Management White Paper
What is a modern Balanced Scorecard?

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By

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Abstract:
The Balanced Scorecard (BSC) is a very powerful and successful strategic performance management tool. This management white paper describes a BSC in simple terms. The paper outlines the four perspectives of a Balanced Scorecard and explains the importance of Strategy Maps. It shows how many organisations use the Balanced Scorecard today and describes the key benefits of a scorecard implementation and how to ensure that it is used to deliver improved strategic understanding and better performance.

Version: 11 June 2010

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Overview

The Balanced Scorecard is a strategic performance management framework that enables organisations to identify, manage and measure its strategic objectives. Initially introduced by Drs Robert Kaplan and David Norton in a Harvard Business Review (HBR) article in 1992, the Balanced Scorecard was chosen by HBR one of the most influential business ideas in the magazine’s 75 year history from 1925-2000.

Like most good ideas, the scorecard is conceptually simple. Kaplan and Norton identified four generic perspectives that cover the main strategic focus areas of a company. The idea is to use this model as a template for designing strategic objectives, measures, targets and initiatives within each of the following perspectives:

- The **Financial Perspective** covers the financial objectives of an organisation and enables managers to track financial success and shareholder value.
- The **Customer Perspective** covers the customer objectives such as customer satisfaction, market share goals as well as product and service attributes.
- The **Internal Process Perspective** covers internal operational goals and outlines the key processes necessary to deliver the customer objectives.
- The **Learning and Growth Perspective** covers the intangible drivers of future success such as human capital, organisational capital and information capital including skills, training, organisational culture, leadership, systems and databases.

Initially the Balanced Scorecard was arranged according to a four-box model (Figure 1). Many organisations created management dashboards with these four perspectives to provide comprehensive at a glance views of performance. However, this classic four box model is now outdated and has been replaced by a framework that has a Strategy Map view (Figure 2) and that is supported by a so-called scorecard of measures, targets and initiatives.

Early Adopters

Early scorecard pioneers such as Cigna Inc.’s Property and Casualty Division and Mobil Oil’s North American operations found that they gained the greatest benefits from the Balanced Scorecard when they mapped the objectives within the four perspectives into a causal hierarchy to show how the objectives support each other and that delivering the right performance in the lower perspectives (Learning and Growth and Internal Processes) will causally lead to the delivery of the objectives in the upper perspectives (Customer and Financial). The objectives in the Learning and
What is a modern Balanced Scorecard?

Growth Perspective underpin the objectives in the Internal Process Perspective, which in turn underpin the objectives in the Customer Perspective. Delivering the customer objectives should then lead to the achievement of the financial objectives in the Financial Perspective. This causal logic is one of the most important elements of a modern Balanced Scorecard as it enables companies to create a truly integrated set of strategic objectives. A noted shortcoming of the four-box model was that companies might choose a number of objectives for each perspective without making sure they are linked and aligned. This could lead to silo activities as well as describing a strategy that is neither cohesive nor integrated.

The Changing Nature of the Balanced Scorecard

Since its inception the Balanced Scorecard has changed and evolved quite substantially. Kaplan and Norton have managed to keep the concept fresh and aligned with current management thinking while also integrating into the methodology learnings from successful scorecard implementations. Although hugely beneficial, a downside of this evolution is that the understanding of what is a Balanced Scorecard varies widely depending on how and/or when individuals learnt about the concept. Kaplan and Norton have documented their observations and methodological evolutions in a series of five books starting with the Balanced Scorecard: turning strategy into action in 1996 and culminating in The Execution Premium: linking strategy to operations in 2008. Those that have only read the first book believe the Balanced Scorecard to be little more that a ‘balanced’ performance measurement system; while those that

![Diagram of Traditional Balanced Scorecard Template](Source: Kaplan & Norton, 1992)
What is a modern Balanced Scorecard?

have followed the evolution through all the books and supporting HBR articles comprehend the scorecard’s power as a strategic management framework that sits at the centre of, and orchestrates all of the organization’s management systems and improvement programmes.

A noted frustration within the scorecard industry is that many consultants still peddle first generation ‘four-box’ Balanced Scorecard systems, which means that clients get an incomplete solution. This does little to enhance the framework’s reputation or that of scorecard consultants.

As well as the concept itself, the names and content of the four perspectives have changed over the years: most notably the Learning and Growth Perspective. Indeed, in the original 1992 HBR article this perspective was labelled as ‘Learning and Innovation’. By the time the first book was published in 1996 it had been renamed ‘Learning and Growth,’ as early implementations demonstrated that innovation properly belonged in the Internal Process perspective (worryingly, some consultants still use the term ‘Learning and Innovation’ which suggests that their reading hasn’t even progressed further than the first article!); But organizational experience has found that even the term Learning and Growth has proven problematic and open to various interpretations. For instance, it is not unusual for companies to call this perspective a ‘Human’ or ‘People’ Perspective, to only focus on

Figure 2: Strategy Map Template (Source: Kaplan & Norton, 2004)
What is a modern Balanced Scorecard?

staff satisfaction, training, turnover or other ‘employee’ objectives and measures. The danger in just focusing on people is that companies miss out other important enablers of future performance (which is what the Learning and Growth perspective is really about. To address this problem, Kaplan and Norton have articulated what they consider to be the principal components of the Learning and Growth perspective, namely:

- **Human Capital** (Employees’ skills, talent, and knowledge)
- **Information Capital** (Databases, information systems, networks, and technology infrastructure)
- **Organisation Capital** (Culture, leadership, employee alignment, teamwork, and knowledge management).

**Adding Perspectives**

While the four perspectives of the Balanced Scorecard are clearly broad ranging, critics point out that they are not comprehensive. Key stakeholders, such as suppliers and regulators, for example, can be easily missed; as can other strategic areas such as the environmental and competitor perspectives. Many organisations deal with this by adding/renaming perspectives to suit their particular needs. As just one example, the integrated oil and gas company StatoilHydro (which is one of the world’s largest organizations) has added a “Health, Environment and Safety,” perspective to the standard four, so to reflect its own strategic needs. The organization has successfully used the Balanced Scorecard since the mid 1990s and now has more than 700 active scorecards enterprise-wide from corporate down to departmental and team levels.

**Management not Measurement**

Since its launch, the Balanced Scorecard has evolved from a simple measurement and reporting tool into a strategic performance management tool designed for managing strategic performance. Kaplan and Norton suggest that the process of strategic performance management consists of four critical processes (Figure 3):

- Clarifying and translating the vision and strategy
- Communicating and linking the strategic objectives and measures
- Planning and setting targets, and aligning strategic initiatives
- Enhancing strategic feedback and learning

**Clarifying and Translating the Vision and Strategy** – The process of identifying the strategic objectives and visualising them in a Strategy Map is the starting point for any Balanced Scorecard implementation. Consensus needs to be achieved among senior leaders in an organisation about the key objectives and how they interrelate. There are often iterations between identifying objectives and mapping them to causal maps as a Strategy Map ensures that all objectives and measures are linked to overall deliverables and isolated objectives or ‘pet projects’ are avoided.
What is a modern Balanced Scorecard?

Communicating and Linking the Strategic Objectives and Measures – Communicating the overall vision in the form of Strategy Maps with associated KPIs throughout the entire organisation means that objectives are much better understood and local objectives and targets can be placed into the overall strategic context. A two-way communication system should be put in place to encourage dialogue between the business units and executive management in order to engage people in the strategy process and to allow feedback.

Planning and Target Setting, and Aligning Strategic Initiatives – Targets should be established for each of the objectives and measured by the KPIs. The target setting process is best done in the context of the strategic initiatives and projects that are linked to each of the strategic objectives. In setting targets it should be kept in mind that the Balanced Scorecard is not a ‘report card’ (as is often erroneously believed) but a framework for achieving breakthrough performance; therefore targets should be stretching but achievable as well as taking into account cause-and-effect lag times.

Enhancing Strategic Feedback and Learning – In the final stage of the management process, the Balanced Scorecard is integrated into a strategic learning process. Together with Kaplan and Norton I agree that this is the most important of the scorecard management processes. It is important to put processes in place which enable managers to learn from their performance information and improve their future decision making. In addition, Strategy Maps and KPIs should be used to challenge and test the business model in order to refine and improve it over time to continuously improve performance.
What is a modern Balanced Scorecard?

**Public Sector and Not-for-Profit Balanced Scorecards**

While the Balanced Scorecard was originally designed for commercial companies, the framework has found widespread use in the public and not-for-profit sectors. However, it is important to make a few changes to the Balanced Scorecard template in order to make it relevant to those organisations:

1. Move the Financial Perspective to elsewhere on the Strategy Map. For instance many public or not-for-profit organizations place finance at the bottom of the template. The overall objective of most public sector, government and not-for-profit organisations is not to maximise profits and shareholder return. Instead, money and infrastructure are important resources that have to be managed as effectively and efficiently as possible to deliver the strategic objectives. This is particularly true as many public sector and government organisation face restricted budgets due to repaying the ‘debts’ from the credit crunch.

2. The main objective of public sector, government and not-for-profit organisations is to deliver services to their key stakeholders, which can be the public, central government bodies or certain communities. This ‘stakeholder’ perspective usually sits at the top of the template to highlight the key stakeholder deliverables and outcomes.

3. The two remaining perspectives will stay as they are. Any public sector, government and not-for-profit organisations needs to build the necessary human, information and organisational capital to deliver its key processes in the middle of the map. Those wishing to learn more about non-commercial scorecards are directed to the Advanced Performance Institute (API) management white paper: *Creating a Balanced Scorecard for a Public Sector and Not-for-Profit Organisation*, that can be downloaded for free from the API website: [www.ap-institute.com](http://www.ap-institute.com)

**How many companies use the Balanced Scorecard?**

About half of major companies in the US, Europe and Asia are using Balanced Scorecard approaches. The exact figures vary slightly but the Gartner Group suggests that over 50% of large US firms had adopted the Balanced Scorecard by the end of 2000. A study by Bain & Co finds that about 44% of organisations in North America use the framework and a study in Germany, Switzerland, and Austria puts the figure at 26%. The widest use of the scorecard can be found in the US, the UK, Northern Europe and Japan.

However, there is a problem with these usage numbers; this being that the term Balanced Scorecard has become a synonym for almost any system of performance measurement and management. The fact that the Balanced Scorecard concept has changed from a measurement framework to a strategic management approach makes it difficult to get realistic figures. Taking the Balanced Scorecard as a synonym for any selection of performance indicators would therefore make it easy to argue that most if not all companies use a scorecard since most organizations measure and
What is a modern Balanced Scorecard?

report to some extent. The most comprehensive study to date finds that approximately one third of large companies use the Balanced Scorecard but only around a fifth of these use the latest version including Strategy Maps.¹

What are the Benefits of using Balanced Scorecards?

Research has shown that organisations which use a Balanced Scorecard approach tend to outperform organisations without a formal approach to performance management. The key benefits of using a scorecard include:

1. **Better Strategic Planning** – The Balanced Scorecard provides a powerful framework for building and communicating strategy. The business model is visualised in a Strategy Map which forces managers to think about cause-and-effect relationships. The process of creating a Strategy Map ensures that consensus is reached over a set of interrelated strategic objectives. It means that performance outcomes as well as key enablers or drivers of future performance (such as the intangibles) are identified to create a complete picture of the strategy.

2. **Improved Strategy Communication & Execution** – The fact that the strategy with all its interrelated objectives is mapped on one piece of paper allows companies to easily communicate strategy internally and externally. We have known for a long time that a picture is worth a thousand words. This ‘plan on a page’ facilities the understanding of the strategy and helps to engage staff and external stakeholders in the delivery and review of strategy. In the end it is impossible to execute a strategy that is not understood by everybody.

3. **Better Management Information** – The Balanced Scorecard approach forces organisations to design key performance indicators for their various strategic objectives. This ensures that companies are measuring what actually matters. Research shows that companies with a BSC approach tend to report higher quality management information and gain increasing benefits from the way this information is used to guide management and decision making.

4. **Improved Performance Reporting** – companies using a Balanced Scorecard approach tend to produce better performance reports than organisations without such a structured approach to performance management. Increasing needs and requirements for transparency can be met if companies create meaningful management reports and dashboards to communicate performance both internally and externally.

5. **Better Strategic Alignment** – organisations with a Balanced Scorecard are able to better align their organisation with the strategic objectives. In order to execute a plan well, organisations need to ensure that all business and support units are working towards the same goals. Cascading the Balanced Scorecard into those units will help to achieve that and link strategy to operations.

6. **Better Organisational Alignment** – well implemented Balanced Scorecards also help to align organisational processes such as
What is a modern Balanced Scorecard?

budgeting, risk management and analytics with the strategic priorities. This will help to create a truly strategy focused organisation.

Conclusion

The idea of the Balanced Scorecard is simple but is extremely powerful if implemented well. An organisation will almost certainly experience improved performance as long as management team use the key ideas of the Balanced Scorecard to (1) create a unique strategy and visualise it in a cause-and-effect map, (2) align the organisation and its processes to the objectives identified in the Strategy Map, (3) design meaningful key performance indicators and (4) use these indicators to facilitate learning and improved decision making. To ensure you get all the benefits and to facilitate a smooth implementation it is also important to address the implementation challenges outlined in the API management white paper: How to Avoid the Key Pitfalls of a Balanced Scorecard Implementation' that can be found on the API website.

Endnotes, References & Further Reading


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