SYNOPSIS

Balanced scorecard

A balanced scorecard is a format-based tool for translating vision of an organization into strategic objectives and monitoring their achievement.

A **balanced** scorecard describes the vision of an organization through strategic objectives, critical success factors for achieving such objectives, metrics to measure the performance against such critical success factors, targets against such metrics and action plan for achieving such targets, all along the four perspectives namely owners, customers, business and employees.

The balanced scorecard has attracted a number of organizations in the sense that the activities of the organization are focused towards its vision in a coherent and balanced fashion. The inter-relatedness between the interests of different stakeholders namely owner, customer, business and employee create a chain of producer-product relationship. The learning and growth of the employee leads to better business process which in turn satiates the customers' demand in a better way ultimately benefiting the owners with higher profitability and growth, and the owners finally reward the employee for improved performance. This cycle of interrelatedness has been beautifully captured by the balanced scorecard.

Another reason for attraction towards balanced scorecard is the increasing dependence of all organizations on their intangible assets [Brand recognition, competencies, processes, etc.] and of the need to engage employees in the pursuit of strategies where the long-term development of such assets is a key to business success. Organizations where many employees have customer contacts and where long-term success is highly dependent on interaction with customers and other external contacts need to spend time and effort learning about their environment, improving databases and systems and creating positive attitudes towards the organization among all stakeholders. A balanced scorecard will guide and focus these activities in the sense that it goes beyond the traditional metrics of performance such as "return on capital employed" and recognizes **intellectual capital** through one its perspectives (employee).

Thus, balanced scorecard is not merely a performance report combining financial and non-financial metrics but a **tool for strategic management** in the sense that it helps in delineating the strategic objectives, identifying the critical success factor, formulating metrics, fixing targets, setting action plans and monitoring the achievements.

Evolution of Balanced Score Card

During industrial age (1850-1975), companies succeeded by how well they could capture the benefits from economies of scale and scope. Success accrued to companies that could embed the new technology into physical assets that offered efficient, mass production of standard products. Financial control system were developed to facilitate and monitor efficient allocations of financial and physical capital. Measures such as return-on-capital-employed proved to be useful.

Return-on-capital-employed (ROCE) could both direct a company's internal capital to its most productive use and monitor the efficiency by which operating divisions used financial and physical capital to create value for share-holders.

Informed shareholders have more avenues for their investment and look for sustained performance for long-terms. Knowledgeable customers are now more demanding. Employees have become knowledge workers. Technology is changing at faster pace.

The information age environment requires new capabilities for competitive success. The ability of a company to mobilize and exploit its intangible or invisible assets has become far more decisive than investing and managing physical, tangible assets.

The impact of the information era is more revolutionary for service organization than for manufacturing companies. Many service organizations, especially those in transportation, utility, communication, financial and health care industries, which existed for decades in comfortable, non-competitive environments faced the wrath of deregulation and privatization.

Performance measure like return-on-capital-employed failed to communicate accretion / deterioration in intangible and intellectual assets of an organization, such as high-quality products and services, motivated and skilled employees, responsible and predictable internal process, and satisfied and loyal customers.

Moreover, the organization needed a futuristic performance measurement tool. Financial measures failed to link current actions with long-term strategy. For example, treatment of competency building costs as a training expense of current period not as a long-term investment.

The Balance Scorecard (BSC) provides executives with a comprehensive framework that translate a company's mission and strategy into a coherent set of performance measures. It translate mission and strategy into objectives and measures, organized into four different perspectives: financial, customer, internal business process, and learning and growth.

The four perspectives

The four perspectives viz. financial, customer, internal business process, and learning and growth permit a balance between short-term and long-term objectives, between outcome desired and the measures of those outcomes, and between hard objectives measures and softer, more subjective measures.

Financial Perspective: Financial perspective tells us that how we appear to shareholders. The financial measures provide a common language for analysing and comparing companies. Indicators include: growth, profit margin, return on investment, economic value added etc.

Customer Perspective: Customer perspective tells us that how we appear to customers. This perspective requires an organization to know how it should create value for its customer for it to succeed. Indicators include: customer satisfaction, customer retention, market share, customer profitability, etc.

Internal process Perspective: Internal process perspective tells us that whether our business process excellent. This perspective helps the firm to determine its competencies and the processes where it must excel to create customer delight. Indicators include: cycle time, quality performance, productivity, after-sales service, etc.

Learning and Growth Perspective: Learning and growth perspective tells us that whether we are innovative and creative enough to create value for our customer. It also tells us that whether our employees are capable of sustaining continuous change and improvement. This perspective focuses on innovation, creativity, competence, and capability as well as on people – their attitude, culture, knowledge, development and ability to learn and grow for managing and sustaining change and improvement. Indicators include: employee satisfaction, employee retention, employee productivity etc.

Features of BSC

(1) Top-down approach, well suited to the public sector where organizations have limited political freedom to experiment with structural change.

(2) Strategic measurement, where financial as well as non-financial criteria are taken care of in a balanced way.

(3) Goal congruency, right from corporate level to the bottom level of operation action plans are coherently knit around the organization mission and strategies.

(4) Learning and growth, inculcates the readiness in human capital of the organization to meet the market dynamism.

MBO v BSC

Management By Objective philosophy of Drucker (1955) and BSC approach of Kaplan and Norton are based on strategic measurement, goal congruence, and Theory Y as a means to improve the firm performance.

The difference between the two approaches is that while MBO is more open ended, the BSC is more explicit and focused as it incorporates the perspectives of customers, shareholders, internal business process and learning and growth.

TQM v BSC

Total Quality Management enabled firms to focus more effectively on process improvements, the ability to implement strategy across organizational units remained elusive.

Balance Scorecard in India

The balances scorecard adoption rate is 45.28% in corporate India which compares favourably with 43.90% in the US.

The financial perspective has been found to be the most important perspective followed by customers' perspective, shareholders' perspective, internal business perspective, and learning and growth perspective. The environmental, social, and employees' perspectives also figure in it.

The expense centered budgets, brand revenue / market share monitoring, profit center, and transfer pricing mechanism are the other performance management tools used by Indian companies.

Corporate India monitors the indicator as per ISO 14000 norms in the environmental and social perspective of the performance scorecard.

The difficulty in assigning weightage to the different perspectives and in establishing cause and effect relationship among these perspectives has been found to be most critical issue in the implementation of the balanced scorecard in corporate India.

Most companies claimed that the implementation of the balanced scorecard has led to the identification of cost reduction opportunities in their organizations which, in turn, has resulted in improvement in bottom lines.