Maintaining the Balanced Scorecard
An Excerpt from Balanced Scorecard Step-by-Step

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The Balanced Scorecard is Never "Complete"

Renowned leadership expert John Kotter has written extensively on the field of organizational change and what it takes to sustain a major change initia-tive. In his book Leading Change, he says, "Major change often takes a long time, especially in big organizations. Many forces can stall the process far short of the fin-ish line: turnover of key change agents, sheer exhaustion on the part of leaders, or bad luck."[1] The Balanced Scorecard is not a metrics project, a technology project, or a human resources program. More than anything else, the Balanced Scorecard represents a major change initiative and as such can fall prey to any of the issues suggested by Kotter. Key change agents are critical to the success of any effort but are absolutely vital to the hopes of institutionalizing the methods of the Balanced Scorecard. Without a person (or team) leading the refinement and continued development of the Scorecard system, it can easily be derailed, with managers slipping comfortably back into their former practices. Change agents will be discussed further in the "Key Roles" section of the chapter. Executives, with many important initiatives on their plates, can become overwhelmed with the tides of change. The Balanced Scorecard could pay the price of their fatigue through a lack of attention and modeling necessary to set the proper tone throughout the organization. And yes, even bad luck can victimize Scorecard efforts. Software that simply will not work as guaranteed and inexperienced consult-ants who promise more than they can deliver are just a couple of examples of unfortunate circumstances that may conspire to sabotage your carefully planned efforts. Perhaps the single biggest Scorecard pitfall to be avoided, however, is lack of maintenance. The Scorecard, like any major change, must be constantly nurtured for a significant period before it takes root within the culture and ongoing management practices of the organization.

Beyond sustaining momentum, the Balanced Scorecard is never really complete because your business is never really complete. Is there ever a point at which you can stop and say, "Well this is it, we've done it all, there's nothing left to conquer, looks like smooth sailing ahead." No, because the environment in which you operate is constantly changing. New competitors enter the marketplace rapidly and from all over the globe, the wide and swift availability of knowledge is causing customers to be more demanding than ever, and employees insist on satisfying and challenging roles that make a real contribution to success while simultaneously providing quality of life. All of these forces will affect your Balanced Scorecard, but fortu-nately this tool is not only capable of flexibility, but in fact that could be its chief identifying characteristic. As conditions change, current strategies will be severely tested, and new strategies may be called into action. Strong relationships thought to exist among measures may prove specious and necessitate the adoption of new indicators. The Scorecard is malleable enough to handle such changes and will serve as a valuable tool while you navigate the changing course that is your business. The question is, how do we ensure that the Scorecard remains a viable tool and is fully entrenched in the management system of your organization so that it can be looked to as a guiding and trusted compass during periods of change? Maintenance, nurturing, and building on the current Scorecard base provides the answer. This care and feeding is comprised of establishing business rules and processes for effective Scorecarding operations, putting the right people in place to further the transition to this new method of management, and finding a home for the Balanced Scorecard. Each of these items will be examined in this chapter. This is critical work, as Kotter reminds us: "Whenever you let up before the job is done, critical momentum can be lost and regression may follow."[2]

Establishing Balanced Scorecard Policies, Procedures, and Processes

The title of this section reminds me of the old command and control days of business that featured a heavy emphasis on rules and process controls to ensure strict adherence to steadfast procedures. Of course, the Scorecard is more representative of the new business paradigm characterized by open information sharing, collaboration, empowerment, and team problem solving. Unfortunately, simply developing a Scorecard will not magically transform your organization into a paragon of enlightened management practice. To become part of everyday life in the organization, your Scorecard will require some business rules, processes, and procedures to ensure smooth functioning, especially in the early stages of implementation. Specific areas to address once your Scorecard system is up and running include:

- Long-range strategic planning. What is the role of the Balanced Scorecard in the organization's long-term strategic planning efforts? It should be at the forefront of strategic planning; however, after initial development of a Scorecard, some organizations will revert back to their previous methods. Work with your strategic planning team to define the Scorecard's role in the process on a go-forward basis, assuring it will remain the key tool in effective execution of strategy.

- Annual Scorecard development. The Balanced Scorecard is designed to be a flexible and dynamic tool, adjusting to the changes occurring in your business. At least annually, your Balanced Scorecard should be tweaked to describe the continuing saga of your strategy. Do not wait until the last minute to put together a schedule, surprising already overworked managers around the firm. Compose a timeline early in the process giv-ing everyone involved ample time to formulate a Balanced Scorecard that thoroughly displays how they contribute to overall success.

- Reporting dates. The wide distribution of Scorecard production dates is critical. There is a strong possibility that at least some of your Scorecard data will not come directly from source systems. That data will need to be collected and entered into your reporting system, whether it is automated or not. Those responsible for providing data must be aware of the timelines associated with reporting and the importance of timely and accurate data submission. Your executive team will be relying on the data, so don't be shy about including that veiled threat in any corre-spondence you produce when on the hunt for data.

- Terminology. Does the word objective have the same meaning for an executive, a midlevel manager, and a customer service representative? If you want to use the Scorecard to create a new language of measurement, it should. You will have to grapple with terminology issues earlier in your implementation, however. Creatures of habit that we are, some folks may tend to migrate back to previous definitions.

- Roles and responsibilities. Determine who is accountable for administering the Scorecard system in the organization and the accompanying responsibilities. This will be discussed in greater depth in the "Key Roles" section of the chapter.

- Thresholds of performance. When using the Scorecard as a measurement system, organizations compare actual performance against a predetermined benchmark. That comparative may be a budget amount, last year's number, a best-in-class number, or a stretch target. Regardless of the comparative you choose, the relative ranges of performance must be established. Perhaps "green" performance is anything meeting or exceeding the target. 'Yellow" may represent an actual amount within 10 percent of the target, and "red" could mean anything greater than a 10 percent variance. Performance thresholds are bound to stir a little con-troversy. Some will consider them too strict, while others counter that they are slack and do not promote breakthrough action. My recommendation is to err on the conservative side at least in the first year. Give people the opportunity to become accustomed to this new way of managing before imposing strict thresholds demanding exemplary performance.

- Changing objectives, measures, and targets. Under what circumstances will you allow a midyear change in any of these performance indicators? Targets are especially vulnerable since many organizations lack a strong target-setting competence, and initial attempts are either too difficult to achieve or too easy. Only in clear cases of a misguided objective, mea-sure, or target should changes be permitted. Perhaps the calculation of a measure is leading to dysfunctional decision making or the target's perceived difficulty is demotivating to employees. In these situations, a change may be warranted. This topic will be examined in greater detail when we discuss "Updating the Scorecard's Core Elements" a little later in the chapter.

- Timetable for Scorecard linkages to management processes. You may or may not wish to cascade the Scorecard and link it to budgeting and compensation during the first year of your implementation. At the very least, you should have a plan for future development. Consider it the Balanced Scorecard "master plan" describing where you expect to take the Scorecard in the future and the requirements to make that happen. Even if linkages are not occurring during year one, the dialogue to facilitate future transformation should be taking place.

Gathering Data for the Balanced Scorecard

Gathering and entering data into your Scorecard reporting system can often present unique challenges. The first issue you face is whether or not the data is even available. One of the strongest benefits of the Scorecard is its ability to highlight the "missing measures" that drive future results. Identifying these indicators is one thing, gathering the supporting data is another. You may not have the systems or tools in place to harvest the data at the outset of your implementation. In fact, estimates vary but you can probably expect to be missing between 20 and 30 percent of your data as you begin to report results. This absent data should not dictate any delay in reporting the Scorecard. Focus on the measures you do have and spend the necessary time and effort to develop processes for acquiring outstanding data.

Have you ever considered a career in law enforcement? I ask because when attempting to have measure owners submit their Scorecard data you may feel like the "Balanced Scorecard Police." Like the highway patrol of-ficer pulling over a contrite speeder, you will hear every excuse in the book. "The source reports haven't been produced yet," "I'm waiting for one more number from accounting," "I was on vacation last week and am still catch-ing up!" Some are legitimate and may signal that a redesign of processes is necessary, while others are downright outrageous, "Aliens studying twenty-first century earthly organizational practices beamed down and stole it." Cajoling, persuading, and even threatening will only go so far. The only reliable method of ensuring a smooth data-gathering process is to make it as painless and simple as possible for those affected. Even if you are using a relatively low-tech reporting solution, you can build automated links into the gathering process, making it easier for those involved to send their much-needed data. Designing and distributing a customized measure template will go a long way toward assuring compliance among data owners. Exhibit 12.1 is a data collection form you can customize for your performance measures. Develop a form for each owner of Balanced Scorecard measures, and distribute it electronically for completion or further distribution to a data owner. If you don't have an e-mail system, you can always print the forms and distribute them using the interoffice mail or via fax. In this example, data is requested for the month of September; however, previous submissions are also displayed to provide relevant background and facilitate a performance commentary. Once completed, the form should be sent by e-mail back to the Balanced Scorecard System Administrator, who will enter the data into the Scorecard reporting tool. Should you choose an au-tomated solution to report Scorecard results, you may be able to import data directly from the form into the software, and depending on the functionality offered by the program you may even have the capability to di-rectly import the narrative supplied in the commentary columns. Using this simple form and taking advantage of your e-mail system for distribution greatly reduces any burden on measure owners. They simply open the e-mail attachment, fill in their performance information, and send the form back. Not only does the process make it easier for those responsible to supply data, but Scorecard administrators will also appreciate the existence of just one form of template. Rather than attempting to translate data scribbled on the back of business cards, or read barely decipherable faxes, the administrator can easily transfer data from a common form to the reporting tool.

Updating the Scorecard's Core Elements – Objectives, Measures and Targets

As previously discussed, the Balanced Scorecard is designed to be a dynamic tool, flexible and capable of change as necessitated by business conditions. Over time, you can expect a number of changes to take place within the realm of your objectives, measures, and targets. At the far end of the possibility spectrum you may decide to abandon a strategy you have pursued based on Scorecard results that disclaim much of your hypothesis. In that extreme case you would likely develop a new strategy for your organization and like-wise select new and corresponding objectives, measures, and targets that acted as direct translations of the updated strategy. Even with today's shorter strategic shelf lives, you would not expect to make wholesale changes to objectives, measures, and targets each and every year. However, it is a very good idea to critically examine the Scorecard at least annually and determine if its core elements are still appropriate in telling an accurate strategic story. Results of a best practices benchmarking study suggest a majority of Scorecard practitioners do just that. In the study 62 percent of participants updated their Balanced Scorecards annually. Fifteen percent updated ev-ery six months, while 23 percent updated every three months.[3] Make the annual Scorecard review process part of the normal planning cycle that occurs at most companies. Organizations engage in strategic planning, bud-geting, and business planning every year. The Scorecard can be slotted in with these activities and take its rightful place as a key management process.

Expect many subtle changes to be made with objectives and measures as experience is gained using the Balanced Scorecard system. Objectives may be reworded to more accurately represent their core purpose or to clarify potentially confusing terminology. Similarly, measures could be subject to changes in the method of calculation to better capture the true essence of the event under investigation, or the description may be enhanced to im-prove employee understanding of operational and strategic significance. You may also change the frequency with which you collect performance data. For example, you may have attempted to track employee satisfaction monthly, but the logistics of gathering the data simply proved too challeng-ing. In that case, you would not abandon this important indicator, rather you would simply change the reporting period to something more amenable to measurement. Any change in a measure has a potential impact on the corresponding target. This is especially the case should you make changes to formulas or calculations. Additionally, targets may change to reflect more realistic goals or conversely, something more challenging.

Updating your performance objectives, measures, and targets is yet an-other way to tap into the collective knowledge of your organization. Be sure to involve as many employees as possible to ensure any changes reflect organization-wide interests. Surveying employees is an excellent method of gathering their feedback on Scorecard use and potential improvements. Exhibit 12.2 displays a 10-question survey that can be administered to em-ployees at least annually to ensure the critical feedback and knowledge they possess is collected. Employees should answer the survey questions with their specific group or department in mind. The senior executive team would assess the high-level organizational Scorecard. In addition to asking questions, the survey also includes a space for employee comments and recom-mendations for Scorecard improvements. In this example, the surveyed employee gives her group's Scorecard 38 out of a possible 50 points. Any total over 35 would be considered positive; however, the composition of the scores provides as much insight as the aggregate. In this case, for example, the Scorecard appears to be working very well in its intended capacity of informing employees about organizational strategy and providing a line of sight. It also appears this group reviews their results on a regular basis and uses the information to identify future improvement initiatives. However, it is also clear this employee is not happy with the reporting tool being used, the cause-and-effect linkages are not clear and, as evidenced by her comments, Scorecard results are not stimulating organization-wide discussions. This input is invaluable as managers and employees look to develop future iterations of their Scorecard. Customers and suppliers also have a stake in your performance and would probably be flattered and impressed should you consult them regarding possible updates to the Scorecard.

As stated in Chapter Six, the caveat regarding such changes is this – don't alter your measures simply because you don't like the current crop, or the results are not what you expected. The Balanced Scorecard is about learning – learning about your strategy, learning about the assumptions you have made to win in your marketplace, and learning about the value proposition you have put forth. Sometimes you won't necessarily enjoy what your mea-sures are telling you, but your challenge is to use these deviations from plan as opportunities for learning, not simply as defects in need of remedy.

Key Balanced Scorecard Roles

Chapter Three introduced the critical roles necessary to make the Balanced Scorecard implementation a success. Let's revisit a number of those roles within a new context—making the Scorecard an ongoing success to maximize your performance and maintain results.

The theme running through this chapter is simple—Balanced Scorecards are not necessarily self-sustaining. Development and progress must be constantly nurtured in order for meaningful results to be derived. The critical player in the Scorecard's ongoing development is the Balanced Scorecard champion or team leader. Someone in the organization must be equated with the Balanced Scorecard and seen as both its ambassador and thought leader. Everything we have reviewed thus far in this chapter will require leadership. Steering the course of discussions around policies and procedures, evaluating possible measure changes, and providing insight on data acquisition strategies all need a strong leader. The Scorecard champion is that someone. With a unique mix of communication and leadership skills, the champion is the recognized Scorecard subject matter expert, coaching leaders and managers alike on Scorecard concepts and how the tool can best be utilized to achieve breakthrough results. But it is more than guiding discussions and setting policies, it is the five-minute conversations in the hallway about last month's Scorecard results, or the distribution of an article about the latest Scorecard techniques, or the presentation to a group of administrative assistants who previously felt out of the "Scorecard loop" that really make the difference. In a word, it is communication. The champion art-fully communicates how the Scorecard is making a difference now and can forge new ground in the future through innovative uses as a strategic management system. Unilever is an organization recognizing the importance of this position. Colin Sharp, Strategy into Action project manager, notes, "We've created a position to implement the [Scorecard] process and support it through its early years. This has been a critical role."[4] The most logical candidate for the role is the individual filling the position during your initial implementation. This person will have already carved inroads in the credibility road-ways of the organization and be seen as ‘Mr. or Ms. Balanced Scorecard.’ Asking the person to assume the role full-time and give up, or at least scale back, their former responsibilities probably will not require extensive coaxing. I have been part of a number of implementations during which the Scorecard champion so enjoyed the role they asked to make the position a permanent move. I am absolutely convinced the assignment of a full-time Balanced Scorecard champion is a key differentiator of successful Balanced Scorecard implementations. The knowledge, continuity, and constant com-munication offered by the position cannot be beaten.

The other truly indispensable Scorecard role is that of executive sponsor. Everything chronicled in Chapter Three regarding this role applies on an ongoing basis as well. The Sponsor provides new information on strategy and plans, maintains constant communication with other members of the senior team, and continues to supply enthusiastic support for the Balanced Scorecard. All senior executives must share an ownership interest in the Balanced Scorecard if it is to reach its full potential. The executive sponsor works to make this happen by constantly engaging other members of the senior team in dialogue addressing the benefits and future direction of the Scorecard. As the Scorecard program grows and matures, the executive sponsor is counted on to share your enlightened management concepts with colleagues and networks of other executives. Depending on where respon-sibility for the Scorecard ultimately resides in the organization (see “Who Owns the Balanced Scorecard” below), it would be convenient and beneficial to have the Scorecard champion report directly to the executive sponsor. The clear line of communication resulting from this relationship would ensure the latest Scorecard developments are funneled to the executive suite where swift action can be taken to leverage opportunities and remove obstacles.

Balanced Scorecard team members were integral in the original development of the Balanced Scorecard, but the role of this group will change as the Scorecard develops. Rather than hands-on Scorecard building, the task of the team evolves to information and best-practice sharing. Team members are convened on a regular basis and use the opportunity to review what the Scorecard has meant in their units or groups. Valuable input is supplied in the form of tips, effective Scorecard processes, and issue resolution strategies. The team should also be used as a proving ground for your latest Scorecard ideas. When linking the Scorecard to budgeting or compensation, for example, team members are able to provide a unique perspective on what will be necessary to make the transition a success in their business unit or group. Some organizations will migrate from a Balanced Scorecard team to a steering committee comprised of the champion, executive sponsor, other senior executives, and certain members of the original team. This group carries a more formal mandate of establishing Scorecard policies and charting future development.

A role we did not consider when developing the Balanced Scorecard, but which is crucial to long-term success, is that of the System Administrator. This term is normally associated with the individual administering a packaged software solution but may also apply if you develop your own report-ing solution. Depending on the sophistication of your reporting tools the Balanced Scorecard champion may be able to competently fill this role. However, should you purchase an automated solution an administrator will most likely be required. The System Administrator holds the ultimate responsibility of scheduling results reporting, ensuring Scorecard data is gathered on a timely basis and entered accurately into the tool. They also make changes to Scorecard elements (objectives, measures, and targets), provide technical support to users, upgrade to new versions of software, and supply training. Liaising closely with the Balanced Scorecard champion and executive sponsor, the administrator plays an important part in defining the Scorecard's role in management review sessions. Whether it is transparencies displayed on an overhead projector or the latest Scorecard software, the technology that supports Scorecard reviews must function properly to bolster credibility for the new process. Most commercially available software packages will provide material spelling out in detail the requirements of a System Administrator.

Who Owns the Balanced Scorecard?

We have considered the roles necessary to ensure the Scorecard is embedded in the management systems of the organization; now we must find a home for the Scorecard function, and more specifically the champion and System Administrator. Team members will continue reporting to their business unit head, and the executive sponsor remains in her senior management position, but to whom will the champion and System Administrator report? Before we answer that question, let's consider why it is in fact criti-cal to find a home for the Scorecard function. At this point in the process the Balanced Scorecard may still be viewed as a "project" and not an ongoing way of managing the business. Without a solid foundation and clear ownership, it will be very difficult to erase this perception and it may become solidified in the minds of employees. Of course, the word project con-notes an image of something generally temporary in nature that over time, and with significant effort, is achieved or considered complete. But as we have seen the Balanced Scorecard is never really complete since it must flow with the changing tides of your business, helping steer the course as conditions inevitably change. If the Scorecard is thought of as complete, the desire and incentive to report results and use them in making business decisions is greatly reduced, and over time serious gaps may develop in measurement and reporting. In contrast, providing the Scorecard with a functional home changes the paradigm and shifts the Scorecard to a permanent, legitimate business operation on its way to becoming ingrained in the fabric of everyday organizational life.

The leading candidate in the race for Scorecard custodial rights is the finance function. In one recent study, participants were asked which func-tional area is responsible for managing their company's Performance Mea-surement system. Sixty-seven percent replied Finance.[5] My experience echoes this finding. The vast majority of Scorecard implementations on which I have been engaged concluded with the responsibility for ownership and ongoing development resting with finance. With its place at the center of the organization's information processing and distribution function, finance may have always represented a legitimate choice for Scorecard ownership.

Recent developments in the field have made their bid for Scorecard owner-ship even stronger. "The information age calls for Finance to play a new role — architect of the enterprise ... The traditional focus on control and compliance activities must be replaced by strategic, economic, tactical, and Performance Measurement leadership.... Why Finance? Finance has the highest level of access to information, strategy, economic targets, and internal process activities."[6] It's clear that finance professionals have begun embracing new roles in the organization, shedding the burdensome, and often non-value-added, corporate policeman persona in favor of a powerful and dynamic new look that places strategy and business partnership at its core. The Balanced Scorecard, with its holis-tic and collaborative nature, fits like a glove in this new finance paradigm. Before you rush down the hall and place the "Balanced Scorecard Owner" sash over the shoulder of your finance leader, remember that every organization and every Balanced Scorecard implementation are unique. Finance may be a great home for the Scorecard in many organizations, but your finance function may still be mired in the old control and compliance framework and have yet to experience the benefits occurring from developing business partnership relationships. If that's the case you will probably find the people-intensive, knowledge sharing, collaborative features of the Scorecard aren't a great fit for your finance function. Perhaps the strategic planning or human resources function fits the bill in your organization. If so, place Scorecard responsibilities there. The bottom line (pardon the fi-nance function pun) is this: you're looking for a home in which the executive leader believes in the management theory captured by the Scorecard and is willing to actively support, develop, refine, and evangelize the tool. The right person could be in human resources, marketing, manufacturing, strategic planning, or finance. As always, it is the characteristics of the leader, not the functional title, that really matter.

Summary

By viewing the Balanced Scorecard as a one-time metrics or systems project some organizations fail to take advantage of the many attributes the system has to offer as a strategic management system. Through proper guidance and maintenance, the Scorecard will become the cornerstone of the organization's management system. Making this transition requires the con-sideration of how a number of Scorecard-related tasks will fit into current and anticipated management models. These include:

- The Scorecard's role in long-range strategic planning
- Annual Scorecard development
- Reporting dates
- Terminology
- Roles and responsibilities for Scorecard development
- Thresholds of performance
- Changing Scorecard elements
- Linking the Scorecard to management processes

Strategies for effectively and efficiently collecting and loading performance data into a Scorecard reporting tool must be developed if the tool is to be accepted and used by employees. Whether or not an automated Scorecard solution is pursued, the data gathering process is enhanced by the use of customized collection templates.

A majority of Scorecard practitioners update their Scorecard on an annual basis. As conditions change and Scorecard learning intensifies, many companies will make changes to performance objectives, measures, and targets. The adjustments could reflect a change in strategic direction, or a simple clarification to an otherwise confusing indicator.

All the key players involved in the initial design and development of the Balanced Scorecard have a role to play in its ongoing evolution. The Balanced Scorecard champion's role takes on expanded prominence as this individual uses communication skills and Scorecard knowledge to coach and train executives, managers, and employees alike on the benefits to be derived from an even greater reliance on the Balanced Scorecard methodology. A new function emerges as the Scorecard grows – the System Administrator. This individual controls the vital function of ensuring timely and accurate reporting of Scorecard results.

The finance function is the predominant home of the Balanced Scorecard in most organizations. As the purveyors of company information and with their unique view into strategy, processes, and economic events, this function often makes a very logical choice. However, the ultimate test for Scorecard ownership is an executive willing to actively use, support, and help shape the future direction of the Scorecard as a key strategy execution tool of the organization.

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End Notes:

1 John Kotter, Leading Change (Boston, MA: Harvard Business School Press, 1996).
2 Ibid., p. 133.
3 Best Practices Benchmarking Report, Developing the Balanced Scorecard (Chapel Hill, NC: Best Practices, LLC, 1999).
4 Charles Birch, "Balancing Act," Australian Accountant, March 2001, 50.
5 Performance Measurement Survey by the American Institute of Certified Public Accountants and Lawrence S. Maisel, 2001.

6 Mark J. Morgan, "A New Role For Finance, Architect of the Enterprise in the Information Age," Strategic Finance, August 2001.