भारतीय श्रमिक शिक्षा संस्थान
दत्तोपंत ठेंगडी राष्ट्रीय श्रमिक शिक्षा एवं विकास बोर्ड द्वारा संस्थापित
श्रम एवं रोजगार मंत्रालय, भारत सरकार
श्रमिक शिक्षण भवन, ला.ब. शास्त्री मार्ग, कुर्ला कोर्ट के पास, कुर्ला (पश्चिम) मुंबई- 400070
Indian Institute of Workers Education
Founded by Dattopant Thengadi National Board for Workers Education & Development
Ministry of Labour & Employment, Govt. of India
Shramik Shikshan Bhavan, L.B.S. Marg, Near Kurla Court, Kurla (West) Mumbai 400070
Tel/Fax : 022-26503532 Tel. 26503965 email : iiwemumbai@rediffmail.com

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Facts For You

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BALANCED SCORECARD

What Is a Balanced Scorecard (BSC)?

The term Balanced Scorecard (BSC) is used as strategic planning and management technique, which identifies and improves various internal business functions and their resulting external outcomes. This is used to measure and provide feedback to organisations. Balanced Scorecards are common among companies in the United States, the United Kingdom, Japan, and Europe. Data collection is crucial to providing quantitative results as managers and executives gather and interpret the information. Company personnel can use this information to make better decisions for the future of their organizations.

The concept of BSCs was first introduced in 1992 by David Norton and Robert Kaplan, who took previous metric performance measures and adapted them to include nonfinancial information. BSCs were originally developed for profit companies but were later adapted for use by nonprofits and government agencies.

The Balanced Scorecard involves measuring four main aspects of a business: Learning and growth, business processes, customers, and finance. BSCs allow companies to pool information in a single report, to provide information into service and quality in addition to financial performance, and to help improve efficiencies.

The scorecard is also used as a tool, which improves the communication and feedback process between the employees and management and to monitor performance of the organizational objectives.

As the name depicts, the balanced scorecard concept was developed not only to evaluate the financial performance of a business organization, but also to address customer concerns, business process optimization, and enhancement of learning tools and mechanisms.

Understanding Balanced Scorecards (BSCs)

Accounting academic Dr. Robert Kaplan and business executive and theorist Dr. David Norton first introduced the balanced scorecard. The *Harvard Business Review* first published it in the 1992 article "The Balanced Scorecard—Measures That Drive Performance." Both Kaplan and Norton worked on a year-long project involving 12 top-performing companies. Their study took previous performance measures and adapted them to include nonfinancial information. Companies can easily identify factors hindering business performance and outline strategic changes tracked by future scorecards.

BSCs is meant to measure the intellectual capital of a company, such as training, skills, knowledge, and any other proprietary information that gives it a competitive advantage in the market. The Balanced Scorecard model reinforces good behavior in an organization by isolating four separate areas that need to be analyzed. These four areas are also called as legs, which are as follows,

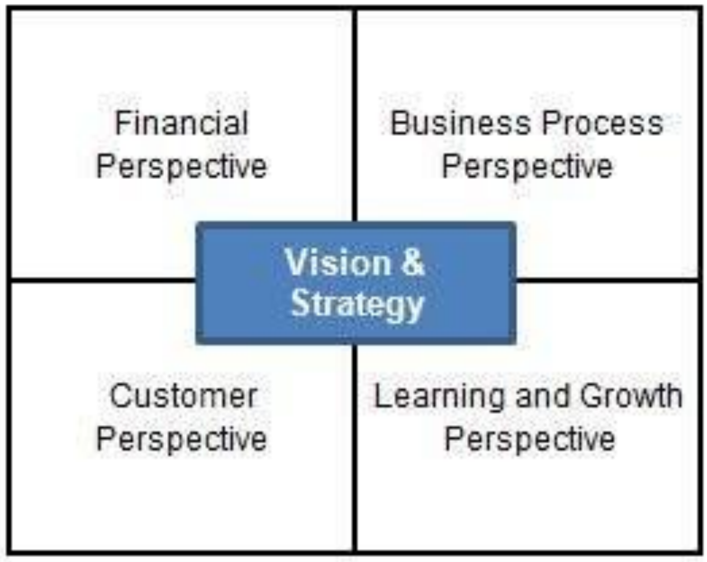
- Learning and growth
- Business processes
- Customers
- Finance

The BSC is used to gather important information, such as objectives, measurements, initiatives, and goals that result from these four primary functions of a business. Companies can easily identify factors that hinder business performance and outline strategic changes tracked by future scorecards.

The scorecard can provide information about the firm as a whole when viewing company objectives. An organization may use the Balanced Scorecard model to implement strategy mapping to see where value is added within an organization. A company may also use a BSC to develop strategic initiatives and strategic objectives.

The Basics of Balanced Scorecard

Following is the simplest illustration of the concept of Balanced Scorecard. The four boxes represent the main areas of consideration under Balanced Scorecard. All four main areas of consideration are bound by the business organization's vision and strategy.



The Balanced Scorecard is divided into four main areas and a successful organization is one that finds the right balance between these areas. Each area (perspective) represents a different aspect of the business organization in order to operate at optimal capacity.

- **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 perspectives are interrelated. Therefore, they do not function independently. In real-world situations, organizations need one or more perspectives combined together to achieve its business objectives.

For example, Customer Perspective is needed to determine the Financial Perspective, which in turn can be used to improve the Learning and Growth Perspective.

Characteristics of the Balanced Scorecard Model (BSC)

Information is collected and analyzed from four aspects of a business:

1. **Learning and growth** are analyzed through the investigation of training and knowledge resources. This first leg handles how well information is captured and how effectively employees use that information to convert it to a competitive advantage within the industry.
2. **Business processes** are evaluated by investigating how well products are manufactured. Operational management is analyzed to track any gaps, delays, bottlenecks, shortages, or waste.
3. **Customer perspectives** are collected to gauge customer satisfaction with the quality, price, and availability of products or services. Customers provide feedback about their satisfaction with current products.
4. **Financial data,** such as sales, expenditures, and income are used to understand financial performance. These financial metrics may include amounts in rupees, financial ratios, budget variances, or income targets.

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.

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 estimate 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.

These four legs encompass the vision and strategy of an organization and require active management to analyze the data collected.

Benefits of a Balanced Scorecard (BSC)

There are many benefits to using a Balanced Scorecard. For instance, the BSC allows businesses to pool together information and data into a single report rather than having to deal with multiple tools. This allows management to save time, money, and resources when they need to execute reviews to improve procedures and operations.

Scorecards provide management with valuable insight into their firm's service and quality in addition to its financial track record. By measuring all of these metrics, executives are able to train employees and other stakeholders and provide them with guidance and support. This allows them to communicate their goals and priorities in order to meet their future goals.

Another key benefit of BSCs is how it helps companies reduce their reliance on inefficiencies in their processes. This is referred to as sub optimization. This often results in reduced productivity or output, which can lead to higher costs, lower revenue, and a breakdown in company brand names and their reputations.

A Tool of Strategic Management

The objective of the Balanced Scorecard was to create a system, which could measure the performance of an organization and to improve any back lags that occur.

The popularity of the Balanced Scorecard increased over time due to its logical process and methods. Hence, it became a management strategy, which could be used across various functions within an organization.

The Balanced Scorecard helped the management to understand its objectives and roles in the bigger picture. It also helps management team to measure the performance in terms of quantity. The balanced scorecard also plays a vital role when it comes to communication of strategic objectives.

One of the main reasons for many organizations to be unsuccessful is that they fail to understand and adhere to the objectives that have been set for the organization. The balanced scorecard provides a solution for this by breaking down objectives and making it easier for management and employees to understand.

Planning, setting targets and aligning strategy are two of the key areas where the Balanced Scorecard can contribute. Targets are set out for each of the four perspectives in terms of long-term objectives.

However, these targets are mostly achievable even in the short run. Measures are taken in align with achieving the targets. Strategic feedback and learning is the next area, where the Balanced Scorecard plays a role. In strategic feedback and learning, the management gets up-to-date reviews regarding the success of the plan and the performance of the strategy.

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.

Examples of a Balanced Scorecard (BSC)

Corporations can use their own, internal versions of BSCs, For example, banks often contact customers and conduct surveys to measure how well they do in their customer service. These surveys include rating recent banking visits, with questions ranging from wait times, interactions with bank staff, and overall satisfaction. They may also ask customers to make suggestions for improvement. Bank managers can use this information to help retrain staff if there are problems with service or to identify any issues customers have with products, procedures, and services.

In other cases, companies may use external firms to develop reports for them. For instance, the J.D. Power survey is one of the most common examples of a balanced scorecard.1 This firm provides data, insights, and advisory services to help companies identify problems in their operations and make improvements for the future. J.D. Power does this through surveys in various industries, including the financial services and automotive industries. Results are compiled and reported back to the hiring firm.

Conclusion

As the name denotes, Balanced Scorecard creates a right balance between the components of organization's objectives and vision.

It's a mechanism that helps the management to track down the performance of the organization and can be used as a management strategy. It provides an extensive overview of a company's objectives rather than limiting itself only to financial values.

This creates a strong brand name amongst its existing and potential customers and a reputation amongst the organization's workforce.

(Reference: Internet Resources)

Compiled by,
Dr Asmita S Deshmukh.

Assisted by,
Shri Nilesh R Patade