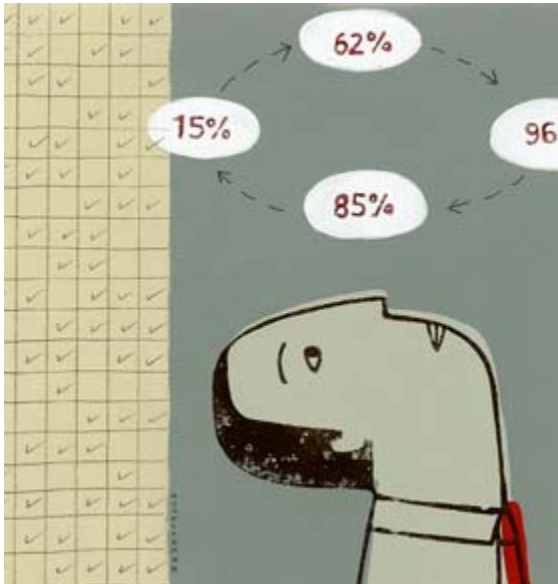


Do scorecards add up?

By Robert Angel & Hubert Rampersad
Illustration: Carey Sookocheff



While most of corporate Canada employs these management tools, few people think they work. Why?

Do balanced scorecards work? There is no simple answer to this question. Corporate Canada appears to have embraced them: scorecards, or something close to them, are in widespread use in medium and large organizations. An estimated 65% to 70% of organizations have adopted balanced scorecards, and their use is increasing.

A few users — some 10% — insist their scorecards are achieving positive results and meet with spirited rebuttal suggestions that balanced scorecards do not work. In contrast, a

much larger group doubts that scorecards achieve sustained financial performance improvement. For this group typical experiences include complexities of implementation, half-hearted management support and difficulties measuring success. What is the truth about balanced scorecard success? The evidence is hard to find. So far, there's been little scientific research, but numerous case studies indicate that scorecard results in North America have been disappointing at best, and even more so in Europe and South America. Our view from hands-on experience is that scorecards rarely achieve sustained financial improvement breakthrough.

This article does not argue that balanced scorecards are fundamentally inappropriate as management tools. Quite the reverse, we support the philosophy of balanced scorecards — but with a modified approach to implementation that has been proven to produce better results. We also see poor execution rather than the underlying concept as the cause of the apparent performance shortfalls. Our position is that organizational scorecards need to be aligned with individuals' scorecards to turn the balanced scorecard into a powerful tool for sustained organizational performance.

Framework for strategic performance

The balanced scorecard concept was developed in the early 1990s by Robert Kaplan and David Norton from management techniques that had been used by early adopters for decades. Kaplan and Norton wrote their landmark 1992 Harvard Business Review article, "The Balanced Scorecard: Measures That Drive Performance," after they saw the need to translate a company's vision and strategy into a coherent set of performance measures. "The name [balanced scorecard] reflected the balance between short- and long-term objectives, between financial and nonfinancial measures, between lagging and leading indicators, and between external and internal performance perspectives," Kaplan and Norton later wrote in their book *The Balanced Scorecard: Translating Strategy into Action*.

The balanced scorecard has been enhanced over the past 10 years to address early adoption issues such as obtaining top management commitment and expanding metrics beyond just financial ones. For example, strategy maps were developed to incorporate performance measures such as quality, customer satisfaction, turnaround times, pollution control and other nonfinancial factors to reflect that "employees evaluated according to their ability to achieve short-term targets cannot be expected to consistently make the best possible long-term decisions [Applying the Balanced Scorecard, AICPA, 2003]." The strategy map guides a strategy-focused organization to take four perspectives on its business performance: financial; customer; internal; and learning and growth. A series of strategic financial and nonfinancial metrics are developed for each perspective. Kaplan and Norton's work has established balanced scorecards as a widely used tool for the information age, reflecting the increasing shift from managing hard assets (such as buildings and machinery) to managing intangible assets (such as brand and knowledge).

TEN REASONS FOR PROJECT CHALLENGES

- Unclear project objectives
- Too general a business case for justification
- Lack of project sponsorship
- Inadequate scope definition at outset
- Too many project staff with unclear roles and accountability
- Scope creep — tasks added to the project or objectives altered
- Vague acceptance criteria with results hard to measure
- Projected costs underestimated or benefits overestimated
- Technology complexity underestimated
- Change management not recognized as a need

BSC failure — fact or fiction?

Experts who have done scorecard causal analysis encounter two immediate measurement conundrums. First, what performance metrics should be measured? Second, how should we remove extraneous factors (such as the economy's direction or marketing decisions) from the calculation of scorecard results to get a firm conclusion about the scorecard effect only? These two considerations have proven to be obstacles to conclusive analysis of whether or not scorecards work. One of the better analyses of balanced scorecard performance appeared in this magazine in 2003 (Steven Salterio and Alan Webb, "The balanced scorecard," August 2003). Salterio, a professor at Queen's University School of Business, and Webb, a professor at the University of Waterloo's School of Accountancy, looked at research funded by the Canadian Academic Accounting Association's research grants program and an Institute of Management

Accountants survey on performance management, as well as a study funded by the CICA's academic research fund and several other academic studies. Salterio and Webb observed that properly implemented and consistently employed scorecards may aid some organizations in better articulating and communicating their strategy, measuring the drivers of their performance, and detecting the superiority of one strategy over another. They concluded that scorecards are not yet performing strongly in planning, setting targets and aligning initiatives.

More recently, three professors at the Richard Ivey School of Business at the University of Western Ontario have examined the association between balanced scorecard adoption and a firm's performance. They noted that "there has been little examination of the factors associated with the adoption of the [balanced scorecard], and there still is the need to demonstrate that the adoption and implementation of the [balanced scorecard] is associated with improved financial performance." ("The balanced scorecard: To adopt or not to adopt?" Kevin Hendricks, Larry Menor and Christine Wiedman, *Ivey Business Journal*, November/December 2004). Hendricks, Menor and Wiedman tested a subset of data on performance following the implementation of a balanced scorecard. Their test did not reveal significant performance improvements in returns on sales or assets after implementation, but because a number of adopting firms began implementation after 2003, they stated there was insufficient data to draw any firm conclusions about post-implementation performance. In late 2004, we conducted our own research, talking with more than 50 Canadian medium and large organizations. We obtained feedback quite similar to previous studies — largely anecdotal evidence of scorecard project experience but insufficient data from which to draw statistically sound conclusions about what works and what does not, or whether any measurable scorecard financial benefits have been obtained.

The number of users expressing skepticism about scorecard performance far outweighed those claiming positive results. However, the overwhelming view seemed to be that balanced scorecards can be worthwhile in clarifying an organization's strategy and that if this can be accomplished, improved results should follow. A few companies stated categorically that scorecards have made a positive difference in their organization's financial results. A typical statement was, "We did not meet our financial goals previously, but since implementing our balanced scorecard, we have now met our goals three years running." On the other hand, a larger number agreed with the statement, "balanced score-cards don't really work." Comments included: "It became just a number-crunching exercise by accountants after the first year;" "It is just the latest management fad and is already dropping lower on management's list of priorities as all fads eventually do;" "We found it very complex to implement;" and "If scorecards are supposed to be a measurement tool, why is it so hard to measure their results?" Clearly, there is much work to do before scorecards can become a viable framework for sustained strategic performance measurement.

Project management syndrome

We should not be surprised by questionable performance on scorecard projects. It has been widely documented that 70% of all large projects fail to achieve the results originally promised. Are scorecard projects, given their legendary complexity, subject to the 70% rule? Indeed, it would be unreasonable to expect otherwise. In other words, scorecard projects can be expected to underperform simply because they are complex projects. In fact, many articles on scorecard implementation challenges have pointed to factors similar to those that characterize project management in general (see "Ten reasons for project challenges," p. 32). In the article "To Err Is Human," published in *Optimize Magazine*, January 2004, Sumantra Sengupta, CIO of manufacturer Scotts Co., states, "Many transformation projects fail because managers often

shortchange the level of thought and effort needed to drive change management.” Sengupta says when implementation issues arise in the supply chain, enterprise resource planning and customer relationship management project users tend to blame technology platforms, saying they are inflexible and poorly suited to the ever-changing needs of the business, whereas “issues exist with the extended user community itself, which resists change and refuses to adapt to the mounting need for automation, optimization and data-driven real-time responsiveness.”

Sengupta goes on to relate how a balanced scorecard was implemented with a largely positive experience at Scotts. It was recognized that “as with any transformation, the sweet spot lies somewhere at the intersection of people, process and technology — and so does the sore spot. When the outcome is disappointing, the source of the failure lies here as well. Usually, the choke points that cripple us are the ones that deal with human behavior and major technology incompatibilities....The crucial success factor lies in finding people who have the right mix of attributes and are adaptable enough to modify their behavior appropriately.”

TEN REASONS FOR BALANCED SCORECARD CHALLENGES

- Emphasis on financial measures rather than nonfinancial, leading to measures that do not connect to the drivers of the business and are not relevant to performance improvement
- Too many objectives defined and too many performance metrics being measured to enable the organization to prioritize improvement steps adequately
- Poor data on actual performance, negating most of the effort invested in defining performance measures by not being able to monitor actual changes in results from changes in behavior
- Inadequate linkage between the critical success factors of the organization and the personal critical success factors of individual employees — creating human capital tensions between work and nonwork aspirations
- Managers not communicating the cultural change clearly and continuously, supported by management deeds that confirm that management is serious
- An employee mentality that is hostile to management messages (the obverse of the previous point), often because communications have tended to be one-way and forced on an unwilling labor force
- An employee compensation plan that focuses too much on the money side and not enough on delivering organizational values, leading to a “what’s in it for me” culture
- A business strategy that is poorly understood and therefore impossible to execute — it may also be either inflexible, not keeping pace with changes in the marketplace or too flexible, causing confusion because of frequent changes in direction and an unmanageable scope
- An implementation plan that is not grounded in reality and unable to respond quickly to unforeseen events
- A climate of defensiveness and mistrust that leads project participants to respond to missed deadlines and overspent budgets with buck-passing, bitterness and scapegoat-finding

Balancing people and the organization

A recurring theme in project management is transformational culture change, finding the sweet spot that Sengupta describes as “the intersection of people, process and technology.” Our work in scorecards, performance and organizational development has led us to a further factor at work, a pervasive structural and cultural issue that impedes improved financial performance, independent of good project management. What we are referring to is the aligning of individuals’ personal goals and ambitions with those of the organization, a prerequisite for sustainable culture change. Alignment means working through core values and critical success factors to link the

organization's vision, mission and core values on the one hand with the individual's personal vision, mission, and core values on the other. In our experience, this lies at the heart of successful scorecard implementation.

Traditional scorecard implementations tend to be insufficiently committed to learning and rarely take the personal ambitions of employees into account. Without a set of rules for employees that addresses continuous process improvement and the personal improvement of individual employees, the experience is that too little employee buy-in and insufficient change in the organization's culture underlies balanced scorecard disappointment. The result, experienced in so many scorecard implementations, is that any improvements tend to be superficial and temporary. We have seen many examples of scorecards that did not achieve alignment and resulted in an apparent performance improvement that dissipated very quickly. In other cases, the improvement never materialized. Frequently in such cases, management's efforts to improve performance were seen as divisive, viewed by employees as aimed at benefiting senior management compensation plans and fostering a "what's in it for me" attitude among the employees. In the aligned environment, metrics needs to support the people alignment to organizational alignment. For example, employee metrics (internal processes) might focus on motivation measures such as absenteeism, team productivity, leadership quality and employee satisfaction. Customer-oriented metrics might include share of wallet, retention, recommendations to noncustomers and perceived compatibility of frontline staff with customer goals.

Among other things, these can highlight how well employees are functioning as teams, whether personal ambitions are compatible with organizational direction and how quickly the organization can move towards an environment of information-sharing and trust. Such metrics are an addition to, not a replacement for, more traditional metrics, including financial measures such as revenue and costs, as well as business metrics such as customer profitability, share of wallet and retention. Does an alignment approach work? Indications from Europe suggest there can be a beneficial effect. A range of organizations including an integrated oil company, an international bank, a large airline and a consumer technology company all are reporting a positive trend after implementing an alignment approach in major operating divisions. This tends to confirm our hypothesis that lack of alignment is a major inhibitor of sustained performance improvement. To summarize, the balance of people and the organization can be translated into a new set of factors specific to scorecards (see "Ten reasons for balanced scorecard challenges," p. 33).

Sustainable performance improvement

Bringing people involvement into scorecards is a step-by-step process that not only involves individual buy-in but also stimulates individual and team learning. Given that the scorecard relies so heavily on knowledge that quickly becomes obsolete, an integrated approach to organizational improvement, development and learning is a prerequisite for scorecard success. The role of the finance department in this is crucial. While the balanced scorecard encompasses the entire organization from a human capital and operational viewpoint, the finance department is uniquely placed to drive the measurement of results. This is very timely, as CAs are finding themselves in the spotlight as leaders in managing and resolving performance exposures along with risk. The scorecard and meeting performance expectations are of course integral to the organization's risk assessment. Most methods of organizational change "fail because they do not start at the very beginning, that is, with the core of personal identity itself," according to Hubert Rampersad in *Total Performance Scorecard; Redefining Management to Achieve Performance with Integrity*. Balanced scorecard performance is not a question of concept so much as execution. The consequences relate to the near-universal difficulty in getting sustained performance. The

solution lies in aligning employee and organization goals and addressing real performance culture change. Our conclusion, based on 20 years of research, is that scorecard performance depends on alignment between the goals of the organization and the personal goals of the employees to realize transformational performance change.

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