

The Balanced Scorecard

The Balanced Scorecard has emerged during the last 25 years. It integrates strategic planning, incentives management, and is useful in performance measurement.

The following is from the Balanced Scorecard Institute

<https://balancedscorecard.org/Resources/AbouttheBalancedScorecard/tabid/55/Default.aspx>

Balanced Scorecard Basics

The balanced scorecard is a [strategic planning and management system](#) that is used extensively in business and industry, government, and nonprofit organizations worldwide 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 a performance measurement framework that added strategic non-financial performance measures to traditional financial metrics to give managers and executives a more 'balanced' view of organizational performance.

The Balanced Scorecard uses measures on four different perspectives:

- Learning and growth perspective
- Customer perspective
- The internal business process perspective
- The financial perspective

The goal is for the organization to determine the outcomes for each perspective that it wants to measure. Financial measures are usually considered lagging measures of performance, but measures related to learning and growth, customers, and business process usually are leading measures of performance.

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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.**

To illustrate the **balanced scorecard**, we will explore its use by Forest Home National Bank (FHNB), located in Boise, Idaho. The bank's balanced scorecard, which is depicted in Exhibit 12–9, integrates performance measures in four key areas: financial,

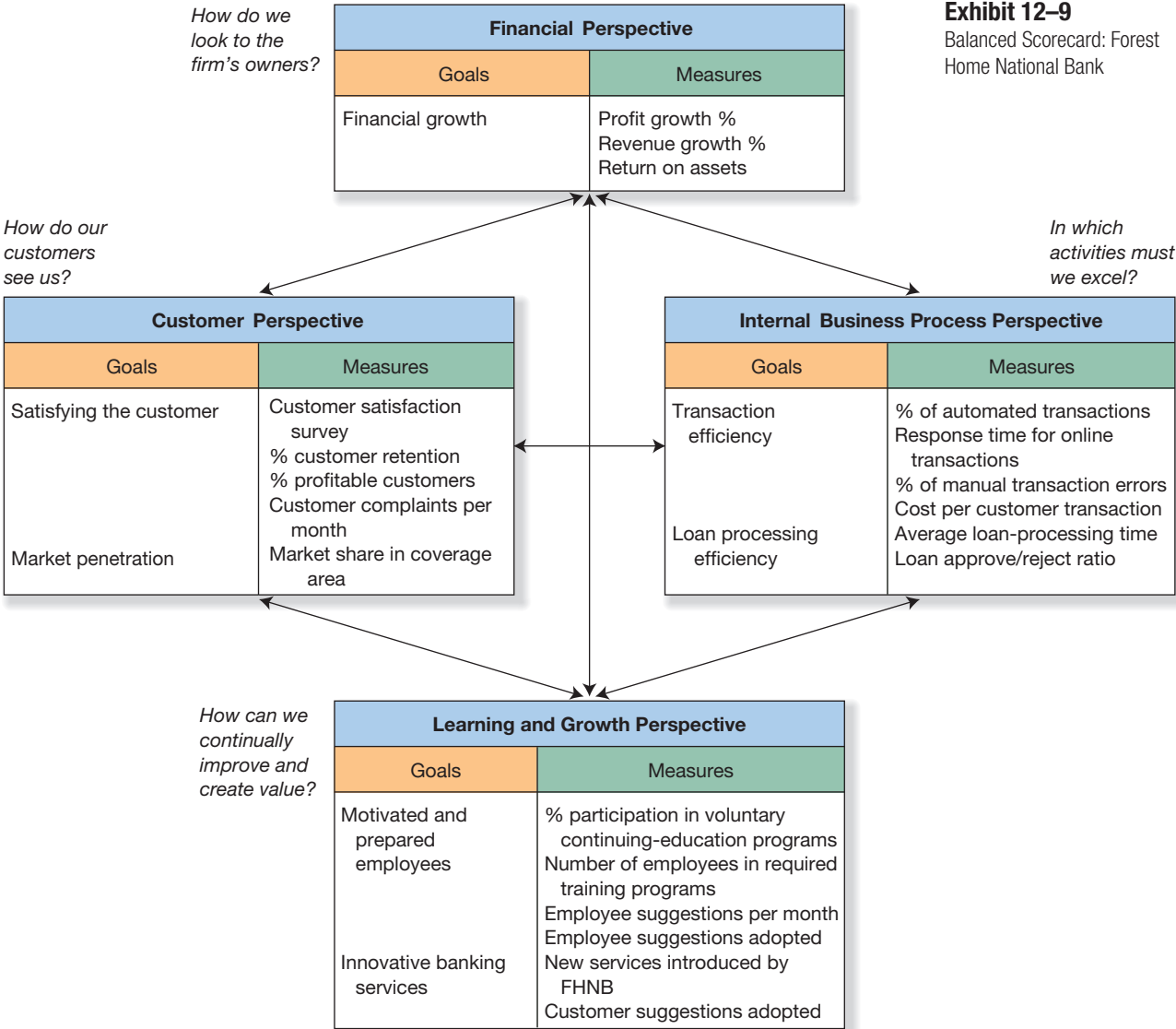


Exhibit 12–10

Selected Performance
Measures Used in Balanced
Scorecards

Financial Perspective

Earnings	Cash flow
Earnings per share	Cash flow from operations

Customer Perspective

Customer contacts	Customer satisfaction (surveyed)
Repeat customers	Customer complaints
New customers	Market share

Internal Business Process Perspective

Product quality/defect rates	Finished products per day per employee
Number of vendors	Floor space per finished product
Cycle time	Cost of inventories held
Throughput	Number of common parts
Machine downtime	Number of part numbers

Learning and Growth Perspective

Employee training hours	New processes
Employee promotion rate	Employee suggestions
New products or services	Employee retention

Exhibit 12–11

Linkage between the
Balanced Scorecard and
Organizational Strategy

