IMPROVING QUALITY SERVICE THROUGH BALANCED SCORECARD

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Abstract

Resting on the principle of "*What you measure is what you get",* the Balanced Scorecard helps link and translate vague corporate strategy to individual performance. In addition to the traditional financial perspective goals, the Scorecard suggests a holistic, flexible, powerful and balanced approach to measuring and managing corporate performance. Measures from the perspectives of customer, process and learning are identified as drivers for financial performance. The process of developing the Balanced Scorecard clarifies and communicate corporate strategy to every employee in the organization. The goals of respective business units and individuals can thus be aligned to improve overall quality service.

1. Measures that are Balanced

The concept of Balanced Scorecard took shape in the early 90's as a result of a major research on "Measuring Performance in the Organization of the Future" led by Kaplan and Norton.[1] The scorecard covers four distinct and interrelated perspectives -- financial, customer, internal, and innovation & learning. It is *balanced* between short- and long-term business objectives, between cause and effect measures, between objective and subjective performance indicators, between external and internal views and between financial and non-financial measurement. It has also been described as an aggregated model integrating financial and non financial indicators. [2]

In today's era of rapid and turbulent changes, traditional management information focusing solely on financial data is no longer adequate. Financial MIS is being criticized as being backward looking. [3] The leading causes to the financial outcomes are often overlooked. Not enough attention has been accorded to how customers are satisfied or delighted, how processes can create a winning edge over competitors to please the customers, and how employees can be trained and developed to improve on the processes. These perspectives are causally linked ultimately to the financial perspective.

Many organizations have started to introduce non-financial measures to supplement the financial ones. [4] However a lot of these measures may seem useful and important, they are ad hoc and diffused without clear focus relating to the business strategies.

To be effective, the objectives and measures of the balanced scorecard need to derive from the company's vision and strategy. It has to capture the critical value-creation activities as value drivers for long term business excellence and success. Those processes which are crucial to business excellence for the stakeholders are identified. The scorecard is based on a series of causal relationships leading to achieving business strategy. Periodic reviews and monitoring are essential to ensure the scorecard has not been off track. Kaplan et al. [1] reported that an electronic company which had during 1987-1990 achieved improvement in defect rates by a factor of 10, doubled the yields and

Koo, L. C. (1997) "Improving Quality Service through Balanced Scorecard" *Proceedings of The 2nd International Conference on Quality and Reliability*. The paper was published in the special issue (Vol. 15 No. 1, June, 1998) of the *Transactions of Nanjing University of Aeronautics and Astronautics (TNUAA), China, pp. 147-153*

reduced missed delivery from 30% to 4%, failed to translate quality improvement and customer satisfaction to financial bottom-line and its stock price had dropped by 70%! Had the causal link with financial performance been broken, the management team should go back to the drawing board and revisit the non-financial measures. This built-in flexibility feature inherent in the balanced scorecard differentiates it from the other uncoordinated non-financial measures used by many organizations.

2. Financial Perspective Measures

Financial objectives should at all times serve as the focus of all other non-financial perspectives which have a cause-and-effect linkage with the financial measures. Bearing this point in mind one can avoid developing Scorecard as a set of unconnected, diffused and perhaps conflicting measures.

Measures aim to reduce costs must not interfere with achieving important customer, internal process and learning objectives.

3. Customer Perspective Measures

The customer perspective measures translate general corporate mission and strategy statements into specific market- and customer-focused targets. Typical core measures can include: market and account share, customer retention and acquisition rates, customer satisfaction, and customer profitability.

It is vital for the company to understand what are their unique customer value propositions. These value propositions can be categorized into:

- Product / Service Attributes (Functionality; Quality; Price; & Time)
- Customer Relationship (Convenience; Responsiveness; Personal Service)
- Image & Reputation (Brand image; Professional Management)

Some companies employ "Mystery Shopper" to assess the achievement of objectives from customers' perspectives.

4. Internal Business Process Perspective Measures

These process objectives and measures have to derive from clear and unambiguous strategies to meet shareholder and customer expectations from the top management. As a result entirely new and innovative business process may emerge.

Kaplan et al. [1] advocate that the processes should start from identification of customer needs until satisfaction of their needs. The model includes three key business processes, viz.:

- Innovation Processes (Market Identification; Creation of Product / Service Offering)
- Operations Processes (Building the Product / Service; Delivering of the Product / Service)
- Post Service Processes (Servicing the Customers)

A number of innovative process measures have been cited by Kaplan ibid. e.g. : "Trailway to Trolls"; Manufacturing Cycle Effectiveness (MCE) and First Pass Yield.

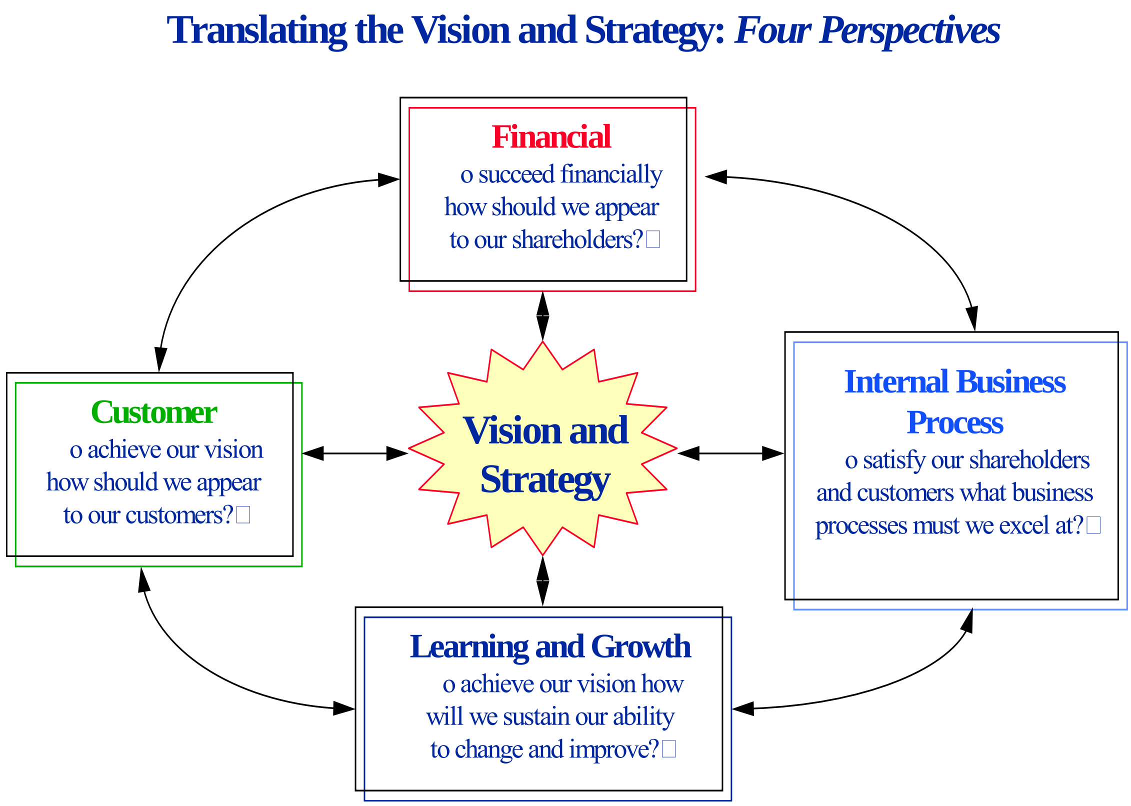
5. Learning and Growth Perspective Measures

The learning perspective measures are often neglected and yet they provide the important infrastructure to achieve the ambitious financial, customer and process objectives. The learning perspective measures can be grouped into three categories, viz.:

- Employee Capabilities (e.g. employee commitment; employee retention; employee productivity;)

- Information Systems Capabilities (e.g. strategic job coverage ratio; strategic information coverage ratio)
- Motivation, Empowerment, and Alignment (e.g. half-life metric on cost, quality, or time; team-based performance measures)

Hitt [5] defines a learning organization as one that is striving for excellence through continual renewal, one that is continually getting smarter. Through a virtuous cycle, the organization increases its IQ continually. Such a learning organization selects its staff on the basis of their ability to learn.



6. What Balanced Scorecard can do

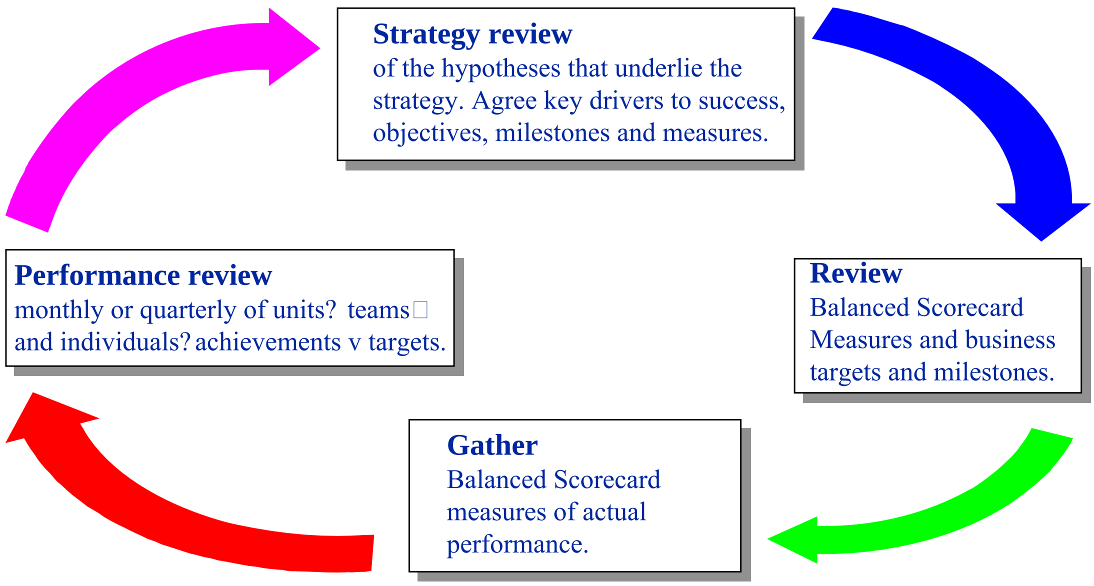
"What you measure is what you get" is common sense wisdom. For ages, management has been using performance measurement tools to manage the behaviours of their employees. Lingle [6] reported the conclusion of a national survey with executives: measurement plays a crucial role in translating business strategy into results. Balanced Scorecard is thus more a management tool than a measurement tool. This conclusion is in line with the definitions of "Performance Measurement" (*the process of determining how successful organizations or individuals have been in attaining their objectives*) and "Performance Management" (*a systematic, data-oriented approach to managing people at work that relies on positive reinforcement as the major way to maximize performance*) [7] .

Kaplan et al. [8] suggest scorecard can bring together many seemingly disparate items in a single management report and can guard against suboptimization. The scorecard clarifies, simplifies and operationalize the vision at the top. The scorecard puts vision and strategy, not control, at the centre of everything people do. It pulls people toward the overall strategic direction and helps managers understand many interrelationships.

It keeps the company moving forward and not backward. [3]

With 15 to 20 measures, the Balanced Scorecard becomes the focal point of the organization's efforts, setting priorities for the managers and general staff. [9] It enables management to emphasize a process view of operations, energize the staff and incorporate customer feedback into its operations. It helps focus the whole company on what must be done to create breakthrough excellent performance. It also integrates a variety of loose and often isolated programmes such as quality improvement, quality control circles, reengineering, benchmarking, customer service and gives meaning to them. It enables linkage between company's long-term strategy with its short-term actions. [10] The Scorecard creates a framework to implement the corporate strategy while allowing appropriate and timely responses to changes in market and technological environments.

USING THE BALANCED SCORECARD AS A STRATEGIC MANAGEMENT SYSTEM



Kaplan et al. [1] suggest that Balanced Scorecard helps bridge the gap between strategy formulation and strategy implementation by eliminating the following barriers created by traditional management systems:

- Company cannot translate its vision and strategy into terms that can be understood and acted upon.
- Strategy is not linked to departmental, team, and individual goals.
- Strategy is not linked to resource allocation.
- Feedback is tactical, and not strategic.

7. Comparison with other Quality schemes

Gadd [11] reported that the Malcolm Baldridge National Quality Award (MBNQA) and the European Quality Award (EQA) provided framework by which organization can be measured and compared. Many organizations used these Quality award criteria to comprehensively, systematically, and regularly review their activities and results. There are obvious similarities between the Balanced Scorecard and these Quality award schemes. All work on a model of cause and effect. MBNQA have a interrelationship linkage among **Driver** (Leadership), **System** (Process Management, Human Resource Development and Management, Strategic Planning, Information and Analysis) and **Goals and Measure of Progress** (Customer Focus and Satisfaction, and Business Results). The European Foundation for Quality Management (EFQM) model works on five **Enablers** (Leadership, People Management, Policy and Strategy, Resources and Processes) and four **results** (People Satisfaction, Customer Satisfaction, Impact on Society, and Business Results). Compared with the Balanced Scorecard, the schemes are by far more complicated, consistent, rigid and universally applicable.

8. Guidelines for Performance Criteria

Neely et al. [12] offered the following guidelines for performance criteria:

- chosen from company's objectives
- possible comparison with other organizations
- clear purpose of each criterion
- clear definition of data collection and calculation
- ratio-based criteria are better than absolute numbers
- controllable by the respective organization units
- developed through discussion with people involved
- objective criteria more preferable

9. Developing the Balanced Scorecard

The process of developing the Balanced Scorecard measures involves in depth discussion with the top executives in the organization. The tentative measures are then shared with key management staff concerned. They have to participate in the design of the Scorecard measures and this would ensure their subsequent commitment in the Balanced Scorecard. When the final Scorecard measures have been agreed by the senior management, there will be major communication exercise to inform all employees about the new performance management approach. Where MBO is employed, this should be tied closely with the Scorecard measures. Without the close tie with compensation, an organization runs the risk of giving false impression to its employees. How can they be expected to pay attention to the non-financial measures and yet reward bonuses only for financials? [13]

Through the development process and the subsequent review and monitor, the Balanced Scorecard can be used to:

- clarify and update corporate strategy
- communicate corporate strategy to all staff
- align business unit and individual goals with the strategy
- link strategic objectives to targets and budgets
- review performance periodically

A properly designed Scorecard can depict the strategy through sequences of cause-and-effect relationships between outcome measures (financial) and the respective performance drivers (customer, internal process, and learning and innovative). [14]

Balanced Scorecard is linked to corporate strategy through the following principles: [1]

- **Cause-and-effect relationships** - all measures chosen must be an element of a causal chain that communicates the meaning of the business unit's strategy to the organization. The causal relationships are hypotheses that managers assume and should be tested.
- **Performance Drivers -** Outcome measures without performance drivers do not explain how the outcomes can be achieved. Conversely, performance drivers with no outcome measures induce business units to achieve short-term operational improvements. A good and effective Balanced Scorecard should therefore have an appropriate mix of outcome and performance drivers that have

been customized to the business unit's strategy.

- **Linkage to financials -** Causal paths from all the measures should ultimately linked to financial objectives. The failure of some Baldrige Award winners justifies the necessity to causally link operational improvements to financial results.

10. Recommended management research on Balanced Scorecard

Despite its wide and promising application to translate business strategy into actions, the Balanced Scorecard is not without flaw. Much emphasis has been put on the causal linkage between the causes (performance drivers) and the effects (outcomes). There is lack of academic and rigorous proof of the causal link. Kaplan et al. [1] propose the use of correlation analysis to establish the hypothesis of causal linkages among various measures. Any social scientist knows pretty well that high correlation does not imply causal relationship. At best high correlation relationship suggests possible causal linkage. The reverse is however true i.e. having a causal relationship implies a high correlation relationship.

To face the realistic world of rapid changes, an organization cannot obviously wait for a rigorous scientific evidence before appropriate action is taken. However this does not defy the need of more scientific support of the causal relationship emphasized by the Balanced Scorecard concept. To a smaller extent, both MBNQA and EQA models assume such causal relationship which was not 'proved'.

With the advent of new technology (e.g. Linear Structural Equation Model LISREL) now cheaply and conveniently available on PCs, some actions need to be taken to fortify the Balanced Scorecard approach and indeed even for the MBNQA and EFQM models.

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