The BALANCED SCORECARD
The Power of Alignment and Strategic Learning

Robert S. Kaplan
Harvard Business School
Translating Vision and Strategy: Four Perspectives

**FINANCIAL**

“To succeed financially, how should we appear to our shareholders?”

<table>
<thead>
<tr>
<th>Objectives</th>
<th>Measures</th>
<th>Targets</th>
<th>Initiatives</th>
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**CUSTOMER**

“To achieve our vision, how should we appear to our customers?”

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<th>Objectives</th>
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**LEARNING AND GROWTH**

“To achieve our vision, how will we sustain our ability to change and improve?”

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**INTERNAL BUSINESS PROCESS**

“To satisfy our shareholders and customers, what business processes must we excel at?”

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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

Return on Capital

Asset Strategy

Growth Strategy

Industry Leader in Profitability

Productivity Strategy

Cash Flow

Lowest Cost at Pump

Return on Capital

Quality Revenue Growth

Share of Segment

Total Gross Profit, Split

Mystery Shopper Rating

Dealer Margins

Develop New Products & Services

Alt. Profit Centers

On Spec – On Time

Lower Mfg. Cost

Lower Terminal Cost

Refinery Performance

Trading Optimization

Inventory Management

Health, Safety, & Environmental Performance

Access to Strategic Information

Core Competencies & Skills

Organization Involvement

Learning & Growth

Internal

Customer

Financial
Chemical Bank’s Strategy Tree

The Revenue Growth Strategy
“Improve stability by broadening the sources of revenue from current customers”

- Broaden Revenue Mix
- Increase Customer Confidence in Our Financial Advice
- Understand Customer Segments
- Develop New Products
- Cross-Sell the Product Line

The Productivity Strategy
“Improve operating efficiency by shifting customers to more cost-effective channels of distribution”

- Improve Returns
- Improve Operating Efficiency
- Increase Customer Satisfaction Through Superior Execution
- Shift to Appropriate Channel
- Minimize Problems
- Provide Rapid Response

Financial Perspective

Customer Perspective

Internal Perspective

Learning Perspective

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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
- 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
- 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

Diagram:

- Translating the Vision
- Communicating and Linking
- Balanced Scorecard
- Feedback and Learning
- Business Planning
Linkage and Communication: Top-to-Bottom Goal Alignment

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

A  Corporate / SBU linkage
B  Linkage with support functions
C  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

<table>
<thead>
<tr>
<th>Themes</th>
<th>Measures</th>
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<tbody>
<tr>
<td>1. Financial Growth</td>
<td>xxx</td>
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<tr>
<td>2. Delight the Consumer</td>
<td>xxx</td>
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<td>3. Win-Win Relationship</td>
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<td>4. Safe and Reliable</td>
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<td>5. Competitive Supplier</td>
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<td>6. Good Neighbor</td>
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<td>7. Quality</td>
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<td>8. Motivated and Prepared</td>
<td>xxx</td>
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- CORPORATE SCORECARD (Shared Strategic Agenda)
- LINE BUSINESSES
  - SBU A
  - SBU B
  - SBU C
  - SBU D
- Shared Services
  - Convenience Store Marketing
  - Gasoline Marketing
  - Manufacturing Services
  - Supply Programs
  - Environment and Safety
  - Information Technology
  - Human Resources
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

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<thead>
<tr>
<th>Themes</th>
<th>Measures</th>
<th>SBU A</th>
<th>SBU B</th>
<th>SBU C</th>
<th>SBU D</th>
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<tbody>
<tr>
<td>1. ROE / Capital Utilization</td>
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<td>2. Marketing Growth</td>
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<td>3. Regulatory Compliance</td>
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<td>4. Profitable Underwriting</td>
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<td>5. Claims Management</td>
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<td>6. Operating Productivity</td>
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<td>7. Staff Competency</td>
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<td>8. Technology Support</td>
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- Finance
- Marketing
- Legal
- Claims
- Human Resources
- Information Services

- 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

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<tr>
<th>Level 1</th>
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<td># Safety Meetings Complete</td>
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- **L & G**: Create a High Performance Organization by equipping our people to succeed.
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
- "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
- Feedback system used to test the hypotheses on which strategy is based
- Strategy development is a continuous process
Strategic Feedback Creates Strategic Learning

Pioneer’s Balanced Scorecard

Strategic Objectives
- Financially Strong
- Delight the Consumer
- Win-Win Relationship
- Safe & Reliable
- Competitive Supplier
- Good Neighbor
- Quality
- Motivated & Prepared

Strategic Measures
- Return on Capital Employed
- Mystery Shopper Rating
- Dealer / Pioneer Gross Profit Split
- Manufacturing Reliability Index
- Days Away from Work Rate
- Laid-Down Cost vs. Best Competitive Ratable Supply
- Environmental Index
- Quality Index
- Strategic Competency Availability

Performance

Initiatives & Programs

FOLLOW-UP ACTION
“Closing the loop”

THE MANAGEMENT MEETING
“Team Problem Solving”

INSIGHT HARVESTING
“Testing hypotheses and capturing learning”

strategic learning loop

update the strategy

reallocate priorities

operational control loop

dialog

results

update the strategy

reallocate priorities

operational control loop
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.