

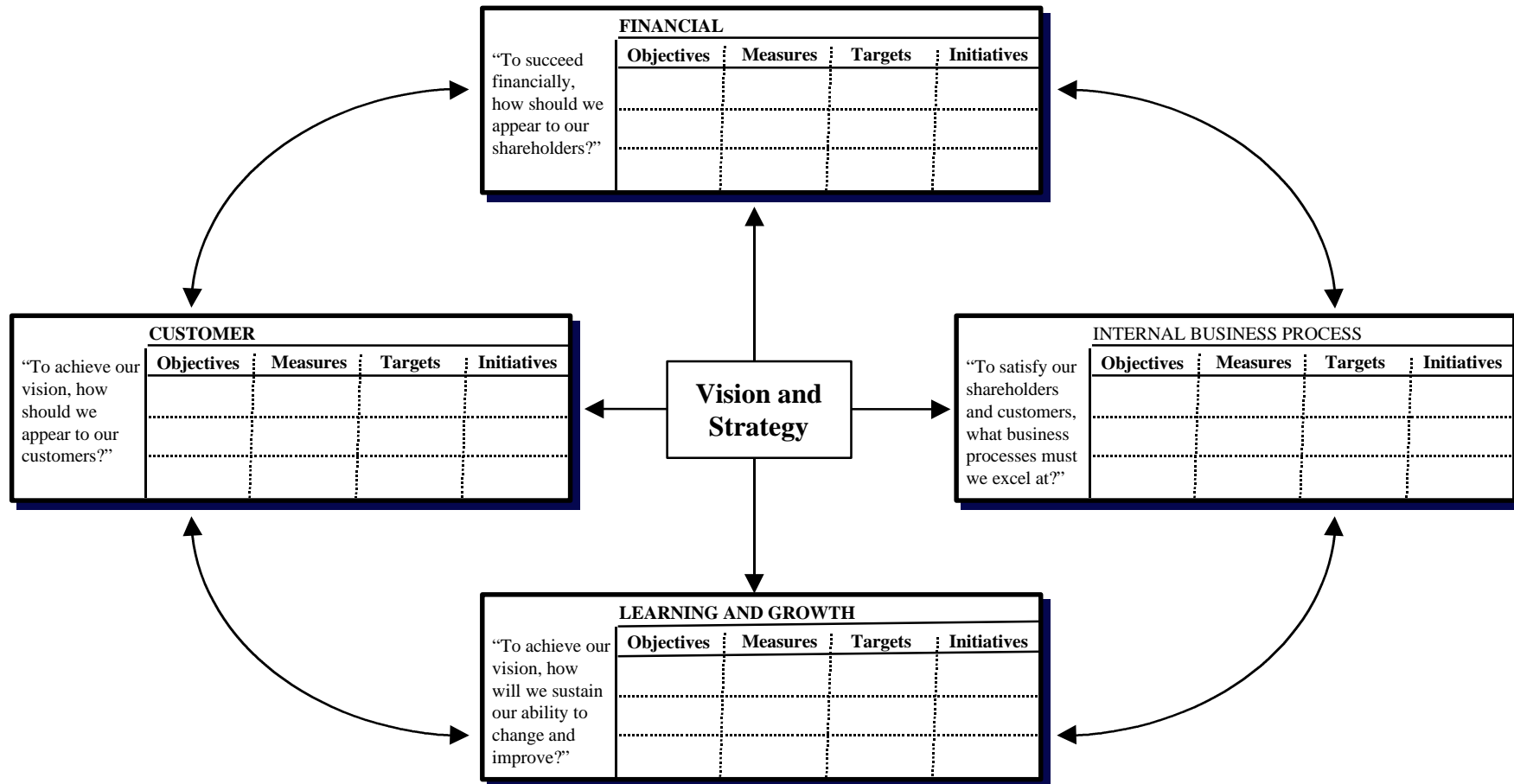
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The  
**BALANCED SCORECARD**  
The Power of Alignment and Strategic Learning

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Robert S. Kaplan  
Harvard Business School

# Translating Vision and Strategy: Four Perspectives



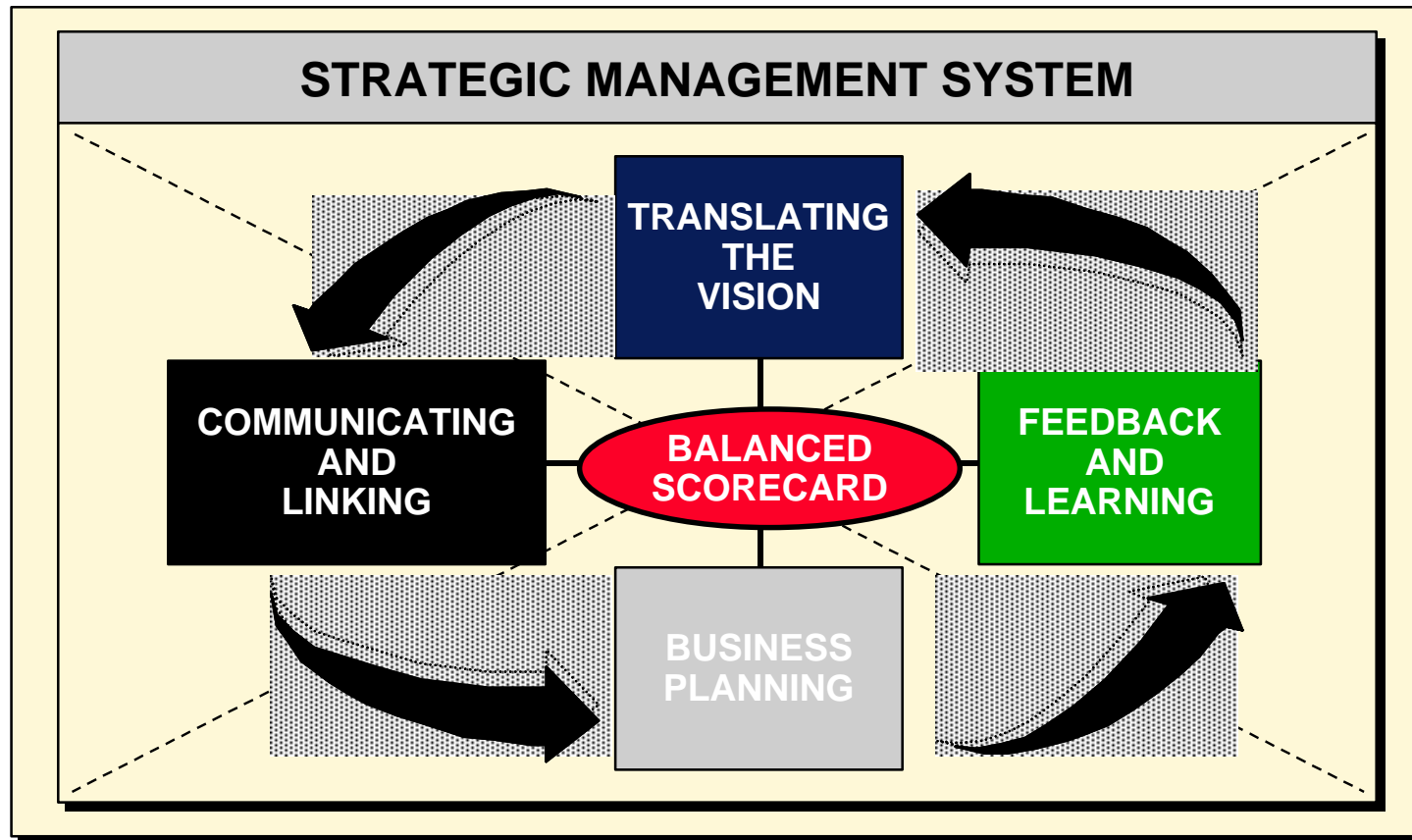
# What Is a Balanced Scorecard?

**A Measurement  
System?**

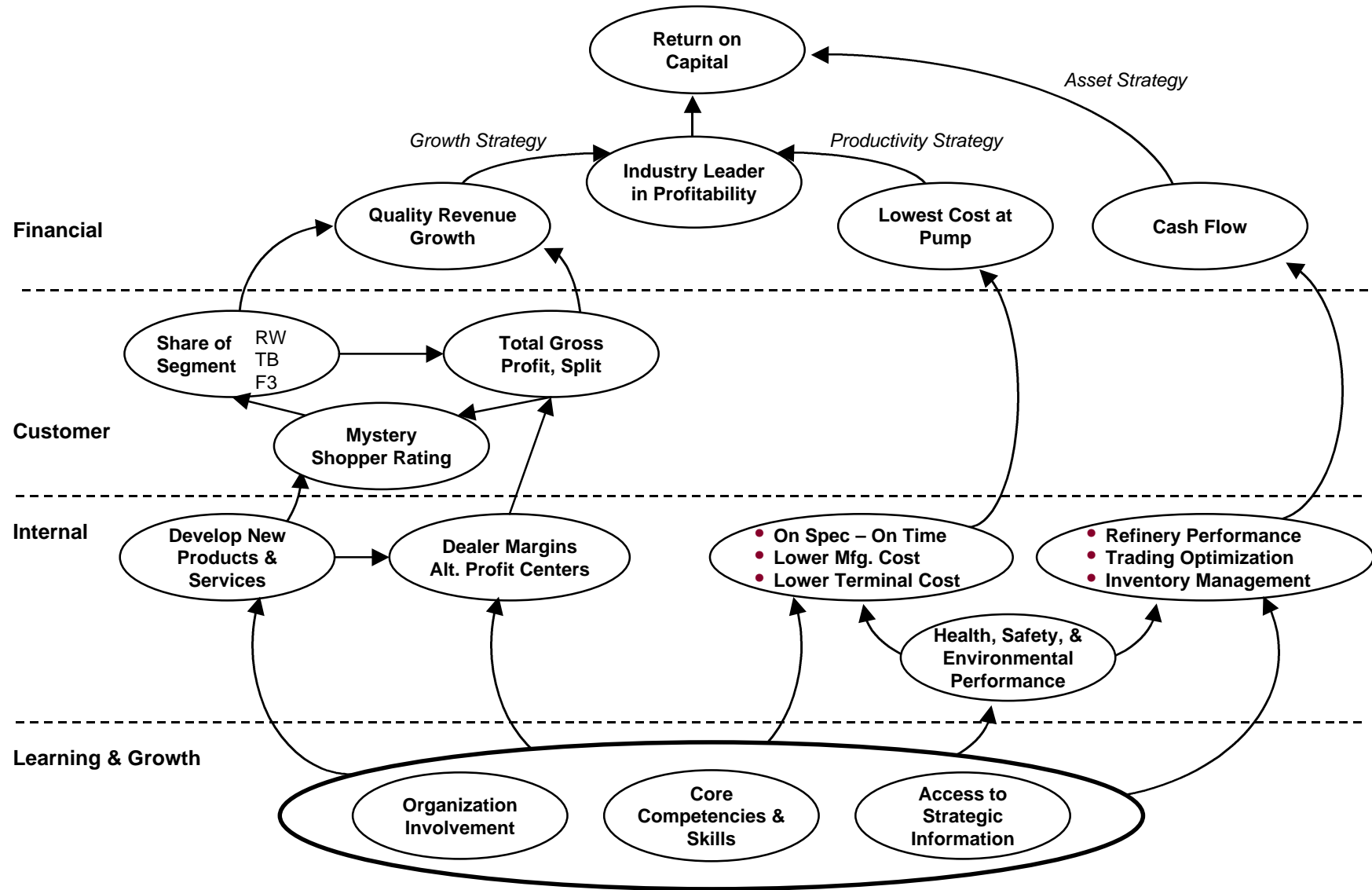
**A Management  
System?**

**A Management  
Philosophy?**

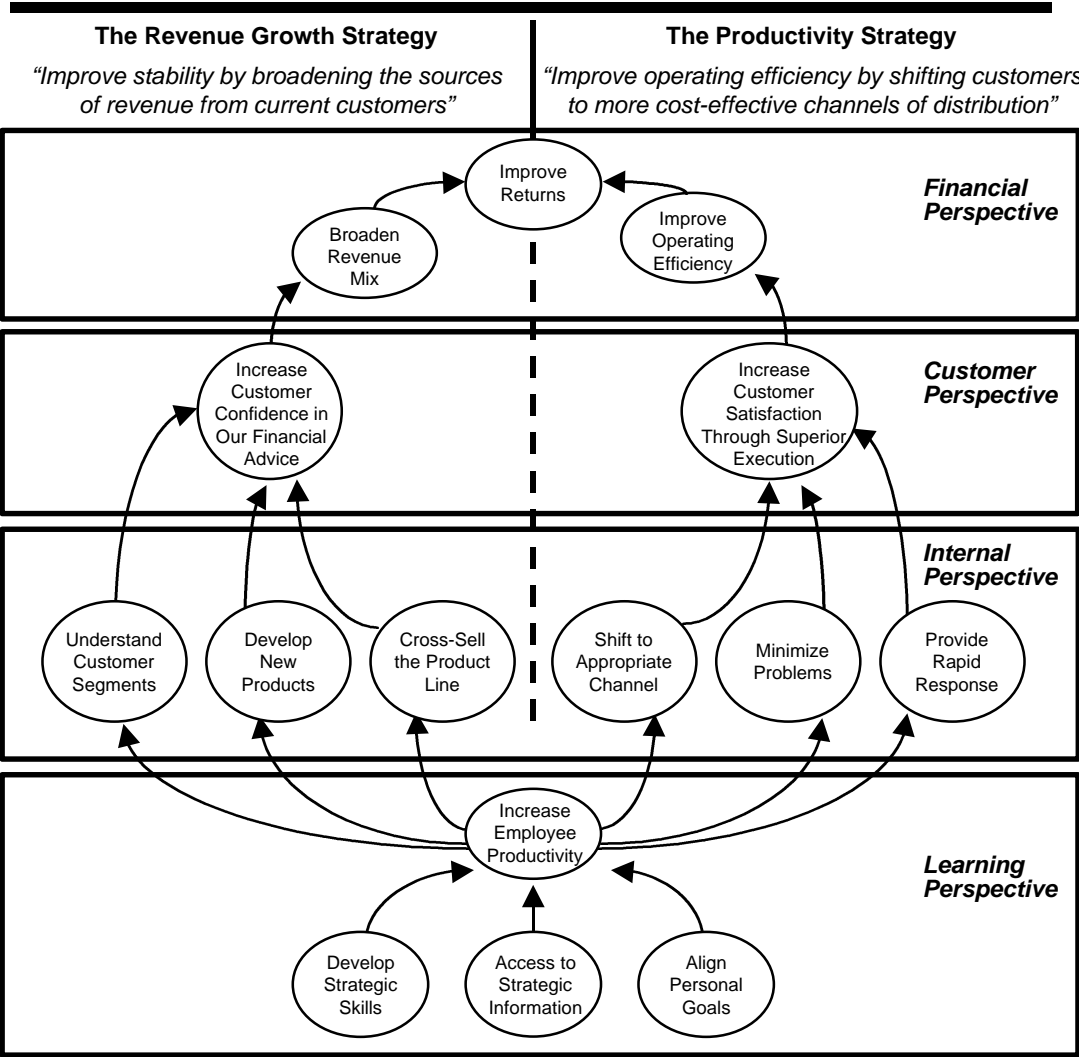
*THE BALANCED SCORECARD:  
Refocuses the Management System from  
Tactics to Strategy*



# Mobil's USM&R's Strategy Tree



# Chemical Bank's Strategy Tree



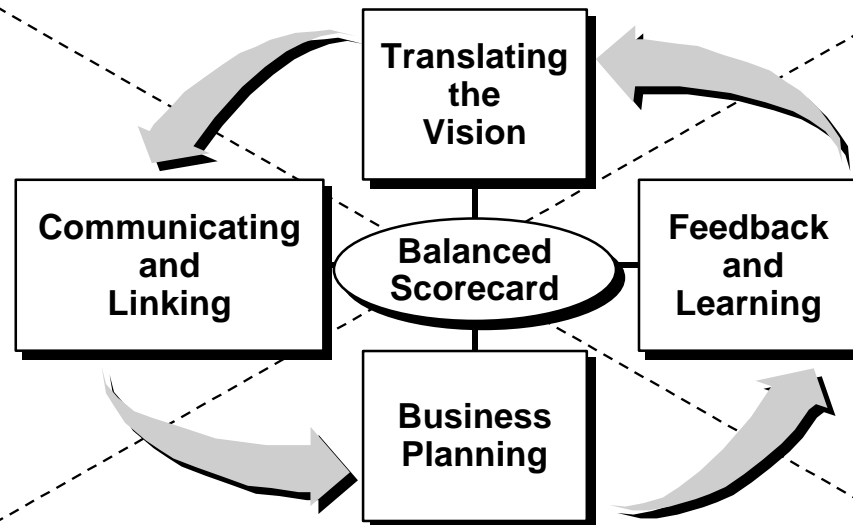
# A Good Balanced Scorecard Tells the Story of Your Strategy

- Every measure is part of a chain of cause and effect linkages
- Every measure ultimately ties to financial results
- A balance exists between outcome measures and performance drivers
- It includes performance driver measures which will redefine a process or change behavior

# The Strategic Management System

- ❑ The strategy is the reference point for the entire management process
- ❑ The shared Vision is the foundation for strategic learning

- ❑ **BSC alignment exists from top to bottom**
- ❑ **Compensation is linked to strategy**

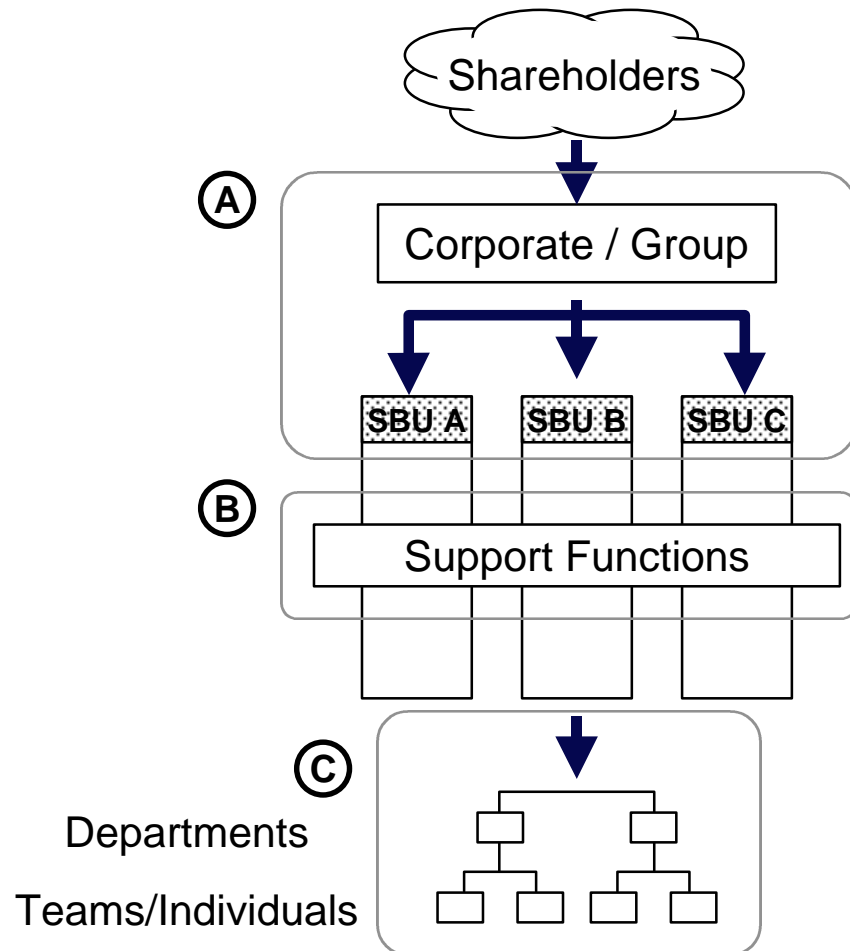


- ❑ Feedback system used to test the hypotheses on which strategy is based
- ❑ Strategy development is a continuous process

- ❑ Stretch” targets are rationalized and accepted
- ❑ Strategic initiatives are clearly identified
- ❑ Investments are rationalized by the strategy
- ❑ Annual budgets are linked to long-range plans



# Linkage and Communication: Top-to-Bottom Goal Alignment

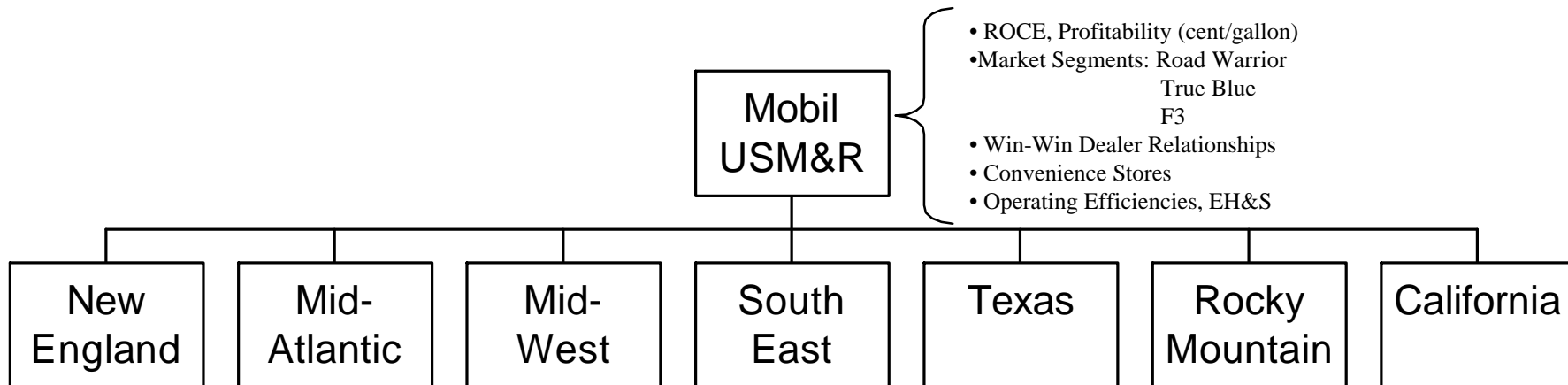


There are three main levels of top-to-bottom linkage:

- Ⓐ Corporate / SBU linkage
- Ⓑ Linkage with support functions
- Ⓒ Cascading to teams and individuals

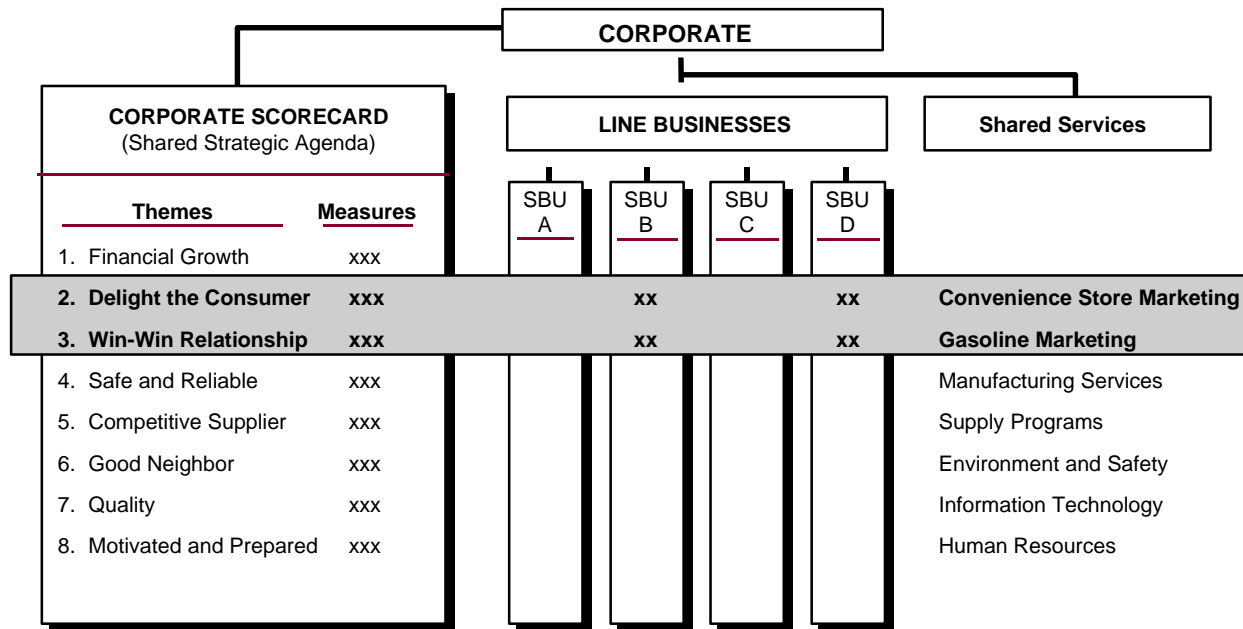
# Geographically Dispersed Business Units

## Common Strategy and Themes

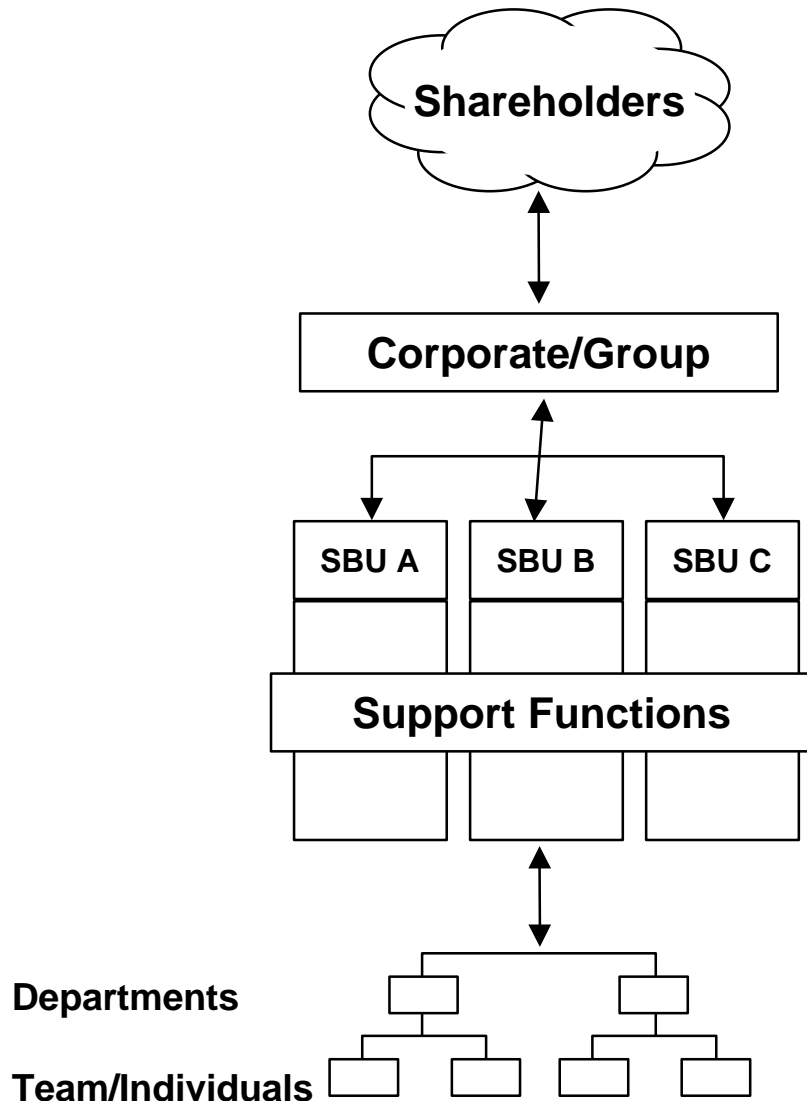


- Strategy and BSC Developed at Division Level
- Business Units Develop and Align Their BSC's to Meet Division Objectives

# The Balanced Scorecard Provides a Structure to Align Business Units With the Corporate Priorities

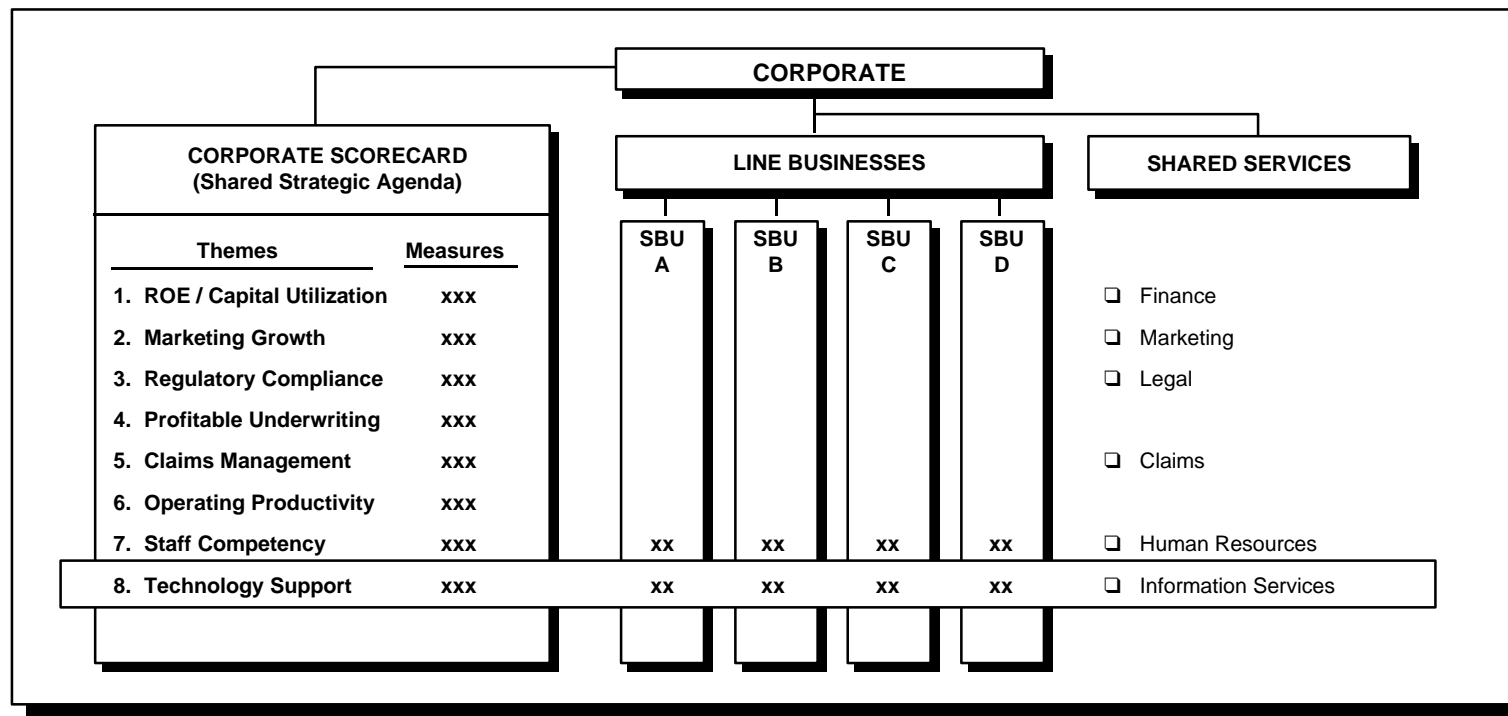


# Linking With Support Functions



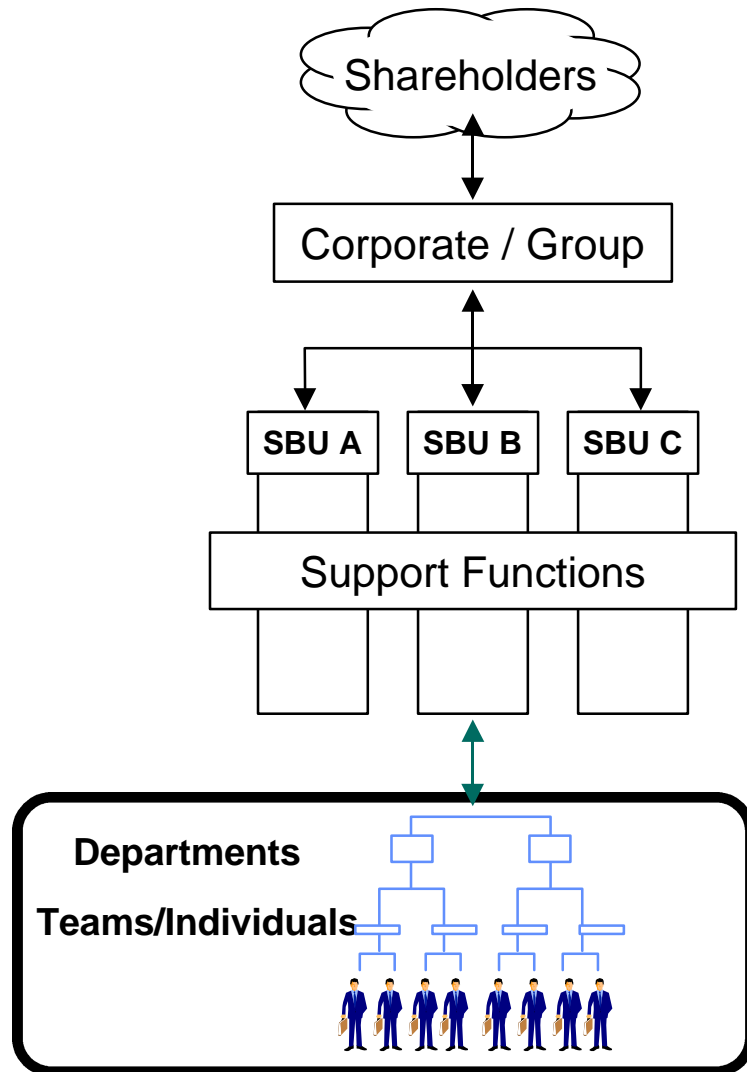
1. The support function scorecard is based on its mission / role
2. The financial measures are shared with Corporate / Group
3. Customer measures are linked with the market facing business unit scorecards
4. Formal "Service Agreements" define expectations and facilitate feedback

# I/T is One of Several Services Shared Across Business Units



- Each Business unit has developed a Balanced Scorecard reflecting its strategy and corporate priorities
- I/T--SBU joint Balanced Scorecard Development
- I/T consolidates SBU scorecards to develop its own integrated strategy

# Reaching Out to Teams and Individuals



- 1. Provide strategic communication vehicle**
- 2. Make explicit team expectations and contributions**
- 3. Provide a means for identifying and setting priorities for local initiatives**

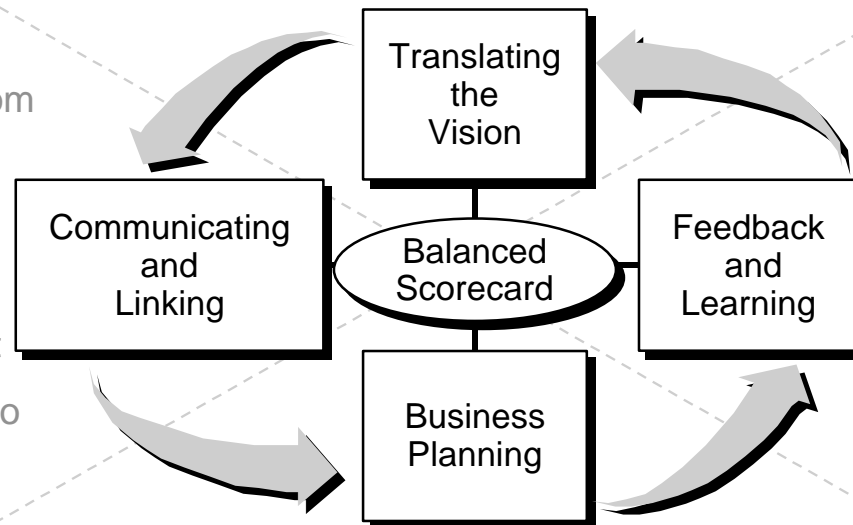
# Lubes BSC Implementation - An Example of Linkage and Taking Ownership

	Level 1	Level 2	Level 3	Level 4	Level 5	Level 6	Level 7
<b>STRATEGIC THEMES</b>	G.D. Madden Lubes	M.L. Mullins Order Fulfillment	A.J. Giaquinto Manager of Plant Operations	K.F. Goode Facility Manager	C.W. Slimp Delivery Supervisor	J.G. Lege Terminal Coordinator	G.W. Stewart MV Driver
<b>FINANCIAL</b> Reward our shareholders by providing a long-term return which exceeds our peers.	ROCE (%) Cash Flow (\$MM) Integrated Cost (\$MM) Integrated Income	LOB Integrated Cost Net Integrated Income	FA&Inv Value (\$MM) Transformation Cost	Inventory Carrying Cost Line 44/CPG Formulation Giveaway	Line 25 CPG Backhaul \$	Line 2 CPG Unavailable Hours Backhauls Savings	Line 24 CPG Idle Time Out of Route Miles GPM
<b>CUSTOMER</b> Provide value-added business solutions to our customers and channel partners	Market Share - Finished Percent Perfect Orders Distributor Survey Develop/Implement Customer Survey	Percent Perfect Orders Distributor Survey Develop/Implement Customer Survey	Percent Perfect Orders	Percent Perfect Orders Service Failures of Strategic product lines	% On-Time Delivery Develop CEO Market Info Survey	% On-Time Delivery Empty Drums Returned	% On-Time Delivery Returns Drums Lube
<b>INTERNAL</b> Develop market focused strategies and become operationally excellent.	Safety Index Environmental Index Continuous Improvement Cost Reduction (\$MM) Develop/Implement Capital Plan	Safety Index Environmental Index Develop/Implement Standard Offering Asset Utilization /Refinery /Capacity (%) Network vs Optimum (5) Inventory Accuracy	Safety Index Environmental Index Complexity Index Inventory Accuracy	DAFW # NOV # Hits # Off-Spec Receipts # Transfers to Move Excess Base Stock	# Motor Vehicle Accidents DAFW # NOV	Complete Environmental Self Audit # Safety Meetings Complete % Attendance Safety Meeting	Accurate Reporting Repts. 731, 601, 727 # Log Book Violations # of Completed CEO Market Surveys Customer Assessment
<b>L &amp; G</b> Create a High Performance Organization by equipping our people to succeed.	Employee Development Plans Completed (%) Develop Inclusiveness Metrics (3/31) Develop/Implement/ Measure Progress of Change Programs	Employee Development Plans Completed (%) Develop/Implement Marketing Comp. Plan Product Mgt. Comp. Plan Distrib/Logistics Comp. Plan	Employee Development Plans Completed (%) Attendance	Employee Development Plans Completed (%) Develop Plant Climate Survey	Employee Development Plans Completed (%) # Employees Trained ISO 9000 Certification	Vacation Relief for Shift Coordinator Training on CCE	Develop Personal Improvement Plan Vacation Relief - Term. Coordinator

# The Strategic Management System

- ❑ The strategy is the reference point for the entire management process
- ❑ The shared Vision is the foundation for strategic learning

- ❑ Goal alignment exists from top to bottom
- ❑ Education and open communication about strategy are basis for employee empowerment
- ❑ Compensation is linked to strategy

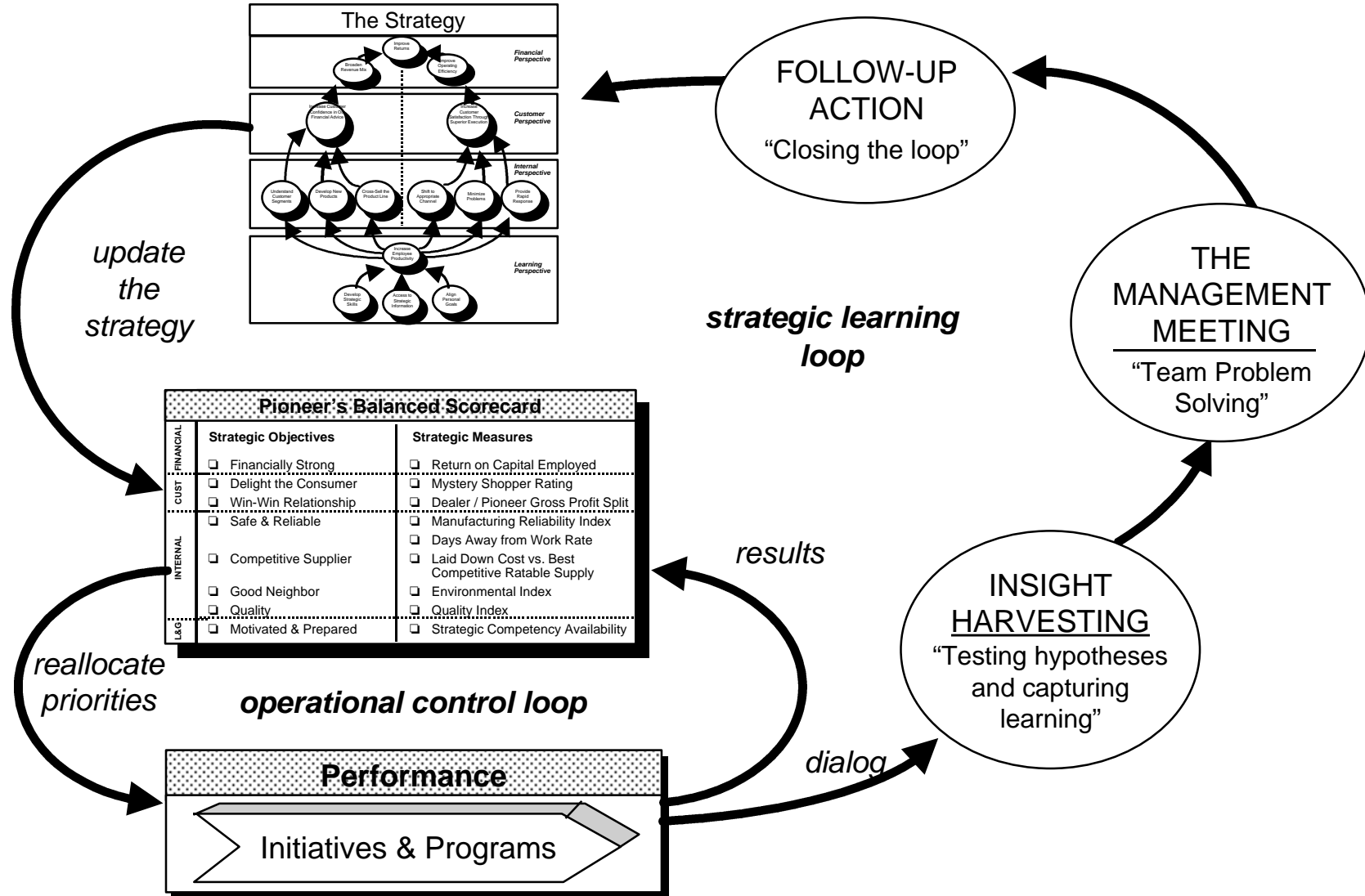


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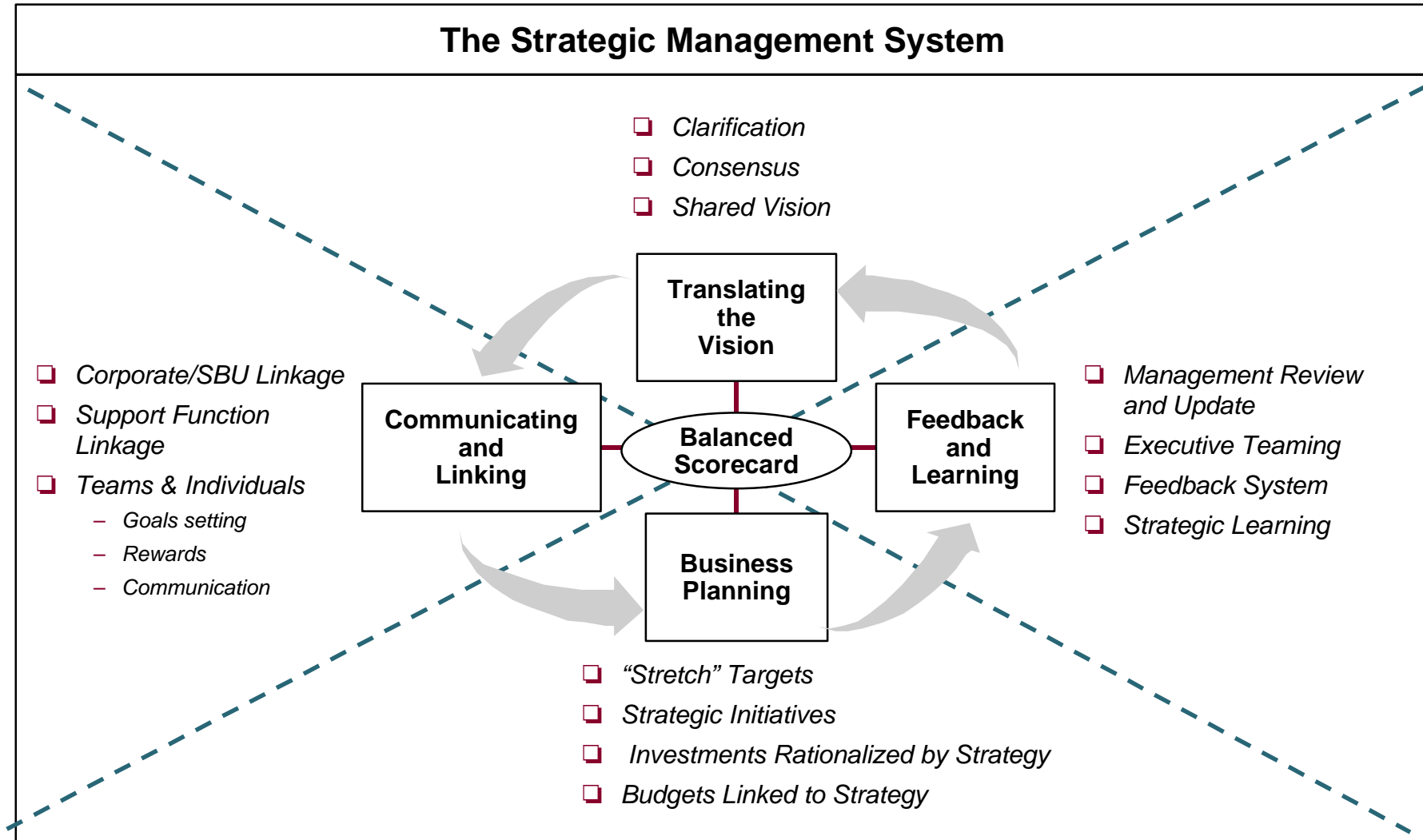
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# Strategic Feedback Creates Strategic Learning



# The Balanced Scorecard Has Become the Organizing Framework for a Strategic Management System ...Refocusing From Tactics to Strategy

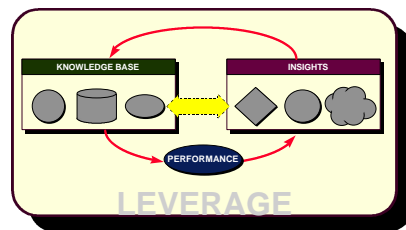


# THE BALANCED SCORECARD MANAGEMENT SYSTEM

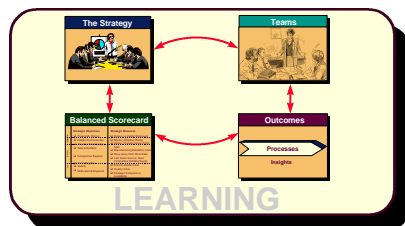
*Significant results can be achieved in relatively short periods of time...*



Implement a framework to **align** and **focus** the organization from top to bottom on its strategy



Identify the related key change initiatives required to **realize** the strategy and **mobilize** the organization



Create **feedback** processes at all levels to evaluate progress against strategy, monitor and **manage** issues and priorities, and **measure** performance and contribution to the business.