

BALANCED SCORECARD -- KAPLAN/ATKINSON (KA)

The Balanced Scorecard translates mission and strategy into objectives and measures.

Organized into four perspectives:

Financial Perspective: Financial measures summarize the readily measurable economic consequences of actions already taken.

Customer Perspective: key measures:

- customer satisfaction
- customer retention
- new customer acquisition
- customer profitability
- market share in targeted segments

Key dimensions of factors affecting customer response and profitability:

- *Product and Service Attributes*, e.g., price, product or service quality
- *Customer Relations*, e.g., delivery of the product or service that affect the customers' experience with the firm.
- *Image and Reputation*: expectations created about the first two.

Internal Business Perspective: This focusses on defining the critical internal processes in which the organization seeks to excel.

The firm needs to understand its particular *value chain*.

- *identify some customer need they seek to fulfill*

- *innovation cycle*
 - identify the market and its key characteristics
 - create the product/service to be offered to the market

- *operations cycle*
 - build the products and services
 - deliver the products and services

- *post sales service cycle*
 - e.g., warranty and repair activities, treatment of defects and returns, and the processing and administration of payments

Learning and Growth Perspective: Identify the infrastructure the organization must build to create long-term growth and improvement. The objective is to set up mechanisms to ensure that

- existing gaps in knowledge and processes are filled,
- new knowledge and processes are continually acquired, and
- innovative steps are taken.

DEVELOPING A SCORECARD

In developing a scorecard for a unit within the firm it is important have a clear strategy for the firm and to understand the implications of that strategy for the operations of the unit.

“A strategy is a set of hypotheses about cause and effect. The measurement system should make the relationships (hypotheses) among objectives (and their related measures) in the various perspectives explicit so that they can be managed and validated. The chain of cause and effect should pervade all four perspectives of a Balanced Scorecard.

The key, of course, is “balance.” Performance measures can significantly influence behaviour if those measures are linked to management incentives. One must seek to ensure that if the employees respond to the measures, they will, in fact, be achieving the goals of the organization. Hence, understanding cause-and-effect relations is crucial.

POTENTIAL PROBLEMS

Merchant refers to the supplementary measures as *value drivers*. He identifies the following potential problems:

- too subjective and subject to manipulation
- difficult to determine appropriate “weight” in determining compensation
- can create strong incentives in the “wrong direction”
- costly to obtain

GENERAL ELECTRIC

(Measurement Project 1952)

Key Result Area Measures:

1. Profitability
 - Residual income (introduced the term)
2. Market Position
 - market share (percentage of available business in the “market”)
3. Productivity
 - value added (sales billed - cost of externally acquired goods and services) divided by internal inputs (payroll dollars plus depreciation dollars)
4. Product leadership
 - appraisals made periodically of the products of each department
 - compare product to competition and company standards
 - where was the research conducted upon which the product was based?
 - who introduced the product and subsequent improvements?
5. Personnel development
 - developed measures of recruitment, training, placement and retention of personnel
6. Employee attitudes
 - used both statistics (e.g., employee turnover, absenteeism, grievances) and surveys of employees
7. Public responsibility
8. Balance between short-range and long-range goals