

The future of the *Balanced Scorecard*: an interview with Prof. dr. Robert S. Kaplan¹

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Introduction

These days, performance management is attracting more and more attention, both among academics and practitioners. It has been calculated that new publications about performance management have been appearing at a rate of one every five hours of every working day since 1994 and that there are now more than 12 million sites dedicated to this topic.³ However, it seems that only a few authors and a few concepts dominate the field of performance management. At each biannual conference of the Performance Management Association (PMA) a citation analysis is made on the basis of the papers that are presented. For the 2002 PMA-conference in Boston, 115 papers were accepted in which 2248 authors were cited.⁴ Of these authors, 95% were cited less than three times, over 80% were only cited once. In contrary to these findings, Robert Kaplan and David Norton were cited 154 and 120 times respectively. It comes as no surprise that, looking at the citation analyses of the 1998, 2000 and 2002 PMA-conferences, the most cited literature sources were all publications of Kaplan and Norton: *The balanced scorecard, translating strategy into action* (Harvard Business School Press, 1996), *The balanced scorecard, measures that drive performance* (Harvard Business Review, January/February 1992) and *The strategy-focused organization, how balanced scorecard companies thrive in the new business environment* (Harvard Business School Press, 2000). Without doubt Robert Kaplan has been, in the last decade, and continues to be the most influential thinker in the field of performance management, and his *balanced scorecard* is the most successful concept in this field. During the 2002 PMA-conference, held in July in Boston, USA, professor Kaplan was the key-note speaker. I was fortunate to be able to speak to him after his speech. This article is a summary of the interview and parts of Kaplan's speech.

Success of the balanced scorecard

De Waal: *Professor Kaplan, to which factors do you contribute the enormous success of the balanced scorecard?*

Kaplan: There is a huge gap between the vision and strategy developed at the top and the things people down in the organization, at the frontline, are doing. Peter Drucker already noticed this almost 50 years ago when he coined the phrase 'Management By Objectives', but at that time there was no language with which the gap could be closed. This gap became even more apparent in the 1970s. First, Michael Porter and consultancy firms as the Boston Consulting Group, formalized the theory and practice of strategy for senior-level executives. At the same time, employees' everyday actions were affected by total quality management programs, the drive for empowerment and the introduction of personal objectives. However, no bridge was made between these two initiatives: strategy and employee empowerment for continuous improvement. The *balanced scorecard* provides the required language, it is the missing link. The Balanced Scorecard links vision and strategy to employees' everyday actions by translating the abstract strategy into clear strategic priorities and initiatives and relating these to clear tangible strategic outcomes the organization and its employees have to strive for: satisfied shareholders, delighted customers, efficient and effective processes and a motivated workforce. In this way, the *balanced scorecard* makes strategy everyone's job. And because all organizations face the aforementioned gap, especially when they transfer from the traditional command & control style which used to work well in the old days, to the empowerment style of modern times, they need something like the *balanced scorecard* to help them bridge the gap. Another point is that more and more company value comes from intangibles (see e.g. the work of Baruch Lev of the Stern School of Business). The traditional financial system

cannot convey the importance of these intangibles (people, processes, innovation) to senior executives and to front line employees. The *balanced scorecard* can.

De Waal: *There are now voices that say that the balanced scorecard is passé, a management fad that had its day. How do you respond to this criticism?*

Kaplan: All the evidence is that the use of the *balanced scorecard* is actually increasing. More and more big companies are using it. Book sales are high and attendance at balanced scorecard conferences is growing. It is not a management fad. I just returned from Asia, where implementations are on the increase. Whereas five years ago, implementations were at business units and divisions, today the implementations are at corporate level and pervade the entire organization. Another phenomenon is that people who worked with the scorecard and are leaving the company are taking the concept with them when they move to other companies. Finally, you now see a huge surge of interest in non profit organizations, including companies in the health care sector and the public sector, with government organizations around the world adopting the concept.

Developments in the performance management field

De Waal: *What do you see as important developments in the field of performance management?*

Kaplan: The execution of the organization's strategy has clearly become *the* corporate challenge. In a survey of Bain, done in 2001, the two most popular senior management tools turned out to be 'strategic planning' and 'mission and vision statements'. Twenty years ago, Fortune Magazine reported that less than 10% of organization's strategies are effectively formulated and executed. In 1999, the same magazine reported that this problem still was not solved. The magazine stated that for organizations that ran into financial trouble, in 70% of the cases this trouble was not caused by the inability of management of coming up with the right strategy. The trouble was caused by the inability of management of executing this strategy.⁵ Several years ago, research showed that the belief of investors in the ability of the organization to effectively execute its strategy is the foremost non-financial factor that drives them to value the stock of that company highly.⁶ David Norton and I describe in our last book⁶ how companies are able to implement their strategies more rapidly and effectively by using the *balanced scorecard*. Therefore I believe that increasingly organizations will focus on improving their ability to deliver on their strategy, using the *balanced scorecard*.

De Waal: *What is your current research interest?*

Kaplan: In line with your previous question, Norton and myself are working on further developing the strategy map we introduced in our last book (De Waal: see frame for a description of the strategy map). Initially, we thought a company should start from scratch when developing its strategy map, so that it was forced to go through the complete process. There were two things that changed our minds. First, many executives asked us for help by giving them examples of the elements of the strategy map because they had difficulty visualizing it. Second, based on the many maps we have seen until now, several themes reappeared time after time in a good strategy map. These themes now form the basis of a strategy map template. This template provides a language for strategy: everybody in the organization can now discuss the strategy based on the elements in the map. Our forthcoming book will be on strategy maps: how to develop and use them, giving examples of templates.

De Waal: *Could cases as Enron and Worldcom have been prevented by use or better use of performance management and the balanced scorecard?*

Kaplan: In the case of Enron we are speaking of downright manipulation of the reports. In the case of Worldcom we are talking about a real financial issue. So in both cases we are not dealing with *balanced scorecard* issues. Maybe in the case of Enron a *balanced scorecard* could have shown that there was no real growth and real innovation. But I believe we are dealing in those companies with other processes that did not work well, like supervisory,

audit, governance, and integrity processes. And also, of course, the attitude of management.

The human element

De Waal: *You were kind enough to write an endorsement for my book Quest for Balance. This book deals with the behavioral factors that are important for the successful implementation and use of performance management systems, such as the balanced scorecard. Examples of these factors are the role model of management and management style. What is your experience in this respect?*

Kaplan: Management style is very important, especially the attitude of willing to share information. If managers derive their power from having information others do not have, their willingness to share this information will not be very high. This is definitely not a good environment for the *balanced scorecard*. The management style of communicating is also very important: continuously conveying to the people what the organization wants to achieve. And, as the *balanced scorecard* is a good communication device, it can really support management. Interestingly enough, one of the most successful categories of scorecard-users are ex-military officers. In battle, soldiers have to rely on themselves to deal with unforeseen circumstances (e.g. the movements of the enemy). Officers therefore spend a lot of time communicating to the troops what they want to accomplish. This style fits hand in glove with that needed for good use of the *balanced scorecard*. In the end, some executives will have the management style needed for using a *balanced scorecard*, and others will not.

De Waal: *In my book Quest for Balance I demonstrate there are links between the use of a performance management system, the use of certain management styles and the results of an organization. Do you also see certain management styles and the use of the balanced scorecard reflected in the results of organizations?*

Kaplan: The Balanced Scorecard Collaborative⁸ recently conducted an online survey of the members of the collaborative. Of the 500 respondents, 250 reported that they had a *balanced scorecard*. Of these, 125 said it was too early to tell the impact of the scorecard. Of the other 125, 19 reported to have achieved significantly better results, 80 said they saw some progress and 26 said they had limited or no better results. On the surface this seems a disappointing result but when delving deeper into the causes there is a clear separation between the 'winners' and the 'losers', as I showed during my presentation (see Table 1). The organizations with breakthrough results created, among others, a better sense of urgency for performance management and the scorecard, used strategy maps significantly more, and communicated more extensively to their people than the organizations with lesser results.

Action	Number of organizations applying the action (in percentage per category)		
	Breakthrough results	Some progress	No results
Executive team has created a sense of urgency.	84%	3%	20%
Strategy is translated into a strategy map and a balanced scorecard.	84%	41%	0%
Corporate/business unit measures are linked and aligned.	72%	39%	0%
Employees are aware of the strategy	56%	32%	0%
Individual and team goals are aligned with the strategy.	42%	26%	0%
The balanced scorecard is an integral part of the strategic planning process.	100%	40%	0%
The budget is driven by the strategy.	42%	29%	0%

Table 1: What separates the winners from the losers? (source: R.S. Kaplan, Building Strategy Focused Organizations with the Balanced Scorecard; Presentation during the Third International Performance Measurement and Management Conference, Boston, July 2002)

Future of the balanced scorecard

De Waal: *Do you think the balanced scorecard will still be around in 10 years time, and if so, in what shape or form?*

Kaplan: Yes, the *balanced scorecard* will probably be around but there will have been developments. The strategy map is intuitively very appealing and will be used more often in concurrence with the *balanced scorecard*. Supervisory boards will focus more and more on monitoring and guiding the strategy of a company, using the *balanced scorecard*. There will be more annual reports that are arranged according to the *balanced scorecard*. We will see better ways of measuring the data needed for the *balanced scorecard*. It is interesting to notice that neither David Norton nor I is an expert in measurement techniques. David says: "We are experts in *what* to measure, not in *how* to measure. " Techniques for better measuring innovation, employee capabilities, information system alignment, climate, culture, and customer success will certainly improve in the next ten years. We will also see better information technology and a culture more geared towards using performance management because it matters more to organizations, stakeholders and society.

De Waal: *Finally, which of the balanced scorecard issues would you like to see researched in the near future?*

Kaplan: There are several research topics of interest. First of all, target-setting: how do you set stretch targets for the indicators in the *balanced scorecard* and how do you get people to not only participate in setting these stretch targets but also that they strive to achieve these? Then, the cause- and-effect relationships in the *balanced scorecard* should be tested further. Another interesting question is: how can executive commitment and management systems explain the success or failure of *balanced scorecard* implementations? We also need more analytical and empiric research on how alignment of people and organizational resources creates performance breakthroughs: how does measurement create value through communication and coordination, not just through evaluation and control? Finally, how can incentive systems better be aligned with *balanced scorecard* measures? In my opinion, the more intangibles an organization has the less it can reward its people on just financial indicators. The research issue is therefore: what is the role for non-financial measures in an optimal compensation plan. As you can see there are plenty of interesting issues remaining to look at.

Frame: the strategy map

In the book *The strategy-focused organization, how balanced scorecard companies thrive in the new business environment* (Harvard Business School Press, 2000), Kaplan and Norton introduce the strategy map. This is a logical architecture that defines a strategy by specifying the relationships between shareholders, customers, business processes and competencies. A strategy map makes sure that the balanced scorecard is linked to the organization's strategy. Currently, Kaplan and Norton are developing strategy map templates for different strategies, among which: value for money, product leadership, and customers solutions strategies. Figure 1 gives an example of a 'value for money' strategy map.

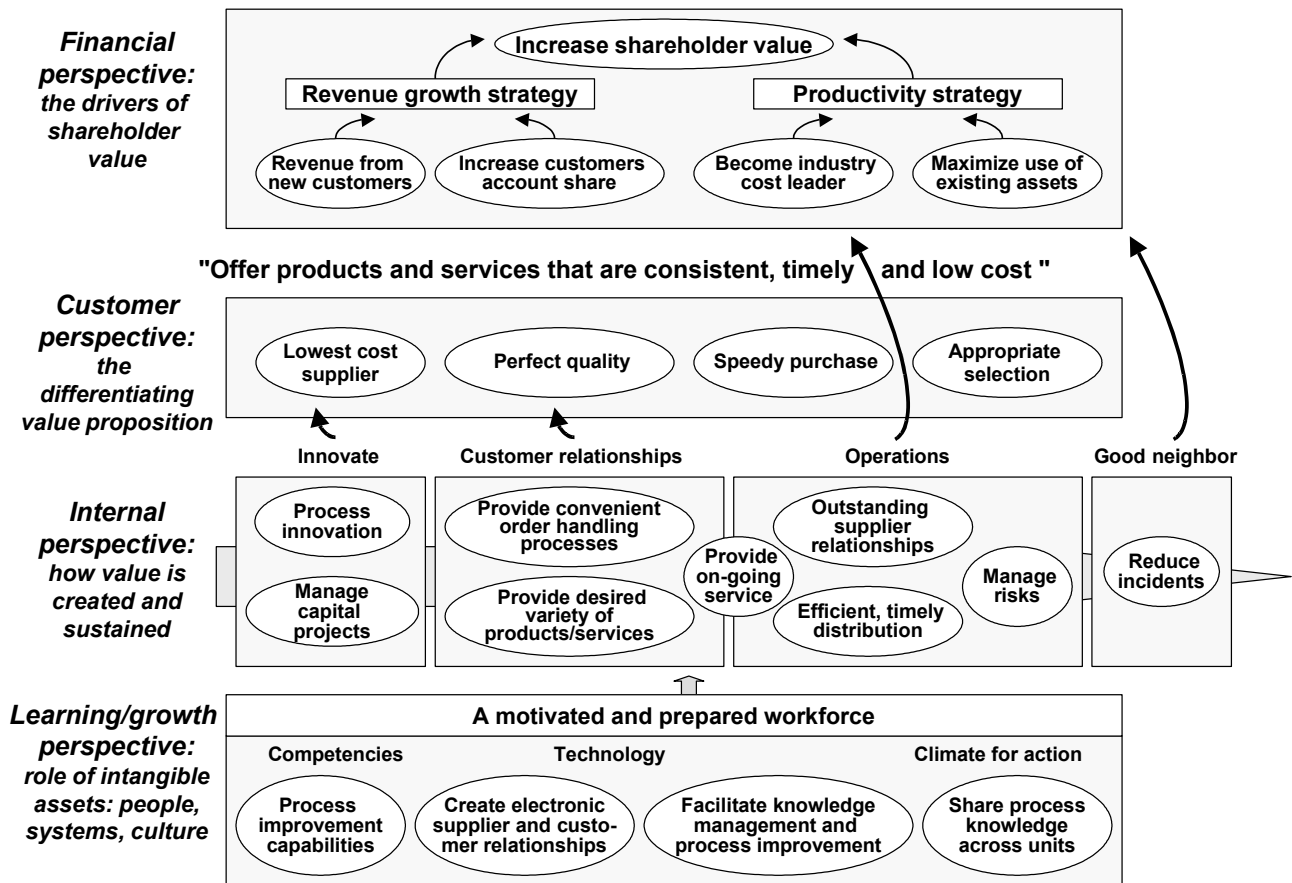


Figure 1: Example of a 'value for money' strategy map (source: R.S. Kaplan, *Building Strategy Focused Organizations with the Balanced Scorecard*; Presentation during the Third International Performance Measurement and Management Conference, Boston, July 2002)

Notes

- 1 Robert S. Kaplan is Marvin Bower Professor of Leadership Development at Harvard Business School. He is, together with David Norton, the original developer of the *balanced scorecard*.
- 2 André A. de Waal is associate professor Strategic Management at Maastricht School of Management and independant consultant. His latest book *Quest for Balance, the human element in performance management systems* is published by John Wiley & Sons (2002). André's article *The role of behavioral factors in the successful implementation and use of performance management systems* received the 'Highly Commended Paper Award' during the Third International Performance Measurement and Management Conference in Boston, July 2002. The article can be found on www.andredewaal.nl.
- 3 Marr, B. & G. Schiuma (2002), 'Research challenges for corporate performance measurement: evidence from a citation analysis'. In: A. Neely, A. Walters & R. Austin (ed.), *Performance Measurement and Management: Research and Action*, Cranfield School of Management, UK
- 4 Marr, B. & G. Schiuma (2002), Presentation during the Third International Performance Measurement and Management Conference in Boston, July
- 5 Charan, R. & G. Colvin (1999), *Why CEOs fail*, Fortune Magazine, June 21
- 6 Ernst & Young LLP (1998), *Measures that matter*
- 7 Kaplan, R.S. & D.P. Norton (2000), *The strategy-focused organization, how balanced scorecard companies thrive in the new business environment*, Harvard Business School Press, Boston, MA
- 8 The Balanced Scorecard Collaborative is the research and consultancy firm of Robert Kaplan and David Norton. More information: www.bscol.com