

The Creative Consulting Company

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Quarterback, The Balanced Scorecard

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Abstract

During the past 50 years, several consulting companies introduced important new ideas that extended management theory and improved management practice. This paper draws upon public sources and the authors' personal experiences to describe how three management consulting companies created and sustained several big management ideas. The consulting organizations identified companies that had introduced an innovation to address a practice gap or anomaly. It then described the innovation in articles, cases, and public conferences, and proceeded to help a new set of companies implement the management innovation, which led to enhancements in the original innovation that made it more understandable, generalizable, and robust. The consulting leaders sustained their thought-leadership positions by creating an ecosystem with senior executives at pioneer corporations and academic/thought leaders. The paper also describes how other consulting companies did not sustain an initial thought-leadership position because of a failure to recognize the synergistic interplay between knowledge application and knowledge creation.

Big ideas in the natural sciences come from experimentation in laboratories, and from careful observation, measurement, and mathematical modeling of naturally occurring phenomena. Social sciences, such as economics and psychology, also use observation, measurement, and mathematical and statistical analyses to develop and test their theories. But large sample measurement and analysis is not possible for developing and testing big, new ideas that improve the leadership and management of organizations. Scholars do not have ready access – for observation, measurement, experimentation, and testing - to the complex processes occurring within organizations. This makes management ideas seemingly less scientific, persuasive, and generalizable.

These difficulties, notwithstanding, important ideas have continually emerged over the past 200 years to change the practice of management and contribute to the expansion and success of corporations. Innovations that occurred within 19th and early 20th century companies included the multi-divisional firm, cost accounting, discounted cash flow, and return-on-investment financial metrics.¹ Eventually, these practices became disseminated and widely adopted by other firms, facilitated by the teaching programs of business schools, and by a new organization, the management consulting firm.

During the past 50 years, consulting companies have themselves become active players in developing and enhancing important new ideas for effective management. In this paper, we draw upon public sources and personal experiences to describe how several big ideas were created and then sustained by management consulting companies. We also identify how other management ideas were not sustained and improved due to failures in recognizing the necessity for balancing the synergistic roles between knowledge creation and knowledge application in management consulting companies.

We identify the Boston Consulting Group (BCG), founded and led by Bruce Henderson, as the original model for a Creative Consulting Company (CCC). Henderson, during his 15 years at the helm of BCG, introduced the influential ideas of the *learning curve*, and the *growth share matrix*. Both proved to be seminal concepts in the emerging discipline of business strategy. In the mid-1970s, two of the author team founded the Nolan Norton Company (NNC), which introduced the *stages of growth* framework for information technology (IT). This framework helped embed IT to be positioned as a critical resource for corporation's strategy. After NNC had been acquired by a large accounting consultancy (more on this later in the paper), Norton, along with the third author, Kaplan, introduced the Balanced Scorecard, which was implemented and enhanced by consulting companies founded and led by Norton (Renaissance Solutions and Balanced Scorecard Collaborative (BSCol)). We show how all three companies used a common approach to sustain their thought leadership position, without formal intellectual property protection, even though each idea was publicly disseminated through articles, cases, books, and conferences. While we focus on management consulting companies, the framework and practices they used to sustain a thought-leadership market position should be applicable in other professional services firms, including those in legal, architecture, marketing, technology and engineering services.

Principles of the Creative Consulting Company

A big new idea often originates from an anomaly or current gap in management practice. For BCG, the anomaly was how a corporate market-share leader was able to sustain and expand its market share in the face of competitive forces. NNC identified the gap when companies used information technology only as a cost-reduction tool and not as a tool for innovation and revenue growth. The Balanced Scorecard addressed the practice gap caused by measuring the performance of knowledge-

intensive enterprises with a financial accounting model that treated only financial and physical capital as assets, but not the intangible assets of quality, innovation, knowledge workers and information.

In all three situations, the consulting organization identified companies that had innovated to exploit the anomaly or close the practice gap. They then described the innovation in articles, cases, and public conferences and proceeded to help a new set of companies implement the management innovation. These subsequent rounds of implementations led to enhancements in the original innovation, making it more understandable, generalizable, and robust. The consulting leaders sustained their thought-leadership positions, and continually enhanced their original concept, by creating an ecosystem of idea creation and enhancement that linked it with senior executives at pioneer corporations and academic/thought leaders as shown in Figure 1.

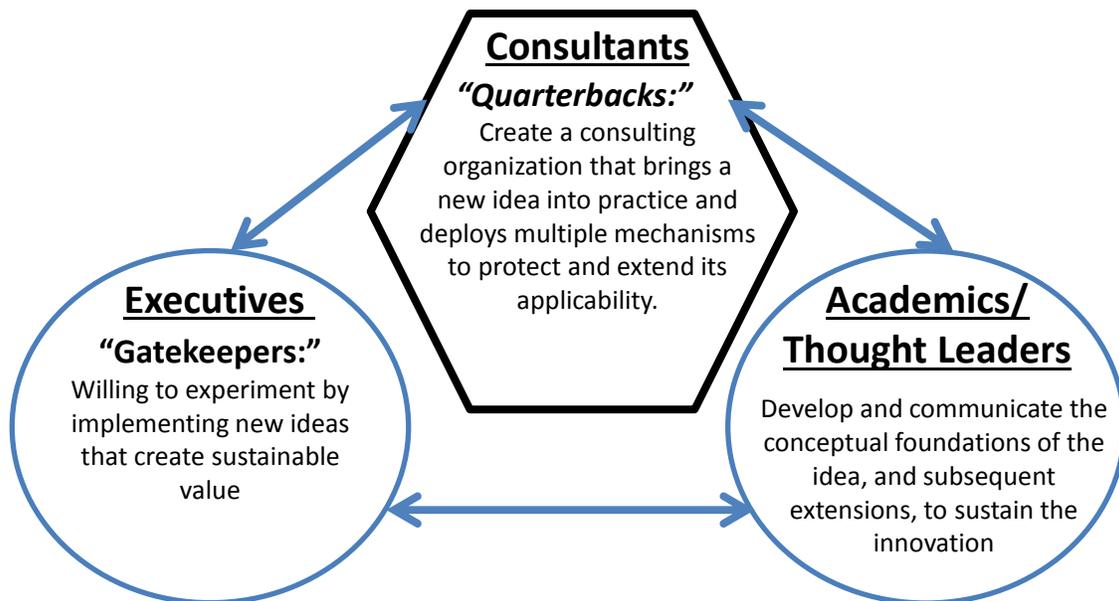


Figure 1: Ecosystem for Sustainable Knowledge Creation

A senior consultant in each consulting organization, Henderson at BCG, Norton at NNC and Renaissance/BSCol, served as the "quarterback," sustaining the productive interactions within the CCC ecosystem. The quarterback deployed multiple mechanisms from within the consulting company – publications, conferences, research groups, and relationships with pioneer companies – to foster continual innovation within the ecosystem. These mechanisms protected and built the brand for the CCC, extended the domain and impact of its core big idea, and established its thought-leadership market

position by making continual enhancements to the idea's ability to advance management theory and practice.

Tushman and O'Reilly² describe an ambidextrous organization that simultaneously exploits existing capabilities, products, services and customers and also explores with entirely new, often disruptive, new products for new groups of customers. The CCC must be such an ambidextrous organization. Its main consulting business applies existing knowledge to the majority of businesses seeking guidance and assistance. It must, however, also have the capability to learn from innovations that arise in the core consulting business, by applying the innovative extensions in a small group of new pioneer companies. Over time the innovative extensions are shown to work and get translated and embedded back into the core practice of the CCC. Tushman and O'Reilly note the rarity of leaders able to simultaneously manage the dual functions of exploit and explore, and recommend having the two functions led by different individuals who excel at each of them. But such separation in CCCs runs counter to the integrated model shown in Figure 1, where new ideas must be tested and extended in practice, and innovations from practice must quickly be identified and then embedded quickly into the next extensions of thought leadership ideas, and disseminated through new publications and public conferences.

In the three consulting organizations, the quarterback/consultant was truly ambidextrous, leading both the organization's business model for revenue, profit and growth, as well as the continued innovation that sustained its thought-leadership market position. The quarterback/consultant maintained the balance between the two roles, especially by deploying some of the financial margins created from the consulting business to fund the programs for the continual innovation required by a CCC.

The academic/thought leader helped to develop and publish the new framework so that managers and other academics learned about the benefits from the practice innovations. The academic also embedded the emerging frameworks in the existing management literature, enabling the innovation to be understood as complementary, not competitive, with other important management ideas and frameworks. An earlier article³ described the role for academics to be actively engaged with implementing their ideas in companies so that they could test their theories in practice, and extend them after observing practice innovations. The ecosystem model in Figure 1 provides the more complete framework for a partnership between academics and creative consulting companies to change practice by implementing new ideas. Kurt Lewin, a prominent social scientist believed, "if social scientists truly wish to understand certain phenomena, they should try to change them. Creating, not predicting, is the most robust test of validity."⁴

Executives at pioneer companies, the third member of the knowledge-creating ecosystem, voluntarily took on the risk and organizational challenges of introducing innovative ideas. They excelled at leading the organizational change required for the innovative idea to be successfully applied in their company. They articulated the theory of change required for all others in the organization to buy into

using the new framework. The academics and consultants learned from them about the leadership and organizational capabilities required to put innovative ideas into actual practice.

In the next section, we take a deep dive into the three consulting organizations, showing the specific steps each took to combine idea generation and enhancement with a successful consulting business model. We also describe how the knowledge-creation cycles eventually terminated at all three companies, as well as the less successful attempts by Robin Cooper and Kaplan to create a creative consulting company for activity-based costing, another big management idea that originated in the 1980s.

Case Studies of Three Creative Consulting Companies

*Boston Consulting Group*⁵

Bruce Henderson founded the company that became known as Boston Consulting Group (BCG) in 1964, after graduating from Harvard Business School. He wanted BCG to use big ideas to improve the performance of companies, not just the experience, expertise, and wisdom of senior consultants. He studied the experiences of shipbuilding companies during World War II where production costs declined systematically and predictably with accumulated volume of production. Henderson believed that this phenomenon would generalize to all manufacturing companies such that production experience would enable the highest volume company to achieve the highest market share by leveraging its low-cost position to be profitable even as it reduced prices.

Henderson hired the top graduates from top business schools to apply his idea with several companies, which we label the *pioneer companies*, because of their willingness to test and implement the new idea. Among the pioneering companies were a mature producer of abrasives (Norton) and the portable tool company, Black & Decker. At Black & Decker, the CEO applied the logic of rapidly building volume and experience to one product after another, increasing its market share in each one and deterring investment from potential competitors. John Clarkeson, a consultant and subsequently CEO at BCG, worked with General Instruments to demonstrate that the experience curve could apply to total production costs, not just direct labor costs. And BCG's work with Texas Instruments revealed that the experience curve applied at the component levels, allowing the low-cost position to be shared across multiple product lines using the common component. The logic behind application of the experience curve to semiconductors soon became codified into Moore's Law which claimed that unit costs of semiconductors would drop by 50% for every 12-18 months of production experience.

Henderson served as the thought leader, the guru, for the experience curve. Rather than keep the idea secret, as a potential BCG competitive advantage, he created a BCG publication, *Perspectives*, for which he wrote many articles about the experience curve and its application in many companies. He eventually published 400 issues of *Perspectives*, about 15 per year.

As BCG began to take on assignments from more diversified corporations, Henderson and senior BCG consultants (which, in addition to top MBA graduates, also included several faculty and doctoral students from business schools and economics departments) developed another big idea, the Growth

Share Matrix (see **Figure 2**). The matrix provided a framework for diversified companies to classify their individual business units into a 2 × 2 framework of High vs. Low Market Share, and High vs. Low Market Growth Rate. Business units with low market share and low growth possibilities were “dogs” and should be divested. Businesses with high market share and growth rates were the “stars,” and should receive ample investment until their growth rates slowed. Companies with high market share and low growth rate, the “cash cows,” should not get new investment funds, but definitely be retained to generate cash for high growth businesses, including those just getting started, the “question marks,” with low market share and sales but high growth possibilities.



Figure 2

As with the experience curve, BCG consultants applied the growth share matrix with pioneer corporations, including Union Carbide and the Mead Corporation, advising them on actions they could take with their diverse and decentralized business units. While the growth share matrix was a simple model, it served as the foundational concept for corporate, as contrasted with business unit, strategy. As before, the concept was publicized through articles in *Perspectives* and featured at conferences that

BCG organized for its existing and potential clients. At the conferences, Henderson invited senior executives from successfully-adopting companies to describe their experiences.

The virtuous circle of idea generation by Henderson and BCG senior thought leaders, followed by implementation and revenue growth through consulting partners, in collaboration with pioneer companies, lasted for about 15 years. A major loss to BCG occurred in 1973 when its most successful consultant, Bill Bain, left to form his own firm, Bain & Co., which operated with a different model. Bain & Co. measured success by the financial performance of its clients achieved through long-term relationships, limited to one per industry, extreme secrecy about practices and clients, active partnership in the client's strategy execution, and sharing in the upside gains it helped to produce. McKinsey also adopted strategy as a service offering, though after introducing SWOT (Strengths, Weaknesses, Opportunities, and Threats) analysis in the 1960s, did not contribute a "big idea," to the strategy field. Interestingly, McKinsey allowed two of its consultants, Tom Peters and Robert Waterman, to conduct research that led to the 7-S model for highly successful organizations and to feature it in their best-selling management book, *In Search of Excellence*. But the framework was descriptive, not normative, and McKinsey consultants did not use it prescriptively with its clients. Peters and Waterman left McKinsey shortly after book publication, and never served as internal thought leaders as Henderson had done at BCG.

Henderson left BCG in 1980, apparently because he could not continually create the synergies between thought-leadership ideas and business growth and profitable performance for BCG, especially when compared to BCG's competitive rivals, Bain and McKinsey. Ex post, Henderson was viewed as highly gifted in creating new Intellectual frameworks for strategy but less capable in leading the revenue growth and profitability of a large consulting organization, perhaps illustrating the Tushman-O'Reilly challenge for those attempting ambidextrous leadership. Strategy thought leadership shifted, in the 1980s, to Professor Michael Porter, who published multiple articles and books on the subject, and became the leading public speaker on business strategy. Two of Porter's students founded The Monitor Group, a consulting company, to apply Porter's ideas in practice.

Nolan Norton Company (NNC)

Richard Nolan was an HBS faculty member in the early 1970s conducting research on companies' IT spending. He noticed that such spending followed a S-shaped curve, which he believed represented how companies learned and managed the integration of IT into their operations. He published his findings in a 1973 article in the leading IT academic journal⁶, *Association for Computing Machinery Journal*. In a 1973 HBR article⁷, Nolan translated and disseminated these ideas for a business audience, labeling them as four stages of IT growth (see Figure 3), as described by the following:

Stage 1-Initiation	Investment to build isolated IT applications in each administrative department, focused on process efficiencies
Stage 2-Contagion	Proliferation of IT applications, especially in functional units, accompanied with rapid IT budget growth

Stage 3-Control	Establish centralized controls for IT acquisition and management; project management tools and programming standards; incompatible applications, frustrated users
Stage 4-Integration	New technology to integrate previously-isolated systems; continued rise in IT spend; formal planning and control, including steering committees

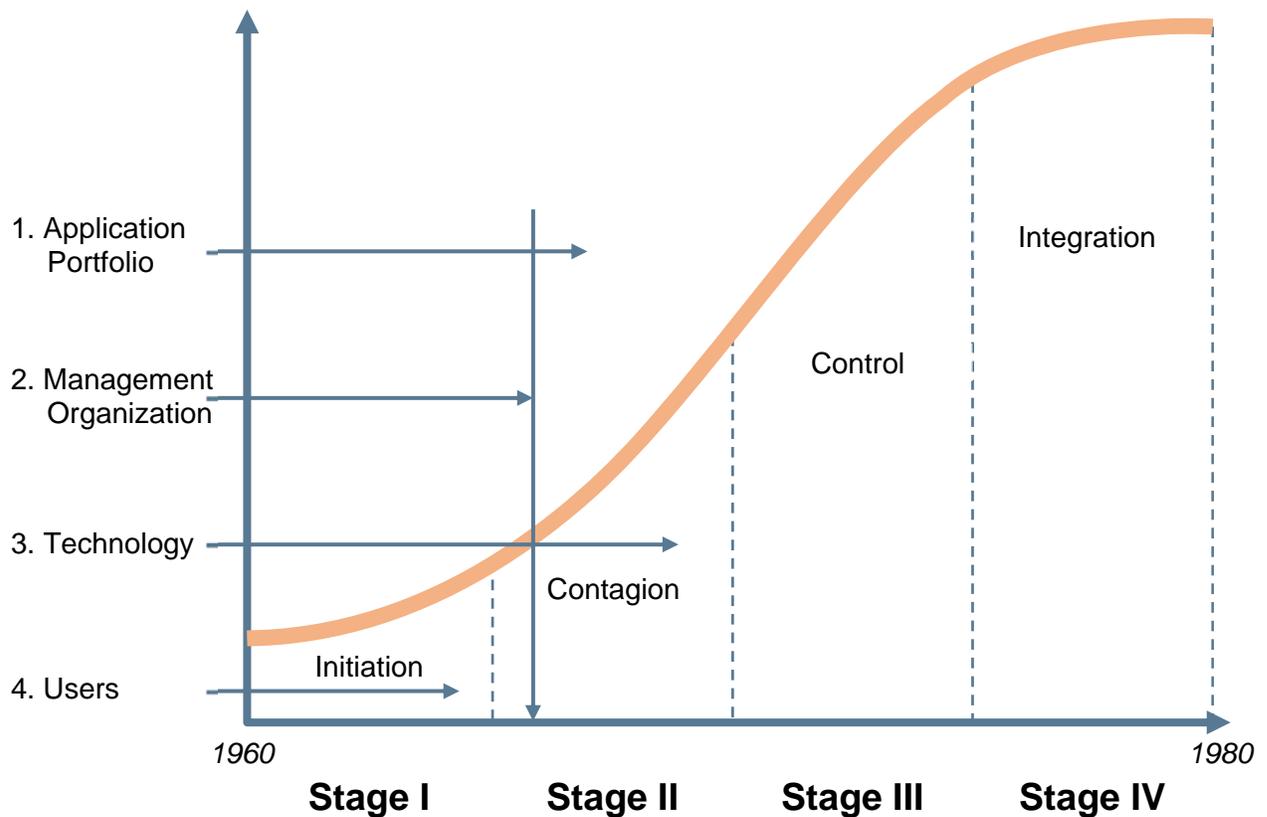


Figure 3: Four Stages of IT Organizational Learning

Nolan left the HBS faculty and with David Norton, a recent doctoral graduate of HBS, formed the Nolan Norton Company (NNC) to advise companies on how to get more impact from the increased spending on IT. With Nolan providing primary thought leadership, Norton served as NNC's quarterback, leading consulting teams that helped companies move quickly from Stage 1 to Stage 4.

H. E. Butt, DuPont Europe, and John Deere were pioneer companies for the Stages of Growth framework. H. E. Butt engaged NNC to assess its EDP activity, which resulted in replacing HEB's lower level technology-oriented EDP manager with a new and senior IT Director, with an office in the executive suite. The Dupont stage assessment identified that the U.S. division was already at stage 3, one stage ahead of the European division. The company used the US IT structure as a planning guide to accelerate Dupont Europe's activity to stage 3. At John Deere, NNC helped the company growth strategy by extracting the value from emerging database technology, a topic featured in another Nolan HBR article.⁸

NNC introduced a new component into the CCC ecosystem by organizing one-year multi-client research working groups. The first of these brought together a group of IT executives focused on the appropriate role for IT corporate leadership. Along with the consulting experience at H.E. Butt, this initiative led to two more HBR articles by Nolan on the expanded role for an IT manager.⁹ Subsequent

multi-client research groups covered topics such as database architecture and performance measurement. In this way, NNC engaged with companies to create the next generation of best practices in IT strategy, and sustained NNC's thought-leadership brand.

Nolan, unlike Henderson, maintained a formal academic connection by continuing to collaborate with his HBS colleague, Warren McFarlan, to write case studies about the pioneering companies (e.g., Cisco, IBM, HE Butt, and Merrill Lynch), and teach them in a focused two-week HBS executive program. NNC also developed relationships with IT faculty at several other business schools who taught the cases in IT management programs at their institutions. NNC also taught these cases to executive at new clients at offsite locations. The case discussions stimulated the executives to envision the ambitious goals for the consulting engagement and for NNC consultants to become familiar with the personalities and internal dynamics of the client team.

NNC introduced a weekly Friday Afternoon Seminar (FAS) at each of its offices. Consultants discussed how the results and contributions from their client engagements advanced NNC's body of knowledge on IT strategy and management. When NNC hired its first full-time human resources manager, she accused the two founders of exploiting their consultants by forcing them to stay at the office until 6 pm on Friday afternoons, after spending all week with clients. Properly chastised, the two founders canceled the FAS, but employees rebelled against the decision. They enjoyed being together, in a collaborative and learning environment with their colleagues, a welcome break from the week's sometimes stressful client work. The FAS's were reinstated and the discouraged HR officer found a more traditional firm to practice in.

NNC hired a professional librarian to help codify and share the firm's rapidly accumulating knowledge. The librarian created a physical space that stored summaries of every consulting engagement, including the graphic images used to communicate concepts and results to executives at client companies. The library represented both a symbolic and a physical commitment that consultants needed space to learn and to conduct research during times that would not be billable to clients. Giving consultants a time budget for research contributed to their professional development, and signaled that they had the responsibility to extend the CCC's big idea through interpreting its role and demonstrating its value for clients. IN 1982, West Publishing Company published *Managing the Data Resource Function*, a book edited by Nolan with five Parts¹⁰ and consisting of 25 chapters authored by NNC consultants and 6 academics associated with NNC's Research Institute.

In 1981, NNC followed Henderson's BCG innovation of a thought-leadership publication by launching *Stage-by-Stage*, a quarterly (subsequently bi-monthly) publication. The publication informed Chief Information Officers and senior executives about key contemporary issues in IT strategy and management. Each issue had a commentary on an important IT strategy management issue, a company case study, and an interview with a senior IT executive.

NNC also adopted the BCG innovation of conferences with client leaders by instituting an annual off-site conference, attended by 300-400 NNC clients, executives, and prospective clients. The

conference featured the latest research from NNC, implementation experiences from companies, and speeches by contemporary management thought leaders, such as Peter Drucker and Alvin Toffler, and academics affiliated with NNC's Research Institute. Nolan and Norton also spoke frequently at professional conferences, such as those sponsored by Society of Management of Information Systems, and industry meetings.

KPMG purchased NNC in 1989, intending it to provide thought leadership for KPMG's global IT services practice. This goal became undermined when the KPMG partner who led the acquisition left the company shortly afterwards. Without his leadership, and with the political power of an accounting firm residing within dispersed audit partners around the globe, the financial and leadership support required to sustain NNC's innovation activities withered away. Nolan resigned and returned to a professorial position at Harvard Business School, while Norton became head of the Nolan Norton Institute, a research organization within KPMG.

In 1990, the Nolan Norton Institute led a one-year research study, "Measuring Performance in the Organization of the Future" A dozen companies participated, including Apple Computer, Electronic Data Systems, CIGNA Corporation, DuPont, General Electric, Hewlett Packard and Shell Canada. The study was motivated by the hypothesis that performance measurement had to expand beyond the traditional financial accounting model to reflect factors that create future financial value, such as quality, customer service, innovation, and the organization's intangible assets, especially motivated and skilled knowledge workers. Kaplan, who had previously written about the decline in relevance of traditional cost and financial systems,¹¹ joined the project as an academic consultant.

The working group soon coalesced around a new framework for performance measurement, which it named the Balanced Scorecard (BSC). The BSC retained financial metrics as the ultimate accountability to a company's shareholders but introduced three additional perspectives: customers, internal processes, and organizational learning, which encompassed employees, IT, and a culture of continuous improvement. During the year, the company members brought the BSC idea back to their 12 companies and tested its feasibility by creating measures for its three non-financial perspectives. Kaplan and Norton prepared an executive summary of the year-long project, and wrote an HBR article based on that summary.¹² KPMG showed little interest in applying and extending the idea that its funding had helped to create, and Norton left the Nolan Norton Institute in 1991.

Renaissance Solutions/Balanced Scorecard Collaborative

Norton formed a new consulting company, Renaissance Solutions, that would, among other services, assist companies in designing and implementing a Balanced Scorecard for its performance measurement system. Renaissance was soon working for Cigna Property & Casualty Company, Chase Retail Bank, Mobil US Marketing & Refining Company, Brown & Root Energy Services (a division of Halliburton), and the FMC Corporation. These pioneer corporations implemented and enhanced the original 1990 version of the concept. The BSC became focused on measures that reflected the organization's strategy, rather than traditional operational, quality, and tactical metrics, often called key performance indicators (KPIs). Executives at the pioneer companies illustrated how to extend the BSC

from a performance measurement tool into the central component in a new, integrated system for strategy description and implementation.

Kaplan, the academic lead, wrote HBS cases on two of the successful implementations¹³ and co-authored with Norton two more HBR papers¹⁴ and a book.¹⁵ This 1990-1995 period illustrated how a Creative Consulting Company created an innovative and robust management tool by identifying a practice gap and collaborated with academics and pioneer companies to create an initial solution to close the gap. It then continually enhanced the initial solution through a virtuous cycle of consulting and learning with a new set of pioneer companies, and academic publication of papers, cases and a book, that led to increased engagements with more companies.

Attempting to quickly extend its reach to a broader set of firms, Renaissance Solutions merged with a much larger IT consulting group, believing that the IT consultancy's client base for operational IT services would provide an entry point for strategy-based services based on the BSC. The parent company's low-margin, operational culture, however, turned out to be highly incompatible with the thought-leadership work done by Renaissance consultants. Norton left the merged company in 1997 to form a new company, Balanced Scorecard Collaborative, that would focus exclusively on idea creation and BSC implementations and services. With the freedom of a small, private company, Norton devised new ways to sustain intellectual innovation and leadership. The innovations generated new services for the consultants to offer, which, in turn, generated new ideas for Norton and Kaplan to document and write about.

Over the next 10 years, BSCol deployed an integrated set of activities (See Figure 4) that continually developed important extensions to the original BSC framework and solidified the company's thought leadership position for strategy execution assignments based on the BSC.

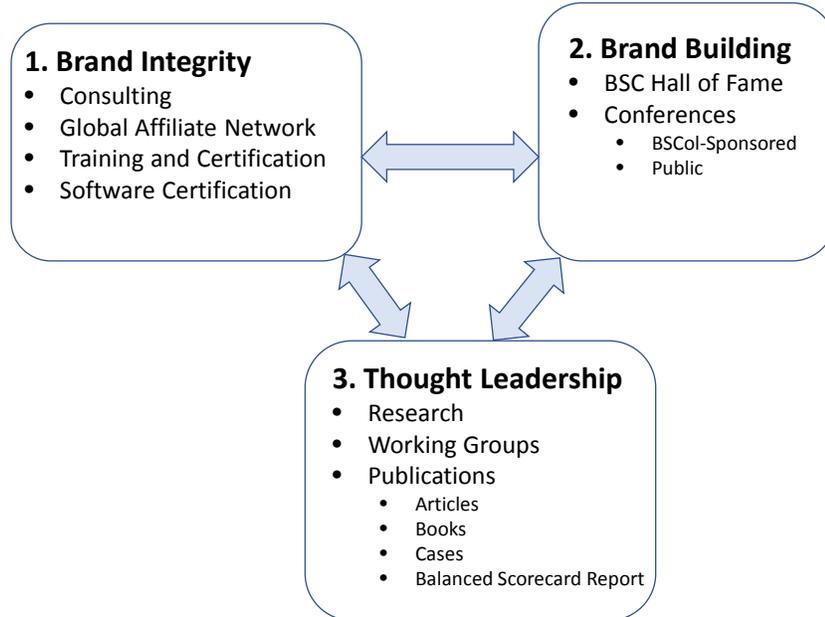


Figure 4 Knowledge Creation and Protection at Balanced Scorecard Collaborative (BSCol)

1. Brand Integrity

Any good idea can be implemented badly. Once a new management idea has reached the marketplace, through an article in *Harvard Business Review* or a popular trade book, copycat consultants are quick to rush in. At one level, this is good by getting more rapid exposure and implementations of a new idea. But it also carries great risk to the integrity of the initial idea. Michael Hammer and James Champy introduced re-engineering, a powerful new idea: reorganize organizations around operational processes not functional departments.¹⁶ But they didn't protect the brand and soon a myriad of consultants were using the reengineering name when they sold downsizing services. The core message within reengineering became buried with its use as a euphemism for laying off employees, "I've just been reengineered." Hammer noted, at one of his organization's conferences, "It is astonishing how the term 're-engineering' has been hijacked, misappropriated and misunderstood."

As an example from the physical world, after the Wright Brothers had demonstrated that a heavier than air machine could, indeed, lift off the ground, fly for some distance, and land safely, many others rushed in to capitalize on this innovation. Several of their products crashed and burned. Such failures did not prove that the airplane invention was flawed or not generalizable. They illustrated that the innovation required skilled designers and implementers. In the hands of poor designers or unskilled pilots, it would fail.

The BSCol did not trademark or copyright the term “Balanced Scorecard,” as Stern Stewart did with EVA™ to protect its Economic Value Added offering. Attempting such intellectual protection for an intangible asset, such as the name of a new management tool, would just encourage copycat consultants to devise an alternative name when it implemented essentially the same concept. Such name proliferation would create confusion in the marketplace and endless debates and litigation around proper use of the term. Rather, a confident CCC should encourage widespread use of its term so it can become an industry standard.

Nevertheless, the BSC brand did come under attack from wannabee consultants who promoted their particular BSC version. They used language such as “Beyond the Balanced Scorecard,” “3rd Generation Balanced Scorecard”, and “Tyranny of the Balanced Scorecard,” accompanied with specific attacks on the original concept’s validity and relevance, as they promoted their solutions to the strawman they had created. One benchmarking consulting firm warned companies who might have been tempted to implement the BSC, “Balanced Scorecards are clearly a fad that companies feel compelled to adopt in order to stay current.” BSCol felt it would be almost impossible to stop such promotion and posturing, or to reply to each one in a non-defensive way. The solution was to seize the high ground and continue to demonstrate the benefits achievable from faithful adoption of the concept; in effect to show that its airplanes flew higher, faster, and safer than alternative offerings. BSCol used several processes to protect the Balanced Scorecard brand from misuse and denigration by sub-standard implementers using simplistic alternatives.

BSCol Consulting

BSCol continued its active consulting practice to help new generations of companies, nonprofits, and public-sector entities achieve successful implementations. BSC implementation failures did occur when done independently by companies, or at those assisted by consulting organizations, less-skilled in the methodology and deploying junior consultants with inadequate training in the new tool. BSCol consultants, in contrast, could demonstrate success by implementing the tool properly, facilitated by consultants experienced in prior successes and by proximity to the concept’s two founders. The BSCol consulting practice became the Platinum Standard for high-quality implementations. The active BSCol consulting practice also provided partial funding for thought leadership processes that enabled the BSCol to continually introduce important new extensions to the original concepts. BSCol benefited from a virtuous knowledge creation cycle where thought leadership branded the firm as the most experienced and knowledgeable consulting organization for BSC implementations, and the successful implementations provided best-practice examples to protect the brand, and innovations for the next generation of thought leadership ideas that enhanced the brand.

A creative consulting company must continually invest in branding, research, nurturing of new generations of pioneer companies, and publications about new extensions of the core concept. NNC and BSCol set such investment near 10%, similar to the R&D budgets of product innovating organizations, such as Apple and Cisco. But not all the funding came from internal sources alone. BSCol attempted to have its research and brand-building activities reach breakeven financial performance. External funding

from public conferences, often with software company sponsorships, training and certification, the global affiliate network, fees for software certification, funded working groups, and revenues from newsletters supported its research program. Such external funding, from people and organizations wanting to learn about latest thinking and applications at the CCC, validated the quality of innovative ideas being produced by the internal research group and thought leaders.

Global Affiliate Network

Most consulting companies find it hard to maintain the fragile culture required for thought leadership and continued innovation while expanding their reach to new regions in the world and maintaining high billing percentages for consultants. To keep consulting and knowledge creation in balance, BSCol used alliances with boutique, country-specific consulting organizations for its global expansion. It performed due diligence to screen applicants to its global network. It wanted local consulting firms that had a strong local client base, deep understanding of the fundamental principles of the Balanced Scorecard and the BSC strategy execution system, and committed to make this practice a core element of its strategy in its region. Eventually, the BSCol's global affiliate network encompassed consulting organizations throughout Latin America, and in Spain, Portugal, Germany, Nordic countries, Benelux countries, Turkey, UAE, South Africa, Russia, India, Australia, New Zealand, Philippines, China and South Korea. The affiliate companies paid a royalty for access to the intellectual assets of BSCol and for the right to promote their practices as "authorized" BSC suppliers. In this way BSCol extended its footprint throughout the globe without the distraction of having to manage diverse offices in multiple regions. The affiliate network provided financial support for BSCol's brand building and thought leadership processes, and additional examples of best-practice implementations in multiple industry sectors and regions of the world.

Training and Certification

Many individuals, working within companies and as sole consulting practitioners, wanted specific training to become qualified consultants and recognition for successful completion of such training. BSCol wanted to encourage the widespread adoption of the Balanced Scorecard management tool. Its internal consultants and those in its global affiliates, could not meet all the demand for BSC consulting services. It, therefore, offered training programs, from 2-5 days in length, where its instructors taught state-of-the-art practice methodology, illustrated with successful case examples, to individuals who would become the BSC project leaders at their company or governmental unit. Individual consultants could also attend. Those who completed at least 5 days of such training, and submitted evidence of successful implementations that they had led, could then receive certification from the BSCol as qualified BSC consultants.

The training and certification offering generated considerable controversy within BSCol, as consultants expressed concern about training their competitors. Ultimately, Norton retained the training and certification offering, telling the internal consultants that they should focus on large projects that single consultants could not do alone, or complex assignments that people, even with five days of BSCol

training, were unlikely to win. Overall, training and certification of individuals raised the average quality level of BSC implementations around the world – a vital ingredient for sustaining brand integrity, produced additional examples of successful BSC implementations, and provided incremental financial support to sustain BSCol’s thought leadership activities.

Software Certification

Software companies are powerful partners for change. If new management ideas get embedded in software solutions, then the ideas get promoted by the software companies’ marketing and sales forces, and then become widely implemented as companies purchase and deploy the application package. The BSC articles and book stimulated many software companies, including the large ERP vendors as well newly-created boutiques, to develop performance management software. Several asked the authors to endorse their software as consistent with BSC principles.

Rather than get tied to one particular solution, BSCol chose to be software agnostic. It did, however, influence the development of software applications packages by developing standards for BSC performance management software that could become industry standards through a certification process. A small team of consultants and IT specialists within BSCol developed functional standards for a performance management package to become “BSCol Certified.” In this way, BSCol required software solutions to use the four perspective BSC framework articulated in HBR articles and HBP book, follow the basic structure of the framework of “Objectives, Measure, Targets, and Initiatives,” and also the new developments that emerged from BSCol’s consulting practice, such as strategy maps, initiative management, and the cascading and alignment of scorecards down and across organizations. In addition to the functional standards, each application for certification had to document an actual implementation accompanied by a testimonial from a user organization. The major ERP vendors, including SAP, Oracle, SAS, and PeopleSoft, plus many specialized software vendors, applied for and most eventually received certification from the small BSCol organization (40 persons at the time). The software certification process helped to establish the BSCol’s framework as the industry standard, as users of each certified software solution had to go through the steps to structure their implementation process and data collection and input. Deploying the BSC framework through ERP and specialized software solutions reduced the likelihood of simplistic and incomplete implementations of the concept.

2. Brand Building

Protecting the integrity of a brand is good. But if the brand isn’t continually enhanced, it will eventually lose much of its value. The BSC “brand” was established in its first half-dozen years with an initial set of articles, a half-dozen pioneering companies, two cases, and a book. The BSCol took several steps to enhance the awareness and impact of the BSC during the next 10 years.

Balanced Scorecard Hall of Fame

In 2000, BSCol created a BSC Hall of Fame to recognize organizations with two characteristics. First, they had implemented the BSC and used it in a strategy management system, following the

principles established by its founders. Second, they provided evidence that BSC adoption had helped them achieve a dramatic improvement in performance within 3-5 years of initial implementation. About a dozen BSCol clients, over the previous 5 years, had experienced large improvements in absolute and relative profitability compared to its industry competitors. For example, Mobil US Marketing & Refining had been the least profitable among its seven largest competitors in 1992 and 1993. In 1995, its 2nd full year of BSC implementation, it had become the industry profitability leader and held that leading performance until its late-1999 acquisition by Exxon, a consecutive string of success unparalleled in industry history. Cigna Property & Casualty moved from the least profitable in its industry to the top-quartile of profitability within a few years. While no single factor, by itself, explained such dramatic and sustainable performance improvements, the CEOs of these companies all testified that adoption and excellent deployment of the BSC strategy management system enabled them to achieve stronger and faster performance. The Hall of Fame recognized the achievements of the executives and managers of these high-performing organizations.

The Hall of Fame served other purposes as well. Over time, about 200 organizations were inducted into the Hall of Fame. These came from many important industry sectors, manufacturing, extractive, and services, plus nonprofit, educational, health care, and public-sector entities. The Hall of Fame organizations came from all five large continents and Australia/New Zealand. This broad representation demonstrated that the concept applied well to all types of enterprises, in all cultures, and in all regions. Many managers were accustomed to management innovations that worked well for a limited set of organizations, but not all. The Hall of Fame companies demonstrated that the BSC could be applied successfully in diverse entities, regions, and cultures.

The third benefit was not obvious at the launch of the Hall of Fame, which included only clients of BSCol. By opening the Hall of Fame to all entities, not just its clients, the BSCol gained access to new approaches and applications of the BSC about which it had no prior knowledge. The Hall of Fame companies became a data base of best practices from around the world that could be productively used in BSCol's Thought Leadership processes, and, subsequently, in its consulting activities.

Public Conferences

Soon after the first BSC article appeared in the HBR, the two authors received and accepted requests to speak at public conferences about the innovation. Such appearances disseminated the idea to broader audiences, and enabled the authors to describe actual company implementation in more vivid detail than could be captured in 4,000-word articles. The two authors realized, however, that speaking at other people's events created visibility for the conference organizers, not for BSCol, and also precluded them from controlling the agenda and speakers at public events.

Starting in the late 1990s, BSCol replicated BCG and NNC by hosting conferences specifically focused on recent innovations in the BSC, featured the two BSC authors as the principal speakers, and introduced executives from the best-practice companies. Hearing executives speak about how they implemented the scorecard and used it to achieve performance improvements provided excellent

examples to be included in the next generation of BSC articles and books. The conferences also gave Kaplan and Norton a platform to share and receive feedback about their latest ideas, including strategy maps, strategic themes, corporate alignment, corporate governance, internal communications, planning and budgeting, and strategy review meetings.

The BSCol conference agenda converged, over the next half-dozen years, to three types of events. An annual BSC global summit, alternating between U.S. and European locations, featured the two cofounders speaking about recent developments from BSCol research programs, CEOs of recent Hall of Fame enterprises speaking about their experiences, thought leaders of related management innovations, and a Hall of Fame ceremony for that year's inductees. A second conference series focused on specialized BSC applications and extensions, such as for human capital management, budgeting and operations, data analytics, risk management, and public sector/nonprofit applications. The conference series enhanced the global brand of BSCol as the leading innovator and applications provider for the BSC, provided visibility for the BSC Hall of Fame, and generated a continual series of innovative BSC applications in commercial and non-profit organizations from all regions of the world. By 2009, the two cofounders delivered semi-annual two-day Master Classes to provide a short immersion experience for managers wanting a condensed, comprehensive overview of the BSC and its strategy execution system. The conference series was financially self-supporting through registration fees and corporate sponsors, primarily the software companies with BSCol-certified solutions.

The two founders, in addition, continued to speak at commercial, non-BSCol, events. This maintained their individual reputations as BSC thought leaders and often stimulated new consulting opportunities for the BSCol organization, a feedback loop that maintained the ongoing funding for BSCol research, creation of the next-generation Hall-of-Fame implementations, and occasional innovations that extended the BSC body of knowledge.

3. Thought Leadership

The foundation for a Creative Consulting Company must be an active, well-funded research program. Without continual innovation, the core concept matures, and other consulting groups can replicate the methodology by studying the published case studies, attending the CCC's public events, reading the articles and books, and hiring consultants from the CCC and project leaders from the CCC's clients. An ongoing research program, therefore, is essential to maintain thought leadership and keep advancing the methodology and its application.

Internal Research

BSCol established a small research group to analyze and document best practices developed by its internal consultants and implemented at Hall of Fame enterprises. The group used a five-step implementation framework:¹⁷

1. Mobilize change through executive leadership
2. Translate the strategy into operational terms

3. Align the organization around the strategy
4. Motivate to make strategy everyone’s job
5. Govern to make strategy a continual process

It then established 27 “best practices” for a strategy-focused organization, structured by the five SFO principles, as shown in Figure 5.



Figure 5: 26 Best Practices for Strategy-Focused Organization

The research staff linked each of the 27 best practice steps to one or more case examples from Hall of Fame organizations. Over time, the research group linked about 500 specific case examples to the 26 best practices, providing a rich data base for consultants to draw upon in their assignments. The research group also used the library of best practices to develop a template (see **Figure 6**) for evaluating candidates for the Hall of Fame, using a 1-5 scale for each of the 26 best practices, with “1” representing poor performance on that step, and “5” being world class.

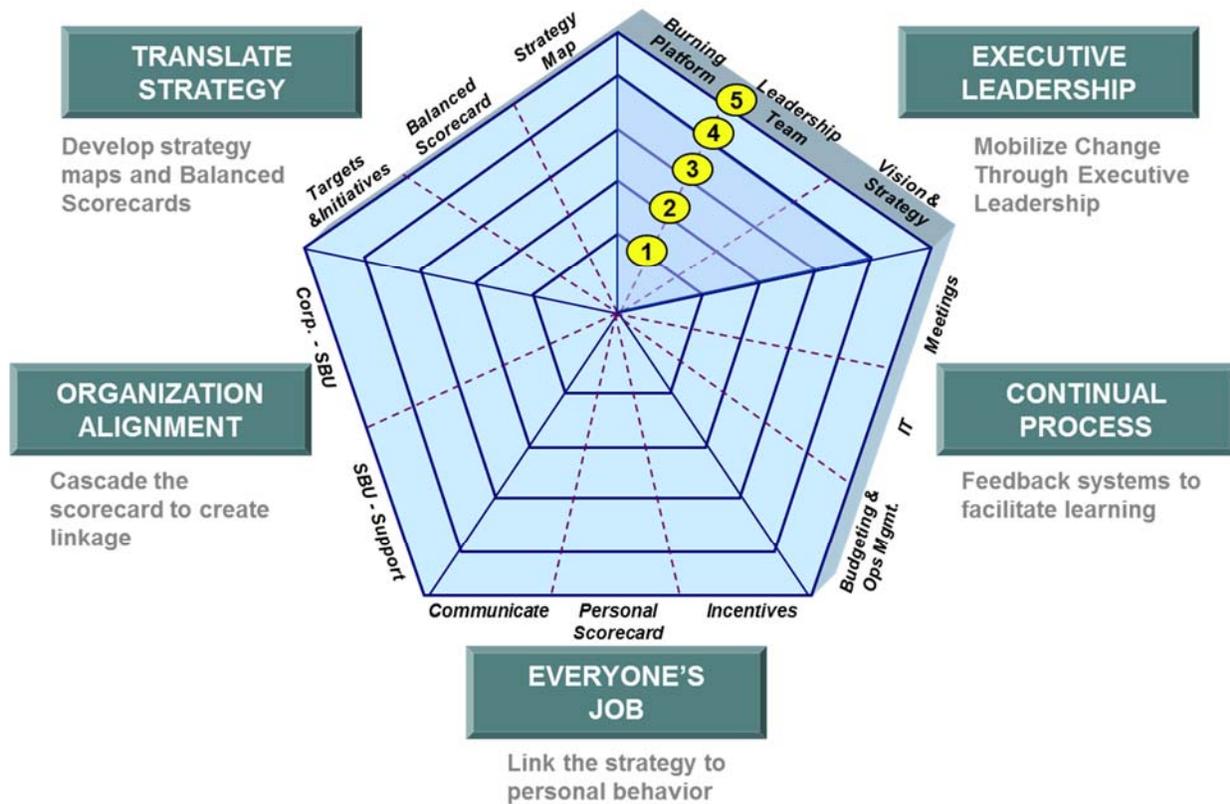


Figure 6: SFO Assessment Template

The BSCol consulting practice used the template and data base of best practices as a benchmarking tool to assess the current state of a potential client’s strategy execution approach. As new best practices emerged, the calibration as to what represented average versus world class implementation for each step continually evolved.

Working Groups

The BSCol sustained and extended the NNC role for targeted working groups that explored new extensions to existing methodology. A working group consisted of 6-10 organizations that met, typically bi-monthly, during a 12 month period, to engage in active discussions, often facilitated by external thought leaders, on the topic of interest. Three working groups were formed between 2002 and 2008. First was a human capital working group consisting of senior HR executives, with external support from HR thought leaders, including Edward Lawler, and David Ulrich, Brian Becker, and Mark Huselid, the authors of a book about a human resources scorecard.¹⁸ The HR working group developed the concept of “strategic job families,” and new metrics for measuring human capital capabilities and strategic readiness, which Kaplan and Norton subsequently described in an HBR article and their 3rd BSC book.¹⁹

A second working group examined the role for a corporate staff department to have primary responsibility for making strategy execution a continual process, the 5th principle of a strategy-focused organization. The working group was Inspired by a new role for several BSC project leaders in client

companies to sustain and extend the initial BSC implementation. This working group identified a new corporate staff role, Office of Strategy Management (OSM), and documented its principal roles and responsibilities. The evolution and expansion of the BSC management system had created, by 2005, a new body of knowledge around strategy execution, which provided the job description for a new professional staff function in organizations. The output from this working group was described in another HBR article.²⁰ The third working group focused on best practices in driving strategy into operating processes. The insights from this working group provided the foundation for a 5th Kaplan-Norton book, *The Execution Premium*.²¹

Balanced Scorecard Report

In 2000, the BSCol launched a bi-monthly newsletter, the *Balanced Scorecard Report* (BSR), in partnership with Harvard Business Publishing. This continued the practice of Boston Consulting Group's *Perspectives* newsletter and NNC's *Stage by Stage*. The BSR lasted for 15 years and nearly 100 issues, enabling BSCol to continually publish new thought-leadership ideas and best-practice company case studies.

Each issue of the 16-page BSR used a structured format that included:

- The Leading Edge, a Kaplan/Norton 1,000-word essay on a contemporary topic or an advance peek of a forthcoming HBR article or HBP book chapter
- Interview with a senior executive on leading the BSC implementation at his or her company
- Case study of an implementing organization, usually highlighting one of the BSCol 26 best practices
- Management synergies, relationship of the BSC to another contemporary management tool
- Tools and techniques, in which a BSCol consultant described the implementation details of a specific best practice, such as measuring employee awareness of the strategy, managing the portfolio of strategic initiatives, or how to conduct a strategy review meeting.

The BSR enabled Kaplan or Norton to position the BSC's complementary role with management tools such as quality, lean, the McKinsey 7-S framework, Kotter's leading change program, and risk management. It also enabled them to challenge suboptimal use of the BSC, through articles such as "Limits to Benchmarking," "Beware the KPI Scorecard," and "Build Strategy, not Stakeholder, Scorecards." The newsletter provided the BSR with continual communication to its audience of potential and existing implementing organizations and the editorial freedom for provocative, contemporary commentary that fit better in a newsletter format than in refereed articles and books.

Published Articles and Books

Between 1992 and 2010, Kaplan and Norton published 10 articles in *Harvard Business Review* on BSC developments, five books with Harvard Business Publishing, and 15 Harvard Business School case studies, starting with the early applications at Chemical Bank and Mobil, and continuing through applications to cities (Charlotte NC), nonprofits (United Way, New Profit, Inc., Boston Lyric Opera), Healthcare (Montefiore Hospital), education (Fulton County School System), corporate boards (First Commonwealth Financial), and sustainability (Amanco). They also published 30 articles in leading

applied journals in accounting, finance, strategy, nonprofit management, and leadership. After the initial BSC article in 1992, some academics and consultants described the BSC as just another management fad. Twenty years of publications about actual organizational implementations provided evidence that the BSC was a new and sustainable management innovation. It also enabled the two authors to maintain thought leadership in a highly-competitive marketplace for management ideas, and to “brand” the BSC as their innovation, without the burden of costly and, ultimately, ineffective legal protection.

Many consulting companies talk about their offerings at a very high and generic level, fearing that disclosure of their methodologies or clients would erode their competitive positioning. The BSCol, in contrast, embraced transparency, making its methodology “open source code,” available to all for adoption or debate. It recognized that any management tool cannot be kept private for long, as its consultants leave to join other practices, go off on their own as solo-practice consultants, and company project leaders leave the company to form their own consulting practice, often writing their own articles and books based on the methodology taught to them by BSCol.

Transition

In 2005, Norton retired as CEO of BSCol as part of a restructuring to create a new company, The Palladium Group, that included BSCol and two IT companies specializing in performance management software integration. While seemingly complementary offerings, the new company did not achieve desired synergies. More importantly, the company went through three CEOs over the next ten years, none of whom fully embraced the principles or practices of a CCC that Norton had built up over the prior ten years. The linkages between pioneering companies, innovative consultants, and thought leadership were broken, and no major advances in the methodology occurred during the ten years after Palladium’s formation. None of Palladium’s three CEOs, especially after the recession caused by the 2008 global financial crisis, supported R&D and investment in innovative consulting assignments that could extend strategy execution practices.

In 2015, Palladium merged with GRM Futures Group, a global economic development and health delivery services firm. The new company, which adopted the Palladium name, believed in the potential synergies from integrating a strategy execution capability into economic development and health delivery projects. Palladium retained Kaplan, to preserve an academic connection, and established a small, independent group to create the next generation services offering. After a couple of years analyzing past GRM Futures projects and working with a new pioneer company, Syngenta. Kaplan, HBS colleague, George Serafeim, and Palladium thought leader, Eduardo Tugendhat published an HBR article that articulated the role for corporate-led ecosystems to implement Porter’s shared value strategy in low-income communities around the globe.²² The framework and examples of leading practice have been presented in several global conferences. The article, action research with pioneer companies, and annual conferences are, possibly, beginning another cycle of the knowledge-creation journey previously traversed by BCG, NNC, and BSCol.

Economics of the CCC

The experiences of BCG, NNC, and BSCoI/Palladium illustrate both the promise and the fragility of CCCs. Maintaining thought leadership required continual investment in research activities to create, identify, codify, and disseminate the new practices and to extend the domain and impact of the core concept. Since the owners of the consulting organization were largely the consultants themselves, the pressure to avoid the non-billability of personnel involved in research was considerable. The leaders at the three CCC case sites, Henderson, Nolan and Norton, maintained the balance and funded the thought leadership activities, but their successors did not sustain this balance.

The challenge can be seen with another management thought-leadership idea, activity-based costing (ABC). This new costing approach, developed in the 1980s, addressed the defects from use of arbitrary allocations of overhead costs at companies whose most rapidly rising cost components were, indeed, these poorly understood overhead costs. In fact, these costs, better described as indirect and support costs, were increasing due to introduction of automated production technologies, greater product diversity, high product and services customization, and rapid introduction of new products and services. Kaplan and HBS colleague, Robin Cooper, first identified and documented what came to be known as ABC in several HBS cases, which they taught in a 2nd year MBA course at HBS. They described the innovation, initially in trade publications and then in HBR articles. Based on this work, they began consulting with the ABC pioneer companies of General Motors, Hughes Aircraft, Northern Telecom, and Perkin Elmer. The work enabled them to learn the project management discipline required to apply ABC in practice, how to communicate the idea and its benefits to senior company managers, and how to train the project leaders in each organization. The consulting and case-writing work with the pioneer companies generated a deeper understanding of the concept and a greater domain for its applicability, such as using ABC for measuring customer profitability and process improvements, not just its initial application for product costing. Cooper also designed and help produce the first software product for ABC. By 1989, Cooper and Kaplan had two of the components – academic thought leadership, experience with pioneer companies – required for a CCC, but lacked a consulting organization, other than their own time during the one day per week allowed for HBS faculty to perform external work.

Cooper and Kaplan entered into a strategic alliance with Peat Marwick, hoping that its large consulting group could implement the concept widely and also generate practice sites where the two founders could identify the next generation of extensions to the core ABC concept. Unfortunately, as with the (unrelated) Peat Marwick acquisition of NNC, at about the same time, the alliance failed. The senior technical staff at Peat Marwick, while enthusiastic about having access to leading edge costing ideas, had little leverage with the true power base of the accounting firm, its local and regional audit partners. Audit partners, ever protective of their relationship with important clients, viewed introducing a new idea and unfamiliar academics to a client the way Woody Hayes, legendary football coach at Ohio State University, viewed the introduction of the forward pass. About a half-dozen things could happen, and only one of them was good. ABC never became a differentiated offering of Peat Marwick, and with Cooper and Kaplan having only limited access to the few clients that did try to implement it, the concept stagnated. Other accounting and consulting firms developed similar offerings, commoditizing it with inadequate understanding of the foundations that made ABC relevant and actionable to organizations.

Several years later, Steve Anderson, an MBA student of Kaplan's, developed a new variant of ABC that featured resource time as the primary driver of costs. Anderson developed software based on the time-driven approach and founded a company, Acorn Systems, to consult and license the software. Acorn helped several pioneer companies successfully implement the new approach and these served as references for additional clients. Anderson and Kaplan, who served as an advisor to Acorn Systems, described the new approach, which they called "Time-Driven Activity-Based Costing," or TDABC, in an HBR article, and HBP book.²³ Kaplan wrote two HBS cases on pioneer companies.²⁴ Seemingly, all three components of a new CCC were in place. Anderson, serving as Acorn's Chairman, recruited the CEO and COO of Acorn from the software industry. These executives ran Acorn as a software company with a consulting arm to help clients implement the software solution. No commitment was ever made to leverage Acorn's thought leadership position in TDABC through public conferences, newsletters, or any of the other brand-building activities done by BCG, KNN and BSCol. Eventually, when venture capital funding dried up, Acorn was sold to an applications software company, where it played a minor role.

Conclusion

Management theories cannot be tested in laboratories; they must be applied, tested, and extended in actual organizations. For this to occur, traditional boundaries between academia, consulting firms, and companies must be breached. The ecosystem of a creative consulting company, academic thought leaders, and pioneer executives willing to take on the challenges of introducing innovative ideas into their organization illustrates how new management ideas can be applied, understood, and become widely accepted and adopted. Sustaining a creative consulting company, however, requires unusual ambidextrous leadership from a quarterback-consultant able to lead this ecosystem while also balancing the conflicting demands between short-term business development and long-term knowledge creation.

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