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Using the Balanced Scorecard as a Strategic Management System

Key ideas from the Harvard Business Review article By Robert S. Kaplan, David P. Norton

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The Idea in Brief

Why do budgets often bear little direct relation to a company's long-term strategic objectives? Because they don't take enough into consideration. A balanced scorecard augments traditional financial measures with benchmarks for performance in three key nonfinancial areas:

- a company's relationship with its customers
- its key internal processes
- its learning and growth.

When performance measures for these areas are added to the financial metrics, the result is not only a broader perspective on the company's health and activities, it's also a powerful organizing framework. A sophisticated instrument panel for coordinating and fine-tuning a company's operations and businesses so that all activities are aligned with its strategy.

The Idea in Practice

The balanced scorecard relies on four processes to bind short-term activities to long-term objectives:

1. Translating the vision.

By relying on measurement, the scorecard forces managers to come to agreement on the metrics they will use to operationalize their lofty visions.

A bank had articulated its strategy as providing "superior service to targeted customers." But the process of choosing operational measures for the four areas of the scorecard made executives realize that they first needed to reconcile divergent views of who the targeted customers were and what constituted superior service.

2. Communicating and linking.

When a scorecard is disseminated up and down the organizational chart, strategy becomes a tool available to everyone. As the high-level scorecard cascades down to individual business units, overarching strategic objectives and measures are translated into objectives and measures appropriate to each particular group. Tying these targets to individual performance and compensation systems yields "personal scorecards." Thus, individual employees understand how their own productivity supports the overall strategy.

3. Business planning.

Most companies have separate procedures (and sometimes units) for strategic planning and budgeting. Little wonder, then, that typical long-term planning is, in the words of one executive, where "the rubber meets the sky." The discipline of creating a balanced scorecard forces companies to integrate the two functions, thereby ensuring that financial budgets do indeed support strategic goals. After agreeing on performance measures for the four scorecard perspectives, companies identify the most influential "drivers" of the desired outcomes and then set milestones for gauging the progress they make with these drivers.

4. Feedback and learning.

By supplying a mechanism for strategic feedback and review, the balanced scorecard helps an organization foster a kind of learning often missing in companies: the ability to reflect on inferences and adjust theories about cause-and-effect relationships.

Feedback about products and services. New learning about key internal processes. Technological discoveries. All this information can be fed into the scorecard, enabling strategic refinements to be made continually. Thus, at any point in the implementation, managers can know whether the strategy is working—and if not, why.

- Purchase the full-length Harvard Business Review article here.
- Visit Harvard Business Online.
- See more on Strategy & Execution at HBR Online.

Further Reading

Articles

Putting the Balanced Scorecard to Work

Harvard Business Review

September–October 1993

by Robert S. Kaplan and David P. Norton

In this article, the authors argue that the balanced scorecard is more than a measurement system. Four characteristics make it distinctive: It is a top-down reflection of the company's mission and strategy; it is forward-looking; it integrates external and internal measures; and it helps a company focus. Together, these characteristics enable a scorecard to serve as a means for motivating and implementing breakthrough performance.

Profit Priorities from Activity-Based Costing

Harvard Business Review

May–June 1991

by Robin Cooper and Robert S. Kaplan

When used as the financial metric of a balanced scorecard, activity-based costing (ABC) can help managers find the places in their organizations where improvement is likely to have the greatest payoff. Any way you slice it—by product, customer, distribution channel, or reading—ABC helps you see how an activity generates revenue and consumes resources. Once you understand these relationships, you're better positioned to take the actions that will increase your selling margins and reduce operating expenses.

About the Authors

Robert S. Kaplan is the Arthur Lowes Dickinson Professor of Accounting at the Harvard Business School in Boston, Massachusetts.

David P. Norton is the founder and president of Renaissance Solutions, a consulting firm in Lincoln, Massachusetts. They are the authors of "The Balanced Scorecard—Measures That Drive Performance" (HBR January–February 1992) and "Putting the Balanced Scorecard to Work" (HBR September–October 1993). Kaplan and Norton have also written a book on the balanced scorecard to be published in September 1996 by the Harvard Business School Press.