A Kite with a Broken String – The Balanced Scorecard

How do executives expect to realize their strategic objectives if all they look at is financial results like product profit margins, return on equity, earnings and interest before interest, taxes, depreciation, and amortization (EBITDA), cash flow, and other financial results? These are really not goals – they are results. They are consequences. Measurements are not about just monitoring the summary dials of a balanced scorecard. They are about moving the dials of the dashboard that actually move the scorecard dials.

Worse yet, when measures are displayed in isolation of each other rather than with a chain of cause-and-effect linkages, then one cannot analyze how much influencing measures affect influenced measures. This is more than just leading indicators and lagging indicators. Those are timing relationships. A balanced scorecard reports the causal linkages, and its key performance indicators (KPIs) should be derived from a strategy map. Any strategic measurement system that fails to start with a strategy map and/or reports measures in isolation is like a kite without a string. There is no steering or controlling.

How are a strategic scorecard and operational dashboard different?

My belief is there is confusion about what the difference is between a balanced scorecard and a dashboard. There is similar confusion differentiating key performance indicators (KPIs) from normal and routine measures that we can refer to as just performance indicators (PIs). The adjective “key” of a KPI is the operative term. An organization has only so much resources or energy to focus. To use a radio analogy, KPIs are what distinguish the signal from the noise – the measures of progress toward accomplishing strategy execution. As a negative result of this confusion, organizations are including an excessive amount of PIs in their scorecard system that should be restricted to KPIs.

When someone says to me our organization has 300 KPIs, I ask them, “How can they all be a ‘K’?” Here is the difference:

A balanced scorecard monitors the progress toward accomplishing the strategic objectives in the strategy map. A scorecard displays periodic snapshots with KPIs. It measures organizational activity at a summary level against pre-defined targets to see if performance is within acceptable ranges. My message here is that scorecard KPIs ideally should be derived from a strategy map rather than just a list of important measures that the executives have requested to be reported. Directionally from the employee-centric innovation, learning and growth perspective, the KPIs should reveal the cumulative build of potential to realized economic value.
There are two key distinctions of scorecards: (1) Each KPI must require a predefined target measure; and (2) KPIs should be comprised of both project-based KPIs (e.g., milestones, progress percentage of completion) and process-based KPIs (e.g., percent on-time delivery against customer promise dates).

In contrast, dashboards monitor and measure operational processes. A dashboard is operational and reports PI information typically more frequently than scorecards. Dashboard measures do not directly reflect the context of strategic objectives. This information can be more real-time in nature, like an automobile dashboard that lets drivers check their current speed, fuel level and engine temperature at a glance. It follows that a dashboard should ideally be linked directly to systems that capture events as they happen, and it should warn users through alerts or exception notifications when performance against any number of metrics deviates from the norm or what is expected.

**A balanced scorecard is primarily about feedback.**

A misconception about a balanced scorecard is that its primary purpose is to monitor results. That is secondary. Its primary purposes are to report the carefully selected KPI measures that reflect the strategic intent of the executive team, and then enable ongoing understanding as to what should be done to align the organization’s work and priorities to attain the executive team’s strategic objectives.

The vital and few strategic objectives should ideally be articulated in a strategy map, which serves as the visual vehicle from which to identify the few and manageable projects and initiatives needed to accomplish each objective, or the specific core processes that the organization needs to excel at. After this step is completed, then KPIs are selected and their performance targets are set. With this understanding, it becomes apparent that the strategy map’s companion scorecard, on its surface, serves more as a feedback mechanism to allow everyone in the organization, from front-line workers up to the executive team, to answer the question: “How are we doing on what is important?” More importantly, the scorecard should facilitate analysis to also know why. As mentioned, the idea is not to just monitor the dials but to move the dials.

To go one step further, a truly complete scorecard system will have business analytics embedded in it. An obvious example would be correlation analysis to evaluate which influencing measures have what degree of explanatory contribution to influenced measures. This way the scorecard becomes like a laboratory to truly optimize size and complexity.

I repeat my earlier statement. Any strategy management system that fails to start with a strategy map and/or reports measures in isolation is like a kite without a string. There is no steering or controlling.

©2013 Balanced Scorecard Institute, a Strategy Management Group company. All rights reserved. Do not copy without permission.