**Performance Measurement: Understanding Balanced Scorecards**

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Previously in this series we discussed the importance of first designating the critical success factors necessary for an organization to achieve its stated objectives, and then assigning key performance indicators (KPIs) in order to accurately measure such factors. We then discussed the reporting tool known as a dashboard, by which this data can be communicated accurately and simply throughout every level of company operations.

To complete this series on best practices for strategic planning and the accurate measurement of company performance, we will discuss balanced scorecards and their uses. A balanced scorecard is a strategic performance management tool that translates a company's abstract vision and objectives into tangible measures and target values, most commonly in four perspectives: a) financial, b) internal, c) customer and d) learning and growth. This allows for analysis and subsequent determination as to whether desired results are being achieved and, if not, where to focus management's attention.

**Why Are Balanced Scorecards Necessary?**
Balanced scorecards fill a clear need for connecting high-level strategic objectives with measurable day-to-day work activities. Outside of financial performance indicators, there are no clear non-financial indicators to "balance" performance measurement.

In addition, business units tend to focus on performance in their "silos," rather than integrate activities with other areas. Balanced scorecards provide a means of forming such connections and ensuring that all departments are coordinated and working together toward the achievement of company goals. They also ensure that strategic objectives are clearly understood below the executive level, thereby making it possible for departments to align their operations with high-level goals.

**What Are the Benefits of Balanced Scorecards?**
A balanced scorecard aids the alignment of corporate vision and strategic objectives with the day-to-day operational activity of the company at all levels by supporting the measurement and management of action toward non-financial objectives.

Balanced scorecards also are very useful as tools for emphasizing the interdependence of seemingly disparate business unit activities, as well as focusing and prioritizing company activities so that they are better aligned with corporate objectives. In such a manner, balanced scorecards are a successful means of improving performance across all levels, enabling greater efficiency and optimal productivity.

**How Do You Create a Balanced Scorecard?**
Balanced scorecards can be created in a few simple steps. First and foremost, it is necessary to identify any key stakeholders and obtain buy-in. This step also includes reviewing company vision and strategic objectives.

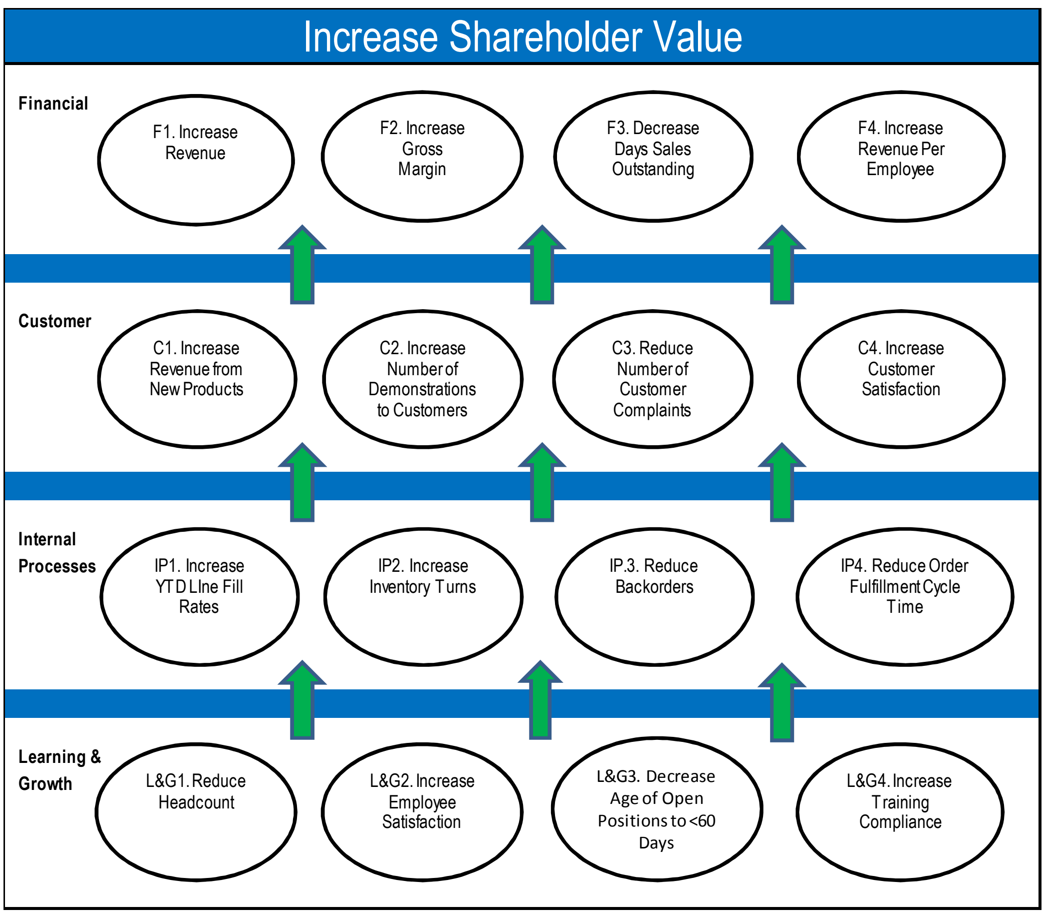
Then, once such objectives have been identified, it is important to create a destination statement of how successful achievement will look in the future. This also includes the identification of at least four key perspectives for focus. For example, your statement may want to focus on finance, customers (especially satisfaction and market shares), the product quality and productivity aspects of internal business processes, and employees (sometimes referred to as learning and growth). Then select four to six strategic objectives within each of these perspectives.

Next, create a strategy map that shows cause-and-effect links between objectives. With this, identify the measures and values for your objectives; there ought to be approximately 16 to 24 objectives in total.

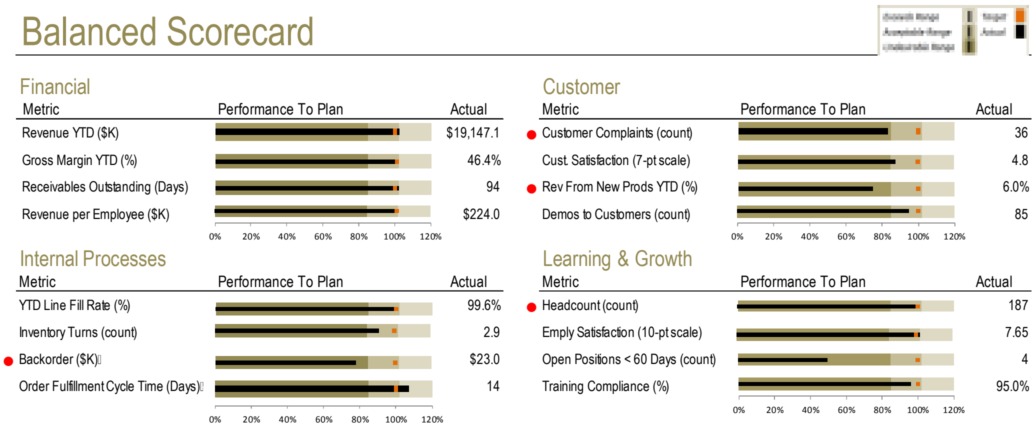
Finally, educate all employees about how the objectives align with their areas and actions. A dashboard is often a useful tool for monitoring the progress of such objectives and ensuring that all departments remain in line with overarching strategic goals. With such a system in place, it is also possible to continually assess results and take any necessary corrective actions.

**Common Examples of the Application of Balanced Scorecards**
Below is an example of the balanced scorecard tool. This particular example uses the same sample manufacturing company that was used in the previous articles of this series. It, therefore, might be useful to examine our previous articles to familiarize yourself with the predetermined critical success factors and key performance indicators that will be exhibited in this model.

The sample strategy map for this manufacturing client shows strategic objectives developed for each perspective. As shown here, there ideally ought to be four to six main perspectives. For this particular client it was established that the relevant perspectives ought to include financial concerns, customer issues, internal processes, and learning and growth factors.




Next, the manufacturing company has assessed their perspectives to look for potential areas of concern. This balanced scorecard exhibits factors that have been measured monthly to determine success over time. Similar to the dashboard, areas of particular concern have been coded in this balanced scorecard with a (●) when performance is below acceptable thresholds.




In the case of this manufacturing client, it is evident that customer satisfaction-related issues have been designated as particularly important. However, it is of particular note that while overall satisfaction is within the desirable range, customer complaints have been highlighted as an area for concern. In such an instance, the next logical step would be to ascertain if there are any particular complaints that could then be addressed directly.

**In Summary**

Balanced scorecards make it possible to connect high-level objectives with day-to-day activities. With balanced scorecards companies can coordinate operations toward the achievement of general strategic objectives. In conclusion:

- With balanced scorecards, companies can monitor operations and ensure that all activities are properly aligned with overall goals.
- Balanced scorecards are a crucial means of optimizing productivity and improving performance across all levels.
- Create a balanced scorecard by first identifying perspectives for closer examination, then designing a strategy map that shows cause-and-effect links between objectives. Lastly, assess perspectives to look for possible areas of concern.

Balanced scorecards are an ideal method for connecting the other performance management tools we have discussed to create a cohesive, coherent picture of success. It can be useful to consult with an outside service provider for the delivery of an optimal balanced scorecard that will provide an objective, thorough analysis.

**About CFO Edge**

CFO Edge, LLC is a leading Southern California provider of outsourced CFO services. Based in Los Angeles, we are a group of experienced chief financial officers who engage with CEOs and CFOs on demand to address strategic planning, business management, and day-to-day financial operations challenges. Our seasoned professionals deliver services as interim CFOs, part-time CFOs, project-based CFOs, recruitment-to-permanent CFOs and interim-to-permanent CFOs. At CFO Edge, we're passionate about helping our clients create, grow and sustain value. For more information, visit www.cfoedge.com or call 626.683.8840.

**About Resource Planning Solutions**

Chase Morrison is the Managing Director for Resource Planning Solutions Corporation. As the firm's Chief Financial Consultant, he combines extensive experience as a director of financial planning and analysis with his passion and knowledge for innovative IT solutions. While much of his career has been working with Fortune 500 companies, Mr. Morrison is now focused on using those same performance management tools to help small-to-mid-sized companies, mostly in the manufacturing and distribution industries. For more information, visit www.rpscgi.com or call 818.436.0781.