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Process, Strategy Maps and the Balanced Scorecard

Those of us who take a broad view of business process work see Business Process Management (BPM) as an effort to coordinate a large number of different organizational efforts to improve the overall performance and success of our organizations. We recognize that there are lots of groups who are trying to improve the processes and the performance of their organizations, and we are eager to work with them to assure that our common efforts have the greatest possible impact.

One group of practitioners who do work that can be usefully aligned with business process efforts are those working to create Balanced Scorecard systems to measure organizational performance and to evaluate the performance of individual managers.

The "balanced scorecard" approach was originated by Art Schneiderman in 1987. It has been popularized by Robert Kaplan and David Norton in a series of Harvard Business School articles and books, starting in 1992. In essence, the idea is that organizations ought to track more than one type of measure—that they ought to collect a balanced set of measures that reflect the diverse goals of the organization. Kaplan and Norton recommend organizing a scorecard and gathering measures from four general perspectives: the Financial perspective, the Customer perspective, the Internal Business (operations or process) perspective and the Innovation and Learning perspective. The Balanced Scorecard team usually begins by defining a scorecard for the organization, as a whole. (Figure 1 illustrates a scorecard that was used in Kaplan and Norton's original HBR article.)

Most organizations that use a scorecard approach begin by creating a scorecard for the entire organization and then developing more narrowly defined scorecards for specific divisions and departments, and, later still, for subdivisions or groups within departments. In this manner, an organization scorecard can be decomposed, top-down, to generate a set of scorecards that, taken together, show which divisions and departments are responsible for achieving which of the goals and measures on the organizational scorecard. Following the Kaplan and Norton approach, an entire organization can be aligned, from top to bottom, with scorecards, just as an organization chart can show how reporting relationships are decomposed and structured.

Many organizations throughout the world have adopted the scorecard approach, but have not adopted Kaplan and Norton's four perspectives. Instead, most organizations tailor the perspectives to reflect the major concerns of their own organizations.

ECI's Balanced Business Scorecard			
Financial Perspective		**Internal Business Perspective**	
Goals	Measures	Goals	Measures
Survive	Cash flow	Technology capability	Manufacturing geometry vs. competition
Succeed	Quarterly sales growth & operating income by division	Manufacturing experience	Cycle time, Unit cost, Yield
	Increased market share and ROE		
Prosper		Design productivity	Silicon efficiency, Engineering efficiency
		New product introduction	Actual introduction schedule vs. plan
Innovation& Learning Perspective		**Customer Perspective**	
Goals	Measures	Goals	Measures
Technology leadership	Time to develop next generation	New products	Percent of sales from new products, Percent of sales from proprietary products
Manufacturing learning	Process time to maturity	Response supply	On-time delivery (defined by customer)
Product focus	Percent of products that equal 80% sales	Preferred supplier	Share of key accounts' purchases, Ranking by key accounts
Time to market	New product interdiction vs. competition	Customer partnership	Number of cooperative engineering efforts

Figure 1. ECI's Balanced Business Scorecard
(After a Figure in Kaplan and Norton's article "The Balanced Scorecard—Measures that Drive Performance" in HBR in the Jan-Feb. 1992 issue.)

Recently, Kaplan and Norton have written extensively on an approach to defining an organization's strategy and goals, which they term Strategy Maps. Using this approach, one works, bottom-up, identifying learning and growth goals, internal operational or process goals, customer goals and, ultimately, financial goals. (A Strategy Map from Kaplan and Norton's book *Strategy Maps* is illustrated in Figure 2.)

Business process practitioners can use both the Balanced Scorecard and the idea of a Strategy Map to good effect, with some qualifications. First, most process practitioners reject the idea that a process can be defined without reference to its outputs and the customers that consume the outputs. Thus, most process practitioners are a little nervous about the idea of layering processes under the customer perspective as if it were separate from the process perspective. If one simply thinks of a Strategy Map as a way of organizing mission or goal statements and puts the emphasis of level three on the "internal perspective" and not so much on process, then it works much better.

Processes describe how an organization gets its work done. But the value of the processes can only be determined by how well the processes produce products and services that customers value, and whether or not they produce profits for shareholders. At the same time, a good process design provides meaningful work for employees and challenges the organization, as a whole, to innovate. In other words, the entire Strategy Map could just as well be conceptualized as a Map of the goals of the organization's processes. If one takes this broad view, then Strategy Mapping can provide a nice tool for process practitioners.

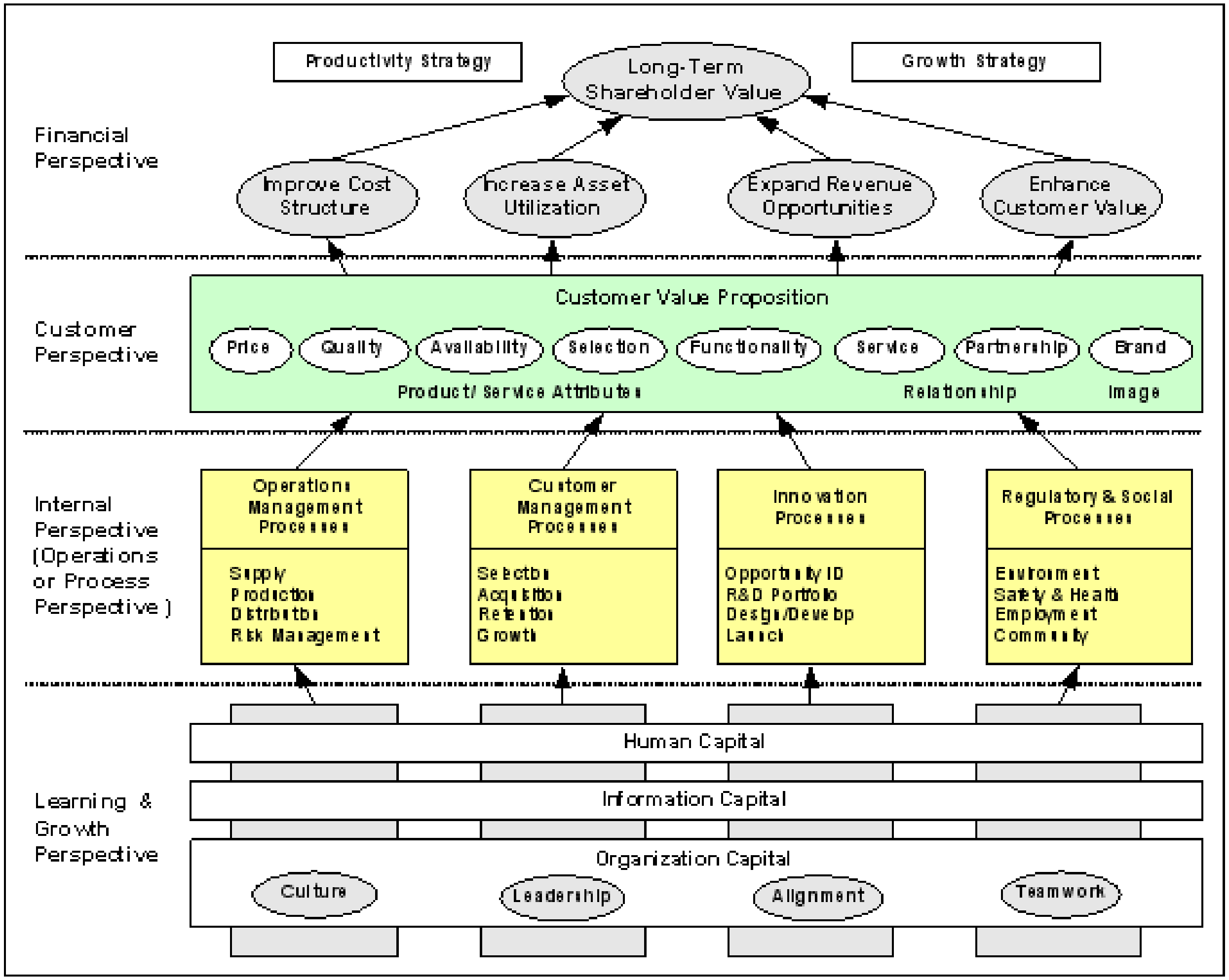

Figure 2. Balanced Scorecard Strategy Maps.
(Modified from figures in Kaplan & Norton's Strategy Maps)

The second thing that tends to make process practitioners nervous is the nature of the specific processes usually identified in articles on Strategy Mapping. (See, for example, the processes identified in Figure 3 from Kaplan and Norton's book on Strategy Maps.) They tend to be either very generic processes that have not been carefully analyzed or integrated into a value stream, or they are small processes that only exist within organizational silos or departments.

The broad thrust of the process movement since the early Nineties, however, has been to focus on aligning major business processes (value chains) that flow across divisional and departmental boundaries. Most studies of process problems at large organizations suggest that major process problems exist precisely because no one is managing or coordinating the handoffs between departments. Figure 3 shows a diagram that illustrates the relationship between the departmental silos and a major value chain or value stream.

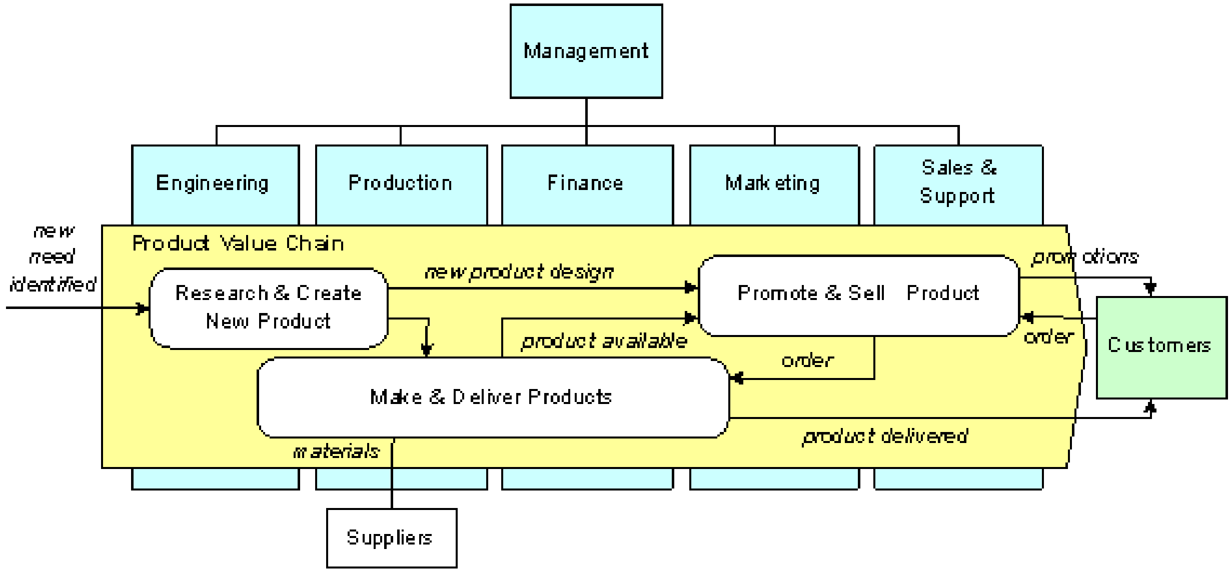

Figure 3. Divisional or Departmental Groups tend to form silos, while major processes cross Divisional or Departmental boundaries.

Organizations that have worked at improving their processes over a number of years invariably decide they need managers who are responsible for major processes that cross departmental boundaries. These "business process managers" have their own goals and measures which are not properly assigned to departments or divisions.

Scorecards for Processes

Several process initiatives have developed scorecards that are designed to work with processes. A good example is provided by the Supply Chain Council (SCC), a consortium of some 900 companies, worldwide, that developed a standard process model for supply chain processes. Their process model is supported by what they term a SCORcard, a scorecard that looks at seven different perspectives that a supply chain manager ought to track. This approach relies on the basic concepts we find in the Schneiderman-Kaplan-Norton approach, but with a slight difference. It begins by defining a scorecard for the organization and then defines a SCORcard for the entire supply chain. As the supply chain is broken down into subprocesses, the SCORcard is also subdivided so that managers of specific processes have specific and aligned process goals and measures.

In our own experience, process work is best approached by combining what has been learned from both the traditional departmental-focused Schneiderman-Kaplan-Norton approach and from the more recent work by SCC and others, to create process-specific scorecards. Assume we have an organization that is already using a scorecard. We begin by examining the organization's scorecard and dividing all of the goals and measures into two sets: Those that can most effectively be realized by departmental managers and those that can be better realized by process managers. In fact, some will be divided and assigned to both, and each will get refinements as it is delegated down to sub-divisions or sub-processes. The overall approach is illustrated in Figure 4.

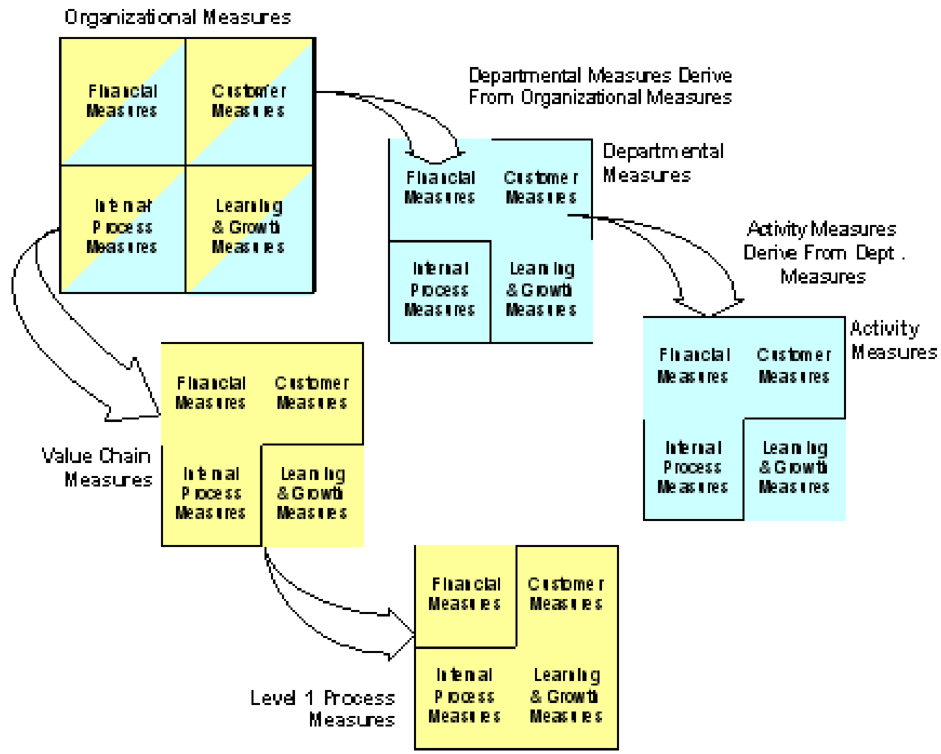

Figure 4. Using Balanced Scorecards for Both Functions and Processes.

In essence, process practitioners want to help their organizations define their major business processes. At the same time, process practitioners should work with any existing scorecard team to define goals and measures that ought to be assigned to managers responsible for major business processes. Depending on the way the organization elects to structure its process governance, there may only be high level process scorecards (like the SCORcard) or there may be several layers of process managers and scorecards.

However it is organized, the scorecard goals and measures tend to come together in the performance scorecards of middle-level managers. These individuals tend to report to departmental mangers, but also have a reporting relationship to the process managers. Consider a sales manager - the individual manager may be responsible for achieving a number of goals assigned by the VP of Sales, including seeing that the sales people generate a number of prospects, make a number of sales calls, etc. At the same time, the sales manager is responsible for other goals assigned by the process manager, including seeing that key information is passed to downstream or to support processes in a timely and appropriate manner. Figure 5 provides a very simple illustration of how the process and departmental goals and measures are ultimately aligned with the organizational scorecard and how they combine in the scorecards of specific managers or supervisors.

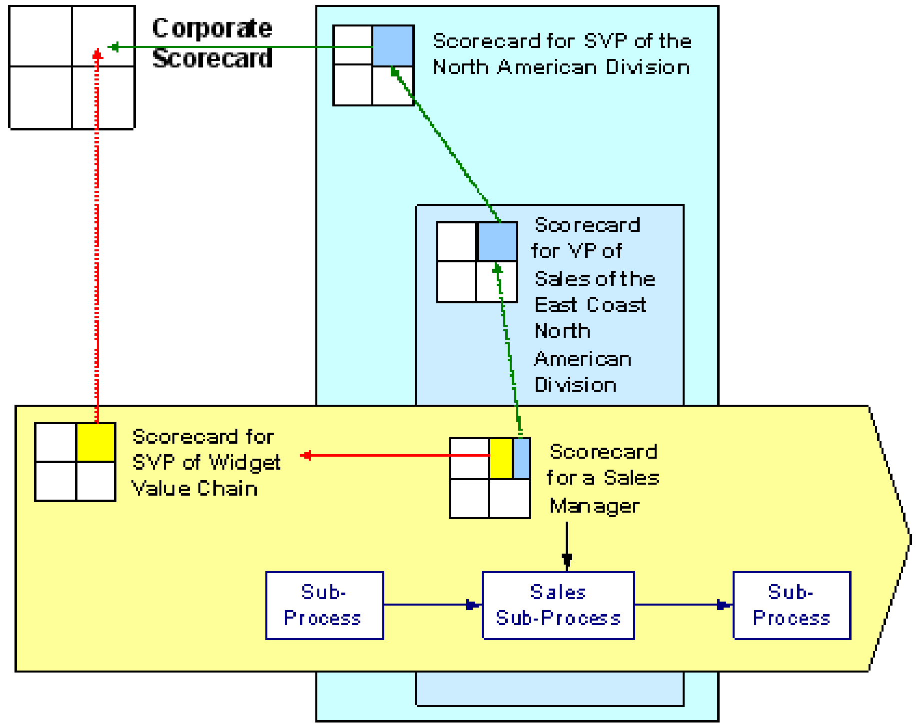

Figure 5. A sales manager may have both Sales Department and Widget Process goals and measures he or she is responsible for achieving.

This overview does not begin to go into the details of how a business process team might help an organization define business processes, identify performance measures, or define process scorecards. It does, however, suggest how an organization that has an existing balanced scorecard system can modify that system to incorporate process measures that will support the management and the ongoing improvement of major business processes.

In the long run, if process practitioners work together with scorecard practitioners to create a unified way of measuring the performance of both departments and value streams, the organization will be better aligned. At the same time, it will further the dialog about how processes relate to departments and will save the process managers from trying to establish an independent, duplicate performance measurement system. Working together, everyone wins.

Till next time,

Paul Harmon

For information on Schneiderman and the origins of the balanced scorecard concept, see www.schneiderman.com.

The original article on the Balanced Scorecard by Robert S. Kaplan and David P. Norton is in an article that appeared in *Harvard Business Review* in Jan-Feb of 1992. "The Balanced Scorecard—Measures that Drive Performance."

The figure on Strategy Mapping is derived from Robert S. Kaplan and David P. Norton's book *Strategy Maps* (HBS Press, 2004)

For more information on the Supply Chain Council and an overview of the use of SCORcard go to: www.supply-chain.org