Glossary of Balanced Scorecard & Key Performance Management

When developing a Balanced Scorecard or Performance Management system you'll quickly discover that even within your own organization different individuals and groups will hold different meanings for commonly used terms. The glossary presented here will help you find some common ground by offering descriptions and definitions that have been used successfully in many Performance Management implementations.

Balanced Scorecard - An integrated framework for describing strategy through the use of linked performance measures in four, balanced perspectives - Financial, Customer, Internal Process, and Employee Learning and Growth. The Balanced Scorecard acts as a measurement system, strategic management system, and communication tool.

Benchmarking - The comparison of similar processes across organizations and industries to identify best practices, set improvement targets and measure progress. Benchmarking results may serve as potential targets for Balanced Scorecard measures.

Business As Usual (BAU). The practice of conducting business according to the status quo, with no attempt to assess additional or new needs, identifies possibilities for improvement, or implement change. The normal or usual actual values currently achieved in a given period for a measure

Cascading - The process of developing aligned Scorecards throughout an organization. Each level of the organization will develop Scorecards based on the objectives and measures they can influence from the Scorecard of the group to whom they report. For example, a call center Balanced Scorecard could be based on a Sales and Marketing business unit Scorecard. Cascading allows every employee to demonstrate a contribution to overall organizational objectives.

Cause and Effect - The concept of cause and effect separates the Balanced Scorecard from other performance management systems. The measures appearing on the Scorecard should link together in a series of cause and effect relationships to tell the organization's strategic story. For example, organizations may hypothesize that an increase in employee training (Employee Learning and Growth Perspective) will lead to increased innovation (Internal Process Perspective). Increased innovation will lead to more loyal customers (Customer Perspective) which will drive increased revenue (Financial Perspective).

Critical Success Factors (CSF). A CSF is a business event, dependency, product, or other factor that, if not attained, would seriously impair the likelihood of achieving a business objective.

Customer Perspective - One of the four standard perspectives used with the Balanced Scorecard. Measures are developed based on the answer to two fundamental questions - who are our target customers and what is our value proposition in serving them? The role of the Customer perspective is often elevated in public sector and not for profit applications of the Balanced Scorecard.

Employee Learning and Growth Perspective - One of the four standard perspectives used with the Balanced Scorecard. Measures in this perspective are often considered "enablers" of measures appearing in the other three perspectives. Employee skills, availability of information, and organizational climate are often measured in this perspective.

Financial Perspective - One of the four standard perspectives used with the Balanced Scorecard. Financial measures inform an organization whether strategy execution, which is detailed through measures in the other three perspectives, is leading to improved bottom line results. In public sector and not for profit applications of the Balanced Scorecard measures in the Financial perspective are often viewed as constraints within which the organization must operate.

Human Capital - May be considered a metaphor for the transition in organizational value creation from physical assets to the capabilities of employees - knowledge, skills, and relationships for example. Closely related to terms such as "intellectual capital" and "intangible assets." Recent estimates suggest that as much as 75 percent of an organization's value is attributable to human capital.

Initiatives - The specific programs, activities, projects or actions an organization will undertake in an effort to meet performance targets.

Internal Process Perspective - One of the four standard perspectives used with the Balanced Scorecard. Measures in this perspective are used to monitor the effectiveness of key processes the organization must excel at in order to continue adding value for customers, and ultimately, shareholders.

Lagging Indicator - Performance measures that represent the consequences of actions previously taken are referred to as lag indicators. They frequently focus on results at the end of a time period and characterize historical performance. Sales may be considered a lag indicator. A good Balanced Scorecard must contain a mix of lag and lead indicators.

Leading Indicator - These measures are considered the "drivers" of lagging indicators. There is an assumed relationship between the two which suggests that improved performance in a leading indicator will drive better performance in the lagging indicator. For example, spending more time with valued customers (a leading indicator) is hypothesized to drive improvements in customer satisfaction (a lagging indicator).

Measure - A standard used to evaluate and communicate performance against expected results. Measures are normally quantitative in nature capturing numbers, dollars, percentages, etc. Reporting and monitoring measures helps an organization gauge progress toward effective implementation of strategy.

Mission Statement - A mission statement defines the core purpose of the organization - why it exists. The mission examines the "raison d'etre" for the organization beyond simply increasing shareholder wealth, and reflects employees' motivations for engaging in the company's work. Effective missions are inspiring, long-term in nature, and easily understood and communicated.

Objective - A concise statement describing the specific things an organization must do well in order to execute its strategy. Objectives often begin with an action verbs such as increase, reduce, improve achieve, etc.

Perspective - In Balanced Scorecard vernacular perspective refers to a category of performance measures. Most organizations choose the standard four perspectives (Financial, Customer, Internal Process, and Employee Learning and Growth), however, the Balanced Scorecard represents a dynamic framework and additional perspectives may be added as necessary to adequately translate and describe an organization's strategy.

Polarity: Whether Higher the value is better (positive polarity) or whether the lower the value is better (Negative Polarity)

Strategic Management System - Describes the use of the Balanced Scorecard in aligning an organization's short-term actions with strategy. Often accomplished by cascading the Balanced Scorecard to all levels of the organization, aligning budgets and business plans to strategy, and using the Scorecard as a feedback and learning mechanism.

Strategic Resource Allocation - The process of aligning budgets with strategy by using the Balanced Scorecard to make resource allocation decisions. Using this method, budgets are based on the initiatives necessary to achieve Balanced Scorecard targets.

Strategy - Describes the differentiating activities an organization pursues to gain competitive advantage. Situated at the center of the Balanced Scorecard system, all performance measures should align with the organization's strategy. Strategy remains one of the most widely discussed and debated topics in the world of modern organizations.

Strategy Map - Balanced Scorecard architects Kaplan and Norton coined this term to describe the inter-relationships among measures that weave together to describe an organization's strategy. See also, "Cause and Effect."

Stretch Target – Are higher than targets. Some organizations indicate Stretch targets as BLUE in color and targets as GREEN in color. This is to illustrate over achieving figures.

Task - Represents details activities or tasks to be carried out to achieve each initiative. It captures information like resources, time , constraints, risk, budgets, milestone, duration to complete the taks

Target - Represents the desired result of a performance measure. Targets make meaningful the results derived from measurement and provide organizations with feedback regarding performance.

Values - Represent the deeply held beliefs within the organization and are demonstrated through the day-to-day behaviors of all employees. An organization's values make an open proclamation about how it expects everyone to behave. Values should endure over the long-term and provide a constant source of strength for an organization.

Value Proposition - Describes how an organization will differentiate itself to customers, and what particular set of values it will deliver. To develop a customer value proposition many organizations will choose one of three "disciplines" articulated by Treacy and Wiersema in "The Discipline of Market Leaders:" operational excellence, product leadership, or customer intimacy.

Vision - A powerful vision provides everyone in the organization with a shared mental framework that helps give form to the often abstract future that lies ahead. Effective visions provide a word picture of what the organization intends ultimately to become - which may be five, ten, or fifteen years in the future. This statement should not be abstract - it should contain as concrete a picture of the desired state as possible, and also provide the basis for formulating strategies and objectives.