



BALANCED SCORECARD: A CONCEPTUAL STUDY

Rajeshwari H S¹, Dr.Yathish Kumar²

¹Assistant Professor, Department of Commerce, GFGC Belthangady

²Professor and Research Guide, Department of Commerce, University College, Mangalore

ABSTRACT

A well-defined plan in the name of ‘Strategy’ rules the competitive advantage of organizations. Strategies formed by the qualified top-level personnel will decide the future of any organization. In modern competitive world plenty of new strategies will come to force and some of them disappear very soon and some other gets modified as soon as the decision-making environment changes. Balanced Scorecard (BSC) is one of such strategy used by the organizations to tackle the various problems. Even though Balanced Scorecard introduced in 1991, it is still young in its approach. Various amendments are taking place to fit to the versatile needs of the organizations. Still, it is not possible to say that the Balanced Scorecard is a concrete model ready to use. We need to modify further and make them perfect suit to the organizational problem. With this background, this paper will analyse the Balanced Scorecard perspective, versatility of Balanced Scorecard and its challenges to overcome. Balanced Scorecard is a tool to kill several birds at a time, and hence it is an effort to develop a working model.

KEYWORDS: Strategy, Organisation, Balanced Scorecard

1. INTRODUCTION

Survival of the fittest is the logo of the competitive world. A well-defined plan in the name of ‘Strategy’ rules the competitive advantage of organizations. Strategies formed by the qualified top-level personnel will decide the future of any organization. In modern competitive world plenty of new strategies will come into force and some of them disappear very soon and some other gets modified as soon as the decision-making environment changes. Balanced Scorecard (BSC) is one of such strategy used by the organizations to tackle the

various problems. Even though Balanced Scorecard introduced in 1991, it is still young in its approach and have the potential to grow. With this background, this paper will analyse the balanced scorecard and its implication in various fields.

2. LITERATURE REVIEW

The table 1 shows the literature review on the various dimensions of Balanced Scorecard at various time periods indicates the versatility of its usage.

Table 1 Literature Review

| Sl.N | Researcher | Findings | Versatility |
|------|--|--|---|
| 01 | Robert S. Kaplan and David P Norton(1992), (1996), (2010) | Paints the picture of BSC with its four dimensions. Linking organisational Scorecard unit and individual scorecard Implementation process of Balanced Scorecard in the General Electric Company. | Exploratory research on Balanced Scorecard focus on the Strategy Development and implementation |
| 02 | Myroslava Hladchenko | BSC as the strategic management tool for the selected universities of Germany(Hladchenko, 2015) | Competitive advantage |
| 03 | Juha Kethunen Ismo (2005) | Combined efforts of Management Information System and Information Technology | Management Information System |
| 04 | Ahmed Al-Ashaab, Myrna Flores, et al | BSC model to the collaborative research in between US Companies and the Universities. | Collaboration |
| 05 | Sameer Pingle and Kaul Natasha | Conceptual study and the comparison of global institution to Indian Institution | Communication and feedback mechanism |
| 06 | Abd Rahman Ahmad and Ng Kim Soon (2015) | BSC as a concrete measure to translate the mission and the objective into objective and measures of an organization | Translating tool of Mission and Vision |
| 07 | Fahmi Fadhl Al-Hosaini et al (2015) | Inclusion of spirituality in the BSC model | Ethics measuring tool |
| 08 | Harold F. O’Neil, Jr., et al | Academic Scorecard’ in consistent with the Balanced Scorecard in educational institutions | Individual Performance Evaluation Tool |
| 09 | Rajiv D. Banker,et all (2004) | Comprehensive version of BSC as a strategic Business Unit (SBU) performance evaluating tool | Strategic Business Unit tool |



| | | | |
|----|---|--|--------------------------------|
| 10 | Christopher D. Ittner, et al (2003) | Linking the BSC to the reward management | Reward Management Tool |
| 11 | W.-H. Tsai, W.-C. Chou and W. Hsu (2008) | The Sustainability Balanced Scorecard as a framework for selecting Socially Responsible Investment | Evaluating Investment Decision |
| 12 | Frederick M. Hess and Jon Fullerton (2009) | BSC as a management accounting tool (the intention of which is to provide the manger needed information) | Data Collection Tool |

Source: Authors Composition

3. OBJECTIVES

1. To understand the Balanced Scorecard perspectives
2. To know the versatility of the Balanced Scorecard Applications

4. METHODOLOGY

The study is conceptual in nature which analyse the implications of Balanced Scorecard to various functional area.

5. BALANCED SCORECARD

Imagine that you are a driver of a car. If then what are yours criteria's to judge its performance?, Is it the price that you had paid?, Is it the mileage it gives?, Is it the comfort?, Is it the durability?

We are sure that your decision will based on all the above and much more factors. In the same way, if you want to evaluate an organization, is it the mere financial statements are enough? Definitely the answer is no. To solve this problem, Balanced Scorecard Technique emerged.

The formal beginning of the work traced back to 1990 when research wing of Nolan Norton Institute sponsored a multi-company study, "Measuring Performance in the Organizations of the Future". David P Norton served as the study leader, Robert S Kaplan as an academic consultant and representatives from dozens of companies met bi-monthly to develop a new performance-measurement model. At the early period it was named as the 'corporate scorecard'. Later group of discussion led to an extension of the word to 'Balanced Scorecard'. Balance between short and long term goals, financial and non-financial result, lagging and leading indicators, external and internal performance communication. Their further work released through the series of articles in Harvard Business Review and a lot of companies had adopted the same gradually.

Since then it has been used for various purpose by various institutions according to their requirement and it is the quality of the Balanced Scorecard is like water to take the form to which shape we had put it.

It is highly difficult to give a concrete and specific definition of the Balanced Scorecard by incorporating all its functions. As people modify it as and when required and find a new implication of it. That's why some authors call it as a 'Management System' rather than a 'Management Strategy'.

Balanced Scorecard provides the companies to invest in long term-customers, in employees, in new product development and in system-rather than managing the bottom line to pump up short-term earnings (Kaplan and Norton 1996).

6. PERSPECTIVES OF BALANCED SCORECARD

Balanced Scorecard provides a comprehensive framework where mission statement of an organization translated into objectives and measures of performance. Balanced Scorecard provides four major perspectives to fulfil its said objective. Each perspective indicates the sub-divided objective, measure to gauge the same, target set and the future initiatives. These were discussed in detail in the following way(Kaplan R. S., 1996).

a. Financial Perspective

"To Succeed Financially, How should we seems to our shareholders"

The Balanced Scorecard retains the financial measures in its approach. Financial measures were substitutable but they were not complemented. Every work of organization will end with their contribution to the bottom line. Balanced Scorecard includes the financial measures like Cash Flow, Financial Result, Return on Capital Employed, Return on Investment, Economic Value Added, etc. Satisfaction of the shareholders is the main objective here.

b. Customer Perspective

"To do our Vision, How Should we seems to our Customer?"

The core outcome measure used was customers' satisfaction. Customers' satisfaction is measured through customer retention, new customer acquisition, customer profitability, market and account share in targeted market.

c. Internal Business Perspective

"To satisfy our Shareholders and Customers, what business process must we excel at?"

It comprises of two major approaches i.e. innovating product design development and operationalize (manufacturing, marketing and post-sale services) the innovation. Ultimate aim is to satisfy the stakeholders.

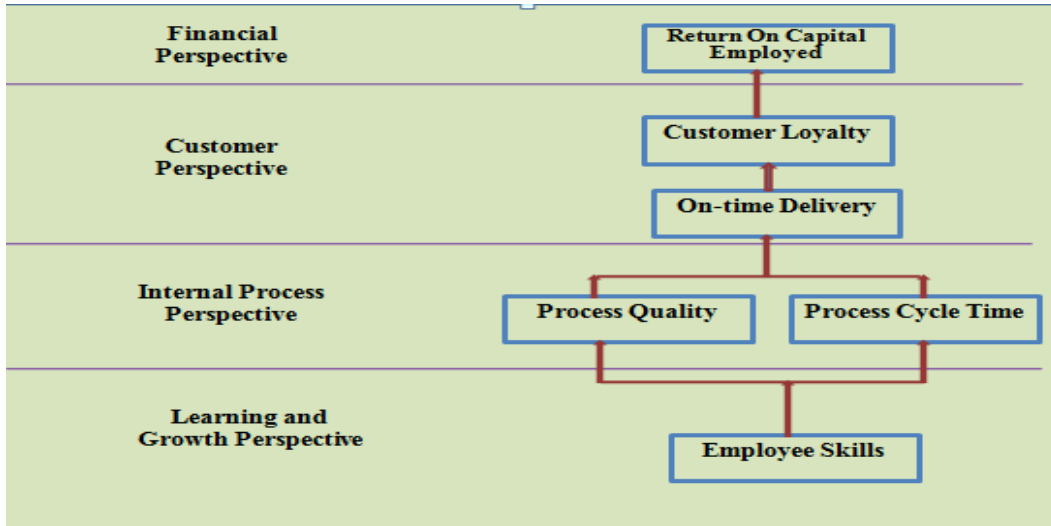
d. Learning and Growth Perspective

"To achieve our vision, how will we sustain our ability to change and improve?"

It bridge the gap between the present capabilities and the future challenges. It tries to improve the performance to meet the future competitive needs in terms of people system and organisational rules. This focus on invests in re-skilling employees, enhancing technology and system, aligning organizational procedures and routines.

Linking the multiple approaches to single measure can be noticeable in the chart 1. The long-term plan will ultimately ends with the financial improvement and the shareholders satisfaction and the vision statement accomplishment.

Chart 1: BSC Model



Source: (Kaplan R. S, 1996)

7. VERSATILITY OF BALANCED SCORECARD APPLICATIONS

Once the Balanced Scorecard implemented in the organization, then the application of which can reap from multiple angles in the organizations. The versatility of Balanced Scorecard applications were listed below

- Balanced Scorecard used as a performance evaluation technique where it measure the performance of the individual, department and the organization as a whole. (O'Neil, Bensimon, Diamond, & Moore, 1999)
- Balanced Scorecard can act as a communicating tool where it transform the vision and the mission statement of the organization to the end workers as individual's objective. The feedback can also be share by the stakeholders through Balanced Scorecard as it is a pallet of information about the organization. It can also be used as the performance evaluation reporting tool by the different departments. (Pingle & Natashaa, 2011)
- Balanced Scorecard is a learning tool to learn about the organizations strategies, past performance and the future initiatives.
- Some organizations had used the Balanced Scorecard as a reward management tool. They links the employee's performance to the achievements against the standards of the respective objectives. (Ittner, Laracker, 2003)
- As it is palette of information about the organization, manager can take more informed decisions. (Hess & Fullerton, 2009)
- Budget management can be made with easier efforts as it shows the projects contribution to the organizational growth.
- Balanced Scorecard can also be used to get the competitive advantage. Balanced Scorecard is a tool of

Blue Ocean Strategy. It focus on the satisfaction of the customers by creating the things with the foresight of long term. (Hladchenko, 2015)

8. CHALLENGES OF BALANCED SCORECARD

Balanced Scorecard yet faces certain challenges to overcome. These challenges were presented here

- Balanced Scorecard is subjective in nature as originally developed. It will not measure each aspects in quantitative form lacks measurability of success and comparability with other institutions.
- Provides equal importance to each measures and objectives.
- Balanced Scorecard needs well defined-strategies to implement. The success of the Balanced Scorecard depends on the strength of the mission statement.
- It takes time and money to implement. It is not just a strategy it is a management system hence needs time and money for implementation.
- It does not suggest on its own. It inly indicates where we are lagging.
- Lower level of awareness among the managers about the utility and the usage of Balanced Scorecard may result in the wrong usage.
- The Balanced Scorecard designed for one organization cannot be generalizable to other organizations as the mission statement of each organization differs.

9. SUGGESTIONS

The challenges can be overcome through the following measures



- a. To avoid subjectivity use percentage of achievement against every objective, based on the standard performance set earlier.
- b. Weights can be used to decide the importance of each measure and objective based on their contribution to achieve mission statement.
- c. Identification of the question is half solved.
- d. Develop Balanced Scorecard with at most care and caution involving all the stakeholders after analyzing and understanding the major strategies.

International Journal of Educational Management, 22(1), 32-47.

15. O'Neil, H. F., Bensimon, E. M., Diamond, M. A., & Moore, M. R. (1999, November-December). *Designing and Implementing an Academic Scorecard*. *Change*, 31(6), 32-40.
16. Pingle, S., & Natashaa, K. (2011, January-June). *Performance Management in Institutes of Higher Education through Balanced Scorecard: A Conceptual Study*. *GFMR*, 2(1), 1-21.

10. CONCLUSION

Balanced Scorecard is a single tool with multiple advantages. Its challenges are mild and which can be overcome with an easier work. Still the success of the Balanced Scorecard depends on the care and caution taken at the time of implementation to make unique and the perfect suit to the organization.

REFERENCES

1. Ahmad, A. R., & Soon, N. K. (2015). *Balanced Scorecard in Higher Education Institutions: What should be Considered? Technology Management and Emerging Technologies*.
2. Al-Ashaab, A., Flores, M., Mahyar, A., & Doultzinou, A. (2011, July). *A Balanced Scorecard for Measuring the Impact of Industry-University Collaboration*. *Production and Planning Control*, 22(406), 554-570.
3. Al-Hosaini, F. F., & Sofian, S. (2015). *An Exploration of Inclusion of Superiority into the Balanced Scorecard (BSC) to Support Financial Performance: A Review*. *Asian Social Science*, 11(09), 289-300. Retrieved from <http://dx.doi.org/10.5539/ass.v11n9p289>
4. Gardiner, C. (2002, January). *Balanced Scorecard Ethics*. *Business and Professional Ethics Journal*, 21, 129-150.
5. Hess, F. M., & Fullerton, J. (n.d.). *The Numbers we need: Bringing Balanced Scorecard to Education Data*. *The Phi Delta Kappan*, 90(9), 665-669.
6. Hladchenko, M. (2015). *Balanced Scorecard- A Strategic Management System of the Higher Education System in India*. *Quality Assurance in Education*, 24(2), 278-302.
7. Ittner, C. D., Larcker, D. F., & W, M. (2003, July). *Subjectivity and the Weighting of Performance Measures: Evidence from a Balanced Scorecard*. *The Accounting Review*, 78(3), 725-758. Retrieved from <http://www.jstor.org/stable/3203223>
8. Kantola, J. K. (2005). *2005. Management Information System Based on the Balanced Scorecard*, 22(05), 263-274.
9. Kaplan, R. S. (1996, Fall). *Linking Balanced Scorecard to Strategy*. *California Management Review*, 39(1), 53-79.
10. Kaplan, R. S. (1999). *The Balanced Scorecard- Measures that drive Performance*. *Harvard Business Review*, 71-79.
11. Kaplan, R. S. (1999, January-February). *Using Balanced Scorecard as A Strategic Management System*. *Harvard Business Review*, 75-85.
12. Kaplan, R. S. (2012). *The Balanced Scorecard: Comments on Balanced Scorecard Commentaries*. *Journal of Accounting & Organisational Change*, 8(4), 539-545.
13. Kaplan, R. S., & Norton, D. P. (1996). *Translating Strategy into the Action: The Balanced Scorecard*. Massachusetts: Harvard Business School Press Boston.
14. Mcdevitt, R., Giapponi, C., & Solomon, N. (2008). *Strategy Revitalisation in Academe: A Balanced Scorecard Approach*.