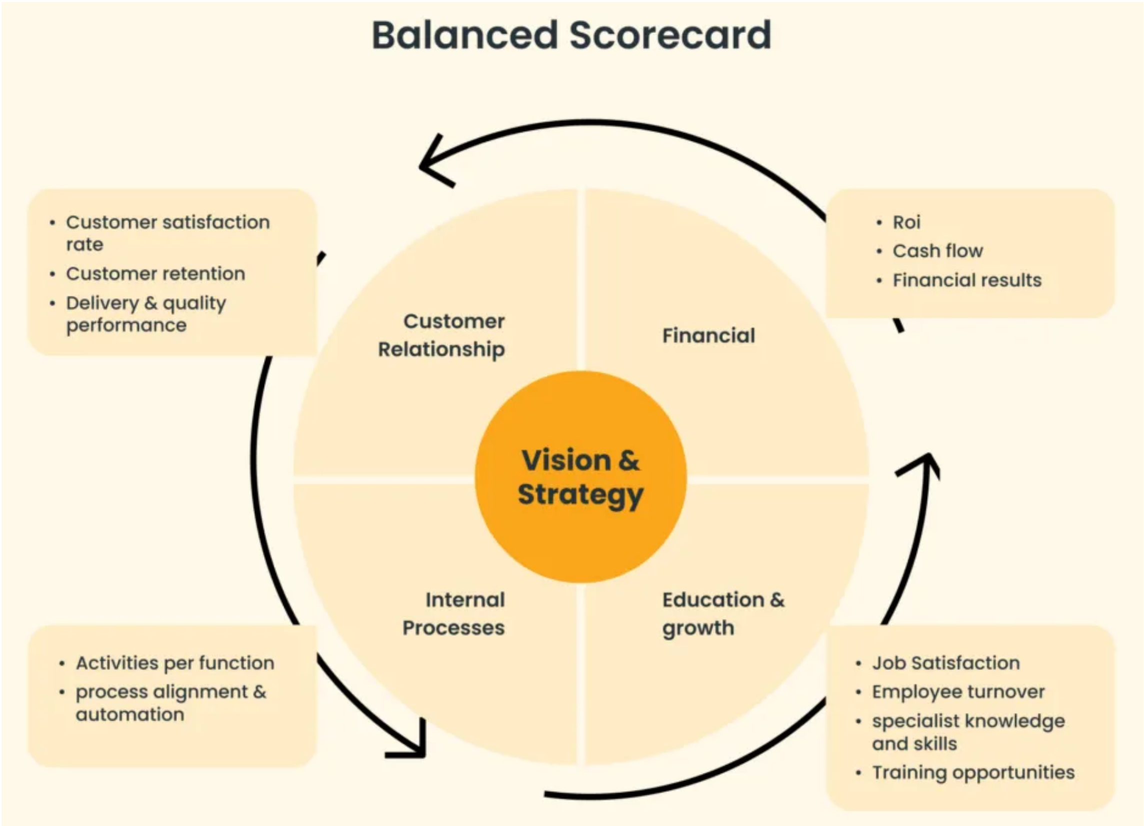
Study Guide: Balanced Scorecard



What is a Balanced Scorecard?

A Balanced Scorecard (BSC) is a strategic management framework that provides a comprehensive and balanced view of an organization's performance. It goes beyond traditional financial metrics to include key performance indicators (KPIs) from multiple perspectives. The BSC was developed by Robert S. Kaplan and David P. Norton in the early 1990s and has since become a widely adopted tool for strategic planning and performance measurement.

The Balanced Scorecard typically includes four key perspectives, each representing a different aspect of organizational performance:

- **Financial Perspective:**

This perspective focuses on traditional financial metrics and measures the organization's financial performance. It includes Key Performance Indicators (KPIs) such as:

- Revenue growth
- Profitability
- Return on investment
- Cash flow
- OPEX

- **Customer Perspective:**

The customer perspective examines how the organization is perceived by its customers and stakeholders. It includes metrics related to:

- Customer satisfaction
- Market share
- Customer retention
- Level of returns
- Lifetime Value
- The organization's reputation in the market.

- **Internal Processes Perspective:**

This perspective looks at the efficiency and effectiveness of internal processes. It involves identifying and measuring key processes that contribute to the organization's success. Metrics may include:

- Process cycle time
- Quality
- Innovation
- Cost efficiency
- Machine downtime
- Inventory levels

- **Learning and Growth Perspective:**

The learning and growth perspective focuses on the organization's capacity for innovation, improvement, and adaptation. It includes metrics related to:

- Employee training

- Skills development
- Employee satisfaction
- Employee retention
- Level of new product ideas
- The organization's ability to foster a culture of continuous learning.

In addition to these four perspectives, the Balanced Scorecard encourages the identification and measurement of strategic objectives and key performance indicators within each perspective. These objectives are often interconnected, reflecting the cause-and-effect relationships between different aspects of organizational performance.

The Balanced Scorecard serves as a strategic management system that helps organizations translate their vision and strategy into action. It provides a framework for setting objectives, aligning activities with strategic goals, measuring performance, and fostering communication and understanding throughout the organization. By considering both financial and non-financial measures, the Balanced Scorecard offers a more balanced and comprehensive approach to strategic planning and performance management.

Why Use a Balanced Scorecard?

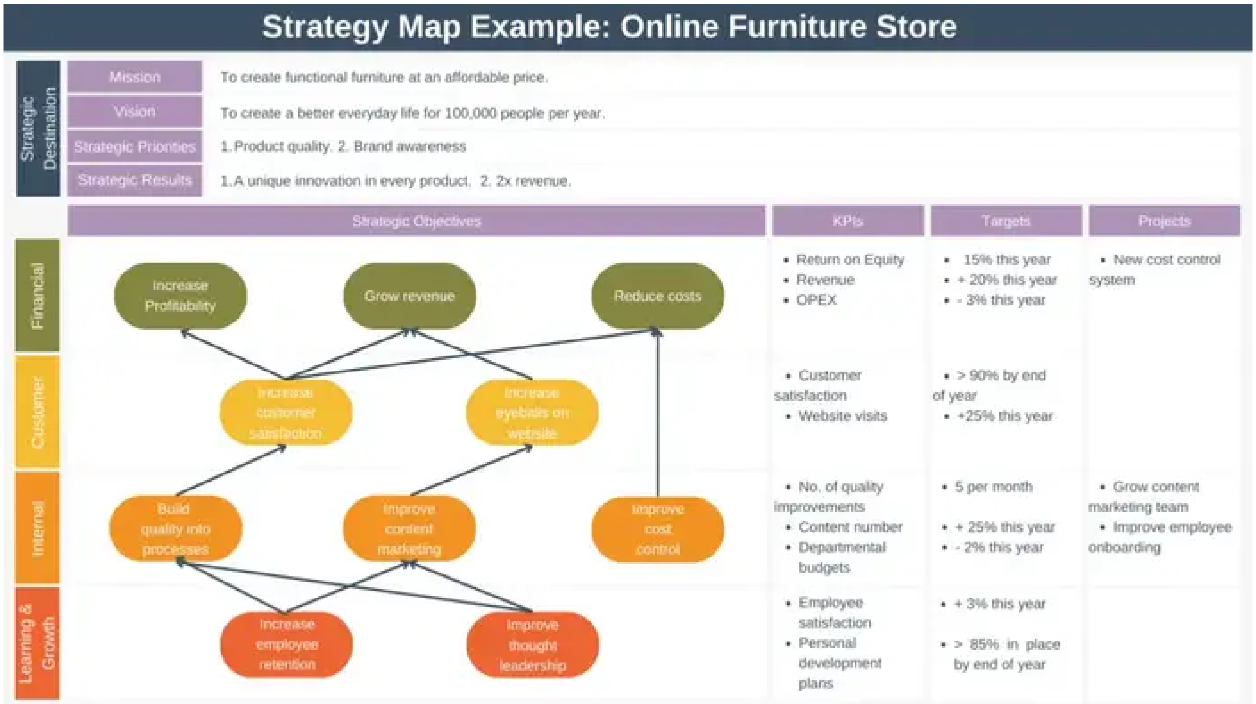
- Monitor and communicate progress
- Link everyone’s day to day work to the strategy
- Prioritize
- Increase financial health, customer satisfaction, efficiency, knowledge, and innovation

What are the Characteristics of a Balanced Scorecard?

- They are balanced, which means that they consider both, financial and non-financial performance measures equally important
- They are a scorecard. This allows you to track how you are doing
- They are high-level indicators, enabling you to see the most important performance measures
- They are long-term. They link performance targets to the long-term vision and strategy of the organization
- At the heart of the scorecard are the vision and the strategy of the organization. These define the vision of where you want your business to be in the future, and

the strategy to achieve that vision. You can't create a balanced scorecard until you have these cornerstones in place

Strategy Maps



A strategy map is a visual representation that articulates an organization's strategic objectives and **the cause-and-effect relationships between them**. It is often used in conjunction with the Balanced Scorecard (BSC) framework and helps communicate the organization's strategy in a clear and concise manner. Developed by Robert S. Kaplan and David P. Norton, the strategy map complements the BSC by illustrating the strategic objectives and how they contribute to overall success.

Key features of a strategy map include:

- **Perspective Alignment:**

Similar to the Balanced Scorecard, a strategy map typically includes the four perspectives: Financial, Customer, Internal Processes, and Learning and Growth. Each perspective represents a different aspect of the organization's strategy.

- **Strategic Objectives:**

The map outlines the key strategic objectives within each perspective. These objectives are often expressed as clear and measurable goals that support the organization's mission and vision.

- **Cause-and-Effect Relationships:**

One of the distinctive features of a strategy map is its emphasis on illustrating the cause-and-effect relationships between different strategic objectives. It shows how achieving objectives in one perspective influences or contributes to the achievement of objectives in another.

- **Visual Representation:**

Strategy maps are presented graphically, using visual elements such as arrows, lines, and color-coded connections to represent the relationships between objectives. This visual representation makes it easier for stakeholders to understand the logical flow of the organization's strategy.

- **Focus on Value Creation:**

The strategy map highlights how value is created for the organization and its stakeholders. It helps identify critical processes and activities that drive success in both financial and non-financial aspects.

- **Communication Tool:**

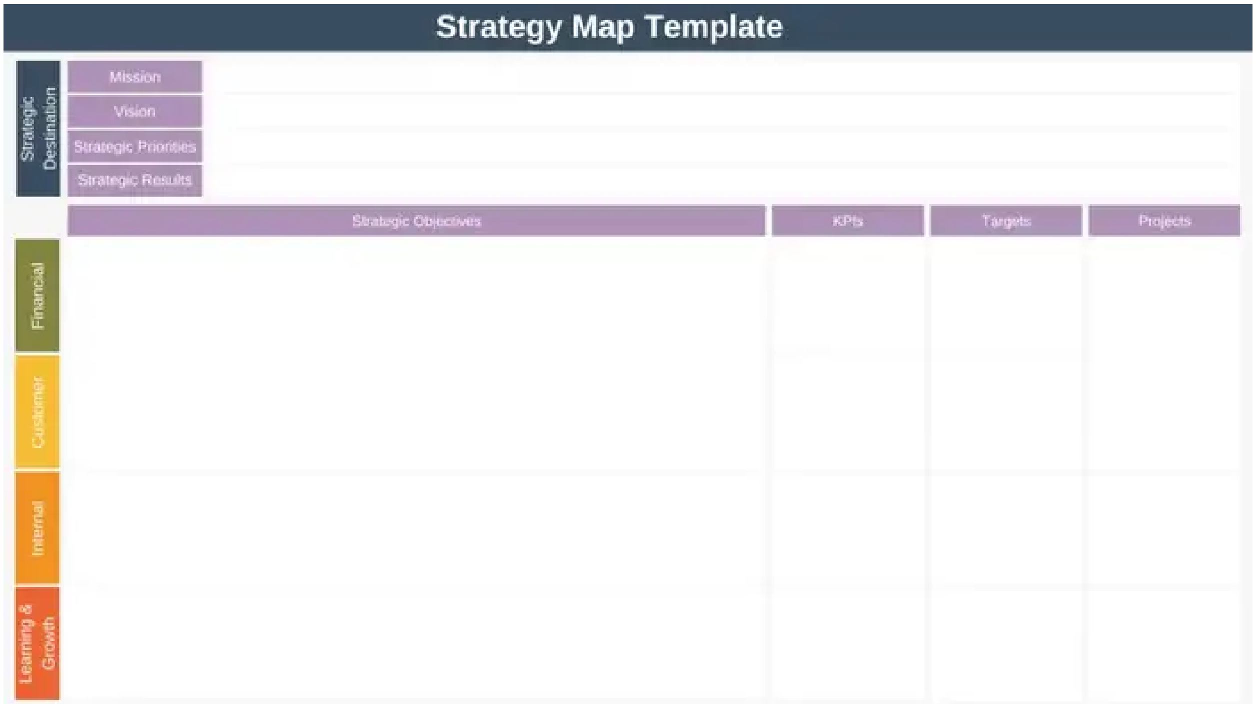
Strategy maps serve as a powerful communication tool, enabling leaders to communicate the organization's strategy in a way that is easily understandable and memorable. This aids in aligning employees with the strategic objectives and fostering a shared understanding of the organization's direction.

- **Strategic Alignment:**

By visually connecting objectives across perspectives, the strategy map ensures that each level of the organization understands how their work contributes to the overall strategic goals. This alignment is crucial for effective execution of the strategy.

When used alongside the Balanced Scorecard, a strategy map enhances the strategic planning process by providing a visual roadmap that helps organizations translate their vision into actionable steps. It aids in strategic alignment, communication, and the development of a shared understanding of the organization's strategic priorities.

What are the Steps to Creating a Strategy Map?



1. **Define Your Strategic Objectives**

Identify and define the key strategic objectives that will help your organization achieve its mission and vision. These objectives should be specific, measurable, achievable, relevant, and time-bound (SMART).

2. **Align with Perspectives**

Organize your strategic objectives into the four perspectives of the Balanced Scorecard: Financial, Customer, Internal Processes, and Learning and Growth. Assign each objective to the perspective that best represents its focus.

3. **Identify Cause-and-Effect Relationships**

Determine the cause-and-effect relationships between the strategic objectives. Consider how achieving an objective in one perspective contributes to the success of objectives in other perspectives. This step involves understanding the logical connections between your goals.

4. **Visual Representation**

Create a visual representation of your strategy map. Use graphical elements such as arrows, lines, and color-coded connections to illustrate the cause-and-effect relationships. Arrange the objectives in a logical order within each perspective.

5. Clarify Dependencies

Clearly depict the dependencies between objectives. Show which objectives are prerequisites for others and how their achievement influences subsequent goals. This helps stakeholders understand the sequence of actions required for strategic success.

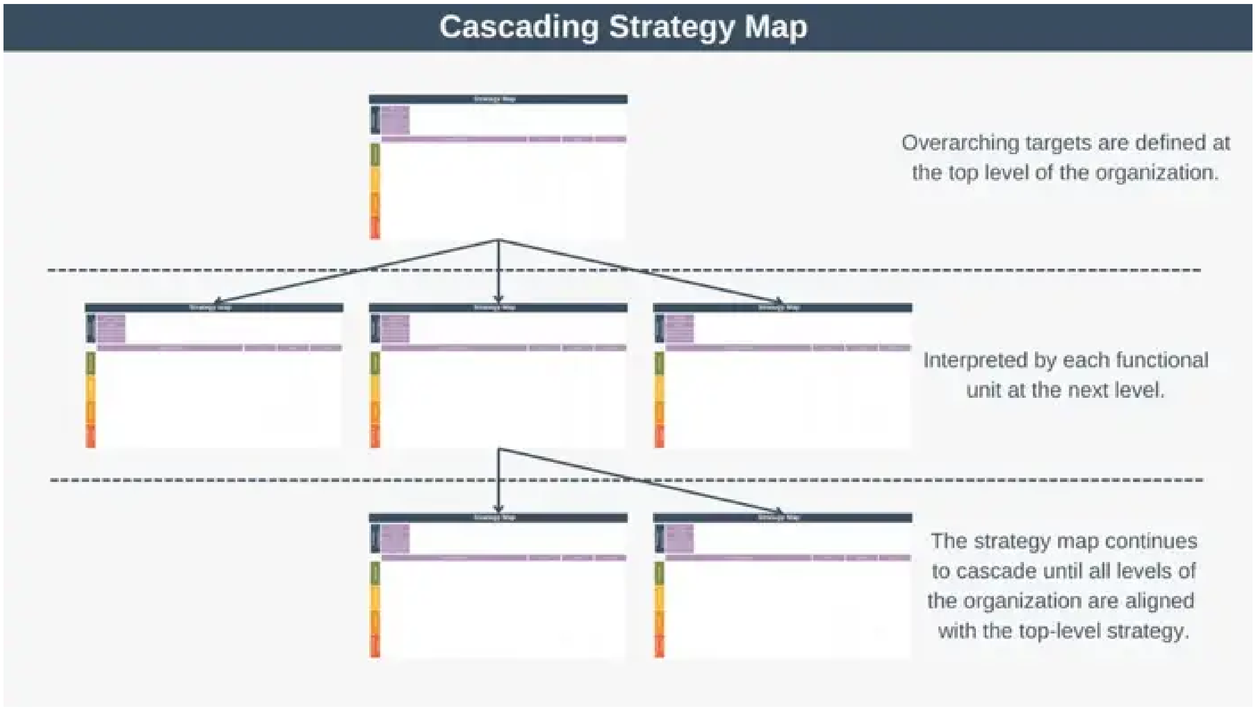
6. Review and Refine

Engage key stakeholders, including executives, managers, and frontline employees, in a review of the strategy map. Gather feedback on the clarity and comprehensiveness of the map. Refine the map based on the insights and perspectives of those involved.

7. Develop Key Performance Indicators (KPIs)

For each strategic objective, identify relevant key performance indicators (KPIs) that will be used to measure progress and success. Ensure that the KPIs align with the specific objectives and are measurable over time.

8. Cascade Down



If your organization has multiple levels, consider cascading the strategy map down to lower levels, such as departments or teams. Each level can have its own strategy map that aligns with and contributes to the higher-level objectives.

9. Implement and Monitor

Integrate the strategy map into your organization's strategic planning and management processes. Regularly monitor and update the map as the organization evolves, and use it as a guide for decision-making and resource allocation.

10. Communicate

Effectively communicate the strategy map to all relevant stakeholders. Ensure that employees at all levels understand how their work contributes to the organization's overall strategic goals. Use the map as a tool for fostering a shared understanding of the strategic direction.

Remember, creating a strategy map is an iterative process, and it should evolve as the organization's strategy evolves. Regularly revisit and update the map to ensure its continued relevance and effectiveness in guiding strategic initiatives.

Advantages and Disadvantages of a Balanced Scorecard

Advantages:

- Essential strategic information is contained in a single place
- Align every employee with the organization’s strategy
- Ensure that your strategy is balanced
- Make communicating your strategy easier

Disadvantages:

- Can take a lot of time
- Must be tailored to each organization
- Can get complicated very quickly if you try to do too much