

Balanced Scorecard

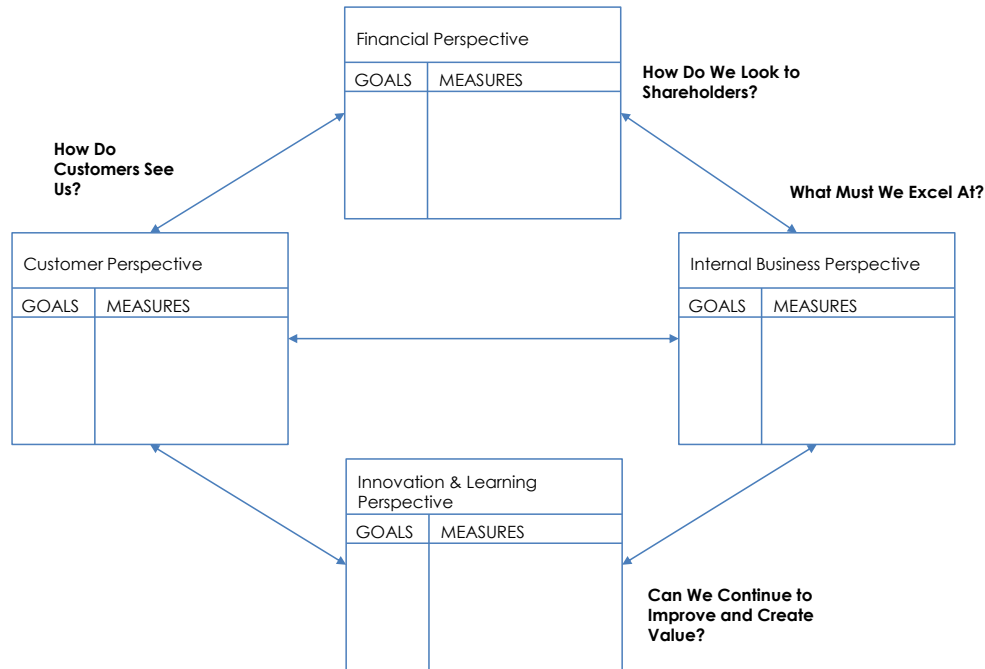
Key Points:

- The Balanced Scorecard (BSC) is the most popular performance management framework in use today with over 50% of large companies using it according to consultants Bain and Company.
- Four perspectives—Financial, Customer, Internal Process and Learning & Growth aggregate various financial and non-financial measures within the overall framework.
- The BSC has evolved over almost two decades into the centerpiece of a strategic performance management system, which helps organizations effectively deploy and govern their business strategies.

Main Thoughts:

In 1992, a large public accounting firm contacted Harvard Business School professor, Robert Kaplan and management consultant, David Norton to help them identify what measures—beyond single or financially-oriented measures alone that firms typically used to manage overall business performance. During their yearlong research project with 12 companies, Kaplan and Norton constructed what is now known as the Balanced Scorecard. The Balanced Scorecard provides managers with a 'balanced' set of business perspectives and associated strategic goals and performance measures that assess both the financial and operational health of a firm. These strategic goals and measures are organized inside four different business perspectives—Financial, Customer, Internal Process and Innovation & Learning as depicted in Figure 1.

Figure 1: Original Balanced Scorecard, 1992 (adapted from Harvard Business Review, January-February 1992)



Today, is more fully defined as a framework that helps organizations translate strategy into operational objectives that drive both behavior and performance. The four perspectives function as follows:

Financial Perspective - Within the financial perspective, organizations ask and address the question, “What must we provide to our shareholders?” The answer to this question may be *increased profit, revenue growth, cost reduction, cash flow improvement or return on investment* goals. The precise quantification of these goals is reflected in the measure paired with each goal. In general, the financial perspective reflects many of the traditional financial performance measures used to manage a business.

Customer Perspective - The customer perspective answers the question, “What must we deliver to our customers?” Normally, customer-centric goals and measures are associated with the articulation and evaluation of the firm’s specific customer value proposition. Attributes such as *price, brand image, service level and relationship* are articulated in this area. An important point to keep in mind when developing customer goals and measures is that they should reflect the customer’s voice, not that of the firm creating them.

Internal Process Perspective - Within the internal process perspective, firms handle the question, “At which processes must we excel to meet our customers’ expectations?” Typically process-oriented goals and measures include such things as *reduce manufacturing cycle time, improve sales process effectiveness and accelerate new product development*. Process goals and objectives constitute the operational levers that a firm can pull to deliver more completely on the goals within the customer value proposition.

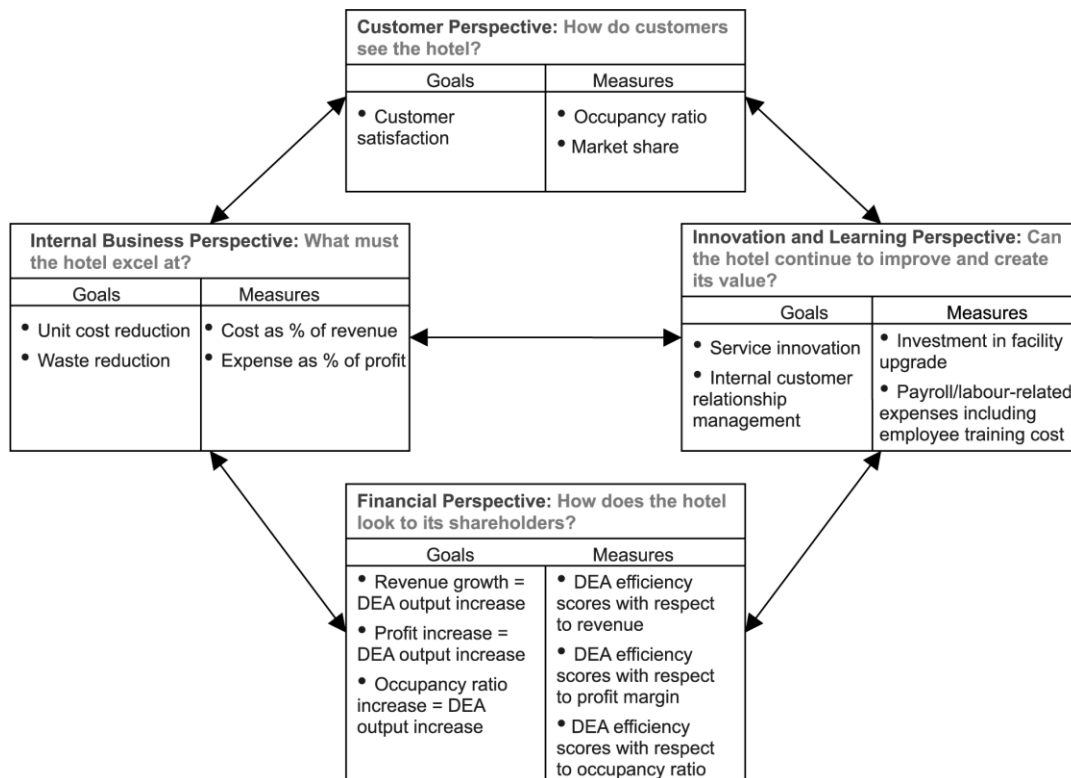
Innovation and Learning Perspective - In the innovation and learning perspective, the firm highlights goals and measures associated with improving the human capital and innovation dimensions of the business as articulated in the question, "What skills and capabilities do we need for the future?" Goals and measures identified in this perspective are linked with *technology improvement, workforce development and cultural enhancement*. In the late 1990's, the concept creators renamed the Innovation and Learning perspective to the Learning and Growth perspective to more fully reflect the human capital aspect of organizational performance.

Using the Balanced Scorecard. Early publications illustrated how to design and deploy a Balanced Scorecard but more recent works emphasize the ways in which organizations can use the BSC to sustain strategic performance improvement. First, the Balanced Scorecard is most effective when paired with the Strategy Map—another tool created by Drs. Kaplan and Norton. The Strategy Map enables a firm to structure the strategy that the Balanced Scorecard measures. Further, through the Strategy Map, the BSC can be linked directly to strategic planning or strategy formulation. Further research found that the Strategy Map and Balanced Scorecard could be used as the centerpieces of a strategic performance management system to enable firms to become both strategy-focused and capture value premiums associated with successful execution. These methodologies are highlighted in the books, *The Strategy-Focused Organization* and *The Execution Premium* both by the concept creators.

As an Example:

Below is an example of a Balanced Scorecard for a luxury hotel.

Figure 2: Min, H., Min, H., Seong-Jong, J., International Journal of Quality & Reliability Management, 2008.



Editorial

Harvard Business Review noted that the Balanced Scorecard was one of the most important management developments of the 1900s. That is a lofty claim, but one that is backed up by substantial evidence from both academics and practitioners. There are scores of performance measurement frameworks available today, but none reduces and assembles a firm's key performance information in such an elegant way.

But the ease with which a BSC can be created belies the complexity of successfully using it in practice. While simplifying goals and focusing both financial and non-financial measures is a useful practice, the real power of the framework comes from effective BSC use by top teams. Managers have to learn to use the measures in the BSC for learning versus control—a significant change for organizations that are steeped in demanding immediate performance improvement. The measures contained in a Balanced Scorecard are meant to challenge the content of a firm's strategy and the assumptions underlying it. When used to this end, the BSC clearly lives up to its billing.

For More Information See:Web

http://www.bain.com/management_tools/home.asp

Magazines & Journals

Harvard Business Review

Books

Kaplan, R., and Norton, D., *The Balanced Scorecard—Translating Strategy Into Action*, Harvard Business School Press, 1996.

Kaplan, R., and Norton, D., *The Strategy-Focused Organization*, Harvard Business School Press, 2000.

Kaplan, R., and Norton, D., *The Execution Premium*, Harvard Business Press, 2006.