The Balanced Scorecard

Background Discussion
Contents

- History and Evolution
- Important Business Drivers
- Key Concepts
- Case Studies & Success Stories
Business Intelligence (BI) and Knowledge Management (KM)

Delivering Useful Knowledge to People

Potential knowledge

Explicit knowledge

Tacit knowledge

Data

Information

People

Content Mgmt.

Collaboration

Bus. Intelligence

Information

People

Actionable Strategies
The Evolution Of Measurement

Balanced Scorecard

<table>
<thead>
<tr>
<th>Late 20th Century</th>
<th>19th Century</th>
<th>15th Century</th>
</tr>
</thead>
<tbody>
<tr>
<td>Shareholder Value</td>
<td>Management Accounting</td>
<td>Double-entry Bookkeeping</td>
</tr>
<tr>
<td>Competencies/Capabilities</td>
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<td>Competitive Advantage</td>
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<td>Six Sigma</td>
<td>Business Process Reengineering</td>
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<td>Baldrige</td>
<td>Customer Satisfaction</td>
<td></td>
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<td>Comparative Benchmarking</td>
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<td>Operational Improvement</td>
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<tr>
<td>Financial</td>
<td>Strategic</td>
<td>Operational</td>
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Source: Howard Rohm, U.S. Foundation for Performance Measurement
Brief History of the BSC

**Measurement & Reporting**
1992

**Alignment & Communication**
1996

**Enterprise Strategic Management**
2000

*Articles in Harvard Business Review:*

- “The Balanced Scorecard — Measures that Drive Performance” Jan-Feb 1992
- “Putting the Balanced Scorecard to Work” Sept-Oct 1993
- “Using the Balanced Scorecard as a Strategic Management System” Jan-Feb 1996

Recognized by the Harvard Business Review as one of the “most important management practices of the past 75 years.”
What is the Balanced Scorecard?

- Strategic Measurement System
- Strategic Management System
- Strategic Communication Tool
- BSC

Actionable Strategies
BSC as a Strategic Measurement System

- Strategic Measurement System
- Strategic Management System
- Strategic Communication Tool

BSC
Shortcomings with Typical Measures

- Most financial measures are lagging
- People don’t know how to impact them
- They can motivate unwise, short-term behaviors
- They do a poor job at measuring intangible assets
- They are poor at measuring value creation
## Four “Balanced” Perspectives

<table>
<thead>
<tr>
<th>Perspective</th>
<th>Key Question</th>
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<tbody>
<tr>
<td><strong>Financial</strong></td>
<td>To succeed financially, how should we appear to our stakeholders?</td>
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<tr>
<td>The drivers of Shareholder Value</td>
<td></td>
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<tr>
<td><strong>Customer</strong></td>
<td>To achieve our vision, how should we appear to our customers?</td>
</tr>
<tr>
<td>The differentiating value proposition</td>
<td></td>
</tr>
<tr>
<td><strong>Internal Business Processes</strong></td>
<td>To satisfy our customers and shareholders, what business processes must we excel at?</td>
</tr>
<tr>
<td>How value is created and sustained</td>
<td></td>
</tr>
<tr>
<td><strong>Learning &amp; Growth</strong></td>
<td>To achieve our vision, how will we sustain our ability to change and improve?</td>
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<tr>
<td>Role for intangible assets – people, systems, climate and culture</td>
<td></td>
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</tbody>
</table>
Leading vs. Lagging Measures

**Lagging**—measures that report outcomes after they have happened
- Most financial measures
- Outcomes of Cause & Effect chains

**Leading**—measures that indicate future results
- Number of Lean initiatives implemented
- Workforce turnover
- Training provided
- Defects in products shipped
- Product development cycle time
What is the Balanced Scorecard?
“If you can’t measure it, you can’t manage it.”

Robert Kaplan and David Norton
Authors of “The Balanced Scorecard”

“You can’t manage something that you can’t describe!”
Underlying Business Concerns

- Increased competition
- Changing market conditions
- More demanding customers
- Greater need for alignment and communication
- Need to make better decisions faster
- Difficulty in implementing strategies
- Understanding non-financial factors
The Gap

**Mission**
Why we exist

**Values**
What’s important to us

**Vision**
What we want to be

**Strategy**
Our game plan

How do you communicate and operationalize strategy?

**Total Quality Management**
What we want to improve

**Empowerment / Personal Objectives**
What I need to do

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Actionable Strategies
Only 10% of Strategies are Successfully Executed

Barriers to Strategy Execution

- **Vision Barrier**: Only 5% of the workforce understands the strategy
- **People Barrier**: Only 25% of managers have incentives linked to strategy
- **Management Barrier**: 85% of executive teams spend less than one hour per month discussing strategy
- **Resource Barrier**: 60% of organizations don’t link budgets to strategy

Communication

Adapted from Kaplan and Norton - The Strategy-Focused Organization, 2000 And Paul Niven, BSC Step-by-Step 2003
The Need for a Descriptive Framework

“The first task of any theory is to clarify terms and concepts that are confused… Only after agreement has been reached regarding terms and concepts can we hope to consider the issues easily and clearly, and expect to share the same viewpoint with (others).

On War, Carl von Clausewitz, 1832

“From Art to Science: Formulating, Describing and Executing Strategy”

Title of the 2002 Balanced Scorecard Collaborative Summit
The BSC Fills the Gap

Mission
Why we exist

Values
What’s important to us

Vision
What we want to be

Strategy
Our game plan

Balanced Scorecard
Translate, Focus and Align

Total Quality Management
What we want to improve

Empowerment / Personal Objectives
What I need to do

Begin Using BSC Terms & Techniques

Source: Kaplan, 2002
The BSC Fills the Gap

Mission
Why we exist

Values - What's important to us

Vision - What we want to be

Strategy - Our game plan

Balanced Scorecard
Translate, Focus and Align

Strategic Initiatives
What are the priorities?

Total Quality Management - What we want to improve

Empowerment / Personal Objectives
What I need to do

Satisfied Shareholders
Delighted Customers
Efficient & Effective Processes
Motivated & Prepared Workforce

Strategic Outcomes

Source: Kaplan, 2002
“A balanced scorecard is a system of linked objectives, measures, targets, and initiatives which collectively describe the strategy of an organization and how the strategy can be achieved.

It can take something as complicated and frequently nebulous as strategy and translate it into something that is specific and can be understood.”
Strategic Initiatives

G1: Personnel +
G2: Intelligence +
G3: Operations +
G4: Logistics +

Strategy
“Strategy is the use of engagements to achieve the objectives of the war”

“Strategy determines the plans for individual campaigns, and orders the engagements within them.”

Tactics
“Tactics deal with the forms of individual engagements”

References: On War, von Clausewitz, 1832
Clausewitz on Strategy BCG Strategy Institute 2001
**Mission**: To create sustained value for the stakeholders, consistent with the mission

**Customer Value Proposition**: The set of objectives which create value for the customers

**Themes**: The complimentary, enduring classes of action required to sustain value. Themes cross multiple perspectives and scorecards.

**Strategic Initiatives**: Specific actions designed to help accomplish the strategic objectives.

Source: Balanced Scorecard Collaborative
# Measures, Targets & Initiatives

<table>
<thead>
<tr>
<th>Objectives</th>
<th>Measures</th>
<th>Targets</th>
<th>Initiatives</th>
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<tbody>
<tr>
<td>Increase customer confidence in our advice</td>
<td>% of customers surveyed who rate us as their top source of advice.</td>
<td>65% #1, 90% #1 or #2</td>
<td>Website Resource Center, Consultative Selling Training Program</td>
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## Objectives

### What is the strategy trying to achieve?

Increase customer confidence in our advice

## Measures

### How will the performance of the Objectives be monitored?

% of customers surveyed who rate us as their top source of advice.

## Targets

### What performance level is required?

65% #1, 90% #1 or #2

## Initiatives

### What are the actions or programs to achieve the target?

Website Resource Center, Consultative Selling Training Program
Balanced vs. KPI Scorecards

- KPI Scorecards generally show measures that are not specifically tied to a strategy.
- The process of developing a BSC often leads to objectives and measures not previously considered.
- KPI Scorecards tend to be a summary level of data analysis.
- KPI Scorecards are often used by executives to monitor behavior.
- Balanced Scorecards should be widely communicated to drive strategy.
What is the Balanced Scorecard?
Strategy Focused Organization

Mobilize change through Executive Leadership

Mobilization/Communication Strategic Management

Make Strategy a Continual Process

Learning Organization Analytics and IS Link budgets & strategy

Translate the Strategy into Operational Terms

Strategy Maps Balanced Scorecard Integrate operational tools

Align the Organization to the Strategy

Corporate role Business Unit synergies Support Unit synergies

Make Strategy Everyone’s Job

Strategic awareness Personal scorecard & compensation Cascading the Balanced Scorecard
Mobil Oil Marketing & Refining Division
- Worst (’93) to first in their industry (’95-98)
- Contributed several hundred million $/year

How did they do this?
- Most of the same leaders
- Almost no change in facilities
- Competitors had the same market

What gets the credit?
- Executives credit the Balanced Scorecard
Wendy’s Int’l: 2002 Hall of Fame Winner

About Wendy’s Int’l
- $8.3 billion in sales. 8400 restaurants
- Competitive fast food market

BSC created focus on Non-financial objectives
- Strategy that emphasized speed at the drive-thru
- Reduce staff turnover

Results in 2 years
- Crew turnover & drive-thru speed dramatically improved to best in the industry
- Big financial rewards
  - Big boost in profits
  - Stock price increased 75%
Financial Services Success Stories

**Chemical Bank:** Retained 85-90% of targeted customer accounts in spite of massive branch closings resulting from a merger.

**Cigna P&C:** Within six years, changed from a company with negative value to one with a 3.5 billion dollar price tag.

**At Skandia:** Sales were up 48% for the year 2000, operating profit was up 22%, and share price rose 19% in 2000.
Financial Services Success Stories

**Unibanco**: Client based more than tripled as resources in their business units aligned around a common strategy.

**Wells Fargo**, the industry leader in electronic banking, implemented a Balanced Scorecard in its online financial services group (OFS) that enabled them to strategically prioritize an array of new initiatives.
High Percentage of Failures

- Misunderstanding of the concept
- Not easy to implement
- Pioneers lacked tools and techniques

“The biggest mistake that organizations make is thinking that the scorecard is just about measures. Quite often they will develop a list of financial and non-financial measures and believe they have a scorecard. This, I believe, is dangerous.” Dr. Norton
The Success at Mobil

The dynamics of a Strategy-Focused Organization

Key Lessons

- Educate people on the strategies
- Show people the measures regularly
- Cascade the scorecards down
- Encourage people to think “out of the box”
- Reward creative suggestions
The Journey

Source: Howard Rohm
Valuable Resources

Books
- The Strategy Focused Organization (Norton & Kaplan)
- Balanced Scorecard: Step by Step (Paul Niven)
- Winning Score (Mark Graham Brown)

www.bscol.com
- Netconferences – Free, Valuable

www.bscf-toolkit.com
- BSCF White Paper
- More information

Other good resources
- www.balancedscorecard.org