

Developing and Implementing a Balanced Scorecard: A Practical Approach

White Paper

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A Working Definition

A Balanced Scorecard (BSC) is an approach to strategic management that provides a clear prescription as to what organizations should measure in order to “balance” the financial perspective.

A Balanced Scorecard can be thought of as something that:

- A *Management System* not only a Measurement System
- Enables clarification of Organization's Vision and Strategy
- Enhances the ability to translate Vision and Strategy into action
- Provides feedback around internal processes and external outcomes to continuously improve strategic performance and results

The anticipated benefit and outcome of BSC is to transform strategic planning into an effective and efficient “*nerve center*” of an enterprise.

Basic Concepts

Balanced Scorecard views the organization from 4 distinct perspectives:

- Learning and Growth Perspective – What do we excel at?
- Business Process Perspective – How do we continue to grow and create value?
- Customer Perspective – How do our customers see us?
- Financial Perspective – How do we achieve the lowest cost?

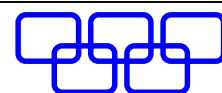
For each perspective metrics should be developed, data should be collected, and then that data should be analyzed.

BSC is not a “new” concept. It builds on and has roots in traditional methods such as Total Quality Management (TQM), Customer-Defined Quality, Continuous Improvement, Employee Empowerment, and most especially Measurement Based Management and Feedback models.

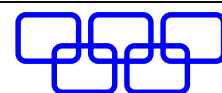
Defining the 4 BSC Perspectives

As previously stated, Balanced Scorecard views the organization from 4 distinct perspectives. Detailed below are the components that make up each perspective:

- 1) Learning and Growth Perspective:
 - Employee training

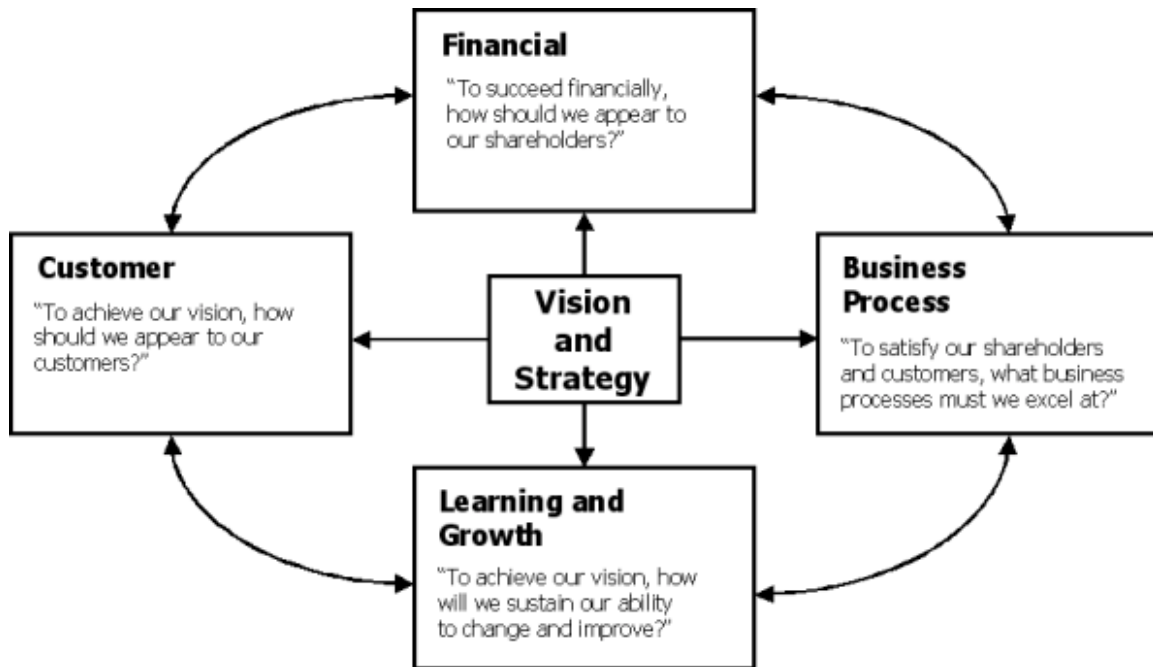


- Corporate culture attitudes on individual and corporate self-improvement
 - Knowledge worker organization with *people* as the repository of knowledge
 - Continuous learning mode of operation driven by rapid technology advancements
 - Learning is more than training (for example, it includes mentors and tutors, ease of communication, etc.)
 - Learning and growth constitute the essential foundation of success for any knowledge-worker organization
 - Utilization of technology tools, "*high technology work systems*" (for example, the intranet)
- 2) Business Process Perspective:
- This refers to internal business processes
 - Metrics are used in this perspective to determine how well the organization's businesses are running
 - Determine whether the businesses products and services conform to customer requirements (*the Mission*)
 - Metrics must be carefully designed by those who know the business processes best
 - Typically there are 2 types of business processes relative to BSC:
 - a) Mission Oriented Processes that are special functions of major lines of business. Typically this requires specialized metrics.
 - b) Support Processes that are the day-to-day processes that support the business and organization. Typically they can be measured and benchmarked with generic metrics.
- 3) Customer Perspective:
- Customer focus, orientation, and satisfaction are *key components*
 - Customer will find other suppliers if they are not satisfied or their requirements are not being met
 - Poor customer satisfaction is a leading indicator of future financial decline. Even if the current financial picture is good
 - Developing metrics in this area requires that customer profiles be done as well as the processes that provide the products and services to them
- 4) Financial Perspective
- Based on financial data that is timely and accurate funding data
 - Implementation of a corporate financial database is key



- Centralization and processing, accessibility, and automation of financial data is key
- Special attention must be paid to any possible “skewing” of the Financial Perspective
- Risk Assessment and Cost/Benefit Analysis should be included in this perspective

BSC Structure



Defining BSC Metrics

BSC Outcome Metrics to be Qualified for Each Perspective:

- Objectives
- Measures
- Targets
- Initiatives

BSC Metrics Value Proposition:

- Strategic Feedback to Depict Current Status of Organization from Many Perspectives
- Diagnostic Feedback into Processes for Continuous Improvement
- Performance Trends over Time as Metrics are Tracked

- Feedback Around What Measurement Metrics are Needed and Useful
- Quantitative Inputs to Forecasting Methods and Models

Building and Implementing a BSC

Building a Balanced Scorecard is a 4-phase process:

- 1) Strategy – translates what customers want into what the organization must deliver
- 2) Strategy Mapping – onto service quality, customer confidence, customer satisfaction, program effectiveness
- 3) Performance Measures:
 - The “How”: Are we doing things right? (Input and Process)
 - Resources including cost and workforce
 - Activities, efforts, and workflow
 - The “What”: Are we doing the right things? (Output and Outcome)
 - Products and services produced
 - Results, accomplishments, and impact
- 4) Implementation – Appropriate balance of quality of service and cost of service. Meet Organization requirements by providing highest quality of service at lowest possible cost
 - Across 5 perspectives of people, process, technology, organization, and integration

There are 9 Discrete Steps to implementing a Balanced Scorecard:

- Perform an assessment of the current status of the 4 BSC perspective areas
- Develop Strategy
- Define Objectives
- Develop Strategic Map
- Define Performance Measures
- Develop Initiatives
- Determine and Utilize Automation
- Cascade Implementation
- Evaluation of Implementation

The organization view must be aligned with the business and support units across the following 3 areas:

- Strategy
- Objectives
- Measures



The Goal of BSC

The goal of Balanced Scorecard is to realize a performance-based budget that satisfies customer requirements by providing the highest quality products and services at the lowest possible cost.

BSC is about management and change first; measurement and technology are second.

BSC Implementation Challenges

The following is a partial list of implementation challenges:

- Fear of measurement and new systems
- Lack of common definition and terms
- Inconsistent or weak buy-in, lack of understanding
- Visions and strategies poorly defined and understood, not actionable, not linked to individual actions
- Treating budget development separate from strategy development
- Measures set independently of a performance framework or measures with no ownership
- Loss of momentum
- No performance targets, or set too high or low
- Little or no strategic feedback
- Lack of meaningful employee involvement

BSC Guidelines

The following is a partial list of guidelines for Balanced Scorecard:

BSC IS:	BSC IS NOT:
A Strategy Based Management System	A Performance Measurement Tool
A "Journey", On-going	A Project
A Communications Tool for the Whole Organization	For Executives Only
Hard Work, Complex	Simple, Easy to Implement
A Change Initiative	"Business as Usual"
Balancing, Non-Financial, Efficiency, Infrastructure, and Financial Views of Performance	Putting Existing Metrics into 4 Categories
Increased Accountability	Tighter Individual Control
Aligning Vision with Operation	TQM, Six Sigma, or Re-Engineering Project



BSC References

The following is a list of references used in the development of this white paper:

- “Developing and Using Balanced Scorecard Performance Systems” – Howard Rolm, *Perform*, 2002
- “Building and Implementing a Balanced Scorecard” – Howard Rolm, US Foundation for Performance Management
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- “Keeping Score” – Mark Graham Brown, Quality Resources
- “Performance Drivers” – Niles-Goram Olve, Jan Roy, and Mangus Wetter, Wiley
- “The Balanced Scorecard” – Robert Kaplan and David Norton, Harvard Business School Press
- “The Strategy Focused Organization” - Robert Kaplan and David Norton, Harvard Business School Press
- ITIL® Service Delivery and Service Support Guides (ITIL® is a registered trade mark of OGC)
- “IT Service Management – A Practical Operational Approach Guide” – A Compilation of Best Practices for the IT Service Provider, Rick Leopoldi

