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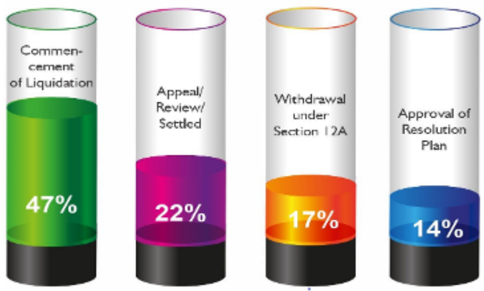
Balanced Score Card - A Tool To Thwart Corporate Insolvency

A management strategy performance tool needs to be used more in this era not only to avoid corporate insolvency but also to increase company valuation

Credit: Google Images

Corporate insolvency is increasingly becoming a challenge more so when not many investors are keen to participate in the resolution plans for the companies under insolvency process aiming to come back to life again. The latest data from Insolvency and Bankruptcy Board of India (IBBI) shows that from over 5000 companies which had gone to insolvency process till date, around 47% companies had to go for liquidation with only 14% companies seeing a new life with the resolution with abysmally low level. The total realisation by the financial creditors for the companies yielding resolution as a % of the their total claims were in the range of 33%. Money Recovery in this range certainly poses the challenge to upend the businesses by way of implementation of some important strategy management performance tools so that the business not only produces the financial goals but also enhances the company valuation. Chasing the financial balance sheet numbers is important but mind it is only based not the past events and where as intangible assets like customers relationships, trained manpower, knowledge, Intellectual Property rights, processes & systems are ongoing and adds to financials as well as company valuations.



Mode of Closure of CIRP
Source: IBBI

All these intangibles are the major contributors to the valuation of the company. For example, in top 10 world car manufactures, Tesla with the car sales of under one million cars values over a trillion $ compared to the remaining 09 car manufactures with selling over 38 million cars with the total valuation of around USD 850 billion. The reason is simple ie Tesla has pegged their cars as futuristics electric cars loaded with technology. They claim to sell the technology whereas others are more concentrating on the auto engine/combustion. Toyota, which just few years ago was the worlds largest car company, still has the largest share with over 10 million cars but values less than USD 300 million. The point which is very important here is that while it is important to be robust on financial numbers but equally important for a company is to enhance the value.

Balanced Score Card, a strategy performance management tool, is an answer to deal with the companies financial numbers as well as valuation. In my experience of corporate life as well as now as a management consultant, I believe this performance strategy management tool, if implemented with tailor made solution to a specific company, will not only thwart any potential insolvency threat but also enhance the business valuation. The idea was first set out in an article that Kaplan wrote in 1992 for *Harvard Business Review*, along with David Norton, president of a consulting firm. The article, entitled "The Balanced Scorecard—Measures that Drive Performance", began with the principle that what you measure is what you get. Or, as the great 19th century English physicist Lord Kelvin put it: "If you cannot measure it, you cannot improve it."[1] Kaplan and Norton suggested that companies should consider the following:

- **The customer's perspective.** How does the customer see the organisation, and what should the organisation do to remain that customer's valued supplier?
- **The company's internal perspective.** What are the internal processes that the company must improve if it is to achieve its objectives vis-à-vis customers, shareholders and others?
- **Innovation and improvement.** How can the company continue to improve and to create value in the future? What should it be measuring to make this happen?

Other than the financial numbers coming out of the financial statements for Balanced sheet, P&L and cash flows, the company valuation is quite dependent additionally on the above intangible assets coming out of the customer relationships & conversion into the potential contracts, technology innovation etc for any company.

The Execution Premium - Linking Strategy to Operations For Competitive Advantage[2] by Kaplan & Norton explains the six-stage systems management process to unite strategy and operations. The stages are: Develop strategy, plan strategy, align the firm with the strategy, plan operations, monitor and learn from operations, and then test and adapt your strategy. Balanced Scorecard, the most popular performance management system, works well in this context. This Balanced Scorecard approach involves from company strategy to setting specific targets and using the right metrics or Key Performance Indicators (KPI) to assess "cause-and-effect" links in four strategic areas.

1. **Financial** – Operating profit, return on investment, cost per unit and so on. You may decide some other metrics depending on the companies' goal.
2. **Customer** – Number of customers, increase in your customer base, customer satisfaction and the like. This area also details your company's "value proposition," how it offers distinct advantages to customers.
3. **Process** – Operations, product development, facilities management and other areas related to the financial and customer goals that establish your firm's strategic differences.
4. **Growth and learning** – Systems, personnel and similar organisational resources. This category and the process area both call for strategic implementation.

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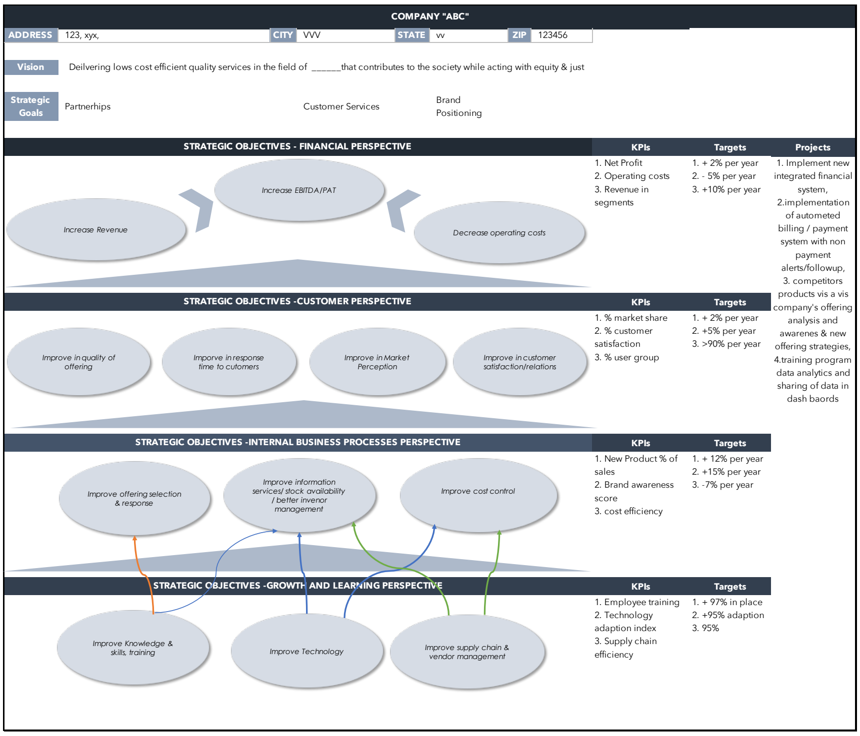
[1] Economist Dec 26, 2008

[2] The Execution Premium" Linking Strategy to Operations For Competitive Advantage by Robert Kaplan & David Norton

Triple Bottom Line (TBL) or 3Ps ie profit, people and planet is a particular manifestation of the Balanced Score Card. Now it is further expanded with additional G - Governance and new ESG score is becoming an important element for the companies to raise funds as well expand the business may find a sync with this strategy tool.

The question comes now that how should we implement this strategy tool in an organisation. During the discussions with few of my clients, I often find a quick "copy & paste" approach suggestion. For example a company involved in a textile business find it very convincing to adopt a "copy & paste" approach of their peer to implement this tool which in my view is a huge mistake. No one size fits all. This needs to be curated with the discussion horizontally & vertically across with the company leaders and managers. Many occasions, managers fill each four strategy buckets with few matrices without a "cause and effect" linkage resulting into failures in future. One last point, I suggest to treat the four strategic more directionary in nature hence adapt the specific needs of the company for example technology and training may be two different buckets or like wise.



Now let us start the strategy tool construction.

Firstly, it is very important to define the Vision and the strategic goals of the company and they need to be in sync. Now comes the further expansion ie formulate the strategic objectives in the four strategy basket. As alluded earlier, I will not propose to be very fixated on this as you may want to decide the number of strategy baskets specific to your company. Here for this purpose, let us consider the four strategy baskets as below to construct the Balanced Score Card.

Strategic Objectives: Now graduating from Strategy goals we now decide on the each of the strategic objectives in four strategy areas.

For example;

1. Financial Perspective : For example : Revenue growth, lower operating cost & higher EBITDA & PAT. Please refer to my paper titled "Analysing companies' financial Statements" for better understanding the financial statements. However, you may decide as relevant to your needs
2. Customer Perspective : To achieve the financial objective as above we need to form the important Customer objectives For example: improvement in the quality of offerings, response time, market participation & customer satisfaction. However, again I would advise to formulate this with the discussions among the company leaders and managers to get the holistic view.
3. Internal Business Process perspective : To achieve the customer strategic objectives we need to formulate the company's internal processes. A template, as above, mentions some of the ideas.
4. Growth & Learning Perspective or Organisation capacity: It encompasses the training & technology needs to support the internal business processes.

Key Performance Indicators or KPIs : Financial objectives need to be measured for matrices or KPIs. Please refer to the above template wherein KPIs are mentioned for each of the Strategic objectives. You may modify these as per your needs. Please refer to my paper "Analysing companies' financial Statements" to decide better on financial objectives for further understanding as these will finally measure your company's performance in measurable form.

Targets : Implementation is never completed without achieving the targets. However, I will caution you that the implementation and achieving the targets would need a realistic assessment of the targets and support of the resources to achieve the same.

Projects & review meetings : You may require to implement & invest in some projects for which a budget needs to be assigned. Here, my thought process is to go ahead with incremental approach so as to avoid and upfront more costs. Through smart sheets & excel, the KPIs can dynamically populated and reviewed against the targets. Please note that this is dynamic process therefore I would suggest 03 tiers robust review mechanism with all concerned departments in the organisation for any course correction to achieve the strategic goals. I typically suggest that a weekly review with the concerned deptt managers followed by a fortnightly review with deptt heads and finally a monthly review with the business leader of the company. This will immensely help the right implementation of this strategic tool.

Now coming back to the last segment of this paper is to deliberate some of the issues which we need to avoid. Develop strategy, plan strategy, align the firm with the strategy, plan operations, monitor and learn from operations, and then test and adapt your strategy. For example it is a top-bottom strategy tool meaning that the Strategic Goals are the starting point and the rest is developed to achieve the goals. Senior or key leadership if not fully invested in this strategic tool then we may end up wrong mapping of the objectives & KPIs. Please note measuring KPIs is just a tool to achieve of Strategic goals. At times, my experience is that KPIs measurement becomes the focus for an individual performance which is not the aim here but achievement of strategic goal is the aim. Another issue is too many KPIs, too many operational KPIs and at times the one which are easy to measure are introduced which leads to a very busy dash board. A complete No-No. For example, an employee completing an assignment in a shorter time should be the measurement or the value he creates from the assignment should be the measurement. Hence few KPIs and easy to measure is the answer. Cause and Effect link relationship is vital as mentioned above to achieve the final goal hence needs to be kept in mind. Make sure an ongoing analysis and communication internally to have this a dynamic tool rather than "once an affair" kind of tool to ornamentally satisfy the company's shareholders.

To summaries, Balanced Score Card strategy management performance tool helps the company to structure and achieve the strategic goals through a well defined four directional perspectives in measurable form. This not only contributes to improve the company financials but also the company valuations thereby will act as shield against any potential threats like insolvency situation.

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