The Balanced Scorecard

Robert Kaplan and David P. Norton

In 1992, Robert S. Kaplan and David P. Norton’s concept of the balanced scorecard revolutionized conventional thinking about performance metrics. By going beyond traditional measures of financial performance, the concept has given a generation of managers a better understanding of how their companies are really doing.

These nonfinancial metrics are so valuable mainly because they predict future financial performance rather than simply report what’s already happened. This article, first published in 1996, describes how the balanced scorecard can help senior managers systematically link current actions with tomorrow’s goals, focusing on that place where, in the words of the authors, “the rubber meets the sky.”

As companies around the world transform themselves for competition that is based on information, their ability to exploit intangible assets has become far more decisive than their ability to invest in and manage physical assets. Several years ago, in recognition of this change, we introduced a concept we called the balanced scorecard. The balanced scorecard supplemented traditional financial measures with criteria that measured performance from three additional perspectives—those of customers, internal business processes, and learning and growth. (See the exhibit “Translating Vision and Strategy: Four Perspectives.”) It therefore enabled companies to track financial results while simultaneously monitoring progress in building the capabilities and acquiring the intangible assets they would need for future growth. The scorecard wasn’t a replacement for financial measures; it was their complement.
Recently, we have seen some companies move beyond our early vision for the scorecard to discover its value as the cornerstone of a new strategic management system. Used this way, the scorecard addresses a serious deficiency in traditional management systems: their inability to link a company’s long-term strategy with its short-term actions.

Most companies’ operational and management control systems are built around financial measures and targets, which bear little relation to the company’s progress in achieving long-term strategic objectives. Thus the emphasis most companies place on short-term financial measures leaves a gap between the development of a strategy and its implementation.

Managers using the balanced scorecard do not have to rely on short-term financial measures as the sole indicators of the company’s performance. The scorecard lets them introduce four new management processes that, separately and in combination, contribute to linking long-term strategic objectives with short-term actions. (See the exhibit “Managing Strategy: Four Processes.”)
The first new process—translating the vision—helps managers build a consensus around the organization’s vision and strategy. Despite the best intentions of those at the top, lofty statements about becoming “best in class,” “the number one supplier,” or an “empowered organization” don’t translate easily into operational terms that provide useful guides to action at the local level. For people to act on the words in vision and strategy statements, those statements must be expressed as an integrated set of objectives and measures, agreed upon by all senior executives, that describe the long-term drivers of success.

The second process—communicating and linking—lets managers communicate their strategy up and down the organization and link it to departmental and individual objectives. Traditionally, departments are evaluated by their financial performance, and individual incentives are tied to short-term financial goals. The scorecard gives managers a way of ensuring that all levels of the organization understand the long-term strategy and that both departmental and individual objectives are aligned with it.

The third process—business planning—enables companies to integrate their business and financial plans. Almost all organizations today are implementing a variety of change programs, each with its own champions, gurus, and consultants, and each competing for senior executives’ time, energy, and resources. Managers find it difficult to integrate those diverse initiatives to achieve their strategic goals—a situation that leads to frequent disappointments with the programs’ results. But when managers use the ambitious goals set for balanced scorecard measures as the basis for allocating resources and setting priorities, they
can undertake and coordinate only those initiatives that move them toward their long-term strategic objectives.

The fourth process—feedback and learning—gives companies the capacity for what we call strategic learning. Existing feedback and review processes focus on whether the company, its departments, or its individual employees have met their budgeted financial goals. With the balanced scorecard at the center of its management systems, a company can monitor short-term results from the three additional perspectives—customers, internal business processes, and learning and growth—and evaluate strategy in the light of recent performance. The scorecard thus enables companies to modify strategies to reflect real-time learning.


Activity

In an organisation of your choice, apply the Balanced Scorecard model to the HR Department. Discuss your approach (strategies) and potential problems you would face and solutions for same.