

# Balanced Scorecard

Successful strategy execution has two basic rules: understand the management cycle that links strategy and operations, and know what tools to apply at each stage of the cycle (Kaplan and Norton, 2008).



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### Introduction

The Balanced Scorecard, developed by Kaplan and Norton (1992), functions as a communication tool, a planning and control tool, and a strategic learning tool. It is designed to reduce over-reliance on traditional financial accounting methods as a means of managing performance which are increasingly seen as being ineffective for the modern firm (Phadtare, 2010; Sundin, 2010; Tayler, 2010). The BSC perspective proposes that organisations incorporate non-financial performance indicators into their business models to improve overall effectiveness (Phadtare, 2010; Tayler, 2010).

According to Kaplan and Norton (1996), the BSC acts as a powerful, strategic weapon when used effectively. To counteract the potential bias which can arise from using only financial performance indicators, the BSC argues that managers should look at their organisation from four perspectives: (1) the customer perspective (how do customers perceive us?); (2) the internal perspective (what must we excel at?); (3) the learning and growth perspective (can we continue to improve and create value?); and (4) the financial perspective (how do we appear to our shareholders?). These four perspectives are said to have a cause-effect relationship and together can equip organisations with an integrated performance measurement framework (Kaplan and Norton, 1992).

The BSC encourages managers to balance various dimensions of performance and recognises that aspects of a firm are interdependent, thereby providing a richer perspective. As Drury (2004) explains, organisational learning and growth measures are assumed to be key drivers of internal business processes. In turn, the measures of these processes are thought to drive measures of customer perspective and again, these measures drive the financial perspective. All four of Kaplan and Norton's (1992) BSC factors are implicated in the cause-and-effect chain so that economic value added can be an outcomes measure for the financial perspective. Finally, Kaplan and Norton (1992) describe two types of performance measures relevant to BSC: (1) lagging measures (i.e. financial 'outcome' measures tied to the financial perspective that are the results of past decisions) and (2) leading measures (i.e. nonfinancial measures driving future financial outcomes and relating to customer, internal business process, and learning and growth perspectives).

### Definition

The Balanced Scorecard (BSC) is a strategic management technique for communicating and evaluating the achievement of the mission and strategy of the organisation using both financial and non-financial measures (Drury, 2004).



Adapted from: *Tatikonda & Tatikonda*

### Successful Application

There are various prescriptions for implementing Balanced Scorecards that have been developed over the past two decades. For example, Albright et al. (2010) describe four steps to simplifying multi-measure performance evaluation using BSC, which includes mathematically determining an overall score based on objective performance measures and allowing managers some discretion in determining overall performance (but requiring them to justify changes in metrics). However, the most authoritative and well-cited guide to using the Balanced Scorecard technique comes from Kaplan and Norton (1996). Here, strategy is perceived in terms of selecting market and customer segments that the SBU will serve, looking at internal processes that the SBU should do well in order to deliver exceptional value to the market, and identifying the organisational capabilities necessary to meet internal and financial goals (Drury, 2004).

### Steps to successful application

1. Clarify and translate vision and strategy into specific objectives and identify strategic objective drivers.
2. Communicate and link strategic objectives and measures. Ensure that employees understand high-level objectives and measures, and establish local objectives that support the business unit global strategy.
3. Plan, set targets and align strategic initiatives (e.g. over a three- to five-year period broken down on an annual basis so that progress targets can be set and assessed).
4. Use strategic feedback and learning to ensure management monitors and adjusts strategy implementation. *Kaplan and Norton (1996); Drury (2004)*

### Hints and tips

- Successful strategy execution involves understanding the management cycle that links strategy and operations (Kaplan and Norton, 2008)
- Successful strategy execution also entails knowing what tools to apply at each stage of the cycle (Kaplan and Norton, 2008).

### Potential advantages

- The BSC metrics allow executives to make better decisions about strategy and quantitatively assess its execution (Kaplan and Norton, 2008).
- Companies that continuously measure strategy performance through the BSC approach (and other tools) have ready access to the data they require for strategy validation and testing (Kaplan and Norton, 2008).
- BSC helps management address all key operational measures together to assess whether improvements in one area were made at the expense of another (Drury, 2004).

### Potential disadvantages

- There are perspectives ostensibly missing from the BSC approach, such as that of the employee, as well as the environmental impact on society (Drury, 2004)
- The cause-and-effect relationship assumption is ambiguous and lacking empirical evidence in its favour (Mooraj et al., 1999).
- Due to problematic measurement and over-emphasis on easy-to-quantify financial measures, there has been a dearth of attention directed toward performance measures for product design and development processes (Drury, 2004).

### Performance monitoring

- **Lagging measures:** financial 'outcome' measures, tied to the financial perspective, that are the results of past decisions (Kaplan, 1996; Kaplan and Norton, 1996).  
**Leading measures:** non-financial measures driving future financial outcomes and relating to customer, internal business process, and learning and growth perspectives (Kaplan, 1996; Kaplan and Norton, 1996).
- **Innovation measures:** percentage of sales from new products; time to develop the next generation of products; amount of key items in which the firm is placed first or second in the market; new product introduction versus those of competitors (Kaplan, 1996; Kaplan and Norton, 1996).
- It is important to ensure that measures in the BSC are tightly tied to the organisational

strategy: do not just try to improve existing processes (i.e. through cost-cutting, quicker customer response times) but identify processes that are truly strategic, those requiring exceptional performance execution for strategy to succeed (Kaplan and Norton, 2008).

### Case studies

- Strategic partners, Solvay Pharmaceuticals and Quintiles, applied BSC techniques to clarify strategy, drive behavioural change, and provide a governance system for strategy execution. They reduced total cycle time for clinical studies by about 40%, thus reducing time-to-market for new drugs and lowering costs. Also, they developed a new approach to managing non-performing sites (i.e. those recruiting too few patients) which halved the total number of these sites and saved €25,000 to €35,000 per site (Kaplan et al., 2010).
- Kaplan and Norton (1992) studied an oil company which used the scorecard exclusively to control incentive compensation. The company tied 60% of executive bonuses to achieve major targets for a weighted average of four financial indicators (return on capital, profitability, cash flow, and operating cost), while the remaining 40% was based on customer satisfaction, dealer satisfaction, employee satisfaction, and environmental responsibility. Their CEO commented, "I know of no competitor who has this degree of alignment. It is producing results for us".
- Since TNT, a B2B express delivery service began to use the BSC the firm has increased market share, improved customer loyalty, and achieved a higher return on sales (The Times 100, 2010). The company delivers over 100m items per year on behalf of UK companies; it operates a 3,500-strong fleet of environmentally-friendly, zero emission commercial vehicles (the largest in the express industry); and became the first major transport and logistics company to be recognised as an Investor In People in 1994.

### Further Resources/Reading

#### Web Resources

Balanced Scorecard as a strategic management tool. <http://hbr.org/2007/07/using-the-balanced-scorecard-as-a-strategic-management-system/ar/1>

Putting the Balanced Scorecard to work <http://hbr.org/1993/09/putting-the-balanced-scorecard-to-work/ar/1>

Managing alliances with the Balanced Scorecard.  
<http://hbr.org/2010/01/managing-alliances-with-the-balanced-scorecard/ar/1>

The Economist's overview of the BSC.  
<http://www.economist.com/node/12677043>

Triple bottom line and the BSC. <http://www.economist.com/node/14301663>

### Books

- BSC: translating strategy into action, Robert S Kaplan and David P Norton, ISBN 13: 9780875846514
- Alignment: Using the Balanced Scorecard to Create Corporate Synergies: How to Apply the Balanced Scorecard to Corporate Strategy, Robert S Kaplan and David P Norton, ISBN: 9781591396901
- Balanced Scorecard Step-by-Step: Maximizing Performance and Maintaining Results, Paul R Niven, ISBN: 9780471780496
- The Economist Guide to Management Ideas and Gurus (concepts including BSC), Tim Hindle, ISBN: 978-1-84668-108-0
- Balanced Scorecards and Operational Dashboards with Microsoft Excel, Ron Person, ISBN: 976-0-470-38681-1

### Articles

#### Gold standards

With its new approaches and methods of best practice, the [Olympic Delivery Authority](#) (ODA) has delivered a range of firsts during the procurement of the park for the London 2012 games. Rebecca Ellinor meets the winners

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## Video

Robert Kaplan: Balanced scorecard interview

[https://www.youtube.com/watch?feature=player\\_embedded&v=A02vKgE4NQ](https://www.youtube.com/watch?feature=player_embedded&v=A02vKgE4NQ)

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