

A Brief Introduction to the Balanced Scorecard

Why do companies need Business Scorecards?

Smart companies plan their development for both the near and far future. However, coming-up with a good strategy is not always simple. And even when you have a solid strategy, trying to measure your success can be even more complicated.

To measure success, most companies examine their sales levels and several other Financial Indicators including:

- Cash flow
- Return on Investment
- Profitability index

While these indicators certainly provide you with a lot of information about the company's performance, they don't give you the whole picture, or worse yet, can even be misleading on their own. Misleading?! Yes. When you solely use Financial Indicators, you only see the end effect. By excluding non-financial aspects of a company's activities - such as the quality of products, employee turnover or their productivity - you may miss problematic trends until it is too late and they are already affecting your profits.

For example, imagine you are measuring sales revenues but you are not measuring product returns. You may not notice an increasing number of product returns caused by a deterioration in the quality of your products. By the time this information shows-up on your financial indicators, how much revenue will you have lost and how many customers will you have disappointed?



OK, so now that you know you should look at other indicators, you may ask: "What should I measure?" and "How should I measure it?" Well, it can be complicated. For each indicator you choose to measure, there are a number of steps involved. Let's take our example of increasing returns due to a decrease in product quality. When you want to examine the number of returns, there are several things you must consider. Do you have an effective way to measure product returns in your stores? Can you monitor changes in the number of complaints/returns every day and in each store? Have you defined a number of acceptable or typical number of returns for your products? Can you collect all of this information without adding to the workload of your

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employees (because they won't have spare time to write this information manually on a pad of paper)? And this is only one indicator, think of all the areas of your business you should be monitoring. Things can get pretty complicated, pretty fast. This is exactly why most companies use a framework to guide how they measure their performance. These guidelines are called: The Balanced Scorecard.

What is a Balanced Scorecard?

The Balanced Scorecard is theory developed by Drs. Robert Kaplan and David Norton. It provides a framework for measuring company strategy and performance, which translates your strategy into a set of tangible objectives. The Balanced Scorecard defines the key matrixes you should examine and how you should measure them. The theory also examines how to monitor your progress towards goal attainment, so you can react to deviations from the plan. In order to translate the company's strategy into a reality, the theory of Balanced Scorecards uses four perspectives of measurement:

Financial Perspective – Traditional financial measures such as cash flow, revenue, net operating income, costs, profit margins etc. While they warn against falling into the trap of ONLY looking at financials, the good Drs. Kaplan and Norton never said you should ignore Financial metrics.

Examples of Financial Performance measures:

- Revenue
- Profit ratio
- ROI
- Operating Costs

Customer Perspective – Focuses on the value that is delivered to the customer (product quality, service, cost) and the goals of these values (market share, customer retention, customer satisfaction, new customer acquisition, etc).

Examples of Customer Performance measures:

- Repeat purchases
- Number of complaints
- Average time to Process orders

Internal Process Perspective - Measures the internal activities and processes involved in your value proposition (sum total of all the benefits you offer to your customers). These activities are grouped into 4 categories: Operations Management, Customer Management, Innovation (new products/services), and Regulatory and Social (compliance with environmental standards, interactions with watchdog groups, etc).

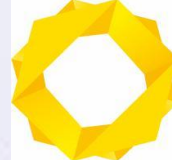
Examples of Internal Process performance measures:

- Reduced waste
- Reduced unit costs
- Increased productivity

Learning and Growth Perspective – Measures the infrastructure and intangible assets necessary to complete company processes. The infrastructure is divided into three categories: employee competency, technology, and corporate culture.

Examples of Growth and Learning performance measures:

- Employee turnover
- Number of strategic skills learned



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- R&D as a % of sales

Each of the perspectives can have many different performance measures (the examples provided above are just a few). For each performance measure we ask:

- How do you quantify performance?
- What is the Goal? (ie 10% increase in retention)
- What Activities and areas of focus will lead to the goal (ie introduction of loyalty programs, promotional campaigns, etc)

As promised, this is merely a brief introduction to the theory behind Balanced Scorecards. This system of measuring, implementing and executing successful business strategies is used by many companies around the world. To implement the strategies laid out within this framework, companies rely upon sophisticated software, such as Comarch ALTUM ERP to help them record and quickly analyze the data they need to create performance measures.

To learn more about ERP systems and Business Scorecards please continue to our whitepaper:

10 Smart Ways to use Business Scorecards

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