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Balanced Scorecard for Superior Organizational Performance

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Abstract

The capital you don’t see on the Balance Sheet of an organization is in three forms: Human Capital (the collective skill, knowledge attitudes and behavior of the people in the organization), Information Capital (the resources and processes in place that ensure effective use of the human capital), and Organizational Capital (the values, working relationship and cultural norms at work in the organization).

“If you can’t measure it. You can’t manage it….” -Kaplan & Norton

A balance scorecard translates an organization’s mission and strategy into set of performance measures that provide the framework for implementing its strategy. You must communicate strategy in operating terms if you expect people to execute on your strategy. The objective of the paper is to evaluate the effectiveness of using balance scorecard in order to improve the organization’s performance. In collection of data both reactive and non reactive techniques were used.

BSC is a conceptual framework for translating an organization's vision into a set of performance indicators distributed among four perspectives: Financial, Customer, Internal Business Processes, and Learning & Growth.

The paper concludes that balanced scorecard is a productivity tool with multiple benefits. It is a strategic performance management tool for measuring whether the smaller-scale operational activities of a company are aligned with its larger-scale objectives in terms of vision and strategy. It can be used as a Strategic Management System that will clarify and translate vision and strategy, communicate and link strategic objectives and measures, plan and set targets with aligning strategic initiatives, enhance strategic feedback and learning.

Keywords: Appraisal, measurement measures, rectification, performance, quality, feedback, profitability.

1. Introduction

“A Balanced Scorecard is a framework that focuses on shareholder, customer, internal and learning requirements of a business in order to create a system of linked objectives, measures, targets and initiatives which collectively describe the strategy of an organization and how that strategy can be achieved.”

It is a very important strategic management tool which helps an organization to not only measure the performance but also decide/manage the strategies which are needed to be adopted/ modified so that the long-term goals are achieved. The application of this tool ensures the consistency of vision and action which is the first step towards the development of a successful organization. Also, its proper implementation can ensure the development of competencies within an organization which will help it to develop a competitive advantage without which it cannot expect to outperform its rivals.

1.1 Balanced Scorecard – Concept

The long-term success of any organization is determined by the capabilities and the competencies it has developed. One of the tools for organizational appraisal that is gaining immense popularity is the Balanced Scorecard, developed by Robert S Kaplan and David P Norton in 1992. This innovative tool is unique in the following two ways compared to the traditional performance measurement tools:

(i) It considers the financial indices as well the non-financial ones in determining the corporate performance level and

(ii) It is not just a performance measurement tool but is also a performance management system.

The aim of the Balanced Scorecard is to direct, help manage and change in support of the longer-term strategy in order to manage performance. The scorecard reflects what the company and the strategies are all about. It acts as a catalyst for bringing in the 'change' element within the organization. This tool is a comprehensive framework which considers the following perspectives and tries to get answers to the following questions –

1. Financial Perspective - How do we look at shareholders?

2. Customer Perspective - How should we appear to our customers?

3. Internal Business Processes Perspective - What must we excel at?

4. Learning and Growth Perspective - Can we continue to improve and create value?

The framework tries to bring a balance and linkage between the –

(a) Financial and the Non-Financial indicators,

(b) Tangible and the Intangible measures,

(c) Internal and the External aspects and

(d) Leading and the Lagging indicators.

2. A balanced scorecard perspective on performance

2.1 The Balanced Scorecard Model – An Explanation

<Figure 1>

To utilize the Balanced Scorecard as a strategic management tool, the following has to be done:

1. The major objectives are to be set for each of the perspectives.

2. Measures of performance are required to be identified under each of the objectives which would help the organization to realize the goals set under each of the perspectives. These would act as parameters to measure the progress towards the objectives.

3. The next important step is the setting of specific targets around each of the identified key areas which would act as a benchmark for performance appraisal.

4. The appropriate strategies and the action plans that are to be taken in the various activities should be decided so that it is clear as to how the organization has decided to pursue the pre-decided goals. Because of this reason, the Balanced Scorecard is often referred to as a blueprint of the company strategies.

<Figure 2>

- The Learning and Growth Perspective

This perspective includes employee training and corporate cultural attitudes related to both individual and corporate self-improvement. In a knowledge-worker organization, *people* -- the only repository of knowledge -- are the main resource. In the current climate of rapid technological change, it is becoming necessary for knowledge workers to be in a continuous learning mode.

<Table 1>

- The Business Process Perspective

This perspective refers to internal business processes. Metrics based on this perspective allow the managers to know how well their business is running, and whether its products and services conform to customer requirements (the mission). These metrics have to be carefully designed by those who know these processes most intimately; with our unique missions these are not something that can be developed by outside consultants.

<Table 2>

- The Customer Perspective

Recent management philosophy has shown an increasing realization of the importance of customer focus and customer satisfaction in any business. These are leading indicators: if customers are not satisfied, they will eventually find other suppliers that will meet their needs. Poor performance from this perspective is thus a leading indicator of future decline, even though the current financial picture may look good.

In developing metrics for satisfaction, customers should be analyzed in terms of kinds of customers and the kinds of processes for which we are providing a product or service to those customer groups.

<Table 3>

- The Financial Perspective

Kaplan and Norton do not disregard the traditional need for financial data. Timely and accurate funding data will always be a priority, and managers will do whatever necessary to provide it. In fact, often there is more than enough handling and processing of financial data. With the implementation of a corporate database, it is hoped that more of the processing can be centralized and automated. But the point is that the current emphasis on financials leads to the "unbalanced" situation with regard to other perspectives.

<Table 4>

There is perhaps a need to include additional financial-related data, such as risk assessment and cost-benefit data, in this category.

An example will help the readers to understand it better. Some of the objectives together with a measurement measures are given below.

3. Utilizing the Balanced Scorecard as a Strategic Management tool

<Figure 3>

- Translating the Vision

It is to be remembered that the vision of any organization should be understood by each and every employee of the organization. If it is understood by the top management only, then it is definite that the organization will fail to realize its goals. Hence, before starting with the strategic implementation process, the organizations needs to be clear about the reason for its existence, where it wants to see itself after a certain number of years and properly decide its business definition.

The lofty statements must be translated into an integrated set of objectives and measures. Thus, by using this tool, the overall strategic objectives for the company gets clarified which helps to achieve consensus across different business units on the overall strategic objectives for the company.

- Communicating and Linking

Just communicating the vision and the strategies is not an end in itself. The strategic goals and the measures to be set in the different areas have to be decided upon. The long-term strategic goals have to be translated into both departmental and individual goals which should be aligned to each other in order to realize the long-term goals. In fact, each and everyone at different levels in the organizational hierarchy needs to be educated about the action plans and reasons for accepting the same.

The tool contains three levels of information:

(i) It describes the corporate objectives, measures and the targets

(ii) It helps in deciding the business unit targets and

(iii) It helps in framing the departmental and the individual objectives which will help in attaining the objectives of the business unit directly which would lead to the attainment of the corporate goals. The employees are given the freedom to decide their measures, objectives and the targets attainment of which would move the organization in the right strategic direction. Then the compensation level is linked to the performance level which in reality involves a lot of subjectivity.

- Business Planning

This step helps in the resource allocation process. One has to keep in mind that objectives form an important criteria in deciding the quantum of resources that are required to be allocated to the various departments, activities and the processes. No strategy can bring successful results to an organization if the allocation is not in line with what is required to meet the results. This allocation is dependent on the budgeted estimates which are decided on the basis of the said objectives. Hence, through this step the Balanced Scorecard tries to bring about integration between strategic planning and the budgeting exercise. The short-term milestones are also needed to be figured out which in totality brings about a linkage between strategic goals and the budgets. This procedure helps in actualizing what has been set by the organization. Thus, this step brings about a shift from the 'thinking' exercise to the 'doing' stage and the organization tries to achieve the long-term goals through the short-term actions.

- Feedback and Learning

The first three steps as mentioned above help in the strategic implementation process. But, for knowing whether the organization is in a position to achieve the strategic goals and whether it is in the right track, the process of feedback and learning is essential. The strategic learning consists of acquiring knowledge about which way the organization is moving to, testing whether the premises considered before hold true even now and finally making adjustments wherever required. The corrective measures are required so that the necessary rectifications are made which will help an organization pursue the correct path.

4. Advantages of using the balanced scorecard

This tool is being used by several organizations throughout the world because of its certain advantages which are cited below :

• It translates vision and strategy into action.

• It defines the strategic linkages to integrate performance across organizations.

• It communicates the objectives and measures to a business unit.

• It aligns the strategic initiatives in order to attain the long-term goals.

• It aligns everyone within an organization so that all employees understand how they support the strategy.

• It provides a basis for compensation for performance.

• The scorecard provides a feedback to the senior management if the strategy is working.

5. Indicators of a good balanced scorecard

(i) Executive involvement- strategic decision makers must validate and own the strategy and related measures
(ii) Cause and effect relationship- every objective selected should be part of a chain of cause and effect linkages that represent the strategy
(iii) Balance between outcome and leading measures- there should be a balance of outcome measures and leading measures to facilitate anticipatory management
(iv) Financial leakage- every objective can ultimately be related to financial results
(v) Leakage of initiatives and measures- each initiative should be based on a gap between baseline and target

6. Balanced scorecard in action

6.1 Using BSC in library & information services function (LIS) at TCS

LIS function was started in 1970 in TCS. At present it has a network of 52 Libraries. It is solely involved in developing librarians as Business Domain Experts.

Application of BSC in LIS

1) Users Perspective

Following are the objectives:

- 100% satisfied users (Demand Satisfaction)
- Increase the number of users (Demand creation)
- Thought satisfier (Proactive in understanding the needs of users)
- The LIS skills, operations, etc evolve with the users' demand

Goals Vs Achievements

- Understanding the changing needs of the users associates satisfied with collection associates satisfied with Information Services satisfaction index overall

- Building confidence of the users in libraries compliance to SLAs response to users of their queries implementation of PIPs
- Converting non-users into users and converting partial users into active users motivate non user associates to use library services

Emerging Practices in LIS

- Conduct surveys at local, branch & corporate level
- Domain specific Information Services
- Keep track of best sellers acquisitions
- Extending working hours, library corners
- Track PIPs/SLAs quarterly
- Library Week, Screening of movies, book talks, book exhibitions / subscription drives
- Best user award, help in personal books purchase
- Knowledge sharing/ brainstorming sessions/Team meetings
- Feedback after every query based service

2) Financial Management

Following are the objectives:

- Appropriate spending
- Value for Money
- Budget planning and allocation

Goals Vs Achievements

- Optimum utilization of budget on resources (collections) document usage within six months documents shared increase in document usage consumption of budget
- Reduce costs in areas exceeding users requirements document not repurchased/discontinued
- Optimum utilization of budgeted staff (1 Librarian for 600 staff) and, Job rotation/Timesheet/Targets for staff

Emerging Practices in LIS

- Quarterly tracking of expenditure & savings
- Tracking of discounts/Indian editions on each heavy purchase
- Allocation of measurable goals & targets every six months to staff
- "Star of the Month"/other service awards/induction programmes/campus recruitments
- Resource utilization surveys
- Sharing of resources across branches/membership of good libraries

3) Internal Processes

Following are the objectives:

- Best internal processes
- To deliver high quality services

Goals Vs Achievements

- Standard processes to handle all library activities, services, staff
- 2:1 collection minimum
- 100% compliances to library procedure manual & induction manual
- Compliance to TBEM, BSC, Dashboard, Annual Planner
- Save the time of librarians and users
- Service level agreement
- Processing time for new acquisition 24 hours
- Acquisition time for books available in market- 3 days
- Process improvement two processes in a year
- Processing of suggestions/grievances – 100% are communicated back & if possible action taken

Emerging Practices in LIS

- Quarterly audits
- Review of procedure manual at senior level once a year
- Centralized acquisitions, Integrated Information Services, control duplication of efforts of staff, library staff meetings
- Parameters defined for each library activity, quarterly tracking of SLAs
- Stretching of SLAs after achievement

4) Learning & Development

Following are the objectives:

- Recruit, motivate and develop high quality library Staff

Goals Vs Achievements

- Support staff to meet the changing needs of users
- Mandatory ten days training for each staff
- Participating in PSU meetings
- Quarterly knowledge sharing and brain storming sessions
- Equal career growth opportunities to all staff members

- Track staff satisfaction index

Emerging Practices in LIS

- External/Internal/Classroom/Computer based training opportunities to all staff members
- Track gaps in competency, councilors availability, staff feedbacks in annual surveys

Best practice for one corporate library may not be a best practice for other corporate library. Every library should recognize their own best practices and further improve towards perfection. Continuous learning is the demand of the day for librarians. Libraries must align their services with the objectives of the parent organization.

6.2 Apple uses the scorecard as a device to plan long-term performance, not as a device to drive operating changes

Apple Computer

Adjusting Long-Term Performance

Apple Computer developed a balanced scorecard to focus senior management on a strategy that would expand discussions beyond gross margin, return on equity, and market share. A small steering committee, intimately familiar with the deliberations and strategic thinking of Apple's Executive Management Team, chose to concentrate on measurement categories within each of the four perspectives and to select multiple measurements within each category. For the financial perspective, Apple emphasized shareholder value; for the customer perspective, market share and customer satisfaction; for the internal process perspective, core competencies; and, finally, for the innovation and improvement perspective, employee attitudes.

Apple's management stressed these categories in the following order:

Customer Satisfaction: Historically, Apple had been a technology and product focused company that competed by designing better computers. Customer satisfaction metrics are just being introduced to orient employees toward becoming a customer-driven company. J.D. Power & Associates, a customer-survey company now works for the computer industry. However, because it recognized that its customer base was not homogeneous, Apple felt that it had to go beyond J.D. Power & Associates and develop its own independent surveys in order to track its key market segments around the world.

Core Competencies: Company executives wanted employees to be highly focused on a few key competencies: for example, user friendly interfaces, powerful software architectures, and effective distribution systems. However, senior executives recognized that measuring performance along these competency dimensions could be difficult. As a result, the company is currently experimenting with obtaining quantitative measures of these hard-to measure competencies.

Employee Commitment and Alignment: Apple conducts a comprehensive employee survey in each of its organizations every two years; surveys of randomly selected employees are performed more frequently. The surveys questions are concerned with how well employees understand the company's strategy as well as whether or not they are asked to deliver results that are consistent with that strategy. The results of the survey are displayed in terms of both the actual level of employee responses and the overall trend of responses.

Market Share: Achieving a critical threshold of market share was important to senior management not only for the obvious sales growth benefits but also to attract and retain software developers to Apple platforms.

Shareholder Value: Shareholder value is included as a performance indicator, even though this measure is a result-not a driver-of performance. The measure is included to offset the previous emphasis and focused company, Apple has introduced measures that shift the emphasis toward customers on gross margin and sales growth, measures that ignored the investments required today to generate growth for tomorrow. In contrast, the shareholder value metric quantifies the impact of proposed investments for business creation and development.

7. Conclusion

Organizations seeking to implement a Balanced Scorecard are striving to become a strategy focused organization. Strategy focused organizations exploit the Balanced Scorecard and technology to become more agile. These organizations attain incremental returns on their customers, processes, employees, and technologies.

Organizations must develop the scorecard to fit their needs. Major challenges occur when developing measures, simplifying the process, handling resistance to change, building in flexibility, communicating organizational weaknesses, gathering data, adapting technology to the process and benchmarking. Considerable time and expense is customarily invested to maintain top management support, keep the scorecard current, and train staff and to maintain a positive organizational culture.

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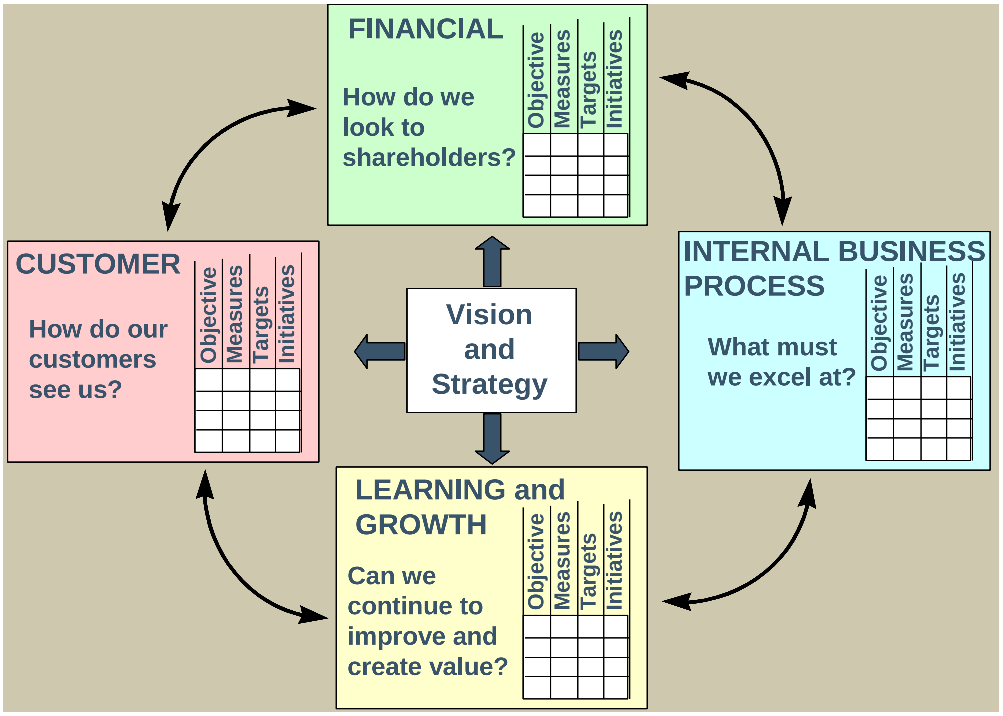

Figure 1: The Balanced Scorecard Model

Source: www.balancedscorecard.org, Balanced Scorecard Institute, USA

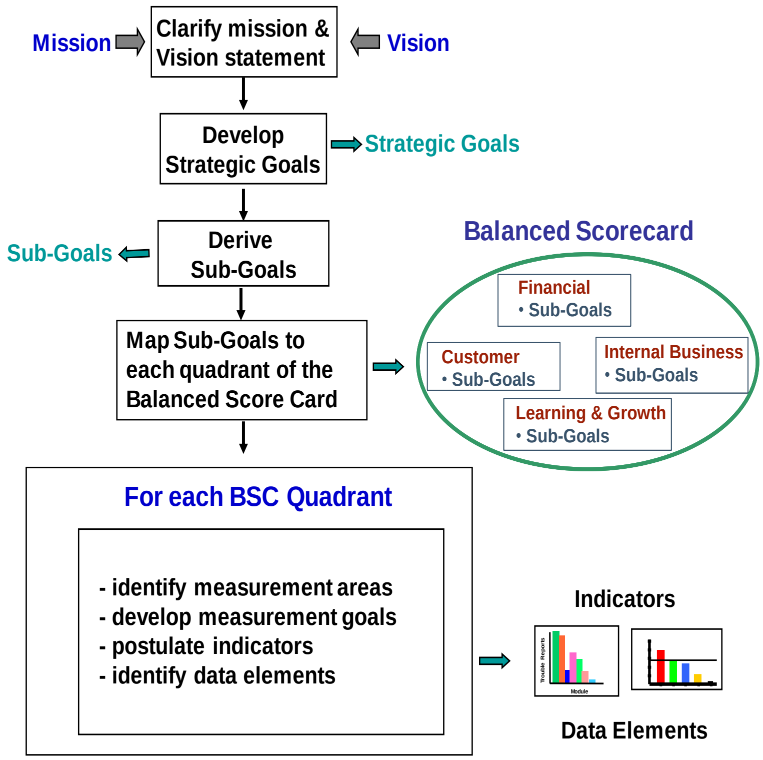

Figure 2: Methodology overview; balanced scorecard

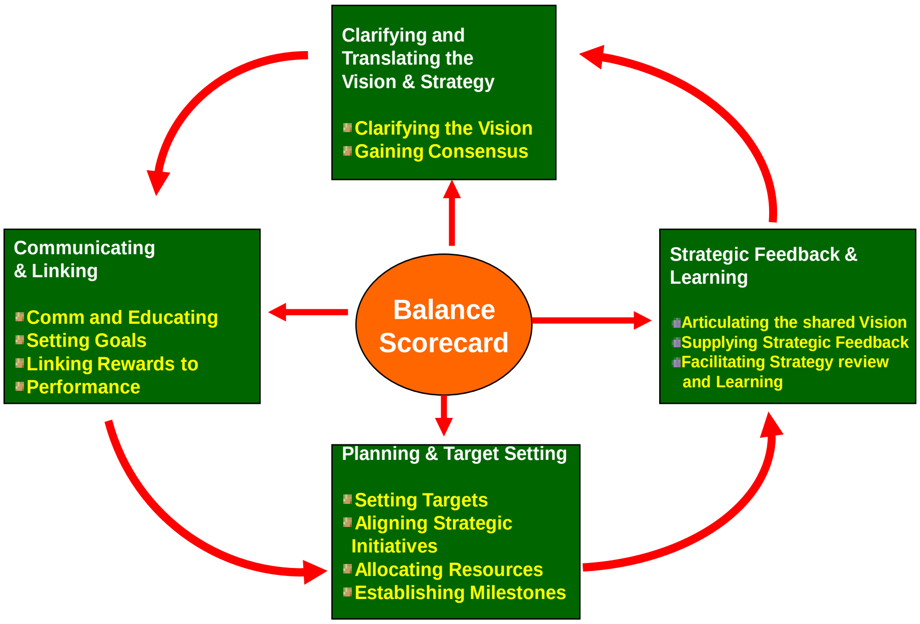

Figure 3: BSC as a strategic management tool

FINANCIAL PERSPECTIVE

Objective	Measures	Initiatives	Target Perform	Actual Perform
Financial Perspective	Operating income From Productivity Gain	Manage Cost And Unused Capacity	Rs 20 Cr	Rs 20.12Cr
Increase Shareholder value	Operating Income From Growth	Build Strong Customer Relationship	Rs 30 Cr	Rs 34.20 Cr
	Revenue Growth		6%	6.48%

Table 1: Financial perspective

Customer Perspective

Objective	Measures	Initiatives	Target Perform	Actual Perform
Customer Perspective	Market Share in Communication Network Segment	Identify future Needs of Customers	6%	7%
	Number of New Customers	Identify new Target Customer Seg	1%	2%
Increase Customer Satisfaction	Customer Satisfaction Rating	Increase Cust Focus of Sales	90% give Top two Ratings	87%Gave top two Rating

Table 2: Customer perspective

INTERNAL BUSINESS PROCESS PERSPECTIVE

Objective	Measures	Initiatives	Target Perform	Actual Perform
Reduce Delivery Time	Reduce Setup time Automation of Orders	Re-engineer order Delivery process	30 days	30 days
Meet Specified Delivery dates	on time delivery	Re-engineer order Delivery process	92%	90%
Improve post Sales Services	Service Response Time	Improve Customer Service process	Within 4 hrs	Within 3 hrs
Improve Processes	Number of Impv. In Business Processes	Organize teams from Sales & Manuf	5	5
Improve Manufacturing Capability	% of processes With Advanced Controls	Organize R&D/Mfg Teams to implement Adv. control	75%	75%

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Table 3: Internal business process perspective

Learning and Growth Perspective

Objective	Measures	Initiatives	Target Perform	Actual Perform
Align Employee And Organizational Goals	Employee Satisfac-tion Rating	Employee Participation to Build Team Work	80% Employees Give top Two Ratings	88%
Develop Process Skill	% Employees Trained in Process & Quality Mgt	Employees Training Programme	90%	92%
Empower Work Force	% Workers Empowered to Manage Processes	Supervisors as Coaches rather Decision Makers	80%	80%

Table 4: Learning and growth perspective