

Scored for life

The good news is that software companies are producing packages to help you implement a Balanced Scorecard. The bad news, warns **Bernard Marr**, is that there is still no substitute for the hard work of the initial strategic analysis

Experts agree about the importance of the Balanced Scorecard (BSC). *Harvard Business Review* describes it as one of the most influential business ideas of the past 75 years, and research group Gartner estimated that about 40 per cent of the Fortune 1,000 companies will have a BSC in place by the end of 2001. Its influence has been further extended by information technology, which boosts the potential of BSC methodology and supports its operation.

But, although the concept of the BSC is easy to understand and makes sense at first glance, implementing it involves commitment, change and hard work. This is why software vendors, fighting to get their share of this year's estimated \$2.6 billion analytic application market, are producing innovative BSC applications aimed at easing this process.

Much of the BSC software that firms can buy off the shelf includes industry-specific templates, enabling firms to skip the tedious process of developing their own BSC. This allows them to tick another corporate initiative off the list fast, but it can be hazardous if they ignore the philosophy behind the BSC.

Robert Kaplan and David Norton, who initiated the BSC in the 1990s, stress that each company has to go through the whole process. A firm should start by translating its unique strategy into a balanced set of key objectives, which can then be broken into operational terms¹. Many companies see this formalisation and implementation of strategy as one of the most valuable contributions of implementing BSC, not least because it enables them to communicate the strategy to everyone.

It is essential to finish translating the strategy into operational terms before you start thinking about software or templates. It is a mistake to negotiate objectives or measures. The BSC is intended to focus attention on strategy and on the success factors necessary to achieve strategic goals. If you start to negotiate measures, you risk leaving out important and relevant measures or objectives.

Companies also need to choose what not to measure. Any measures that are there only

because they are suggested by a template or used by a competitor could destroy the strategic focus of the BSC.

Only when a company has completed the first phase of implementation and identified a set of measures for each of the four perspectives, should it start looking for software applications. BSC software integrates strategic methodology with business intelligence applications so that firms can improve the way they communicate data – for example, using dynamic traffic lighting to indicate whether the company is on target, under target or exceeding certain objectives.

Software allows organisations to distribute live up-to-date information, not only to the entire workforce, but also to investors, customers, regulators and suppliers. The latest packages act as performance portals on the firm's intranet or on the internet and present performance information for staff in a personalised format. Individuals can choose to view the same data in a table, graph or chart.

Many of the BSC applications already include the ability to perform multi-dimensional data analysis (on-line analytical processing), which enables users to "slice and dice" data so they can analyse information from different perspectives and angles. Users can move through layers of data at the click of a mouse. They can use the software to create cause-and-effect maps and improve statistical examination with, for example, correlation analysis. Furthermore, they can build in workflow abilities and simulation and trend features.

Investing in analytic applications no longer means buying a stand-alone PC-based solution. To realise their true potential, applications need to be integrated into the existing information and communication technology (ICT) infrastructure. Often, data needed for the BSC already exists in electronic form – it is stored in enterprise resource planning (ERP) systems or data warehouses. Automatically feeding the data from these and from third-party companies can simplify data input and maintenance.

The question of whether to make or buy is

easily answered: unless you have employees with programming skills, plus personnel with expertise in the BSC methodology who have enough time to do this job, you are better off buying. This enables companies to utilise the expertise that went into developing the application, and to benefit from the vendor's experience in system integration and ancillary services.

Analytic BSC applications can boost the potential of the BSC methodology, but the number of products on offer makes it difficult to choose the one that is best for you. There are at least 20 major international players, all with different offerings and different target markets. The Balanced Scorecard Collaborative offers some guidelines by certifying software that meets its Balanced Scorecard Functional Standards. Unfortunately, these standards relate only to the management process, and not to the characteristics of the underlying system, the user interface, scalability or flexibility of the application.

Analytic applications enable you to realise the full potential of a BSC implementation, but they are not a shortcut to developing your own unique BSC. You need to know exactly what your requirements are. Ideally, you should develop a template containing all your needs and requirements before you look for the solution to deliver them. Never alter the scorecard to suit the software, and always ask to see a demonstration of the functions you need. It is naive to trust all the tempting offers, since many software vendors still have a long way to go. EM

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References

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