



Article 4: Balanced Scorecard and Corporate Strategy

In the last issue of Stakeholder Satisfaction, we explained how balanced scorecard incorporates customer measures and links them with other aspects of organisational performance. Devised by Kaplan and Norton, and developed in two Harvard Business Review articles^{1,2} and a full length book³, Balanced Scorecard was promoted by its authors as “the instrumentation that managers need to navigate to success”. The scorecard brings together financial, customer, internal process and people into one performance monitoring system. It assists an organisation to translate its strategy into a comprehensive set of measures, through which its performance can be managed. It enables managers to understand the linkages between the four areas and helps them focus their efforts. This article examines how balanced scorecard is increasingly used to drive corporate strategy.

Implementation is difficult

Many organisations find it extremely difficult to implement strategy. According to Fortune Magazine, only 10% of strategies are effectively implemented. Kaplan and Norton found that without balanced scorecard 85% of executive teams spend less than 1 hour per month discussing strategy⁴. Even when companies do invest a lot of time in refining their values, mission statements, and strategic initiatives, the average employee often doesn't have a clear understanding how their actions influence the success of the organisation. Balanced scorecard is a proven way to align an organisation with strategy, to harness employees' efforts to strategic ends, and ultimately to deliver improved financial returns.

Strategy Maps

Since strategies, and the actions required to successfully implement them, often contain an overwhelming amount of information, Kaplan and Norton have developed a tool, known as a strategy map^{5,6}, to help communicate these large, complex quantities of information in simple, easily understood ways.

Strategy maps make visually explicit a company's strategy together with its associated objectives and measures, and the causal linkages between them. Organising objectives in each of the four quadrants of the balanced scorecard, and mapping the strategic relationships among them, serves as a way to evaluate objectives to make sure they are consistent and useful in delivering the strategy.

The strategy map is also an excellent way to communicate to different parts of the organisation how they fit into the overall strategy. It helps to cascade the balanced scorecard throughout the company because it can be created at different levels of an organisation, and each level's map can be viewed for alignment with the overall strategy map.

The example strategy map shown on the next page is available on the Balanced Scorecard Collaborative website⁷, along with a wealth of additional information about balanced scorecard and strategy mapping.

The strategy-focused organisation

Experience over the last decade or more has shown that successful organisations use the balanced scorecard to create a



culture of continual focus on strategy formulation, measurement, and revision. They create what Kaplan and Norton call a strategy focused organisation. The key elements in creating a strategy focused organisation are as follows:

1. Mobilise change

Building a strategy focused organisation usually involves significant culture change. Consistent leadership and support are critical to maintaining momentum through the challenges that organisations inevitably encounter. The executive team must be in agreement on strategies and must drive the scorecard process for it to be successful.

2. Make strategy a continual process.

A strategic focus is not maintained if strategy formulation becomes a one-off activity that happens during an annual business planning cycle. Feedback loops are needed to constantly focus attention on and continually re-evaluate the strategy and the measures. Since the budget process is linked to strategy, the balanced scorecard should replace traditional budget formulation as a way to allocate funds.

3. Make strategy everyone's job.

This is done through strategic education and awareness and by cascading the scorecard down through the organisation, so that business units, departments—or even individuals—create their own scorecards. The linkages to strategy are explicitly defined at all levels. This helps departments and individuals understand and find new ways to support the strategy. It also helps ensure that employees at all levels are being measured and rewarded in ways that support the strategy.

4. Align the organisation to the strategy.

This involves evaluating current organisational structures, lines of reporting, policies and procedures to ensure that they are consistent with the strategy. It can include re-alignment of business units or re-defining the roles of different support units to make sure that each part of the organisation is lined up to best support the strategy.

5. Translate the strategy into operational terms.

Tools like the strategy map, the strategy matrix and scorecards cascaded through all levels of the organisation, must be used

to integrate strategy with the operational tasks that employees perform daily. In the next issue of Stakeholder Satisfaction we will look at an organisation that has succeeded in implementing balanced scorecard successfully, winning a coveted Malcolm Baldrige award in the process.

References

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4. Kaplan and Norton: "The Strategy Focused Organization", Harvard Business School Press, 2001.
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7. www.bscoll.com

Community Banking Group Strategy Map

