Using Systems Thinking in the "Balanced Scorecard" Method of Managing Corporate Performance

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System dynamicists have long recognized that Systems Thinking can provide valuable insights into the behavior of business systems. The challenge has been to develop tools and methodologies that will lead business educators and executives to those insights. This paper explains how a recent approach to corporate performance measurement, called the "Balanced Scorecard," provides an ideal context in which to encourage managers to learn and apply Systems Thinking concepts.

Developed by Prof. Robert Kaplan and Mr. David Norton[1] , The Balanced Scorecard methodology urges managers to pay attention not just to their companies' financial performance, but also to metrics relating to customer satisfaction, internal business processes, and institutional learning. With such a holistic view of the company's position, managers are better able to ensure their operational decisions are consistent with corporate strategy. We have found that Systems Thinking tools can play an invaluable role throughout Balanced Scorecard management program, including:

- *Building A Shared "Mental Map" Of How The Business Really Operates*
- *Identifying Key Levers And Metrics*
- *Communicating The Balanced Scorecard Throughout The Company*
- *Using The Balanced Scorecard Performance Model to Run the Business*
- *Turning The Balanced Scorecard Into A Strategic Learning Process*

The paper also describes a "Learning Environment" we have developed that uses new multimedia simulation technologies not simply to teach the Balanced Scorecard methodology, but also to help managers develop their capacity for understanding and applying Systems Thinking concepts. As managers construct a Balanced Scorecard for a hypothetical company they learn to see the business as a dynamic system, complete with reinforcing and counteracting feedback loops. Managers also enhance their capacity to simulate mentally how a business system will react to a particular stimulus.

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[1] Robert S. Kaplan is a professor at the Harvard Business School. David P. Norton is the president of Renaissance Solutions, Inc. They are the authors of three seminal articles about the Balanced Scorecard in the *Harvard Business Review*, as well as the recent book, *The Balanced Scorecard: Translating Strategy Into Action* (HBS Press, 1996).