

# The Balanced Scorecard Approach



In any business environment, there will always be different perspectives on what needs to be achieved to create success.

In the financial department, success is measured in terms of profit and/or return on investment. On the shop floor, concerns about the financial bottom line are not the main focus of worker's attention. Instead the focus is more likely to be on quality, safety, waste minimisation and productivity. In the sales office, the perspective is customer loyalty, and on-time delivery, sales and market share.

In 1993 Robert Kaplan and David Norton created an approach to company management that took account of these different perspectives. The approach was named "the Balanced Scorecard" and it has become increasingly popular in the 15 years since.

The Balanced Scorecard is an approach to company management that looks for the main drivers of success across all corporate activities. Peter Stephenson, Managing Director of the Australian Management Academy, said "it is as though company management steers the business by viewing a number of dials and instruments in front of them, as if piloting an aircraft. Each of the dials is a predictor of success."

Kaplan and Norton determined that there were four major perspectives for evaluation of corporate success:

- Financial Perspective  
How do we look to our shareholders?
- Customers Perspective  
How do customers see us?
- Internal Processes Perspective  
What must we excel at?
- Innovation and Learning Perspective

Can we improve employee skill and create value for our customers?

These different perspectives are important in forming company goals and determining what measures can be used in creating the Balanced Scorecard.

The following list provides just a few possible measures that can be used depending on the type of business:

#### Customer

- Own quality compared to industry standards
- Price compared with competitors
- Percent of on-time deliveries
- Customer satisfaction surveys

#### Internal Processes

- Cycle time, lead time
- Manufacturing overhead
- Order processing time
- Raw material inventory

#### Learning and Innovation

- Training dollars per employee
- Employee turnover
- Employee satisfaction

#### Financial

- Return on investment
- Revenue Growth
- Profit

It is necessary to establish goals and objectives first before reliable and appropriate measures for the Balanced Scorecard should be developed.