Opinion

Balancing the business

Andrew Hedley starts a new series examining the application of strategy concepts to professional-service organisations. Here he shows how a balanced scorecard approach can drive performance.

The 'balanced scorecard' has taken its place in the glossary of management terminology to such an extent that it is easy to assume all managing partners are fully conversant with the theory and are applying it to their firms on a daily basis. Neither of these assumptions is necessarily true, however. This piece provides an overview of the theory and suggests ways in which professional-service firms can use it to drive performance by creating a stronger link between strategic objectives and what busy professionals do 'on the ground'.

The balanced scorecard was developed by Robert Kaplan and David Norton in 1990 and first published in a *Harvard Business Review* article in 1991 – 'The Balanced Scorecard – Measures That Drive Performance'. With awareness that continuous improvement is needed to prevent businesses from floundering, the Balanced Scorecard aims to provide a reliable indicator of future performance, not simply a measure of historic results. The name itself reflects the balance sought between long and short-term objectives; financial and non-financial results; lagging and leading indicators and external versus internal performance.

Like many powerful ideas, the fundamentals of the scorecard are simple. The business is viewed from four perspectives – customer; innovation and learning; internal; and financial results. The first three are the causal factors leading to the fourth.

The approach is initiated by setting clear objectives for the whole firm. A strategy to achieve these objectives is then built around the scorecard, with elements of the strategy relating to each of the four dimensions. This allows performance targets to be developed against which progress can be measured.

In order to monitor progress, an information system must be built that provides real-time management reporting and to flag up alerts if any adverse indicators are detected. Dealing with the logistics of aggregating existing information from a number of different sources into a consistent and objective form is a challenge for many firms.

There are solution providers who specialise in linking together these information silos to provide a management dashboard to reflect a balanced-scorecard approach. An example can be seen at www.partnerinsight.com.

A dashboard allows a nested approach to performance management to be adopted; with individuals managing their own performance across the variables. Their contributions build to provide an overview for their group manager, and these then aggregate into a helicopter view of the whole firm to give the managing partner and board the knowledge needed to shape decision making.

There are other approaches that bear similarities to the balanced scorecard, however, and which also demonstrate the business sense of taking a broader perspective. One example is the long-standing European Foundation for Quality Management (EFQM) business-excellence model (see www.efqm.org). By analysing inputs and results across a wide range of high-performing businesses, a strong correlation between excellence across nine factors and market-beating performance has been proven. Managing partners should note that the most important single factor for defining long-term business success is client satisfaction.

For professional firms, it is true that a scorecard-type approach has become more widely adopted. Many performance-management and appraisal systems are now founded on an evaluation of contribution that goes wider than financial measures and looks at ways in which value for the firm as a whole has been created. However, there is much more that firms can do in using these tools to drive performance.

Pressure is building from another direction too. As widespread external investment in professional firms moves to centre stage, the potential impact of the balanced scorecard takes on a whole new dimension – it is increasingly adopted by the investment community as part of a growing recognition that business is about more than last year's figures. This is never truer than in professional services where the strength of the employee and client franchises are fundamental to future success.

The balanced scorecard is a simple yet powerful concept. It allows strategy to be clearly communicated and links performance to desired outcomes. In the increasingly competitive world faced by professional firms it gives managers a key tool to measure and direct actions, and provides professionals with the information they need to shape their performance in pursuit of firm-wide objectives. Managing partners should focus on using the approach to improve efficiencies and results by creating a sustainable and balanced business. ■

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