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Balanced Scorecard REPORT
INSIGHT, EXPERIENCE & IDEAS FOR STRATEGY-FOCUSED ORGANIZATIONS

ON BALANCE

Why System, Not Structure, Is the Way Toward Strategic Alignment: A Historical Perspective

By Robert S. Kaplan and David P. Norton

As the variety and complexity of organizations have increased over time, managers have searched continually for the optimal organizational structure. But history has shown that there is no perfect structural solution to the alignment of structure and strategy. Because of the inherent tension between the need for specialization and integration, Kaplan and Norton advocate abandoning this impossible quest and instead utilizing a systems approach to organizational alignment. Executives need look no further than the Balanced Scorecard, they claim in this historical perspective adapted from their new book, *Alignment* (Harvard Business School Press, April 2006).

The prototypical organization at the dawn of the Industrial Revolution was Adam Smith's pin factory, a small, focused enterprise producing a narrow range of products for its local customers. With the help of a supervisor and several hired workers, the owner-entrepreneur ordered materials, hired and paid the employees, supervised production, and performed marketing, sales, billing, and cash collections.

The Second Industrial Revolution, starting in the mid-19th century, saw the growth of much more complex, capital-intensive industries, such as primary and fabricated metals, chemicals, petroleum, machinery, and transportation equipment. The dominant corporations in these industries enjoyed enormous economies of scale because of their significant capital investments in production and distribution facilities. To cope with their larger investment base and extended range of customers, the companies developed functional departments to coordinate and realize the scale economies from their purchasing, manufacturing, marketing, distribution, and product development activities. They also, of course, needed more managers to staff these departments and to coordinate products and processes.[1]

The two largest functional departments—production and sales—performed the primary value-adding activities. A third department, finance, performed two important functions: (1) coordinating the flow of funds to and from the various operating departments and (2) providing information to senior executives so that they could monitor the operating units' performance and allocate resources among them. The enterprise also needed departments to perform specialized activities such as purchasing, research and product development, logistics, engineering, legal, real estate, human resources, and public relations. The heads of the major functional departments, along with the president and chairman of

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the board, constituted the corporation's senior decision-making team. Through regular meetings, the senior executive team coordinated the activities across the corporation's functional departments.

The centralized functional structure offered considerable advantages for the enterprise: experienced, expert employees in each functional department; the ability of employees to collaborate with colleagues in production, purchasing, product development, legal, and marketing to enhance efficiencies and effectiveness; and, thanks to large clusters of people doing similar tasks, opportunities for coaching, mentoring, and promotion from within.

Several industrial companies, such as Ford Motor, integrated vertically to better coordinate the flow of materials into and out of factories. Others expanded geographically so that they could leverage economies of scale in their domestic markets to reach customers in more distant markets. And many exploited their existing production and distribution infrastructure, as well as their extensive organizational and managerial capabilities, to diversify into new product lines and market segments.

These multiproduct, multifunctional, multiregional corporations faced a major new challenge: how to continue to offer attractive, innovative, low-priced products to a broad customer base without collapsing from the complexity of operations that were now internalized. In addition, the companies struggled with inefficient and time-consuming coordination problems and handoffs between departments. The lack of shared information among marketing specialists and salespeople, engineers, and operations people often led to products and services that were costly to manufacture and deliver and that didn't meet customers' expectations and needs. The centralized functional organizations were also typically slow to respond to changes in customer preferences and new opportunities or threats in the marketplace. Starting in the 1920s, companies such as DuPont, General Motors, General Electric, and Matsushita responded to these challenges by introducing a new organizational structure, the multidivisional firm.[2] In this structure, divisions focused on specific product lines and geographic regions; each one brought together employees with skills from all the business functions to work together to develop and produce a specific product line sold to customers in defined market segments. Each product or geographic division thus became a replica of the original enterprise, and the head (general manager) was also now a middle manager reporting to the senior executives at corporate headquarters (HQ).

Executives at HQ no longer ran the business, but instead evaluated the operating divisions' performance, did strategic planning, and allocated funds, facilities, and personnel to the divisions. The corporate office also included staff who both supported the corporate executives and advised and coordinated the work done by their counterparts in the operating companies.

Though the multidivisional structure improved product and geographic divisions' ability to respond to local opportunities and threats, it posed its own set of management challenges. Gone were many of the efficiencies of centralization (particularly the scale economies and learning curve effects). Customers became confused and often disgruntled by being called upon by multiple salespersons, each one promoting a narrow product line. Finally, with specialists dispersed throughout the organization rather than

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centrally clustered, the company lost deep functional expertise and opportunities for collaboration in problem solving and learning.

Conglomerates, Business Groups, and *Chaebols*

The 1960s saw the birth of the *conglomerate,* in which companies such as ITT, Litton Industries, Textron, and Gulf + Western grew by acquiring and merging unrelated businesses—autonomous operating companies with no apparent synergies among them.

One apparent motivation for establishing a conglomerate was to reduce the risk of business cycles by investing in a diversified portfolio of businesses. This rationale, however, was more about reducing the risk to the senior executives; shareholders could more efficiently (and cheaply) hedge risk by owning shares in a diversified portfolio of companies. A more economically grounded rationale for the conglomerate was that its senior executives were exceptional managers who could use their superior knowledge and skill to create more value from the collection of companies they owned than could be created if the companies operated independently. In practice, however, the conglomerate form proved disappointing. It subtracted value much more frequently than it added it, and thus many conglomerates were split into more focused companies in the 1980s and '90s.

A similar organizational form arose in many developing nations. The Tata Group in India, the Koç Group (Turkey), Siam Cement (Thailand), and the Samsung and Hyundai *chaebols* in South Korea are massive collections of unrelated businesses that operate mostly within their country of origin. These groups evolved because their governments purposely erected trade and capital barriers to limit foreign competition. Typically headed by a skilled entrepreneurial family, these business groups prospered locally by substituting for (or exploiting) institutional gaps in their countries' infrastructures, such as poorly functioning capital and labor markets, limited consumer information and protection on product quality, and uncertain and frequently corrupt judicial and political environments.[3]

Most of the countries in which such country-specific business groups arose are joining the global economy, and the once-protected business groups are becoming subject to vigorous competition from abroad. The headquarters of these business groups must now evaluate the benefits of having hundreds of unrelated businesses operating within a single corporate structure. They must address how the executive team at the business group headquarters adds to, rather than subtracts from, the value being created by its local operating companies.

New Structures for a New Economy

The current information- and knowledge-based global economy has fostered new structures and new ways for corporate HQ to create synergies. One way is by instituting effective management systems throughout all business units, with all managers following similar business strategies. Cisco's prowess in integrating the technology companies it acquires is a good example. Other companies are effective at managing innovative product development throughout their businesses by implementing product leadership strategies. At the other extreme, some HQ are adept at managing a collection of mature, commodity-type companies to foster continual cost reductions, process improvements, and supply-chain management enhancements, as well as cultivating cooperative labor relations.

Several companies have become enormously successful by leveraging a well-known *brand* across diverse businesses. Disney creates animal characters, such as Mickey Mouse and the Lion King, which it then leverages into theme parks, television programs, consumer retail outlets, and licensed products. Virgin Records founder Richard Branson leveraged the Virgin brand—associated with fun, high quality, excellent service, and a "hip" lifestyle—first into Virgin Airlines and subsequently into businesses as diverse as trains, resorts, finance, soft drinks, mobile phones, cars, wines, publishing, and even bridal wear.

Other corporations, such as financial services and telecommunications companies, have exploited their *customer relationships* to offer one-stop shopping for a wide array of services within their industry. Corporations such as Microsoft and eBay have become dominant in their sectors by leveraging an industry-standard *platform* into a broad array of services. Pharmaceutical and biotechnology corporations leverage their basic and applied *research* about specific disease categories into new drugs and treatments that enable them to dominate their sectors.

In all these examples, individual businesses are worth far more within a corporate structure than if they were operated as independent units. The key organizational question for any sizable enterprise, therefore, is: Does HQ add value to its diverse collection of business units? To do so, the benefits from its monitoring, coordination, and resource allocation activities must exceed the cost of its operations. The HQ destroys value when it introduces delays in decision making, ignores emerging local opportunities and threats, and errs in resource allocation because of its lack of contact with local market conditions and ignorance about competitors and technologies.

If HQ does not add value, then the market will operate to restructure the company. The leveraged buyout and management buyout movement of the 1980s unleashed the value contained in unrelated collections of business units. Enabled by innovation in capital markets, this movement eliminated or dramatically reduced the role of corporate offices, particularly in diversified corporations, that were perceived to be destroying rather than creating shareholder value.

The Problems of Aligning Structure with Strategy

Much of the literature on strategy focuses on business-level strategy: how a business unit positions itself and leverages its resources for competitive advantage.[4] If all companies were akin to Adam Smith's pin factory, this emphasis would be sufficient. But because most companies are now a complex mixture of centralized functional units and decentralized business units, corporate headquarters have also had to seek ways of coordinating activities and creating synergies.

Because most companies are now a complex mixture of centralized functional units and decentralized business units, corporate headquarters have also had to seek ways of coordinating activities and creating synergies.

Many organizations have attempted to solve the coordination problem by adopting a *matrix structure,*[5] in which each manager reports both to a senior corporate functional executive and to a product or line-of-business manager. Global matrixed organizations (a structure popularized in the 1990s by ABB, the global electrical products company) add another layer, where each local operating company reports to a line-of-business executive and a local country executive. Their rationale: that the corporation can achieve the benefits of centralized coordination, functional expertise, and economies of scale for product groups, while maintaining divisional autonomy and entrepreneurship for marketing and sales activities.

Yet in practice, matrix organizations have proven difficult to manage because of the inherent tension between the interests of the senior executives responsible for managing either a "row" (local business unit) or a "column" (functional/product-line head) of the matrix. A manager stuck at a matrix intersection struggles to coordinate between the preferences of his "row" and "column" managers, leading to new sources of difficulty, conflict, and delay. The ultimate source of accountability and authority remains ambiguous.

Newer, so-called *post-industrial* forms of organization include virtual and networked organizations that operate across traditional boundaries, and "Velcro" organizations, which can be ripped apart and reassembled in new structures in response to changing opportunities.[6] Despite all the innovation in organizational structures, a purely structural solution to balancing the tension between specialization and integration remains elusive. But this should not be surprising. In McKinsey's famous 7-S Model for organizational alignment, strategy and structure are only two of the "seven S's."[7] A third S—systems—must also be mobilized to create organizational alignment. McKinsey defined systems as "the formal processes and procedures used to manage the organization, including the management control systems; performance measurement and reward systems; planning, budgeting, and resource allocation systems; information systems; and distribution systems."[8]

McKinsey's research for the 7-S Model (1980) predates the development of strategy maps, the Balanced Scorecard, and the five principles of the Strategy-Focused Organization.[9] Yet, we can now see how the Balanced Scorecard innovation enables companies to design their operating systems to align structure with strategy and also to contribute to the four other S's: staffing, skills, style, and shared values.[10] The conclusion from our work with hundreds of organizations is clear: organizations should abandon the search for the perfect structure. Instead, they should choose a structure that is reasonably compatible with their strategy and that works without major conflicts, and look to the system to complete the alignment process. Design a customized, cascaded *system* of linked strategy maps and Balanced Scorecards to fine-tune the entire organizational *structure* to the *strategy.*

Balanced Scorecard: A System for Aligning Strategy and Structure

Corporate strategy—the rationale for operating multiple businesses within the same corporate entity—must derive from the company's "parenting advantage."[11] The corporation must define its "enterprise value proposition": how HQ creates more value from the businesses it owns and operates than its rivals would if they owned the same set of businesses, or if the businesses operated completely independently. The four BSC perspectives provide a natural way to categorize the various types of enterprise value propositions that can contribute to corporate synergies:

Financial-perspective synergies

- Effectively *acquire and integrate* other companies.
- Operate excellent *monitoring and governance processes* throughout diverse enterprises.
- Leverage a common *brand* (as Disney and Virgin have done) across multiple business units.
- Achieve *scale* or *specialized skills* in negotiations with external entities such as suppliers, governments, unions, and capital providers.

Customer-perspective synergies

- Consistently deliver a *common value proposition* across a geographically dispersed network of retail or wholesale outlets.
- Leverage *common customers* by combining products or services from multiple units to provide distinct advantages: low cost, convenience, or customized solutions.

Internal business-process-perspective synergies

- Exploit *core competencies*[12] that leverage excellence in product or process technologies across multiple business units. Examples include competencies in microelectronics fabrication, optoelectronics, software development, new product development, and just-in-time production and distribution systems that lead to competitive advantage in multiple industry segments. Core competencies can also include knowledge of how to operate effectively in particular regions of the world.
- Achieve *economies of scale* through shared manufacturing, risk management, research, distribution, or marketing resources.

Learning-and-growth-perspective synergies

- Enhance *human capital* through excellent HR recruiting, training, and leadership-development practices across multiple business units.
- Leverage a *common technology,* such as an industry-leading platform or channel for customers to access a wide set of company services shared across multiple product and service divisions.
- Share *best-practice capabilities* through knowledge management that transfers process quality excellence across multiple business units.

Collis and Montgomery summarize such effective corporate strategies:

> An outstanding corporate strategy is not a random collection of individual building blocks but a carefully constructed system of interdependent parts . . . [I]n a great corporate strategy, all of the elements [resources, businesses, and organization] are aligned with one another. That alignment is driven by the nature of the firm's resources—its special assets, skills and capabilities.[13]

Strategy maps and the Balanced Scorecard turn out to be ideal mechanisms to describe enterprise value propositions and subsequently to align enterprise resources for superior value creation. The headquarters executive team now has a powerful tool, a corporate strategy map and BSC, to articulate its theory of the enterprise: how it generates additional value by having business units operate within the corporate structure, rather than having each unit operate autonomously, with its own strategy, governance structure, and financing sources. And HQ can use a governance system based on its corporate strategy map and scorecard to achieve corporate synergies by aligning and integrating the strategies of its business and support units. ■

1. This brief summary of a complex history is drawn from Chapter 2, "Scale, Scope, and Organizational Capabilities," in A. D. Chandler Jr., *Scale and Scope: The Dynamics of Industrial Capitalism* (Cambridge, MA: Harvard University Press, 1990), 14–49.

2. A. D. Chandler Jr., *Strategy and Structure: Chapters in the History of the Industrial Enterprise* (Cambridge, MA: MIT Press, 1962), 297.

3. T. Khanna and K. Palepu, "Why Focused Strategies May Be Wrong for Emerging Markets," *Harvard Business Review* (July–August 1997).

4. We explored the role of Strategy Maps and Balanced Scorecards in describing and implementing business unit strategy in the book *Strategy Maps: Converting Intangible Assets into Tangible Outcomes* (Boston: Harvard Business School Press, 2004).

5. S. Davis and P. Lawrence, "Problems of Matrix Organizations," *Harvard Business Review* (May–June 1978); H. Kolodny, "Managing in a Matrix," *Business Horizons* (March–April 1981).

6. L. Hirschhorn and T. Gilmore, "The New Boundaries of the 'Boundaryless' Company," *Harvard Business Review* (May–June 1992); M. Raynor and J. Bower, "Lead from the Center: How to Manage Divisions Dynamically," *Harvard Business Review* (May 2001); J. Bower, "Building the Velcro Organization: Creating Value Through Integration and Maintaining Organization-Wide Efficiency," *Ivey Business Journal* (November–December 2003).

7. R. H. Waterman, T. J. Peters, and J. R. Phillips, "Structure Is Not Organization," *Business Horizons* (1980).

8. Ibid.

9. R. S. Kaplan and D. P. Norton, *The Strategy-Focused Organization* (Boston: Harvard Business School Press, 2000).

10. R. S. Kaplan, "*Excellence* Redux: How the Balanced Scorecard Enhances the McKinsey 7-S Model," *BSR* March-April 2005 (Reprint #B0503D).

11. M. Goold, A. Campbell, and M. Alexander, *Corporate-Level Strategy: Creating Value in the Multibusiness Company* (New York: John Wiley & Sons, 1994); A. Campbell, M. Goold, and M. Alexander, "Corporate Strategy: The Quest for Parenting Advantage," *Harvard Business Review* (March–April 1995); D. Collis and C. Montgomery, *Corporate Strategy: Resources and the Scope of the Firm* (Chicago: Irwin, 1997), refer to essentially the same concept as the "corporate advantage." We will use the more vivid image of the corporate as parent to its various offspring.

12. Core competencies have been defined by Markides as the "pool of experience, knowledge and systems within the corporation that can be deployed to reduce the cost or time to create or extend a strategic asset"; strategic assets are the "imperfectly imitable, imperfectly substitutable, and imperfectly tradable assets that promote cost advantage or differentiation" (see C. Markides, "Corporate Strategy: The Role of the Centre," Chapter 5 in *Handbook of Strategy and Management,* 1st edition, ed. A. Pettigrew, H. Thomas, and R. Whittington (London: SAGE Publications, 2001).

13. D. J. Collis and C. A. Montgomery, "Creating Corporate Advantage," *Harvard Business Review* (May–June 1998).

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CASE FILE

Brazilian Industry Association Shapes National Agenda—With the BSC

By Lauren Keller Johnson, Contributing Writer

In this unprecedented use of the BSC, a lobbying group sets out to create a compelling, shared vision of Brazil's future as a global industrial competitor—and to realize that vision by 2015.

The story starts back in 1938, when members of regional Brazilian industry associations and state governments founded Brazil's National Confederation of Industries (NCI), a lobbying group seeking to boost the South American nation's industrial development. In the ensuing decades, NCI's efforts paid off: in particular, industries such as durable consumer goods (including automobiles) as well as steel and electric power expanded. However, this growth took place in a tightly closed economy, under the watchful eye of a highly protective federal government.

During the 1980s, the combination of an oil crisis and a foreign-debt crunch destroyed these gains and inflicted economic stagnation and runaway inflation on the beleaguered country. The following decade saw an about-face in the shape of sweeping government reforms that reduced inflation, restored democracy, and privatized many formerly state-owned industrial firms. Encouraged by these changes, NCI shifted its focus. Its new aim? To enhance the competitiveness of Brazilian industry on the world stage.

The group had good reason to define such a bold vision. Across its vast land mass, Brazil boasts a population of 170 million—all of whom speak a single language (Portuguese). In 1999, the nation ranked 10th in the world in gross domestic product (GDP). And Brazilian industry is highly diverse—comprising not only chemicals, oil, and textiles but also the metals, food products, telecommunications, and automotive sectors, among others. Liberalized trade policies, as well as a rich array of natural resources, have further positioned Brazilian industry to become a powerful global player.

Bringing In the BSC

To support its new focus, NCI created the National Forum of Industries (NFI) in 2003. This 50-member advisory board consists of industry leaders as well as representatives from industry associations and state industry federations. The NFI's purpose: to promote the continuous debate of ideas, to generate proposals, and to help Brazil's major industrial leaders develop action plans for change.

Despite the advantages enjoyed by Brazilian industry, challenges still existed. Though Brazil had achieved impressive growth in some industries during the 1990s, ample room remained for improvement. Specifically, business leaders throughout Brazil voiced frustration with the patchwork growth pattern and demanded more influence over the nation's economic agenda.

To address these concerns, NCI defined an additional role for NFI: formulating a long-term strategy for enhancing Brazilian industry's competitiveness. According to NCI executive director José Augusto, developing such a strategy was essential. Without it, the NFI could become distracted by more immediate industry-specific concerns whose resolution would have little impact on the future of Brazilian industry overall. NCI charged the Forum with not only formulating the strategy but also communicating it to business leaders, identifying priorities for joint political action, and establishing a mechanism for evaluating the strategy's results.

But how to select the right performance management mechanism? For several reasons, NCI found itself gravitating toward the BSC. For one thing, the organization had experimented with the scorecard methodology in its national worker-training program and had been impressed by the BSC's ability to express strategy in clear, accessible language. In addition, the scorecard had an enthusiastic advocate in member Jorge Gerdau Johannpeter, president and CEO of Gerdau SA, a leading, privately owned steel producer in Brazil and one of the largest Brazilian exporters of steel products. Gerdau, who is also on NCI's board, had used the BSC in his companies. "A key part of what

AT A GLANCE

National Confederation of Industries
Brasília, Brazil

Year founded: 1938

Mission: To enhance the competitiveness of Brazilian industry, primarily through lobbying but also through training and conducting economic research and distributing findings to industry leaders

Participants: Members of industry associations representing Brazil's 27 self-governing states and its federal district, as well as 1,016 employers' unions

BSC adopted: National-level strategy map developed in August 2004; state-level maps for Rio de Janeiro and Rio Grande do Sul initiated in November and December 2005, respectively

NCI does is create consensus," Gerdau explains. "And I knew that the BSC could be a powerful tool for them. To build a strategy map, you have to discuss many shared goals—social, economic, business, and political—with many different constituencies. The BSC lets you do that in an organized way."

Based on this input, NFI decided to adopt the BSC. It assembled a core team headed by Augusto and including several NCI staff members as well as outside consultants led by São Paulo–based Symnetics, which specializes in BSC implementation.

Defining a Compelling Future

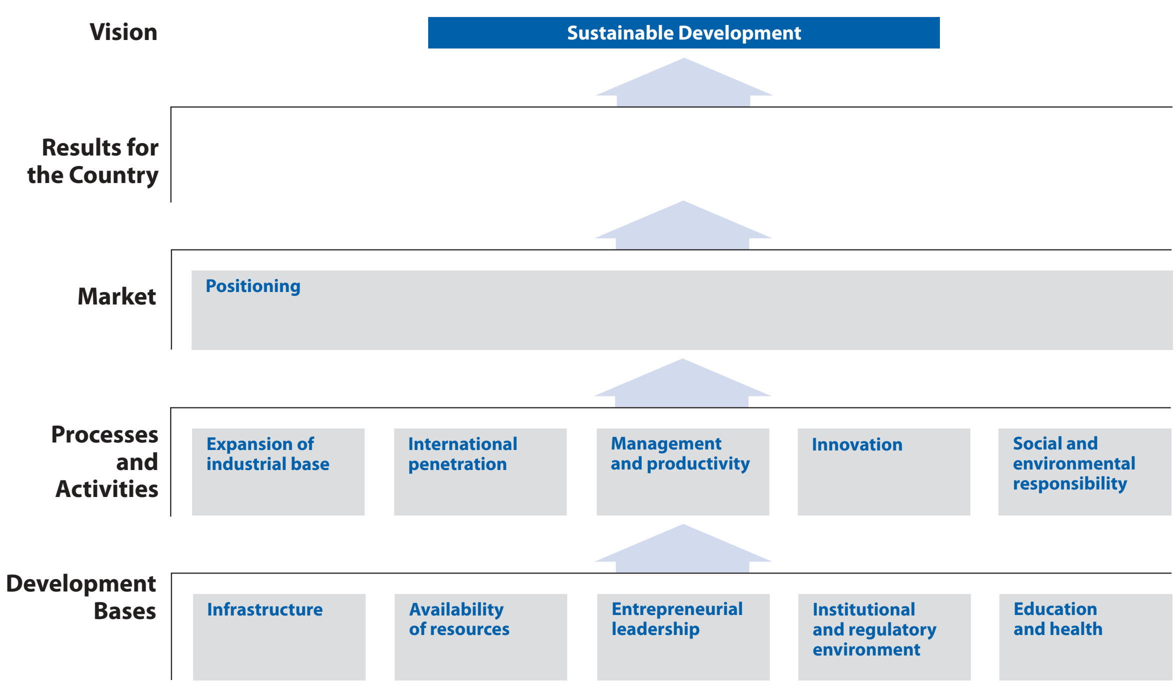
Mindful of the importance of a long-term view, the team did its homework before drafting a strategy map. Using Future Search methodology,[1] the team asked experts to analyze trends in developing economies and to identify these trends' implications for Brazilian industry.

For example, in July 2004, the team brought in an economist from the World Bank as well as international economists specializing in China, Korea, and India. The resulting discussions convinced NFI that despite differences in developing economies' trajectories, successful economies all shared one characteristic: they had macroeconomic policies encouraging what Augusto calls "international integration." "These countries' manufacturing sectors participate in different parts of the global supply chain," he explains. "Technical institutions have a pro-market orientation, and universities collaborate with the private sector. To make this happen, we knew we had to prepare Brazil to become a knowledge economy."

The Future Search process produced several strategic themes—such as fostering innovation in corporations, guaranteeing available energy at affordable prices, and strengthening Brazil's capital market—that appeared in the first draft of NFI's strategy map, created in August 2004. NFI's 50 members then showed the map to representatives from their respective industries to gather feedback. This part of the process entailed about 40 additional workshops and interviews and produced feedback from roughly 300 individuals.

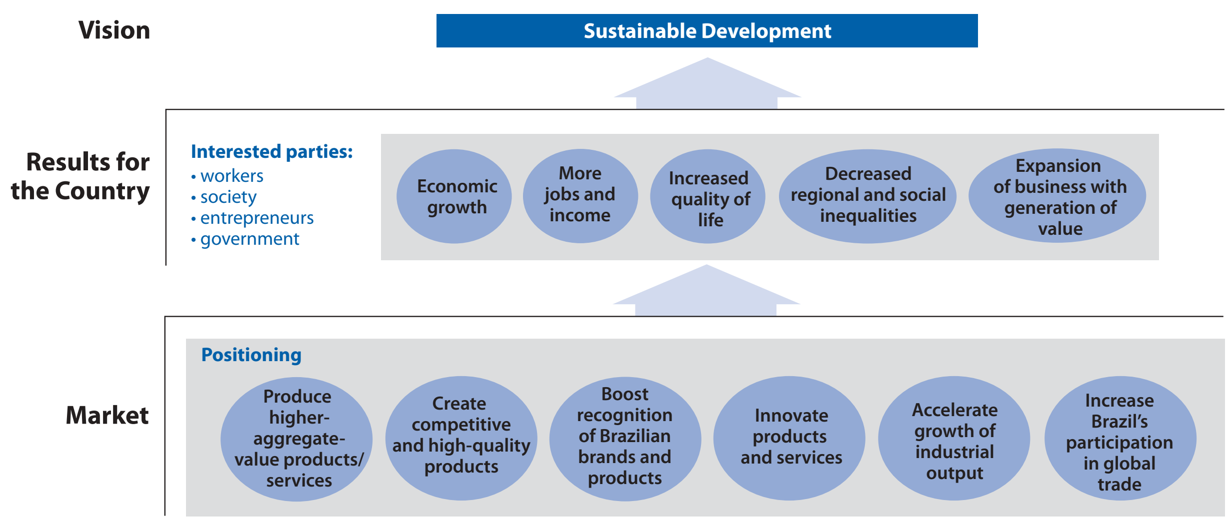
The goal of these gatherings was to stimulate lively discussion of the initial strategy map and to seek consensus about overarching strategic priorities for Brazilian industry. After asking business leaders questions such as, "Which issues most affect your industry? What are the major challenges facing your industry in its quest to develop?" team members sifted through the responses and documented only those priorities that crossed industries. Result?

Figure 1. Realizing Brazil's Vision: Overview of NFI's Strategy Map



This high-level view of NFI's complex strategy map shows the overarching vision, perspectives, and strategic themes.

Figure 2. NFI's Strategy Map: Upper Segment



This top slice of NFI's strategy map shows objectives for the top two perspectives and lists stakeholders.

A common agenda to which all industries could commit. *Figure 1* (previous page), shows a high-level view of the revised map, which lays out a plan that NFI deemed achievable by 2015.

During the workshops and interviews, the core team also sought business leaders' insights on how to set appropriate targets for the map's strategic objectives. Weighing the responses, NFI considered a "continuity" scenario, which would call for maintaining Brazil's current GDP growth rate of 2% to 3%, as well as a "moderate" scenario, which entailed striving for a 4% to 5% growth in GDP. Ultimately, the NFI opted for a "rupture" scenario —an aggressive 7% to 8% growth in GDP within 10 years, similar to the economic growth seen in recent years in India, China, and South Korea.

Setting bold targets was one thing; defining strategic initiatives to ensure their success, quite another. As Augusto tells it, "Everyone had his own wish list [of programs]." Moreover, NFI knew it had to engage its member network to execute the many strategic initiatives. To ensure these programs' success, NFI created a "conformity seal" for initiatives managed by outside organizations. The seal included instructions for defining initiatives that supported NFI's strategy as depicted on the map. It also stipulated reporting protocols and mechanisms for following up on initiatives' progress. In addition, NCI offered project-management support to these organizations.

The resulting initiatives mapped closely to the strategic objectives NFI had defined. For instance, to support the Processes-and-Activities perspective objective "Improve effectiveness of private-government international trade negotiations," a Brazilian business coalition proposed a program for building a new business coalition focused on influencing international trade negotiations. And to achieve the objective "Foster development of small and medium-sized businesses within Brazil," NCI executives, together with SEBRAE, a development organization for small and mid-sized industries, defined an initiative focused on establishing a general body of law protecting such businesses. (*Figures 2* and *3* show objectives from other strategy map perspectives.)

"The Map Is Alive"

Though still in its earliest phase, the National Confederation of Industries' BSC implementation has won widespread praise from Brazilian business leaders. "Brazilians are innovation driven, and the reaction has been very positive," notes Augusto. Nonetheless, some industry leaders have expressed skepticism that the BSC can work in a not-for-profit organization such as NCI. These same individuals also question whether the strategy can succeed if those responsible for carrying out supporting programs are not those who "own" the map. Time will reveal whether these qualms have merit, Augusto acknowledges.

Meanwhile, NFI has wasted no time in getting the word out to the Brazilian public about the scorecard effort. For example, 20,000 copies of NCI's report, *Strategic Map of the Industry: 2007–2015,* which contains the strategy map plus descriptions and examples of objectives, metrics, targets, and initiatives, have been distributed to businesses, universities, state governments, and media organizations. Augusto has also appeared on a radio talk show, in which callers as diverse as students, housewives, and businesspeople expressed satisfaction with NCI's "broad agenda for our country."

"Of course," adds Augusto, "Brazil is a big country. To be heard on one radio show isn't much. We need to constantly push the process [of building awareness]." To that end, NFI recently held its first management review of the map. According to Augusto, this event was a "symbolic moment—everyone saw that we can't just define the map and then forget about it. We have to keep communicating about our initiatives' progress, to show that the map is alive and to remind people that our ultimate goal is growth for the Brazilian economy."

From Strategy Tool to Political Lever

NFI has stepped up this awareness-building to the highest possible level. To wit, 2006 is an election year in Brazil—on October 1, Brazilians will go to the polls to choose new federal, state, and local leaders. NFI has presented the strategy map as the political agenda for Brazil's future to the handful of presidential candidates. As Augusto explains, "The test of the map's value will come in the next months, when the candidates debate and we present [them] detailed studies from our work on the map."

Meanwhile, several Brazilian states have begun laying the foundation for creating their own strategy maps cascaded from the national map. For example, in November 2005, about 800 business leaders in Rio de Janeiro began developing a map for that state's industrial and services development. They plan to present the map to the future governor as a political platform complete with objectives, targets, and initiatives intended to deliver results by 2015. Progress on the map will be monitored by Rio de Janeiro's industrial federation.

In addition, in December 2005, a joint effort between the state industrial federation and other economic federations (e.g., in agriculture and commerce) in Rio Grande do Sul proposed gathering input from about 3,000 individuals—business leaders, workers, union officials, government and political leaders, and community activists—to develop a vision and BSC for this southern Brazilian state. A soon-to-be-assembled team and a nongovernmental organization (NGO) will monitor the state's performance and help implement strategic initiatives.

These two state-level scorecard programs—the first of their kind—have enormous implications for emerging nations and other NGOs around the world. They will likely garner intense interest in the coming years.

With so much at stake and no precedent to draw on, NCI has pioneered a novel application of BSC methodology. Naturally, it will have to allow time to pass before it can assess the effectiveness of its scorecard implementation. But early evidence suggests that its BSC initiative has fostered a new awareness of the power of strategic thinking. And it may have laid the groundwork for major economic change in a vast nation poised to take its place on the international stage. ■

1. Future Search is a methodology for community planning conferences that enables large groups to establish common ground and initiate action quickly. Experts, officials, and other stakeholders meet in groups of 60 to 80 over the course of three days to discuss their shared desired future. The methodology, now used throughout the world, relies on mutual learning among stakeholders as a catalyst for voluntary action and follow-up.

TO LEARN MORE

Visit www.cni.org.br. At www.cni.org.br/mapadaindustria you'll find a detailed strategy map and component elements, including top measures and targets. (The site is in Portuguese; if you are interested in it but do not speak Portuguese, contact Jan Koch, BSR *editor, at jkoch@bscol.com for assistance.)*

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Figure 3. Sample Objectives

Infrastructure

- Guarantee logistic efficiency to sustain growth of Brazilian industry
- Guarantee availability of energy at competitive prices
- Guarantee continuity of telecommunications infrastructure development
- Guarantee basic sanitation infrastructure availability

Availability of resources

- Develop new financing standard for productive sector at internationally competitive prices
- Foster capital markets
- Foster attraction and retention of human capital
- Promote rational use of natural resources

Education and health

- Guarantee quality of basic education
- Guarantee quality of higher education, suited to the needs of the economics of knowledge and of the production system
- Strengthen professional and technological education
- Promote digital inclusion
- Promote entrepreneurial culture and disseminate values of free enterprise and business ethics
- Guarantee access to a quality health system

Objectives from three of the five strategic themes within the Development Bases perspective.

Renewing Strategy, Revitalizing Culture at EDA

An interview with Assistant Secretary of Commerce for Economic Development Sandy K. Baruah

By Janice Koch, Editor

Sandy K. Baruah

From bureaucratic backwater to exemplary government organization: How did the U.S. Department of Commerce's Economic Development Administration (EDA) revitalize itself? Energized by President Bush's Management Agenda, EDA leaders adopted the Balanced Scorecard to support a strategic transformation that in short order began achieving impressive results. Assistant Secretary of Commerce for Economic Development Sandy K. Baruah shares his perspectives on the approach that in 2004 won the agency entry into the BSC Hall of Fame.

Created in 1965 during President Lyndon Johnson's "War on Poverty," the U.S. Economic Development Administration (EDA) is the economic development bureau of the U.S. Department of Commerce. Charged with promoting growth, innovation, and competitiveness throughout America's economically distressed regions, EDA provides grants to nonprofit and local government entities.

But the agency's focus—and its success—is relatively recent. In the past two decades, it struggled for survival; operating for years without congressional authorization, it endured layoffs and dwindling budgets. When President George W. Bush took office in 2001 and introduced his Management Agenda to bring accountability and performance measurement principles to the federal government, EDA's fate would soon change. The new administration's results-oriented mindset gave the agency a fresh opportunity to prove its worth. Since then, it has reshaped its mission and strategy, from serving as mere grant-maker to entrepreneurial engine of domestic economic development.

Under its new strategy, the agency works with investment "partners"—universities, chambers of commerce, and government agencies, all with close ties to the private sector—to target local and regional initiatives that can generate higher-skill, higher-wage jobs.

BSC Flexibility

Within four months of deciding to adopt the BSC in 2001, a high-powered executive team crafted a corporate strategy map. Over the next two years, a team of managers from HQ and the agency's six regional offices implemented the BSC organization-wide. The regional offices share a common BSC and strategy map that is flexible enough to allow them to pursue their own initiatives and development strategies. To accelerate buy-in, David Sampson, then Assistant Secretary of Commerce for Economic Development (today, Deputy Secretary of Commerce) and his team tied performance evaluations for regional directors and staff to the BSC early on. (Federal regulations prohibit performance-based compensation to federal employees.)

Headquartered in Washington, D.C., the agency has some 200 employees, a budget of $280 million (2005), and an investment portfolio of $1.5 billion. Since implementing the BSC, EDA has surpassed its target number of new investment partners; in FY 2003, actual private sector investments as a result of EDA investments more than quadrupled targeted amounts ($2.475 billion versus $581 million). The ratio of private to taxpayer dollars supporting the average project grew fivefold, and jobs created or retained in distressed communities nearly doubled in that same period.

Thanks to the EDA's performance, the Department of Commerce was chosen to lead the proposed "Strengthening America's Communities" program, designed to consolidate 18 federal economic and community development programs (with a combined $3.7 billion budget) under one roof. Sandy Baruah, who led EDA's scorecard implementation as chief of staff under David Sampson, was confirmed as Sampson's successor in December 2005.

BSR: *There are numerous government economic development programs at the federal and state levels. What precisely is EDA's value proposition?*

Sandy Baruah: In effect, there's a quasi-competition among programs for a finite amount of federal resources. By law, EDA must make itself as impactful as possible (in terms of putting taxpayer dollars to work effectively). We essentially let the chips fall where they may—the President and Congress choose how they want to allocate whatever dollars are being spent on economic development. As a political appointee who works for the president implementing his agenda—his overall policy goals, not just the policy goals of a particular portfolio—I take a broader view. I see it as a stewardship responsibility to make the agency as good as we can, to capitalize upon the niche we have in the federal government.

We are a discretionary grant-making organization; therefore the demand for free money is unlimited. Regardless of how well we administer our "product," modernize it, or focus it on our goals, there will always be far greater demand than we have the ability to supply. In that respect, we compete by engaging in a competition for ideas. Our goal is not necessarily to be involved in all those projects, but for all economic development projects to reflect the principles we're trying to imprint on economic development activities. Furthermore, we can no longer afford to have one-off projects that may impact only one small community. Economic development succeeds best when it's innovation-focused and private-sector-like and supports entrepreneurship. We also believe that regional approaches are critical to success.

BSR: *How would you describe your strategy?*

Baruah: Our strategy is both top-down and bottom-up—and it has to be. We don't believe that all good ideas come from Washington; in fact, it may be just the opposite. We want to ensure that economic development is a local process. We just want to provide a template. How the economic regions we invest in choose to fill in that template should be their call. We're not in the business—nor should the federal government be in the business—of choosing regional strategy. But we know there are elements that create success. And one is that regional strategy is based on regional strengths. We have no intention of making economic development formula-driven.

BSR: *What particular challenges do public-sector organizations face in undergoing a strategic transformation?*

Baruah: Certainly, there are additional challenges that the federal government experiences over the private sector. But as frustrating as that can be to the government manager, that is probably the way it should be. Any given federal program has many boards of directors; Congress, for example, plays an active board-of-directors role. It's elected by the people, just like the president, so it has a legitimate oversight role that it takes seriously, and in many cases, aggressively. As one of many federal programs, EDA has to fit into a larger family of programs in our department (Commerce) and into the overall budget. It must be consistent with the president's agenda. From a process standpoint, we must abide by federal personnel rules, which can be challenging to navigate: who you hire, their duties, where they work, how they work, who they report to.

BSR: *Is it difficult to maintain the momentum of a strategic transformation in a government organization? Does the transformation have staying power?*

Baruah: From a process and an organizational design standpoint, yes, I think we've got momentum. From a policy perspective we're stronger than we were, though perhaps not as much as in process and organizational design. We think we've taken the agency in a direction it has needed to go. But a new president could come in and decide that he or she wants to do something completely different. That's their opportunity to effect change.

BSR: *What do you consider the most important factors that led to EDA's successful transformation?*

Baruah: Leadership from the top. This effort was very much a priority for the head of our organization, David Sampson, and he made his commitment to it very clear. Then, I'd say having a team of committed people. Another factor was the chance to make a real difference.

BSR: *What is the greatest change EDA introduced with the BSC?*

Baruah: The way we evaluate our investment opportunities. Yes, there have been process changes (e.g., giving regional offices more decision-making flexibility, overhauling our records management system), but the biggest change is how we go about investing taxpayer dollars—and what we invest in.

Another big change is our new visibility. We're in the business of changing hearts and minds, and we're doing business in a new way. It was important to get the word out that there was a new day at EDA, which is why dealing with the media was on our initial BSC.

BSR: *How has the agency responded to Hurricanes Katrina and Rita, which have together had a catastrophic affect on the Gulf Coast economy?*

Baruah: Since last fall, EDA has invested $9 million in Gulf Coast rebuilding, redirected $2.8 million in revolving loan funds, established business counseling centers, conducted a business reinvestment forum, led the Secretary's domestic trade investment mission (the first ever), and offered technical assistance to state economic development organizations. We invested $500,000 to support tourism and, by late September, will have invested $10 million in the region. The work continues. As always, the extent of our involvement is up to the president and Congress. ■

TO LEARN MORE

For more on EDA's programs and results visit www.eda.gov. Also, EDA's Balanced Scorecard Hall of Fame Profile, an in-depth case study, is available at www.sfo.harvardbusinessonline.org.

Reprint #B0607C

Expanding HR's Strategic Role

An interview with Professor Dave Ulrich, Ross School of Business, University of Michigan, coauthor (with Professor Wayne Brockbank, University of Michigan), The HR Value Proposition *(Harvard Business School Press, 2005)*

Adapted by Judith Ross, Contributing Writer

Dave Ulrich

Human Resource professionals are well on their way to being seated at the organizational strategy table—if they're not already there. So says Dave Ulrich, one of the world's leading human capital/HR experts and coauthor of *The HR Value Proposition.* No longer just the caretakers of payroll and benefits, today's HR professionals are strategic partners who can provide the missing link between having a strategy and being able to implement it.

Successful HR professionals must be business literate and customer savvy. Not only do they help line managers achieve their goals, "they help formulate winning strategies by focusing on the right decisions and by having an informed opinion about what the business needs to do," write Dave Ulrich and his coauthor, Wayne Brockbank. Cassandra Frangos, principal and human capital practice leader at Palladium Group (Balanced Scorecard Collaborative's parent) recently asked Ulrich about the pair's five-point framework to help HR professionals continue to validate and expand their strategic role.

Cassandra Frangos: *Over the past 20 years you've worked hand-in-hand with a lot of HR organizations. How do you define the "HR value proposition"?*

Dave Ulrich: HR, or any area—be it marketing, finance, or manufacturing—deserves more attention and resources if and only if it creates value. From our thinking and research, we've concluded that value is defined more by the receiver than by the giver. For HR to deliver value, it needs to define its receivers and how to create value for them, or it won't survive. That is the fundamental premise on which we base our work.

CF: *What are some of the ways HR creates value?*

DU: We have identified five high-level factors in creating an HR value proposition. First, HR must understand the external world in which it operates so that its actions within the firm reflect business realities outside the firm. HR professionals should have a solid grounding in technology, economic and regulatory issues, the effects of globalization, and workforce demographics. They must then connect these realities to their day-to-day work so they can put HR practices in context, tie them to competitive challenges, and relate them to concerns facing line managers. For example, with a working knowledge of current and emerging technologies, HR professionals will not only understand the dynamics that influence their business and its customers, they will be able to align strategies and practices to build the necessary employee competencies.

The second factor is recognizing your stakeholders—those who receive value from what you do. We have identified four stakeholders, although there may be others. The first two are employees and line managers. Is the employee competent and committed, and can the line manager execute his or her strategy? The other two—customers and investors—are not typically recognized by HR professionals, yet HR's real value comes through connecting HR to these external stakeholders, by enabling the firm to boost its customer share and investor confidence. For example, customer loyalty stems from consistently positive experiences with the firm. Customers' perception of the firm's reliability and responsiveness result from employee behavior. HR contributes to the bottom line by helping employees gain the skills required to understand and satisfy customer expectations.

The third factor involves those HR practices that make this happen. HR practices institutionalize beliefs and values and make them real to all stakeholders. The way you hire, train, and pay people and the way you organize work sends messages to employees about what matters most. By creating practices around people, performance management, information, and workflows, you shape an organization's identity. These HR practices deliver value to internal and external stakeholders when they are appropriately aligned with your organization's goals. A company with a customer intimacy strategy would want HR programs that make target customers' satisfaction levels a measure of employee performance. Rewarding outstanding employee service would not only support the strategy, but would also have a direct impact on the bottom line.

Fourth, treat the HR function as a business: Do you have a strategy and a structure that will deliver value? The strategy will help you focus attention on key factors and respond appropriately to business realities. The structure will organize HR resources in ways that govern how HR work is done. These elements will also ensure that HR resources are deployed where they add the most value. Say the organization has a strategy map objective of increasing agility regarding change. The HR scorecard would include initiatives to support that goal and their success could be measured by actual business outcomes. At GE, for example, we created development exercises that focused on employees' capacity for change. Teams applied these change lessons to their projects. Because these projects had a quantifiable outcome—reduced costs and/or increased revenue—we could quantify how this HR investment helped the company achieve a business goal.

Finally, do your HR professionals have the right skills? They must have clear roles and distinct competencies to ensure they embark on the right actions to deliver the intended value. In our latest research we found that successful HR professionals were able to instill change quickly and link the results to customer outcomes. Another trait they shared was the ability to build relationships and trust. Those factors—the ability to manage culture and personal credibility—explain 70% of the overall performance of good HR people.

CF: *Your model includes 14 criteria that underlie those five factors. Can you give us a few examples of them?*

DU: To serve both internal and external stakeholders, for example, you must help line managers deliver on strategy by building organizational capabilities. This requires HR to develop programs that ensure employees have the right tools and knowledge to achieve those goals. Under "creating effective HR practices," the HR function must manage workflow design and processes in ways that add value. When HR pays attention to who does the work and how and where it is done, this results in governance processes, accountability, and a physical environment that ensure high-quality results.

To support the development of an HR strategy, HR needs a clear strategic planning process for aligning HR investments with business goals. An HR-level BSC not only communicates how HR's strategy supports the organizational strategy, it can help HR reconcile its internal initiatives with the needs of the business.

CF: *How do you create an outstanding HR strategy?*

DU: If I were building a template for an HR strategy, it would include the following questions:

- What are the business challenges? What is the board of directors concerned about?
- What is the mission or vision of HR?
- What are HR's deliverables—its capabilities or outcomes—in behavioral and measurable terms?
- What HR practices will make those deliverables happen? (These might be about people, performance management, information, or work.)
- How do we organize the HR function accordingly? How do we use embedded HR (generalists, or those who work in businesses or divisions)? Do we have centers of expertise? Transaction work? And how do we govern?
- What are the first steps to accomplish these things? What is our action plan; in particular, what progress can we make in 90 days?

At every one of those steps we have measures to monitor our progress. Scorecards are critical.

CF: *How do you gauge the success of HR practices?*

DU: We can measure the cost/benefit of the HR practice or its impact.[1] For example, did people like training and did training enhance their knowledge or performance? Can we measure knowledge gained from the experience or the financial impact of the investment?

CF: *What are some of HR's most important deliverables?*

DU: Consider 10 or so beginning capabilities that a firm needs to have, like great talent, speed to market, innovation, and culture change. HR delivers on these capabilities by developing a list of corresponding skills that it helps employees acquire; for example, the ability to change and try new things (for speed to market) and cultivating a service-oriented mindset (if you're switching from a product-focused to a more service-focused culture).

CF: *How would you measure some of those deliverables?*

DU: We would measure depth of talent by percentage of positions with backup; speed by time to market with new products; and innovation by percent of revenue from new products.

CF: *What is your advice for the business side when their HR team lacks these strategic capabilities?*

DU: Raise the bar on HR. Let HR know this is what's expected. This is no longer the game of the 1960s and '70s, when HR professionals were the guardians of terms and conditions of work. We are now the guardians of organizational culture, the stewards of human capital. If your HR people can't play, move them out. Not ruthlessly, but directly and boldly. You can't run HR like a business if your HR people don't have the skill set. ■

1. In *The HR Value Proposition,* Ulrich and Brockbank provide examples of ways to measure specific HR practices, using employee questionnaires and surveys. For example, to determine whether HR has an effective communication strategy, both formal and informal feedback meetings and statistical surveys can provide the kind of detailed responses that will help HR manage communications more effectively.

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Perception *Is* Reality: Why Subjective Measures Matter, and How to Maximize Their Impact

By Robert S. Gold, Vice President, Balanced Scorecard Collaborative

BSC strategic objectives often involve changing the attitudes and perceptions of customers, employees, and other key stakeholders. Yet creating reliable, objective measures of subjective factors is a particular challenge. Many leaders resist using surveys, believing them not worth the cost and trouble. In addition, designing and implementing surveys that yield rich, actionable answers can be tricky. Robert Gold makes a compelling case for using such tools, offering insights and practical advice on how to make them an effective part of your BSC reporting.

When helping organizations design measures for their Balanced Scorecards, the moment comes when we float the idea of surveying employees or customers. Invariably, there is an uncomfortable silence, followed by loud protests. Executives complain that surveys are expensive, that they don't tell them anything new, and that a steady diet of them annoys people and can thus defeat their purpose. An unspoken source of resistance is leaders' fear that survey results will challenge the comfortable fictions they may be sustaining to support their decisions.

True, surveys can be expensive, especially when professionally designed, researched, and administered—although technological advances over the past decade have gone a long way in offsetting their cost and complexity. Moreover, in the absence of clear-cut results, surveys may raise more questions than they answer. Yet investor, customer, and employee expectations and perceptions all matter to a company. Understanding them is vital to predicting the behaviors of these stakeholders: whether they'll invest in your shares or buy your products or work hard. When done properly, surveys are essential for developing a balanced portfolio of leading and lagging indicators. And when survey results inform key management decisions that involve making large investments in pursuit of even larger revenues, the value can be substantial.

While executives may envision what the value proposition should be, it is customer perception that determines what the value proposition actually is.

Perception Matters

Understanding, shaping, and fulfilling the expectations of stakeholders is central to successful strategy execution. In for-profit organization strategy maps, the financial perspective is rooted in the need to satisfy shareholders' expectation of a return on their investment. The decision to invest (and, by implication, the stock price) is driven by investors' collective expectations of the firm's future performance. The customer perspective captures the firm's value proposition—that is, the reason a customer would do business with the firm. The customer's perception of the value proposition predicts his or her behavior toward the firm, namely, whether he or she buys its products or services. Value, like beauty, is in the eye of the beholder. While executives may envision what the value proposition should be, it is customer perception that determines what the value proposition actually is. The concept of the customer value proposition applies to the firm's internal customers as well. In our work with IT organizations, we've learned that expectations and perceptions shape behaviors that influence the quality of these internal service provider–customer partnerships—and ultimately, how efficiently the resources that drive enterprise performance and strategy execution are used.

Of course, human capital is a key intangible asset necessary for creating value. A company can influence, but not control, employees' expectations and perceptions of the firm—two factors that largely drive their behavior: how hard they work, how well their actions support the firm's interests, and ultimately whether they'll continue working for the firm.

Perception drives behavior; that's why the behavior of these stakeholders is indeed the firm's reality. Woe unto the firm that doesn't understand what its investors, customers, and employees are thinking.

Ensuring Survey Success: Skillful Research Design Is Vital

A survey program is the best way to regularly monitor stakeholder perceptions. E-mail and Web-based survey tools enable faster design, execution, and analysis, and have reduced the cost of surveys considerably. Many enterprises already have e-mail address lists from the Web sites and customer databases they maintain for direct communication and marketing purposes. Wireless telephony and text messaging enable nearly real-time data collection and analysis. Technology, however, is no substitute for good research design, and in amateur hands, such tools amplify the risk of getting unactionable results or even causing adverse consequences.

Regrettably, to save money, many firms opt for do-it-yourself research design, even when they lack the expertise to do so effectively. The principles of research design are beyond the scope of this article; suffice it to say that unless you have a professional in-house market research staff, do-it-yourself research design is risky, unlikely to yield much useful information, and can actually do harm. The "Hawthorne Effect"[1] demonstrated that the very act of studying a group of subjects changes its members' behavior. A poorly designed survey can antagonize its subjects, or, if they fear repercussions from any negative responses, discourage candor. Either way, it can taint results.

While an inexperienced research designer would simply begin by writing questions, a seasoned designer would start by studying the environment and its population groups, as well as the organization's strategy, to decide the best method (e.g., surveys, focus groups, or data mining) and frequency, and how to segment the research population. Drawing on an academic and practical understanding of human behavior, statistical analysis, and survey design, the designer would then develop a comprehensive research plan and plan follow-on research.

The research designer must be both unbiased about the research topic and familiar with the study environment. Unwittingly or not, do-it-yourselfers often allow their firm's biases to creep into survey questions. But subtle differences in the way a question is phrased—even the order of the questions—can dramatically affect how people respond. Allow leaders to contribute their opinions when establishing hypotheses, but keep them a safe distance from the actual design.

BSC-driven research begins with the strategy map and the cause-and-effect relationships among strategic objectives. Objectives in the customer and learning and growth perspectives require perception measures to give a full picture. While financial measures like sales volume or market share reflect the results of customer behavior, leading measures of customer perception can help executives anticipate changes in these ultimate outcome measures.

Regrettably, to save money, many firms opt for do-it-yourself research design, even when they lack the expertise to do so effectively.

Changing people's perceptions is often central to strategy. Well-designed research can provide leaders with insights about which perceptions need to change or help test hypotheses about how a change in perception will actually occur. A customer perception measure can validate the effect of an initiative in the internal process perspective.

For example, as part of its strategy to develop more profitable relationships with its customers, a bank undertakes an initiative to have customer service agents spend more time on the telephone with customers who call for support. The bank believes that if agents are equipped with better customer information, they will be able to probe beyond the original scope of each call and promote additional products appropriate to the caller. A sound customer feedback program can enable the bank to validate the assumptions underlying its strategy, or to uncover negative perceptions (e.g., calls are taking too long or agents' questions are intrusive). Only by measuring agents' new behavior (for example, through average call duration), along with agent and customer perceptions, can increased sales reasonably be attributed to the new strategy.

Conquer Survey Fatigue

Leaders seeking "silver bullets" for intractable problems don't often have the patience to execute surveys repeatedly. But few surveys provide full value in one execution. Periodic sampling of a population reveals trends that are impossible to see in a single snapshot. Often the absolute value of a perception measure is meaningless; the insight comes from tracking the direction and magnitude of change in the measure over time.

"Survey fatigue" is a common reason why organizations resist using surveys. Employees in firms with Internet survey tools are often bombarded with narrow, one-off surveys from multiple sources whose timing is not coordinated. Over time, these do little more than discourage response. All research requests should be funneled through a single coordinator, ideally in the Office of Strategy Management.[2] Rather than surveying the entire employee population annually, the organization should send the same basic survey to a controlled random sample every quarter (25% of the employee population), polling different subgroups each time—thereby reducing survey frequency and minimizing fatigue. The sample size is determined mathematically, according to population size and acceptable margin of error. A basic set of questions could be asked each time, and carefully targeted new questions could be included when needed to understand new challenges. Under this model, no employee in the target group would receive more than one survey per year. By generating quarterly findings (rather than the usual annual ones), this model is especially appropriate for BSC reporting.

Consider Focus Groups or Interviews

While most perception measures come from surveys, focus groups and interviews are also valuable tools. Focus groups can be a component of a survey (answering the complex question, "Why are employees unhappy?"), or can simply serve as a way of capturing the perceptions of a small group when surveys would not be effective or practical. A focus group can reveal complex root causes for perceptions that may not be anticipated in a set of multiple-choice responses.

Including all the detailed findings in the BSC report is not necessary. What is necessary, however, is providing context.

Focus groups typically involve eight to 12 subjects and one or two facilitators, and deal with generally no more than five questions. Experienced facilitators skillfully elicit and structure responses from participants, which may be captured through flip charts, note taking, or audio and video recording. Because facilitators affect results, it is vital that they be experienced, neutral, and knowledgeable about the topic. Specially designed focus-group facilities feature one-way mirrors that enable trained observers to monitor participants' body language and group dynamics without influencing them.

One-on-one interviews are another valuable technique. By asking members of a group with similar characteristics a standard set of questions—for example, asking salespeople the same questions about follow-up calls to customers after a store visit—you get the benefits of a focus group (more detailed, qualified responses and more flexible dialogue) without the burdens of scheduling and travel. Internet and other technologies—from simple discussion boards and blogs to real-time sessions assembling people from different locations to interact with text, audio, and even video—now enable on-line focus groups.

Put Your Findings in Context

With survey data in hand, how do you best present it? It's easy to present survey data in graph form, but graphs by themselves don't tell a very useful story. Including all the detailed findings in the BSC report is usually not necessary, though they should be available to the leadership team so they can drill down if they want. What is necessary, however, is context. The "performance advocate"[3] for the overlying strategic objective should work closely with the research designer to analyze the survey findings, considering them in the context of data from prior surveys and other measures in the BSC report—and presenting that context in the reporting. Focus group feedback, including carefully selected participant quotes (paraphrased when necessary to ensure anonymity), should be summarized through the facilitators' written analysis. The research designer should attend the management discussion of the findings to answer technical questions and help shape subsequent research requests. Because of the very real danger of simply replacing the old "comfortable fictions" with new ones, leaders should balance their reasoned judgment with a healthy skepticism when making decisions resulting from their enriched understanding of stakeholder perception. ■

1. The Hawthorne Effect, well known in the research field, was first observed in the 1920s at the Western Electric Hawthorne factory.

2. See R.S. Kaplan and D. P. Norton, "Strategic Management: An Emerging Profession," *BSR* May–June 2004 (Reprint #B0405A). Also, look for the forthcoming *BSR Reader* (article collection) on the Office of Strategy Management at www.harvardbusinessonline.org.

3. A performance advocate, typically the leader and his or her direct reports, acts as project manager for a strategy map objective or objectives. For a more detailed explanation, see R. S. Gold and J. R. Weiser, "The Balanced Scorecard Strategy Review Meeting: What to Expect the First Year," *BSR* March–April 2005 (Reprint #B0503E).

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