Putting balance scorecard to work-critical analysis

In this article Kaplan and Norton have talked about implementation of Balanced Scorecard as a management tool which provides executives with a comprehensive framework translating company's strategic objectives into a coherent set of performance measures. They argued that by only looking at the financial returns the managers will fail to get overall strategic view of the company.

The balanced scorecard helps in understanding organization's strategic objectives and operational processes.

The different perspectives which balance scorecard looks at are: 1. Financial Perspective – How does firm look to the shareholders? 2. Customer Perspective – It addresses what the customers expect. 3. Internal business perspective – It help the organisation to identify processes at which they need to excel 4.

Learning/innovation perspective – It addresses what the organisation needs to improve to create value in the future. They argued that Balance scorecard can act as a benchmark against which all projects and businesses can be evaluated.

Further, it is mentioned that balance scorecard is not a template that can be applied to each and every model of business. Different market situations, product strategies, and competitive environments require building up different scorecards. Setting up the Balanced Scorecard Kaplan and Norton highlight that the visions of the company should be linked with the strategy of the company and same can be tangibalized through realistic performance measures related to four perspectives highlighted above in a Balance

Scorecard. The general goals which the company looks for in four perspectives of BSC are: Financial: survival of company, success or growth, prosperity which they look by measuring ROCE, cash flow, revenue growth etc.

? Customer perspective: Common goals are customer acquisition and retention, which are generally measured by market share, loyalty of customers & transaction cost ratios. ? Internal business process perspective: Goals are focussing on core competencies. ? Learning and innovation perspective: Common goals were continuous improvement and new product development. The authors introduced the use of the balanced scorecard within three companies in three different industries.

Rockwater (underwater engineering and construction company) – Used BSC to transform its vision and strategy (under changing environment of competition and customer expectation) into sets of performance measures.

Apple Computer – Balanced scorecard to focus senior management on a strategy that would expand discussions beyond gross margin, return on equity, and market share. Balanced scorecard for AMD was also highlighted by the authors. From the experiences of these companies and others, the authors have found that the balanced scorecard is most successful when it is used to drive the process of change.

Authors recommended following steps to be followed in cases where clearly defined strategy does not pre-exists to be used by BSC.

1. Preparation – Defining to business unit that a top- level scorecard is appropriate. 2. First Round Interviews – The facilitator takes interviews of executives to get input on strategic objectives and the possible scorecard measures. 3.

First Round Executive Workshop – The group debates on the proposed mission and strategy statements until they reach on consensus. 4. Second Round Interviews – The facilitator compiles information and then interviews the executives about the tentative balanced scorecard. . Second Round Executive Workshop – More debate on vision, strategy, and tentative scorecard. At this level implementation plan and objectives begin to develop.

6. Third Round Executive Workshop – The final agreement on vision, objectives, and measurements which were developed in the first two workshops. 7. Implementation – The team develops the implementation plan for the scorecard.

8. Periodic Reviews – Scorecard usage on monthly/ quarterly basis and annual review. Strength and Weakness of arguments in article

The four perspectives – The holistic approach of financial and non financial measures facilitate understanding how performance is created within the firm and also serves as indicator for future strategies. This is possible as Balance Scorecard serves as input to the creation of strategy maps for the organization with focus on internal learning and growth to drive financial profitability and value to stakeholders. However, the perspectives do not represent the interest of all the stakeholders as suppliers, competitors, government, local communities and environment receive little attention in implementation of a balance scorecard.

These factors are also critical for performance management and strategic objectives of the company. Further, Balanced Scorecard seems to represent a static model without the dimension of time and thus establishing cause and effect relationship between different perspectives becomes difficult. BSC as top down reflection of company’s mission and strategy – The Balance scorecard at corporate level provides the inputs for performance measurement at business unit level and development of “ personal scorecard” at individual project levels.

This way, operational performance is linked to the long term strategy of the firm.

In cases where strategy is not clearly defined, it is appropriate to involve middle management as well in formulation of measures for balanced scorecard so that operational processes are not disjoint to the corporate strategies. The same point has been highlighted in the article. Different BSC for Different Context – Author rightly puts that different market situations, industries, competitive market situations and product strategies require different scorecards.

For example, a FMCG company will include collection and creditors based ratios as key financial measure which might not be the case for another company. BSC for driving the process of change – Author highlights that strength of balanced scorecard is that it is successful in driving the process of change.

Adopting the new measurement and management system helps leaders communicate the vision for change and empower business units and employees to devise new ways of doing their day-to-day business to help the organization accomplish its strategic objectives.