Balance Score Card and Its Impact on Performance Management System: Review of Application Model of Balance Score Card

*** Bhawna Sharma**

* Assistant Professor, DAV Institute of Management

Abstract

Today's business environment requires a better understanding, of customers and their needs, streamlined internal business processes and highly skilled staff. There has been growing criticism of financial measures in the performance measurement system (PMS), as they are historic in nature and lack futuristic outlook. The new generation Performance Measurement System "Balanced Scorecard" (BSC) looks beyond the traditional financial measurement of performance and examines the organisation's operations from four perspectives, i.e., financial, customer, internal business processes, and learning and growth perspectives. The present study is an attempt to examine the conceptual framework of Balanced Scorecard and its implementation and experiences. The study highlights that empirical research supports the effectiveness of the BSC in translating strategic objectives into relevant performance measures that derive performance towards these objectives.

Keywords: *Balanced Scorecard, Performance Measure, Translating Strategic Objectives, Internal Business Process*

Introduction

The balanced scorecard is a strategic planning and management 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. It was originated by Dr. Robert Kaplan (Harvard Business School) and David 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.

Review of Literature

Grembergen (2006) concludes that the methodology of the Balanced Scorecard is a measurement and management system that is very suitable for supporting the IT governance process and the IT/business alignment process. It is believed that in the near future many organizations will use a cascade of a business balanced scorecard and IT balanced scorecards as a way of assuring IT governance and achieving the integration of business and IT decisions.

Singh ,Kumar (2007) explains that the new generation Performance Measurement System "Balanced Scorecard" looks beyond the traditional financial measurement of performance and examines the organisations operations from four perspectives, i.e., financial, customer, internal business processes, and learning and growth perspectives. The present study is an attempt to examine the conceptual framework of Balanced Scorecard and its implementation and experiences at global level and national level.

Ronay Ak, Oztaysi (2008) In this study, performance measurement is defined as an evaluation of the past activities with respect to the desired goals. First a balanced scorecard based performance measurement system is proposed for insurance companies. Then Analytical Network Process (ANP) quantifies perspectives that were obtained Balanced Scorecard approach.

Longyili (2009) makes an attempt to study about how to use the Balanced Scorecard as a tool, which is applied to commercial banks performance management system, and points out that it breakthrough the defects in the traditional single application of financial indicators which measures performance. And it raises the value of performance management appraisal system based on the introduction of customer factors, internal business processes, employee learning and growth and financial factors.

Rodriguez *et.al.,*(2010) suggests that the public sector is involved in a context of change. Decentralization, performance measurement and a greater emphasis on outputs are some of the main changes.. The Balanced Scorecard approach has emerged as a new tool that meets many of the above-mentioned challenges faced by public organizations.

Farooq, Ayesha.(2011). The purpose of this study is to recognize the role balanced scorecard and change management play in better performance of organizations. The work also gains an insight into the effects of balanced scorecard and change on organizational performance. For the purpose, a questionnaire is developed and responses were collected from organizations, which were segregated based on public and private sector and also manufacturing, and service industry. Statistical tools such as t- test and Correlation were applied to achieve the objectives.

Khanka(2012) emphasizes that balance Scorecard is both a performance measurement and management tool that enables the organizations to clarify their vision and strategy and translate them into action. It captures both the financial and non-financial aspects of a company's strategy and discusses cause and effect relationship that drives business success. As far as corporate India is concerned, it is high time to make aware the Indian companies to implement this technique particularly in the context of integration of the financial markets worldwide. So, there are "exciting opportunities" in India at present for promoting the concept and practice of the Balanced Scorecard to enable the companies to align their operations totally to their business strategy and translate their mission and vision into reality.

Objectives

1. To study the Balanced Score Card Practices
2. To study the balanced score card as tool for performance Management system
3. To study the Application Model of Balanced Score Card

Research Methodology

The study is exploratory kind of research. The researcher tried to extract some facts from review of literature to achieve their objectives of study. The information is collected through journals and internet.

Conceptual Framework and Emerging Issues in Performance Management System

Financial performance measurement has been the only traditional method since the existence of business organisations. At the turn of the 20th century, financial measurement innovations were critical to the success of industrial age companies. The traditional financial ratios have worked as an important tool of measuring organization performance in the bygone years. Financial measures of performance have been evolved and today, the concept of economic value added (EVA) is quite prevalent. This concept suggests that unless a firm's rate of profitability exceeds its cost of capital, it really is not creating value for its shareholders. However, there are certain pitfalls in the financial performance measurement system:

1. Not consistent with today's business realities
2. Driving by rear view mirror
3. Sacrifice long-term objectives
4. Lack of its relevance at all the levels of organisation

Given the limitations of financial measures with their inherent focus on short-term results, often at the expense of long-term value creating activities, the pertinent question is: Are they relevant in today's competitive environment? No doubt, financial statements will remain an important tool for any organization since they ultimately determine whether improvements in customer satisfaction, quality, on-time delivery, shareholders' and employees' satisfaction and innovation and growth are leading to improve financial performance and value creation for the shareholders. What we need is a method of balancing the accuracy and integrity of our financial measures with the drivers of future financial performance of the organizations.

Balance Score Card

The ability of an organization to execute its strategy is directly proportional to its ability to understand and communicate the strategy. The most successful tool for articulating, implementing, and managing the overall business strategy is the Balanced Scorecard. The Balanced Scorecard (scorecard for short), developed in 1992 by Drs. David Norton and Robert Kaplan, has gained global acceptance as a powerful framework to help leaders define and rapidly implement strategy. This is accomplished by translating the corporate vision and strategy into a set of strategic objectives that drive behavior and performance.

Perspectives of Balance Scorecard:

The four perspectives of Balance Scorecard are Financial Perspective, Customer Perspective, Internal Business Process Perspective and Learning and Growth Perspective.

1. **Financial Perspective:** It represents the long- term goal of the organizations- to provide superior returns based on the capital invested in the unit (Kaplan and Norton, 1996). Financial Measures, has been the traditional method of analyzing organizational success and involves such elements as profitability, sales growth, and revenue per sales visit. Although the Balance Scorecard stresses the need to incorporate additional measures to determine success, the need for Financial Measures is still an extremely strong element to determine success.

2. **Customer Perspective:** Choosing measures for the Customer Perspective of the Balance Scorecard depends on the type of customers desired and the value that the organization provides to them. The purpose of the Customer Perspective is to focus on the target customers. This will allow organizations to create strategies consistent with the type of customers they want to attract.

3. **The Internal Process Perspective:** It entails the procedures that an organization must develop and master to be successful. Many organizations will concentrate on such elements as order processing, delivery, manufacturing, and product development as examples. The focal point of this perspective is related to the Customer Perspective because to keep customers satisfied, an organization will need to focus on the components of the organization important to them. If target customers are dissatisfied when delivery is late, an organization must concentrate on the internal process of developing a more efficient delivery system or refining the system currently used. To accomplish this, managers are undertaking a rigorous internal analysis not only assessing the internal processes of the organization, but also reviewing innovation

since global competition has decreased the amount of time organizations can bring their products to market to be successful.

4. **Learning and Growth Perspective:** According to Kaplan and Norton, this perspective is the backbone to a successful scorecard because it involves employee skill and information systems. Learning and Growth can include such issues as employee satisfaction, alignment of employee skills with jobs, number of employee suggestions implemented, and hours of employee training. Depending on the actual employee skills and desired employee skills, some organizations change job descriptions, relocate employees to other departments, and/or implement incentive programs designed to motivate employees to provide suggestions, receive education or training, and/or gain tenure through continued employment.

Balance Score Card and Performance Management System

BSC (balanced score card,)was presented in the “balanced scorecard: a good performance evaluation system", by Harvard Business School professor Robert S. Kaplan and the rejuvenation of the Global Strategy Group's founder and president, David P. Norton Balanced Scorecard showed the great vitality since it appeared. It can effectively help enterprises give solution on two major problems: performance evaluation and the implementation of the strategy. In 1,000 companies in the world, which "Fortune" magazine published, 70% of which used the Balanced Scorecard system; "Harvard Business Review" sees it as the most influential strategic management tool in 75 years. Balanced Scorecard is a new idea in performance management and applies to the department's evaluation team. Its core idea is implementation of organizational strategy tool, which through finance, customer, internal processes and learning and development indicators in four are to show a relationship between the organization's strategic track to achieve performance appraisal -performance improvement, as well as the implementation of the strategy - the strategic objectives process of the strategy amended, and raise the status of performance appraisal organizations to the strategic level. The balanced scorecard is management system that enables organisations to clarify their vision, mission and strategy and to translate them into action. When it is implemented at all levels of the organisation, it also becomes a tool for communicating and educating a large number of managers about strategy and its implementation. Kaplan & Norton describe the innovation of the balanced scorecard as follows:

"The balanced scorecard retains traditional financial measures. However, financial measures tell the story of past events, an adequate story for industrial age companies for which investments in long-term capabilities and customer relationships were not critical for success. However, these financial measures are inadequate for guiding and evaluating the journey that information age companies must make to create future value through investment in customers, suppliers, employees, processes, technology and innovation

Review of the Application Model of Balanced Scorecard in Performance Management System

Balanced Scorecard is not only an indicator of appraisal system, but also a strategic management system. The use of the Balanced Scorecard breaks the traditional single-use financial indicators methods, which measure performance. It adds the future drivers in the financial indicators, which is customer factors, internal business processes and employee learning and growth.

1. **Customers:** The managers confirm the competition's customers and market segments which the organization will take part in, and turn the goal into a set of indicators. Such as market share, customer retention rate, the rate of customers, customer satisfaction, customer profitability level.

2. **Internal Business Process:** In order to attract and retain the target customers and meet the requirements of shareholders about financial returns, managers need to focus on customer satisfaction and those internal processes, and establish measurable indicators. In this regard, BSC is not only paying attention to a simple process to improve the existing operators, but to confirm the request of customers and shareholders as a starting point, and to satisfy customers and shareholders.

3. **Learning and Growth:** It confirms an investment, which the organization must be carried out in order to achieve long-term performance in the future, including the ability of employees, organization information system and so on. The financial success in organizations must be translated into the ultimate success. Only to translate the improvements of product quality, time to complete orders, productivity, new product development and customer satisfaction into increased sales, reduction of operating cost and improvement in asset turnover can bring benefits for the organization.

Advantages

The balanced scorecard enable companies to track financial results while simultaneously monitoring ,with non-financial measures ,how they are building their capabilities-with customers, with nonfinancial measures ,how they are building their capabilities with customers ,with their processes, and with their employees and systems-for future growth and profitability. It also shows how an entire chain of cause and effect relationships among performance measures in the four balanced scorecard perspectives tell the story of the business unit's strategy.

Disadvantages

Some organisations have been less than successful in using a balanced scorecard. The reasons why can be explained by the results of several surveys, which show that:

1. Some companies use too few measures only one or two measure per perspective in their scorecards .A scorecard with too few measures doesn't depict enough of the company's strategy and doesn't represent a balance between desired outcomes and the performance drivers of those outcomes.

2. Some companies include too many measures, the manager attention gets diffused that they insufficient attention to those measures that can make greatest impact;

3. Some companies do not link the correct drivers in the process and learning and growth perspective to the desired outcomes in the financial and customer perspective;

4. Some companies use their balanced Scorecard only as a checklist for operational improvements or to expand the compensation system to include nonfinancial measure.

Conclusion

The above discussion leads us to conclude that the BSC is both a performance measurement and management system that enables the organizations to clarify their vision and strategy and translate them into action. It provides feedback around both the internal business process and external outcomes in order to continuously improve strategic performance and results. It captures both the financial and non-financial aspects of a company's strategy and discusses cause and effect relationship that drives business success. The Scorecard can be used at different levels: throughout the total organization in a subunit or even at the individual employee level as a "personal scorecard". A wide range of empirical research supports the effectiveness of the BSC in translating strategic objectives into relevant performance measures that derive performance towards these objectives. There is broad consensus that the BSC is most effective when used to drive organizational change and in focusing and sustaining revitalization and continuous improvement efforts.

It is a proven tool of measuring and achieving company's strategic performance. The BSC fills the gap that exists in most management systems the lack of a systematic process to implement and obtain feedback about the organisation's strategy. The organisation can become aligned and focused by using the BSC to implement the long-term strategy. This way Balanced Scorecard has become a true-performance measurement system in today's highly globalised and competitive environment particularly for managing information age companies/organizations.

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