

The Balanced Scorecard

1: A '21st century business challenge'

The Balanced Scorecard (BSC) is a performance measurement concept that addresses three fundamental issues facing modern business:

- a) Many perspectives, not just financial measures, determine success;
- b) Excellent internal business processes and innovation are central to survival;
- c) Translating overall strategic goals to operational goals is often dysfunctional.

2: Management by objectives (the sequel)

BSC takes the guiding principles of management by objectives ("staying focused on goals"), and matches them to the cult of key performance indicators ("you get what you measure") and the zen of balance ("all perspectives are relevant").

3: Four perspectives

The BSC approach allows managers to look at the business from four important perspectives:

- (1) financial perspective – how do we look to shareholders?
- (2) customer perspective – how do the customers see us?
- (3) internal business perspective – what must we excel at?
- (4) innovation and learning perspective – can we continue to improve and create value?

4: Complexity

Most management teams have few problems with setting financial goals and measures but find the various perspectives progressively more tricky, underlining the old adage that "hard is soft (easy), soft is hard (difficult)".

5: How to add value

BSC helps create agreement over what is important in making the real estate team successful in the eyes of senior management. It goes a long way to answer the perennial question "how can we add value?" The answer to this question can help define an individual's 'scorecard' and so support meaningful performance appraisals.

6: Basic understanding

It is important that participants to the development process have some basic understanding of the principles involved. Handing out the Harvard Business Review articles is not the solution. An experienced facilitator needs to provide in-context discussions and ensure each party involved has their say.

7: Getting 'buy in'

One approach is to ask each participant to define their view on possible goals and measures before a workshop session and then debate these 'ideas' in the context of business mission and practicalities of obtaining measurement data. The facilitator then 'normalises' all ideas into an agreed BSC.

8: Critical success factors

An often missing ingredient in the development of a good BSC is some determination of what factors are critical to achieving a particular goal. In practice, some consideration of these is essential in order to test the link between goals and measures.

9: 'Sacrifice and focus'

A guide rule of BSC is that there cannot be too many goals – usually no more than 5 per perspective; less is more. However, to start with select a wide range of goals and metrics. Later on these can be

BSC helps create agreement over what is important in making the real estate team successful in the eyes of senior management.

'rationalised' based on practicalities and cost (see point #11).

10: Control of measures

Achievement of better metrics/measures must be completely in the control of those involved, otherwise people feel unconnected to goal achievement. This may sound obvious, but in an environment with in/out sourced partners, some working under strict service contracts, etc., integration of BSC is not always straight forward.

11: Cost of operation

Select measures that arise out of the natural business process, i.e. do not cost any more to produce and are probably already trusted. It is possible to cost plan a BSC initiative based on this notion and the cost should be very low in addition to what else is already happening.

12: Sustainability

As a one off exercise, BSC workshops help build consensus on what matters. However, a sustainable BSC has to be part of the overall performance measurement system. For this reason, BSC is not something to consider in isolation. Essential connections are with contractor performance, team and personal performance, directly relating BSC to performance indicators.

The Balanced Scorecard **continued**

13: Multi-level

BSC 'structures' should not be exclusive to one part or level of the organization - clearly there is more value in the exercise if it interlinks with legal, sales, senior management, etc. However, most times they are initiated in isolation of other functional units. The best approach is to co-opt someone from other critical interfaces onto the team.

14: Tabular style

The BSC approach starts with the classical star diagram. However, where more than one unit is being considered (senior management, real estate function, contractor, employee), this sort of diagrammatic approach becomes cumbersome. Move to a tabular approach, showing clear associations between hierarchical units' measures.

15: Learning and innovation perspective

This perspective is arguably the most important BSC element of a sustainable organisation. Where does your thought leadership and skills come from? It should include goals related to HR development and succession planning. Consider building a management function in real estate capable of 'organizational learning'.

16: The 'trend line'

The trend in the measures initiates the internal dialogue on what actions actually make a difference (to achieving goals). Collecting data quarterly is best. Reasons should

Where does your thought leadership and skills come from? It should include goals related to HR development and succession planning.

be reported and validated as to why trends are as they are, corrective actions agreed and positive actions reinforced, etc.

17: BSC systems

Data sources for measures can be many, but not arduous to compile if the principle of keeping to existing data-flows and processes is followed. Simple spreadsheets work best (see point #14).

Multi-base compilation may warrant a mini-extranet set up. Adobe Acrobat xml forms, were the form is completed and data in the form then emailed to a database, are also relevant here.

18: Testing the BSC model

The key test is the integrity of the linkage of the actions to delta it measures. Sometimes this process just proves that the goals are too narrowly defined (e.g. for political reasons).

19: Links to other systems

BSC needs to be hooked up to

- Contractual performance measures;
- Personal performance measures;
- Financial reporting system.

Some governance/expenditure approval systems have a requirement to justify a proposal on its positive effects on BSC measures.

20: Four problems with BSC

- Only a few participate – it needs a wide and deep 'fan base' to be sustainable;
- Not enough time given to ensuring all participants are actively engaged, either through contract assessment (money) or personal appraisal (career);
- Data for measures is expensive, slow and arbitrary (not objective) leading to loss of credibility;
- Original goals are constantly changing leading to loss of trend data (at a minimum).

Further reading

- Robert S. Kaplan and David P. Norton. *The Balanced Scorecard – Measures that drive performance*. HBR. Jan/Feb 1992.
- ibid. *Putting the Balanced Scorecard to work*. HBR. Sept/Oct 1993.
- ibid. *Using the Balanced Scorecard as a Strategic Management System*. HBR. Vol 74. No.1. (Jan-Feb) 1996.

This document is part of the "20 Thoughts on..." series, available at www.casp-r.com

INDEPENDENT CORPORATE REAL ESTATE ADVISERS

Hong Kong T: +852 8170 1055 E: info@casp-r.com

THIS ARTICLE CONTAINS THE VIEWS AND OPINIONS OF ITS WRITERS AND CANNOT BE READ AS AN ABSOLUTE PREDICTION OF THE FUTURE.

The information contained in this article may contain forward-looking statements which are subject to certain risks and uncertainties that could cause actual results to differ materially from those projected. These statements are not guarantees of future outcomes and are subject to certain risks, uncertainties and assumptions that are difficult to predict.