Brief description of balanced scorecard

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Abstract:
The balanced scorecard is a strategic planning and management system (not only a measurement system) that is used extensively in business and industry, government, and nonprofit organizations worldwide to align business activities to the vision and strategy of the organization, improve internal and external communications, and monitor organization performance against strategic goals.
In this article, following contents are included: introduction of balanced scorecard, its four perspectives, its objectives, its three face of development process and a an important thing about the strategy map.

Introduction:
Performance measurement and performance management are sound similar but there is a big difference. In short, performance measurement is just part of performance management and they are both an ongoing process. Performance measurement is system of assessing and rating the past/current, it is periodic and Performance management is more about setting objectives, communicating, monitoring, developing, training for organizational success. It is an ongoing process. Performance measurement and performance management are both important and useful for organization but effective performance management is help the organization to achieve the targeted goals. So, the organization becomes successful. Moreover, the balanced scorecard method is not only a measurement tool but it is also a management system.
A Balanced scorecard augments traditional financial measures with benchmarks for performance in three key non-financial areas:

- a company's relationship with its customers
- its key internal processes
- its learning & growth

The balanced scorecard is quite different from traditional systems. The difference between them is under:

Traditional system v\s Balanced scorecard

	Traditional system	Balanced Scorecard
1	Single framework (Accounting)	Multiple measures and views(Financial & non financial)
2	Annual perspectives	Long and short term Perspective
3	Past focus	Future Focus
4	People as cost	People as assets, investments
5	Financial data only reported	Financial and other data balanced both reported regularly
6	Measures what is measurable	Measures what matters

The balanced scorecard was developed by Dr. Robert Kaplan and Dr. David Norton in the early 1990's in order to solve a measurement problem. They felt that traditional financial measurements could not capture the value creating activities in the organization like skills, competencies, IT etc. Balanced scorecard is a framework of financial and non-financial parameter describing the business strategy and its measures of performance and how these are linked as the vision, mission and goals of the organization. According to the balanced scorecard, people are as an assets and investment.
Following are balanced in the balanced scorecard:

- external & internal measures (External measures for shareholders & customers and internal measures for critical employees, business processes, innovation and learning & growth)
- Lag & Lead indicators (Lag indicators represent the consequences of actions which taken previously, while lead indicators are the measures that lead to the results achieved in the lagging indicators.)
- short term & long term objectives (Financial measures of current performance (short-term objectives) with process and capability measures of future performance (long term objectives)

There are four components of Balanced Scorecard:
1) Financial perspective
2) Customer perspective
3) Internal Business process perspective
4) Learning and growth perspective

The typical framework for the Balanced scorecard is presented below in figure 3.1, which shows the four perspectives and each of these is now discussed in turn.

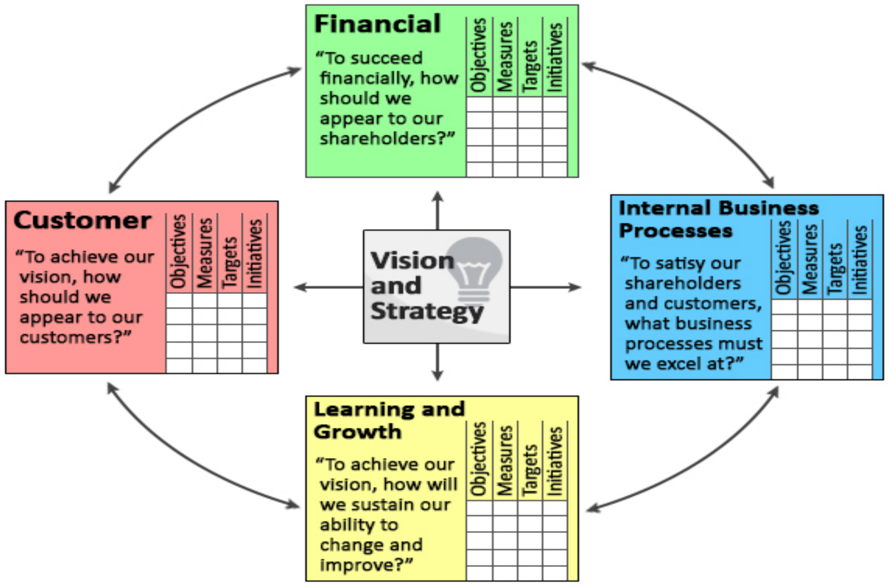

Figure : Framework of balanced scorecard method

1) **The financial perspective:**

Financial criteria are important parts of BSC. The criteria of this view tell that the successful operation of the goals that have been determined in three other views, will lead to what results and achievement at the end. Organization can do its best to improve and optimize the level of customers' satisfaction, raising the level of quality, easing the products and services time of us, but if these one do not lead us into some solid results in our financial reports, they won't worth at all. The financial perspective highlights how the company appears to shareholders and here one finds many of the traditional financial measures relating profitability, liquidity and leverage. However, the main limitation of financial numbers is that they are historical i.e. relate to the past and represent 'lagging' measures of performance. Financial objectives represent the long term goal of the organization, which is to provide superior returns based on the capital invested in the unit. Financial objectives differ considerably at each stage of a business's life cycle.

Business life cycle includes three stages: Growth, Sustain, and Harvest.

- Growth stage: Businesses are at the early stages of their life cycle. The growth stage will emphasize growth in revenues and sales growth rates in targeted customer groups and regions.
- Sustain stage: In a sustain stage, business units have a financial objective related to profitability that can be expressed as return-on-investment, return-on-capital-employed and economic value added. A vast majority of business units in a company will be in the sustain stage. Where they attract investment and reinvestment, but are required to earn excellent returns on invested capital.
- Harvest stage: Some business units will reach the mature phase of their life cycle, where the company wants to harvest the investments made in the two earlier stages. The overall financial objectives for harvest stage businesses are the operating cash flow (before depreciation) and reductions in working capital requirements.

For the financial perspective in the Balanced Scorecard to be effective, active participation of the CEO of the business unit and the CFO of the corporation regarding the specific financial category and the objectives for the business unit is needed. The most important thing is to create and to drive the long-term outcome objectives. The financial measures should be linked to the objectives in the other scorecard perspectives.

2) **The customer perspective:**

Financial results are heavily dependent on customer. Customer perspective translates the financial strategy into specific customer objectives for targeted markets. The customer perspective highlights how customers see our company. In dept market research will reveal the different markets for customer groups within your broad market and their perspectives in such areas as price, reputation, relationships and service. Then these market segments it chooses to target and service. Then those market segments it chooses to target and the customer objectives and measures in each segment can define the company's strategy.

The measures for customer perspective are:

- market or Account share
- customer acquisition
- customer retention
- customer satisfaction
- customer profitability

These five measures may appear to be generic across all types of organizations. For maximum impact, however, the measures should be customized to the targeted customer groups from whom the business unit expects its greatest growth and profitability to be derived.

core measures for customer perspective

Market share	It reflects the proportion of business in a given market that a business unit sells.
Customer Acquisition	Measures, in absolute or relative terms, the rates at which a business unit attracts or wins new customers or business.
Customer Retention	Tracks, in absolute or relative terms, the rate at which a business unit retains or maintains ongoing relationships with its customers.
Customer satisfaction	It assesses the satisfaction level of customers along specific performance criteria within the value proposition.
Customer profitability	Measures the net profit of a customer or a customer segment, after allowing for the unique expenses required to support that customer.

In short, this perspective captures the ability of the organization to provide good quality and services, the effectiveness of their delivery and overall customer service and satisfaction.

3) Internal Business Process Perspectives:-

To meet the objectives of a targeted customers or customer segment, one must identify the processes of which a business unit must excel. Companies usually develop the internal business process objectives and measures for the perspective after they have completed financial and customer perspectives of the balanced scorecard. Traditional performance measurement systems focus only on monitoring and improving cost, quality and time-based measures of existing business processes. In contrast, the balanced scorecard enables the demands for internal process performance to be divided from the expectations of specific external groups such as shareholders groups and targeted customer expectations. Every Business has a unique set of processes for creating value for customers and producing financial results. A generic value chain can be used, however, to customize an internal process perspective.

There are three principal business processes in the internal value chain:

- Innovation: In the innovation process, the business unit researches the emerging or latent needs of customers and then creates the products or services that will meet these needs.
- Operations: The operation process represents the short wave of value creation in organizations. It starts with the receipt of a customer order and finishes with delivery of the operating processes, quality, cycle time, and cost can be included as critical performance measure in any organization's internal business process perspective.
- Post sale service: The final stage in internal value chain is post sale service. Post sale service includes warranty and repair activities, treatment of defects and returns and the processing of payments, such as credit card and administration. Companies attempting to meet their targeted customer's expectations for superior post-sale service can measure their performance by applying some of the same measurers applied for operating processes.

4) Learning and Growth Perspective:

The objectives established in the financial, customer and internal business process perspectives identify where the organization must excel to achieve breakthrough performance. The objective to internal business process objectives depends on the company's capability for learning and growth. The balanced scorecard is the drivers for achieving excellent outcomes in the first three perspectives on the scorecard.

The principal categories for the learning and growth perspective in building a Balanced scorecard are:

- Employee capability
- Information capability and motivation
- Empowerment and alignment

A century ago, when the giant industrial enterprises were established and the influence of the scientific management movement left a legacy where companies hired employees who were divided into white collar and blue collar workers. The first ones are the once hired to thinks and helps the organization in developing strategies and the later ones are hired to do the manual job. Today, as most of the routine work is automated, even the manual workers are sought to give their suggestions on the improvements of internal processes. Employee objectives can be grouped into employee satisfaction, employee retention and employee productivity. Employee satisfaction can be measured by conducting periodic surveys within the employee group. Employee retention can be measured by percentage of key staff turnover and employee productivity can be measured by revenue per employee.

Once companies have chosen measures for the core employee measurement group, identification of the situation-specific, unique drivers in the learning and growth perspective becomes a major objective. The performance drivers are drawn from three critical enablers-rescaling the work force, information system capability and motivation and empowerment and alignment. The absence of company specific measures indicates the opportunity for future development of customize employee, systems and organizational metrics that can be more closely linked to a business unit's strategy.

Balanced scorecard measures…

The 'Scorecard' measures the achievement of objectives. The measures, which will be selected is the "Key performance indicator" of organization. The measures, which will be measured in the different four perspectives, are as followed:

- The financial perspectives measures includes, increase in funding from different sources, reductions of cost and enhanced use of assets.
- The customer perspectives measures often includes customer service factor important to the customer, such as time to provide service, quality and customer perceptions on meeting their needs.

- The internal business perspectives measures include service delivery, core capacities and productivity.
- The learning and growth perspective include time to create change, maturity of improvements, growth and competitive.

Objectives of Balanced Scorecard:

Objectives are defined from four perspectives of Balanced Scorecard:

- The financial perspective emphasizes the stakeholder concern about how efficient and effective the unit is at using its resources.
- The customer perspective emphasizes satisfying the needs of customers.
- The internal business process emphasizes excellence at performing internal processes and in employee capability.
- The learning & Growth perspective emphasizes continuous improvement and the creation of value.

Development of the Balanced Scorecard:

Since the development of the balanced scorecard in early 1990s, its concept has been verified from a number of different angles. it is developed in three generation.

- First generation: In the first generation of Balanced scorecard, its important elements include the breakdown of a strategy along four perspectives (i.e., financial, customer, Internal Business process and learning & Growth),strategic objectives, performance indicators, leading indicators, key performance etc. The Balanced scorecard of this generation took the most fundamental form, and needed to undergo a transition in moving to the next stage.
- Second generation: The first generation is only a basic of the Balanced scorecard methodology have started to realize that the method demonstrates not only the effect of the framework but also includes additional functions to correctly evaluate the achievement of specific organizations, while continuing the PDCA (plan–do–check–act) cycle through the Balanced scorecard. Specifically, by analyzing in detail, the gap between the evaluated organizational objectives for performance and the actual results, identifying and solving operational problems, feedback for the next term's plan and building up organizational knowledge. This is the stage at which the Balanced scorecard can function as the core of a management system in company-wide PDCA cycle. It is called the second generation of the Balanced scorecard method.
- Third generation: The Balanced scorecard framework has continued to develop. Additional elements that are not found in the first and second generations include the strategic system of organization as a map. This map is known as a 'strategy map' and this is called the third generation of the Balanced scorecard. It is very important to understand about the strategy map. So, its brief explanation is below:

Strategy Map:

A strategy map is a one type of diagram that describes how an organization creates value by connecting strategic objectives in explicit cause and effect relationship with each other in the four balanced scorecard objectives (financial, customer, internal business process and learning & growth.)

A strategy map is used to review progress against the strategy. It supports the strategic management process. Strategy maps are not stable but they are tools of management that are refined and developed by management from their strategy. A strategy map gives the perfect plan of the strategy. Employees, in their day-to-day actions and decisions should focus on the objectives and measures in the internal and learning and growth perspectives since these are where the strategy gets implemented and improved. Improvements in internal and learning and growth measures should soon translate into enhanced performance in the customer and financial outcome measures. A strategy Map is developed from the perspective of a single management team. Each management team will have their own strategy. So, each strategy map tells the story of the strategy from the perspective of that management team, it will represent the overall organization's strategy from their perspectives. Each management team has their own strategy map. Strategy maps are unique for each organization and they represent that organization's strategy, no one else's strategy. For this reason, strategy maps should not be copied. In short, a pictorial representation of four perspectives of BSC, with the connectors showing the cause and effect relationship between the objectives is known as strategy map.

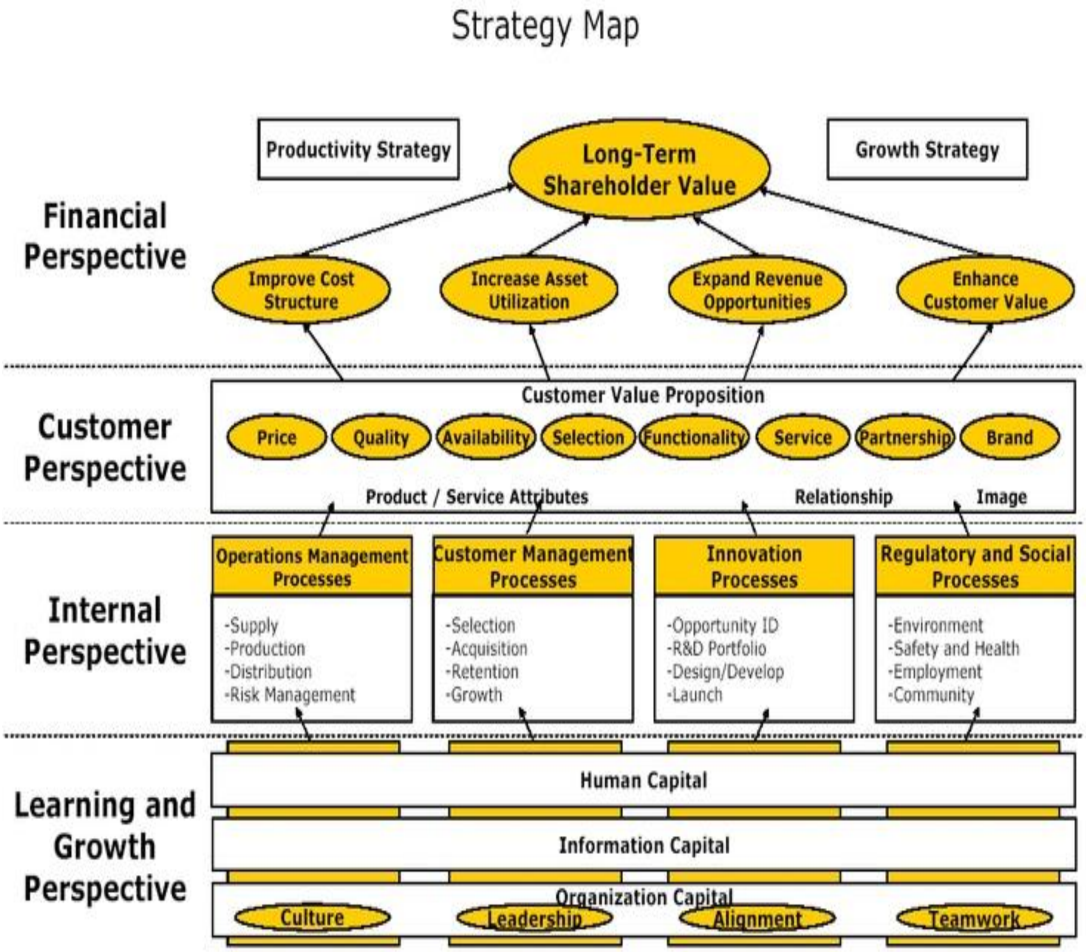

Figure : Strategy Map

Cause & effect relationship between four BSC perspectives:

The perspectives provide the framework for a logic-flow from bottom to top where organizational capacity drives improved internal processes, which in turn drives improved customer and stakeholder satisfaction, which finally drives improved financial results.

The idea of the Balanced Scorecard is simple but is extremely powerful if implemented well. A well designed scorecard helps management make good and fast decision on what to improve. The scorecard is viewed in four different perspectives, which include financial, customer, internal process and learning and growth. The Balanced Scorecard can give firms and organizations managers the advantages they need to evaluate themselves accurately and, as a result, place themselves in a better position to compete. The main goal of businesses is to achieve their overall performance and make a profit and to complete this goal, the balanced scorecard, as performance measurement tool is very beneficial. Despite the limitations identified by some researchers, balanced scorecard is good if adopted by organizations as it incorporated both the financial and non-financial variables in measuring performance at any given time. Organizations are advised to adopt the balanced scorecard model as a performance measurement tool as it has a maximum benefits.

Characteristics of Successful Implementation of BSC

A BSC implementation is regarded as successful when it goes beyond being a mere transactional implementation. It must succeed in bringing about the necessary transformations needed for achieving strategic results (for example, the case of city of Charlotte). As deduced from various success stories of BSC implementation from the books of Kaplan and Norton, the successful implementation of BSC have the following characteristics:

Awareness: There is awareness among employees about the concept of BSC and an understanding of how it helps in executing organisational strategy. Employees understand the causal relationships among the objectives in all perspectives of the scorecard. Accordingly, they focus on the drivers of desired performance which are usually the objectives in the internal processes and the learning and growth perspective. (Cases of Citizens School and AT&T, Kaplan and Norton, 2001); (Davis, 1996)

Alignment: All support functions, budgets, external partners, competency development initiatives, rewards and incentives are aligned with scorecards. (Cases of Kinnarp Academy, IBM Learning, Borealis, Kaplan and Norton, 2006)

Assessment: Actual performance is regularly assessed vis-a-vis the targets and initiatives mentioned on the scorecard. Regular operational and strategic reviews get conducted. (Case of New York Police Department, NYPD, Kaplan and Norton, 2008)

Achievement: Eventually, successful implementation of BSC leads to achieving the strategic objectives as identified in four perspectives of scorecards, thereby implementing the strategy (Cases of City of Charlotte and Luxefer Gas Cylinder, Kaplan and Norton, 2008). When above characteristics are visible, it can be said that the balanced scorecard implementation has been successful. True success is achieved when all the employees in the organisation are engaged, not just physically but also mentally and emotionally to achieve the organisational vision.

3.16 Conclusion

The idea of the Balanced Scorecard is simple but is extremely powerful if implemented well. A well designed scorecard helps management make good and fast decision on what to improve. The scorecard is viewed in four different perspectives, which include financial, customer, internal process and learning and growth. The Balanced Scorecard can give firms and organizations managers the advantages they need to evaluate themselves accurately and, as a result, place themselves in a better position to compete. The main goal of businesses is to achieve their overall performance and make a profit and to complete this goal, the balanced scorecard, as performance measurement tool is very beneficial. An organization will almost certainly experience improved performance as long as management team use the key ideas of the Balanced Scorecard to

- Create a unique strategy and visualize it in a cause-and-effect map,
- Align the organization and its processes to the objectives identified in the Strategy Map,
- Design meaningful key performance indicators and
- Use these indicators to facilitate learning and improved decision making.

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