EXECUTIVE LEADERSHIP GROUP, INC.

ACCELERATING STRATEGY EXECUTION

White Paper

The Leadership Lighthouse Series

A Balanced View of Balanced Scorecard

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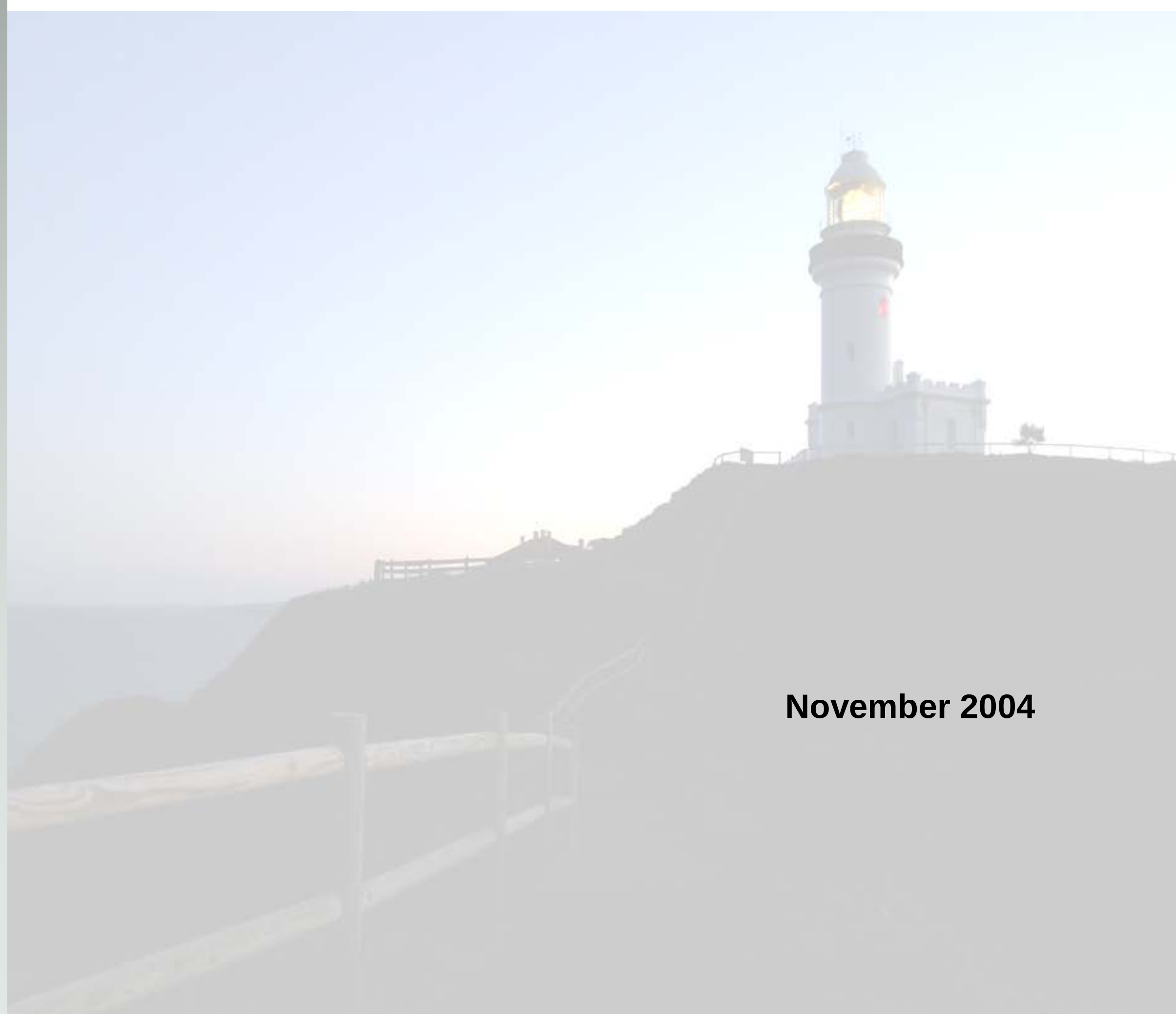

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A strategy is irrelevant if you can't implement it. That's the collective realization of the business world after decades of obsession with strategy and strategic thinking. That realization has led to a voracious market for ideas on execution, alignment around strategy and predictable achievement of strategic results.

Among the many pundits responding to this shift in emphasis were David P. Norton and Robert S. Kaplan. In 1992 they began advocating a concept for strategy implementation attractively dubbed "balanced scorecard" (BSC). As one might imagine, it's an organizational score keeping system. It's designed to help organizations express and cascade strategy by setting up a framework for collecting organizational performance metrics.

Does the Balanced Scorecard approach really promote *aligned execution*? The answer isn't simple.

Does BSC align organizations sufficiently to execute their strategies? Does it create vertical alignment, ensuring that the achievements of employees and managers *sum up* to achieve the strategic intent of the organization? Does it align organizations horizontally, ensuring that employees work well across boundaries, instead of working at cross purposes?

In short, does BSC really promote *aligned execution*? The answer isn't simple. The BSC approach has important strengths, yet it leaves critical gaps and can create serious misalignments. This paper will examine strengths as well as shortcomings.

BSC's Strong Points

The BSC approach has popularized several vital concepts, including:

Leading indicators reflect how well you are executing your strategy.

- **Leading Indicators**. Some companies track their progress exclusively with financial indicators – revenue, profit and so on. That's like driving while looking only in your rearview mirror, as BSC advocates are fond of saying. Such "trailing" or "lagging" indicators are critical, but need the addition of "leading indicators" - metrics that reflect how well you are executing your strategy. For example, if you think that changing customer mix in some way will rev up revenue, then you should set customer mix targets and track how you're doing. Don't just measure the lagging indicator - revenue. [1]

The "leading indicators" concept is a mainstay of the BSC approach, and we have BSC boosters to thank for promoting the idea, though it's one that predates BSC. It's an idea well worth embracing, whether or not you embrace BSC.

- **Balanced Metrics**. Some companies do track both leading and lagging indicators, but they may not have enough *different types* of leading indicators. For instance, they may get stuck in the rut of customer service metrics. That's important stuff, but not to the exclusion of other leading indicators such as innovation or employee development.

BSC prescribes four particular perspectives: financial, customer, internal business, and innovation and learning.

BSC mandates leading and lagging measurement from multiple perspectives. In fact, BSC prescribes four particular perspectives: *financial, customer, internal business,* and *innovation and learning.* Norton and Kaplan believe that these four categories represent a balanced window on organizational performance - hence the "balanced" in balanced scorecard.

These are broad groupings, but sufficiently distinct from one another that they do represent different, relevant perspectives. A sophisticated strategist might decide to use other categories, but these four are good training wheels for the rest of us.

BSC can help track how well you implement your strategy. But it is *not* a strategy development template.

- **Strategy Implementation Foundation**. It is one thing to declare a strategy, but quite another to track how well you're executing it. BSC is one way to help track it. Most strategies can be fleshed out with metrics across at least some of the four prescribed categories of metrics. If you attach goals - and accountability - to those metrics, then you begin to have a creditable strategy implementation engine.

[1] These examples are from for-profit organizations. However, every organization has end results that it is designed to produce. In every case, tracking only those end results would mean that the organization was relying solely on lagging indicators of success.

But here begin the caveats. One must begin with a strategy, and that strategy ought to be expressed as measurable goals. *However*, simply populating a BSC template with goals does not mean that you know where you're going or how to get there; doing so is a recipe for misalignment. BSC provides no strategy development template, nor does it claim to. But thinking that it does is a common pitfall; there are others, as well.

The Pitfalls

There is a warm, fuzzy feeling of *control* that washes over an executive when first gazing at a completed scorecard. All those lovely metrics confer the sense that one's hand is resting firmly on the tiller. Unfortunately, that is an illusion in most cases. And that is because of problems with BSC and common problems implementing it. Here are the difficulties we have seen:

Exactly *who* is accountable for *what*? BSC often leaves that quite unclear.

- **Diffused Accountability**. BSC practice often leaves unclear exactly *who* is accountable for what. Many scorecard templates devote no space to it and accountability receives scant discussion in BSC literature. In some cases, "the company" or "the division" or a handful of names may be tagged with particular goals. But because the goals are "strategic," the thinking goes, no one person is on the hook to achieve them. Strategy development is thus disconnected from strategy implementation; performance is disconnected from the performer. It is a perfect case of the cliché: when everyone is accountable, no one is accountable.

The mounds of metrics encouraged by BSC scatter attention and encourage unambitious goals.

- **Metric Madness**. Like a clean desk attracting piles of paper, a blank scorecard attracts mounds of metrics. In the mistaken belief that more is better, managers love to load any blank scorecard with as many metrics as they can imagine. This reliance on quantity over quality creates two problems.

  First, numerous metrics tend to scatter attention and effort, rather than focus and align it. In fact, carrying many priorities is tantamount to carrying none.

Second, there is an inverse relationship between how many goals people have and how aggressive those goals will be. Once managers have exhausted themselves listing as many measurements as they can think of, they aren't likely to craft each one as a challenging goal. So, in actual practice, many BSC "targets" are little more than extensions of current levels of performance. This leaves management with an impressive, multi-dialed "dashboard" for a car that isn't going anywhere.

- **Vertical Misalignment**. If BSC's four categories are right for an organization, then a CEO should probably own at least one goal in each category – though he or she may want to add or substitute categories. But then the organization faces a choice: it can either *cascade goals* or it can *replicate categories* of goals; it cannot do both well. BSC companies usually do the latter, to the considerable detriment of vertical alignment.

Organizations can either *cascade goals* or *replicate categories of goals*; those that do the latter suffer.

Here is the difference: When a CEO cascades a goal, it is supported by a necessary and sufficient set of goals that have been developed with – and distributed among - the CEO's subordinates. Each of the subordinates' goals is likewise supported by a set of necessary and sufficient goals distributed among each of their subordinates, and so on. This is the old Management by Objectives idea, and it works nicely to produce vertically aligned efforts.

However, to *replicate categories*, a CEO dictates that everyone shall have the same categories of goals that he or she has. Regardless of one's place in the organization, or one's rank, one must contrive a way to establish goals in the same categories as the CEO has used. Two or three layers down from the CEO, this doctrine becomes a contortionist's exercise as people find ways to jigger the goals they ought to have into categories they ought not to have.

Farther down, this exercise becomes an absurdity. Any attempt to align each person's role to the organization's strategy becomes utterly lost as everyone tries to write goals "balanced" across the same categories as the CEO's. Misalignment of effort is the inevitable result.

- **Horizontal Misalignment**. Some BSC practitioners overcome many of the problems mentioned above by putting teeth in their metrics: They elevate wimpy "targets" to actual goals, and hold individuals accountable for achieving them. That, however, introduces another problem: horizontal misalignment. The trouble is that individuals keenly focused on producing assigned outcomes often develop tunnel vision. They achieve their own success at the expense of others or the organization, often unintentionally.

  This sort of "horizontal misalignment" is really just a polite term for *collateral damage*. Horizontal misalignment occurs when employees fail to help others they ought to. Consider the IT shop that succeeds in controlling its overtime costs, while failing to keep Operations' desktop computers working. Or the HR department that succeeds in sending its quota of job candidates to Accounting, while failing to snag anyone actually worth interviewing.

  > Horizontal misalignment – *collateral damage* – occurs when employees fail to help others they ought to.

  Horizontal misalignment also happens when the downstream impact of an action is ignored, such as when the Shipping Manager meets his goal to lower costs – but his slower (cheaper) shipments now cost the Sales Manager valued customers. Or the Marketing Manager who meets her deadline for a promotional mailing by sending out all postal codes at once, but swamps the call center with more calls than they can handle.

  In each case of horizontal misalignment, somebody wins and somebody else loses. And, the organization loses. Most leaders don't even consider the possibility of horizontal misalignment until after damage has occurred. They then treat the problem as one of poor character rather than one of a poor "scorecard."

  So, while horizontal alignment has never really been BSC's strong suit, in some cases, BSC can actually produce misalignment.

Conclusions

The BSC community has helped advance important concepts such as leading indicators, multiple perspectives on "success," and tracking one's march toward strategy execution. However, those beautiful babies are surrounded with bathwater: too many metrics and not enough accountability, and misalignment, both vertical and horizontal.