Chapter 7 Balanced Scorecard

Chapter Objectives

This chapter will discuss:

- The role of a balanced scorecard,
- The balanced scorecard's four views,
- It's relevance to the organization as a whole, and
- The data it requires for relevance.

7.1 Introduction to the Balanced Scorecard

In the drive to present the vast amount of data available to an organization and its suppliers, a method for displaying aggregated data as it relates to organizational strategy in an easily understandable format has come into prominence in recent years and has been adopted by many organizations. This method, known as the "balanced scorecard," was originally developed by Kaplan and Norton (1992) and displays an evaluation of how an organization is succeeding in meeting expectations for measures such as timeliness and quality. But this kind of measurement "has consequences far beyond reporting on the past. Measurement creates focus for the future and communicates important messages to all organizational units and employees." (Kaplan and Norton, 2001) A balanced scorecard's primary function is to link an organization's strategy goals to quantifiable measures to indicate to the user the success or failure of the reporting entity or the organization as a whole relative to its (ideally) clearly stated goals. (Moshonas, 2003)

7.1.1 The Balanced Scorecard's Views

There are four views for a balanced scorecard (Kaplan and Norton, 2001b):

- Financial- “the strategy for growth, profitability, and risk viewed from the perspective of the shareholder.
- Customer- “the strategy for creating value and differentiation from the perspective of the customer.
- Internal Business Processes- “the strategic priorities for various business processes that create customer and shareholder satisfaction, and
- Learning and Growth- “the priorities to create a climate that supports organizational change, innovation, and growth.”

For the financial perspective, the role of a properly defined “control environment,” discussed in Chapter 18, is a key consideration. In order to know how the finances of an organization manifest, the processes the organization undertakes must be defined properly. This is especially true in the mergers and acquisitions arena, as disparate systems, many of which could be performing the same functions, will need to be integrated or surviving systems determined and those systems to be eliminated as a result of portfolio management. (Kaplan and Norton, 2006)

When considering the customer’s perspective, the organization’s ability to deliver value over a wide number of instances is realized. When different units of an organization have the same customer but treat them as entirely separate business relationships, there is no opportunity to explore if pricing may be adjusted for quantities purchased. This may not always be possible on shipping and handling, as geographically disparate locations could lead to the same cost to the shipper as before, but the total quantity ordered from the newly consolidated demand could qualify the customer for a discount. Efficiencies in shipping costs could also be passed on to the customer if items are sent to central locations in sufficient quantity. (ibid)

The process perspective seeks to discover how the organization can improve its internal process with its balanced scorecard. Often, various parts of an organization will perform the same business process separately. When consolidated, economies of scale are possible. (ibid) Kaplan and Norton’s perspective of the Balanced Scorecard is shown in Figure 7.1 below.