Balanced Scorecard

(BSC)

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BALANCED SCORECARD INSTITUTE

Strategy Management Group

1-Introduction:

The balanced scorecard is a strategic planning and management system that is used extensively in business and industry, government, and nonprofit organizations worldwide to align business activities to the vision and strategy of the organization, improve internal and external communications, and monitor organization performance against strategic goals. It was originated by Drs. Robert Kaplan (Harvard Business School) and David Norton as a performance measurement framework that added strategic non-financial performance measures to traditional financial metrics to give managers and executives a more 'balanced' view of organizational performance.

The Balanced Scorecard
Why do it?

- To achieve strategic objectives.
- To provide quality with fewer resources.
- To eliminate non-value added efforts.
- To align customer priorities and expectations with the customer.
- To track progress.
- To evaluate process changes.
- To continually improve.
- To increase accountability.

A Balanced Scorecard System Serves Several Organizational Needs

(Before any explaining about BSC, at first, we should know about strategic management and planning)

2-Strategic Planning

What is Strategic Planning?

Strategic planning is an organizational management activity that is used to set priorities, focus energy and resources, strengthen operations, ensure that employees and other stakeholders are working toward common goals, establish agreement around intended outcomes/results, and assess and adjust the organization's direction in response to a changing environment. It is a disciplined effort that produces fundamental decisions and actions that shape and guide what an organization is, who it serves, what it does, and why it does it, with a focus on the future. Effective strategic planning articulates not only where an organization is going and the actions needed to make progress, but also how it will know if it is successful.

What is a Strategic Plan?

A strategic plan is a document used to communicate with the organization the organizations goals, the actions needed to achieve those goals and all of the other critical elements developed during the planning exercise.

What is Strategic Management?

Strategic management is the comprehensive collection of ongoing activities and processes that organizations use to systematically coordinate and align resources and actions with mission, vision and strategy throughout an organization. Strategic management activities transform the static plan into a system that provides strategic performance feedback to decision making and enables the plan to evolve and grow as requirements and other circumstances change.

3-Balanced Scorecard-BSC

The balanced scorecard has evolved from its early use as a simple performance measurement framework to a full strategic planning and management system. The “new” balanced scorecard transforms an organization’s strategic plan from an attractive but passive document into the "marching orders" for the organization on a daily basis. It provides a framework that not only provides performance measurements, but helps planners identify what should be done and measured. It enables executives to truly execute their strategies.

This new approach to strategic management was first detailed in a series of articles and books by Drs. Kaplan and Norton. Recognizing some of the weaknesses and vagueness of previous management approaches, the balanced scorecard approach provides a clear prescription as to what companies should measure in order to 'balance' the financial perspective. The balanced scorecard is a management system (not only a measurement system) that enables organizations to clarify their vision and strategy and translate them into action. It provides feedback around both the internal business processes and external outcomes in order to continuously improve strategic performance and results. When fully deployed, the balanced scorecard transforms strategic planning from an academic exercise into the nerve center of an enterprise.

Kaplan and Norton describe the innovation of the balanced scorecard as follows:

"The balanced scorecard retains traditional financial measures. But financial measures tell the story of past events, an adequate story for industrial age companies for which investments in long-term capabilities and customer relationships were not critical for success. These financial measures are inadequate, however, for guiding and evaluating the journey that information age companies must make to create future value through investment in customers, suppliers, employees, processes, technology, and innovation."Adapted from Robert S. Kaplan and David P. Norton, “Using the Balanced Scorecard as a Strategic Management System,” Harvard Business Review (January-February 1996): 76.

- **Balanced Scorecard Advantages**

The first advantage of using the balanced scorecard method is that by looking at four aspects of a company's performance, you really do get a balanced view of company performance. Unlike traditional methods of tracking the financial health of a business, the balanced scorecard gives you a full picture as to whether your company is meeting its objectives. While it may seem that a company is doing well financially, it may be that customer satisfaction is down, employee training is inadequate, or that the processes are outdated.

Second, by using a balanced scorecard approach, the immediate future isn't the only thing being evaluated. Often, when an accountant sees the financial bottom line (perhaps the company isn't doing well), suggestions are given that are immediate, but do not look at the long-term. Using balanced scorecards allows for stakeholders to determine the health of short, medium, and long term objectives at a glance.

Finally, by using a balanced scorecard, a company can be sure that any strategic action implemented matches the desired outcomes. Will raising the price of a product help the of the company in the long run? It might, if the customer is satisfied with that product, or if the processes involved with creating that product make the product of a higher quality.

Perspectives

Kaplan and Norton (1992, 1993, 1996a, 1996b) introduced the balanced scorecard (BSC) at an enterprise level. Their fundamental premise is that the evaluation of a firm should not be restricted to a traditional financial evaluation but should be supplemented with measures concerning customer satisfaction, internal processes and the ability to innovate. Results achieved within these additional perspective areas should assure future financial results and drive the organization towards its strategic goals while keeping all four perspectives in balance. For each of the four perspectives they propose a three layered structure: 1. mission (e.g. to become the customers' most preferred supplier), 2. objectives (e.g. to provide the customers with new products), and 3. measures (e.g. percentage of turnover generated by new products).

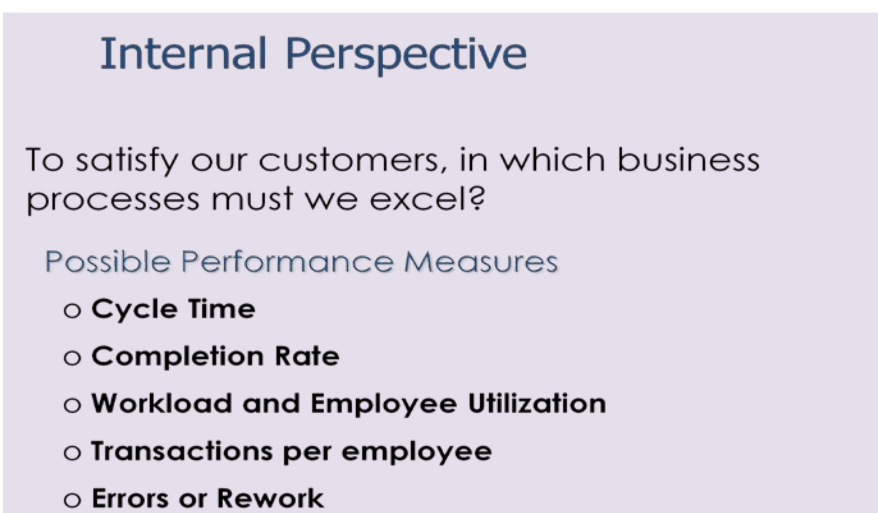
The balanced scorecard suggests that we view the organization from four perspectives, and to develop metrics, collect data and analyze it relative to each of these perspectives:

The Learning & Growth Perspective This perspective includes employee training and corporate cultural attitudes related to both individual and corporate self-improvement. In a knowledge-worker organization, people -- the only repository of knowledge -- are the main resource. In the current climate of rapid technological change, it is becoming necessary for knowledge workers to be in a continuous learning mode. Metrics can be put into place to guide managers in focusing training funds where they can help the most. In any case, learning and growth constitute the essential foundation for success of any knowledge-worker organization.Kaplan and Norton emphasize that 'learning' is more than 'training'; it also includes things like mentors and tutors within the organization, as well as that ease of communication among workers that allows them to readily get help on a problem when it is needed. It also includes technological tools; what the Baldrige criteria call "high performance work systems."

- The **innovation** and **learning** perspective aims at continuous value creation through interventions such as new product development, nonstop enhancement, HR development, product diversification, staff development and technical leadership.

The Business Process Perspective This perspective refers to internal business processes. Metrics based on this perspective allow the managers to know how well their business is running, and whether its products and services conform to customer requirements (the mission). These metrics have to be carefully designed by those who know these processes most intimately; with our unique missions these are not something that can be developed by outside consultants.

- The **internal** perspective strives to align people with processes, and excel in whatever the organization does. Probable goals could include improvement in technology, progress in core competency knowledge, streamlining processes, establishing manufacturing standards, inventory management, reduced waste and quality improvements.



The Customer Perspective Recent management philosophy has shown an increasing realization of the importance of customer focus and customer satisfaction in any business. These are leading indicators: if customers are not satisfied, they will eventually find other suppliers that will meet their needs. Poor performance from this perspective is thus a leading indicator of future decline, even though the current financial picture may look good.
In developing metrics for satisfaction, customers should be analyzed in terms of kinds of customers and the kinds of processes for which we are providing a product or service to those customer groups.

- The **customer** perspective concerns itself with the views and feedback of the customer. The focus is on customer service, customer retention and satisfaction, and acceptance of new products in new markets.

The Financial Perspective Kaplan and Norton do not disregard the traditional need for financial data. Timely and accurate funding data will always be a priority, and managers will do whatever necessary to provide it. In fact, often there is more than enough handling and processing of financial data. With the implementation of a corporate database, it is hoped that more of the processing can be centralized and automated. But the point is that the current emphasis on financials leads to the "unbalanced" situation with regard to other perspectives. There is perhaps a need to include additional financial-related data, such as risk assessment and cost-benefit data, in this category.

- The **financial** perspective looks into financial viability through market share, profit ratios, revenue increase, return on investments, operating cost management, operating ratios, return on assets ratio, cash flow, sales, sales growth, return on capital Investments, share prices, return on stock investment and other similar factors.

Financial / Regulatory Perspective

To satisfy our constituents, what financial and regulatory objectives must we accomplish?

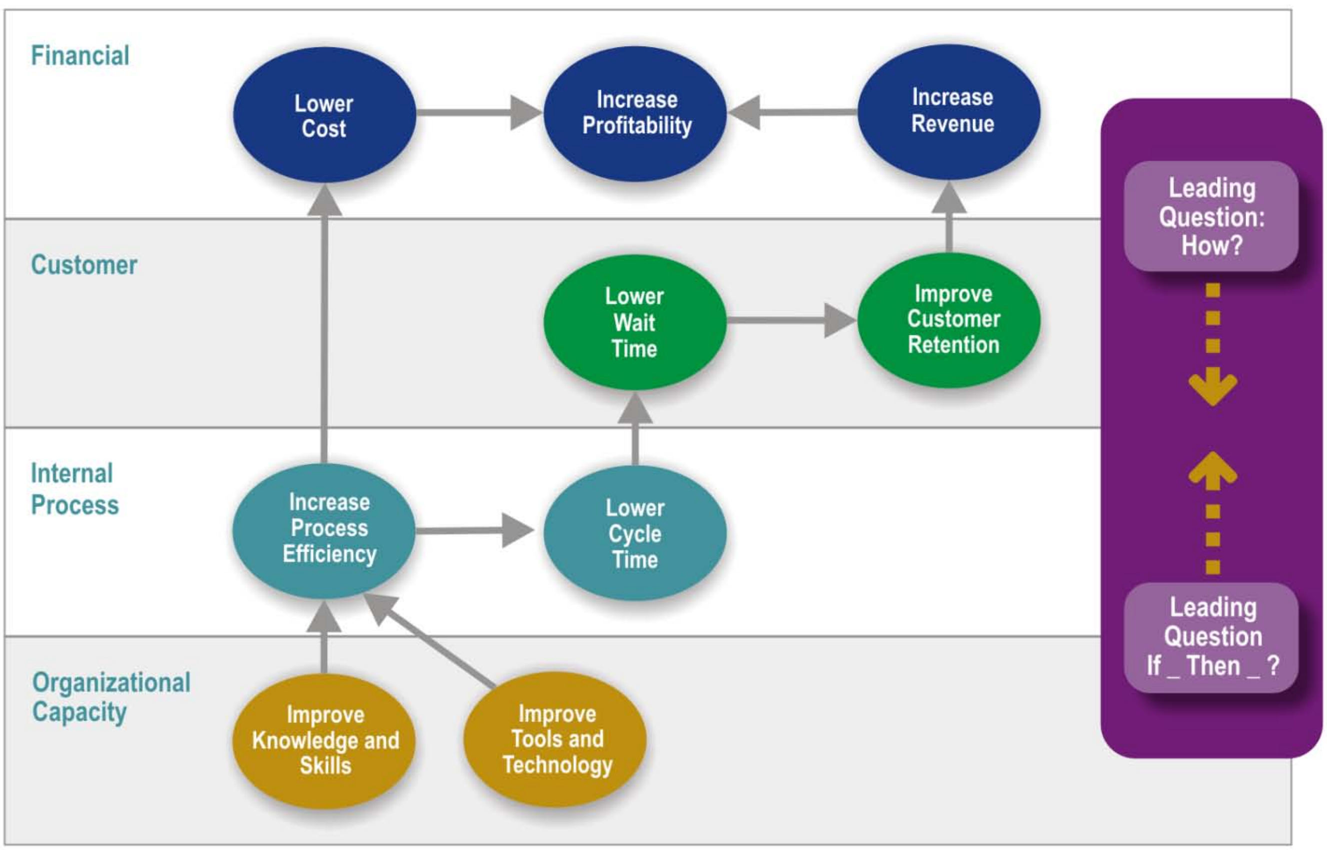
Possible Performance Measures

- **Cost / Unit**
- **Unfunded Requirements or Projects**
- **Cost of Service**
- **Budget Projections and Targets**

Adapted from Robert S. Kaplan and David P. Norton, "Using the Balanced Scorecard as a Strategic Management System," Harvard Business Review (January-February 1996): 76.

Strategy Mapping

Strategy maps are communication tools used to tell a story of how value is created for the organization. They show a logical, step-by-step connection between strategic objectives (shown as ovals on the map) in the form of a cause-and-effect chain. Generally speaking, improving performance in the objectives found in the Learning & Growth perspective (the bottom row) enables the organization to improve its Internal Process perspective Objectives (the next row up), which in turn enables the organization to create desirable results in the Customer and Financial perspectives (the top two rows).



4-Building & Implementing a BSC-Nine Steps to Success:

Step 1: Assessment
Internal and External Strategic Assessment
Step 2: Strategy
Customer Value, Strategic Themes & Results
Step 3: Objectives
Strategy Action Components
Step 4: Strategy Map
Cause-Effect Links
Step 5: Performance Measures
Measures & Targets
Step 6: Initiatives
Strategic Projects
Step 7: Performance Analysis
Software, Performance Reporting & Analysis
Step 8: Alignment
Cascading to Unit and Individual Scorecards
Step 9: Evaluation
Strategy Results and Revised Strategies

The Nine Steps to Success

Step One of the scorecard building process starts with an assessment of the organization's Mission and Vision, challenges (pains), enablers, and values. Step One also includes preparing a change management plan for the organization, and conducting a focused communications workshop to identify key messages, media outlets, timing and messengers.

In **Step Two**, elements of the organization's strategy, including Strategic Results, Strategic Themes, and Perspectives, are developed by workshop participants to focus attention on customer needs and the organization's value proposition.

In **Step Three**, the strategic elements developed in Steps One and Two are decomposed into Strategic Objectives, which are the basic building blocks of strategy and define the organization's strategic intent. Objectives are first initiated and categorized on the Strategic Theme level, categorized by Perspective, linked in cause-effect linkages (Strategy Maps) for each Strategic Theme, and then later merged together to produce one set of Strategic Objectives for the entire organization.

In **Step Four**, the cause and effect linkages between the enterprise-wide Strategic Objectives are formalized in an enterprise-wide Strategy Map. The previously constructed theme Strategy Maps are merged into an overall enterprise wide Strategy Map that shows how the organization creates value for its customers and stakeholders.

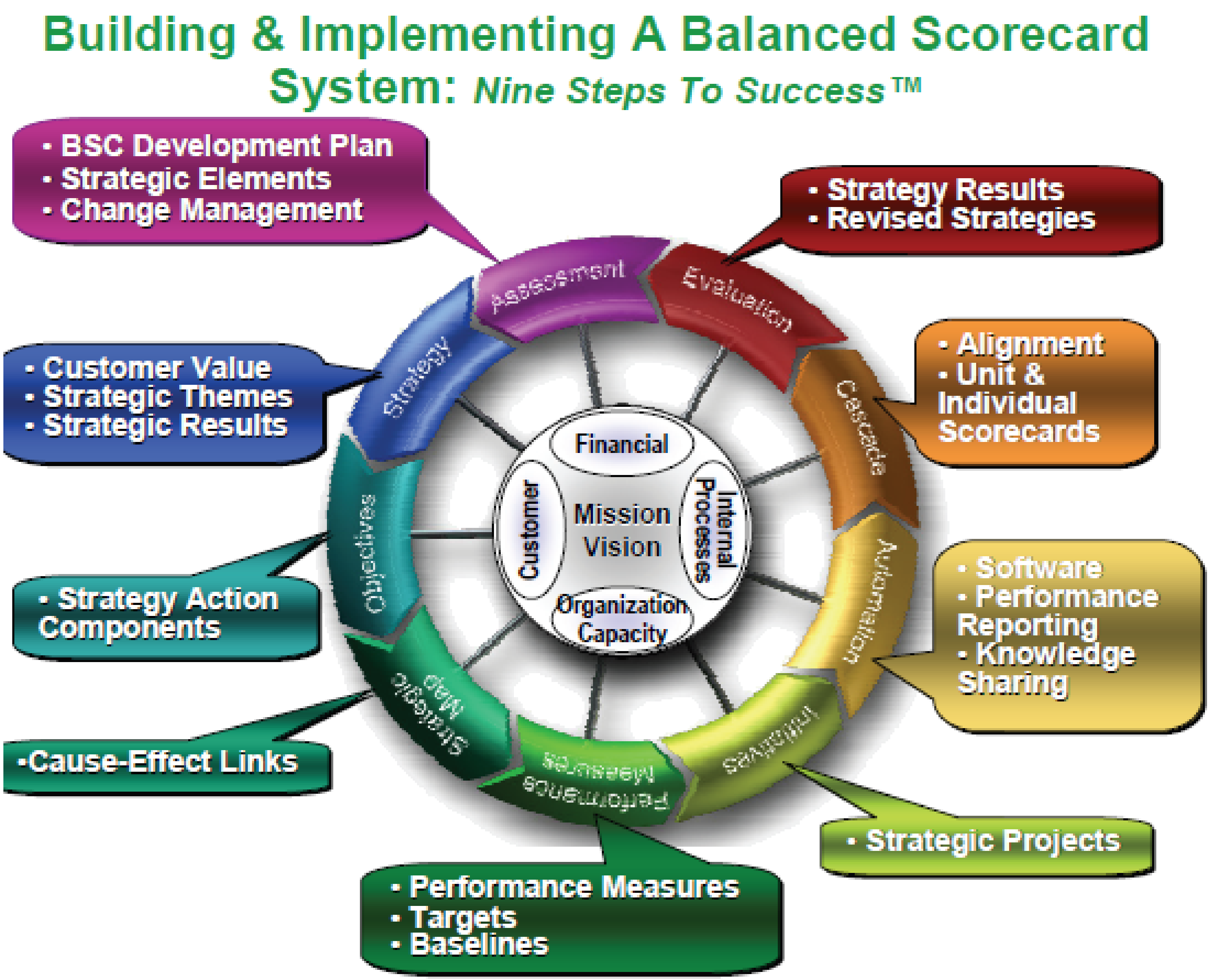
In **Step Five**, Performance Measures are developed for each of the enterprise-wide Strategic Objectives. Leading and lagging measures are identified, expected targets and thresholds are established, and baseline and benchmarking data is developed.

In **Step Six**, Strategic Initiatives are developed that support the Strategic Objectives. To build accountability throughout the organization, ownership of Performance Measures and Strategic Initiatives is ¿ to the appropriate staff and documented in data definition tables.

In **Step Seven**, the implementation process begins by applying performance measurement software to get the right performance information to the right people at the right time. Automation adds structure and discipline to the system and helps people make better business decisions.

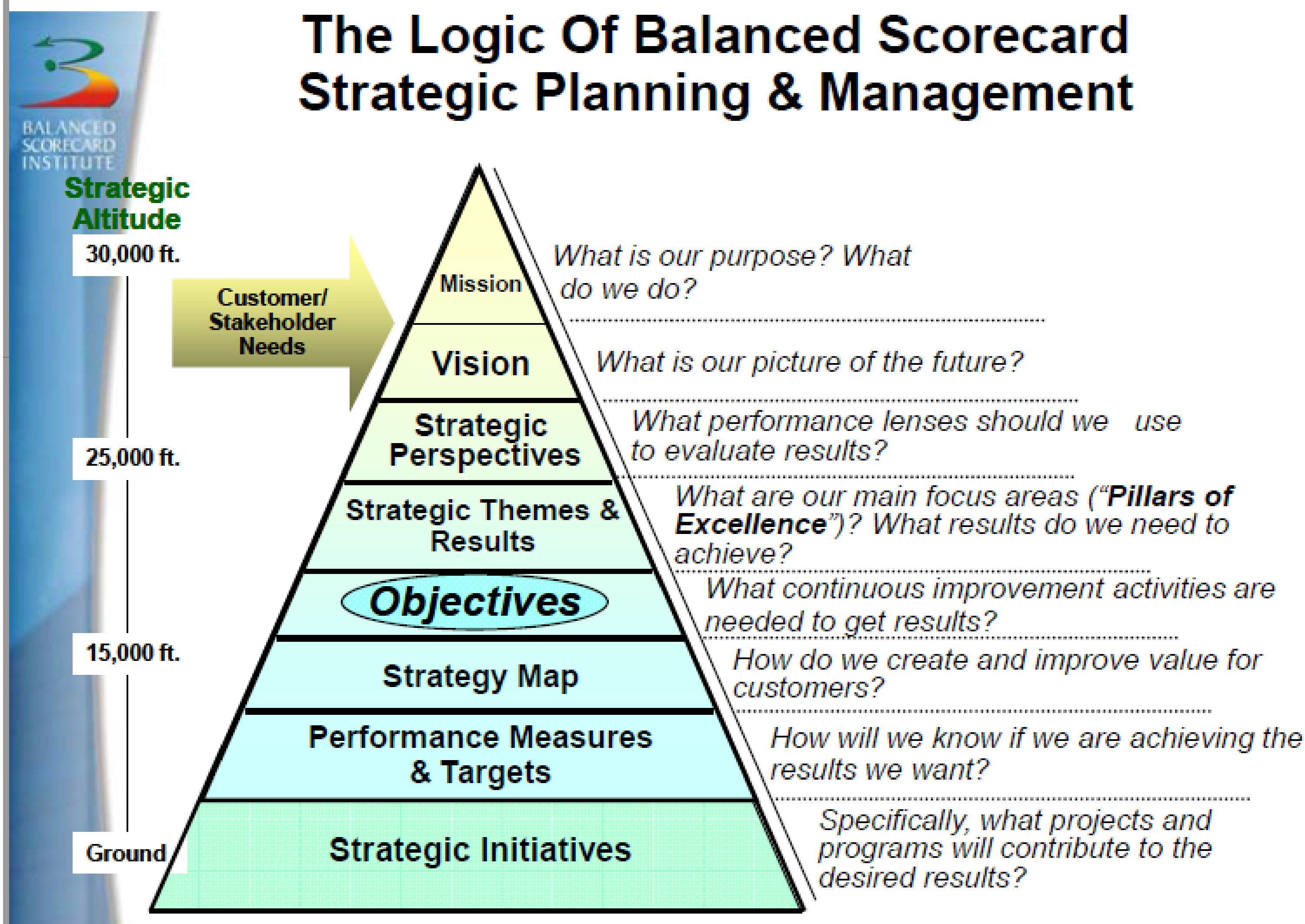
In Step Eight, the enterprise-level scorecard is 'cascaded' down into business and support unit scorecards, meaning the organizational level scorecard (the first Tier) is translated into business unit or support unit scorecards (the second Tier) and then later to team and individual scorecards (the third Tier). Cascading translates high-level strategy into lower-level objectives, measures, and operational details and is the key to organization alignment around strategy..

In **Step Nine**, an Evaluation of the completed scorecard is done. During this valuation, the organization tries to answer questions such as, ‘Are our strategies working?’, ‘Are we measuring the right things?’, ‘Has our environment changed?’ and ‘Are we budgeting our money strategically?’



Balanced Scorecard Components:

The balanced scorecard is a strategic planning and management system that helps everyone in an organization understand and work towards a shared vision. The components of the management system are shown in the figure below. Starting at high "strategic altitude", Mission, Vision, and other planning elements are translated into desired Strategic Results. The organization's "Pillars of Excellence", or Strategic Themes, are selected to focus effort on the strategies that matter the most to success. Strategic Objectives are used to decompose strategy into actionable components that can be monitored using Performance Measures. Measures allow the organization to track results against targets, and to celebrate success and identify potential problems early enough to fix them. Finally, Strategic Initiatives translate strategy into a set of high-priority projects that need to be implemented to ensure the success of strategy. Once the strategic thinking and necessary actions are determined, annual program plans and projects can be developed and translated into budget requests.



Conclusion :

It can help your organization by translating high level organizational strategy into something that employees can understand and act upon in their day-to-day operations and initiatives. An effectively implemented balanced scorecard can help an organization in many ways:

- Increase focus on strategy and results instead of tasks
- Break down communication silos between departments
- Better understand and react to customer needs
- Improve organizational performance by measuring what matters
- Help leaders make better decisions based on leading performance indicators instead of lagging financial data
- Help leaders budget time and resources more effectively
- Help leaders and employees prioritize the work they do

Linking the IT Balanced Scorecard to
the Business Objectives

In recent years, the BSC has been applied toinformation technology (IT). The IT BSC is becoming a popular tool with its concepts widely supported and dispersed by international consultant groups such as Gartner Group, Renaissance Systems, Nolan Norton Institute, and others. As a result of this interest, the first real-life applications are starting to emerge.

IT BALANCED SCORECARD CONCEPTS

In Figure 1, a generic IT balanced scorecard is shown (Van Grembergen and Van Bruggen,1998). The *User Orientation* perspective represents the user evaluation of IT. The *Operational Excellence* perspective represents the IT processes employed to develop and deliver the applications. The *Future Orientation* perspective represents the human and technology resources needed by IT to deliver its services over time. The *Business Contribution* perspective captures the business value created from the IT investments.

Figure 1 Generic IT balanced scorecard

USER ORIENTATION	BUSINESS CONTRIBUTION
How do users view the IT department? **Mission** To be the preferred supplier of information systems. **Objectives** • Preferred supplier of applications • Preferred supplier of operations vs. proposer of best solution, from whatever source • Partnership with users • User satisfaction	How does management view the IT department? **Mission** To obtain a reasonable business contribution from IT investments. **Objectives** • Control of IT expenses • Business value of IT projects • Provision of new business capabilities
OPERATIONAL EXCELLENCE	**FUTURE ORIENTATION**
How effective and efficient are the IT processes? **Mission** To deliver effective and efficient IT applications and services. **Objectives** • Efficient and effective developments • Efficient and effective operations	How well is IT positioned to meet future needs? **Mission** To develop opportunities to answer future challenges. **Objectives** • Training and education of IT staff • Expertise of IT staff • Research into emerging technologies • Age of application portfolio

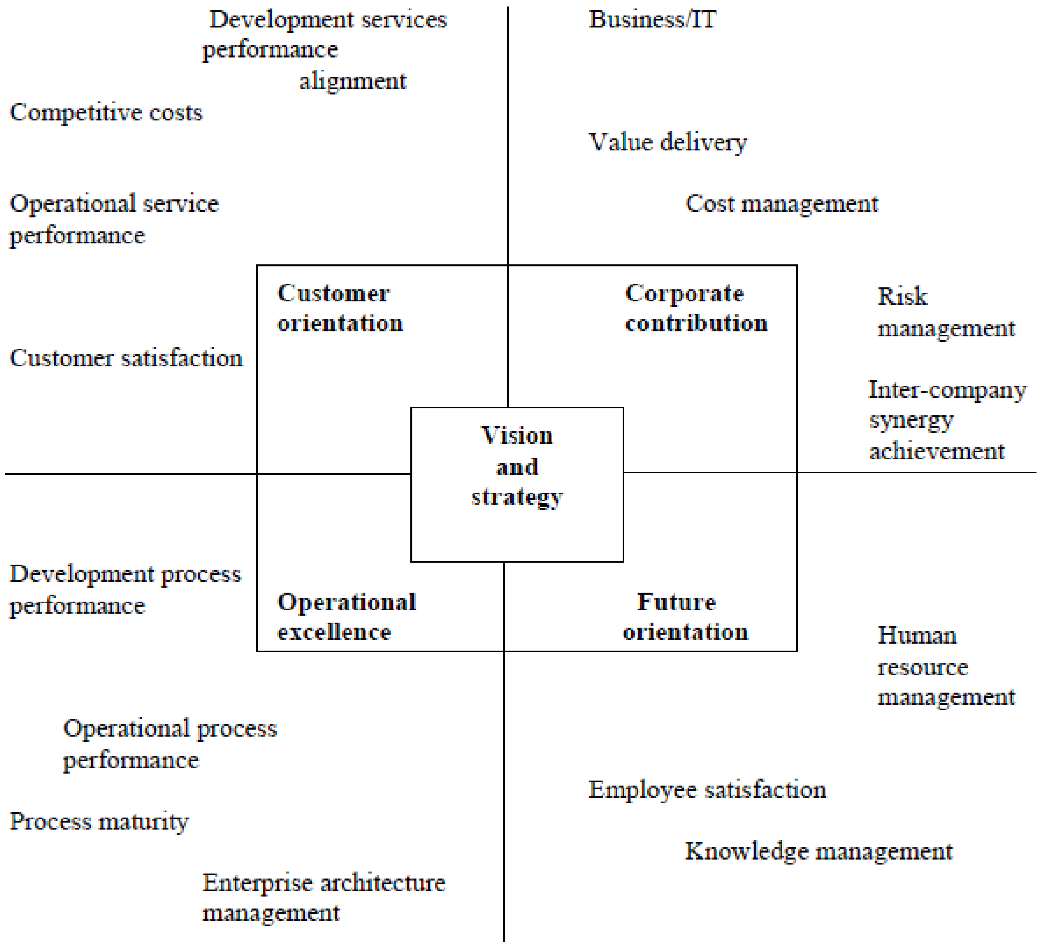
the new Information Services Division moving from a commodity service provider to a strategic partner

Service provider	Strategic partner
• IT is for efficiency • Budgets are driven by external benchmarks • IT is separable from the business • IT is seen as an expense to control • IT managers are technical experts	• IT for business growth • Budgets are driven by business strategy • IT is inseparable from the business • IT is seen as an investment to manage • IT managers are business problem solvers

as is illustrated in Figures 7 and 8. Figure 7
shows the perspective questions and mission statements for the four quadrants: corporate contribution, customer orientation, operational excellence and future orientation. Figure 8 displays the measures for each perspective.
Perspective questions and mission statements of the IT strategic scorecard

CUSTOMER ORIENTATION	**CORPORATE CONTRIBUTION**
Perspective question How should IT appear to business unit executives to be considered effective in delivering its services? **Mission** To be the supplier of choice for all information services, either directly or indirectly through supplier relationships.	**Perspective question** How should IT appear to the company executive and its corporate functions to be considered a significant contributor to company success? **Mission** To enable and contribute to the achievement of business objectives through effective delivery of value added information services.
OPERATIONAL EXCELLENCE	**FUTURE ORIENTATION**
Perspective question At which services and processes must IT excel to satisfy the stakeholders and customers? **Mission** To deliver timely and effective IT services at targeted service levels and costs.	**Perspective question** How will IT develop the ability to deliver effectively and to continuously learn and improve its performance? **Mission** To develop the internal capabilities to continuously improve performance through innovation, learning and personal organizational growth.

Figure 8 IT strategic scorecard framework



The Balanced Scorecard gives a balanced view of the total value delivery of IT to the business. It provides a snapshot of where your IS organization is at a certain point in time. Most executives, do not have the time to drill down into the large amount of information.

The organization established two ways to demonstrate the business value, one at service delivery level and one at the IT strategy level. As will be illustrated hereafter, the goal is to evolve to an IT strategic BSC that shows how the business objectives are enabled by IT.

A cascade of balanced scorecards has been established to create a link between the scorecards at the unit level and the overall business objectives (see Figure 9). A link between the IT BSC and the Business BSC is not yet implemented as there is currently no formal Business BSC for the Group. The scorecards at the unit level are classified into three groups: operational services scorecards (e.g. IT service desk scorecard), governance services scorecards (e.g. career center scorecard), and development services scorecards (e.g. application development scorecard). The measures of these unit scorecards are *rolled-up* or *aggregated* in the IT strategic balanced scorecard. This, in turn is fed into and evaluated against the business objectives. In this way, the service (and value) delivered by IT is directly measured against the objectives of the overall business. Further, on an annual basis, the IT strategic BSC is reviewed by business and IT management and the result is fed back into the next annual planning cycle. This planning cycle defines what the business needs are and what IT must do to accomplish those needs.

For example, from the IT service desk scorecard (i.e. a unit scorecard, which is situated in the operational services scorecard group), metrics such as average speed of answer, overall resolution rate at initial call and call abandonment rate (all three customer orientation metrics) are *rolled-up* to service level performance metrics in the IT strategic balanced scorecard. Other metrics of this unit scorecard, such as expense management (corporate contribution perspective), client satisfaction (customer orientation perspective), process maturity of incident management (operational excellence perspective) and staff turnover (future orientation perspective), will *aggregate* as part of the IT strategic scorecard. The overall view of the IT strategic balanced scorecard is then fed into and evaluated against the defined business objectives.

Figure 9 Cascade of scorecards to link unit scorecards, IT strategic scorecard and business objectives

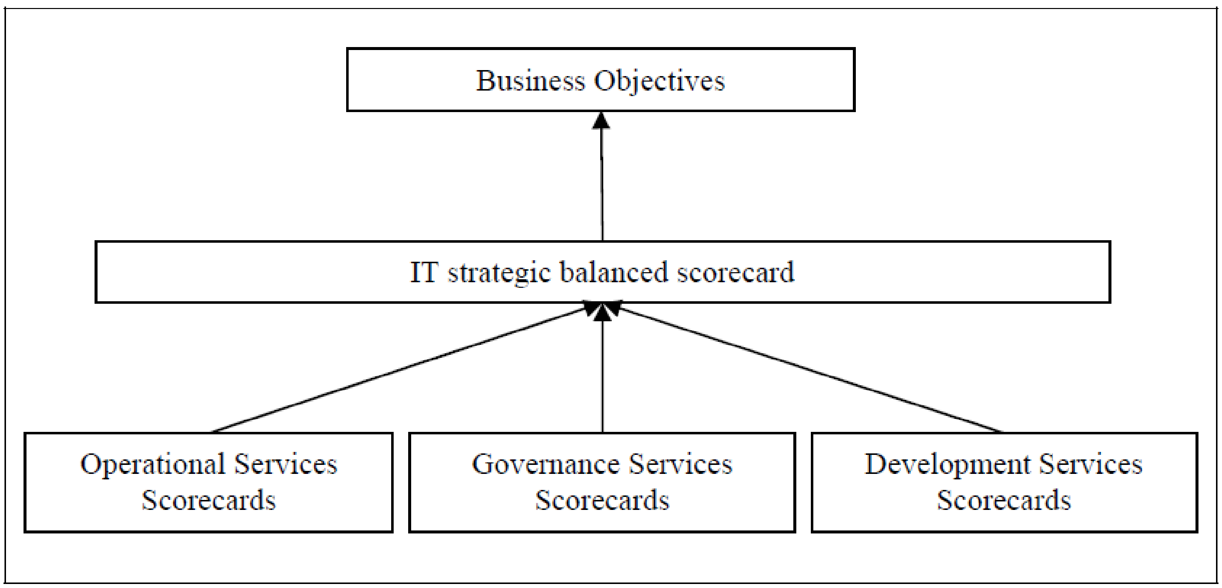
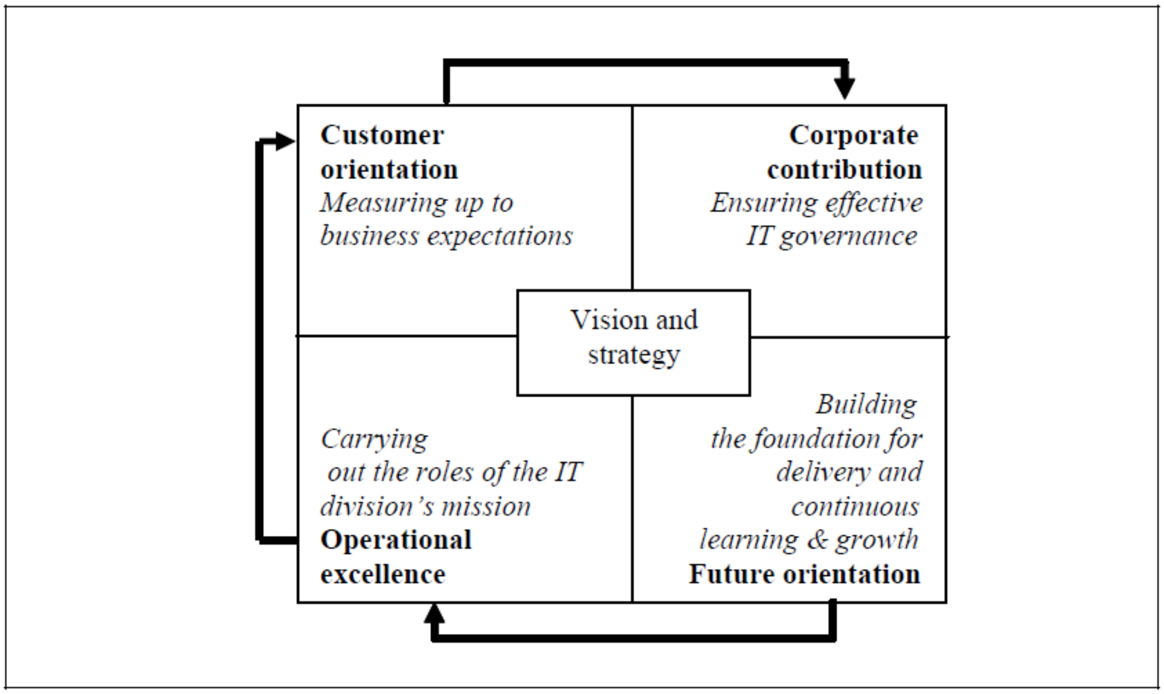


Figure 10 Cause-and-effect relationships within the IT strategic balanced scorecard



The second way to demonstrate business value is situated within the IT strategic balanced scorecard. The cause-and-effect relationships between performance drivers and outcome measures of the four quadrants are established as indicated in Figure 10. These connections help to understand how the contribution of IT towards the business will be realized: building the foundation for delivery and continuous learning & growth (future orientation perspective) is an enabler for carrying out the roles of the IT division's mission (operational excellence perspective) that is in turn an enabler for measuring up to business expectations (customer Operational ServicesScorecards Development Services Scorecards Governance Services Scorecards IT strategic balanced scorecard Business Objectives Linking the IT Balanced Scortion perspective).

Figure 11 Maturity levels for the IT balanced scorecard

Level 1 Initial
There is evidence that the organization has recognized there is a need for ***a measurement system*** for its information technology division. There are ad hoc approaches to measure IT with respect to the two main IT processes, i.e. operations and systems development. This measurement process is often an individual effort in response to specific issues.

Level 2 Repeatable
Management is aware of the concept of ***the IT balanced scorecard*** and has communicated its intent to define appropriate measures. Measures are collected and presented to management in a scorecard. Linkages between outcome measures and performance drivers are generally defined but are not yet precise, documented or integrated into strategic and operational planning processes. Processes for scorecard training and review are informal and there is no compliance process in place.

Level 3 Defined
Management has standardized, documented and communicated the IT BSC through formal training. The scorecard process has been structured and **linked to business planning cycle**. The need for compliance has been communicated but compliance is inconsistent. Management understands and accepts the need to integrate the IT BSC within the alignment process of business and IT. Efforts are underway to change the alignment process accordingly.

Level 4 Managed
The IT BSC is fully integrated into the strategic and operational planning and review systems of the business and IT. Linkages between outcome measures and performance drivers are systematically reviewed and revised based upon the analysis of results. There is a full understanding of the issues at all levels of the organization that is supported by formal training. Long term stretch targets and priorities for IT investment projects are set and linked to the IT scorecard. A business scorecard and **a cascade of IT scorecards** are in place and are communicated to all employees. Individual objectives of IT employees are connected with the scorecards and incentive systems are linked to the IT BSC measures. The compliance process is well established and levels of compliance are high.

Level 5 Optimized
The IT BSC is fully aligned with the business strategic management framework and vision is frequently reviewed, updated and improved. Internal and external experts are engaged to ensure industry best practices are developed and adopted. The **measurements** and results are part of management reporting and **are systematically acted upon** by senior and IT management. Monitoring, self-assessment and communication are pervasive within the organization and there is optimal use of technology to support measurement, analysis, communication and training.