**Hilton Chapters 12 (Balanced Scorecard)**

**BALANCED SCORECARDS**

The **balanced scorecard** is a balanced approach to the area of performance evaluation. Employees are evaluated on a series of financial and nonfinancial measures in a variety of areas.

* Financial measures summarize the results of past.
* Nonfinancial measures concentrate on current activities, namely, activities that will drive future financial performance.

Many balanced scorecards integrate performance measures in four key areas:

* ***Financial measures****—E.G.,* net income, earnings per share, cash flow from operations, return on investment, profit growth, revenue growth
* ***Internal operations****—E.G.,* number of defects produced; number of vendors used; throughput; machine downtime; finished products per day per employee; inventory levels; transaction-processing efficiency, time, and error rate
* ***Customer satisfaction****—E.G.,* number of new customers, number of repeat customers, market share, customer complaints, customer-satisfaction levels (via surveys)
* ***Learning and growth****—E.G.,* number of new products, process improvements, and services introduced; number of employee suggestions submitted and adopted; employee retention rates; number of hours of employee training programs

**A key underlying premise**: Lead indicators of performance are used to communicate with, motivate, and evaluate individuals such that the employees' current actions will result in improvement of the company's significant lag measures.

*Lead indicators*are measures that guide management actions today, actions that will have positive, future effects on the organization.

*Lag indicators* measure the outcome of earlier management actions. Revenue growth, improved cash flow, and increased profitability from the preceding illustration are examples.

* A **major goal of the balanced scorecard is to broaden employees’ perspective** so they look at the diverse requirements needed to produce a competitive business rather than only a very limited set of success factors.
* **Companies that are successful in the use of balanced scorecards have scorecards that are linked to the organization's strategy**.