

Are you

balanced?

The balanced scorecard management concept has evolved dramatically since its inception in the 1990s. But along the way, a little of the original ethos may have been lost.

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FEATURE PERFORMANCE

By Mike Hurle



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Back in the days of the cathode ray television and the Sony Walkman, companies asked two main questions when evaluating performance – were sales rising and were costs falling? The balanced scorecard was devised by Robert Kaplan of the Harvard Business School and management consultant David Norton as a more holistic evaluation system, to help companies sustain growth and realise strategic objectives.

An outgrowth of the Total Quality Management (TQM) concept, the balanced scorecard emphasised performance-based, forward-looking indicators. In its original form, it required management to select metrics under four complementary categories: customer satisfaction and loyalty, learning and growth, internal business processes and financial results.

For decades, managers and analysts believed only the numbers mattered. The balanced scorecard gave management a new means by which to assess value creation – to ensure today's profits did not come at the expense of tomorrow's growth and development.

This was done through a scoring system that allowed management to track performance – and progress towards specific goals.

From the classroom to the boardroom

There are few better examples in the history of management science of an academic theory being transported and transplanted at the heart of corporate decision-making. During the 1990s the balanced scorecard was embraced by the world's largest corporations – and even by a few innovative start-ups. However, a decade after the term first became common parlance in American business schools, the balanced scorecard morphed, taking on contrasting and sometimes contradictory meanings.

One reason for this is its inherent flexibility. Within the four broad parameters set out in the scorecard, there are no universally accepted metrics. Instead, management is free to choose a set of indicators covering the internal and external, the short-term and long-term – and the financial and non-financial. Management selects metrics that align with the company's stated strategic objectives – and the fundamentals of its particular industry.

The popularity of the balanced scorecard also has much to do with its simplicity. Although Kaplan and Norton recom-

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mended hiring external consultants to identify initial strategic objectives, an internal strategic team can usually implement it with little outside help. Over time companies have inevitably mutated and developed their scorecards to serve differing needs – it can even be incorporated within other forms of internal quality control assessment.

This flexibility means that in Hong Kong, the balanced scorecard has been adopted in almost equal measure across the economy. “We have seen the system adopted by all kinds of organisations, from government, to financial services, to manufacturing and construction,” says Raymond Cheng of the Hong Kong Productivity Council. “It's an effective way to motivate staff and encourage creativity – that's important in any competitive business.”

Keeping score in Hong Kong

Cheng believes the balanced scorecard has rapidly gained acceptance in Hong Kong's business community. “If you had asked me three years ago I would have said only 20 percent of firms knew about the balanced scorecard, now it's probably up to 70 or 80 percent,” he says.

With CPAs and CFOs taking a leading role in its application, financial metrics have a prominent position, running counter to the ideals of many early balanced scorecard advocates, who argued the system was about raising the visibility of non-financial, lead indicators. As Cheng points out, “Most companies treat financial data as the most important single set of indicators, with the biggest weighting,” although he does concede that this depends on the nature of the industry.

Few companies have taken the balanced scorecard further from its original ideal than Citibank. It was one of the first

A company may compile a balanced scorecard using dozens, even hundreds, of different metrics. The following are a few examples of conventional performance metrics:



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companies to adopt the technique in Hong Kong and it now uses it primarily as a performance reporting system. The audience is senior management, and beyond that, the analyst community.

“Citibank is an American company with a very open culture,” says Andy Ho, vice president for regional business planning and analysis. “The message we get from head office is, ‘you need to pick the metrics and fill in the blanks, to tell us what’s important.’ To some extent regional offices such as Hong Kong must use the balanced scorecard as a marketing exercise, to justify our presence and show that we are meeting expectations.”

Citibank’s metrics focus on financial performance, market share and risk, with less attention paid to customer loyalty or human capital development. “The main benchmarks we use are all commonly accepted on Wall Street,” says Ho. “A few examples would be operating leverage, return on equity and return on risk capital.”

Ho points out that customer relations is an important factor, but that it is best understood by measuring “flow business” in relation to proprietary or trading income. He says attempts to value staff and measure their loyalty proved even less than fruitful. “It’s probably just a fact of life in investment banking that people will move on every three or four years,” concedes Ho. “We leave that stuff to the human resources department. It means our balanced scorecard can be more externally focused.”

The balanced ideal

Other companies have found more value in non-financial indicators and stayed closer to the original balanced scorecard ideal. Peter Y. H. Wong, CFO of Tai Fook Securities, believes the approach has been a good way for his company to distribute incentives to staff. “Tai Fook now places more importance on internal indicators such as attendance and staff turnover,” he says. “We communicate our objectives through inclusive discussion sessions. In turn, these allow us to map out goals for each individual employee more clearly.”

Compared with Citibank, Tai Fook’s approach is less tailored to one particular audience. “The balanced scorecard provides information that we can communicate to all our stakeholders,” says Wong. “The reason we favour it is that it allows us to identify issues and make necessary changes at an early stage.”

Wong believes the balanced scorecard is most effective as a measurement tool when all departments have a stake in the selection of performance metrics. He formed a committee to implement the balanced scorecard, involving the human resources, IT, customer service and operations departments. Yet despite his inclusive approach, financial metrics still have the largest weighting, at around 40 percent.

Taking it forward

In the hard and fast commercial world of Hong Kong it’s hardly surprising that money talks. While some non-financial metrics have proved effective as lead indicators, there is no doubt that the balanced scorecard system continues to rely heavily on financial information.

The latest changes to accounting standards, with the greater emphasis on transparency, fair value and sophisticated distinctions between different intangible asset classes, may further elevate the role of financial reporting on the scorecard.

Despite this, Cheng believes non-financial metrics should always be at the heart of any scorecard system. “It can be difficult to correctly quantify non-financial indicators,” he admits, “but it can be extremely valuable if you get it right. Our view is, ‘if you can’t measure, you can’t manage’.” **A**