The balanced scorecard (BSC) is now about 20 years old, and it has continued to grow in popularity among all kinds of organizations as a better way to do strategic planning and performance management. This talk will explore its roots in the Quality movement, its current structure, and possible future directions. We will show how the BSC complements, but does not compete with quality systems.
# Times are Changing in Management

<table>
<thead>
<tr>
<th>From:</th>
<th>To:</th>
</tr>
</thead>
<tbody>
<tr>
<td>Command-and-control</td>
<td>Employee empowerment</td>
</tr>
<tr>
<td>Stovepipes / Silos</td>
<td>Cross-functional teams</td>
</tr>
<tr>
<td>Focus on process</td>
<td>Focus on results</td>
</tr>
<tr>
<td>Standard, repetitive processes</td>
<td>Non-repetitive activities</td>
</tr>
<tr>
<td>Management by rules</td>
<td>Management by facts</td>
</tr>
<tr>
<td>Slow change</td>
<td>Rapid and continuous change</td>
</tr>
<tr>
<td>Hidden accountability</td>
<td>Demand for transparency</td>
</tr>
<tr>
<td>Tangible assets</td>
<td>Intangible assets (knowledge)</td>
</tr>
</tbody>
</table>
“Intangible Assets”

Intangible assets:
Knowledge & skills of workers
Information systems & data
Customer relationships: 85-90%

Tangible assets:
Facilities, inventory, Property: 10-15%

Source: Brookings Institution, 1995
Emerging Challenges in Performance Measurement

- Concepts of performance measurement are being extended beyond industrial processes to *knowledge worker* environments:
  - Intangible assets
  - Non-repetitive processes
  - Network-centric environments
- TQM did not give enough guidance on *what* to measure.
  - Tendency was to measure everything; but what measures are *strategic*?
  - For that we need some *framework* to determine what are the most important things to measure.
What’s Wrong with This Picture?

We make the best carburetors in the world!
The Key Strategic Issue

“People and their managers are working so hard to be sure things are done right, that they hardly have time to decide if they are doing the right things.”

Stephen R. Covey
What Is Strategy?

● Strategy is a *hypothesis* of the *best way for the organization* to achieve its long-term vision and mission.

● Strategy implies *options and choices* for an organization. There is always more than one way to achieve a vision or support a mission.

● Strategy requires *selection* among alternative options, focusing on a few things, and deferring or rejecting the rest.

● Strategy is broad and comprehensive, with organization-wide, cross-cutting impacts.

● Organizational strategies aim at *improvements*:
  ■ Remedial improvements in existing performance
  ■ Breakthrough improvements to move to the next level of performance
Make Strategy Everyone’s Job
What Is The Balanced Scorecard (BSC)?

• An improved *strategic planning process* for focusing on the most important things;
• A *change initiative* for visualizing and communicating an organization’s long-term strategic intent;
• An effective *strategic management system* for aligning day-to-day work to an organization’s vision and strategy using strategic performance measures and strategic initiatives;
• An integrated framework for informing *strategic budgeting*, and allowing the organization to *learn what works* and to *become more strategy focused.*

*In other words, a planning and management system, not just a measurement system!*
### Balanced Scorecard Perspectives

<table>
<thead>
<tr>
<th>Perspective</th>
<th>Key Metrics</th>
<th>Key Questions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Financial or Stewardship</td>
<td>• Sales, Margin, Earnings</td>
<td>For businesses: how do we create value for our owners?</td>
</tr>
<tr>
<td></td>
<td>• Value, Cost</td>
<td>For government and nonprofits: how do we maximize value and effectiveness of our mission?</td>
</tr>
<tr>
<td></td>
<td>• Effective Allocation of Resources</td>
<td></td>
</tr>
<tr>
<td>Customer &amp; Stakeholder</td>
<td>• Satisfaction</td>
<td>Through the eyes of our customers and stakeholders: how well do our products and services meet their needs?</td>
</tr>
<tr>
<td></td>
<td>• Retention</td>
<td></td>
</tr>
<tr>
<td>Internal Processes</td>
<td>• Process Efficiency</td>
<td>How can we improve internal processes to deliver our products and services better, faster, and cheaper?</td>
</tr>
<tr>
<td></td>
<td>• Speed</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Quality</td>
<td></td>
</tr>
<tr>
<td>Organization Capacity or Learning &amp; Growth</td>
<td>• Human Capital Learning</td>
<td>How can we support our internal processes through improved knowledge, skills and abilities, tools &amp; technology, and leadership?</td>
</tr>
<tr>
<td></td>
<td>• Tools, Technology</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Innovation</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Infrastructure</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Leadership</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Culture</td>
<td></td>
</tr>
</tbody>
</table>
The Balanced Scorecard Translates Strategy Into Operational Terms

(Private Sector)

Adapted from original work of Kaplan & Norton

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The Balanced Scorecard Translates Strategy Into Operational Terms

(Public and Nonprofit Sectors)

Adapted from original work of Kaplan & Norton
A Shipping Company Strategy Map

**Financial**
- Lower costs
- Increase profits
- Increase revenues

**Customer**
- Increase customer satisfaction
- Increase customers
- Fewer trucks
- Shorter turnaround time
- Reduce travel time
- Improve route planning
- Decrease employee training
- Increase revenues

**Internal processes**
- Reduce travel time
- Increase employee training

**Organization Capacities**
- Improve route planning
- Increase employee training
- Decrease employee training

**EXAMPLE**
Regional Airline Balanced Scorecard

Mission: Dedication to the highest quality of Customer Service delivered with a sense of warmth, friendliness, individual pride, and Company Spirit.

Vision: Continue building on our unique position -- the *only* short haul, low-fare, high-frequency, point-to-point carrier in America.

<table>
<thead>
<tr>
<th>Strategic Theme: Operating Efficiency</th>
<th>Objectives</th>
<th>Measures</th>
<th>Targets</th>
<th>Initiatives</th>
</tr>
</thead>
</table>
| **Financial**                        | • Profitability  
• Lower costs  
• Increased revenue | • Market Value  
• Seat Revenue  
• Plane Lease Cost | • 25% per year  
• 20% per year  
• 5% per year | • Optimize routes  
• Standardize planes |
| **Customer**                         | • On-time flights  
• Lowest prices  
• More Customers | • FAA On Time Arrival Rating  
• Customer Ranking  
• No. Customers | • First in industry  
• 98% Satisfaction  
• % change/yr | • Quality management  
• Customer loyalty program |
| **Internal Process**                 | • Reduce turnaround time | • On Ground Time  
• On-Time Departure | • <25 Minutes  
• 93% by end yr | • Cycle time optimization program |
| **Org. Capacity**                   | • Align ground crews | • % Ground crew stockholders  
• % Ground crew trained | • yr. 1 70%  
yr. 4 90%  
yr. 6 100% | • Stock ownership plan  
• Ground crew training |

Adapted from original work of Kaplan & Norton
Strategy Is Made Up Of Strategic Objectives

Across the Four Perspectives

**Strategic Theme:**
*Build The Business*

**EXAMPLE**

- **Financial**
  - Reduce Overhead Costs
  - Increase Revenue

- **Customer**
  - Increase Customer Confidence
  - Increase Customer Retention

- **Internal Processes**
  - Improve Service Quality
  - Reduce Cycle Time

- **Organization Capacity**
  - Improve Employee Morale
  - Upgrade Information Technology

*Strategic Objectives* are the ovals on a strategy map.
School District Strategy Map

EXAMPLE

IMPROVE STUDENT ACHIEVEMENT

Increase Employee Capacity & Leadership

Increase Employee Accountability for Results

Increase Interactive Communications With Employees

Increase Recruitment & Retention

Improve Quality, Standards-based Instruction

Maximize Utilization Of Technology

Increase Access To and Effective Use Of Technology

Increase Community Engagement

Ensure Fiscal Responsibility and Stability

Optimize Effectiveness & Efficiency Of Processes & Services

Increase Resource Alignment With Strategic Priorities

Ensure Safe, Secure Facilities and an Innovative Learning Environment

Students

Resource Stewardship

Internal Processes

Learning and Organizational Development

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Performance Measures Are Still Important

- Provide a way to see if our strategy is working
- Focus employees’ attention on what matters most to success
- Allow measurement of accomplishments, not just of the work that is performed
- Provide a common language for communication

“What gets measured gets done.”

“If you don’t measure results, you can’t tell success from failure, you can’t claim success or reward it, and you may be rewarding failure.”

“If you can’t recognize success, you can’t learn from it; if you can’t recognize failure, you can’t correct it.”

“If you can’t measure it, you can’t manage it and improve it!”
Strategic Performance Measures Are *Derived* From Strategic Objectives

**Strategic Theme:** 
*Build The Business*

<table>
<thead>
<tr>
<th>Sample Performance Measures</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue</td>
</tr>
<tr>
<td>Cash Flow; Overhead rate</td>
</tr>
<tr>
<td>Customer satisfaction index</td>
</tr>
<tr>
<td>Repeat customers</td>
</tr>
<tr>
<td>Service error rate</td>
</tr>
<tr>
<td>Delivery time</td>
</tr>
<tr>
<td>Employee morale index</td>
</tr>
<tr>
<td>Average system age</td>
</tr>
</tbody>
</table>

**Financial**
- Reduce Overhead Costs
- Increase Revenue

**Customer**
- Increase Customer Confidence
- Increase Customer Retention

**Internal Processes**
- Improve Service Quality
- Reduce Cycle Time

**Capacity Building**
- Improve Employee Morale
- Upgrade Information Technology

**EXAMPLE**
Develop Meaningful Performance Measures

● Meaningful means *Strategic*
  ▪ Focused on the strategic results we want
  ▪ Derived from the Objectives on the Strategy Map

● Meaningful means *Refined*
  ▪ Balanced
  ▪ Easy to understand
  ▪ Hard to “cheat”
  ▪ Unobtrusive to collect
  ▪ Appropriate frequency
  ▪ Valid (measures the right things)
  ▪ Verified (measures things right)

● Meaningful means *Relevant to the user*
  ▪ It tells the user what he or she wants to know
  ▪ It provides information that will help make better decisions
Strategic Initiatives Support the Vision

THE STRATEGY RECOMMENDS SOME STRATEGIC INITIATIVES TO IMPROVE PERFORMANCE OF SOME OPERATIONS OR CREATE NEW OPERATIONS.
Strategic Initiatives Turn Strategies into Actions

“The strategic planning process should use initiatives to help the organization achieve its strategic objectives, not as ends in themselves.

Public sector and nonprofit organizations are especially guilty of often confusing initiative completion as the target rather than improvements in mission objectives and agency effectiveness.”

-- Kaplan & Norton, 2001
### Major Management Tools, 2008

<table>
<thead>
<tr>
<th>Tool</th>
<th>Usage</th>
<th>Satisfaction</th>
</tr>
</thead>
<tbody>
<tr>
<td>Benchmarking</td>
<td>76%</td>
<td>3.82</td>
</tr>
<tr>
<td>Strategic Planning</td>
<td>67%</td>
<td>4.01</td>
</tr>
<tr>
<td>Mission and Vision Statements</td>
<td>65%</td>
<td>3.91</td>
</tr>
<tr>
<td>Customer Relationship Management</td>
<td>63%</td>
<td>3.83</td>
</tr>
<tr>
<td>Outsourcing</td>
<td>63%</td>
<td>3.79</td>
</tr>
<tr>
<td>Balanced Scorecard</td>
<td>53%</td>
<td>3.83</td>
</tr>
<tr>
<td>Customer Segmentation</td>
<td>53%</td>
<td>3.95</td>
</tr>
<tr>
<td>Business Process Reengineering</td>
<td>50%</td>
<td>3.85</td>
</tr>
<tr>
<td>Core Competencies</td>
<td>48%</td>
<td>3.82</td>
</tr>
<tr>
<td>Mergers and Acquisitions</td>
<td>46%</td>
<td>3.83</td>
</tr>
<tr>
<td>Strategic Alliances</td>
<td>44%</td>
<td>3.82</td>
</tr>
<tr>
<td>Supply Chain Management</td>
<td>43%</td>
<td>3.81</td>
</tr>
<tr>
<td>Scenario and Contingency Planning</td>
<td>42%</td>
<td>3.83</td>
</tr>
<tr>
<td>Knowledge Management</td>
<td>41%</td>
<td>3.66</td>
</tr>
<tr>
<td>Shared Service Centers</td>
<td>41%</td>
<td>3.68</td>
</tr>
<tr>
<td>Growth Strategy Tools</td>
<td>38%</td>
<td>3.87</td>
</tr>
<tr>
<td>Total Quality Management</td>
<td>34%</td>
<td>3.80</td>
</tr>
<tr>
<td>Downsizing</td>
<td>34%</td>
<td>3.59</td>
</tr>
<tr>
<td>Lean Six Sigma</td>
<td>31%</td>
<td>3.87</td>
</tr>
<tr>
<td>Voice of the Customer Innovation</td>
<td>27%</td>
<td>3.88</td>
</tr>
<tr>
<td>Online Communities</td>
<td>26%</td>
<td>3.69</td>
</tr>
<tr>
<td>Collaborative Innovation</td>
<td>24%</td>
<td>3.71</td>
</tr>
<tr>
<td>Price Optimization Models</td>
<td>24%</td>
<td>3.75</td>
</tr>
<tr>
<td>Loyalty Management Tools</td>
<td>17%</td>
<td>3.79</td>
</tr>
<tr>
<td>Decision Rights Tools</td>
<td>10%</td>
<td>3.68</td>
</tr>
</tbody>
</table>

*Significantly above the overall mean: usage = 42%, satisfaction = 3.82*

*Significantly below the overall mean: usage = 36%, satisfaction = 3.69*

Source: Bain & Company, 2009
Management Tool Usage 2008

Top 10 tools

1. Benchmarking
2. Strategic Planning
3. Mission and Vision Statements
4. Customer Relationship Management
5. Outsourcing
6. Balanced Scorecard
7. Customer Segmentation
8. Business Process Reengineering
9. Core Competencies
10. Mergers & Acquisitions

Source: Bain & Company, 2009
Tool Usage Error 2
One Function of the Balanced Scorecard: Selecting the Right Tool for the Right Job
Summary: Building & Implementing The Strategic Planning & Management System

**Nine-Steps To Success™**
Balanced Scorecard Program

Strategic Planning & Management System

- Mission
- Vision
- Strategic Results

- Strategic Objectives
- Performance Metrics
- Strategic Initiatives

- Budgets

PLANNING

OPERATIONS

Inputs

Activities & Processes

Outputs

Outcomes

Strategic Feedback

Operational Feedback

Performance Measures

Lean Six Sigma ISO BPR

Initiatives
Past and Future of Management

Strategic Planning

Performance Measurement

Budgeting

Balanced Scorecard

Strategic Performance-Based Management

Integrate Change Management to Support Transformation.
In other words, learning to do the right things right....
About the Balanced Scorecard Institute

The Balanced Scorecard Institute provides training and consulting services to commercial, government, and non-profit organizations in applying best practices in balanced scorecard (BSC), strategic performance management and measurement, and transformation and change management.

Cary, North Carolina  
(919) 460-8180

Washington, DC  
(202) 465-4253

www. balancedscorecard.org
Appendix
Performance Measures - Examples
(Private Sector)

<table>
<thead>
<tr>
<th>IMPROVEMENT PERSPECTIVES</th>
<th>OPERATIONAL MEASURES</th>
<th>OUTCOME MEASURES</th>
</tr>
</thead>
<tbody>
<tr>
<td>Financial</td>
<td>Inputs</td>
<td>Activities &amp; Processes</td>
</tr>
<tr>
<td></td>
<td>Project cost, employee cost, subcontract costs</td>
<td>Overhead rate, total cost of ownership</td>
</tr>
<tr>
<td>Customer / Stakeholder</td>
<td>Customer knowledge, sales data; customer needs</td>
<td>Marketing research, customer relationships</td>
</tr>
<tr>
<td>Business Processes</td>
<td>Planning, process documentation</td>
<td>Cycle time, compliance, process maturity</td>
</tr>
<tr>
<td>Learning &amp; Growth</td>
<td>FTE’s, hardware, equipment, leadership</td>
<td>Training, technical capabilities, security</td>
</tr>
</tbody>
</table>
# Performance Measures - Examples

**(Public Sector or Nonprofit Organization)**

<table>
<thead>
<tr>
<th>IMPROVEMENT PERSPECTIVES</th>
<th>OPERATIONAL MEASURES</th>
<th>OUTCOME MEASURES</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Customer / Stakeholder</strong></td>
<td>Inputs</td>
<td>Activities &amp; Processes</td>
</tr>
<tr>
<td>Recipient or client knowledge; position on issues; needs</td>
<td>Customer surveys conducted</td>
<td>Recipients served, coverage, visitor contacts</td>
</tr>
<tr>
<td><strong>Financial</strong></td>
<td>Budgets, actual costs</td>
<td>Overhead rate, total cost of ownership, cash flow</td>
</tr>
<tr>
<td><strong>Business Processes</strong></td>
<td>Planning, process documentation</td>
<td>Cycle time, compliance, process maturity</td>
</tr>
<tr>
<td><strong>Learning &amp; Growth</strong></td>
<td>FTE's, Hardware, Equipment, Leadership</td>
<td>Training, technical capabilities, security</td>
</tr>
</tbody>
</table>

*Note: measures shown are suggested examples; they are not intended to be prescriptive.*
Business & Industrial Clients

Financial
- First Bank of Nigeria
- International Bank of Moscow
- Citizens National Bank
- Mortgage Services

Industrial/Commercial
- Golden Sunlight Mine
- Follett Corporation
- Hrvatski Telekom
- Croatian Telecom

Consulting
- BearingPoint
- Deloitte
- Gabbard & Company
- TATC Consulting
- General Dynamics

Software
- SAS Institute
- Spectrum Partners LLC
- Cognos
- Performancesoft

Transportation
- EuroControl
- AMIRI Flight, UAE

Entertainment
- Blue Man Group
- Constellation Energy
- The Options Clearing Corporation

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