THE PROCESS OF STRATEGIC PLANNING

ARTICLE #8 OF 10
THE BALANCED SCORECARD

Strategic planning pays dividends to companies when approached in a disciplined process with top-down support and bottom-up participation. The following is the eighth in a series of ten articles describing one proven, tested process for effective strategic planning

The measurement system of the business affects both the behavior of the managers and the employees and the results they achieve for the business. What the business measures, tracts, and reports are generally what it gets for results.

In sports "score" is kept to determine who wins, who performs, what records are set and who is the champion. In business "score" is kept to report results, to effect behavior, to reward and to recognize performance. But, it is also kept to determine progress against the long-term goals of the Strategic Plan and the short-term goals of the Annual Business Plan.

Traditional financial measures alone do not adequately report results of the more complex, competitive business environment of today. So the scorecard of the past becomes the "Balanced Scorecard" of today. The measured results today move beyond the traditional goals of income, cash flow and financial ratios. They add process performance measurements around issues like continuous improvement, supply chain management, and customer satisfaction.

Significant improvement in these new measures will focus behavior to "do the right things" and will result in improved traditional financial results.

A balanced view and narrowly focused use of financial measures and operational measures will drive managers and employees to make better operational decisions. It will also encourage and direct managers to undertake tactical activities that are consistent with the goals of the Strategic Plan and the expectations of the stakeholders of the business.

Following are examples of financial goals appropriate for consideration on the Balanced Scorecard:

Financial Goals

- 3% Increase in Sales for the current Year
- 13% Increase in Sales for next three Years
- Inventory Reduction to $7M in the current year

- Inventory Reduction to $18million in the next three years
- Maintain Current Profit Margins 27%
- Increase Inventory Turns from 1.9 to 2.6 incurrent year
- Increase Inventory Turns to 4.3 times within three years

The next lists are examples of non-financial goals related to metrics not directly reported on traditional financial statements. However, these metrics are related to process and execution issues that can substantially impact and influence the financial metrics. Examples might include the following:

Non-Financial Goals

- Improve Customer Satisfaction Levels to 9.8 from 9.5 (10point scale)
- Improve On-Time Delivery to 99.7% from 98.5%
- Reduce Obsolete Inventory from 3% of Sales to 1% of Sales
- Reduce the number of stock keeping units by 10%
- Reduce employee turnover by 25%

Promise to Employees

To create a positive working environment where each associate can grow professionally and financially through continuous education, job stability, and competent management. (measure through employee surveys)

Throughout the first seven articles in this series we focused on both the internal and external perspectives of the company. We tried to define how we see ourselves, how others see us and what do we need to do to improve.

In their Harvard Business Review article, Kaplin and Norton define four distinct perspectives. First, how do we look to our shareholders (financial results)? Second, how do we look to outsiders, customers and suppliers (satisfaction results)? Next, what must we excel at (internal business process results)? And fourth, can we continue to improve and create value (innovation and learning results)?

During the process of developing a Strategic Plan and Strategic Statements for the business and for the functions we defined what is important to do and to measure. From this work we can develop the Balanced Scorecard elements important for the business and appropriate for driving behavior and results.

If the Scorecard measurements selected for the business are grounded in the long term Strategic Plan and focused on the near term Annual Business Plan then the opportunity exists for breakthrough results. Improvements can be anticipated in both the traditional financial measures and in the process and performance measures around the issues of product, process, employee, customer, supplier, and market development. The selected metrics must be a balanced mix of both financial and non-financial measures, and must be few but important to the sustainability of the business.

John F. Dix and H. Lee “Buck” Mathews
Business Development Index, Ltd. and The Ohio State University
Columbus, Ohio

****

(Article # 9 in this series of 10 will deal with the Evaluation Process)