Introduction to the Balanced Scorecard

This section of Successful Planning provides an introduction to the use of strategic marketing planning, so that you can consider if it is the right approach for your agency

What is the balanced scorecard?

- Single measures can give a broad picture of the organization's health. A balanced scorecard is a composite involving a number of different measures. These are based on four perspectives: financial, customer, internal and learning and growth.
- A system of corporate appraisal which looks at financial and non-financial elements from a variety of perspectives.
- An approach to the provision of information to management to assist strategic policy formation and achievement.
- It provides the user with a set of information which addresses all relevant areas of performance in an objective and unbiased fashion.
- A set of measures that gives top managers a fast but comprehensive view of the business.

The balanced scorecard…

- Allows managers to look at the business from these four important perspectives.
- Provides a balanced picture of overall performance highlighting activities that need to be improved.
- Combines both qualitative and quantitative measures.
- Relates assessment of performance to the choice of strategy.
- Includes measures of efficiency and effectiveness.
- Assists business in clarifying their vision and strategies and provides a means to translate these into action.

In what way is the scorecard a balance?

The scorecard produces a balance between:

- Four key business perspectives: financial, customer, internal processes and innovation.

- How the organization sees itself and how others see it.
- The short run and the long run
- The situation at a moment in time and change over time

Main benefits of using the balanced scorecard

- Helps companies focus on what has to be done in order to create a breakthrough performance
- Acts as an integrating device for overall operation
- Makes strategy operational by translating it into performance measures and targets
- Helps break down overall company measures so that individual managers and employees can see what they need to do to improve overall performance of the organization
- Provides a comprehensive view that overturns the traditional idea of the organization as a collection of isolated, independent functions and departments

Details on the four perspectives

- **Financial perspective** - how does the firm look to owners and shareholders?
- **Customer perspective** - how do customers see the firm?
- **Internal perspective** - how well does it manage its operational processes?
- **Innovation and learning perspective** – can the firm continue to improve and create value? This perspective also examines how an organization learns and grows.

For each of four perspectives it is necessary to identify indicators to measure the performance of the organizations.

More on the financial perspective

This is concerned with the owners and shareholders view of performance.
Shareholders are concerned with many aspects of financial performance:
Amongst the measures of success are:

- Market share
- Revenue growth
- Profit ratio

- Return on investment
- Economic value added
- Return on capital employed
- Operating cost management
- Operating ratios and loss ratios
- Corporate goals
- Survival
- Profitability
- Growth
- Process cost savings
- Increased return on assets
- Profit growth
- Measures
- Cash flow
- Net profitability ratio
- Sales revenue
- Growth in sales revenue
- Cost reduction
- Share price
- Return on shareholder funds

More on the customer perspective

How do customers perceive the firm?

This focuses on the analysis of different types of customers, their degree of satisfaction and the processes used to deliver products and services to customers.

Particular areas of focus would include:

- Customer service
- Products offered
- New markets
- Customer retention
- Customer satisfaction
- What does the organisation need to do to remain that customer’s valued provider?

Potential goals for the customer perspective could include:

- Customer satisfaction
- New customer acquisition
- Customer retention
- Customer loyalty
- Professionalism
- Knowledge
- Fast response
- Responsiveness
- Efficiency
- Reliability
- Image

The following metrics could be used to measure success in relation to the customer perspective:

- Customer satisfaction index
- Retention
- Market share
- Number of complaints
- Average time to process business
- Errors in processing
- Response time
- Reliability
- New customer acquisitions

More on the internal perspective

This seeks to identify:

- How well the business is performing.
- Whether the products and services offered meet customer expectations.
- The critical processes for satisfying both customers and shareholders.
- Activities in which the firm excels?
- And in what must it excel in the future?
- The internal processes that the company must be improved if it is to achieve its objectives.

This perspective is concerned with assessing the quality of people and processes.

Potential goals for the internal perspective include:

- Improve core competencies
- Improvements in technology
- Streamline processes
- Quality performance
- Motivated workforce

The following metrics could be used to measure success in relation to the internal perspective:

- Efficiency improvements
- Reduction in costs
- Reduced waste
- Improvements in morale
- Increased productivity
- % errors
- Improvement in process cycle time
- Amount of reworking

More on the innovation and learning perspective

This perspective is concerned with issues such as:

- Can we continue to improve and create value?
- In which areas must the organization improve?
- How can the company continue to improve and create value in the future?
- What should it be doing to make this happen?

Potential goals for the* innovation and learning *perspective include:

- Niche product development
- Continuous improvement
- Technological leadership
- HR development
- Diversification

The following metrics could be used to measure success in relation to the **innovation and learning** ***perspective:***

- Number of new products
- % sales from new products
- Amount of training
- Niche sales.
- Number of employee suggestions.
- Extent of employee empowerment

Additional information on this and other planning topics can be located through the RESOURCES section on the main menu.

Resources