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The Balanced Scorecard: A Practical Approach

(Version 3)

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The Balanced Scorecard: A practical approach

Historical measures of company success.

Financial metrics have been the main scorecard of success for hundreds of years. But by themselves they don't measure the complete health of a business. Financials measure what has already happened – the past. That works fine when things don't change much. But someone has said that with today's accelerating pace, running a company using financial data alone is like driving down the highway using only the rear - view mirror.

Short-term vs. Long-term thinking.

If you hold a manager accountable only for financial measures, you may increase profits in the short term, but you're probably going to hurt the company in the long run. The focus of most public companies is necessarily short-term – i.e., making more money today. It is not uncommon to hear CEOs of public companies complain about the pressure to make poor short-term decisions in order to meet the public's need for quarterly dividends or increasing earnings. In order to meet these constraints, some may lay off employees or cut research, training, or advertising, all of which impair the long-term success of the company.

Introducing the Balanced Scorecard.¹

The "balanced scorecard," formalized by Kaplan and Norton in 1992, is a simple concept (executed in many different ways) that has at its core the goal to use **a balanced set of metrics** to measure the health of a business. In practicality, this means expanding management's view beyond the financial metrics and adding other metrics to balance out the equation.

The four areas addressed in the original presentation of the balanced scorecard were:

- **Financial Perspective** – How is your organization performing financially? What financial metrics are the key indicators of success?
- **Customer Perspective** – How do your customers perceive your company? How can you best understand the loyalty of your customers across the various touch points in your organization?
- **Internal Business Perspective** – What must your company excel at? How successful is the execution of your company's key business processes? What metrics best indicate both efficient and effective performance?
- **Innovation and Learning Perspective** –What elements in your organization most contribute to your company's ability to innovate, improve, and learn?

Since then, consultants and business leaders have suggested additional measurement areas and supplied alternative titles for some of the original four areas. The balanced scorecard has evolved and adapted.

Here is one company’s approach to the balanced scorecard that emphasizes employee loyalty, and adds competitive position as a fifth area of measurement.

Balanced Scorecard (example)					
Area	Financial	Customer Loyalty	Employee Loyalty	Internal Efficiency	Competitive Position
Metrics	% vs. Last Year % vs. Budget	Customer Satisfaction	Employee Satisfaction	Best Use of Resources	Revenue Market Share
Measurable Variables	Unit Count, Avg. Ticket	CSI, Repeat	ESI, Retention	Cost Control Labor Efficiency	“Fair Share” Index

The Continuous Improvement Process

Each perspective of the balanced scorecard is further broken down for practical, day-to-day execution into the following tactical areas:

- **Objective Areas** – Major objectives underlying the success of the business (e.g. profitable growth).
- **Measures** – The observable parameters used to measure progress toward reaching a given objective (e.g. growth in net margin).
- **Targets** – Specific values targeted for individual measures (e.g. +2% growth in customer satisfaction index).
- **Initiatives** – Programs set up in order to meet the objective (e.g. we will reduce wait times by 10%).

While designing a complete balanced scorecard is outside the scope of this brief introduction, I would suggest that you outline key measurement areas that tie to strategic objectives of your company and that you can continuously measure. I hope customer and employee satisfaction will be on your list. (I also strongly suggest you read through the writings of Kaplan and Norton to see the evolution of the balanced scorecard approach.)

Here are some of Mindshare’s recommendations that you should consider as you design your own balanced scorecard.

Keys to Success: Visibility – “You can’t manage what you can’t see”

To be successful throughout your organization, the balanced scorecard must be distributed far and wide. We recommend that tailored reports of the scorecard’s core components be presented to the chairman and the unit manager, and all levels in between. Information included in the scorecard should be targeted at and relevant to each reporting unit on an individual basis.

Compensation

The one area of the balanced scorecard that continues to elude many executives is arguably the single most important element to its implementation – compensation. Many executives understand the concepts of the balanced scorecard. They get fired up about getting it implemented in their company. They spend time choosing the right key metrics and measurable variables. But then, they never add the “mojo.” They never put in the “nose ring” – they never change their reward systems! Almost every company I approach tells me they use a balanced scorecard to run their business. Then I ask this simple question:

“Are your managers being bonused on balanced scorecard elements, such as customer and employee satisfaction?”

The answer all too often is...“Well, uhh, no.”
(Isn't it amazing, how one simple question can clarify an issue?)

The balanced scorecard is ineffective unless your executives, your managers, your employees, and your whole company are all aligned together toward the same measurable goals. A balanced scorecard is not balanced if it measures each of the areas, but doesn't incorporate them in compensation. It isn't balanced if the manager's bonus is calculated only by comparison to prior-year financials or comparison to a financial budget that was created in the dark dungeons of “corporate headquarters” months ago!

“That which gets measured *and* rewarded gets done!”

Rewards are *the* way for a company to put its money where its mouth is!

Flexibility – “The only thing constant is change”

Another key to success for your balanced scorecard is flexibility. It is imperative that your balanced scorecard reporting system evolve along with your changing organizational needs. Your enterprise feedback management (EFM) system must be dynamic and adaptable. All too often, management expends significant effort and resources in the building of a cutting edge program, only to see it thrown on the scrap heap a year down the road because it wasn't built with sufficient flexibility for future growth and modification. If a solution is not flexible and dynamic, it's not worth your time.

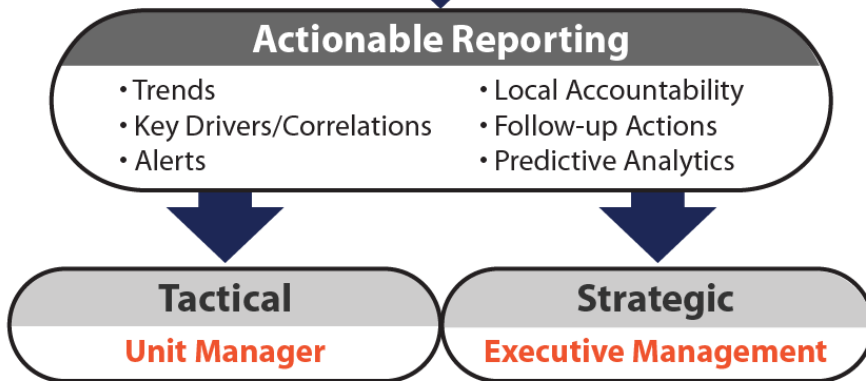
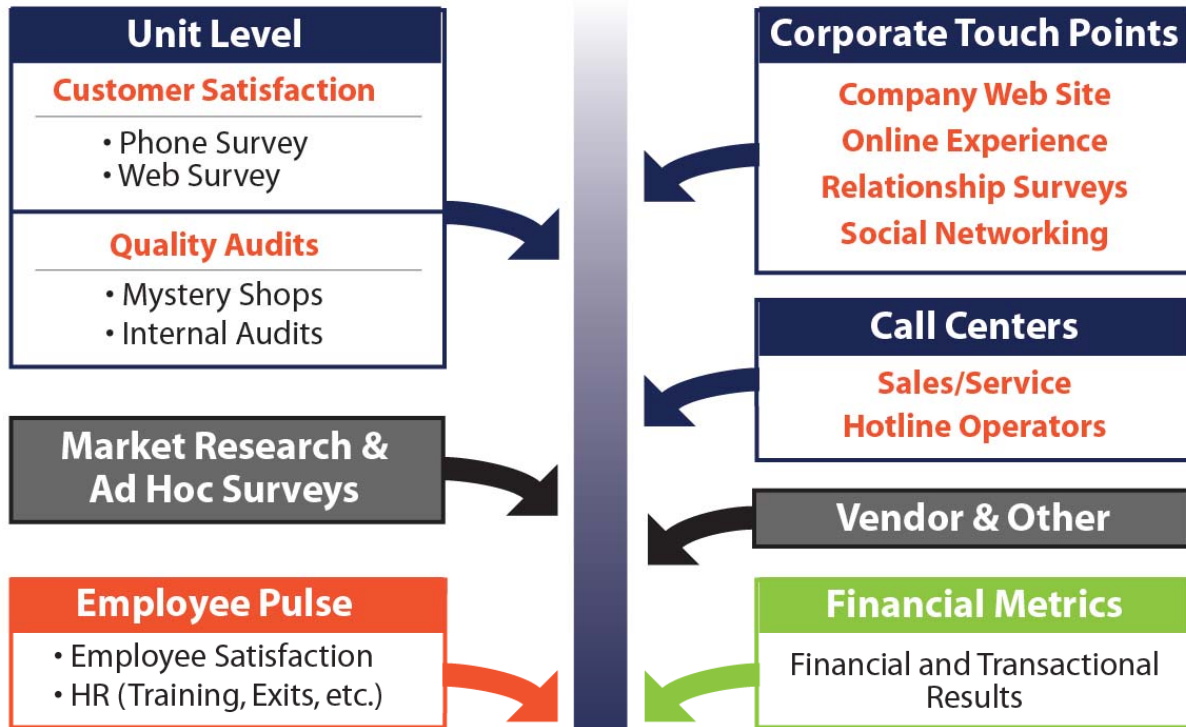
Practical Application of the Balanced Scorecard

The balanced scorecard can be as simple or as comprehensive as you choose.

We strongly suggest starting simple and adding to your balanced scorecard over time. Mindshare EFM (see next page) can provide you with much of the data you need to establish the foundation of metrics for your balanced scorecard. Resulting metrics of customer satisfaction and employee satisfaction can be integrated with financial and/or transactional information. Mindshare will help you integrate the diverse elements of your balanced scorecard and will provide you with best practices guidance along the way.

Enterprise Feedback Management

Consolidate Your Feedback



The Continuous Improvement Process

All right, you've analyzed your business. You've identified the key indicators of success across the different perspectives in your company. You've begun to track the different metrics driving success. Now make it real. Take these high-level metrics and identify specific actions that will spur improvement in these areas. Set specific goals or targets that will enable you to monitor your progress.

In Summary:

The balanced scorecard will help you better align your business activities with the vision and strategy of your organization. It will provide a more accurate appraisal of where your company is headed and not just where it's been. It will facilitate your efforts to more completely assess progress across your organization.

Remember, in order to be successful the balanced scorecard must:

- Include both well-devised and well-defined components,
- Be highly visible and supported across your organization,
- Be integrated as a fundamental element of your company's compensation program, &
- Evolve, as the drivers of success of your organization change

Start thinking about the different key elements of your business, where they fit, and what metrics you have that measure your company's progress. Plan ahead. Read through the books listed below. Consider how you can best establish the balanced scorecard as a core part of your company's compensation program. Mindshare is here to bring best practices guidance as you define your balanced scorecard and will assist you in creating visibility at all levels across your organization.

This is how we see it.

About Richard D. Hanks, John Crofts, and Mindshare

Richard D. Hanks is the President of **Mindshare Technologies**, a leading provider of real-time, automated customer and employee feedback solutions. His experience spans multiple industries and disciplines, including many years as an adjunct professor at Cornell. **John Crofts** is the Director of Operations of **Mindshare Technologies**. He has pioneered many of Mindshare's best practices in enterprise feedback management (EFM) deployments, especially in the holistic design and integration of data capture and reporting solutions. He has worked extensively in client and project management, leading teams in the successful deployments of Mindshare's largest customers.

Mindshare's business monitoring tools help companies improve operational excellence and minimize customer attrition through personal customer involvement. Mindshare's proprietary survey technology captures the voice of the customer in real-time and immediately transforms it into actionable intelligence through powerful enterprise reporting. As a hosted system, Mindshare is affordable and flexible, with surveys and reports tailored to fit a company's individual needs. For more information please visit: www.mshare.net. To reach Rich directly, contact him at rhanks@mshare.net or (801) 263-2333. To reach John directly, contact him at jcrofts@mshare.net or (801) 263-2333.

¹ The best known and most complete sources on The Balanced Scorecard (which we highly recommend) are:
"The Balanced Scorecard: Measures that Drive Performance," Kaplan and Norton, HBR, Jan 1992.
"The Balanced Scorecard: Translating Strategy into Action," Kaplan and Norton, HBS Press, 1996.