The Balanced Scorecard: 
Translating Strategy into Results

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Abstract
The balanced scorecard provides managers and leaders with a tool to translate strategy into action and measurable results.

The Business Imperative
In today’s world of rapid change and unforgiving competition, a myriad of leadership challenges face the business executive. There is an increasing need for:

- Speed and organizational agility
- Alignment across the organization
- Focus on action and results
- Better ways to measure the health and success of the organization
- Ways to attract and retain the right staff

Strategy is of critical importance in today’s business environment. While some organizations fail to develop coherent or targeted strategies, other organizations devote extensive resources to developing winning strategies, and then wonder why they aren’t winning. Organizations fail to realize the benefits of strategy for a variety of reasons:

- **Incomplete strategy** -- They develop a strategy that doesn’t have all of the components required to actually implement the strategy.

- **Failure to implement the strategy** -- They develop an excellent plan and then it sits on the shelf.

- **Failure to communicate the strategy** -- Senior management understands the strategy, but the line personnel who interact with customers on a daily basis have no idea what their role is in implementing the strategy and contributing to corporate goals.

- **Failure to translate the strategy into actionable initiatives** -- Managers treat strategy development as an annoying interruption that takes time away from doing business. They fail to devote the time and effort necessary to translate the high level strategy into tactical initiatives that drive change on an operational level.
History of the Balanced Scorecard

The balanced scorecard framework was developed in the early 1990s when David Norton and Robert Kaplan conducted a study that focused on the failure of financial measures to adequately measure organizational performance. While the concept of using a balanced set of performance measures was not new, Norton and Kaplan packaged the idea of measuring both financial and nonfinancial performance using four perspectives that are kept in balance.

Balanced scorecard evolved from the initial focus on performance measures to link measures to strategic goals and objectives and ultimately become a holistic strategic management system. Strategy mapping was introduced as a way of articulating and communicating the relationships among strategic objectives.

As a nonproprietary framework, balanced scorecard has been adopted to various degrees, using a wide variety of approaches. In 2012, Bain & Co. report that that the balanced scorecard ranked 5th on a list of the top ten management tools. The Gartner Group estimated that over 50% of Fortune 1000 companies had implemented the balanced scorecard by 2000. Many government agencies are also adopting the balanced scorecard.

What is the Balanced Scorecard?

The balanced scorecard is a performance management framework that links strategy with day-to-day operations. It provides a holistic view of the enterprise based on the business objectives.

The balanced scorecard began as a set of performance measures that give a comprehensive view of the company based on four perspectives:

- **Financial perspective**, including traditional financial measures such as revenue growth, return on investment or return on assets, market share, and earnings per share
- **Customer perspective**, with measures of importance to customers such as timeliness, quality, performance, cost, and service
- **Internal business process perspective**, with measures of the critical internal activities and processes that the organization uses to meet its customers' expectations
- **Learning and growth perspective**, which measures the organization's ability to adapt and innovate for the future; this could include time to market for new product development, workforce training and development, and process improvement

These perspectives provide a multi-dimensional balance between internal and external perspectives, leading versus lagging indicators, objective versus subjective measures, current versus future needs, etc. Tradeoffs become explicit business decisions based on strategy.
Linkage to Strategic Goals and Objectives

Each measure for each perspective in a balanced scorecard is selected based on the corporate vision and strategy. For each perspective, there are defined goals, performance measures to track progress, performance targets to define the desired results, and specific initiatives to translate the goals into action. The goals address key questions:

- **Financial perspective** -- What does it mean for us to succeed financially?
- **Customer perspective** -- What should our relationship be with our customers? What unique value do we provide to our customers?
- **Internal business process perspective** -- What key processes must we excel at in order to deliver that unique value to our customers and be financially successful?
- **Learning and growth perspective** -- What must we do to continue to improve, grow, and prepare for the future?

### Goal Measure Target Initiative

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<th>Perspective</th>
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<th>Measure</th>
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Adapted from Kaplan and Norton
Strategy Mapping

Strategy mapping ties the pieces together. Strategy maps are used to articulate the cause and effect relationships among the goals and measures and to explicitly define how the various elements contribute to achieving the desired strategic results. They show how the different perspectives and goals contribute to achieving the overall strategy. Strategy maps can be a wonderful tool to:

- Diagnose incomplete strategy
- Validate and refine a strategy
- Communicate the strategy visually

Strategic Alignment through Cascading Scorecards

Balanced scorecards are defined based on organizational entities. At the enterprise level, the balanced scorecard applies to the entire organization and is the responsibility of the chief executive officer. This scorecard can be cascaded down through the organization, with each division, department, and ultimately each individual contributor having a scorecard that defines their contribution to achieving the strategy.

These scorecards translate the corporate strategy into operational action that is directly aligned with the strategy. The cascaded scorecards communicate the strategy and how each person fits into the strategy. When people understand how their actions contribute to strategic results, they are more motivated. This magnifies the benefit, because now people are doing the right thing, and applying their creativity and initiative to doing it better.

The Balanced Scorecard as a Strategic Management System

What gets measured gets done. As a result, a measurement process that measures performance tied to business goals and objectives becomes a strategic management system. The balanced scorecard provides a framework that, when used systematically and systemically, provides solid information and becomes the basis for fact-based decision making. Performance information is used both to make operational decisions and to modify and improve the strategy. Dynamic performance monitoring enables timely feedback, recognition and rewards.
The result of a well-conceived balanced scorecard that is cascaded to the lowest levels is an organization that recognizes the contribution of its employees while holding them accountable for results. Employees understand their role in mission achievement and are able to apply their creativity to help achieve corporate goals. Ultimately, the balanced scorecard can contribute to creating a culture that results in increased employee job satisfaction, reduced turnover, increased ability to attract the best people, more satisfied and devoted customers, and increased profits and market share.

**Why Is the Balanced Scorecard So Powerful?**

The balanced scorecard provides a framework for translating strategy into action into results. Its benefits include the following:

- **Alignment** - The balanced scorecard provides a mechanism for aligning the various activities, processes, and groups throughout the organization with the strategic goals and objectives.

- **Communication** - The balanced scorecard and the decisions and actions that it drives become a mutually reinforcing, highly visible way to communicate the strategy throughout the enterprise. Strategy maps provide a way to communicate visually how the various pieces fit together.

- **Accountability** - The balanced scorecard links individual performance to corporate strategy and provides a constructive mechanism for clarifying each person's role and holding people accountable for results.

- **Empowerment** - As managers and individuals throughout the organization come to understand the strategy and how their performance contributes to success, they are able to exploit circumstances and make independent decisions that contribute to the strategy in ways never anticipated by the drafters of the strategy.

- **Transformation** - As people work together to achieve common objectives, the balanced scorecard provides leverage and becomes a force multiplier. As performance is reported throughout the organization, the feedback process becomes a mechanism to transfer knowledge and to refine and modify the strategy based on facts and insights of people throughout the enterprise. Strategy development becomes an ongoing, dynamic process that can evolve readily in response to changing circumstances, new ideas, etc.