

BALANCED SCORECARD AS A STRATEGIC MANAGEMENT TOOL
DEVELOPMENT OF BALANCED SCORECARD IN
A RETAIL JEWELLERY COMPANY

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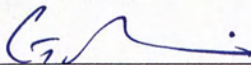
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ABSTRACT

In the twentieth century, the global economic environment is changing very rapidly. The development of information technology (IT) has been growing in an amazing speed. The distance between different places and individuals are shortening. All these tend to act as changing forces in the macro-economic environment.

Owing to these changing factors, companies need to adapt itself in a flexible way in order to meet all these overcoming challenges. At this period, many companies are finding it at the same time very difficult to keep track of their performance as compared to its competitors. Companies also need to have more information about the industry situation, the company's own strengths and weaknesses. As a result, the traditional management may not be sufficient to these upcoming needs.

Balanced Scorecard appeared at this critical time and it is believed to act either as a performance measurement or a strategic management tool. With its four perspectives and its ability to translate strategy into action, Balanced Scorecard is widely regarded as a miracle for many companies. Since its birth, more than 200 companies have adapted Balanced Scorecard and there are now 20 in depth case studies.

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CHAPTER I

INTRODUCTION

This paper is a study on the idea of Balanced Scorecard, which is one of the most influential ideas (out of 75) in the 20th century. Recently more and more companies are trying to see whether they could also develop their own Balanced Scorecard.

The author of this paper, Terence Chow realizes that in order to fully understand the effect and the usefulness of the Balanced Scorecard, an extensive study on a specific company is needed. Based on this reason, he selected a retail jewellery company, known as Fashion Jewellery to conduct a development and possibility an implementation of Balanced Scorecard (BSC).

In this paper, we will first begin by the introduction of the Balanced Scorecard ideology because the idea is a relatively new concept with around 20 years. Then we will see if a company really decides to do a Balanced Scorecard, what are the preparation tasks it needs to do. After that, we will go to the centerpiece of this

paper- the actual development of the Balanced Scorecard. Within that, it is necessary to understand the situation in the retail jewellery industry. This is necessary because it helps to identify the current problems faced by Fashion Jewellery.

Most of the paper will be a discussion on the details of the actual development of Balanced Scorecard. It will cover findings from meetings, interviews, and background data gathering. The entire process of development will be reported in a chronological sequence.

The final part will be a summary of the findings, together with a sample Balanced Scorecard. It could be regarded as a conclusion for Fashion Jewellery at the time when the Scorecard was developed. After that, there will be a short recommendation for the future actions that Fashion Jewellery could consider in the future.

CHAPTER II

BALANCED SCORECARD

Origin of Balanced Scorecard

Two individuals first proposed the introduction of Balanced Scorecard. They are Mr. Robert Kaplan (a professor at the Harvard University) and Mr. David Norton (the founder of Consulting firm in Massachusetts) after a company study in 1990. It was proposed and implemented in this company as a performance measurement tool. “These objectives are further translated into a system of performance measurements that effectively communicate a powerful, forward- looking, strategic focus to the entire organization.” (Kaplan and Norton, 1989)

The idea has undergone several phases of changes in the 1990s. Two years later (1992), the role of BSC in performance measurement was further developed.¹ Formally in 1996, the first book “Balanced Scorecard” appeared and it stressed how

¹ Robert S Kaplan and David Norton, “The Balanced Scorecard – Measures that Drive Performance” Harvard Business Review, January-February 1992,.

Balanced Scorecard translates strategy.²

When Mr. Kaplan and Mr. Norton first developed this idea, they aimed at identifying key success factors for a company. As the idea developed, Balanced Scorecard was discovered to fit with a variety of usages, including its role as a strategic management tool. “Four new management processes that, separately and in combination, contribute to linking long term strategic objectives with short term actions.”³ It was also in this year that came the birth of the idea of Balanced Scorecard (BSC)

What is Balanced Scorecard?

Balanced Scorecard can be thought as a selected set of financial and non-financial measures derived from an organization’s strategy. Balanced Scorecard could be classified as either a Measurement System, Strategic Management system and even as a communication tool. (Refer to figure 1) It could be transformed into from Performance Measurement to Strategic Management (Accounting Horizons 2001). “What is innovative about that concept is that the components of the Scorecard are designed in an integrative fashion such that they reinforce each other in indicating the

² Robert S Kaplan and David Norton, “Translating Strategy into Action: The Balanced Scorecard,” Harvard Business Review, 1996a.

³ Robert S Kaplan and David Norton, “Using the Balanced Scorecard as a Strategic Management System,” Harvard Business Review, January- February 1996b.

current and future prospects of the company.”⁴

Four Perspectives of Balanced Scorecard

Balanced Scorecard identified four perspectives. They are the customer perspective, Internal Process Perspective, Financial Perspective and Learning and Growth Perspective. All the four perspectives are inter-related with the overall strategy and vision of the company and a Balanced Scorecard helps to link them together in a cause-effect relationship. As a result, “The scorecard is therefore balanced, as it seeks a balance between financial and non-financial measures, drivers and outcomes, the long term and short term, and generic and strategy-specific measures.”⁵

1. Customer Perspective

Customer Perspective refers to the core of business strategy, such as Customer-value proposition. It defines how an organization differentiates itself from its competitors. A value proposition has three disciplines of “Operational Excellence, Product Leadership and Customer Intimacy.” This perspective can include a variety

⁴ Chee w. Chow, Kamal M. Haddad, and James E. Williamson, CPA, “Applying the Balanced Scorecard to Small Companies”, *Management Accounting*, Aug 1997.

⁵ Adrien Chia, Hum Sin Hoon, “Adopting and Creating Balanced Scorecards in Singapore-based Companies”, *Singapore Management Review*.

of measures. For instance, customer satisfaction, customer acquisition, market share etc. This perspective is especially important in retail industries and most of the measures identified are key success factors of the company.

2. Internal Process Perspective

In order to perform the selected value proposition, an organization has to come up with the relevant processes to achieve the objective. Internal business perspective captures all critical organizational activities. This means including both improvements in the existing processes within the organization as well as designing new processes. Some examples of internal process measures are Product Development, manufacturing and any supply chain related activities.

3. Learning and Growth Perspective

Learning and Growth Perspective represents the most fundamental perspectives among four perspectives. In order to ensure the success of the measures in the financial, customers and internal business processes, there is a need for continuous organizational learning and growth. This perspective enables a company to align its human resources and information technology with the strategic requirements from its crucial internal business processes, differentiated value proposition, and customer

relationships.

4. Financial Perspective

This perspective exists already in most of today's organizations, as they are profit-oriented. The problem lying in most companies is how they could achieve profitability. For most companies, they may have a clear strategy but they are not able to reach the annual targeted rate of return. Financial Perspective serves as a focus for the objectives and measures in other scorecard perspectives. As companies' ultimate objective is increasing economic value, they will try every means to ensure all actions in other perspectives can bring benefit directly or indirectly to its financial performance. Best example of Financial Perspective is the revenue growth strategy and productivity strategy.

Cause and Effect Relationship

Among the above 4 perspectives, there is a cause and effect relationship between each perspective. Suppose a retail company wants to achieve a 50% ROA, then it will need to increase its sales annually. To increase sales, it has to attract more customers to buy their products. To satisfy demand of customers, it has to ensure an effective means of maintaining product quality. Finally, this company needs to

enable learning and growth for the organization itself together with the employees. (See Figure 2) This is also the most important distinction of the Balanced Scorecard from other performance management systems.

Strategy and Balanced Scorecard

From the four perspectives, it is easy to see the relationship between strategy and Balanced Scorecard as Balanced Scorecard helped the company's management to develop performance measures and objectives related to its particular, desired strategy.

The (five) principles of a strategy-focused organization shows that Balanced Scorecard shares close relationship with the overall strategy of the company in the following ways:

1. Translate the strategy to Operational Terms
2. Align the Organization to the strategy
3. Make Strategy Everyone's Everyday Job
4. Make Strategy a Continual Process
5. Mobilize Leadership for Change

Implementation of Strategy is also one of the challenges of management. According to a 1999 Fortune Magazine story, 70% of the chief executive officer

(CEO) failures are not as a result of poor strategy, but of poor execution. Balanced Scorecard could overcome several barriers to strategy execution like vision barrier, people barrier, resource barrier and the management barrier. (Refer to figure 3)

Organizations with Balanced Scorecard have changed its nature from a measurement tool to a strategic management system. As stated in the article by Kaplan and Norton, “the right way to think of the balanced Scorecard is as software to translate your company’s strategy into action.” More importantly, a successful balanced Scorecard relies on four processes: (See Figure 4)

1. Translating the vision

This means the BSC translates strategy into a set of objectives and measures, which also represents the primary goal of the BSC. “A good scorecard tells the story of the strategy, clearly identifying the drivers of the long-term success.” This is necessary, as vision has to be translated into operational terms. Operational terms provide useful guidelines for people at the front line or the local level to take action.

2. Communicating and Linking

To successfully implement a strategy, local level staff needs education. Communication can enable all employees within the organization to understand the

long- term strategic goal, not only the short- term financial targets. With the goal of aligning personal performance of every individual to the overall strategy, Balanced Scorecard users typically focus on three sets of activities; communication and education programs, goal setting programs and reward system linkage programs. An objective of on time delivery can be translated into reduction of cycle time procedures. For reward system linkages, it is still under arguments on whether a Balanced Scorecard measures could be used for motivation and rewards purposes.

3. Business Planning

Most organizations have separate programs for different uses, including budgeting, forecasting and internal control purposes. For instance, budget setting may not be directly related to the company's strategic planning. Balanced Scorecard reduces this loophole because it composes of setting up targets and initiatives. By setting up these targets and initiatives, management can coordinate and integrate the strategic planning function with the financial aspects.

4. Strategic Feedback and Learning

By using the various measures in the Balanced Scorecard, it becomes easier for management reviews to identify deviations from the strategy. "By having an explicit

set of linkages among the Balanced Scorecard measures, managers can test, informally if not statistically, the business theory's hypothesized casual chain of performance drivers and outcomes.”

Balanced Scorecard & Traditional management

Traditional way of management methods has been financially related. In the industrial age, companies achieved competitive advantage from their investment in and management of tangible assets such as inventory, property and plant. Financial measurements were adequate to reflect the company's situation. In facing future challenges, several limitations for traditional management appears:

1. Today's organizations' values are not only on traditional, fixed assets
2. Financial measurements are excellent for review purposes, but not for predicting future
3. Functional based nature didn't allow cross-functional, complex organizational structure
4. Many change programs often target on short-term financial statements and sacrifice long- term thinking.
5. Financial measures are insufficient for different uses of all levels of the

organization

The limitations of using solely financial measures also gave rise to the emergence of Balanced Scorecard directly. “First, previous systems that incorporated non-financial measurements used ad hoc collections of such measures, more like checklists of measures for managers to keep track of and improve than a comprehensive system of linked measurements. The Balanced Scorecard emphasizes the linkage of measurement to strategy (Kaplan and Norton 1993) and the cause and effect linkages that describe the hypothesis of the strategy (Kaplan and Norton 1996b).”⁶ “The Balanced Scorecard also reflects changing nature of technology and competitive advantage in the latter decades of the 20th century.” Intangible assets now replace the position of tangible assets as the main source of competitive advantage. Intangible assets cannot be recorded on the Balance Sheet because intangible assets have no direct financial value. It is not easy to measure the value of intangible assets. These assets’ values depend on organizational context and strategy.

Table 1. A detailed comparison between BSC and Traditional Management

⁶ Robert S Kaplan and David P Norton, “Transforming the Balanced Scorecard from Performance Measurement to Strategic Management: Part I”, 2001 American Accounting Association, Accounting Horizons, Vol. 15. No.1 March 2001.

	Traditional Management	Balanced Scorecard
Rationale	<ul style="list-style-type: none"> ● Suitable for companies that rely on tangible, fixed assets. ● Financial measurements 	<ul style="list-style-type: none"> ● Covers all aspects to product quality, customers and suppliers relationship ● Balanced
Duration	<ul style="list-style-type: none"> ● Short term focus, with emphasis on meeting short term financial goals 	<ul style="list-style-type: none"> ● Co-ordination with long term strategic planning
Uses	<ul style="list-style-type: none"> ● Mainly only for performance measurement 	<ul style="list-style-type: none"> ● Can be changed accordingly to meet specific needs ● Could be used strategically, as a communication tool and management tool
Benefits	<ul style="list-style-type: none"> ● Easy, simple, maximize value 	<ul style="list-style-type: none"> ● Comprehensive and new framework for value creation

CHAPTER III

DEVELOPING A BALANCED SCORECARD – GETTING STARTED

Preparation tasks

Before formally conducting any formal interviews and meetings, some preparations are required because there may be thousands of ways to develop a Balanced Scorecard. In order to increase its effectiveness and reduce the wasting of resources and time, it is better to perform three preparation tasks. They are defining clear objectives- (can ensure a common focus), choosing an appropriate organizational unit- (according to company's situation) and securing executive sponsorship.

Defining clear objectives is referring to “Rationale for the Balanced Scorecard”, in other words meaning the reasons for developing a Balanced Scorecard Program. Possible reasons could be the existence of business crisis, the need for new leadership, the lack of communication and education. The benefits of having clear objectives are to allow a common focus during the implementation later and increases

communication efforts.

The next step of determining an appropriate organizational unit is a process that is very flexible and is depending on the size of a company. Many companies believe that starting at the top is the logical choice. Companies have to consider a number of criteria for making this important decision.

Securing executive sponsorship is the most critical step in the beginning stage. One of the purposes is to enlist at least one willing and able senior executive who is willing to be the ambassador for the scorecard project. His values are consistent with those of the BSC scorecard. There are many reasons for securing executive sponsorship. Firstly, only the senior management team is able to articulate an ongoing strategy effectively. Middle management does not possess the decision-making power to determine strategic priorities and related operating processes that are critical to the development of any (BSC) The emotional commitment of the executives to the scorecard program is the true differentiating feature of a successful program. If management provides only shallow and casual support, this demonstration will be translated by the employees as a sign the project is not worth their time and effort.

Balanced Scorecard Team

After securing the support of the senior management, the next step would be to establish your own Balanced Scorecard Team. For people who have no prior experience in conducting any BSC project, it's best to follow the idea of Paul. R. Niven.⁷ He recommends the usefulness of a Balanced Scorecard Team in his book.

An example of a Balanced Scorecard Team can range from a size of 3 to 30 people, mostly from members within the organization. To create an effective BSC, it must be accomplished through a group effort- reason why a team is needed. The team must compose of a mixture of complementary skills commitment and trusts in the team environment are fostered through mutual accountability. The team should include an executive sponsor, a champion, some work group members and an organizational expert. (Refer to Table 2)

These four roles are the components of the Balanced Scorecard team. The executive sponsor will assume responsibility for providing resources for later use of the project and can influence other three roles. The champion/team leader is very important because it helps to lead the project into different stages. He has to perform all the necessary works by conducting interviews, organizing meetings and even providing all background materials to other his team members. Together with the formation of the Balanced Scorecard Team, it is necessary to provide training to the

⁷ Paul R. Niven, "Balanced Scorecard Step- by- Step: Maximizing Performance and Maintaining Results", Wiley.Com

team before formally conducting any actions

Table 2 Balanced Scorecard Team Roles and Responsibilities

Roles	Responsibilities
Executive Sponsor	<ol style="list-style-type: none"> 1. Assume ownership, fully responsible for any changes in the project 2. Providing background information 3. Close contact with senior management
Balanced Scorecard Champion	<ol style="list-style-type: none"> 1. Coordinate meetings and conducts interviews 2. Project leader. Keep track of entire scorecard development
Team members	<ol style="list-style-type: none"> 1. Provide expert knowledge on specific business units 2. Inform the Champion on any possible challenges
Organizational change expert	<ol style="list-style-type: none"> 1. Deal with sudden changes

After these processes, it can be concluded that most preparatory processes are finished. The Planning Phase has come to an end. Following the end of this process, the development phase could commence as soon as possible. As stated already in the beginning of this paper, I would leave the development phase in the later half of my paper. This could be found in the later part- "Applying BSC in a retail jewellery company."

CHAPTER IV

PRESENT SITUATION IN THE RETAIL JEWELLERY INDUSTRY

Hong Kong Retail Jewellery industry

The following is an extract from a study conducted by the TDC (Hong Kong Trade Development Council) “Hong Kong Jewellery Industry is dominated by the precious jewellery sector. Its development has been facilitated by the expansion of the local market, including sales to tourists. Combined with re-exports, Hong Kong is the leading exporter of imitation jewellery and the second largest exporter of precious jewellery in the world.”

While the export trade makes up 70% of the entire industry, retail jewellery is facing changes that are much faster than that in the export sector. The year 1997 was a critical year in the history of Hong Kong. It marked the end of the British rule and Hong Kong changes to become a special administrative region (SAR) under the People’s Republic of China. This political transformation was also accompanied by changes in the economic environment of Hong Kong. The situation of the retail

jewellery industry before 1997 can be summarized as follows:

1. The most popular product category is gem-set jewellery. This particularly refers to diamonds set in 14K or 18K yellow/white gold. Jade used to be one of the most popular items in the 70s and 80s.
2. A lot of customers tend to purchase gold as a means of preserving value.
3. Quality and Brand are highly valued by customers.
4. The industry is highly concentrated in the few big companies such as Chow Tai Fook, Chow Sang Sang and Tse Sui Luan.

Changes in the external environment

Ever since 1997, the economic environment has been very unfavorable to retail industries. Historically retail industry in Hong Kong had emphasized on quality products at reasonable prices. In early 1998, Mr. Raymond Cheung, Head of the Customer Relations of Fashion Jewellery Company Ltd has foreseen the need for changing the company's direction in handling customers needs.

In a traditional jewellery company, which relies on retail sales as its main source of income, satisfying customers' needs has always been the top priority. Meanwhile, customers' needs in 2002 are changing much faster than most of the retail jewellery

companies can expect. Customers in 2002 are becoming more price-sensitive. Most customers would tend to compare the selling price of different jewellery stores in different locations. They are willing to spend time on doing some price comparisons. Sales staff is now trying to provide the best product within customers' budgets. Customers are also becoming more educated. Many of the new customers are coming from highly educated professionals. They are also demanding more value-added services such as knowledge on the company's products (attached certificates) and better service. As a result, many companies are offering guidelines on professional cleaning of rings. Customers are now focusing on the design of products and most walk-in purchases are stemmed from the design of the products.

The economic environment is adding pressure by restricting the upper limit of the mark-up percentage of most of the low-end products especially in retail market. The retail market is struggling in a hard time. "The government said retail sales for 2002 as a whole fell by 4.1 percent in value terms, and dropped by 2.6 percent in volume terms."

A high mark-up price would mean a loss of customers especially when people are concerned about price. However, a low price strategy would not be consistent with the company's brand image and would affect the profitability of the

store. The degree of competition is increasing at a drastic rate, meaning that each potential customer is valuable on an individual basis.

When asked how he would deal with these changes and competition, Raymond Cheung said: “ My biggest problem in running daily operations is satisfying customers’ needs. Now we are lacking sufficient customers data on meeting their needs. We definitely need more customer data.”

According to Mr. Lam, the chief accountant of Fashion Jewellery Company, it is also necessary to take some action for the company in the near future especially in cost management. “Now we are having a cost that is not affordable by the company. We are having a much higher cost structure as compared to our competitors within the industry. Some form of action is required.”

Company Background

Fashion Jewellery Company is among one of the leading local jewellery companies in Hong Kong. The company has its base in Hong Kong with 9 retail stores in densely populated regions. Two stores are currently opened in Mongkok and another one is expected to be opened within the same area in April 2003. Besides retail stores, the company is also having two Indoor stores in shopping malls.

Fashion Jewellery Company was established in 1938, starting from a small store

in Guangzhou. Ever since its establishment, the company has been relying on retail sales as its major source of income. Rate of growth has been maintained by continuously opening new stores and this remains as one of the biggest achievement of the company.

“Currently we are having 9 stores in several different locations in Hong Kong Island and Kowloon and the total number of employees exceed 1000. “

There are altogether three sources of income for Fashion Jewellery Company. Diamonds and color gems make up 30% of the total sales, in which it also includes some infrequent sales of pearls. The rest of income comes from gold (Chuk Kam and K Gold), which approximately equals 70%. (Appendix 2) During the beginnings of the 1990s, **profit per “tael”** reaches historical time high of \$400, after the economic crisis in 1997, the figure drops to only \$150-170 recently.

After the biggest store has been opened in Mongkok, the three directors of Fashion Jewellery Company had identified the following challenges:

1. Difficulties in identifying the needs of the customers and eventually matching their buying behavior.
2. Failure to manage its inventory in an efficient way owing to the long and complicated procedures in quality control.
3. Developing a communication channel to the existing retail stores.

4. Lack of product knowledge from salesperson resulting in a need for training.
5. Lack of employee involvement in daily business operations.

CHAPTER V

COMMENCEMENT OF BSC

Beginning Stage

June 2002

In order to handle these challenges as soon as possible, K.S. Fung, one of the three main directors, had been introduced to many different ideas. He had some idea of reform action together with a thorough analysis of the company. He was considering an internal audit within the entire company.

July 2002

After several contacts or exchanges of ideas with Raymond Cheung, Terence Chow was finally brought into an informal meeting with K.S. Fung. As an outsider, Terence introduced the idea of Balanced Scorecard and proposed the development of a Scorecard Program. At that moment, K.S. Fung was satisfied with this idea very much, but the consent of the other two directors is also critical. Two days later, two

directors also showed interests in the Scorecard Program. They suggest Terence to draft a notice to all the department managers because the Scorecard ideas are completely new to most of them.

In less than two weeks time, Terence was able to obtain a formal confirmation of executive sponsorship. Obtaining the executive sponsorship is not even enough; it is necessary to secure their sponsorship for the Scorecard Program. For a middle sized company like Fashion Jewellery, Terence decided to use "Demonstrate results" approach. Success stories of Balanced Scorecard Implementation such as the Mobil NAM&R and United Parcel Service are used. Unlike those big companies, it is much harder to predict the total amount of time to see the desired results. However Terence promised to come up with a Scorecard Program that is tailor-made for Fashion Jewellery.

August 2002

In the beginning stage, one of the main obstacles is "Bringing the Scorecard idea" to department managers. The most important concern is to explain the rationale behind the entire program and the need for such program. With their limited understanding of the Scorecard, Terence was not able to win any enthusiastic support from even one of the managers. In order to enlist their support, Terence

realized the need to focus on one or two influential managers. Both the purchasing manager, Brenda and the manufacturing manager, Chui Chui became primary focus at this stage.

As part of the development phase of the Scorecard Program, a Scorecard team is needed. The sooner the establishment, the better it is for the success of the Program. The following shows the composition of the entire Scorecard team: (Appendix 8)

The entire team is composed of ten members. It consists of three major parties. K.S. Fung promises to be the executive sponsor for the Fashion Jewellery and he remains his independent status. He has the power to overrule any of the decisions. Terence is the project leader and Champion of the Scorecard Program and the other eight come from the eight departments respectively. Each of them is also supported by one assistant manager. In case any of them could not attend any future meetings, the assistant manager would replace them accordingly.

September 2002

One more thing has to be settled before the commencement of the meetings, which is determination of a company's strategy, mission, vision and core values. "The components of a successful scorecard are your organization's mission, core values, vision and strategy."

The mission statement is highly related to the birth of Fashion Jewellery Company and is one of the founding principles of the company ever since it was established in Guangzhou. Mr. Lam who has worked for the company for more than 15 years suggests the vision statement. As a profit making company, Fashion Jewellery is running with the core strategy – “ Profit Maximization and Revenue Growth.” There are currently no definite values established yet, but the company has a tradition of emphasizing “ Maintaining a consistent brand image for the company and cultivate a sense of belongings among its existing employees.”

Table 3 Mission Statement, Vision, Strategy and Values of Fashion Jewellery

<i>Mission Statement:</i>	Create an opportunity for every individual to feel, appreciate and own jewellery products.
<i>Vision:</i>	Be the No 1 retail jewellery company in providing fine quality products at an affordable price
<i>Strategy:</i>	As a profit-making company, Fashion Jewellery is running with the core strategy of Profit Maximization or Revenue Growth.
<i>Values:</i>	Consistent company/brand image and a sense of belongings

Meetings

Meetings represent a key process during the Scorecard Program. It is also

known as “objectives and Measures Generation Sessions.” The purpose of meetings is to generate measures based on the responses of department’s representatives. Even between the first few meetings, significant differences may occur. For instance, the first meeting is used for measures generation. The second meeting would come up with new measures, as well as removing inappropriate measures. Later, the third meeting was used to establish relationships between measures. Finally, measures are being finalized in the fourth meeting.

Owing to time constraint, management level of Fashion Jewellery could only afford to arrange 4 meetings. The 4 meetings act like a TV series and is a continuous process. There has been increasing learning and interaction between different departments. In the past, some department representatives have very little contact with each other. The degree of interaction is much stronger than they have originally expected.

First meeting (18 October, 2002)

The executive team comes to a consensus of 6 measures from 3 perspectives of customer, financial and internal. (Appendix 3) One objective could lead to more than one measure. For instance, increasing revenue in the financial perspective could be measured by revenue per store, revenue per customer or even revenue from

new customers. (Appendix 1)

It is also possible that even with the appropriate measure, it is not possible for the company to take any action owing to the lack of sufficient data. The best example is the number of calls made to existing customers. At the time of the meeting, the company has no policy on requiring salesperson to call repeated customers unless there are new products in the coming seasons. (Appendix 9)

Second meeting (20 Nov, 2002)

The second meeting was held in the mid of November to update the progress of the entire Scorecard Program. The purpose of this meeting is to discuss more on the details on those measures, as illustrated in Set #1. More important would be the suggestion of new measures and elimination of old, useless measures. A significant step was made forward, which means that more remarks are made on the existing measures.

The best example is illustrated by relative measures in the Internal perspective. According to the findings from the first meeting, the number of meetings could reduce the operational efficiency of Fashion Jewellery. Later it was discussed in the second meeting that it was not a major issue as most meetings are attended only by the top level management and it represents the single most important channel of

communication for a medium sized, traditional company like Fashion Jewellery. Direct sourcing of raw materials- gems especially was not workable because high quality gems are originated in Europe and places like Russia and South Africa. If Fashion Jewellery wants to have direct sourcing, it will spend at least double the present time in obtaining these materials and unnecessarily increases material costs.

At this stage of the Scorecard Program, more effort is needed to get to the stage of finalized measures, meaning more meetings are expected and some informal interviews.

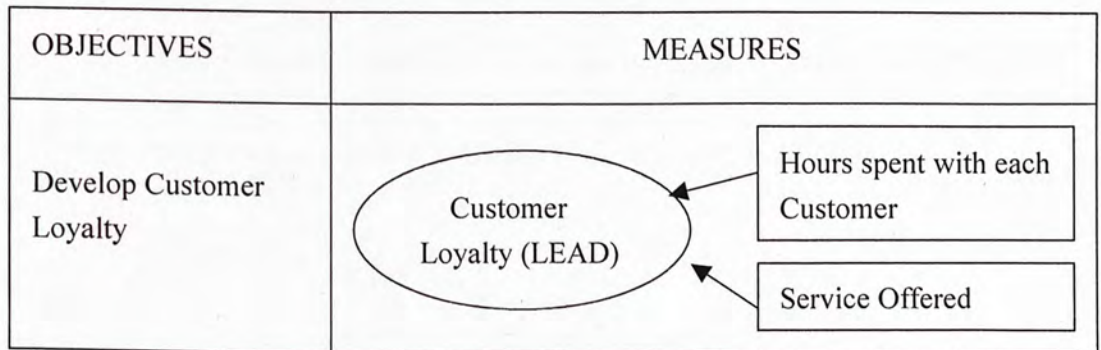
Third meeting (6 Jan, 2003)

As the Balanced Scorecard program continues, more and more findings appear. For instance, having the appropriate measures are not enough. One hard lesson that many companies learn is that they cannot just look at 1 to 2 top level measures as the main indicators. (Revenue per store) Instead they should go down several layers and look at some of the metrics related to customers. (Satisfaction level) (PLEASE REFER TO THE DUPONT CHART IN APPENDIX)

The effect of lead and lag measures begin to appear in this meeting. For instance the amount of time spent on the customer (Lead measure) could affect the customer loyalty (Lag measure). Even between lag measures, there are some

relationships between them. Customer loyalty could have an effect on customers' satisfaction and eventually affect the average revenue per customer. Average revenue per customer then can lead to corresponding changes in the average revenue for Fashion Jewellery Company.

Chart 1 Lead and Lag measures in Balanced Scorecard



Fourth meeting (3 March, 2003)

This was the final meeting conducted during our entire scorecard program. Therefore this was also used to finalize all previous measures.

Significance of these meetings

1. Preliminary measures are obtained from different department representatives and very often interactions appeared. (Cross- functional) This helped to remove any mistakes on existing measures

2. The process facilitates active discussion on many corporate issues that have been neglected in the past. For instance, the number of meetings could lead to a lot of time being wasted
3. Even if some of the measures are identified in the past, insufficient actions are being carried out and managers don't know what they could do to improve the situation
4. With these measures right in their mind, managers are getting a better idea with the company's vision, mission and its future direction as well.

Interviews

Besides holding meetings, interview becomes another important component of the scorecard development program. A well-planned interview could become the cornerstone for future success of the scorecard program and eventually shortened the time and degree of effort, thereby raising its efficiency. According to Scorecard experts, a good interview should be able to achieve several purposes of reviewing purpose, linking the company's mission, strategy, vision and values.

Below are some of the highlights from the interviews.

Miss Brenda Yiu said, " Our department represents one of the most busiest

department among all others within the same company. As a matter of fact, we are almost the busiest after the front salesperson. The workload is too much for our purchasing department, especially with regard to the selection process of gems. However we have to do so in order to maintain the quality of gems and more important the quality of products. We hope that the manufacturing department could understand our situation.”

Branch manager in Mongkok said, “ At present the customers profile is changing a lot. In the past, we used to rely on our repeated customers. But now the sources of customers are now more complicated, meaning that they could come from office, university students and tourists from Mainland. We cannot rely on old repeated customers alone in today’s environment. We need both old and new ones.”

Significance of these interviews:

1. Interviews are the first step in the entire Balanced Scorecard Program.
2. It is the main source of data gathering process.
3. Interviews allow one-one conversations with most of the department managers, a much better understanding of each individual department.
4. It makes it easier for the management level to get acquainted with the team members of our scorecard program.

Executives' questionnaire

During the third meeting, an executive questionnaire was conducted right after the meeting. This questionnaire was about the measures that we have discussed so far ever since the first meeting in October 2002. The purpose of the questionnaire was to rank the priorities of the 11 measures in order of importance to Fashion Jewellery Company. All the department managers attending the meeting were asked to participate in this questionnaire as well.

The general implication is that out of 8 managers, most of them are emphasizing on the customers perspectives – which represents one of the key assets of the Retail Industry. The top three priorities are being placed on (1), keeping track of repeated customers, (2) improving customer service, (3) Diversifying and increasing customer base. (PLEASE REFER TO THE ATTACHED FORMAT FOR THE EXECUTIVES WORKSHOP QUESTIONNAIRE)

Significance of executive questionnaire

1. These questionnaire serve as another way of gathering feedback from the executives on the entire scorecard program
2. Up to this stage, this represents also the first major response from the executives

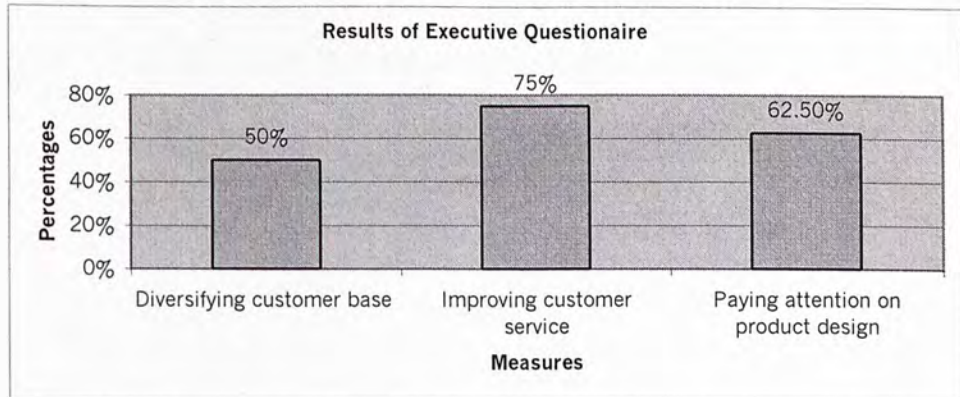
3. Owing to time constraints, this kind of questionnaire could become an indicator for the initial results of the scorecard program

Highlights of the Executive questionnaire

- This executive questionnaire tries to rank the relative importance of different measures in the minds of the executives. Given Limited resources, executives are asked to state their priorities in allocating resources based on future needs of the company
- “Put more attention on design of products” remain one of the most important top three measures. Out of the 8 executives, 62.5% stated this measure as No 1 to No 3 this fits with the traditional Core competence of the retail jewellery business. As stated in DTC (Diamond Trading Company), “Vision and Growth, one of the effective diamond marketing is to INSPIRE CREATIVITY, choosing the right product and make them compelling.
- Another important finding is that 75% of the executives agreed Improving customer service as No 1 to No 3, indicating that the current service level is not meeting the company’s expected standard.
- Besides the above two, next priorities are usually given to serving customers. For instance, “obtaining data and feedback from customers- better understanding

& “ diversifying customer base” respectively.

Chart 2 Results of Executive Questionnaire



Finalizing measures

After the four meetings are finished, it is possible for our team to draw a Dupont Chart and a sample Balanced Scorecard template. The three ways of interviews, meetings, and executives' questionnaire have been quite successful. The result is as follows: 9 measures are finalized. They are the number of repeated customers (C1), number of calls made to customers (C2), customer information in customer questionnaire (C3) (customer perspective), revenue per store (F2) and revenue from customers (F1) (new), the mark up% (F3) (financial perspective), no of employees per retail store (F4). Revenue from customers (new) is classified as financial purpose for short-term purposes. The remaining measures are amount of training offered to sales

(E1) and the results from mystery shoppers' competition such as employees' attitude.

All the nine measures are coming from existing strategic objectives from 4 perspectives respectively and these strategic objectives are all connected to the final objective – increasing profitability of the Fashion Jewellery Company.

CHAPTER VI

CONCLUSION

Limitations of the Scorecard Program

The above analysis demonstrates the development of a Balanced Scorecard Program in a local retail jewellery company. Although the company has not reached the implementation stage when the report was finished, the BSC program was indeed successful in at least arousing the company's management concern for the challenges that the company it is facing and eventually the future challenges that are possible obstacles to Fashion Jewellery Company. At this stage of the Scorecard, it can also be counted as a success as it has identified measures for the company. For instance, the number of calls made to customers could be a very useful measure – which is being ignored in the past.

However, there are still some limitations of BSC, some of them are stemmed from the existing limitation of the BSC idea. First of all, the rationale of building the entire Scorecard is based on a series of cause and effect linkages. These linkages

may not be 100% precise with the original expectation. Besides, many companies tend to become complacent and halt once a Balanced Scorecard is developed. Instead a company should keep updating its BSC with the forever-changing business environment. The success of a BSC relies a lot on continuous improvement process within the organization. Sometimes even with a well-designed BSC, a company still need to consider the cost & benefits. For instance, not all companies could afford to develop an extensive, modernized I.T system. When reviewing the past several years, a lot of companies (especially profit making ones) are not paying significant attention on the non-financial measures. As a result, these companies may not be benefited from their BSC in the long run perspectives.

The sample Balanced Scorecard developed by Fashion Jewellery also has its own areas of limitations. It exists mainly in the two perspectives of learning and growth and internal process.

Learning and Growth

At the time when the Scorecard was developed, the company could not afford to spend money on training and motivating the employees. It is also very difficult to train the employees within a short period of time. Most employees do not have a solid background about the jewellery products. In this industry, the way of learning

is usually based on experience from senior managers. Even though the management may foresee the need for further training, they may still need to spend time on figuring out appropriate initiatives.

Internal Process

The internal processes involved a complicated mechanism for Fashion Jewellery. In order to ensure the premium quality of the products, a lot of procedures are involved for quality control purposes. There are more than 4 processes before the final delivery of the finished products to the retail branch stores. (When Fashion Jewellery receives the gems from the supplier (First QC), purchasing dept hand (selection of gems) to manufacturer dept (Second QC), manufacturer dept to purchasing dept (in case of inappropriate gems and difficulties in changing into products (Third QC). Usually, the final QC needs the co-operation of both the manufacturing dept and the staff from branches.

Besides, a successful Balanced Scorecard really depends on many other factors. There is a strong and direct relationship between the Balanced Scorecard and Culture. “The organizational structure put in place to implement the strategy also affects the role of the Balanced Scorecard.”⁸ Implementing the Balanced Scorecard, which

⁸ Stella Mooraj, Daniel Oyon, Didier Hostettler, “The Balanced Scorecard: A Necessary Good or an Unnecessary Evil?”

contradicts the culture of the organization would lead to confusion and even delays in decision-making process. In a family owned traditional company like Fashion Jewellery, it is not surprising that there will be some opposition expected. Senior management staffs tend to favor few changes if possible. “Since BSC is a tool for management to identify changes, most of them may not be willing to accept those measures developed in BSC.”

The key issue for companies to decide on the development and implementation of the Balanced Scorecard depends on cost-benefit. It is a company-specific as well as an industry-related decision. Each company has its own formal and informal processes.

When considering whether to implement a Balanced Scorecard, it is under the discretion of the company on making this decision.

CHAPTER VII

ACTION PLANS AND FUTURE OUTLOOK

At the time when the report was due (May 2003), the Scorecard Program came to a stage with the above conclusion. When considering how much the Program has achieved, it has already outperformed the expectation of team members. It's very difficult to judge because a good scorecard program depends a lot on your original expectation. This doesn't mean that the Scorecard Program was ended at this stage. We thought there are some follow up actions as needed:

Setting up initiatives/Targets

From the above analysis, we know that Fashion Jewellery had already identified 9 measures from 4 different perspectives. Having the measures are not enough, the Balanced Scorecard is incomplete without a set of targets. These targets could be long term in strategic nature or even short term, depending on the company's present

situation. For instance, Fashion Jewellery should establish a target mark-up percentage of 15%. Then it can capture an additional gain as compared to the 10% industry average. The figure (15%) is a target rate. It could be quarterly, annually or monthly. In this case, we recommend a quarterly rate of 15% target to test the results.

Prioritize different measures and initiatives

Apart from targets, a Balanced Scorecard Program would not be complete because there are always priorities among different measures/initiatives. Some of the measures are more strategically important, especially those in the customer perspective. In order to ensure the effectiveness of these initiatives, it is better for Fashion Jewellery to establish a set of criteria. For instance, the action of increasing amount of revenue from new customers to 40% of the total sales could face several considerations. Does this relate directly to the overall strategy of increasing profitability? If that were the case, how much additional costs would it involve? What is the estimated time to complete for this action if it is really implemented?

Create a Balanced Scorecard Measure Data Dictionary

Once we have an established set of measures on hand, employees need to know

more about the measures in detail when implementing in the organizational level. The measures may be very clear (in terms of the corporate level), but it needs to be understood by the employees. To help them to understand these measures, a Balanced Scorecard Dictionary can be developed on some of the critical measures. (Appendix 12) It is more like a sample card for employees to look at and they can always refer to this card whenever they have confusions about the measure. Details of this Dictionary could include description of the measure, the relevant data for this measure. The target rate and the initiatives are also written on this Dictionary.

Feedback from Fashion Jewellery

Although most of the measures are not yet implemented in the company, the scorecard development team is able to obtain some informal feedback from the company's employee:

Peter Wong, (Branch manager) said, “ This is the first time such a large, comprehensive study on the company itself. It would definitely benefit us as a front-line manager. We are now knowing more about customers and thinking about what their preferences are. In the past, we just keep on selling and selling. Now we may even know how to handle different customers' needs. Life becomes much easier for us in running our daily stores operation.”

Janet Chan, (Purchasing agent) said, “ Our department difficulties have been shown to other relevant parties and other departments. This is good because we could try to obtain more resources and manpower support from Fashion Jewellery. Although it is very hard to solve the problem of long cycle time and slow moving item, it seems that there is better understanding and communication between different departments. The company now becomes more flexible.”

David Fung (ordinary staff) said, “More flexibility, a better working environment.”

Shirley Tong (assistant accountant) said, “ By providing a lot of financial information to the company, we are having more sense of importance.”

While there are still uncertainties remaining on the Balanced Scorecard Program, members in the Scorecard Development Team have made significant effort throughout this period. The future of Balanced Scorecard Program depends on our commitment, our altitude towards the Balanced Scorecard Program. We, as part of the Balanced Scorecard team, strongly believe that such a Scorecard Program would benefit the employees, the management and the company itself in the long run.

Figure 1

Exhibit 1 what is Balanced Scorecard?

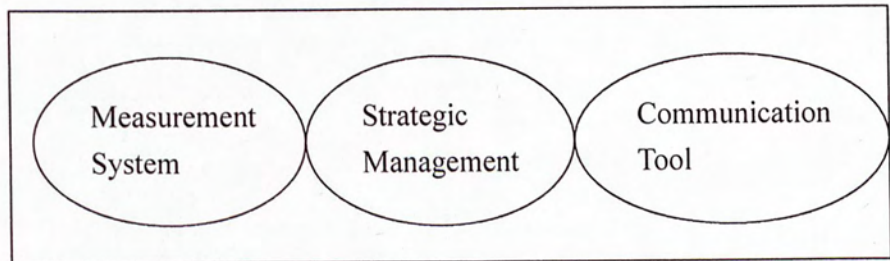
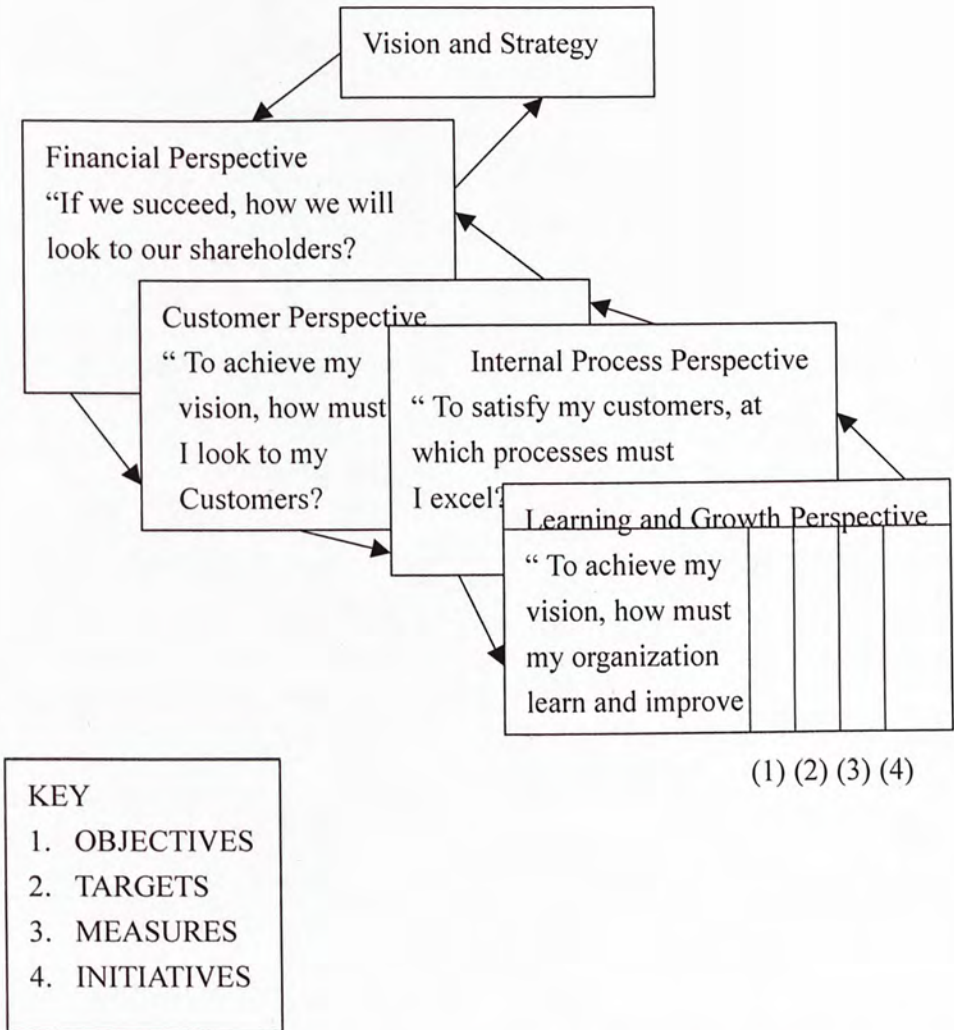
Source: "Paul R. Niven, Balanced Scorecard Step- by- Step:Maximizing Performance and Maintaining Results"

Figure 2

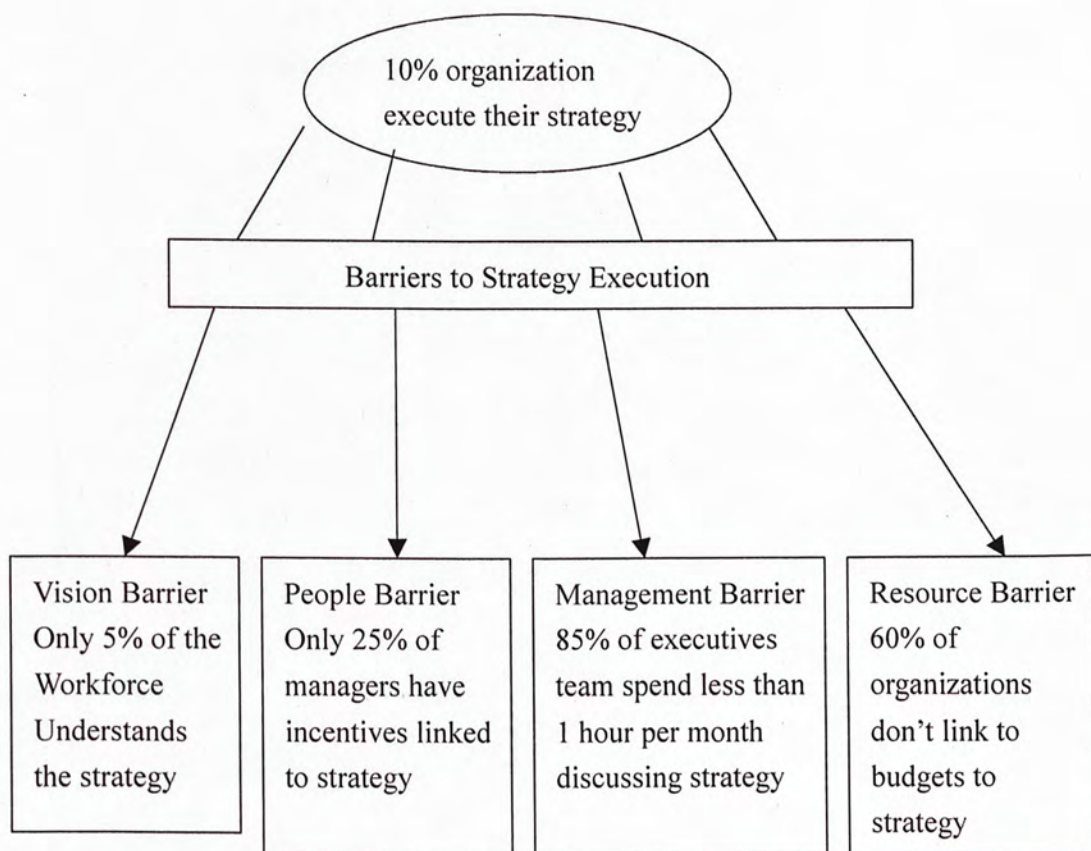
The Balanced Scorecard Defines a Strategy's Cause and Effect Relationships



Source: " Robert S. Kaplan and David Norton. Transforming the Balanced Scorecard from Performance Measurement to Strategic Management, Accounting Horizons, 2001.

Figure 3

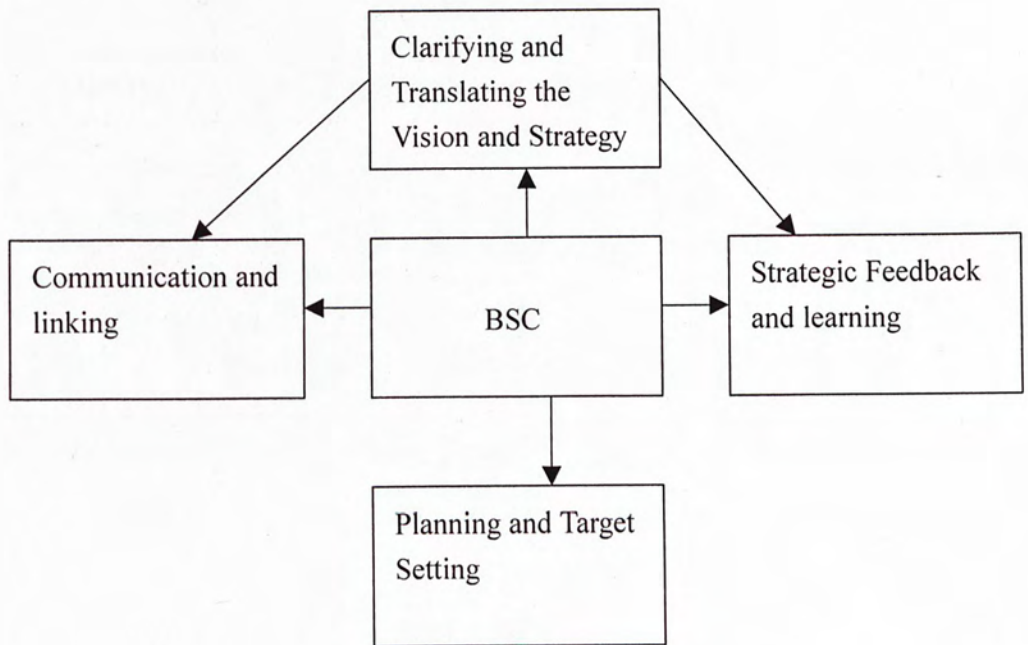
The Barriers to Implementing Strategy



Source: "Paul R. Niven, Balanced Scorecard Step-by-Step: Maximizing Performance and Maintaining Results"

Figure 4

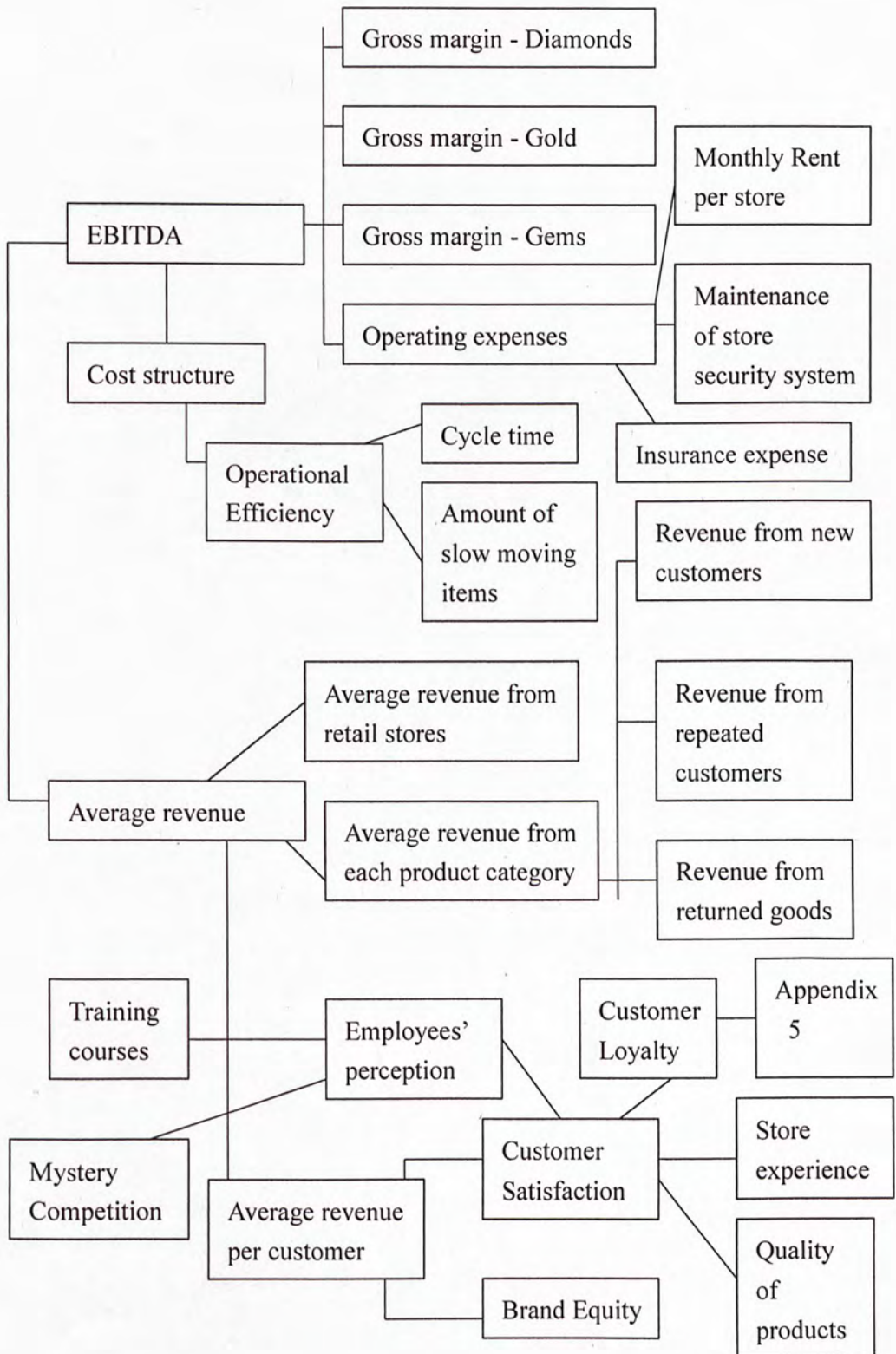
A management System for Strategic Implementation



Source: "A Management System for Strategic Implementation (Kaplan and Norton, 1996a, p. 197)

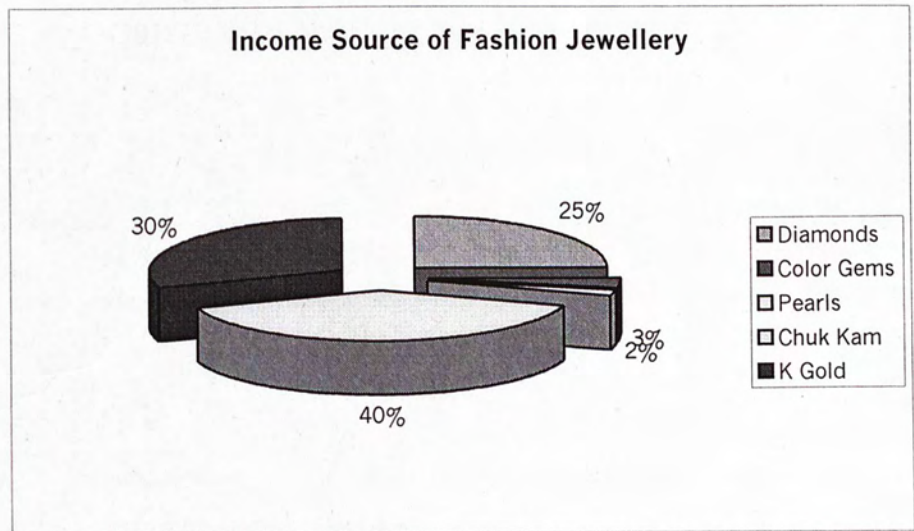
APPENDIX 1

DUPONT CHART FOR FASHION JEWELLERY



APPENDIX 2

INCOME SOURCE OF FASHION JEWELLERY



Source: Company's interviews

APPENDIX 3

STRATEGIC OBJECTIVES AND MEASURES #1 – UP TO OCTOBER 2002

<u>Perspectives</u>	<u>Objectives</u>	<u>Measures</u>	<u>Follow up actions and results/ Initiatives</u>
Financial	Increase average revenue	Revenue from new customers (F1)	Getting information on new customers, especially tourists
		Revenue per store (F2)	Maintain the current trend of reporting
Customer	Establishing customer loyalty	Number of repeated customers (C1)	No action was confirmed
	Customer Retention	Number of calls made to customers (C2)	More feedback from branch managers are expecting
Internal	Improve operational efficiency	Number of unnecessary meetings (I1)	Rejected since it is not a major cost driver
		Direct sourcing of raw materials (I2)	Against the industry practices

Source: Company information

APPENDIX 4

STRATEGIC OBJECTIVES AND MEASURES #2)- UP TO NOVEMBER 2002

<u>Perspectives</u>	<u>Objectives</u>	<u>Measures</u>	<u>Follow up actions and results/ Initiatives</u>
Financial	Increase average revenue	Increase the mark up % (F3)	This measure was under fierce discussions within the committee
	Improving cost structure	Cutting manpower (F4)	This had already been implemented
Customer	Increasing knowledge of customers buying pattern	Customer questionnaire (C3)	A sample questionnaire was created

Source: Company information

APPENDIX 5

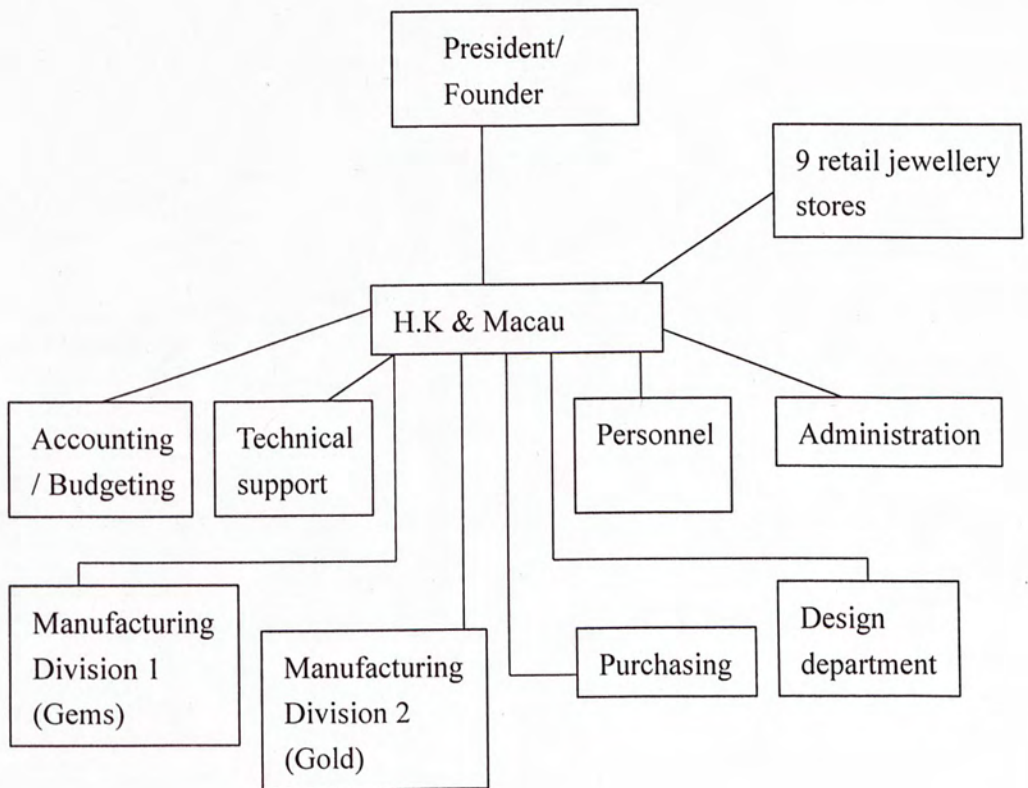
STRATEGIC OBJECTIVES AND MEASURES #3)- UP TO JANUARY 2003

<u>Perspectives</u>	<u>Objectives</u>	<u>Measures</u>	<u>Follow up actions and results/ Initiatives</u>
Internal	----	I1 and I2 measures were finally abandoned	More future actions are needed
Employee	Increase employee expertise	Formal sales training courses (E1)	Agreed and will start as soon as possible
	Increase employee productivity	Mystery Shopper Competition (E2)	More studies on the results of mystery competition

Source: Company information

APPENDIX 6

ORGANIZATIONAL CHART



Source: Company information

APPENDIX 7

PROJECT SCHEDULE

Project start: May 10, 2002

Project finish: March 16, 2003

<u>Date</u>	<u>Activities</u>	<u>Deliverables</u>
End of June 2002	Introduction of Idea and approval from top level management	Presentation of Mr. Kaplan and Mr. Norton article
End of July 2002	Further discussion with branch managers – for feasibility purpose	Official documentation from directors for BSC
End of Sept 2002	Finished background research on each individual department	Preparing agenda for coming meetings
Late Dec 2002	First two formal meetings with department representatives	
End of Jan 2003	Third meeting was conducted	Dupont Chart
End of March 2003		Develop Measuring Mechanism

Source: Company's report

APPENDIX 8

CORE TEAM/ RESPONSIBILITIES

Name	Department	Responsibilities
Chui Chui, Y.H Chow, Raymond Wong, Mr.Lam	Manufacturing, Designing	Responsible for providing financial and product info
Mr. Tam, Mr. Kwok	I.T, Administration	Responsible for compliance with company's policies
Miss Cheung,	H.R	

Source: Company's report

APPENDIX 9

AGENDA FOR 1st MEETING

Date: 18th October 2002

Nature: First meeting of Executive Workshop

Purpose: 1. Informative, informing department representatives on the progress of Scorecard Project
 2. Discussing the various measures for the time being
 3. Formally introduce the idea of BSC to each of them

Content/Coverage:

1. Cost Control

- Method of reducing costs in each individual department and the entire company
- Suggestion- cutting employees per retail store to 7 or 8 people
- Any further action in administrative dept- combining similar functions for similar department

2. Customers

According to sources from retail stores, most sales come from new customers.

- Can we do something to keep the existing customers?
- Do we keep record? What data are we lacking?
- How can we attract new ones? Encourage more special order?

3. Employee Training and Development

- What kind of training are provided, who are the main targets?
- Do you think there are enough? If not, what else can be done? Feedback?

4. Time Control

- Manufacturing --How many procedures are there? Can we eliminate one? (Since it takes almost 1 month)
- Designing- who to decide? Can we shorten the time between the 3 parties?

APPENDIX 10

MINUTES FOR THE FIRST MEETING

Date: 18 October 2002 (Tuesday)

Time: 11:00 am

Venue: Cheung Sha Wan (Company's Conference Room)

Attendants: Terence Chow (Chairman & Project Leader)
K.S. Fung (Director representatives)
All department representatives

Discussed Issues

1. Cost Control
 - (a) Most department comes to a consensus that cost control is very important.
 - (b) The cutting of manpower had already been implemented therefore no further action could be performed.
(Follow up staff – Mr. Kwok)
 - (c) Instead cost can be reduced by improving operational Efficiency (Follow up staff – Mr Lam)
 - (d) Mr Lam suggested that if possible – the rent should be lower. (Follow up staff – Mr Chui)

2. Customer service
 - (a) Mr Chui raised out the issue that we are not having enough Data about the customers. 90% of sales are based on close Relationship between the salesperson and the customers
(Follow up staff – Branch managers)
 - (b) There is no data on customers' preference and how much they Purchase each month. (Follow up staff – Mr. Kwok)

- (c) It is decided that maintaining old customers is not enough and
The company needs more pro-active action on maintaining this
Customer base as well as getting new ones.

- 3. Employee training
 - (a) It is decided that employee training are not the first priority at this
Stage
 - (b) It is being postponed to the second meeting.

- 4. Manufacturing Process
 - (a) Owing to time constraint, this content is also postponed to later
Meetings.

The meeting ends at 11:55am.

Directors' Signature

APPENDIX 11

EXECUTIVES' QUESTIONNAIRE

Sample of Executives' Workshop Questionnaire

Please rank the following suggestions in order of importance (1 to 11) and put a cross besides if you think that it is not possible to carry out in the company.

1. Keep track of repeated customers
2. Further reducing manpower in the retail stores and in central office
3. Improving customer service
4. Simplify the complicated processes within the production department
5. More training for employees from different departments
6. A need for more computerized network, for instance need for e-mail access
7. Diversify/ Increase customer base, for instance to tourists from Mainland
8. Obtaining data and feedback from customers- better understanding of customers
9. Increase the mark-up % for C.S.S jewellery products
10. Reduce unnecessary meeting time
11. Put more attention on design of products

APPENDIX 12

BALANCED SCORECARD MEASURE DICTIONARY

Perspective: Customer	Measure Number: C1	Owner: Mr. Kwok, Administration
Strategy: Revenue Growth		Objective: Increase Customer loyalty.
Description: Number of repeated customer is a direct indicator of customer loyalty. It measures the proportion of customers who prefer us to our competitors. The more repeated customers, the higher the chance they will make purchase within our retail stores		
Lag/Lead: lead	Frequency: Quarterly	Unit Type: Number
Data Source: From administrative department		Data quality: medium
Baseline: 100 per store	Target: Q3 2003: 100, Q4 2003: 105, Q1 2004, 110	
Duration: 1.5 to 2 years	Priority: ranked no 3	
Initiatives: Customer Relationship Management, customer service training		
Employee feedback:		

Source: Paul R. Niven. "Balanced Scorecard, Step-by-Step: Maximizing Performance and Maintaining Results" WILEY, 2002

APPENDIX 13

SAMPLE BALANCED SCORECARD OF FASHION JEWELLERY

PERSPECTIVE	STRATEGIC OBJECTIVES	MEASURES
Financial	Revenue Growth	<ul style="list-style-type: none"> ● Revenue from customers (new) ● Revenue from each store
	Profitability Growth	<ul style="list-style-type: none"> ● Increase the mark-up%
	Cost Reduction	<ul style="list-style-type: none"> ● Reduce employees per store
Customer	Customer loyalty	<ul style="list-style-type: none"> ● No of calls to customers ● Feedback from customers' questionnaire
	Customer Satisfaction	<ul style="list-style-type: none"> ● Number of repeated customers
Internal	Reduction of cycle time Improve operational efficiency	-----
Learning and Growth	Employee Productivity Improvement and Satisfaction	<ul style="list-style-type: none"> ● Training courses (sales) ● Mystery Shopper Competition

APPENDIX 14

THE FOLLOWING IS A SUPPLEMENTARY INFORMATION FOR ONE OF OUR MEASURES – MYSTERY COMPETITION (E2)

The Mystery Shopper Program is a first of a kind in Hong Kong in terms of its scale and coverage and is organized by the Association. The objectives of the Programme are to improve the overall standard of customer service in the retail industry and in recognizing outstanding retail companies for being quality service providers.

Using a team of well-trained mystery shoppers, mystery visits will be conducted among the retail outlets of participating companies. The service performance of these participating companies will be carefully checked and monitored according to the 9 key customer service assessment criteria.

Source: Hong Kong Retail Management Association Report

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CUHK Libraries



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