

Executive Brief

Understanding Balanced Scorecards

Traditional financial reporting systems provide an indication of how a chamber or organization firm has performed in the past, but offer little information about how it might perform in the future. For example, an organization might reduce its level of customer service in order to boost its operating surplus, but then future reserves might be negatively impacted due to reduced customer satisfaction. The **Balanced Scorecard** was created to provide a more effective way to manage and measure businesses and organizations. It is a strategic management and performance measurement system that considers not only financial measures, but also customer, business process, and learning measures to dramatically increase operating surplus for the short and long term.

Balanced Scorecard Benefits

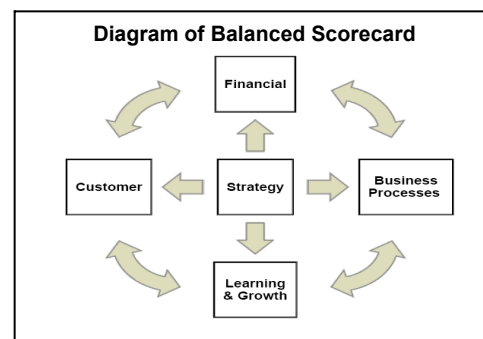
Leading and managing a chamber or organization is never easy. Challenging goals. Divergent interests. Tight budgets. Demanding clients. Keeping everyone aligned on what's important. While traditional tools are helpful, organizations invariably need more. Utilizing the Balanced Scorecard can help an organization:

- Reach breakthrough goals
- Align toward new strategies
- Drive new revenue growth
- Reduce expenses
- Increase efficiencies
- Show a general prediction of what will happen with future performance
- Develop a strategy map and key objectives
- Identify what needs to be measured in order to reach goals

How Balanced Scorecards Work

The balanced scorecard translates the organization's strategy into four perspectives while ensuring a balance between the following:

- internal and external measures
- objective measures and subjective measures
- performance results and the drivers of future results



“70% of CEO failures were due to poor execution of good strategies.”

— Fortune Magazine

Beyond the Financial Perspective

In the industrial age, most of the assets of a firm were in property, plant, and equipment, and the financial accounting system performed an adequate job of valuing those assets. In the information age, much of the value of the firm is embedded in innovative processes, customer relationships, and human resources.

The financial accounting system is not so good at valuing such assets. The Balanced Scorecard goes beyond standard financial measures to include the following additional perspectives: customers, internal business processes, and learning & growth.

- **Financial perspective** - includes measures such as operating income, return on capital employed, and economic value added.
- **Customer perspective** - includes measures such as customer satisfaction, customer retention, and market share in target segments.
- **Business process perspective** - includes measures such as cost, throughput, and quality. These are for business processes such as procurement, production, and order fulfillment.
- **Learning & growth perspective** - includes measures such as employee satisfaction, employee retention, developmental skill sets, cross-functional and department needs, etc.

These four realms are not simply a collection of independent perspectives. Rather, there is a logical connection between them - learning and growth lead to better business processes, which in turn lead to increased value to the customer, which finally leads to improved financial performance.

Objectives, Measures, Targets, and Initiatives

Each perspective of the Balanced Scorecard includes objectives, measures of those objectives, target values of those measures, and initiatives, defined as follows:

	Objectives	Measures	Targets	Initiatives
Financial				
Customer				
Process				
Learning				

- **Objectives** - major objectives to be achieved, for example, profitable growth.
- **Measures** - the observable parameters that will be used to measure progress toward reaching the objective. For example, the objective of profitable growth might be measured by growth in net margin.
- **Targets** - the specific target values for the measures (e.g., +2% growth in net margin).
- **Initiatives** - action programs to be initiated in order to meet the objective.

“Execution is a systematic process of rigorously discussing hows and whats, tenaciously following through, and ensuring accountability.”

—Larry Bossidy & Ram Charan/ *Execution: The Discipline of Getting Things Done*

Balanced Scorecard as a Strategic Management System

The Balanced Scorecard, originated by Drs. Robert Kaplan (Harvard Business School) and David Norton, originally was conceived as an improved performance measurement system. However, it soon became evident that it could be used as a management system to implement strategy at all levels of the organization by facilitating the following functions:

- **Clarifying strategy** - the translation of strategic objectives into quantifiable measures clarifies the management team's understanding of the strategy and helps to develop a coherent consensus.
- **Communicating strategic objectives** - the Balanced Scorecard can serve to translate high level objectives into operational objectives and communicate the strategy effectively throughout the organization.
- **Planning, setting targets, and aligning strategic initiatives** - ambitious but achievable targets are set for each perspective and initiatives are developed to align efforts to reach the targets.
- **Strategic feedback and learning** - executives receive feedback on whether the strategy implementation is proceeding according to plan and on whether the strategy itself is successful ("double-loop learning").

These functions have made the Balanced Scorecard an effective management system for the implementation of strategy. The Balanced Scorecard has been applied successfully to private sector companies, non-profit organizations, and government agencies.

Conclusion

Fremont utilizes the Balanced Scorecard to improve the performance of its clients. This unique methodology allows an organization to dramatically improve its operating margin quickly and affordably. Fremont helps you create a collaborative environment conducive to success.

About Fremont Development Group

Since 1994, Fremont Development Group has used its proven methodologies and innovative strategies to help raise funds, increase charitable giving, and clarify vision for Chambers, non-profits, and economic development organizations across the United States. As a fundraising consulting company, Fremont partners with clients who seek to grow their financial resources and execute successful campaigns. By assisting clients in developing a clear vision, involving diverse stakeholders, planning for the future, and executing against plan, Fremont helps non-profits accomplish their mission by generating the revenue needed to become self-sustaining organizations.

Headquartered in Atlanta, Georgia, Fremont Development Group serves clients across the United States. Please visit www.fremontdevelopment.com, call (404) 459-0401, or email info@fremontdevelopment.com to learn more.