BALANCED SCORECARD

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It is our mission to help people whom we touch creates well-being and fulfillment in their lives.

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To ensure you have clarity, understanding of conceptual knowledge and practical skills to succeed in the CHRMP Certification Exam. Please ensure you take responsibility of your learning and demand that you're learning needs be met to your satisfaction.

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Contents

Vision

A Vision statement outlines what the organization wants to be. It concentrates on the future. It is a source of inspiration. It provides clear decision-making criteria.

Examples of vision statements:

"To become the world's most loved, most flown, and most profitable airline." – Southwest Airlines

"Our vision is to create a better every-day life for many people." – IKEA

"Bring inspiration and innovation to every athlete* in the world. (*If you have a body, you are an athlete.)" – Nike

"A world without Alzheimer's disease." – Alzheimer's Association

"To be the fastest growing, most rewarding and most transformative leadership community." – Mandala Leaders

"To be the best quick service restaurant experience. Being the best means providing outstanding quality, service, cleanliness, and value, so that we make every customer in every restaurant smile." – McDonald's

How can organizations achieve this?

Strategy

There is no one clear definition of strategy and few possible descriptions are:

"Strategy is the art of employment of battles as a means to gain the object of war" - Clausewitz

"Strategy is the practical adaptation of the means placed at a general's disposal to the attainment of the object in War" - Moltke

"Strategy refers to basic directional decisions, that is, to purposes and missions. Strategy consists of the important actions necessary to realize these directions"
Strategy answers the questions: What should the organizations be doing? What are the ends we seek and how should we achieve them?" - Steiner

"Competitive strategy is a combination of the ends (goals) for which the firm is striving and the means (policies) by which it is seeking to get there" - Porter

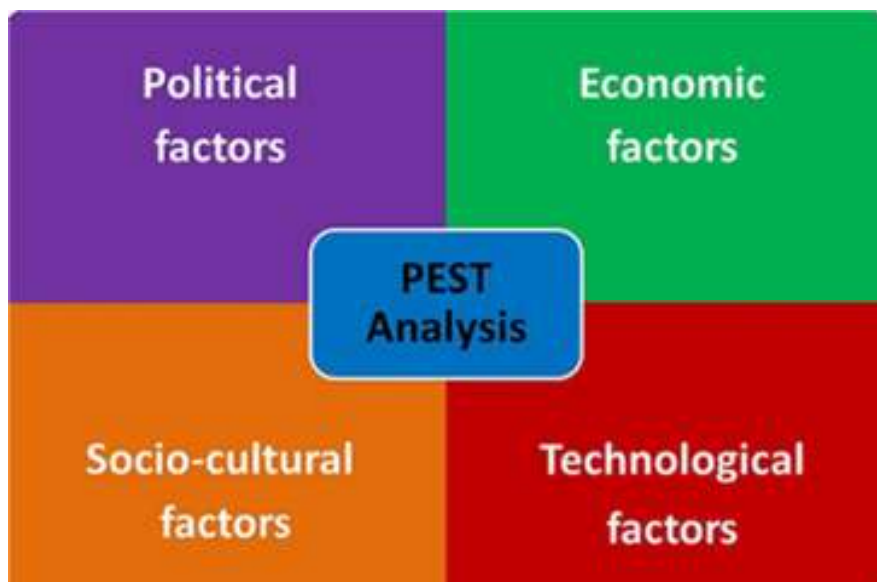# Understanding where we are - SWOT Analysis

SWOT Example

PEST Analysis

Balanced scorecard

Why? For long organizations have been single-mindedly focused only on setting and achieving financial goals. This leads to a bigger problem in organizations.

Other areas in the organization are being ignored due to high focus on finance. So, to ensure the results are balanced, organizations began to talk about a Balanced Scorecard.

What is balanced in Balanced Scorecard?

- Balance between Internal and External Factors
- Balance between Financial and Non-Financial Indicators
- Balance between Organizational Silos and Overall Corporation
- Balance between Short-term and Long term
- Balance between Strategic and Tactical
- Balance between Visionary Strategy and Day to Day Operations

Balanced Scorecard takes two kinds of results into consideration that are:

- ❖ External results
- ❖ Internal results

The four perspectives

In order to step ahead towards achieving their vision, organizations, in general, have the following four perspectives to consider:

- Financial perspective
- Customer perspective
- Internal process perspective
- Learning and growth perspective

These are the four perspectives organizations are worried about when looking at achieving their vision.

The financial perspective

Usually for most for-profit enterprises, finance plays a key role. Any objective that is related to the monetary aspect of the organization appears under this perspective. Also, while profits are an important key metric here, many also consider other metrics such as cost savings and efficiencies, profit margins and revenue from the revenue sources. The financial perspective is

Questions to be answered when we look at the financial perspective are:

How do we look to our shareholders?

- What are the financial targets?
- What drives these targets?
- What kind of profit and revenue to achieve?
- In a nonprofit organization, what budget guides you?

This perspective contains the ultimate financial results / outcomes of the strategy. And to identify the financial objectives, organizations must look at the shareholder value tree as given:
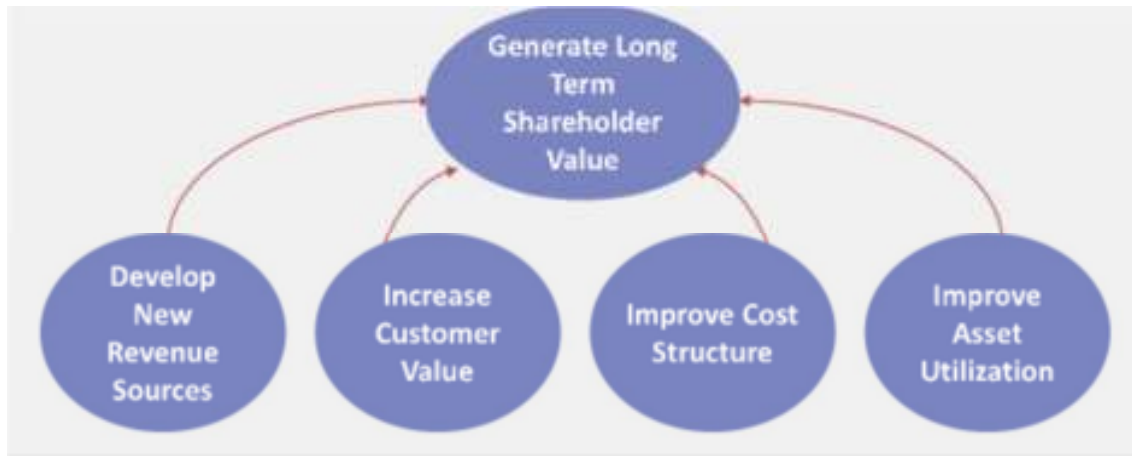
The customer perspective

For organizations to run well, customers play a significant role. It must be noted here that if financial results or objectives must be achieved, what is to be done for the customers and markets. Companies must always improve the experience of their customers such that these happy customers can return and continue to spend money on the products or services.

Questions to be answered when we look at the financial perspective are:

How do our customers see us? And are we satisfying the needs of customers? Or are we attracting new customers?

- Who are the customers?
- How do you delight them?
- What segments do you wish to address?
- What goals do you wish to achieve with partners?
- What are your goals for the distribution channel?

The internal-process perspective

This includes the processes that the organization must excel in to satisfy the shareholders and customers. It may also mention any new process that must be put in place. Here the organization would set out any internal operational goals and objectives to do well in order to drive performance?

Few questions asked here are:

- In which processes must we be the best to win customers?
- What internal activities do we need to sustain competencies?
- Three kinds of processes (Also known as strategic themes)
    - Operational Excellence
    - Innovation
    - Service

The learning and growth perspective

The internal process perspective, on one hand, is about the different processes that might need improvement. On the other hand, this perspective looks at more intangibles that drive performance. It is where organizations want to know how they are improving and growing. The questions to be answered under this perspective are:

How can we improve and create value?

- Training and development of key managers and would-be managers in certain skills
- Access to information among teams within various silos of the organization
- Employee satisfaction and motivation measures

The four perspectives here provide clarity on how the organization would achieve its vision. It states all the areas to be paid attention to.

Strategy maps

Strategic themes

These are a high level business strategy that forms the basis of the organization's business model. Themes are very broad in nature and apply to every part of the organization.

Few examples of strategic themes are:

- Business Growth
- Operational Excellence
- Customer Service Excellence
- Innovation
- Sustainability
- Product Development Leadership
- Focus on Continuous Improvement
- Knowledge Generation

Once a strategic theme has been identified, then appears the strategic result.

Strategic result

This is a statement of a desired end-state. In other words, how will you know when you have achieved the theme?

The result is stated in such a way that you will clearly recognize success when you see it. Strategic results are measurable and explicitly defined using outcome language.

Case 1

The financial magnate, 123 Ltd. Has been a big name in the investment portfolio management segment. They enjoyed a large part of the market share and were a highly respected financial institution. Unfortunately, in the year 2017 there was a malpractice within the organization and a member of the senior leadership team is said to have been involved in a scam. This heavily affected the share value and created a panic in the minds of investors and clients. There has been a fall in the long term accounts and the short terms accounts have taken a big hit. The organization wants to regain its old market stature. What strategy would you recommend?

Case 2

You are a player in the insurance sector and have existed for decades as the top player in the field. Then the market open

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ed up and there were several new players in the segment who came in with a fresh leash of funding and plenty of new products which took away some of your client base. The organization's agenda is to get back the market share through new products. What strategy would you recommend?

Case 3

The entire world is going through a serious recession. There is a fall in people's earning and spending capacities across the globe. You are a bank and you see more and more people want to withdraw their savings to survive. The organization needs to sustain the economic down period without losing its ability to spring back soon as the market opens. What strategy would you recommend?

Case 4

You have just started an IT company and have secured initial funding from a venture capitalist firm. Your organization has acquired customers at a very fast pace and your business plan looks promising to future investors. You need to hire hundreds of new engineers and salespeople to develop your product and move into new markets.

Case 5

Your airline is operating in a very crowded space. There are many other airlines offering similar services. The consumer in your market is price sensitive and is interested in saving money.

Recommended themes for the cases

Case 1: Customer service

Case 2: Innovation, product development

Case 3: Operational excellence, Sustainability

Case 4: Business growth, innovation

Case 5: Operational excellence

So, organizations first find or decide the larger strategic themes. This then provides clarity on the strategic results. The strategic results then give the expected outcomes under each of the four perspectives. And these finally lead to the KRAs and KPIs. This is called cascading.

This total cascading is represented through a strategic map. After the map has been created, individual goals and targets can be set.

If we want to be the number one brand in the world and that's the vision. So, to achieve that vision, the organization will look at four things: financial, customer, internal process and organizational learning. Those are the perspectives we will take. Now, how do we want to go about achieving this? We need a strategic team. So we pick operational excellence and business growth, these two themes we pick and now let's decide what we want under each of these perspectives. So usually, a strategic consultant will sit with the top management of the company, and will say that business growth is what we want. Or we want operational excellence, and we have these four perspectives. So let's see, what do you want in an organizational capacity, just tell me in the simplest way possible, and that is how the simple words appear there in the form of increasing costs, increasing profit, reducing cost, improving service delivery, improving compliance, Improving reach, increasing service offering improving employee expertise, etc. And, that is how the strategy map comes into play.

| Vision	To be the no. 1 brand in retail segment			
Strategic Themes	Customer service	Business growth		
Strategic Results	Timely, customer delight	Achieve 40% market share in retail segment		
Perspectives		Measures	Targets	Initiatives/KRAs
Financial		Expansion to other cities	Have five new stores	Research the demand in new cities
Customer		NPS	6	Design a plan
Internal process				
Organizational capacity				

To achieve the targets above, KRAs are the initiatives that need to be taken. And from these every employee's goals are taken out.

Another example can be: personal life. Let us say your one of these things that you want to improve health. So, what is the measure? There are many measures possible: blood pressure, weight, sugar levels. And what will you measure? So, let us say you will measure two things you will measure sugar levels and you will measure blood pressure. So, they become the measures. So, when you say improve health, what will you measure blood pressure and sugar? Then, what do you want it to be? What is the target, so, the target is sugar level should be x, blood pressure should be y that becomes your target.

And if that is your target, what initiatives do you need to take? Probably you decided to go jogging and that becomes your KRA. Or gymming becomes KRA.
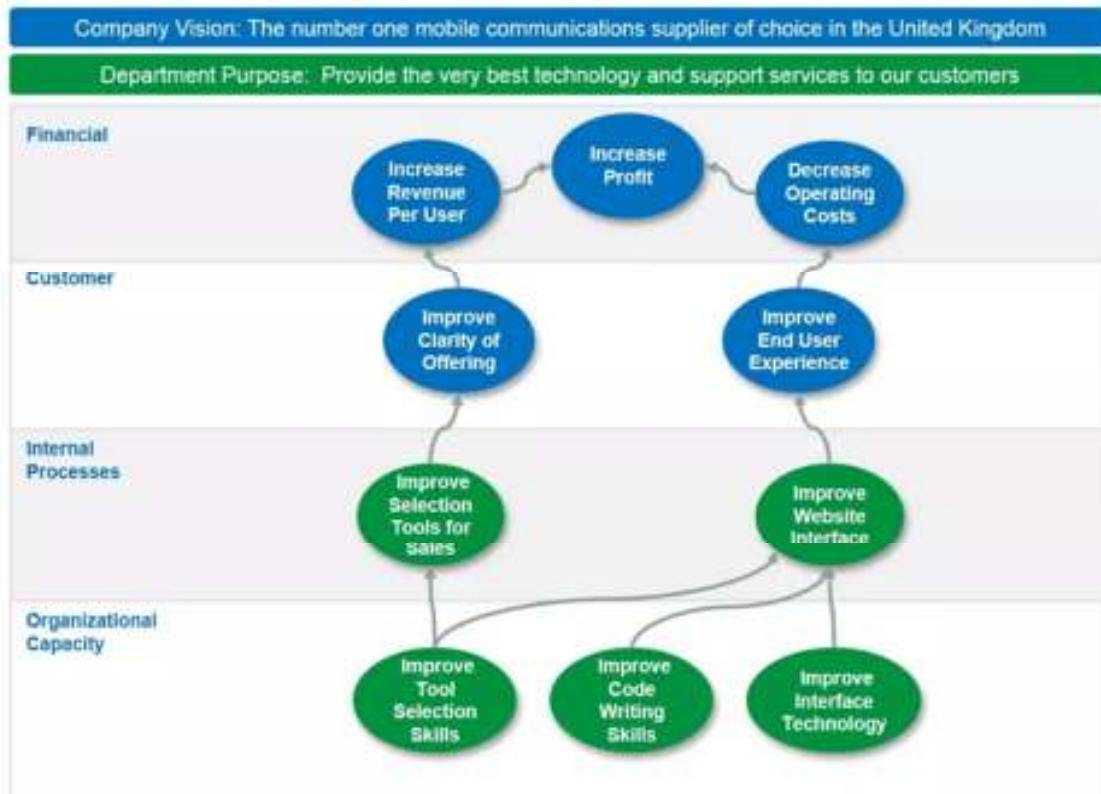
Goals must be SMART: Specific, Measurable, Achievable, Relevant and Time-bound.

Example: Company strategy map
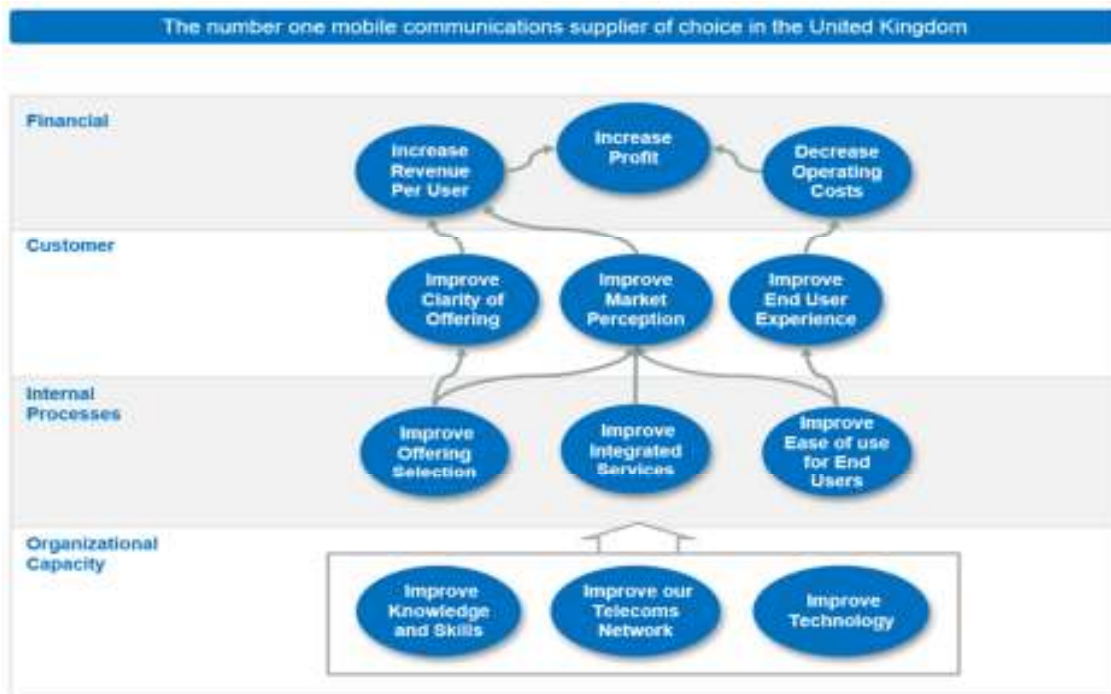
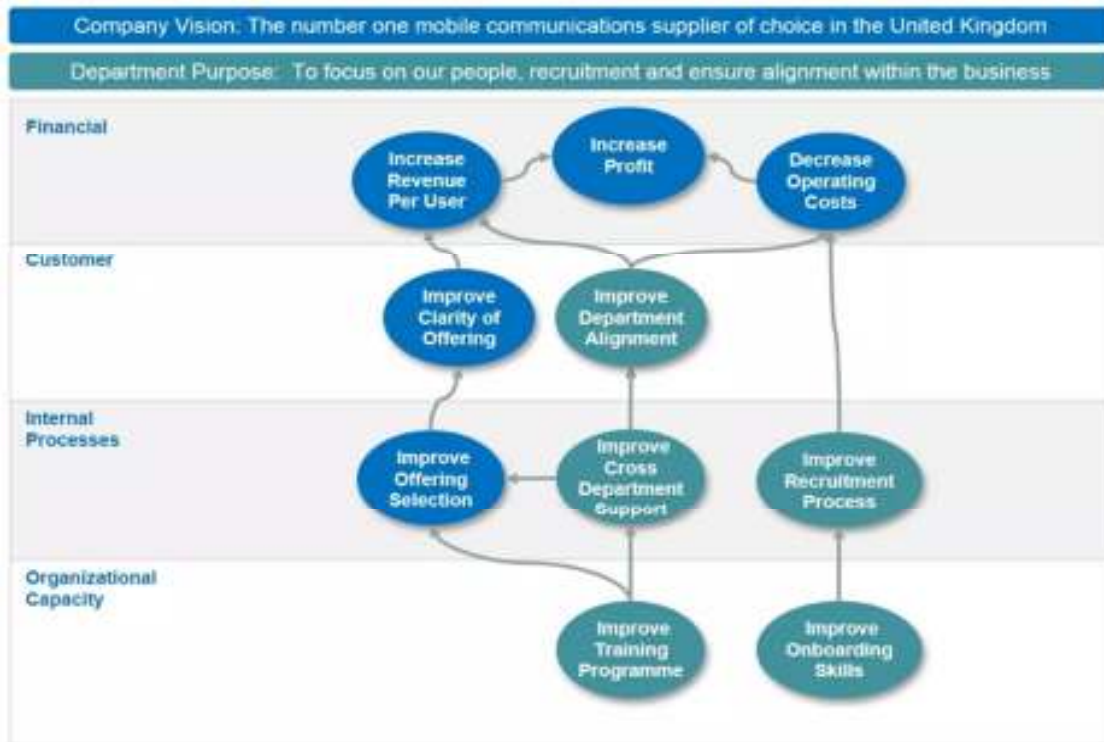What's any Department Purpose that links to the Company's vision?

If the above map is handed-over to the IT department, how would they be able to contribute?
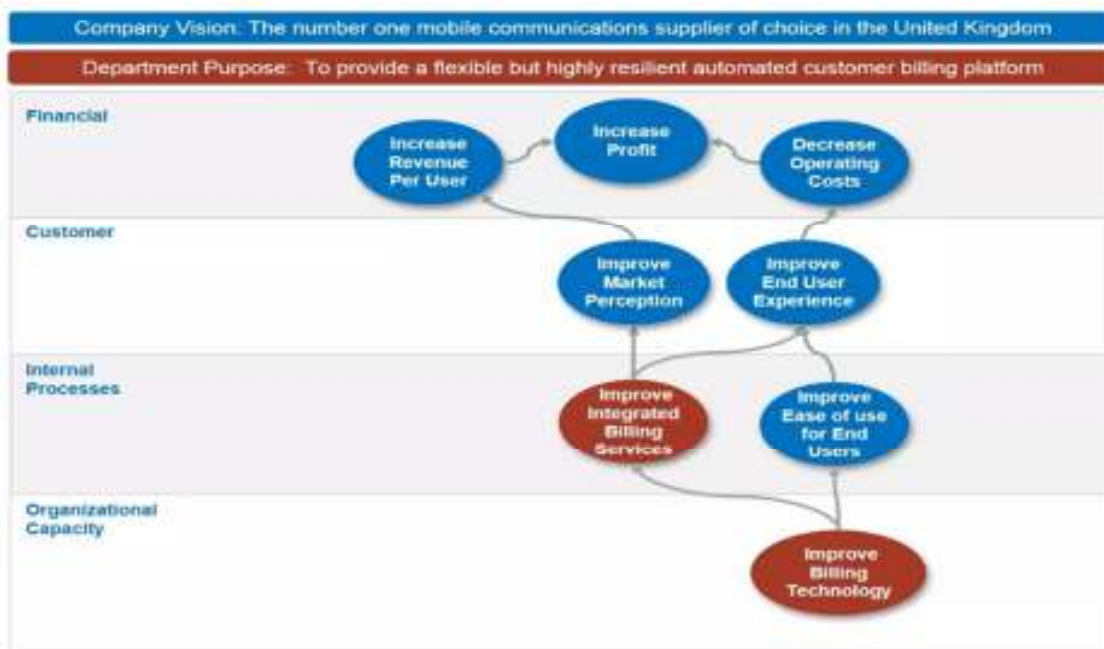
The green circles in the strategy map become aspects that the IT department will contribute towards.

They will not work on Blue Circles.

When the same map is shown to the HR department who asks, how can HR department contribute towards strategic vision, it could be the blue circles in below diagram:

Company Vision: The number one mobile communications supplier of choice in the United Kingdom

Department Purpose: To focus on our people, recruitment and ensure alignment within the business

Financial
Increase Revenue Per User — Increase Profit — Decrease Operating Costs

Customer
Improve Clarity of Offering — Improve Department Alignment

Internal Processes
Improve Offering Selection — Improve Cross Department Support — Improve Recruitment Process

Organizational Capacity
Improve Training Programme — Improve Onboarding Skills

Similarly again, when it is presented to the Billing department, brown circles can be their areas.

Company Vision: The number one mobile communications supplier of choice in the United Kingdom

Department Purpose: To provide a flexible but highly resilient automated customer billing platform

Financial
Increase Revenue Per User — Increase Profit — Decrease Operating Costs

Customer
Improve Market Perception — Improve End User Experience

Internal Processes
Improve Integrated Billing Services — Improve Ease of use for End Users

Organizational Capacity
Improve Billing Technology

Measures

Start with an objective, come up with a clearer result and then we have to express it in a physically perceived way, which becomes KPI because the KPI must be something that is visible, physical and observable.

A KPI is something that can be counted and compared; it provides evidence of the degree to which an objective is being attained over a specified time. More properties of KPIs are given below:

- You should be able to COUNT it
- Example: Number, Percentage
- But it should not be 'Percentage Completed' for a project
- KPI should measure improvement of objective, not completion of initiative
- You should be able to COMPARE it
- Compare it to what is optimal, acceptable or unacceptable
- You should be able to provide EVIDENCE for it
- It should not be based on judgement or perception
- You should see it contributing to an OBJECTIVE
- It should be measured over TIME

How can objective be described as a result?

Original objective	Result oriented	Physically received
Implement a sales plan	Reduce the time taken to convert a qualified lead into a sale	Reduce the number of days to convert a qualified lead into a sale
All senior consultants to be trained to deliver results	Improve skill level of all senior consultants to deliver results chain analysis	Improve skill level of all senior consultants to stage 2 accreditation in results chain analysis or above
Increase the number of projects worth $250K or more	Increase the number of projects worth $250K or more	Increase the number of consultancy projects worth more than $250K

Lead vs Lag measure

Lag measure measures the goal, but lead measure leads to the goal. And lead measure is something that one can influence. Taking care of lead measures can help one attain the lag measures.

Lag measures are ultimately the most important things you are trying to accomplish, but lead measures will get you to lag measures. For example, if the lag measure is number of sales, the lead measure could be the number of calls made per day.

Lag measures	Lead measures
Easy to identify	Harder to identify
Provide proof of success or failure	Must be predictive of lag measure
They show status after the fact.	Must be influenced by us
	Impact the lag measure

Example: Weight loss is lag measure but as a lead measure you can track distance walked or calories consumed. Similarly, a monthly accident report is a lag measure but compliance to safety standards is a lead measure.

Both lead and lag measures are important.

Objective	KPI Description
Reduce the number of days to convert a qualified lead into a sale	The number of days between a qualified lead and a sale
	The average number of days between qualified leads and sales generated within 30 days of lead qualification.
	The number of sales people trained in selling our products to grade III certification
	The percentage of sales generated within 30 days of lead generation.

Rating the KPIs

Application	Worth	Ease of identification
High: directly shows impact on objective	High: Valuable to the business	High: Easily available in existing data systems
Medium: Indirectly shows impact on objective	Medium: Valuable to other KPIs	Medium: Requires a new process to collect info
Low: Doesn't really show impact on objective	Low: Not so valuable	Low: Requires significant change to calculate

Any objective can be measured through several indicators but we need to be clear about which one we are going to use finally. And the basis to do that is to measure Applicability, Worth and Ease of identification.

Describing the measure

For each KPI the following things need to be taken into consideration:

- Description: A sentence to describe as accurately as possible what the KPI is for.
- Label: The short description, used for presentational purposes, generally 1-5 words.
- Owner: The individual who owns and will drive the KPI (this applies equally to objectives, indeed, ownership of objectives is more important than ownership of KPIs as the former drives the latter).
- Updater: The individual who is responsible for updating the KPI at the predefined times
- Calculation: A mathematical formula that describes how the data elements (tangible perceivable items) are combined to provide a number, percentage or currency (sometimes a yes/no).
- Frequency: How often the KPI is counted and recorded.
- Scope: What should be included or discounted, often a cap or data range.
- Metrics: The data and the sources of data used in the calculation, it is important to provide a description of the metric items individually to avoid ambiguity.

Example:

Objective and intended result	
Objective	Reduce large order sales cycle
Intended result	Reduce the number of days to sell a large order
Key performance indicator	
Label	Large order sales cycle
Description	The average number of days between qualified leads and sales that result in an order value greater than $250K
Owner	Jack Jim
Updater	John Jill
FFrequency	Monthly
Scope	For sales that occur during the reporting month
Calculation	In a single month, for all sales greater than $250K, add the number of days between the qualified lead date subtracted by the sales date and divide by the number of sales more than $250K

Metrics used in calculation	- Qualified lead date: Date assigned to a lead move to stage 3 - Sales date: Date assigned to a lead moving to stage 6 - Sale greater than $250K: Sale recorded in the finance system as having been invoiced.