Article 1: The Beginnings

Origins of the Balanced Scorecard

The following extract from Kaplan and Norton's seminal book on the subject[1] explain the authors' involvement in the early development of the balanced scorecard:

"The origins of balanced scorecard can be traced back to 1990 when the Nolan Norton Institute, the research arm of KPMG, sponsored a one-year multicompany study, "Measuring Performance in the Organization of the Future." The study was motivated by a belief that existing performance measurement approaches, primarily relying on financial accounting measures, were becoming obsolete. The study participants believed that reliance on summary financial-performance measures were hindering organizations' abilities to create future economic value. David Norton, CEO of Nolan Norton, served as the study leader and Robert Kaplan as an academic consultant. Representatives from a dozen companies, manufacturing and service, heavy industry and high-tech, met bi-monthly throughout 1990 to develop a new performance-measurement model.

"Early in the project, we examined recent case studies of innovative performance-measurement systems. One, Analog Devices, described an approach for measuring rates of progress in continuous improvement activities. The company was using a newly created "Corporate Scorecard" that contained, in addition to several traditional financial measures, performance measures relating to customer delivery times, quality and cycle times of manufacturing processes, and effectiveness of new product developments. Art Schneiderman, then vice president of quality improvement and productivity at Analog Devices, came to one meeting to share his company's experiences with the scorecard and the participants soon focused on this multidimensional scorecard as offering an ideal starting point for achieving their objectives.

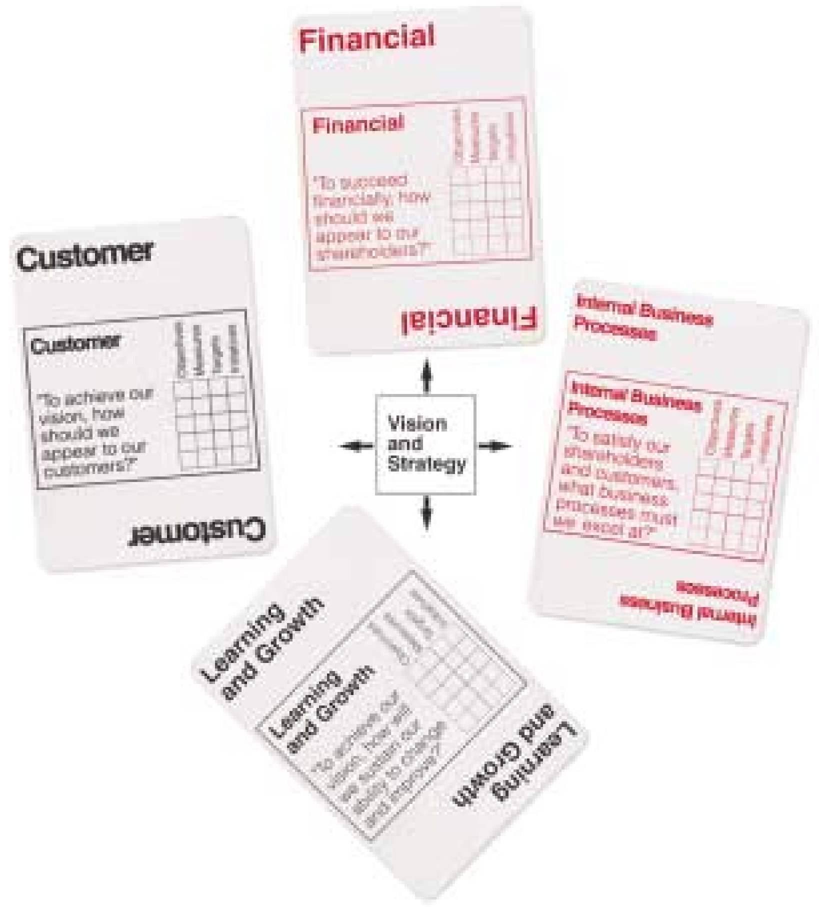
"The group discussions led to an expansion of the scorecard to what we labeled a "Balanced Scorecard," organized around four distinct perspectives - financial, customer, internal, and innovation and learning. The name reflected the balance provided between short and long-term objectives, between financial and nonfinancial measures, between lagging and leading indicators, and between external and internal performance perspectives. Several participants experimented with building prototype Balanced Scorecards at pilot sites in their companies. They reported back to the study group on the acceptance, the barriers, and the opportunities of the Balanced Scorecard. The conclusion of the study, in December 1990, documented the feasibility and the benefits from such a balanced measurement system."

As implied above, the first Balanced Scorecard was created in 1987 at Analog Devices, a medium sized semiconductor company[2]. Kaplan and Norton wrote their Harvard Business Review articles on Balanced Scorecard in 1992[3] and 1993[4] and their book in 1996[1]. Subsequently it has become very popular with for-profit

and not-for profit organisations and it has spawned awards, such as Malcolm Baldrige in America and EFQM/Business Excellence in Europe, a whole army of consultants and a Balanced Scorecard Institute, which is a useful reference site[5].

Balanced Scorecard overview

The Balanced Scorecard was devised by Kaplan and Norton as "the instrumentation that managers need to navigate to success" by assisting an organisation to translate its strategy into a comprehensive set of measures, through which its performance can be managed.



The Scorecard brings together financial, customer, internal process and people into one performance monitoring system. It enables managers to understand the linkages between these areas and helps them focus their efforts.

Traditionally, most organisations monitored financial and business results measures. Whilst these are crucial, they only tell the story of past events. Alone, they are inadequate for guiding and managing the implementation of a company's strategy. The Balanced Scorecard brings together the financial measures of past performance (the rear view mirror) with the 'drivers' of future performance - lead indicators such as employee satisfaction, customer satisfaction and process quality.

In their original HBR article Kaplan and Norton recommended basing the Scorecard on four areas:

- financial performance
- customer knowledge
- internal business processes
- learning and growth

Diagram 1 above

They emphasised that as well as allowing the monitoring of present performance, they key benefit of the balanced scorecard is capturing information about how well the organisation is positioned to perform in the future. Kaplan and Norton also cited the following benefits of using the balanced scorecard:

- Focusing the whole organisation on the few key things needed to create breakthrough performance.
- Helping to integrate various corporate programs, such as quality, re-engineering, and customer service initiatives.
- Breaking down strategic measures to local levels so that unit managers, operators, and employees can see what's required at their level to roll into excellent performance overall.

Management by Fact

You can't improve what you don't measure. If the idea of Balanced Scorecard is to highlight key business drivers as the metrics that managers most need to watch, processes must be designed to collect information that enable the metrics to be monitored clearly and objectively. Decision makers can thus examine the outcomes of all the key processes and track the results to guide the implementation of strategy and provide feedback throughout the organisation on progress towards achieving its objectives. S

In the next issue of Stakeholder, we will start to examine the application of the Balanced Scorecard in specific organisations.

References

1. Kaplan and Norton: "The Balanced Scorecard: Measures that Drive Performance", Harvard Business Review Jan-Feb 1992.
2. For a very comprehensive history of balanced scorecard at Analog Devices see www.schneiderman.com
3. Kaplan and Norton: "Putting the Balanced Scorecard to Work", Harvard Business Review Sept-Oct 1993.
4. Kaplan and Norton: "The Balanced Scorecard", Harvard Business School Press, 1996.
5. The Balanced Scorecard Institute: www.balancedscorecard.org