

Balanced scorecard

The balanced scorecard is a performance management tool that links strategic objectives to four comprehensive indicators:

1. **Financial performance.**
2. **The contributions of customers.**
3. **Internal processes.**
4. **Innovation and learning.**

The scorecard gives a more balanced view of organisational life than traditional financial measures alone. By measuring performance under each of these perspectives, all of the important areas can be addressed. Implemented correctly, the balanced scorecard can become a valuable management system.

The following outlines steps to develop and introduce a balanced scorecard:

1. Key points

Balance refers to the four comprehensive indicators listed above, and also the relationship between:

- Financial and non-financial.
- Internal and external.
- Current and future performance.

Improvements in one area can be linked to those in another.

The scorecard is a framework – it does not say what the specific measures should be. That's for you to decide.

2. Create the right environment

Adopt a balanced scorecard as you would any major change. Preliminary activities would include:

- Define the scope of the business to be measured.
- Link the initiative to other strategic initiatives.
- Identify those people whose support and commitment are required.
- Involve the entire senior management team.
- Outline the benefits of the scorecard.
- Time the introduction to fit in with other initiatives.
- Appoint a project manager whose principal responsibilities will be the day-to-day running of the project during the start-up phase, and liaising with any external providers.
- Introduce to the entire team to ensure successful implementation.

3. Decide what to measure

Perhaps the most important factor for the success of the balanced scorecard is ensuring that you are measuring the right things appropriately. Adopt a two step approach:

1. Identify the most important factors for creating success in your business. These factors may be apparent from your strategic plan. Alternatively, you might have to identify and analyse the needs of various stakeholders in your business. You must be sure of your customers' real needs, not just your perception or interpretation of them.
2. With the needs of your stakeholders and the key objectives of your strategic plan in mind, draw up a set of objectives, outcomes and measures under each of the four perspectives in the scorecard. Identify activities (no more than 20) associated with those outcomes.

4. Design your measures carefully

Measures accompany goals and should encourage desired behaviours. Key performance indicators (KPIs) accompany the measures and help to focus on them. Avoid over-measurement, but ensure that all data is collected consistently and support at least one of your key objectives. Devote enough time to analysing results, including how they relate to each other. Ensure to take precautions to ensure that individuals and teams can't manipulate the measures for their own ends, eg for recognition or rewards.

5. Display and use the results

Teams' results should be collated regularly and presented to management, thus ensuring consistency among the teams. How to display and disseminate the measures will affect how seriously they are regarded and acted on. Whatever your approach, you must communicate the meaning fully. You might consider team briefings to discuss trends, correlate results, and agree on follow-up actions. For example, the measures might provide early indicators of trends and comparisons with earlier levels of performance, and reveal information on factors affecting your business - factors that otherwise might have gone undetected.

6. Learn from others' mistakes

The experience of others can identify several key pitfalls:

1. The process is time consuming – so, when deciding what to measure, ask yourself whether it is really necessary.
2. Ensure that the results are used objectively – to improve the business, not to allocate blame.
3. Involve enough people in the process to ensure broad ownership and commitment.
4. Avoid information overload – keep to measures you can really use.
5. Communicate messages to all employees to ensure an inclusive process.



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7. Keep your scorecard current and relevant

The balanced scorecard is a most effective tool for driving continuous improvement, but persistence is necessary. Successful implementation of the process may not result in instant success. To achieve the best results, you must be prepared to:

- Review and update your targets regularly.
- Update the measure as your performance improves.
- Change your measures according to your strategy.
- Use the measures to monitor the success of that strategy.

Further information

The following fact sheets provide further information on these issues:

- Business planning
- Business process improvement (BPI)
- Change management
- Financial analysis overview
- Marketing plan
- Set achievable goals