



Using a Balanced Scorecard for Your Business

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Balanced Scorecard

- What is a balanced scorecard?
 - “It is a strategic planning and management tool used in business to align business activities to the vision and strategy of the organization, improve internal and external communications, and monitor organization performance against strategic goals.”
 - ✓ As defined by Dr. Robert Kaplan and Dr. David Norton
- Why would a business implement a balanced scorecard?
 - If you want increased focus on strategy and results
 - If you want to measure organizational performance
 - If you want to align your strategy with stakeholders: employees, customers, shareholders
 - If you want to focus on driving future performance
 - If you want to improve communication of the organization's Vision and Strategy
 - If you want to prioritize your initiatives and align your business



Established Small Business

- A balanced scorecard is often thought that it is for large businesses only and would not benefit a small business.
 - Small businesses can see a greater impact to fewer participants
 - Allows small businesses to focus on key items that allow you to grow your business.
- A balanced scorecard can easy to implement as long as there is commitment and everyone is working toward **Goals and Objectives** of the business.
 - Key is to focus on a few actions which will get you to your results and not try to take on too much
- The key to success is creating measureable and obtainable objectives and tracking your results and also where there are short comings.



Start-up or New Small Business

- A balanced scorecard can also be used to verify and help with your business plan.
 - **Have you ever gone for funding and been turned down because the lending institution didn't believe your business plan?**
 - ✓ A balanced scorecard with shorter term objectives can be put in place to provide validity to your plan and make it more credible to the lender.
 - ✓ It can also aid in showing the short comings of your business plan and what may need to do in order to make it stronger.
- Allows you to set the metrics you need to track your business going forward so you don't end up in the usual pitfalls down the road.




Steps: Implementing a Balanced Scorecard

1. Understand your corporate vision, mission and objectives, and SWOT analysis
2. Document core processes for the business
3. Align processes with corporate objectives
4. Create scorecard measures that are obtainable
 - Make sure that you do not create too many – 3 per quadrant is maximum.
5. Create measures to monitor and measure scorecard achievements
6. Create scorecard achievement reporting



Mission Statement

- What is a Mission Statement:
 - A mission statement describes a company's fundamental purpose for those within the company and those outside.
 - A mission statement answers the question, "Why do we exist?"
 - Mission statement usually includes:
 - Purpose and the goal of the company
 - The company's stakeholders: clients, shareholders
 - Responsibilities of the organization toward these stakeholders
 - Products and services offered
- 



Sample Mission Statement

- Mission Statement – RK Fischer & Associates
 - To help owner-operated businesses achieve their business goals by generating positive cash flows, controlling costs, and accelerating profitability by identifying and addressing their current barriers to growth. We accomplish this by helping businesses to build the necessary foundations, construct their go forward business direction, as well as facilitate them in acquiring the skills and people necessary to meet their business goals.
 - ✓ **PURPOSE:** Help Canadian owner-operated businesses achieve their business goals by building necessary foundations, constructing forward business direction, facilitating them in acquiring skills
 - ✓ **COMPANY STAKEHOLDERS:** Owner-operated businesses
 - ✓ **RESPONSIBILITY OF STAKEHOLDERS:** Generate positive cash flows, controlling costs, accelerating profitability by identifying and addressing current barriers to growth
 - ✓ **PRODUCTS AND SERVICES:** Consulting and Coaching

Vision Statement

- What is a Vision Statement:
 - A vision statement is a picture of your company in the future.
 - Your vision statement is the framework for all your strategic planning and where you want to be.
- Vision statement usually includes:
 - No ambiguity and wording that is engaging
 - A clear picture
 - Description of a bright future
 - Realistic aspirations and timeframes
 - Alignment with your company values and culture



Sample Vision Statement

- Vision Statement – RK Fischer & Associates
 - To be recognized as a leader of small business consulting, coaching and advisory services that provides value, growth, and results to small Canadian businesses within the next 5 years
 - ✓ **Time frame:** 5 years
 - ✓ **Lack of ambiguity:** small business consulting, coaching, and advisory services in Canada
 - ✓ **Bright Future:** Leader
 - ✓ **Alignment with company values and culture:** Provider of value, growth and results

SWOT Analysis

- SWOT – Strengths, Weaknesses, Opportunity, Threats
 - “A strategic planning method used to evaluate the Strengths, Weaknesses, Opportunities, and Threats involved in a project or in a business venture. It involves specifying the objective of the business venture or project and identifying the internal and external factors that are favourable and unfavourable to achieving that objective.”

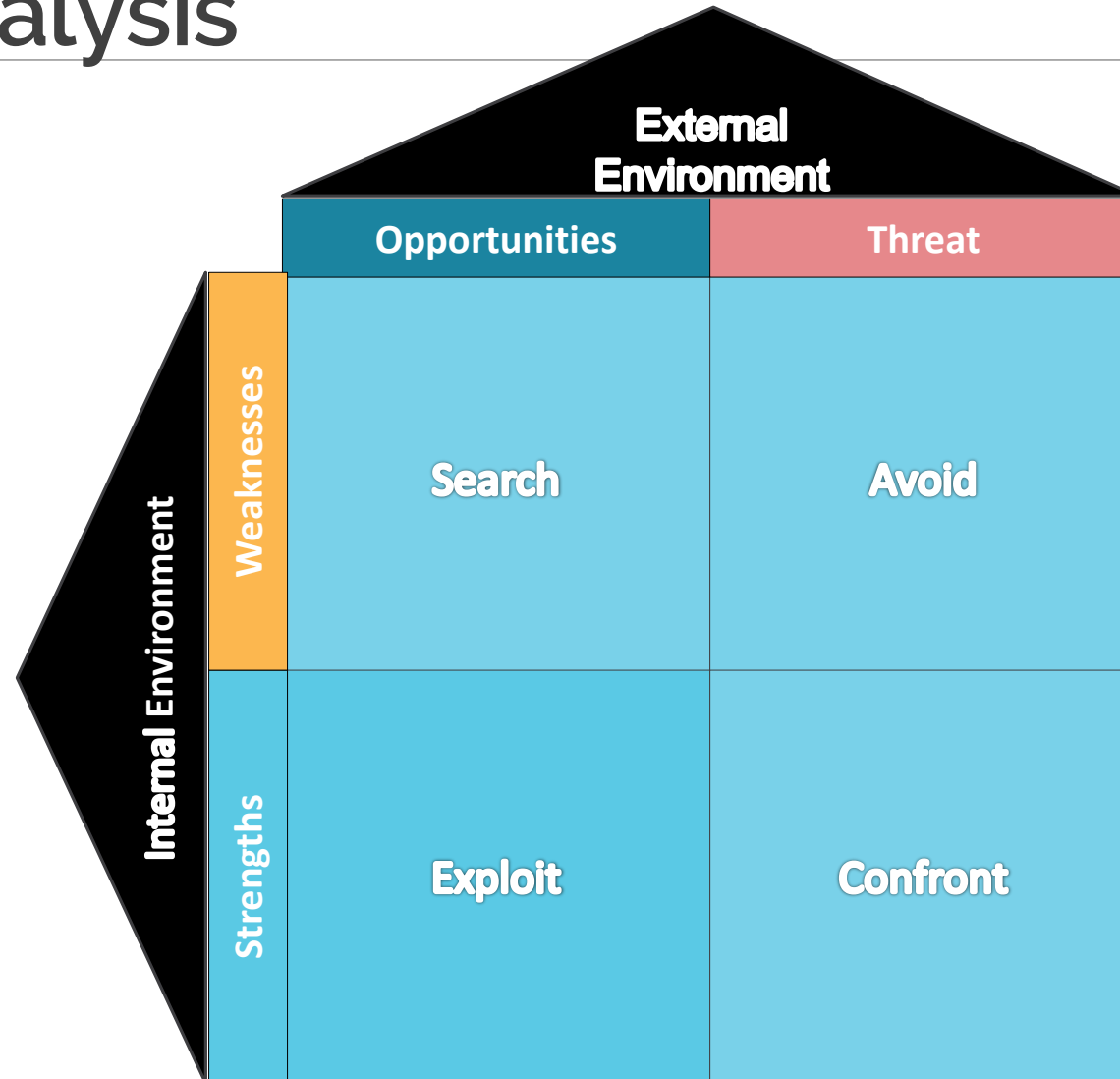
Wikipedia



SWOT Outline

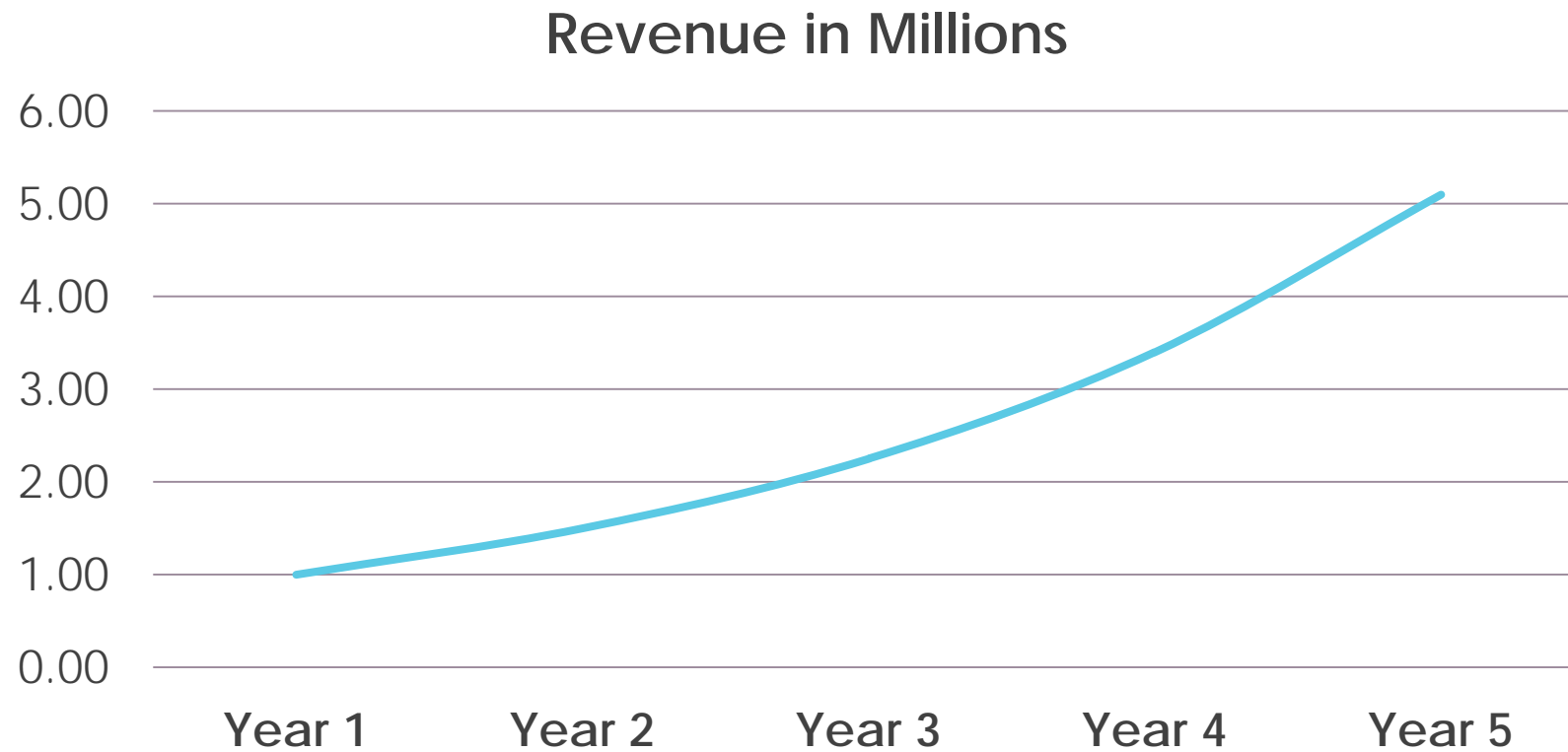
Strengths	Weaknesses	Opportunities	Threats
<ul style="list-style-type: none">• What do we do well?• What advantages we have over others?• What are our assets and resources?• What do we and our customers believe are our strengths?	<ul style="list-style-type: none">• What could we do better?• What do we receive complaints on?• Where are we vulnerable?	<ul style="list-style-type: none">• What opportunities do we know about?• Are there emerging trends on which we can capitalize?	<ul style="list-style-type: none">• Are there any weaknesses we have that make us vulnerable?• Do we have any external roadblocks that are affecting us?• Is there any significant change in our market segment that will affect us?• Are there economic conditions that are going to affect our viability as a company?

SWOT Analysis



Core Objectives

- Setting overall objectives for the company



Core Objectives – Requirements to Create

■ Define your 5 year financial plan?

- Who are your customers?
- What market segments do you sell into/ including geographies?
- How do you plan to reach them?
- What is your average revenue per customer?
- What is my revenue by product /service type?
- Are you a product leader, cost leader, or customer intimacy leader?

■ Look at the first year and think about how you are going to reach those financial goals?

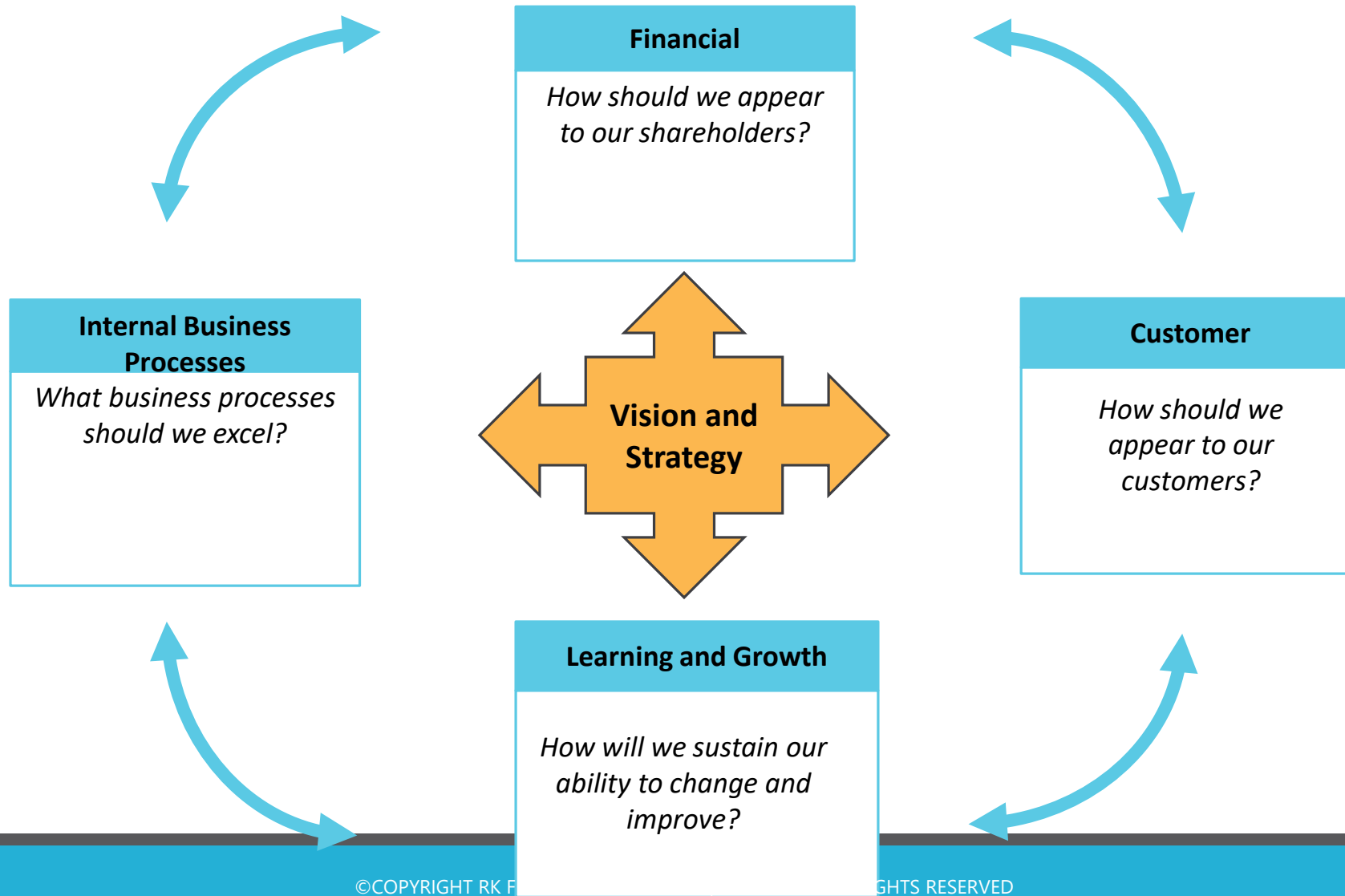
- Is this going to be obtained through marketing and market awareness ?
- Is this going to be obtained through addition of new products or services ?
- Is this going to be obtained by adding additional new channels to market?
- Is this going to be obtained through acquisition or merger?
- Is this going to be obtained through reducing expenses?
- Is this going to be obtained through retaining customers?

Core Objectives – Requirements to Create

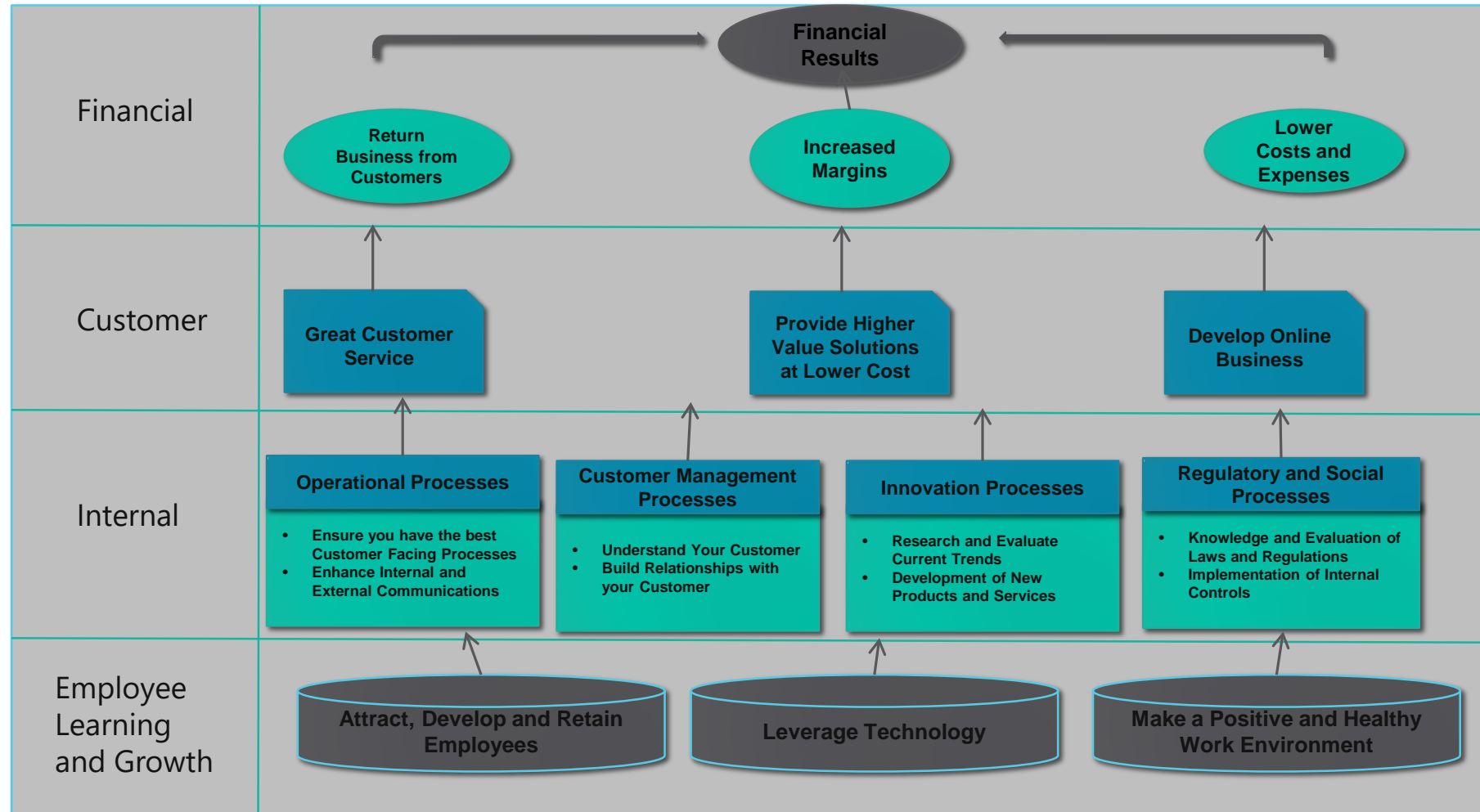
- Measuring and Managing
 - Create a dashboard approach where measures are known and relevant such as budget variance analysis, quality levels...
 - You need to be able to show cause and effect as a strategy is a set of hypotheses about cause and effect.



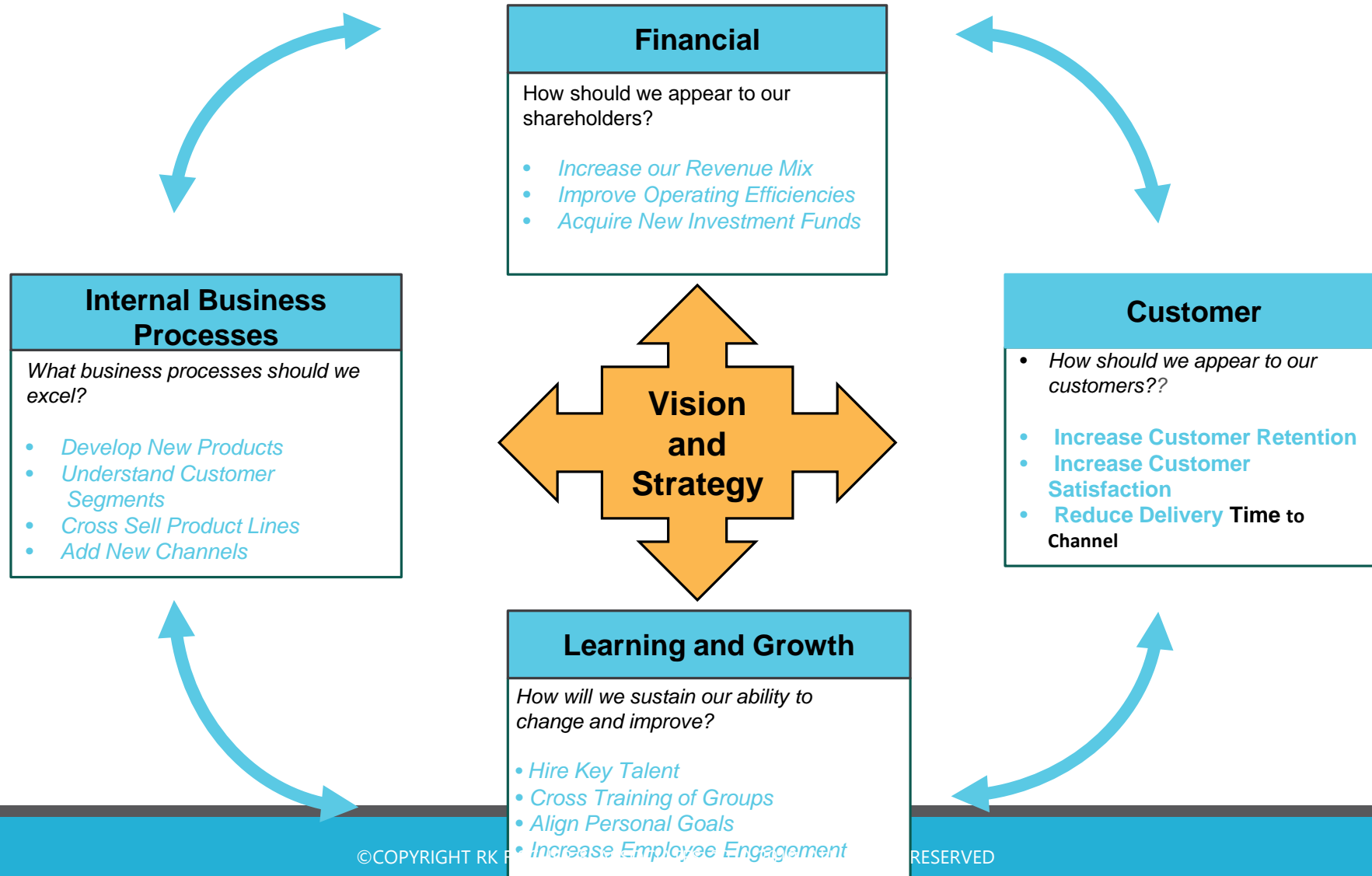
Four Perspectives of Balanced Scorecard



Linking Performance to Strategy



Scorecard Example



Start-up or New Small Business Scorecard

- Since you do not have a track record of financials the focus will be on validating your financial plan with the other quadrants.
- You may only have a few customers but you need to focus on how you plan to get and retain new ones.
- You may not have a lot of internal business processes yet, but you need to make sure you have the ones you need to run your business in place and look at which ones you will need to add down the road to get to your financial plan?
- You may just be starting, but if you do not recruit the right talent at this crucial time, it could be a recipe for disaster. It is important that you also look at how you are going to grow and retain them once hired?





Financial Quadrant

Financial Perspective

- There are three GROWTH strategies that have three FINANCIAL themes which drive BUSINESS strategy.

Financial Themes

Growth Strategies		Revenue Growth and Mix	Cost Reduction/ Productivity Improvement	Asset Utilization/ Investment Strategy
	Growth	New Products New Applications New Channels	Increase Revenue Productivity	Cash to cash cycle
	Sustain	New Customers New Markets New Relationships	Reduce Unit Costs Improve Channel Mix	Improve asset utilization
	Harvest	New Product/Service Mix Cross –Sell Products New Pricing Strategy	Reduce Operating Expenses	

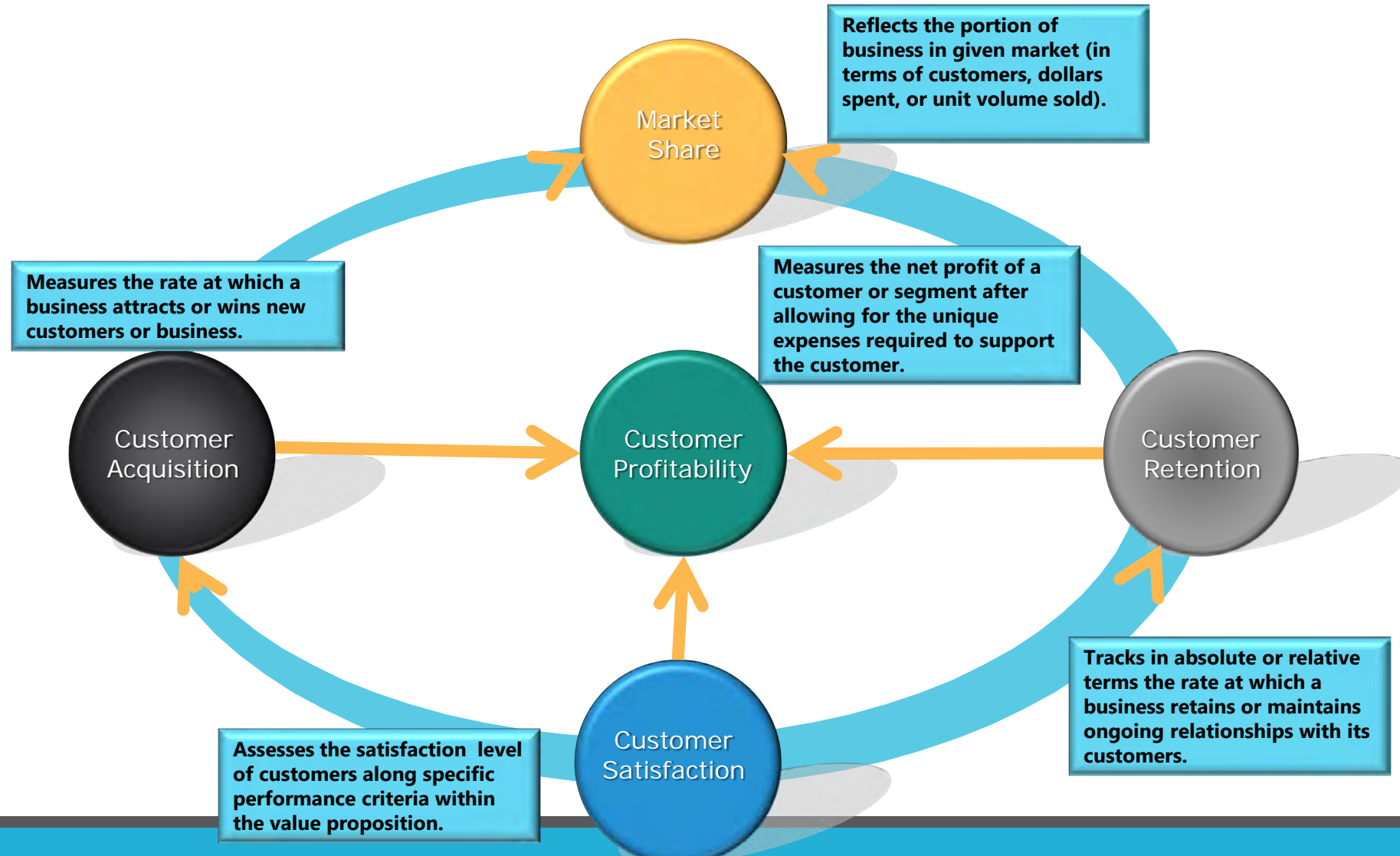
Financial Measures

Revenue Growth and Mix	Cost Reduction/ Productivity Improvement	Asset Utilization/ Investment Strategy
Gross Margin	Profit per employee	Total Assets
Net Income	Accounts receivable turnover	Total Assets/Employee
Profit as a % of sales	Total Costs	Profits as % of Total Assets
Compound growth rate	Unit Costs	Return on Net Assets
Revenue	Revenue per employee	Return on Total Assets
Revenue from new products	Cash flow	Return on Total Assets
Compound growth rate	Cost reductions	Revenue / Total Assets
Customer / product line profitability	Expenses as % of sales	Dividends
Sales growth / % revenue mix	Costs vs competitors	Return on Investment (ROI)
	Inventory turnover ratio	Return on equity (ROE)
	Credit rating	Return on capital employed (ROCE)
	Value add per employee	Times interest earned
	Days in payables	
	Days in inventory	
	Accounts receivable turnover	

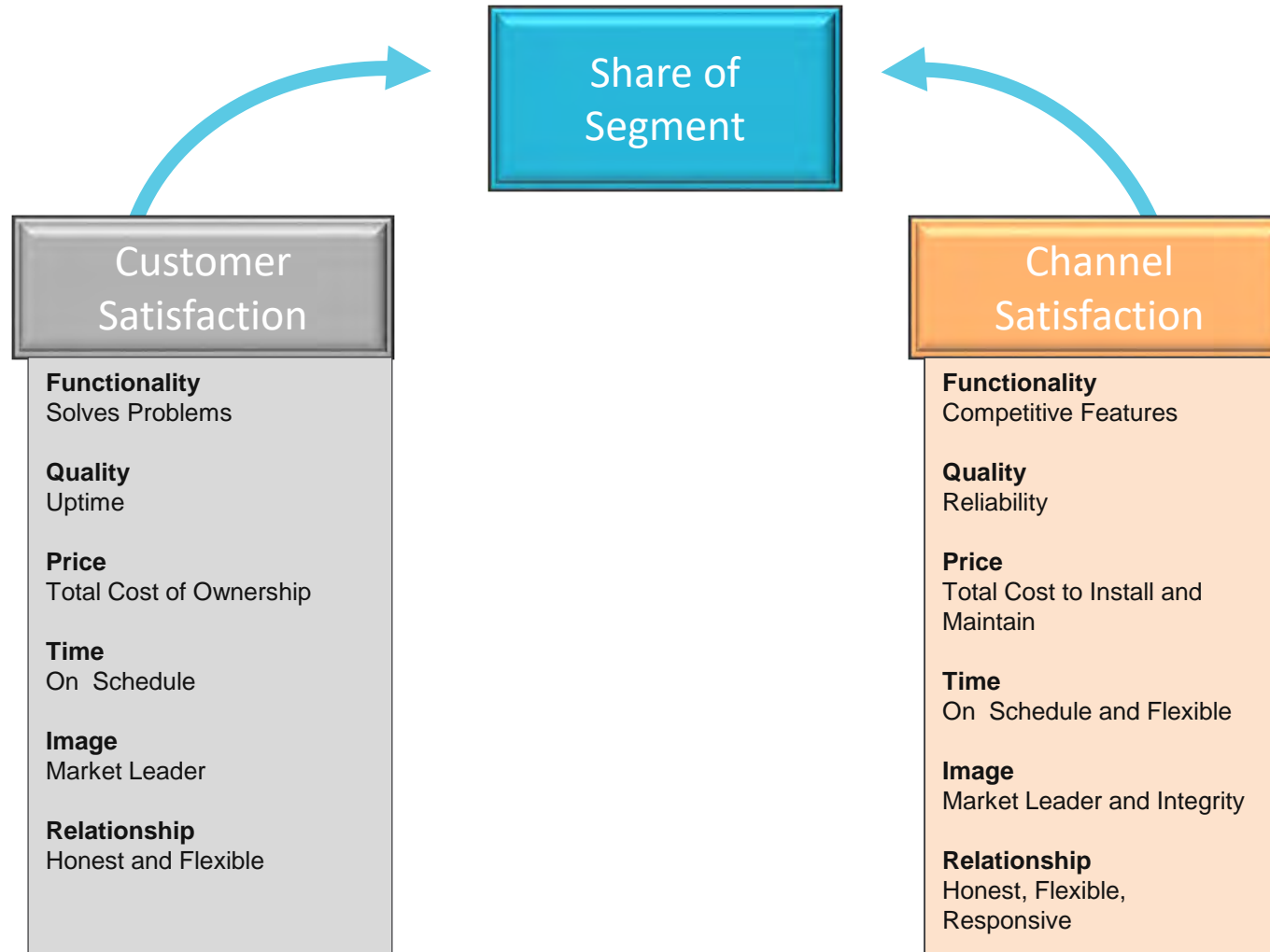


Customer Quadrant

Customer Perspective



Customer Perspective



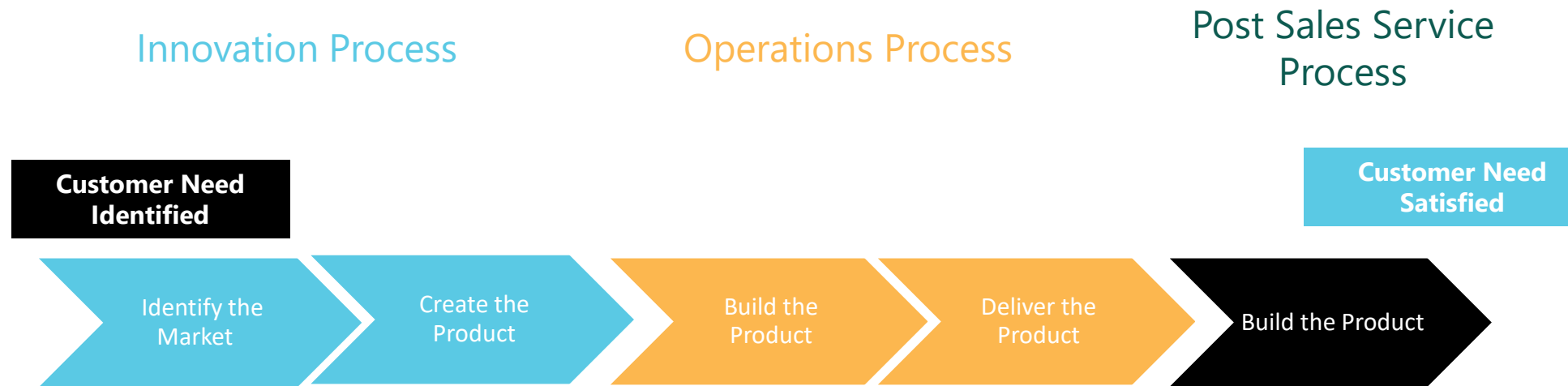
Customer Measures

Customer Satisfaction	Customer Acquisition	Customer Retention	Market Share	Customer Profitability
Return Rates	Customer Acquisition Rates	Customer loyalty	Annual sales per customer	Sales per channel
Customer visits to the company	Win Rate/sales closed / sales contact	Customers lost	Number of customers	Sales volume
Customer satisfaction rate	Direct Price	Average duration of customer relationship	Brand recognition	Average customer size
Customer complaints	Number of trade shows attended	Customer retention	Frequency (Number of sales transactions)	Customers per employee
Complaints resolved on first contact	Number of ads placed	Hours spent with customers	Brand recognition	Customer profitability
Response rate	Number of proposals made			Percent of revenue from new customers
Response time per customer request	Marketing costs as a percentage of sales			Share of target customer spending
Price relative to competition				Customer service expense per customer
Total cost to customer				



Internal Process Quadrant

Value Chain Model



Internal Process Measures

Innovation	Operations	Post Sales
% Sales from New Product	Cost of Non-conformance	% of Product Returned
% Sales from Proprietary Product	Statistical Process Control	% of Early Life Failures
Time to Develop New Products	% of On Time Deliverables	Warranty claims
Break – Even Time	Process Capabilities	Accounts Receivable Outstanding
Ratio of new products to total offerings	Average Cost per transaction	Response time to customer requests
Planning Accuracy	On-Time Delivery	Number of positive media stories
New Products Introduced	Downtime	Lead user identification
Internal rate of return on new projects	Waste Reduction	Community involvement
Patents pending	Cycle time improvement	Frequency of returned purchases
Research and development expense	Stock-outs	Rework
Environmental emissions	Average Lead Time	Frequency of Returns
Average age of patents	Product and services in the pipeline	
	Time to market	
	Inventory turnover	
	Labour Utilization Rates	



Learning and Growth

Learning and Growth Perspective

- Objectives:
 - Drivers for achieving excellent outcomes in first three perspectives

- Three Principle Categories:
 - Employee Capabilities
 - Information System Capabilities
 - Motivation, Empowerment, and Alignment

Learning and Growth Measures

Human Capital Measures	Information Capital Measures	Organization Capital Measures
Employee productivity (hrs produced / hrs paid)	Strategic information ratio (how measured?)	Employee satisfaction (engagement?)
Average years of service	Number of scorecards produced	Ethics violations
Leadership development (hours / year) (# courses)	Percentage of employees with computers	Reportable accidents
Training hours	Timely completion of performance appraisals (% on time)	Empowerment index (how measured?)
Percentage of employees with advanced degrees	Knowledge management (how measured?)	Diversity rates
Turnover rates (% employees leaving)	% of reports 'on-line'	Ethics violations
Value added per employee (how measured)	Average turn-a-round time for report delivery	Health promotion
Motivation index - same as engagement? Survey	# of 'special reports' requests	Lost time - accidents (days)
Absenteeism (ave hours/emp/yr)	% of 'special reports' / total reports	Participation in stock ownership plans (% of emp)
Personal goal achievement (% achieved)	% of employees who use intranet	Training Investment per customer (\$ / Cx ?)
Employee suggestions (input versus deployed?)	% of employees with intranet access	Quality of work environment (survey ?)
Competency coverage ratio (skills employed / skills required)	Technology replacement map updates	Cross-functional assignments (% of employees)
% of payroll spent on training	% of budget allocated to IT	Internal communication rating (survey?)
		Communication planning (% of time?)
		Outstanding number of applications for employment (measured against opens? # emp?)

Credits / Information

- Since the balanced scorecard is a tool developed by Dr. S. Kaplan and David P. Norton, much of the content in for this presentation is taken from the following sources:
 - **Translating Strategy Into Action, The Balanced Scorecard**
 - ✓ Robert S. Kaplan and David P. Norton
 - **Balanced Scorecard Step by Step: Maximizing Performance and Maintaining Results**
 - ✓ Paul R. Niven

Contact Us



Business Consultants and Business Coaches

www.rkfischer.com

Phone: (877)504-2049
(289)278-1970

Email: sales@rkfischer.com