

THE BALANCED SCORECARD

Translating Strategy Into Action

ROBERT S. KAPLAN & DAVID P. NORTON

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MAIN IDEA

The Balanced Scorecard is a new business management system which links the achievement of long-term strategic goals with day to day operational requirements. It combines traditional financial measures of success (which are lagging indicators because they always measure past performance) with initiatives designed to generate business in the future (represented by leading indicators).

The Balanced Scorecard also articulates and clarifies why the organization is structured the way it is, and the future direction of the company in such a way that employees, managers and shareholders can have a shared vision which is consistent with the organization's operations.

The payoff for developing a Balanced Scorecard is business strategy can be turned into action.

1. THE BALANCED SCORECARD CONCEPT Page 2

Traditional financial reporting systems were developed for trading companies and industrial age companies, and measure the events of the past. They do not, however, accurately capture the drivers of future financial performance for modern corporations.

Specifically, a company's ability to create value in the future will be driven by four key factors:

1. The Financial Perspective

To succeed financially, how should the company appear to its shareholders?

2. The Customer Perspective

To achieve the company's vision, how should it appear to its customers?

3. The Internal Business Process Perspective

To provide services which meet customer and shareholder expectations, what business processes must the company excel at?

4. The Learning and Growth Perspective

To achieve the company's vision, how will the company sustain its ability to change and improve?

These four factors are all included in a Balanced Scorecard.

2. HOW TO BUILD A BALANCED SCORECARD FOR A BUSINESS ENTERPRISE Pages 3 - 5

1. The Financial Perspective

The long-term financial goal of any business enterprise is to provide superior returns on the capital invested.

2. The Customer Perspective

At the conclusion of planning the customer perspective, business managers should have a clear picture of the business segments and the specific customer profiles within those segments they are targeting. They should also have developed a clear idea of how the value proposition offered to customers by the company will be structured.

3. The Internal Business Process Perspective

Every business has a value chain by which value is created and delivered to the customer. The balanced scorecard approach makes managers align the various steps of the value chain with specific strategies to meet shareholder and customer expectations more directly.

4. The Learning and Growth Perspective

The objectives in the learning and growth perspective highlight the infrastructure which must be developed for excellent outcomes to be achieved in the other three perspectives. Specifically, any organization's ability to meet ambitious financial, customer and internal-business-process objectives will be directly proportional with the organization's capacity to learn new skills and grow the business.

A good Balanced Scorecard is more than a mixture of financial and non financial measures --it should tell the story of the organization's commercial strategy in a unique blend of:

- 1. Outcome measures
- 2. Performance driver measures
- 3. Cause-and-effect relationships

EXAMPLE OF A BALANCED SCORECARD Page 6

3. HOW TO USE A BALANCED SCORECARD AS A STRATEGIC MANAGEMENT SYSTEM Pages 7 - 8

Broadly speaking, there tend to be four main barriers to implementing the Balanced Scorecard in the ongoing management system of an organization:

- 1. Visions and strategies that are not actionable
- 2. Strategies not linked to goals
- 3. Strategies that are not linked to resource allocation
- 4. Feedback that is tactical rather than strategic

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