The 21st Century Scorecard – An Evolution of the Balanced Scorecard

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Abstract

Since Kaplan and Norton introduced the balanced scorecard in 1992 there have been several changes. The balanced scorecard has been adopted by many organizations as part of their strategic planning and reporting environment. The evolution of sound organizational planning and reporting continues and today it needs to involve areas not originally in the balanced scorecard. This brings about the need for a 21st Century Scorecard.

Key words: Balanced scorecard, corporate governance, corporate reporting, corporate social responsibility, performance measurement, sustainability

1. Introduction

Businesses that were organized with a profit motive focused only on profitability for most of history. In 1992 Kaplan and Norton introduced the balanced scorecard with the concept that business needs to focus on more than just profitability. There has been an evolution in corporate performance evaluation since the introduction of the balanced scorecard. This paper will explore the next step in the evolution, the 21st Century Scorecard.

2. Current usage of the scorecard approach

The current usage of the balanced scorecard has focused on the four measurement areas: financial, customer, internal processes and employees (learning and growth) (Hilton, 2009). The metrics to be used in each area may vary if the measures are meant to be used externally or internally. Internal measurement metrics may focus on efficiency, growth or other desired outcomes (N.A., 2016).

Metrics are determined at the organizational level and may be significantly different depending upon organization type. Metrics would be different for Non-governmental organizations (NGOs), not for profit organizations, governments, educational institutions and for profit entities (Ozmantar & Gedikoglu, 2016). This paper will focus on for profit entities.

Traditionally for profit entities were focused on the bottom line of profit rather than multiple areas of performance. This has changed since the concept of the balanced scorecard was introduced. The balanced scorecard became a tool that helped businesses to gain value and balance internal strategy with the attention centered on the strategic planning process (Ozmantar & Gedikoglu, 2016).

A look at some of the metrics used for each area of the balanced scorecard shows diversity in practice as should be expected when applied to many different organizations. Some examples of metrics for the financial area include: accounting earnings, economic profit, earnings per share, credit rating, cash flow from operations, return on assets and profit per employee (Malina & Selto, 2004).

Metrics for customers have included: repeat customers, new customers, customer complaints, market share, on time shipment percentage, order fill rate and warranty claims. Internal process metrics are varied and include: order response time, labor productivity, percentage of defect free products, percentage reduction in process cycle time, throughput and number of finished products per employee per day.

The employee metrics have included: training hours or days, percentage of cross trained employees, turnover rate, employee suggestions, reportable workplace accidents and ethics violations (Malina, Norreklit & Selto, 2007).

The choice of metrics is important in tailoring the balanced scorecard to the individual business. More important is how the metrics are used to help the business with continuous improvement. As the balanced scorecard has had its use expanded measurement metrics and weighting of the four areas have evolved.

The weighting of the measures has evolved as the balanced scorecard has become more widely used. Initially the heaviest weighting leaned towards internal processes closely followed by customer measures with employee measures having the lowest weight. In the time frame of 2009-2012 the weighting of the measures had evolved to where the four areas were given approximately equal weights and this weighting has remained fairly consistent (Malina, 2013).

The traditional measures and weighting have served businesses well. There is an ongoing evolution in business that requires a continuing assessment of the reporting needs for business. These needs can be either internal or external. With the evolution of corporate expectations a new scorecard is needed for the 21st Century that builds upon the balanced scorecard of the past.

3. Reporting and measurement areas needed today and in the future

The evolution of business requires an evolution of measurement reporting metrics. Today business is global and this creates expectations for global businesses. The expectations revolve around issues that were not part of business when the balanced scorecard approach was created. These expectations include good corporate governance, corporate social responsibility and sustainability.

The expectations in corporate governance, corporate social responsibility and sustainability require businesses to decide upon and design measurement metrics. The types of metrics will vary depending upon the nature of the business. Reporting on the metrics is necessary for internal use and also for external use in some cases. This paper will propose some possible metrics and reporting in each of these critical areas. This paper will also propose a format for the 21st Century Scorecard that incorporates these measurements.

Corporate governance involves a breadth of considerations for measurement and reporting. When we look at the financial reporting of a company and its relationship to corporate governance we have to start by looking at internal control. In the U.S. the internal control standard is the Committee on Sponsoring Organizations (COSO) internal control framework.

The COSO framework sets guidelines for companies to evaluate and improve their control environment. The framework also sets guidelines in the areas of risk assessment, control activities, information and communication and places an emphasis on monitoring activities. The monitoring activities include evaluating whether internal control components are present and functioning and provides for reporting of deficiencies which lead to responsible parties taking corrective action.

The financial reporting obligations implicit in good corporate governance include fair and ethical reporting in financial statements of the organization, disclosure of non-financial performance and disclosure of audit results. Proper reporting can only be obtained if the auditors and the board of directors are independent of the management of the company. There needs to be transparency in the disclosures so that stakeholders have trust in management.

In addition to the financial reporting considerations, good corporate governance requires an overall approach to the management of the company. This approach requires that there be effective policies such as mission, values and ethical statements. There also needs to be a commitment to stakeholder relations that involves the handling of all stakeholders. These stakeholders include: shareholders, employees, customers, suppliers and the local communities where the business operates.

The company's ethics policy and enforcement of the policy are a cornerstone of good corporate governance. The policy needs to address ethics in business dealings, employee ethics and ethics in financial reporting. Key components of the ethical standard for any company: are a mechanism for reporting of ethics violations, investigation and resolution of reported violations and whistleblower protections.

Measurement metrics for corporate governance can be related to any of the requisite parts of governance. Financial metrics that are part of the financial part of the traditional balanced scorecard should be considered for inclusion with reporting on corporate governance. Reporting on governance should include activities that contribute to stakeholder relations and employee metrics, such as turnover. Key reporting areas under corporate governance should include reporting on the results of internal control evaluations and corrective actions and ethics violations and investigative results.

In the current business environment and into the future reporting on corporate governance needs to be a major part of the management of any business. The need for good corporate governance and reporting on governance will only increase in the future.

The next area for reporting using the 21st Century Scorecard is corporate social responsibility. Corporations can no longer focus only on what increases profits but also need to be active in the social needs of employees and society. Corporate social responsibility is focused on three pillars, people, planet and profit (Garg, 2013).

The Dow Jones Sustainability Index provides the following definition for corporate social responsibility: "a business approach that creates long term shareholder value by embracing opportunities and managing risks deriving from economic, environment and social developments." This definition clearly reinforces the three pillars, sometimes referred to as the triple bottom line.

Management can be defined as doing the right thing at the right time through the optimal use of scarce resources. The use of these scarce resources must increase the efficiency and effectiveness of the company in order to achieve the organization's objectives (Garg, 2013).

There are several types of corporate social responsibility (CSR). These include: business ethics, a tie in with corporate governance, environmental considerations, community investment and charitable efforts to name a few (Garg, 2013). These areas can all form the basis for measurement metrics.

The metrics for business ethics were discussed in relation to corporate governance and the metrics are the same for this area of CSR. Environmental measurements could include: carbon emissions, tons of waste going to a local landfill and usage of as limited natural resource such as water. Community investment is more difficult to measure but partnering as a sponsor in key local events could be a viable measurement. Charitable efforts could be measured by direct cash donations to charity or by employee volunteer hours (especially if they are paid time from work).

A commitment to Corporate Social Responsibility is important in today's business environment. In addition its implementation can provide benefits to an organization. These benefits include: better recruitment and retention of employees, reduction of waste in manufacturing processes and business reputation (Garg, 2013).

Businesses need to increase their transparency in order have a solid reputation. Today less than half of all major corporations report on their efforts related to corporate social responsibility. In the future all publicly traded companies need to report on their efforts in this regard to enhance their reputations and improve transparency.

The measurement metrics of corporate social responsibility must align with the organization's objectives. These metrics need to be reported on both internally and externally so that all stakeholders are aware of the organization's efforts and effectiveness in this key business area.

The final new area that needs to be included in the 21st Century Scorecard is sustainability. A comprehensive definition of sustainability could be: in order for economic development to be successful over the long term it must be far seeing enough, flexible enough and wise enough to proceed in a way that protects the natural resource base of developing nations (Zavodna, 2013).

Most definitions of sustainability focus on the natural resource side. In addition to the natural resource aspect of sustainability businesses need to ensure other areas of the business are sustainable including: personnel, business operations and computer and data management systems.

Each of the areas of sustainability needs to have appropriate measurement metrics. The traditional viewpoint would use metrics such as the following to focus on the natural resource area: lowering energy consumption, lowering water consumption, waste reduction and lowering noise and emissions. Each of these measurements has both an environmental and a financial impact on the business (Zavodna, 2013).

In the personnel area there can be a variety of measurements. Businesses need to be concerned about demographics so they can ensure access to employees to need their workforce needs. In addition, management needs to be concerned about equality issues such as women in management and equality of pay.

When businesses look at the sustainability of business operations they need to look items such as government stability, transportation, infrastructure and government regulations. These areas present difficulties in designing measurement metrics and may have to rely more upon a narrative than metrics.

The major concerns with computer and data management are backup and data security. The company needs to have a disaster recovery plan for data with data backup being a major cornerstone. Security of data is becoming a major issue in business. Both of these areas are easy to report on without having metrics, however, metrics for internal use with regards to data security would be a sound business practice.

Sustainability practices for the 21st Century include sustainability focused products and services. In addition there needs to be measurement and internal/external accountability and reporting (Bekefi & Epstein, 2016).

Sustainability can be focused to help with business innovation. The process would include: making the business case, creating an innovation lab and measuring and reporting outcomes (Bekefi & Epstein, 2016). This means that sustainability issues become major issues within the organization.

Businesses need to improve their reporting on sustainability. Only about 10 percent of the largest global companies report on sustainability in their external reporting. This percentage needs to be increased until sustainability reporting becomes a standard for all publicly traded companies.

4. New Reporting

Traditionally the balanced scorecard has been used to create an internal report of one to two pages in length or in a graphical; presentation. A diagram of the balanced scorecard has been shown with strategy in the center and the four areas (financial, customer, internal processes, and employees) are at the compass points with arrows showing relationships between the four areas.

The 21st Century Scorecard will required expanded reporting with seven key areas: financial, customer, internal processes, employees, corporate governance, corporate social responsibility and sustainability. The three new areas need to be reported separately from the traditional areas and not combined with any of the four areas previously used as this could cause the importance of the new areas to be diminished.

The report will likely become three to four pages in length as some of the new areas for reporting will be more narrative than the previous areas. Some of the areas will still have metrics that could be presented graphically but the graphs will need to be accompanied by greater explanatory text.

Where the balanced scorecard showed strategy in the center and the four areas at the compass points. The 21st Century Scorecard would be shown with strategy and transparency in the center (hub) and the seven points would be at the end of spokes thus creating a wheel for a diagram. There would still be arrows showing the interrelationships between the reporting areas.

Over time the four areas, of the balanced scorecard, have come to be weighted approximately equally, Equal weighting, of the seven areas, is an appropriate starting point for the 21st Century Scorecard. It would be expected that the three new reporting areas would take on more significance in the future and thus the weighting would evolve to reflect the relative importance of the seven reporting areas over time.

5. Conclusion

Since its inception in 1992 the balanced scorecard has provided useful data for management decision making and strategic planning. Its usefulness has been recognized by businesses and therefore the number of companies using it has expanded.

Business is constantly evolving and new information needs to be used in the decision making and strategic planning. With this evolution it is time for a new scorecard to meet the needs of businesses in the 21st century. During the century as business evolves so must the scorecard businesses use. New areas of necessary measurement will most likely come into focus and thus the 21st Century Scorecard will need to evolve as well.

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