

What Is a Balanced Scorecard?

Since its introduction in 1992, the Balanced Scorecard approach to enterprise management has enjoyed a rapid rate of adoption in a variety of industries. More than just a grouping of financial measures, it is a strategic assessment tool that can accurately portray a business unit's strategic progress. The Balanced Scorecard asks managers to consider their business from four perspectives:

- The Customer
- Internal Business
- Innovation & Learning
- Financial

Note that only one perspective focuses on the financial metrics. The implication: Focusing only on financial assessments of performance is not enough to improve an organization. Comp-XM® includes many measurable and actionable variables — exactly the type of metrics used in the Balanced Scorecard.

Customer Perspective

Robert Kaplan, one of the originators of the Balanced Scorecard, says customers concerns can generally be broken down into four areas:

- Quality
- Time
- Performance
- Service

Within each of these areas there are a number of sub-elements. Take time for example: A customer might be concerned with the amount of time a manufacturer takes to introduce new designs (design cycle), or in how quickly the manufacturer can deliver a product (production cycle).

One of the goals in this perspective is to be perceived as the most innovative supplier to the industry. Clearly then, new product introduction cycle time is a vital statistic, as is the portion of revenues generated by products or services that are less than two years old. Innovators would **not** want the additional perception of a low cost leader because low cost is inconsistent with innovator's goals.

In the Comp-XM® context, measures for your customer perspective include:

- Overall Awareness
- Overall Accessibility
- December Customer Survey for a particular segment
- Weighted Average of the December Customer Surveys (the Customer value for each segment divided by the number of units sold in that segment and added across all segments)
- Accounts Receivable Lag (your credit policy)
- Weighted Average Price (weighted average as for December Customer Survey)
- Cumulative R&D Cycle Time Reduction (the percentage by which new product design time has decreased)

Unit Share for the segments in which you are focused is also a key metric.

Internal Business Perspective

The Internal Business perspective asks: "What do we need to correct within our own business to ensure we deliver the value propositions the market needs and expects?" Say a manufacturer wants to be the low price leader in the market place. It needs to drive down all internal costs of production and marketing. To meet this goal, a manufacturer would need lower labor and material costs than its competitors. Even marketing costs would have to be reduced. Questions about the Internal Business Perspective need to be uncompromising. Perhaps the question should be "What must we be excellent at?" Or, in the words of Jim Collins, "What must we be best in the world at?"

Innovation and Learning Perspective

Nothing in business is static; the Innovation and Learning perspective asks "how do we develop and grow in order to continue to create value?" In 1903 the economist Joseph Schumpeter coined the term "the creative destruction of capital." He was referring to the need for corporations to regularly tear down much of what they have built, reconfigure and move forward with new, different and more highly developed value propositions. This process is more necessary to success than ever. Businesses that fail to "creatively destroy" will inevitably give way to business that can.

To achieve the cultural change that allows "creative destruction," manufacturers turn to initiatives that improve innovation/learning cultures, redesign/manufacturing processes, and sales/administration efficiencies.

Financial Perspective

In this perspective, we ask: "how is our strategy and tactical execution translating into profitability and economic viability?" Some feel there is actually no need to review financial measures as they are merely an outcome. Instead, they argue that if the other measures of the Balanced Scorecard are all carefully watched, financial success will naturally follow. This may be true in some cases, but it is not always true. For example, low cost companies might watch their cash position all but evaporate if there were not enough buyers for their products — no matter how efficiently they are produced.

Therefore, the Financial Measures Perspective asks two distinct questions:

- Are we making a profit in the activities in which we are engaged and therefore growing the company/increasing shareholder value?
- "Do we have the appropriate levels of cash to operate both in the short term and the long term?"