

## THE BALANCED SCORECARD-AN ENDURING MANAGEMENT KEY FOR SUCCESS

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### ABSTRACT

To deal with the complexity in today's dynamic business environment caused by the existence of global players and continuous technology enhancements, the U.S authors Robert S. Kaplan and David Norton have innovated the Performance Management Tool-'The Balanced Scorecard' as a solution for the modern knowledge economy enterprises. The Balanced Scorecard (BSC) has evolved from a simple Performance Measurement System to an advanced level Performance Management System over the decades. It enables effective communication among all the stakeholders of an organization through Strategy Maps. The BSC also provides accurate information of the various activity levels of the organization, enabling the managers to monitor and control them effectively. The innovation hence acts as an effective and efficient tool for the policy makers to focus on various areas of the organization, which needs attention and strike a better balance between them.

*Keywords: Balanced Scorecard, Management System, Performance Improvement, Metrics, Quality, Objectives.*

### INTRODUCTION

Every organization has its vision, mission, and objectives set in place after its thorough SWOT analysis. People at the executive level invest their valuable time in setting up of the strategic plans. The management of companies also spend huge amount of time in inculcating quality into their system. It is a known fact that with the emergence of opportunities, fierce competition follows and hence managers of the enterprises must strategize all the decision-making processes at different levels for the purpose of achieving competitive edge. With the motive of appraising the company's performance from time to time, to realign the strategies with the changing environment and to compete successfully in the future, organizations resort to adoption of various quality improvement measures such as:

- TQM (Total Quality Management), JIT (Just-in-Time), Six Sigma, TOC (Theory of Constraints), TPM (Total Productive Maintenance), RCM (Reliability Centred Maintenance), Value Driven Maintenance, Lean

Manufacturing, Zero Defect, and the like (Hoque & James, 2000).

- The above measures however lack to blend effectively into the existing system of organizations, where the functionaries work in silos. Immaterial of the method applied to an organization, the real challenge posed for executives is not in setting the goal for the organization or in strategic planning, but in execution of the strategies. This statement has been proved according to the recent study of 'Conference Body Study', which is presumed to be giving trusted insights for businesses worldwide. Strategy execution is the hot topic for Chief Executives today. When we tend to focus our attention towards reporting system, the traditional financial system is flawed as it throws light only on a firm's past performance, but fails to provide sufficient information about how it has to perform in the future. This can be proved by quoting an example that, if a company reduces its customer service levels for enhancing current earnings, then future earnings might

be negatively impacted because of reduced customer satisfaction.

## 1. Scope and Significance of the Study

The scope of this article is limited towards the conceptual framework of Balanced Scorecard and the importance in its adoption by organisations. The designing of scorecards has not been included, as there are several consultants engaged in providing customized services in this area.

It is to be noted that in the early Industrial Age, a firm's assets were composed of tangible assets like property, plant, and equipment. Hence, valuing of those assets was done based on the traditional accounting system (Niven, 2002). In the present Information Age, a firm's greater value is embedded in its innovative processes, CRM, and HR. The traditional accounting system is not good enough at valuing the intangibles of the firm. Hence, to provide a solution for such problems, Kaplan and Norton put the year in parenthesis and developed a Performance Management System known as 'The Balanced Scorecard', which is considered as one of the world's top strategic management framework. It combines four different business perspectives-financial, customer, internal processes, people-learning & growth. BSC does not create strategy, but frames it in a visually friendly format (Kaplan & Norton, 2001). If the current management system is not getting the organization where it need to be, then its time for a better solution-i.e. embracing 'The Balanced Scorecard' (Figge, Hahn, Schaltegger, & Wagner, 2002).

The significance of the study lies in the fact that BSC can serve as a central point for the organization's efforts in defining and communicating priorities to managers, employees, investors, and even customers. The Balanced Scorecard framework which acts as an effective management tool for communication with all its stakeholders is shown in Figure 1 and Figure 2 that follow subsequently (Norreklit, 2000). As in the words of David Norton, in the today's knowledge economy, "strategy is executed at the bottom of the organization."

## 2. What is a Balanced Scorecard and What it is Not?

The Balanced Scorecard is a strategic planning and management system that is used in firms and industry,

government and non-profit companies worldwide to align business activities to the vision and strategy of the organization, improve internal & external communications and monitor organization performance against strategic goals ("Balanced Scorecard Institute," n.d.). It was originated by Kaplan and Norton as a performance measurement framework that added strategic non- financial performance measures to traditional financial metrics to give managers and executives a more balanced view of organizational performance ("Balanced Scorecard Institute," n.d.). While the phrase balanced scorecard was coined in the early 1990s, the roots of this type of approach are deep and include the pioneering work of General Electric on performance measurement reporting in the 1950s and the work of French process engineers (who created the Tableau de Bord- literally, a 'dashboard' of performance measures) in the early part of 20<sup>th</sup> century (Balanced Scorecard Institute).

The BSC provides executives the comprehensive framework that translates a company's strategic objective into a logical set of performance measures. Apart from being just a tool of measurement, it also works to reinforce good behaviours (Lipe & Salterio, 2000). The Balanced scorecard is a management system that can motivate remarkable improvements in critical areas like product, process, customer and market development. Business units devise customized scorecards to fit their mission, strategy, technology, and culture. It translates by providing mechanism for strategy into specific objectives, measures, and targets. It subsequently enables monitoring and implementation of strategy. Balanced Scorecard is suitable for Strategic Business Units (Goertz & Regan, 1997; Kaplan & Norton, 2006).

The innovation of BSC has been explained by the authors Kaplan and Norton with the help of the following Figure 1:

However, BSC does not function as a template that can be applied to business or even industry wide-different market environments, product strategies, and competitive situations, but require unique scorecards. Hence we say that scorecards have to be customised as per the specific needs and environmental conditions of firms (Madsen & Stenheim, 2015).

The traditional financial measures are retained in the



Figure 1. Adopting Balanced Scorecard as a Strategic Management System (Kaplan & Norton, 2006)

Balanced Scorecard. For the industrial age companies, building long-term capabilities and customer relationships which were not at all considered as critical for success, but financial measures which stated the story of the past events were adequate. But for the information age companies to thrive, the financial measures are inadequate. For the purpose of creating future value, they have to make investment in customers, suppliers, employees, processes, technology, and innovation. The organization can be viewed from the four perspectives according to the founders of Balanced Scorecard. Measures must be developed, data collected and analysed relative to each of these perspectives:

### 2.1 The Learning & Growth Perspective

It includes employee training and corporate cultural attitudes for individual and corporate self-improvement. In the present day knowledge-worker organization, people are the main repository of knowledge as a resource. In today's technologically changing environment, the knowledge workers should be in a continuously learning mode. Metrics can be devised to guide managers for allocation of funds for training purposes (Norreklit, 2000). Learning and Growth are considered as vital for the success of any knowledge-worker organization. The authors emphasize that this perspective also includes technological tools, which are called as high-performance work systems by the Baldrige criteria.

### 2.2 The Business Process Perspective

Metrics on this aspect enables the managers to know how

well their business is running and whether they meet the customer requirements, i.e. the mission achievement. Every company has a unique mission to produce goods and services for meeting the customer requirements. The metrics have to be carefully developed by people who know the processes internally and cannot be developed by outside consultants.

### 2.3 The Customer Perspective

In the recent management philosophy, importance of customer focus and customer satisfaction are considered as leading indicators (Iftner, Larcker, & Meyer, 2003). Poor performance in this will lead to decline in the future though the current financial position may appear sound. Metrics should be developed for satisfaction and customers should be analysed in terms of kinds of customers and kinds of processes.

### 2.4 The Financial Perspective

The authors regard that traditional need for financial data cannot be discounted. They are of the opinion that overemphasis on financials leads to an 'unbalanced' situation with regard to other perspectives. It is suggested to adopt centralization & automation for the processing of financial data. Also, inclusion of risk assessment and cost-benefit data into the financial data is advisable.

## 3. Strategy Mapping

It is said a picture is worth a thousand words. For telling the story of how value is created for the organization, Strategy Maps as shown in the following Figure 2 are used as communication tools. In the form of a cause and effect chain they display a logical, step-by-step connection between strategic objectives which are shown as ovals on the map. In Figure 2 below, improvement in the objectives in the bottom row which represents the Learning and Growth Perspective, enables to improve the next row up of Internal Process perspective objectives, which in turn enables the organization to create desirable results in the upper two rows, i.e. Customer and Financial perspectives (Balanced Scorecard Institute).

Strategy Maps help stakeholders to understand what they need to accomplish, how they can contribute for the success of the company and how to achieve strategic

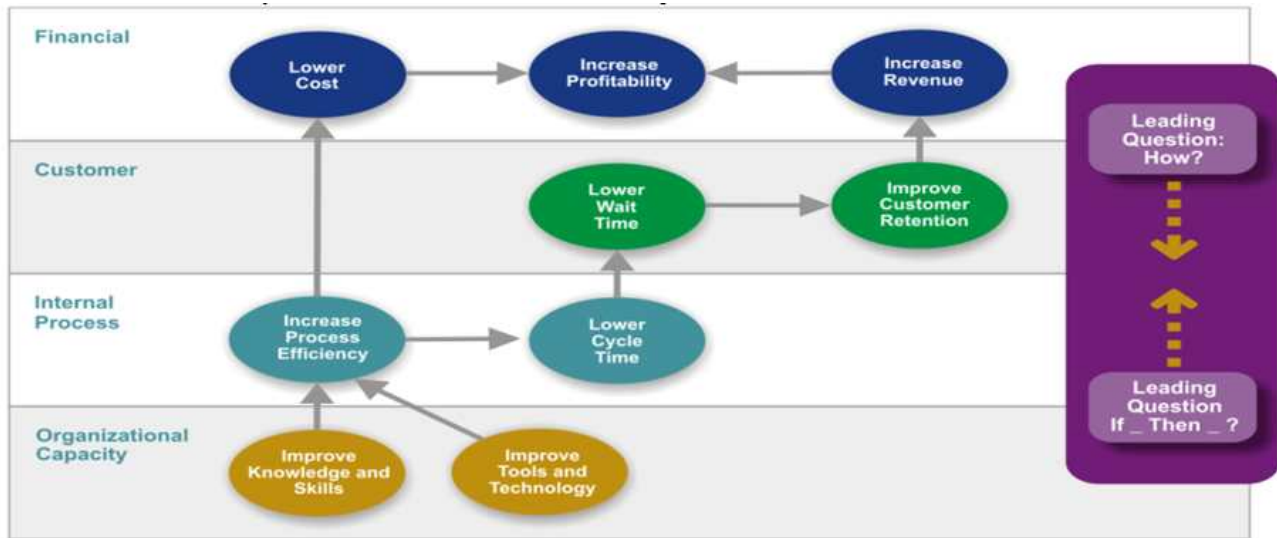


Figure 2. Strategy Maps

objectives.

The Balanced Scorecard is gaining popularity among companies worldwide. This is evident by the increase in momentum of its application which is depicted in Table 1 (Bhagwat & Sharma, 2007). It throws light on adoption of the Balanced Scorecard by different companies categorized by country as shown in Table 1.

Table 1 depicts that the choice of BSC may be based on economic or social rationales, which may even be

interrelated. It is however not evident whether the supply side or the demand side contribute towards adoption of BSC.

3.1 Evolution of BSC Concept and its Classification

Over the last two decades, BSC has evolved from a simple Performance Measurement System to an advanced level Performance Management System (Hanson & Towle, 2000). More and more companies are gaining knowledge about its application and are implementing the BSC as a

Country/Region	Adoption rate(approx.)	Sample	Reference
Worldwide	66%	Managers of large companies	Rigby & Bilodeau (2007)
Nordic countries	27%	Publicly traded companies	Magnus & Fredrik (2000)
Germany, Austria and Switzerland	25%	200 large companies	Speckbacher, Bischof, & Pfeiffer (2003)
Norway	30%	Manufacturing companies	Olsen (1999)
Norway	26%	Controllers and CFOs	Eriksrud and McKeown (2010)
Sweden	38%	Technical and industrial companies	Olive and Petri (2005)
Jordan	35%	Large companies	Al Sawalqa, Holloway, & Alam (2011)
India	45%	Large companies	Anand, Sahay, & Saha (2005)
UK	57%	Large companies	Anonymous (2001)
USA	35%	Fortune 5000 companies	Marr (2005)
USA	43%	Members of the American Institute of Public Accountants	Maisel (2001)
USA	60%	Fortune 1,000 companies	Silk (1998)

Table 1. Adoption Rates of Balanced Scorecard in Different Countries/Regions

Speckbacher et al. (2003)	Lawrie & Cobbold (2004)	Brudan (2005)	Soderberg, Kalagnanam, Sheehan, & Vaidyanathan (2011)	Perkins, Grey, & Remmers (2014)
Type I	First Generation	Reporting	Level 1	BSC 1.0 (four versions)
Type II	Second Generation	Functional	Level 2(a+b)	BSC 2.0 (two versions)
Type III	Third Generation	Control	Level 3	BSC 1.0 (two versions)
		Goal Congruence	Level 4(a+b)	
		Complete	Level 5	

Table 2. Five Classifications of BSC Adoption

turnaround strategy. The classification of BSC can be known from Table 2.

Table 2 emphasises on the similarities in the classification of BSC. It shows the adoption of five different classifications by organisations over two decades ranging from a simple BSC to an advanced level of BSC. As the articles were published at different time periods, there was lack of consensus among the researchers in respect of distribution of BSC in organizations (Jackson, 2018; Keyes, 2016).

## Conclusion

Every ambitious company desires to attain leadership position in the market. As it is known that market leadership is not about sales and dominance, but how relevant the product is for the audience. Also, it is worth to note whether the company strives to nurture and keep its employees satisfied and provides delightful experiences to all its stakeholders. The Balanced Scorecard, which covers almost all the major aspects of the firm, enables a company to be at the edge of competition. Only by adopting ethical practices, the position can be retained for a long time. Fortune for companies must be deserved for it to be sustained. Companies resort to Balanced Scorecard for achieving success. Hence the title: The Balanced Scorecard-An Enduring Management Key for Success! So, what are we waiting for? Its time to gear up to gain the competitive advantage we've been longing for. Let us make our company future ready by implementing the Balanced Scorecard. Success is a journey, let us begin the transition right away!

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