Measuring performance with a balanced scorecard

Measures in the balanced scorecard provide balance between

◦ Short-term and long-term objectives
◦ Outcome measures and drivers of those outcomes
◦ Objective and easily quantified measures and subjective performance measures

Linking non-financial measures to financial performance

Improvements in non-financial measures will not result in improved profits if:

◦ Management has selected the wrong critical success factors
◦ Management fails to utilise freed up resources
◦ The performance measurement system is incorrectly designed

Features of a Good Balanced Scorecard

Commitment and leadership from top management
Helps communicate the strategy to all members of the organization
Tells the story of a firm's strategy, articulating a sequence of cause-and-effect relationships
Must motivate managers to take actions that eventually result in improvements in financial performance
Limits the number of measures, identifying only the most critical ones

Balanced Scorecard Implementation Pitfalls

Managers should not assume the cause-and- effect linkages are precise: they are merely hypotheses
Managers should not seek improvements across all of the measures all of the time
Emphasize the positive
Embrace participation and empowerment
Managers should not use too many measures – keep it simple
Link to rewards

The major limitations of traditional financial performance measures:

- Traditional performance measures are not actionable; they describe consequences, not causes. They are too aggregated and they do not tell operational managers what needs fixing. Also, financial measures tend to be reported at the end of each month, so they are not timely.
- Traditional performance measures emphasise only one perspective as they only focus on costs. Managers need a performance measurement system that assesses how well they perform across the full range of strategically important areas, such as quality and delivery performance, as well as cost.
- Financial performance measures provide limited guidance for future actions, emphasising only immediate financial outcomes of actions and decisions.
- Financial performance measures can encourage actions which limit future competitiveness. This is particularly the case when there is excessive pressure to achieve short-term financial results.

How do a BSC relate to an SPMs? Explain your answer?

The Kaplan and Norton (1996) balanced scorecard exhibits the characteristics of a strategic performance measurement system and is probably the most well-known example of an SPMS. Other examples include the performance pyramid (Lynch and Cross, 1991), the performance prism (Neely and Adams, 2000), and the intangible asset scorecard (Svieby, 1997).

The balanced scorecard translates the organisation's mission and strategies into objectives and performance measures for (usually) four key strategic perspectives for profit orientated entities: financial, customer, business process and learning and growth. The Kaplan and Norton (2004) strategy map provides visual representation to further explain the cause and effect relationships that link the objectives of the four perspectives of the BSC and the organisation's objectives. Not-for-profit organisations may design a balanced scorecard to include perspectives such as stakeholder, community and people.

The Kaplan and Norton balanced scorecard translates the organisation's mission and strategies into objectives and performance measures that reflect four different perspectives: the financial perspective, the customer perspective, internal business processes, and learning and growth. Measures can be identified for managers at each level in the organisation.

Effective management of non-financial measures may not flow through to improved financial performance for several reasons:

- The measures may focus on the wrong critical success factors.
- Management may fail to utilise freed up resources that result from improvements in areas such as productivity and quality for other profitable activities.
- There may be a lag between improvements in non-financial measures and subsequent flow through to improvements in financial performance.
- The performance measures selected may not be well designed. They may encourage dysfunctional actions which maximise performance in those particular non-financial areas at the expense of other important areas, or encourage manipulation or falsification of performance.
- **Improved product quality and improved time-to-market may not necessarily be accompanied by higher profits for reasons such as:** Improving product quality and time-to-market may not be the right strategic priority for the organisation, the product and/or the targeted market. For example, the home handy person may not seek the same durability in DIY tools as a tradesman who will use them daily and receives a tax deduction for their purchase. However, the home handy person is likely to look for high quality in the materials they use as the materials bought are probably for work in their own home, whereas the tradesman may be prepared to use lower quality materials in jobs he is doing for others.
- There could be a long time lag between the improvement in quality of products and improved profits, especially if customers who have been disappointed in the product quality in the past need to be encouraged to buy the improved product.
- It is possible that the measures of quality have been manipulated/falsified. Hence, the 'real' performance is best reflected in the profit measures.
- These improvements may have been achieved at significant financial costs. (If bonuses depended on achieving favourable outcomes for product quality and time-to-market but ignored costs and profits, the system would encourage dysfunctional behaviour!)
- If these improvements have resulted in freed up capacity, it is important that those resources are put to use. Sometimes resources accumulate more costs after they have achieved their object, such as equipment lying idle, labour not being redeployed, and so on.

Management accountants' role in benchmarking: Management accountants can play a variety of roles in benchmarking activities. They may become involved in determining the appropriate functions to benchmark, be a part of a multidisciplinary benchmarking team and manage data collection and analysis.

he four types of benchmarking and some of their advantages and limitations:**1** ***Internal benchmarking*** involves benchmarking between units of the same company. This is the simplest form of benchmarking to use, as it is relatively easy to gain access to other areas of the one organisation. However, internal benchmarking partners may not provide the best benchmarks as they may not be the best performers in certain areas. Also, they may be operating in dissimilar markets and industries, so processes and measures may not be directly comparable.

2 ***Competitive benchmarking*** involves a company identifying the strengths and weaknesses of competitors to assist them to prioritise areas for improvement