

## Balanced Scorecard Overview

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June 17, 2002

### Introduction

Without metrics, management can be a nebulous if not impossible exercise. How can we tell if we have met our goals if we don't know what our goals are? How do we know if our business strategies are effective if they have not been well defined? The balanced scorecard as documented by Robert S. Kaplan and David P. Norton in the Harvard Business Review article *The Balanced Scorecard - Measures that Drive Performance*<sup>1</sup> describes a methodology used for measuring success and setting goals from financial and operational viewpoints. With those measures, leaders can manage their strategic vision and adjust it for change. This paper will provide a brief overview of the balanced scorecard.

### Balanced Scorecard Mechanics

The balanced scorecard (which saw its initial development during the years of 1987 - 1992<sup>2</sup>) links performance measures by looking at a business's strategic vision from four different perspectives: financial, customer, innovation and learning, and internal business processes. These four perspectives do not eliminate, but instead support the goals of various management techniques (such as Strategic Planning, Total Quality Management, and Core Competence) employed during the several decades surrounding the balanced scorecard's appearance.

Each of the four perspectives is considered by four parameters. Those parameters are:

- Goals: What do we need to achieve to become successful
- Measures: What parameters will we use to know if we are successful
- Targets: What quantitative value will we use to determine success of the measure
- Initiatives: What will we do to meet our goals

In the original paper of 1992, Goals and Measures are the only two parameters shown on the scorecard. Since then, it is often seen with the additional two parameters, Targets and Initiatives.

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<sup>1</sup> Kaplan, Robert S. and David P. Norton, "*The Balanced Scorecard - Measures that Drive Performance*," HBR 71 (1992)

<sup>2</sup> Art Schneiderman's Home Page. Retrieved June 15, 2002 from <http://www.schneiderman.com/>

Figure 1 shows a balanced scorecard template used at the U.S. Department of Commerce<sup>3</sup>. You can see that they've substituted the name, "Objectives" in place of the parameter named, "Goals".

Figure III-1

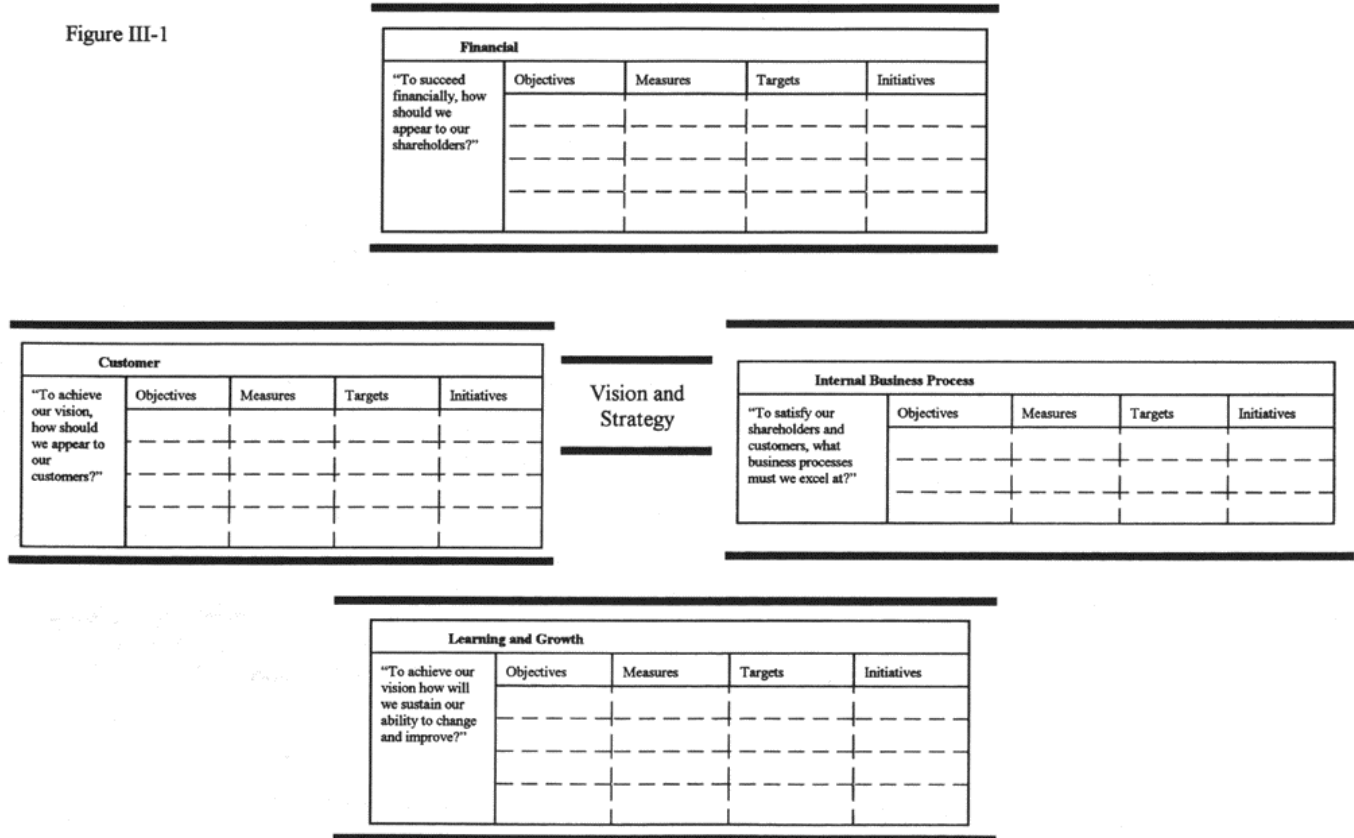


Figure 1: Balanced Scorecard Template from the U.S. Department of Commerce

### Customer Perspective

The customer perspective provides a view of how the customers see the company. Kaplan and Norton contend that, "to put the balanced scorecard to work, companies should articulate goals for time, quality, and performance and service and then translate these goals into specific measures." Overall, this is a measure of how the company provides value to the customer. For example, it's not enough to simply bring down the cost of an item. The delivery time and manner in which the customer is dealt during times of sales and support are important as well. The customer perspective is now often considered in the form of customer resource management (CRM). The first wave of CRM systems was deployed in the early 1990's<sup>4</sup>, the same period of the balanced scorecard's release. In fact, the arrival of customer focus into the world of corporate strategy

<sup>3</sup> U.S. Department of Commerce (1999). *Guide to a Balanced Scorecard Methodology: Moving from Performance Measurement to Performance Management*

<sup>4</sup> Seybold, Patricia B. (2002). How to Evaluate CRM Alternatives by Functionality, Architecture, & Analytics. *An Executive's Guide to CRM*

can also be found in Kaplan and Norton's 1992 observation that, "Many companies today have a corporate mission that focuses on the customer."

### **Financial Perspective**

The financial perspective provides a view of how the shareholders see the company (i.e. the company's bottom-line). By including this perspective it shows that Kaplan and Norton have not turned away from the need for financial data, but instead have incorporated it into a measurement and strategy model that includes a more holistic view of the organization's business strategies. They note that success based in efficiency and the bottom-line may lead to the elimination of certain tasks and the people who perform them, and that to deal with this issue a company's employees and facilities will need to be working at the highest level of capacity, while at the same time confronting the pain of downsizing.

In their discussion of the financial perspective, Kaplan and Norton state that critics contend that, since financial indicators do not affect the issues that motivate customer and employee satisfaction, companies should stop using them as metrics to guide their "navigation" through the strategic vision. Kaplan and Norton counter by supporting the inclusion of the financial perspective in a company's strategy with their statement, "Assertions that financial measures are unnecessary are incorrect [...]." In fact, those who do not integrate all four perspectives into their strategic vision may be doomed to failure. As Maris Martinsons writes, "Even more seriously, misuse of the balanced scorecard may have contributed to the dot-com bubble that has burst in recent months. The balanced scorecard concept moves stakeholders away from a single-minded obsession with traditional accounting data. However, in the extreme case, financial performance measures were apparently forgotten as managers, stock analysts and investors became obsessed with customer satisfaction and intangible asset growth."<sup>5</sup>

### **Internal Business Perspective**

The internal business process perspective provides a view of what the company must excel at to be competitive. The focus of this perspective then, is the translation of customer-based measures into measures reflecting the company's internal operations. The highest level in this measurable should be on customer satisfaction and factors affecting such issues as cycle time, quality, employee skills, and productivity. Kaplan and Norton recommend that, "companies also attempt to identify and measure their company's core competencies, the critical technologies needed to ensure continued market leadership."

### **Innovation and Learning Perspective**

Kaplan and Norton underscore the importance of innovation and learning in their statement that, "a company's ability to innovate, improve, and learn ties directly

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<sup>5</sup> Martinsons, Maris G. (2001) Balance Requires Focus First: A balanced perspective on the balanced scorecard. Retrieved June 15, 2002 from <http://fabweb.cityu.edu.hk/is5001r/SCMP-BSC.doc>

to the company's value." While the financials perspective deals with the projected value of the company, the innovation and learning perspective sets measures that help the company compete in a changing business environment. Their focus for this innovation is in the formation of new or the improvement of existing products and processes.

### **The Importance of Organizational Leadership**

It is not enough to produce an instrument to document and monitor success. Without proper implementation and leadership, creating a balanced scorecard will remain only an exercise. In a recent interview, in CFO.com David Norton states this specifically. "The only difference between a bad balanced scorecard and a good one--which would be one that describes your strategy--is the effort that has to go into the front end, with the executive group coming together to agree that this is the strategy and this is how they're going to measure it. If somebody doesn't want to do that, they're essentially viewing the scorecard as a measurement system as opposed to a system to manage change."<sup>6</sup>

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<sup>6</sup> Calabro, Lori (2001) On Balance: Almost 10 years after developing the balanced scorecard, authors Robert Kaplan and David Norton share what they've learned. *CFO Magazine* Retrieved June 15, 2002, from <http://www.cfo.com/article/1,5309,2044,00.html>

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