

Aligning Intangible Assets for Value Creation with the Balanced Scorecard

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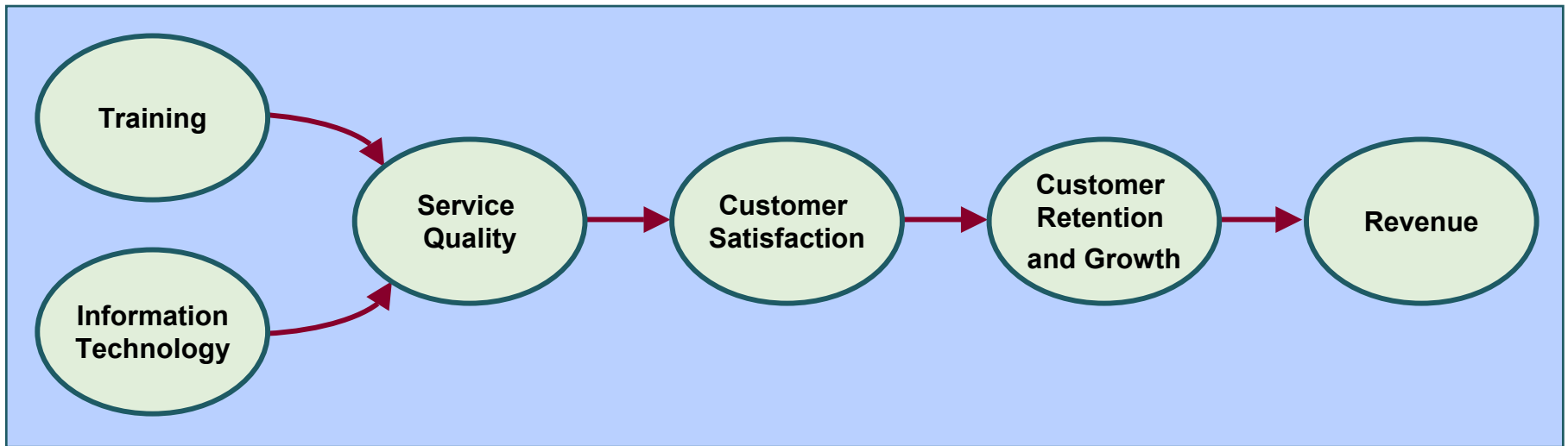
HARVARD BUSINESS SCHOOL

Chairman

BALANCED SCORECARD COLLABORATIVE

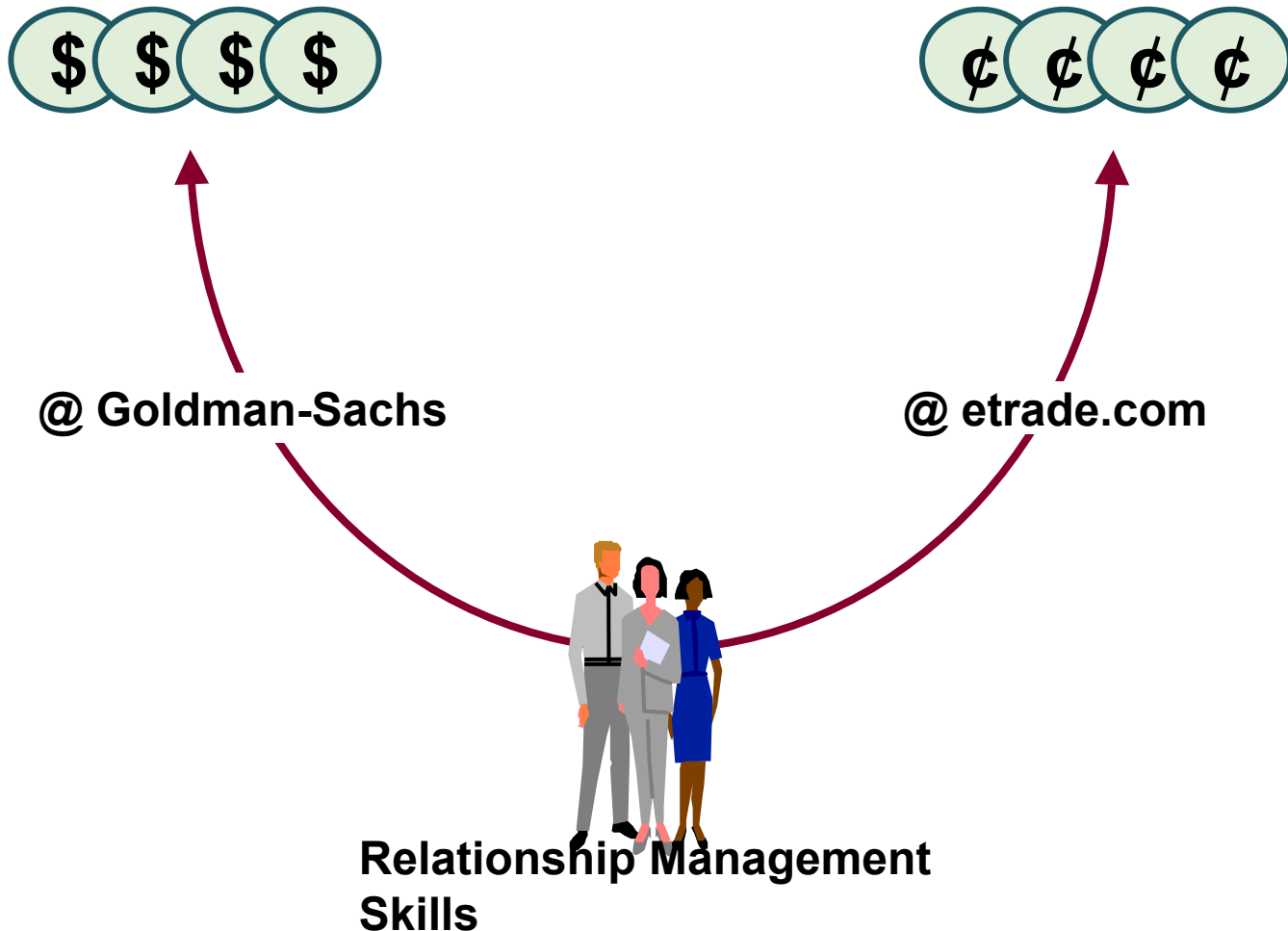
Creating Value From Intangible Assets Is Different

Intangible Assets Do Not Have A Direct Impact on Financial Results — They Have Second- or Third-Order Impacts



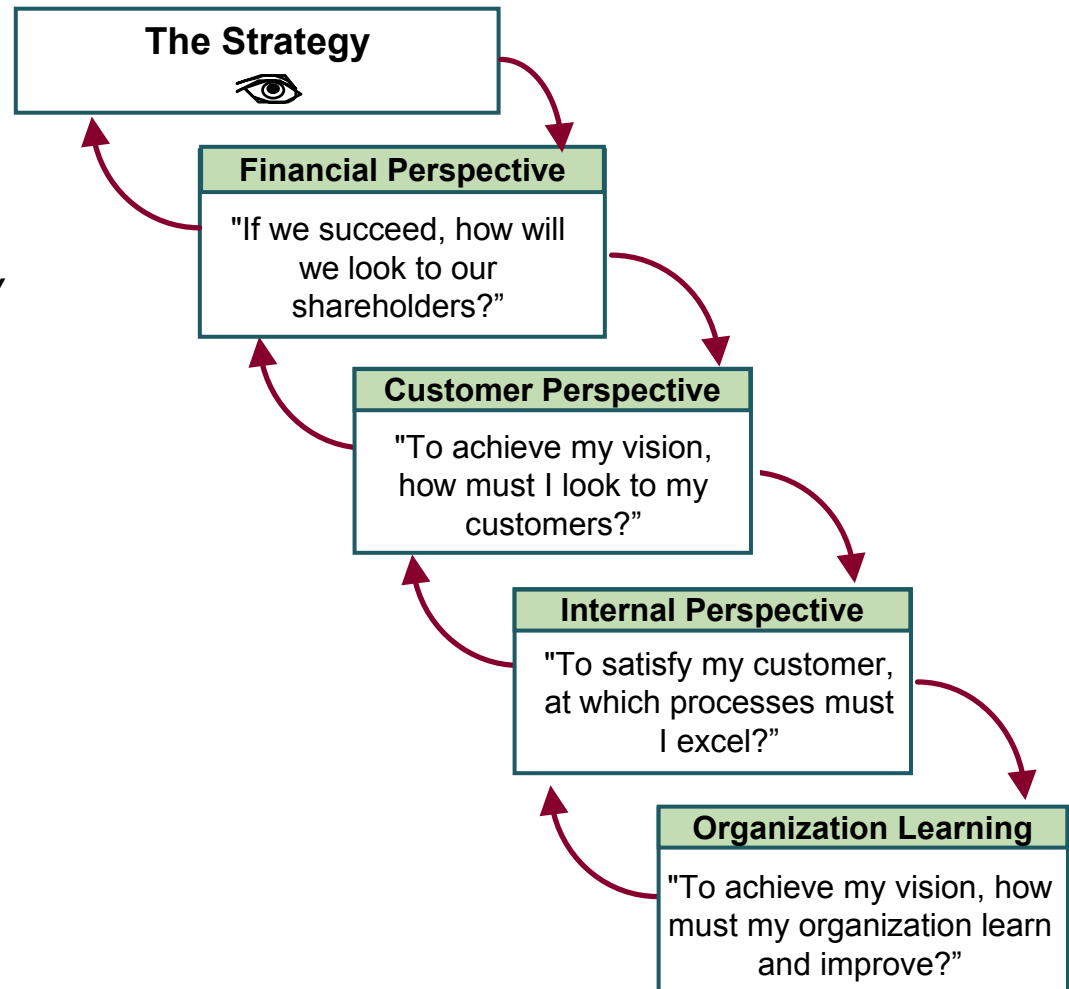
Creating Value From Intangible Assets Is Different

The Value of an Intangible Asset Is Contextual



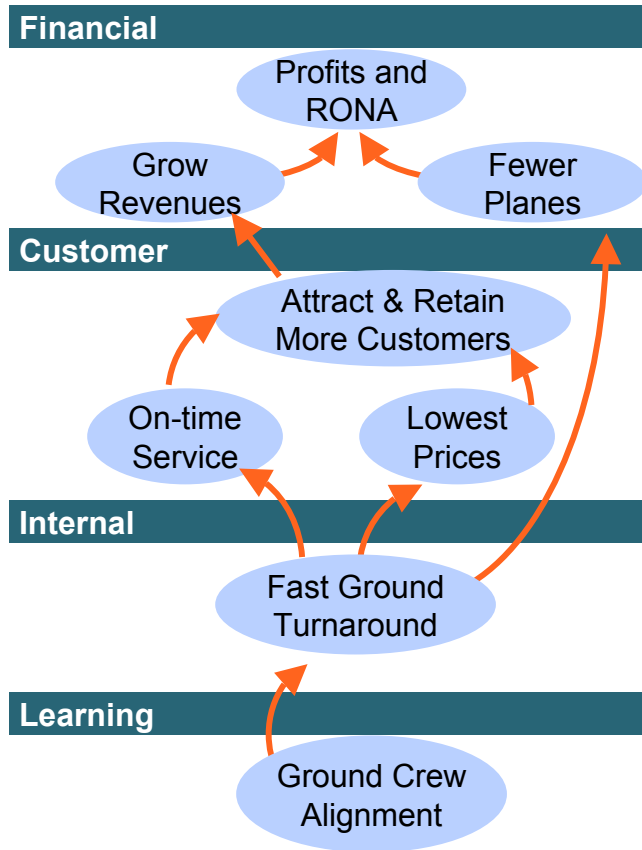
The Balanced Scorecard: Measuring Performance in Four Linked Perspectives

- ❑ *Measurement is the language that gives clarity to vague concepts.*
- ❑ *Measurement is used to communicate, not to control.*
- ❑ *Building the scorecard develops consensus and teamwork throughout the organization*



Illustrative Example: Southwest Airlines

The Strategy Map



Objective

What the strategy is trying to achieve



Fast ground turnaround

Measure

How success or failure (performance) against the objective is monitored



On Ground Time
On-Time Departure

Target

The level of performance or rate of improvement needed



30 Minutes
90%

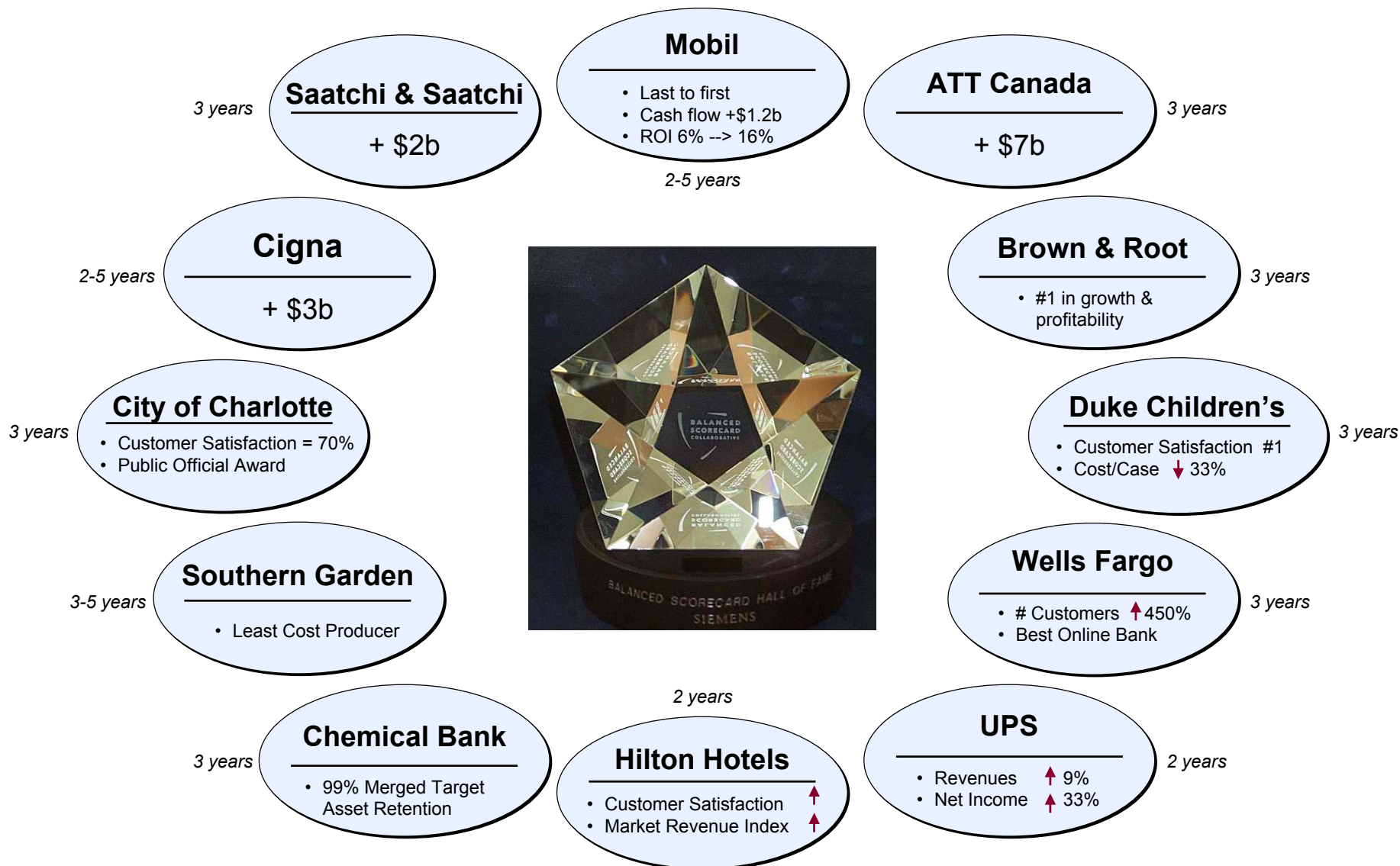
Initiative

Key action programs required to achieve targets



Cycle Time
Optimization

Balanced Scorecard Organizations Have Implemented Strategies and Achieved Breakthrough Results... Fast



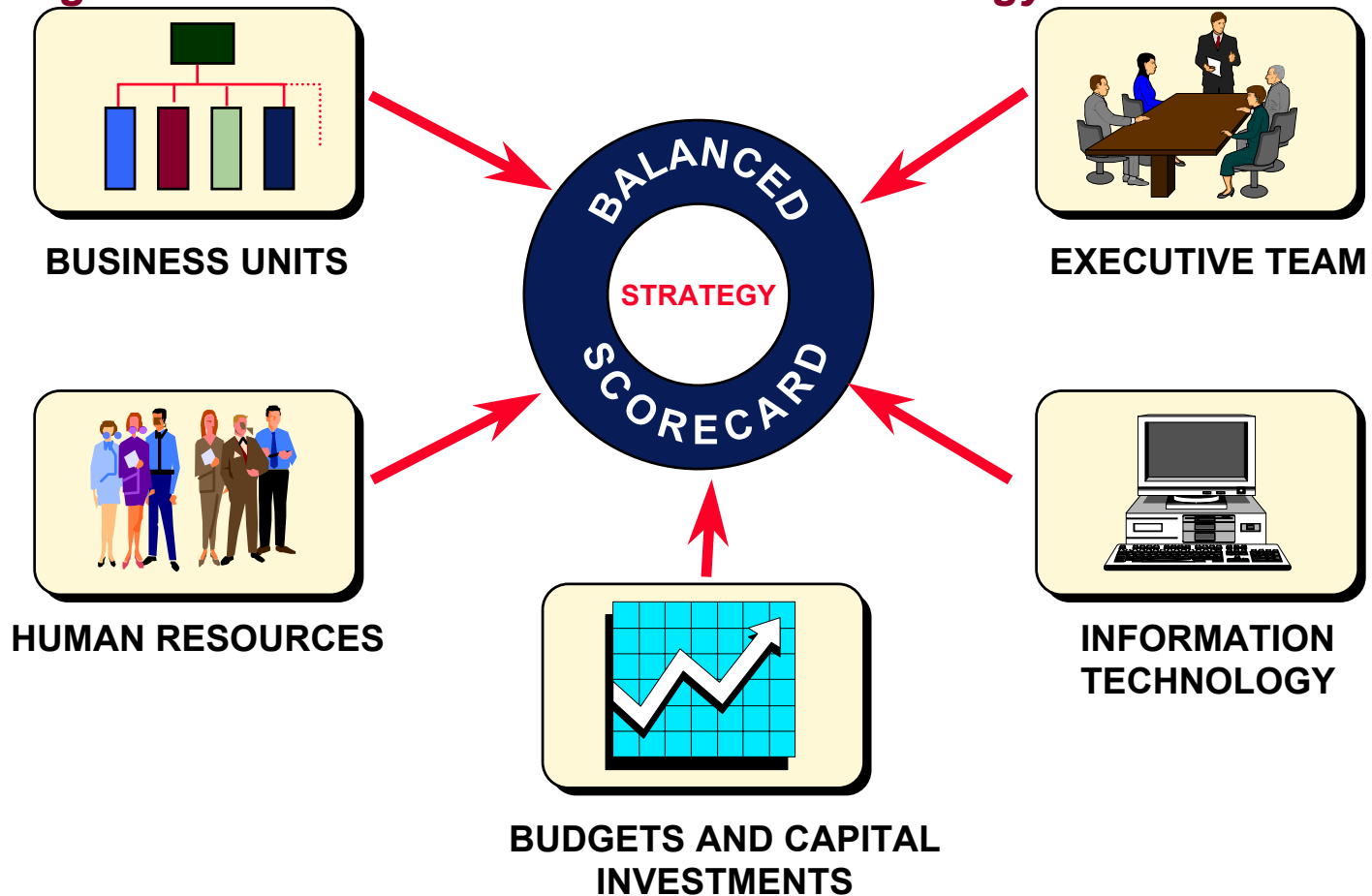
Question:

How can complex organizations achieve results like this in such short periods of time?

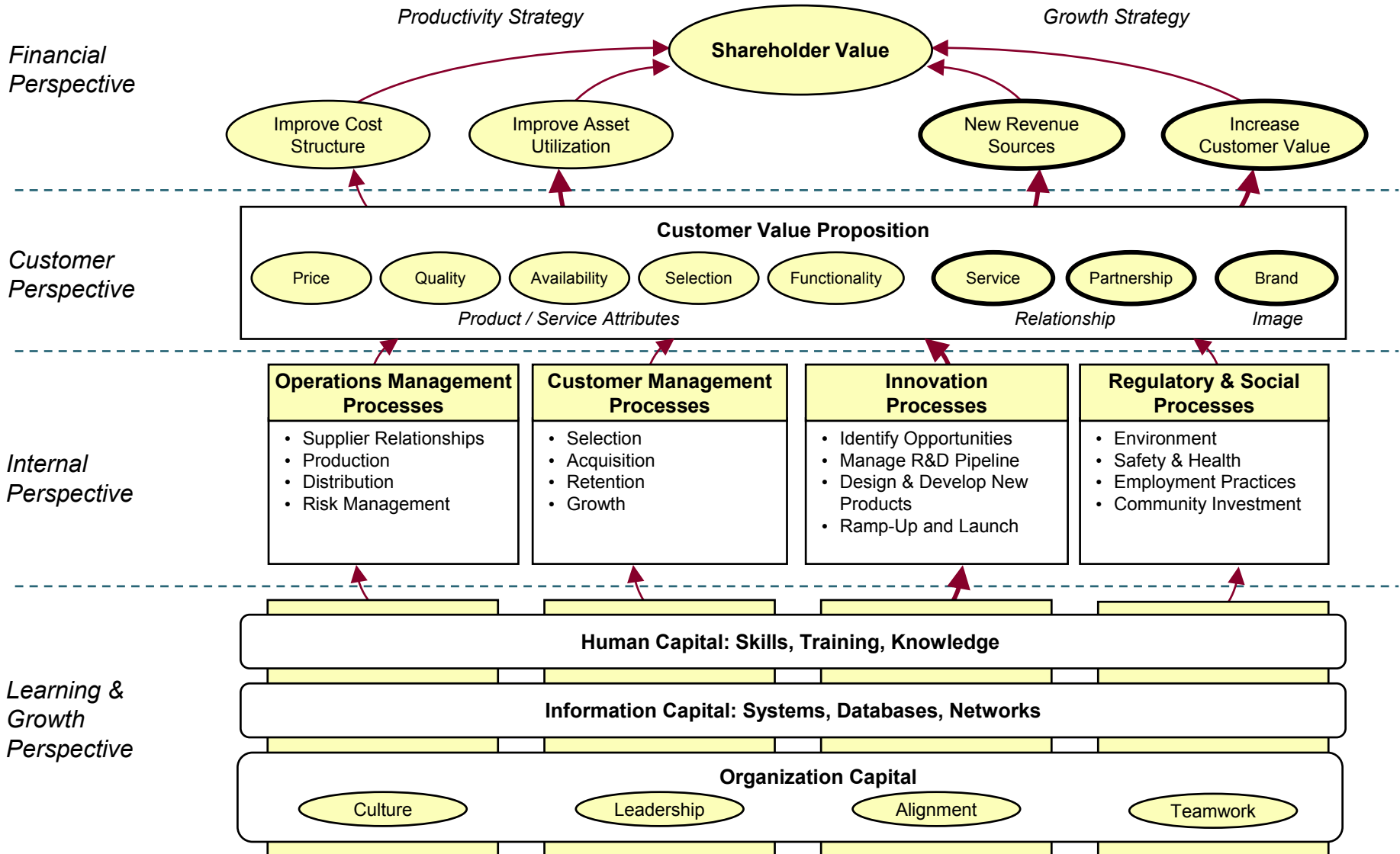
Answer:

Alignment and Focus!

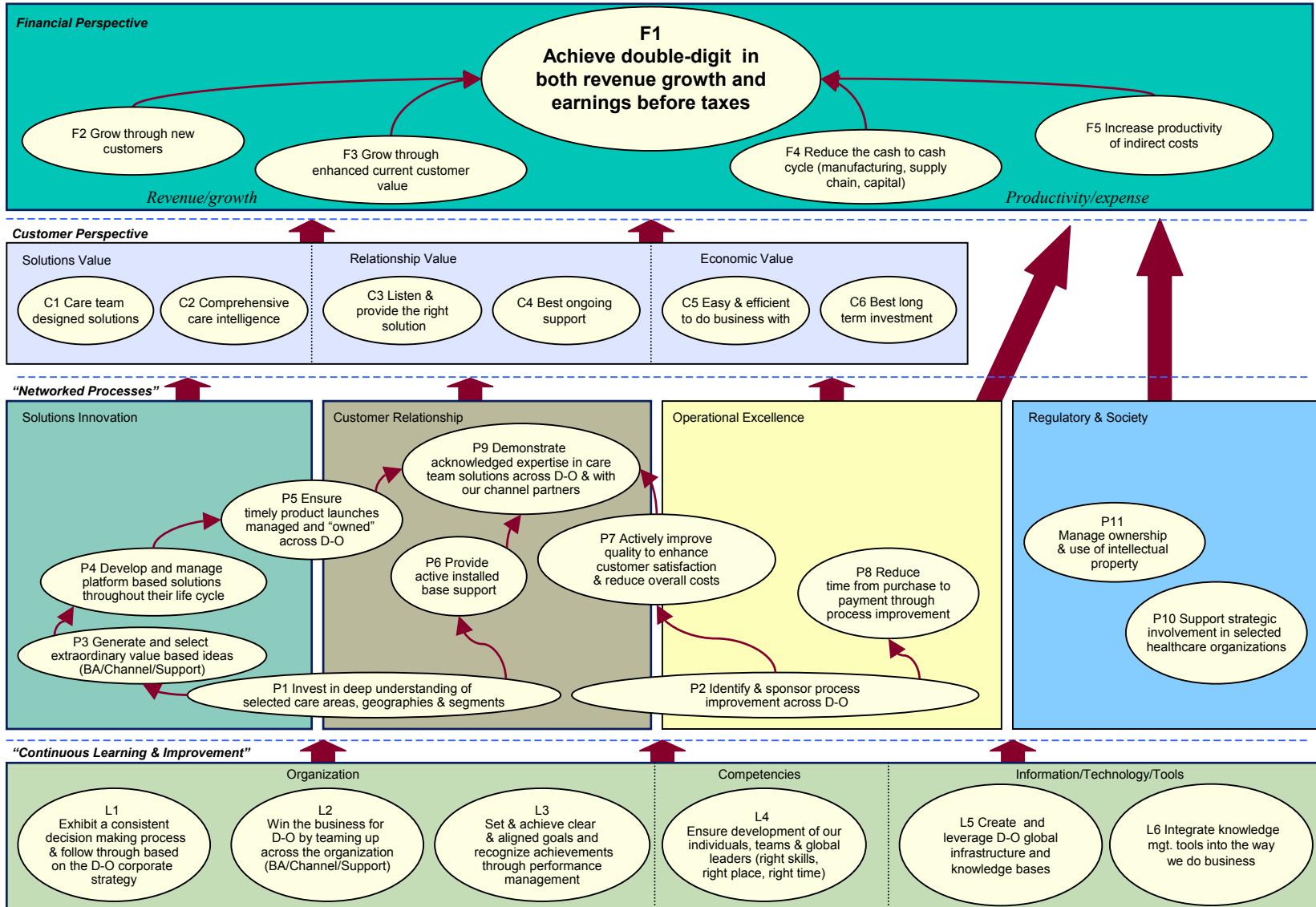
The Balanced Scorecard process allows an organization to align and focus all its resources on its strategy



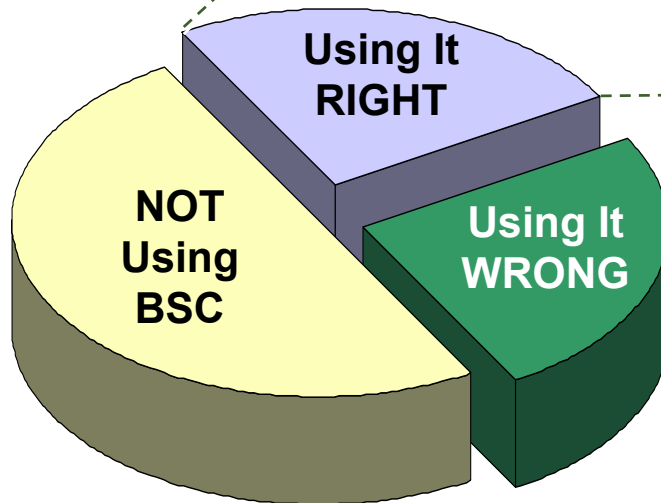
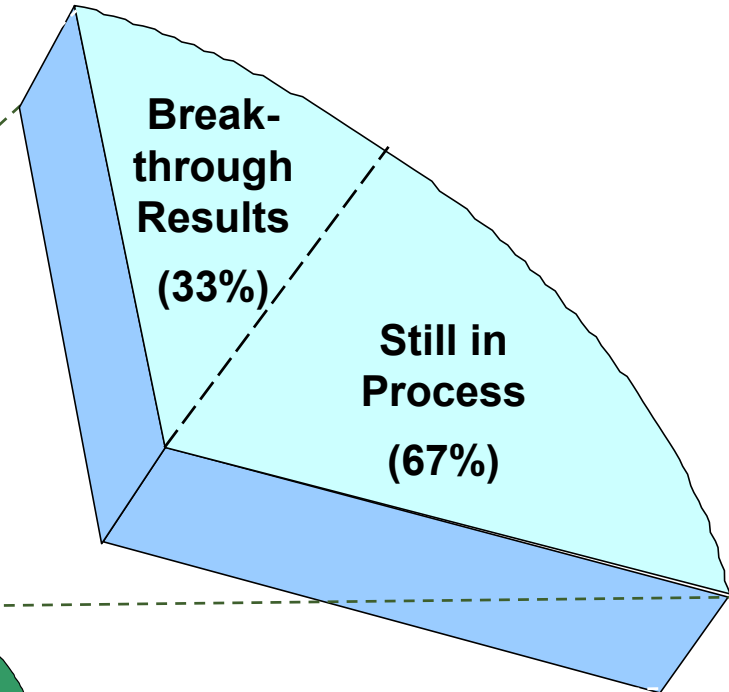
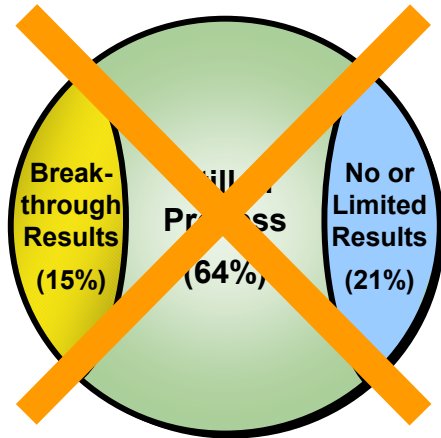
Strategy Maps – The Complete Representation of How the Organization Creates Value



Datex-Ohmeda Strategy Map

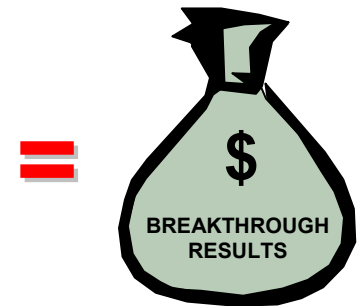


Where Do Most Organizations Stand in the Journey to Become Strategy-Focused?

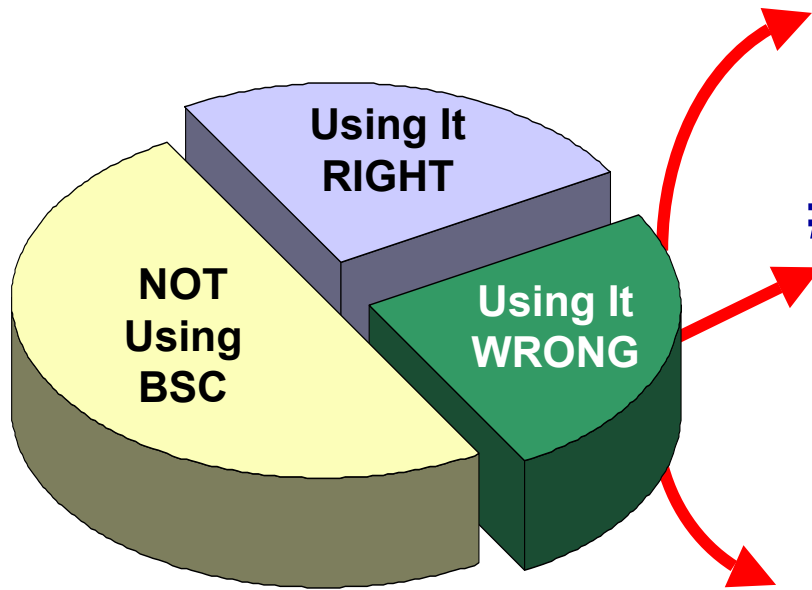


What Separates the Winners and Losers? A Strategy Focused Management Process

SFO Best Practices				
Ø ₁ Mobilize	Ø ₂ Translate	Ø ₃ Align	Ø ₄ Motivate	Ø ₅ Govern
<ul style="list-style-type: none"> ✓ Create case for change ✓ Develop vision and strategy ✓ Executive team aligned ✓ Create accountability 	<ul style="list-style-type: none"> ✓ Refresh strategy ✓ Create strategy map ✓ Create top-level scorecards ✓ Set targets / rationalize initiatives 	<ul style="list-style-type: none"> ✓ Corporate / SBU cascade ✓ Corporate / SBU / support unit cascade ✓ External linkages (customers / suppliers) 	<ul style="list-style-type: none"> ✓ Communicate to / educate workforce ✓ Align personal objectives ✓ Align personal development ✓ Align incentives 	<ul style="list-style-type: none"> ✓ Monthly/Quarterly strategic reviews ✓ Develop info system ✓ Link BSC to planning / budgeting process ✓ Link BSC to operational mgmt. ✓ Learning/ Adapting



Why Do Organizations Fail to Get Results from Their Balanced Scorecard Programs?



#1. No Executive Ownership

(done by middle management team only;
long development process)

#2. Scorecard Not Linked to Strategy

(no strategy map - just KPIs in 4 perspectives; mostly financial measures; done as a systems project; done only for compensation)

#3. Scorecard Not Linked to Management Processes

(Mobilize, Translate, Align, Motivate, Govern)

Quality of Reported Information

