

## **Balanced Scorecard -Frequently Asked Questions (FAQs)**

### **What is the Balanced Scorecard?**

Balanced Scorecard is a framework that focuses on shareholder/financial, customer, internal processes and learning requirements of a business in order to create a system of linked objectives, measures, targets and initiatives which collectively describe the strategy of an organization and how that strategy can be achieved.

### **What are the benefits of the Balanced Scorecard?**

Organisations benefit from using the Balanced Scorecard in the following ways:

- Clearly communicates the vision and strategy across the organization
- Enables tracking of strategy implementation, with monthly/periodic reporting
- Streamlines initiatives and aligns them with major objectives
- Provides focus for the executive teams, clarifies roles and breaks down functional silos
- Streamlines and simplifies the strategic planning process
- Drives resources allocation and budgeting process
- Improves rewards system by linking measures to compensation

### **How does the Balanced Scorecard help in improving performance?**

Balanced Scorecard works on the premise that measurement drives performance. Historically, organizations measured performance based purely on financial parameters. The Balanced Scorecard approach lays strong emphasis on measuring key strategic parameters not only financial, but also non-financial parameters. By identifying the top 4-5 strategic objectives within each of the 4 perspectives, the Balanced Scorecard presents a comprehensive picture of a company's strategy.

## **What are the applications of Balanced Scorecard?**

There are several applications to use the Balanced Scorecard to improve performance:

- Strategy implementation at the Corporate Level
- Alignment of units / departments strategy with the Corporate Strategy
- Post Merger integration
- Joint venture and alliances
- IT Strategy
- HR Strategy, and rewards alignment
- Budgeting and resources allocation
- Initiatives management

## **What is a strategy map and how is it different from a Balanced Scorecard?**

Strategy map is a visual representation of the organization's strategy. It identifies the strategic objectives that the management team needs to focus on, and the linkages (cause- effect relationship) that exists between them. Strategy Map is the starting point for developing the Balanced Scorecard. The Balanced Scorecard translates the organization's strategy, as identified in the strategy map, into a comprehensive set of performance measures, targets, and set of initiatives, providing a framework for performance management.

## **What is the methodology of creating the Balanced Scorecard?**

It is a globally and regionally well-tested methodology to develop the Balanced Scorecard. The key steps include:

1. Detailed internal assessment of the organization.
2. Analysis of the business context for the enterprise, to highlight the existing and potential challenges facing the business.
3. One-on-one interviews with key management executives/ personnel across the organization. The purpose is to allow the management team to articulate their

interpretation of the vision, the financial, customer, internal process, and organizational issues/objectives of the enterprise, their concerns vis-à-vis the strengths and weaknesses of the organization, etc.

4. Conduct strategy workshop for the management team to gain consensus and finalise the strategic objectives of the organization.
5. Finalise objectives ownership amongst the management team, and recommend measures, which are discussed and finalised with the objectives owners during meetings after the strategy workshop.
6. The set of initiatives to ensure delivery of the objectives, and initiatives mapping are then finalized during the second workshop.
7. The management team then fills in the actuals and sets targets for each measure. These targets are broken down monthly or for the respective period for which the measure has to be reported.

### **How long does it take to develop the Balanced Scorecard?**

A Corporate scorecard takes around 8 weeks to be developed. The first workshop to finalise the strategy map is conducted at the end of the 6 weeks point, and the second workshop around 2 weeks after that to finalise the Balanced Scorecard.

If 6-8 departmental cascades are also included, then all scorecards can be completed in around 10-12 weeks. A series of first and second workshops, each separate for Corporate and individual departments are conducted during this time.

### **What is the role of a Scorecard coordinator?**

A coordinator is extremely important in ensuring the successful implementation of the scorecard. The responsibilities include:

- Receiving all relevant actuals for the measures each month from individuals with reporting responsibilities.
- Receiving update on status of all initiatives from the individual project managers.
- Integrating all information into the Balanced Scorecard, initiatives Master Plan and Master Schedule each month.
- Analyzing data to create agenda / key messages for each BSC meetings.
- Identify strategic issues for each month.
- Managing calendar of BSC meeting.
- Circulate advance copies of Balanced Scorecard meeting agenda, strategic issues and data package to management team.
- Create post meeting documents with agreements, new actions, changes and open issues to be followed up in future meetings.

### **What type of organizations can implement the Balanced Scorecard?**

The Balanced Scorecard is a flexible tool, and can be implemented by any kind of organization:

- Large, medium and small businesses to ensure achievement of revenue / profit objective for its shareholders
- Non-profit organizations, to enable delivery of its social objectives, based on the availability of limited resources

- Government organizations / departments to enable delivery to the public / community.

### **Can you develop Balanced Scorecards for individuals in an organization?**

It is difficult to deliver on 20-25 performance measures even by a Group of people in an organization. Hence, it is not only difficult but nearly impossible for an individual to deliver on that many measures. It is hence recommended that a set of 4-5 key measures are identified for individuals. These could be cascaded directly from the corporate scorecard, based on the responsibility of the individual. Eg. a sales related measure is directly cascaded into the Sales head and his team's individual performance measures. Thus, with the individuals achieving their targets, will ensure the organization meets its overall goals. However, the individual performance achievement needs to be linked to the bonus and rewards system.

### **What are the challenges in implementing the scorecard?**

There are a number of challenges in ensuring the successful implementation of the scorecard. However, the key one is lack of senior management commitment. "What is important to the boss is important for me." If the CEO or GM is not committed in ensuring that the scorecard is reported monthly, chances are that it will not get reported!

### **Is it necessary to implement an IT software to report the scorecard?**

Though not completely necessary, it is beneficial to implement an IT solution to automate reporting of the scorecard. It simplifies the process of physically compiling the data. However, only data available on the legacy/ERP system can be captured from the system. Certain measures (eg. Customer Satisfaction Index) may have to be compiled and reported into the scorecard manually. A large number of softwares are available for this purpose, based on the size and requirements of the organization