

Scorecards that count

Balanced scorecards measuring key performance indicators are vital performance management tools, but designing them is a complex process. 2GC's Gavin Lawrie tells Jim Banks that scorecards must not only be relevant to disparate business functions, but also be aligned with broader strategic goals.

Their reputation has sometimes been tarnished by poor implementation, but balanced scorecards are vital for performance management. Good design is critical for a balanced scorecard to succeed. Monitoring key performance indicators is one thing, but ensuring the right things are measured at all levels in an organisation is a much greater challenge.

Good balanced scorecard design is hard, especially in a large organisation where the needs and activities of business units differ greatly. Balanced scorecard design takes time and resources. Using a reliable and proven approach makes sense – you want to be sure your investment pays off.

'Running projects to develop sets of aligned balanced scorecards within organisations reliably and economically represents the sharp end of performance management,' says Gavin Lawrie, Managing Director of 2GC Active Management.

2GC specialises in strategic performance management solutions and Lawrie has identified two distinct uses for balanced scorecards – performance reporting and performance management.

'Performance reporting measures how a project or business unit performs against expectations. It lets senior executives monitor whether the company is doing what they want. Unlike financial reporting, which expresses everything in terms of money, it recognises that different parts of the business do different things, and each needs scorecards to suit its unique activities,' Lawrie adds.

'When scorecards are used for performance management, which indicates what can be done to improve the business, the complexity increases. You need measures that will encourage managers to take action. Information must be timely and relevant, it must be understood by the

people using them, and it must arrive in good enough time for them to act on it.'

From complexity to clarity

With clients like BP, Saudi Aramco and the UK's Environment Agency, 2GC has experience of helping large, complex organisations encompassing diverse territories, business units and specialised functions, which have little homogeneity in what their balanced scorecards must measure.

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Lawrie sees two distinct approaches to designing families of balanced scorecards, one of which yields much better results.

He advocates basing cascading on the use of destination statements, a component of a third generation balanced scorecard design, discussed in earlier articles in this series.

'This is a good way to get around functional differences,' he observes. 'Each function aligns itself behind common endpoints, which are translated into the business needs of each department.'



Destination statements allow each part of an organisation to outline how it will contribute to shared strategic goals.

'These statements cascade down into the scorecards. There are different scorecards for common goals, and each department has direct input into their design,' Lawrie explains.

The most common alternative approach is to base the cascade on the balanced scorecard objectives of the whole organisation. This seems sensible, but is not.

'High level balanced scorecards summarise key programmes, but miss out much of the detail that allows a unit within an organisation to identify and justify objectives and measures that are aligned and relevant to the unit. Without the added clarity of the destination statement, obtaining and maintaining alignment is much harder, adds Lawrie.

With the right advice to guide them through the cascade as it goes to the corporate, business unit, regional, country and functional levels, however, companies can find their way through the jungle and into the light. If you only have one shot at getting it right, you need the right experts on your side. ■

Further information

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