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Balanced Scorecard Implementation Pitfalls to Avoid

There are many Balanced Scorecard implementations where companies don't seem to get all the benefits described above. Research and experience have identified various traps and pitfalls; main ones to avoid are listed below. Taking Strategy Design shortcuts.

Many companies take a balanced scorecard that has been designed by a similar organisation in their industry and just copy it. Others take the four box BSC model and hold a brainstorm session to map objectives into each of the perspectives without ever reflecting on the strategy. Both of these can lead to a BSC that does not reflect your strategy. Creating and agreeing on your own strategy requires efforts, discussions and thinking. Designing your strategy should involve all key stakeholders and ensure that you have a unique set of interrelated objectives that reflect your business at this point in time. Initial external facilitation often helps and allows to overcome internal politics and power struggles. Not Creating a Strategy Map.

Missing out strategy maps is one of the biggest mistakes any organisation can make. Having one integrated set of objectives on one piece of paper is such a powerful tool and the process of designing a strategy map tend to yield some of the biggest benefits. This is supported by research with 157 companies conducted by the Wharton School which finds that only 23% of companies consistently built, analysed, and tested causal models. However, the survey also finds that those organisations which used strategic maps had a 2.95% higher ROA and 5.14% higher ROE than companies that didn't use cause-and-effect models. BSC may not be relevant in a setting where existing strategy is rapidly outdated. The number of banks in USA decreases

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rapidly, from 15. 000 to 10. 000 last decennia, and it's expected to decrease further till 5. 000 banks. # banks, technology, easy to switch from one bank to another bank, mutual funds, increased demand from customers, employees and Taking the Balanced Scorecard Template as a Straight Jacket. Even though the Balanced Scorecard provides a four perspective template, I would advice any organisation to ensure that their BSC reflects their strategy rather than to make their strategy fit the BSC template. Feel free to change perspectives round, rename perspectives and add perspectives in order to make it relevant to your organisation.

If you want to use different names for perspectives to better reflect language used in your organisation then change the names or if you want to put e. g. two perspectives next to each other to reflect parallel processes or multiple stakeholders then do so. In some organisations is has been beneficial not to call it a Balanced Scorecard because of the fact that there are many different interpretations of what a BSC is and because it can be perceived as just another management fad. Give it a name that makes sense in your context. The only essential requirement is that you end up with an interlinked set of objectives mapped into a cause-and-effect map together with a set of meaningful performance indicators.

Seeking Perfection in a Balanced Scorecard.

There are some companies that spend forever trying to create a perfect Balanced Scorecard and therefore never actually start using it. It is important to realise that there will never be a perfect Balanced Scorecard. The world around you changes constantly and therefore the Balanced Scorecard needs

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to change too. However, in order to be practical it is important to agree on one Balanced Scorecard and run with it for a while instead of waiting forever to create something perfect. Lack of Senior Management Support for the Balanced Scorecard. Not having the buy-in and support of key manager and executives can jeopardise the success of any Balanced Scorecard implementation. It is important that key individuals in an organisation are committed to the strategic objectives and performance indicators identified in the Balanced Scorecard. The best way to achieve this is to closely engage them in the process of designing the Balanced Scorecard. Not Involving Staff and External Stakeholders in the Balanced Scorecard design. The Balanced Scorecard is often seen as a top management initiative in which they define what needs to be done and what needs to be measured. However, creating a Balanced Scorecard is a fantastic opportunity to engage with a wider group of internal staff and key external stakeholders. Involving them will yield a better Balanced Scorecard and most importantly help to create buy-in and support. Lack of Balanced Scorecard Understanding.

Many organisations assume that once senior management have agreed on their Balanced Scorecard, strategic map and their indicators everyone will happily implement it and collect and report the data. Don't underestimate the need for training and communication about the Balanced Scorecard initiative and its aims and objectives. Again, this is especially important since there are so many different interpretations of what a Balanced Scorecard is and what it is for. Experience has shown that the support of lower and middle tier managers is essential for the success. Using the Balanced

Scorecard for Additional Top Down Control. As I have outlined in my book “Strategic Performance Management”, one of the main problems with Balanced Scorecards arises when senior managers use the performance indicators identified to apply a command-and-control approach in which they use the indicators to punish or reward people. This creates fear, resistance and cheating. Instead, managers should use their Balanced Scorecards to foster a learning culture where everybody is encouraged to collect performance information to improve future performance. Inflating the Balanced Scorecard with Externally Imposed Indicators.

There is an increasing amount of performance indicators which are imposed on organisations by external regulators or stakeholders such as the government. It is important to separate these indicators from the Balanced Scorecard unless they match the strategic objectives identified in the BSC. Otherwise, they will dilute the strategic message and inflate the amount of indicators. This in turn causes a lack of focus and confusion and runs the danger of making the BSC seen as irrelevant and an administrative burden.

No Resources for the Balanced Scorecard Implementation and Maintenance.

There are organisations which assume that a Balanced Scorecard can be developed and maintained with no additional resources. It is important to give people the time and financial support to make it work. Best practice would be to create an internal team that facilitates the implementation and maintain the system over time. This team needs allocated time and resources to fulfil this role, which usually includes revising and cascading the BSC, collecting the performance indicators, analysing performance

information, facilitating performance reviews and reporting performance. Not up-dating the Balanced Scorecard.

The strategy of any organisation is not static; it has to be revised and changed as the external and internal environments change. It is therefore recommended that depending on dynamics of your environment, the Balanced Scorecard is reviewed as part of your planning cycle – usually every 12 months. Lack of IT support.

Many organisations still rely on spreadsheet applications such as Microsoft Excel to collect, analyse and report their Balanced Scorecard information. Research has shown that organisation wide implementation clearly benefit from more sophisticated performance management software applications designed specifically for the purpose of managing and reporting performance.

Running Parallel Systems

The Balanced Scorecard should be the main tool for managing and monitoring the strategy implementation and the success of the organisation. It is therefore important to align other internal processes with the BSC. Typical processes which need to be aligned include budgeting, project management and risk management. There is a clear danger of misalignment if budgets are created outside the BSC framework and if risks and projects are managed which might or might not be aligned with the corporate strategic objectives identified in the Balanced Scorecard.

In 1993, Chemical Bank and Hanover Corporation concluded a merging process. The new larger banking company was better-positioned to compete with other major players in the market. Michael Hegarty, the head of the Retail Bank Division of Chemical Banking Corporation, wanted to transform the bank into a market-focused organization that would be the financial service provider of choice to targeted customer groups.

This strategy needs major investments to understand customer needs and to identify attractive customer segments. The bank also had to develop and tailor new products to meet customer needs in the targeted segments. For the new larger banking it was a dramatic and extensive strategic change.

Michael Hegarty's biggest problem was communicating and reinforcing the strategy. The balanced scorecard was introduced to define strategic priorities and provide a structure to link strategy, budgeting and results. In other words, the balanced scorecard is one of a set of tools used for strategy formulation and communication. Hegarty's expectations from the scorecard were to give them measures to stay focused on performance, while enabling to clarify and communicate vision, and focus energies for change.

Before analyzing the merger between Chemical Bank and Hanover Corporation, we start by presenting the context in the 90's. Then, we analyze the implementation of the Balanced Scorecard, and the impact of the merger. Finally, in order to compare the merger of Chemical bank with Manufactures Hanover Corporation we treat the merger of two French banks. Our study is based on this following problematic:

How can we develop a more relevant BCS and improve the running of the company?

External Context

In order to introduce Chemical Bank in its environment, and identify the causal links and drivers playing in the BSC, we are going to centralize and choose indicators of the external environment which are not analyzed in the BSC

To analyze the environment of Chemical Bank, it is important to situate it in time, and to discuss the main themes of the era, including the political and economical aspect.

The 90s in the USA registered the end of the recession, and the beginning of the longest growth of the US economy.

Major events of the 90s:

- The collapse of the USSR
- The war in Kuwait
- The war in Yugoslavia
- The war in Rwanda

We also witnessed the birth of the Internet, and new telecommunications networks (improving the ATM). The management software was deployed in enterprises. More generally, the 90s were discovering the beginnings of a computerized society, where information needed to circulate faster. This was the case of Chemical Bank: ATM, BSC Personal incomes doubled from the recession in 1990, and there was higher productivity overall. The North

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American Free Trade Agreement (NAFTA), which phased out trade barriers between the United States, Mexico and Canada, was signed into law in 1994. The following graph illustrates the main waves which took place since 1898.

Competition:

The competition was very intense in the 90's when we witnessed the fourth wave of mergers. After the acquisition of Manufacturers Hanover Corporation in 1991, Chemical Bank became the second biggest bank in the US, behind Citycorp, which was the main competitor of Chemical Bank.

We emphasize five keys to success in an M&A. Two are focused on activities which directly impact the financial performance - the hard keys; and three issues relate to people aspects - the soft keys. We focused on the correlation between the pre-deal and the success of an M&A in order to know if those keys were taken into consideration in this case.

BNP Paribas) we can go forward with the merger project within Chemical Bank by proposing new objectives: Improve pending indicators of the retail bank's balanced scorecard : All " learning and growth" indicators are pending. However we have learned from the BNP Paribas merger, that they are crucial to a successful merger, and to measure employee satisfaction. Indeed we are then able to modify our behaviors in case of communicating problems.

" Performance management systems are the pivotal points used to communicate, motivate and reward employees".

The scorecard cannot win without a good mission statement and vision, an excellent strategy, & good execution. The cultural issues No two companies
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are alike, not just in what they do, but in how they operate at a corporate or functional level. It's important to understand that the type and complexity of the cultural challenge will depend upon the nature of the merger (horizontal merger, vertical merger, diversified conglomerate mergers, and hostile takeovers). The cultural aspects must be incorporated into the merger process from the “ pre-deal planning to the post-deal implementation”.

The biggest problem is that the balanced scorecard does not allow for the finding of solutions, and the implementation of concrete actions. We can already say that “ internal” is the most important aspect to work on. With respect to “ Learning and Growth”, we can identify more problems than positive aspects. Indicators are not yet settled. Indeed we cannot measure employee satisfaction. There is the problem of communication towards employees about the BSC (only 27 top level managers have access to the BSC process).