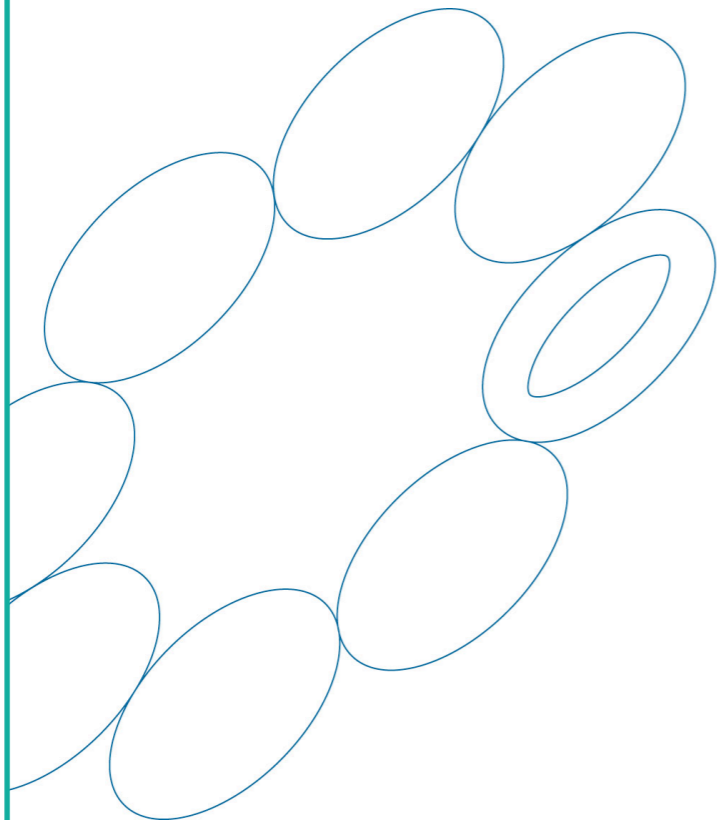


Performance Management using the Balanced Scorecard: The Past, The Present, The Future

A presentation to the 20th SQEA(SZKO) conference in Portorož, Slovenia.
by Gavin Lawrie, Managing Director, 2GC Active Management

10 November 2011



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The Balanced Scorecard

The scorecard tracks the key elements of a company's strategy – from continuous improvement and partnerships to teamwork and global scale.

The Balanced Scorecard – Measures That Drive Performance

by Robert S. Kaplan and David P. Norton

What you measure is what you get. Senior executives understand that their organization's measurement system strongly affects the behavior of managers and employees. Executives also understand that traditional financial accounting measures like return-on-investment and earnings-per-share can give misleading signals for continuous improvement and innovation – activities today's competitive envi-

The balanced scorecard is like the dials in an airplane cockpit: it gives managers complex information at a glance.

ronment demands. The traditional financial performance measures worked well for the industrial era, but they are out of step with the skills and competencies companies are trying to master today.

As managers and academic researchers have tried to remedy the inadequacies of current performance measurement systems, some have focused on making financial measures more relevant. Others have said, "Forget the financial measures. Improve operational measures like cycle time and defect rates; the

financial results will follow." But managers should not have to choose between financial and operational measures. In observing and working with many companies, we have found that senior executives do not rely on one set of measures to the exclusion of the other. They realize that no single measure can provide a clear performance target or focus attention on the critical areas of the business. Managers want a balanced presentation of both financial and operational measures.

During a year-long research project with 12 companies at the leading edge of performance measurement, we devised a "balanced scorecard" – a set of measures that gives top managers a fast but comprehensive view of the business. The balanced scorecard includes financial measures that tell the results of actions already taken. And it complements the financial measures with operational measures on customer satisfaction, internal processes, and the organization's innovation and improvement activities – operational measures that are the drivers of future financial performance.

Robert S. Kaplan is the Arthur Lowes Dickinson Professor of Accounting at the Harvard Business School. David P. Norton is president of Nolan, Norton & Company, Inc., a Massachusetts-based information technology consulting firm he cofounded.

HARVARD BUSINESS REVIEW January-February 1992

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All Grown Up?

- o It is over 20 years since the Balanced Scorecard first emerged, and nearly 20 years since the first widely distributed details of the device were published
- o In this presentation we will look at three aspects Balanced Scorecard:
 - The Past: How Balanced Scorecard developed over the last 20 years
 - The Present: How Balanced Scorecard is today
 - The Future: What may happen to Balanced Scorecard in the years to come

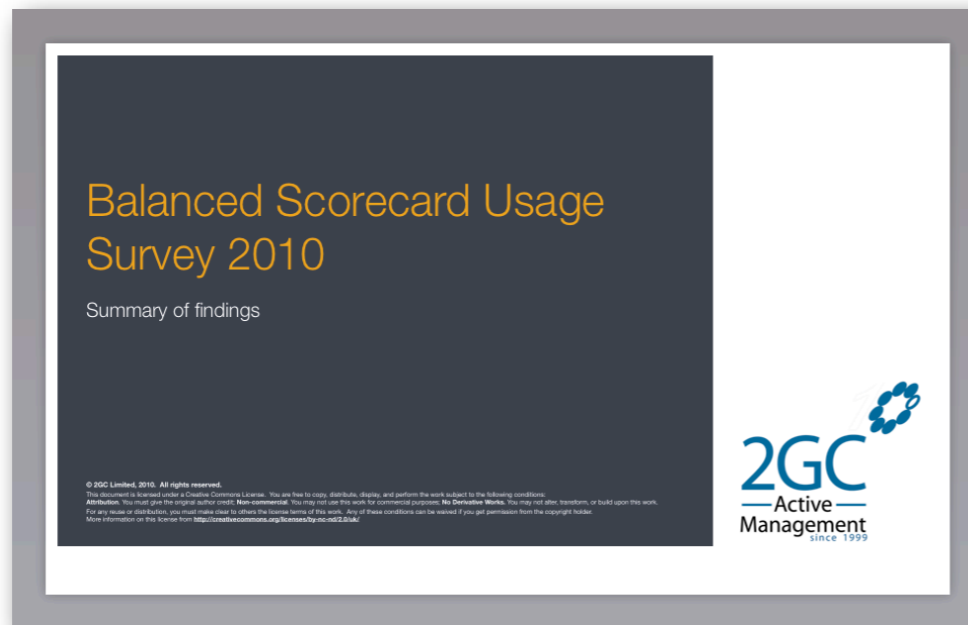
2GC Active Management Performance Management Expertise and Experience



Publications / Website



Experience in over 40 countries



Continuing Research Activities

Gavin Lawrie

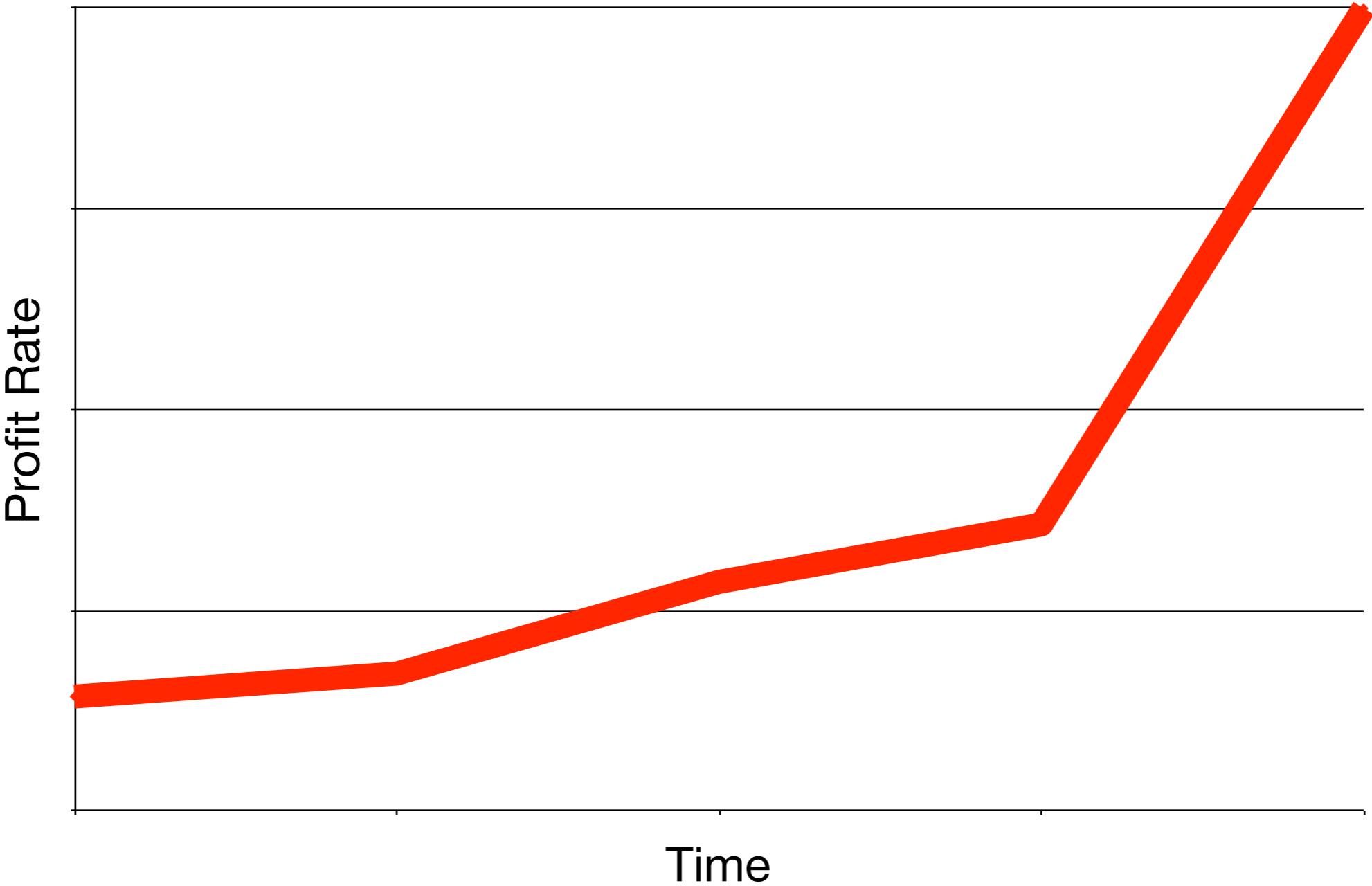
- Expert on Balanced Scorecard and Performance Management
- 1995 - Renaissance Worldwide (working directly with David Norton)
- 1999 - 2GC Active Management
- International experience: private, public and NGO sectors



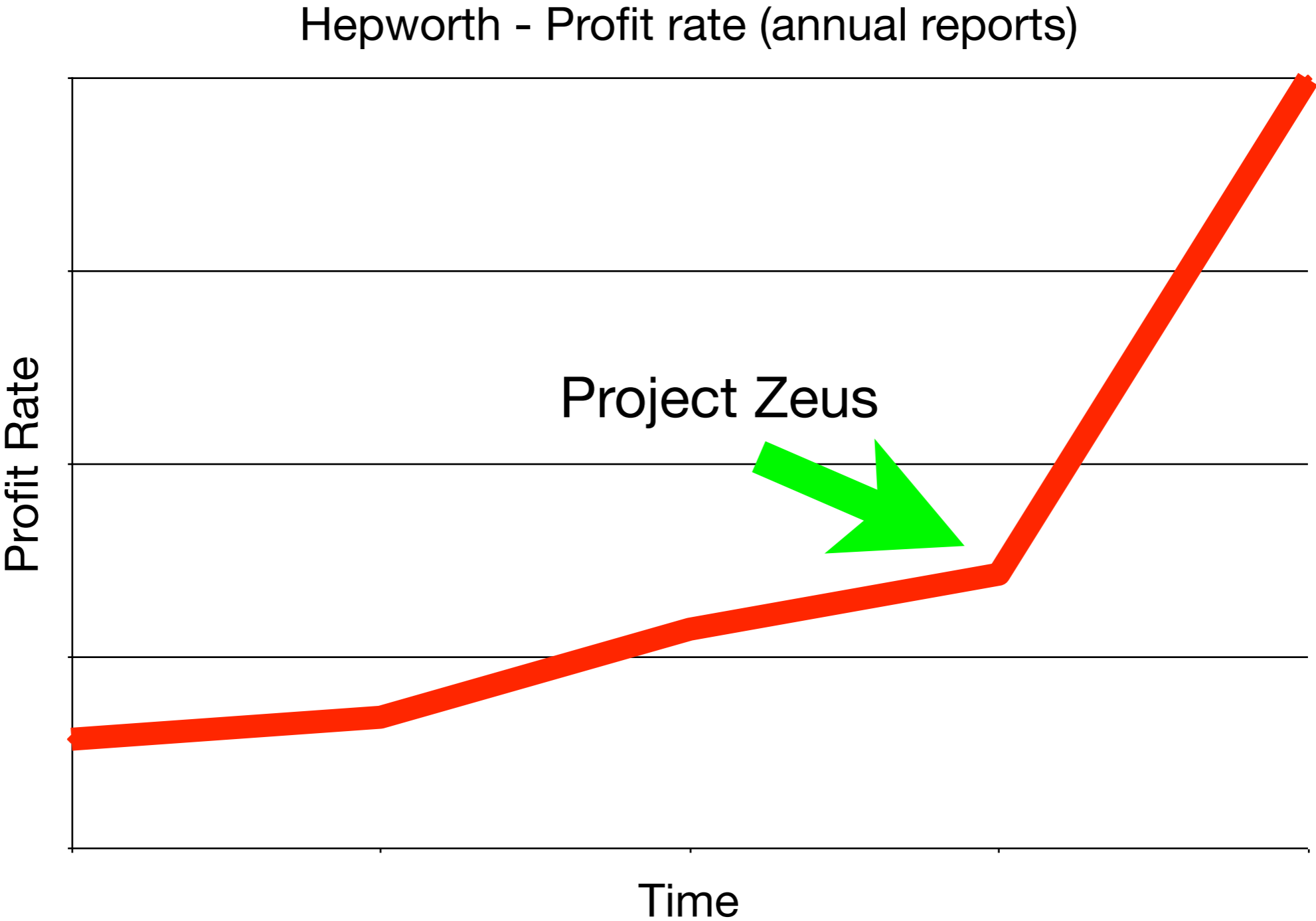
Good advice or good marketing...?

Good advice or good marketing...?

Hepworth - Profit rate (annual reports)

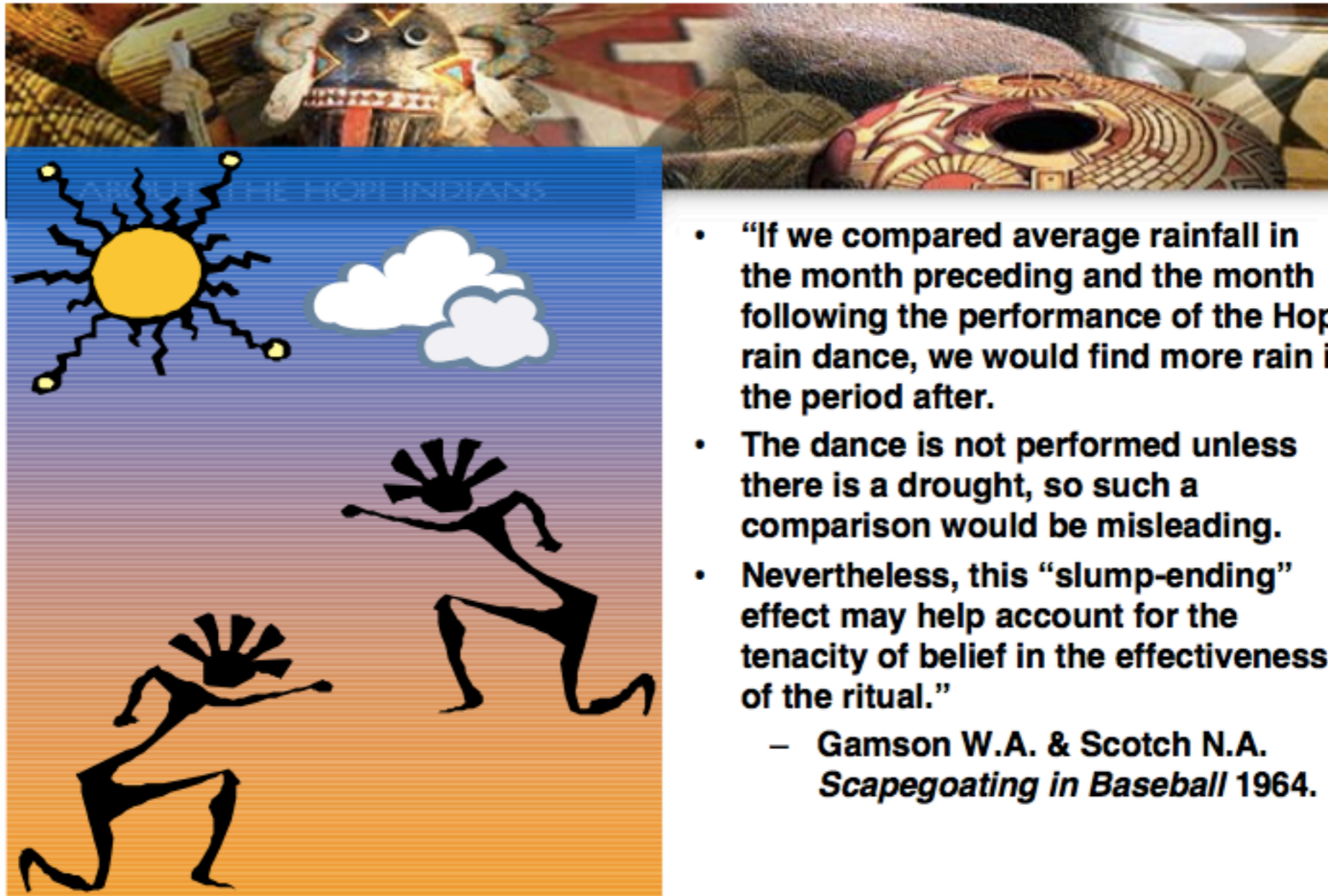


Good advice or good marketing...?



Good advice or good marketing...?

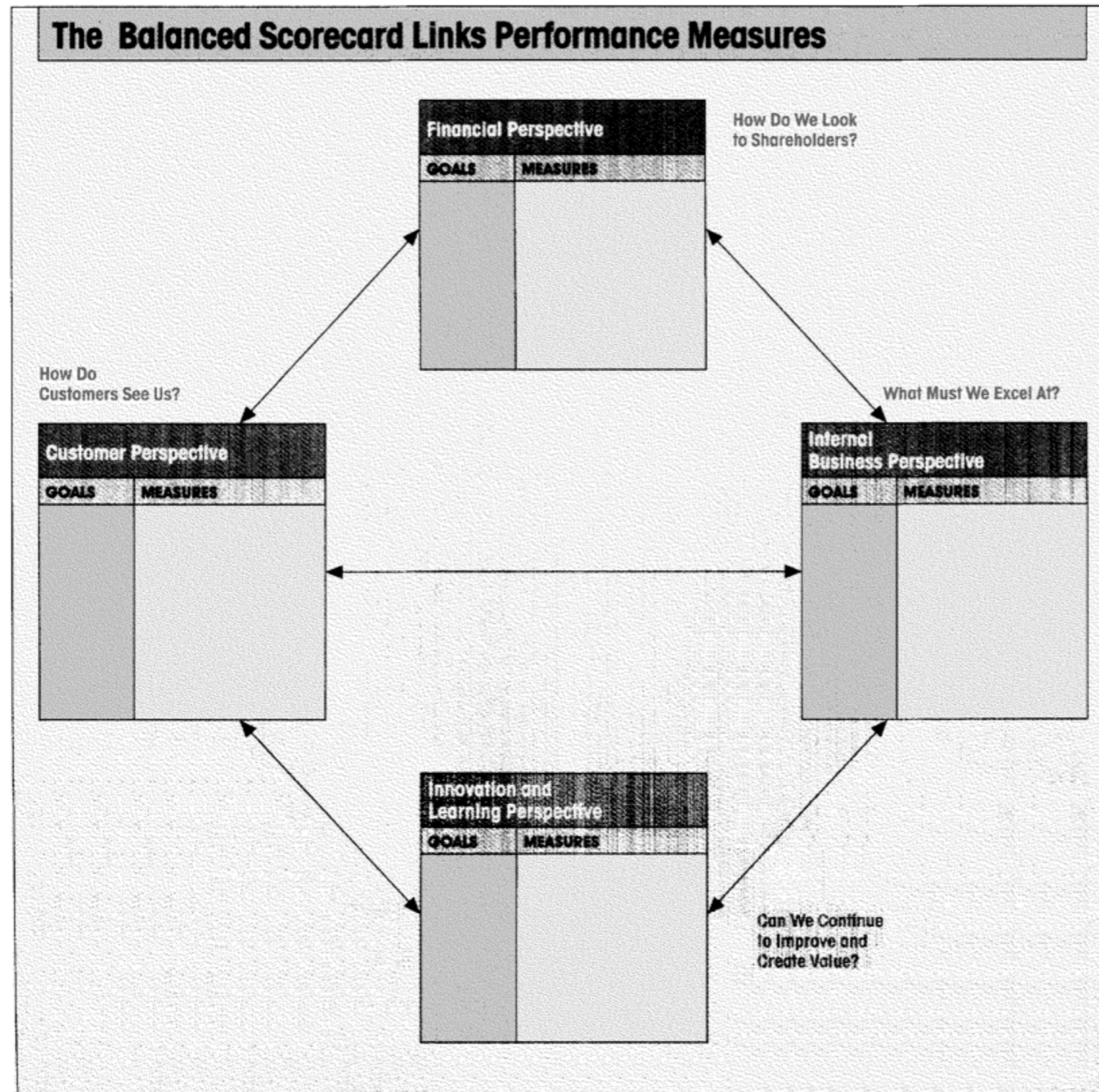
deciding what to measure – a cautionary tale...



- “If we compared average rainfall in the month preceding and the month following the performance of the Hopi rain dance, we would find more rain in the period after.
- The dance is not performed unless there is a drought, so such a comparison would be misleading.
- Nevertheless, this “slump-ending” effect may help account for the tenacity of belief in the effectiveness of the ritual.”
 - Gamson W.A. & Scotch N.A. *Scapegoating in Baseball 1964.*

Time

The Balanced Scorecard

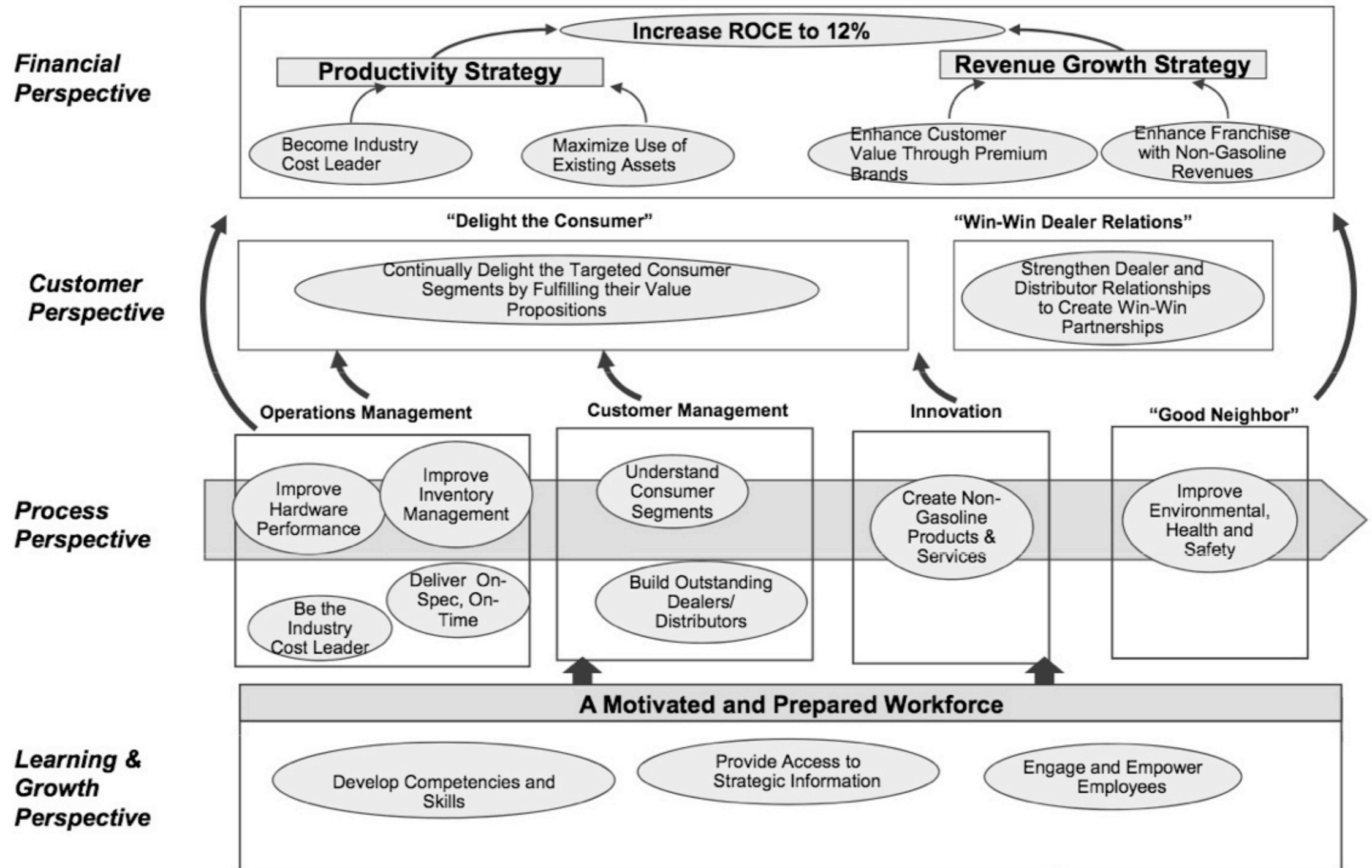


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The Balanced Scorecard

This is an example of a Balanced Scorecard design



The Balanced Scorecard

This is an example of a Balanced Scorecard report

Priority	Owner	Indicator	Target	Actual	Status	Freq.
O2 - Results-oriented programming/ high quality delivery	KW	% of programmes evaluated meeting Quality assurance standards	90%	92%	Green	Quarterly
		Internal views on quality of programme support provided by TSD, SPO,	7	6.8	Yellow	Annual?
		Delivery assessment by COs as per DOS missions	7.5	7.3	Yellow	Annual?
O4 - Improved capacity to build partnerships	TO	Number of HQ-held partnerships evaluated as "strong"	20	21	Green	Quarterly
		Number of public statements by HQ partners per quarter supporting the	5	3	Yellow	Quarterly
		<i>To be decided</i>				
A1 - Market the Agency, advocate, & communicate externally	MS	Milestones of a communications plan to market/advocate to key external	on track	on track	Green	Quarterly
		Number of external applications to professional posts	105	75	Red	Quarterly
		Implement the UN Reform strategy against milestones	on track	Partially on track	Yellow	Quarterly
A6 - Develop staff technical and managerial capacity	SH	Milestones of a plan to complete a staff skills/training needs inventory	on track	on track	Green	Quarterly
		Milestones of the training plan completed	on track	on track		Quarterly
		% of staff trained v plan	95%	90%	Yellow	Quarterly

The Balanced Scorecard

Widely discussed

Those in favour

- o “The Balanced Scorecard helped us deliver superior performance consistently and predictably in all facets of our operations
 - Kris Gopalakrishnan - Infosys
- o “The Balanced Scorecard helped us align with existing strategy in a more transparent way. Team members understand the strategy and align their objectives and incentives to performance that will help us achieve our strategic goals”
 - Dieter Huckestein - Hilton Hotels

Those against

- o “The original purpose of non-financial performance measures was to fill out the picture provided by traditional financial accounting. Instead, such measures seem to have become a shabby substitute for financial performance. Our study shows that they will offer little guidance...”
 - Christopher D. Ittner - Wharton School of the University of Pennsylvania
- o “Kaplan and Norton offer no convincing documentation that, by using the Balanced Scorecard model, companies may attain the results claimed to follow from the application of the model.”
 - Hanne Norreklit - Aarhus School of Business

Balanced Scorecard's Parents...

Balanced Scorecard relies on many basic concepts

- o 4500BC - Counting for commercial purposes (Mesopotamia)
- o 1000BC - Standard accounting for military campaigns (Persia)
- o 200BC - Volume production during Punic Wars (Rome)
- o 1500 - Bookkeeping (Italy)
- o 1600 - Joint Stock Companies (Netherlands)
- o 1750 - Standardisation of measurements (France)
- o 1803 - "Mass production" (England / USA)
- o 1903 - Numerical control (US / Midvale Steel)
- o 1920 - Ratio Analysis (US / Dupont)
- o 1920 - Hierarchical organisations (GM / Weber)
- o 1930 - Tableau de Bord (France)
- o 1940 - Resource Based View of Management (Coase, Penrose)
- o 1950 - Causal Modelling / Learning Systems (J Forrester)
- o 1960 - Sociotechnical Systems (Tavistock Institute)
- o 1960 - Corporate Strategy / Design School (LCAG / Harvard Business School)
- o 1970 - Contract Theory (Williamson)
- o 1980 - Data-centric corporate management (IBM)

Balanced Scorecard's Arrival

From the outset, *management* not *measurement* was key

The scorecard tracks the key elements of a company's strategy—from continuous improvement and partnerships to teamwork and global scale.

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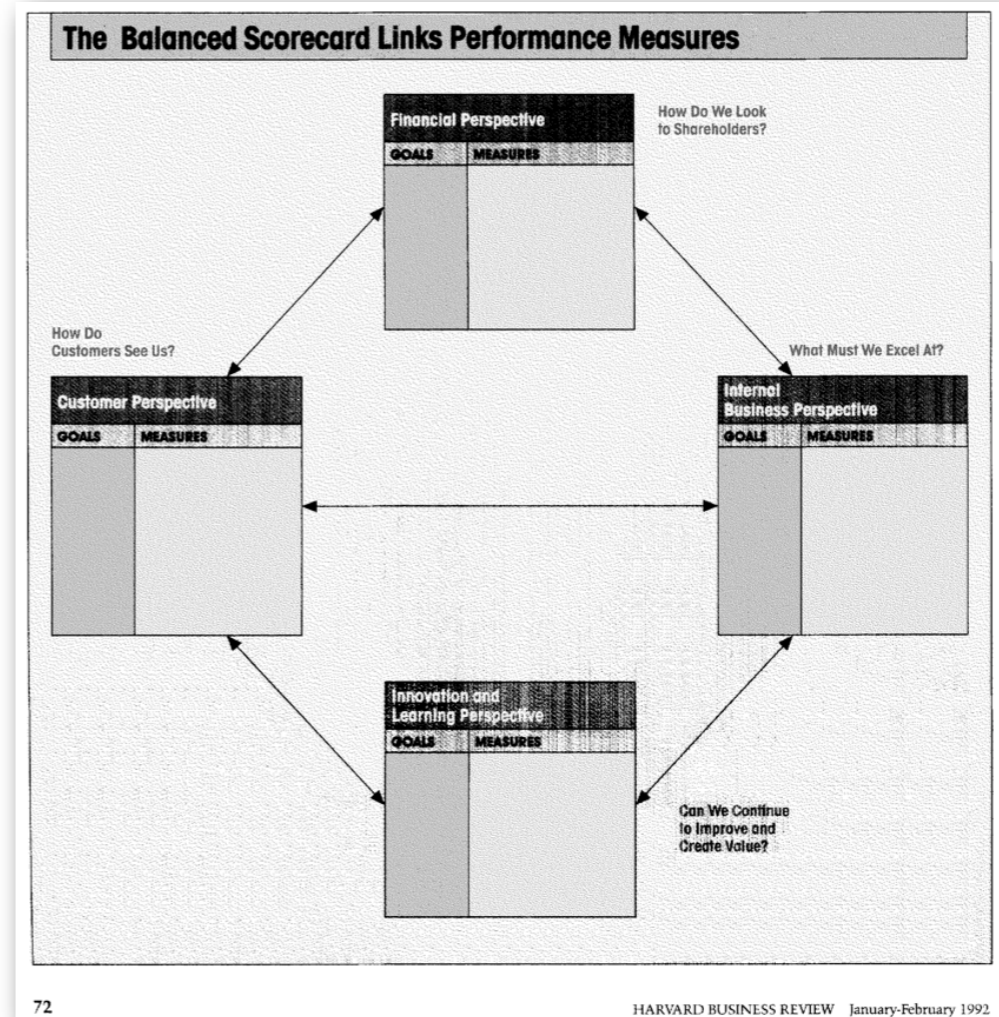
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Balanced Scorecard's Arrival

From the outset, *management not measurement* was key

“The Balanced Scorecard puts strategy and vision, not control, at the center. It establishes goals, but assumes that people will adopt whatever actions are necessary to arrive at those goals. The measures are designed to pull people toward the overall vision. Senior managers may know what the end result should be, but they cannot tell employees exactly how to achieve that result, if only because the conditions in which employees operate are continually changing.”

• Kaplan & Norton, HBR 1992

Growing up...
The early years - 1992 to 1995



CIGNA



Growing up...

The early years - 1992 to 1995

- “But on balance, the Balanced Scorecard only encapsulates knowledge that managers had already learned” - AMD, quoted in K&N HBR Article 1993.

**GEMINI**



 **CHEMICAL**



CIGNA



Mobil

**2GC**

Growing up...

The early years - 1992 to 1995

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GEMINI



CIGNA

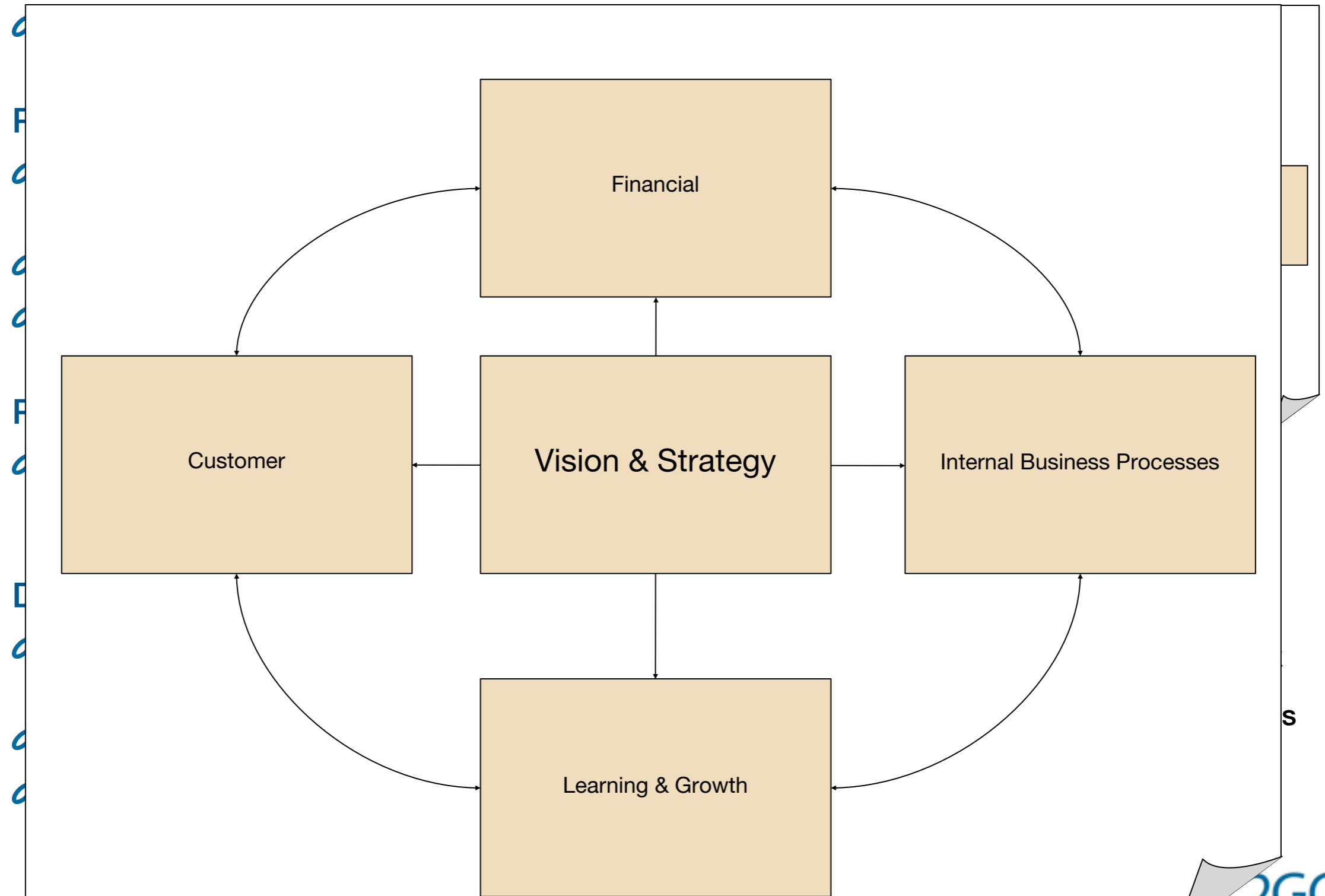
- “At the beginning, the scorecard drove significant and considerable change. ... But now its main impact is to help sustain programs our people have been working on for years” - Jerry Fishman, Analog Devices, 1992



Growing up... The early years - 1992 to 1995

1st Generation Balanced Scorecards

1st Generation Balanced Scorecard



Growing up... The early years - 1992 to 1995

1st Generation Balanced Scorecards

1st Generation Balanced Scorecard

- First appeared in 1992 introduced by Kaplan and Norton

Physical Characteristics

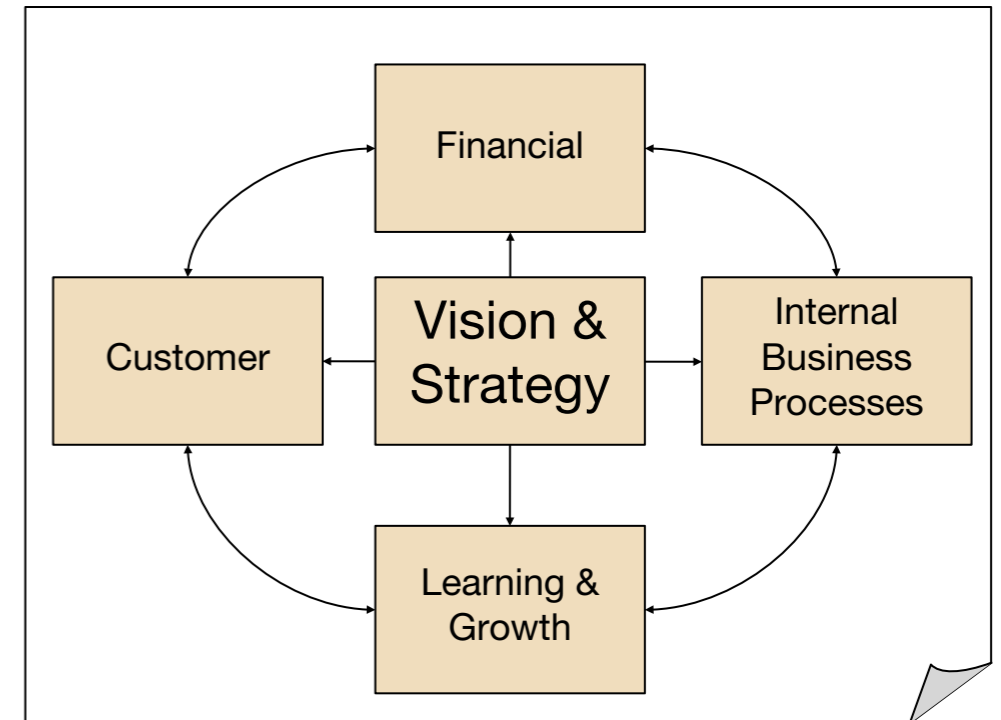
- Combination of financial and non-financial performance measures
- Four linked perspectives
- Balanced View of “leading” and “lagging” measures of performance

Process Characteristics

- Often developed by consultants with minimal input from the line management team

Design Comments

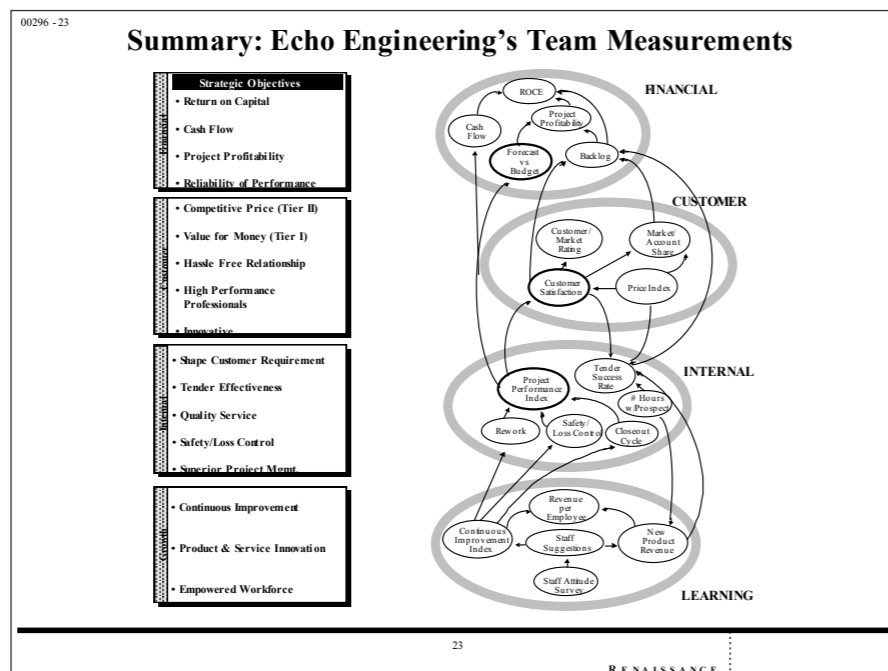
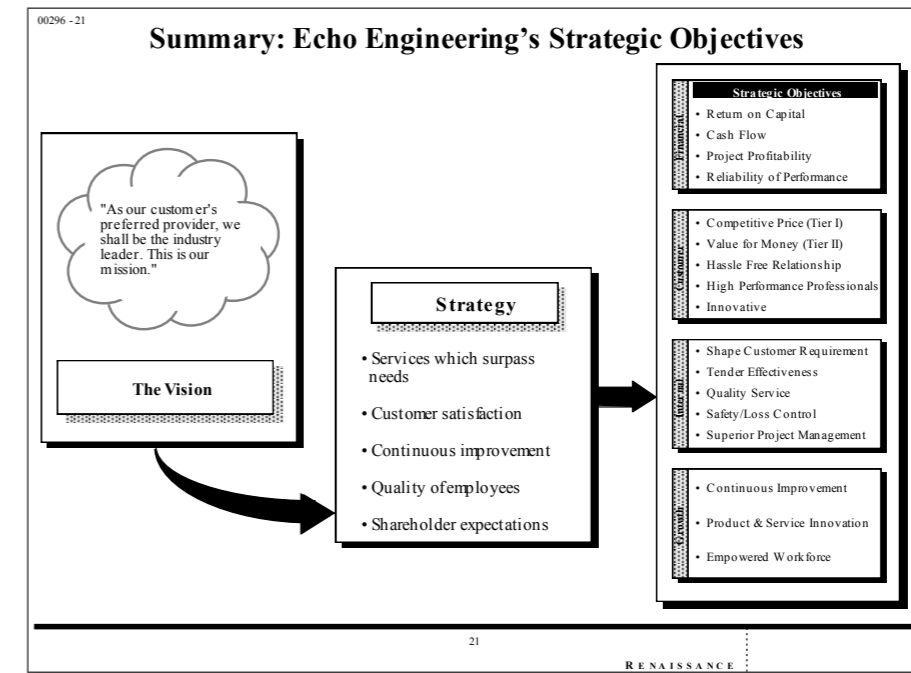
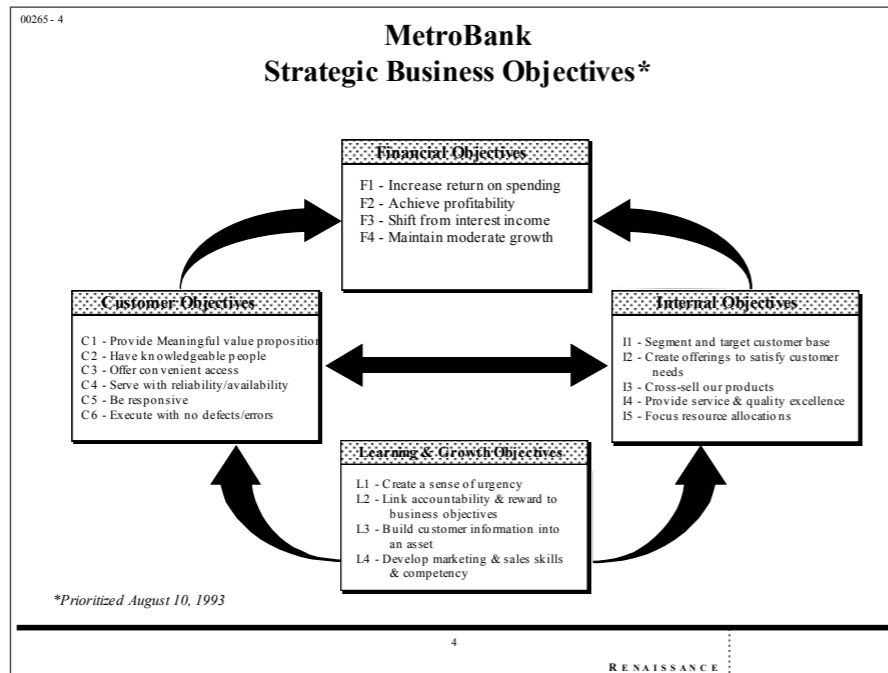
- Design does not generate management buy-in
- Picking measures and targets is hard
- Difficult to translate into changes in activity or behaviour.



Find out more:

- Kaplan and Norton's original work
- 'Balanced Scorecard' quick guides
- Basic text books
- Case studies and web sites

An Example Balanced Scorecard design from 1993



"Metrobank / Echo Engineering"

- Causality shown between perspectives
- Strategic objectives developed from Vision and Strategy
- Causality shown retrospectively between measures, but causality not key in design process

An Example Balanced Scorecard design from 1993

“Senior managers at ECI, for example, established general goals for customer performance:

- o get standard products to market sooner,
- o improve customers’ time to market,
- o become customers’ supplier of choice through partnerships with them, and
- o develop innovative products tailored to customer needs.

The managers translated these general goals into four specific goals and identified an appropriate measure for each.”

Growing up...

The middle years - 1996 to 2004

Design methods begin to evolve,
both mythology and criticism
mounts

- o Kaplan & Norton begin to move their focus from Performance Management towards using Balanced Scorecard as a mechanism to drive general Strategic Management activity
- o New design methods emerge focused on making goal articulation easier
- o Application of Balanced Scorecard in the Public Sector becomes more common
- o First examples of “echoing” emerges with books and articles being published that largely restate material taken from Kaplan & Norton’s original work - especially regarding “case studies”
- o Balanced Scorecard supporters begin to make outlandish claims...

Growing up...

The middle years - 1996 to 2004

The Balanced Scorecard Has Enabled Organisations to Implement Strategy Reliably and Rapidly

	Balanced Scorecard Introduced	Status	Year	Status
Brown & Root Engineering (Rockwater)	1993	Losing money	1996	#1 in growth and profitability
Mobil Oil (USM&R)	1993	#7 in profitability	1995	#1 in profitability <input type="checkbox"/> "Buy" <input type="checkbox"/> Stock +80%
CIGNA Property and Casualty	1993	\$400 M loss	1995	<input type="checkbox"/> Profitable <input type="checkbox"/> "Buy" <input type="checkbox"/> Stock +80%
Chase Bank	1991	\$100 M op income	1996 1997	\$600 M op income \$700 M op income

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Page



Outlandish claims...



Growing up...

The middle years - 1996 to 2004

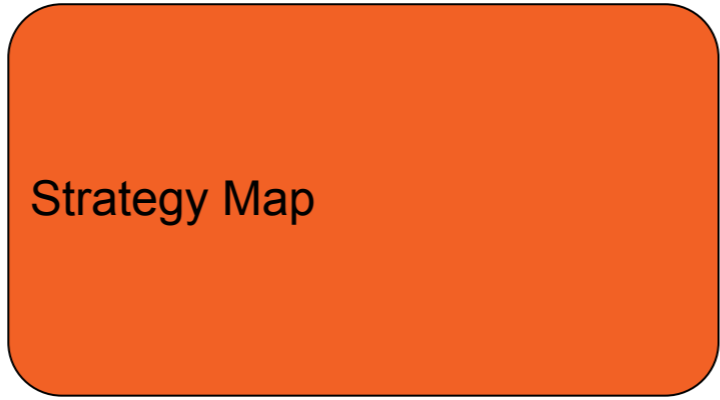
Design methods begin to evolve, both mythology and criticism mounts

- o **The lack of clear ‘wins’ noted in early years begins to trigger negative research papers and articles about Balanced Scorecard**
- o **Attempts made to link Balanced Scorecard to other less popular frameworks...**
- o **Computer ‘automation’ of Balanced Scorecard moves from labs to mainstream**

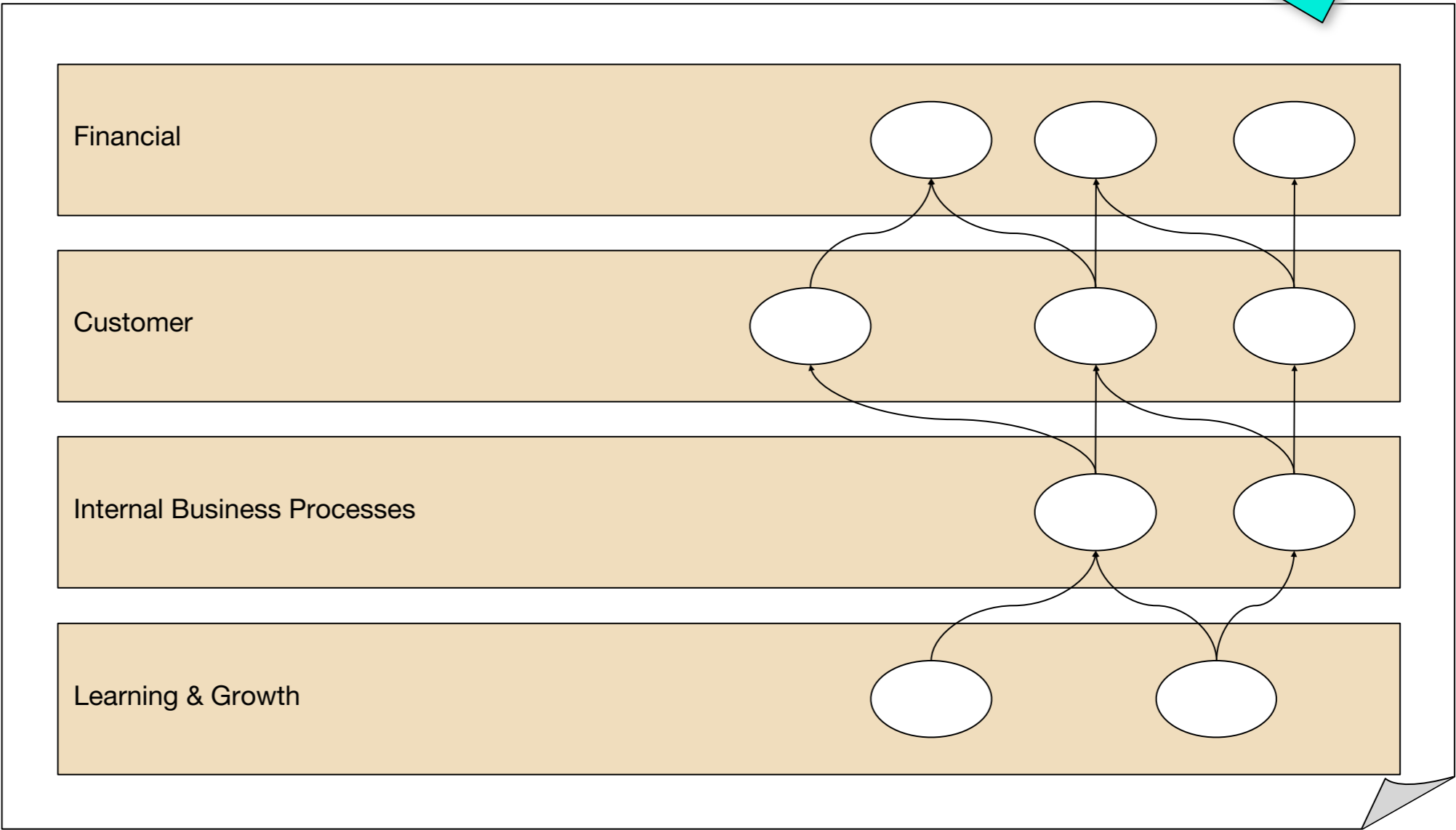
Growing up... The middle years - 1996 to 2004

2nd Generation Balanced Scorecards

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Objectives plus a set of measures!



or



Growing up... The middle years - 1996 to 2004

2nd Generation Balanced Scorecards

2nd Generation Balanced Scorecard

- Changes were made to the design process - adding a Strategy Map

Physical Characteristics

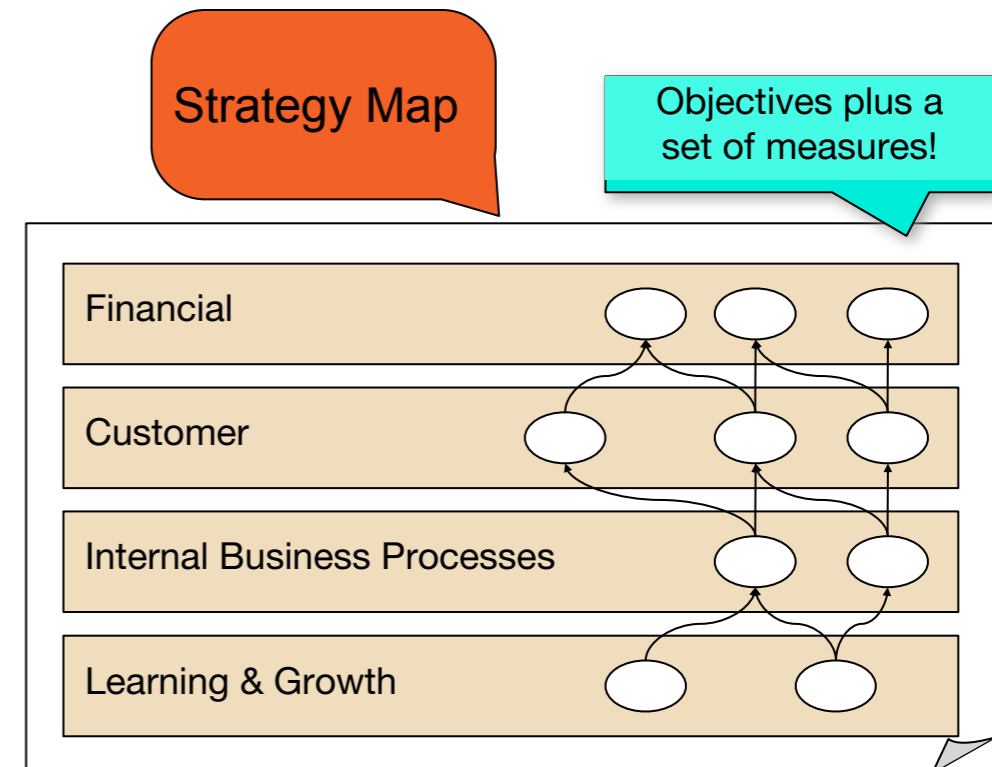
- Objectives are selected first then measures are then chosen from these
- Objectives are linked - Strategy Map (or Strategic Linkage Model)
- Perspective names are often changed – especially in the public sector

Process Characteristics

- Frequently developed offline by internal planners/strategists or external consultants still with minimal input from line management
- Becoming more used for strategic management

Design Comments

- Easier to design than 1st Generation
- Choosing measures and targets still hard
- Developing 'cascaded' Balanced Scorecards from Strategy Maps is difficult
- Can still demotivate managers

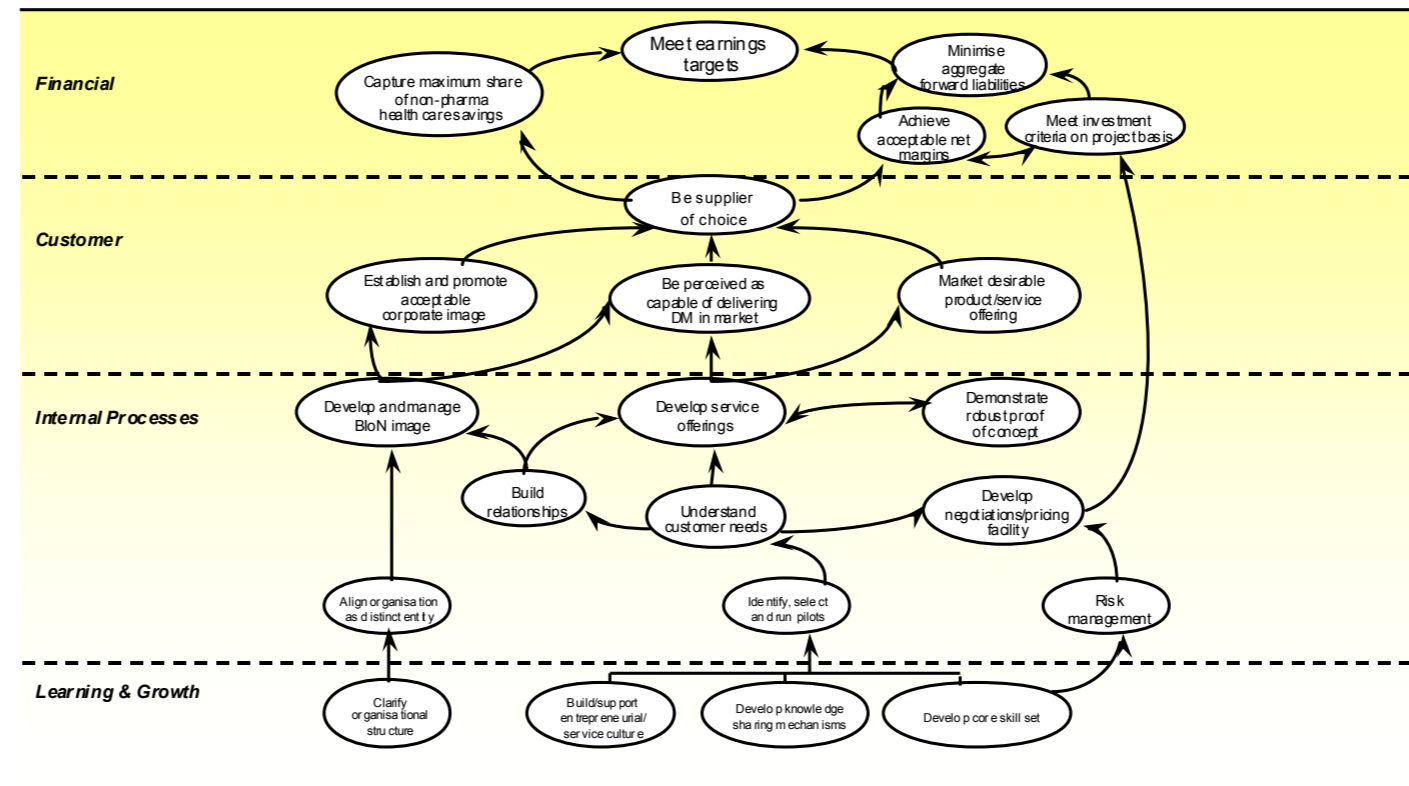


Find out more:

- Kaplan and Norton's second book
- More advanced text books
- Case reporting especially from Public Sector organisations

An Example Balanced Scorecard design from 1998

BioN country level Balanced Scorecard Template Strategic Linkage Diagram



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Page 46



“Bion”

- Causality shown between objectives
- Strategic objectives developed from Vision and Strategy
- Measures / Targets chosen to inform on objective delivery, but no attempt to show linkage between measures

Growing up... The later years - 2004 to today

3rd Generation Balanced Scorecard

3rd Generation Balanced Scorecard

- Changes were made to make target setting and cascading easier. It was found that these 'fixes' also made Balanced Scorecard design easier and more reliable.

Physical Characteristics

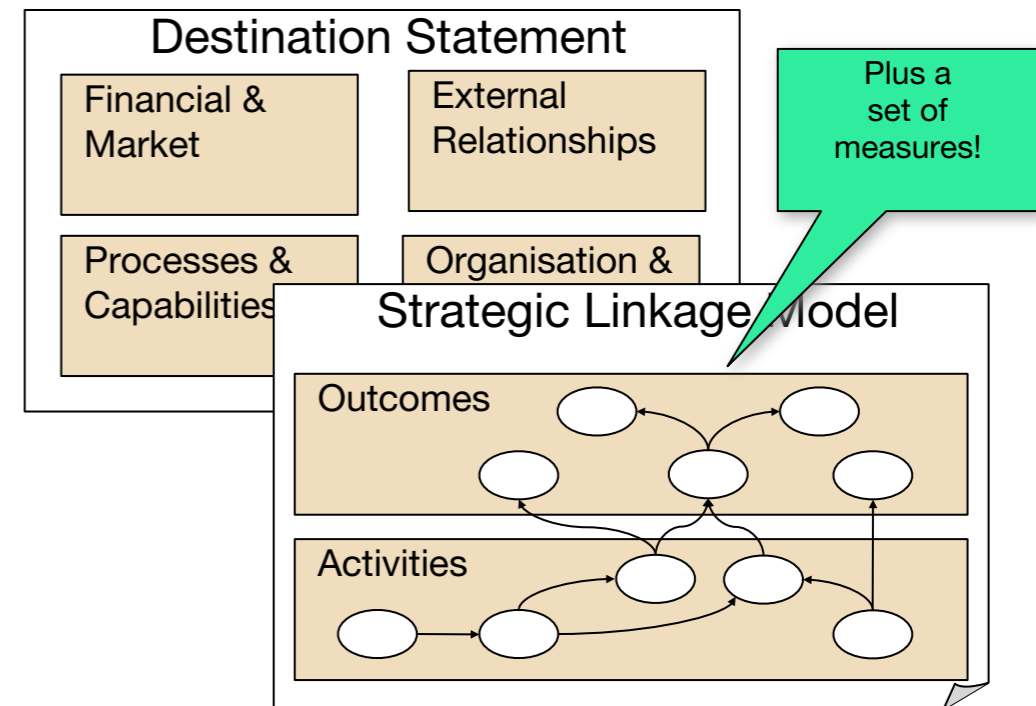
- Consensus is first built around long term goals – the 'Destination Statement'
- Strategy maps have been made simpler by removing the perspectives. Objectives are now either 'Outcomes' or 'Activities'

Process Characteristics

- Modern Balanced Scorecards are built by the line management teams in live working session.
- Workshops seek to make difficult choices and build consensus about priorities.

Design Comments

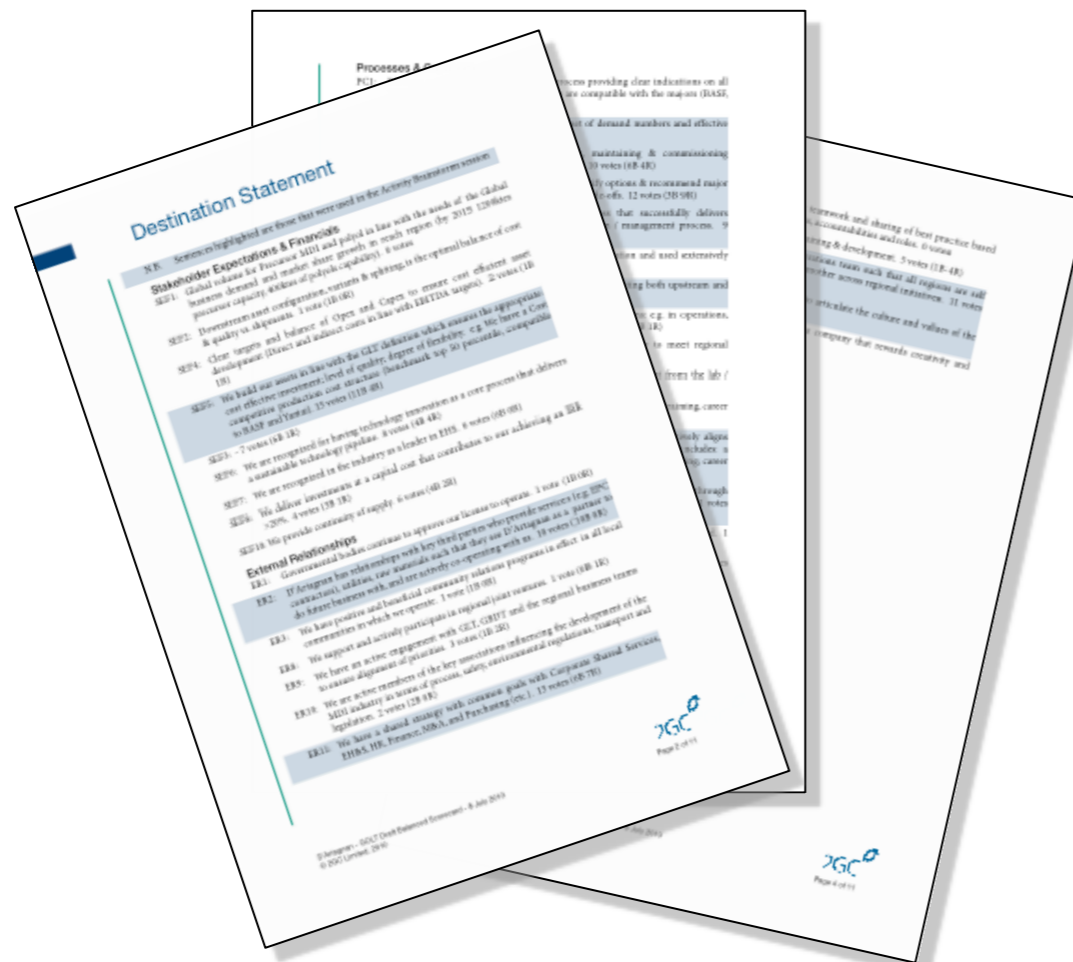
- The first 3rd Generation designs appeared in 1998. Key is involving line management who are to manage using the BSC
- Similar to the Results Based Management model used in many NGOs
- 3rd Generation is the current 'state of the art' performance management design



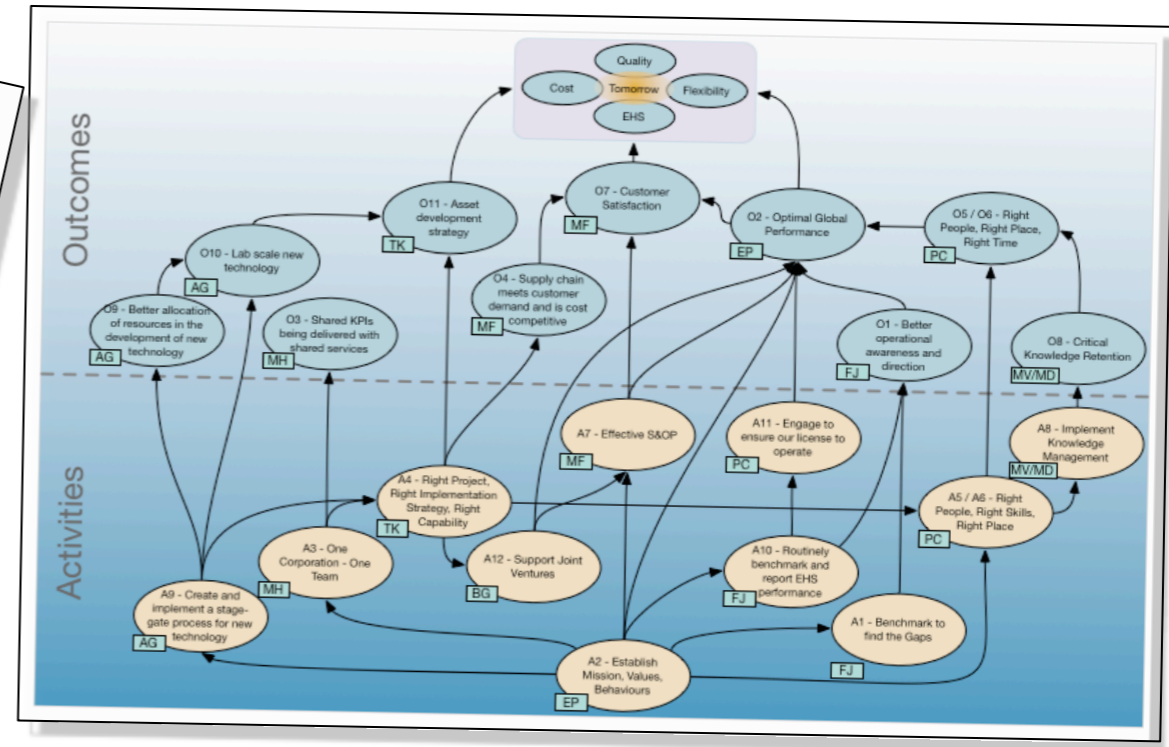
Find out more:

- 2GC published literature - www.2gc.co.uk
- Academics and advanced practitioners
- Parallel literature from Public Sector (especially Australia) and NGO sector (e.g. UN WFP).

An Example Balanced Scorecard design from 2010



Destination Statement



Strategic Linkage Model

“D’Artagnan Chemicals”

- Causality shown between objectives
- Impact of strategy on unit at specific date in future captured in “Destination Statement”
- Strategic Linkages, Objectives and Measures / Targets all chosen with reference to consensus view of required impact of strategy, to give an “aiming point” for subsequent revisions to Balanced Scorecard / strategy

An Example Balanced Scorecard design from 2010

Destination Statement

Stakeholder Expectations & Financials

SE1: Global volume for Finavance MDI and polyol in line with the needs of the Global business demand and market share growth in each region (by 2015 120/100)

SE2: Downstream asset & quality vs. shipment 10

SE3: Clear targets and development (2015 10)

SE4: We build our assets in line with the needs of the Global business demand and market share growth in each region (by 2015 120/100)

SE5: Downstream asset configuration, variants & splitting, to the optimal balance of cost & quality vs. shipment 10

SE6: Clear targets and balance of Oper and Capex to ensure cost efficient asset development (Direct and indirect costs in line with EBITDA targets). 2 votes (10 10)

SE7: We build our assets in line with the G&T definition which ensures the appropriate cost effective investment, level of quality, degree of flexibility. 2 votes (10 10)

SE8: We are recognized for having technology innovation as a core process that delivers competitive production cost structure (benchmark top 5) percentage, comparable to BASF and Yantao. 15 votes (110 40)

SE9: - 7 votes (40 10)

SE10: We are recognized for having technology innovation as a core process that delivers a sustainable technology pipeline. 8 votes (40 40)

SE11: We are recognized as a capital cost that contributes to our achieving an EBITDA. 6 votes (40 20)

SE12: We deliver investments at a capital cost that contributes to our achieving an EBITDA. 4 votes (20 10)

SE13: We provide continuity of supply. 6 votes (40 20)

External Relationships

ER1: Governmental bodies continue to approve our licenses to operate. 3 votes (10 0)

ER2: D'Artagnan has relationships with key third parties who provide services (e.g. EPC contractors), utilities, raw materials such that they see D'Artagnan as a partner to do future business with, and are actively co-operating with us. 10 votes (100 0)

ER3: We have positive and beneficial community relations programs in effect in all local communities in which we operate. 1 vote (10 0)

ER4: We support and actively participate in regional joint ventures. 1 vote (10 0)

ER5: We have an active engagement with GET, GHPT and the regional business teams to ensure alignment of priorities. 3 votes (10 20)

ER6: We are active members of the key associations influencing the development of the MDI industry in terms of process, safety, environmental regulations, transport and legislation. 2 votes (20 0)

ER7: We have a shared strategy with our main goal with Corporate Shared Services (EHS, HR, Finance, MBA, and Purchasing (etc.)). 13 votes (40 70)

Processes & Capabilities

PC1: ... providing clear indications on all ... compatible with the major (BASE), ... of demand numbers and effective ... maintaining & commissioning ... 10 votes (10 40) ... options & recommend major ... 12 votes (10 90) ... that successfully delivers ... / management process. 9 ... and used extensively ... ing both upstream and ... e.g. in operations. ... (10) ... to most regional ... from the lab / ... training, career ... ally aligns ... (10) career ... through ... votes ...

Destination Statement

OS - Critical Knowledge Retention

AS - Implement Knowledge Management

MS - Manage Skills, Face

Destination
 “D’Artagnan Chem

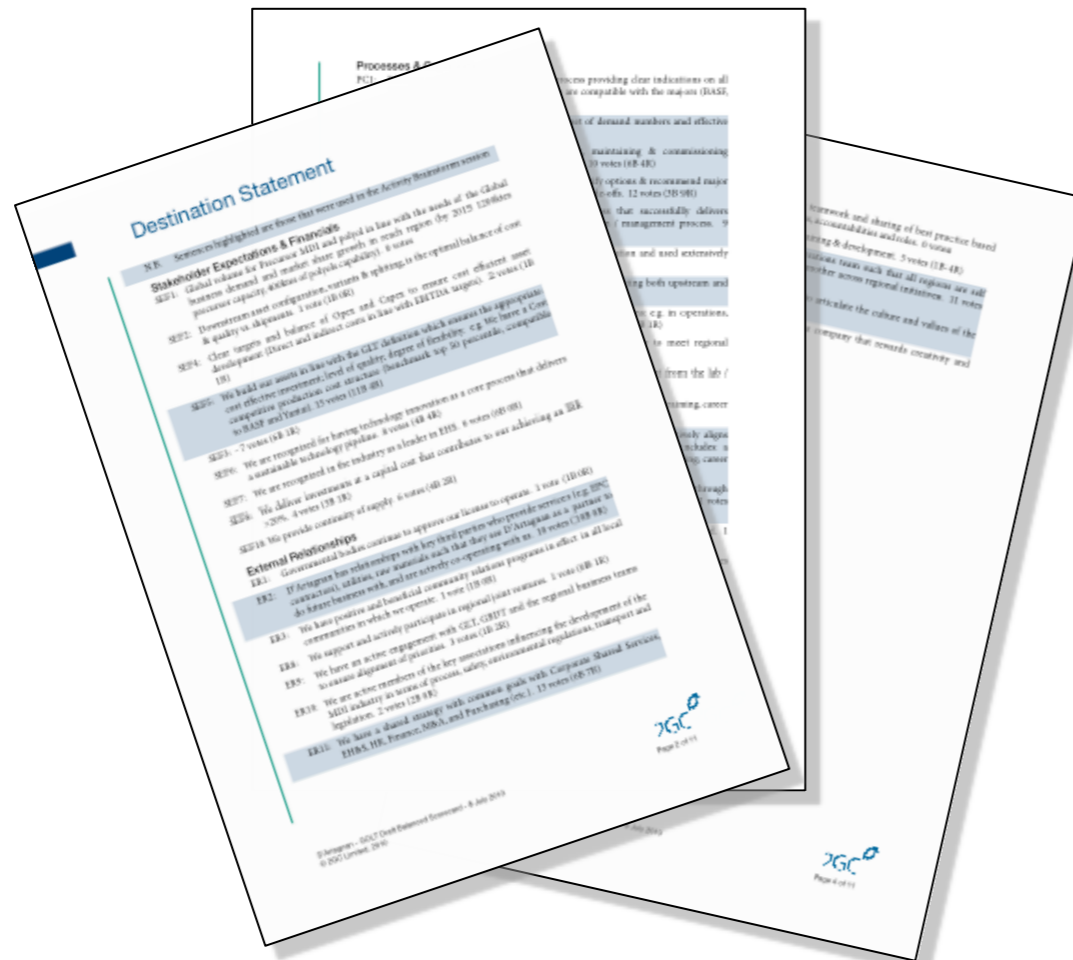
- o Causality shown b
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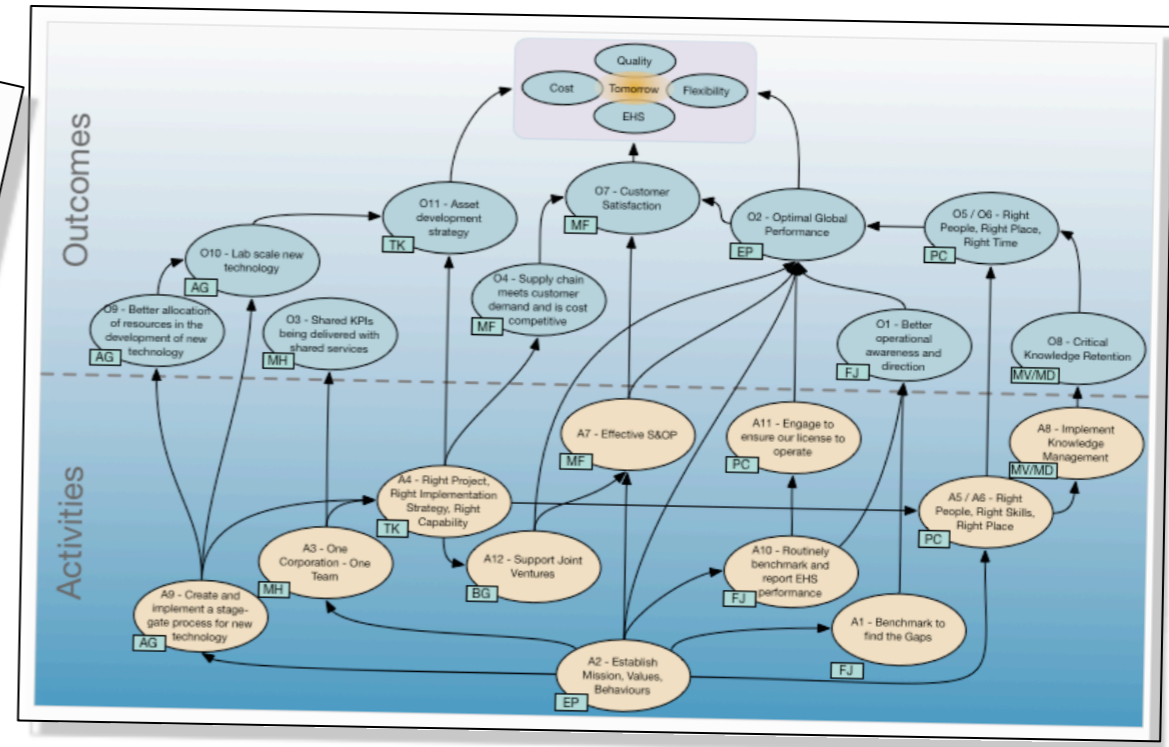
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An Example Balanced Scorecard design from 2010



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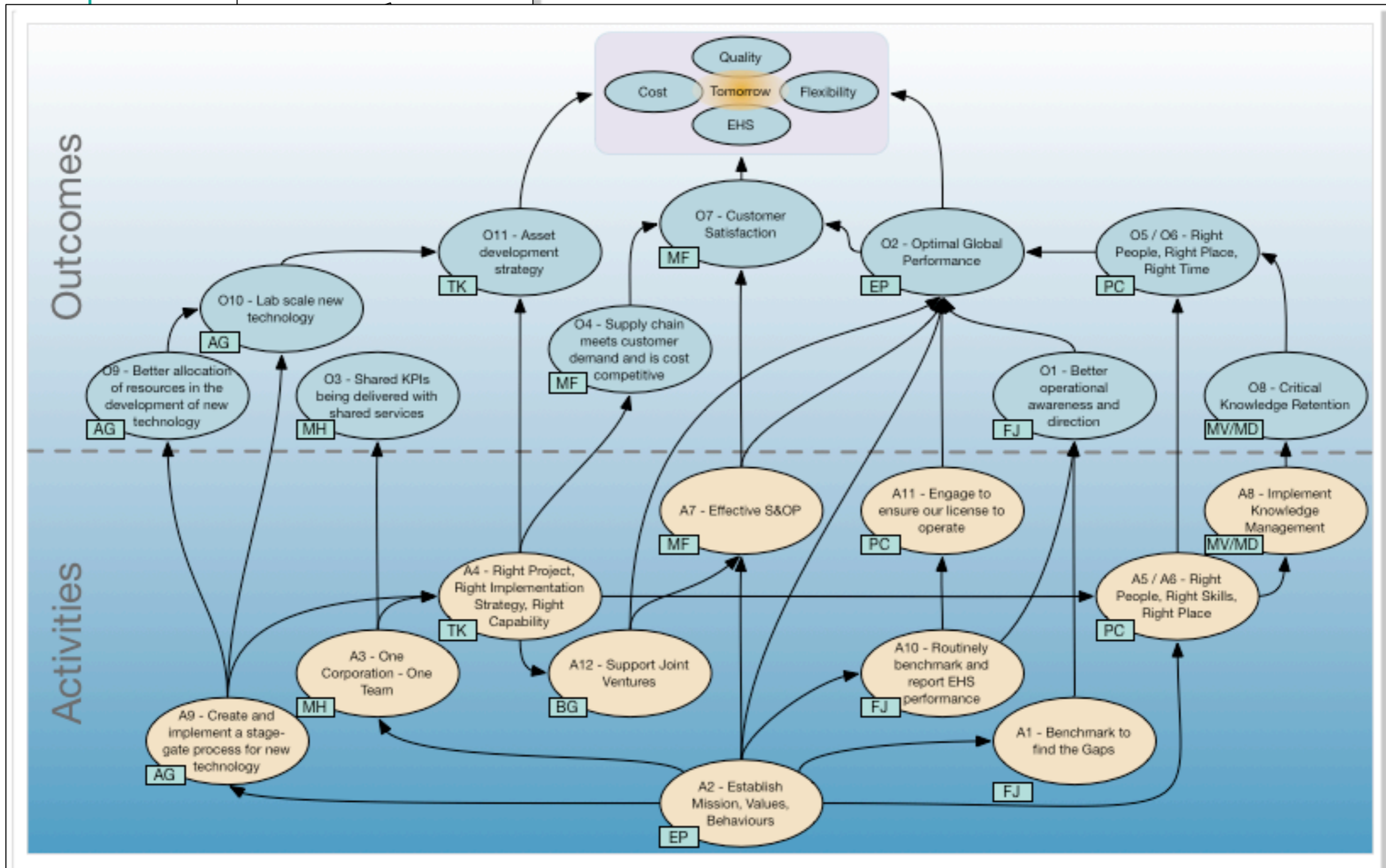


Strategic Linkage Model

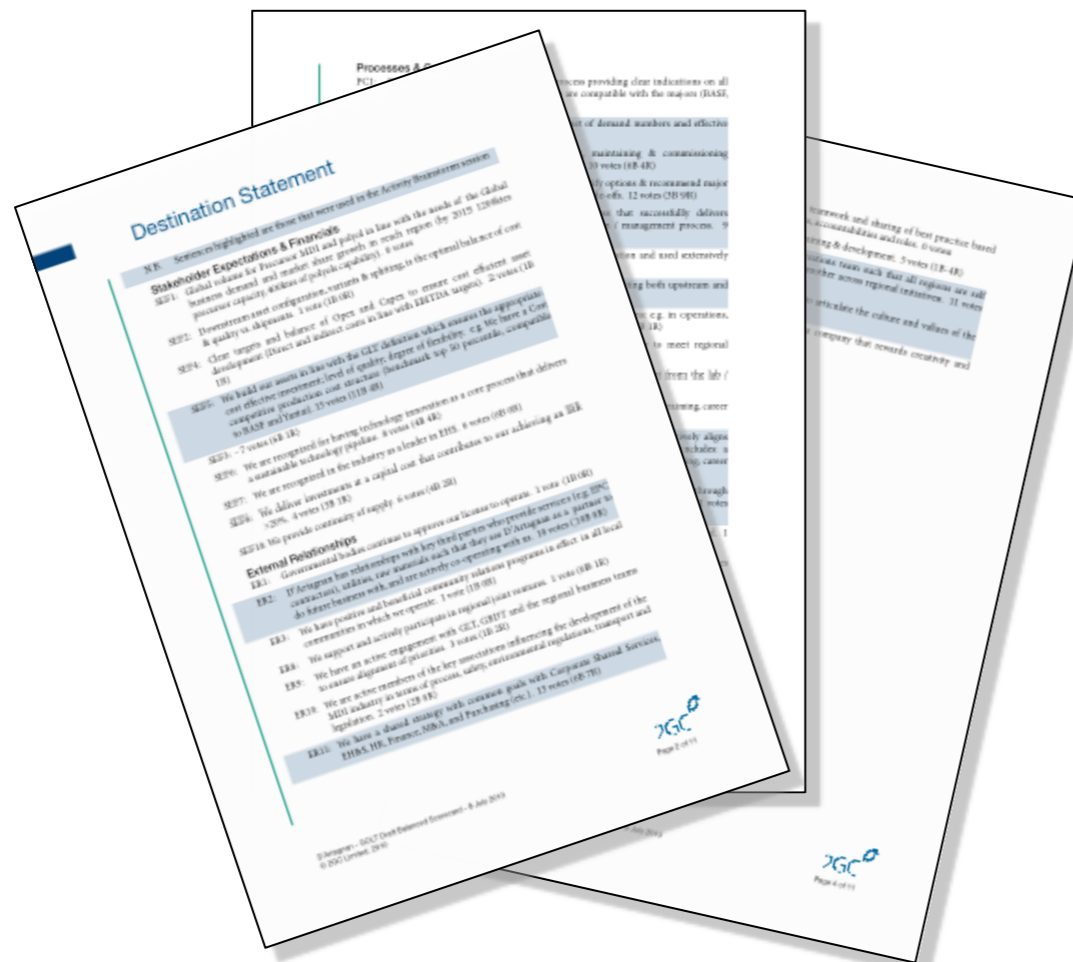
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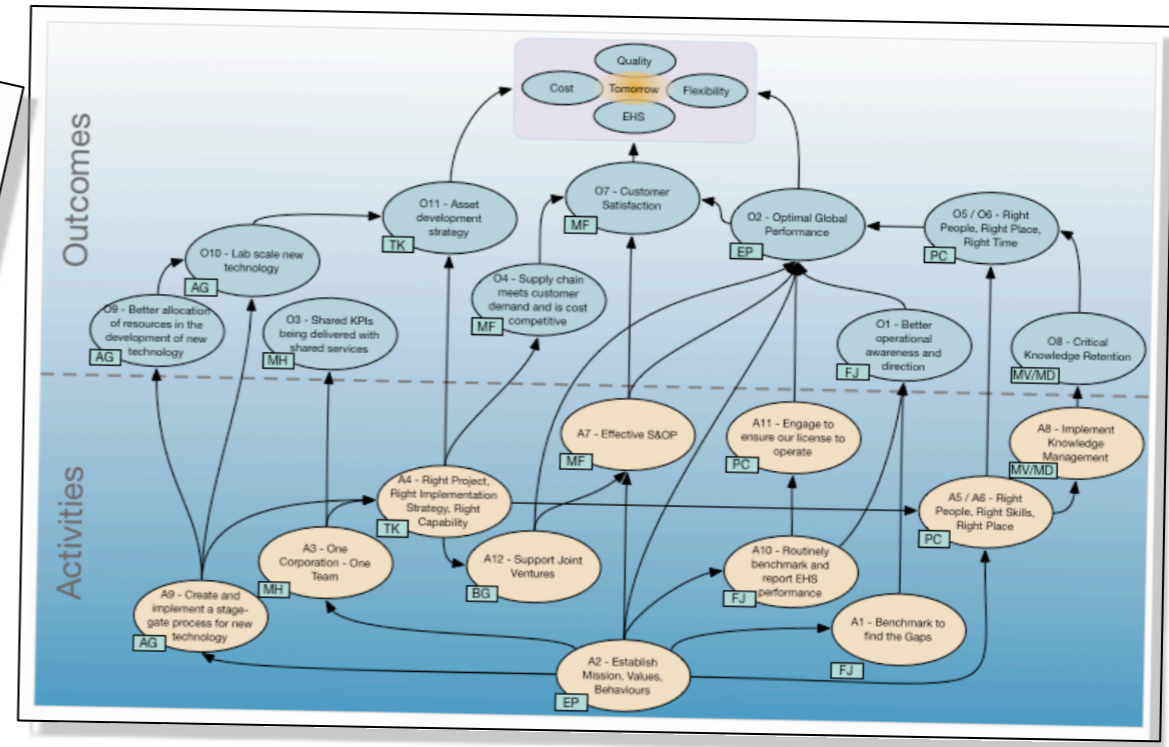
An Example Balanced Scorecard design from 2010



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Growing up...

The later years - 2004 to today

Companies around the world are using the strategy execution system, based on the Balanced Scorecard, to deliver breakthrough results

Infosys®

- Revenue up 310%
- EPS up 305%

- Active clients rose from 293 to 500
- Big accounts (\$20M+) up from 6 to 27

- Innovation (new product revenues) up 48%

- Ranked #1 employer in IT sector (Dataquest)
- Ranked India's best managed company

Execution Premium

Financial Perspective

Customer Perspective

Process Perspective

Learning & Growth Perspective

"Our BSC helped us deliver superior performance consistently and predictably in all facets of our operations."

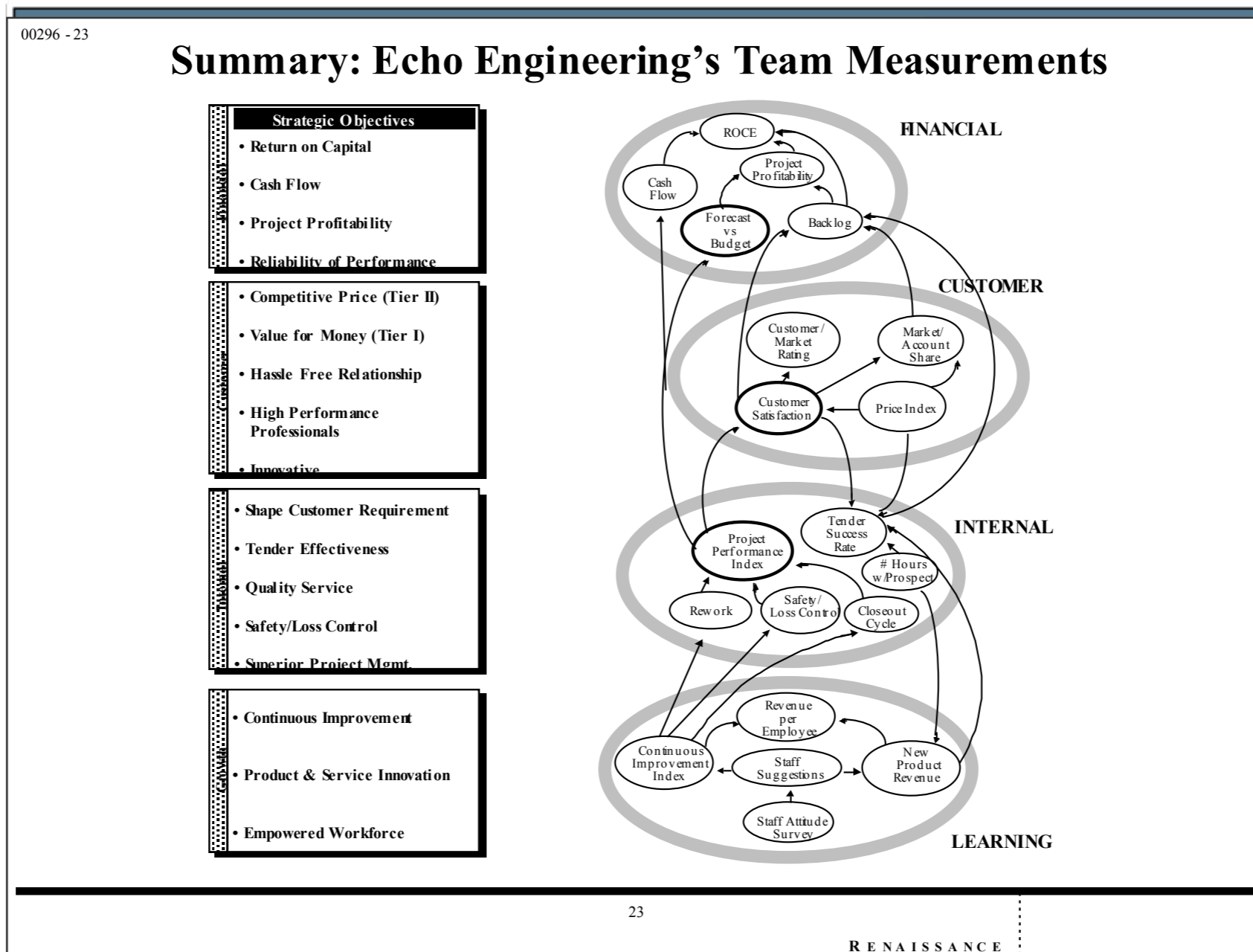
Kris Gopalakrishnan – CEO

▶ 9

More outlandish claims...

Growing up...

The later years - 2004 to today



More outlandish claims...



Growing up...

The later years - 2004 to today

Design methods stabilise,
Balanced Scorecard's position
consolidates

- o Kaplan & Norton continue to move their focus away from Performance Management towards general Strategic Management through “Strategy Focused Organisation” concept and related branding / franchising activity
- o The ongoing “Bain” survey of management tools shows Balanced Scorecard continues to sit comfortably within the “top 10” throughout the 2000s
- o No new design methods emerge, but 3rd Generation Balanced Scorecard type methods become more widely adopted
- o Increasing focus on making sure that that organisations actually use Balanced Scorecard
- o Balanced Scorecard supporters continue to make outlandish claims
- o Software support becomes ubiquitous, but as a result marketing budgets fall

Growing up...

The later years - 2004 to today

Growing up...

The later years - 2004 to today

Early projects continue to set framework / tone

o **Brown & Root / Mobil / Chemical Bank / Cigna / FMC case studies continue to be cited in 'new' material**

- New case studies are hard to come by...

Growing up...

The later years - 2004 to today

Early projects continue to set framework / tone

- **Experiments / blind alleys continue to be explored**
 - e.g. DEA, AHP, SD, application specific designs
 - Reason seems to be similar to before, hope that by attaching methods to Balanced Scorecard they in turn will become more popular
 - Seems to be having no impact on actual Balanced Scorecard itself

Growing up...

The later years - 2004 to today

Early projects continue to set framework / tone

- Brown & Root / Mobil / Chemical Bank / Cigna / Experiments / blind alleys continue to be explored
- FMC case studies continue to be cited in 'new' material
- e.g. DEA, AHP, SD, application specific designs

○ Variants largely in name only

- Various 4Gs etc. being promoted, but largely as a an attempt to differentiate vendor rather than genuine innovation
- All current 4Gs are actually versions of 2G
- Balanced Scorecards (usually rely on adding an extra perspective)

Growing up...

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o 'Retelling' industry bigger than ever

- o Multitude of books and articles etc. that simply restate early K&N messages (e.g. Niven)
- o Lots of negative stories too - mostly from academics (e.g. Norreklit et al)

Growing up...

The later years - 2004 to today

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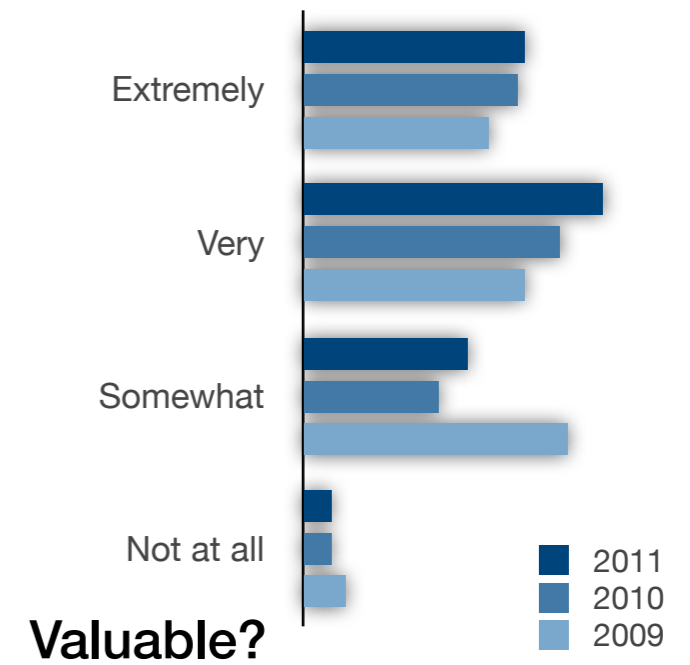
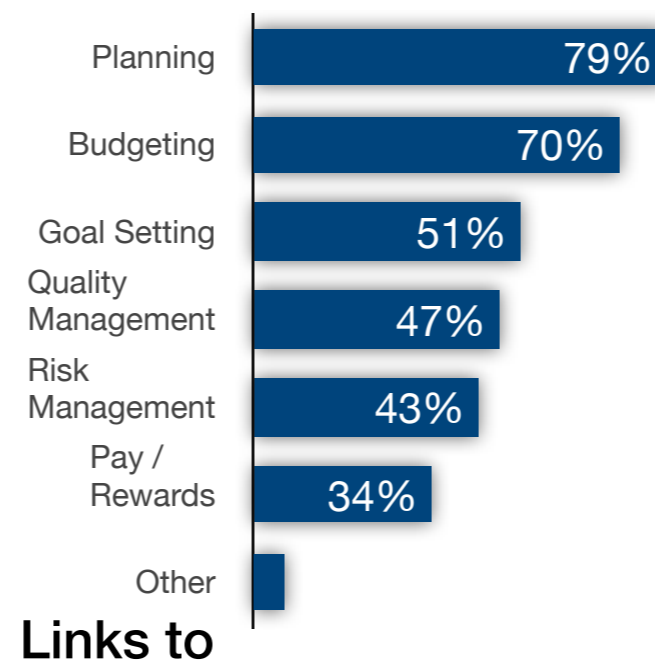
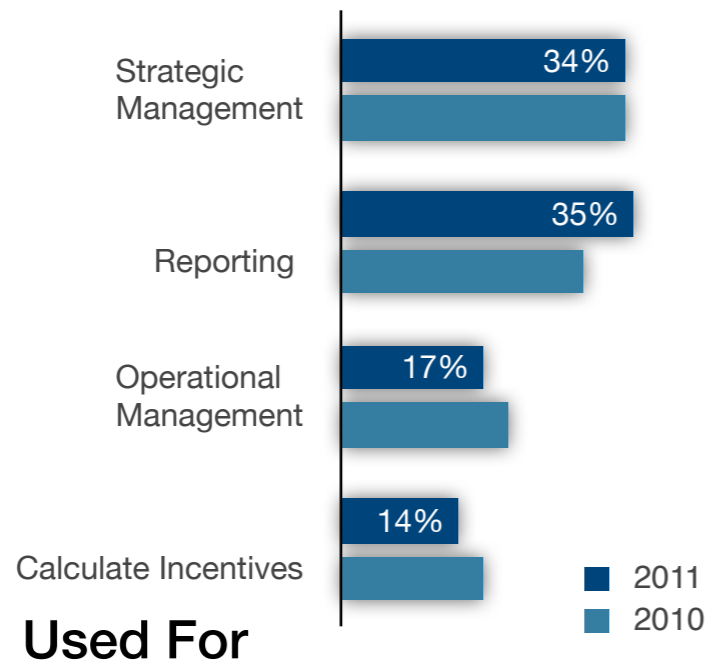
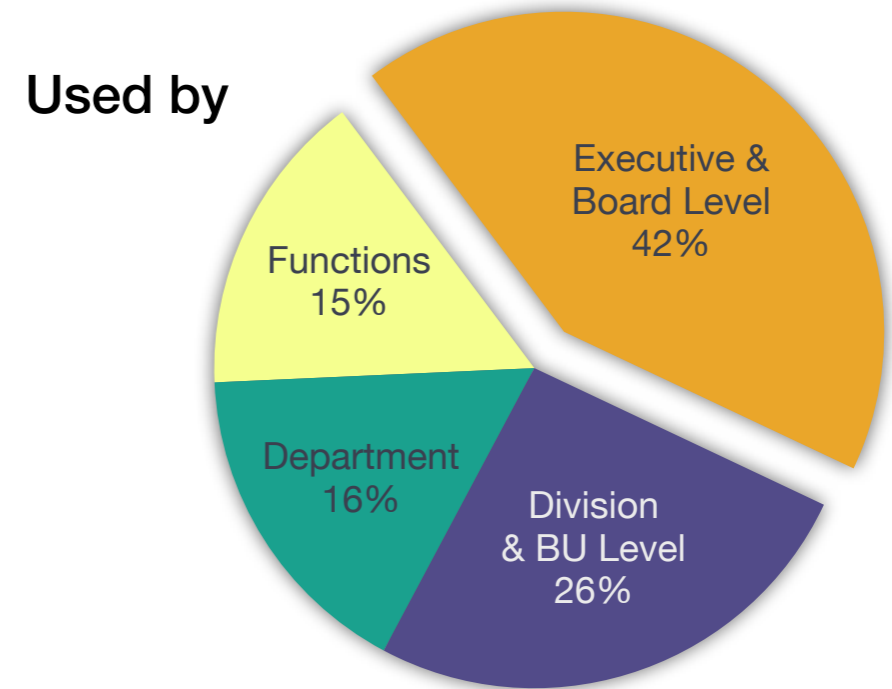
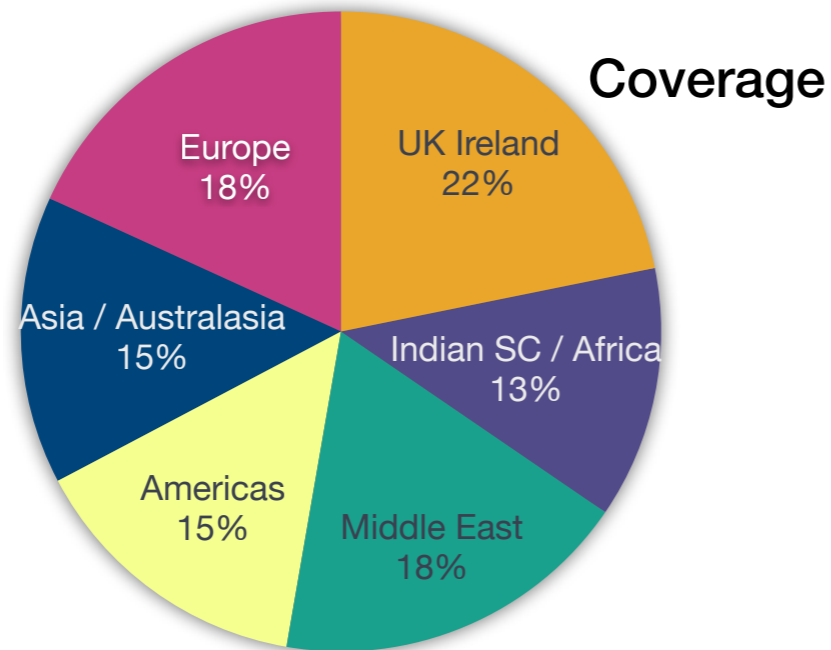
- o 'Retelling' industry bigger than ever
- o Multitude of books and articles etc. that simply restate early K&N messages (e.g. Niven)

- o All current 4Gs are actually versions of 2G
- o Software vendors proliferate but don't innovate

Software vendors proliferate but don't innovate

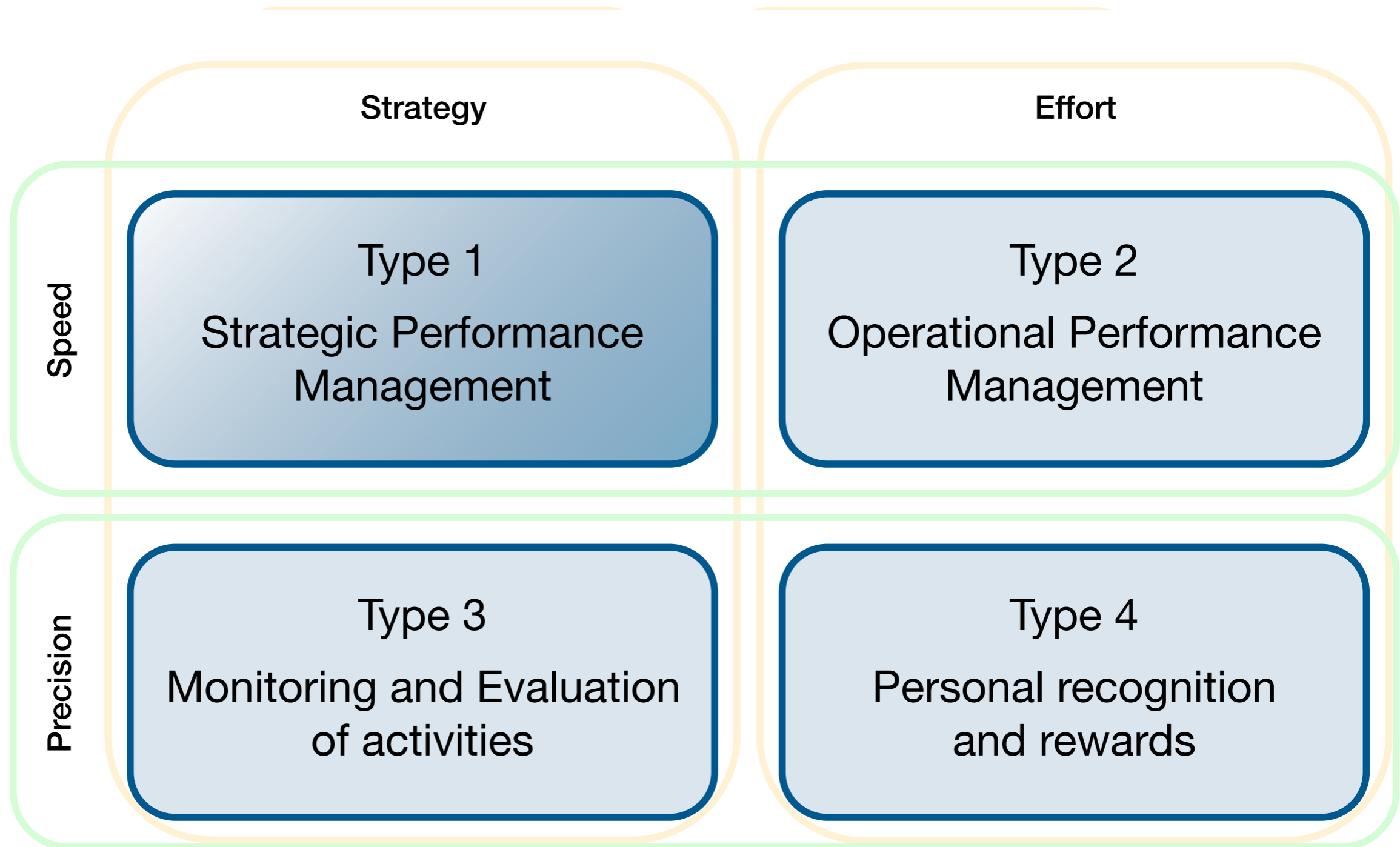
o 1 in 1997, over 100 in 2011

What is current state of Balanced Scorecard?



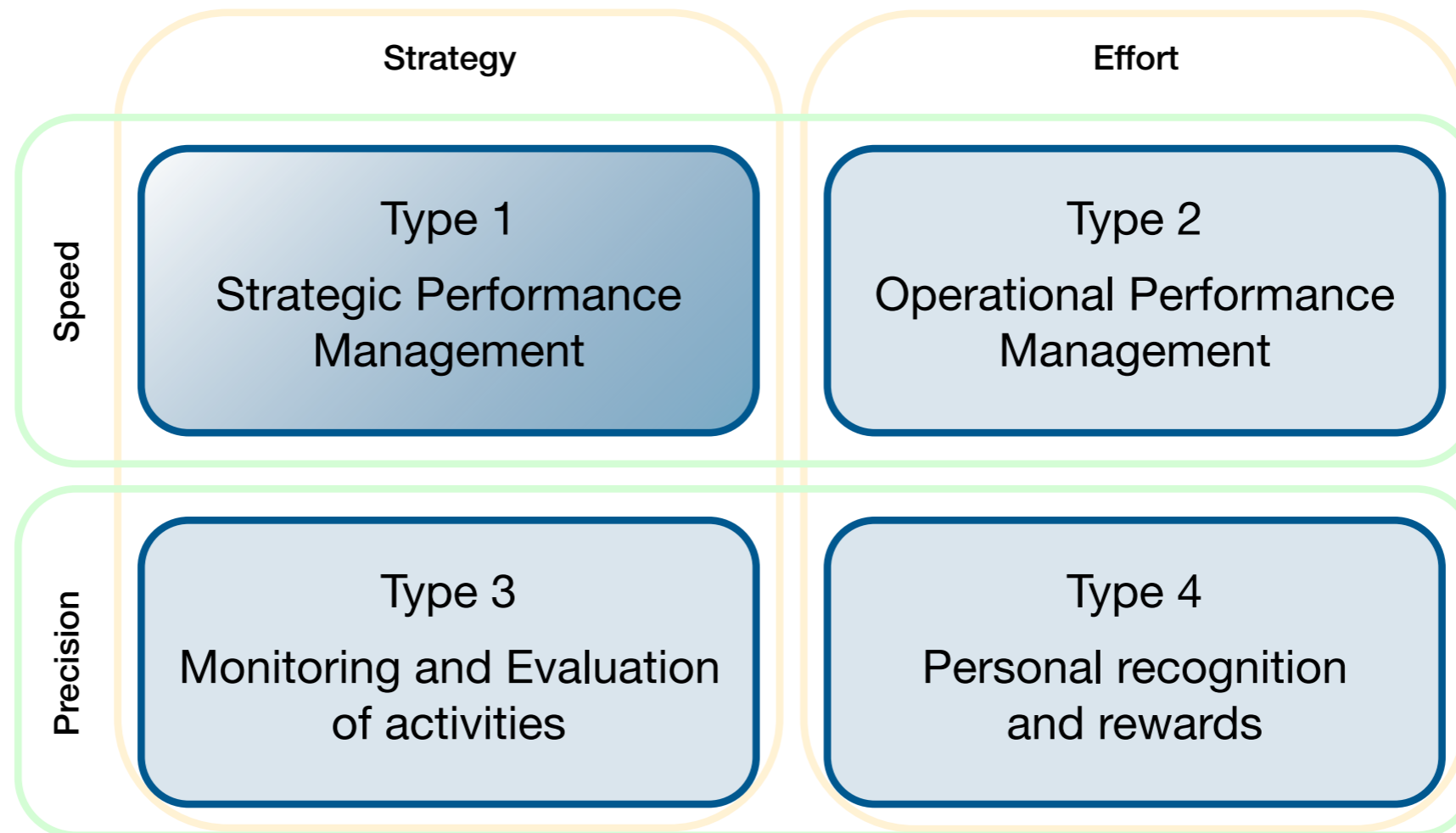
What is current state of Balanced Scorecard?

4 Distinct roles for Balanced Scorecard emerging



What is current state of Balanced Scorecard?

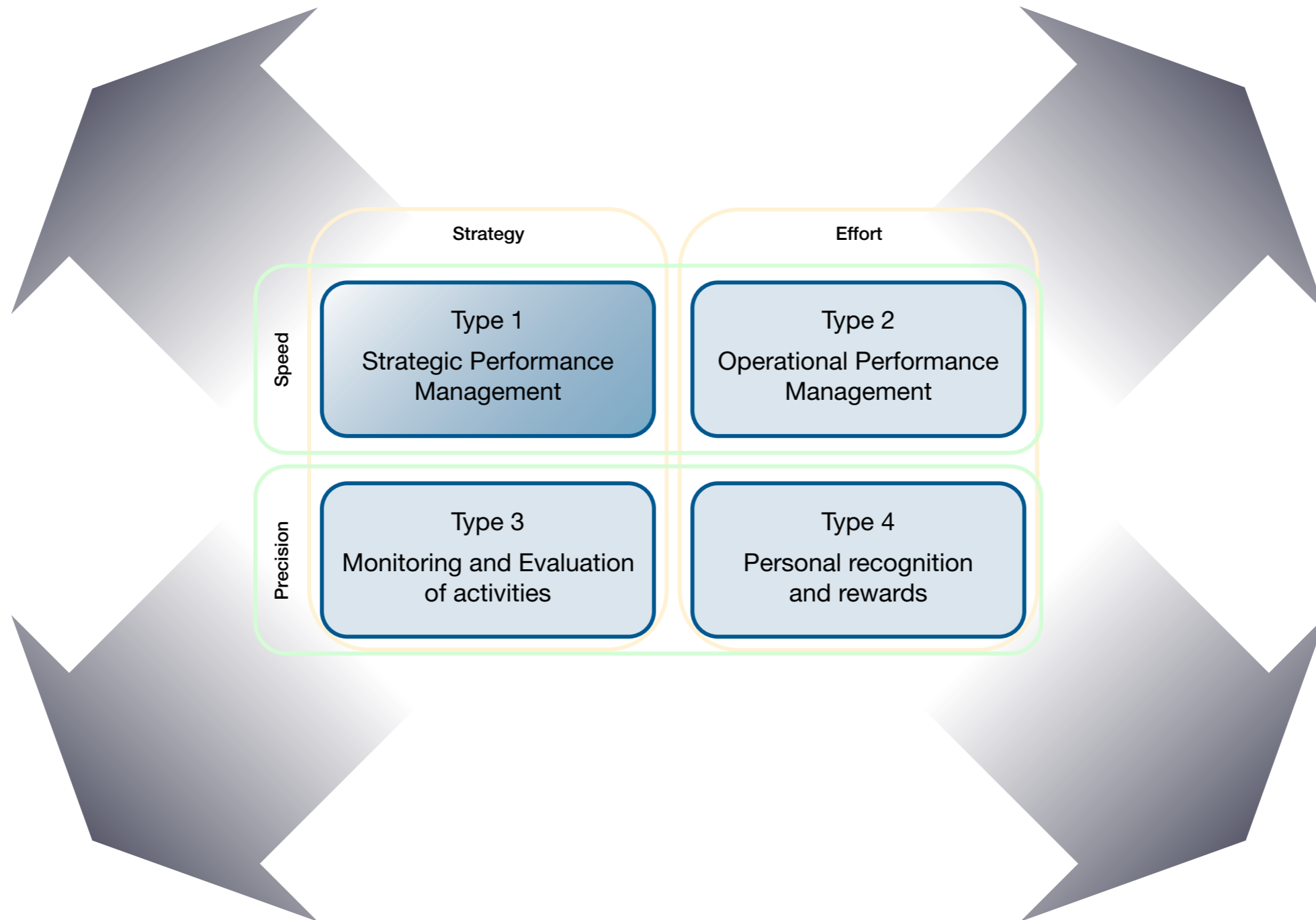
4 Distinct roles for Balanced Scorecard emerging



Other hot topics

- Linking Balanced Scorecard to Risk Management
- “Certification” and / or “Standardisation” of Balanced Scorecard Training
- User organisations often know as much as vendors about Performance Management, so ‘advice’ market becoming more expert, more specialised - focusing on ‘difficult topics’ such as cascading, and not-for-profit Balanced Scorecard designs

Where is Balanced Scorecard going in next 21 years? Will remain, but with increasingly divergent versions



**Where is Balanced Scorecard going in next 21 years?
Will remain, but with increasingly divergent versions**

**Balanced Scorecard is as healthy today as it was
21 years ago**

But framework has ‘grown up’

**In future, framework will mature,
but not change radically**

**So a better analogy would be to view
Balanced Scorecard a school class graduating
rather than a single child growing up**