

Kaplan and norton



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Accounting (a) The concept of the balanced scorecard was originally developed by Kaplan and Norton (1992). They took the view that 'what you measure is what you get', and they emphasize that 'no single measure can provide a clear performance target or focus attention on the critical areas of the business. Managers want a balanced presentation of both financial and operational measures. They therefore devised what they called the 'balanced scorecard' - a set of measures that gives strategic management accounting system a fast but comprehensive view of the business. Their scorecard requires managers to answer the basic question for accounting: " How do we look at shareholders"

The Kaplan and Norton describe the innovation of the balance scorecard as follows: " The balanced scorecard retains traditional financial measures. But financial measures tell the story of past events, an adequate story for industrial age companies for which investments in long-term capabilities and customer relationships were not critical for success. These financial measures are inadequate, however, for guiding and evaluating the journey that information age companies must make to create future value through investment in customers, suppliers, employees, processes, technology, and innovation." (Kaplan, Norton, 1996). So, the process of the Balance Scorecard planning helps to identify specific procedure and processes required at different levels of the organization. The organization's strategic, tactical, and operational goals and plans must be consistent and mutually supportive.

There are four primary cells in the Balance Scorecard: financial, customer, process, and people/learning. In each cell, company should identify the key drivers that help translate strategic goals to operational accounting issues.

Each of those goals would also have a set of metrics. For example, under customer metrics, a company might look at growth rate.

(b) Using the balanced scorecard system allows the food retailer industry to measure success in fulfilling its vision by customer satisfaction, team member excellence, return on capital investment, improvement in the state of the environment, and local and larger community support. In this very case the balanced scorecard will help to link strategic and operational planning at food retailer industry (Kaplan, Norton, 1996). The financial information needed for balanced scorecard approach include: market value, annual profits, stock appreciation, etc. For the customer perspective the company will need data for: annual expansion, brand expansion, identification of the target customers and their needs, etc. The business process perspective needs information about retail skills and customer service, empowerment, market situation, etc.

The Balance Scorecard can be used to develop measures for each of the operational areas. The three specific measures for accounting are growth (e. g. revenue growth), profitability (e. g. return on equity), and cost leadership (e. g. cash flows). In food retailer industry all cash-flow calculations are made on the basis of the estimated useful life of the investment, which is defined as the time interval that is expected to elapse between the time of acquisition or commencement and the time at which the combined forces of obsolescence and deterioration will justify the retirement of the asset or project. The useful life of the investment may be shortened by market changes which will diminish its earnings. For Revenue Growth the previous year's performance is reviewed, and strategies are updated. Each business unit is asked to develop a position on each issue as a prelude to strategic

planning. As for return on equity it will shows how much profit a company generates with the money shareholders have invested in the company. Using of the balance scorecard will help to identify cross-business issues that are used to revise the strategic plan. In general, all the balance scorecard accounting measures must be about keeping the score, and motivating management and the firm to do better.

References

1. Kaplan, R., Norton, D. 1996, The Balanced Scorecard: Translating Strategy into Action Harvard Business School Press,
2. What is the Balanced Scorecard 1998, Available at: www.balancedscorecard.org/basics/bsc1.html