Importance of Balanced Scorecard in Economy

Manisha Choudhary
Department of Management
Vivekananda Global University, Jaipur
Email ID: choudhary.manisha@vgu.ac.in

ABSTRACT:* A balanced scorecard is a strategic management performance metric used to identify and improve various internal business functions and their resulting external outcomes. Balanced scorecards are used to measure and provide feedback to organizations. Data collection is crucial to providing quantitative results as managers and executives gather and interpret the information and use it to make better decisions for the organization. The balanced scorecard is used to attain objectives, measurements, initiatives, and goals that result from these four primary functions of a business. Companies can easily identify factors hindering business performance and outline strategic changes tracked by future scorecards.

***KEYWORDS:* Balanced scorecard, Customers, Human capital, Performance measurement, Economy.**

INTRODUCTION

As a business strategy and management technique, the Balance Scorecard is used. In certain organizations this is commonly used to match the success of the organization with its mission and priorities, regardless of the size. The scorecard also acts as a tool to enhance coordination and feedback between personnel and management and to track the success of the business targets [1]. As the name suggests, the balanced scorecard model has not only been designed to measure a business organization's financial success, but to cope with consumer issues, simplify business operations as well as strengthen learning mechanisms and resources. The Balanced Scorecard is exceptional because it is a management environment that is sufficiently scalable to handle multiple other systems [2]. Many big organizations, for example, have advanced accounting, client and human resources approaches. They will rely on a variety of mechanisms to help coordinate these structures (for instance, Six Sigma Black Belt or Total Quality Management). The BSC's beauty is that it can be the hierarchical system for all other management systems and help workers around the enterprise see and contexts the relation between departmental approaches [3].

Big businesses have very different units, branches and departments – and they all operate ideally with the same plan. In a large municipality, for example, hundreds to thousands of persons employed in travel, defense, or parks and recreation might be so varied that they cannot communicate beyond the highest levels of leadership. The Balanced Scorecard helps you to see and understand distinctly how each department ties its own approach to the whole organization's strategy [4]. This helps workers to see distinctly how their position can be interpreted in the company and how divisions share commonalities.

LITERATURE REVIEW

1. The basics of Balanced Scorecard:

Below is the simplest example of the balanced scorecard principle. The four boxes are the key areas under balance scorecard consideration. The vision and plan of the company is related to these four main fields of concern [5]. The balanced scorecard is categorized into four major areas and the correct balance between these areas is reached by a good organization. Each area (perspective) represents a different aspect of the business organization in order to operate at optimal capacity [6].

- **Financial Perspective -** This consists of costs or measurement involved, in terms of rate of return on capital (ROI) employed and operating income of the organization.
- **Customer Perspective -** Measures the level of customer satisfaction, customer retention and market share held by the organization.

- **Business Process Perspective -** This consists of measures such as cost and quality related to the business processes.
- **Learning and Growth Perspective -** Consists of measures such as employee satisfaction, employee retention and knowledge management.

The four views are intertwined. They cannot however run autonomously. Combined viewpoints are important in real-life environments to meet their market goals. Customer viewpoints are important, for example, for the purpose of identifying the financial perspectives to enhance the learning and growth viewpoint [7].

2. Features of Balanced scorecard:

From the above diagram, you will see that there are four perspectives on a balanced scorecard. Each of these four perspectives should be considered with respect to the following factors [8]. When it comes to defining and assessing the four perspectives, following factors are used:

- **Objectives -** This reflects the organization's objectives such as profitability or market share.
- **Measures -** Based on the objectives, measures will be put in place to gauge the progress of achieving objectives.
- **Targets -** This could be department based or overall as a company. There will be specific targets that have been set to achieve the measures.
- **Initiatives -** These could be classified as actions that are taken to meet the objectives.

3. A tool of Strategic Management:

The aim of the balanced scorecard was to build a method to assess an organization's success and improve any backlogs. Due to the rational process and processes, the success of the balanced scorecard has grown over time. It was also a management technique that could be used across multiple roles within an organization [9]. The balanced scorecard allowed the management to consider its priorities and responsibilities. It also assists the management team in quantity calculation of results. In expressing strategic priorities, the balanced scorecard still plays a critical role. One of the main reasons that certain companies struggle is that they do not recognize and meet with the organization's goals. This is accomplished by a balanced scorecard which breaks down priorities and encourages the understanding of managers and workers. Two main fields where the balanced scorecard will contribute are preparation, goals and aligning strategy. For each of the four views, priorities are set with respect to long-term expectations. However, particularly in the short term, these goals can be largely accomplished. Similar to the goals, steps are taken [10]. The next area where the balanced scorecard plays a role is strategic guidance and learning. The management obtains up to date assessments of the progress of the initiative and of the approach in terms of strategic guidance and learning.

4. The need for a Balanced Scorecard:

Following are some of the points that describe the need for implementing a balanced scorecard:

- Increases the focus on the business strategy and its outcomes.
- Leads to improvised organizational performance through measurements.
- Align the workforce to meet the organization's strategy on a day-to-day basis.
- Targeting the key determinants or drivers of future performance.
- Improves the level of communication in relation to the organization's strategy and vision.
- Helps to prioritize projects according to the timeframe and other priority factors.

5. Four Processes of Balanced Scorecard:

The balanced scorecard includes four processes which combine strategic management priorities with employees' activities instead of relying solely on financial metrics to assess efficiency.

- Translating the Vision
- Communication and Linking
- Planning
- Learning and Feedback

These processes, when incorporated with current strategic management practices, allow managers to provide the guidance and information needed by their employees to better meet long-term goals.

5.1 **Translating the Vision**: Translating the vision makes the workers understand more how their job impacts the overall performance of the business, and the priorities and objectives of the organization. The expectations at employee level are formulated so that they can grasp what is necessary for long-term performance.

5.2 Communication and Linking: Strategic planning involves coordination and this balanced scorecard process lets managers link their strategic priorities with departmental and employee targets. This integration means that everyone in an organization knows corporate goals better and their potential to accomplish the goals.

5.3 Planning: Economic strategy helps administrators to match the company's strategic initiatives with employee level priorities. The balanced scorecard priorities allow management properly distribute and priorities options and see just what initiatives are required to accomplish organization's goals..

5.4 Learning and Feedback: The fourth aspect of balanced scorecard incorporates reviews and feedback from customers, internal processes, and growth. These perspectives assist managers in the performance evaluation of current strategies, helping them understand which objectives require modification.

CONCLUSION

As the name denotes, a balanced scorecard offers the correct balance between the mission and vision elements of the enterprise. It is a tool that lets managers track the organization's success and can be used as a management technique. Instead of restricting oneself to financial principles it offers an outline of a company's goals. This establishes a clear brand for its current and future clients and a prestige among the staff of the company.

REFERENCES

[1] R. S. Kaplan and D. P. Norton, "The balanced scorecard--measures that drive performance.," *Harv. Bus. Rev.*, 1992.

[2] M. Sartor, "The balanced scorecard," in *Quality Management: Tools, Methods and Standards*, 2019.

[3] Balanced Scorecard Institute, "Balanced Scorecard Basics," *Balanced Scorecard Institute*, 2015. .

[4] M. Chavan, "The balanced scorecard: A new challenge," *J. Manag. Dev.*, 2009, doi: 10.1108/02621710910955930.

[5] H. Nørreklit, "The Balanced Scorecard: What is the score? A rhetorical analysis of the Balanced Scorecard," *Accounting, Organ. Soc.*, 2003, doi: 10.1016/S0361-3682(02)00097-1.

[6] R. S. Kaplan and D. P. Norton, “Linking the balanced scorecard to strategy,” *Calif. Manage. Rev.*, 1996, doi: 10.2307/41165876.

[7] R. S. Kaplan and D. P. Norton, “Using the Balanced Scorecard,” *Harv. Bus. Rev.*, 2007.

[8] W. Van Grembergen, “The balanced scorecard and IT governance,” *ISACA J.*, 2000.

[9] H. Nørreklit, “The balance on the balanced scorecard - A critical analysis of some of its assumptions,” *Manag. Account. Res.*, 2000, doi: 10.1006/mare.1999.0121.

[10] D. Lehrach, “Balanced Scorecard,” *VDI Berichte*. 2002, doi: 10.36661/2596-142x.2019v1i1.10744.