
FineAnswers

Answers to questions on tax, finance and management

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BALANCED SCORECARD

What is a Balanced Scorecard?

It is a management method of planning, implementing and monitoring financial and non-financial objectives, such as, customer satisfaction, quality of product, delivery speed, call response time, staff training. The origins of this method can be traced to studies initiated in 1990 by Robert Kaplan and David Norton. For more information check www.balancedscorecard.org

What are those non-financial objectives?

They consist of, customer relations, internal services or production, human resources management and knowledge development.

How can it be used as a management tool?

Its most useful application is the implementation of strategic business plans.

What are strategic business plans?

Borrowing from the ultimate game of strategy, CHESS, strategic moves have long terms objectives of creating positional advantages. While, tactical moves are after quick results, such as, when a Knight checks the King while attacking the queen at the same time. In business, an example of a strategic move would be training sales staff in telemarketing or creating a quality control department. Such moves do not result in immediate profits. An example of a tactical move would be to take advantage of an unusually hot summer and quickly stock-up on air-conditioners and realize a quick profit. So let us say strategic business plans involve plans to make long term changes to the structure of an organization in order to realize a business vision. Such as, reduce order time fulfillment by 50%, return client calls within 4 hours, refuse to distribute products with more than 5% return etc. As quoted by Robert Kaplan and David Norton in their book, *The Strategy Focused Organization*, "The formation of a strategy is an art, and will always remain so. The description of strategy, however, should not be an art."

How can a strategic business plan be implemented?

Strategies should be ultimately broken down in micro-steps to be taken by one employee. So each employee would have his or her own Scorecard. In practice each department is given its own strategic sub-plan and from that information the Scorecard for the department is created and the process is repeated for groups and subgroups until each individual is given a Scorecard. Examples of what goes into scorecards for individuals are: A sales person to make three sales presentation a week, a junior lawyer to generate 2000 chargeable hours a year with a maximum of 10% write off etc.

How can such tasks be measured?

All tasks are measured numerically, either in \$'s, numbers or percentages.

How can the Scorecards be used?

The scorecards of each individual normally include a target / budget and actual. All Scorecards belonging to a homogeneous group or subgroup of employees are added together to give the total for the group or subgroup. Scorecards of individuals could be compared to budget, actual of other periods, the average for the group etc. Variances can then be analyzed and remedial steps be taken. Also, the compensation for each employee could be based on the result of his or her score. The same kind of analysis, of course, can be applied to groups and departments.

How can all this information be collected on time and processed?

This process is ideal for implementation through specialized computer software programs.

Are software programs available?

We understand that about twenty such software programs are available in the market. One such system we have examined is called KPI Scorecard. Check www.cch.ca

What is the downside in using Balanced Scorecard as a management tool for implementing of strategies and monitoring them?

Of course the most obvious downfall is, the perfect implementation of a flawed strategy. So, initially frequent monitoring and updating is essential and without a software program, that can instantly implement, such modifications you have a huge task at hand. Also, given a perfect strategy an incomplete and imperfect implementation would cost more than no implementation at all. Further, some scorecard measurements – given human nature - lends itself to abuse, such as, falsifying sales and profit achievements. So a strict and regular process of auditing scorecards should be in place.