Balanced Scorecard For Beef

Transform vision into reality using measurable and documented metrics.

by *Ed Haag*

Harvard Business School appears light-years from the open range cattle country of America, but Barry Dunn, executive director of the King Ranch Institute for Ranch Management (KRIRM), Texas A&M University–Kingsville, is convinced that applying one set of Ivy League business principles to beef production could revolutionize the industry.

"What we have is a management tool that helps translate strategy into action," Dunn says. "Our industry's leaders and educators have seen the need for something like this for a long time."

Dunn is referring to Balanced Scorecard, a management system that provides feedback around both internal and external outcomes so performance is continuously improved. Developed in 1987 at Analog Devices Inc., a mid-sized semiconductor company, by the early 1990s it was being espoused by Robert Kaplan of Harvard Business School and several of his associates as a new approach to strategic management — one which addressed, for the first time, the balance between short- and long-term objectives, financial and nonfinancial measures, lagging and leading indicators, and external and internal performance.

Beyond profit and loss

In other words, it attempted to analyze both past financial performance as reflected in an annual profit-and-loss statement and other major factors affecting the past, present and future well-being of an enterprise.

The system proved surprisingly adaptable to a wide range of organizations, from large corporations like Best Buy, Coca-Cola and DaimlerChrysler to financial entities like Bank of America and the New York Stock Exchange. Nonprofits, such as the American Cancer Society and the Boys & Girls Clubs of America, have also used the management system.

For Dunn, Balanced Scorecard made particularly good sense as it applied to family-operated cattle ranches. For years his words about running ranches as businesses with strategic plans and goals were countered by skeptics who pointed out that family operations were as much about preserving a way of life as they were about turning a profit.

Unlike other management systems that focus exclusively on financial performance, Balanced Scorecard is designed to include nonfinancial criteria as well.

"The Balanced Scorecard has emerged as a way a ranch can quickly and concisely look at its performance from multiple perspectives, all of which hold importance to the operators," Dunn says, adding that all Balanced Scorecard systems share a set of universal principles.

Keep it simple

First, a properly prepared Balanced Scorecard should be concise enough to fit on a single page, but it must include the essence of that beef operation from the financials and internal operations to customer service and education.

"This process requires a rancher to look at the key elements of his business," Dunn says. "He must get down to the basics."

Corey Kilgore, a Houston-based management consultant, has successfully applied the Balanced Scorecard system to the ranch environment. She sees it as a tool that helps translate a beef producer's strategy (the overall "game plan") into action. "At the same time, it provides feedback so that performance may be continuously improved," she says.

Kilgore adds that in order to turn the scorecard into an ongoing performance evaluation tool, a beef producer must develop and implement action plans that track his or her progress.

"This forces him to look at his operation in ways that he might not have before getting involved with Balanced Scorecard," says Kristen Hamilton, a South Dakota rancher working with Kilgore to integrate the system into her and her husband's 25,000-acre beef and crop operation.

Hamilton adds that it's well worth the work involved to evaluate an operation so Balanced Scorecard can be properly integrated. Once the system becomes part of a beef producer's operation, it offers both a reliable structure on which to hang the numbers and a set of metrics for evaluating performance whenever necessary, she says.

Fig. 1: Steps involved in developing and implementing a Balanced Scorecard

1. Identify vision
2. Identify strategies
3. Identify success factors in each perspective
4. Identify measures
5. Evaluate
6. Create action plan
7. Follow up and manage

Adapting the system

To apply the scorecard to a particular cattle operation, Dunn says a rancher must first identify his vision by answering the questions, "What is my business?" and "What do I want to achieve?" and then outline a set of strategies that will help fulfill that vision (see Fig. 1).

Kilgore cites as an example a hypothetical vision that probably applies to most family-operated beef ranches: Maintain a profitable multi-generational family ranching business with a fulfilling family lifestyle and positive contributions to the community and environment.

She follows up with a set of strategies that apply directly to the vision: Increase herd size to accommodate multiple generations; provide good stewardship of natural resources; and make positive contributions in the community.

Both Dunn and Kilgore emphasize that identifying the vision and the strategy is not unlike laying the foundation on which a structure will be built. It must be sound and truly reflect the aspirations of all those who are involved in the operation's management. Kilgore notes that failure to agree upon or understand the vision and strategy is sure to be a major impediment to the implementation of an effective Balanced Scorecard system.

Once the vision and a set of strategies are articulated, the Balanced Scorecard requires the rancher to address four mandatory perspectives or headings, each represented by its own horizontal column (see Fig. 2). These headings include financial perspective, customer relations perspective,

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internal work process perspective, and learning and growth perspective.

Optional perspectives, such as environment and lifestyle, might be included if they are important to the rancher and his operation. A Balanced Scorecard should contain no more than eight perspectives.

Fig. 2: Example scorecard

Strategic objective (perspective)	Metric	2004 Goal	2004 Actual
Financial	• Net income per calf	$100	$105
	• Cost of calves sold	0.75 lb.	0.85 lb.
	• Return on investment	10%	8%
	• Debt-to-equity ratio	25%	28%
Customer relations	• Repeat bull customers	70%	68%
	• Price received at sale barn	10% + market	3% + market
	• Customer satisfaction	90%	92%
Learning & growth	• Read Extension bulletins	12	12
	• Attend short courses	3	2
	• Join stewardship club	Jan. 2004	Jan. 2004
Internal work process (cattle production)	• Conception rate	92%	89%
	• Weaning weights	600 lb.	580 lb.
	• Calf mortality	5%	3%
	• Culling rate	11%	15%

Metrics tell all

For Dunn, what is listed under each perspective is of equal importance. "These bulleted items, referred to as the metrics, are the actual measurements of success," he says.

Each involves an action plan followed by a goal and then the actual outcome. For example, in Fig. 2, under the internal work process perspective (cattle production), one action plan might be to reduce calf mortality to a goal of less than 5%. The actual outcome might exceed expectations, logging in at 3%.

"By reading across the page, a person can very quickly determine if a particular action plan has been successful or not," Dunn says.

Dunn notes that there could be three to six metrics under each perspective. For example, in a cow-calf operation, under the financial perspective, you will probably see bulleted items that include "return on investment," "cost of calves sold," "net income per calf," and "debt-to-equity ratio."

In order for a metric to be effective, it must be measurable, relevant to the operation and easy to document. For example, in the customer perspective complex, surveys requiring extensive analysis are better off left out of the Balanced Scorecard document unless they can be synthesized into single figures or percentages.

Keep it relevant

To Kilgore, one of the real advantages of the Balanced Scorecard is its ability to adapt to a broad range of businesses, but it is up to the rancher to fully exploit this advantage by carefully selecting metrics that really do apply to his operation.

"Using the Balanced Scorecard as an 'off-the-shelf' checklist is limiting its effectiveness from the outset," she says. "The rancher must take the time to identify which performance drivers make the greatest contribution to specific needs."

She notes that a seedstock producer will probably have very different metrics than a commercial calf producer. Under the financial perspective, the seedstock producer will focus on the cost and income related to the sale of bulls and heifers. The calf producer's metrics will reflect the cost and income as it relates to weaned calves.

In addition to selecting metrics that are appropriate to the specific operation, ranchers should select metrics that reflect their grand strategy, Kilgore adds. "Failing to ensure that measures are linked to the strategy will undermine one of the primary purposes of creating the Balanced Scorecard," she says. "That is, transforming a rancher's vision into a reality."

Team approach best

No one should have to work in a vacuum, and this is particularly true for introducing Balanced Scorecard to an operation, Kilgore says, adding that one of the first lessons corporations learned about implementing an effective scorecard is that the entire management team should be engaged in its deployment.

While a ranch owner and his family might be the ones to identify the vision and strategy of a scorecard system and then develop its basics, it makes sense to include the entire ranch staff in the implementation process.

Kilgore sees it as particularly important to clarify how each individual, regardless of "level," affects the overall performance of the operation in relation to the Balanced Scorecard. This should be a precursor to explaining how individual performance objectives may be established and linked to the scorecard. Once this is accomplished, a scorecard review process should be put in place with appropriate frequencies (for example, weekly and monthly reviews, and quarterly and annual reviews that focus more heavily on strategic issues). These reviews should be set up to ensure ongoing feedback and learning.

She stresses that for the Balanced Scorecard to be an effective, ongoing tool, the review process should be permanently integrated into the operation as a single continuous evaluation, with neither a beginning nor an end.

From measurement to management

For Dunn, one of the real assets of the Balanced Scorecard is its flexibility in relation to a rancher's learning curve.

"As you develop a greater understanding of how the system works in relation to your operation, you will find that you want to add stuff that you find relevant," he says. "The open structure of the system allows you to do that."

This also applies to the actual evolution of the Balanced Scorecard from its initial role as a performance measurer to its more sophisticated role as a performance manager. For Kilgore, the distinction between the two roles is subtle, but crucial to the long-term success of the system.

"The goal of a scorecard is not to develop a new set of measures, but to develop a framework for deploying a management system," she says, adding that this transforms the scorecard from a tool for evaluating a beef ranch into one that plays a significant role in its daily operation. "In the long term, the scorecard should provide a framework for organizing vital information and issues with a continuous process for evaluation of performance, updating targets and goals, identifying action plans, and following up on progress," she notes.