

## Robert Kaplan's thoughts on corporate rebalance

Every business manager at some stage in their career is likely to have heard, if not used, the phrase, "What you measure is what you get" - or one of its many variations - without giving much thought to its origins.

These words introduced the landmark Harvard Business Review article: "The Balanced Scorecard – Measures that Drive Performance", published in 1992.

The authors were Harvard Business School (HBS) professors Robert Kaplan and David Norton, and their paper has been cited as the starting point for a new era in performance management.

The Balanced Scorecard (BSC) principles seemed to make sense, and were adopted rapidly by some of Corporate America's largest businesses and government agencies. "Early BSC implementation leaders (at Mobil US Marketing and Refining, Cigna Property and Casualty, and Chemical Retail Bank) adopted and used the scorecard to help them describe their strategies and implement a new strategy management system," Kaplan recalled in a Harvard Business School report in 2007, 15 years after his breakthrough paper.

He was equally keen to add that the BSC, as originally outlined, retained financial metrics as the ultimate outcome measures for company success, but supplemented these with metrics from three additional perspectives – customer, internal process, and learning and growth.

In 1992, Kaplan and Norton had proposed that those three aspects were the true drivers for creating long-term shareholder value.

No common vision, no common gain

"[David] Norton and I believed that ... if companies were to improve the management of their intangible assets, they had to integrate the measurement of intangible assets into their management systems," Kaplan wrote in 1997.

Simply defined, performance management is an approach that allows the leadership of large organisations to clarify and communicate their strategic vision and align people, business units and resources to it.

It's not an original insight, as Kaplan freely concedes. The problem remains that efficiency at a local level – often celebrated by meeting an annual budget – fails to recognise the bigger picture, and to allow all business units and geographically dispersed parts of a conglomerate, or a national government agency, to both meet local goals while adding to the company or agency as a whole.

These problems were identified in the 1970s and 1980s remained a challenge for corporations in the 1990s and beyond.

### People are your most unmeasurable asset

The eye-rolling corporate cliché "people are our most valuable asset" might make lazy managers feel good, but it fails to show how to place a financial value on an asset such as workforce capabilities or employee morale, far less how this asset might be applied to increase shareholder value.

The problem now, just as it was back in 1992, is that the value from intangible assets – be it technology or staff capability – depends on organisational context and strategy, as Kaplan observed. An investment banker with deep knowledge of complex products has no value to an online share trading outfit such as eTrade, for instance.

“Assets such as knowledge and technology seldom have a direct impact on revenue and profit. Improvements in intangible assets affect financial outcomes through chains of cause-and-effect relationships,” Kaplan wrote in a recent HBS paper.

Work the metrics together

In his research and writing, speaking and consulting, Kaplan continues to make compelling cases as to how leaders can link their performance and cost management systems to strategy implementation and operational excellence.

His breakthrough moment, when he saw the need to shift the full focus of performance management metrics from traditional financial ratios to nuanced interrelationships that look at the full organisational structure and mission, remains at the core of his work.

Among Kaplan’s most recent efforts have been to take the balanced scorecard philosophy more deeply into management culture, where he explains how to integrate risk management with strategy development and implementation.

Robert Kaplan is speaking at the upcoming World Business Forum being held in Sydney May 25 & 26, 2016