Balanced scorecard essay examples

[Business](), [Company]()

Analysis: Next Plc

Assignment 1:

Executive Summary:

The report makes a recommendation about the balanced scorecard of Next Plc. It makes this recommendation on the basis of mission, vision and strategic objectives of the company. The strategy map links the perspectives of the balanced scorecard with the strategic objectives of the company. It is by adopting the perspectives mentioned in the balanced scorecard, the company can achieve its strategic objectives.

The limitations of the balanced scorecard as a strategic management tool have also been identified and are largely dependent on an effective accounting system. Balance scorecard tends to put the interest of financial stakeholders (shareholders) over other stakeholders. Sometimes perspectives other than those used in the traditional balanced scorecard reflect the priorities of the organization in a better way.

The balanced scorecard is a strategic management tool. It was developed by Robert Kaplan and David Norton; they first propounded the concept in their book, The Balanced Scorecard (Adams, Neely & Kennerley 2007).

The balanced scorecard looks at the strategy of an organization from the following perspectives:

i) Financial perspective: The financial perspective looks at the business from the point-of-view of shareholders. What are the expectations of shareholders? Is the business succeeding in creating wealth for the shareholders? What is its performance on financial parameters like Return on

Equity or Return on Capital Employed? (Kaplan & Norton 1996).

ii) Customer perspective: This perspective looks at the business from the point-of-view of customers. What are the expectations of the customers from the business? Is the business succeeding in satisfying the expectations of the customers?

iii) Internal business processes: This perspective looks at the internal processes of the business. What are the core internal processes of a company? How can the company leverage its processes to create a sustainable competitive advantage for itself? (Kaplan & Norton 1996)

iv) Learning & growth perspective: This perspective looks at the business in terms of its learning, knowledge and innovation. What is the level of skills of employees of the business? How is the business investing in training and development of employees? What is the rate of innovation in an organization? (Adams, Neely & Kennerley 2007)

Balanced Scorecard of Next Plc:

Next PLC is a multi-channel retailer that is headquartered in United Kingdom. Its product portfolio includes clothing, footwear, accessories and home products.

The vision of Next is to become one of the leading high-street retailers globally. The mission is to create a high degree of customer satisfaction through products that are aesthetic, fashionable and high on quality. The balanced scorecard of Next Plc after analyzing its financial and non-financial performance should be:

Financial perspective: Next Plc has been generating good returns for its shareholders. Its return on equity in 2014 was a whopping 193% while its return on equity in 2013, was 178%. Its return on capital employed in 2014 was 66. 54% while in 2013 it was 60. 59%. The financial objective of Next Plc should be to sustain this level of returns and earnings per share in the near and medium term. The growth in share price of the company is likely to follow the growth in its Earnings per share. Next plc should also aim to return cash to shareholders by paying substantial dividends. The company should invest in online growth in order to sustain its profitability in the future. Tighter cost control can be another objective as it will help in fueling the profitability of the company.

Customer perspective: Next Plc can achieve its financial objectives only if it will be able to maintain the level of customer satisfaction. It needs to understand the changing expectations of customers. What do the customers expect from the products of the company? Every employee of the company should work with the customer perspective in mind.

Internal processes: The internal processes of the company should be such that product quality and customer service quality is continuously maintained. The internal processes perspective should be to strive for continuous improvement of the internal processes.

Learning and growth: A learning organization is one that is able to continuously adapt itself to changes in the external environment (Gardiner, Simmons 2003). Next Plc strives to become such a learning organization. It can achieve this objective by investing in learning and growth of its employees.

Strategy Map for Next Plc:

The strategy map shows that the improvement in customer service will cause higher customer satisfaction. This in turn is likely to lead to increase in sales which will further translate into higher profits and earnings per share for the company.

Improvement in internal processes will improve the efficiency of the organization. Higher efficiency will mean better cost control and higher profits and earnings per share.

Improvement in online growth will lead to increase in turnover of the company. This in turn will again lead to higher profits and earnings per share. Investment in learning & growth will cause improvement in product quality and service quality. This in turn will cause higher sales. Higher revenues complemented with tighter cost control will cause improvement in profits and earnings per share.

Conclusion & Recommendation:

Next Plc should focus on the four perspectives mentioned in its balanced scorecard. It is only through having the right perspective that the strategic goals of the company can be achieved. The strategy map clearly shows the link between the perspectives highlighted in the balanced scorecard and the strategic objectives of the company.

The key recommendations of the report are:

i) Next Plc should invest in growth of online business so that it can fuel future growth in revenues.

ii) It should make its cost control tighter.

iii) It should strive for improving customer satisfaction by tracking the expectations of customers.

iv) It should strive to continuously improve its internal processes.

v) It should invest in learning & growth of employees so that it can transform itself into a learning organization.

Limitations of Balanced Scorecard:

The balanced scorecard relies on measurement of key performance indicators. In the absence of adequate tools to measure KPIs, the balanced scorecard will not be effective. It is most effective, as a strategic management tool, when there is an integrated accounting system (Groppelli & Ehsan 2000).

The balanced scorecard puts the interests of financial stakeholders (shareholders) over the interests of other stakeholders. Perspectives other than those in a conventional balanced scorecard may sometimes be a better reflection of the priorities of the organization (Houston & Brigham 2009).

Assignment 2: Financial Analysis of the company

The key accounts of the company are used to prepare the final financial statements of the company. The four main final financial statements of the company are:

- Profit & loss statement
- Balance sheet
- Cash flow statement
- Statement of changes in equity (Weygandt , Kieso, & Kell 1996).

Stakeholders use these financial statements to get information about affairs of the company. The key stakeholders of a business are customers, shareholder & creditors, suppliers, employees, state and the community (Williams, Susan, Mark, Joseph 2008).

Investors analyze the information given in the financial statements to make investment decisions. Take the case of Next Plc. The accounting information given in its financial statements has been analyzed using ratio analysis. The current ratio of Next Plc in 2014 was 1. 7593; in 2013, it was 1. 48. The current ratio is an indicator of short-term liquidity of the company, i. e. if the company be able to meet is short-term liabilities.

Liquidity Analysis:

The quick ratio or liquid assets ratio are a better measure of short-term liquidity than the current ratio as it excludes inventory from calculations. Liquid assets ratio of Next Plc in 2014 was 1. 297; in 2013, it was 1. 0497.

Profitability Analysis:

The operating profit margin gives operating profits as a percentage of sales. (Chandra 2013). The operating profit margin of Next Plc in 2013 was 19. 5%; in 2014, it came down slightly to 19. 33%. The net profit margin gives the net profit as a percentage of sales. Net profit margin of Next Plc in 2012- 13 was 14. 28%; in 2013-14 it rose marginally to 14. 29%.

The debt-to-equity ratio gives the amount of leverage used by the company in its capital structure. Higher the leverage of a company more is the risk of bankruptcy (Chandra 2013). Debt-to-equity ratio of Next Plc in 2013 was 3. 179; in 2014 it was 2. 798. This shows that Next Plc is employing a lot of debt in its capital structure. The interest coverage ratio of Next Plc in 2013 was 17. 173; in 2014 it rose to 20. 55.

The asset efficiency ratio is an indicator of the efficiency of utilization of assets (Jensen 2001). Inventory turnover ratio of Next Plc in 2013 was 10. 74; in 2014 it came down to 9. 70. Higher the inventory turnover ratio more is the efficiency of utilization of inventory. Debtors' turnover ratio of Next Plc in 2013 was 3. 179; in 2014, it came down to 2. 798.

The Return on equity measures the returns given by the company to its shareholders. Higher the return on equity more is the wealth created by a company for its shareholders (Jensen 2001). Return on equity given by Next Plc in 2013 was 178%; in 2014, it rose to 193. 2%.

The return on capital employed gives the return generated on the total capital employed in the business. Total capital employed includes both debt and equity. The return on capital employed of Next Plc in 2013 was 60. 598%; in 2014, it rose 66. 14%.

This ratio analysis shows that Next Plc is creating substantial wealth for its shareholders. It has used a high degree of leverage to increase the return on equity and capital employed. The analysis shows that Next Plc is a good investment from the point of view of investors.

Accounting information is also used by the management to assess the performance of the company. For instance, the debt-to-equity ratio shows that the management of Next Plc needs to cut down on the amount of debt being used in the capital structure. The current ratio should also be increased to at least 2 or to the industry benchmarks.

Limitations of ratio analysis:

Ratio analysis as a tool of financial analysis has certain limitations. For Instance, ratios turn ineffective when used in isolation. Secondly, ratios are only useful when compared to reliable industry benchmarks which are not easily accessible for all the industries. Therefore, the conclusion of ratio analysis should be taken with a pinch of salt (Pandey 2012).

Accounting information is used both by the management and stakeholders to make decisions. Decision making is also affected by external factors like political factors, economic factors, social factors, technological factors, legal factors and environmental factors. The external factors are assessed and analyzed through PESTLE analysis.

PESTLE analysis of Next Plc:

Political: Next Plc has 500 stores in UK and Eire. It has another 200 stores under its brand name, globally. Most of the international stores are owned by franchise partners. The political environment in United Kingdom is a highly stable one. There is political stability in most of the international markets in which Next Plc is present.

Economic factors: The global economy has not recovered fully from the effects of the 2008 financial crisis. Due to high unemployment and low rate of growth in wages, the purchasing power of consumers has gone down.

Social factors: The society is increasingly become more aesthetic and fashionable.

Technological factors: Technological factors like more sophisticated production processes have brought down the cost of production.

Legal factors: The laws about consumer protection and property rights may differ in the different national markets in which Next Plc operates. The management needs to ensure that there is legal and regulatory compliance in different countries.

Environmental factors: The practices of the company should be environment-friendly. Consumers have become environmentally conscious. They prefer to buy the products of the company which has the image of being environmentally responsible.

Conclusion:

Decision making takes into account both the factors of internal environment as well as external environment. For Instance, while the financial statements of a company give insight over the financial performance of the company, the PESTEL and other measures also helps the investors to evaluate the company on non-financial parameters (Muralidharan 2004).

Appendix:

Liquidity Ratios:

i)Current Ratio: Current Asset/ Current Liabilities

I)Operating profit margin ratio: Operating Profit/ Revenue

ii) Net profit margin ratio: Net Profit/ Revenue

Leverage Ratios:

i) Debt-to-equity ratio: Debt/ Equity

ii) Interest-coverage ratio: Operating Earnings/ Interest Expenses

Asset efficiency:

I)Inventory turnover ratio: Sales/ Inventory

Return on equity: Net Income/ Total Equity

Return on Capital employed: Operating Earnings/ Capital Employed

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