

# Need for Balance Scorecard

## Keeping Date with Future!

*Changes in the environment in which organizations work, requires a continuous review of its operating and growth strategy. Balance Scorecard (BSC) helps organizations to keep an eye on results. Successful implementation of BSC in many organizations has proven beyond doubt that to “Keep Date with Future”, organizations must quickly incorporate these in their organization.*

Peter Drucker<sup>1</sup> asked “How do we relate the way we run business to results ?” What are results? The traditional answer—the bottom line—is treacherous. Under a bottom-line philosophy, we can not relate the *short run* to the *long term*, and yet the balance between the two is a crucial test of management.

Visionary organizations have a clear VISION. Vision defines what the company stands for, it’s core values—which the organization is willing to stand by for years to come. Vision also defines the envisioned future. Vision, by itself is therefore not sufficient—there must be a well laid out strategy to achieve the envisioned future. Since the environment in which an organization operates is continuously changing, there is need for a system for continuous monitoring of strategy and the RESULTS obtained. “Balance Scorecard” - **BSC**, meets this objective and helps organizations to have an overview of the performance of the organization.

**BSC** helps the organizational strategy to be translated into well defined actions. **BSC** continuously monitors the results of strategic actions. **BSC** is like the cock-pit in an airplane. Just as the pilot must constantly keep an eye on the various dials, organizations need a system to know, how exactly it is being run and where is it going!

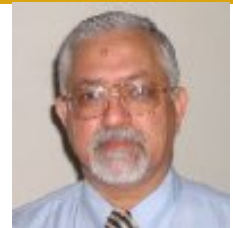
**BSC** usually helps organization focus on the following key perspectives:

1. Financial Perspective—How do our stake holders see us?.
2. Customer Perspective—.How do our customers see us?
3. Internal Perspective—What must we excel at?
4. Learning and Growth perspective—Can we continue to innovate and add value? .

### The Four Strategic Perspectives

#### Financial Perspective: How do our stake holders see us?

Financial perspective is an important component of the **BSC**. This however generally ends up reporting lagging indicators like profits, working capital, asset utilization, overhead etc. This perspective when applied to non-profit organization translates into achieving results efficiently and with minimum cost.



Vinod K Mehandru  
(VK)

VK is CEO of Nimble. Mechanical Engineer by Profession, he has over 35 years of management and technical experience in Manufacturing, Public Sector, and Multinational Companies. He can be contacted at [vkm@nimble.in](mailto:vkm@nimble.in)

#### Contains:

- a. The four strategic perspectives.
- b. Making of the Balance Scorecard
- c. Benefits of Incorporating the balance Scorecard
- d. How can NiMble help?
- e. References.

## Need for Balance Scorecard .....Continued

The bottom line is to achieve higher profits and margins or improve efficiency in a not-for-profit organization.

### **Customer Perspective: How do customers see us?**

Customer perspective generally relates to response time, quality, performance and service. Every customer is concerned about the time the organization takes to meet the customer's needs. For a call center—it would involve the waiting period for some one to pick up the phone and answer the customer query. For a fabricating company, this might be the time taken to quote, time taken to deliver etc. etc. Quality relates to the defect level in the service / product offered to client and as perceived by the client.

### **Internal Perspective: What must we excel at?**

Customer perspective gives an organization to think about how the organization must be run to meet customer perspective. It focuses on internal processes and skills within the organization. The key is to identify which business processes one must excel at? For a product supplier company, where raw materials are a major input, this might mean focusing on supply chain management and it's cost effectiveness. Other examples of measures under this category would be rework, rejects, efficiency of processes, automation and so on.

### **Learning and Growth Perspective: Can we continue to innovate and add value?**

The above three perspectives generally lead to knowledge of weaknesses in an organization's infrastructure, skills, automation etc. which are restricting the organization to achieve better results. Focusing on these helps development of suitable measures to ensure that organization channels it's investments properly to address all needs—not just for infrastructure, but also on research and development, human capital development, improving employee satisfaction and increasing employee motivation.

Some organizations like to have five perspectives in the **BSC**, with the fifth one focusing exclusively on Human resources. It's is a matter of choice. The employee perspective is well covered in Learning & Growth perspective—since learning and growth also applies to the employees of the organization.

### **Making of the BSC**

Knowing the above mentioned perspectives helps management to develop a comprehensive strategy for growth as well as performance management. It is important to put these thoughts in a system which becomes an essential part of the organization's management system. The steps involved in development of **BSC** are explained in the figure on next page. The process is broken into four phases:

**BSC focuses on four key perspectives i.e. Financial, Customer, Internal and Learning & Growth.**

**Some companies wish to incorporate a fifth perspective—i.e. employees, but this is usually covered under (Employee) Learning & (Employee) Growth perspective.**

## Need for Balance Scorecard .....Continued

### Phase 1: Preparation phase

This phase starts by a series of brain-storming sessions at higher level to bring every one at par as far as organization's Vision and Core values are concerned. This basically prepares the organization to develop its current strategy and goals in line with it's Vision and Core values.

### Phase 2: Develop Strategy

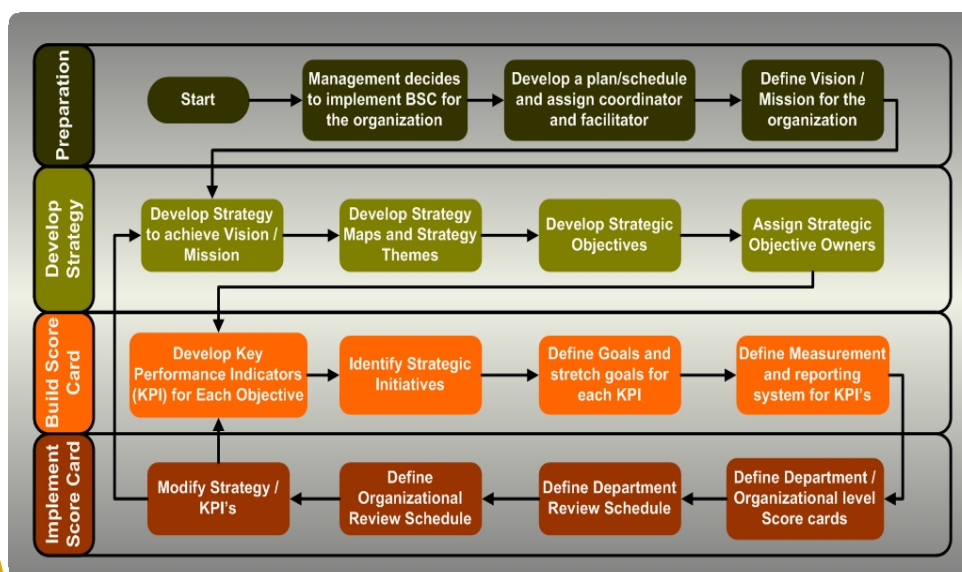
In this phase, the organization develops it's strategy map to achieve it's vision. Strategic maps extend to develop key strategic initiatives / objectives and assign responsibility to achieve these objectives on specific employees.

### Phase 3: Build Balance Scorecard

Having decided the strategic objectives, it is now necessary to work-out key strategic initiatives and the key performance indicators which would reflect the results of these initiatives. Specific targets and goals along with the stretch targets are agreed during this stage and various employees of the company are assigned **SMART Goals** (Specific, Measurable, Achievable, Realistic and Time-bound).

### Phase 4: Implement Scorecard

In this phase, the organization's Balance Scorecard is further broken into departmental level scorecard, so that each department can focus on the elements of the complete organization's scorecard. This helps in micro-managing the activities and their monitoring at lower level at intervals best suited to specific goals. The overall scorecard of the organization reports data from departmental scorecard and is reviewed by higher management



**BSC is usually developed in organizations in four phases.**

## Need for Balance Scorecard .....Continued

on monthly / quarterly meetings.

### **Benefits of incorporating the BSC**

#### **Consensus on the strategy at executive level.**

Building a **BSC** requires brain-storming at Board / Higher Level where discussions are held on Organization's Vision and it's Core Values. This helps in every-one getting aligned about these basics and helps executives look for growth strategies clearly. **BSC** discussions sets the priorities for the organization and senior executives can visualize the future more clearly.

#### **Communicates strategy to the organization.**

**BSC** clearly defines the steps the organization would take to achieve it's goals through well thought-of strategy. The working of the strategy, setting priorities in line with various internal and external constraints helps the leadership appreciate the chosen strategy and it's need.

#### **Translates strategy into meaningful goals.**

Building a **BSC** requires determination of specific goals and targets. The organization now has clear vision of what is to be done to achieve it's goals. With the priorities and the game plan clearly defined, every one now focuses to achieve the goals.

#### **Employees identify themselves with goals**

Employees working to achieve the goals identified in the **BSC** can clearly identify them-selves with how they are helping the organization to achieve it's growth. It is very important that Employees are explained the **BSC** at each possible opportunity to help them understand the way their achievements are paving path for the organization's future. Employees then feel proud to be involved in the efforts they put-in on day-to-day basis. This further helps employees getting aligned to Company's Vision and Mission.

#### **Personal targets linked to strategy**

Achieving goals identified in the **BSC** requires involvement of various employees and Process Owners on a continuous basis. Most of the time these would be stretch assignments for the employees. Goals with defined time-line require that the targets be met within schedules. These therefore establish a suitable measurement tool for senior Leadership's achievements and can help in appropriate and justified Rewards and Recognition program of the organization.

#### **Processes focus to achieve strategic goals.**

Having established a **BSC** forces various process owners to modify the key

**BSC helps aligning the complete organization to it's Vision through the strategy which it adopts for Growth.**

**It is important that BSC is explained to employees at each opportunity to make them feel proud of being associated with organization's growth strategy.**

## Need for Balance Scorecard .....Continued

processes of the organization to achieve identified goals. Since these processes directly effect the organization's performance, they are likely to be the Key processes. With focus concentrated on key processes, the organization meets the customer's expectations more efficiently and helps make the organization more competitive.

### **Periodic reporting of status of strategic goals.**

**BSC** forms the key part of management system and therefore is discussed periodically. This helps keeping every-one in the organization aligned and achieve growth through **BSC**

### **Drives investment / budget decisions.**

**BSC** forces the leadership to visualize the future / growth of the company and use appropriate resources and manpower to achieve the Strategic Goals. With wide agreement on **BSC** among the senior leadership, it is easy to manage the Budget provisions and invest wisely, rather than on a historical basis!

### **How does NiMble help?**

Each organization wanting to develop BSC needs a facilitator. NiMble's senior executives have the experience of developing BSC and can facilitate organizations through the four phases of it's development. NiMble's role would generally be limited to participation as a facilitator and trainer on BSC.

### **References:**

1. Peter F Drucker, Post-Economic Theory, The Daily Drucker, pp165, 2004.
2. Robert S Kaplan and David P. Norton, The Balanced Scorecard—Measures That Drive Performance, pp 71-79 Harvard Business Review, Jan-Feb 1992

***NiMble is a management consulting organization assisting and supporting organizations to understand their needs and sustain growth through improved processes and sound management practices.***

**Improved processes make the organization more competitive.**

**Balance Scorecard is fast developing as a key management tool to monitor Organization's performance and it's strategic growth.**