Overcoming the 9 Deadly Sins of Balanced Scorecards

Mohan Nair

The balanced scorecard has become an essential part of the strategic arsenal of many organizations. When a balanced scorecard is designed well, it can build resilience during challenging times. This article points out some of the problems organizations often have in planning and implementing a balanced scorecard—and how to avoid them.

The balanced scorecard has undoubtedly become one of the more valuable tools in a CEO's arsenal. During these chaotic times, we cannot forget that well-run, well-managed companies will rise to the top and be recognized for the value they provide our society. When market tides ebb (as they have so dramatically recently), the rocks of anxiety and doubt show. However difficult it becomes to navigate to safety, the winners are the managers and organizations that manage to do so by executing their strategy.

Many organizations rely on risk management as the primary tool to manage the future, but "next-generation" companies are those that know how to manage risk as well as opportunity. As Tharman Shanmugaratnam, the Minister for Finance for the Republic of Singapore, stated at the East Asia World Economic Forum in 2007, it is not the "known unknowns" but the "unknown unknowns" that we should be concerned about.[1]

UNKNOWN UNKNOWNS

The phrase "unknown unknowns" was first introduced to us in "war gaming," decision analysis, and project management to refer to events that we cannot predict simply because we did not know they existed before they arrived. The unknown unknowns in our marketplace can only be managed by organizations that are resilient, while the known unknowns can be managed through the use of risk management. Resiliency is a function of an organization's power and its managers' competence in dealing with rapid changes in assumptions—and then undertaking the concomitant actions required.

Everyone accepts that strategic alignment is key to successful companies, but there's controversy about how to make this happen. Resilient organizations lead by using the balanced scorecard to anticipate change, knowing that change is best welcomed, not avoided. Invariably, the arguments center on an organization's culture assuming that culture is what often determines whether a deployment will work over the long term (as opposed, that is, to being just a short-term initiative that soon withers and fades away as the leader's—or the CEO's—attention moves to the next initiative). In almost all change endeavors that I have been a part of or have studied, sustainable change is said to start with the CEO's buy-in and sponsorship. This is also a necessary and sufficient condition for success.

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In my last book,[2] I spoke of the keys to successful implementation of a balanced scorecard. It focused on six key success criteria (Exhibit 1). However, I stated that I focused on the success criteria, unlike many others, who have focused instead on failure points: note that simply avoiding failure points is no guarantee of success. Now I would like to focus on scorecards as living processes and explore the "key deadly sins" in scorecarding, because I realize that in the ongoing development of scorecards, the sins discussed here seem to inhibit growth and successful perpetuation of the methodology.

Of course, sins start in our minds first. And why use such a strong term as "sins" anyway? Well, for one, it gets attention. Second, it is a sin to implement something as valuable as balanced scorecarding and not then use it to build strategic agility. Also, several misconceptions still exist despite all the books, seminars, and courses available. By no means is this article the last word on the sins of scorecarding. Rather, it is an attempt to clarify several important pitfalls that may impede successful implementation and leverage of scorecarding.

SIN #1: IGNORING ESSENTIAL PRIORITIES BEHIND SCORECARDING

If you interview the project leaders behind any initiative, the middle management, and then the senior leadership, and you ask them one question—"what are the outcomes you wish to deliver with initiative A?"—you may get mainly generalities. To gain clarity, you might then ask them to prioritize between choices such as the following:

- an exercise to reduce staff,
- a cost-cutting endeavor,
- a way to gain an understanding of what work is being accomplished,
- a way to align strategy and execution of strategy, and
- a way to motivate and communicate.

You may then observe that each team has a different prioritization. If so, how can you succeed from the start when priorities drive resources and success?

Balanced scorecarding is a temptation for most CEOs, because they somehow envision themselves sitting in their offices and controlling the dials while their people respond. Others believe that alignment is a great thing—until they themselves are out of step. The true purpose of a scorecard seems to be measurement, but even that is too basic and tactical. Measurement has never caused strategy to be properly executed or made it successful. But in writing my book about scorecarding, I searched my own experience and the experience of many others to find the essence of balanced scorecarding. I ultimately found scorecarding to be less about measurement than direction.

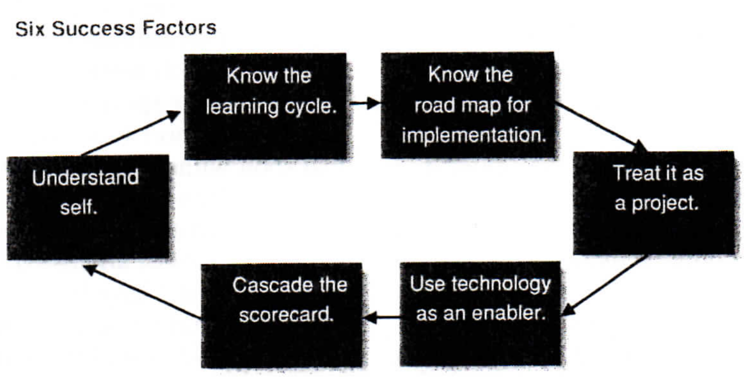
Finding where you are with respect to true north is the key to getting there—or else falling victim to measurement and accuracy without ever having a sense of direction. If you have the right measures of strategic success, dramatic change in your leading indicators may force you to re-evaluate the strategic choices that drive your assumptions. You should ask "why" again and match your core strategies once again (Exhibit 2).

SIN #2: WORKING WITHOUT A CAUSE

Someone who wants to improve must first set a goal before he or she can create movement toward the goal. If you start to measure the distance between where you are and anywhere, you will go crazy, because every measure and dial will look appropriate. Organizations that just measure but forget to find a purpose for the measurement find themselves in the same way.

Exhibit 1

Implementing Balanced Scorecard



Source: Nair, M. (2004). *Essentials of balanced scorecard.* Hoboken, NJ: Wiley.

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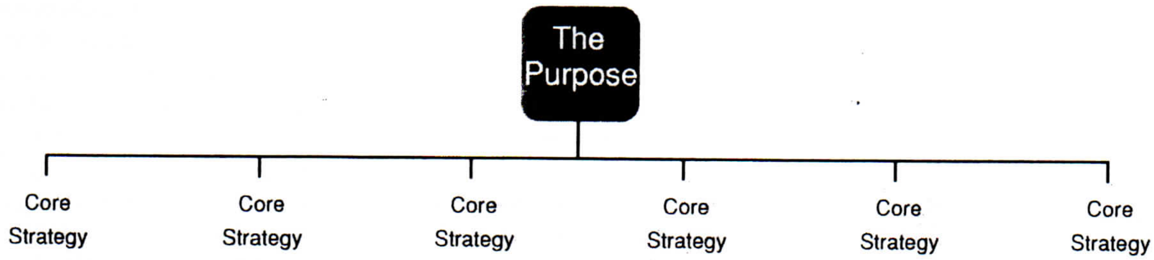
Exhibit 2

Identifying Core Strategies



Source: Nair, M. (2004). *Essentials of balanced scorecard*. Hoboken, NJ: Wiley.

Organizations tend to settle on strategy and scorecards and forget that the way to transform themselves is not to find a mission statement that controls but a cause that means something deep in the organizational soul.

CEOs believe that their own passion is also the passion of the company they lead. Actually, they are merely dancing with their egos. CEOs who recognize that organizational competency follows having a common purpose seldom fail in getting things accepted in an organization. They are not deluding themselves in their efforts to uncover the hidden common goals under the skin of the organization.

Many employees may not seem like they are leaders, but often they just are not giving you their true commitment. Many come to work for a paycheck, but they will stay when they give themselves a cause to rally around. A common cause motivates people. A mission is given to individuals, whereas a cause is taken by individuals. A mission serves a personal goal, but a cause serves the greater good.

If you can tap into a cause as the precursor to scorecarding, you will then be able to link the values and the vision to it. If you are just driving to strategy, measures will be sterile. A cause will bring all competencies and goals to focus. Exhibit 2 frames the purpose to core strategies that are the precursors to starting a balanced scorecard endeavor.

At Regence, our cause drives all the business decisions. I remember when we first formulated the idea of a cause, we articulated its true calling, which is to serve the members who purchased and trusted the insurance they purchased. It was and still is electrifying, and now it is part of the strength of our company; it defines who we hire and how we assess performance. It is the compass that drives our core strategies. Our core strategies drove what we need to do, but our cause drives why we need to transform health care. It drives our identity in the health care transformation endeavor; it also brings humility and "servant leadership" into the language of strategy.

SIN #3: BEING CONFUSED BY NAYSAYERS

During challenging times, just as in new endeavors, naysayers inevitably appear—but they are useful to the process of educating and motivating teams in balanced scorecard endeavors. The sin is to ignore them; the virtue is to embrace them. I think they have set the tone for many of my implementations. The tone set is *why do it?*

The nature of the resistance defines the character of the leadership. It defines you, and you go about enjoying the transformation of your organization. John Kotter, in *A Sense of Urgency*,[3] discussed the concept of naysayers as NoNos. He believes that there are three ways to deal with them:

1. Distract them with other activities.
2. Get rid of them.
3. Expose their behaviors.

Naysayers can destroy the momentum of the balanced scorecard very easily. But by the same token, they help "harden" the process you are attempting to master and make part of the essence of the organization. Many balanced scorecard endeavors are vague when they begin; they form as they build momentum, because they are carved into the muscularity of the organizational

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personality. But naysayers pounce early onto the backs of this ambiguity and tear into the changes planned. Many do this in subtle ways using the obvious logic within the organization, which is to ask the unanswerable questions that make your project look ill planned, and somewhat entrepreneurial.

Note that when someone calls you an "entrepreneur" in a large organization, it is a euphemism for running without direction and for being disorganized and unanalytic. Entrepreneurs are considered fast-moving, nonthinking, and unprepared for the future. But successful entrepreneuring demands the exact opposite—that we do things faster, before the competition, better than the peers, and with less cost to the organization, because many times we cannot afford it. To do these things, we must be detail-oriented and well prepared. That is what separates people who merely talk about entrepreneuring from those who do it right.

So when you hear questions from naysayers, feel complimented. You are disturbing their sleep at work, and you are awakening the strategic souls of the ones who really want to find direction.

Ironically, although balanced scorecarding is so much about planning and predicting the future, it may require that we deal with ambiguity in the market when we are attempting to implement the process, because we are going where we have never gone. Naysayers will not like this, because it is counterintuitive. They want to reject it for several reasons:

- It holds them accountable.
- It highlights what they do (or don't do).
- It is another thing to do.
- It is another thing that seems process-oriented and without a predictable outcome.
- It is from management.
- It is another failure waiting to happen (and they may be right about that...).

Naysayers also tend to ask questions such as these:

- Why do it when we have no one else doing it in our industry?
- Why do it when others in our industry are doing it? (Let them do it first, and then we can follow.)

These are legitimate reasons not to do anything, except that strategic alignment and understanding measures are the essential elements of running a business in chaotic times. Knowing yourself as an organization so that you can present yourself to others is key to remaining viable in markets that change every day. Knowing what to adjust strategically and how to execute rapid change are two things that differentiate resilient organizations from others.

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SIN #4: MOVING WITH URGENCY AND RUSHING TO ENTERPRISEWIDE IMPLEMENTATION

Everything has a life cycle. Organizations that show their commitment by making new processes and technology enterprisewide without going through a defined learning and transformation process tend to risk more than those that work with a life cycle.

At Regence, we started with a pilot in my organization and focused on two aspects of learning. One was the actual technical aspect of how to do objectives and manage a scorecard. In this case, even the implementers were learning how to change the process, the culture of measurement, and management. At Regence, we were convinced five years ago that the old ways of working in the health care systems would fail. We wanted to measure our movement in the strategic path toward an empowered consumer versus an empowered, opaque, and self-perpetuating health care system that was failing all. This strategy required core strategies, objectives, and scorecards to be established.

There are four phases[4] (see Exhibit 3) in the maturity of a balanced scorecard program:

1. A trigger,
2. An education phase,
3. A pilot phase, and
4. An enterprise deployment.

Triggers

Several triggers drive markets. Given current market conditions, almost all organizations are suffering, so the trigger to manage costs and processes to keep administrative costs down will usually lead the way. But other triggers can spur the implementation of strategic tools like the balanced scorecard.

The shock of loss or failure usually widens people's pupils; they tend to search for alternatives

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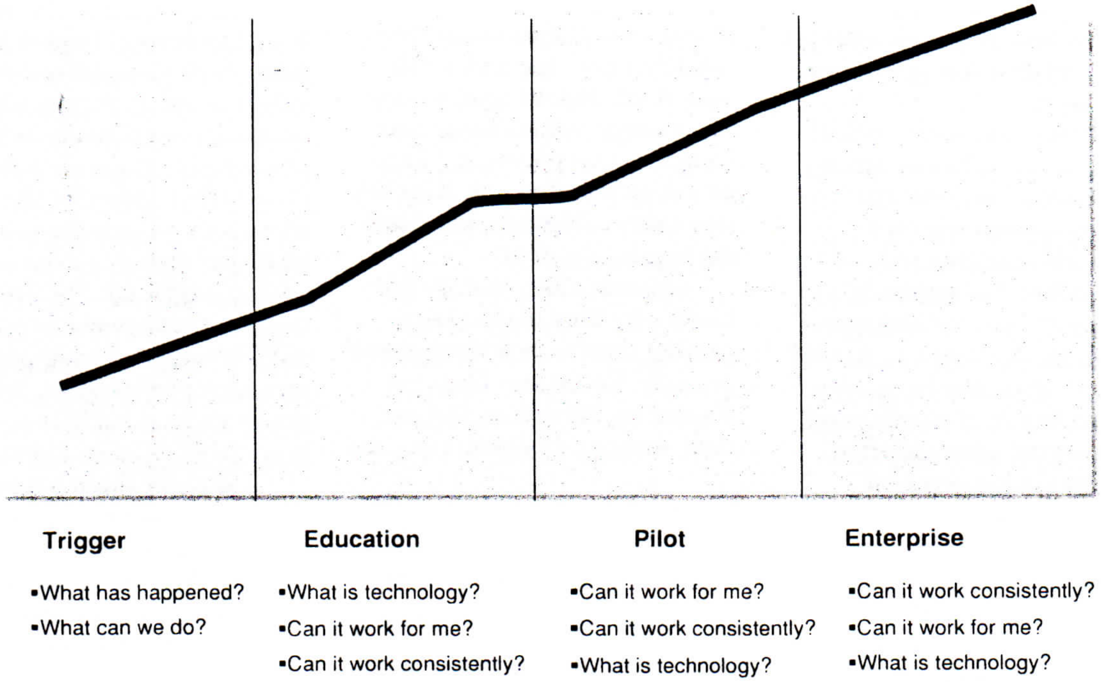
Exhibit 3

Beyond Early Adoption



Source: Nair, M. (2004). *Essentials of balanced scorecard*. Hoboken, NJ: Wiley.

to improvement. Characteristically, most companies in this situation look for the quick fix and resort to the balanced scorecard for support.

We are certainly seeing many reasons to optimize our business, given the significant downturn in the market. It may seem that the triggers are now available for optimization and risk management to take an equal presence to strategy alignment and execution. But both are necessary.

Pilot Project

At Regence, we started with a team of two champions and moved to educate them over a year as we invested in practical knowledge gathering. We then expanded the education to an informal team of members from several divisions. We started a pilot program just in marketing, then started observing ways in which we could create a scalable, sustainable, and maintainable set of activities.

We were piloting not the project in a smaller scale but also how we would educate, train, and support the expansion to the enterprise if we were to succeed in the pilot. In the trigger phase, the first question we ask is, "What just happened?" In the education phase, we ask, "What is it?" In a pilot, we ask, "How does it work for me?" In the enterprise phase, we ask, "Can we scale this?"

These different questions must take a life-cycle view to understand and create processes that sustain over time. The sins come when we rush to the end only to slip and then attempt to recover the very phases we have tried to overlook.

SIN #5: STARTING AN OFFICE OF STRATEGY MANAGEMENT TOO SOON

Scorecarding is about strategy alignment. It is a powerful, programmatic approach to business design and modeling. Many people like to get themselves into a discipline like project management that claims professional status in an organization.

My organization implemented scorecarding in eight months at the "director and above" level for a 7,000-person organization and using only one person as a change agent. All other resources were within the

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divisions. We used off-the-shelf technology first as our base; we also started with one division to pilot the implementation of both the technology and the processes. Every company has its own way of implementing change, and we had our own. However, pilot programs led by a few good people really work.

There is sometimes talk of setting up an "office of strategy management," and this can have its merits, depending on the nature and operating style of an organization. My approach is to be cost-effective and entrepreneurial, forcing teams to initially "borrow" resources by gaining the ultimate buy-in of commitment, which occurs when the effort becomes not just someone's job but their passion.

Be aware that this does not breed any informality in what the objectives of the strategy alignment program are. The secret sauce is in the sponsorship level and in using the key success strategies that have been used time and time again for implementing analytical applications such as the balanced scorecard or activity-based cost management.

Several key commitments and methodologies kept the program alive and well. At Regence, it has been five years now, and we are at the level where the board of directors reviews the corporate scorecard and also a few divisional ones at every meeting. Objectives are posted at the end of the year for the next year. The balanced scorecard is linked to divisional scorecards and down to group and individual objectives at all levels of the organization. This approach has fundamentally changed the way we formulate and view strategy.

SIN #6: TOO MANY DIALS AND TOO MUCH MEASUREMENT

Chasing dials is less important than finding direction and alignment in goals. But all too often we want to be "exactly wrong" rather than on an "inaccurately right" trajectory. We want it all, and we want it now, but strategy and the associated tactical action plans must keep an eye on the direction. Sins fall into many categories, but this is the biggest sin of all.

Organizations that do not know why they begin scorecarding tend to pull their teams in many directions. They get fixated on the colors and see their strategy as colors (i.e., red for bad, yellow for almost bad, and green for good). They forget that the value of scorecards is found in understanding direction as well as measuring success.

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SIN #7: FORGETTING OBJECTIVES AT THE PERSONAL LEVEL

At Regence, we started two pilots at the same time. We piloted management by objectives and balanced scorecarding. We believed that the scorecard has strategic importance at the board level and the executive level of the business. But when it arrived on the desk of directors and vice presidents, the connections to strategy were secondary. They were the ones we wanted to align with. But their dials and measurements were not collected and understood.

With objectives written at all levels, people in the marketing organization (where the first pilot started) organized themselves to ask (1) if the objectives they set actually helped move a dial at the corporate level and (2) whether the objectives fit into the core strategies that drive our company (Exhibit 4). The scorecards are also pushed out into subscorecards at each product and each project level. Now teams understand how to use scorecards to drive the business and make them balanced with leading and lagging indicators. They allow for the four perspectives of financial, customer, internal, and learning/growth.

SIN #8: FORGETTING THE BOARD

Boards can be very useful in a balanced scorecard. When they see what you can do in managing measures and monitoring movement toward the strategic goals, boards become advocates of the scorecard methodology. It makes their life much more predictable and ensures contribution at the right level. It would be a sin to stop the scorecard at the management level, thinking that it is an operational tool.

At Regence, our board reviews our corporate scorecard at every meeting. It gives them a view of our direction and how we measure ourselves. The scorecard method has morphed into a tool for viewing our risk management and even our product performance.

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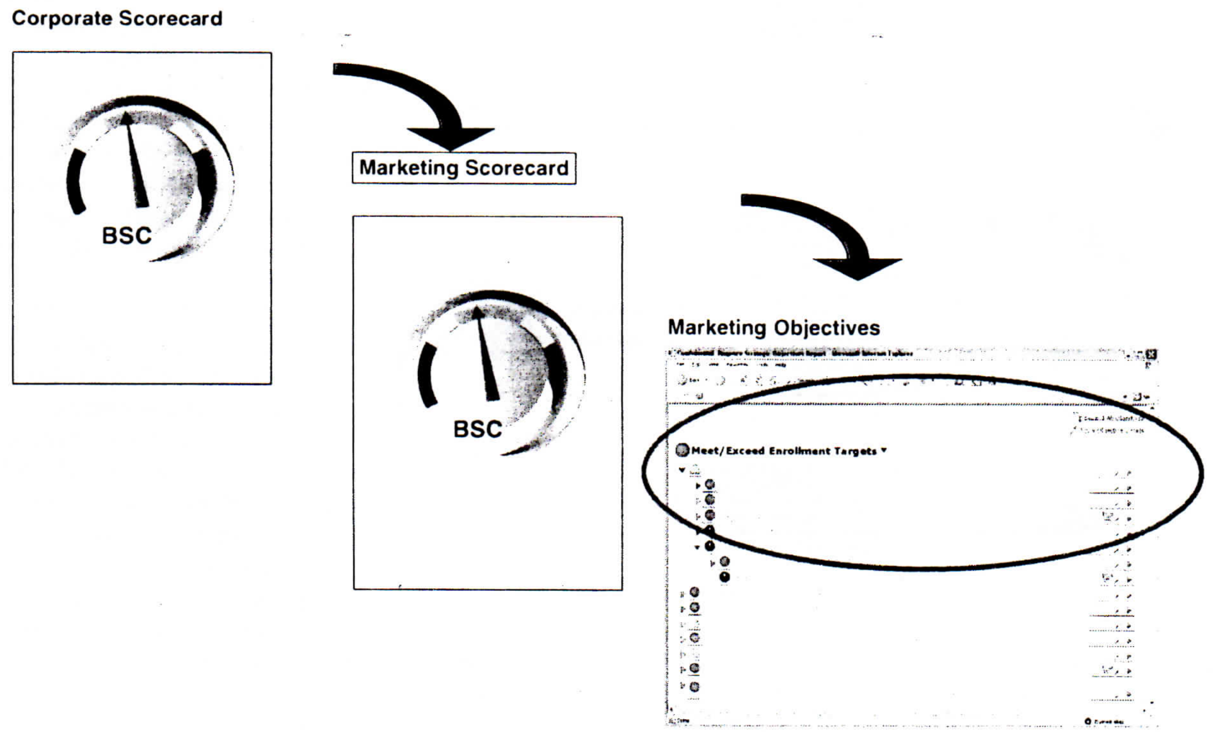
Exhibit 4

Cascading Measures and Objectives



SIN #9: CASCADING ONLY TOP-DOWN AND NOT BOTTOM-UP

Leadership teams will develop corporate scorecards and then build key initiatives that drive the scorecard and then cascade these objectives and scorecards downward into the organization. Although that seems obviously effective, one must realize that the least informed team about what really goes on in the organization is the senior leadership team. They may be very well equipped to define strategy and the core objectives that will get the organization there, but the company they lead does more than these strategic objectives. To suggest an analogy, they are building the planes, flying the planes, and maintaining runways all at the same time.

Executives will often insist (because they want to get rid of renegade objectives) that if an objective does not feed into the key strategic objectives, it must go. For several years I witnessed this approach in clients and also in my own actions—and even endorsed this model. Academically and intellectually, it seems sound. Practically, though, what happens in the early stages of developing an organization's muscularity is that the organization tightens everything so fast that the voice of middle management is lost.

Objectives and scorecards are a form of dialogue with our organizations, and also one that develops over time as the organization adopts and accepts them. If we force this beyond the organizational "digestive capability," we can lose in the long haul. So my view is to not push this idea until the organization migrates to it gradually. Mind you, there are three kinds of objectives that are difficult to land under corporate objectives:

1. Renegade objectives that are developed to circumvent the strategic process,
2. Sustaining activities that collectively are challenged to fit into objectives, and
3. Sustaining objectives for keeping the "lights on" in the business.

If leaders push the idea of squashing renegade objectives, they will not see them again, but they will continue to exist in

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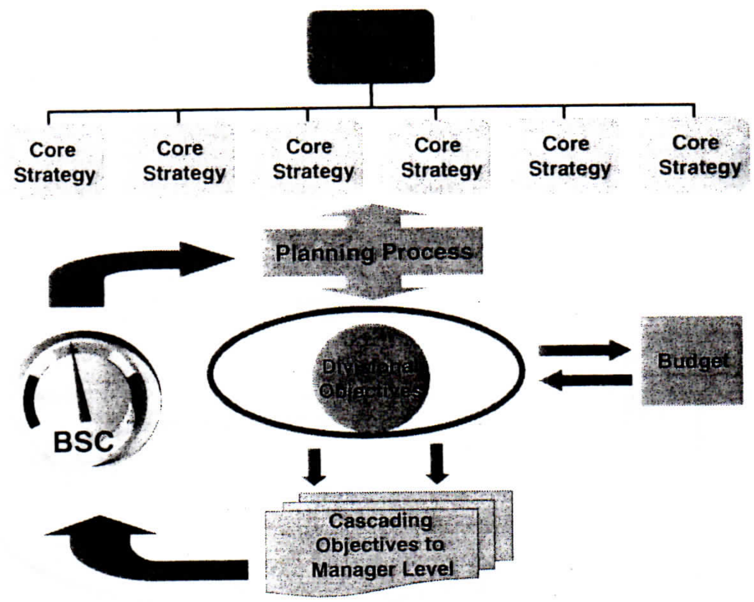
Exhibit 5

Performance Management Ecosystem



small "sleeper cells" in the organization. They just will not be reported. The ongoing debate continues if organizations should record on the scorecard all the ongoing sustaining objectives in an organization. It depends on your culture. Some organizations like to record them so that everyone knows and acknowledges these activities. Others prefer to record them in operational scorecards that are viewed at other levels in the organization besides the corporate scorecard, which is the highest view of the measurements in an organization. Sustaining objectives exist in the working toolkit of every executive, and they must be necessary to give life to strategy (Exhibit 5).

A FINAL NOTE

As I declared before, the avoidance of sin does not mean attainment of virtue. It does enhance the possibility of success—and that is a good thing. The balanced scorecard is an essential part of the strategic arsenal of almost any company. When designed well, it can build resilience during challenging times.

Scorecarding and the related objective-setting exercise are as much listening devices as they are communication methods. Think of them as being bidirectional, not unidimensional, and they will enhance your ability to communicate to your teams, execute your strategy, bring your strategy to life, and build a strong platform for aligned business objectives.

NOTES

1. http://www.youtube.com/watch?v=joQxIJSCARc.
2. Nair, M. (2004). *Essentials of balanced scorecard*. Hoboken, NJ: Wiley.
3. Kotter, J. (2007). *A sense of urgency*. Boston, MA: Harvard Business Press.
4. See note 2, p. 116.

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