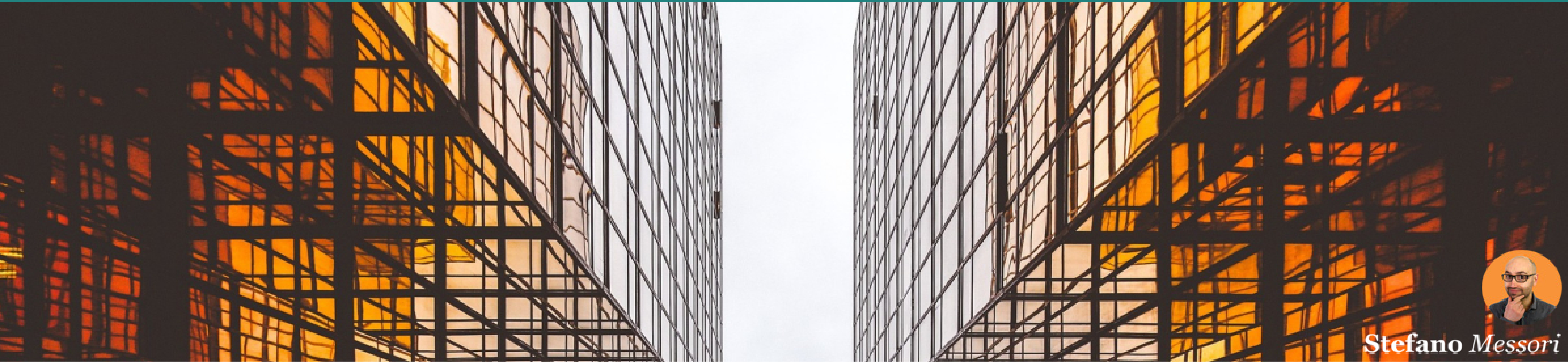
# BALANCED SCORECARD

Template



# OBJECTIVES

- ## Introduction

Prepared by Stefano Messori, this document is intended as an accompaniment to the Balanced Scorecard MS Excel ans PowerPoint spreadsheets.

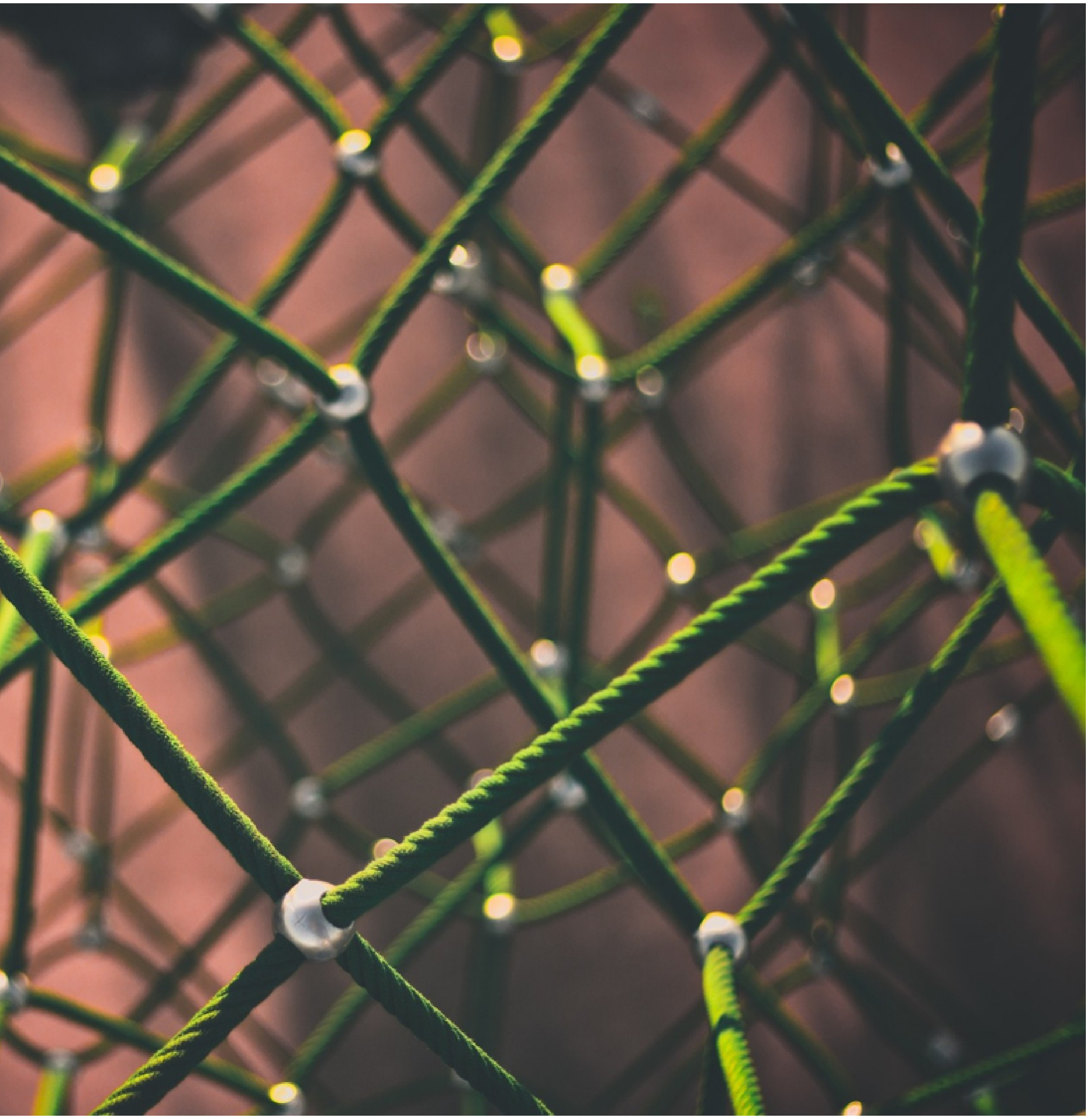
These spreadsheets, which are available as a free download (also available unlocked), were developed on the basis of the Robert S. Kaplan and David P. Norton model. The aim is to introduce you to the role the balanced scorecard plays as a measurement system.

Outlined in this document are the instructions for the use of the spreadsheet and the basic materials needed when first applying this concept. This process will enhance your ability to build a more sustainable competitive advantage by translating your strategy into a (balanced) set of measures and objectives.

The balance is between the ‘conventional’ financial measures, and the processes needed to generate them.

# OBJECTIVES

## • Preface



In this document, the balanced scorecard is described as a *measurement tool for strategy implementation purposes.* The balanced scorecard may also be used as a powerful strategic management system, but this aspect requires a different agenda, one that goes beyond the scope of this template.

Using this template correctly requires you to have developed a *clear strategy for your organisation.* Here we use the word strategy embracing the concept developed by the **positioning school;** in other words, *strategy making as the process of analysing and segmenting your industry, studying your competitors, and finding the right spot to position your company.*

The balanced scorecard helps in the implementation of strategy not only for businesses but for a range of organisation types; for example, different levels of government, non-profit organisations, schools, associations, etc. A *prerequisite is that the strategic objectives of the organisation have been clarified and that there are enough impetus and enough resources available for implementation.*

For the last twenty years, organisations have spent vast resources achieving **incremental operational improvements.** Too frequently, though, these efforts have been fragmented and disconnected from one other.

*Organisations often failed to pursue the linkages between the different initiatives they undertook.* Focusing on the big picture, the balanced scorecard will help your organisation to define and reinforce these **linkages** and to test the cause and effect relationships on which your strategy is based.

# THE BALANCED SCORECARD AS A MEASUREMENT SYSTEM

Over the various phases of the industrial age, *financial results became the most critical indicator of an organisation's well being.*

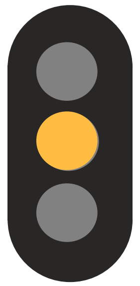
Unfortunately, though, these measures represent **lag indicators of past performance** and say little about the actions an organisation should perform to guarantee future success.

What an organisation needs, is to create **a set of measures able to asses the drivers of financial results.**

These matrices force your organisation to *think more deeply about the value generated for its customers,* the **internal processes** needed to deliver that value, and the learning and growth dynamics that preserve this advantage.

**Summary**

- On target
- Small resource issues



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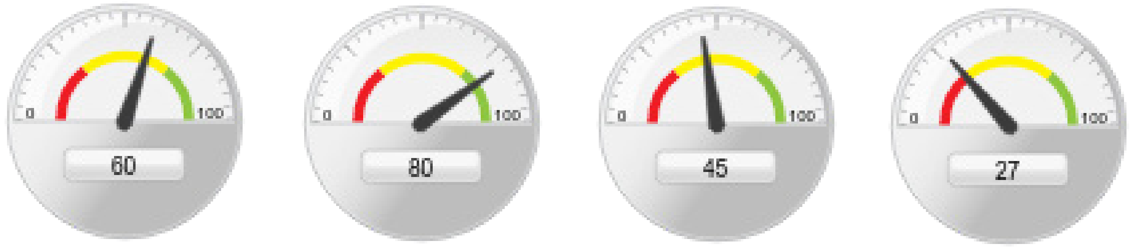


Financial | Customer | Process | Learning & Growth

**Indicators**

Financial - requires attention

Customers - on target

Process - requires attention

Learning & Growth - action needed

| FINANCIAL | CUSTOMER | INTERNAL PROCESS | LEARNING & GROWTH |
|---|---|---|---|
| • Financial objectives and measures. | • Objectives and measurements related to the market segment/s in which you choose to compete. | • The dynamic of your value chain, measuring your ability to innovate. | • Objectives and measures relative to the organisational learning and growth process within your organisation. |

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# THE BALANCED SCORECARD AS A MEASUREMENT SYSTEM

The balanced scorecard is a theory whereby **your organisation's long-term financial results derive from four related perspectives.**

The scorecard helps to illustrate how *each of these perspectives creates value for a broader set of stakeholders, and what determines their costs.*

**The four categories of measurement are:**


**1) Financial perspective:** financial measures are used to evaluate the economic consequences of actions already taken within your organisation. They indicate your ability to generate profitable results. Financial Indicators such as return on investments, added economic value, etc.represent the most appropriate tools for this measurement.

**2) Customer perspective:** with this perspective, your organisation measures how good it is at serving its client base and its target market(s). Measures such as customer satisfaction, retention and acquisition will be used.

**3) Internal process perspective:** what are the most critical activities within your value chain that serve to differentiate your organisation?

This perspective focuses on the internal processes that have the most significant impact on your innovation process. The goal here isn't just the implementation of 'existing processes' but rather the identification of possible new ways to achieve customer needs.

**4) Learning and growth perspective:** this set of measurements reveals the ability of your organisation to create and maintain the internal resources necessary for growth and improvement. In a competitive environment, only by continually updating internal learning and the ability to serve customers will your organisation be able to maintain its advantage overtime. There are three primary sources of organisational learning: people, systems and internal procedures.

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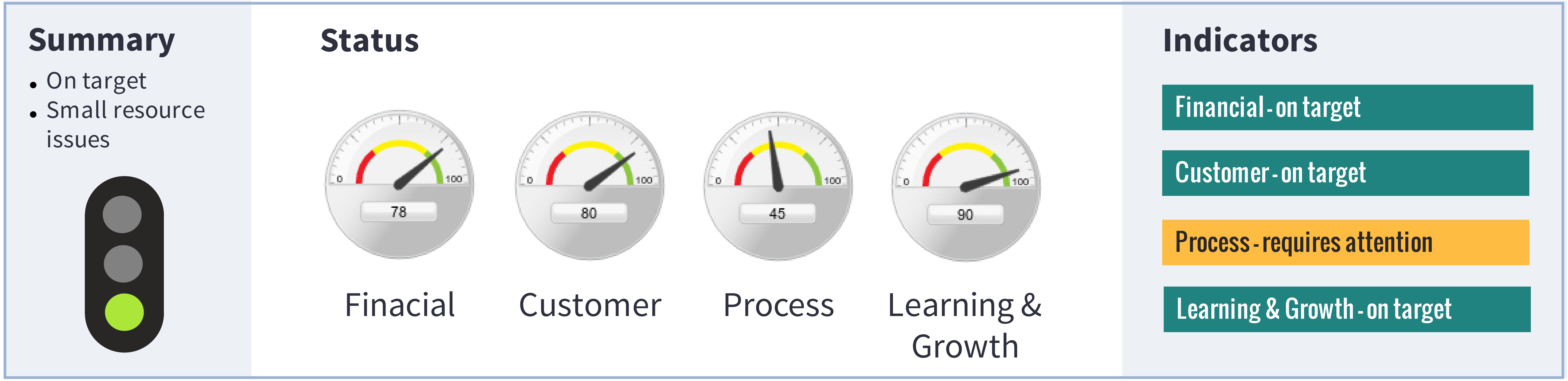
# LAG AND LEADING INDICATORS

It is necessary at this point to highlight the difference between lag indicators and lead indicators




**1) Lag indicators:** these are measures of *outcomes*, in other words 'easily measurable results,' such as financial results. Their function is to indicate whether or not operational improvement, or the implementation of new activities, have enhanced financial performance.

**2) Lead indicators (or performance drivers):** these explain *how the lag indicators (outcomes) have been generated.* The development of a balanced scorecard requires the presence of both lag and lead indicators, and the clarification of the relationship between them. A properly constructed balanced scorecard makes explicit the hypothesis about the cause and effect relationship between lag indicators (financial results) and the performance drivers that generate them.

# LINK DIFFERENT OBJECTIVES & MEASURES TO A SINGLE STRATEGY

The purpose of the balanced scorecard is to help you to *translate your strategy into a set of link ed objectives and measures* across a balanced set of perspectives. These objectives and measures are *interdependent*, and their selection and representation should clarify the cause—effect relationships between outcomes and their performance drivers. In other words, the balanced scorecard explains *'the story behind the strategy of your organisation.'*

**FINANCIAL**

Indicator:

**ROCE**

Objective 1

Objective 2

**CUSTOMER**

Indicators:

customer acquisition, retention, satisfaction, etc.

Objective 1

Objective 2

**PROCESS**

Indicators:

process efficiency, create new products, etc.

Objective 1

Objective 2

**LEARNING & GROWTH**

Indicators:

employees satisfaction, retention, capabilities, etc.

Objective 1

Objective 2

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# DECIDING THE RIGHT UNIT FOR THE PROJECT

Two basic organisational units represent the most appropriate basis for the implementation of a balanced scorecard project: the *corporate level* and the *business unit level*. The particular characteristics of your organisation determine the appropriate level for the implementation.

The following is a brief description of the main differences between the two levels:

**Corporate level**

This is the preferred option in the case of *integrated organisations operating in only one industry*, or mainly in one industry.

Developing a balanced scorecard at this macro level generates a corporate template with a shared vision and common themes that will serve as a reference at departmental and functional level.

**Unit level**

Most organisations are diversified; they operate in *different segments within different markets.* This generates heterogeneity in the strategies of their business units.

In this case the best entity for the implementation of the balanced scorecard is a self-contained unit performing all activities across its value chain.

Generally speaking, the presence of a unit with an independent and separate strategy within an organisation indicates the need for the implementation of its own balanced scorecard.

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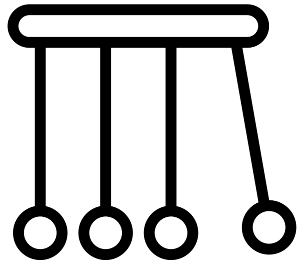
# LINKING THE BALANCED SCORECARD TO YOUR STRATEGY

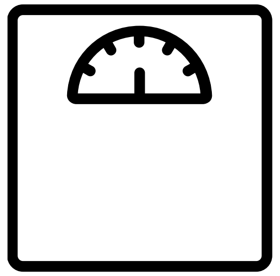
The MS Excel spreadsheet will guide you through the identification of objectives and measurements needed for the implementation of your balanced scorecard. *<u>In this process three fundamental principles must be respected:</u>*

## Measure the cause and effect relationship:



Any measurement that you select for the implementation of your scorecard should help you to *<u>recognise the cause and effect relationship between the performance drivers and the outcome measures.</u>*

## Select the appropriate performance drivers:



*<u>Performance drivers are lead indicators.</u>* As such, they tend to be built on your specific activities and processes. They reflect the uniqueness of your strategy.

N.B.: Building a good balanced scorecard requires the utilisation of an appropriate mix of outcomes and performance drivers.

## Linkages with financial results:


In your efforts to improve operational efficiency, *<u>you must continue to be aware of the financial outcomes;</u>* e.g., the return on capital employed,added economic value, etc.

Programmes such as TQM, reengineering and cycle time reduction have to be linked to specific targets to improve your customers' and eventually your financial performance.

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# SETTING THE RIGHT OBJECTIVES

What are the appropriate objectives for an organisation? While every organisation has its own strategy that sets out its unique agenda, there are common elements that guarantee the implementation of the right objectives.The following is an explanation of these elements in terms of the four perspectives.

## FINANCIAL OBJECTIVES

these are *tied to the specific business unit's characteristics.* Different business units inside a bigger organisation may serve different types of customers, offer different products/services and experience different growth levels. To guarantee the implementation of the right objectives, there must be a dialogue between the CEO of the business units and the organisation CFO. Changes forced upon the industry may affect the business unit stability, thus financial objectives should be reviewed periodically.

## CUSTOMER OBJECTIVES

these define *the customer and market segment(s) in which you chose to compete.* You might decide to expand your offer to your existing customers, or to target new customers in the same market segment. You may also decide to expand your offer by entering into new markets. You need to address these decisions carefully, assuring that you posses the right resources and internal processes to achieve your objectives. Of particular importance here is your ability to anticipate the needs of new customers. The ability to spot a new emerging segment in your industry will provide you with a significant competitive advantage.

## PROCESS OBJECTIVES

you can *formulate these objectives only after you have clarified your financial and customer goals.* In the last twenty to thirty years, organisations have developed an incredible number of generic practices aimed at cutting costs to a minimum, improving the efficiency of internal processes and reducing cycle time, etc. Unfortunately these 'generic' practices weren't tied to the specific customer and financial goals of the organisation, creating only relative and 'easy to copy' advantages. Using this model instead, you have to build your internal process objectives according to your customer's current and emerging needs. This will suggest to you not only ways to improve your current internal processes but it will stimulate the development of new and innovative procedures. N.B.: The relationships aspect of transactions is becoming as important as the products/services themselves.

## LEARNING & GROWTH OBJECTIVES

these must be tuned to *provide the correct infrastructure, facilitating the achievement of the goals in the other three perspectives.* The results of cost cutting techniques frequently have consequences that only become evident in the long term, and most relate to this perspective. Failure to enhance employee,systems and organisational capabilities will undermine the sustainability of your competitive advantage.

# PROJECT IMPLEMENTATION

In this template we described the use of the balance scorecard as a measurement system. Now briefly consider the steps that you should take to implement this project correctly.

1. Ensure that your strategy is clear to all of the management team, and that you have reached a degree of consensus great enough to make implementation as smooth as possible.

2. Identify the right unit for project implementation. If you are developing a balanced score card for a business unit you must identify the relationship between this unit and the divisional and corporate organisations, and the other business units.

3. Create a list of objectives for each perspective, explaining how they relate to your strategy.

4. Identify the appropriate measure by which to assess the achievement of each objective, also clarify the simplest way to calculate this.

5. Create a graphic model (on the last page of the Excel spreadsheet) to depict the chain of cause and effect between the components of the four different perspectives.

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