

Short on performance? Take two scorecards and call me in the morning.

By Carel Redelinghuys

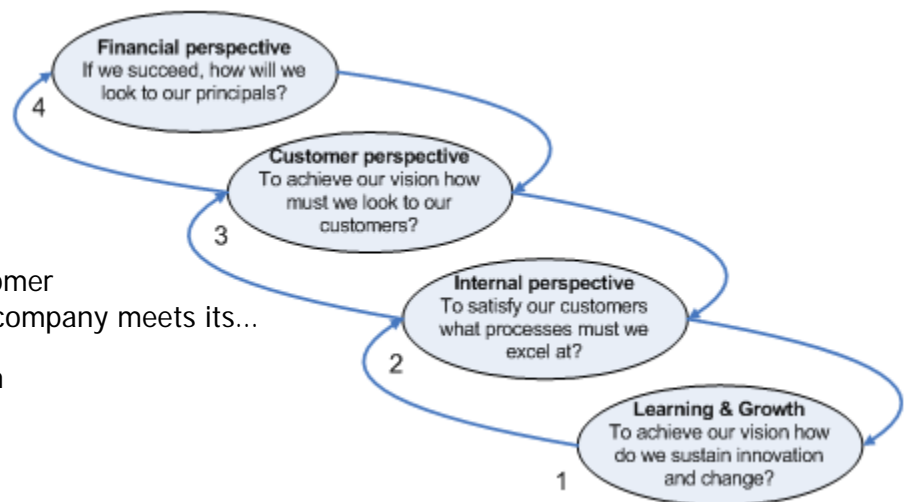
In 1993 Mobil rated last on profitability in its industry, with a return on capital employed of 6%. In 1995 and for the following four years it rated first in profitability within its industry, with ROCE up to 16%. Similarly, Cigna Insurance was losing \$1 million a day in 1993, but within two years it was in the top quartile of profitability in its industry. In 1998 it was able to sell its Property and Casualty division for \$3 billion. Another great success story is that of Saatchi & Saatchi. They increased shareholder value from \$500m in 1997 to \$2.5b in 2000. These companies were among a number of legendary turnaround success stories quoted by Norton and Kaplan, authors of the Balanced Scorecard.

These companies attribute at least part of their success to having implemented the Balanced Scorecard. Developed in the early 1990s by Norton and Kaplan, this valuation methodology ensures appropriate strategic focus on three value disciplines viz, customer intimacy, operational excellence and innovation & learning, through a defined set of metrics. In the Balanced Scorecard these value disciplines are presented as three perspectives: Customer, Internal, and Learning & Growth. A final dimension, the Financial perspective, records the commercial outcome of the value created in the other three perspectives.

Companies record and analyze the metrics identified to help determine if they're achieving strategic goals. A fully implemented Scorecard cascades from the top levels of a company all the way down.

At a conceptual level, the Balanced Scorecard methodology is logical, simple and elegant. It asks the following:

- 1 What skills and innovative capabilities are needed to drive...
- 2 ...operational excellence to a level that the...
- 3 ...value proposition for my customer becomes so compelling that the company meets its...
- 4 ...growth and revenue targets in a sustainable fashion?



Looking at the success stories, and considering the simplicity of the methodology, the notion “the holy grail of business management” comes to mind. However, according to Norton, the overall success rate is not all that high. Norton explains that only about 15% of scorecard initiatives can be counted as sterling successes; on 64% the jury is still out and 21% are outright failures. These statistics certainly raise a few questions.

Is it perhaps that the methodology is not as simple as it seems on the surface, or is it a case of horses for courses? Could it be that the methodology is fundamentally flawed and the success stories are incidental to the scorecard?

In our experience the simplicity of the model is its own worst enemy. The conceptual simplicity of the model belies the strategic clarity and analytical rigor required to deliver a scorecard that produces the results quoted above.

Companies attend the conference, read the book and, voila! - out pops a scorecard. On investigation we find over-and-over again that such scorecards are merely a restatement of the old or current strategy using the scorecard format. Unfortunately, these initiatives invariably fail to deliver a Cigna or Saatchi & Saatchi level performance improvement and the business executives becomes more jaded and write off another management consulting fad.

To quote an overused but relevant truism, *the level of thinking that got us into this mess is not the level of thinking that will get us out of it*. This is exactly why the scorecard starts with the Innovation & Growth perspective:

What skills are required to enable us to achieve our goals?

Now if the team lacked “it” to start with and nothing has changed in the composition of the team, drawing up a scorecard is merely displacement activity. It would be a leap of faith to think that a scorecard such as this will change anything while all else remains as before. A fundamental rethink, with an infusion of strategic talent, offers a much more plausible plan of attack.

A well-designed scorecard addresses two fundamental business issues that hamper sustained performance, which are internal integration and external adaptation. Such a scorecard will seek to realign the company with its market and customers and so drive renewal of talent. This is the foundation of the learning and adaptive organisation. Clear cause-and-effect linkages between the strategic objectives assist in communicating the strategy and so create alignment in the company. Metrics must be focused on the desired outcome as opposed to measuring activity.

Taking all the old chestnuts out of the cupboard, dusting them off and regurgitating the strategy into a scorecard is a waste of time and disservice to a great concept. A facilitated, short and highly focused intervention will ensure early success in implementing a scorecard.

GTG Consulting has been assisting companies in focusing their energies on strategy clarification by utilising the scorecard concept and so creating aligned and strategically focused organisations.

About the author

Carel Redelinguys has served on the executive and senior management teams of a number of international organisations. He specialises in merger integration, business turnaround and transformation. In this field he has managed and directed several large-scale projects, both locally and internationally. Carel has an MBA in strategic project management from Henley Management College in the UK.

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