processes perspective action) and their impact on financial measures (a financial perspective impact), via improvements in the shopping experience.

As for any performance management tools, a study of relevant collected statistics can be used to produce a time-series analysis of collected balanced scorecard information. This facilitates quantitative estimation of the magnitude and time-lags of linkages between measures.

This has two benefits:
● It helps to forecast the future value creation impact trajectory of strategic alternatives before committing resources to new investments and initiatives; and
● It makes explicit the key operational drivers of value creation, and facilitates an understanding of interdependencies among strategic resources and the business unit's strategic objectives.
● The required investment in IT and staff resources;
● The lack of availability of, and time lag between, required statistics
● The tenuous nature of any measure.

3.2 Mobilise change through executive leadership
A pre-requisite for the success of a scorecard programme, or indeed any other performance measurement framework, is the absolute and explicit commitment of management at the most senior level. However, even where such commitment is secured, and despite expending considerable effort and resource, not all organisations have been successful in developing and deploying a balanced scorecard approach. Effective Performance Management Implementation and practicalities Mobilising change through executive leadership A balanced scorecard programme is not just about metrics, it is about large-scale change. The most important condition for its successful implementation is demonstrated ownership and active involvement of senior executives.

The balanced scorecard is often most effective when used as part of a major organisational or culture-change process . Although scorecard projects can be launched from different organisational units, the most important criterion for success is that the initiating unit has a senior executive whose leadership and management style emphasises:
● Communication;
● Participation;
● Employee initiative; and
● Involvement.

The process to initiate a balanced scorecard, as with any other change programme, begins with the leader creating a sense of urgency for change, which may arise from the need to:
● Reverse recent under-performance; and
● Respond to changes in the operating environment.

The commitment of senior management is needed in three distinct phases of the change:
● To launch the change process (mobilisation);
● To establish team-based approaches to deal with transition to the new performance model
● To create and modify the strategic management system.

3.3 Adopting the new measurement and management system of the balanced scorecard helps organisational leaders to:
● Communicate the vision for change; and
● Empower business units and individual employees to devise new ways of doing their day-to-day jobs to help the organisation achieve strategic objectives.

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4. CONCLUSION

By focusing and aligning resources and activities on the strategy required for achieving an organisation's mission, the balanced scorecard helps organisations to mobilise for change. Where employees can see the linkages, integration and initiatives encompassed in the balanced scorecard, they are more willing to commit to stretch performance targets. Although there are some criticisms concerning the balance score card approach, many of these seem to represent problems of practical application rather than fundamental flaws. The steering wheel strategy has assisted Tesco in accomplishing big goals by breaking them down into smaller, more achievable goals. last year had less impressive figures due to the financial crisis and additional investments however those investments have high return on investment(ROI).

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