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ABC of BSC...

Failure and success are relative. However, when describing a company they must be defined in absolute terms. The most commonly used measure of a company's success is its financial standing. A profit-making company would thus be considered successful unlike one in loss. There is little denial to this measure. However it would be wrong to judge organizational performance on a single parameter. Though annual revenue, return on investment, and profitability are good measures of an organization's financial health, they do not really help it mull over past mistakes or plan for better performance in future.

Financial results of a company reflect events in the year gone by (lagging indicators) and are hardly indicative of customer preferences. Hence, merely judging a company's success on the basis of its financial standing would be rather unfair and shortsighted. A *Balance Score Card (BSC)* proves a viable option here. A BSC ensures a holistic, long-term and complete assessment of a company's success and failure.

Balance Score Card-the what, why and how!

BSC is a true representation of the past performance (lagging indicators), present performance (current indicators) and future performance (leading indicators). An integrated version of these indicators gives a true feel of corporate reality.

A BSC's predictive capabilities significantly help formulate corporate strategies. This apart, BSC is also used in:

- Evaluating organizational and business success
- Planning for short-term actions on the basis of long-term predictions
- Measuring various parameters of success namely-financial, internal operations, customers and HR systems and development
- Integrating strategy with plans of action

On analyzing the various parameters of success, namely financial, customer, internal operations and HR, one can classify them into the type of indicators they make. For instance, the financial outcome of an organization would provide a cue to the success of past decisions (lagging indicators). Customer satisfaction and preferences on the other hand determine the strategy implementation in the present (current indicators), internal operations while HR systems and development determine the future course of action for companies (leading indicators).

Before instituting the BSC, organizations need to integrate their strategy with the performance measures. It's important to align the performance measures with corporate strategy since without a context the entire process of performance management would be null and void. Therefore a mission, strategy and objective need to be defined. Having defined the mission, the objective and strategy it would be imperative to understand the

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prime causes behind the fluctuations in the BSC. The factors driving these variations are categorized into four types:

- *Environmental*- These are external factors, and include government regulations, economic climate, politics etc.
- *Organizational*- The reference here is to internal factors like corporate strategy, HR systems, procedures, policies etc.
- *Group*-Work teams, work relationships, group assignments, projects, and interpersonal relationships form this category
- *Individual*-Behavioral skills, individual personality, leadership skills and management style fall in this group.

It's critical to understand the drivers of the BSC movement since these are symptomatic of the possible problem areas.

Target registered!

The next logical step in accomplishing the objective of BSC is to identify the right target. A target requires five characteristic features technically described by the acronym *SMART*. *The SMART target implies: Specific, Measurable, Agreed upon, Realistic and Time-bound*. In addition to a SMART target, organizations should also visualize a SMART project. The project can be broken down into SMART sub-targets along with details of the method and resources used to achieve them.

For instance, reducing production cost of sports apparel by 10 percent by the year-end is a typical example of a SMART project. Breaking this down into components like, cost cutting on stationery, implementing backward integration, introducing an additional shift by adding workers to shop floor on a temporary basis etc would define the sub-targets to achieve the main project objective.

Success factors

After determining the drivers and defining the targets of BSC, it is important to understand the success factors that give shape to the entire concept of balance scorecard. These factors include measurement, technique, control, focused persistence and consensus.

Measurement-Selecting the right measures is critical to the success of BSC. Only if right measures are used will a BSC reflect a true picture of the performance.

Technique-Techniques are used to determine the extent to which improvements in BSC measures would be accomplished. Techniques could be either long-term (major) or short-term (minor). Long-term techniques include change in corporate strategy, adding or altering core competencies, reengineering, restructuring etc. These are major changes and are therefore used when the organization requires a complete makeover to improve performance.



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On the other hand short-term changes include training, motivational workshops, team-building exercises etc. Short-term techniques are used when a company requires minor changes to enhance its performance.

Control- Control determines the locus of actions. In view of the measures and actions taken, it is essential to visualize the effect of these actions and the extent of control an organization can exercise on the outcomes. For instance, an external locus of control would mean that the actions taken for performance improvement are dependent on external factors and therefore are not in control of the organization. Depending on the locus of control, internal or external, organizations have to alter their expectations.

*Persistence and consensus-*Persistence implies effective project management that encompasses timely review of the project, accomplishments in a given time frame and resource used.

This apart, consensus is another critical factor for the successful implementation of BSC. Even the best laid plans could fail if the head honchos and power centers of the organization bear conflicting views about performance issues. Therefore, power brokers must indulge in sound sessions of brainstorming before arriving at a consensual decision.

Keeping in view the interesting interplay of various factors, it would be logical to conclude that balance scorecard is a balanced approach to performance management and therefore should be increasingly put to use for best results.