Balanced Score Card - A Comprehensive Guide to Performance Evaluation

The Balanced Score Card is a Management System. It is a mirror, which shows how an organisation's mission and vision can be decomposed into strategic components that are actionable, specific and measurable. According to an estimate about 54% of the MNCs in the world are working on BSC in some form or other. The article provides an overview of the concept.

Liberalisation and Globalisation have changed the entire philosophy of management of business. Businesses have become more uncertain and flow of goods and services has changed the rule of the game altogether. The whole corporate world is passing through a revolutionary phase with emerging new capabilities, improved ways and means and exploitation of creative and innovative ideas to achieve satisfaction, stability and success. Every day, rather every moment, corporates are re-discovering their customers, their needs, desires and perceptions and newer and improved theories and practices are being formulated to cater to such demands. Standards are improving and products and services are being delivered with new outlook. Each action of corporates tries to touch a higher level of performance, be it a question of value addition, cost reduction or other dimensions of achieving excellence.

Any company which is slow to change or unable to cope up with this new environment, faces the danger of sinking into losses. So, all corporates in every line of business have to have continuous improvement as their prime agenda. Otherwise, their survival and growth will be at stake. This has been the global business phenomenon in this LPG (Liberalisation, Privatisation and Globalisation) era all over the world.

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To achieve ever changing and ever increasing targets, corporates are focusing their attention towards Total Quality Management (TQM), Activity Based Cost Management (ABCM), Target Costing, Process Re-Engineering, Economies of Scale and Scope and other value creating activities. These efforts for excellence require the support of new and improved tools and techniques of measurement of performance so that proper and true assessment and evaluation is possible and proper corrective action may be initiated for improvement well in time. The conventional indicators and measurement tools like Ratio analysis, Budgetary Control and Standard Costing, Economic Value Added (EVA), Market Value Added (MVA), Earning Per Share (EPS) etc. puts stress on one or other areas of performance but fails to focus on all the parameters with equal emphasis. Some measures confine with post mortem analysis of past performance, some put more emphasis on control rather than strategy and still others address cost rather than value as their target.

Need for Comprehensive Performance Measure

With fast developing and changing scenario in the economy and business environment with contemporary development in the management style and thoughts, many of the conventional financial statistics and parameters have become redundant or inadequate to take stock of the whole spectrum of modern corporate activities. The situation demands a more comprehensive measure; with equal importance and coverage to all the limbs of

performance along with proper mechanism for integration of all such areas to produce a more balanced and focused result that could make good the deficiencies of conventional measurement techniques. Top management of the industries, management experts, academicians all are serious to develop a comprehensive measurement system for performance evaluation of a business commensurate with the contemporary developments. They feel very strongly that the new measure should not only be based on accounting framework but should also consider the economic theory to deliver results. It should generate meaningful and significant information for evaluating the Strengths, Weaknesses, Opportunities and Threats (SWOT) of an organisation so that management could design and implement appropriate and adequate action plan, both short term and long term to achieve its goals. For this purpose, management needs to have an accurate understanding of their objectives and the methods and techniques to be employed to achieve these objectives quickly and optimistically for assuring 'goal congruence'. 'Goal congruence' is an action or a series of action in a process that encourages people to act in such a manner that they improve their own interests, which automatically leads to the achievement of the goals and fulfillment of the objectives of the organisations for whom they work. This is practically an integration of the perceived self-interest of the employees and the best interest of the organisation.

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Balanced Score Card Technique

The benefits of BSC (Balanced Score Card) technique of measurement of performance can only be fully reaped if it is introduced as an information system with feed back of financial and non-financial measures at all levels in an organisation. The success of this system depends largely as to how far a correlation between non-financial measures and financial measures could be established within the system to serve the cause and effect relationship. Unless such relationship is established to the required extent, we cannot be sure that future profitability will allow targeted achievement in any non-financial area such as product quality drive and financial measures such as revenue. Whenever an organisation proposes to introduce or adopt such a system, it should focus on the cause and effect relationship between non-financial measures and financial measures.

Let's divide our discussion on BSC into three sections, with the first section dealing with four pillars of Balanced Score card, the second section with the identification and provision of input in the feeder and the requisite integration thereof, and the third section describing the primary steps to be followed for implementation of the BSC model.

Four Pillars of Balanced Score Card

To quote Kaplan & Norton, the founder of the concept, Balanced Score Card is "a set of measures that gives top managers a fast but comprehensive view of the business. The balanced score card includes financial measures that tell the results of actions already taken. It complements the financial measures with operational measures on customer satisfaction, internal processes and the organisation's innovation and improvement activities." The above definition of BCS is itself indicative of the four pillars on which the whole gamut of the concept rests and around which a set of measures

matched to the business can be formulated and developed so that performance can be monitored and evaluated. Let us present each pillar one by one to understand its significance.

(1) **Financial Perspective:** Financial Perspective is viewed as to how the interest of the shareholders is looked at, served and protected. It focuses on the strategy for growth, profitability and risk viewed from the perspective of the shareholders. It encompasses all actions undertaken to maximise shareholders value and includes cost benefit analysis, financial risk assessment and management, payment of dividend regularly and timely and such other things that create or add to the shareholders wealth. It considers financial performance measures that indicate whether the company's strategy and its implementation and execution are effectively contributing towards profitability, liquidity and solvency so that the business can be carried out smoothly ensuring success, growth and bottom line improvement. The indicators generally selected in this area include profitability ratios and turnover or efficiency ratios and fund flow analysis. The major profitability ratios considered are gross profit ratio, net profit ratio, return on equity, return on capital employed, earning per share etc. Efficiency ratios include current ratio, sales turnover ratio, stock turnover ratio and debtor's velocity ratio etc. The basic objective of BSC system of performance measurement is to take stock of the parameters considered essential for survival, success and prosperity. Fund flow ensures survival, increase in sales and operating profit confirms success and increase in market share and return on investment measured in terms of return on equity or return on capital employed focus on the growth or potential growth of an enterprise. Present value of future cash flows indicates extent and degree of shareholders value creation.

(2) **Customer Perspective:** Customer perspective rotates around the question, how do customers see the business and the answer lies in the measurement of customers' satisfaction, and the effectiveness and mechanism of providing such satisfaction. In essence, customer perspective aims at building strategy for creating value and differentiation for the customers by way of reducing lead time, improving quality of the products or services, improving performance and services and offering most competitive and cost effective price. In this way an enterprise should translate its customer's service policy into specific measures that reflect the factors that really matter to the customers. Customer perspective increases the acceptability of the company's products and services and may be measured in terms of brand valuation and contribution to the increased turnover. The company has to address its sales and distribution policy, pricing policy, allocation and apportionment of sales overhead and other related policies so that customer perspective is properly looked into and seriously taken care of.

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(3) **Internal Business Perspective:** This perspective focuses on what a business must excel at; the strategies and priorities for various business processes and their efficient and effective execution towards value creation to satisfy all the stake holders – shareholders, customers, employees, creditors and the society at large. The business process should support the twin objectives

of customer satisfaction and stakeholder value creation that affect production and productivity, profit and profitability, cycle time, and standard and quality. A company needs to identify its core competence, go in for right type of technology, decide the processes and competencies it must excel in and specify measures for each of them so that market leadership is ensured on a continuous and sustained basis.

It is basically the integration of all milestone activities to decide what needs to be done, by whom and when and to indicate and develop the required business processes with enabling and supporting resources and their management. Internal business perspective facilitates articulation of strategic initiatives with measurable results and communicates such strategies from Board room to lunch room so that people at all levels are crystal clear as to what needs to be done to make their individual efforts most effective.

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(4) Innovation and Learning Perspective: Can we continue to improve and create value? The answer to this vital question will lead a company to the platform of innovation and learning perspective. In today's fast changing and competitive business world without innovation and learning a company cannot survive and cannot even think of growth. It has to set priorities for various business processes and their efficient and effective execution to fulfill the objectives of the company. Innovation and learning enable a company to launch new products, extent market share, improve efficiency, reduce cost, create brand value and enhance profit and profitability. It can satisfy the varied needs of the customers through product differentiation, diversification and investment in new projects and activities. In the patent, trade mark, copy right regime aggravated by WTO initiatives, innovation and learning have assumed high priority in the agenda of every business entity. It is the most powerful weapon in the struggle of survival, success and growth.

All the above perspectives contain a number of critical success factors derived from the company's vision and mission and suitable strategic measures are developed/pursued covering both financial and operational measures to integrate the long term vision with the day to day business of the company. BSC not only appraise of the performance achieved but also focus on how it can do better in the future. So it has a forward-looking perspective, which is more valuable than the historical assessment of performance.

Development of Suitable MIS

Suitable Management Information System to provide right information at the right time to the right persons to take right managerial decisions for planning and control of business activities is the first pre-requisite for success of BSC. There should be a target set or objectives focused in each area of performance and the mechanism is to be developed for continuous feedback in each such area either to take suitable corrective actions or to provide a basis to make any adjustment and updating in the selected area on review of the whole situation. We give below the perspective-wise targets/ objectives and indicated the information to be generated to measure cause and affect relationship side by side in the form of the following table:

Objectives/Targets	Required Statistics and Information
Financial Perspective	
Return on Capital	Return on capital employed at periodic internal with Segment wise details.
Projected cash flow	Actual cash flow at periodic intervals and reporting of variance.
Project Profitability	Periodic profitability report on each project with analysis of causes of variances and suggested areas of improvement in case of adverse variance in particular.
Reliability of Performance	Report on (a) Project Forecast reliability (b) Sales backlog.
Customers Perspective	
Value for money	Customers' ranking survey
Competitive price / Hassle free relationship/Innovation and satisfaction	Customers' satisfaction index/ Market share / pricing index.
Internal perspective	Hours with customers on new work
Shape customers requirements	Tender success rate Rework
Quality service/ safety	Safety incidence index
Cost Control	Cost sheets and Budgetary control reports, reporting of variance. Revised estimates, revised Project Report with requisite updating for cost and time over run.
Superior Project management	Project performance index Project closedown cycle Tender effectiveness
Innovation and learning Perspective	
Product and Service Innovation	Revenue per Employee % of revenue from new product/ service
Empowered workforce	Staff attitude survey Number of Employee suggestions
Continuous improvement	Rate of improvement Index Speed to Markets (New Standards) Speed of imitation (robustness) I.T. System development (a)Features (b)Cost.

Steps towards Implementation

For implementation, each and every enterprise has to be considered on standalone basis and there cannot be a general guideline to be effective in all cases. It depends on the nature of the enterprise, the composition of its technology, market and customers and their interrelations and correlations. It depends on the objectives, attitude and perceptions of the management together with resources and peo-

ple it can deploy. However, a general overview presented below may serve as a guide to action in formulating the process for implementation subject to the special characteristics and needs of a particular organisation.

Implementing BSC is a challenge in itself. It changes the job approach of each employee. We shall focus here only four major areas that can go a long way in successfully implementation of BSC in any organisation, be it a manufacturing company or service providing company.

Mission of the company: Mission of the company has to be focused for information of all so that each one associated with the company in any capacity can mould their work to best align with the mission thus focused. On one occasion a company has focused on its mission as:

"As our customers' preferred provider, we shall be the Industry leader. This is our mission"

Selection of value drivers or perspectives: Once the mission has been decided upon, four or five value drivers or broad strategic goals have to be selected and the scorecard framework should be geared around these value drivers. These value drivers may be financial performance, customer service, efficient business processes, innovation, learning and growths.

Setting of right matrix: At this stage both the 'right matrix' and the 'right amount of matrix' are identified to track the progress of an organisation towards its organisational goals. Suppose a company undertakes project execution on turnkey basis for its clients. To determine whether the company in question is in a position and properly meeting the requirements of its clients, the following three major matrices may be identified:

(1) Percentage of Projects completed on time and within budget.

(2) Percentage of Projects released to the clients by agreed up delivery date with agreed up costs.

(3) Client satisfaction indicated by the Customer Surveys completed at the end of a Project.

Assessment of the work to be executed: Different tasks and responsibilities to be executed at different levels of the organisation are to be assessed and specified, required resources are to be arranged, policies, rules, procedures, delegation of powers, reporting and review mechanism are to be fixed and circulated down the level so that every member of the organisation knows what he is supposed to do and how.

Communication and feedback: All employees need to be communicated about their roles and responsibilities. All the employees should be involved and it is important to ensure that every one is into it at every level of the company. A fully implemented scorecard cascades from the top levels of a company all the way down. Ultimately each member of the organisation works off a personal score card, striving to achieve personal objectives based on measurements directly linked to corporate strategy. There should be regular and continuous feedback of the target achieved for review, suggestions for improvements and other such correcting activities to help achieve the objectives and goals. A sort of competition should be generated among the employees so that contribution of each member can be measured and rewarded properly as a means of motivation to contribute one's best.

Conclusion

The BSC is not a Management Control System but itself a Management System. According to an estimate about 54% of the MNCs in the world are working on BSC in some form or other as a management system. In a nutshell, it can be said that BSC integrates strategic management, performance measurement, strategic thinking and planning, change management and performance budgeting into a structured framework for building a strategic management system. ❐