

## BALANCED SCORECARD: ASSESSING ORGANIZATIONAL EFFECTIVENESS

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### ABSTRACT

*The Balanced Score Card (BSC) is a new concept of assessing management's performance looking at strategic measure rather than traditional financial measures. It is a system to look on both high-level strategic as well as on low-level strategic measures. Its aim is to set the balanced scorecard in a quite different way from the other performance measurement methodologies. Traditionally, the corporate sector used to measure their performance that how much profit they are earning. Though the financial measures are definitely matters but they provide only a part of the picture, other perspective also quite important for the measurement of an entity as a whole. BSC provides four different perspectives to measure the performance of an organization, - Financial, Internal Business Process, Customer, 'Learning and Growth'. Each of these perspectives focuses in different-different area of performance, which gives a balanced view of a business entity. The Balanced Scorecard (BSC) is kind of business framework which is used to track and manage the strategies of a business organization. It is used to make balance between lagging and leading indicators.*

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**Keywords:** *Balanced Scorecard (BSC), Internal Business Process, Lagging and Leading.*

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### Introduction

The balanced scorecard is a basic framework for identifying the organization's strategic plans into a set of performance indicators. These performance indicators are divided into four categories- Financial Perspective, Customer's Perspectives, Internal Business Perspective, and Leading & Growth Perspective (or Infrastructure Perspective). Some of these performance indicators are used to evaluate the progress of an organization in respect of attaining its vision, where as other performance indicators are used to access the long- term performance of success.

Balanced Scorecard is kind of management system which aims to measure an organizations long-term strategic goals. BSC also provides the right ways of assessment so that one can achieve the goals. Traditionally, the corporate sector used to measure their performance by the way that how much money they are making. No-doubt financial achievements are definitely important for an organization but they only depict the short- term view or part of picture. If an organization wants to play for long-term period then measures of Balanced Scorecard should be an organization's performance.

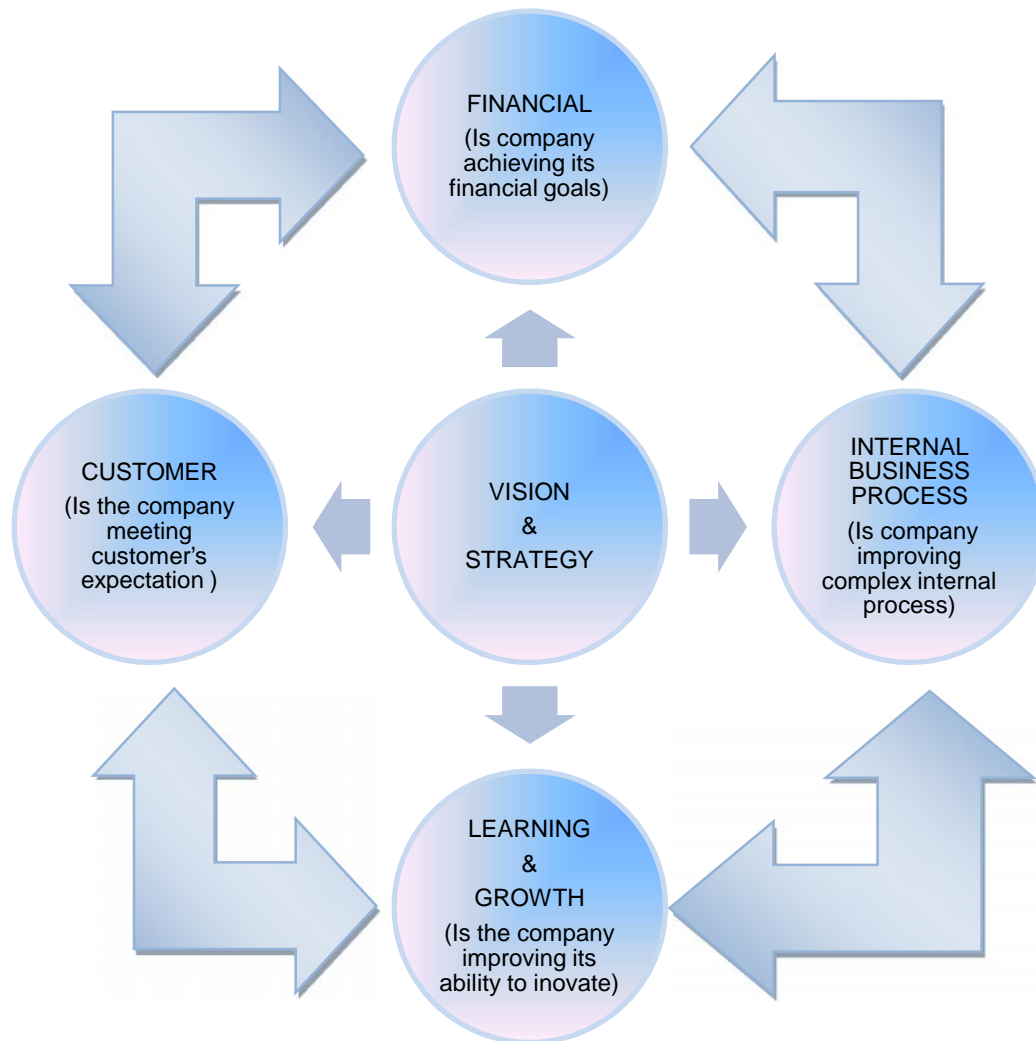
The Balanced Scorecard makes difference between 'lagging and leading' indicators. While measuring the performance of an entity these two words are often used. 'Lagging' indicators are basically 'output oriented', which means they are easy to measure but very difficult to influence. In contrary to this 'leading indicators' are 'input oriented' which means difficult to measure but easy to influence. When these two key indicators are used in performance measurement through Balanced Scorecard then they can depict that whether you are able to achieve your goals and whether you are going on the right direction in achieving future goals.

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The different perspectives of BSC can be shown diagrammatically as follows:

**Balanced Scorecard  
(Strategic Perspectives)**



**Financial Perspective**

Under Balanced Scorecard, the financial performance is measured by way of ascertaining net income and returns on investment, as most of the profit making organizations use them. These financial measures provide a common platform for all companies in respect of analysing their financial performance. The people who provide the funds to the companies by way of lending money or by investing in the equity stock of the company mostly rely on financial performance measures. Because of these measures, they take the decision whether to lend the money or to invest in the equity stocks. Systematic and analytically framed financial measures can depict an overall view of an entity's success.

All key objectives, which relates to financial health and efficiency, may be included in this perspective. Revenue and profits are the most important financial objectives of an organization and are included in the list of financial perspectives. Some other financial objectives like-cost savings (target to reduce production cost), profit margins (enhancing profit margins), revenue sources (adding new products in sales/production channels)

In the government sector, the financial perspective differs from that of private sector, success of government sector is measured by how effectively and efficiently they meet the needs of the public. Therefore, in the government sector the financial perspective give emphasize on cost efficiency drive, means their aim is to provide maximum value to the public at least cost.

Top-level financial objectives and financial measures of a business entity help in providing answer to the question- 'How do we look to our shareholders'? Financial objectives are the easiest way to give the answer to this question.

We know that the financial measures provide the past performance of an organization and do not tell anything about the future. Hence these measures can't be used as incentives for success. Although they have their own, importance but they cannot be guide indicator in creating the value of an entity.

### **Customer's Perspective**

This perspective focuses on the ability of an entity in respect of providing quality goods and services, and overall customer's satisfaction. Now a day the management philosophy is emphasizing more on the importance of customer's satisfaction. If customers are not satisfied, they will try to find another supplier who will meet their requirements. Poor performance in respect of customer's satisfaction will be leading indicator of decreasing number of customers in future, even though the present financial position may seems good.

Customer satisfaction, loyalty and retention are the key indicator of ensuring that the entity is fulfilling the customer's expectations and can rely on repeat business from its existing customers. The customer's perspective gives importance on the people who actually buy the products or acquires the services. It is very important from this perspective's point of view that to what extent existing customer's satisfaction is a great forward-looking indicator of success.

The way of dealing with customers, today, directly affects how much money, will you be able to earn in future. As a whole the customer's perspective may having the following objectives:

- **Customers Service and Satisfaction:** increasing star rating and reducing call centre waiting time.
- **The Product Perceived as Market Leaders:** increasing market share of the product in a certain segment.
- **It should contain 'what they want':** for customer's perspective point of view it is very important to deliver 'what they want' rather than what you are planning to do or to deliver.

### **Internal Business Process Perspective**

Internal business process perspective focuses on how well and smoothly the business activities are going on, whether the products and services provided to the customers are adequate according to their requirements. The matrix based on this perspective should carefully prepared and designed by the persons who know these processes most intimately, use of outside agencies or consultants should be avoided for this purpose.

This perspective gives more importance on the internal business results that comes out with financial success and customer's satisfaction level. To achieve the objectives of an entity and to fulfil the expectations of customer it is must to identify the key business processes and act upon them seriously. Key business processes should monitor in the way to achieve the outcomes at satisfactory level. Internal business process is a way or mechanism through which goals and objectives of the entity are achieved with highest expectation level.

The main objectivity of this perspective approach is to provide a framework to describe the strategy of an entity. This perspective also emphasizes on the strategy adapted by the concerns for achieving the goals for progress. As a whole the internal business process perspective may having the following objectives:

- Process modification and improvements (Streamlining internal process);
- Quality improvement (reducing manufacturing waste in production process);
- Capacity utilization (Using new technology and adaption of new idea to boost performance.)

### **Leading and Growth Perspective**

This perspective is important as regards analyzing the performance of employees, adequacy & quality of information system and results of organizational alignment in respect of achieving business

goals. Business goals can be achieved only when adequately trained and motivated employees target them, moreover accurate and timely information also play an important role in this area. The present business environment is changing all over the world; hence to meet the requirement and expectation of customers, it is must to educate the employees to take the new responsibilities to use required skills and technologies, which were not available before the present scenario.

As depicts from the above, this perspective looks at intangible drivers of performance, means adequate use of men power from lower to top level of management. This perspective focuses on the importance of tracking the pulse of industry and keeps learning. In order to survive in long-term, the entity cannot rely only on tangible assets. The tangible assets we use today (like-real estate, machines and equipments etc.) may be outdated or disrupted but the employees who prefer to work remotely and can held more business meetings could be yard stick for achieving the goals of the business entity.

This perspective focuses more on intangible assets (like-business skills and team culture) for accomplishment of organizational goals. This perspective includes the following objectives:

- Use of human resources: natural aptitude, ability, technical knowledge, analytical skill assessments, performance appraisal, and training effectiveness.
- Use of information technology: databases (an organized collection of data, business information system, transaction processing, information reporting, decision making), network infrastructure (it connects millions of computers together globally).
- Organisational Behaviour: it includes leadership, teamwork, work culture, employee alignment etc.

### **Moving from Performance Measurement to Performance Management**

Assessment through BSC not only provides us how to measure the performance but it also provides how to manage effectively the organizational performance. Merely measurement of performance is not an end of BSC, but it is also important for establishing management that is more effective. The outcome of performance measurement just indicates that what happened, but does not tell anything that why happened or what to do now.

Performance Measurement should be so effective that its results can be used to make the transition from assessment to management. Required changes in the strategic direction can be anticipated by performance measurement. The performance measurement can also provide the basis for an entity to focus on how well the entity is progressing in achieving the predetermined goals. It helps in determining the areas of strength and weakness, and take decision in respect of next steps to be taken, with the ultimate objective of improving the performance of organization. It also facilitate in providing the required data for determining broader goals and taking new initiatives.

The effective movement from performance measurement to performance management needs two important steps to adopt necessarily: (i) Appropriate Organizational Structure and (ii) Implementation of the results of Performance Measurement.

### **Appropriate Organizational Structure**

The organizational structure should have adequate facilities for the effective use of results derived from performance measurement. Senior executives should be actively involved in the implementation of their organizations' system. Out of all the steps required for successful performance measurement, effective communication seems to be the most important. Measuring performance, obtaining the results and implementing the results would be worthless if results are not appropriately communicated to the concerned within the organization and outside the organization. Internal communication is useful in the building up of confidence of the employees, whereas external communication is important in enrichment of association with customers and stakeholders.

### **Implementation of the results of Performance Measurement**

Implementation of the results of performance measurement is not an easy task. There are various important aspects in this concern, which should carefully apply while deploying a performance management system. Management requires meaningful information for decision-making. Properly constructed and intelligent information will be important for improving organizational performance. The information generated through performance measurement should be in present timeline, relevant and in concise way, so that these can be used to improve the effectiveness of organizational activities and

operations. Information itself does not fulfil organizational objectives unless these are not viewed in the context of targets, goals, health and direction of the organization. Proper analysis and implementation of results of performance measurement are important to determine whether or not management activities are effective, and results are contributing in the achievement of organizational objectives.

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