

# [Introduction: whereas in the public sector, financial measures](https://assignbuster.com/introduction-whereas-in-the-public-sector-financial-measures/)

Introduction: Balancedscorecard refers to a performance management tool used by a management team. Itis a semi-standard structured report, supported by design methods andautomation tools. To keep track of the execution of activities by the staffwithin the control and to monitor the consequences arising from these actions, managers use this report. The characteristics that define a balanced scorecardare: v  Itmainly focuses on the strategic plan of the organization concernedv  Tomonitor it selects a small number of data itemsv  It isa mix of financial data items and non-financial data itemsDevelopmentof balanced scorecards: The first generation scorecardidentifies what measures are used to track the implementation of strategy todesign a balanced scorecard which is included in Kaplan and Norton’s writing. Thisis done by using a “ four perspective” approach and they were as follows: v  The Financial perspective: These measures typically focus on the profitand market share in a private sector whereas in the public sector, financialmeasures include the results oriented measures required by the GovernmentPerformance and Results Act of 1993 (GPRA).

Managers should be answerable to aquestion, “ How do we look to Congress, the President, and other stakeholders”? v  The Customer’s perspective: Herethe managers should evaluatewhether their organization is satisfying the customer needs or not. They mustbe able to answer to a question, “ How do customers see us”? v  Internal business process perspective: To satisfy the customers needs, managers haveto focus on the critical operations. They should answer the question, “ Whatmust we excel at”? v  Organizational learning and growthperspective: Thevalue of an organization depends upon its ability to innovate, improve, andlearn. Managers must pose a question, “ Can we continue to improve and create thevalue for our services”?  Forexample, consider Senior managers at ECI. They have established generalgoals to improve customer performance i.

e. get standard products to marketsooner, improve customers time to market, become customers supplier of choicethrough partnerships with them, and develop innovative products tailored tocustomer needs. The managers translated these general goals into four specificgoals and identified an appropriate measure for each. Inorder to check whether the specific goal ofproviding a continuous stream of attractive solutions is met or not, ECImeasured the percent of sales from new products and the percent of sales fromproprietary products. This information was available internally. Certain  other measures forced the company to get data externally.

To assess whether the company was achieving its goal of providing reliable, responsive supply, ECI collected response from its customers. The response fromcustomer’s defined “ reliable, responsive supply” differently, ECI created adatabase of the factors as defined by each of its major customers. Thesecond generation scorecard is based on strategic linkage model or strategymap. This scorecard allows the individuals and the teams to define a set ofstrategic objectives. These strategic objectives are plotted on a strategy map. The third generation balanced scorecard refined the second generation ofbalanced scorecard to give more relevance and functionality to strategicobjectives.

Here testing of the business model is done by securing greaterclarity between the assumed non-financial drivers of performance and cash flow. Implementationof  balanced scorecard: For the successfuldevelopment and implementation of a strategic scorecard Kaplan and Nortonidentified five key principles. They were: v  Translatestrategy into operational termsv  Alignthe organization to the strategyv  Makestrategy everyone’s jobv  Makestrategy a continual process-strategy management meetings and the         learning processv  Mobilisechange through executive leadershipWhy doesa business need a balanced scorecard? : Thebenefits of adopting a balanced scorecard approach to performance managementmay include: v  It createsa strategic view of performance in the long termv  Itbroadens the view of divisional managers in concluding what represents goodperformance away from the solely financially oriented viewv  Organizationscan develop performance measures that are explicitly aligned to the corporatestrategy v  Considerscustomer view point which is critical in any business v  Canpromote accountability as each performance measure could be the responsibilityof a nominated individualsv  Theimplementation of the balanced score card should be relatively simple andunderstandable Measurement: The balanced scorecard consists of leadingand lagging metrics that the company, even departments and individuals can beevaluated  to determine whether they are ontrack.

The executives are forced to put much concentration into performancemanagement as the strategy map solves the performance dilemma between thefinancial objectives and the performance management goals to meet up themission and vision of the organization. Once a scorecard is ready to manageperformance, employees come to know how their job makes a difference to thecompany by showing how their tasks contribute to departmental goals, whichultimately leads to financial accomplishments that push the company closer toits vision. With a scorecard, employees know where they stand, and can easilydetermine in what areas they can contribute to the success of an organization’sstrategy.             Limitations:       v  It involvesa lot of subjectivity. So, it not easy to implement. v  Thistool is more complex when compared to other tools.

v  Creatinga balanced scorecard for an entire organization is a difficult task. v  For effectiveness, the entire organization should understand the theory for the use of balancedscorecard. Conclusion: The balanced scorecard is a very important managementtool for organizations in identifying the pressure points, set-up ofobjectives, planning and budgeting. It helps not only to measure theperformance but also to decide the strategies that are needed to adopt, toachieve goals of an organization.

Its application ensures the consistency ofvision and action which are the important factors for the development of asuccessful organization. The proper implementation of the tool ensures thedevelopment of competencies of an organization which finally leads to thecompetitive advantage.