

Tri-cities community bank – a balanced scorecard case essay sample

[Business](#), [Management](#)



Tri-Cities Community Bank (TCCB) is located in the Midwest US and has a total of 10 branches grouped into two divisions, the southern division (SD) and the northern division (ND). Each division consists of five branches; each branch employs a branch president, branch vice-president/chief loan officer, customer service representatives, loan representatives, mortgage loan originators, head tellers, tellers, and administrative assistants. All branches are located within a 60-mile radius. TCCB has enjoyed strong financial success over the past few years but continues to look for ways to improve its performance. The strategic direction of the bank is reviewed annually at a meeting of top bank officials and outside consultants. The purpose of the meeting is to outline the vision and mission of the bank and to ensure all top managers understand and agree on the direction of the organization. In 1997, TCCB management adopted the master strategy of balancing profits with growth to ensure the bank remains an independent entity existing to provide quality service and products to an increasingly diverse customer base. Chris Billings recently was promoted from marketing director to SD president.

The promotion came just as Chris finished her evening Masters of Business Administration degree in December 1999. As part of her graduate studies, she was introduced to the balanced scorecard (BSC), a performance measurement system that directs decision-makers toward long-term value-creating activities. Chris thought the BSC could be used to improve the financial performance of TCCB. In late December 1999, she approached the chief executive officer (CEO) and requested permission to implement the new program. TCCB's CEO was apprehensive about the new program. His

reluctance stemmed from his own unfamiliarity with the BSC and Chris's short tenure as SD president. The CEO also was concerned about whether Chris's ideas would be accepted by the ND president and ND branch employees. Finally, he was uncertain about the BSC's benefits. At the same time, however, the CEO didn't want to respond negatively to Chris's first efforts as SD president. To appease Chris without totally committing the bank to implement the BSC, the CEO agreed to allow Chris to begin the process of developing the BSC in the five branches of her division.

In turn, Chris agreed to make a presentation to the CEO and the bank's Board of Directors in three months. In this meeting, Chris would present BSC concepts and how she planned to use the program to improve the financial performance of her branches. Given the short period of time to design a pilot study, Chris wondered how she could convince the Board of Directors to give her permission to implement the BSC. She knew she must convince the SD branch presidents of its value. On January 7th, 2000, Chris met with her branch presidents to discuss the BSC program and enlist their help in developing balanced scorecards for their branches. She began the meeting by distributing a handout (Exhibit A1) highlighting the key objectives of the BSC. She used the handout to inform the branch presidents of the four business " perspectives" (categories of measures to be included on the BSC). The example measures she included on the handout are from a hospital that had implemented the BSC. Because she didn't have example measures from a bank using the BSC, she wanted to show measures from another service industry for the branch presidents to consider.

As the handout shows, the hospital uses operating margin and cost per case as their primary financial measures, recommendation ratings from outgoing patients and discharge timeliness information as customer measures, length of stay and readmission rate (patients being admitted again for the same injury or illness) for the internal business measures, and employee training and retention measures in the learning and growth perspective. She then instructed the branch presidents to work together to develop meaningful measures to be included on branch BSCs. While each branch would eventually develop a branch-specific scorecard, she believed the branches were similar enough to allow branch presidents to work together initially. The group was to meet again in six weeks to discuss their progress in developing branch BSCs. The group meeting on February 25th did not go as well as Chris had hoped. While the branch presidents had done a good job of identifying areas that needed attention within each branch, the information presented could, at best, only be considered as raw materials necessary to build a BSC program.

Much work was needed prior to implementing the program. With time running out, Chris grew concerned about the scheduled meeting with the Board of Directors on March 31st. She had nothing concrete to present at the meeting and worried she might not receive permission to pursue the program if she did not make a solid presentation to the board. Chris's goal is to present a group of quantifiable measures that are linked through causal relationships and lead to improvement of key financial measures. One of the primary benefits of the BSC comes through mapping causal relationships

from nonfinancial performance measures to financial measures. Nonfinancial measures are categorized into three perspectives: Learning and Growth, Internal Business Processes, and Customer Focus. The cause-and-effect linkages in the BSC will occur in the following manner: if learning improves, then internal processes will improve. If internal processes improve, then customer value will increase. If customer value increases, financial performance will improve. Financial performance is the ultimate evaluation of a firm's strategy. If financial performance improves significantly, the firm's strategy is successful.

Thus, if the strategy is good, the measures of the nonfinancial perspectives will be lead indicators of increasing value that will ultimately be proven by improved financial measures. Exhibit A2 provides a list of performance measures developed by the branch presidents and notes Chris took during meetings with them. Figure 1 illustrates a sample cause-and-effect chain. For example, as shown in Figure 1, if employees receive training in sales effectiveness, customer service, product profitability, and local bank knowledge, they will be better equipped to provide customers with higher quality service. TCCB measures the effectiveness of the training programs by having employees take in-house tests on various training topics.

management By increasing employee knowledge and skills, higher quality referrals and cross-sell proposals will take place, leading to higher customer satisfaction and greater customer retention. Maintaining the current customer base provides the basis for growth in deposit and loan balances, while a greater number of successful referrals and cross-sells increase

noninterest income. Chris wants to prepare a series of cause-and-effect chains to illustrate to the Board of Directors how the BSC can be used to improve performance on three key financial measures: loan balances, deposit balances, and noninterest income. She knows that any program emphasizing improvement in these three measures has a strong chance of receiving approval. An example of a cause-and-effect chain appears in Exhibit A3.

Requirements

Prepare a presentation for the Board of Directors that explains how the BSC may be used to help TCCB achieve its strategic goals. Include in your presentation the following: 1) A table that categorizes each of the measures in Exhibit A2 into one of the four BSC perspectives (from Figure A1.) State why you placed a measure in a particular perspective. 2) Two cause-and-effect chains similar to the one shown in Exhibit A3. Use the measures listed in Exhibit A2 or suggest other measures you feel are appropriate. Be sure to include a Causal Chain Explanation with your answer.