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Business Process Management



First Hundred Days



Balanced Scorecard

As a general rule, we don't see much high level process thinking in business schools - processes don't fit well into their silo-focused model of how businesses are organized. Put in a slightly different way, most business schools are organized into departments that reflect the functional units in organizations. Professors teach courses in marketing, finance, and operations but few business schools have professors who teach business processes, as we define them. The closest most business schools come to process is usually someone in operations, who thinks of process as a subset of operations. In spite of their generally siloed view, some very important work has been done in business schools. Michael Porter's work on strategy development, value chains and how companies achieve a competitive advantage, is very important. In a similar way, Robert S. Kaplan and David P. Norton have contributed a key element that many process-oriented companies find very useful - the idea of the Balanced Scorecard.

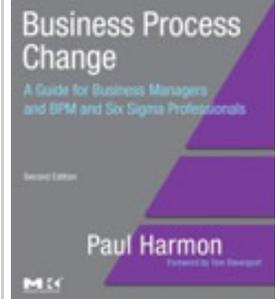
The Balanced Scorecard was, initially, an approach to measurement. The term was coined by Robert S. Kaplan (a Harvard Business School accounting professor) and David P. Norton (a consultant) in an article that appeared in the *Harvard Business Review*, "The Balanced Scorecard - Measures that Drive Performance",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

The basic idea is very straight forward. 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 earning-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 takes 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 Kaplan and Norton's January-February 1992 article, "Electronic Circuits Inc (ECI)".

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



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The initial article on the Balanced Scorecard appeared just as business process reengineering was taking off in the early Nineties. Subsequent articles emphasized two important ideas - 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 several books on the Balanced Scorecard. (They also produced tapes and a newsletter published by HBS, and Kaplan also co-authored 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.

ECI's Balanced Business Scorecard			
Financial Perspective		Internal Business Perspective	
Goals	Measures	Goals	Measures
Survive	Cash flow	Technology capability	Manufacturing geometry vs. competition
Succeed	Quarterly sales growth & operating income by division	Manufacturing experience	Cycle time, Unit cost, Yield
Prosper	Increased market share and ROE	Design productivity	Silicon efficiency, Engineering efficiency
		New product introduction	Actual introduction schedule vs. plan
Innovation & Learning Perspective		Customer Perspective	
Goals	Measures	Goals	Measures
Technology leadership	Time to develop next generation	New products	Percent of sales from new products, Percent of sales from proprietary products
Manufacturing learning	Process time to maturity	Response supply	On-time delivery (defined by customer)
Product focus	Percent of products that equal 80% sales	Preferred supplier	Share of key accounts' purchases, Ranking by key accounts
Time to market	New product interdiction vs. competition	Customer partnership	Number of cooperative engineering efforts

Figure 1. ECI's Balanced Business Scorecard

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(After a Figure in Kaplan and Norton's *The Balanced Scorecard - Measures that Drive Performance*.)

In their HBR article in 1993 ("Putting the Balanced Scorecard to Work" HBR, Sept-Oct, 1993), Kaplan and Norton offered an overview of how one could link the Balanced Scorecard to corporate strategies. Figure 2 provides an overview of the approach they proposed.

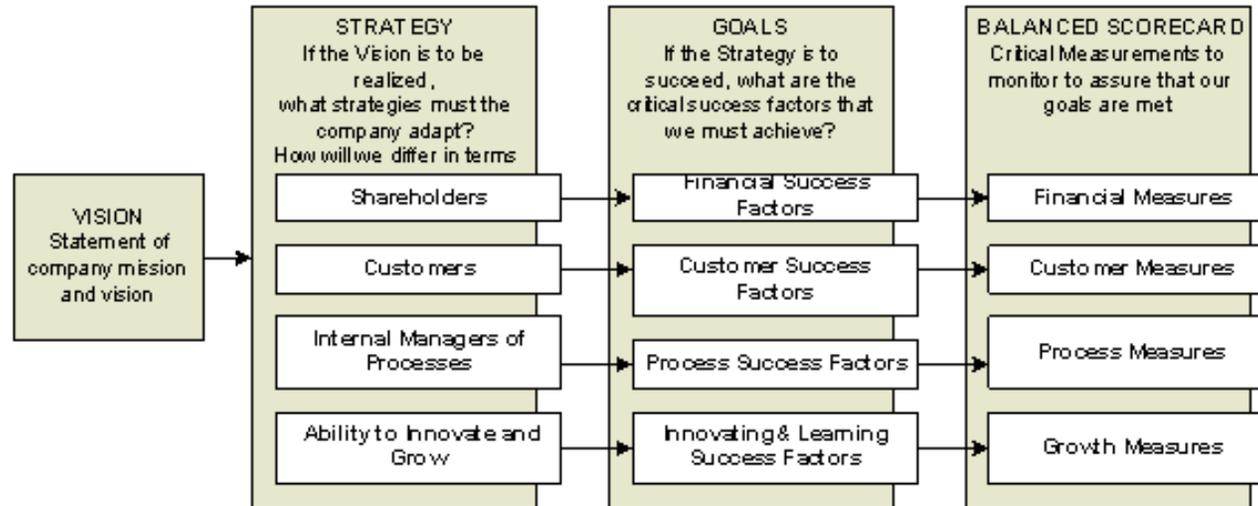


Figure 2. Linking Strategies to Balanced Scorecard Measures.

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, its goals, and the measures used to determine if the goals are being met or not.

The Balanced Scorecard has proved popular for many reasons. The most important reason is 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.

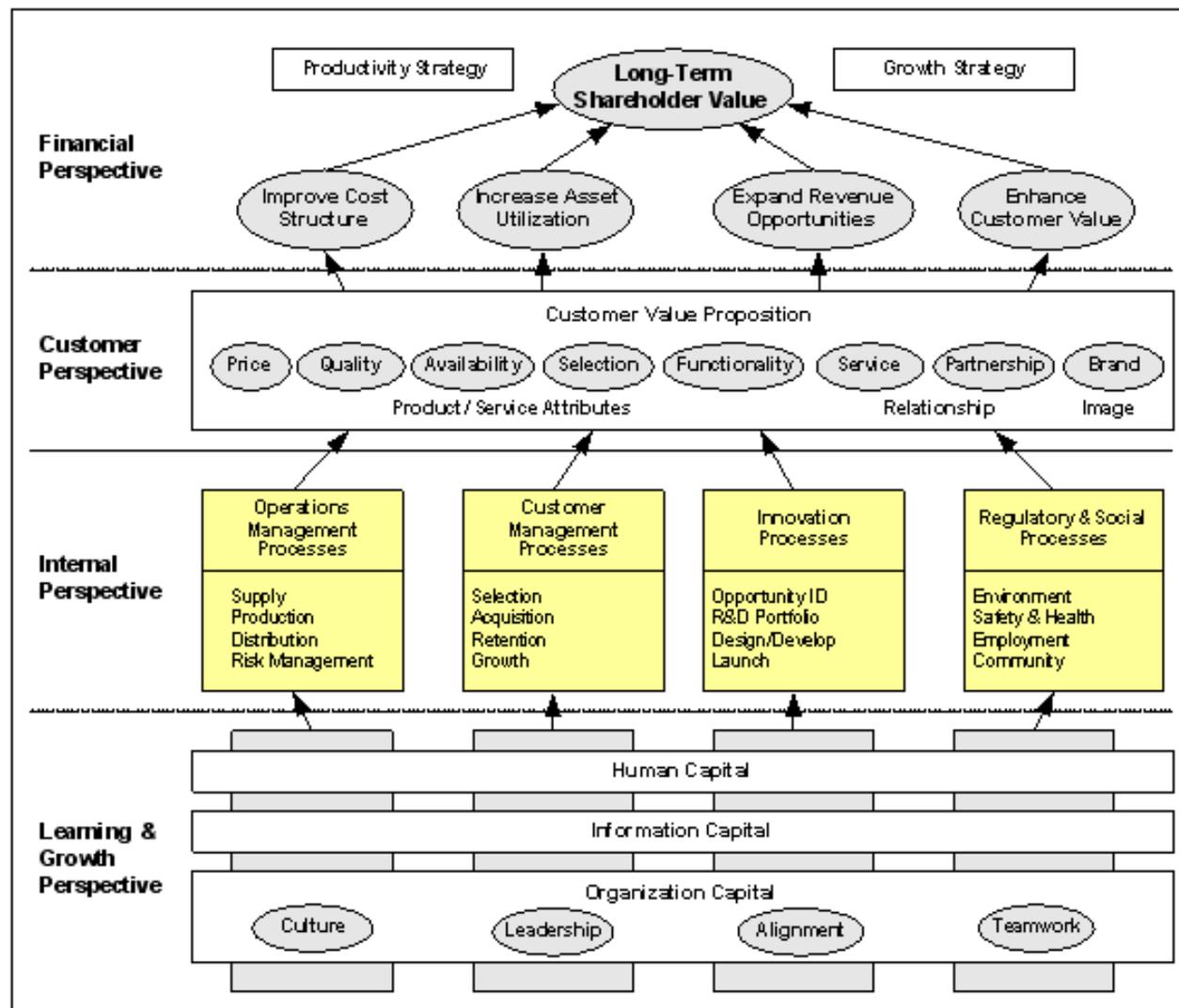


Figure 3. Balanced Scorecard Strategy Maps.
(Modified from figures in the book *Strategy Maps*)

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 the monitoring of supportive measures to lower level managers. 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. There's nothing here that suggests a value chain or how a process interacts with a customer.

All this suggests, perhaps, why so many organizations approach Scorecards from a different

angle. Most keep the idea of a differentiated set of measures that capture different perspectives. Some even keep the four categories, but many create new categories. The Supply Chain Council's SCOR, for example, has seven categories. When using Scorecards in conjunction with process architecture development, our BPTrends Associates BPM methodology defines a Scorecard as having both a functional dimension and a process dimension. In other words, we start with the organization's Scorecard and ask if the measures (KPIs) are things we will hold a functional manager responsible for achieving, and we define the measures we will use to evaluate the performance of a value chain or process manager. Then, as we define more specific processes, we define more specific process Scorecards to 1) assure that the measures are aligned, and 2) to define what the respective process manager is expected to achieve.

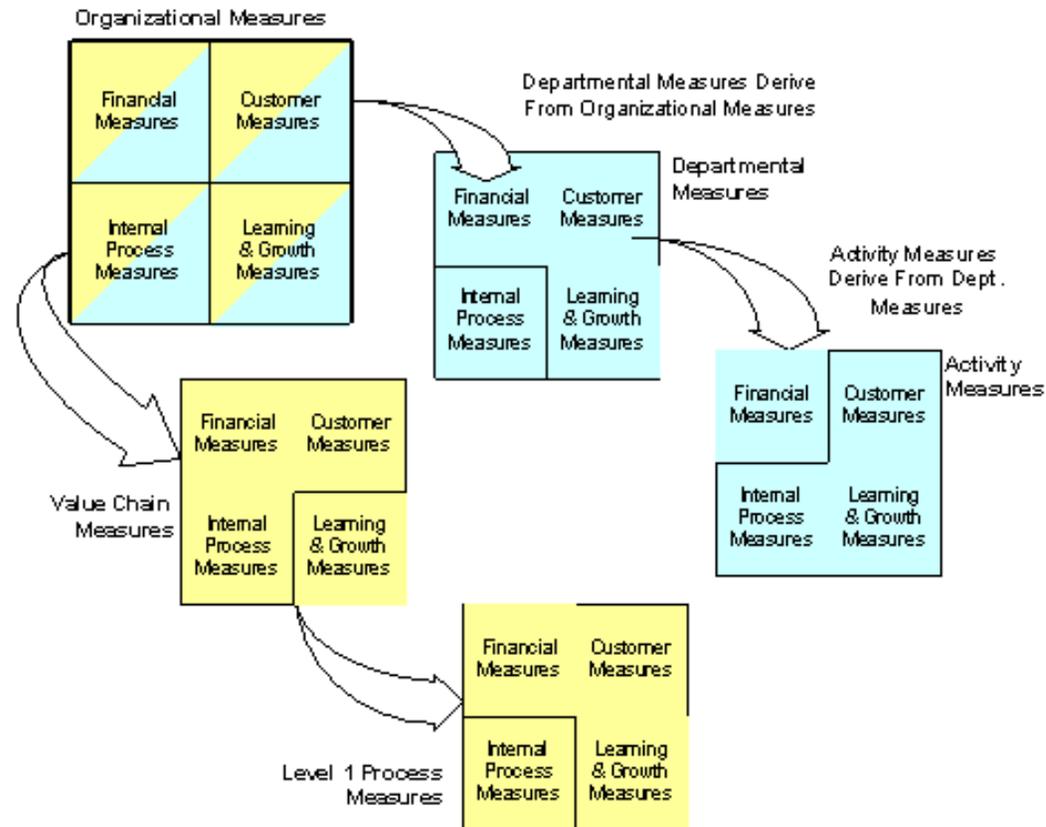


Figure 4. Using Balanced Scorecards for Both Functions and Processes.

Organizations ought to have Scorecards, and subdivisions of the organization - whether departments or processes - ought to have their own Scorecards that are aligned with the organization Scorecard. In turn, sub processes, or units within departments, ought to have their own Scorecards that are similarly aligned.

What too many process improvement programs have lacked is a systematic way of aligning measures. That's exactly what Scorecards provide. Moreover, they are widely accepted, and thus, it is often easy for process improvement groups to tie into Scorecard efforts and obtain a systematic approach to aligning measures.

We've been tracking Scorecard systems for several years on BPTrends and are especially interested in books or articles that show how Scorecards can be used to support process improvement or process architecture efforts. The following are a few of the related Articles and Book Reviews we have published over the years:

[Business Process Management and the Balanced scorecard by Ralph Smith](#) - Paul Harmon - March 06, 2007

Many companies have adopted Balanced scorecard as a way of evaluating managerial performance. A significant number have moved beyond the basic model and now use Strategy Mapping to align their process and organization goals. This book looks at how BPM and Balanced scorecard can be used together.

[Beyond SOX: Corporate Improvement with 4th Generation Balanced scorecard](#) - Tomonori Tomura - December 05, 2006

In this article, Tomonori Tomura, the Managing Director of the Japan Management Research Institute (JMRI), advocates a new approach that employs a Balanced scorecard in conjunction with Sarbanes-Oxley (SOX). He suggests that this new approach can lead to greater improvements in corporate value in the post-SOX era. Describing recent work undertaken in Japan, the author hopes to stimulate an international discussion and urges readers of this article to contact him with their comments.

[Behavior Matters: Upgrading the People Perspective in Balanced scorecards](#) - Steve Shoonover - January 06, 2004

Steve Shoonover takes a look at the Balanced scorecard and considers how the people perspective can be better represented in this important management.

[Book Review: Strategy Maps by Kaplan and Norton](#) - Paul Harmon - September 07, 2004

This month, Paul Harmon reviews the latest book from the team that gave us the Balanced scorecard.

[Book Review: Six Sigma Business scorecard by Praveen Gupta](#) - Paul Harmon - June 01, 2004

This month we review a book that describes the intersection of two key business process technologies.

[Balanced scorecard Step-By-Step: Maximizing Performance and Maintaining Results, Second Edition by Paul Niven](#) - Paul Harmon - October 07, 2008

This is the second edition of Paul Niven's popular step-by-step approach to developing a balanced scorecard system. Paul Harmon takes this opportunity to review a standard approach to creating and using a balanced scorecard system and contrasts it to the approach increasingly used by business process people.

[Using Balanced scorecard to Support a Business Process Architecture](#) - Paul Harmon - October 16, 2007

Many companies use Balanced scorecard, or some variation of it, to organize their performance measurement and management evaluations. With only a little extension, Balanced scorecard

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can become a key element in a Business Process Architecture.

Till next time,

Paul Harmon

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