The Balanced Scorecard (BSC)

Framework, Implementation Methodology and Recommended Application

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Introduction

Balanced Scorecard is an integrated, organization-wide management system that drives, in an aligned manner, the transformation, improvement and modernization efforts of all hierarchical levels towards the accomplishment of organization's Strategy. For this reason, Balanced Scorecard is also known as a Strategy Execution system. More precisely, Balanced Scorecard represents a framework for aligned Strategic Planning and for the consistent management of the organizational and individual performance in the execution of the Strategic Plan.

Furthermore, Balanced Scorecard is a communication tool that helps each employee better understand where the Strategy drives the organization, what the plan is for reaching that destination and what their departmental and individual measured contribution is to that convergent effort.

With such understanding, the employees – whether directly involved in the planned Strategy Execution, or not – can also change and improve the way they perform their daily jobs through micro-decisions that are both convergent and complementary to the execution of organization's Strategic Plan.

BSC History

Balanced Scorecard has been launched twenty years ago as a first set of principles for balanced strategic Objectives and Measures/KPIs setting and measurement. The "parents" of Balanced Scorecard are Dr. Robert S. Kaplan, Baker Foundation Professor at Harvard Business School and Dr. David P. Norton, the founder of the consulting team that contributed over the past two decades to the development of Balanced Scorecard into today's integrated and aligned management system. That company is now called *'The Palladium Group'* (www.thepalladiumgroup.com) and is based in Massachusetts, near the Harvard Business School.

Since their first article about Balanced Scorecard, published in 1992 in the Harvard Business Review, Drs. Kaplan and Norton have published five books, which have marked the evolution of the BSC framework and of its implementation methodology, starting with *'The Balanced Scorecard'*, in 1996 and ending with *'The Execution Premium'*, in 2008 (now also translated in Romanian, soon to be published).

Over the years many consulting or educational organizations have tried to add to the Balanced Scorecard initial concepts, in some cases attempting to build "a better mouse trap", but few succeeded to bring any significant theoretical or practical value to the BSC framework and implementation methodology, developed continuously by Drs. Kaplan and Norton and by their team at Palladium and based on thousands of implementation projects in most industries, geographies worldwide and organization sizes, in both public and private sectors.

BSC Hall of Fame and BSC Certification Program

Balanced Scorecard seems simple in terms of principles, but is not at all simple to implement and operate. The demarcation between the Operational Performance Management and the Strategic Performance Management, the Strategy Execution itself, the Organizational Alignment down to the individual level, the integration between the Strategic Plan and the Budget and the Operational Plans, the scope and workflow of the Strategic Review Meetings are just a few of the subjects often not well understood by some organization wishing to implement Balanced Scorecard, nor by many of their external management consultants.

Based on their twenty years of thought leadership and extensive practical experience, Drs. Kaplan and Norton and their team at Palladium have developed not just a BSC framework, but also a detailed implementation methodology, which guides the Balanced Scorecard implementation team along the project path that is paved with a lot of traps and hurdles, which – if ignored – can lead to a prolonged trial-and-error cycle and even to the possible failure of the successful system implementation.

Since 2005, all companies that successfully implemented Balanced Scorecard, in accordance with the Kaplan-Norton framework and methodology, have been awarded a place in the *'Balanced Scorecard Hall of Fame'*, which now includes over 200 companies and public sector organization. Most of them are extraordinary examples of changing the results of their activity in a sustained, long-lasting manner.

Furthermore, in order to spread outside of their consulting group the highly-professional knowledge of the Kaplan-Norton framework and implementation methodology, Palladium has organizing since 2008 a public *'Balanced Scorecard Certification Program'*, which has produced so far over 400 K-N BSC Certified experts, worldwide.

BSC Framework Principles

Some of the most important principles of the Balanced Scorecard framework should be well understood:

(a) *The Dual-loop Management.* The day-to-day management of the current organization activities constitutes the *Operational Management Loop*, including the definition of the operational processes' reference parameters, the allocation of resources to these processes through the Budget and the Operational Plans (marketing, sales, supply, production, etc.), the corrective actions taken for bringing any deviations back to the operational reference parameters and the continuous improvement process aimed at eliminating or limiting such deviations occurrence in the future, trough systems like Six Sigma, Lean, TQM, etc.

At the same time, the transformation of organization's operational processes & structure are separately handled as part of the *Strategic Management Loop*, aimed at achieving the objectives derived from organization's Strategy, mainly through the strategic initiatives portfolio and monitored through the performance and risk indicator measures (the *Scorecard*).

(b) *The Strategy Map.* The translation of organization's Strategy in operational terms is performed through a system of *Strategic Objectives*, of strategic/transformation *Initiatives* that lead to the achievement of the objectives and of *Performance & Risk Indicator Measures* (KPIs & KRIs) that quantify the objectives' achievement in relation to the set of associated targets.

These components are balanced through four *Strategic Perspectives*: (1) *Financial* (2) *Client* (or more general: *Market*) (3) *Internal Processes* and (4) *Learning & Growth* (or *Intangible Capital*: Human, Information and Organizational capital). *Note:* The four perspectives for non-profit and public organizations are different from those specified here. Furthermore, some organizations build their Strategy Execution system on three or five perspectives, rather than four.

Both the perspectives and any combination of Strategic Objectives contained within them are linked by identified cause-effect relationships that allow the modeling of the inter-dependence between the objectives contained in different perspectives, or even between those within the same perspective. The Strategic Objectives and the Perspectives linked through the cause-effect relationships constitute the *Strategy Map*.

(c) *The Organizational Alignment.* Within an organization, Strategy is everyone's job. This is due to the fact that although the Strategy is defined by the executive team and the Strategic Plan is propagated throughout the organization *top-down*, the execution is performed *bottom-up*.

The consistent performance of these strategic processes (planning and execution) require a synchronized, convergent approach, involving the cascading of the strategic objectives from one organizational level to the next and the decomposition of these objectives into the objectives of the organizational units of the hierarchical level below. This goes down to the individual objectives and scorecard of each employee who is involved in the roll-out or in the support of the strategic initiatives that allow the accomplishment of Strategy's objectives.

The organizational alignment is designed as an interactive process, where the mechanical cascading of objectives is replaced, based on the two decades of accumulated experience, with a double iterative process that allows the empowerment of each organizational unit and employee to contribute to the construction of the Strategic Plan at the hierarchical level above.

(d) *The Strategy Execution Continuity*. Used initially as a balanced performance measurement tool, Balanced Scorecard has evolved many years ago from its descriptive, reporter role to that of a prescriptive Strategy Execution system, ensuring that the business transformation model depicted through the aligned Strategy Maps and the Strategic Plan is monitored and adapted periodically, in order to reach the required execution performance sustainability.

This periodic adaptation is mainly concentrated on the corrective actions applied to the portfolio of Strategic initiatives, through the monthly *Strategic Review Meetings*. The Strategic Plan is then subject to a significant review once every year, during the *Strategy Testing & Adaptation Meeting*. In both cases, the workflow and corrective / adaptive decision process of the meetings are described in detail within the Kaplan-Norton Balanced Scorecard Framework.

The Role of Leadership

A special mention is made regarding the Leadership role of organization's executive team in the process of implementing the Balanced Scorecard management system as well as in the operation of this system. Two decades of experience in BSC implementation projects have proven that the attempts to implement such complex and very often culture-changing management system cannot be successful without the *effective involvement* of organization's top management.

The guidance and attention given to the full accomplishment of each major step of the Balanced Scorecard implementation methodology is essential in determining the employees to not just accept such management system, but also to fully engage in the construction of the first Strategic Plan and follow through during the first year of Strategy Execution.

Unfortunately, the statistics show that around 2/3 of the BSC implementation projects fail to reach maturity within the first year and become a formal reporting system that is often abandoned soon after. The main cause, besides the use of wrong, ad-hoc or incomplete BSC frameworks and implementation methodologies, is the insufficient Leadership commitment to position the new Strategy Execution and Performance Management system as a continuous main priority of the entire organization.

BSC Implementation Methodology

The extensive experience gathered by The Palladium Group over the years has been documented as the recommended *Kaplan-Norton Balanced Scorecard Implementation Methodology*. Since 2008, this has represented the basis for the K-N BSC Certification Program curricula, made available to all the certified graduates. This detailed methodology drives the BSC implementation projects around the many specific traps and hurdles of this management system setup and operation.

The cornerstones of the BSC Implementation Methodology, also known as the '*Execution Premium Process*' (XPP), are six stages that include six workshops and the first Strategic Review Meeting, each being preceded by a number of preliminary interviews and preparation meetings.

- *Workshop #1* – Is performed for generating the organizational *Strategy Map*, including the definition of the strategic themes/priorities and the cause-effect linked strategic Objectives model. This workshop is prepared through a number of interviews conducted with the executive team members (CXOs). The workshop participants include the executive team and the N-1 level managers/directors, being organized by the *Core Team* (2-5 people nominated to coordinate the BSC implementation project). The Core Team is also responsible for preparing and organizing all other workshops.
- *Workshop #2* – Is conducted for the organization-level *Strategic Initiatives Portfolio* definition and is preceded by the rationalization of the transformation, modernization and optimization projects that are currently in progress throughout the organization. The main instrument used in preparing and running this workshop is the Objectives-Initiatives matrix. The participants are the same as for the first workshop. If the case, this workshop can generate an update review of the organizational Strategy Map.
- *Workshop #3* – Is performed for generating the organizational *Scorecard*, including the *Performance and Risk Indicator Measures* (KPIs & KRIs) and their associated *Targets* for each of the Objectives in the organizational Strategy Map. The definition of the Measures follows a recommended selection workflow and may include the consultation of a KPI & KRI Library. The participants are the same as for the first two workshops. Wherever the gap between the current values of each Measure and the Targets considered cannot be closed by using the Initiatives defined during the previous workshop, a review of the Initiatives linked to those Objectives may be required.
- *Workshop #4* – Is the *first Organizational Alignment* workshop for the *N-1* business units and it covers both the vertical and the horizontal Alignment. In fact, this workshop is repeated for each of the N-1 business unit and is attended by the management team of each unit. The scope of this set of workshops is to cascade the BSC components defined so far, considering the specifics of each unit.

- *Workshop #5 –* Is *the second Organizational Alignment* workshop for the N-1 business units, having as scope to roll-up the BSC components defined by each unit and checking that the organizational level Balanced Scorecard maintains its consistency, without areas less covered or overlaps. This workshop is also aimed at launching the alignment process for business units below the N-1 level and for the *Individual Alignment*. During this workshop are also defined the *Strategic Jobs Families*, for the identification of those positions for which the Individual Alignment is performed. The participants are the same as for the workshops #1-3.

- *Workshop #6 –* Is performed for the *Budget and Operational Plans integration*, aimed at defining the *StratEx* (cumulated budget of all strategic Initiatives) and the anticipated impact of executing the Strategic Plan upon the Budget positions and Operational Plans parameters. This workshop is closing the Balanced Scorecard implementation project and is also used for defining the *Office of Strategy Management* (OSM), usually formed of 2-3 members of the BSC implementation Core Team. The participants are the same as for the workshops #1-3 and #5.

For organizations with 200-1,000 employees and 5-15 business units, the usual BSC implementation project can be finalized within 3-6 months. For larger organizations, the implementation timeframe can reach or even exceed one year. It is recommendable that the project should start in due time (usually Q1-Q2) for the synchronization of the Workshop #6 with the first review of next year's Budget (Q3-Q4).

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