Robert S. Kaplan and David P. Norton have had a major impact on how companies think about strategy and how they measure the performance of managers. This all started in 1992 when their first article, "The Balanced Scorecard -- Measures that Drive Performance," appeared in the Jan/Feb 1992 issue of the Harvard Business Review (HBR). Since then, Kaplan and Norton have produced several other articles, a series of books, and a consulting company, all committed to elaborating the themes laid down in the initial Balanced Scorecard article.

Kaplan and Norton recently published Strategy Maps, the third book in their series. In the introduction to the new book, they explained that their journey began in 1990 when they undertook a research project to explore ways organization's measured performance. At the time, they believed that knowledge-based assets -- primarily employees and IT -- were becoming increasingly important for companies' competitive success, but that, in spite of that, most companies were still focused on measuring short term financial performance. They also believed that "financial reporting systems provided no foundation for measuring and managing the value created by enhancing the capabilities of an organization's intangible assets." They also believed that organizations tended to get what they measured. The result of this research effort was the Balanced Scorecard approach.

In essence, the Balanced Scorecard approach insists that management track four different types of measures: Financial measures, Customer measures, Internal Business (Process) measures, and Innovation and Learning measures. Using the Balanced Scorecard approach, and organization identifies corporate objectives within each of the four categories, then aligns the management hierarchy by assigning each manager his or her own scorecard with more specific objectives in each of the four categories. Properly used, the system focuses every manager on a balanced set of performance measures.

No sooner had they published their now classic Harvard Business Review article on the Balanced Scorecard methodology, than they found that: "while executives appreciated a more comprehensive new performance measurement system, they wanted to use their new system in a more powerful application than we had originally envisioned. The executives wanted to apply the system to solve the more important problem they faced -- how to implement new strategies."

In a series of articles and books, Kaplan and Norton have gradually refined a methodology that seeks to align a balanced set of measures to an organization's strategy. They use a top down method that emphasizes starting with the executive team and defining the organization's strategic goals, and then passing those goals downward, using the balanced scorecard. They argue that success results from a Strategy-Focused Organization, which, in turn, results from Strategy Maps and Balanced Scorecards.

Figure 1 on the following page provides an overview of a Strategy Map. Kaplan and Norton claim that this generic map reflects a generalization of their work with a large number of companies for whom they have developed specific Strategy
Maps. Notice that the four sets of Balanced Scorecard measures are now arranged in a hierarchical fashion, with Financial Measures at the top, driven by Customer Measures, which are, in turn, the result of Internal (Process) Measures, and are supported by Innovation and Learning Measures.

In discussing what this book adds to the already rather well-defined methodology on strategy formation and balanced measurement, the authors point out that the new book includes templates, themes and a framework for aligning everything. Honestly, I'd suggest that everything interesting in the new book was also present in Kaplan and Norton's Sept-Oct 2000 HBR article “Having Trouble with Your
Strategy? Then Map It." The main thing the new book adds in hundreds of pages of examples, drawn from a wide variety of different organizations. For those that need examples, this book is valuable, but for those who want theory, the HBR article is a lot faster read.

Given our focus on process, we looked rather carefully at the Themes, which are, in essence, described as the Internal Perspective on the Strategy Map. Kaplan and Norton identify four Themes, which they go on to describe as "value-creating processes." Scanning across on the Strategy Map in Figure 1, the Themes are Operations Management Processes (Supply Chain Management), Customer Management Processes (Customer Relationship Management), Innovation Processes (the Design and Development of New Products and Services), and Regulatory and Social Processes. The latter is obviously a support process and doesn't go with the other three, but would be better placed in their bottom area where they treat other support processes like HR and IT. Obviously, identifying these large scale business processes is very much in the spirit of the times. Software vendors have organized around SCM and CRM, and the newly organized Value Chain Group is seeking to extend the Supply Chain Council's SCOR model by adding a Design Chain Model and a Customer Chain Model.

The problem with any of these efforts is, that if they aren't careful, they get lost in business processes, and lose the value chain that these business processes enable. Going further, what one missed in Strategy Maps is any sense of a value chain. (Value Chain isn't an entry in the Index of the book.) One Strategy Map actually places an arrow behind the four Themes or sets of processes in the Internal Perspective, to suggest they somehow fit together to generate a product or service, but the idea isn't developed. One could read Strategy Maps, and come away with the idea that every company had a single strategy. No one seems to consider organizations with four different business units producing four different product lines. Perhaps we are to assume that Strategy Maps are only developed for lines of business and that everything shown in the internal perspective always refers to a single value chain. If that's the case, its not made explicit in Strategy Maps.

The strategic perspective that Kaplan and Norton have developed is very valuable. Before Kaplan and Norton, most academic strategy courses were dominated by the thinking of Michael Porter, who began by emphasizing the "Five Forces Model" that suggested what external, environmental factors would change an organization's competitive situation, and then focused on improving the value chain. By contrast, Kaplan and Norton have put a lot more emphasis on measures and alignment, which has certainly led to a more comprehensive approach to strategy.

We have described the Nineties as primarily concerned with horizontal alignment. Companies tried to eliminate operational and managerial problems that arose from silo thinking and see how a value chain linked all activities, from the supplier to the customer. Today, most companies seem to have moved on to vertical alignment, seeking to organize the way strategies align with measures and how processes align to the resources that implement them. In the shift, we believe that something very valuable from the horizontal perspective has been lost. We are now focusing on alignment without simultaneously maintaining our
focus on horizontal, value chain alignment.

We're sure that this is not the intent of Kaplan and Norton, and that they would argue that their process layer was designed to assure that horizontal alignment was maintained. To us, however, the fact that they don't mention value chains, and define their internal perspective themes in such an unsophisticated way, from the perspective of someone who is used to working on business process architectures, indicates that they have, in fact, failed to incorporate a sophisticated understanding of process in their methodology. We suspect that the problem is that they start at the top and ask senior executives to identify strategic objectives and then define measures associated with them. In our opinion, this isn't something that can be done in isolation. Value chains have their own logic, and the very act of defining a major process generates measures that must be incorporated into any measurement system.

Most large US companies have embraced the Balanced Scorecard system, and have implemented one or another version of the methodology. Fewer, we suspect, have embraced Strategy Maps, but the number will probably grow, since the Maps are associated with the Scorecard system which is so popular. We think, overall, that this is a good thing. Most organizations need better tools to use in aligning strategies and managerial measures, and the Balanced Scorecard methodology forces people to think more clearly about the process and has, in many cases, resulted in much better managerial measurement systems.

For those engaged in developing business strategies, or developing corporate performance systems, the Kaplan and Norton HBR article is critical reading.[1] Those especially interested in Strategy Maps, or those who want to read a lot of specific case studies, may find this book a useful adjunct. Otherwise, we'd suggest that Kaplan and Norton's two earlier books have more meat.[2]


Kaplan and Norton offer their consulting services, training, and conferences on the Balanced Scorecard and Strategy via the Balanced Scorecard Collaborative, [www.bscol.com](http://www.bscol.com), which is worth a visit if you are interested in this topic.