BALANCED SCORECARD
EVOLUTION

A Dynamic Approach to Strategy Execution

PAUL R. NIVEN

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Preface

SHORTLY BEFORE WRITING THESE WORDS, I looked up at the bookshelves lining my office and took in the artful panorama of colors, designs, and intriguing titles. My gaze soon fixed upon the row dedicated to the Balanced Scorecard and strategy execution, and as I reflected on the many titles, it wasn't long before I realized that anyone picking up this new book would quickly arrive at two questions:

1. Why does the world need another Balanced Scorecard book?
2. How is this one different?

LOOKING BACK AND LOOKING AHEAD

To answer those questions let's take a brief tour of the Balanced Scorecard's history. The tool began, humbly enough, as a system for organizations to improve their ability to measure effectively. For centuries the primary measurement of business had been financial. The Balanced Scorecard, while acknowledging the importance of financial yardsticks, represented a breakthrough by supplementing financial metrics with the drivers of future financial success in three distinct, yet related, perspectives of performance: customer, internal process, and learning and growth. The Balanced Scorecard also requires that performance measures used by an organization be derived from its unique strategy. Only then could strategy execution be tracked with rigor and discipline. This first-generation Balanced Scorecard, devoted almost exclusively to improved measurement, was immensely successful and popular, helping organizations around the globe better assess the execution of strategy through a balanced set of measures spanning the Scorecard's four perspectives.

Despite the model's success, a number of early adopters struggled with identifying the best measures to gauge the execution of strategy and often

lamented a lack of context during the selection process. To overcome these challenges and assist in identifying better indicators, some Scorecard pioneers began prefacing the discussion of measures with the broader question of "What must we do well?" in each perspective. The answer to that was known as an objective. For example, a customer perspective objective could be "Provide differentiated solutions." As time went on, organizations began paying additional attention to objectives and many created graphical representations featuring the objectives as they flowed through the four perspectives. These documents became known as strategy maps, and proved to be a breakthrough evolution for the Scorecard system. Once the objectives were in place on the strategy map they clearly articulated and communicated the organization's strategy, creating an enhanced context for the measurement challenge and making it simpler to isolate metrics. For our earlier example of "Provide differentiated solutions," the accompanying measures might then be "Time spent with customers" and "Win rate on new projects."

The evolution continued through the next several years with the advent of strategic themes, enhanced software systems, and linkages from the Scorecard to vital management processes such as risk management and corporate governance. Additionally, as the Scorecard has grown, so too have the management systems at its boundaries. A number of so-called gurus have created elaborate management frameworks, of which the Balanced Scorecard is but one component. These systems often feature complex diagrams mapping organizational processes and typically suggest that in order to be successful, an organization must engage in each of the sophisticated steps offered.

We now return to the first question presented at the beginning of this preface. One of the chief reasons I decided to write this book, and why the world really *does* need another Balanced Scorecard tome, is because, as the new management frameworks have proliferated, they have frequently crowded out, and even overshadowed, the Balanced Scorecard itself. These complex conceptual structures promise many benefits that practitioners are eager to reap. However, most organizations possess limited resources and thus spread those available means thinly across the entire spectrum of activities, often failing to devote the effort necessary to create a robust Balanced Scorecard that will serve as the foundation of their efforts. The unfortunate product of this diffuse effort is a Scorecard that is unable to fulfill its responsibility as a vital tool in the execution of strategy.

The modern toolkit for strategy execution is vastly overstuffed, making it difficult for organizations to determine which of the many processes, tools, or interventions to pursue in order to execute their strategy. It can quickly become

overwhelming and prove to be a major drain of resources, resulting in a cursory attempt to check off all of the boxes, which undoubtedly leads to suboptimal results. I don't wish to appear a Luddite, rejecting the natural progress of tools with which I've been associated for close to 20 years. I simply recognize, and have seen many times, that without a robust Balanced Scorecard at the core, these sophisticated systems are prone to failure, which inevitably leads to frustration, and ultimately inhibits the indispensable organizational capability of the twenty-first century: strategy execution.

The nature of competition is changing for virtually all organizations today, the methods for creating and implementing strategy are evolving, and the velocity of change is increasing. What has not changed, and what the Balanced Scorecard is still uniquely suited to deliver upon, is the necessity to effectively execute strategy and know, very simply, whether you're winning or losing. To do that, the Scorecard must be cleverly constructed and skillfully utilized. This book, based on two decades of practical experience, intense research, and unremitting passion, was written to ensure both of those conditions of success are an inevitable outcome of your reading investment.

HOW IS THIS BOOK DIFFERENT?

Most critics agree that a film or novel that goes deep—delving fully into the emotional theme of the work, or the protagonist's unique and compelling journey—is more fulfilling and satisfying than an artistic endeavor that goes wide, broadly skimming the emotional or storytelling surface. A number of books on the subjects of Balanced Scorecard and strategy execution suffer from the latter trait. Their authors attempt to cover every aspect of the model, often without the knowledge or experience to do so effectively. This does the reader a great disservice, as a glossy veneer of knowledge is potentially more harmful than no knowledge at all. In this book I've chosen to focus exclusively on what leading research, real-life experience, and thousands of client implementations around the world have demonstrated to be the *most essential* aspects of successfully developing and utilizing a Balanced Scorecard.

Some pundits will argue that what is most important is not the Balanced Scorecard itself, but the strategic conversations it brings forth throughout the boardrooms and corridors of the organization. There is no doubt that having the right conversations with the right people is vital to success, and in this book I'll discuss that topic at length. However, before you can have the stimulating conversations that lead to strategic learning and new heights of success, you

must have a fundamentally sound Balanced Scorecard from which you can generate the appropriate questions and discussions. This book presents you with the crucial balance of the Scorecard system as both a noun—encompassing the objectives, measures, targets, and initiatives that form its core—and a verb, using the data produced to conduct more focused and strategic discussions throughout the organization, driving unparalleled results.

In addition to my hands-on work with the Balanced Scorecard, this book draws on the latest research in change management and emerging neuroscience (how brain functioning impacts work and life). Successful implementation of the Scorecard system requires the adept utilization of change techniques, and throughout the text you'll find anecdotes and case studies demonstrating how the application of key change principles will enhance your implementation's effectiveness. Complementing the tenets of change management are insights from leading researchers in neuroscience who are applying their findings to the workplace. In this book, more than my previous texts, you'll also find increased emphasis on how to design, create, and facilitate the workshops that lead to the most robust Balanced Scorecards. Those sections, and many others, benefit greatly from the latest findings in neuroscience.

■ WHO WILL BENEFIT FROM THIS BOOK?

This book is aimed primarily at three audiences: those developing a Balanced Scorecard for the first time, those who have developed a Scorecard but are not getting the results they need, and those creating or struggling with any type of corporate performance management system.

For those new to the Balanced Scorecard system, the text will provide you with the absolute essentials you must master if you hope to achieve the results that only a Balanced Scorecard can produce. After nearly two decades of experience with the system, I've witnessed and utilized every tip and technique that can increase the odds of success, while developing strategies to eliminate the many pitfalls that can await those undertaking this endeavor. My experience and research have been distilled into vital landmarks to ensure yours is a successful Balanced Scorecard journey.

Current Balanced Scorecard users will also profit greatly from detailed study of the book's contents. Over the years I've met people who, upon learning a bit about my work, will say something to the effect of, "Oh we tried the Balanced Scorecard but it didn't work." This statement never ceases to pique my curiosity and thus I begin asking some basic questions about their experience.

It's not long before we simultaneously discover that their poor results were not due to some inherent shortcoming of the Scorecard itself, but, inevitably, of a failure along the implementation path. If you either have a Balanced Scorecard in place at your organization but are not using it faithfully, or had one that you've abandoned for any number of reasons, you possess a tremendously valuable asset being sadly neglected. It's like having a Ferrari sitting idle and collecting dust in your garage. Fortunately, the Balanced Scorecard system can be easily restored. Most organizations struggle with the same issues: lack of executive sponsorship, no guiding rationale for the Balanced Scorecard (which is often viewed by change-weary employees as a threat), the failure to assign responsibility for managing the Scorecard program to a person or group, poor meetings that barely scratch the surface of the Scorecard's strategic learning potential, disregarding the importance of change-management techniques, and of course poorly designed objectives, dysfunctional measures, inappropriate targets, and unrealistic initiatives. These and many other elements of Scorecard scaffolding are covered extensively throughout the book.

Finally, if you have this book in your hand or are reading the preface online and think it doesn't apply to you because you employ some other form of performance management system, think again. Much of the knowledge shared in these pages is based on change management and neuroscience principles that will enhance the success of any type of performance system, regardless of the moniker.

HOW THE BOOK IS ORGANIZED

Balanced Scorecard Evolution contains a dynamic mix of new and previously published material. The book introduces a multitude of new topics based on my global consulting practice, research, and the latest findings in change management and neuroscience. You'll also find important information from my previous books that is necessary to provide a complete account of any Balanced Scorecard implementation.

The text is composed of nine chapters designed to provide extensive insights on both creating and using the system. In the opening chapter, we'll explore the origins of the Scorecard and learn exactly what the system is, and is not. There are many misconceptions about the Balanced Scorecard, and this opening chapter will clarify the errors and ensure you have a solid understanding of this dynamic framework. Chapter 2 provides an exhaustive array of information on what you must do before creating your Balanced Scorecard system. Among the

foundational elements covered are: Why and how you must answer the "Why the Balanced Scorecard?" question; where to build the first Scorecard; and how to secure executive sponsorship, create an office of strategy management to run the program, develop a detailed implementation roadmap, and build a communication plan. The raw materials of every Balanced Scorecard—mission, vision, and strategy—are the subject of Chapter 3. Among many important topics, you'll learn how to create a powerful Balanced Scorecard even without the benefit of a guiding strategy in place. Balanced Scorecard deliverables of objectives, measures, targets, and strategic initiatives are customarily created in workshop settings. Chapter 4 provides extensive tips, tools, and techniques for staging both effective and engaging workshops that lead to robust Scorecard products.

In Chapter 5 we transition to the core aspects of the Scorecard model itself, then delve deeply into strategy maps—powerful communication tools that articulate and describe strategy, bringing it to life for your entire workforce and beyond. I'll share how to create effective and truly strategic objectives, and provide extensive examples from my client roster and beyond. At the heart of the Balanced Scorecard are performance measures. In Chapter 6 we'll utilize the latest research and practice to ensure the measures created accurately capture the essence of strategic objectives and can be used to reliably gauge strategy execution. Chapter 6 also provides extensive information on performance targets, and the strategic initiatives you'll assemble to drive Scorecard success.

To deliver its vast potential, the Scorecard must be actively called upon in strategy execution review meetings to ignite passionate conversations that spark strategic insights. In Chapter 7 you'll discover how to plan for and facilitate meetings so good, people will actually want to attend! Modern organizations rely on the unique talents of every employee to power results, and in Chapter 8 I'll outline how cascading—creating Balanced Scorecards at lower levels of the organization—can unleash the immense power of alignment in your organization. The book's final chapter provides a comprehensive summary of the many change management tools and techniques outlined throughout the text, along with a number of handy checklists you can draw upon throughout the process.

I hope you enjoy and benefit from this journey we're about to share.

Paul R. Niven
San Diego, California
April 2014

Acknowledgments

WHEN PEOPLE ASK ME WHAT I enjoy about the consulting profession, I answer without hesitation, *"The fun and convenient air travel."* Well, of course that's not really what I say. What I do love about my job is the fact that every time the phone rings with a prospective client, it could be anyone from any industry, in any part of the world, reaching out from the other end of the line. Since launching The Senalosa Group, I've had the pleasure of working with a broad array of organizations, including: prestigious companies in the Fortune 100 here in the United States, small nonprofits in the developing world, and government organizations on several continents. All have been kind enough to tell me (and later show me via Scorecard results) that I helped them in some way, and I'm gratified by that. But, as I quickly point out to them, it is I who should be expressing gratitude—for the opportunity to work with dedicated professionals who are as eager as I to expand the boundaries of Balanced Scorecard knowledge. Outlined below are some of the many people I've had the honor to work with and learn from; individuals whose lessons and insights extensively shaped this book.

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In addition to the clients noted above, I have benefited tremendously from my friendship and collaborations with the following people. Strategy execution author and consultant Sandy Richardson has been a great friend and supporter, and I thank her for many spirited conversations on Performance Management and beyond. Readers of my past books will notice an enormous upgrade in the quality of exhibits appearing in this text. That is due entirely to the creativity of Kim Schanz from Eyegate Design here in San Diego. Thanks very much for your patience, Kim, as I continued to add exhibit after exhibit to your inbox. To Boubacar Diallo of Plan International in West Africa, I salute you for your commitment to sharing Balanced Scorecard principles. Boubacar traveled all the way from Africa to Southern California to study Scorecard implementation practices with me. I'm happy to report a friendship bloomed during that visit. Maryam Hussain of Avanza Solutions has been an ardent supporter and kind enough to share my work to many readers in the Middle East region through the journal *Techronicle*. I've been very fortunate to enjoy a long and satisfying partnership with the software firm Corporater. Many thanks to Tor Inge Vasshus, Eric Peterson, and Madhavan Gopalarathnam for your help and support. Speaking of partners, it's been my great pleasure to work with Wael Zein and Fadi Makki of Addima and Bassam Samman of CMCS in promoting Balanced Scorecard use throughout the Middle East and Africa. Chris Richard of Emera (formerly of Balanced Scorecard Hall of Fame utility New Brunswick Power) was a terrific client to work with, and has become an even better friend. Chris and I have had many long conversations about the Balanced Scorecard and his insights contributed greatly to this book. Finally, and most importantly, I thank my wife Lois for her inexhaustible reserve of love and support.

1

What Exactly Is a Balanced Scorecard?

ORIGINS, AND A BRIEF HISTORY, OF THE BALANCED SCORECARD

Although its conceptual roots run deep, through work conducted by management thinkers and practitioners from Peter Drucker to Abraham Maslow, including French accounting scholars who developed a similar approach in the 1930s, the Balanced Scorecard as we know it today was invented by two men, Robert Kaplan and David Norton.

The world was introduced to the concept in a 1992 *Harvard Business Review* article, "The Balanced Scorecard—Measures that Drive Performance."[1] That article was based on a research project conducted by Norton's consulting firm, which studied performance measurement in companies whose value creation was highly dependent on intangible assets.[2] As strident advocates for the power of measurement to drive focus and accountability, Kaplan and Norton were convinced that if organizations were to derive the maximum value from their investments in intangible assets, those same intangibles had to be integrated into their measurement systems. At the time, virtually all organizations were measuring financial results, and many were also collecting data on generic customer metrics, such as satisfaction and market share, along with measures

of quality and efficiency. With the inclusion of measures tracking intangible assets such as employee skills and engagement, it appeared that management could now confidently cover their measurement bases.

A significant problem existed, however. Many companies that collected data from these diverse areas failed to link the measures together in a meaningful and coherent pattern, instead choosing to select an ad hoc group that simply represented different aspects of the firm's operations. Despite their efforts, most received few benefits. In fact, some early adopters of quality metrics, for example, actually saw their share prices fall dramatically. Kaplan and Norton provided two immediate and profound enhancements. First, they codified the collection of metrics, calling it a Balanced Scorecard and provided a succinct taxonomy that ensured consistency in application. Rather than simply collecting measures that spanned a firm's operations, Kaplan and Norton created the four-perspective framework of:

1. Financial
2. Customer
3. Internal processes
4. Learning and growth

Organizations now possessed a vocabulary for balanced measurement that was previously absent. The measures chosen to populate each perspective were not selected at random but, in Kaplan and Norton's second major contribution, directly translated from the organization's strategy, which endowed them with context for discussion, analysis, and learning. Now, instead of relying on generic financial and nonfinancial indicators, companies could analyze their unique strategic path and create performance measures that would clearly indicate whether or not they were in fact executing their chosen strategy. This seemingly simple, and in hindsight obvious, pronouncement was the breakthrough that was to set the Balanced Scorecard on an astonishing trajectory of acceptance and success. Executives the world over had lamented the difficulty of executing strategy but, with the Balanced Scorecard, Kaplan and Norton put strategy at the center of the firm's orbit by embedding it directly into the measurement process.

Not all was perfect in Balanced Scorecard land, however. Some early adopters struggled with the selection of appropriate performance measures, and received scant benefits from their investment in the Scorecard system. Key to their frustration was finding context for the selection of measures that would gauge strategy execution, and this quickly led to another milestone

innovation on the Balanced Scorecard's path—the introduction of strategic objectives. Organizations began prefacing their discussion of measures with that of objectives, concise statements of what they had to do well in each of the four perspectives to execute successfully. So, rather than beginning the process by asking, "What measures are best for us?" they started by asking what they needed to do well in each perspective, and strategy maps were born.

Fast-forward 20 years, several books from Kaplan and Norton, myself, and others, and tens of thousands of successful implementations later, and we find that the Balanced Scorecard is one of the world's most popular management frameworks.[3]

The model's ascendance has not been confined to private sector firms, as both government and nonprofit organizations have steadily migrated to the Balanced Scorecard in order to improve focus, more effectively allocate scarce resources, and, of course, execute strategy. So widely accepted and effective has the Scorecard been that the *Harvard Business Review* hailed it as one of the 75 most influential ideas of the twentieth century. Amid all this acclaim, however, challenges inevitably arise, and the Balanced Scorecard faces an interesting one. In reaching such delirious heights of success it has become synonymous with measurement in the minds of many, regardless of how much (or little) knowledge they actually possess regarding the framework itself. Therefore, many misconceptions, often dangerous and irresponsible, exist and can sometimes derail success. Beginning with the next section of this chapter, and continuing throughout the book, we'll thoughtfully explore the terrain that is the Balanced Scorecard, tackling the misconceptions, exposing the myths, and, most importantly, ensuring you possess the know-how necessary to build an authentic Balanced Scorecard that can transform your business.

▓ BALANCED SCORECARD PERSPECTIVES

You may be wondering why the section following the origins of the Scorecard is not, "What is a Balanced Scorecard?" Before I outline the model it's important to understand the four distinct, yet related, perspectives of performance that bring it to life—Financial, Customer, Internal Process, and Learning and Growth—as they form the scaffolding upon which the entire Balanced Scorecard is constructed.

The etymology of the word perspective is from the Latin *perspectus*: "to look through" or "see clearly," which is precisely what we aim to do with a Balanced Scorecard—examine the strategy, making it clearer through the lens

of different viewpoints, and therefore more amenable to execution. Any strategy, to be effective, must contain descriptions of financial aspirations, markets served, processes to be conquered, and the people who will steadily and skillfully guide the ship to success. Thus, when assessing our progress it makes little sense to focus on just one aspect of the strategy when in fact, as Leonardo da Vinci reminds us, "Everything is connected to everything else."[4] To compose an accurate picture of strategy execution it must be painted in the full palette of perspectives that comprise it. Therefore when developing a Balanced Scorecard we use the following four:

1. Financial
2. Customer
3. Internal processes
4. Learning and growth

When building a Balanced Scorecard, or later when it is up and running, you may slip and casually remark on the four quadrants or four areas, or even the four buckets. As colloquial and seemingly inconsequential as this slip of the tongue appears, I believe it has serious ramifications. Take, for example, the word quadrant: the Oxford dictionary begins its definition by describing it as a quarter of a circle's circumference. The word reflects the number four, and in that sense it is almost limiting to the flexible approach inherent in the Scorecard—you may wish to have five perspectives or only three. The Balanced Scorecard views performance from many points of view and I encourage you to be disciplined in your use of this term. Now let's take a brief tour of those four perspectives, beginning with customer.

Customer Perspective

The customer perspective of the Balanced Scorecard must answer three questions:

1. Who are our target customers?
2. What do they expect or demand of us as an organization?
3. What is our value proposition in serving them?

Sounds simple enough, but each of these questions offers many challenges to organizations. Most organizations will state that they do in fact have a target customer audience, yet their actions reveal an all-things-to-all-customers

strategy. As strategy guru Michael Porter has taught, this lack of focus will prevent an organization from differentiating itself from competitors.

Determining customer expectations or demands is often the least problematic of the three questions. Most organizations today, regardless of size or location, have many channels to view customer interactions and gather feedback. Chief among them are social media (Facebook, Twitter, and so on), which often provide customers a place to scream , especially when companies fall short of expectations.

Clearly articulating the firm's value proposition is perhaps the most challenging, and vital, of the three tasks in this perspective. Virtually all organizations will choose one of three disciplines, as articulated by Treacy and Wiersema in their book *The Discipline of Market Leaders*:[5]

1. **Operational Excellence:** Organizations pursuing operational excellence focus on low price, convenience, and often no frills. Walmart provides a great representation of an operationally excellent company.
2. **Product Leadership:** Product leaders push the envelope of their firm's products. Constantly innovating, they strive to simply offer the best product in the market. Apple is an example of a product leader in the field of electronics.
3. **Customer Intimacy:** Doing whatever it takes to provide solutions for customer needs helps define the customer-intimate company. They don't seek one-time transactions but instead focus on long-term relationship building through their deep knowledge of customer needs. In the retail industry Nordstrom epitomizes the customer-intimate organization.

I've cited the work of Treacy and Wiersema; however, these ideas have been with us for many years, and have been advocated under different labels by a number of scholars and practitioners. For example, the idea of low cost has been explained as: cost leadership (Porter), operational excellence (Treacy and Wiersema), exploitation (March), and defender (Miles and Snow). Differentiation goes by many names as well: product differentiation (Porter), product leadership/customer intimacy (Treacy and Wiersema), exploration (March), and prospector/analyzer (Miles and Snow). Regardless of the labels applied, the value-proposition concept represents the essence of strategic choice, and, as such, must be clearly represented in your Balanced Scorecard.

Internal Process Perspective

In the internal process perspective of the Scorecard we identify the key processes at which the firm must excel in order to continue adding value for customers,

and ultimately shareholders. Each of the customer disciplines outlined above will entail the efficient operation of specific internal processes in order to serve customers and fulfill a chosen value proposition. For example, a product-leading company like Apple may focus on processes that include research and innovation, while an operationally excellent company such as Walmart emphasizes supply chain operations. Finally, Nordstrom's customer-intimacy discipline will dictate a focus on processes such as customer knowledge and retention.

The primary challenge with this perspective is to limit the number of processes included to just the truly strategic that drive the chosen value proposition, fulfill customer demands, and ultimately stoke the economic engine. When prompted, even small companies could list dozens of processes necessary to operate effectively. However, upon close inspection and using strategy as the prism, it should become clear that while necessary, most of the processes are not vital to the execution of the chosen strategy, and therefore do not belong on the Balanced Scorecard, which, we must constantly remember, is a tool for executing strategy.

Learning and Growth Perspective

If you want to achieve ambitious results for internal processes, customers, and ultimately shareholders, where are these gains found? The learning and growth perspective of the Balanced Scorecard supplies the enablers—almost exclusively intangible in nature—of the other three perspectives. In essence, this perspective represents the foundation upon which this entire house of a Balanced Scorecard is built.

The learning and growth perspective is typically populated with three areas of capital: human, information, and organizational.[6] No strategy, regardless of its seemingly unimpeachable brilliance, can be executed without people, and thus our first order of business in this perspective is to ensure our organization possesses the human capital, skills, competencies, and talents necessary for effective execution. In addition to people, all companies today, regardless of size, rely upon robust information technology systems for everything from transactional data processing to strategic decision-making support. We must ensure our investments in information technology are consistent with, and support, our unique strategy. Finally, it is imperative in the modern corporate world to ensure our organizations are capable of growth and change, which are absolute imperatives to enduring success. Under the umbrella of organizational capital we examine crucial components of success such as culture, teamwork,

and knowledge sharing. These quintessentially intangible dimensions of performance must be transformed into tangible value should we hope to reap the rewards promised in our strategic plans.

Many organizations I've worked with struggle with the learning and growth perspective. It is normally the last perspective to be developed, and perhaps the teams are intellectually drained from their earlier efforts, or they simply consider this perspective soft stuff best delegated to the human resources group. No matter how valid the rationale seems, this perspective cannot be overlooked in the development process. As mentioned earlier, the learning and growth perspective provides the enablers for the rest of the Scorecard. Think of it as consisting of the roots of a tree that will ultimately lead through the trunk of internal processes to the branches of customer results, and finally to the leaves of financial returns.

Financial Perspective

Financial yardsticks are a critical component of the Balanced Scorecard, especially so in the for-profit world. This perspective tells us whether our strategy execution efforts—detailed extensively in the other perspectives—are leading to improved bottom-line results. We could focus all of our energy and capabilities on improving customer satisfaction, quality, on-time delivery, employee-skills development, or any number of things, but without an indication of their effect on the organization's financial returns they are of limited value. Think of the financial perspective as representing the end in mind of your strategic story; everything contained elsewhere in the Scorecard should be driving enhanced financial results.

We'll return to the four perspectives throughout the remainder of the book, most notably during the discussion of strategy map objectives and performance measures. Speaking of which, now is the time to see how those terms fit into the broader system that is the Balanced Scorecard (see Exhibit 1.1).

WHAT IS A BALANCED SCORECARD?

My trusty Merriam-Webster Collegiate Dictionary defines the word *system*: "A regularly interacting or interdependent group of items forming a unified whole." That is a wonderful way to think of the Balanced Scorecard, because it's not one single thing, but a number of elements that combine to create a powerful unified whole. The Balanced Scorecard system, which is designed to

EXHIBIT 1.1 Balanced Scorecard Perspectives

Source: Adapted from material created by Robert S. Kaplan and David P. Norton.

help any organization effectively execute their strategy, is comprised of four unifying elements:

1. Objectives
2. Measures
3. Targets
4. Strategic initiatives

Objectives are housed on a dynamic communication device known as a strategy map, while measures, targets, and initiatives reside on the Balanced Scorecard. Let's look at each to discover how they combine to create a system whose whole is immensely greater than the sum of its parts.

Objectives and Strategy Maps

Objectives are concise statements of what the organization must do well in each of the four perspectives of financial, customer, internal process, and learning and growth in order to execute its unique strategy. Many early adopters of the Balanced Scorecard used it primarily as a measurement system, translating their strategy into measures that populated each of the four perspectives of the system. However, some of these pioneers struggled with identifying the best measures to track strategic success. To assist in selecting better indicators

they began prefacing the discussion of measures with "What they must do well" in each perspective. The answer to "What must we do well?" was known as an objective. For example, a customer-perspective objective could be "Provide differentiated solutions." Objectives always begin with verbs and are intended to bridge strategy and measures.

As time went on organizations began to pay increasing attention to objectives, realizing it was imperative to understand what must be done well to execute the strategy in order to create context for robust performance measures. Experimentation flourished and many companies began creating graphical representations of the objectives spanning the four perspectives. These diagrams became known as strategy maps and have proven to be a revolutionary advance in the field of strategy communication and execution. Today we can define a strategy map as: "A one-page graphical representation of what the organization must do well (in each of the four perspectives) in order to successfully execute their strategy." The strategy map, which is first and foremost a communication tool, translates your strategy into the vital objectives necessary to execute the plan. Whereas your strategic plan may be 50 to 100 pages or more (sadly, I've seen them with much more), the strategy map must be confined to one page in order to fulfill its chief responsibility of clearly communicating and articulating the strategy to employees and, if so desired, external stakeholders. Strategy maps almost always combine words (the objectives noting what we must do well) with images that are culturally resonant for the organization. This creative combination engages employees by bringing strategy, a subject considered by most to be dry and academic, to life by translating it into concrete actions and compelling images. The word *map* fits the document perfectly because, as we all know, a map guides us on a journey, providing the landmarks we must navigate to travel from our current location to our desired destination. In this context the current location is the un-executed strategy and the desired destination is the successful execution of that plan. We'll return to strategy maps in Chapter 5, where you'll discover how to create vibrant documents that translate your strategy with dazzling clarity and simplicity. An example strategy map is shown in Exhibit 1.2.

Performance Measures and Targets

A key principle to keep in mind as you learn about, and work with, the Balanced Scorecard is that of translation. Every component of the Scorecard is translated from the organization's strategy, because that is the system's raison d'etre—strategy execution. We begin by translating the strategy into objectives

Financial	Grow shareholder value		
	Lower costs	Improve asset utilization	Grow revenue

Customer	Be easy to do business with	Provide high-value solutions	Create loyalty through excellence in all we do

Internal Process	Operations	Managing Customers	Innovation	Good Citizen
	Optimize customer-facing processes	Understand our customers	Research and evaluate trends	Monitor and evaluate compliance with laws and regulations
	Enhance internal and external communication	Build life-long relationships	Create new products and services	Ensure effective internal controls are in place

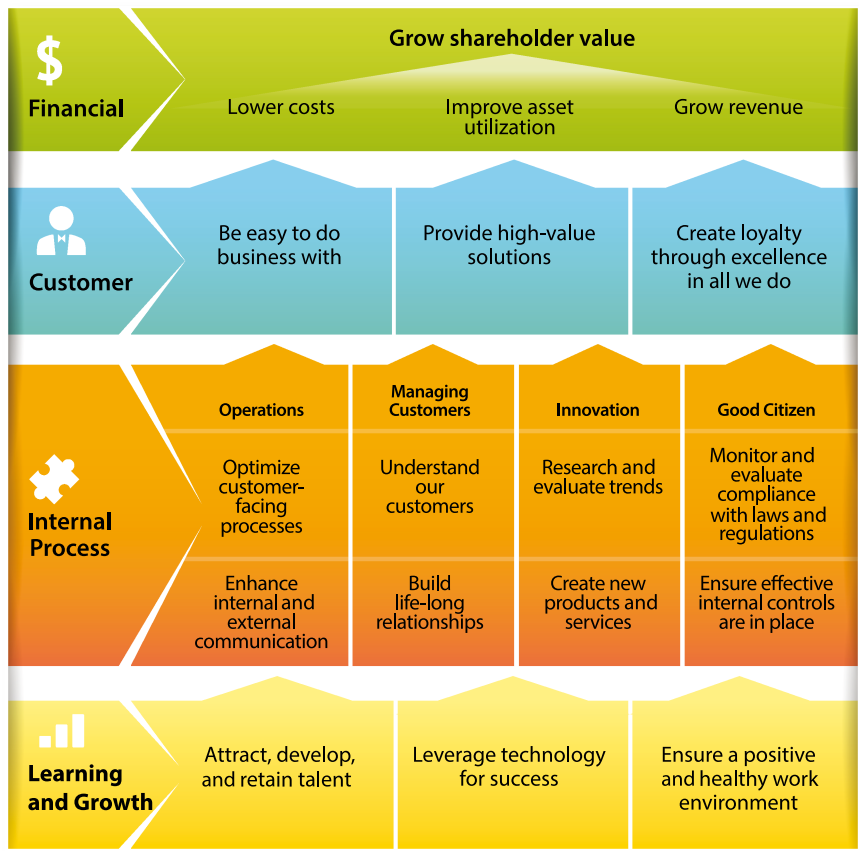| Learning and Growth	Attract, develop, and retain talent	Leverage technology for success	Ensure a positive and healthy work environment

EXHIBIT 1.2   Example Strategy Map

on our strategy map, which communicates what we must do well in order to succeed. Strategy maps are outstanding devices for signaling to everyone in the organization what must be performed flawlessly in order to execute, but at the end of the day we need to know if we have in fact moved the needle on the objectives and progressed towards the execution of our strategy. Enter the performance measures: quantifiable standards used to evaluate and communicate performance against expected results. Those expected results take the form of targets that accompany each measure.

Do you remember that old song, *Love and Marriage?* Feel free to sing along: "Love and marriage, love and marriage, they go together like a horse and

carriage . . . you can't have one without the other." It's the same with these two vital links in the chain of strategic success—strategy maps and measures; one just won't do without the other. You may create the most inspirational and visually resplendent strategy map ever conceived in a corporate conference room, but without the accountability and focus afforded by accompanying performance measures, its value is specious at best. The map points to what you must do well, but unless you know whether you're actually doing well, whether you're winning or losing, it's just the product of yet another corporate exercise. On the flip side, while performance measures act as potent monitoring devices, without the benefit of a clear and compelling strategy map much of their contextual value is lost (this was the problem many early Scorecard adopters faced). We'll return to the vital concepts of measures and targets in Chapter 6.

Strategic Initiatives

To quickly recap, a fundamental aspiration of every organization, whether public, private, or nonprofit, is the execution of strategy to drive breakthrough performance. The Balanced Scorecard was conceived to ensure that strategy is translated into action through the interplay of objectives, measures, targets, and strategic initiatives. The objectives appear on a strategy map and are further translated into performance measures, which, in combination with targets, are used to gauge the achievement of those same objectives.

The last piece of the puzzle in using the Balanced Scorecard to execute your strategy is the development and prioritization of strategic initiatives that will help you achieve your targets. Strategic initiatives (often simply referred to as initiatives in the Scorecard vernacular) are the specific projects, activities, or programs you'll embark upon in order meet or exceed your performance targets. A strategic initiative could be anything from launching a career development program for employees to rolling out new financial software to creating an environmental plan. They are, of course, strategy specific, and the portfolio of strategic initiatives you assemble will depend entirely on the unique strategic path you pursue. You may ask, "I notice the examples you use all begin with verbs. Objectives are strategy specific and also start with verbs, so what's the difference between an objective and a strategic initiative?" The primary distinction between objectives and strategic initiatives is that the former are meant to be ongoing, while the latter have a clear beginning and end point. They are projects of a short-term (typically) duration that have been designed to assist an organization in correcting a performance deficit.

To illustrate the use of strategic initiatives, let's say you decide to pursue a customer-intimacy strategy and thus include the objective "Delight our customers" on the customer perspective of your strategy map. One of the accompanying measures you select may be customer loyalty. The reasoning is simple: if you are in fact delighting your customers, you would expect more of them to remain loyal to you. You establish a target and, with sky-high expectations, begin collecting data. After a couple of months the numbers are sobering; customer loyalty is flat and resting at a level far below the rate you anticipated. To close the gap in performance you may decide to establish a customer rewards program as a means to enhancing loyalty. The specific strategic initiative would be the "Development of a customer rewards program," and would entail the allocation of resources, the creation of a detailed plan including key milestones, and an analysis highlighting the anticipated results. While the objective "Delight our customers" will most likely remain on your strategy map until you decide to make a strategic course change, the development of the loyalty program will have a defined beginning and end.

We'll dive much deeper into the world of strategic initiatives in Chapter 6.

This section began by noting the Balanced Scorecard constitutes a system: "A regularly interacting or interdependent group of items forming a unified whole." I'll talk more about terminology later in the chapter, but for now it's important to recognize that when you hear the term Balanced Scorecard, it is a collective noun that encompasses objectives on a strategy map, and measures, targets, and strategic initiatives on a Scorecard. What all the elements of the Scorecard system have in common, what unites and unifies them, is the fact that all are derived from the organization's strategy.

The system that is the Balanced Scorecard serves three primary purposes (see Exhibit 1.3):

1. **Communication:** strategy maps are designed to translate the organization's strategy into action via objectives stitched together through the four perspectives. Just as a map helps guide you through unfamiliar territory by highlighting landmarks on your journey, strategy maps communicate the organization's chosen direction in a simple and powerful manner, allowing all employees, and other stakeholders, to quickly grasp the organization's story of success.
2. **Measurement:** The Scorecard was originally created to alleviate three measurement challenges plaguing modern companies: how to competently gauge the role of intangible assets, balance financial and nonfinancial indicators, and ultimately execute strategy. While strategy maps