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What is a Balanced Scorecard?

As an organization, it's important to meet the goals and expectations outlined in the mission and vision of the company. At times, an organization's mission statement isn't the easiest to understand, let alone measure. So, how can we ensure that we are headed in the right direction? One approach to use is a Balanced Scorecard.

A balanced scorecard is a tool that leaders can use in communicating to employees and external stakeholders the outcomes and performance drivers the organization will use to achieve its mission and strategic objectives. It uses a carefully selected set of quantifiable measures taken from an organization's mission and strategy. It also enables companies to track financial results while monitoring progress in building the capabilities and acquiring the intangible assets they need for future growth.

Using the balanced scorecard will provide a balance between short-term and long-term objectives while clarifying and translating the vision and strategy. There are three ways to link the balanced scorecard to the strategy of your organization.

Cause and Effect Relationships

The first way to link the balanced scorecard and strategy is to develop a set of hypotheses about cause and effect (if-then statements). Every measure selected for a balanced scorecard should be an element of a chain of cause and effect relationships that communicate the meaning of the business unit's strategy to the organization.

Outcomes and Performance Drivers

All balanced scorecards use certain generic measures. These are core outcome measures which reflect the common goals of many strategies. A good balanced scorecard should have a mix of outcomes (lagging indicators) and performance drivers (leading indicators) that have been customized to the business unit's strategy.

Linkage to Financials

Financial performance measures indicate whether a company's strategy, implementation, and execution are contributing to bottom-line improvement. These measures relate to profitability. A continued increase in productivity and revenue growth will lead to long-term shareholder value.

There are some barriers to balanced scorecards that must be overcome before implementation can take place. Before everyone can be on board with this concept, there are four barriers to tear down.

Vision and strategies are not understood

The first step to ensure that the entire organization is on the same page, is to clarify the strategic objectives. Identify the critical drivers for strategic success. Create a consensus and teamwork among all senior executives.

Sticks in a bundle are unbreakable.
African Proverb

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Strategies are not linked to departmental, team, and individual goals

Once a consensus by senior executives has been reached, communicate the new strategies to all employees. Let everyone know where they are headed. Align departments, teams and individual goals to implementation of the strategy. Every area of the organization should revolve around a common, over arching strategy.

Strategies are not linked to long-term and short-term resource allocation

You must not forget to integrate the organization's planning, resource allocation, and budgeting processes. After defining and communicating the new strategy, establish long-term, quantifiable targets for scorecard measures. Identify the initiatives and resources. Short-term milestones should also be established that link the long-term targets to short-term budgeted measures.

Feedback is not strategic

Offer feedback which provides how the strategy is being implemented and whether it is working. Avoid feedback which is only about short-term operational performance or financial. Conduct regular strategic reviews, not just operational reviews. Feedback also encourages the learning process of employees. Have a shared strategic framework that communicates the strategy and allows employees to see how their individual activities contribute. Use a feedback process that collects performance data about the strategy and the interrelationships among the objectives.

Understanding a balanced scorecard is only the first step of the process. Next time we'll look at the actions needed to implement the process.

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