The Evolution of the Balanced Scorecard

The Balanced Scorecard is an approach to measurement. The term was coined by Robert S. Kaplan (a Harvard Business School accounting professor) and David P. Norton (a consultant) in an article titled "The Balanced Scorecard -- Measures that Drive Performance," that appeared in the Jan/Feb 1992 issue of Harvard Business Review.

The basic idea is very straightforward. Kaplan and Norton began by arguing that "What you measure is what you get" and that "An organization’s measurement system strongly affects the behavior of managers and employees." They went on to say that "Traditional financial accounting measures like return-on-investment and earnings-per-share can give misleading signals for continuous improvement and innovation,..." To counter the tendency to rely too heavily on financial accounting measures, Kaplan and Norton argued that senior executives should establish a scorecard that took multiple measures into account. They proposed a Balanced Scorecard that considered four types of measures:

- **Financial Measures**: How Do We Look to Shareholders?
- **Internal Business Measures**: What Must We Excel At?
- **Innovation and Learning Measures**: Can We Continue to Improve and Create Value?
- **Customer Measures**: How Do Customers See Us?

Figure 1 illustrates a scorecard of a hypothetical company discussed in Kaplin and Norton’s Jan/Feb 1992 article, Electronic Circuits Inc (ECI).

The article was well received, and Kaplan and Norton proceeded to write more articles and then to blow this nice, but simple idea into a book: *The Balanced Scorecard: Translating Strategy into Action*. (Harvard Business School Press, 1996)

The initial article on the Balanced Scorecard appeared just as business process reengineering was taking off in the early Nineties. Subsequent articles emphasized important ideas like linking processes to customer concerns and linking measures to strategies. Many of the early business process theorists emphasized the importance of measurement, but didn’t provide specifics about how to accomplish it. It became popular for business process gurus to mention the balanced scorecard, when asked to explain how to align strategies, processes and measures.

The Balanced Scorecard approach rapidly grew into a minor industry. Kaplan and Norton went on to write several more HBR articles and, to date, two books on the Balanced Scorecard. (They also offer tapes and a newsletter published by HBS, and Kaplan has coauthored a third book with Paul Niven.) Other authors joined in and a search at Barnes & Noble produces a list of some 49 titles with the keywords “Balanced Scorecard.”

It’s rather interesting to follow the evolution of the Balanced Scorecard idea. It began with the injunction that managers ought to measure more than financial results, and proposed a matrix with four types of measures: financial, internal (process), innovation and learning, and customer. Initial work focused on how managers might identify the best measures in each of the four areas and how they might communicate them to subordinates.
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**Figure 1. ECI’s Balanced Business Scorecard**
(After a Figure in Kaplan and Norton’s “The Balanced Scorecard – Measures that Drive Performance.” HBR Jan/Feb 1992.)

The evolution continued in Kaplan and Norton’s Sept/Oct 1993 HBP article “Putting the Balanced Scorecard to Work.” In this article, Kaplan and Norton offered an overview of how managers could link the Balanced Scorecard to corporate strategies. Figure 2 provides an overview of the approach they proposed.

![Figure 2. Linking Strategies to Balanced Scorecard Measures.](image-url)
Like the basic idea behind the Scorecard itself, there is nothing wrong with this idea. There ought to be a systematic link between a company's strategy, it's goals, and the measures used to determine if the goals are being met.

The Balanced Scorecard has proved popular for many reasons. The most important reason was simply that it served as a wakeup call in the mid-Nineties. Many senior managers were relying too heavily on financial measures, and a tidy model that suggested how they might rely on other measures, including process measures and customer satisfaction, proved popular.

In 2000 Kaplan and Norton came out with a new book and another HBR article: “Having Trouble with Your Strategy? Then Map It. (HBR, Sept-Oct, 2000.) The new article is, in our opinion, more dubious. They suggest what they term “Balanced Scorecard Strategy Maps.” In essence, they introduce a hierarchical model that suggests that some measures contribute to others and are summed up in shareholder value. Figure 3 summarizes the idea behind the Balanced Scorecard Strategy Maps.

When we look at Figure 3, it seems very much like we have come full circle. We have gone from the idea that senior managers should not rely exclusively on financial
measures, but on four balanced sets of measures, to the idea that there is a hierarchy of measures, and that financial measures are on the top. If I was a senior executive and saw Figure 3, I'd assume that I could rely on the financial measures, and delegate to lower level managers, the monitoring of supportive measures.

Ignoring that objection, consider the four categories of internal measures suggested by Figure 3. In essence, these are the processes that Kaplan and Norton seem to think executives should be concerned with. I suppose, moving from left to right, one might assume that Build Franchise was Marketing, the second was Sales and Support, and the third referred to a Supply Chain process.

We suspect that the continual elaboration of a simple idea has gradually escaped the control of the authors. The original idea is great, but probably should have been tied more closely to processes. Certainly the idea of elaborating a strategy works better, in our experience, if its done via specific process strategies rather than through the approach suggested in Figure 2. And measures are better organized by explicit processes rather than arranged hierarchically, as shown in Figure 3. For an example of how measures can be tied to specific processes, check the May issue of BPTrends Newsletter on the BPTrends website (Publications/Newsletters) or the White Paper on *The SCOR Methodology* (Publications/White Papers).

Imagine a manager relying on the approach shown in Figure 3. The economy turns down. How does our hypothetical manager decide how to cut costs. Does he cut 10% from each department? Or does he consider which processes are yielding the most profits, and cut from processes that are less productive? Or, better still, does he consider which processes perform worst, as compared with industry benchmarks, and mandate savings from the processes that are below standard. We suggest that the Balanced Scorecard approach doesn't help a manager much when times get tough, and that a truly process-centric approach provides a lot more power.

Ignoring efforts to spin the Balanced Scorecard idea into an independent management or measurement methodology, the basic idea is still valid and viable. A significant portion of Fortune 500 companies have experimented with the Balanced Scorecard approach, and many continue to use it in one of its many guises. Managers still put too much emphasis on financial measures, and not enough on the other measures that the original scorecard article suggested. The Balanced Scorecard approach can help shake this up a bit, and is better than a over emphasis on one set of measures. Beyond the Balanced Scorecard, however, lies more sophisticated measurement systems tied directly to the processes the company supports.

Both of Kaplan and Norton’s books are still available and are as good as any of the many other books on the Balanced Scorecard we have seen. If you just want the essence of the idea, however, we suggest you buy the original Harvard Business Review article that can be bought and downloaded from Amazon. (www.amazon.com)