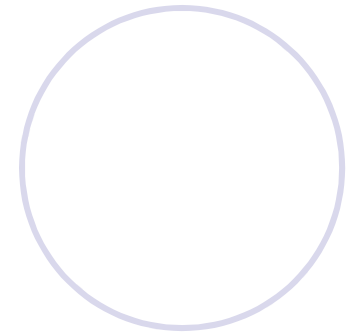
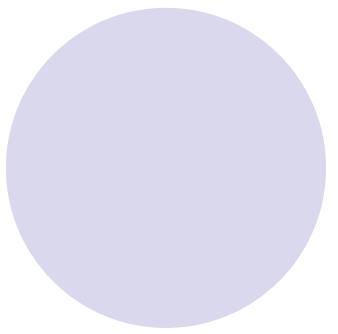
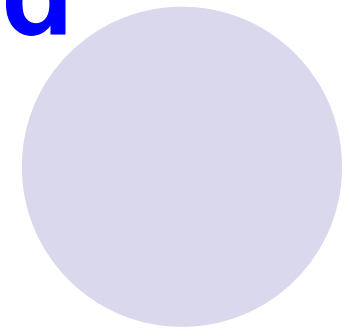
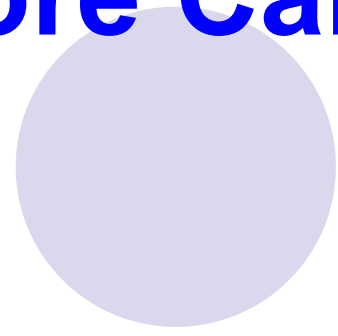
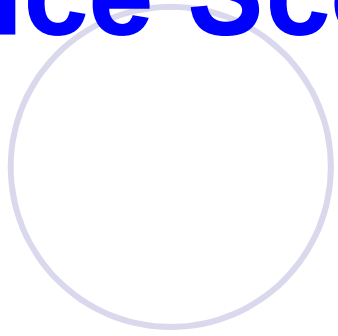


# Balance Score Card



**By Deepak Bharara**

# Myth

Many firm measure their performance based primarily on financial measurements. But there are at least three other worthwhile ways in which to measure organization performance.

- The client perspective: “ How do our customers see us”
- Internal Business Perspective: “ What must we Excel at”
- Innovation & Learning Perspective: “ Can we Continue to improve and create value”

The Four perspectives together constitutes the “Balanced Score Card”.

# What is BS

The Balance Score card is a new method merging as performance management tool. These tools take holistic view in assessing the health of an Organisation. Organisation are assessed in terms of their ability to reach their objectives.

In this method we try to conceptualize the strategic objectives of the organization into measurable matrix based on data from within the organization

BS is seen as top down or one way hierarchical approach where the executive team create the strategy and its cascades down from there.

# What is BS

BS is also an internal form of environmental scanning. We set a series of international parameter for certain objectives and continually monitor the performance with a view of implementing some form of strategic management based on results.

Selection of parameters is matter for negotiation within the organization.

The strength and value of the BS is determined by the organization ability to set & review measures of activities within the business to act as an indicator of the health & direction of the organization.

# Importance of Mission & BS

Most of companies have now adopted Vision/Mission statements to communicate big picture, fundamental values and beliefs to all employees

Usually, Vision/Mission statements address core benefits and identifies target markets and core products

The Vision/Mission statement are designed to be inspiration and provide energy thought the whole organization

The Balance scorecard translates mission and strategy into objectives and measures, organized into 4 different perspective: Financial, Customer, Inter Business and learning/growth

The measures are designed to help align individual, organization, and cross departmental to achieve a common goal

# Balance Scorecard Perspective

## Finance Perspective

Return on Capital Employed  
Cash Flow  
Project Profitability  
Profit forecast Reliability  
Sales Backlog

## Internal Business perspective

Hours With customer on New work  
Tender Success Rate  
Rework  
Safety Incident Index  
Project Performance Index  
Project Close out cycle

## Customer Perspectives

Pricing Index  
Customers Evaluation Survey  
Customer Satisfaction Index  
Market Share  
Customer Key Accounts  
Repeat order Cycle

## Innovation & learning Perspective

% Revenue from New Services  
Rate of Improvement Index  
Staff Attitude Survey  
# of Employee's Suggestion  
Revenue per employee

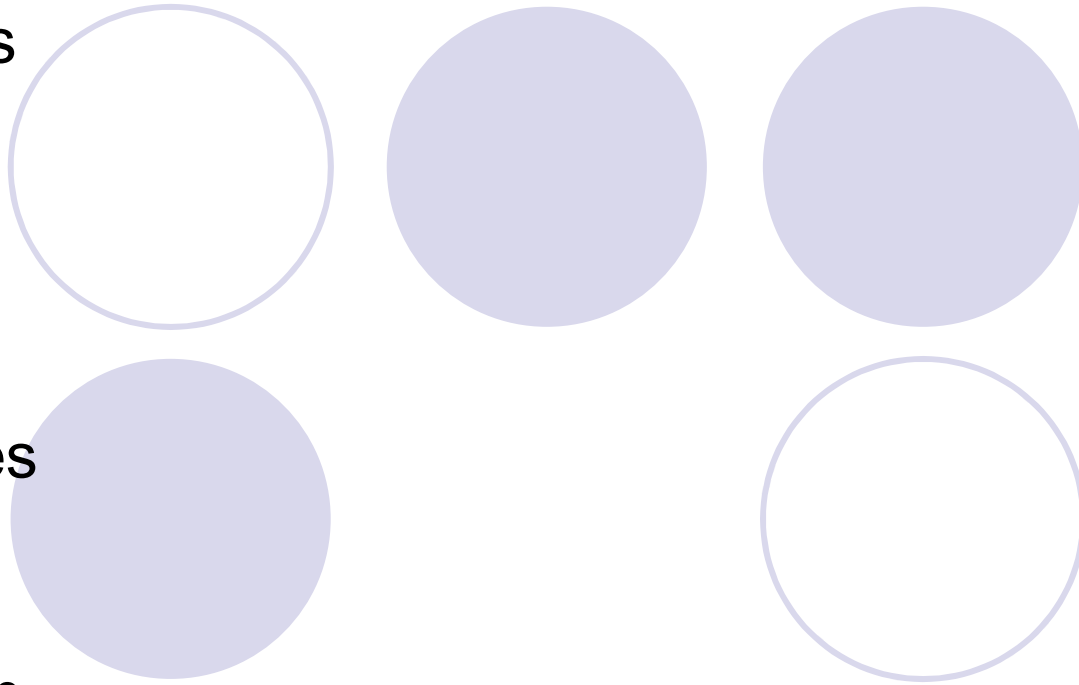
# Parameters for review

## Financial Measures

- Revenue Growth
- Cost Management
- Assets Utilization

## Customer Measures

- Market Share
- Customer Retention
- Customer Acquisition
- Customer Satisfaction
- Customer Profitability



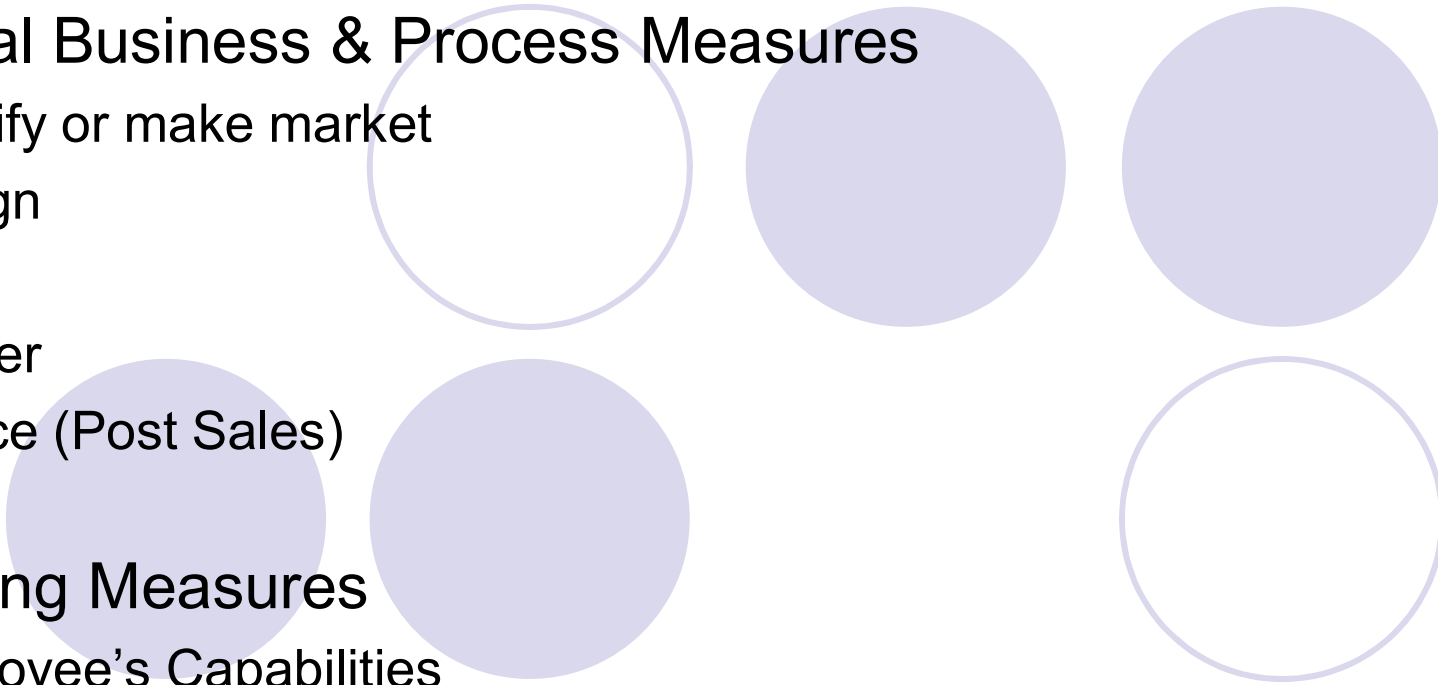
# Parameters for review

## Internal Business & Process Measures

- Identify or make market
- Design
- Build
- Deliver
- Service (Post Sales)

## Learning Measures

- Employee's Capabilities
- Information Technology
- Motivation & Alignment





# Financial Perspective

The Financial measures play a dual role: they define the financial performance expected from the strategy and they serve as ultimate target for the objectives and measures of all the other scorecards perspectives

In addition to increasing returns most organizations are concerned with the risk of these returns.

Therefore, when it is strategically important, these organization will want to incorporate explicit risk management objective into their financial perspective

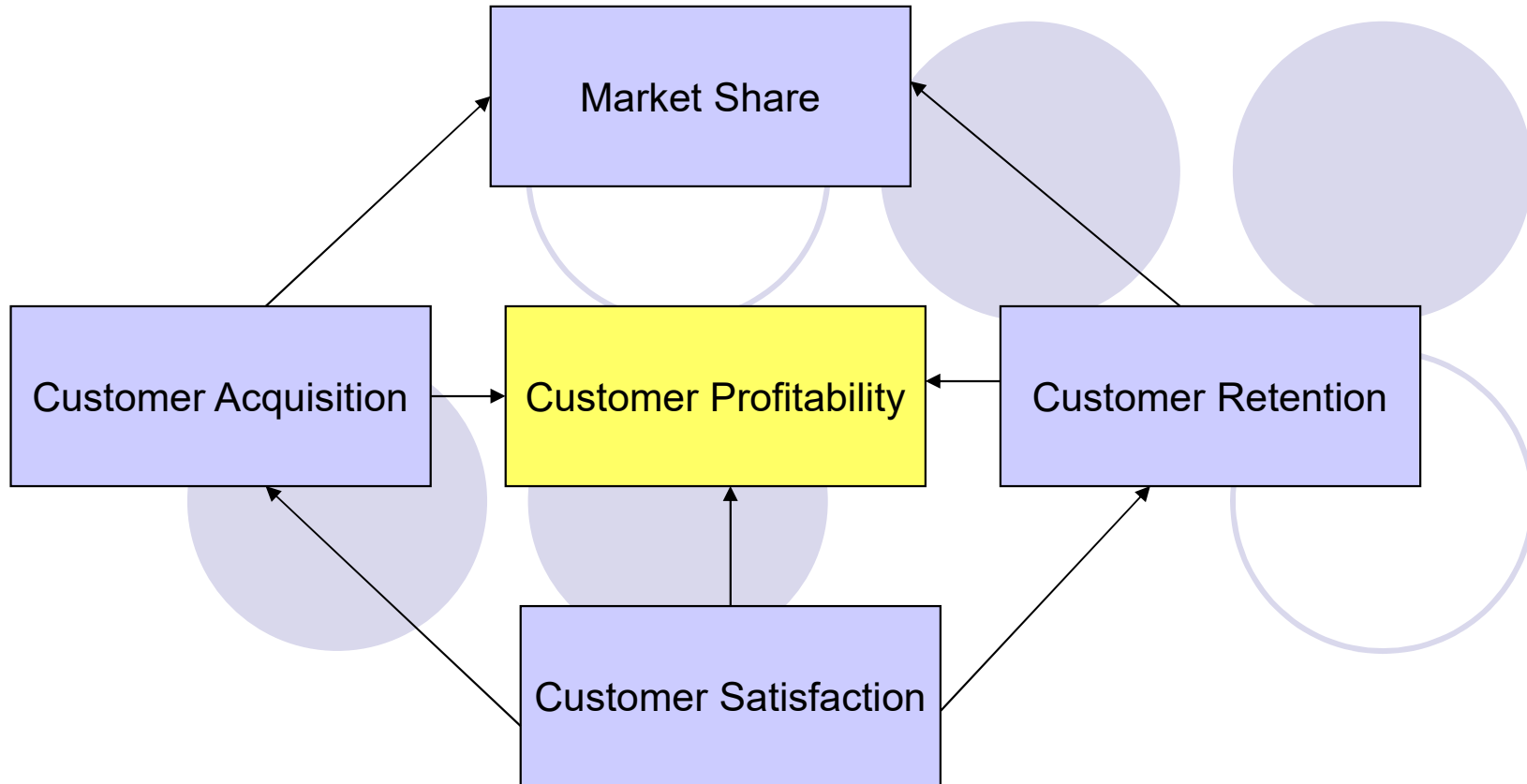
# Customer Perspective

The Customer perspective aim at identifying the customer and market segments in which the business units will choose to compete.

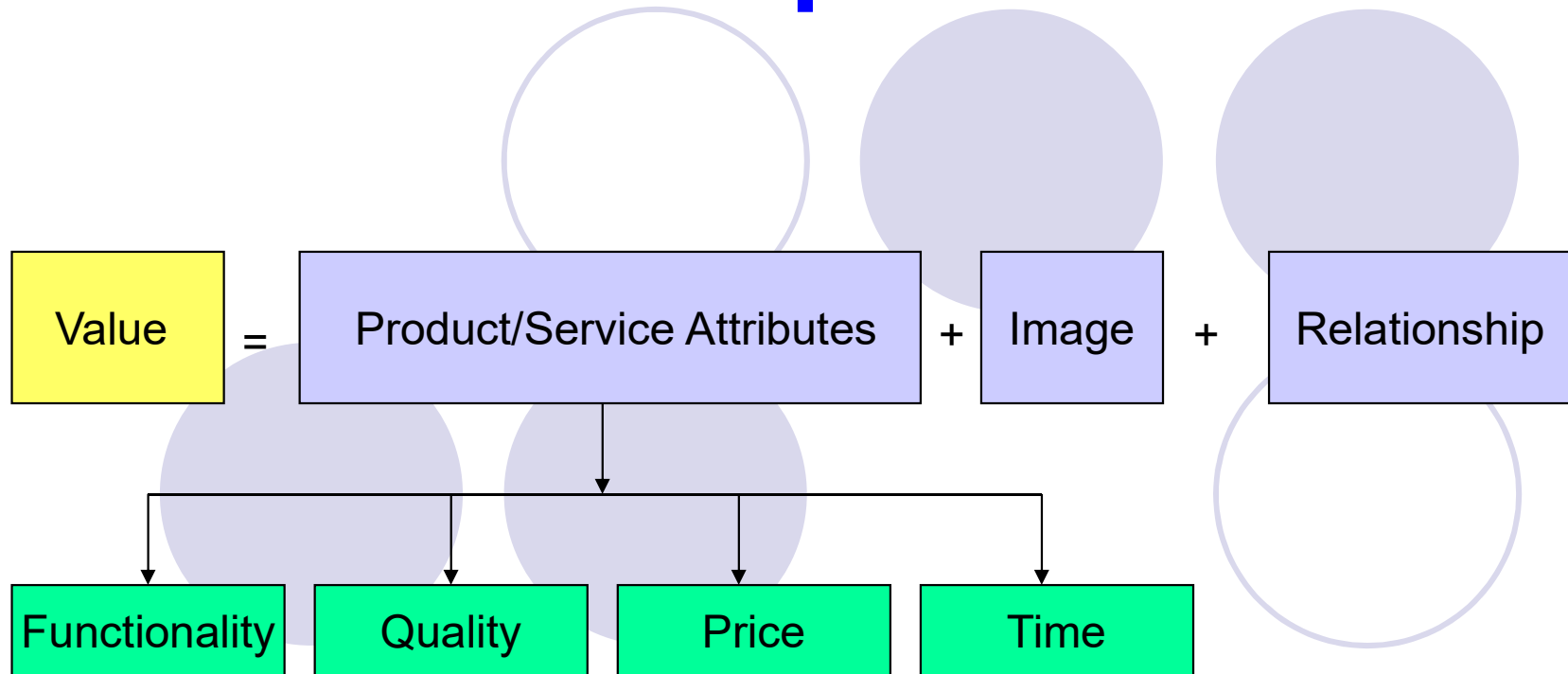
It is important for Managers to identify what are the attributes that the customers value and choose the value proposition that they want to deliver to the targeted customers.

This helps to bring focus in organizational efforts on delivering a superior value to their customers

# Customer Perspective



# Customer Perspective



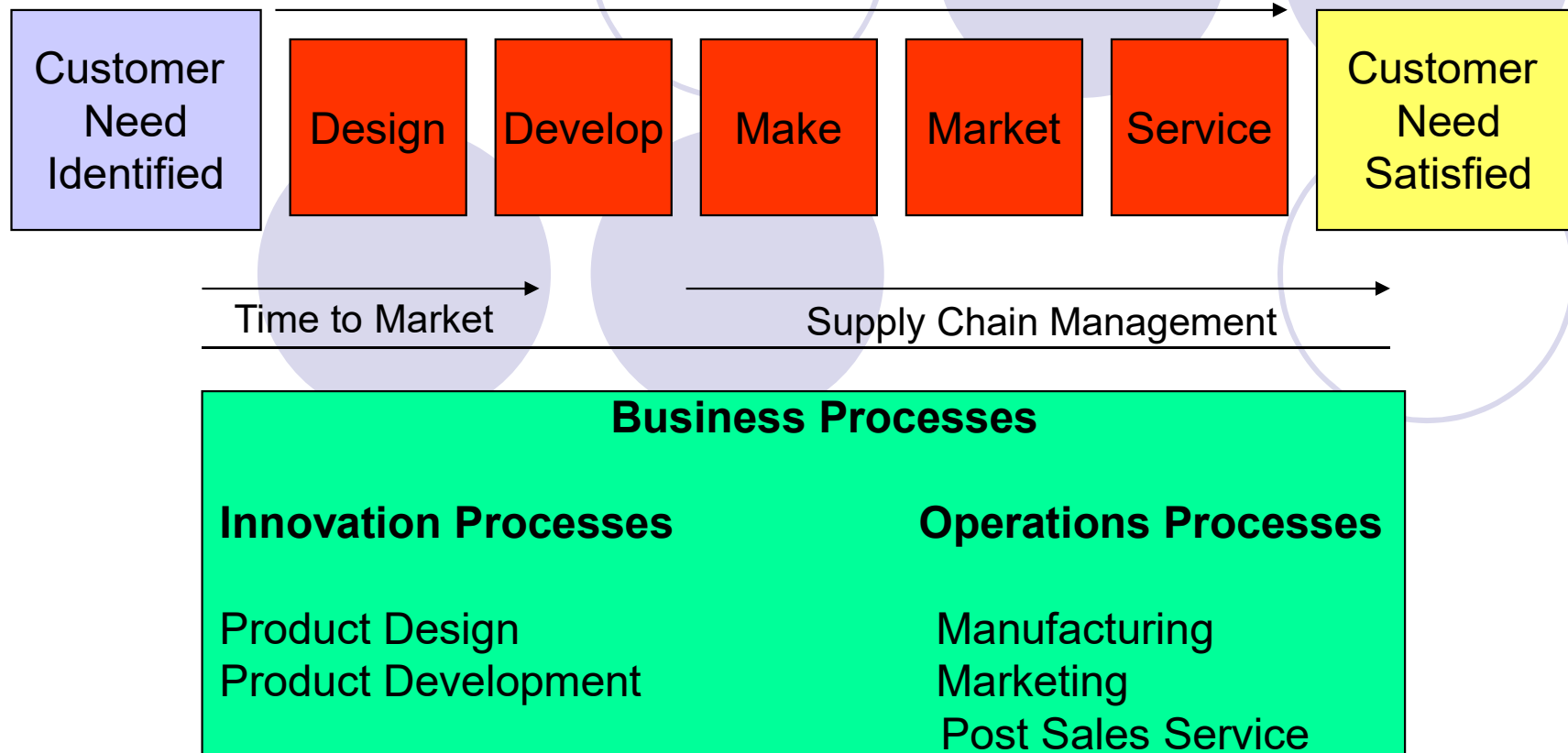
# Internal Business Perspective

The Managers must identify the internal process that are crucial to their organization. This will help to deliver superior value to their customers and achieve financial targets.

This goes beyond the simple assessment of the existing processes. It help in identifying the new processes that the organization should implement in order to be successful.

It provides set if tools that does not only reflect the short term, but also gives insight about the longer term

# Internal Business Perspective



# Learning & Growth Perspective

The Managers identify the organizational infrastructure that would best fit strategic goals. This tells as to how to get to the desired level. It has three dimensions People, System and organizational

This will helps organization to judiciously invest in employees and information technology and to design the most appropriate organizational structure that could support their strategy.

# Example of Financial Parameters

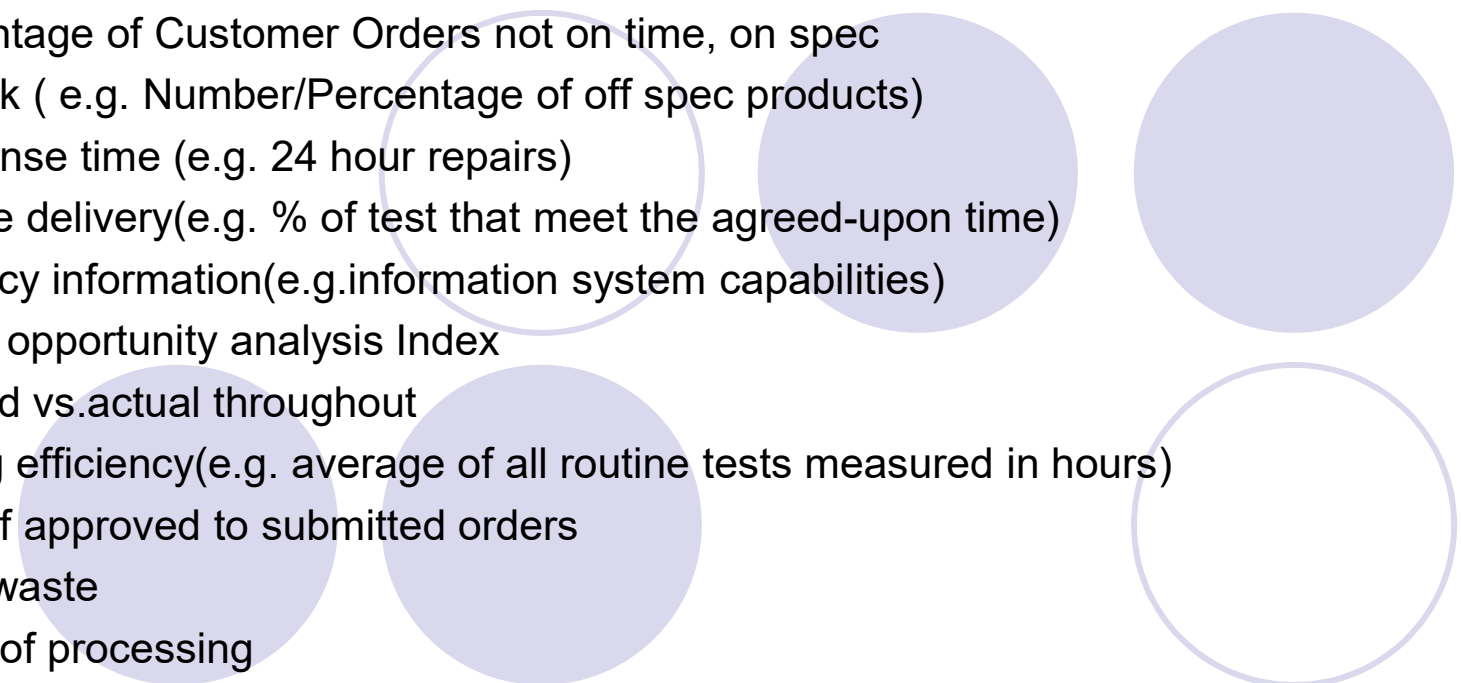
- Share holder Loyalty( Switching Behavior)
- Shareholder Mix ( Institutional Vs Individual; employees; others)
- EVA/MVA ( Economic/Market Value added)
- Net Income
- ROI/ROE/ROCE (Return on Investment/Equity & Capital employed)
- Financial Strength: Assets( Liquid Assets) Quick ratio, credit rating, debt, debt equity ratio.
- Variable vs. non variable expenses )e.g. Non operation income/expense
- Programmed expenses- Controllable expense including routine, onetime and additional project expenses.
- Routine Expenses (e.g. Salaries, maintenance supplies)
- Non Operating income/expense- financial impact not directly related to current operations
- Fixed expenses such as depreciation, real estate and personal property taxes
- Allocated Expenses – overhead that is relocated to business units
- Direct Department expenses
- Net retained expenses
- Profit Margin, cost of product, revenue per employee, activity costs etc



# Example of Customer Parameters

- Customer Loyalty/retention
- Drivers of overall customer satisfaction and value, including survey based measures of ; based measure of ; brand value, product quality, service quality
- Customer/Consumer satisfaction: market perceived value
- Partnering Index- Rating by customer relationship with organization, including such things as involvement in planning, involvement in projects, investment in products and service including information technology.
- Customer Revenue List
- Market share
- Market Potential
- New Customers/markets
- Increase in new projects

# Example of Process Parameters

- Percentage of Customer Orders not on time, on spec
  - Rework ( e.g. Number/Percentage of off spec products)
  - Response time (e.g. 24 hour repairs)
  - On time delivery(e.g. % of test that meet the agreed-upon time)
  - Accuracy information(e.g.information system capabilities)
  - Margin opportunity analysis Index
  - Planned vs.actual throughout
  - Testing efficiency(e.g. average of all routine tests measured in hours)
  - Ratio of approved to submitted orders
  - Scrap/waste
  - Speed of processing
  - Measure of timeliness
- 

# Example of Innovation Parameter

- Percent of revenues generated from products developed in the last XX month
- Number of patents and R & D investment
- Overall satisfaction & commitment, including employee perception: confidence in leadership, recognition & reward/incentives, safety climate, team work, fair treatment, supervision and open communication)
- Drivers of performance- survey based measures: reward/incentive, perceived alignment of system (reward, communication, performance management, succession development)with strategy, skill training climate for process improvement goal clarity
- Organizational learning: feedback system, cross functional team work, supporting technology to enhance learning
- Work force capabilities, including: skill mix, based on performance appraisals, and including knowledge (product,client,customer,industry,system,organization) skills (financial,analytical, technical,relationship,interpersonal, problem solving, negotiating, selling, managing) key experience

# Strategic Themes

		Revenue Growth and Mix	Cost Reduction /Productivity improvement	Asset Utilization
<b>B</b> <b>U</b> <b>S</b> <b>I</b> <b>N</b> <b>E</b> <b>S</b>  <b>U</b> <b>N</b> <b>I</b> <b>T</b>  <b>S</b> <b>T</b> <b>R</b> <b>A</b> <b>T</b> <b>E</b> <b>G</b> <b>Y</b>	<b>G</b> <b>R</b> <b>O</b> <b>W</b> <b>T</b> <b>H</b>	Sales Growth rate by segment % Revenue from New products, services and customers	Revenue/Employee	Investment% of sales R&D % of sales
	<b>M</b> <b>A</b> <b>T</b> <b>U</b> <b>R</b> <b>I</b> <b>T</b> <b>Y</b>	Share of targeted customer and accounts Cross selling % revenue form new applications customer & product line profitability	Cost Versus Competitors Cost Reduction rates Indirect Expenses % of sales	Working capital ratios Cash to cash cycle ROCE by key asset categories Asset utilization rates
	<b>D</b> <b>E</b> <b>C</b> <b>L</b> <b>I</b> <b>N</b> <b>E</b>	Customer & Product line profitability % unprofitable customer	Unit costs ( per unit of output, per transaction)	Pay Back throughout

# Data Gathering & Processing

The large volume of data needs to be gathered & processed to have an effective measurement on a timely basis, the organizations need to implement some form of business intelligence software to automate the data collecting & processing.

Such as SAP, ERP, LAN, WEB Enabled Solutions etc.

The choice of data also depends on the business life cycle and the strategic theme chosen for different perspectives.

# Why it is different

The Balance scorecard is much more like a network of linked indicators. The strategy of an organization usually is articulated around a set of cause and effect relationship. A well build scorecard should reflect the intrinsic connections between each aspect of the strategy and each of the measures chosen to asses it.

It provides Managers with both leading indicators and lagging indicators about their Organization. It balances & links financial and non financial indicators, tangible measures, internal and external aspects, performance drives and outcome

# Ideal B.S

The best Balanced business score card are results system begins with establishing or reaffirming the company's strategic imperatives- The result the organization must attain. This step is followed by determining the drivers of the desired business results and then the drivers of those, and so on until a complete model of the business is created. The model is dynamic in the sense that each upstream component is predictive of bottom line results.

# Ideal B.S

The organization is seen as a system where:

- ***End results can be predicted***
- ***Highly leveraged opportunities for improvement can be identified***
- ***Defensible priorities and tradeoffs can be established***
- ***Quantitative goals can be rationalized***
- ***Value can be show as not only nice to have, but linked to hard business results.***

***The fully deployed balance score card should:***

- Identify and highlight critical success factors
- Be solidly grounded in the voice of the customer
- Promote organization alignment & reduce measurement anxiety



# Advantages of B.S

The Balance Score Card bridges the gap between vision, strategy and execution. It is an effective tool for strategic management. It is systematic framework to translate vision, mission and strategy into a balanced and linked set of strategic objectives, operational initiatives and performance targets for the entire company.

The concept is organized into 4 perspective based on the premise that financial performance depends on satisfying customers, which results from having effective business processes, which in turns requires necessary organization competencies and technology infrastructure.

# Advantages of B.S

It foster consensus, alignment and commitment to the strategy by the management team and the people within the organization.

It is a process designed to enable the implementation of a company's strategy by translating it to concrete and operational terms that can be measured. Communicated and used to drive decision-making and action at both the business/individual levels.

# Advantages of B.S

The Balance Score Card explicitly identifies the critical few drivers for success, which cut across an organization and together drive the execution of strategic goals . It balance short terms with longer term strategic goals using both drivers and result measures.

The balance scorecard has evolved from a strategic performance *measurement* system to a strategic performance *management* system with proven wide reaching and varied benefits to the organization.

Benefits:

- Communication of Strategy
- Alignment
- Empowerment
- Focus
- Efficiency
- Growth & Profitability

***It also work as powerful motivator of behavior and change, as such it can be used to appraise, incent and reward performance.***

# Steps to create BS

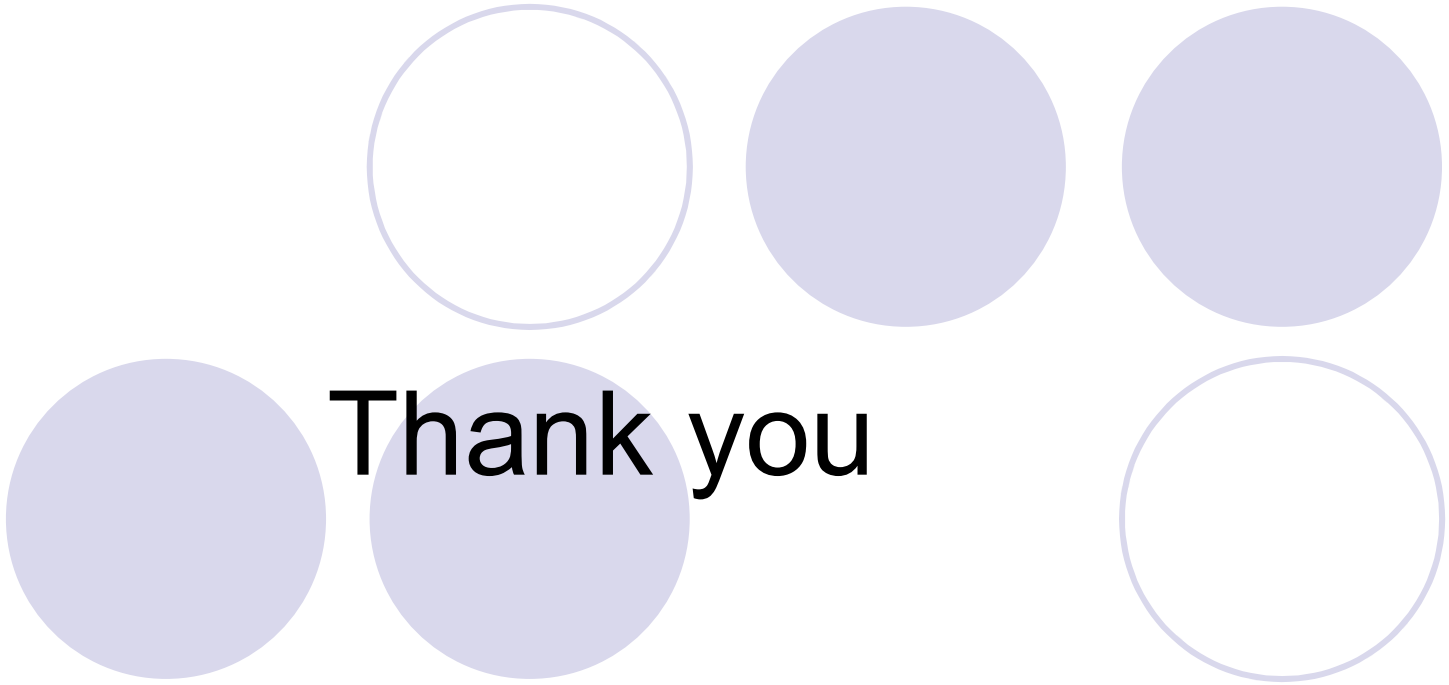
- The First part is to review and clarify strategies; this often requires some facilitated arguments and discussions, so that broad disagreements can be dealt with.
- The next step is agreeing on what capabilities are needed within the company to actually pursue the strategy.
- The next step is making the actual model.
- Then cascading the score card to the entire team as drill down approach
- Finally, Making the score card useful with the use of soft ware tools like SAP, People soft, e PM, KPI Visio or Project

## Identify Champion, sponsors and other team roles

- Champions : The person who takes responsibility for pushing a process through, governing resources and buy in from people with involvement and stakes involved in success.
- Sponsors: The sponsor support the team, helps to gain resources for it and works to clear obstacles from its path.
- Team Leader: The TL is the chair person sets up the schedules meetings, arrange administrative support and manage data. He tend to take low key approach allowing others to carry the discussion.

## Identify Champion, sponsors and other team roles

- Link Pin: is a management system consisting of team whose common members would provide linkage to each other. One members of the team may be a linking pin to the other team, by having membership in and representational authority with another team.
- Process Manager: who can make or break a team. He focuses on the way the team works, and if needed coaches/ encourage/involve other team members and leaders. He gives process consulting, data collection, data analysis.



**Thank you**