Balanced Scorecard [BSC]

Idea In Short

The Balanced Scorecard, referred to as the BSC, is a framework to implement and manage strategy. It links a corporate vision to strategic objectives, measures, targets, and initiatives. It balances financial measures with performance measures and objectives related to all other parts of the organization. It is a business performance management tool.

Dr. Robert Kaplan & Dr. David Nortonoriginally published The Balanced Scorecard as a paper in 1992. Although Kaplan & Norton published the 1st paper, Art Schneiderman, who created a similar system in 1987 atAnalog Devices, is believed to be the original creator. The major difference that Kaplan & Norton introduced into this methodology is the balance across all organizational functions. Kaplan and Norton describe the innovation of the balanced scorecard as follows:

> The balanced scorecard retains traditional financial measures. But financial measures tell the story of past events, an adequate story for industrial age companies for which investments in long-term capabilities and customer relationships were not critical for success. These financial measures are inadequate, however, for guiding and evaluating the journey that information age companies must make to create future value through investment in customers, suppliers, employees, processes, technology, and innovation.

In the early days of BSC, most companies predominantly focused on the financial measure. For example, revenue growth & profitability. However, the BSC approach advocates looking at an organization across four Perspectives to establish a causal relationship to define, measure & manage the expected financial outcomes.

what is Balanced Scorecard?

The BSC is not just a scorecard, it is a methodology. It starts by identifying a small number of financial & non-financial objectives related to strategic priorities. Then, it looks at measures, setting targets for the measures & finally the initiatives. Hence, this approach forces organizations to think about how they can measure the objectives. Subsequently, they can identify the projects to drive those objectives. As a result, this approach helps avoid creating costly projects that have no impact on the strategy. The focus on financial & non-financial objectives brings about the balance. The objectives, also called Perspectives, are: Financial, Customer, Internal Processes & Organizational Capacity. The early years of BSC considered each perspective independently of the others. However, over time, organizations discovered the surprising ways that these perspectives affect each other. Jack Welchimplies BSC in his quote:

> Management is all about managing in the short term, while developing the plans for the long term. You've got to eat while you dream. You've got to deliver on short-range commitments, while you develop a long-range strategy and vision and implement it. The success of doing both. Walking and chewing gum if you will. Getting it done in the short-range, and delivering a long-range plan, and executing on that.

Eventually, it turned out that the there is a causal relationship among the perspectives. For example, changes in the Organizational Capacity will drive changes in Business Processes. In turn, these impacts will affect Customers & shape the financial results. Furthermore, new perspectives don't necessarily guarantee a causal relationship. The result might be a useful scorecard. But, it would not be a balanced scorecard. In brief, the four scorecard perspectives are:

1. Financial
2. Customer
3. Internal Processes
4. Organization

Financial

The financial objectives & measures help answer the questions:

- How do we look to our shareholders?
- Are we making money?
- Are our shareholders happy?

Just because we're taking a balanced look at an organization doesn't mean that we should ignore traditional financial measures. Quite contrary, the financial perspective is a major focus of the balanced scorecard. Financial objectives are usually the easiest to define & measure. However, creating only the financial objective does not provide a road map to achieve this objectives. By linking the financial perspective with other perspectives, we can clearly define projects & direct investments. The financial health of an organization is a lagging indicator. The financial indicators show the result of past initiatives & decisions. Yet, it's still incredibly important. As the saying goes,Cash is King. Finance is what keeps companies alive; the financial perspective focuses solely on that.

Customer

These are objectives & measures that are directly related to am organization's customers. In other words, this perspective focuses on customer satisfaction. Customer satisfaction is a great forward-looking indicator of success. The way you treat your customers today directly impacts how much money you'll make tomorrow. The customer perspective focuses on the people who buy products & services. This perspective helps answer the questions:

- Are you winning new business?
- How are we viewed in your industry compared to your competitors?
- Are we keeping our existing customers happy?
- How do our customers see us?

It is always important to take a step outside & view your company or organization from your customers viewpoint. You need to understand what they want from you, not necessarily, what you can do for them.

Internal Processes

These are objectives & measures that determine how well a business is running. The internal business processes perspective looks at how smoothly your business is running. This perspective also helps understand whether the products or services conform to customer

expectations. In other words, this perspective helps define what you could / should be best at. Some of the biggest cost items can be reduced by streamlining internal processes. It's all about reducing waste, speeding things up, & doing more with less. Efficiency is important here. As consultants, this is also the best area to focus on to generate new & creative ideas. This perspective helps answer the questions:

- Are there unneeded obstacles standing between new ideas & execution?
- How quickly can we adapt to changing business conditions?
- Are we providing what our customers actually want?
- What should we be best at?

Moreover, this perspective also encourages you to take a step back & get a little philosophical about your client.

Organization

These are objectives & measures concerning how well the people perform, their skills, training, company culture, leadership & knowledge base. This area also includes infrastructure & technology. This is the area where most investments happen. This perspective helps answer the question:

- How can we improve & create value?
- Are people aware of the latest industry trends?
- Is it easy for employees to collaborate & share knowledge?
- Does everyone have access to training & continuing education opportunities?
- Are we a mess of tangled bureaucracy?
- What are we doing to stay ahead of the competition?
- Are we stuck running yesterday's technology?
- Can people use the latest devices & software?

BSC & Information collection

The Balanced Scorecard has made it very easy to communicate the way you talk about your strategy. Nevertheless, having a strategy & discussing it is only one piece of the puzzle. For your scorecard to be effective, you need to be able to execute your strategy. This includes managing it, making decisions around it, collecting information & implementing it.

Organizational Perspectives

You can analyze this perspective by investigating the available training & knowledge resources. Similarly, evaluate how well the organization captures information & experience, how effectively the employees use the information & to convert it to a competitive advantage over the industry

Internal processes

Evaluate how well products are manufactured. In addition, analyze operational management to identify any gaps, delays, bottlenecks, shortages, or waste

Customer perspectives

Gauge customer satisfaction in terms of quality, price, and availability of products or services. Usually, customers are willing provide feedback about their satisfaction with current products & services. You an easily extrapolate the current satisfaction levels to predict future customer sentiment around products & services.

Financial data

Review the numbers, such as sales, expenditures, and income are used to understand financial performance. Generally, financial metrics may include dollar amounts, financial ratios, budget variances, or income targets. In summary, the four perspectives encompass the vision & strategy of an organization. Cause and effect relationships should be well defined among the four perspectives. Additionally, the measures should include a mix of both outcome measures as well as performance drivers. These need to be linked to financial measures. Correspondingly, BSC is a management tool rather than a measurement tool. ...

Summary

The real value of a perspectives-based approach is that it provides a framework to describe business strategy. It focuses on objectives & measures that allow you to, both inform & influence to achieve the strategy.