

Best time to implement the Balanced Scorecard

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Most organizations especially the small to medium size organizations are feeling overwhelmed at present with regard as to where to start, to survive and thrive in the new reality that we will experience when the lockdown ends. In this article, I will explain what I believe is going to happen and how the balanced scorecard methodology implemented correctly can assist to provide direction and plans.

Let me first create some context for my statement that this is the best time to implement the balanced scorecard

What will be the impact on the way organisations operate because of Covid-19, Climate change, the fourth industrial revolution and the unstable political situations in many countries including the so-called superpowers?

As a result of the lockdowns, organisations have had to implement new ways of working to continue business activities. These are allowing admin staff to work from home which can become more acceptable in the future because:

- It reduces the need for expensive office space
- Allows people to use their time more effectively instead of commuting to the office and back
- Reduces pollution from traffic as we saw during the lockdown
- Technology that allows remote interaction (zoom, Meetings etc)

This, however, will require robust Performance management systems to build trust and that the organisation is getting the value form the staff that they are paying for. This should have been the case when people are working at the office by measuring their output in relation to the targets that the organisation has set for itself.

I also believe that the era of the SMME (Small Micro Medium Enterprise) has arrived because at a time like we are experiencing now organisations will have to relook their cost structures etc. to survive. Changes that I foresee are:

- Specialist functions like (Payroll, Project management, safety and health officers, PA, and even reception can now be done remotely) will be sourced as and when they are needed. This will reduce the number of permanent employees and cost.
- A large number of unemployed people will need to generate income and will sell their specialist skills to organisations without expecting to be permanently employed. These specialist functions will most probably combine in SMME's that sell service to many companies. We have seen this happening already in the beauty industry where an entrepreneur provides the location and the individuals rent the chair and service their customers. If they are not available there is another

person that can assist without impacting on customer service

- Accelerated online retail will have an impact on the brick and mortar retail trade. This could result in opportunities for the logistics and courier industry
- Further disruptions due to disruptive events can be lessened when the resources employed by organisations are not concentrated in one site.
- Rapid technological changes will enable virtual workspaces, more effectively with less cost, as the prices of data and technology is reduced due to more competition in these services.
- The more people are working in small independent clusters the power of the unions will be diminished. Contracting of resources will become more the norm requiring contracting skills from Management.
- The general population is going to demand more from organisations. The loss of jobs due to cheap imports, captured government officials etc. will need to be addressed. Countries will need to reevaluate their dependence on countries like China etc. based on price. We have seen that Japan has set aside \$2 billion to assist Japanese companies to move their production to either Japan or other countries due to the risk of dependence on one country.

All the above will require organisations to have a system like the Balanced Scorecard to ensure that they are tracking performance and results.

When we analyse the new corporate governance principles and practices, (KingIV) we see emphasis placed on governing bodies being held accountable for efficient and effective management of the organisations 6 capitals (Financial, Manufactured, intellectual, human, social and relationships, and natural) within the triple context (Economy, society, and environment). When we match these to the balanced scorecard perspectives, we see a close synergy to the 4 perspectives as follows:

- Financial capital = financial perspective
- Manufactured capital = internal process perspective
- Intellectual capital = Learning and growth and process perspectives
- Human capital = Learning and growth= perspective
- Social and relationships = Customer perspective
- Natural = Internal process

Other areas that the governing body is accountable for that also fit into the BSC perspectives are.

Risk and opportunity = Internal process

Disaster management and business continuity = Financial and process perspective

Technology and information = Learning and growth and process perspectives

These enable the governing body and executive management to define strategic objectives and measures that provide not only a business dashboard but also a governance dashboard. When I speak at corporate governance conferences I am asked how do we measure the performance of the governing body, which

is now a corporate governance requirement, my answer is if they have an inclusive dashboard and perform their oversight role then they will be performing. Simply put their role is to ensure that executive management is implementing the agreed strategy and insist on corrective action where required

The new corporate governance guidelines emphasise the need for ethical leadership noting that ethical leadership involves:

- Involves anticipation and prevention of negative consequences on the economy, society, and environment while creating a sustainable organisation
- Leading the organisation Effectively and efficiently taking all stakeholders needs into consideration
- Results-driven by the achievement of strategic objectives
- Taking accountability for the organisational performance
- Oversees and monitoring implementation and execution by management.

From the above, it is evident that governing bodies and executive management and by extension all the layers of management and control need a tool like Balanced Scorecard to achieve the required results expected by the stakeholders

There is a strong drive to link executive and I believe in future governing bodies remuneration to the achievement of:

- Performance measures and targets used as a basis for awarding of variable remuneration which will include:
 - Workplace (e.g. employment equity; fair remuneration)
 - Economy (e.g. economic transformation; prevention, detection and response to fraud and corruption)
 - Society (e.g. public health and safety; consumer protection).
 - Environment (e.g. pollution and waste disposal;)

Stakeholders will in future be more critical of remuneration policies that only focus on short term financial performance leaving the organisation vulnerable to disruptive events because no provision has been made to weather the storm. I believe this can also be a valuable tool where stakeholders like shareholders, staff suppliers demand excessive dividends, salary increases etc. can be reminded of the need to invest in the future.

The governing body should appreciate that the organisation's core purpose, its risk and opportunities, strategy, business model, performance and sustainable development are all inseparable elements of the value creation process and are thus responsible for:

- Approving the policies and operational plans developed by management to give effect to the approved strategy.
- Include the key performance measures and targets

- Management is responsible to implement and execute the approved policies and operational plans.
- For ongoing oversight (Dashboard) of the implementation of strategy and operational plans against performance measures and targets.
- Responsible to continually assesses, respond to, the negative consequences of performance targets
- The general viability of the organisation with regard:
 - Reliance and effects on the capitals,
 - Solvency and liquidity, and it's status as a going concern

This again shows the need for a robust performance management system that measures more than just the financial performance of the organisation. There will be people that will say that if the governing body has access to the business scorecard, they will be getting involved in the day to day management of the organisation. This is however countered by ensuring that the Plan Do Review cycle provided action plans for targets that are not met and attached these plans to the dashboard

The governing body should govern risk in a way that supports the organisation in setting and achieving its strategic objectives by:

- Exercise ongoing oversight of risk management that it results in the following:
 - Risks and opportunities from the triple context and the capitals are recognised
 - Assessment of the potential upside, or opportunity.
 - An assessment of dependence on resources and relationships by the various forms of capital.
 - The Design and implementation of risk responses.
 - The Establishment and implementation of business continuity arrangements that allow the organisation to operate under conditions of volatility, and to withstand and recover from acute shocks.
 - The integration and embedding of risk management in the business activities and culture of the organisation.

BSC properly implemented will ensure that for each strategic objective a risk assessment is done and measures defined that assists with the management of the associated risks.

Balanced scorecard implementation

- Many will say we do not have the time now while we are trying to cope with the COVID-19 induced lockdown. My answer is you have no choice, now is the time to plan how to survive in the short term and how are we going to thrive when economies rebound
- Doing what you used to be doing is not going to ensure survival or prosperity. We will need to put plans in place some that will work and some that may not work. The critical information will be to have a system that will tell us what is working and what is not working quickly so that we can make course adjustments before wasting scarce resources on ineffective strategies
- BCS implementation should not be a difficult task as simplicity ensures everybody is focused on

the result, not the process. The problem with many BSC implementations is that they become Paper tigers and organisations start working for the system and not focus on the messages that the results are providing.

- New strategies are going to be required and leaders better get going a crisis is a terrible thing to waste. There will be new opportunities to exploit for those that are prepared

Balanced scorecard

- Now is the time to:
 - Decide on the direction that will help the organisation to survive in the short term but also thrive when economies normalise
 - Set objectives and targets to measure if you are on the right track or whether it is time to re-evaluate and change before you invest effort in a strategy that is not working.
 - One of the reasons many BSC implementations do not live up to expectations are:
 - Trying to do too much too soon especially now when it is going to be tough in a depressed economy. However, this is also the time when new and exciting endeavours are going to see the light.
 - Not ensuring simplicity - to ensure that every stakeholder (Staff, Bank, Suppliers etc.) required to assist with implementing the new strategies is on board.
 - No governing body and executive participation and support, leaving it up to consultants. Involve the stakeholders and get to the point where everybody speaks about their plan.
 - Too many objectives and measures
 - Measuring results at the wrong level e.g. wastage in manufacturing at the executive level. If there is wastage on production, it will result in gross profit not being met.
 - To have the right information at the right time and place to make decisions. Very few organisations are going to have the luxury of wasting effort and resources for any length of time on strategies that are not delivering according to target. The BSC implemented correctly will provide early warning signals that will be easier to either correct or to change direction.
 - Early warnings are not always because of internal issues but external factors that can be the forerunners of disruptive events that could be developing. This requires companies to adopt the attitude that we do not find excuses but perform proper root cause analysis when not meeting the target and then making plans on how to achieve target or alternatives that need to be considered.
 - Having clear objectives and a system that provides information on progress against the target and if the target is not met that there are plans to rectify the position. It is not about always being right but to be brave enough to show where you are succeeding and where there are failures. Thake failure is an opportunity to improve.

The above suggestions may assist you in preparing for the future.

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Nic has extensive experience in the banking industry. Although he has also been involved in a diverse range of other industries his primary focus centres on strategic management facilitation where he has extensive knowledge of the Balanced Scorecard. Coupled with this Nic has an excellent knowledge of business processes and process modelling tools. He also has a solid track record in project management where he has been highly successful in the development and delivery of numerous successful training interventions. He has assisted several organisation in implementing Balanced scorecard and individual performance management, Risk management identification and assessment, process improvements and disaster and business continuity management.

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