Balanced Scorecard (BSC)

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Background

The origins of Balanced Scorecard can be traced back to **1990** when **Nolan Norton Institute** sponsored a one-year multicompany study,

"Measuring Performance in the Organization of the Future."

The study participants (**Nolan Norton** – project leader
Robert Kaplan – academic consultants)
believed that reliance on summary financial-performance measures were hindering organizations' abilities to create future economics values. Therefore, study participants shifted to focus on the **multidimensional scorecard** and expanded to "Balanced Scorecard" concepts in 1992.

David P. Norton

Dr. David Norton serves as a President with the Balanced Scorecard Collaborative - a global network to support organizations implementing the Balanced Scorecard. Formerly, Dr. Norton was CEO of the Nolan Norton Institute, a consulting firm he confounded, which became the research arm of KPMG.

Robert S. Kaplan

Robert S. Kaplan is the Marvin Bower Professor of Leadership Development at Harvard Business School.

What is a Balanced Scorecard?

A tool that translates an organization's

<u>mission and strategy</u>

into a comprehensive set of **<u>performance measures</u>**

that provides the framework for a strategic measurement and management system.

What is a Balanced Scorecard?

To measure the performance of organizations from

Financial Measures

- **<u>Financial</u>:** How do we look to shareholders?

Operational Measures

- **<u>Customers</u>:** How do customers see us?
- **<u>Internal process</u>:** What must we excel at?
- **<u>Innovation and Learning</u>:** Can we continue to improve and create value?

Why Balanced Scorecard?

- The traditional financial performance measures (i.e. ROI, EPS) can give misleading signals for continuous improvement and innovation.

- Balanced Scorecard aligns organizations to new strategies: away from the historic, short-term focus on cost reduction and low-price competition, and toward generating growth opportunities by offering **customized, value-added products, and services** to customers.

Why Balanced Scorecard?

The name “Balanced Scorecard” reflects the *Balance* between

- short- term and long-term objectives
- financial and non-financial measures
- lagging and leading indicators
- external and internal performance perspectives.

Steps to Build up a Balanced Scorecard

The steps to build Balanced Scorecard are:

Step 1:

Clarify the <u>mission</u> and <u>strategic vision</u>

Steps to Build up a Balanced Scorecard

Step 2:

Specify <u>objectives</u> in the <u>four</u> scorecard areas to <u>realize vision</u>

("Strategy Map" – a visual framework for the corporate objectives within 4 areas)

Steps to Build up a Balanced Scorecard

- **Financial** Perspective:

Balance revenue growth and production improvement.

- **Customer** Perspective:

Differentiate your organization from competitors.

- **Internal Process** perspective:

Identify operational, customer-relationship, and innovation processes to support your customer and financial goals

- **Innovation and Learning** perspective:

Define the skills, technologies, and corporate culture needed to support your strategy.

Steps to Build up a Balanced Scorecard

Step 3:

Define <u>performance measurement</u> to measure objectives or goals

Steps to Build up a Balanced Scorecard

There principles of performance measurement:

Principe 1: Make Measurement Simple

- Easy to understand - by everyone
- Easy to collect - accessible today
- Timely – hourly, daily or weekly
- Visible – posted on the wall
- Informative – no interpretation required

Principe 2: Make Measurement Relevant

- Linked to company and department strategy – encourage actions that will result in achieving strategy
- Linked to the customer and their expectations

Principe 3: Measure Output

- Measures of activity output quantity - cost, time, and quality
- Measures of business process output quantity - cost, time, and quality
- Good predictors of the future

Steps to Build up a Balanced Scorecard

Goal	Measures
Financial: ▪ Reduce cost of application-related services	▪ Cost per function point developed ▪ Cost per function point enhanced ▪ Cost per function point maintained
Customer: ▪ Improve overall client satisfaction	▪ Level of client satisfaction ▪ Percent of Service Level Agreements met
Internal Process: ▪ Improve effort estimates	▪ Percent of development project within effort estimates
Innovation and Learning: ▪ Improve overall level of employee satisfaction	▪ Employee development goal achievement

Source: Southern California Edison – IT department

Successful BSC Implementation Case – Mobil North American Marketing & Refining Division

Step 1: Clarify the mission and strategic vision

Mobil sought "to be the best integrated refiner marketer in the U.S. by efficiently delivering unprecedented value to customer.

Step 2: Specify <u>objectives</u> in the <u>four</u> scorecard areas to realize vision

Financial: Mobil grew revenue by selling more non-gasoline products and services and more premium gas.

Customer: Mobil emphasized customer intimacy, targeting premium customers by offering fast, friendly, and safe service.

Internal Process: Mobil reduced environmental and safety incidents.

Learning and Growth: Mobil increased employee knowledge of refining business.

Successful BSC Implementation Case – Mobil North American Marketing & Refining Division

Step 3: Define performance measurement to measure objectives or goals

Financial: Revenue Growth Strategy -
Revenue from nongasoline products and its profit margin
Ratio of premium products sold to regular products sold

Customer: Share of target customer segments
Dealer profitability

Internal Process: Number of environmental incidents and safety incidents.

Learning and Growth: Ratio of strategic skills to job coverage
Employee feedback

Successful BSC Implementation Case – Mobil North American Marketing & Refining Division

With all Mobil employees aligned to the new strategy, Mobil North American Marketing and Refining Division executed a remarkable turnaround in less than 2 years:

- Industry's profit leader from 1995 up through its merge with Exxon in late 1999.
- The division increased its return on capital from 6% to 16%
- Sales growth exceeded the industry average by more than 2% annually.
- Cash expenses decreased by 20%.
- In 1998, the division's operating cash flow was more than $1 billion per year higher than at the launch of new strategy.

How to Use BSC in E-Business?

- Strategic execution is very difficult in the new economy.
- Business models are evolving rapidly.
- Customer needs are ever-changing.
- New competitors are emerging.

How to Use BSC in E-Business?

"One of the main challenges for internet-based companies is their operations are changing faster than their strategies.

In the language of the BSC, it is hard to be a <u>strategy-focused</u> organization when there is no strategy.

Some may argue that implementing the BSC in e-business is impossible"

How to Use BSC in E-Business?

1. Creating Strategy Maps for E-Business

- Can be adopted by smaller work groups to accelerate decision-making.
- Keep employees focused on the critical success factors of the business.
- Help employees understand their roles in the organization.

How to Use BSC in E-Business?

2. Creating Scorecard Measures for E-Business

- The choice of scorecard measures for e-business depends upon what firms are trying to accomplish. For example, for a start-up internet company, measuring improved site traffic will a key measure.
- Measures need to be tailored to every firm's specific strategy and objectives. What is appropriate for one firm may be irrelevant for another.

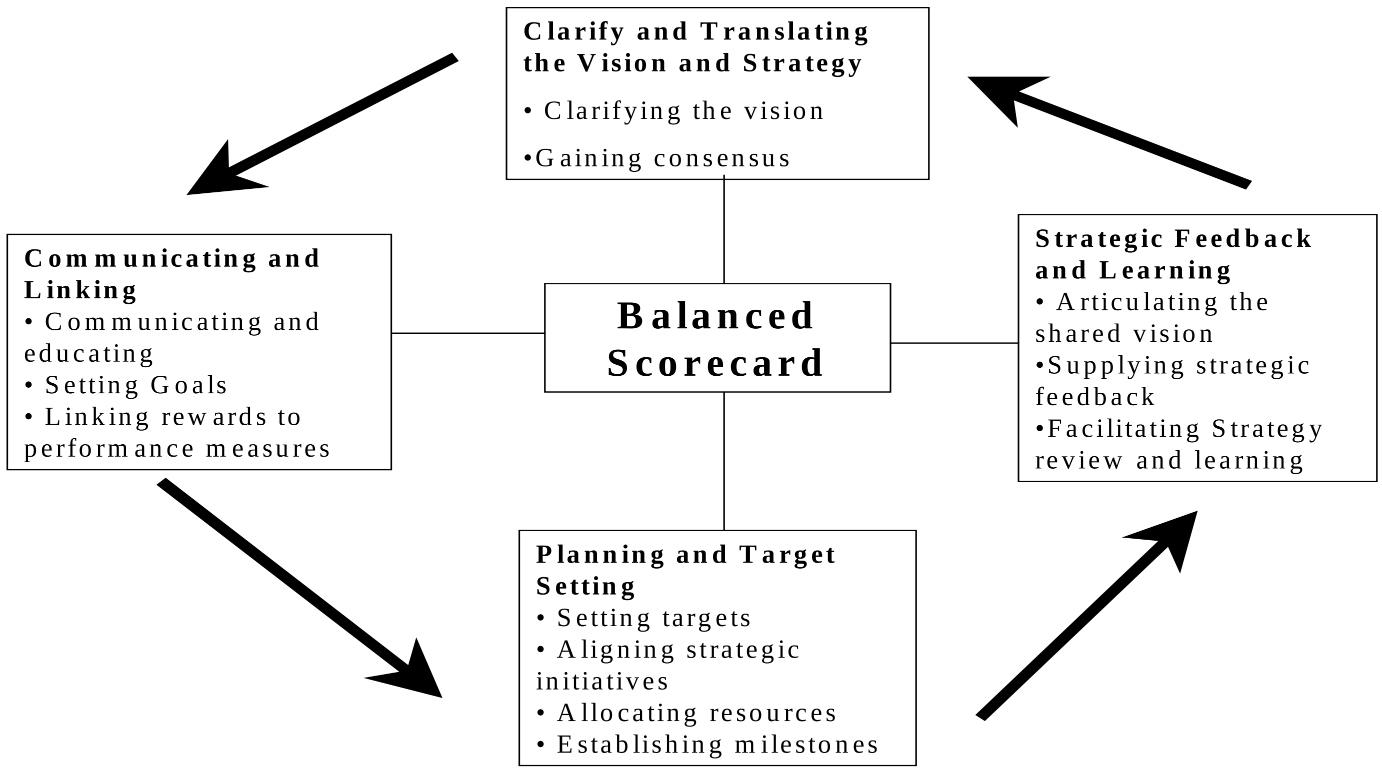
How to Use BSC in E-Business?

3. Implementing Scorecards in E-Business

- Main challenges for internet-based companies is their operations are changing faster than their strategies.
- Scorecards can be a real-time management system. The strength of BSC is designed as continual feedback loop. Where the different parts of the organization provide feedback to the center, the scorecard can keep the company on track.

Conclusion

Balanced Scorecard as a Strategic Framework for Action



Source: Source: Kaplan & Norton 'Using the Balanced Scorecard as a strategic management system' Harvard Business Review (Jan-Feb 1996): 77

Conclusion

The key barriers to implement Balanced Scorecard are:

- Establishing objectives is most of battle.
- Employee Awareness: Buy-in is more difficult beyond senior levels.
- How to link to Compensation is a big challenge
- Data availability, sourcing, and supporting infrastructure challenges

Conclusion

The **Best Practices** for using the Balanced Scorecard approach are:

- Keep objective setting simple. Fewer objectives usually will work best.
- Use cross-functional teams to help develop objectives.
- Link Balanced Scorecard to compensation, short-term incentive reward program – increase employee awareness.
- Require clear communication about the process. Make strategy everyone's job.

Conclusion

- The Balanced Scorecard provides a excellent tool to guild companies and to create future values.
- Many companies are currently using the Balanced Scorecard as central organization framework for managerial processes, individual and team goal achievement, compensation, resource allocation, budgeting and planning, and strategic feedback and learning.
- More and more organizations will adopt and implement the Balanced Scorecard in the near future.

New Approach….

Balanced Scorecard SWOT –

Migrated the traditional SWOT analysis into the BSC four perspectives format.

Resources

- Join **Balanced Scorecard Collaborative**

http://www.bscol.com/

Online Learning Center

Online Design Center

- Bettermanagement.com

http://www.bettermanagement.com/library/Default.asp?mode=results&ctcid=16&A=11

Q & A

"...and because the years are much longer on Jupiter, moving our headquarters there would really boost our annual earnings."