

Thought transfer

with
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ABL and the balanced scorecard

It may have been 17 years since Harvard Business School professor Dr Robert S Kaplan and his cohort David P Norton researched and developed the concept of the Balanced Scorecard but the culture and strategy is as relevant to the commercial finance sector today as it has ever been.

It may seem counterintuitive to many sectors within the financial services industry but the balanced scorecard concept has been adopted in the most practical terms by many players in the asset-based lending (ABL) sector across their businesses. There is a cultural reason for this. There is general recognition by receivables financiers and asset-based lenders that credit decisions are made beyond the balance sheet and that a greater understanding of the business and of the management team is pivotal to every transaction and relationship. Since decisions are not made on the basis of historical financial performance within this industry, there is an underlying future-facing culture within ABL that is key to the success of scorecard implementation at every level.

The concept of the balanced scorecard is that the evaluation of an organisation should not be restricted to a traditional financial evaluation but should be supplemented with measures concerning customer satisfaction, internal processes and the ability to innovate. These additional measures should assure future financial results and drive the organisation towards its strategic goals while keeping all four perspectives in balance. The underlying rationale is that organisations cannot directly influence financial outcomes, as these are lag measures, and that the use of financial measures alone to inform the strategic control of the firm is unwise.

Robert and David describe the innovation of the balanced scorecard as follows: "The balanced scorecard retains traditional financial measures. But financial measures tell the story of past events, an adequate story for industrial age companies for which investments in long-term capabilities and customer relationships were not critical for success. These financial measures are inadequate, however, for guiding and evaluating the journey that information age companies must make to create future value through investment in customers, suppliers, employees, processes, technology, and innovation."

Leaders truly have to own the process of change. "It has to be your priority and you have to show you are personally invested in it."

This statement has never been more relevant to ABL companies, who today are faced with a variety of new business and economic hurdles. This is not a time for silos to develop. 2010 will be the year when management teams will be tasked with the ultimate challenge, that of mobilising change through executive leadership and ensuring that operational teams are aligned and working to that strategy.

When asked how today's economy impacts business, Robert recommended that management should be focused on achieving strategic, not merely tactical gains. "If you used to have 14 strategic initiatives, focus on five or six to give you a rapid payback."

In other words, don't be afraid to change – own it!

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