



Unit 1

Understanding the Basics

Staff Training Solutions

Learning Outcomes

By the end of this unit the learner will be able to:

- ✓ Define what the balanced scorecard is
- ✓ Identify the benefits of the scorecard
- ✓ Describe the common balanced scorecard pitfalls and how to avoid them

Unit 1

Balanced Scorecard: Understanding the basics

What is the Balanced Scorecard?

Expert Paul Niven describes the balanced scorecard as, “a carefully selected set of quantifiable measures derived from an organization’s strategy.” (*Balanced Scorecard: Step-by-Step, 2006*)

The tool can be used to communicate, measure, and execute a strategic management plan. That’s a pretty big task, so there are a few documents that support the balanced scorecard:

- A statement outlining the organization’s **vision, mission, and strategy**.
- A **strategy map**, which outlines the objectives required to execute the strategy as well as the links between them.
- A **tactical action plan**, which breaks down the objectives into initiatives and projects.

The scorecard is then created and used to create and implement the tactical action plan. It typically focuses on **four perspectives** of the business:

- Customers
- Finance
- Internal processes
- Employee learning and growth

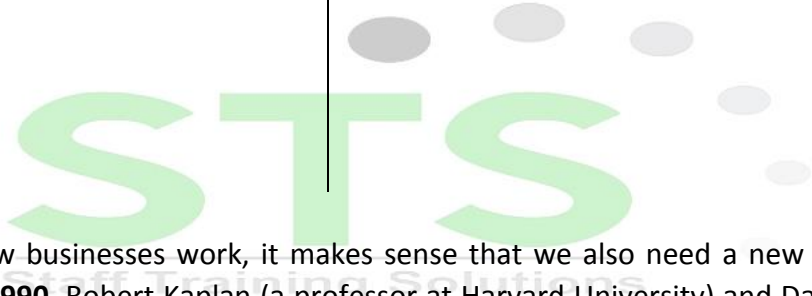
The balanced scorecard is not a fad or a quick fix. It requires a significant investment in time and resources. In most organizations, it takes one to three years to complete the design and implementation process. Then, resources must be invested to monitor, report, and communicate results, and to evaluate and update the scorecard.

The Need for the Balanced Scorecard

Compare an average company from the early 20th century to one from the late 20th century.

Early 20th Century

Late 20th Century



With this shift in how businesses work, it makes sense that we also need a new way to measure and manage success. In **1990**, Robert Kaplan (a professor at Harvard University) and David Norton (a Boston consultant) examined this need through a research project. They presented their results in the January-February **1992** edition of the *Harvard Business Review*, in an article called, “The Balanced Scorecard: Measures that Drive Performance.” Over the next several years, they published more articles in the *Harvard Business Review*, and companies started trying the strategy out. Kaplan and Norton’s first book, *The Balanced Scorecard*, was published in **1996**.

Since then, half of all Fortune 1000 organizations have adopted the scorecard. As well, Kaplan and Norton (as well as others) have written many books refining the scorecard, evolving it into a strategic management system, and adapting it for various uses. The Harvard Business Review has even called it one of the most influential ideas of the 20th century!

The Ingredients for Success

Is the Balanced Scorecard Right for Us?

As we mentioned earlier, the balanced scorecard is not a one-size-fits-all solution. To succeed, it requires a high level of dedication and a lot of work. However, companies that do implement it are often quite satisfied with its results. A 2009 survey by Bain & Company (a U.S. organization that does global consulting) showed that 53 percent of their clients use the balanced scorecard with almost a four out of five satisfaction rating. This places it in their list of top ten tools.

(Source: <http://www.bain.com/publications/articles/management-tools-and-trends-2009.aspx>)

Why wouldn't you want to use the balanced scorecard?

Do you think that the balanced scorecard might be a useful tool in your organization?

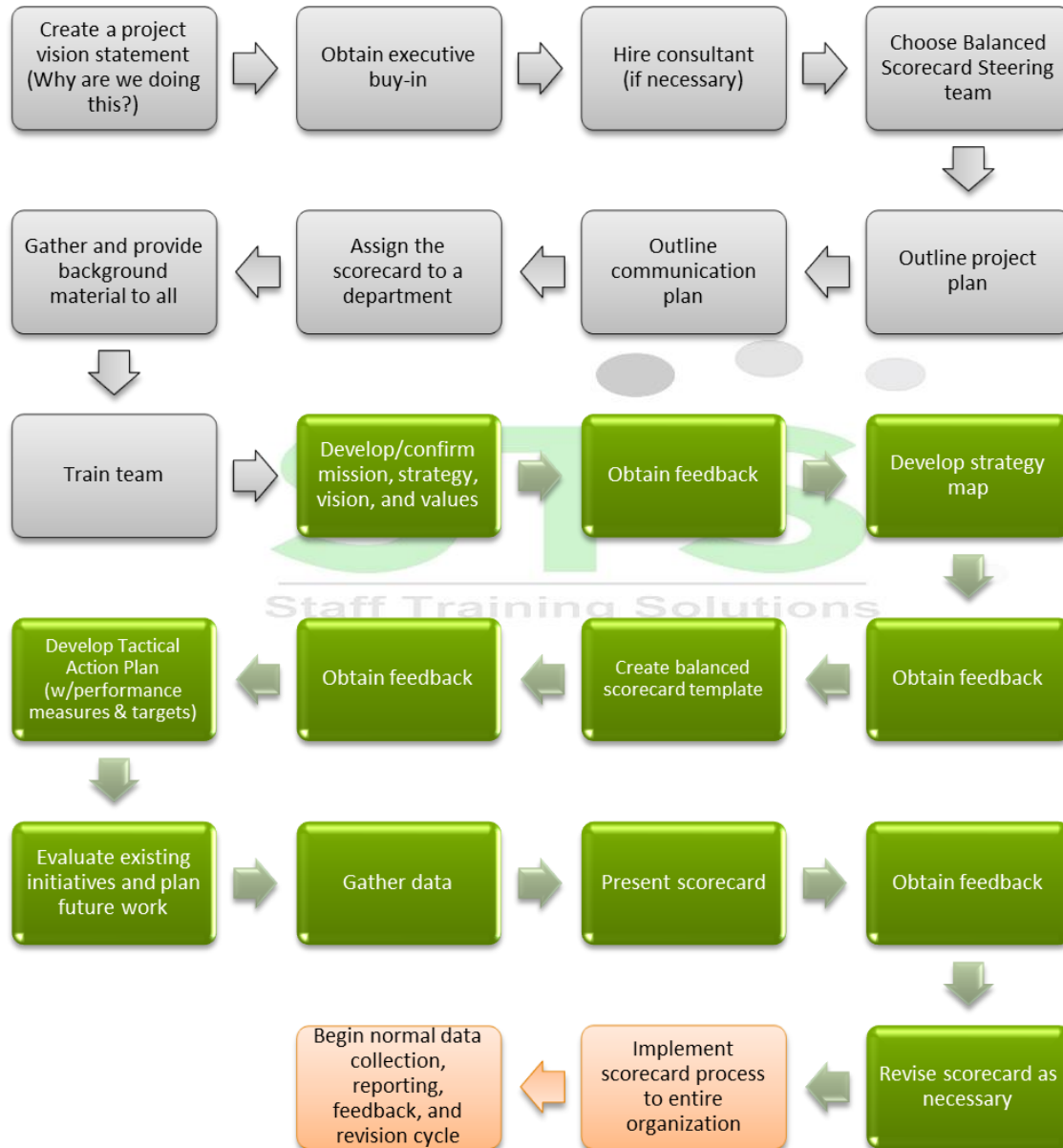
Top Ten Scorecard Pitfalls

No top-level commitment to drive the project

The Big Picture

The balanced scorecard process is an intensive one, but at the end of it you will have a complete guide to where you are going and how you are going to get there. We have included a flow chart on the next page, with the color of the boxes representing various phases of the project.

- **Black** = Planning, Training, and Set-up
- **Green** = Balanced Scorecard Development
- **Orange** = Implementation



Sample Strategy Map

The strategy map is the foundation for all of your balanced scorecard efforts. It is a graphic that shows how your company will achieve its strategy.

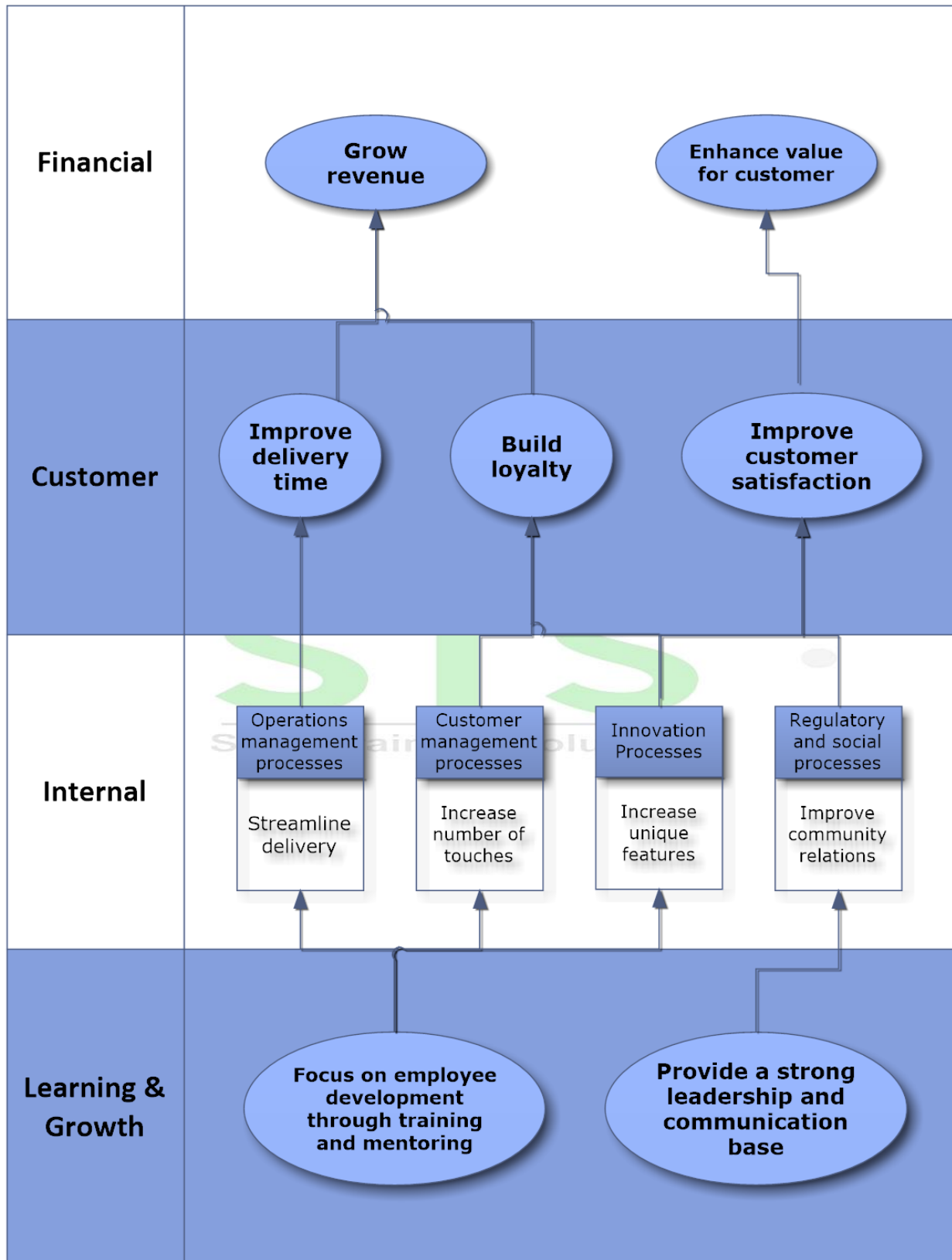
Traditionally, strategy maps are focused on four perspectives:

- **Financial:** What non-tangible investments do we need to make? What results do we want to see?
- **Customers:** What does success mean to our customers?
- **Internal Processes:** How will we achieve our financial and customer perspectives? Typically you will focus on four major areas:
 1. *Operations Management*
 2. *Customer Management*
 3. *Innovation*
 4. *Regulatory and Social*
- **Employee Learning and Growth:** What non-tangible investments do we need to make? Typically you will focus on three major areas:
 1. *Human capital:* What people do we need in place for success? What knowledge resources do we need?
 2. *Information capital:* What information sharing and technology resources need to be in place?
 3. *Organizational capital:* What cultural and leadership supports should be in place?

However, these perspectives are only intended as a guideline. Various companies have also chosen to include perspectives on:

- Operational excellence (i.e. improving processes with Six Sigma or Lean)
- Cutting edge innovation
- Quality
- Suppliers
- Stakeholders

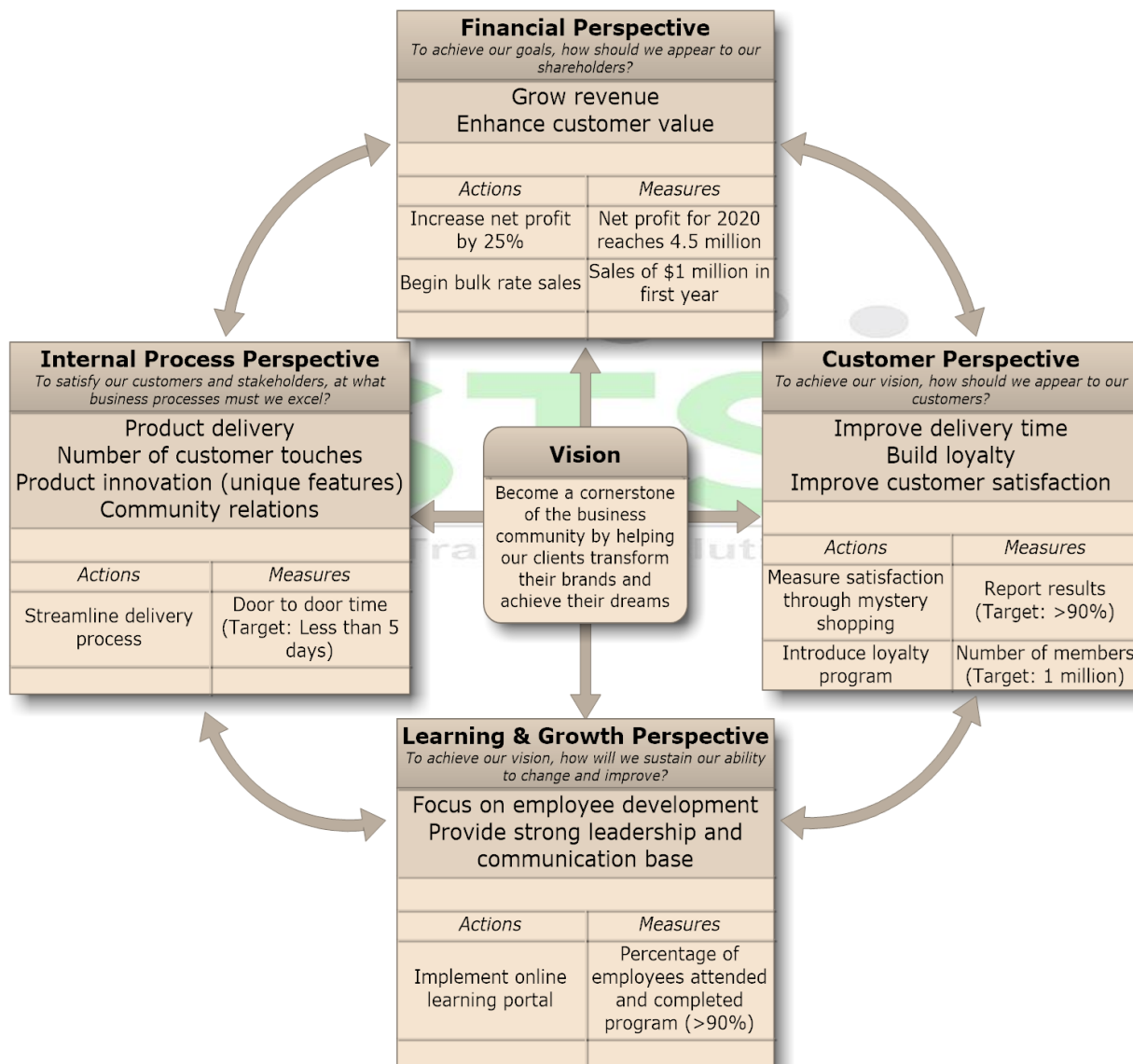
The strategy map on the next page provides a simple example using the four basic perspectives.



Sample Balanced Scorecard

As we discussed earlier, the balanced scorecard is used to communicate, measure, and execute a strategic management plan. It provides a balanced way of synthesizing the critical actions required to achieve the goals on the strategy map.

In the balanced scorecard below, you can see the four perspectives and their objectives in the yellow boxes. Then, each perspective contains specific actions and measures. (Here, we have only included a few actions and measures, just to give you an idea of what it's all about.)



Remember that balanced scorecards can take many, many forms, and in fact it's necessary to customize the scorecard to reflect your organization!






Sample Tactical Action Plan

The Tactical Action Plan breaks down the Strategy Map even further, taking the various balanced scorecard elements and creating an action plan for each one. Specific initiatives and budgets are included.

Often, the action plan is broken down into different **strategic themes**; in the example on the next page, the focus is leadership. This allows various themes to be assigned to a team of people and makes execution and monitoring much easier.

You can see a sample excerpt on the next page. Remember, tactical action plans should reflect what your organization needs, so you will see many different forms. Choose a form that works for you and don't be afraid to revise it.



Strategy Map Theme:	Balanced Scorecard Elements			Action Plan	
	Actions	Measures	Targets	Initiatives	Budget
 Financial	Offer product at bulk rates	Bulk rate sales	\$1 million	Set up and advertise bulk rate deal	\$100,000
 Customers	Measure satisfaction thru mystery shopping	Reports	Consistent score of >90%	Hire mystery shopping firm	\$250,000
  Internal Processes	Support one community charity	Amount donated (hours and money)	10,000 hours \$1 million	Find charity to support	\$1.5 million
 Learning & Growth	Implement online learning portal	% of employees attended & completed program	>90%	Develop online portal	\$3 million

Further Reading:

- ✓ Baca, Claudia M. *Project Management for Mere Mortals*. Pearson Education, 2007.
- ✓ Kaplan, Robert S., and David P. Norton. *Strategy Maps*. Harvard Business School, 2004.