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

### Vision and Strategy

<table>
<thead>
<tr>
<th>Financial</th>
<th>Learning and Growth</th>
<th>Customer</th>
<th>Internal Business Process</th>
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<tbody>
<tr>
<td><strong>Objectives</strong></td>
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<td><strong>Measures</strong></td>
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<td><strong>Targets</strong></td>
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<td><strong>Initiatives</strong></td>
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**FINANCIAL**

“To succeed financially, how should we appear to our shareholders?”

**LEARNING AND GROWTH**

“To achieve our vision, how will we sustain our ability to change and improve?”

**CUSTOMER**

“To achieve our vision, how should we appear to our customers?”

**INTERNAL BUSINESS PROCESS**

“To satisfy our shareholders and customers, what business processes must we excel at?”
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?**

### Mission Driven

- **Financial Perspective**
  - What must we do to satisfy our **financial contributors**?
  - What are our fiscal obligations?
- **Customer Perspective**
  - **Who is our customer**?
  - What do our customers expect from us?
- **Internal Perspective**
  - What internal processes must we excel at to satisfy our fiscal obligations, our customers and the requirements of our mission?
- **Learning & Growth Perspective**
  - 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 Mission

"If we succeed, how will we look to our financial donors?"

"To achieve our vision, how must we look to our customers?"

"To satisfy our customers, financial donors and mission, what business processes must we excel at?"

"To achieve our vision, how must our people learn, communicate, and work together?"

The Mission, rather than the financial / shareholder objectives, drives the organization’s strategy
The City of Charlotte Corporate-level Linkage Model

**Customer Perspective**
- Reduce Crime
- Increase Perception of Safety
- Strengthen Neighborhoods
- Improve Service Quality
- Availability of Safe, Convenient Transportation
- Maintain Competitive Tax Rates
- Promote Economic Opportunity

**Financial Accountability Perspective**
- Expand Non-City Funding
- Maximize Benefit/Cost
- Grow Tax Base
- Maintain AAA Rating

**Internal Process Perspective**
- Increase Positive Contacts
- Promote Community Based Problem Solving
- Secure Funding/Service Partners
- Improve Productivity
- Streamline Customer Interactions
- Increase Infrastructure Capacity
- Promote Business Mix

**Learning and Growth Perspective**
- Enhance Knowledge Management Capabilities
- Close Skills Gap
- Achieve Positive Employee Climate
- Promote Community Based Problem Solving

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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

The Vision Barrier

Only 5% of the work force understands the strategy

The People Barrier

Only 25% of managers have incentives linked to strategy

9 of 10 companies fail to execute strategy

The Management Barrier

85% of executive teams spend less than one hour per month discussing strategy

The Resource Barrier

60% of organizations don’t link budgets to strategy

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

<table>
<thead>
<tr>
<th>Mobil</th>
<th>1993</th>
<th>#6 in profitability</th>
<th>1995</th>
<th>#1 in profitability</th>
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<td>(USM&amp;R)</td>
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<tr>
<th>CIGNA</th>
<th>1993</th>
<th>$275M loss</th>
<th>1994</th>
<th>Profit</th>
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<tbody>
<tr>
<td>Property &amp; Casualty</td>
<td></td>
<td>Stock Price = $59</td>
<td>1995</td>
<td>$60M</td>
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<td></td>
<td></td>
<td>1996</td>
<td>$80M</td>
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<td></td>
<td></td>
<td>1997</td>
<td>$98M</td>
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<tr>
<th>Brown &amp; Root Engineering</th>
<th>1993</th>
<th>Losing money</th>
<th>1996</th>
<th>#1 in growth and profitability</th>
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<td>(Rockwater)</td>
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<tr>
<th>CHEMICAL</th>
<th>1993</th>
<th>Profits = $x</th>
<th>1994</th>
<th>Profits = $8x</th>
</tr>
</thead>
<tbody>
<tr>
<td>Retail Bank</td>
<td></td>
<td></td>
<td>1995</td>
<td>Profits = $13x</td>
</tr>
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<td></td>
<td></td>
<td></td>
<td>1996</td>
<td>Profits = $19x</td>
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The BSC “Early Adaptors” Have Executed Their Strategies Reliably and Rapidly

Beat the Odds
9 of 10 companies fail to execute their strategies

Fast
2 to 3 years to achieve breakthrough results

The Solution Was Already There

• The BSC helped create focus and alignment to unlock the organization’s “hidden assets”
The Balanced Scorecard process allows an organization to align and focus all its resources on its strategy.

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

Answer: Alignment!
# 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

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

4. Make Strategy a Continuous Process
   - Strategic Feedback That Encourages Learning
   - Executive Teams Manage Strategic Themes
   - Testing Hypotheses, Adapting, and Learning
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...

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<td>Days Away from Work Rate</td>
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<td>Laid Down Cost vs. Best Competitive Ratable Supply</td>
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<td>Environmental Index</td>
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<td>Quality Index</td>
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<td>Strategic Competency Availability</td>
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It creates strategic focus but not strategic learning
Strategic Feedback Creates Strategic Learning

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**Pioneer’s Balanced Scorecard**

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<td>Competitive Supplier</td>
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**The Strategy**

**Operational Control Loop**

**Insight Harvesting**

“Testing hypotheses and capturing learning”

**FOLLOW-UP ACTION**

“Closing the loop”

**THE MANAGEMENT MEETING**

“Team Problem Solving”

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

Case Study: Telecomm

Board of Directors

CEO

Strategic Themes

New Business & Growth

Business Process Council

Professional Development Roundtable

Strategic Management System

Traditional Organization Units

Commercial Services

Retail Services

COO

CFO

Strategic Planning

Human Resources

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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

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<th>Philosophy</th>
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<td>• Middle management task force</td>
<td>• Measurement to control; not to communicate</td>
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<tr>
<td>• Not driven by senior executive team</td>
<td>• Management dictating actions vs. employee improvisation to achieve desired outcomes</td>
</tr>
<tr>
<td>• Only one or a few individuals involved</td>
<td>• For management only, not shared with all employees</td>
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<tr>
<td>• Too long a development process (allowing the “best” to be the enemy of the “good”)</td>
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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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• Fax: (617) 495-6985
• Internet: www.hbsp.harvard.edu
For Further Information

Visit Our Website

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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