Rainbow lighting ltd case study

Business, Company

Balanced Scorecard Implementation

Introduction

Rainbow Lighting Ltd manufactures light bulbs for both wholesale and retail sale. Since being acquired by the German company Eindnacht GmbH, issues of quality, profitability, customer perception and staff morale have come to light. Costs have also been incurred through the need to recall a faulty item in recent times. Rainbow Lighting Ltd has identified a number of areas that require improvement and has been given two years by its parent company to reach new benchmarks, to avoid operations being entirely transferred to Germany. Rainbow Lighting's Managing Director has suggested the use of a Balanced Scorecard (BSC) in the hope that it may be the avenue for success. This paper will discuss the concept of a BSC and how that can be applied to the issues that were identified as in need of improvement, record the implementation of the BSC at Rainbow Lighting, and analyse the results of that implementation.

Literature Review

Robert S. Kaplan and David P. Norton created the idea of a " balanced scorecard" which added to the usual measures of finances by measuring from the view of " customers, internal business processes, and learning and growth." (Kaplan and Norton, 1996, p 76). In their earlier article (1992), Kaplan and Norton noted that the BSC answered four essential queries, being:

" How do customers see us? (customer perspective)

What must we excel at? (internal perspective)

Can we continue to improve and create value? (innovation and learning perspective)

How do we look to shareholders? (financial perspective)”

The theory is that if all factors, rather than simply the “ bottom line” are met, financial success will invariably follow (Schneiderman, 1999 p 6). All business factors are linked one to another, and improving the performance of the aspects that do not appear to be financial will organically lead to stronger financial performance. The BSC is one tool that aims to keep both shareholders and employees satisfied. It is noted that “ the ‘ balance’ [in the balance score card] is reflected by the balance between lagging (outcome measures) and leading (performance drivers) indicators, and between financial and non-financial measures. (De Haas, 2000, quoted in Akkermans et al). One benefit of the scorecard is that if the managers of the company are enthusiastic about the idea, critical success can be achieved. For example, Philips Electronics implemented the BSC on the initiative of the management team in the same way as Rainbow Lighting Ltd. Gumbus and Lyons (2002) note that around half of the Fortune 1000 US companies, and just under half in Europe, have implemented a form of the BSC. The BSC has therefore proved flexible enough to be used in many business environments, either as originally designed or adapted to suit the particular industry. Gumbus and Lyons note that Philips Electronics values the BSC so highly that it now conducts the company’s quarterly reviews on a global scale using the BSC as the primary tool (2002). Some companies have even found benefit in applying sections of the BSC approach, with one example using only the implementation angle and adding a “ project perspective” as a fifth link (Rosemann and Weise, 1999 p 775). This highlights the adaptability of the scorecard system. However, the BSC has also been challenged as having limitations.

Chang (2007, p 101) writes that in the case of the National Health Service, the BSC was used in the main for “ legitimacy seeking purposes” in place of real improvement. However, this limitation should not be an issue in the case of Rainbow Lighting, because if the goals are not met promptly, the manufacturing will be transferred to Germany. The NHS is unlikely to be shut down if performance does not improve within two years, as Rainbow Lighting might in the UK. The staff therefore are invested in genuinely meeting standards in order to retain their positions in the UK. Another limitation of the BSC is that, while managers can usually list many aspects that require improvement, reducing the number of items to a manageable size can be difficult (Akkermans, et al.) In other words, it is often easy to see what needs to be improved, but prioritizing which of the improvements are vital enough to address in the initial stage of renovating a company’s processes can be more difficult. If benefits and limitations are to be properly addressed, a company must recognize that factors outside the company’s control, or simple impatience, may mean the company does not achieve its goals even with a scorecard (Schneiderman, 1999 p 6). And, when a particular aim is identified, the company should ensure that a process is outlined that will see the goal achieved (p 8). In the case of Rainbow Lighting, these processes will be essential if the company is to deliver the required benchmarks on time. In addition to the benefits of interlinking factors, and recognizing the limitations, Rainbow Lighting saw a need to review wider literature that addresses factors in the decision-making process regarding " make versus buy" and sourcing in a strategic manner (Buchowicz, 1991; Probert, 1996; Tayles and Drury, 2001; Sislian and Satir, 2000; Momme, 2002; Brannemo, 2006). After evaluating the benefits and assessing the drawbacks of the BSC, Rainbow Lighting will need to meet some requirements to be successful. Three essential requirements are: introducing the idea of the BSC to department heads and management, amassing sufficient data to identify and map issues, and adapt the scorecard to be purpose-built for the needs of Rainbow Lighting (Van Grembergen and Ban Bruggen). This is something that ought to be done not only in consultation with management, although that is initially valuable, but in consultation with employees at every level of the company if a community attitude is to be developed. In addition, Van Grembergen et al emphasize that outcomes from the scorecard must be regularly assessed, and that the leaders in the company must ensure all staff members are aware of and understand the changes necessary when the scorecard is implemented.

Using this literature, Rainbow Lighting can ensure each priority is interlinked with the other, and that all considerations are balanced.

Method

A management meeting was held, with that forum acting as an outlet for initial concerns; then one-on-one in-depth interviews as follow up, in a semi-structured fashion, ensured a reasonable degree of standardization. The interviews brought the context and complexities of the problem to the fore.

(Yin, 1994).

Urgent issues included: a 5% fall in annual sales revenue, domestic sales at 2% while the market had increased at a rate of 8%, slow delivery times, rising employee turnover, a bonus scheme leading to poor quality of output, and a return on capital employed at 11%, down 4%. Because of time constraints, management believed that a BSC would address all factors and lead to financial growth. Rainbow Lighting's BSC is illustrated in Figure 1.

In light of Schneiderman's (p 6) assertion that by paying attention to all factors in a company, financial success will follow as a natural result, Rainbow Lighting decided to first address employee morale in an effort to arrest the rising turnover and lift productivity. Overhauling the bonus system is the obvious place to begin, including recognition for quality and for contributing to the company's ROCE in a twelve month period. As well, addressing this aspect as a first priority sends a very clear message to employees that they are as valuable as the " bottom line" of the company as a whole. Putting people first provides a constructive impetus that will generate change in other aspects. Equally important is implementing systems based on past sales cycles to ensure adequate stock is held in case of large, urgent orders from wholesale accounts. As well, online sales would be addressed to increase domestic and international sales figures. Costs can be kept to a minimum by deploying a number of the current sales staff to focus on online sales. Management at Rainbow Lighting believe that this will organically increase the ROCE in the required timeframe. Management followed the example of Philips Electronics, deciding on long term goals to be evaluated annually, and then breaking those goals down into short-term goals and immediate implementation of new processes for each department (Gumbus, et al). As with Philips, quality was measured from the factory floor through to management, with simple, easy-to-reach goals for the ground level of the company (Gumbus). Management at Rainbow Lighting took the apparently egalitarian step of creating focus groups in each department, asking employees to create their own measurable goals for production. This built a sense of teamwork and contributed to lifting every employee's moral as they worked toward a common, self-determined goal. Employees were aware that targets would be revised monthly and annually, with bonus determinate on quality as well as output.

The sales staff were not forgotten, with their focus group invited to brainstorm ways to use social media in an effort to keep advertising costs down, and to create slogans that would reinstate clients' faith in the quality of Rainbow Lighting products. Those in sales were encouraged to contact prospective and existing clients at least once every three months, with the hope that the company would become the first place clients turned to for order fulfillment. Sales staff were also given a bonus plan, with benchmarks for new client acquisition as well as increased order levels from current clients; a competition was also established between the new online sales department and the face-to-face sales team, with bonuses for the most per-capita results.

Management bonuses depended upon the performance of their sector, which ensured the heads of departments had an immediate vested interest in the morale and performance of their staff. This also ensured department heads would remember to conduct their reviews of the new processes in a timely manner, and would be alert to innovation which might bring positive adjustments to the system over time.

Analysis

Employees and management alike were encouraged by the implementation of a BSC. The aims of the BSC were communicated to every staff member, and this in itself began to increase morale as staff felt they were working together with management rather than below the department heads. Management recognized they could not achieve the levels required without a concerted effort from staff in both production and sales, and a unity developed between all departments. As staff members created their benchmarks that would be reviewed each month, a sense of urgency developed among employees, and a belief that if each worked to the best of their ability, the company would reach the required 18% ROCE which initially seemed daunting, since it was almost double the 11% at the date of review.

Management were careful to follow through on the review of each system as well as scanning the business environment for factors that may be outside management's control, understanding as Van Grembergen et al notes that if current systems and outside factors are not assessed, little change will be seen. Productivity improved and, just as importantly, quality improved with less product lost through faulty assembly.

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