

Beyond the Balanced Scorecard

How organizations can create sustainable superior performance by moving beyond traditional scorecarding

By David F. Giannetto



Most companies have used the balanced scorecard as a reporting format at some point in their past. Most of them expected the format, which became popular in the 1980s, to significantly improve the performance of their organization.

Unfortunately, very few realized the improvement they expected. Why does this happen at nearly all organizations that implement this reporting framework? How can these organizations build on their initiatives and turn them into something that actually drives sustainable, superior organizational performance?

In most cases, the shortcomings that prevent success lay not within the adopting organizations. Rather, they are in the thought process that leads organizations to believe that changing the structure of their periodic scorecard reports would have an impact on the decisions employees - at all levels - make on the things they focus on each day, and the way people naturally act and interact. These things, collectively, accumulate to create an action-result relationship between superior daily performance and long-term success.

Blame also should not be placed on these organizations for adopting this approach to begin with. They are looking for an answer to their performance problems and modern business management theorists have not come up with a new approach that brings "management by metrics" into the 21st century, one that closes the gap between strategy and execution, properly focuses employees and gives them easy access to information they need to make better, timelier decisions. Business leaders must transform individual, tactical employee actions into a unified effort in which everything every employee does focuses on driving the performance of the entire organization on superior execution and the linkage to strategic goals.

The balanced scorecard gets the organization focused on measuring things, which, in many cases, does make it a good first step. Once implemented, however, that first step will not create any significant change in what people do on a daily basis, and therefore will not affect overall performance.

Periodicity

To change performance, or what employees focus on, critical reports must be timely and relevant to the work an employee performs each day. Traditional scorecard reporting is founded on the periodic issuance of key metrics, once a month, quarter or even a year. The expectation is that

management then uses this information to take corrective action or to prevent the same things from happening again.

This creates a dynamic where managers are managing the same way we play football - call a play, run it, huddle back up to see how the team did, then call another play. Off the field, management is trying to determine what happened.

Unfortunately, business is really much more like golf. Golf moves at a constant pace, and success is achieved by understanding the course, planning your next shot and executing well each time. In golf, consistent players win.

Similarly, in business, employees need constant, consistent reinforcement on what is important every day. Periodic reporting cannot serve this purpose. Current, up-to-date information, delivered every day, can constantly focus employees on what is most important without letting them become stuck in the sand traps they will inevitably encounter.

Better Focus, Better Tomorrow

These reports also serve to provide all employees, from executives to process owners, with a better understanding of what is important and what they should be focusing on. They are a constant reminder, showing employees what is most important. They take the focus off fire-fighting and place it back on the actions that will move the organization in the right direction. As this dynamic becomes instilled throughout management, each employee begins helping the organization achieve its higher strategic goals - whether they know it or not.

Traditional periodic reporting also creates a lagging mentality within the organization. Since it typically uses metrics that are historical in nature and are usually generated manually, the information is outdated before the manager even gets it. These reports require managers to spend more time justifying the past. Real-time reports should be delivering information that helps managers better understand the future.

The use of real-time information allows the responsible parties to take corrective action because they can see these things as they are occurring or seize new opportunities that would have been missed and then move on to the next problem or opportunity. It stays current with them, and because it is always current, it is always relevant.

Relativity

High-level numbers that are important to the organization do not resonate with managers who focus on their key processes or employees who focus on the transactions that cross their desk.

The one-size-fits-all approach of traditional scorecards will not fit most people in the organization. It is unrealistic to think that employees will take into account the information presented on a once-a-month scorecard report when they have to make decisions every minute of every day. To be effective, scorecards must be specifically tailored to the organizational unit using them to manage.

All of the metrics that employees are held accountable for must be metrics that they can see and affect. To make this dynamic work, the organization must understand the connection between strategic goals and each department or unit's ability to positively or negatively affect their achievement.

Once this relationship is understood, meaningful metrics can then be created and delivered specifically to the responsible employees. Each manager or employee sees only what he or she is responsible for and what he or she can affect. This type of information takes conceptual strategic objectives and makes them matter to individual employees. It tells them what they personally can do to make a difference. It creates a hierarchy of metrics that connects strategic goals to operational performance, and operational performance to financial results.

Technology to the Rescue

This hierarchy of metrics, delivered via reports, seems like a much more daunting task than creating one high-level dashboard or scorecard. However, if the organization desires to actually manage its performance using a management-by-metrics approach, can it really afford to continue down the periodic, manually intensive road that almost always ends up at the same point of failure?

Fortunately, this road also offers the opportunity to realize a return on investment, whereas the manual process does not. Used properly, today's best reporting applications automate this process.

Collectively, these improvements in the traditional reporting framework allow the organization to change the very nature of how they manage. As long as the periodic delivery of information via scorecards remains a centerpiece of modern management methodology, significant improvements in the very nature of how we manage today cannot be achieved. Until we move beyond it, management will be stuck waiting for the next scorecard to tell them how they did, when instead they should be focusing on where their organization is going. **USBR**

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