

FAQ Answer: What is the Balanced Scorecard?

In 100 words

A Balanced Scorecard monitors the performance of all or part of an organisation, towards (usually) strategic goals. It uses financial and non-financial performance measures (normally less than 25, spread across two or more 'perspectives') to highlight areas where the organisation is failing to do what is required or was expected. Popularised in the early 1990s, Balanced Scorecard is widely adopted across the private, public and NGO sectors.

To be useful, a Balanced Scorecard has to include the right measures and targets – a difficult thing to do. Modern Balanced Scorecards (see FAQ1b) make this design activity easier and more reliable.

In slightly more detail...

The Balanced Scorecard was first brought to public attention through an article in the January 1992 edition of the Harvard Business Review. The article, by Robert Kaplan and David Norton drew upon the prior experiences of several firms, including Analog Devices, which appears to be where the idea was first developed in the mid 1980s.

Early ('**First Generation**') Balanced Scorecard designs featured a small number of performance measures typically spread across four perspectives. Kaplan & Norton proposed a set of perspective names (Financial, Customer, Internal Processes, Learning & Growth) to help with the design process (that is to say, '... to work out what measures to use, you should think about choosing five or six measures from each of these categories...'). But nonetheless organisations found the selection of measures and targets difficult, and many early Balanced Scorecards failed. One reason for the failure was that many organisations had attempted to use the Kaplan & Norton perspectives without thinking about whether they were suitable. Many suggestions have been and continue to be made for changes to the names of (and number of) perspectives. However, the causes of early Balanced Scorecard failure went beyond the choice of perspective headings, and First Generation Balanced Scorecards continued to fail.

By the end of the 1990s most Balanced Scorecard designs used a form of a substantially improved design process that had begun to emerge in the middle of that decade. This new approach initially designed the Balanced Scorecard in terms of a set of high-level 'objectives' to be achieved, with measures being chosen for each objective as part of a second design step. These new '**Second Generation**' designs illustrate how the various objectives are related using a diagram called the 'strategic linkage model' or 'strategy map'. Using objectives and linkages helps to provide a stronger basis for choosing measures, and for justifying these choices to others. However, it does little to help set targets for the measures chosen, or to ensure that multiple Balanced Scorecards within an organisation are aligned, constraints that limit their utility substantially.

The process of design improvement continues, and since 2000 has resulted in the emergence of a '**Third Generation**' of Balanced Scorecard designs. These are easier to develop, implement and use than any earlier version. See our related FAQ "What is current best practice Balanced Scorecard?" for more information on the most modern design process.

Reflecting the changes in the design process that require more explicit disclosure of the underlying strategy and goals the Balanced Scorecard is becoming the focus of a wider strategic management process – a framework for strategic management and control rather than just a performance measurement device.

Why would I want one...?

2GC Active Management has a very broad experience – having worked with organisations in 33 countries across public, private and NGO sectors on the design, introduction and use of Balanced Scorecard. Our clients tell us they are looking for Balanced Scorecard to help them:

- To provide reliable information to reassure leadership teams that their strategic plans are being implemented efficiently and effectively and are having the impact they expect;
- To enable improved alignment behind strategic goals across the whole organisation;

- To instil greater clarity and consensus within management teams concerning their shared goals and priorities, and to provide them with unambiguous feedback on their progress in achieving them;
- To strengthen existing management processes, making them more focused on achieving and maintaining performance improvements;
- To provide a better and wider understanding of the role and contribution of shared services (e.g. HR, Finance) within the overall strategic context;
- To provide a more reliable basis for the awarding of incentive based pay.

Can I build one myself...?

Many organisations do, and often successfully. But the design work is resource intensive, and benefits hugely from experience of having done it before. 2GC is one of several organisations offering training courses in how to develop a Balanced Scorecard (see our web site at www.2gc.co.uk for more details of our current courses). But it is not uncommon for organisations that develop a Balanced Scorecard to end up calling in outside expert help. They take the view that getting the design work done quickly and reliably will improve the probability that the Balanced Scorecard is adopted quickly and effectively by the organisation. This, after all is a very important goal; if your Balanced Scorecard is not used it is hard to see how it will be valuable.

More Information...

A full discussion of Balanced Scorecard evolution can be found in:

Lawrie, G J G and Cobbold I (2004). 'Third-generation Balanced Scorecard: evolution of an effective strategic control tool', International Journal of Productivity and Performance Management, Vol. 53, No. 7, pp. 611-623.

The [Resources](#) section of the 2GC web site contains a wealth of useful information on Performance Management in general and the Balanced Scorecard in particular. In addition to answers to other Balanced Scorecard FAQs, the Resources section contains longer papers (such as the one cited above) on a variety of topics, case studies and various short presentations, all of which can be downloaded without charge. The website also has recommendations for books and articles on the subject and links to useful web sites. For information on 2GC's **professional services** including **consultancy** and **training programmes**, visit the Services section of the web site or email info@2gc.co.uk.

About 2GC Active Management...

2GC is a research-led consultancy expert in addressing the strategic and performance management issues faced by organisations in today's era of rapid change and intense competition. Central to much of 2GC's work is the application of 3rd Generation Balanced Scorecard, an approach to strategic implementation, strategy management and performance measurement.