Abstract:
Measurement of only financial numbers is not sufficient for an organisation to be balanced. Improvement in financial numbers i.e. increases in revenue, increase in profits may appear blissful for short term, but business is not a short term activity, it aims at long run endurance, growth. Only an improvement in financial statistics may be due to improved processes, but it may also be a consequence of non efficient use of resources as it is only a short term affair. The need of the time is to shift focus from short term targets to long term goals, which requires deliberate planning about the areas to be focused upon. These areas are obviously related with learning, processes, customers as these are the drivers of long term growth in a business. Learning among the organisation will give birth to perfectionism in processes. A business with precision at its heart will be able to attract large number of customers and keep them satisfied. Satisfied customers are means to increased revenue, profits i.e. financial targets for any business. The idea to be best in long run and its implementation robotically assists business to achieve short term targets. This is what Balanced Scorecard (BSC) suggests. Focus on intangible/intellectual/non financial activities and financial targets will follow long term objectives. Current paper is an attempt to study how BSC works and may be effectively implemented in organisations to create a balance, with minimum chances of overlapping or repetition of activities.

Keywords: Balanced Scorecard [BSC], Performance Management, Competitive Advantage, Traditional Financial Performance Measures and Organizational Performance.

1.0 Introduction
Today’s competitive era demands for effective implementation of various business activities and processes which in turn requires an effective control system. Control is the attempt to bring actual results closer to desired results. To compare the actual results, anyone needs to have targets, or metrics based on which, it can be ascertained whether desired action is in right direction or not. Traditionally, these targets were set in financial terms only, such as ROI, ROA, EPS, ROE etc. but now-a-days the intangible and intellectual assets play an equally important role in achieving of objectives as the physical assets do (Zhang & Li, 2009). It is required to use non financial measures along with financial measures to have an all inclusive view about the organisation. In an attempt to include non financial measures as well as financial measures in one performance measurement system, the concept of Balanced Scorecard was given by Robert S Kaplan & David P Norton in 1992 in the paper “The Balanced Scorecard-Measures that Derive Performance”.

The term Scorecard was first used by Herb Simon and his colleagues at Carnegies Institute of Technology (later Carnegie-Mellon University) while identifying several purposes for accounting information in organisation. The need of intangible measures of performance measurement was felt at different times through various previous studies like study of Herb Semon at GE Project, introduction of concept of “Management by Objectives” (by Peter F. Drucker in 1954), Japanese technique Just in Time and introduction of concept of Human Resource Accounting etc.

In their paper “The Balanced Scorecard-Measures that Derive Performance”, Kaplan & Norton suggested to measure business performance in terms of four perspectives:
1. How do customers see us? (Customer Perspective)
2. What must we excel at? (Internal Perspective)
3. Can we continue to improve and create value? (Innovation and Learning Perspective)
4. How do we look to shareholders? (Financial Perspective)

The measurement in terms of four perspectives was designed to aid in establishing control on all business activities (financial as well as non financial) and assets (physical as well as intangible).
The concept of Balanced Scorecard is mainly studied in two manners:
1. BSC as a tool of performance measurement.
2. BSC as a strategic performance management system.

2.0 Literature Review

Various research papers and books on concerned topic have been reviewed to have a thorough understanding:

**Kaplan & Norton**

For the first time in 1992, R.S. Kaplan and D.P. Norton (1992) introduced the concept of BSC in paper “The Balanced Scorecard- Measures that Derive Performance” as a performance measurement tool that measures activities of business from four perspectives. They gave this concept after studying 12 companies which were at a leading edge of performance measurement.

In 1993, in an interview by Kaplan with Larry D. Brady, Brady while praising BSC said that it (BSC) is not just a measure of strategy; rather it dwells at core of management system. It depends on management to keep it as only record keeping instrument or a tool to focus on strategy for enhancing organisational performance.

In 1996 in paper “Using the Balanced Scorecard as a Strategic Management System” Kaplan & Norton (1996) introduced BSC as a complete strategy management system which links long term strategies and short term actions through the processes (i) Translating Vision and Mission (ii) Communicating and Linking (iii) Business Planning (iv) Feedback and Learning. Due to its strategic linkages, the definition of BSC changed from an improved measurement system to core strategic management system.


**Bose & Thomas (2007)** examined the performance measurement of an Australian company, The Fosters Brewing Group, where a decline in performance was reversed through use of BSC along with other initiatives. They suggested successful implementation of BSC more important than formulating metrics in four perspectives. They also advocate constant re-conceptualisation of BSC to reflect developments outside the framework i.e. factors of business environment.

**Punniyamoorthy & Murali (2008)** suggested a benchmarking tool for evaluating the success of activities critical to achievement of strategic goals. They suggested the preparation of Balanced Score for Balanced Scorecard model using algebraic equations and by making a classification of four levels in Balanced Scorecard.

**Zhang & Li (2009)** advocated that while developing BSC, commercial banks should turn organisational and operational strategies into a series of objective and measurable indicators. Despite making quantitative analysis, qualitative analysis should also be undertaken by banks for performance assessment. According to them bank evaluation index of commercial banks based on BSC performance measurement tool is divided into four perspectives:
- Financial Perspective
- Business Process Perspective
- Customer Perspective
- Enterprise Sustainable Competitive Edge.

**Abdullah et al. (2013)** reviewed the development of BSC through analysis of secondary data and concluded that BSC must not focus only on past, it must also be future oriented to affect future organisational performance and approach of BSC is somewhat objective; there is a need of subjective approach also that must take into account intuition of manager for performance evaluation. Further, common BSC measures should be adopted by all SBUs and organisation to ensure uniformity in performance evaluation and responsiveness of BSC to external situations of business environment be ensured.

**Asa et al. (2013)** attempted to measure whether use of BSC as an ideal tool of management leads to improvement and synergy of business activities and firm performance. They state BSC to be a link to coordinate strategy management and firm performance:

\[
\text{Balanced Scorecard} + \text{Managed Strategy} = \text{Firm Performance}
\]
They also suggested a measure EPS (Employee Performance Standard) to check that employees are competent enough in directing strategy to attain desired results. They define EPS as a function of skill, knowledge and courage.

$$EPS = f (\text{skill, knowledge, courage}).$$

### 3.0 Relevant Issues Related With Balanced Scorecard

The ultimate objective of current paper is to understand how Balanced Scorecard, a measure of quantitative and qualitative performance works in an organisation. For better understanding about the concept following specific areas are identified for detailed analysis:

a. Deficiencies of traditional performance measures or the factors that gave birth to the concept of Balanced Scorecard.

b. BSC- A tool of performance measurement.

c. BSC- as a strategic management system.

d. Strategy implementation

e. Balance in BSC.

#### a. Deficiency in Traditional Performance Measurement System

Traditional performance measurement systems concentrated on financial measures only. Those were the deficiencies of traditional performance measurement system that necessitated the need of a comprehensive measurement tool that included both quantitative and qualitative aspects of an organisation and the solution to these deficiencies evolved in the form of Balanced Scorecard (Zhang & Li, 2009). Traditional measurement tools focused on financial perspectives only, which is not compatible in today’s competitive world. It is in fact a post-mortem technique of examining achievement but nowadays investors also assess non financial aspects of business along with financial aspects while performing fundamental analysis for making investment decision. Robert G. Hagstrom Jr. (1994) in his book, The Warren Buffet Way, stated that Warren Buffet has also suggested the use of business tenets, management tents, market tenets and financial tenets in making investment decision, which is in itself blend of financial and non financial measures.

An alternative to traditional performance measurement system can be: financial measures are forgot and attention concentrated at operational measures only (customer, internal business process, learning and growth related) or use financial measures only. Giving a solution to this dilemma, Kaplan and Norton (1992) suggested that managers need not choose between financial and operational measures - no single measure can provide a clear performance target or focus attention on critical areas of business. Managers need a balanced presentation of both financial and operational measures.

Zhang & Li (2009) state that traditional performance measurement system relied on internal evaluation of operational conditions, neglecting external factors, while it is necessary to focus on external environment also, particularly in this globalised era where business environment is extremely dynamic.

Moreover, traditional performance measurement system over emphasised the importance of physical assets, while it is intellectual capital that activates physical assets and make the ir proper use. Intangible assets assist in achieving objectives indirectly but certainly act as a push factor for organisations to achieve strategic intent. In the words of Kaplan & Norton (1996), “The BSC addresses another deficiency of traditional measurement system, their inability to link a company’s long term strategy with short term actions.”

b. Balanced Scorecard- A Tool of Performance Measurement:

Presently many business executives believe that the traditional measurement criteria of performance are misleading in situations that require continuous improvement and innovation in a competitive environment. In such a situation, achievement of short-term financial soundness is not enough; rather emphasis should be given on the achievement of long-term strategy. It requires a set of measures:

i. Customer Perspective:

Customer satisfaction is of prime importance and particularly in today’s era, where business organisations face competition from national as well as international competitors. Balanced Scorecard demands that mission statement on customer service be translated into specific factors that are really material for customers. Customers concerns usually fall into following four categories (Kaplan & Norton, 1992):
Customer related information can be achieved through internal sources but external sources should also be tapped for a clearer picture. Customer related standards can be prepared either through benchmarking or by making an analysis of related firms of same industry. Leading indicators of future performance are customer measures, as the achievement in customer metrics such as satisfied customers, increase in market share, increase in customer base will boost the revenues and hence the income.

ii. Internal Perspective:
This focuses on internal operations of the business concern by which goods and services are created and delivered. Customers based factors need to be translated into measures of what company must internally do to meet its customer’s expectations (Asa et al., 2013). Customer perspectives can be achieved only through internal operations; processes, decisions, actions and job methods adopted in the organisation. Internal measures for balanced scorecard should be mainly from processes which are of critical importance to customer perspectives. Business processes should be focussed on core competencies and designed in such a manner that affect cycle time, quality and employee skills and productivity, so that a link of processes be established with financial goals also.

Strategies created at top level be explained in terms of actions and processes that employees are to undertake. 

iii. Learning and Growth Perspective:
Targets for success keep shifting. An organisation can perform well with the customer perspective and internal perspective. To survive in long run and expand, innovation is necessary so as to maintain the size of customer force, as the tastes and preferences change in long run. It’s a demand of global competition that companies make continual improvement in their existing products and processes and also introduce entirely new products with new features to target more consumer segments. It emphasises on innovation, improvement and learning. Its main focus is, don’t stop after achieving your targets and rather continue to improve.

iv. Financial Perspective:
It deals with financial factors such as profitability, growth, earnings per share, return on investment, market price and shareholders’ value. The achievement of objectives in other operational perspectives will lead to the realization of financial targets as they are linked through strategy mapping. In fact achievement in other three perspectives must lead to the achievement of financial targets for effective strategy implementation and realisation of strategic intent.

The metrics in above four perspectives are set in terms of objectives, measures, targets and initiatives. There cannot be a benchmarking of metrics in different perspectives because different strategies are adopted by various companies and the performance metrics depend upon strategies. The performance metrics adopted by a company with differentiation strategy will be different from the company with low cost strategy. However functional metrics should be in alignment with SBU objectives and corporate objectives.
By elaborating the goals, the questions in relation to these four perspectives can be solved.

4.0 Balanced Scorecard - As A Strategic Management System:
Balanced scorecard is not an alternative or tool of strategic management process. It aids in strategy formulation, establishing linkages, business planning, strategic evaluation and feedback (in terms of four business perspectives.) BSC links a company’s long term strategy with short term action.

Table 1: An Example of BSC Objectives or metrics

<table>
<thead>
<tr>
<th>Perspective</th>
<th>Goals</th>
<th>Measure</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Financial Perspective:</strong></td>
<td>How do we look to the shareholders?</td>
<td>To survive, succeed and prosper.</td>
</tr>
<tr>
<td><strong>Customers Perspective:</strong></td>
<td>How do customers see us?</td>
<td>To keep the existing customers satisfied and to attract new customers.</td>
</tr>
<tr>
<td><strong>Innovation and learning Perspective:</strong></td>
<td>Can we continue to improve and create value?</td>
<td>To update technology and to introduce new product</td>
</tr>
<tr>
<td><strong>Internal Business Perspective:</strong></td>
<td>What must we excel at?</td>
<td>To ensure flaw-less service by human resources.</td>
</tr>
</tbody>
</table>

By elaborating the goals, the questions in relation to these four perspectives can be solved.

BSC as Strategic Management System

Translating the Vision:
It aims at generalising the terms of vision and mission statements in terms of objectives and measures that describe long term drivers of growth i.e. translating vision statement in terms of financial perspectives, customer perspectives, internal business perspectives and innovation and learning perspectives (Kaplan & Norton, 1996). The objectives should be so linked that achievement of one set of objectives makes way for the fulfillment of another set of objectives and these all should result in effective strategy implementation.

Communicating and Linking:
It aims at communication of drafted strategy and its explanation in terms of four perspectives in whole organisation and linking it to departmental and individual objectives (Kaplan & Norton, 2004). It’s important to align individual and departmental objectives with long term strategy. The operational targets should also be interlinked to be able to provide synergistic results.

Business Planning:
Senior staff or development managers or external consultants prepare a strategic plan indicating where a company expects to be in remote future. Such plans are then broken into short term plans contributing to achievement of long term strategic plan. The necessity is to align short term plans with long term.

Feedback and Learning:

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The measurement of results is performed to check the achievement in performance drivers. If the performance drivers are meeting the targets, it is checked whether they actually result in increased revenue (financial perspective) or not. If not, there is a need to reexamine the strategy. It is actually strategic learning (Bose & Thomas, 2007).

The above process of strategic management system is cyclical by nature i.e. if desired results are not achieved, the strategy is again translated into short term actions and a new process cycle commences.

4.1 Issues Related with Strategy Implementation

It is actually the implementation stage where real work is performed. Even the best strategies can turn futile if not implemented well and average or not so great strategies also work, if implemented productively. In BSC problem lies in: managers prepare strategic plan in terms of BSC, but when it comes to implementation, they adopt the same traditional implementation methods, e.g. budgets, resource allocation, and other financial methods etc.

There is a need to improve these implementation methods. There can be two ways of implementation: firstly the departmental heads themselves implement strategies in terms of BSC and secondly a separate person/department be employed for handling the responsibility of strategy implementation in terms of BSC, who will be responsible for implementation and facilitate coordination in various departments so as to enable strategy execution and achievement of objectives. It may be suggested to employ one specialised person/department so that coordination can be established which would otherwise be near to impossible to be established. This coordination will assist in achieving of strategic intent.

4.2 Balance in Balanced Scorecard

The BSC is based on four perspectives (financial, customer, internal business process and learning and growth). These perspectives in an organisation are linked in such a manner that achieving of learning and growth related objectives (say employee training) leads to improvement in business processes (say reduced cycle time) which leads to achievement of customer related objectives (say increased number of customers), which ultimately aids in achieving financial targets (say increase in revenue from sales).

The four perspectives are linked in cause and effect relationship. It will not be wrong to say that measures of three operational perspectives (customer, internal business process and learning and growth) leads to achievement of financial objectives, which is in fact creation of balance in organisation. This concept of balancing advocates the concept of strategy mapping also. The balance in other sense is related with balance in strategy and Balanced Scorecard objectives. While translating strategic intent into intangible BSC objectives, the major attention is paid on selecting such metrics that are in alignment with business level strategies and corporate level strategies, so as to maintain a balance (Kaplan & Norton, 2004).

5.0 Conclusion

BSC works as both performance measurement tool and strategic management system, but in case of performance measurement tool, BSC aids in measuring business performance in four perspectives, without establishing any standards in these. Kaplan & Norton improved this concept by introducing BSC as strategic management system, which is a comprehensive process starting after strategy formulation and ending at strategic learning. While implementing this strategic management system, it is necessary to keep certain things into mind such as first, metrics in four perspectives should be so selected as to give a comprehensive detail of all organisational activities and they should be measurable indicators whether qualitative or non-qualitative. Second, strategy is not prepared in BSC and it is prepared by management after due analysis of internal and external factors and core competencies of business. The job of BSC starts with explaining/translating strategy. BSC comes into action only after creation of strategy. Third, the BSC should be prepared in such a manner that it can enable the organisation to achieve its strategy i.e. the BSC objectives (family of performance measures) should be so selected as to work as long term drivers of success. Four, another important concept in BSC is alignment of individual objectives, departmental objectives and corporate level objectives to create synergy and contribute to realisation of intended strategy. Five, employee participation should be welcome while setting BSC objectives, it will aid in proper implementation as the employees will be able to perform better as, in this case they would be knowing the work details holistically. Six, proper strategy mapping should be done; the metrics in various perspectives should be so selected that the
realization of objective of one lead to achievement of objective in other area also. It should ultimately lead to improved processes and realized financial goals. Seven, linkage of BSC targets with strategy is of prime importance i.e. achieving of BSC targets should lead to realization of strategy. In otherwise condition, there is a need of reexaming of strategy. Eight, operations improvement results in excess capacity and it should be used in boosting revenues or reducing expenses. Operatioanl Improvement should be followed by efforts of marketing, sales and R&D department to expand sales and revenue.

In all BSC is a great management system if implemented well. Once there may be a resistance to change which should be overcome by various methods, then after once the BSC is incorporated in an organisation, it will aid in successful implementation of strategy and improve the organisational processes as well.

6.0 References

- Brady, L.D., 1993. Interviewee, Implementing the Balanced Scorecard at FMC Corporation: An interview with Larry d. Brady. [Interview]