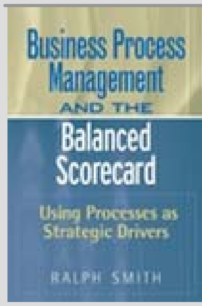

Business Process Management and the Balanced Scorecard:
Using Processes as Strategic Drivers

Ralph Smith
John Wiley, 2007
$45.00 227 pages

Reviewed by Paul Harmon

BPM means such different things to different groups of practitioners. I was just at a conference, speaking on business process architectures, and asked my audience how many of their organizations had some form of Balanced Scorecard program. Maybe half the hands went up. Then I asked how many considered that they should try to incorporate their balanced scorecard initiative into their business process architecture. Next to no hands went up. For me, and for Ralph Smith, there is an obvious connection. For my audience there was no apparent connection.

Too many organizations pursue different programs without asking how they might work together. Thus, for many, balanced scorecard is a managerial performance evaluation initiative. It's a technique developed by Robert Kaplan and David Norton in the early Nineties. (Originally there was an HBR article: "The Balanced Scorecard: Measures That Drive Performance" in Jan-Feb of 1992, and then the book: *The Balanced Scorecard: Translating Strategy into Action*. HBS, 1996.) The original argument was that too many companies only evaluated managers using financial measures, and that it would be better if they were evaluated on a variety of different criteria, including Customer measures, Internal Business measures and Innovation and Learning measures. As Kaplan and Norton developed the idea, they suggested that companies align scorecards in a hierarchical fashion. Thus, the organization, as a whole, had a scorecard and each senior manager had a scorecard with some subset of the organization's success criteria, etc. With some work one could create an alignment between the corporate goals and the goals of specific managers. By 2004 this nice idea had morphed into a rather elaborate system of strategy maps. (Figure 1 illustrates a strategy map similar to one that appeared in Kaplan and Norton's book: *Strategy Maps: Converting Intangible Assets Into Tangible Outcomes.* (HBS, 2004)

The key idea behind the Kaplan and Norton approach to strategy was a hierarchical arrangement of enterprise drivers. It was assumed that Financial goals were at the top, and that they related to Customer concerns, which were tied to Process goals, which, in turn, depended on Continuous Learning and Improvement. As someone who is process oriented, I'm a little nervous about making customer concerns independent of process, and I'm very nervous about thinking of processes as blocks of activity and not as an integrated value chain. Leaving my concerns aside, however, clearly Kaplan and Norton have a holistic view of the organization and are trying to derive strategy from a comprehensive view of the organization which includes a process perspective. Equally important, lots of large corporations have embraced the Balanced Scorecard idea, and many have gone beyond the basics to create Strategy Maps for their organizations. To my mind, that means that anyone working on a business process architecture ought to study this approach very carefully to determine if a process architecture can build on this work, or incorporate it.

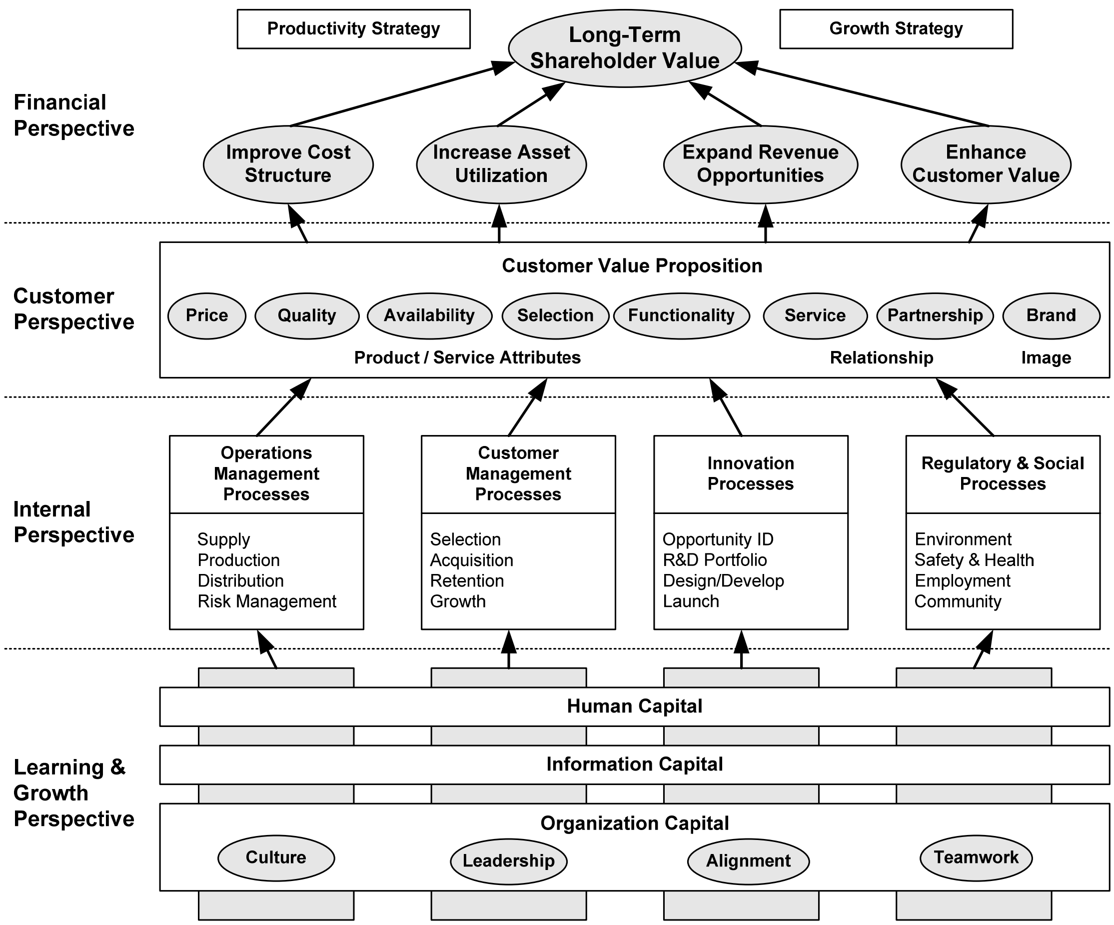

Figure 1. The Balanced Scorecard approach to strategy.

Ralph Smith clearly shares my view, and has written a book to elaborate on this argument. This is not a deep, technical book, but a well-written, clearly argued explanation of the evolution of process concerns and an introduction to the basic ideas of Kaplan and Norton. It proceeds to show how one can use the process drivers derived from Strategy Maps to link strategies and processes.

The chapters are straight forward:

1. A World of Change
2. How Process Can Drive Strategy
3. The Strategic Process
4. Strategy Maps
5. Balanced Scorecard and Strategic Initiatives
6. Conclusions

In essence, Smith argues that one should think of the organization as a system. Strategy defines processes, which, faced with competition evolve as a result of innovation. Thus, innovation provides feedback to the existing processes which provide feedback to strategy.

Smith discusses a number of companies and strategy maps he has worked on and shows how process is related to learning, customer and financial goals. He doesn't provide any information about how the strategy piece is then tied to managerial evaluations – the original balanced scorecards. Thus, he avoids lots of problems that anyone trying to combine process management with balanced scorecard evaluations must face – problems based on the difference between goals being delegated within functional silos and goals being delegated via process managers. Similarly, Smith keeps things so general that he doesn't consider the problems involved in developing strategies for major business processes, like supply chains and new product development. Thus, this isn't a book on how to implement a system that could combine a business process architecture or a business process governance system with a balanced scorecard program. It's a high-level overview of how processes can be tied to strategy and vice versa. Given those qualifiers, Smith does a fine job. If you are a manager whose never thought about the relationship between your balanced scorecard program – and specifically between your strategic mapping program – and your business process management program, this is a book to start you thinking about it.

Long time readers of BPTrends may recall that I wrote a review of a book by Praveen Gupta, *Six Sigma Balanced Scorecard: Creating a Comprehensive Corporate Performance Measurement System*. (McGraw-Hill, 2004) which was published in June of 2004. The review is still available on BPTrends, of course. Gupta's book focuses on the actual development and alignment of scorecards for managers, and is necessarily more detailed. Thus, these two books complement each other. If you want an introduction to the relationship between strategy and process, read Smith. If you want an introduction to the relationship between managerial scorecards and processes (in their Six Sigma guise), read Gupta. Taken together, the two books will provide anyone interested in the relationship between Balanced Scorecard and BPM with a lot of good ideas and with a variety of practical examples.

If your company has already invested time and effort in establishing a Balanced Scorecard program, it can certainly be aligned with and used in conjunction with your business process management efforts. Doing it may offer some challenges, but it should also save the time and effort involved in reinventing this particular spoke of the BPM wheel.

Till next time,

Paul Harmon