Implementation Of A Computerized Balanced Scorecard (BSC) System In A Manufacturing Organisation In Zimbabwe

Gwangwava, Norman

International Journal of Soft Computing and Engineering (IJSCE)

http://ir.nust.ac.zw/xmlui/handle/123456789/281

Downloaded from the National University of Science and Technology (NUST), Zimbabwe
Implementation Of A Computerized Balanced Scorecard (BSC) System In A Manufacturing Organisation In Zimbabwe

N. Gwangwawa, S. Mhlanga and W. Goriwondo

Abstract—This modern era’s high technological improvements present manufacturers and other organizations with a plethora of Management Information Systems (MISs) which makes them face challenges when choosing a corporate information system. High initial investment in setting up the information systems make it very difficult for companies to adopt new systems as they come into market before realizing a reasonable return from the previous system. In line with these concerns, a methodology for building a Balanced Scorecard module as a strategic management platform that can be integrated smoothly into already existing information system such as MRP/ERP is presented. The paper uses a case study of a manufacturing company based in Zimbabwe. Various manufacturing based metrics are reviewed with the main intent of showing how these can be tracked in a computerized platform. Sample data extracted from the production system is used to test the built system. The paper shows a methodology for software design, setting up and adopting a BSC system. The proposed approach is used to design a computerized BSC system for the case study company, which incorporates a BSC dashboard for the four main perspectives derived from various operational metrics.

II. THE BALANCED SCORECARD CONCEPT

The concept of the Balanced Scorecard (BSC) is defined as a strategic management tool that measures how well the business activities are aligned with the organization’s strategic vision [2]. It balances financial results with non-financial performance metrics [3]. It is also a management system – not just a measurement tool – in that it helps to clarify vision and to translate strategy into activity. The novelty of the Balanced Scorecard is the addition of non-financial metrics. Without a balanced scorecard, a business tends to be judged only by short-term financial results. These may hide serious problems. It is rare to have more than 20 metrics in a BSC and only about a quarter should be financial. The BSC should answer four questions:

- How do shareholders (owners of small firms; stakeholders in not-for-profit organizations) perceive the organization?
- How do customers perceive the organization?
- How excellent are our internal processes?
- How well are we innovating, learning and improving?

The four questions above are technically called the four perspectives of the balanced scorecard [3] and they are summarized diagrammatically in Figure 1 below.
A. Financial perspective

Financial measures summarize the readily measurable economic consequences of actions already taken. They answer the question: Is the organization’s strategy, deployment, and implementation contributing to bottom-line improvement? Examples of financial indicators include:

- Economic value added (EVA).
- Generation of cash flow.
- Operating income.
- Rapid sales growth.
- Return on capital employed.
- Return on net assets (RONA).

B. Customer perspective

Through the customer perspective, business unit managers identify their competing customer and market segments. They then select performance measures for these targeted segments. Examples of core customer measures are:

- Customer satisfaction.
- Customer retention.
- New customer acquisition.
- Customer profitability.
- Market and account share for the targeted segments.

C. Internal business process perspective

The internal business process perspective answers the question: What are the critical internal business processes in which the organization must excel? Internal business process measurements enable the business unit to:

- Deliver value propositions that attracts and retain customers in the target market segments.
- Satisfy shareholder expectations of superior financial returns.

D. Learning and growth perspective

The learning and growth perspective identifies the infrastructure the organization must build to create long-term growth and improvement. The three principal sources of organizational growth and learning are people, systems, and organizational procedures. The company identifies gaps between existing capabilities of people, systems, and procedures and the actions required to achieve breakthrough performance. To close gaps, the organization must invest in re-skilling employees, improving information technology and other support systems, and aligning organizational procedures and routines.

III. INTEGRATION OF BSC WITH ERP/MRP

The Balanced Scorecard can be integrated with the organization’s Enterprise Resources Planning (ERP) or its Manufacturing Resources Planning (MRP II) system. If properly used, the BSC stand to benefit companies with measurable effects in a big way. The BSC idea assumes that an abstract vision of company development can be changed into multilevel action strategy and into measurement of its application effectiveness with various measures.

A combination of current and forecasting ratios set on a base of four perspectives (customers, financial, processes and development) will enable personnel to know not only information about current company situation but also instantly evaluate whether the company is heading in the desired direction [4]. BSC-ERP/MRP integration is indispensable because strategic management module must be fed with real data from ERP/MRP systems. An integrated model of BSC has been used for implementing world class manufacturing (WCM) strategies and eliminating deficiencies related to the classical architecture of BSC and strategic management approach as well [5].

A. Factors Required for a Successful Performance Measurement System

One technical report postulated that if a performance measurement system is to work successfully in an organization, the following contingent factors must be understood [6]:

- It must be integrated with the overall strategy of the business. All approaches to performance measurement emphasize the alignment of objectives, measures, strategic decision making and rewards. This is crucial, as it is not possible to measure performance unless it’s clear what an organization is trying to achieve.
- There must be a system of feedback and review
- The performance measurement system must be comprehensive
- The system must be owned and supported throughout the organization
- Measures need to be fair and achievable
- The system needs to be simple, clear and understandable

IV. BALANCED SCORECARD FOR MANUFACTURING ORGANISATIONS

Four strategic capabilities in manufacturing operations are outlined in [7]: production capability (a) with lower cost, (b) high quality, (c) reliable delivery, (d) flexibility in assembly and quantity supplied. The elements, strategy, role and production capability are further describe as follows [7]: “From the viewpoint of production management, strategic capability plays an important role in the success of a company, meaning that the power of a factory is based on keeping its strategy and supporting its market development. Producing, developing, and transferring of strategic capabilities are important functions of production strategy.”

How balanced scorecard can be linked to corporate strategies is articulated in [8]. Figure 2 provides an overview of the approach they proposed. The methodology shows that there ought to be a systematic link between a company’s strategy, its goals, and the measures used to determine if the goals are being met.
Process Mapping represents a major expansion of the Balanced Scorecard approach and is designed to make very explicit the relationship between a performance scorecard and the organization’s strategy. A hierarchical model that suggests that some measures contribute to others and are summed up in shareholder value was introduced in [9]. Figure 3 summarizes the idea behind the Balanced Scorecard Strategy Maps. The four sets of Balanced Scorecard measures are now arranged in a hierarchical fashion, with Financial Measures at the top, driven by Customer Measures, which are, in turn, the result of Internal (Process) Measures, and are supported by Innovation and Learning Measures.

![Figure 3: A Strategy Map Shows How the Organization Creates Value [8]](image)

**Figure 3: A Strategy Map Shows How the Organization Creates Value [8]**

**V. DESIGN OF THE BSC MODULE AT CASE STUDY COMPANY NFDC P/L**

This section outlines the major steps taken to come up with BSC computer module. It starts with the company mission and cascades down to the individual level.

**A. Translating a mission into desired outcomes**

In a broader sense, the process begins with the mission for the organization. The steps for translating the mission into desired outcomes are as shown in Figure 4 below.

![Figure 4: Translating the mission into desired outcomes.](image)

**Figure 4: Translating the mission into desired outcomes.**

**B. Strategy Map**

Figure 5 shows the strategy map developed for NFDC P/L. The map shows strategies to be adopted by the company at each perspective level. This leads to the actual performance measures to be tracked by the company. The strategy map provides a basis for the software model and the final software design. In order to allow efficient reporting of the performance trends, a scorecard template showing the desired performance level, actual performance, and variance, will be designed.

![Figure 5: Strategy Map for NFDC P/L](image)

**Figure 5: Strategy Map for NFDC P/L**

**C. Setting Performance Measures**

Key performance areas have been identified that should be reported at a companywide level. The metrics have been categorized into four aspects addressed by the balanced scorecard and each category has gauges representing Key Performance Indicators. Gauges have been selected depending on whether low values (Product Returns) or high values (Share Price) are being reported as shown in Table 1 below. The sensitivity of trend reporting is set by the company.
Implementation of a Computerized Balanced Scorecard (BSC) system in a manufacturing organization in Zimbabwe

Table 1: Company-wide metrics

<table>
<thead>
<tr>
<th>Strategic Theme</th>
<th>Strategic Objective</th>
<th>Strategic Indicator</th>
<th>Target Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Financial Growth</td>
<td>Customer-centricity</td>
<td>Revenue growth</td>
<td>10%</td>
</tr>
<tr>
<td>Customer Focus</td>
<td>Customer-centricity</td>
<td>Customer satisfaction</td>
<td>90%</td>
</tr>
<tr>
<td>Internal Process</td>
<td>Internal process</td>
<td>Cycle time</td>
<td>5 days</td>
</tr>
<tr>
<td>Learning &amp; Growth</td>
<td>Learning &amp; growth</td>
<td>Training hours</td>
<td>100 hours</td>
</tr>
</tbody>
</table>

VI. BSC-GRAPHICAL USER INTERFACE

The computer module of BSC is built on a MySQL database platform which is accessed through a Visual basic application because of its ability to build friendly graphical interfaces. Microsoft Excel is used to provide graphical reporting.

A. BSC Dashboard Interface

The interface used to manipulate the module is shown in Figure 6. The interface shows a pictorial view of the Balanced Scorecard approach in order to assist the user when defining metrics.

B. Supplier Evaluation

Figure 7 shows the interface that enables the tracking of quality standards from the supplier throughout the production system.

C. Pivotal Report Template

Figure 8 shows an Excel based template used to generate performance reports. The user enjoys greater flexibility in formatting the final reports in a familiar Ms-Excel environment. Various options for reporting are available, i.e. report by business perspective, level of measure (Corporate, Departmental, Group, Regional, Provincial, and Individual), and Level Description e.g. Specific Department, or Individual’s name. Graphical views are also generated instantaneously, without strenuous effort. Even novice users can achieve maximum results from the system.

VII. CONCLUSION

The paper presented a methodology that can be adopted by an SME manufacturing company towards the design of a suitable BSC module which is integrated with an ERP/MRP system. A wide set of BSC strategic indicators has been outlined to give readers a broad range of choice when implementing the solution tool kit. In SMEs such as the case study company, a greater proportion of the value of Balanced Scorecard comes from two elements: the description of strategic destination and associated strategic objectives and priorities in a way that builds consensus; and impetus given to the development and application of more effective strategic management processes. Successful Balanced Scorecard implementation in any organization requires sustained management commitment to using it making sure it drives the necessary behavioral changes within the organization, starting with the managers themselves.

REFERENCES

Mr. Norman Gwangwava, Full-time lecturer, NUST and D.Tech scholar at Tshwane University of Technology (TUT), South Africa. Holds MEng in Manufacturing Systems and Operations Management (NUST) and BEng (Hons) in Industrial and Manufacturing Engineering (NUST), Zimbabwe. Research interests are in design of novel bending press tools using reconfigurable manufacturing principles, collaborative/concurrent design and product development.

Mr. Samson Mhlanga, Senior Lecturer at NUST, PhD candidate University of Johannesburg, South Africa, MSc in Advanced Manufacturing Systems (Brunel UK), BEng in Industrial Engineering (NUST), research interests Simulation and Engineering Management Optimization.

Engineer William Msekiwa Goriwondo, MSc. Manufacturing Systems and Operations Management (UZ), BEng, Ind.Eng (Hons) (NUST). He is a Lecturer and PhD Scholar at the National University of Science and Technology (NUST), Zimbabwe. He is researching on World Class Manufacturing principles implementation in developing countries. Has presented and published over 17 research papers at National and International Conferences as well as Journals.