Best Practice for Implementing the Balanced Scorecard

By
Professor Mohamed Zairi & Dr. Yasar Jarrar
Best Practice for Implementing the Balanced Scorecard

Yasar Jarrar and Mohamed Zairi

Performance Measurement

One of the critical success factors of excellence organisations has been the successful application of performance measurement. These organisations use performance measurement to drive improvements and successfully translate strategy into action, and do not stop at the gathering and analysis of performance data. In other words, they use performance measurement to gain insight into, and make judgements about, the organisation and the effectiveness and efficiency of its programs, processes, and people. Business excellence in the 21st Century will be driven by a structured methodology for using performance measurement information. Performance measurement is “a process of assessing progress toward achieving predetermined goals, including information on the efficiency with which resources are transformed into goods and services (outputs), the quality of those outputs (how well they are delivered to clients and the extent to which clients are satisfied) and outcomes (the results of a program activity compared to its intended purpose)” (US Department of Commerce, 1999).

Figure 1 demonstrates diagrammatically the performance measurement framework and the integrated nature of the system. The successful system will help set performance goals, allocate and prioritise resources, inform managers to either confirm or change current policy or program direction to meet those goals, and report on the success in meeting those goals. This integrated nature and cause-and-effect ethos are reflected in the Balanced Scorecard.
The Balanced Scorecard

The Balanced Scorecard is a conceptual framework for translating an organisation’s vision into a set of performance indicators distributed among four perspectives: Financial, Customer, Internal Business Processes, and Learning and Growth (Kaplan and Norton, 1996). Some indicators are maintained to measure an organisation’s progress toward achieving its vision; other indicators are maintained to measure the long term drivers of success. Through the balanced scorecard, an organisation monitors both its current performance (finance, customer satisfaction, and business process results) and its efforts to improve processes, motivate and educate employees, and enhance information systems—it’s ability to learn and improve. Thus, it is a process for managing the business. Just like we have business processes for sales, marketing and production, so now, through the Balanced Scorecard, we have a process for management.

The Four Perspectives of the Balanced Scorecard

1. Financial: Historically, this measure has been the cornerstone of performance measurement. The bottom-line is a good indicator of whether the organisation’s policy and strategy and properly implemented and executed, and contributing to the bottom line. Some traditional financial measures include: operating income and return-on-capital-employed or economic added value. Alternative financial objectives can be rapid sales growth or generation of cash flow.
2. **Customer**: This element focuses on the ability of the organisation to provide quality goods and services, the effectiveness of their delivery, and overall customer service and satisfaction. But the customer perspective should also include specific measures of the value propositions that the company will deliver to customers in targeted segments. The customer perspective identifies the target customer and market segments for each business unit. The segment-specific drivers of core customer outcomes represent those factors that are critical for customers to switch to or remain loyal to their suppliers. For example, customers could value short lead times and on-time delivery, or possibly a constant stream of innovative products and services. The customer perspective enables business unit managers to articulate the customer and market-based strategy that will deliver superior future financial returns. Common indicators of customer performance include market share, customer satisfaction and customer retention figures.

3. **Internal Business Processes**: This element captures on the internal business results that lead to financial success and satisfied customers. Organisations must identify the key business processes at which they must excel and monitor them to ensure that outcomes will be satisfactory. Internal business processes are the mechanisms through which performance expectations are achieved. Common indicators include....

4. **Learning and Growth**: This element assesses employee ability and the quality of information systems, and the effects of organisational alignment in supporting accomplishment of organisational goals. Processes will only succeed if adequately skilled and motivated employees, supplied with accurate and timely information, are driving them. In order to survive, the enterprise must reinvent itself to fit ever-evolving markets. Learning and growth measures identify the infrastructure most appropriate to the firm. They are derived...
from human resources, organisational systems and procedures. Traditional learning and growth measures may encompass: employee satisfaction, retention and skills; information systems performance; and organisational procedures’ calibration with employee incentives.

The four perspectives of the Balanced Scorecard have been found to be robust across a wide variety of companies and industries. But the four perspectives should be considered a template, not a strait jacket. We are yet to see companies using fewer than these four perspectives, but, depending on the industry circumstances and a business unit’s strategy, one or more additional perspectives may be needed. For example, some people have expressed concern that although the Balanced Scorecard explicitly incorporate the interests of other important stakeholders, such as employees, suppliers, and the community. For example, a chemicals company have included an extra perspective which reflects environmental consideration. They insisted that outstanding environmental and community performance was a central part of that company’s strategy and had to be an integral part of its scorecard.

Best Practices for Implementing a Balanced Scorecard

To support the successful implementation of the Balanced Scorecard, the paper presents the results of an analysis that aimed to identify the ‘best practices’. The analysis undertaken included the results of recent surveys, a critical analysis of related literature (US Department of Commerce, 1999)(Kaplan and Norton, 1996a, b), and detailed case studies. The case studies included Natwest, Celestica, BEST PRACTICE Chemicals, US Procurement Executive Association (Government Agency), Unilever, TNT Express, Boeing, and Texas Instruments. The best practices identified include:

1. An organisation-wide adoption of the Balanced Scorecard, i.e. across all key organisational functions. This has been shown to provide:

   - a co-ordinated framework and a common approach for all organisational performance measurement efforts
   - a common basis and ‘language’ for understanding measurement results for all employees
   - a ‘big picture’ of the organisation.

2. Utilise the Balanced Scorecard to provide objective data for business decisions.

The data provided by the Balanced Scorecard can be used a base for business decisions from allocation of available resources to future direction. This will further integrate the Balanced Scorecard into ‘the way we
do businesses and help the organisation reach effective decisions. For example, the Balanced Scorecard could form a common basis to support a business case for more resources.

3. Ensure commitment, to and buy-in for, the Balanced Scorecard at all organisational levels, especially at the top.

Research clearly shows that strong leadership is paramount in creating a positive organisational climate for nurturing performance improvements. Senior management leadership is vital throughout the performance measurement and improvement process. Senior management should frequently review progress and the results of improvement efforts, and should have frequent formal and informal meetings with employees and managers to show support for improvement efforts and implementation initiatives.

4. Focus on employee training.

Comprehensive training is needed to expand employees’ technical capabilities and to achieve “buy-in” for undertaking meaningful improvement efforts. Training should be provided to help employee understand and implement the Balanced Scorecard in terms of the ability to design their own measures, the understanding of how these measures affect organisational goals and strategy, and the ability to use improvement tools and techniques to action the outcomes for the meat for continuous improvement. The scope of training should include the operation of integrated project improvement teams, the role employees play in exercising sound business judgement, and the specific techniques for making process improvements (e.g., flowcharts, benchmarking, cause-and-effect diagrams, etc.).

5. Align the reward and recognition system.

Organisations should tie any reward and recognition system to performance improvement as measured by the Balanced Scorecard. Thus, employee incentives will tend to reinforce the organisational objectives being measured by the Balanced Scorecard.

6. Facilitate implementation by managing change and breaking down organisational barriers.

Like any improvement initiative, implementing the Balanced Scorecard will bring about many changes within the organisation. These changes may stir up some resistance based on unfounded fears about the perceived adverse effects of performance measurement and improvement. To overcome such resistance and barriers, it is necessary to follow well known change management strategies like open communication with employees and managers to explain the uses, need for, and benefits of the Balanced Scorecard, as well as
their role. Another approach is to demonstrate “success stories” that show the non-threatening nature of the Balanced Scorecard methodology, including how an organisation can target areas most in need of improvement, benchmark against best-in-class organisations, and undertake performance improvements.

7. Eat the elephant one bite at a time.

Too aggressive an approach may overwhelm employees and result in lack of ‘buy-in’ thus limiting the chances of success. However, too slow an approach may not be able to build enough organisational momentum to bring the Balanced Scorecard to fruition. Thus, the successful Balanced Scorecard implementation will rely on a well planned, realistic framework of deployment.

8. Move form Performance measurement to performance management by integrating the Balanced Scorecard into the way the organisation does business.

Incorporating performance measurement and improvement into the existing management structure, rather than treating it as a separate program, will greatly increase the Balanced Scorecard’s long-term viability.
Conclusions

Measurement is not an end in itself, but a tool for more effective management. The results of performance measurement will tell you what happened, not why it happened, or what to do about it. In order for an organisation to make effective use of the results of performance assessment, it must be able to make the transition from assessment to management. It must also be able to anticipate needed changes in the strategic direction of the organisation, and have a methodology in place for effecting strategic change. Successful accomplishment of these two tasks represents the foundation of good performance management. Both of these tasks can be greatly facilitated by use of the Balanced Scorecard. In other words, besides simply assessing performance, the Balanced Scorecard provides a structured framework for performance management.
References


About the authors

Dr. Yasar Jarrar is a Research Associate with the European Centre for TQM. (E-mail: dr_yasar@hotmail.com)

Professor Mohamed Zairi is the Head of the European Centre for TQM (e-mail: m.zairi@bradford.ac.uk).

The European Centre for TQM provides leading management research and tailored consulting for various leading organisations.

European Centre for Total Quality Management. Management Centre, University of Bradford. Emm Lane. Bradford. BD18 4DH