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By Nils-Göran Olve, Carl-Johan Petri, Jan Roy and Sofie Roy

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# Twelve years later: Understanding and realizing the value of balanced scorecards

*The balanced scorecard is one of the most successful, enduring management concepts in recent years, but it is also frequently misunderstood. In this article, the co-authors of Making Scorecards Actionable suggest ways in which managers can make the balanced scorecard their most valuable tool.*

By Nils-Göran Olve, Carl-Johan Petri, Jan Roy and Sofie Roy

All four authors are based in Stockholm, Sweden. Nils-Göran Olve is adjunct professor at Linköping University; Carl-Johan Petri is an independent researcher; Jan Roy is a manager and consultant; and Sofie Roy is a researcher at the Stockholm School of Economics. They are co-authors of Making Scorecards Actionable, John Wiley&Sons, 2003.

In the 12 years since Robert Kaplan and David Norton introduced the concept of the balanced scorecard (BSC), it has attracted much interest on both sides of the Atlantic as a format for reporting on performance, and increasingly, to support strategic thinking. This is close to the normal lifespan of new management ideas, and so the time is ripe for stocktaking. Is the balanced scorecard simply another management fad, or will it be established as a necessary tool for organizations? This article will consider this question.

According to the BSC community, scorecards can clarify business models, heighten awareness of strategy within the organization, make execution more effective and, consequently, improve financial performance. But, all too often these benefits do not seem to materialize.

Venkatraman and Gering (Ivey Business Journal, Jan/Feb 2000) claim that "there have been as many unsuccessful implementations as successful ones." This fits with our own informal observations based on a recent analysis of 15 organizations, primarily in Northern Europe. (Making Scorecards Actionable, John Wiley&Sons, 2003). Venkatraman and Gering suggested that organizations need to focus on four areas in order to implement the scorecard concept successfully:

1. Make the strategy explicit
2. Choose the measures
3. Define and refine
4. Deal with people.

They also warned that the seeming simplicity of the scorecard concept makes people underestimate the difficulties of putting it in place—and our experience is similar. A scorecard is a format for describing an organization's intentions and achievements. To become useful and actionable, a number of critical choices need to be made about its use. Organizations we have worked with have applied scorecards in different ways and for different purposes, but these are rarely a consequence of conscious choice. Rather, it seems that each organization sees the scorecard as the answer to their own particular problems. It's not surprising that BSC projects fail when there is no agreement on its scope or aims. To avoid this, we identified key design issues that need to be addressed in any scorecard project.

## Making scorecards actionable

Drawing from our own investigation and

experiences as consultants, we uncovered six issues that differentiate a successful and actionable scorecard from the meaningless rituals that characterize many of these processes. The six issues are summarized in the figure below.

Actionable; see also [www.makingscorecardsactionable.com](http://www.makingscorecardsactionable.com))

This particular Skandia employee had an appetite for the broader picture, but other employees saw scorecards as synonymous with the reporting tool they used to input measurement values. When scorecards are perceived as just a new format for monitoring performance, the BSC initiative is likely to fail. People will often resist what they regard as surveillance or see as a meaningless tool that adds to their reporting workload.

The most important benefit of the scorecard is its use in facilitating communication about strategy, not just at the top level, but throughout the organization. In order to achieve this, the departure point for any scorecard project should be strategy visualization.

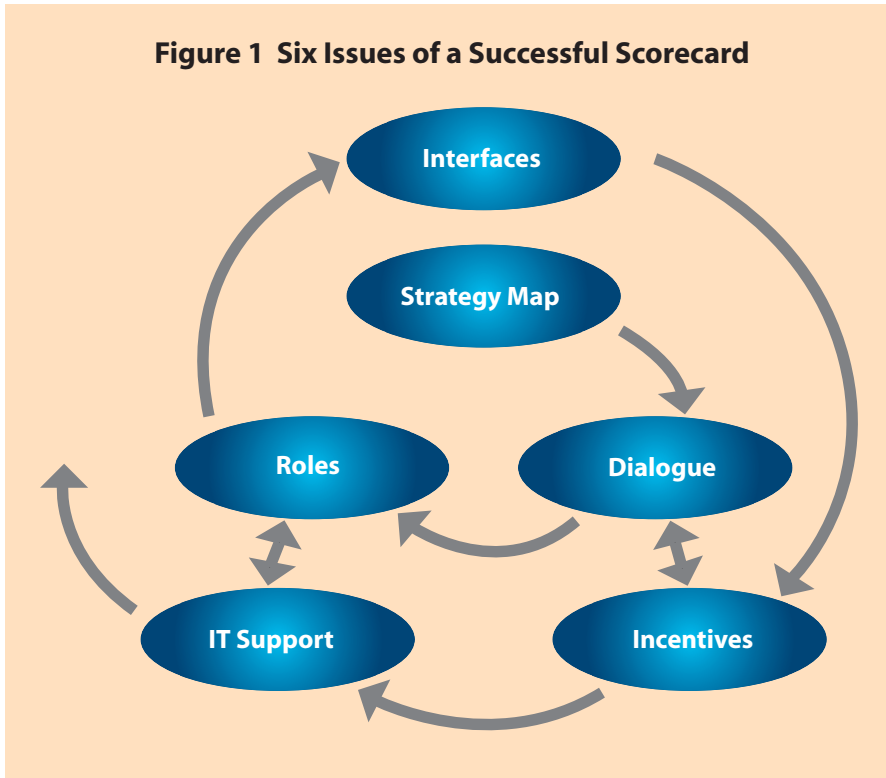
Some organizations have well-

considered strategies that can be turned into strategy maps and scorecards, but we found this to be rare among the companies we have worked with.

The strategy map is also a simple yet powerful graphical tool for involving employees at different organizational levels in a discussion of the company's aims and means. At Oriflame, an international cosmetics corporation, the strategy map was the cornerstone of its scorecard project:

"When the project group had concluded that scorecards would be a suitable planning and control instrument, a set of instructions that would guide in the creation of local strategy maps was

**Figure 1 Six Issues of a Successful Scorecard**



Our findings indicate that the six BSC issues should be addressed in the order illustrated by the spiral. The process should start at the centre, and build bridges and interdependencies between the inner and outer loops. In the following section, we present each issue and give some examples of how successful companies have dealt with them.

### 1. Strategy maps

"[The balanced scorecard] is a follow-up system. ...I would like to see more effects of it, to see how the different parts affect each other." -Employee of Skandia, an insurance company (Note: Quotes in this article are taken from Making Scorecards

submitted to each of seven, selected country managers. Each was to develop a strategy map that would describe his or her view of the business model: the cause-effect relationships that would contribute to the intended business outcomes."

During an annual meeting of all top executives, these different views were then used to create a shared strategy map to be used in the BSC process.

Other companies simply translate existing strategy documents into a pattern of "drivers" and "outcomes." Early scorecard texts did not stress maps at all, and the top executive team was expected to select metrics for all four scorecard perspectives based on their strategy.

What seems important is to signal early in the project, and to everyone who is going to be involved, that scorecards are about overview and balance, not primarily about a lot of separate measurements.

Successful practitioners use phrases like "a snapshot of our strategy" or "you can't recognize success just from the financial report," to explain why they like strategy maps. The drivers in the lower part of the map or scorecard will reflect where the strategy requires the organization to excel.

How to visualize strategy should be the first issue in preparing for a BSC implementation. Are strategy maps to be used? Will they build on existing strategies? Who should be involved in this process?

## 2. Dialogues

Scorecards and strategy maps are communication tools. They depict initiatives and performance within organizational units, enabling managers and employees in the unit to discuss direction, degree of success, and trade-offs. Such

communication can also be used to involve higher-level management. While scorecards are about individual performance, they are also about accountability and the need to collaborate in order to achieve joint success.

The second issue that must be settled early in a scorecard project is to identify those dialogues in which scorecards are to be used. In which situations do we want to improve communication about plans and performance? Do we want a rapid, across-the-board introduction of the new tool, or a much more selective rollout where we take a wait-and-see attitude for some parts of the organization. The important thing is to have thought this through and have clear responses about your intentions. The emphasis may be on different phases that occur over time:

1. Discussing the strategy map
2. Validating the conjectured links
3. Setting targets together
4. Analyzing results
5. Using outcome metrics to spur action.

Here is an example from British Airway's operations at Heathrow airport:

"Scorecards constitute our management control system. They are used to set targets for the coming year; they are used to evaluate performance; and they are used to focus the management team's discussion on what needs to be done to develop the operation."

At British Airways, the scorecards are used as the agenda for the monthly management meetings. In advance of the meeting, each scorecard is circulated to a unit manager, who is asked to comment on the report. The comments are then included in the scorecard, and all scorecards are compiled in a binder that is submitted to all members of the management team some days before the meeting. During the meeting, each unit

has 20-30 minutes to discuss past performance and future plans. They are encouraged to engage in a creative discussion so that participants feel free to give each other feedback and suggestions.

The BA manager at Heathrow uses scorecards on a monthly basis to ensure that the unit is performing satisfactorily, and as a strategic tool to communicate the long-term goals and strategic initiatives taken to reach these goals.

### 3. Roles

Most scorecard projects seem to have an "evangelist" who is perceived as Ms. or Mr. Scorecard. Some companies make a special effort to identify "ambassadors" in all units where scorecards are introduced:

At Skandia, these ambassadors had the crucial role of ensuring that employees knew what the scorecard was, what it was for, and how it applied to each individual's work. They were regarded as having important functions in their parts of the organization, and were seen as "necessary fiery spirits" in promoting scorecards.

Another requirement for these people is that they have high credibility among their fellow employees. For instance, in hospitals we have seen nurses assume this role, rather than the controllers whom we might expect. Some organizations, however, see a danger in relying too much on individual enthusiasts who may move on to other parts of the corporation, or find a new career in BSC. For example, Nordic-Baltic banking group Nordea has been careful in "casting" a whole set of different BSC responsibilities:

- Responsible for BSC performance: business area head
- Objective owner: members of each executive team share the monitoring of all strategic objectives
- Key Performance Indicator owner:

person responsible for measuring and reporting outcomes for a specific metric

- Responsible for initiatives: each strategic initiative needs someone in charge.

In addition to these tasks, there is one BSC coordinator per business unit, and the IT department assigns responsibilities for the new software that is needed.

We think of these different roles as the third important issue in preparing for a scorecard project. There is no single correct answer to how responsibilities should be assigned. A lot will depend on the answers to the previous two issues, strategy visualization and dialogues, as these will determine the scope and reach of the project. But the role assignments will also signal what kind of project this is.

Ericsson Enterprise, part of the Swedish telecom group, located the responsibility for scorecards not in the controller's department but in Operations and HR:

"Control is more concerned with getting their reports out on time. Operations and HR focus on achieving a shared view of where we should be heading, and volunteer to take part as facilitators in local scorecard work."

Making basic choices about the roles is therefore the third issue. Any organization introducing scorecards needs to take a conscious stance on the three issues introduced so far, as early as it can. This will determine how it should continue.

### 4. Interfaces

Most organizations respond to the question about dialogues by introducing several interconnected scorecards-perhaps one top-level scorecard and other scorecards for several business

units. Some also want scorecards for service units or processes, and some have scorecards for many levels of organizations. By interfaces, we mean how these scorecards relate to one another.

In traditional financial reporting, this issue is

**All too often, controllers and scorecard experts believe that they have to invest in an IT solution to operate their scorecards. Instead, we suggest a more critical attitude toward IT solutions. If the organization decides to invest in an IT tool, a solution should be chosen based on the functionality it offers in the different phases of the scorecard project**

resolved by the set of accounts used, and by the basic fact that all accounts are aggregated in a common corporate report. For the new metrics introduced with scorecards, there is no such obvious connection. Even market share numbers do not add up in any conventional sense. (You can calculate an average market share, but for a diversified corporation, this may be utterly meaningless.)

So, once you have decided which scorecards your organization will use, you will have to discuss your philosophy concerning their interfaces. Especially in U.S.-based corporations, the normal choice seems to be to impose as much uniformity as possible. We found this to be the case in the North European service branch of Hewlett-Packard, whose scorecard was essentially identical to other corresponding branches:

"With prescribed scorecard content for similar businesses across the globe, comparisons are easy. However, many numbers do not lend themselves to aggregating, and comparisons need to take into account different business conditions."

Other companies think it is more important to

achieve local buy-in, and they end up with very different scorecards that in some cases have even accommodated alternative perspectives. This may be because different companies have different kinds of operations, although we have also seen efforts to accommodate group perspectives in companies such as Scandinavian Airlines, where diversification does not seem to be particularly strong.

At Scandinavian Airlines, group companies with similar conditions are "encouraged, but not ordered" to use similar measures. They should reflect

the "story" for each company-"If they can explain that these are the most relevant ones for them, okay." There is no ambition to consolidate numbers into group metrics -"We would never be able to, and don't want to."

This approach reflects Scandinavian's focus on dialogues among each company and the corporate headquarters, although they have no corporate scorecard. But even where scorecards exist on several levels -in the anti-authoritarian climate of Northern Europe, for example-many organizations stress that their interface should be a matter of logic, not of aggregating numbers.

## 5. Incentives

Our fifth design issue is incentives. You have to provide a reason why people should bother. Some international corporations develop elaborate weighting schemes for bonuses based on scorecard results. This may have far-reaching consequences for the "balance" of balanced scorecards, as it signals a specific trade-off, rather than the "drivers-outcomes" discussion about strategy and learning that most scorecard promoters suggest. If a weighting scheme is introduced, it is probably better to use a careful mix of minimum

requirements and intervals, and no rewards at all for better-than-required performance if the other goals are not met.

In the current debate about corporate governance, many claim that there is too much focus on short-term performance. Peter Drucker has called bonuses and stock options "bribery," and wants knowledge workers to be "treated and managed as volunteers who work for a not-for-profit organization":

"The first thing such people want to know is what the company is trying to do and where it is going. Next they are interested in personal achievement and personal responsibility. ...Above all, they want respect..." (*The Economist*, October 3, 2001).

As we have seen, many organizations introduce scorecards partly to help employees understand the reasoning behind what they are being asked to do. Such discussions often lead to the creation of incentives.

We list the design of appropriate incentive systems (financial and non-financial) as the fifth design issue because once you have determined the scope of your project-in particular, which individuals are going to be involved and in what way -employees will ask, What's in it for us? This is another issue where the project initiators need to make conscious decisions.

## 6. IT solutions

It is not necessary to invest in an information system to make the scorecard actionable. At Heathrow, for example, British Airways deliberately decided not to invest in any dedicated BSC software.

"A template in Excel retrieves data for the scorecard from manual input and existing

transaction systems, and enables the controller to produce the scorecards for all the units at Heathrow in less than one day. It is considered a benefit that the scorecards are produced by hand, since it is believed to add to their credibility. Figures that are automatically produced from a computer system may be questioned in another way than a performance report that has been produced by hand. It is possible since only six to eight scorecards are produced once a month."

All too often, controllers and scorecard experts believe that they have to invest in an IT solution to operate their scorecards. Instead, we suggest a more critical attitude toward IT solutions. *If* the organization decides to invest in an IT tool, a solution should be chosen based on the functionality it offers in the different phases of the scorecard project.

To start with, we believe that the IT solution should support the initial stages of the scorecard project-for example, when creating strategy maps. Most practitioners seem to use Microsoft PowerPoint, which offers a straightforward way to produce graphs. However, one disadvantage with PowerPoint is that it is impossible to embed dynamics in the graph. The links that are drawn in a presentation slide are "dumb" in the sense that they do not "automate" the logic of the strategy map. If, on the other hand, an application with simulation capabilities is used, the links can be logically tested, rather than just visualized.

When cascading the scorecard through the organization, the software should also allow users to backtrack from the local scorecard to the corporate scorecard (see Interfaces, above), to understand how the local efforts contribute to the collective aspirations. Likewise, the user should be able to drill down in the scorecard to see what constitutes that metric, as well as which initiatives have been taken to improve its performance.

The IT solution should, of course, also facilitate target-setting and monitoring. In recent years, target-setting and continuous monitoring have attracted most of the attention among BSC-application developers. To assist in target-setting, the system should promote knowledge sharing and allow users to learn from other units' goals and targets. Most balanced scorecard applications seem to imply that the data can be automatically

**Scorecards, and in particular strategy maps, are means of furthering the organization's potential for strategic thinking, and focusing its activities on realizing intended strategies**

compiled from other computer systems, but this is rarely the case. The Norwegian Air Force, for example, claims that only 20-40% of the metrics in its top-management scorecard can be updated automatically. The rest must be compiled by hand and entered manually into the system. Hence, the solution must be designed to enable the easy recording of manually compiled performance information.

Finally, the IT system should also assist in managing strategic activities. The simplest kind of activity management feature is to link "to do" items to individual metrics. When the organization decides to take some action, information about the initiative should be entered in the system, and it should create a feedback loop to allow the user to see whether the action has created the anticipated effects. After some time, when the activity has been completed, the system should notify the user whether an improvement can be traced in the associated metric.

#### **Prospects: BSC as a tool for modern management**

Using scorecards is no guarantee of success. As tools for communication, they offer the possibility of a better understanding and exchange of ideas

about how a business develops. In particular, they signal the importance of preparing for the future, and the increasing importance of intangibles. These benefits are either missing or they are described in misleading ways in conventional accounts. So BSC's main potential, as we see it, is in organizations that want to involve managers and employees in dialogues about strategy.

Many BSC implementations have been based on ambitions quite different from those we advocate. From our perspective, it is not surprising if these organizations do not achieve the benefits that are possible with the BSC. The tool can, of course, be used in other ways -for instance, checking performance against benchmarks that are imposed from the top of the organization. There may be situations where this is still a relevant way to run an organization, but we believe that they are increasingly rare.

Our enthusiasm for scorecards is closely linked to the belief that work has to be meaningful if we are to realize the potential of people, and to adapt and react to the demands on organizations. This includes both private- and public-sector organizations. We all need to act in situations that are changeable and unpredictable, and that require us to take initiative. To respond in the best interests of our organization, we need to understand its strategy, and the implications of the strategy for our own tasks. Scorecards, and in particular strategy maps, are means of furthering the organization's potential for strategic thinking, and focusing its activities on realizing intended strategies. ■