Balance Score Card Initiative: Shift Short Term Financial Gain Into Long Term Business Success?

By Barbara Semeniuk

What does a worm have to do with your company's bottom line?

Keep reading to find out.

The truth is, some Companies have struggled with defining how well they are doing and how well they wish to perform. Prior to the 1990's the best way these Companies determined overall performance was by measuring the tangible. That meant measuring with the financial reports. A Company's financial statement was thought to be the best predicator of its survival. If a Company was making money….and was profitable that was excellent.

Hence, the worm theory emerged.

Profitable companies were loosing market share due to a lack of knowledge about these types of intangibles: how innovative were they? How adept were they at customer service and gaining new customers? Were they competent in what they were doing and maintaining this competency through training and innovation? For example, a mediocre company manufacturing cars…would usurp the best Company producing buggies in 1910…measuring the tangible was no longer a precursor to success!

Robert Kaplan and David Norton in 1992 developed the "Balanced Score Card Initiative" which was meant to address the problem of measuring the intangibles that were essential to a Companies success…even its very survival. The Balanced Score Card Initiative was quite simply a strategic management and measurement system that measures performance and links these to strategic indicators that provide a comprehensive view of how well a Company is doing.

The balanced scorecard considers traditional hard measurements like financials but also some soft quantifiable operational measures. **These include how well the Company is performing from a Customer Perspective.** Internal measurements or metrics are considered to determine what areas the company must excel in to remain competitive. The last set of measurements is from an innovation and learning perspective: how can the corporation improve and add more value to what it does whether these are products, services, operations or departments like safety and/or quality? Measurements from these four categories create a balanced perspective of how the Company is performing in real time!

The Balanced Scorecard can help Management then, focus on the really important indictors of success rather than short term financial gain. How does one implement the process? Basically this is a 6 step process which covers four areas. In each of these areas, measurements must be selected (no more than 15 or 20) and these tied to the goals or Critical Success Factors. Let's examine the process:

1. **Decide What to Measure**

There are four areas to measure in the Balanced Score Card Initiative. Let's go over each in turn.

First, there is the **Financial area (shareholder's perspective):** Reviewing Financial Statements shows which goals were met. Was there increased profitability and growth? If not, what types of measures are needed to meet the set goals? For example, if the Financial goal is increased profitability how does the company measure this? Goals are linked to the measures. For example: increased profitability can be achieved through cost reduction, revenue growth, sales, increased margins, and increased cash flow. The Company strives to quantify these measures so they can be achieved.

The next area of measurement is in the **Customer Perspective:** Here a company sets goals which may include meeting new customer acquisitions, increase customer satisfaction, and increase customer contacts. Customer Perspective is further measured by increasing market share, customer loyalty, determining how well customer service is doing, measuring the number of new, retained and lost customers, and the number of customer complaints generated. Set targets and strive to achieve them….20% increase in market share, 10% decrease in customer complaints through improved customer service training.

Another measurement area comprises an **Internal Perspective**: Again, the company sets goals in this area. Do you want to improve core competencies, streamline the process, enhance the use of technology, and achieve better employee morale? If so what is management prepared to do to improve the quality of our operating processes?
How do you set about measuring this? For one, you can achieve quality operations by efficiency improvements, internal audit standards, more employee suggestions, and more sales per employee. These measures can translate into streamlining a manufacturing or service process, enhancing the technology available to workers and their ability to use it….resulting in more sales per worker.

Finally, look at **Innovation and learning perspective**: Once again set goals like continuous improvement, new product development, and improved employee training. These goals measure indicators like the number of new products, percentage of sales from these, alignment of personal goals with the scorecard. What you want is a climate that supports innovation and growth.

It should be noted that the balanced scorecard can be adjusted to fit your company's own requirements…different areas can be used as key performance indicators. For example public companies may not be as concerned about customer perspective but may wish to incorporate client's or user's perspectives of the non profit service they receive. They then measure their own intangibles that will drive performance and value to their clients. They customize and develop their own critical success factors.

2. **Implement the Plan**

Change must be mobilized through Senior Management so they in turn will actively support the Balanced Score Card Initiative.

Senior Management must be aware that it is a long ranging plan of action: affecting the way the Company is strategically measured in order to align strategic objectives, management systems and corporate performance to long term success and/or growth. This process may take three or four years to implement!

The Senior Management team must mobilize their organization to affect the change. Once the key metrics and goals are established for each of the four areas of the balanced scorecard further interviews and meetings need to be held to fine tune the initiative and determine the best way to implement it within the organization. Critical Success factors must be considered and defining how, when and where targets set for each factor should be recorded.

3. **Process**

Once the plan is created and implemented, then the process must be managed to determine its success. The Senior Management team must shift towards governance: to install the new performance model. Employee participation is important so everyone feels involved in the process and has ownership. Thus, employees will be less resistant to change and more willing to support the implementation of the Balanced Score Card Initiative. Their own objectives can be used to set personal scorecards.

4. Analysis

Much like behavioural based safety programs, the results of the measures should be analyzed on a regular basis: daily, weekly, monthly, yearly and distributed to all employees. The data may be complicated but graphs, discussions with department heads, and distributing information on a need to know basis are critical to the Balanced Score **Cards success.**

5. **Use and Analyze the Results**

The information needs to be used and implemented…put into practice. Its measurements must be continually refined and adjusted and the results used to improve the organization's performance. What you'll find is that your very large organization acts and responds nimbly… like a smaller company. Management follow up is critical to ensuring this occurs.

6. Feedback

Does this system work? Use the data gained from the use and analyze stage…apply the information and publicize the results to as many employees as possible. The feedback alone is a powerful mechanism improving any current business system. This process is akin to Deming's: Plan, Do, Check cycle.

A clear picture of your company emerges through this process. Here's the important point. As the scorecard is put into action and the feedback systems begin to generate and report on actual results the organization tests the hypotheses underlying its strategy to determine if it is working. Movement occurs and rather than waiting for next year's budget cycle the priorities and the scorecards are updated immediately.

Much like aircraft navigating towards a city, the flight is continually adjusted for wind speed, air currents, and the vagaries of the weather in order to reach their destination…. What better way to reach your goals than with the Balanced Score Card Initiative.

The Balanced Score Card Initiative becomes the heart and soul of a Company's strategy….the jet engine of a Company driving it towards long term growth and prosperity…….and your Health and Safety people can use this initiative to drive down injuries, speak to management in metrics they understand and become part of the overall strategy of a company…..rather than a reactive, knee jerk response to injuries, losses, and death. But that is next month's article!

About the Author: Barbara Semeniuk specializes in industrial and high-tech safety and loss management: she delivers workshops and writes articles about how to improve the safety policies and routines in your company. To receive details on how well your company passes audits and safety inspections, contact Barbara at (phone) or visit her at http://www.purcellenterprises.ca