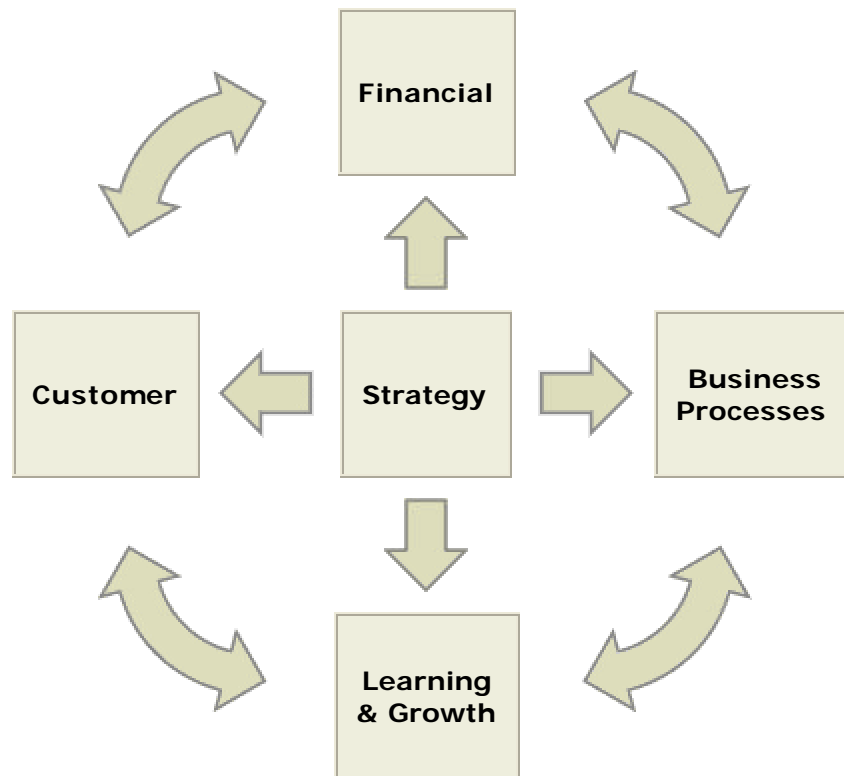


The Balanced Scorecard

Traditional financial reporting systems provide an indication of how a firm has performed in the past, but offer little information about how it might perform in the future. For example, a firm might reduce its level of customer service in order to boost current earnings, but then future earnings might be negatively impacted due to reduced customer satisfaction.

To deal with this problem, Robert Kaplan and David Norton developed the **Balanced Scorecard**, a performance measurement system that considers not only financial measures, but also customer, business process, and learning measures. The Balanced Scorecard framework is depicted in the following diagram:

Diagram of the Balanced Scorecard



The balanced scorecard translates the organization's strategy into four perspectives, with a *balance* between the following:

- between internal and external measures
- between objective measures and subjective measures
- between performance results and the drivers of future results

Beyond the Financial Perspective

In the industrial age, most of the assets of a firm were in property, plant, and equipment, and the financial accounting system performed an adequate job of valuing those assets. In the information age, much of the value of the firm is embedded in innovative processes, customer relationships, and human resources. The financial accounting system is not so good at valuing such assets.

The Balanced Scorecard goes beyond standard financial measures to include the following additional perspectives: the customer perspective, the internal process perspective, and the learning and growth perspective.

- **Financial perspective** - includes measures such as operating income, return on capital employed, and economic value added.
- **Customer perspective** - includes measures such as customer satisfaction, customer retention, and market share in target segments.
- **Business process perspective** - includes measures such as cost, throughput, and quality. These are for business processes such as procurement, production, and order fulfillment.
- **Learning & growth perspective** - includes measures such as employee satisfaction, employee retention, skill sets, etc.

These four realms are not simply a collection of independent perspectives. Rather, there is a logical connection between them - learning and growth lead to better business processes, which in turn lead to increased value to the customer, which finally leads to improved financial performance.

Objectives, Measures, Targets, and Initiatives

Each perspective of the Balanced Scorecard includes objectives, measures of those objectives, target values of those measures, and initiatives, defined as follows:

- **Objectives** - major objectives to be achieved, for example, profitable growth.
- **Measures** - the observable parameters that will be used to measure progress toward reaching the objective. For example, the objective of profitable growth might be measured by growth in net margin.
- **Targets** - the specific target values for the measures, for example, +2% growth in net margin.
- **Initiatives** - action programs to be initiated in order to meet the objective.



These can be organized for each perspective in a table as shown below.

	Objectives	Measures	Targets	Initiatives
Financial				
Customer				
Process				
Learning				

Balanced Scorecard as a Strategic Management System

The Balanced Scorecard originally was conceived as an improved performance measurement system. However, it soon became evident that it could be used as a management system to implement strategy at all levels of the organization by facilitating the following functions:

1. **Clarifying strategy** - the translation of strategic objectives into quantifiable measures clarifies the management team's understanding of the strategy and helps to develop a coherent consensus.
2. **Communicating strategic objectives** - the Balanced Scorecard can serve to translate high level objectives into operational objectives and communicate the strategy effectively throughout the organization.
3. **Planning, setting targets, and aligning strategic initiatives** - ambitious but achievable targets are set for each perspective and initiatives are developed to align efforts to reach the targets.
4. **Strategic feedback and learning** - executives receive feedback on whether the strategy implementation is proceeding according to plan and on whether the strategy itself is successful ("double-loop learning").

These functions have made the Balanced Scorecard an effective management system for the implementation of strategy. The Balanced Scorecard has been applied successfully to private sector companies, non-profit organizations, and government agencies.
