The Top 10 Reasons for Balanced Scorecard Failure in Organizations

While the balanced scorecard has been used by many organizations successfully, many organizations have experienced balanced scorecard failure. Balanced scorecards fail in organizations for a variety of reasons including:

1. Lack of visionary leadership and active senior executive commitment and involvement - *Any new and different approach to business strategy and organizational performance management requires strong and active CEO, senior executive, and leadership team participation and commitment to be successful. Lack of leadership's participation in, buy in for, and commitment to, the balanced scorecard and building a strategy-focused organization will almost certainly result in the failure of the balanced scorecard within the organization. In fact, when there is a lack of CEO, senior executive, and leadership team buy in for the balanced scorecard and strategy management via the balanced scorecard, organizations should not proceed with balanced scorecard development and implementation.*

Steps for Success: *Ensure executive and leadership buy in and commitment for balanced scorecard use before beginning the balanced scorecard development process.*

2. Introducing the balanced scorecard for reasons other than those related to better business performance management – *If your organization is adopting the balanced scorecard just to keep up with peers who have started using it, to develop a variable compensation scheme, or to present a forward thinking image to an outside audience, you would be advised to stop the process. The balanced scorecard was designed to provide companies with a tool (and process) for organizational performance management – one that facilitates targeted improvement efforts and resource investments, and enables improved levels of strategic performance. In organizations that implement the balanced scorecard for reasons other than this, managers and employees soon figure out that the balanced scorecard is just "for show", quickly resulting in organizational resistance to the balanced scorecard.*

Steps for Success: *Ensure that the balanced scorecard is being implemented in your organization for all the right reasons.*

3. Lack of cross-functional organizational/employee involvement in developing the balanced scorecard – *Broad employee involvement in the creation of an organization's balanced scorecard will result in a higher quality product and will help build greater employee buy in for strategy implementation and management using the resulting balanced scorecard. While it can be mitigated to some degree through extensive balanced scorecard education and communication activities, low levels, or the lack of, employee participation in the development of an organization's balanced scorecard can play an important role in balanced scorecard failure.*

Steps for Success: *Ensure broad, cross-functional employee involvement in your balanced scorecard development and implementation processes.*

4. Not clearly linking balanced scorecard indicators with strategic objectives – *Simply put, a balanced scorecard that is not grounded in, and clearly linked to, business strategy is just a collection of measures that management and employees may, or may not, see as helpful, informative and, ultimately, relevant. Irrelevancy translates into balanced scorecard failure.*

Steps for Success: *Clearly link balanced scorecard indicators with strategic objectives to maximize the value of the balanced scorecard as a strategy management tool.*

5. Forgetting that the balanced scorecard is a tool for measuring the health of the business strategy – *The balanced scorecard is a tool for providing feedback on the performance of the business strategy to management, employees, and key stakeholders. The balanced scorecard is NOT an operational performance management tool and should not be expected to include a broad list of operational measures. To tell us about the health of strategic objectives and the business strategy, the balanced scorecard uses one or two indicators (maximum) to give us a fair indication of how a strategic objective is performing. Balanced scorecard indicators must reflect the intent of a strategic objective and should be either direct or proxy measures for the strategic objective. It is also important to realize that balanced scorecards are not meant to be diagnostic. That is, under-performing balanced scorecard indicators do not tell us what is going wrong – they stimulate further investigation into root cause problems (usually using operational measures).*

Steps for Success: *Select balanced scorecard indicators that reflect the intent of your strategic objectives and will allow you to closely monitor the health of each strategic objective.*

6. Not focusing on the “vital few” - *A great balanced scorecard includes a focused set of indicators (16 to 32 maximum)* ***plus*** *the associated strategic objectives. That is, it focuses on the “vital few” elements of an organization’s strategy. In contrast, many balanced scorecards display too many indicators and none of the strategic objectives. While it is quite usual for first draft balanced scorecards to include too much information, most organizations will refine and revise their balanced scorecard over time and with use. Balanced scorecards that do not focus on the vital few will be difficult to understand and use primarily due to a lack of grounding in the business strategy and information overload - making it likely that the balanced scorecard will fail within the organization.*

Steps for Success: *Adopt a ruthless focus on the vital few when creating, and maintaining, your balanced scorecard.*

7. Not changing balanced scorecard indicators when required – *Statistics show that 90% of initial balanced scorecard indicators will change over a year of balanced scorecard use. This is because some indicators that you originally thought would be good do not tell you what you thought they would and some indicators that you thought would be “bad” turn out to be great sources of strategy management information. The key is to give balanced scorecard indicators a chance to prove themselves (usually three balanced scorecard reporting periods) but to not hold on to the less than informative indicators for too long. Keeping bad indicators on your balanced scorecard just to develop trend data is a path of balanced scorecard failure.*

Steps for Success: *Always keep your balanced scorecard useful and relevant by replacing bad/unhelpful indicators when required.*

8. Using balanced scorecard performance results to “punish for underperformance” – *Though tempting, instances of indicator under-performance should not be used to blame or punish the “owner” of the indicator. The fact is that indicator under-performance tends to be caused by systemic, organizational problems and process breakdowns – not people performance issues. Taking such a blaming approach causes people to fear the balanced scorecard, making them take extraordinary steps to hide under-performance at all costs. Good balanced scorecard organizations understand that indicator under-performance actually provides them with an opportunity – to highlight strategically important issues requiring targeted attention and resource allocation to achieve improved results. In these organizations, concerns are not raised when indicators underperform – they are raised*

when root cause analysis work is not done and/or when sufficient corrective action plans are not implemented.

Steps for Success: *Focus on building a culture that shares, discusses, and deals with balanced scorecard/organizational performance issues in an open and constructive way.*

9. Treating the balanced scorecard effort as a project and not assigning adequate resources to the ongoing use of the balanced scorecard – *Many organizations treat the development of the balanced scorecard as a project – they assign a project leader to manage the process of balanced scorecard development and release the resources when the project "ends". Furthermore, once balanced scorecard development has been completed, they do not formally assign resources to supporting the implementation and ongoing management of the balanced scorecard. It is important to realize that balanced scorecard utilization is a business management process that must be managed like any other process if it is going to function optimally. To ensure its success, the balanced scorecard must have, at minimum, assigned roles including a balanced scorecard executive sponsor, a balanced scorecard champion/manager, and a balanced scorecard administrator. These roles should be formally assigned early in the balanced scorecard development/implementation process.*

Steps for Success: *To ensure the sustainability of the balanced scorecard in your organization, resource it adequately from the start.*

10. Not communicating/sharing the balanced scorecard/balanced scorecard results widely across the organization and not making the balanced scorecard the "way we work" – *The balanced scorecard is meant to be shared and used across the* ***entire*** *organization – this is the only way that is can play its role in facilitating an integrated approach to business performance management and in facilitating dynamic strategy management. Many organizations make the mistake of using the balanced scorecard and balanced scorecard results at the senior executive level only. Successful organizations include employees and stakeholders in balanced scorecard results meetings and discussion forums and communicate their balanced scorecard widely to a broad range of internal and external audiences. In addition, high performing organizations build business strategy, leveraging the balanced scorecard framework, into as many business processes as possible (e.g. the employee performance management process, the employee reward and recognition process, etc.). When they do this, organizations make the balanced scorecard a highly visible, core component of what they do every day – not a list of measures that sits outside regular business operations.*

Steps for Success: *Put strategy, via the balanced scorecard framework and results, front and center in your organization and business processes.*

About the Author

Sandy Richardson, B.Sc., M.Ed., President of JETrichardson (a division of Strategy Focused Business Solutions Inc.), has been a senior organizational transformation and business performance excellence professional for over 20 years. She has worked for and with organizations in a variety of business sectors and industries in both Canada and the United States to build sustainable, strategy focused organizations.

Sandy is a subject matter expert in the areas of strategic planning, strategy mapping, strategy execution excellence, performance measurement and management, accountability and governance framework development, and organizational alignment, and is recognized as a master balanced scorecard practitioner and trainer.
As a published author, conference speaker, and expert facilitator, Sandy comments regularly on the process and benefits of transforming companies into high performance, strategy focused organizations.

Contact Sandy at (416) 722-1367 or sandy@jetrichardson.ca

JETrichardson
www.jetrichardson.ca (416) 722-1367
sandy@jetrichardson.ca