



A Guide to the
Balanced Scorecard

Incorporating the Essential Elements of
Strategy Within Your Organization



This guide
covers

Create

Keeping strategy creation
practical, focused and agile



Empower

Empowering people through
engagement and communications



Execute

Manage execution with
ownership and accountability

Overview of the Balanced Scorecard

Traditional financial measures – ROI, net profit, sales growth, and market share – fail to capture the true picture of a firm’s value propositions because they only tell the story of what has happened to the organization. These measures report on results of past transactions and disregard what the future benefits could be.

During the 1990s, two Harvard professors and consultants, Kaplan and Norton, devised the Balanced Scorecard, which allows for better measurement of a firm’s capabilities to create long-term value by identifying the key drivers of this value. The drivers are translated into four perspectives:

- Financial Perspective
- Customer Perspective
- Internal/Operational Perspective
- Innovation/Learning (People) Perspective

The perspectives offer a management system that focuses on strategy, performance and delivering long term value

Financial

The “Financial” measures indicate whether the company’s strategy, implementation, and execution are contributing to bottom line improvement include cash flow, sales growth, market share, and ROE.

Customer

The “Customer” driver is focused primarily on creating value and differentiation when acquiring, retaining or servicing the customer. This driver deals primarily with gaining and growing customers and market share.

Internal Processes

Focusing on “Internal Processes” in operations has

the greatest impact on customer satisfaction. Positive long term results rely on defining the competencies needed to maintain market leadership and maximizing the effectiveness of those internal systems.

People/Learning

The “People/Learning” driver relies on a company’s commitment to its greatest resource—people. This driver focuses on creating value by developing an environment that fosters learning, innovation, and prioritizing on its “human asset.” The premise is that people drive the other three elements to achieve the company’s goals.



The “Balanced” Part of the Balanced Scorecard

Seeing your whole strategic plan — the relationships and dependencies — can be difficult, but it’s necessary to make sure that your company sees the big picture. By using the framework above as a structure for your plan, you’ll ensure your plan is “balanced” and holistic. Unlike financial plans, with income statements, balance sheets, and cash flow statements, there are no common or uniform elements for describing a company’s strategic plan. That’s why this framework is so helpful to deploy as you are moving to articulate your strategy and help everyone see their role in executing it.

A tool to help you create your balanced strategy is a strategy map. A benefit of strategy maps is everyone from the top of the ranks to the bottom can see how they fit into the company. In fact, you can color code the different goals by

the department that’s responsible to show how each department fits into the overall direction. You’re looking for linkages and interdependences. If you have an unsupported goal, it won’t be achieved. You should be

A strategy map...

- Is a visual representation of the overall strategy
- Illustrates the relationship between core components of your strategy.
- Helps you create a balanced strategy.

able to draw at least one arrow, or cause and effect relationship, between one goal and the next.

For example, if a firm has a goal of increasing net profit from 10% to 13% for the current fiscal year, there

are a number of interrelated factors that must be in place to succeed. Possibly customer satisfaction must be enhanced to increase the number of customers or increase the loyalty of existing customers. Maybe the product/service’s defect level must be decreased to boost customer satisfaction? So if the manager waits until the end of the fiscal year to determine if he/she was successful, there will be a “history” lesson on the events of the past period.

However, if the defect rate is currently monitored or customer returns observed, the manager can make mid-course corrections to the firm’s strategy in order to accomplish the goal of increasing net profit. In other words, the manager should develop and monitor measures of drivers of that net profit goal.

The “Scorecard” Part of the Balanced Scorecard

Although scorecards are very effective, they can also be daunting or overused. For our purposes, the scorecard in your strategic plan is intended to provide governance around the progress of your strategy. Most of the time, scorecards are used at the operational levels of an organization to monitor and manage performance. In this case, your strategy scorecard needs to be full of strategic measures that monitor and manage your strategy. To do so, identify measures that indicate how a business is performing relative to its goals. For every goal, you

should track one, maybe two, measures that tell you how you’re progressing toward achieving the desired outcome.

Caution — a balanced performance measurement tool is not a collection of disparate financial and non-financial measures. It is a process of developing inter-related measures, some leading and some lagging, that uniquely depicts a firm’s strategy in attempting to create competitive advantage.

Dashboards are the visual representation of your data in charts or graphs that show progress month over month or reporting period over reporting period.

Don't confuse scorecards and dashboards. You need the data collected from a scorecard to create a strategy-focused dashboard. Great dynamic dashboards can be the focal point of your periodic strategy review process.

A Strategic Scorecard

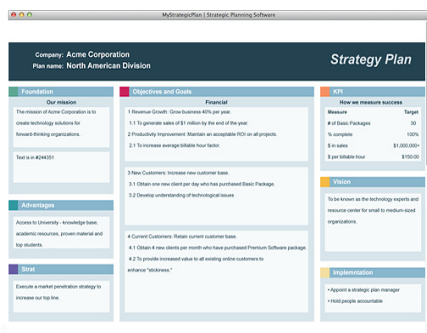


- Focuses manager's attention on a handful of measures that are critical for the firm's success.
- Contains strategic measures that track the progress of your strategy.
- Is the data that populates a dashboard (read the next section for more info).

Using OnStrategy to Build Your Balanced Scorecard

OnStrategy embeds the Balance Scorecard principles with the tool beginning with goal setting to reporting against performance. OnStrategy provides clients with a strategy map, scorecard and dashboard. We make it easy to apply the principals of the Balanced Scorecard

and provide the outputs to guide your process. The foundational building blocks of the OnStrategy platform are anchored in the Balanced Scorecard because we believe these principles hold true as an effective strategy framework and only grow stronger over the years.



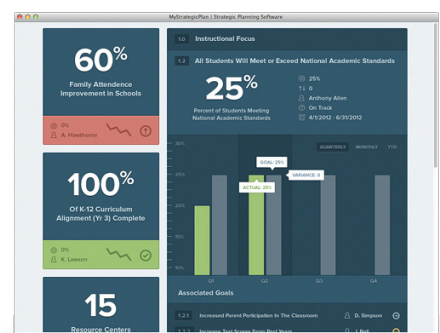
Strategy Map

Visual representation of the overall strategy



Scorecard

Tracks progress of your objectives month-by-month



Dashboard

Visual representation of your progress

In Summary

The real benefit from using a Balanced Scorecard comes from making it the cornerstone of the way you manage your business. Imagine an organization in which everyone understands the strategy and his or her role in executing it. A high performance workforce prepared and motivated to achieve the results. An organization that is so agile that strategy can be tested and adapted in a

continual process of feedback, learning, and innovation. All resources are aligned toward a unified strategy view. The principles transform the Balance Scorecard from a measurement to a leadership and management system.

(Excerpted by Howard Olsen PhD, CPA from Robert Kaplan and David Norton (1992), Harvard Business Review, January-February, pages 71 to 79 and (1996), California Management Review, Fall v39n1, pages 53 to 79.)

Create — Empower — Execute

OnStrategy is the enterprise, cloud-based leader in strategy management. Our online tools and hands-on services, including our flagship platform for empowering people to create and execute strategy, connects customers, employees and stakeholders to achieve enduring success.

As a strategy process leader and management partner, we believe strategy is more than simply achieving business goals. Smarter strategy builds smarter organizations. It inspires people to work hard, incite action and make things happen. Simply architected, thoughtfully executed, strategy moves mountains.

Whether you're just getting started, rolling out an organizational strategy, or managing execution, OnStrategy delivers the right tools and services to get the job done. Learn more at www.OnStrategyHQ.com.

Give it a try! All plans come risk free with a 14-day full featured trial.

1. **Start a Free Trial.**

We built OnStrategy as an organizational platform and integrated tool-set for empowering people to create and execute strategy. Collaborative, intuitive and actionable, OnStrategy is helping thousands of organizations worldwide achieve their strategic objectives. All plans include a 14-day risk free trial with no long-term commitments.

2. **Create and Execute Strategy While Empowering Your Organization.**

OnStrategy is a tailored, yet structured tool for facilitating every essential element of successful strategy. It fosters engagement, clarity, ownership, accountability and organization-wide communications at every step of the strategic process. Self-help resources, best-practices and templates provide real-world help when needed most.

3. **Supported by People Passionate about Strategy.**

We built and support OnStrategy and are passionate about helping people achieve enduring success. Available to help throughout the strategic process, we offer practical hands-on services to facilitate strategy creation, empowerment, and execution.



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