

# The relevance of the Balanced Scorecard System in Companies

**Author: Ifeoma Obi . November 2019**

The balanced scorecard is a strategy execution framework developed by Robert Kaplan and David Norton. It is comprised of four perspectives namely the finance perspective, customer perspective, internal processes perspective, and the learning and growth perspective. The perspectives of the Balanced Scorecard are not just the visual containers for the goals – they help to explain the cause-and-effect logic of the strategy.

The balanced scorecard brings about several advantages which include:

## **1. Better Strategic Planning**

The Balanced Scorecard provides a powerful framework for building and communicating strategy. The business model is visualized in a Strategy Map which helps managers to think about cause-and-effect relationships between the different strategic objectives. The process of creating a Strategy Map ensures that consensus is reached over a set of interrelated strategic objectives. It means that performance outcomes, as well as key enablers or drivers of future performance, are identified to create a complete picture of the strategy.

## **2. Improved Strategy Communication & Execution**

Having a one-page picture of the strategy allows companies to easily communicate strategy internally and externally. A picture is worth a thousand words and this facilitates the understanding of the strategy and helps to engage staff and external stakeholders in the delivery and review of the strategy. It is important to remember that it is difficult for people to help execute a strategy which they do not fully understand.

## **3. Better Alignment of Projects and Initiatives**

The Balanced Scorecard help organizations map their projects and initiatives to different strategic objectives.

## **4. Better Management Information**

The Balanced Scorecard approach helps organizations design key performance indicators for their various strategic objectives. Research shows that companies with a BSC approach tend to report higher quality management information and better decision-making.

## **5. Improved Performance Reporting**

The Balanced Scorecard can be used to guide the design of performance reports and dashboards. This ensures that the management reporting focuses on the most important strategic issues and helps companies monitor the execution of their plan.

## 6. Better Organisational Alignment

The Balanced Scorecard enables companies to better align their organizational structure with the strategic objectives. In order to execute a plan well, organizations need to ensure that all business units and support functions are working towards the same goals. Cascading the Balanced Scorecard into those units will help to achieve that and link strategy to operations.

## 7. Better Process Alignment

Well implemented Balanced Scorecards also help to align organizational processes such as budgeting, risk management and analytics with the strategic priorities.

However, mistakes that could be made when developing the balanced scorecard, which therefore hinders the success of its implementation include:

- Not having buy-in and understanding of the tool across the company before you implement it.
- Starting the Balanced Scorecard development with metrics and key performance indicators instead of the strategy. Measures cannot be relevant if they are not firmly based on strategic objectives. The Strategy Map is the first and most important component of any Balance Scorecard, key performance indicators follow once the strategy is clear.
- It is important to note that the strategy map template is a framework to guide your thinking and not one you simply customize with your own words.
- A strategy map has to be a unique representation of your company's strategic objectives at this point in time. It has to be developed with close senior executive engagement and represent the distinctive challenges your company is facing today. It should not be a copy of another company's strategy.
- Not revising and refreshing the Strategy Map, Key Performance Indicators or Action Plans. We all know that your company's priorities shift over time and therefore the Strategy Map, Key Performance Indicators and Action Plans have to reflect that.
- Only using oversimplified Key Performance Indicators to track progress. It is important that the Key Performance Indicators help to track your strategic objectives but instead of developing the most relevant Key Performance Indicators companies often choose the ones that are most easy to measure or the ones everyone else seems to be tracking. More effort has to go into developing truly relevant and meaningful Key Performance Indicators.
- Not having Action Plans linked to the Balanced Scorecard.

In conclusion, to successfully implement the balanced scorecard, companies should set up their [vision, mission, and strategic objectives](#). Thereafter companies should perform a [stakeholder analysis](#) to gauge the expectations of customers and shareholders. From there an inventory of the [critical success factors](#) should be made. Strategic objectives should then be translated into (personal) goals. Key Performance

Indicators to measure the objectives should be set up. Thereafter the values for the objectives that are to be achieved should be determined and lastly the objectives should be translated into operational activities.

*Ifeoma is a Business Analytics and Research Consultant at Industrial Psychology Consultants (Pvt) Ltd, a business management and human resources consulting firm.*

**LinkedIn:** <https://www.linkedin.com/in/ifeoma-obi-92b4b9121/>

**Phone:** +263 242 481946-48/481950

**Mobile:** +263 775 187 283

**Email:** [ifeoma@ipcconsultants.com](mailto:ifeoma@ipcconsultants.com)

**Main Website:** [www.ipcconsultants.com](http://www.ipcconsultants.com)

<https://thehumancapitalhub.com/articles/The-Relevance-Of-The-Balanced-Scorecard-System-In-Companies>