



Productivity Methodologies, Tools, and Techniques

The Balanced Scorecard



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Two decades ago, to remedy the inadequacies of traditional financial measures, Robert S. Kaplan and David P. Norton devised what they called a balanced scorecard (BSC) of financial and other indicators. By directly linking performance measures to key elements of corporate strategy, the BSC reflected a shift in emphasis from control to improvement.

Based on Kaplan and Norton's research, the BSC adopted four distinct performance perspectives: financial; customer; internal business processes; and learning and growth (Figure 1). Individual measures or key performance indicators (KPIs) within the four perspectives were not specified. The idea was to align the KPIs with organizational vision and strategy and, since every vision and strategy is different, every organization's KPIs would be different.



Figure 1. Generic balanced scorecard (after Kaplan and Norton).

Each perspective asks a strategic question. The financial one asks: "To succeed financially, how should we appear to our shareholders?" The customer one asks: "To achieve our vision, how should we appear to our customers?" The internal business process perspective asks: "To satisfy our shareholders and our customers, what business processes must we excel at?" Finally, learning and growth asks: "To achieve our vision, how will we sustain our ability to change and improve?" In its original format, the BSC translates the organizational vision and strategy into business objectives for each perspective, derives KPIs that

indicate progress toward those objectives, sets targets for each KPI, and describes the actions to be taken in order to achieve the objectives.

The BSC is probably best implemented in two stages over approximately three months. Stage 1 is about designing and implementing the system. Stage 2 is more about how to use the BSC to improve organizational performance. The steps below are based on a very successful implementation exercise within a leading Mongolian bank.

Stage 1: Design and implementation

- ▶ Situational appraisal to ascertain what measures and systems already exist and ensure that the vision and strategy have been properly formulated.
- ▶ Selection and training of a multidisciplinary measurement team that will be responsible for designing, building, and implementing the BSC across the organization.
- ▶ Design of the BSC itself by accommodating the needs of decision makers and defining organization-specific KPIs within the four perspectives.
- ▶ Rigorous specification of the chosen KPIs to determine how exactly quality will be measured, where the data will be sourced, what the performance targets are, and which benchmarks and historical data are available.

Stage 2: Using the BSC

- ▶ Mapping strategy and cause-and-effect relationships to understand what measurement results mean and how the various KPIs relate to each other (Figure 2).
- ▶ Building chartbooks that record KPI owners, comprehensive definitions, data sources, performance drivers, and current and past performance.
- ▶ Appreciating statistical variation so as to avoid “knee-jerk” reactions.

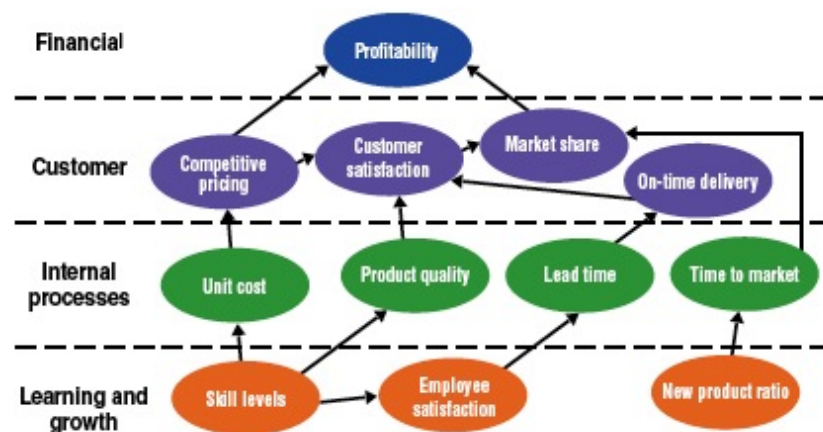


Figure 2. High-tech manufacturing: Linking cause and effect.
Source: Resources Alternatives Australia.

Implementation is only successful when the leadership relies on the results, better decisions are made, and organizational performance improves as a consequence. Also, the BSC must evolve as the vision and strategy evolve.

Despite overwhelming worldwide popularity, not everyone accepts the BSC as the best system, and alternatives exist. However, the basic principle of linking measures, strategy, and learning usually remain.



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