

Introduction to the Balanced Scorecard for the Third Sector



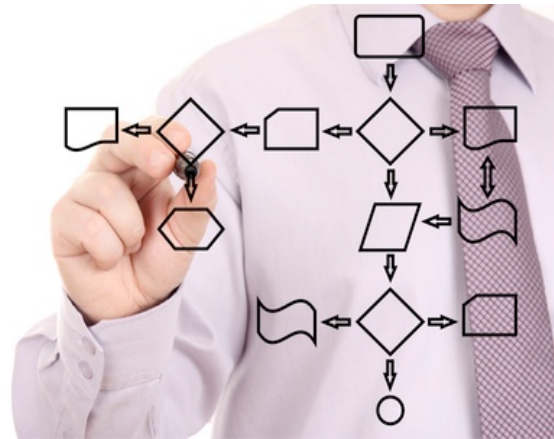
***“This is about leadership
and management coming
together to think, talk
and act on strategy.”***

Introduction

The balanced scorecard is a strategic planning and management system that is broadly applicable to organisations regardless of size or type. It is widely used across sectors and increasingly in the third sector. It is the preferred strategic planning tool of the private sector, in government departments and is being used more and more in local government.

It provides a method of aligning business activities to the vision and strategy of the organisation, monitoring organisational performance against strategic objectives and, in the process, improves internal and external communication.

Whilst to some the balanced scorecard is a simple dashboard of performance measures, to others, it is a comprehensive planning and management system that covers the whole organisation and which is designed to focus effort on an organisation's strategy, performance and results.



that it is important to have indicators or “triggers” (as the Conservative-led coalition government now calls them) that lets the organisation know when to amend its plans. Everyone in the organisation can then work together and focus on the most important things that need attention at any point in time.

In some ways, the term balanced scorecard is misleading because there are two distinct elements to the process and the **scorecard** itself is only one of these.

Firstly, there is the overall purpose and ethos of the organisation (statements of vision, mission and values) that informs the set of strategic objectives from which a **strategy** map is formed. Secondly, the scorecard is the outworking of this process into a dashboard of measures and a more detailed action plan that can be monitored and reviewed at regular intervals.

It is also important to remember that vision and strategy come from good leadership. Leaders are at their best when they harness the wisdom of the organisation to formulate a compelling vision and winning strategy. It doesn't work the other way round - the balanced scorecard works best when it is championed by leaders.

Strategy and Scorecard

We believe that the balanced scorecard can be used to create value for users/customers by giving attention to four core ‘business’ perspectives (see overleaf). Used not only as a measurement tool, but as a strategic management tool, it enables organisations to clarify their vision, formulate a strategy and, crucially, to translate the strategy into action.

Performance measures are used to help show if progress is being made as planned and this information on performance facilitates better informed decision-making as plans are rolled out. It has been said that “no plan survives collision with reality” and so we believe

Four Perspectives

It is argued that you “can’t manage what you can’t measure.” In response to this the balanced scorecard includes a series of measures that, when tracked, let leaders and managers know how well the organisation is performing. The scorecard helps them to monitor performance from four perspectives which are considered critical to success:-

- Financial
- Customers
- Internal Processes
- Learning & Growth.

The essence of the balanced scorecard is that an organisation must address this range of perspectives to be successful and sustainable. We illustrate the four perspectives and key questions they address in Table 1, below.

Notice that the typical responses referred to in the table mostly start with command forms of the verb and are, therefore, about doing and achieving something. These instructions will become the strategic objectives for the organisation and are listed in what is termed a “strategy map”. When measures, targets, and initiatives are added, they then become SMART objectives.

Table 1: Key Questions from Four Perspectives

Perspective	What To Ask	Typical Response
Financial	What do we need to achieve financially in order to satisfy our stakeholders' expectations?	Improve value for money Stay within budget Increase surplus, for reinvestment Improve cash flow Maintain a healthy reserve Lower the fiscal cost to citizens
Customer	To realise our vision and goal, what do we need to achieve from a customer and stakeholder perspective?	Create cleaner and safer places Improve quality of life Expand into a new social market/geographic area Expand service/product range Increased citizen/customer use and satisfaction
Internal Process	In which operational activities must we excel in order to deliver value for customers and achieve our financial objectives?	Focus on partnership working internally and externally Reduce time taken to make decisions/receive approvals Improve delivery time Achieve ISO accreditation Lower defects and returns Reduce complaints Improve procurement processes
Learning & Growth	If we are to excel at processes and deliver against customer expectation, what people development support is needed and how do we encourage innovation, change and continuous improvement?	Achieve IIP or EFQM accreditation (as an indicator of best practice management) Introduce a performance management system with personal development plans Improve team working and motivation Increase training per employee Identify emerging market trends and customer needs

Start with Vision and Strategy

The balanced scorecard is a strategic and performance management tool. It uses a framework and language in common with other strategic planning processes. However, by insisting on measures, it has the advantage of also having a built-in quality assurance and performance monitoring capability. With the extra detail it provides, the scorecard will help “translate strategy into action”. If it is cascaded down the organisation, as intended, it will ensure that there is:

- common understanding of **mission** and shared **vision** in terms of the organisation’s purpose and what it wants to achieve
- a set of **strategic objectives** that, when achieved, will deliver on the mission and realise the vision
- a programme of work made up of **initiatives** that, when enacted, will translate the strategy into action
- performance **measurement** and a feedback system to ensure that progress, when tracked, will indicate whether or not corrective action is needed.

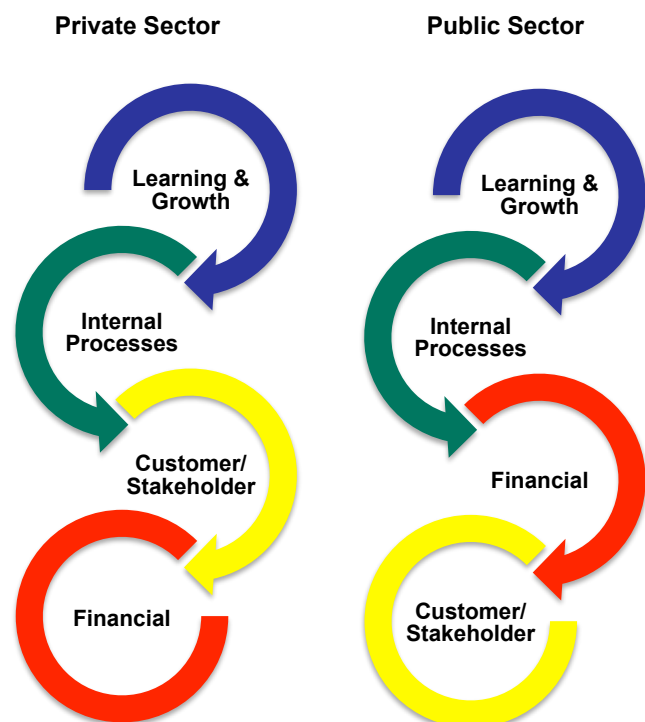
Cause and Effect

The balanced scorecard system promotes the idea of cause and effect - the interdependent relationship that exists between objectives and measures within and across each perspective. An organisation might think of it as follows:-

- If we improve employee access to information and provide our employees with better systems and more training (**Learning & Growth**), then our employees will have a better understanding of citizen/customer needs and be able to offer customised products and services to meet those needs (**Internal Process**).
- As a result, users/customers will be more satisfied and use a wider range of services (**Customer**) and this will broaden our revenue base and make us more financially sustainable (**Financial**).

The direction of the cause and effect relationship is emphasised in Figure 1.

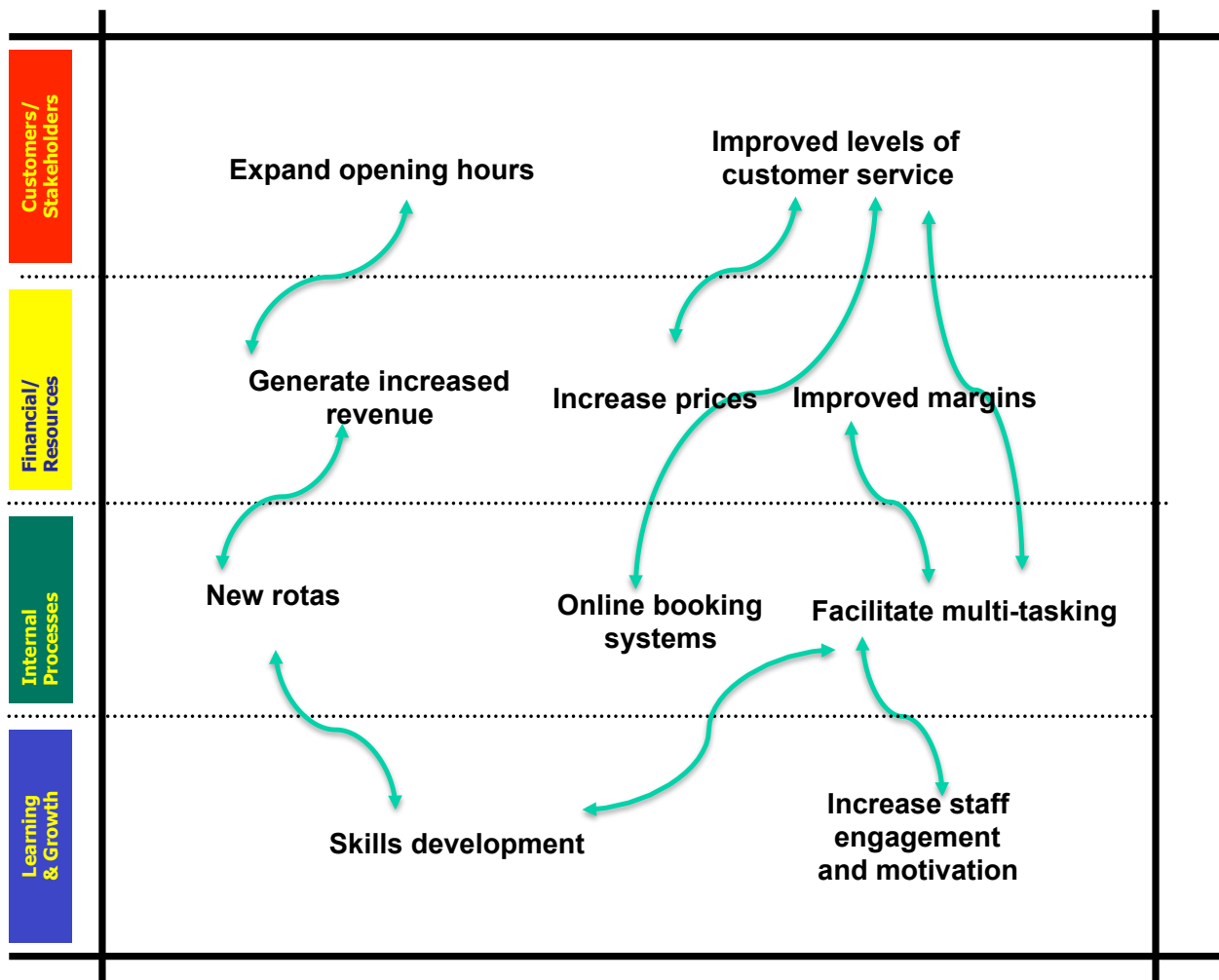
Figure1: Direction of Cause and Effect



Strategy Map

Strategy Maps reveal the cause-and-effect linkages needed to transform ideas and inputs into tangible outputs and outcomes. Having a broader sense of direction allows for innovation and fresh thinking at the design stage. Figure 2 below illustrates what a strategy map with causal links across perspectives

Figure 2 Example from a Strategy Map with Causal Links



The simplified strategy map illustrated above might be described as follows:

The simplified strategy map illustrated above might be described as follows: *We need to improve service levels and expand opening hours to suit working people and increase our reach; this will require more investment and therefore we must increase turnover and improve margins by increasing charges and improving processes, making them more efficient; all this will require new ways of working (annualised hours); and we will, therefore, need to re-train staff so that they are multi-skilled and flexible in how they work; we will need to maintain motivation during this period.*

Measurement

The organisation's strategic objectives are selected to focus effort on the key issues that matter the most to achieving success. Strategic objectives are used to translate strategy into measurable and actionable components that can be monitored.

Measures allow the organisation to track results against targets and to celebrate success and identify potential problems early enough to fix them.

In turn, initiatives and action plans are agreed as a set of programmes and projects that need to be implemented to ensure the success of a strategy.

Measures and targets have a role to play but as Einstein famously said, "Not everything that is countable counts – and not everything that counts is countable."

Leaders, managers and employees, working collaboratively, should develop the balanced scorecards of an organisation. Everyone needs to play their part if it is to work i.e. if results are to be achieved at every organisational level.

Balancing What?

An important part of the balanced scorecard concept is the emphasis on establishing a balance between types of measures. This includes balancing:-

- **Short term** measures (under one year) and **Long term** measures
- **External** measures (for stakeholders/users/customers) and **Internal** measures (for critical business processes, innovation, learning and growth)
- **Leading** indicators (immediate outputs and performance drivers) and **Lagging** indicators (outcomes)
- **Objective** measures (e.g. financial) and **Subjective** measures (e.g. non-financial, like satisfaction).



Points to Ponder

"If you don't know where you are going, you are unlikely to get there."

"If you do what you always did, you will get what you always got."

"If you don't take care to get what you like, you will be forced to like what you get."

"You can't manage what you can't measure."

"Not everything that counts is countable and not everything that is countable counts."

A Scorecard for Everyone

It is important to emphasise that the balanced scorecard should be used as a communication and learning system and not as a controlling system. Everyone should have their own scorecard and it should be consistent with their role and what they are being asked to achieve on behalf of their team. There should be scorecards at every level i.e. running through the organisation from top to bottom (see Figure 3). It is recommended that there are scorecards created at each level in the organisation as indicated below:

Level One	Corporate Strategy with Scorecard
Level Two	Departmental Plan with Scorecard
Level Three	Team Plan with Scorecard
Level Four	Individual Plan with Scorecard (including PDPs)

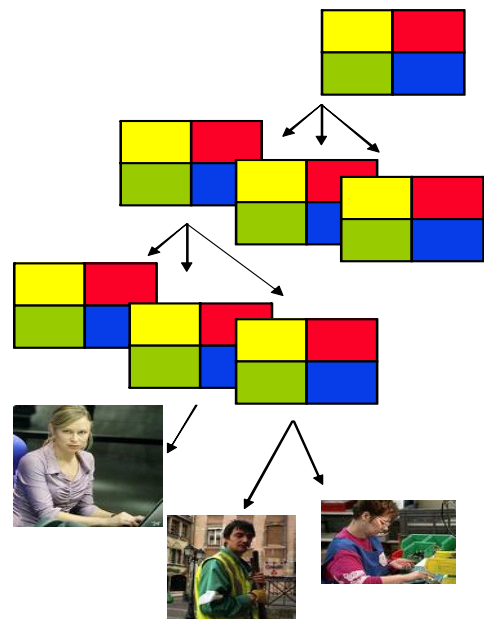
Scorecards cascade down to every level until they reach individuals in the form of personal job plans and personal development plans.

The idea is that the corporate scorecard drives the content of departmental scorecards and so on, with each level drawing on relevant objectives, measures and initiatives from the scorecard above. All scorecards are 'aligned' to the corporate level vision and strategy. Although each will be slightly different—because each department, team and individual has a different role to play—each will be connected to the level above, thereby translating strategy into action and making things happen on the ground.

One way to think of this cause and effect cascade is through the old rhyme:

*For the want of a nail
the shoe was lost.
For the want of a shoe
the horse was lost.
For the want of a horse
the rider was lost.
For the want of a rider
the battle was lost.
For the want of a battle
the kingdom was lost.
And all for the want
of a horseshoe nail.*

Figure 3: Cascading Scorecards to Every Level



Seven Steps to Success

The following seven steps provide a guiding framework to help introduce the balanced scorecard into a public sector organisation.

Step One of balanced scorecard building starts with a project initiation process to get stakeholder and management buy-in. Assuming that there is clarity of mission and vision, it will focus on an analysis of key issues and challenges, usually using a PEST and SWOT analysis to identify what needs to be done to achieve success in the current and predicted environment. It might also involve communication and training plans linked to the balanced scorecard process so that everyone knows what to expect.

In **Step Two**, the organisation will need to decide on elements of its strategy, including strategic objectives based around the four perspectives. This will focus attention on Customer needs and Financial necessities; then on how the organisation intends to deliver against these through Internal Processes and Learning & Growth.

Strategic objectives are basic building blocks for a strategy and define the organisation's strategic intent. Objectives are initiated and categorised by perspective and linked in cause-and-effect relationships to form a strategy map.

In **Step Three**, performance measures are developed for each strategic objective. Measures are identified, baseline and benchmarking data is developed and targets are established. It is important to identify a basket of measures so that qualitative and quantitative measures are considered. One rule of thumb is that, on average, there are 1.5 measures per strategic objective – not too many and more than one where necessary.

In **Step Four**, a set of initiatives is agreed in the form of programmes and projects that are developed to ensure that targets are met and strategic objectives achieved. To build accountability throughout the organisation, ownership of measures and initiatives is assigned to named individuals who become the “sponsors” or in project management terms, the “responsible owners”.

In **Step Five**, the implementation process begins by applying a performance measurement system to gather and provide the right performance information to the right people at the right time. A good measurement and feedback system will help people make better decisions because it offers quick access to performance data.

In **Step Six**, the corporate-level scorecard is ‘cascaded’ down into departmental and team scorecards, meaning the organisational level scorecard (Level One) is translated into Level Two scorecards (Departmental) and then later to team (Level Three) and individual scorecards (Level Four).

Cascading converts high-level strategy into lower-level objectives, measures, and operational plans. Cascading is the key to organisational alignment around strategy. Team and individual scorecards link day-to-day work with department objectives and corporate strategy.

Performance measures are developed for all objectives at all organisational levels. As the scorecard management system is cascaded down through the organisation, objectives become more operational and tactical, as do the performance measures. Accountability follows the objectives and measures, as ownership is defined at each level. An emphasis on results and the initiatives needed to produce results is communicated throughout the organisation.

In **Step Seven**, an evaluation of the completed scorecard is carried out and a report is produced. During this evaluation, the organisation tries to answer questions such as, “Are we getting results?”; “Are our strategies working?”; “Are we measuring the right things?”; “Has our environment changed?” and “Are we prioritising resources properly?”.

We would expect reports to be on a regular basis (monthly or quarterly) and include a visual element such as a traffic light reporting system to focus attention on critical and urgent areas where performance is at greatest risk.

Implementation and Success Factors

Critical success factors for implementing a balanced scorecard process include:

- Obtaining manager sponsorship and employee commitment at all levels
- Involving a broad base of leaders, managers and employees in scorecard development
- Agreeing on terminology and process for the organisation
- Choosing influential balanced scorecard champions at each level
- Starting with and maintaining good two-way communication
- Working through vision, mission, values and strategy mapping before rushing to measures and initiatives (we strongly advise setting measures before initiatives)





- Viewing the scorecard as a long-term journey rather than a short-term project
- Having a plan for and managing change
- Applying a disciplined implementation, monitoring and reporting framework

Scorecard to Scoreboard

The **strategy** and **scorecard** combine to offer a route map to where you want to be and how you will get there. A way of recording and reporting on progress as you make the journey is through a scorecard report which simply means converting the scorecard into a scoreboard.

As mentioned previously, a scoreboard is usually accompanied by some graphic illustration of results and a traffic light system to denote whether plans are on track (green), need attention (amber) or are at high risk of failure and need urgent attention (red). This at-a-glance reporting is very useful for managers and boards. See Table 2 for an example.

Table 2: Examples from a Scoreboard

Strategic Objective	Measures	Target Yr1	Target Yr2	Target Yr3	RAG Status	Comments
C1 Improve health through early detection and prevention	C.1.1 No. people presenting for screening	15,000	16,500	20,000		We are on target for a 10% increase this year in line with expectation.
	C.1.2 % people on prevention programme	25	30	50		Participation rates at 25% on the Prevention Programme have not increased. We are increasing promotion.
P1 Improve systems quality	P.1.1 ISO Award	-	Jan 13	-		Behind in planning and regrouping to put new life into the work group. Still confident of achieving target date.
L&G1 Improve employee engagement	L&G1.1 Average engagement scores on scale of 1-5	3.5	3.75	4		Staff engagement scores at 3 are at an all time low. Cutbacks having big affect. Need fundamental review.

Conclusions

The balanced scorecard has evolved from its early use as a simple performance measurement framework for non-financial performance measures to a full strategic planning and management system.

The new balanced scorecard transforms an organisation's strategic plan from an attractive but passive document into the "marching orders" for the organisation on a daily basis. It provides a framework that not only provides performance measurements, but helps leaders identify what should be done and measured. It enables managers to truly implement their strategies.



Contact Details

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