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Balance Scorecard for MSME Companies

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If one looks at the history of failing companies during last 25 years one would find that financial failure is only the final result of business failure. Financial failure can be the result of management failure, governance failure, marketing failure, model failure or failure to respond to change. Therefore balance sheet and Profit and loss reflects end results of various management decisions and culture it breeds.

When failure is attributed to many factors other than financial factor, success cannot be only measured by financial matrix. In order to achieve financial success companies need to focus on many other things.

As organisation grows large part of management resources – time and mindshare goes into managing the organisation. Managing means building and keeping it competitive. Initial dream was to build a building but now after many buildings dream not only expands but HOW part also becomes important. Making business an ongoing and sustainable entity is the real challenge.

Not necessarily those who can start business are equally capable to build an organisation. It requires different skill sets and discipline. Someone rightly said ‘key challenge of every organisation is to attract and retain the talent.’ Organisation is made up of people and its survival or break largely depends on people it employs. Talented people today will not come to unprofessional companies and for unchallenging roles. Therefore for the sake of attracting key people who can put their talent to work for the growth of your company is what business owners must aim to do.

Business Balance Sheets hides many things than what it displays. Tangible assets only have no longer remained competitive advantage for the companies. Assets which , balance sheets captures are no longer the key strengths of the company. In business environment many critical assets are intangible assets. These are customer loyalty and experience company creates, kind of talented and innovative people company employs, kind of robust and killing technology it possesses and the likes. Therefore when physical assets have become less important than intangible assets , companies need to focus on creating these assets which will keep them in business and make them sustainable entity.

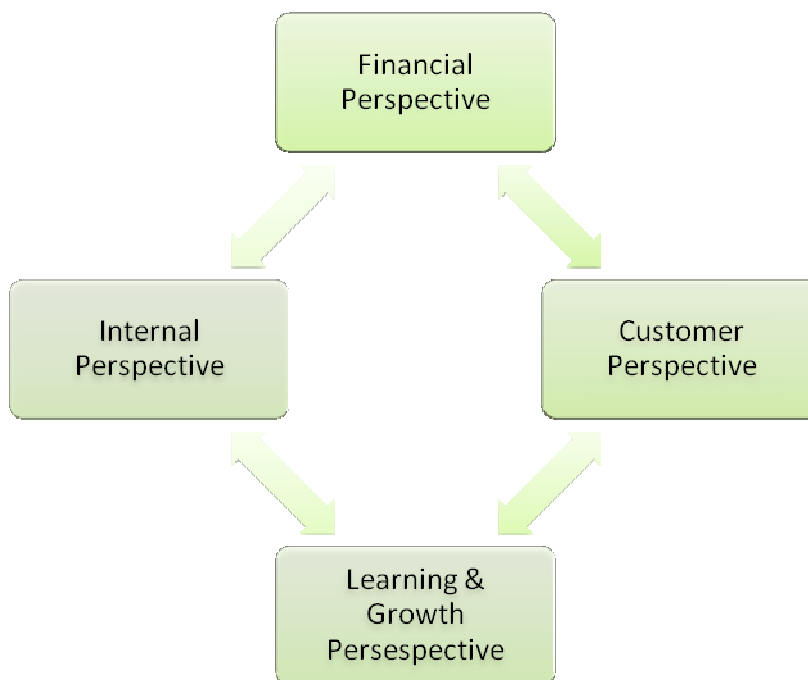
Every company has some financial goals like ROI or Turnover Growth or Operating Margin Number of Flats and Sq feet to deliver for real estate companies etc . Companies are working towards these goals. Most companies measure their success merely on the basis of these goals.

However merely focusing on these goals will create lot of issues.

In order to achieve these financial goals company may **ignore** customer experience and expectations, happiness of people working for the company, people training & retention issues, business processes that need to be developed for making company process centric

from people centric, ethics and environment. Therefore mere financial goal driven measure of success is not the right way to assess the success of the organisation.

Balance Scorecard is the matrix designed by Robert Kaplan and David Norton of HBS, during early 90s. The model assumes that bottom-line and profit is not the only criteria to measure success of any organisation. Every organisation must endeavor to balance various other things in its mission to earn profit and become sustainable business entity. It focuses on 4 things which will balance the focus of the management to equally other area of the organisation. Since business entities would like to remain sustainable and competitive over the period of time focusing on these 4 aspects will make them become and remain so.



I will briefly touch upon each of the 4 areas before I add few more of mine:

Financial Goals:

Predominant objective of every for-profit organization is to make profit. It can be measured in terms of ROI or ROCE or whatever suits the company. In order to achieve the same companies plan cost reduction, sales boost, asset utilization, branding and positioning etc. Companies design strategies to achieve the same. However as mentioned above it has to be in sync with many other balancing factors.

Customer Perspective:

Every organisation has to consider this very critical perspective in their business strategy. Customer is the key for every business. Customers pay for the product and therefore cause of profit to the shareholders, salary of the people of the company. No financial targets can be achieved if customer perspectives are ignored by the company. Therefore every company must have strategy for customer experience and on fulfillment of customer expectations.

Internal Perspectives:

In order to achieve stated financial and customer perspectives companies have to align its internal processes and policies to enable the organization to achieve financial and customer perspective. It can work towards better customer experience, speeding up the critical processes , educating customers , concerns for environment etc. Internal changes that will be required to achieve the two perspectives stated above.

Learning & Growth Perspectives:

Organisation must learn and change in order to achieve the strategies outlined above. It also requires talent induction, training, retaining policies, knowledge management, new competency, out sourced partners etc. These strategies will be in alignment with overall financial, customer and internal perspective strategies and objectives defined by the management.

The above form of Balance Scorecard was designed during early 1999s. Many companies in India as well as internationally have implemented the same and reaped benefits. Recently Tata Motors was awarded Hall of Fame by the BS group.

The Way Forward:

During last 20 years , management and business science have grown and changed considerably. Balancing requirement has also altered considerably. Customer Experience movement by Pine and Gilmore, People Happiness practices by Zappos CEO , Tony are the new elements that have emerged. These are the success factors that have emerged which are again not a part of any balance sheets.

Companies like Starbucks, Virgin Airlines, Yes Bank, Microsoft and Googles of the world have embraced these new elements of sustainable competitive advantage. Customer Experience and Employee Happiness are the cultural issues and it takes years for any organisation to change the culture. Therefore it is termed as sustainable competitive advantage.

Corporate Governance has emerged as another critical area of business survival. Unethical behaviors are one of the major reasons for companies going out of business. Corporate Governance as stipulated by SEBI or BSE is not what I am talking about. It is mere a statutory requirements. What matters most is Governance for survival, Governance for growth and Governance for Sustenance. This governance is not merely about independent directors on the board for statutory reasons but cross cultural talent on board for business benefits, it is also about ethical social conduct by an entity.

New Balance Scorecard Matrix:

Famous quote of Customer Experience Champion Steve Jobs is very useful to remember "You have got to start with customer experience and work backward for technology, process and people. "

Believe it or not when entrepreneurs start the business they desperately tries to get their first customer and do whatever it take to please them. When they go to VCs they will ask about customer traction. However as the organisation grows these customers become part many things organisation manages. They become subject to internal system and processes,

people training or lack of it, governance policies like mis-sell, wrong commitments, misleading advertisements and what not. Customer experience is the first casualty of organisation growth.

Start up never start with ROI in mind , it starts with product they want to offer to customer to solve their problem which will results into earning profit. There has to be an existing or latent demand from customer. Then comes the product and then comes profit. By serving customer with what an enterprise produce or offer, business makes profit. ROI comes first in investing activities, in business activities customer comes first. ROI is also dependent on raw material sourcing capability, business processes, own or outsource decision etc non customer centric things. But in most cases ROI or higher ROI is a result of customer & better customer experience & therefore better pricing capabilities, more word of mouth referral customers, more repeat customers. Better ROI approach , keeping customers aside has limitations and limit up to which it can be pushed.

Cause	Customers	Customers	Internal to Business	Customers	Customers
Action	New Product	Achieving Scale	Bettering Processes ,Better Sourcing, Eliminating Waste	Bettering Customer Experience	Best in class Customer Experience
ROI Effect	- 4% ROI	+ 6% ROI	+ 10% ROI	+ 15% ROI	+ 20% ROI

Therefore new elements of Balance Scorecard for 2nd decade of 21st Century would be:








Bringing back the customer at the center of all organizational activities & strategies is very critical. ROI to shareholders, hefty bonus to senior management, salary to employees everything comes from customers. How can a company either improve performance or remain sustainable if customer is not at the center of all its actions & thinking.

Focus on these intangibles is important for tangible & strong balance sheet.

Having defined the strategies and goals on the above new perspectives companies can break those strategies into actionable and measurable plans. For example:

Balance Scorecard for MSME Companies

Perspectives	Strategies			
Customer Experience	Net Promoter Score from 10 to 25			
	 No Misleading Ad or Mis-sell Educate , Guide and Support	R & D & innovation for new products /ways for better experience	Fulfilling all Commitments , Total Transparency	Going out of the way to support, add surprise and delight regularly
Financial	ROI of 40%			
	 Operative Margin up by 6% in 3 years	Market Share up by 10% in 3 years	Sales Growth of 25% in 2 years	ROCE improvement of 20% in 3 years
People	Employee Happiness Index (EHI) up by 20% , Leadership Scorecard			
	 Flexibility in choice of work and time, Annual Happiness measurement	Leadership Development Initiatives to have sustainable leadership at all levels	Scope for personal hobby and learning	Preparing with skills for higher responsibilities, handle uncertain future
Internal	Improve TAT by 10%			
	 Continues process mapping and eliminating redundancy	Customer Focused Process rejuvenation	Learning best practice from other industry and implementing	Exposing people to best practice companies to learn hands on
Governance	Ratio of Fresh to Experience / Ratio of Multiple Discipline / Zero Tolerance to Unethical Conduct / Amount of Scholar Ships to Community and Housing Society Families			
	 Must have two independent directors from diverse fields	Internal Innovation team to work with senior board members	Reward best ethical and moral behaviors	Community Service to surrounding community , labor on site.

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Each of the above strategies can further be elaborated & broken down to make it actionable and measurable.

The idea is to understand that financial statement is just a statement on how intangible & tangible assets are working but ignores intangible part in reporting. Now assuming from the financial statement that performance reported is from the assets reported is a great myth in present times. Intangible assets like , smarter business processes, delightful customer experiences, sound governance policies, great HR policies plays critical role in deciding how physical assets will perform. Balance Scorecard is necessary to keep focus on all aspects of the business which drives financial performance and enable long-term survival.

Indian MSME companies are poised for huge opportunities in the days to come. Companies have to expand in other geographies within India and even abroad. In order to leverage opportunities internal house in order and customer centric ethical culture are some of the prerequisite. Working with balance score card will help companies to approach growth in business and organisation in much methodical and prepared way.

It is relevant to all kinds of organizations irrespective whether small or large, start up or scaled up, for profit or not for profit, Govt or private, real estate or IT , in India or Indonesia.

Moot question for every organisation is not whether to balance but, what aspects of the business they wish to balance in order to achieve their vision statement.

“The Future won’t be an extrapolation of the past” CK Prahalad

