



## TenStep Supplemental Paper

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### **Balanced Scorecard Approach – Hope for the Future**

Many companies are being forced to restructure their businesses to remain competitive in today's global economy. Robert Kaplan and David Norton introduced the "Balanced Scorecard" concept to help organizations restructure successfully.

#### **What is Balanced Scorecard?**

Balanced Scorecard is both a financial and a non-financial measure of a company's critical success factors, documented as components of a scorecard. It is a mixture of traditional and modern systems of performance measurement.

#### **Components**

The four major parts in the framework of the Balanced Scorecard are:

- **Financial.** The financial perspective aligns the financial objectives of the unit with the overall business strategy. Every action should keep in mind the short and long-term financial performance.
- **Customer.** The customer perspective aligns the company's measures to provide value to target customers and market segments. Customer value focuses on satisfaction, loyalty, retention, acquisition, profitability, etc.
- **Internal business process.** This is a unique value chain process that identifies the future needs of the customers and the means to satisfy them.
- **Learning and growth.** This is the identification and measurement of successful drivers of the first three phases.

#### **Advantages**

Kaplan and Norton have cited several advantages of using the Balanced Scorecard:

- It communicates the company's goals.
- It rewards employees who achieve goals.
- It focuses only on areas like strategy, structure and vision to improve performance.
- It helps to integrate traditional and non-traditional measures.
- It breaks down strategic measures to local levels (unit managers, operators, and employees) to set performance standards.
- It captures the essence of value creating factors.

#### **Requirements of small companies**

A survey conducted in the US, proved the usefulness of the Balanced Scorecard in small companies. The response from an electronic firm that was a part of the survey is given below:



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1. Primary focus on the customer perspective by combining the goals in terms of quality, price, delivery, and product development
2. Stress on the internal capabilities of the company
3. Emphasis on innovation in product development with respect to customer values
4. Delivery of positive traditional financial results from the shareholders' point of view
5. Focus on employee satisfaction

### **Implementation of Balanced Scorecard**

The industry trends reflect that it will take almost two years to implement Balanced Scorecard in any company, regardless of its size. A typical schedule is as follows:

**Stage 1.** Redefine the vision and mission through strategic planning to identify the critical components in the company's Balanced Scorecard.

**Stage 2.** Form a strategic planning committee to revamp the objectives identified in Stage 1.

**Stage 3.** Seek views and feedback from every member of the organization.

**Stage 4.** Modify the company's Balanced Scorecard after receiving and analyzing feedback from employees

**Stage 5.** Communicate the modified Balanced Scorecard to individual members. Thereafter, members will make personal Balanced Scorecards after aligning their goals with the objectives of the company

**Stage 6.** Modify the Balanced Scorecards (personal or the company's) after review by the strategic planning committee

**Stage 7.** Formulate a five-year strategic plan for the whole organization based on the final version of the company's Balanced Scorecard

**Stage 8.** Review individual and company progress for a certain period (say, quarterly) to address significant deviations quickly.

**Stage 9:** Evaluate employees on the basis of the personal Balanced Scorecard.

**Stage 10:** Revise the company's Balanced Scorecard on the basis of the external and internal analysis of the company's performance and changes in macroeconomic factors

### **Realization**

The Balanced Scorecard approach assists companies to restructure and meet the demands of today's intensely competitive world.