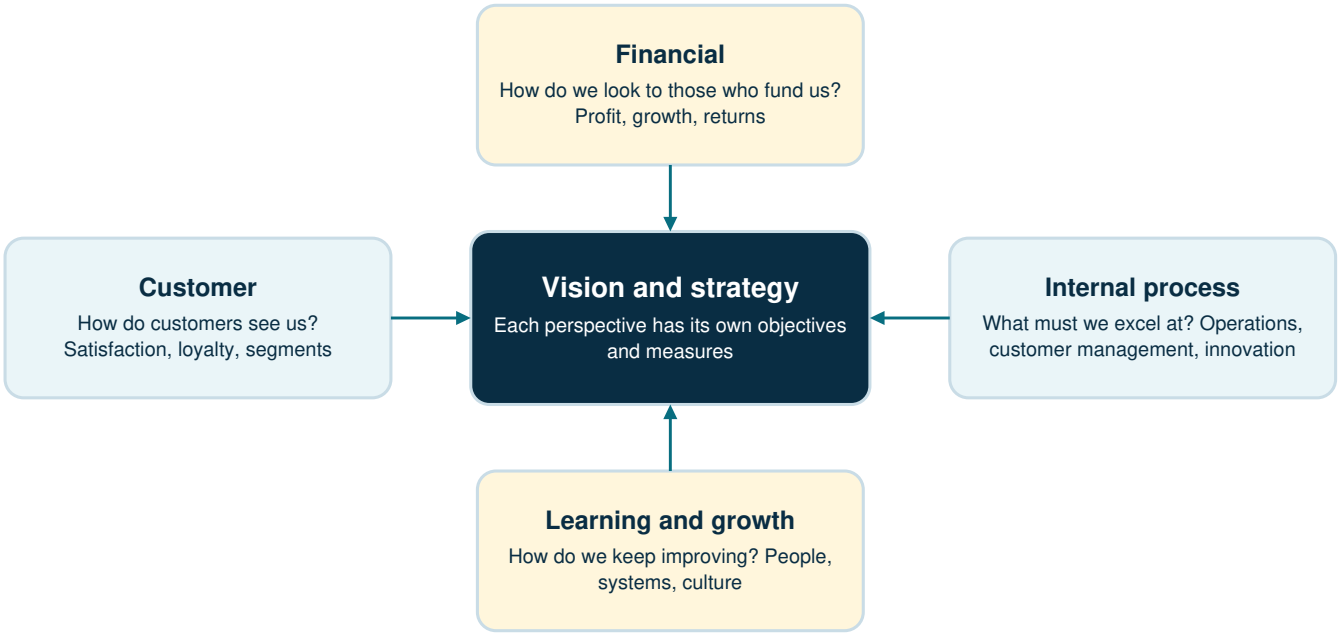
The balanced scorecard

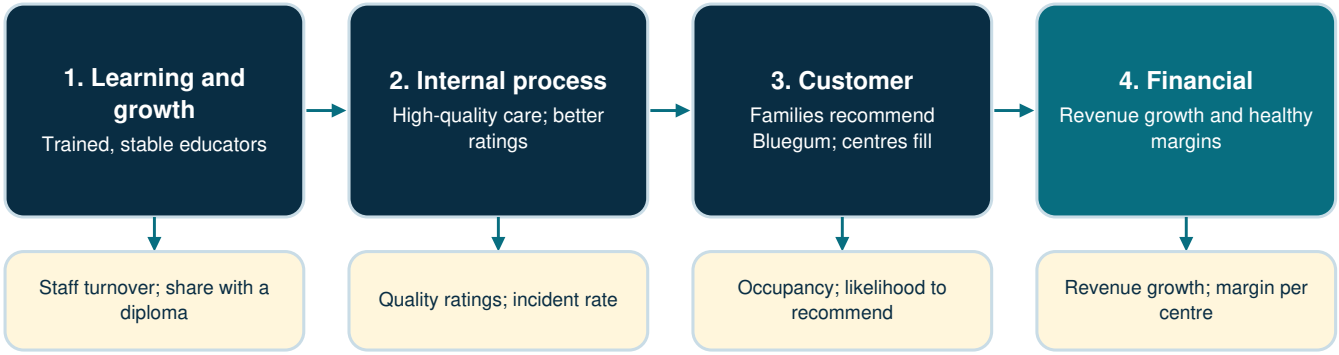
MODULE 3 | 3.4.2 | STUDENT COMPANION

The balanced scorecard (Kaplan and Norton, Harvard Business Review, 1992; book 1996) measures performance from four linked perspectives, balancing short and long term, external and internal, financial and non-financial, and different stakeholders. It suits companies, not-for-profits and government agencies.

The four perspectives of the balanced scorecard



A chain of cause and effect



Read it from left to right: cutting training to save money now can hurt profit later

Designing a scorecard

Step	What it involves
1. Clarify the vision and mission	Break them into goals and objectives for each perspective
2. Link to people	Connect objectives to the performance of teams and individuals
3. Plan and set goals	Set SMART goals for each objective (targets and initiatives follow in Module 6)
4. Feedback and learning	Review results and keep refining the strategy

SMART goals

Letter	Meaning	Bluegum example
Specific	Clearly defined	Reduce educator turnover
Measurable	Quantified	From 24% to 15%
Achievable	Realistic for time, resources and skills	Supported by a retention program
Relevant	Connected to purpose and strategy	Stable staff drive quality and occupancy
Timely	A clear time frame	Within two years

Part of an imagined scorecard

Perspective	Objective	Measures	Indicator type
Financial	Profitable growth	Revenue growth; margin per centre	Lagging
Customer	Families' first choice	Occupancy; likelihood to recommend	Mostly lagging
Internal process	Consistently high-quality care	Quality ratings; incident rate	Leading for customers
Learning and growth	Skilled, stable educators	Staff turnover; share with a diploma	Leading

Pair each lagging indicator with at least one leading indicator that drives it

Putting a dollar figure on a leading indicator (imagined)

Item	Working	Result
Educators employed	Given	300
Leavers at 24% turnover	300 x 24%	72
Leavers at 15% turnover	300 x 15%	45
Replacement cost per leaver	Given	$12,000
Annual saving	(72 - 45) x $12,000	$324,000

Why scorecards fail

- Too many measures: a handful per perspective is usually enough.
- Measures chosen because the data is easy, not because they reflect the strategy.
- A reporting ritual, completed and ignored, rather than a tool for managing strategy.
- Only lagging indicators, so problems show up too late.

Not-for-profits and government often place their mission at the top of the cause-and-effect chain, treating finance as a constraint rather than the final goal. Organisation-wide scorecards are usually **cascaded** to regions, units and teams.

Practice questions

MODULE 3 | 3.4.2 | TRY THESE BEFORE THE WORKED ANSWERS

Question 1 - Which perspective?

Measure for an imagined online fashion retailer	Perspective
(a) Website conversion rate	
(b) Share of orders returned	
(c) Gross margin	
(d) Repeat purchase rate	
(e) Days from order to dispatch	
(f) Staff training hours in data analytics	
(g) Revenue growth	
(h) Likelihood to recommend	
(i) New product lines launched	
(j) Employee turnover	

Question 2 - Make the goals SMART

Vague goal	SMART version
(a) Improve customer service	
(b) Grow online sales	
(c) Be more innovative	

Question 3 - A scorecard for a charity

Imagine **SecondServe**, a charity that collects surplus food from supermarkets and delivers it to community kitchens. Suggest one objective and one or two measures for each of the four perspectives, explain how you would adapt the scorecard for a charity, and identify which measures are leading and which are lagging.

Worked answers

MODULE 3 | 3.4.2 | WORKED ANSWERS - ATTEMPT THE QUESTIONS FIRST

Question 1 - Perspectives

Measure	Perspective
(a) Conversion rate	Customer (also reflects internal processes such as site design)
(b) Returns	Internal process (quality and sizing accuracy)
(c) Gross margin	Financial
(d) Repeat purchases	Customer
(e) Order to dispatch	Internal process
(f) Training hours	Learning and growth
(g) Revenue growth	Financial (also signals customer success)
(h) Likelihood to recommend	Customer
(i) New product lines	Internal process (innovation)
(j) Employee turnover	Learning and growth

Question 2 - SMART goals

Vague goal	SMART version (example)
(a) Customer service	Raise customer satisfaction from 78% to 85% by 30 June next year, measured by a quarterly survey
(b) Online sales	Grow online revenue from $2.0m to $2.6m (30%) in the next financial year
(c) Innovation	Launch three new products that each reach $250,000 in sales within 18 months

Question 3 - SecondServe (example)

Perspective	Objective	Measures	Leading or lagging
Mission (placed at the top)	Feed more people	Meals delivered; kitchens supplied	Lagging
Customer (kitchens, donors)	Reliable partner	On-time deliveries; donor satisfaction	Leading for the mission
Internal process	Efficient, safe collection	Kilograms rescued per van; food safety incidents	Leading
Learning and growth	Skilled, committed volunteers	Volunteer retention; trained drivers	Leading
Financial (a constraint)	Sustainable funding	Months of reserves; cost per meal	Lagging