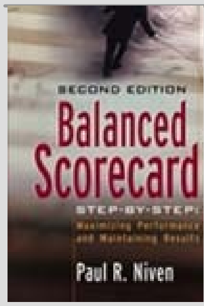

Balanced Scorecard Step-By-Step:

Maximizing Performance and Maintaining Results Second Edition

Paul R. Niven
Wiley, 2006
$45.00 318 pages

Reviewed by Paul Harmon

The idea of a Balanced Scorecard has been popular since early in 1992 when Robert S Kaplan and David P. Norton published their article, "The Balanced Scorecard – Measures that Drive Performance" in the Harvard Business Review. Their first article stressed that a Balanced Scorecard provided a more comprehensive approach to organizational performance measurement.

Kaplan and Norton opened their HBR article with the sentence: "What you measure is what you get" and later argued 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 Kaplan and Norton's Jan/Feb, '92 article, Electronic Circuits Inc (ECI).

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

Figure 1. ECI's Balanced Business Scorecard
(After a Figure in Kaplan and Norton's *The Balanced Scorecard – Measures that Drive Performance*.)

The article was well received, and Kaplan and Norton proceeded to write more articles and then to expand this basic 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. Unfortunately, even though Kaplan and Norton talk about processes, they don't use "processes" as most process practitioners describe them, but instead, usually use "processes" to refer to functions within units.

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 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." Paul R. Niven is one of the many consultants who make a living helping companies apply Balanced Scorecard concepts, and this book is only one of several Niven has written to describe his approach to establishing and maintaining Balanced Scorecard systems.

It's rather interesting to follow the evolution of the Balanced Scorecard idea. As I mentioned earlier, 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.

In their HBR article in Sept/Oct '93 titled *Putting the Balanced Scorecard to Work*, 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.

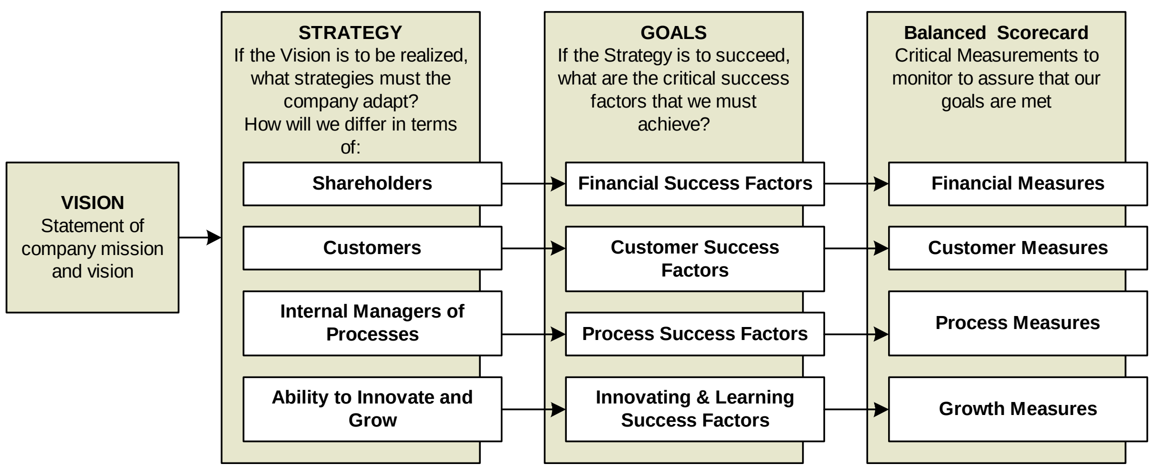

Figure 2. Linking Strategies to Balanced Scorecard Measures.

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.

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.) Process Mapping represents a major expansion of the Balanced Scorecard approach and is designed to make very explicit the relationship between a performance scorecard and the organization's strategy. In essence, Kaplan and Norton 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. This Figure is after a map shown in Niven's book: Balanced Scorecard Step-By-Step.

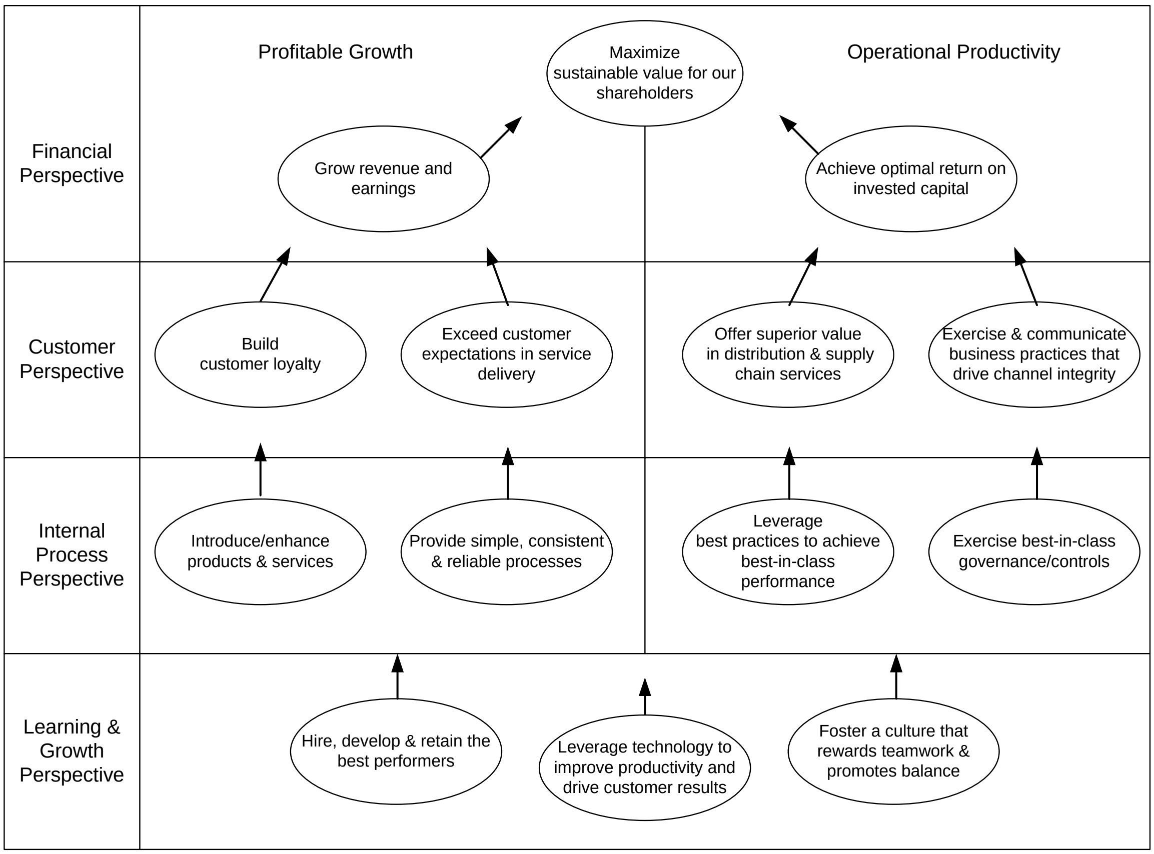

Figure 3. Balanced Scorecard Strategy Map.
(Modified from figure in Niven's *Balanced Scorecard Step-By-Step*)

A Strategy Map assumes that the goals of an organization can be organized into four layers. In essence, the strategy of the organization consists of financial goals, customer goals, internal process goals and learning and growth goals. Moreover, financial goals are achieved as a result of achieving customer goals, which are, in turn, achieved by achieving internal process goals. All three sets of goals, are, in turn, achieved as a result of achieving learning and growth goals.

One develops a strategy map to identify goals, and then transfers the goals to a scorecard where one develops measures to define how we will know when the goals are achieved.

It’s a nice approach, and it has been adopted, in one form or another, by over 50% of the Fortune 1000 companies in the US. Unfortunately, as any process practitioner would note, the process goals aren’t necessarily associated with specific processes. At one point Niven suggests that the Internal Process Perspective can be usefully subdivided into four “subprocesses:” sourcing, manufacturing, distribution, and risk management. In other words, key internal processes like marketing, sales, new product development and IT are hidden in other areas of the strategy map. Most companies that have adopted the Balanced Scorecard approach have ignored process, as process practitioners use the term, and implemented a scorecard system that supports functional or departmental silos.

In spite of its use by many organizations to support functional silos, the Balanced Scorecard approach can also provides a powerful way of organizing process measures, cascading measures from an organizational scorecard to more specific scorecards, and ultimately to scorecards for specific managers. Too many process redesign and improvement projects generate measures that are unaligned with other measures used in the organization or with the organization’s strategic goals.

Niven has written a nice book that provides a very good explanation of the Balanced Scorecard approach as it is currently practiced. He appears to be unaware that he is using “process” in a very limited manner, and is content to help companies build measurement systems that focus on functional rather than process oriented measures. That said, anyone approaching a Balanced Scorecard project would benefit from reading this book. He suggests a plan for implementing a Scorecard program and provides lots of details about how to arrange meetings, conduct sessions and how to sell the approach to managers and employees alike.

I was particularly impressed by Niven’s discussion of leading and lagging measures and how they should be mixed on a scorecard, and by his discussion of how one can use scorecards to organize manager incentive and bonus programs.

I predict that we will see a growing use of scorecard systems in business process management efforts. Process people will need to develop a different way of organizing their understanding of the organization and deriving the initial goals – strategy maps won’t do the job. But, once that’s done, the Balanced Scorecard approach provides a very systematic way of organizing measures to be monitored, and aligning measures from activities and processes through value chains to the organization’s strategic goals.

Paul Harmon is the executive editor of BPTrends. He is the author of *Business Process Change* and the Chief Methodologist of BPTrends Associates. He was an occasional member of the original committee that developed BPMN.