

# Application of Balanced Score Card method for business improvement in a cooperative industry

Dr. Prashant Surgonda Patil  
Assistant Professor,  
Department of Management,  
Bharati Vidyapeeths IMSR, Navi Mumbai, India

**Abstract :** This paper describes Balanced Scorecard as a tool of management control system in a medium scaled cooperative garment industry. This cooperative industry is managed successively by a small group and tries to maintain traditional shareholders interest. Author tried to analyze probable balanced scorecard use & how it can contribute to organizations strategy by aligning different views to form objectives. For the same purpose four balanced scorecard perspectives of financial, learning & growth, improvement of internal processes and customers are taken into account. Now- a- days cooperative kind of organizations are considered as low performers & not remained attractive for investment by common people for common cause. The result of this study are expected to come out with 1) When BSC can be used as part of management control system for effective strategy implementation process giving its effect to all levels in the organization 2) How BSC helps in strategy conception for better performance.

**Keywords:** Balanced Scorecard, Strategy, Performance, Management Control System

**Introduction:** Dr.Robert Kaplan & David Norton are the inventor of the Balanced Scorecard concept. In their first combine published book ‘The Balanced Scorecard: Translation of Strategy into Action’, they put light on many case studies of the business companies that use the balanced scorecard to devise a scorecard which will indicate their individual strategies. As Balanced Scorecard is a management system, it is a way of looking at your organization. It focuses on big-picture strategic goals. It helps organisation choose the right things to measure so that they can reach there goals.

While adopting Balanced Scorecard as a strategic means, the organization should have understanding of the following things –

1. That the Balanced Scorecard is a management framework. It is a complete change of the way your organization is managed.
2. That the Balanced Scorecard is flexible. It can be adopted in many different ways. One who wants to adopt it, needs not to compare his application of Balanced Scorecard with others who adopted it successfully. This is because scorecard should be unique to every organization.

BSC was conceived & applied initially as a performance measurement system playing an important role in strategy implementation (Strategy implementation by Kaplan & Norton,1992). Later it evolved into strategic management system. The concept of performance evaluation & control proposed by BSC is linking the financial perspective to three other areas of customer satisfaction , improvement of internal processes and learning & growth of employees.

A approach of promoting employees engagement in the management process is, from a strategic perspective a way to give competitive advantage ,and, from an organization perspective ,it’s a way to guide organization towards administrative objective.

The advocates of the BSC affirmed that, it can translate the organizational strategy in a set of measures that can form the basis for performance evaluation & measurement. According to them BSC helps

to diffusion of strategic plan of organization across all levels, leading to guide employees actions towards present & future performance improvement through four different perspectives.

Atkinson et al.(2000) opined that performance evaluation gives a vital link between planning activity, objectives identification & strategy development. This thing ensures that company keeps the efforts on towards achievement of goals. Modern day economy where knowledge based service sector playing a major role , it requires tools which describes how to measure and manage knowledge based intangible assets & strategies to value creation built on such assets.

When we see BSC as a model, it indicates that once that model initiated by implementation, then it leads to continuous improvement to organization that use it overtime. Nakamura et al.(2005) has showed that implementation of financial strategies is possible through areas of value chain such as human resource, production & operations, marketing, finance and research & development. He asserted that for performance measurement system to be effective it must include different process variables of the organization.

It is necessary that organization should create their own BSC in order to obtain clarity & simplicity in the execution of their duties based on experiences of other firms who experienced this model.

The implementation of performance measures with a BSC perspective happens in steps. The first step is the translation of the organizational vision, the second is the communication and unity of goals, the third is business planning, the fourth step consists of the assessment and learning. This four stepped model makes organization to align its management and organizational process to result into integrated long term strategy. Successful implementations of Balanced Scorecard to private companies are numerous. one can try to adopt this model with suitable adaptation to cooperative sector by considering customers and stakeholders satisfaction at the top in order to reflect its objective of providing services.

The purpose of this research paper is to analyze the use of BSC as a part of management control system on strategic implementation in a garment industry which is working in a cooperative kind of ownership.

## Research Methodology

The choice of a case study as research methodology is made to understand and analyse in a systematic way, the process of possible strategic implementation in a cooperative kind of industry. For this study purpose qualitative and quantitative approach was made. Qualitative approach was a key tool to understand the relationship between strategy, Balanced Scorecard and Management Control System. This case study is chosen on purpose considering the possibility of access to the companies information and management set up of the organization.

The analysis was done to check the possible use of Balanced Scorecard in the implementation of the corporate strategy to the operational level which focuses on business unit. This study focused on in-depth, semi-structured interviews as primary source of data collection from peoples working in different positions and levels in a organization. The interview questions prepared through four Balanced Scorecard dimensions. The questions were framed so as to act as a guideline for interaction. The stakeholders interviewed include general manager, shareholders, employees and mercandizer.

Analysis was carried out building on the content analysis method. The analysis was aimed at identifying the variables that seemed to correlate with Business Scorecard dimension areas & grouped to provide to have better understanding of the Business Scorecard on strategy implementation. The analysis also focused on identifying common or contemporary perceptions among the stakeholders within the same levels (hierarchical) and then from across different levels of organizational unit.

Limitations of this study is that it was not possible to generalize the results indiscriminately and possibility of bias in participants reports and responses. To reduce the negative effect of this, analysis of booklets and additional information found on instruction materials in procedures manual of the company, company policy document, and annual reports were referred as documentary analysis.

### **Performance of cooperative industries in India**

Cooperative movement in India has made significant progress in India. Cooperatives are now spread over length & breadth over the country & currently an estimated 230 million organisation are working nationwide. Areas where cooperatives are performing remarkably are consumer cooperatives, irrigation cooperative society, transportation, small industry marketing & processing, fertilizer distribution, rural godowns & cold storage etc. In fertilizedr production and distribution IFFCO (Indian Farmers Fertilizer Cooperation) commands over 35% of the market. Cooperative sugar factories produce over 58% of the total Indian sugar. In the marketing & distribution of cotton they have a share of around 60%. Cooperative sector accounts for 55% of the looms in the hand-weaving sector.

Cooperation in India is of great importance because it is an organisation for the poor, illiterate and unskilled people. They are formed for mutual help and sharing, it softens the class conflicts and reduces the social cleavages. It can reduce the bureaucratic evils and follies of political factions and it creates conducive environment for small and cottage industries. Despite rapid growth cooperative movement is not very impressive. The reason behind this is government interference, mismanagement and manipulation, lack of awareness, restricted coverage and functional weakness. The cooperative organisation that are not related directly or indirectly to agricultural activities are less in numbers. Cooperative organisation can seek lot of help from the government like subsidies, lesser requirement of capital initially, lesser interest rates on borrowed capital etc. because of this its easy for them to stand in the market compare to other form of organisation provided they manage business well.

### **Case Study Presentation and Analysis**

India Garment Audyogic Sahakari Society Ltd. Situated in district Sangli, Maharashtra,(India) Is formed in the year 1992. The organization is under cooperative ownership type and is registered under the cooperative society Act. It has shareholders from Sangli district. The objective of starting cooperative society was socio-economic. That is to harness the various government facilities available to cooperative firm and to earn profit, exploiting potential of locally available skilled as well as unskilled labour, making the unit ladies incentive & to have a social advantage and advantage of indirect export. The philosophy is to produce the best quality through the adoption of new techniques & excellent housekeeping & working at the plant. The company owns an area of 40,000 sq.ft. out of which 1600 sq.ft. is occupied by the building. The unit is primarily engaged in manufacturing of shirt. The plant is located at kupwad Maharashtra Industrial Development Corporation, district Sangli. It has all basic amenities that are essential. While selecting plant location major consideration made were availability of raw material, chip labour and the approachable market.

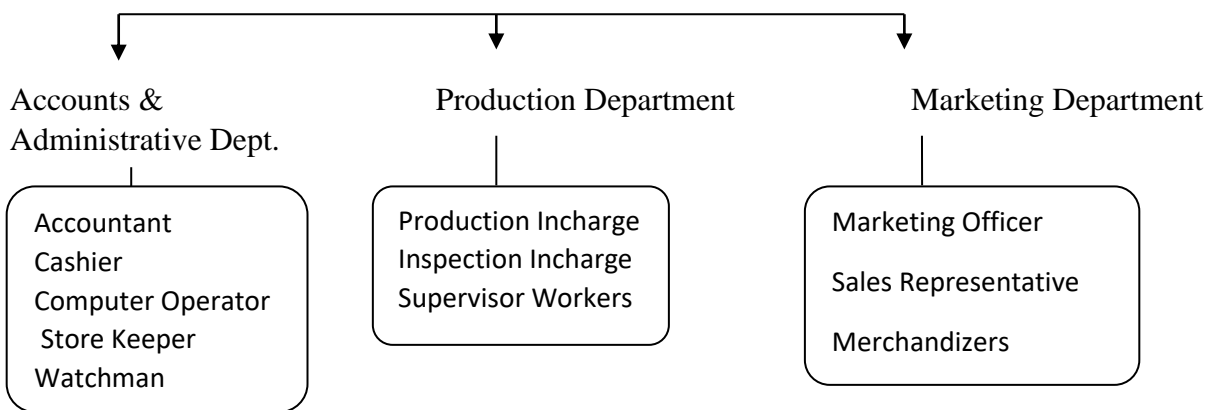
Organisation of the company consists board of directors, from them elected chairman and general manager. In particular this garment manufacturing unit is divided into different operational departments for its better management, performance. These main departments are marketing, production and administration. The subdivision is as below.

Board of Directors



General Manager





The basic financial structure of the company consists the capital of Rs.10,13,400/- earned by selling 10134 shares. At inception the loan taken from the sangli bank was of Rs.25,31,673/- The organizations business vision to 2022 shows that organization wants to maintain the current business with same annual profit. It is a state of self complacency. From last three years the sales volume figures & the profit on account books are as follows.

Table No.1:Sales and Profit figures of the organisation

Year	2016		2017		2018	
Sales/Profit in Rupees	Sales	Profit	Sales	Profit	Sales	Profit
	60038734/-	3492960/-	53444300/-	3257000/-	58703455/-	3447000/-

The organization doesn't possess any other sub unit than the main unit. From the sales and profit figures it clear that profit percentage is around 6% of sales volume. It seems that organization is trying to maintain profit level by maintaining same business volume. The organizations strategy execution can become effective through expansion of product baseline & enhancing the plant capacity with marginal increase in the total investment. Through increase in the product line and capacity enhancement organization can aim at increased profit and by that distribution of dividend to shareholders which organization hasn't done so far by distributing dividend in monetary terms. As a token of liability it possesses to shareholders it exhibits a scant gesture by bringing a scheme at dipawli festival time to sell shirts to shareholders with a 10% discount rate. This scheme which it brings to shareholders is not at all attractive as compared to other outlets and their brands bringing in the market. It seems that just for the sake of completing formalities as a cooperative organization it does that annual activity. In 2018, scheme for shareholders was observed, it noticed that variety is not as expected compared with other major outlets. It can't appeal shareholder to shareholder by mouth publicity. The price range is also not significantly lower if compared with similar clothing available in the market. As players in the market bring variety with discount schemes at festival seasons, the organizations drive to place one annual event is absurd and ridiculous. This is becoming evident form sales figures from this annual schemes as below.

Table No.2:Sales to shareholders in annual scheme brought by organization

Year	2016	2017	2018
Sales in Rs.	13400/-	9800/-	12800/-

Organization hasn't made any significant value addition towards its shareholders. Employees comes under stakeholders and it is providing same discounted products which it offers to shareholders. Besides this employees get dipawli bonus. So in terms of benefits that is happening to stakeholders, shareholders are less beneficial than employees , as there was no separate dividend ever given to shareholders. There is absence



of dividend policy, social & environmental responsibility, risk management, improved operational efficiency & workplace climate.

The organization is benefitted with government subsidies meant for cooperative kind of industries. The profit earned by the company seems low considering amount of turnover, when we compare it with private industries working in readymade garment sector. The profit is pooled out by the organization, part of it they placed it as emergency fund. There was no attempt to increase shareholder base by increasing number of shareholders ever. It indicative of a thing that organization hasn't tried for major expansion. From discussion with few shareholders it was clear that the present board of directors deliberately wants to maintain the same shareholding pattern so as to retain control over the organization. The pooled funds they use for occasional smaller attempt of modernization and increasing facilities in the building. In short there is no value addition to majority of shareholders by investing into this cooperative organization. No separate audit was made by the professional bodies to check the expenses of the company on development facilities. As dividend to shareholder is absent its essential to check whether pooled funds are utilized properly. A Balanced Scorecard indices can improve this state by devising strategy to use effectively the pooled funds.

Production of shirts takes place using stitching machines known as 'juki' is a Japanese brand. Most of machines are purchased at the time of inception which are old now but still in operation. Besides old machine few machines (around 10%) are new purchase in last 4 years. They are Juki DDL-8700 straight stitch with servo motor. It indicates that major modernization of production plant hasn't taken place. Production efficiency measurements haven't been made by the organization comparing old and new machines which may lead to decision making of replacement of old machine by new one.

Scorecard for operational strategy can set indicators like speed, power consumption, sound/noise, motor or drive type, working area (of machine), bed type etc. The other accessories machines are also old. They are button stitching machine, button hole machine, feed of the arm brother, collar top cutting machine, four needle front placket machine, double needle lock stitch machine, fusing machine, cutting machine esteem & iron press unit. Some new machines that are available in the market can do more than one work which these machines do individually. It means by modernization number of machines also could be reduced. Also no thought has been placed for steam press instead of iron press.

The remuneration to workers is based on piece rate system. This method is creating some problems like consistency of quality is not assured as worker mostly tries to get quantity and not quality. For piece rate system only skilled workers are essential. Unskilled workers are posing problems like poor quality, delay of production and wrong attachments. As different worker working on same process, chances of variation in style, quality and measurement are more.

Marketing & Sales- The unit manufactures the shirts for the domestic market by the brand name 'Nice- Feel'. It accepts the order from other companies in India like 'Prachi exports', officer 'J.C.Penny' etc. for the manufacture of shirts according to their requirements. With the fine craftsmanship and global appeal, Indian apparel industry always got a good business opportunities in export market. The company also exports manufactured products on order through quota system, non quota system and the letter of credit. Under the quota system the export is to U.S.A. & Russia, where as direct or non quota exports take place with many Arab countries. The sales include following procedure.

After the selection of garment by the buyer they will ask for sample. Then the sample will be produced in the sampling unit and sent it to the buyer. This procedure is called 'As per Order Sample'. The pre-order form contains fabric design sample(cuttings), color combination charts, different shades, instruction about design i.e. weave ,count of yarn used, color, pattern in fabric ,fiber content (like 100% cotton, viscose ,man made etc.), style features etc. After the approval of sample by the buyer,they send purchase order. If they want some changes in fabric or in the garment they will send some comments, after the comments factory should proceed with this sample upon comments and/or any fit corrections to initial sample/photo as advised by the buyer. This sample must be made in correct fabric quality and weight. All trims and accessories as well as construction/stitch details must be specified. After approved samples has

been submitted to buyer and signed off, a complete size set ( S-M-L-XL) is required. The buyer will provide garment specifications for all sizes. Samples should be submitted as representative production garments. Prior to production when bulk fabric is delivered /ready and production is ready to proceed factory should submit one sample in each colour using all production bulk trims (labels, trims etc.) These samples must be sewn on production line not in the sample room. Upon final approval from the buyer, production must be started.

Its observed that there is no change in the procedures once set for order finalizing. With modern techniques and procedures its possible to reduce sampling work which is two times presently to one time. Marketing functional area has three sales representatives who are looking after sales and marketing activity. Along with these three one director from director board is also active in marketing area. Company hasn't resorted to digital marketing yet. So there seems to be scope for improvement with score card indices in this area.

The implementation of Balanced Scorecard model can take place in following steps in this organization.

1. Creation of a team of executive management
2. Development of corporate Balanced Scorecard.
3. Up gradation of Balanced Scorecard through initiatives guided by indicators & targets.
4. Methodology training to employees.

Strategy map for each of its core business viz. finance, marketing, operations and administration can be created. As presented by Kaplan & Norton, four perspectives of BSC methodology are Financial, Learning & Growth, Internal processes and Consumer. In each of these perspectives, strategic goals can be set by organization. Strategic objectives are linked with indicators that allow to measure the achievement of goal set & the necessary actions to achieve strategic objectives. i.e. organisation can set goal to earn handsome returns on the pooled funds by enhancing business activity. The meetings on Balance Scorecard analysis should occur regularly. In this organisation under study frequent training activity was conducted, especially to train new workers, but there is no proper record kept for the outcomes of these training sessions, expenses happened over it and its effectiveness. So good scope is there to develop indices on such issues. The impacts of contribution panels of each business area to the corporate map should be discussed. The unfolding of the corporate indicators at the managerial, supervisory and operational level is necessary. e.g.A corporate indicator like distribution of dividend to shareholders with a increase in it by atleast 2 or 3% per year can lead to developing other indices in functional area of business like operations to increase efficiency so as to reduce cost, and target to marketing and sales team to generate creditable business. This process allows the visualization of core business activity by which intuitive decisions could be avoided. The balance between cost, quality and investment is essential to achieve the objective set.

The information provided by strategic maps & BSC contribution panels should provide enough allowance to help decision making by the management., in that it links the management performance to the business performance requirement, which is derived from organization strategy.

**Conclusion-** A strategy aimed at creating value can be estimated through performance evaluation and control known as Balanced Score card with strategic implementation and continuous improvement of process, which will meet shareholder, employee and customers expectations. Properly designed & implemented BSC through its four different perspective can lead to improvement in services, internal processes, learning and innovation in the cooperative organization. Strategic activities are implemented through functional strategies involving several areas of value chain and contemplating the different variables in the decision making process of the organization.

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