The Balanced Scorecard- A strategic Management Tool

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Prologue:

It was in 1992, when Robert S Kaplan and David P Norton formed the concept of Balanced Scorecard (BSC) and this revolutionized the conventional thinking about corporate performance metrics. Going beyond traditional financial performance, the BSC concept has given a generation of managers a better understanding of how their companies are really doing.

What is BSC?

BSC provides executives with a comprehensive framework that translates a company's vision and strategy into a coherent set of performance measures.

BSC translates mission and strategy into objectives and measures, that are organized into four different perspectives : (1) Financial (2) customer (3) internal business process and (4) learning and growth. The scorecard provides a framework and a language to communicate mission and strategy. It uses measurement and informs employees about the drivers of current and future success. By articulating the outcomes the organization desires and also the drivers of those outcomes, the senior executives strive to channel the energies, the abilities and the specific knowledge of people throughout the organization for the achievement of long term goals.

Characteristics:

BSC is the presentation of a mixture of financial and non financial measures each compared to a target value within a concise and single report, though not meant to be a replacement for traditional financial or operating reports. This succinct summary is a tool to capture the most relevant information in such a way that articulates the links between leading inputs (human as well as physical), processes and lagging outcomes therebyfocusses on the importance of management of these components , in order to achieve the organizational strategic priorities.

The Four Perspectives:

1) Financial perspective:

BSC retains financial perspectives as financial measures are valuable in summarizing the readily measurable economic consequences of actions already taken. Financial performance measures indicate whether a company's strategy , implementation and execution are contributing tobottomline improvement. The financial objectives relate to profitability measured through operating income, return on capital employed , economic value added etc. As an alternative, financial objectives could be rapid sales growth or generation of cash flow.

2) Customer perspective:

This identifies the customer and market segments in which the business unit competes and measures its performance in these targeted segments vis a vis customer satisfaction and retention, new customer acquisition, customer profitability and market and account share in these targeted segments. Other value propositions such as on-time delivery, constant stream of innovative products and services could also be included. It thus addresses the question " How do customers see us?".

3) Internal Business perspective:

Here managers identify the critical internal processes such as delivering the value propositions to attract and retain customers in targeted market segments and satisfying shareholder expectations of excellent financial returns. This perspective focusses on the internal processes that will have the greatest impact on customer satisfaction thus achieving an organization's financial objectives. Basically it looks into the question " What must we excel at?".

4) Learning and Growth perspective:

This perspective identifies the infrastructure that the organization must build to create long term growth and improvement. The earlier two perspectives identify the factors most critical for current and future success. Organizational learning and growth emerges from three principal sources- people, systems and organizational procedures. The financial, customer and internal business process objectives will reveal large gaps between people, systems and procedures and what will be required to achieve breakthrough performance – for example investment in reskilling employees, enhancing information technology and systems and aligning organizational procedures and routines. It thus addresses the question “How can we continue to improve and create value?”.

Prof. I.M.Pandey of IIM Ahmedabad has highlighted the use and pre-requisites of BSC In IIMA journal “ Vikalpa” of jan-march 2005 issue in the following way:

Reasons for use:

1. BSC is a comprehensible tool to understand target customers, their requirements and performance gaps.
2. BSC provides logic for focusing on creating intangible and intellectual capital which under the traditional financial performance systems was difficult to do.
3. BSC is able to articulate the strategy of growth with business excellence which requires greater focus on non financial initiatives.
4. It enables employees to understand strategy and link strategic objectives to their day to day operations.
5. It facilitates performance review and feedback on a continuous basis.

Pre-requisites for implementation:

1. Top management commitment and support.
2. Determining the critical success factors (CSFs)
3. Translating CSFs to measurable objectives (metrics)
4. Linking performance measures to rewards
5. Installing a simple tracking system
6. Creating and linking the BSC at all levels of the organization.
7. Setting up a sound organizational communication system to harness advantages of the BSC.
8. Linking strategic planning, BSC and budgeting process for better allocation of resources.

The Indian scenario:

1. Philips Electronics:

The four perspectives and the CSFs identified were:

- Competence : knowledge, technology, leadership and teamwork.
- Processes: drivers for performance
- Customers: value proposition
- Financial: value and growth.

Based on the above the grid of BSC was constructed in the following way:

Financial	Processes	Customers	Competence
• Economic profit realized	• Percentage reduction in process cycle time	• Rank in customer survey.	• Leadership competence
• Income from operations	• Number of engineering changes	• Repeat order rate	• Percentage of patent protected turnover.
• Working capital	• Capacity utilization	• Complaints	• Training days per employee
• Operational cash flows	• Process capability	• Brand index	• Quality improvement team participation.
• Inventory turnover			

2. Infosys Technologies:

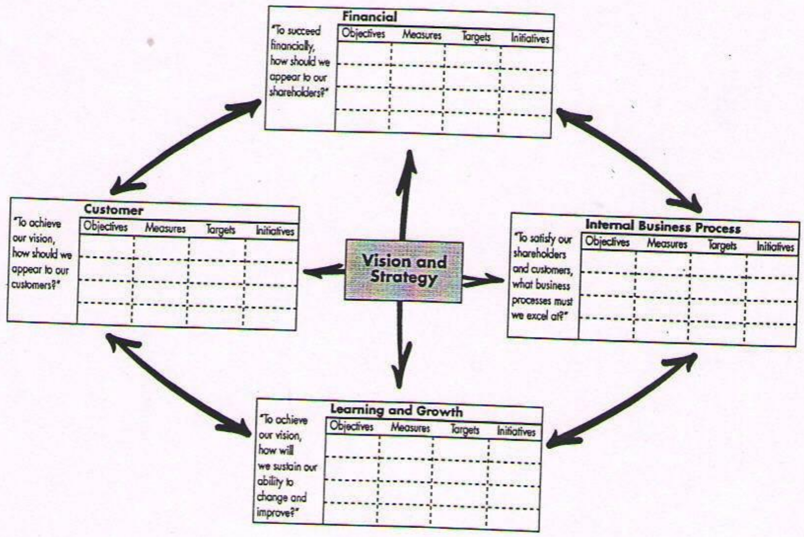
The benefits derived by Infosys on implementing BSC are :

- Facilitates communication across the entire organization and enhances the understanding of vision, mission and strategy.
- Ties the vision, mission and strategy to the goals and objectives of individuals and departments concerned
- Facilitates a clear understanding for the reasons and helps identify initiatives to achieve the relevant performance when an objective is not achieved.

- Acts as an effective basis for resource allocation with focus on both managing current performance as well as long term value.

The grid diagram for the BSC with its interactive features shown in the original paper of Kaplan and Norton and published in the jan - feb 1996 issue of Harvard Business Review is given below :

Translating Vision and Strategy: Four Perspectives



Managing Strategy: Four Processes