



## The Balanced Scorecard: As A Performance Measurement System

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### ABSTRACT

*There are many approaches for organizational management but all of that tells the story about past. In this competitive scenario companies require a clear presentation as to what companies should measure in order to balance the financial perspective alone. Realizing the gap Robert Kaplan & David Norton offered a new approach in 1992 of management known as Balanced Score Card (BSC). The BSC suggest that the organization be view from four perspectives like, Customer perspective, Financial perspective, Internal business process perspective, Learning and growth perspective. In practice the tool like correlation analysis, game analysis, reporting & strategic review meeting will be useful and certainly the BSC management system is not another project. It is totally different from other project. Till now hundreds of Fortune 500 listed companies implemented this system.*

### Keywords :

#### INTRODUCTION

There are numerous approaches to organizational management and since Balance Score Card approach is relatively new. It may be unfamiliar to managers who have experience primarily in program management. Today's manager s knows that yesterday's accounting results tell little about what actually can help grow markets share and profit-things like employee development and turnover, innovative services that enhance customer values. The quality of vender services, and benefits from advertisement in research and development. "A key advantage of the BSC is that it puts strategy structure and vision at the center of management's focus". The main purpose of BSC is to translate strategy into measures that uniquely communicate your vision to the organization.

#### WHAT IS BALANCE SCORE CARD ?

The BSC can be understood from two view points.

##### A. As a strategic tool

It has been said after experience of strategic implementation in any organization that...

- Most of a company's employees can't understand its vision and can't translate objectives in favour of organization.
- Management systems focus towards control and budget but not at strategy and look at the short-term performance rather than long-term direction and most of executive can not spend much time for strategy discussion.
- Companies rarely put their money where their vision is. It means there is no connection between budget and strategy.
- Managers personal matters like, compensation, training competencies are not linked to the strategy.

But good leaders always provide both the strategy vision and ensure that the strategy is implemented. Easier said than done ! The BSC provide a way of focusing attention on what needs to be achieved as per the old measurement motto "what gets measured gets done". The BSC translated a company's mission and strategy into tangible objectives and measures.

##### B. As a performance management tool.

A BSC is a set of financial and non-financial performance measures that reflect the factors that you believe are critical

to the success of your organization. A good way to understand the BSC is to imagine you as the captain of a jet. Imagine the flight deck and the entire panel in front of you. These instruments tell you about the various parts of the plane and how it is flying. Reliance on the altimeter only would be foolish you might know your attitude, but you wouldn't have any warning about impending storms. You wouldn't look only at the radar, of course-how would you know when you were low on fuel?

#### EVOLUTION OF MEASUREMENT SYSTEMS THE BALANCE SCORE CARD

- 15th Century , Financial accounting like Double entry Bookkeeping
- 19th Century, Financial Accounting like financial Audit, Cost accounting, Management Accountancy, Management Audit, Management Information System (MIS)
- Late 20th Century, Strategic management accountancy, Shareholders value, Competences Capability, Customer Satisfaction, Business Process Reengineering (BPR), Competitive Advantages, Operational Improvement, and Comparative Bench Marking.

If we look at the evolution of various measurement system it can be seen that BSC encompasses Financial, strategic and operational measurements. Implementation of BSC followed by the deployment of Six Sigma operates at the operational level the BSC provide the fundamental reason for identification.

#### THE SIX SIGMA

##### @ BPR: Business Process Reengineering

It is a methodology for radical rapid changes in business process achieved by re designing the process from scratch.

##### @ Competences Capability

It shows your competitors strength and what is his share in total market, customers' satisfaction production and in other things?

##### @ Competitive Advantages

Here the advantages of the company in competition are reflected. It may be financial or about internal process.

##### @ Comparative Bench Marking

It is a method of comparing company's process and result

with another company.

**@ Customer Satisfaction**

In this era customers are a king and company have to take into consideration the requirements of customers and tries to implement of their suggestions.

**@ Operational improvement**

It is mainly concerned with organizational infrastructure and employee capabilities and growth in quality of routine activities.

In short, BSC is a management system (not only a measurement system) that enable organization to clarify their vision and strategy and translate them into action. It provides feedback around both the internal business processes and external outcomes in order to continuously improve strategic performance and results. When fully deployed, the BSC transforms strategic planning from an academic exercise into the nerve center of an enterprise.

**DEFINITION**

The Balanced Score Card is a measurement based strategic management system which provides a method of aligning business activities to the strategy and monitoring performance of strategic goals over time.

- Robert Kaplan & David Norton

**PERSPECTIVES**

The BSC suggests that we view the organization from four perspectives, and to develop metrics, collect data and analyze it relative to each of these perspectives.

**1. The financial perspective**

The shareholders are actual risk takers for the company so the organization should try to .higher their value. In this regard the company will have to think about Revenue growth, Asset utilization, Cost management and controls as well as use of such a technique like Leverage or Trading on equity

**2. Customer Perspective**

More than any other perspective, the customer dimension of your BSC affords opportunities to learn about and transform your business. However, the customer perspective also provides rich opportunities to obtain qualitative data. For example, Comment and complaints by customer on satisfaction surveys may be more important that the satisfaction of new markets segments, or new product/service opportunities, or many other transformation in your business.

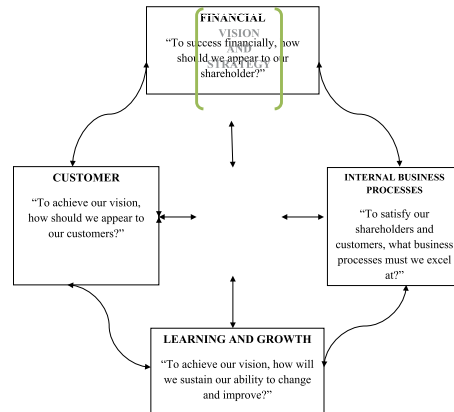
**3. Internal business process perspective**

There are many internal processes in the typical organization that deserve attention and measurement. But measuring and managing these processes and only drive incremental improvements, and do not contribute to the strategic management of the organization. It may be appropriate to include measures about the accounts receivable process in a BSC for the accounts receivable department. A BSC for the strategic business unit, on the other hand, needs to reflect the entire way from the identification of a customer need the satisfaction of that customer need.

**4. Learning and growth perspective**

The learning and growth perspective of the BSC focuses on the organizational infrastructure that is required in order to achieve objectives in the other areas. There are three common categories for learning and growth measure: employee capabilities, information technology, and motivation, empowerment and alignment.

All of these four perspectives can be presented by below give Figure-1



The organization's value drives has been converted to a series of defined metrics by BSC. These values drive such like, customer services, innovation, operational efficiency and financial performance. Main objective of the BSC is to help organization to create future value. Robert Kaplan & David Norton quoted that "BSC tells you the knowledge, skills, and systems that your employees will need (their learning and growth) to innovate and build the right strategic capabilities and efficiencies (the internal process) that delivers specific value to the market (the customer) which will eventually lead to higher shareholder value (the finance)".

**MEASURES**

Here, some measures have been presented which will be useful to understand this theme thoroughly.

**1. Financial measures**

- Sale and market share
- Delivery mode and price
- Number of new pricing strategies
- Unit cost reduction
- Percentage of expenses measured by activity based costing
- Return on capital
- Productivity efficiency

**2. Customer measures**

- Percent of market segment captured by your organization
- Increase in sale to current customer
- Frequency of order
- Number of new customers
- Number of complaints or thanks letters
- Profit per customer

**3. Internal business process measures**

- Percent of revenue from new product
- Time to market
- Break even time
- Process time and cost
- Percent on time delivery
- Stock-outs
- Average satisfaction rating

**4. Learning and growth measures**

- Rewards provided
- Suggestion received and its implementation
- Information coverage ratio
- Return on data-new revenue per database
- Staff turnover
- Employee satisfaction

**CONCLUSION**

In this era of liberalization, privatization, and globalization and in this competitive scenario today's companies need such a measurement system which tells you that the story of future about customer, suppliers, employees, technology and innovation and which is a Balanced Score Card.