Balanced scorecard

Information collected from Wikipedia and other web-sites (as indicated); There are two parts:

A) Balanced Scorecard *(Wikipedia)*

B) Balanced Scorecard- The four techniques to be mastered *(Epmreview) (p.7ff)*

A) Balanced Scorecard- From Wikipedia, the free encyclopedia

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The **Balanced Scorecard** (BSC) began as a concept for measuring whether the smaller-scale operational activities of a company are aligned with its larger-scale objectives in terms of vision and strategy. It was developed and first used at Analog Devices in 1987. By focusing not only on financial outcomes but also on the human issues, the Balanced Scorecard helps provide a more comprehensive view of a business, which in turn helps organizations act in their best long-term interests. The strategic management system helps managers focus on performance metrics while balancing financial objectives with customer, process and employee perspectives. Measures are often indicators of future performance.

History

In 1993, Robert S. Kaplan and David P. Norton began publicizing the Balanced Scorecard through a series of journal articles. In 1996, they published the book *The Balanced Scorecard*. Since the original concept was introduced, Balanced Scorecards have become a fertile field of theory and research, and many practitioners have diverted from the original Kaplan & Norton articles. Kaplan & Norton themselves revisited Balanced Scorecards with the benefit of a decade's experience since the original article.

The Balanced Scorecard is a performance planning and measurement framework, with similar principles as Management by Objectives, which was publicized by Robert S. Kaplan and David P. Norton in the early 1990s. Having realized the shortcomings of traditional management control systems, Kaplan and Norton designed the Balanced Scorecard as a result of a one-year research project involving 12 companies. Since its introduction, the Balanced Scorecard has been awarded a prize by the American Accounting Association as the “best theoretical contribution in 1997”, and its industry and academic attention has placed it alongside approaches such as Activity Based Costing and Total Quality Management.

Balanced scorecard is a tool to execute and monitor the organisational strategy by using a combination of financial and non financial measures. It is designed to translate vision and strategy into objectives and measures across four balanced perspectives: financial, customers, internal business process and learning and growth. It gives a framework ensuring that the strategy is translated into a coherent set of performance measures.

Use

Implementing Balanced Scorecards typically includes four processes:

1. Translating the vision into operational goals;
2. Communicating the vision and link it to individual performance;
3. Business planning;
4. Feedback and learning, and adjusting the strategy accordingly.

The Balanced Scorecard is a framework, or what can be best characterized as a "strategic management system" that claims to incorporate all quantitative and abstract measures of true importance to the enterprise. According to Kaplan and Norton, "The Balanced Scorecard provides managers with the instrumentation they need to navigate to future competitive success".

Many books and articles referring to Balanced Scorecards confuse the design process elements and the Balanced Scorecard itself. In particular, it is common for people to refer to a "strategic linkage model" or "strategy map" as being a Balanced Scorecard.

Balanced Scorecard is a performance management tool. Although it helps focus managers' attention on strategic issues and the management of the implementation of strategy, it is important to remember that the Balanced Scorecard itself has no role in the formation of strategy. In fact, Balanced Scorecards can comfortably co-exist with strategic planning systems and other tools.

Original methodology

The earliest Balanced Scorecards comprised simple tables broken into four sections - typically these "perspectives" were labeled "Financial", "Customer", "Internal Business Processes", and "Learning & Growth". Designing the Balanced Scorecard required selecting five or six good measures for each perspective.

Many authors have since suggested alternative headings for these perspectives, and also suggested using either additional or fewer perspectives. These suggestions were notably triggered by a recognition that different but equivalent headings would yield alternative sets of measures. The major design challenge faced with this type of Balanced Scorecard is justifying the choice of measures made. "Of all the measures you could have chosen, why did you choose these?" This common question is hard to ask using this type of design process. If users are not confident that the measures within the Balanced Scorecard are well chosen, they will have less confidence in the information it provides. Although less common, these early-style Balanced Scorecards are still designed and used today.

In short, early-style Balanced Scorecards are hard to design in a way that builds confidence that they are well designed. Because of this, many are abandoned soon after completion.

Improved methodology

In the mid 1990s, an improved design method emerged. In the new method, measures are selected based on a set of "strategic objectives" plotted on a "strategic linkage model" or "strategy map". With this modified approach, the strategic objectives are

typically distributed across a similar set of "perspectives", as is found in the earlier designs, but the design question becomes slightly less abstract.

Managers have to identify five or six goals within each of the perspectives, and then demonstrate some inter-linking between these goals by plotting causal links on the diagram. Having reached some consensus about the objectives and how they inter-relate, the Balanced Scorecard is devised by choosing suitable measures for each objective. This type of approach provides greater contextual justification for the measures chosen, and is generally easier for managers to work through. This style of Balanced Scorecard has been commonly used since 1996 or so.

Several design issues still remain with this enhanced approach to Balanced Scorecard design, but it has been much more successful than the design approach it supersedes.

Popularity

Kaplan and Norton found that companies are using Balanced Scorecards to:

- Drive strategy execution;
- Clarify strategy and make strategy operational;
- Identify and align strategic initiatives;
- Link budget with strategy;
- Align the organization with strategy;
- Conduct periodic strategic performance reviews to learn about and improve strategy.

In 1997, Kurtzman found that 64 percent of the companies questioned were measuring performance from a number of perspectives in a similar way to the Balanced Scorecard.

Balanced Scorecards have been implemented by government agencies, military units, business units and corporations as a whole, non-profit organizations, and schools.

Many examples of Balanced Scorecards can be found via Web searches. However, adapting one organization's Balanced Scorecard to another is generally not advised by theorists, who believe that much of the benefit of the Balanced Scorecard comes from the implementation method.

Variants, Alternatives and Criticisms

Since the late 1990s, various alternatives to the Balanced Scorecard have emerged, such as The Performance Prism, Results Based Management and Third Generation Balanced Scorecard. These tools seek to solve some of the remaining design issues, in particular issues relating to the design of sets of Balanced Scorecards to use across an organization, and issues in setting targets for the measures selected.

Applied Information Economics (AIE) has been researched as an alternative to Balanced Scorecards. In 2000, the Federal CIO Council commissioned a study [1] to compare the two methods by funding studies in side-by-side projects in two different agencies. The Dept. of Veterans Affairs used AIE and the US Dept. of Agriculture applied Balanced Scorecards. The resulting report found that while AIE was much more sophisticated, AIE actually took slightly less time to utilize. AIE was also more likely to generate findings that were newsworthy to the organization, while the users of Balanced Scorecards felt it

simply documented their inputs and offered no other particular insight. However, Balanced Scorecards are still much more widely used than AIE.

A criticism of Balanced Scorecards is that the scores are not based on any proven economic or financial theory, and therefore have no basis in the decision sciences. The process is entirely subjective and makes no provision to assess quantities (e.g., risk and economic value) in a way that is actuarially or economically well-founded.

Another criticism is that the Balanced Scorecard does not provide a bottom line score or a unified view with clear recommendations: it is simply a list of metrics [2].

Some people also claim that positive feedback from users of Balanced Scorecards may be due to a placebo effect, as there are no empirical studies linking the use of Balanced Scorecards to better decision making or improved financial performance of companies.

The Four Perspectives

The grouping of performance measures in general categories (perspectives) is seen to aid in the gathering and selection of the appropriate performance measures for the enterprise. Four general perspectives have been proposed by the Balanced Scorecard:

- Financial perspective;
- Customer perspective;
- Internal process perspective;
- Learning and growth perspective.

The **financial perspective** examines if the company's implementation and execution of its strategy are contributing to the bottom-line improvement of the company. It represents the long-term strategic objectives of the organization and thus it incorporates the tangible outcomes of the strategy in traditional financial terms. The three possible stages as described by Kaplan and Norton (1996) are rapid growth, sustain and harvest. Financial objectives and measures for the growth stage will stem from the development and growth of the organization which will lead to increased sales volumes, acquisition of new customers, growth in revenues etc. The sustain stage on the other hand will be characterized by measures that evaluate the effectiveness of the organization to manage its operations and costs, by calculating the return on investment, the return on capital employed, etc. Finally, the harvest stage will be based on cash flow analysis with measures such as payback periods and revenue volume. Some of the most common financial measures that are incorporated in the financial perspective are EVA, revenue growth, costs, profit margins, cash flow, net operating income etc.

The **customer perspective** defines the value proposition that the organization will apply in order to satisfy customers and thus generate more sales to the most desired (i.e. the most profitable) customer groups. The measures that are selected for the customer perspective should measure both the value that is delivered to the customer (value position) which may involve time, quality, performance and service and cost and the outcomes that come as a result of this value proposition (e.g., customer satisfaction, market share). The value proposition can be centered on one of the three: operational excellence, customer intimacy or product leadership, while maintaining threshold levels at the other two.

The **internal process perspective** is concerned with the processes that create and deliver the customer value proposition. It focuses on all the activities and key processes required in order for the company to excel at providing the value expected by the customers both productively and efficiently. These can include both short-term and long-term objectives as well as incorporating innovative process development in order to stimulate improvement. In order to identify the measures that correspond to the internal process perspective, Kaplan and Norton propose using certain clusters that group similar value creating processes in an organization. The clusters for the internal process perspective are operations management (by improving asset utilization, supply chain management, etc), customer management (by expanding and deepening relations), innovation (by new products and services) and regulatory & social (by establishing good relations with the external stakeholders).

The **learning and growth perspective** is the foundation of any strategy and focuses on the intangible assets of an organization, mainly on the internal skills and capabilities that are required to support the value-creating internal processes. The learning and growth perspective is concerned with the jobs (human capital), the systems (information capital), and the climate (organization capital) of the enterprise. These three factors relate to what Kaplan and Norton claim is the infrastructure that is needed in order to enable ambitious objectives in the other three perspectives to be achieved. This of course will be in the long term, since an improvement in the learning and growth perspective will require certain expenditures that may decrease short-term financial results, whilst contributing to long-term success.

Key Performance Indicators

According to each perspective of the Balanced Scorecard, a number of KPIs can be used such as:

Financial

Cash flow
ROI
Financial Result
Return on capital employed
Return on equity

Customer

Delivery Performance to Customer - by Date
Delivery Performance to Customer - by Quality
Customer satisfaction rate
Customer Loyalty
Customer retention

Internal Business Processes

Number of Activities
Opportunity Success Rate
Accident Ratios
Overall Equipment Effectiveness

Learning & Growth

- Investment Rate
- Illness rate
- Internal Promotions %
- Employee Turnover
- Gender/Racial Ratios

Further lists of general and industry-specific KPIs can be found in the case studies and methodological articles and books presented in the references section.

See also

- Applied Information Economics
- Digital dashboard, also known as *business dashboard*, *enterprise dashboard* or *executive dashboard*
- Key performance indicators
- Performance management
- Strategic management
- Strategy map
- BSC SWOT

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Software tools

Many firms choose to use standard office software (such as spreadsheets, word processors, presentation software) to provide the same functions as are provided by commercial software packages - trading the time taken to develop the appropriate templates in the packages and then use them against the typically high cost of commercial Balanced Scorecard software packages / services.

External links

- The Balanced Scorecard Institute http://www.balancedscorecard.org/
- Enterprise Performance Management Review - A Resource Portal http://www.epmreview.com

b) Balanced Scorecard- The four techniques to be mastered – Source Epmreview

Source: http://www.epmreview.com

Architecting a Balanced Scorecard requires organizations to master four techniques:

1. effective strategic mapping
2. selection of the right strategic measures
3. selection of the appropriate strategic targets
4. and choosing the right strategic initiatives.

1. Choosing Strategic Objectives

Strategy mapping is the most important task in building a Balanced Scorecard. Get the map right and it becomes much simpler to select meaningful measures, targets and initiatives. Unfortunately many companies stymie their scorecard efforts because they make basic mistakes in mapping. Just a few examples follow.

The Number of Objectives

Most importantly, there is a tendency to choose too many objectives – 40, 50 or even 60+ is not uncommon. The result is an organization map that describes everything the company does rather than a Strategy Map that hones in on the critical few objectives that will successfully deliver the strategy. When there are too many objectives the scorecard becomes unmanageable and the program eventually dies, or if kept alive becomes a lower priority because people find it too exhausting to manage on an ongoing basis.

From our observations, 15 to 20 objectives should be sufficient for any organization. About 40% of these should be located in the internal process perspective – where the real work in strategy execution gets done.

Be Specific

When working with a critical few objectives it becomes important to choose those that are meaningful, highly focused, and that can really drive step changes in performance. Choosing 15-20 'vague' objectives is of little value.

Customer

For instance, consider the Customer Perspective. Too many organizations opt for objectives such as improve customer loyalty and/or satisfaction. By selecting such simple and generic objectives, organizations will derive little value and more importantly will miss a golden opportunity to really think through what delivers value 'in the eyes of the customer'. Customers rarely procure a service or buy a product because they want to be satisfied (that's a given) and they certainly do not want to be loyal. Going

beyond satisfaction and loyalty means understanding the essence of that value proposition (which is typically something to do with brand and experience) and capturing it in specific objectives. This is a difficult task and so is usually avoided. Those that accept the challenge reap substantial rewards.

More than a Perspective: A Customer Theme

But truly understanding the customer cannot be a one-off exercise. Shaping permanent learning channels between the organization and its customers (and indeed stretching out to partners) is becoming a success pre-requisite in most industries. Most companies should capture this customer/organizational interface on their Strategy Map, maybe as a strategic theme that runs through the internal process and learning and growth perspectives.

Internal Process

Although objectives around service, price, and quality are typically located in the internal process perspective, organizations need to ensure that objectives here support how the organization differentiates itself in the marketplace. For instance, objectives around cost and quality may be more critical to an organization that competes from a standpoint of operational excellence than one that competes from a position of customer intimacy, whereas service will predominate for the latter.

Learning and Growth

By some distance, Learning and Growth is the least understood of all the perspectives. Typically it is no more than an add-on, when the 'real scorecard work' of populating the other three perspectives has been done. Usually, Learning and Growth contains objectives that focus on 'creating a high-performing culture', 'employee satisfaction' or 'live the values'. Again, these can be so generic as to be worthless and once more managers miss a golden opportunity – this time to really think through the key people objectives that must be developed and nurtured as a strategic necessity.

What's more, selecting an objective such as 'create a high-performance culture' is pointless unless it is recognized that for most organizations this is a huge undertaking that will require massive resourcing. Large-scale funding is never given to objectives that are no more than a passing thought.

Financial

And finally, there are often mistakes with the financial, or shareholder, perspective. Although this seems a simple collocation of key financial outcomes, it might be sensible to ask shareholders to describe what they want from the organization. In some cases they will want more than short-term gains, and they may also have other concerns - around governance for instance. Such input can be invaluable steers for scorecard creation.

Conclusion

Of course, even if objectives are well thought-out and described, it is also important to think about causality between and within the perspectives. And this belongs to the topic of strategy mapping, something we will return to on a regular basis.

In short:

- Keep the number of strategic objectives to the critical few
- Avoid generic objectives
- Take time to truly understand the value proposition from the viewpoint of the customer
- Capture customer learning, perhaps as a strategic theme
- Ensure that internal process objectives support how the organization competes
- Treat the learning and growth perspective as more than an 'add-on' and fully understand the people skills you require going forward

2. Choosing Strategic Measures

In another article on this website, we looked at strategy mapping, which is the most important step in creating the Balanced Scorecard system. Here, we consider how to select strategic measures which, despite a still commonly held belief to the contrary, is not the most important step. In a scorecard hierarchy of importance, metrics follow both selecting objectives and choosing initiatives (where work gets done). The function of metrics is to monitor progress toward strategic objectives, and in doing so test the efficacy of the strategy. It is for this reason that measures play a crucial role in the scorecard system.

The Science of Measurement

The management guru Peter Drucker once famously said that "what gets measured gets done". In the rush to populate their performance management systems with metrics, many organizations have ignored the fact that measurement is a science (metrology). To apply measures effectively companies must understand at least the basics of this science. Measurement includes concepts such as precision, accuracy and bias.

Where understanding is lacking, the use of metrics can lead to poor decisions. As a simple example, customer satisfaction may be 80% in January, 82% in February and 78% in March. Managers may panic to see such as drop from February and March and order an expensive performance improvement intervention. Yet customer satisfaction may naturally oscillate between 78% and 82%, without there being any change to customer service. The process is 'in control'. Understanding the control limits is critical for avoiding costly, and potentially damaging, decision-making due to poor understanding of metrics.

The Critical Few Measures

Just as objectives should be kept to the critical few that are strategically focused, measures should also be limited – to perhaps two per objective; so thirty measures should suffice for 15 objectives (two for each).

Where possible, one of the two chosen metrics should be leading, with the other being lagging. As a simple example, profit is a lagging measure of past performance as it tells us what has happened but it does not provide information on what is likely to happen in the future. A leading measure, on the other hand, provides information on what is happening today that will impact performance tomorrow. For instance, for an organization competing through a strategy based on product leadership, the new product pipeline provides a powerful leading indication of future sales potential.

To fully understand the dynamics of leading and lagging metrics within a scorecard model, there are times when a metric is both. Customer satisfaction is a lagging measure as it tells an organization how satisfied a customer was with the product/service already received (so a measure of past performance). However, it is also a leading measure as it provides an early warning signal regarding likely future levels of customer loyalty and profitability (future performance).

Common Definitions

To be useful for aggregation, comparison and best-practice sharing, measures should be commonly defined organization-wide. Typically this is an early challenge for a Balanced Scorecard Manager and their team as it is not unusual to find that performance is measured in many different ways across the enterprise. For example, a large trucking company might have myriad definitions of what it means by 'on-time' delivery. Consequently, performance in one part of the organization cannot be accurately compared with another. One unit might claim 95% on-time delivery according to their definition and another unit 85% based on their own definition. But from the customer's perspective the latter may be more 'on-time' than the former. Metrics must be commonly agreed, with standard templates documented and circulated.

The danger of repackaging

It is also important that organizations choose strategic metrics that truly do support strategic objectives and are not a simple repackaging of measures that are already in existence. Indeed it is not surprising for up to 50% of preferred measures to be unavailable on launching the scorecard. Organizations then have to either create the measure from scratch or if data sourcing would prove too time-consuming or expensive, opt for proxy measures (a close assimilation). But care should be taken with proxies. For example, a measure such as 'training hours per employee' may be chosen as a proxy in the absence of a more tangible metric to support an objective of becoming a 'knowledge-based organization'. But the tenuousness of the link all but nullifies the value of the objective and the measure.

Ownership

More, as with strategic objectives, ownership and accountability should be assigned to metrics. Objective and Measure ownership is crucial to taking the scorecard from the boardroom to the shop floor or frontline.

Actionable

Importantly, metrics should be actionable. Measures that are nice to know but do not trigger step-change performance improvement typically have no place on a Balanced Scorecard. For instance, if an organization has an objective to retain talent and has clearly defined what constitutes talent and has agreed upon a common enterprise-wide metric, and the measures show that strategically critical employees are walking out the door, then this should trigger an intervention. Simply put, we have a strategic objective, the measure indicates we are failing to meet that goal and so we do something about it. This represents the most basic, and oldest, premise of the Balanced Scorecard – turning strategy into action.

In short:

-Take time to understand the science of measurement
-Ensure measures are commonly defined enterprise-wide
-Ensure strategic measures support strategic objectives
-Keep the number of metrics to a critical few, about two per objective
-Where possible use leading and lagging measures
-Do not choose measures just because they are readily available
-When using proxy measures make sure they are meaningful
-Assign ownership to each measure
-Make sure metrics are actionable

3. Choosing Strategic Targets

This is the third in a series of four articles that collectively provides key learning for the basic architecting of the Balanced Scorecard. Respectively, the first and second articles considered strategy mapping and choosing strategic measures. The next looks at strategic initiatives, while in this article, we focus on choosing strategic targets.

The Problem with Targets

Of course, all organizations set targets. However, these are still predominantly financial, with most fixed for an annual, budgeted timeframe. Within the Balanced Scorecard, equal attention must be paid to both financial and non-financial targets, and goals must be synchronized to a longer term, or strategic horizon.

Too often, targets (financial or not) tend to be an outcome of negotiations between, for example, the corporate center and business unit managers. As a result, targets become more about reaching a compromise than beating the competition. More, targets are normally based on an inside-out view of the marketplace (the performance we want to achieve in our chosen markets), rather than outside-in perspective (what can really be achieved in those markets, and perhaps more importantly what is being achieved).

Time-Based Targets

We shall discuss the weaknesses of traditional target-setting in a moment. But first, the basics.

All measures on a Balanced Scorecard should have a corresponding target, just as all objectives require supporting metrics. The target represents a tangible, and quantifiable, vision of desired performance. But targets must not be simply 'plucked out of the air', but be based on a thorough analysis of both required performance and internal capabilities. This analysis has several steps.

As much as anything, a Balanced Scorecard implementation is a major change program. As one leading Balanced Scorecard Manager rightly said in the white paper 'The Balanced Scorecard Manager: A new profession for the knowledge-era', "The scorecard is about strategy, and strategy is just another word for change." As such, targets on the Balanced Scorecard should represent quantum step-changes in performance. A change effort is not about incrementalism, so the same law applies for the scorecard effort. Quantum performance advances require commensurately stretching performance targets.

Setting Stretch Targets

And this brings us to one observable weakness in conventional target-setting processes. Most employees are unlikely to volunteer that they be held accountable for reaching stretch targets, understandably being more disposed to signing up to more comfortable goals. Convincing employees to set stretch targets requires the Balanced Scorecard Manager to adeptly sidestep the most common obstacle to a scorecard implementation effort – cultural resistance. Employees at each level that targets are set must believe that the Balanced Scorecard (in particular its target component) is about continuous performance improvement and learning and is not a system for reward and punishment. If employees fear negative effects of not hitting stretch targets they will fiercely resist their setting and, even if imposed, will continually explain why these goals cannot be hit.

Communication with employees regarding targets also gets confused due to a basic misunderstanding of what constitutes a target. To explain, a target should be what the organization believes to be its best performance outcome over a specified period – if all goes as well as it can. It is crucial to recognize that target-setting is not about

forecasting. Bjarte Bogsnes, Beyond Budgeting Manager at the Norway-headquartered Statoil made this insightful comment in a case study

"...a target and a forecast are not the same, or should not be the same. A target is an ambition in that it is what you would like to achieve. A forecast is what you expect to achieve. Therefore these should be separate numbers, with separate processes for their setting and management. When you artificially force together a target and a forecast you either have a bad target or a bad forecast, and most likely both."

With this separation, which is as much cultural as structural, communicated as part of the process of building the Balanced Scorecard, then there is a greater likelihood that employees will set and agree to stretch targets – as this target is more an ambition than an expectation. An expectation is a forecast.

Comparative Performance Goals

In the setting of stretch targets, organizations should, wherever possible, identify comparative performance goals. Organizations typically set targets based on what they think they can do. Yet, increasingly, leading companies are less concerned with what they themselves believe they can achieve, but what is actually being accomplished by competitors. For instance, for Company A the moving from 75% to 85% customer satisfaction in a nine month timeframe might be perceived as a stretch and its achievement a success, but if there are competitors that are already at 85% and are aiming for 90%+, then performance for Company A can legitimately still be described as below required standards – despite the 'stretch'.

Consequently, the management team of Company A must raise the performance bar so that they can beat the competition, rather than meet an unacceptable internal target. This, of course, is easier said than done and organizations often set targets while ignoring what they are actually capable of achieving in light of the present capacity of the organization and the capability of its processes. So if senior management sets a target to be better than the competition by Y%, but doesn't analyze whether the organization is configured to achieve Y%, then it's a short-sighted approach that will demotivate the lower level managers that are being asked to hit targets that they know to be unrealistic.

A Capability Audit

Therefore, a critical step in setting strategic targets on the Balanced Scorecard is to conduct an audit of the present state of the organizational and/or individual skills, competencies and capabilities required to achieve the targeted quantum performance step-change. This is vital because targets, and therefore objectives, are not achieved simply through their identification.

Strategic Initiatives

With the scorecard being about quantum step-change in performance then the organization should be continually reconfiguring processes, learning systems and best practice sharing mechanisms to make stretch targets legitimate goals. Such reconfiguration requires clear processes for identifying and launching strategic initiatives to achieve step-changes to organizational or individual capabilities (and therefore heightening the chance of achieving targets and succeeding to objectives).

And it is through strategic initiatives that the real work of the Balanced Scorecard gets done. We consider the selection of strategic initiatives within the next and final article on the basic architecting of the Balanced Scorecard.

4. Choosing Strategic Initiatives

This is the final of four articles that collectively provide key learnings for the basic architecting of the Balanced Scorecard. The first, second and third articles considered strategy mapping, choosing strategic measures and selecting strategic targets. This article considers choosing strategic initiatives.

The Importance of Strategic Initiatives

Apart from the identification of strategic objectives, the selection of strategic initiatives is the most important component of the Balanced Scorecard framework. Initiatives are much more important than metrics, which are simply a mechanism for monitoring progress toward strategic goals.

Viewed sequentially, the Strategy Map describes the logic of the strategy, delineating the critical objectives/themes that create value. The Balanced Scorecard identifies measures and targets for each objective in the Strategy Map. However, objectives and targets are not achieved simply because they have been articulated. For each objective and target on the map/scorecard, managers must identify the strategic initiatives required to deliver the performance outcomes. Indeed, initiatives are “where the rubber hits the road,” as Americans would say. Put another way, it is where the real work of strategy implementation takes place.

Despite the absolute importance of identifying strategic initiatives for succeeding with a Balanced Scorecard implementation, it is not unusual that less attention is given to this component of the system than the other three. This is often because initiative selection is conventionally the last part of the scorecarding process. As so much energy may have been expended on objective, metric and target setting, not enough effort is channeled into the complex challenge of initiative selection.

Further, choosing strategic initiatives is often more problematic than the other three scorecard dimensions because once an initiative is chosen it then must be funded – both financially and in terms of human resource allocation. What’s more there are hidden cultural obstacles to overcome.

Linkage to the Strategy Map

When choosing strategic initiatives the overriding criterion is that they must directly link through the Balanced Scorecard to objectives on the Strategy Map. Simply, no initiative should be launched or funded unless this link is unequivocally proven. This is because the purpose of an initiative is to close an identified gap between actual and required levels of performance to achieve a strategic objective.

Initiative Prioritization

Crucially, the process of initiative selection typically leads to the jettisoning of well-established, and often expensive, projects. It is not unusual that anywhere between 40% and 80% of existing projects will be cancelled as a consequence of a properly architected Balanced Scorecard framework.

Canceling high-profile projects may lead to resistance from the senior executive that sponsors the project. Describing through the scorecard why the initiative is no longer strategically relevant may help overcome this resistance. If not, then it is the responsibility of the CEO to order project cancellation – the political complexities in giving such an order clearly demonstrated why the CEO must not just pay lip service to the scorecard, but demonstrate support with clear action.

More, there's a further bunch of initiatives where several departments are tackling the same issue, and are unaware of each other's efforts. The transparency of performance and activities resulting from the scorecard creation enables managers to bring these teams together and so reduce the number of initiatives and cost burden.

Case Example: Wells Fargo

As one example, when the US-headquartered Wells Fargo Online Banking launched its scorecard in the late 1990s, its initiative identification process began with an itinerary of the projects already under way. It discovered 600 initiatives organization wide. Through the scorecarding effort this was reduced to 100, which enabled greater strategic focus and significantly reduced costs.

At Wells Fargo a comprehensive initiative scoring process was put in place that included per percentage weightings (and scores) of the initiative according to strategic importance, business case (including cost and net present value) and implementation (complexity and time).

Case Example: Royal Canadian Mounted Police

As a further example, the Royal Canadian Mounted Police created an initiative 'funneling' process. This began by setting criteria for a qualifying strategic initiative – as a result, non-strategic initiatives were immediately abandoned.

Next, all qualified initiatives were mapped against strategic objectives and ranked according to priority. Higher-ranking initiatives, but with a need for a stronger business case were deferred, while the highest ranking initiatives were prioritized and rationalized. Those with the lowest priority have no chance of securing scared human and financial resources. This ensured that strategically aligned initiatives had the first call on resources.

Case Example: State of Washington

As a further example consider the Department of Revenue, State of Washington. When building its scorecard the Department put in place a three-tiered hierarchical system for initiative prioritization, and therefore for resource allocation to initiatives. The three tiers are:

Tier 1: Essential – initiatives with the Department's highest level of commitment, which are certain of funding

Tier 2: Important – those that are very important, but must be considered against others if funds are limited

Tier 3: Beneficial – initiatives that are only pursued if they do not infringe upon higher level priorities

Within the Department of Revenue, initiative identification begins with brainstorming in each of its divisions, after which the executive coordinating team, comprising divisional heads, selects initiative candidates. Team members individually sort these candidates into the three-tier order with the final priorities being agreed to by consensus within the group.

As a result, the Department has created a common understanding of resource priorities amongst the senior team. If budgets need to be scaled back during the year for any reason, it is clear which initiatives will be affected first.

Project Responsibility

With initiatives selected and funded, responsibilities for project delivery are assigned to appropriate managers (and for high-level initiatives, accountability will lie with a senior manager) with progress monitored against specified milestones. Crucially, as part of 'reading' performance to the scorecard, the impact of initiatives to targets/objectives must be closely tracked.

Checklist

The following checklist might provide a useful steer for the strategic initiative identification process.

Strategic Initiative task	Issues
Create a list of all organizational initiatives	A simple exercise in identifying existing initiative is a crucial first step in prioritization. Most organizations have far too many initiatives.
Establish criteria for aligning initiatives with scorecard objectives	Use a weighting, or other explicit scoring system, for comparing the value of initiatives and establishing the business case.
Prioritise strategic initiatives in line with scorecard objectives	A robust system is required to ensure that the most valuable initiatives are launched and funded first.
Abandon non-strategic initiatives	Deal with the political fallout from senior management commitment to abandon initiatives.
Rationalise, where appropriate, overlapping initiatives within the organization	Create unitary teams where staff is working in parallel on the same projects.
Assign responsibility for initiative execution	Managers must be made accountable for delivering strategic initiatives.
Monitor progress and impact	Progress must be monitored and close attention be paid to ensuring the initiatives are impacting scorecard targets/objectives.

Conclusion

As a final overview of the four articles on the architecting of the Balanced Scorecard, consider the words of Dr Norton and Professor Kaplan in their book Strategy Maps (1):

"Integrating the Strategy Map with Balanced Scorecard measures, targets and initiatives provides a complete description of how value is created – that is, a complete description of the organization's strategy and its successful execution."

Reference

1. Strategy Maps: Converting intangible assets into tangible outcomes. Robert S. Kaplan, David P. Norton, Harvard Business School Press, 2004.