
The
**BALANCED
SCORECARD**

Robert S. Kaplan
Harvard Business School

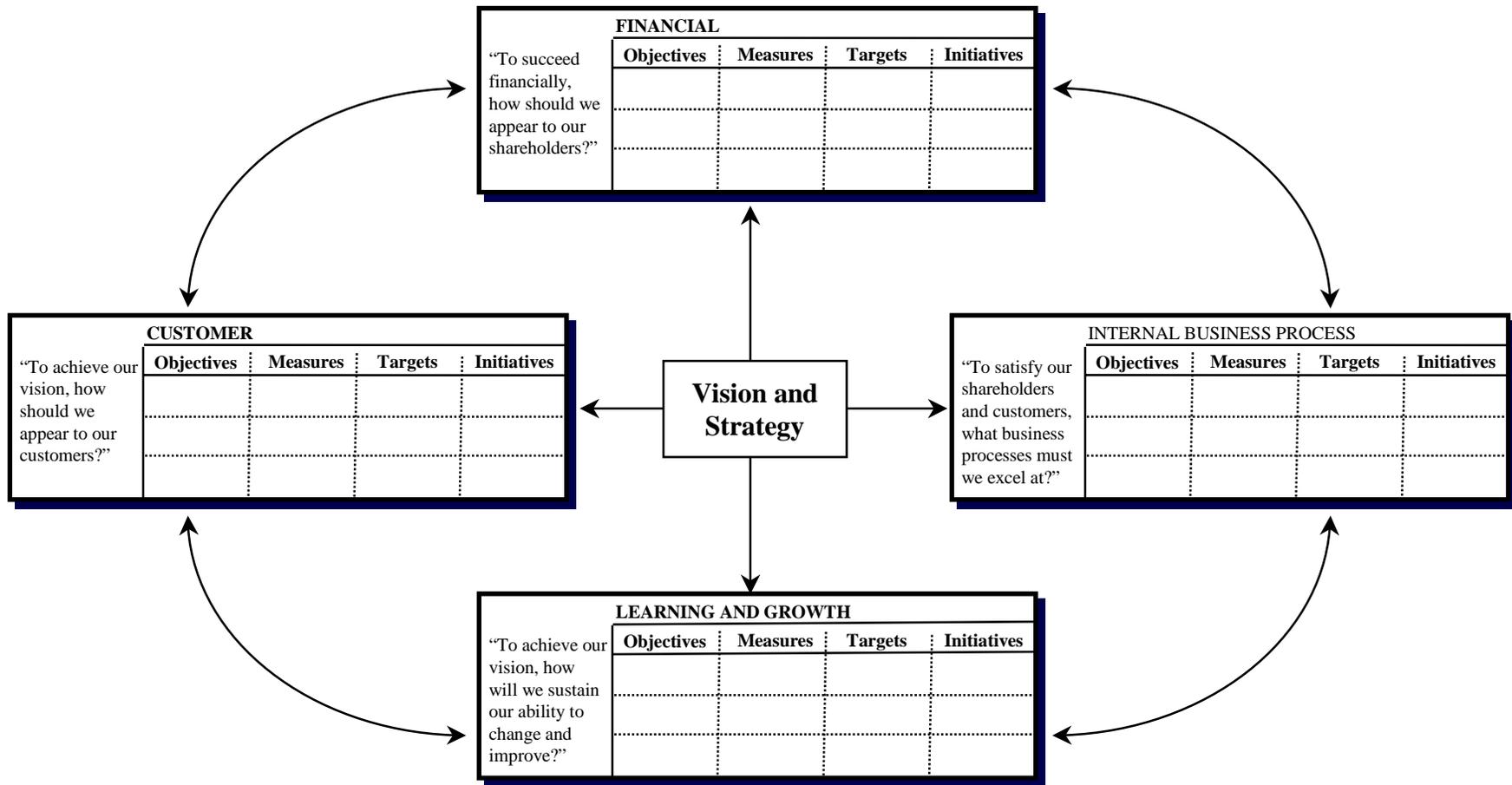
What Is a Balanced Scorecard?

**A Measurement
System?**

**A Management
System?**

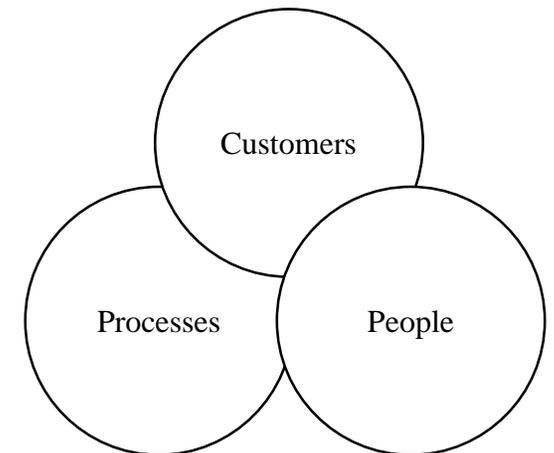
**A Management
Philosophy?**

Translating Vision and Strategy: Four Perspectives



The Balanced Scorecard Focuses on Factors that Create Long-Term Value

- Traditional financial reports look backward
 - Reflect only the past: spending incurred and revenues earned
 - Do not measure creation or destruction of future economic value
- The Balanced Scorecard identifies the factors that create long-term economic value in an organization, for example:
 - Customer Focus: satisfy, retain and acquire customers in targeted segments
 - Business Processes: deliver the value proposition to targeted customers
 - innovative products and services
 - high-quality, flexible, and responsive operating processes
 - excellent post-sales support
 - Organizational Learning & Growth:
 - develop skilled, motivated employees;
 - provide access to strategic information
 - align individuals and teams to business unit objectives



The Four Perspectives Apply to Mission Driven As Well As Profit Driven Organizations

Profit Driven

- What must we do to satisfy our shareholders?
- What do our customers expect from us?
- What internal processes must we excel at to satisfy our shareholder and customer?
- How must our people learn and develop skills to respond to these and future challenges?

Financial Perspective

Customer Perspective

Internal Perspective

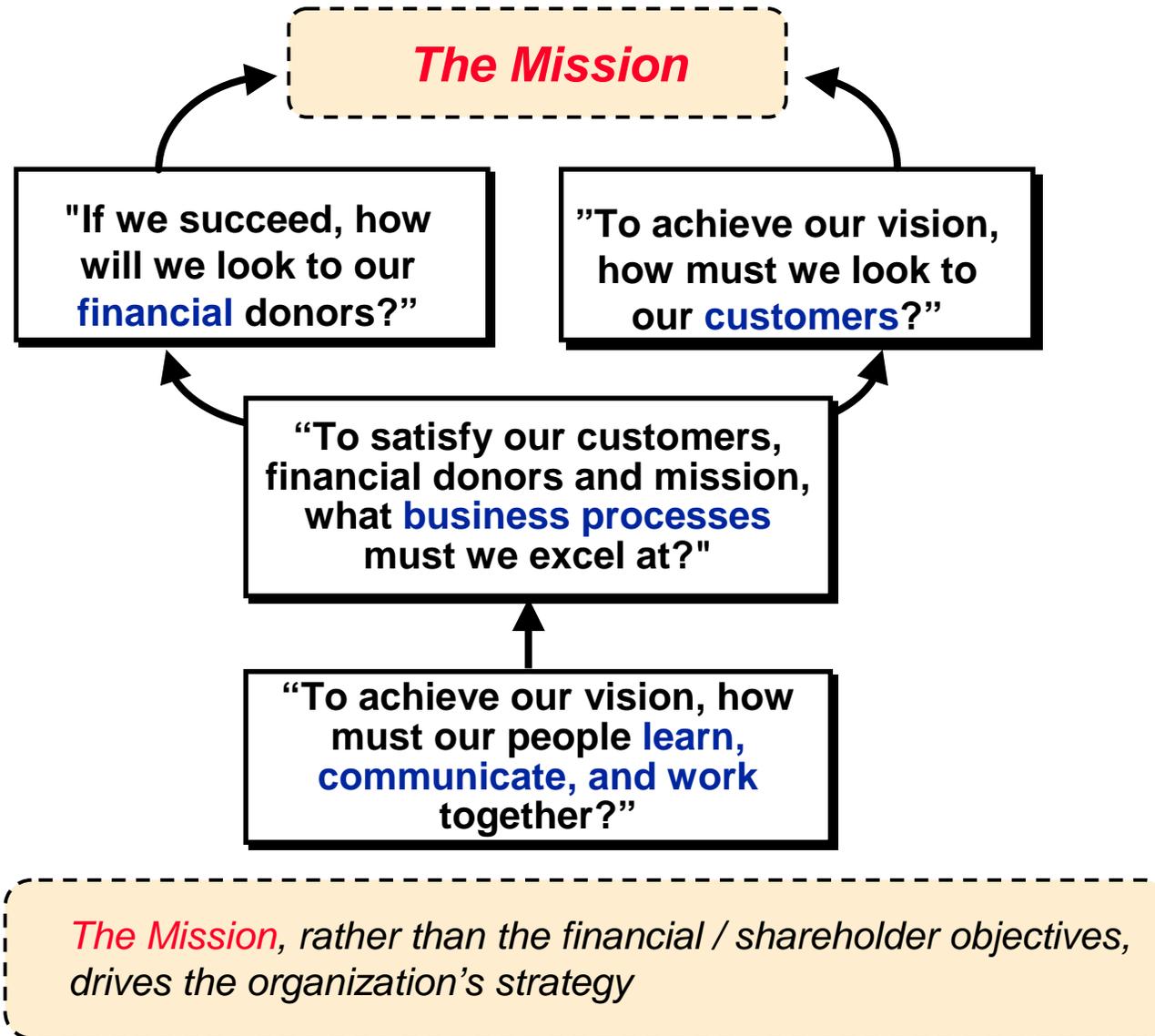
Learning & Growth Perspective

Mission Driven

- What must we do to satisfy our financial contributors?
- What are our fiscal obligations?
- Who is our customer?
- What do our customers expect from us?
- What internal processes must we excel at to satisfy our fiscal obligations, our customers and the requirements of our mission?
- How must our people learn and develop skills to respond to these and future challenges?

Answering these questions is the first step to develop a Balanced Scorecard

The Balanced Scorecard Framework Is Readily Adapted to Non-Profit and Government Organizations

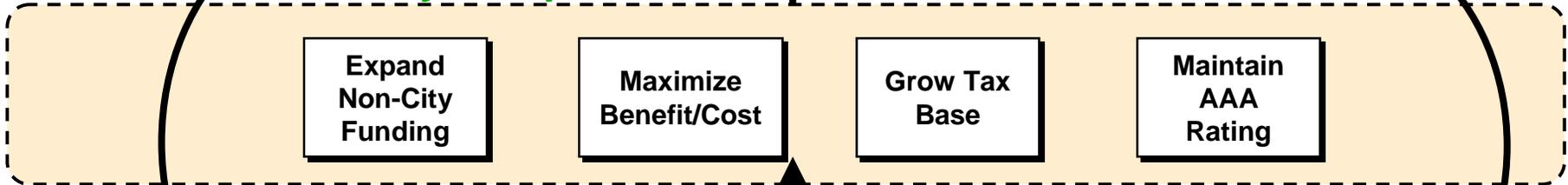


The City of Charlotte Corporate-level Linkage Model

Customer Perspective



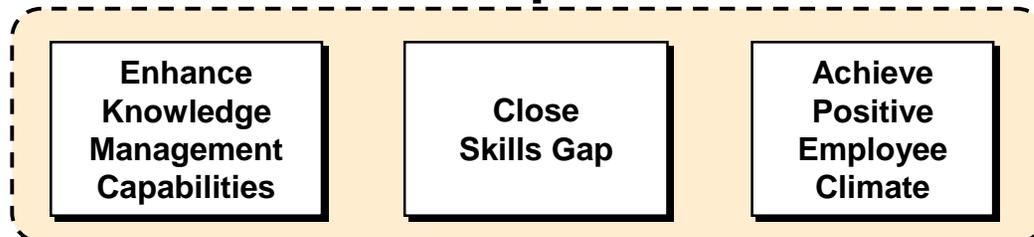
Financial Accountability Perspective



Internal Process Perspective



Learning and Growth Perspective



Why are Companies Adopting a Balanced Scorecard?

- **Change**

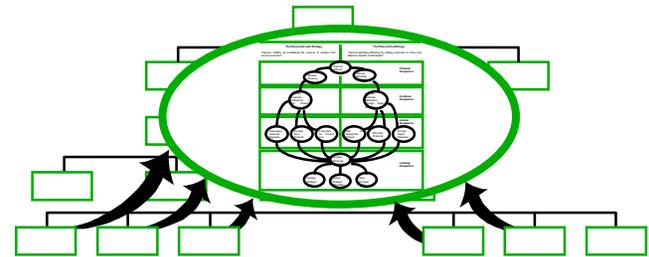
Formulate and communicate a new strategy for a more competitive environment

- **Growth**

Increase revenues, not just cut costs and enhance productivity

- **Implement**

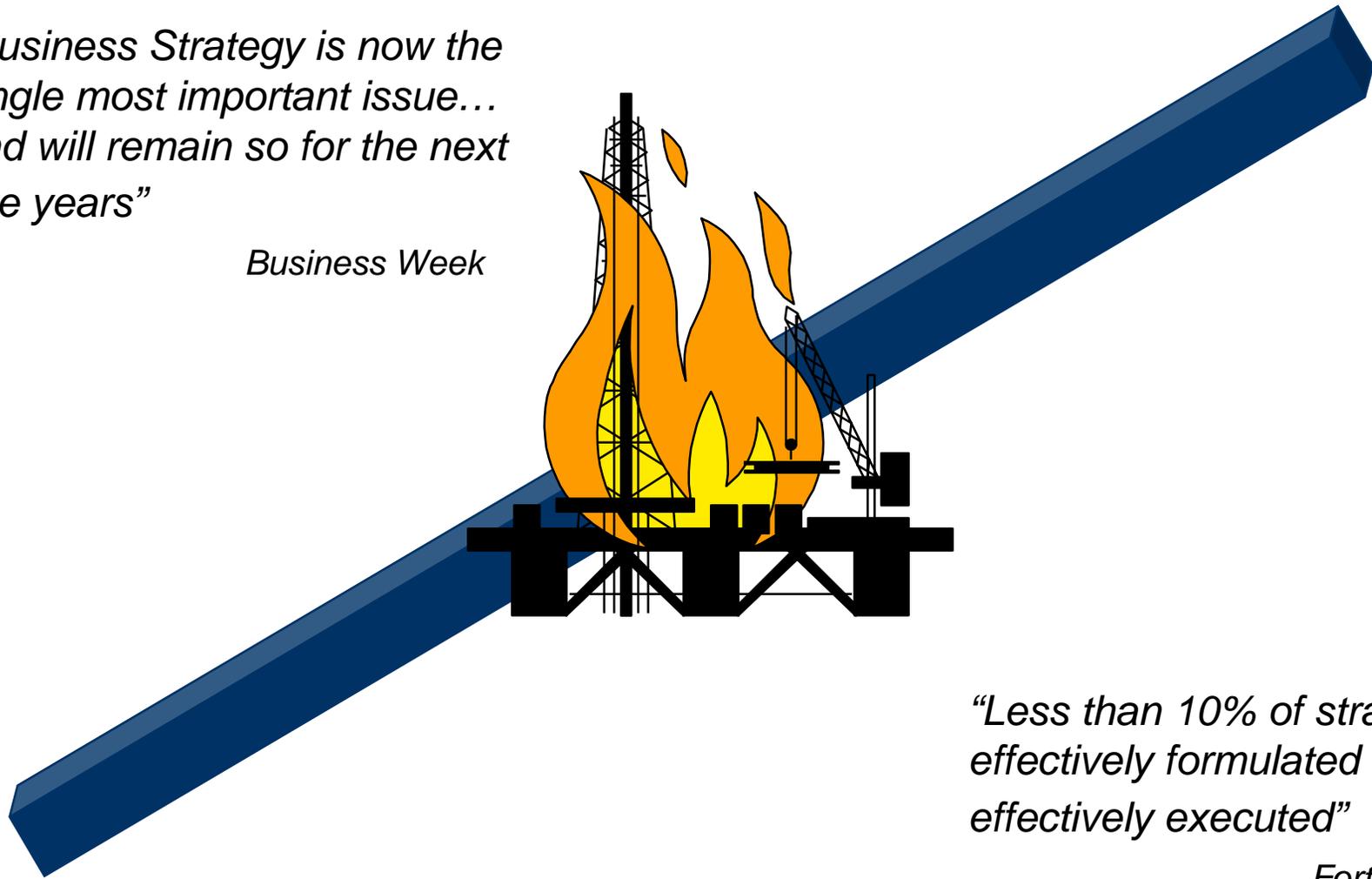
From the 10 to the 10,000. Every employee implements the new growth strategy in their day-to-day operations



Why Do We Need a Balanced Scorecard? To Implement Business Strategy!

“Business Strategy is now the single most important issue... and will remain so for the next five years”

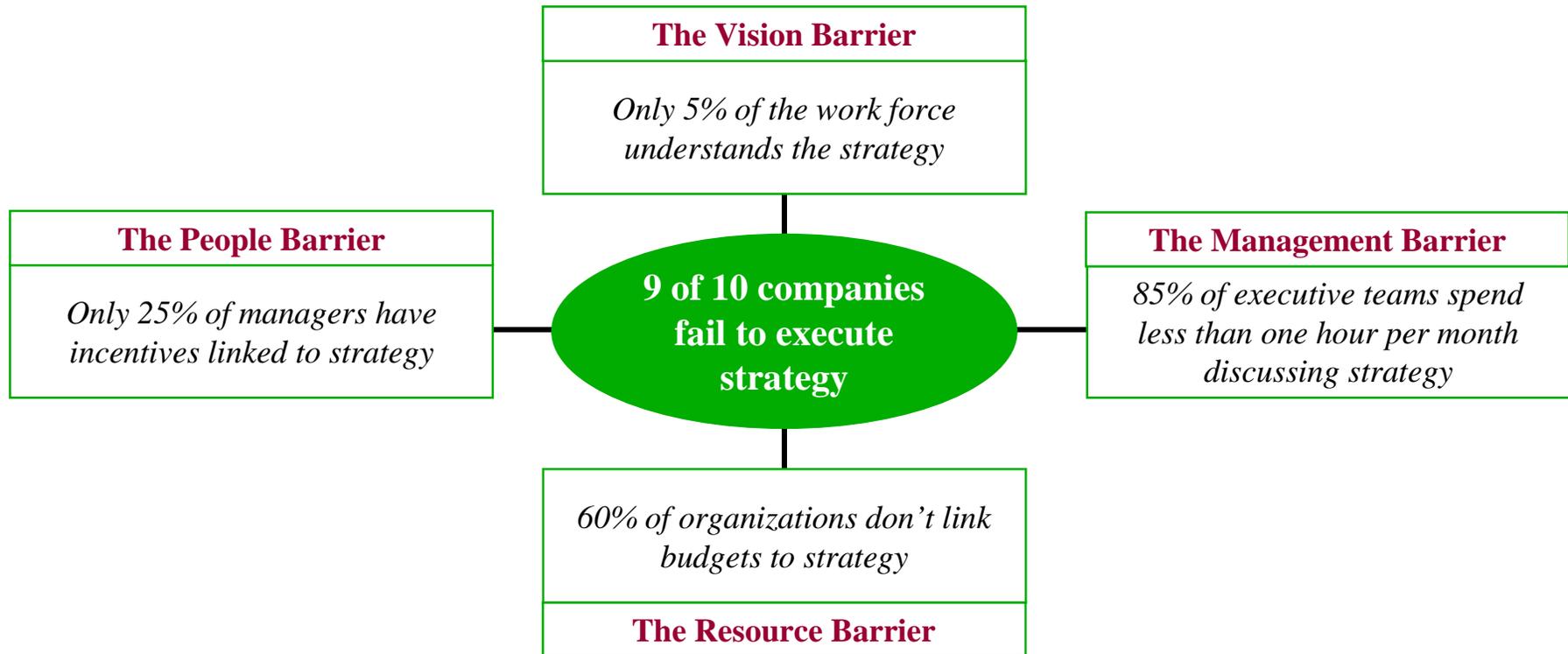
Business Week



“Less than 10% of strategies effectively formulated are effectively executed”

Fortune

Our Research Has Identified Four Barriers to Strategic Implementation



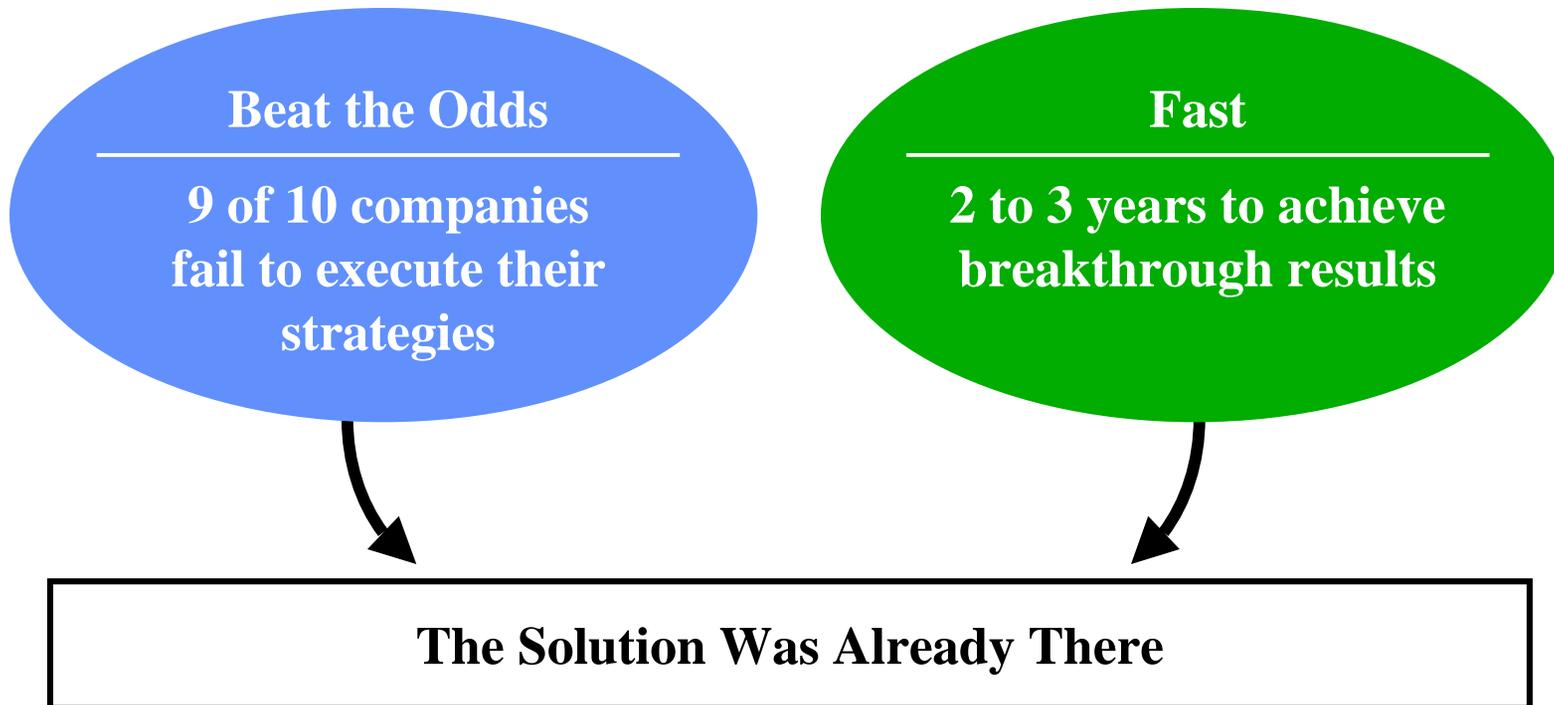
Today's Management Systems Were Designed to Meet The Needs of Stable Industrial Organizations That We're Changing Incrementally

You Can't Manage Strategy With a System Designed for Tactics

Balanced Scorecard “Early Adaptors” Have Executed Their Strategies Reliably and Rapidly

 Mobil (USM&R)	1993	#6 in profitability	1995 1996 1997	#1 in profitability #1 in profitability #1 in profitability										
 CIGNA Property & Casualty	1993	\$275M loss Stock Price = \$59	1994 1995 1996 1997	<table border="0"> <thead> <tr> <th><i>Profit</i></th> <th><i>Stock</i></th> </tr> </thead> <tbody> <tr> <td>\$15M</td> <td>\$74</td> </tr> <tr> <td>\$60M</td> <td>\$114</td> </tr> <tr> <td>\$80M</td> <td>\$146</td> </tr> <tr> <td>\$98M</td> <td>\$205</td> </tr> </tbody> </table>	<i>Profit</i>	<i>Stock</i>	\$15M	\$74	\$60M	\$114	\$80M	\$146	\$98M	\$205
<i>Profit</i>	<i>Stock</i>													
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\$98M	\$205													
 Brown & Root Engineering (Rockwater)	1993	Losing money	1996	#1 in growth and profitability										
 CHEMICAL Retail Bank	1993	Profits = \$x	1994 1995 1996	Profits = \$8x Profits = \$13x Profits = \$19x										

The BSC “Early Adaptors” Have Executed Their Strategies Reliably and Rapidly

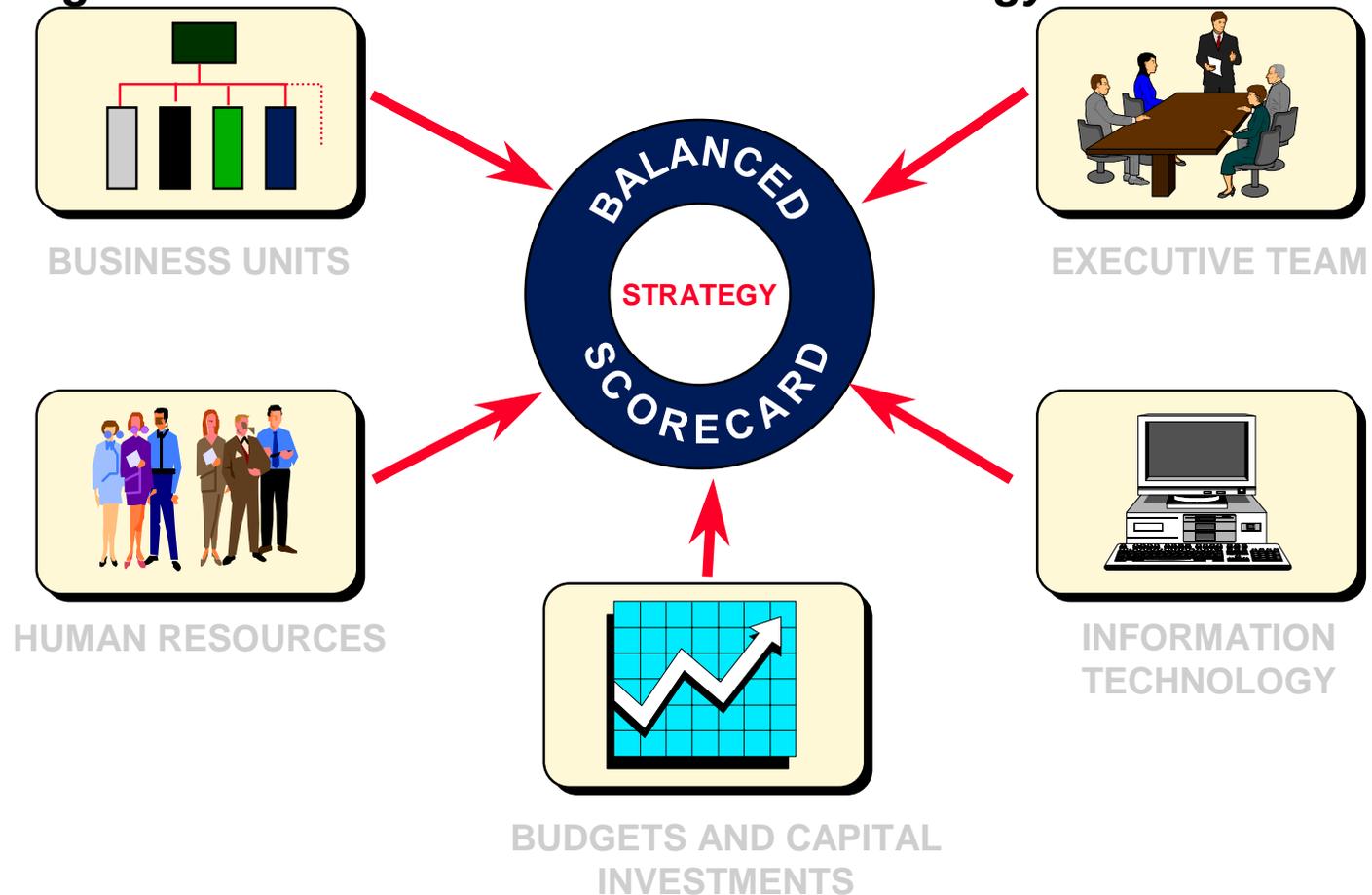


- The BSC helped create focus and alignment to unlock the organization’s “hidden assets”

Question:
*How can complex organizations
achieve results like this in such
short periods of time?*

Answer:
Alignment!

**The Balanced Scorecard process allows an organization
to align and focus all its resources on its strategy**



How Do They Do It?

The Seven Ingredients of Highly Successful Balanced Scorecard Programs

1. A Process to *Mobilize* the Organization and Lead Ongoing Change
2. Scorecards That *Describe the Strategy*
3. Linking Scorecard to Create an *Organization Alignment*
4. Continuous *Communication* to Empower the Workforce
5. Aligning Personal *Goals, Incentives, and Competencies* With the Strategy
6. *Aligning Resources, Budgets and Initiatives* With the Strategy
7. A Feedback Process That Encourages *Learning* and Experience Sharing

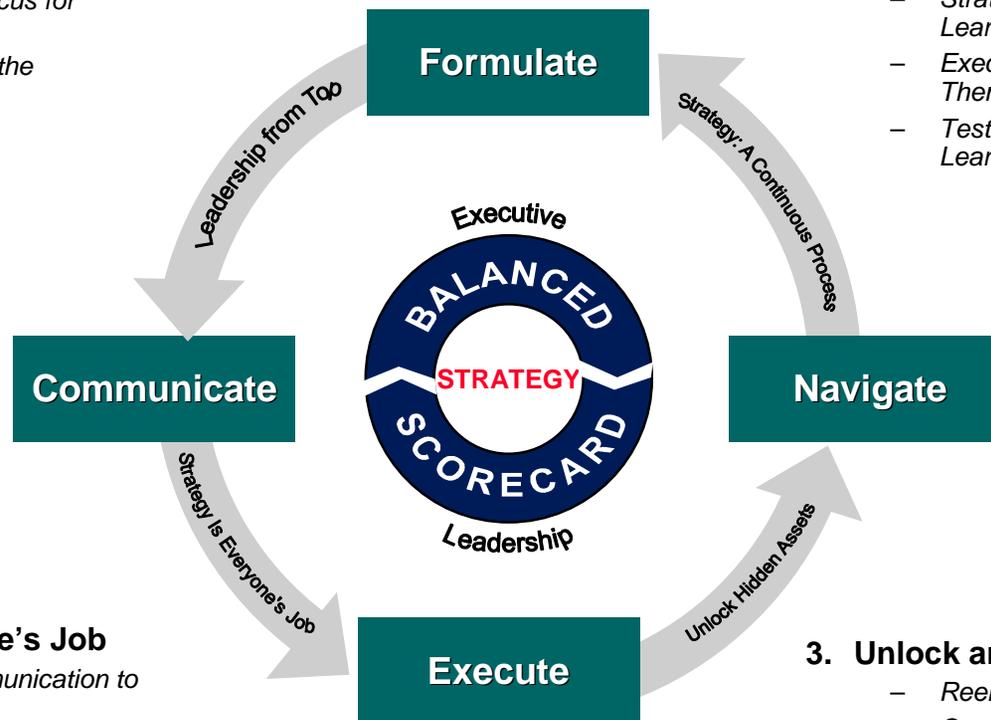
The Ingredients of Highly Successful Balanced Scorecard Programs

1. Leadership From the Top

- Create the Climate for Change
- Create a Common Focus for Change Activities
- Rationalize and Align the Organization

4. Make Strategy a Continuous Process

- Strategic Feedback That Encourages Learning
- Executive Teams Manage Strategic Themes
- Testing Hypotheses, Adapting, and Learning



2. Make Strategy Everyone's Job

- Comprehensive Communication to Create Awareness
- Align Goals and Incentives
- Integrate Budgeting with Strategic Planning
- Align Resources and Initiatives

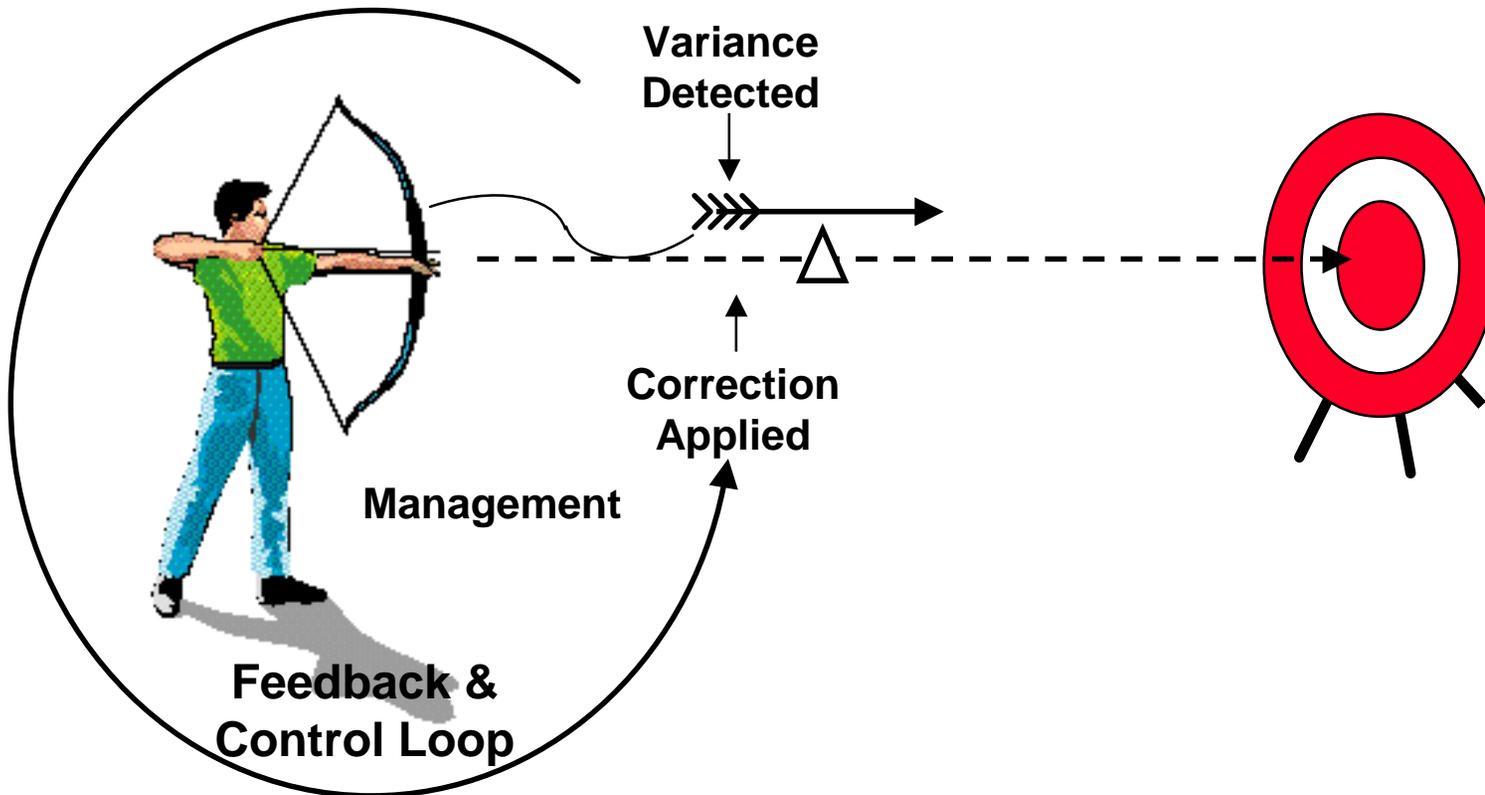
3. Unlock and Focus Hidden Assets

- Reengineer Work Processes
- Create Knowledge Sharing Networks

A Good Balanced Scorecard Tells the Story of Your Strategy

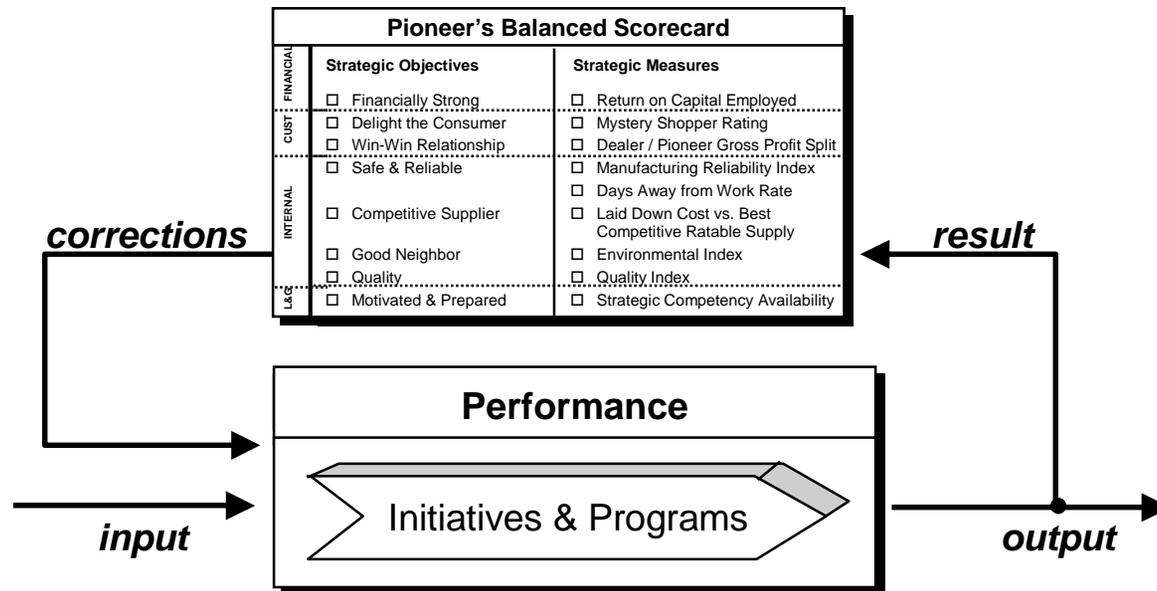
- Every measure is part of a chain of cause and effect linkages
- A balance exists between outcome measures and the performance drivers or desired outcomes

The Problem: Most of Today's Feedback Systems Are "Controls" Oriented



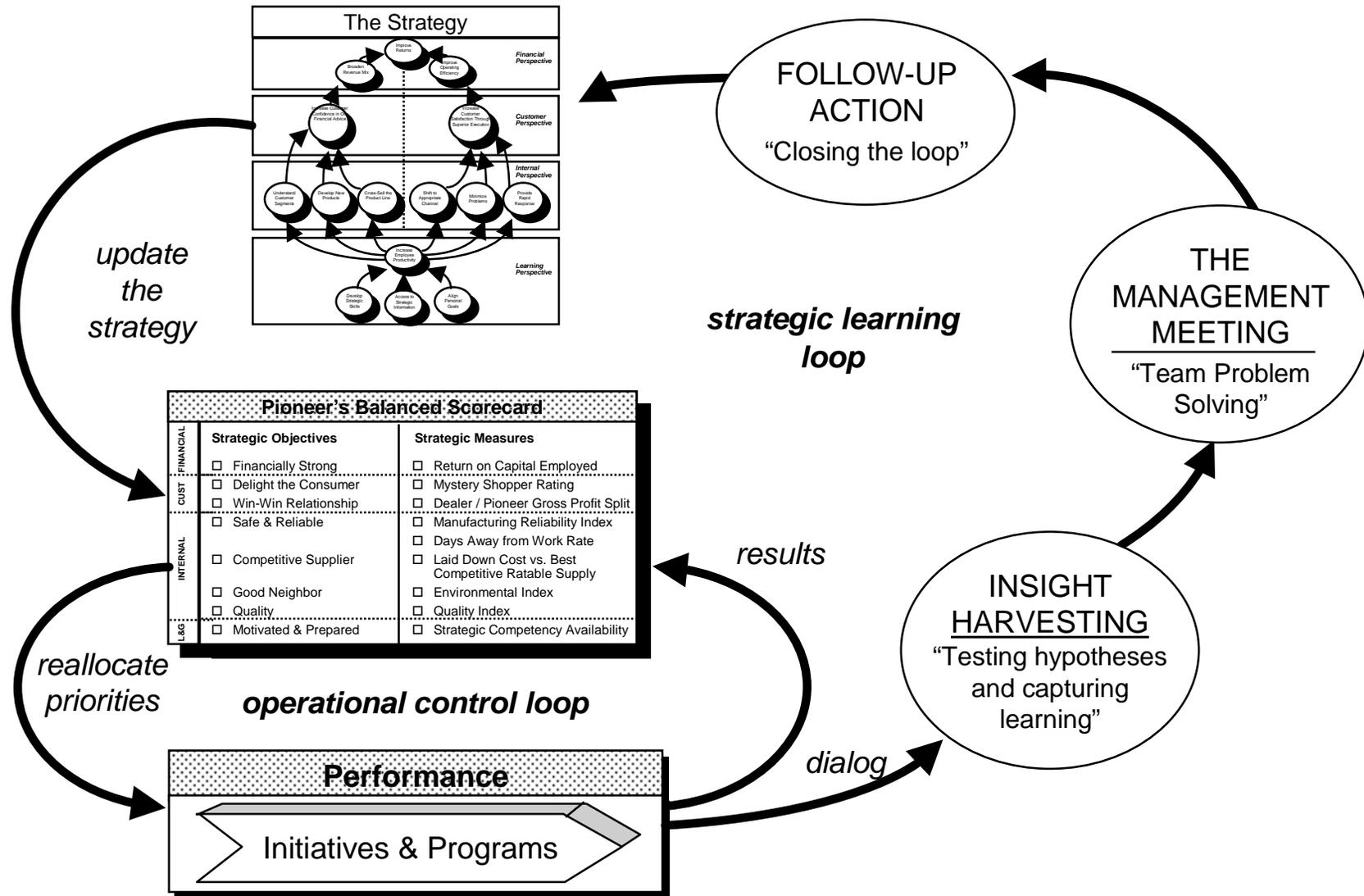
Strategic Learning – Some Basic Concepts...

Replacing the budget with the Balanced Scorecard is a step in the right direction...

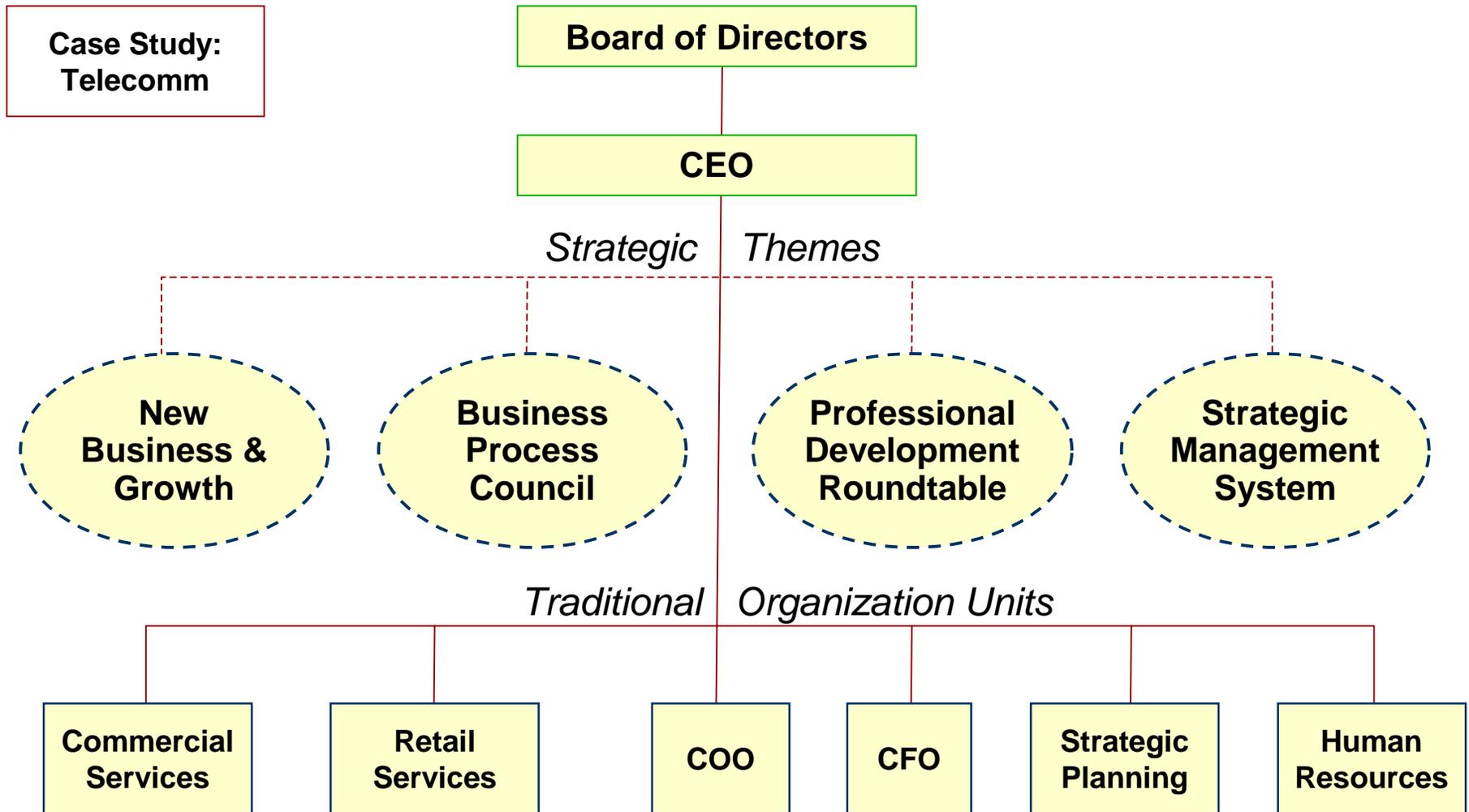


It creates strategic focus but not strategic learning

Strategic Feedback Creates Strategic Learning



A New Structure for Corporate Governance– Executive Team Takes Responsibility for Managing the Strategic Cross-Functional Themes



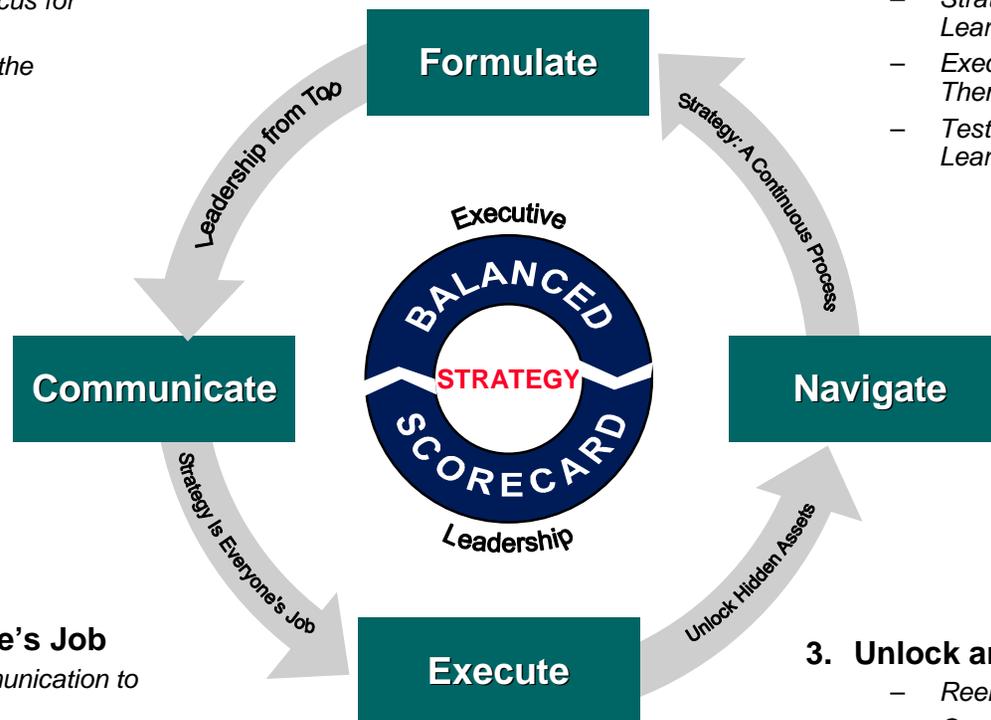
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Not all Environments are Appropriate for a Balanced Scorecard

- **Balanced Scorecard must be driven from the top:**
 - **CEO/COO as sponsor**
 - **Executive leadership team commitment**
- **A clear sense of purpose is required to:**
 - **Drive change**
 - **Clarify and gain consensus about strategy**
 - **Build a senior executive team**
 - **Focus the organization: align programs and investments**
 - **Integrate cross-functionally**
 - **Educate and empower the organization**
- **The dynamics of the senior executive team will determine whether the Balanced Scorecard becomes a strategic management system**

Key Pitfalls to Avoid

Process

- Middle management task force
- Not driven by senior executive team
- Only one or a few individuals involved
- Too long a development process (allowing the “best” to be the enemy of the “good”)
- Delay introduction because of missing measurements
- Static not dynamic process
- Treating the BSC as an EIS

Philosophy

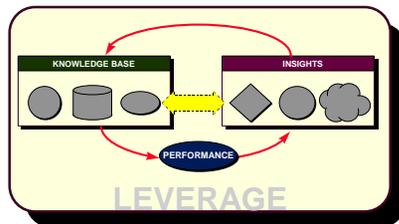
- Measurement to control; not to communicate
- Management dictating actions vs. employee improvisation to achieve desired outcomes
- For management only, not shared with all employees

THE BALANCED SCORECARD MANAGEMENT SYSTEM

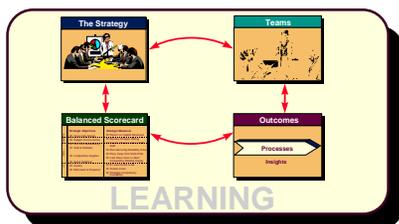
Significant results can be achieved in relatively short periods of time...



Implement a framework to **align** and **focus** the organization from top to bottom on its strategy



Identify the related key change initiatives required to **realize** the strategy and **mobilize** the organization



Create **feedback** processes at all levels to evaluate progress against strategy, monitor and **manage** issues and priorities, and **measure** performance and contribution to the business.

Balanced Scorecard References

Book: *The Balanced Scorecard: Measures that Drive Performance*

HBR Articles (Jan-Feb. '92; Sept-Oct '93; Jan-Feb '96)

Cases: (Mobil, Chemical Bank, Charlotte, Citibank, Wells Fargo)

Videos: Measuring Corporate Performance

CD-ROM Simulation: "Balancing Your Corporate Scorecard"

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For Further Information

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Our Mission:

“To facilitate the worldwide awareness, use, enhancement and integrity of the Balanced Scorecard as a value-added management process”

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Conferences

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