



## The Balanced Scorecard Approach to Performance Management

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Most organisations today are challenged to take a 360 degree view of performance by concentrating on reporting, reviewing and acting upon a limited number of Key Performance Indicators (KPIs) which impact most on organisational performance. It is important that students are aware of how this challenge can be approached. An significant area of study relating to holistic organisational performance management is that of the Balanced Scorecard, which was first introduced by Kaplan and Norton as an improved way of viewing organisation performance.

Kaplan and Norton were of the view that most organisations adopted a myopic short termist and financially biased view of performance as summed up in traditional measures of performance such as:

- Sales
- Profit
- Return on Capital Employed
- Return on Investment
- Gross Margin
- Net Margin
- Residual Income

Kaplan and Norton, whilst agreeing that the financial performance of an organisation is always a key consideration, argued that this narrow assessment of performance detracted from the long term strategic development of the organisation.

They advocated that more balance should be achieved in how performance is viewed between:

- Financial and non-financial measures
- Long-term and short-term Measures

To achieve this balance they advocate that performance should be considered from four different perspectives namely:

- Customer – How the organisation is performing in the eyes of customers
- Internal Business Processes – How the organisation is performing in the day to day processes it must carry out efficiently and effectively
- Learning & Innovation – Performance required to ensure the long term development of the organisation
- Shareholder – Financial Performance measures

The Balanced Scorecard implementation process is quite simple insofar as it involves:

- Agreeing a set of performance measures to be agreed per perspective
- Agreeing performance targets for each measure
- Recording actual performance for each performance measure
- Regularly reporting and acting on any performance deviation

It is important that students would be sufficiently confident to advise clients on how to implement a Balanced Scorecard approach to performance management and to suggest what Key Performance Indicators might be included for their client's particular industry. For example, the following suggested Balanced Scorecard could be used in the hotel industry:

HOTEL INDUSTRY				
SUGGESTED BALANCED SCORECARD - PRO FORMA				
PERSPECTIVE	KEY PERFORMANCE INDICATOR	TARGET	ACTUAL	DEVIATION
CUSTOMERS	ONLINE CUSTOMER RATING LEVEL	X	Y	Z%
	CUSTOMER SATISFACTION SCORE	X	Y	Z%
	NUMBER OF CUSTOMER COMPLAINTS	X	Y	Z%
	% REPEAT CUSTOMERS	X	Y	Z%
SHAREHOLDER	GROSS REVENUE PER BEDROOM	X	Y	Z%
	AVERAGE SPEND PER GUEST	X	Y	Z%
	GROSS/NET MARGIN	X	Y	Z%
	RETURN ON INVESTMENT	X	Y	Z%
INTERNAL BUSINESS PROCESS	AVERAGE CHECK-IN/OUT TIMES	X	Y	Z%
	AVERAGE TIME TO SERVICE ONE ROOM	X	Y	Z%
	AVERAGE BAR SERVICE TIME	X	Y	Z%
	AVERAGE RESTAURANT SERVICE TIME	X	Y	Z%
LEARNING & INNOVATION	NEW SERVICES OFFERED	X	Y	Z%
	TRAINING AND DEVELOPMENT SPEND	X	Y	Z%
	CAPITAL/INFRASTRUCTURAL EXPENDITURE	X	Y	Z%
	NUMBER OF INTERNAL PROMOTIONS	X	Y	Z%

You will note that the suggested scorecard concentrates on a **finite number of industry specific** KPIs.

The benefits of adopting a Balanced Scorecard approach to performance management may include:

- Creates a longer term strategic view of performance rather than a myopic short term view
- It broadens the view of divisional managers as to what represents good performance away from a solely financially orientated view
- Organisations can develop performance measures that are explicitly aligned to the corporate strategy and in support thereof
- Considers customer viewpoint which is critical in any business
- Can promote accountability as each performance measure could be the responsibility of a nominated individual/s
- The implementation of the balanced scorecard should be relatively simple and understandable