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MEASUREMENT OF CORPORATE PERFORMANCE THROUGH BALANCED SCORECARD : AN OVERVIEW

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ABSTRACT

In the present era of emerging intense global competition, organizations' are facing increasingly knowledgeable and demanding customers and activist shareholders which have changed the competitive environment from competition based on ability to invest in and manage physical assets to competition based on knowledge and the ability to exploit intangible and soft assets. In this changed business paradigm relying on only the financial measures, which are considered as the indicators of short-run performance, to measure the corporate performance is puzzling and often misleading. A Balanced Scorecard added three additional perspectives covering operating aspects of an organization which exhibits not only the current position of the enterprise but also how it is progressing. But due to some practical difficulties in its development and implementation, the concept developed by Robert S. Kaplan and David P. Norton has not widely accepted and its popularity has not yet peaked.

Performance is the final result of all activities. In evaluating performance the emphasis is on assessing the current behaviour of the organization in respect to its efficiency and effectiveness. The appropriate performance measurement tool should be

I. Relevant to the strategic goals of the organization and accountable to the individuals concerned.

II. Focus on measurable outputs,

III. Verifiable.

Corporate Performance Management (CPM) is discussed from two points (a) Operational CPM and (b) Analytical CPM. Operational CPM addresses the business process needs of executives and financial managers. Analytical CPM

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addresses the reporting and analysis needs of executives, managers and staff through all levels of an organization, as well as vendors, suppliers and partners.

There are a number of performance measurement tools, which could be clubbed into two broad groups like i) Traditional measures and ii) Non - traditional measures. Traditional measures which indicate the financial strengths, weaknesses, opportunities and threats are Return on Investment (ROI), Residual Income (RI), Earning Per Share (EPS), Dividend Yield, Price Earning Ratio, Growth in Sales, Market Capitalization etc. But it is found that some users of financial statements are interested on non-financial performances of the corporate bodies beside financial performances. In such cases some non-traditional measurement tools are to be used like Economic Value Added, Balanced Scorecard etc.

The concept of Balanced Scorecard is too much relevant in the present era of emerging intense global competition where the organizations are facing increasingly knowledgeable and demanding customers and activist shareholders which has changed the competitive environment from competition based on ability to invest in and manage physical (or tangible) assets to competition based on knowledge and the ability to exploit intangible and soft assets (like human capital, information systems, intellectual capital, brand development, research and development etc.). In this changed business paradigms, the Balanced Scorecard throws an insight into an organization's performance by integrating financial measures with other key performance indicators around customer perspectives, internal business processes and organizational growth, learning and innovation, and enables organizations to track short-term financial and operating results while monitoring progress for future growth, development and success.

The remaining part of this article consists of : Concept of the Balanced Scorecard, Rationality behind the Balanced Scorecard, evaluation of the Balanced Scorecard and Conclusion.

Concept of Balanced Scorecard

The concept of 'Balanced Scorecard' was first introduced in the journal "Harvard Business Review" (January-February, 1992) by Robert S. Kaplan and David P. Norton. The basic idea behind the introduction of the Balanced Scorecard was that the traditional financial measures (like ROI, EPS etc.) alone cannot provide a clear and comprehensive performance target or focus attention on all the critical areas of the business that bear significant impact on its long-term survival, growth and development, rather it requires a balanced presentation of financial as well as operational measures. The Balanced Scorecard is an organizational framework for implementing and managing strategy at all levels of an enterprise by linking objectives, initiatives and measures to an organization's strategy. The Balanced Scorecard is a strategic management system (not only a measurement system) that enables organizations to clarify their vision and strategy and translate them into action. When fully deployed, the Balanced Scorecard transforms strategic planning from an academic exercise into the nerve centre of an enterprise. The scorecard provides an enterprise view of an organization's overall performance. The scorecard integrates financial measures like ROI, RI, Dividend yield, EPS etc. with other key performance indicators around customer perspectives, internal business processes and organizational growth, learning and innovation.

Balanced Scorecard Cause - Effect Hypothesis

1. Knowledge & skills of employees is the foundation of all innovation and improvements.	Learning & Growth
2. Skilled and empowered employees will improve the ways they work.	Internal Process
3. Improved work processes will lead to increased customer satisfaction.	Customer
4. Increased customer satisfaction will lead to better financial results.	Financial

The above perspectives answer accordingly to the following four basic questions:

1. How do customers see us ?
2. What must we excel at ?
3. Can we continue to improve and create value ?
4. How do we look to shareholders ?

To measure overall corporate performance, goals are set for each of these perspectives and then specific measures for achieving such goals are determined. Each of these perspectives is critical and must be considered simultaneously to achieve overall efficiency and effectiveness and to succeed in the long-run. If any area is either overemphasized or underemphasized, performance evaluation will become 'unbalanced'. In this way, the aim of the concept is to establish a set of measures-both financial and non-financial through which a company can control its activities and 'balance' various measures to effectively track performance.

Thus, the Balanced Scorecard represents a fundamental change in the underlying assumption about performance measurement and strikes a balance between short-term and long-term objectives, between financial and non-financial measures, between outcome and process measures, between lagging and leading indicators and between internal and external perspectives.

Rationality Behind Balanced Scorecard

The traditional financial measures of corporate performance like ROI, EPS etc. are based exclusively on past performance and results have little predictive value to the management of an organization. But an effective performance measurement system must encompass a blend of both results and process measures so that organizations can not only keep score but also can more reasonably predict what the score will look like. The lagging indicators of performance worked well for the industrial era but they have now become inadequate and often misleading in tracking complex management challenges posed by competitive and rapidly changing business arena.

Conventional financial performance measures focus on creation of shareholders value. But, placing too much importance on shareholder value for measurement of management's performance can jeopardize a company's long-term growth and success. The shareholders, as the owner of the company and invest their money in it, can reasonably expect maximum return on their risky investment. Before the commencement of taxation on dividends, this return on investment primarily consisted of dividends but after that commencement appreciation of share price assumed a greater role in providing return on investment because of the favourable tax treatment on capital gains. But the appreciation of share price as a criterion for measuring management performance has some major weakness. Firstly, stock price can rise or fall for reasons other than earnings such as competitive advantage, industry structure, stock market exuberance etc. Secondly, stock market is volatile and inconsistent in its judgement. Moreover, by focusing on shareholder value, the long-term potential and prospects of the business are sacrificed to short-term results. If the firm wants to maximize shareholder value in short-run it has to sacrifices its long-term prospect. Infact, most of the financial measures are rigid targets to be achieved, which discourage alternative action opportunities, no matter how promising they are.

Moreover, the conventional performance measurement systems generally don’t communicate or explain the factors that drive performance. But once the drivers of performance can be identified performance achievement would be easier.

Again, traditional performance measurements systems measure the tangible and financial assets but an organization has to measure and respond to intangible assets of value to the organization because of their substantial effect on the bottom-line.

A serious shortcoming of the traditional management systems is their inability to link a firm’s long-term strategy with its short-term actions. Most companies’ operational and management control system are designed on the basis of financial measures and targets which have little relation to the companies’ progress in achieving long-term strategic objectives.

The concept of Balanced Scorecard overcomes these drawbacks and inadequacies of the conventional financial measures and measures corporate performance both from financial and operational perspectives of an organization.

Evaluation

The concept of Balanced Scorecard is new by its name but not by its origin. It has made only a development over a number of existing concepts and theories like Activity Based Management, Management By Objectives, Total Quality Management, Strategic Management, Behavioral Theory Of Economics, Delegation Of Authority, Decentralization Of Decision-Making etc.; but what is unique about Balanced Scorecard is that it brought and pooled together the fruits of such theories and concepts into a single integrated measure of corporate performance covering all aspects of an organization.

The Balanced Scorecard was designed with the realization that traditional financial measures were not adequate to measure and manage intangible assets. The scorecard added customers, internal business processes and learning and growth perspectives to evaluate the over all corporate performance and to correct that imbalance. This new dimension complemented the conventional financial measures and provided management with a broader perspective around both physical and intangible assets. The scorecard assists management to focus on long-term objectives rather than on the more narrow, short-term, bottom-line financial outcomes. The scorecard's primary benefit is that it assists to focus everyone's attention towards the future. Firms achieve the greatest effect when they utilize the scorecard system to drive organizational change. Moreover, utilizing the scorecard, executives can see cause-and-effect relationships that clarify how every objective measurement they choose should be part of a chain of events that leads the corporate goal.

Beside performance measurement, the Balanced Scorecard provides the cornerstone for a new strategic management system. The scorecard enables organizations to introduce new governance and renew process focusing on strategy. It does not rely on short-term financial measures as the sole indicators of performance but it does the following additional functions:

I. Translate strategy to action, making strategy everyone's job.

II. Manage the intangible assets e.g. customer loyalty, innovation, employee capabilities.

III. Leverage cross functionality without changing the structure of the business.

IV. Measure what matters the critical few vs. the important many in real time, not just after the facts.

V. Create a daily management system for the day-to-day navigation of the business.

A Balanced Scorecard, however, suffers from some major drawbacks. The most important among these are:

1. The Balanced Scorecard decomposes the organization's primary objectives (financial perspective) into customer, internal process and

learning and growth objectives (operating perspectives) in a way that is reminiscent of the way that the Dupont formula decomposed the return on capital employed metric into front-line operational measures. But such type of relationship does not necessarily hold between financial and operational measures and operational achievements do not guarantee the improved bottom-line measures; and in that case the management has to reexamine the basic assumptions of their strategy and mission to capitalize the operational achievements.

2. To make scorecard useful, it should be prepared in conformity with the overall business strategies. Thus, companies may bias their scorecards to the dimensions that closely support their strategic direction. For instance, a company that seeks leadership through customer service would link, or bias, its scorecard measures directly to customer satisfaction objectives and in that case the scorecard would become 'biased' rather than 'balanced'.

3. It is difficult to integrate a company's scorecard into its planning, budgeting and resource allocation process; especially when scorecard metrics are changed. One way to overcome this problem is that the measures on the scorecard should be the same measures around which planning and targets are set, budgets are developed and projects are prioritized; and in that case the scorecard becomes the agenda for the management process rather than an essential management tool.

4. In order to make the scorecard more useful and practical it is necessary to assign weights to different measures (both financial and non-financial) on the basis of their importance to the organization for specifying trade-off between financial and non-financial measures. But it is a complicated task. Again, determining goals and corresponding measures under each perspective is also not easy. Thus, the development of Balanced Scorecard requires a lot of skill and expertise of the management, time and expenditure of money and for this reason still now it is the out of reach of most of the small and medium-sized organizations.

5. To make the scorecard more efficient and useful a large number of both financial and non-financial measures are to be included in it and these should be continually modified on the basis of measurement feedback. It may make the approach complicated and if implemented poorly, the scorecard will most likely contribute to the mass of data under which many organizations are straining to survive.
6. There are some organizations like investment companies to whom Balanced Scorecards have little value as they are interested in improving financial performance only.
7. The creditors, debenture holders and even shareholders of an organization are interested in financial performance rather than operating performance which compels the management to give much emphasis on financial perspective of the organization making the scorecard imbalanced.
8. A new doctrine of corporate social responsibility (CSR) has become widely accepted in the business world. It is presented as the key to ensuring that business makes its full and due contribution to agreed social goals. An organization, as a "corporate citizen", has to contribute for the welfare of the society and has to respond to society's expectations. In this lies the key to commercial success, since profits depend on reputation, which, in turn, depends on being seen to act in a socially responsible way. Thus, CSR will be good for enterprise-profitability and to pursue the goal of "sustainable growth and development". But this perspective of CSR in missing in Balanced Scorecard while stating the four perspectives.

Conclusion

In conclusion, in spite of theoretical superiority and comprehensiveness, the Balanced Scorecard approach for measuring corporate performance has some practical difficulties which are mainly associated with its development and implementation; and that is the reason why the concept of Balanced Scorecard (both as a measurement and management technique) developed and written about by Robert S. Kaplan and David P. Norton in 1992, has not widely accepted and its popularity has not yet peaked. But it cannot marginalize the superiority of the Balanced Scorecard itself. To make it more useful it is required to refine the concept and develop a better understanding of the critical success factors for successful deployment. By becoming proficient in the approach, organizations can readily access their vision and strategies by measuring performance against established goals. A strategic orientation driven by actual shareholders' needs and expectations, focused on the organization's mission and supported by an integrated performance-measurement system like the Balanced Scorecard can greatly assist the management in steering their organization in right direction and facing the competitive challenges of the new millennium. To make scorecard more successful the following points are to be considered.

I. Reach cross-functional agreement on strategic direction.

II. Translate the strategy into staff's everyday speak.

III. Understand the cause and effect of linkages between strategy / process capability.

IV. Identify the measures of success; critical strategic initiatives; and process drivers.

V. Set up accountability contracts.

VI. Cascade the scorecard into the organization.

The above additional actions help us to get

I. Alignment and focus of the organization around a common purpose and strategic direction.

II. Resource prioritization and allocation.

III. An on-going feedback mechanism to make real time, mid-course adjustments to priorities.

IV. A set of balances metrics.

The predicted future of the Balanced Scorecard is

- Increased specialization
    - Sector-based scorecard templates. E.g. Health care BSC.

- Department-level scorecard templates. E.g. Human Resources BSC.

➢ Increased sophistication of tools.

- Linkage to executive information systems.
- More rigorous economic analysis.
- Performance simulation.

Last of all we can conclude that

- Balanced Scorecard provides a framework needed for strategic alignment and organizational learning.
- Names may change, but some features will continue:
    - Performance measurements.
    - Results-based planning and management.
    - Increased use of information technology.
    - Increased sharing of data for benchmarking.
- Balanced scorecard is not a "flavour of the month" but an evolving management concept.

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