



Addressing strategy management and the balanced scorecard



Scorecards

Scorecards are being hailed as the solution to the gap between strategy and execution. They are not new. In the late 1980s, it became apparent that the traditional approach to monitoring performance based on financial measures such as ROI was no longer appropriate in the increasingly complex business environment. Initiatives such as Total Quality Management (TQM) in the U.K. and the Malcolm Baldrige Quality Award in the U.S. provided a more practical approach to managing performance—one based on a wider range of measures such as quality, strategy, people, and partnerships.

In the early 1990s, many methodologies were developed that sought to link the different activities, both internal and external, as well as cost and non-cost categories of an organisation to overall performance. The breakthrough methodology came with Norton and Kaplan's Balanced Scorecard.

Today, organisations realise that to manage performance they need to take into account a number of business facets, including how they deal with customers, manage their internal processes, and continue to develop innovative solutions. This requires a balanced, broad array of measures that need to be planned and monitored. Users interact with these measures in the same way that a driver uses a car dashboard.

A car dashboard consists of important "management information" such as speed, engine temperature, and fuel consumption. Warning lights, or alerts, inform the driver of issues that need attention—for example, low fuel.

To steer, the driver needs to continually gather information about the road ahead by looking out of the windshield and then making continuous adjustments to direction. He or she may plan the route before starting out, but the driver needs to keep updating this view and acting accordingly. For example, there may be road works or traffic jams ahead which need to be avoided if the driver is to arrive at the destination on time. Looking in the rearview mirror doesn't help that much—in the same way that reading financial reports doesn't help an organisation determine what it needs to do next to achieve its planned goals.

As can be seen from this analogy, the focus needs to be measures related to activities that show "How do we get there?" and "Are we on course?" as well as on the warning lights telling us what is currently happening. And yet today, most organisations look solely at the warning lights—how close are expenses and revenue to budget—rather than focusing on where they want to go and how they are going to get there.

In a report prepared by Gartner and Cranfield Business School³, the authors found that although a balanced set of measures helps make strategy comprehensible to employees, the implementation of a balanced measurement system is a difficult task. It is estimated that:

- Only 5 percent of the workforce understand strategy.
- Only 25 percent of managers have incentives linked to strategy.
- 85 percent of executives spend less than 1 hour a month in discussing strategy.
- 60 percent do not link budgets to strategic plans.

The report goes on to say that a tool is needed which contains both short- and long-term measures, as well as financial and nonfinancial ones. The tool must be acceptable to all sectors of the workforce; must be easily understood



and communicate overall business strategy; must show the drivers necessary for long-term results and indicate every employee's contribution to overall success; must be easy to use; must integrate with existing business systems; and must fit in with the overall culture of the organisation. Scorecard solutions were designed to fulfill this role but, unfortunately, the way many of them are implemented means they fall short of this purpose.

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