Management Information System
Prof. Kunal Kanti Ghosh
Vinod Gupta School of Management
Indian Institute of Technology, Kharagpur

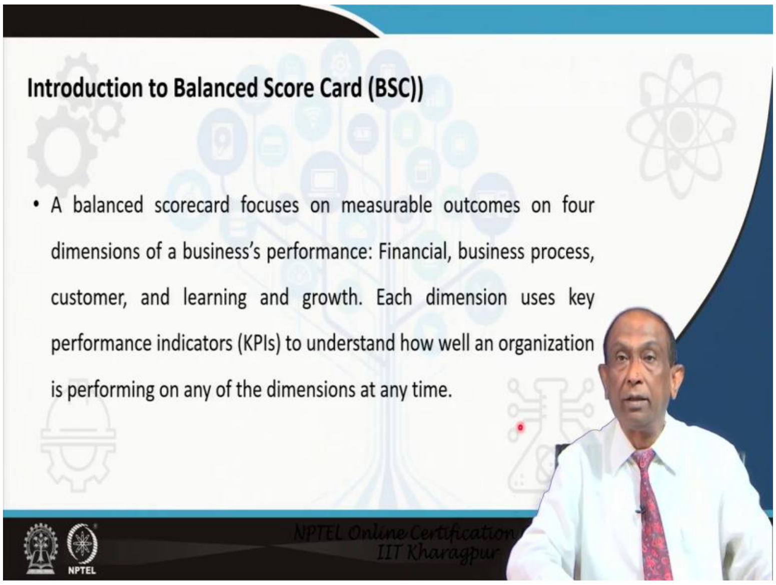
Week – 07
Module – 03
Lecture – 32
Balanced Score Card

Hi, welcome to the 3rd Module of the 7th Week on "Management Information Systems"! In the last module, we had talked about the need for introducing performance measures of a firm in a balanced manner taking into consideration, not only it is financial objectives but also there is a need to focus on customer related objectives, business process related objectives, and goals associated with learning and improvement of the overall processes connected with this learning. And hence, this concept of balanced score card has become very-very popular.

(Refer Slide Time: 01:54)

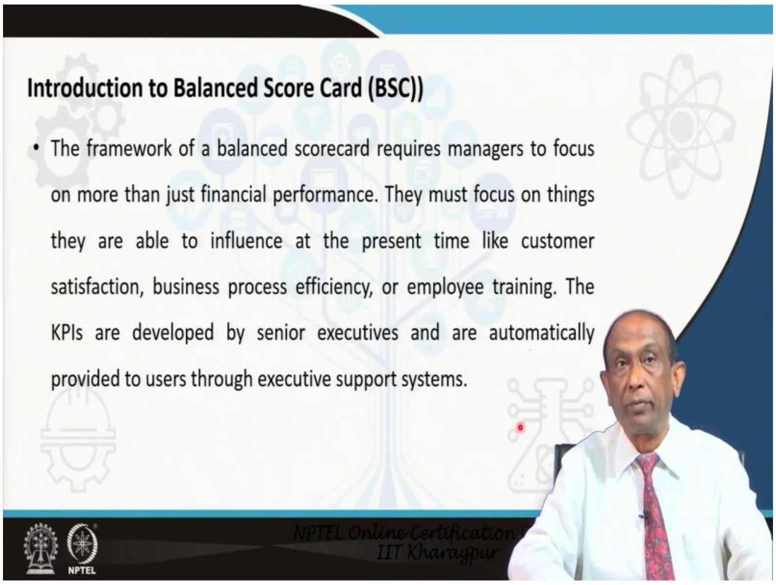
So, in this module we are going to discuss in detail the concept of Balanced Score Card. As companies around the world transform themselves for competition that is based on information, their ability to exploit intangible assets has become more decisive than their ability to invest in and manage physical assets. And hence, lies the importance of Balanced Score Card acronymed as BSC.

(Refer Slide Time: 02:40)



A balanced score card focuses on measurable outcomes on four dimensions of a business's performance. What are those four dimensions? Financials, business processes, customer, as well as learning and growth. Each of these dimensions uses key performance indicators known as KPIs to understand how well an organization is performing in any of these dimensions at any point in time.

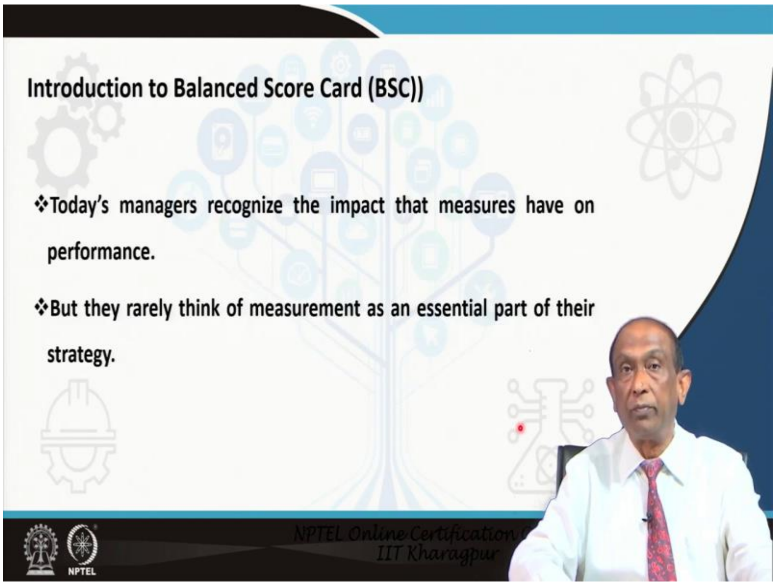
(Refer Slide Time: 04:12)



The framework of a balanced scorecard requires managers to focus on more than just financial performance. They must focus on things that are able to influence the performance of the organization at any point in time; like say, customer satisfaction, efficiency of the business processes, the training imparted to their employees, everything is important and needs to be measured in a balanced manner.

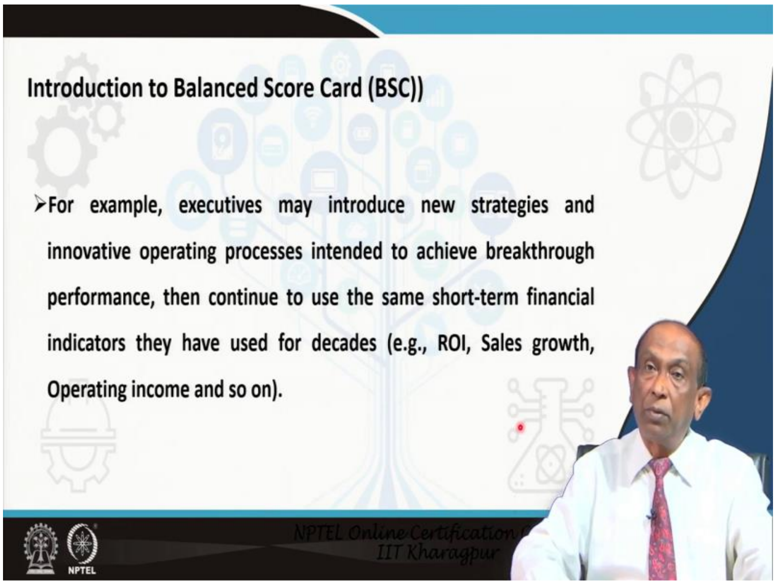
So matrix, performance matrix or key performance indicators are developed by senior executives and are automatically provided to users, through these balanced scorecard systems and sometimes they are deployed through executive support systems. We will discuss about these executive support systems in subsequent module.

(Refer Slide Time: 05:56)



So, today's managers, they recognise the impact that these measures or matrix have on performance of the organisation. But unfortunately, they rarely think of these measurement as an essential part of their strategy.

(Refer Slide Time: 06:39)

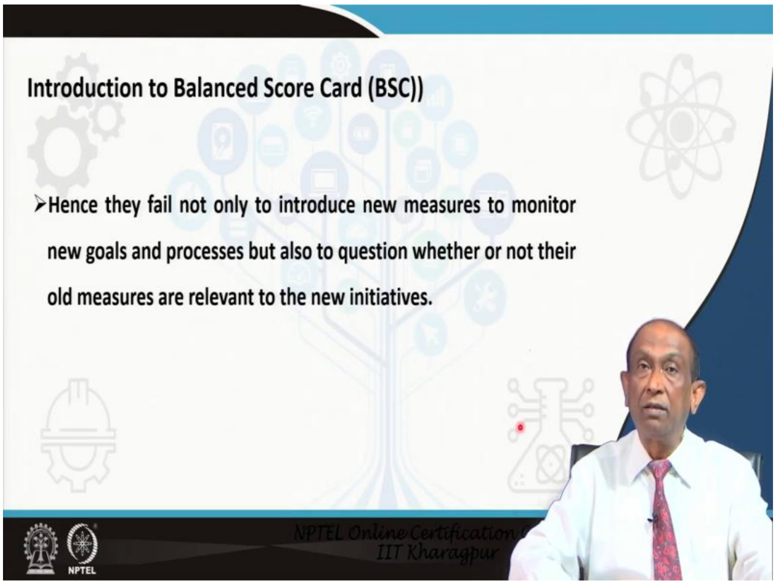


For example, executives may introduce new strategies and innovative operating processes which are made for achieving breakthrough performance, but they continue to use the same short term financial indicators for example, return on investment, sales growth, operating income and related measures which they have used for decades. There is no emphasis on the performance of the new processes, innovative operating processes that they have introduced or the new strategies that they have deployed.

They do not know whether those processes are effective or not, whether they are being deployed efficiently or not, whether these new strategies are bringing in favourable results to the organization or not, because they are only focused on financial performance measures.

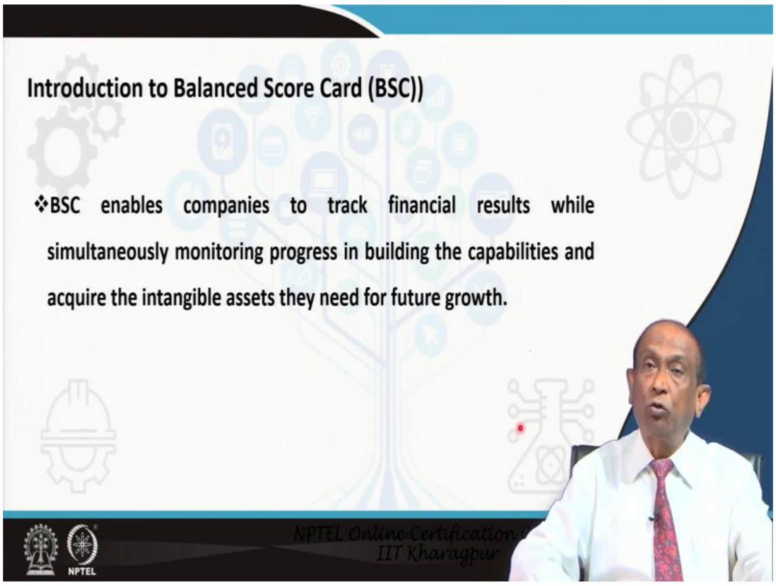
They do not have balanced set of measures and this is really unfortunate. But all world class companies; companies who are successful, they effectively deploy their strategies through adoption of balanced scorecard. Cascading of strategies through balanced scorecard is a very powerful mean for achieving success.

(Refer Slide Time: 08:51)



But since, traditional managers, they do not use this BSC's they fail not only to introduce new measures to monitor new goals and processes, but also to question whether or not their old measures are relevant to the new initiative that they have taken.

(Refer Slide Time: 09:39)

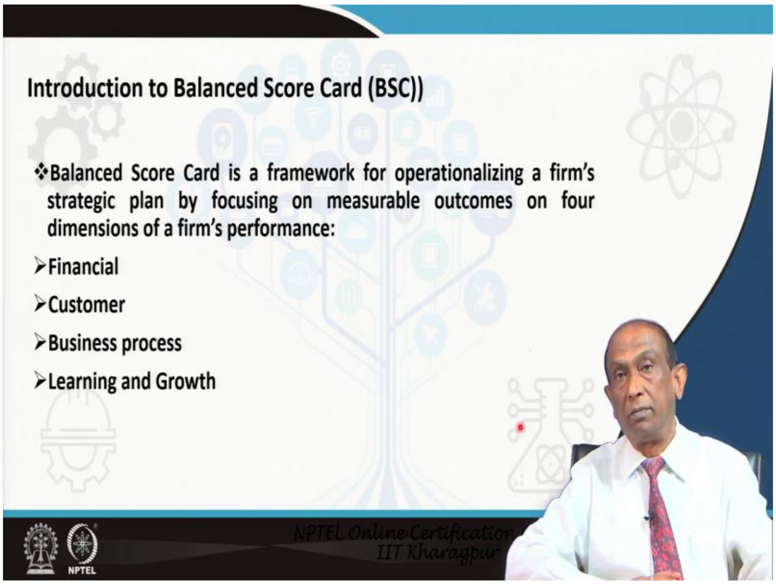


Balance score card enables companies to track financial results while simultaneously monitoring progress in building the capabilities and acquire the intangible assets, the managers they think they need for the future growth of the organization.

(Refer Slide Time: 10:26)

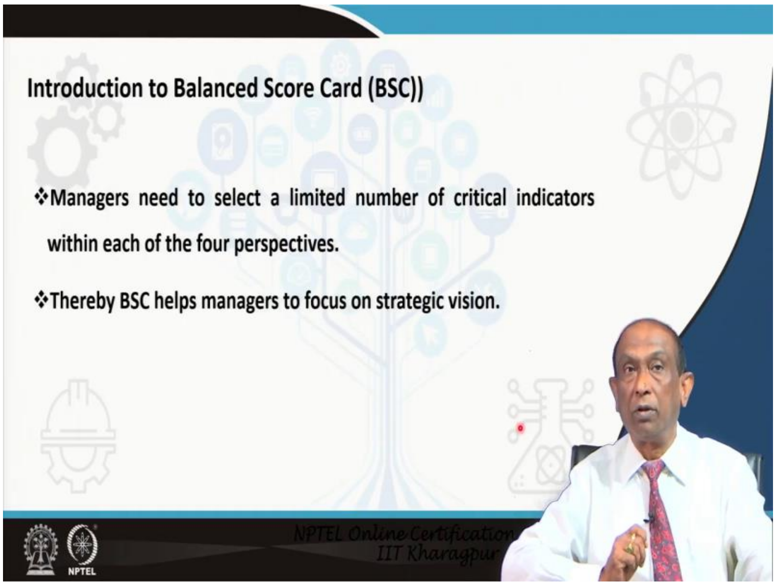
Balance score card; the system as a whole thereby addresses a serious deficiency in traditional management systems. What is that deficiency? The inability to link a company's long term strategy with its short term action plans. Balanced Score Card or BSC enables them to overcome this serious deficiency. Balanced score card is a comprehensive framework that translates a company's strategic objectives into a consistent and a coherent set of performance measures.

(Refer Slide Time: 11:49)



So once again, balanced scorecard is a framework for operationalizing a firm's strategic plan by focusing on measurable outcomes on four dimensions of a firm's performance. What are those dimensions? Financial dimension, the customer's perspective, the business processes, and the fourth one is learning and growth.

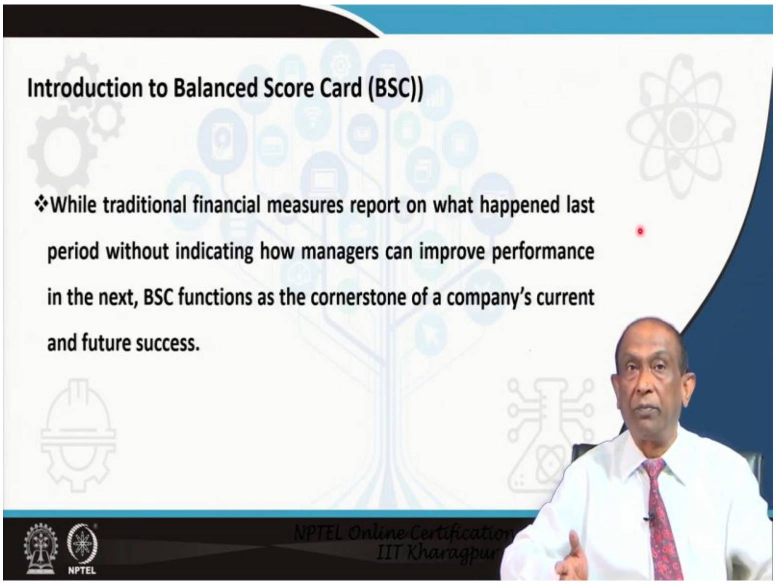
(Refer Slide Time: 12:38)



Managers need to select a limited number of critical indicators within each of these four perspectives. You see, this is very important, just because I have to measure in a balanced manner, the performance of the firm related to each of these dimensions. The scorecard should not be cluttered or get jumbled up with too many indicators. If that be so, the purpose will get defeated.

Because, managers while reviewing the performance will not be able to comprehend the achievements of the firm or the performance of the firm; if there are too many indicators, where, they need to concentrate. And hence, the focus is on limited number of critical indicators. And, the design of these critical indicators or KPIs is very very important. Thereby, balance scorecard will help managers to focus on their long term objectives, which is basically the vision.

(Refer Slide Time: 14:54)

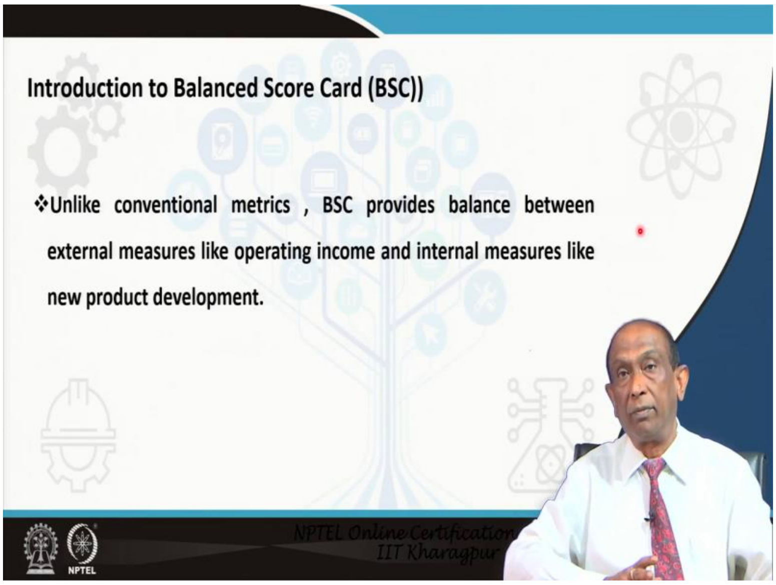


Another important aspect of balanced scorecard is that while traditional financial measures they report on what happened during the last period that is mainly post mortem analysis, without indicating how managers can improve performance in the next quarter. BSC functions as the cornerstone of a company's current and future success.

That means, traditional financial measures have all the time mostly focused on indicators which are termed as lag indicators; that means, something has already happened and we are analysing it to find out what went wrong.

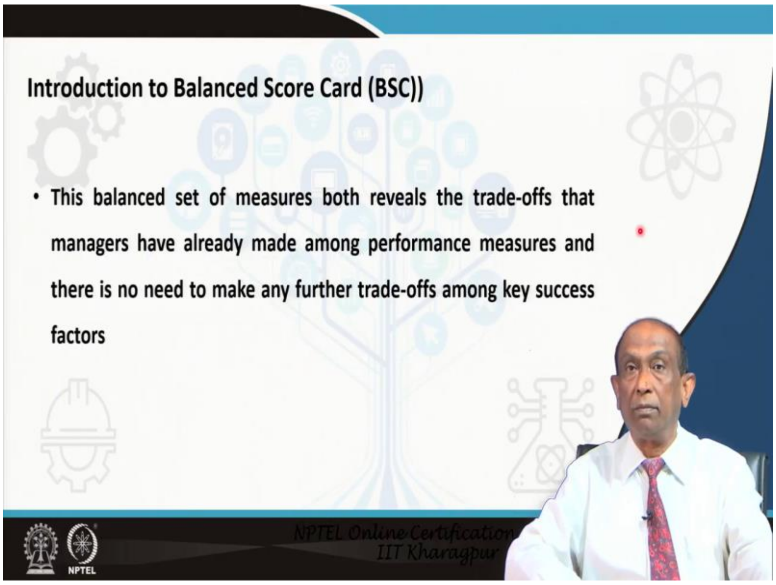
On the contrary, balance scorecard introduces a suitable mix of lag as well as leading indicators. These lead indicators basically will guide the company's managers in bringing the required improvement that they are expecting through the deployment of the strategy.

(Refer Slide Time: 17:21)



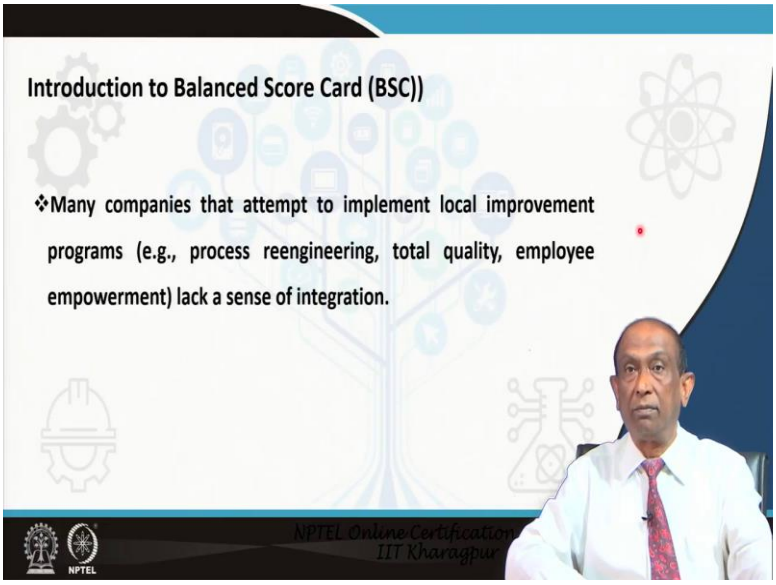
So, unlike conventional matrix, BSC provides a balance between external measures like operating income and internal measures like new product development.

(Refer Slide Time: 18:00)



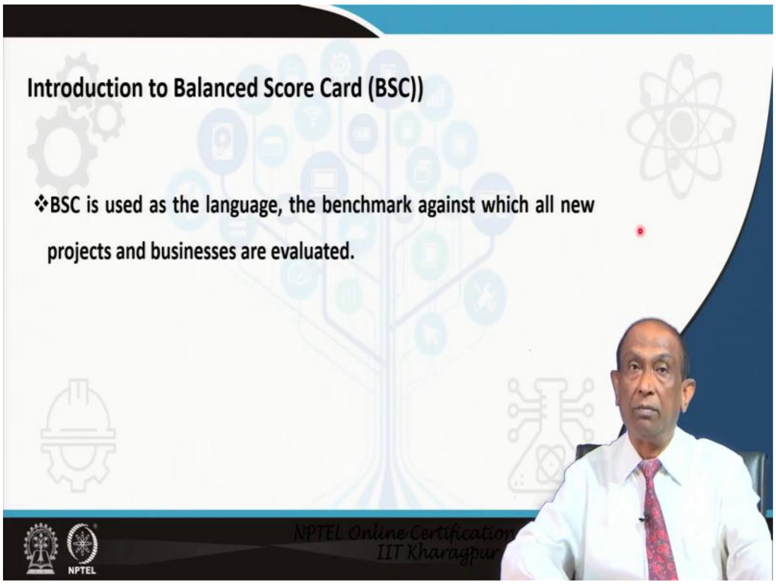
The balance set of measures thus, reveals the trade-offs that managers have already made among performance measures and there is no need to make any further trade-offs among key success factors.

(Refer Slide Time: 18:36)



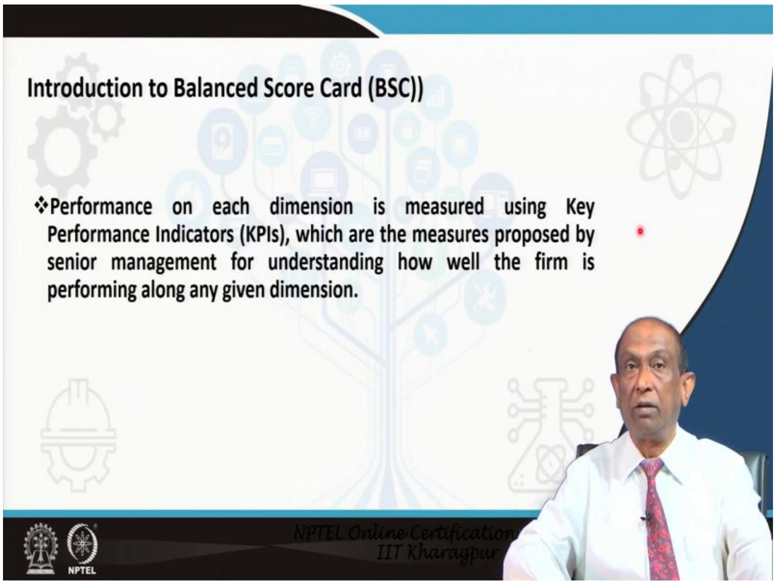
Many companies that attempt to implement local improvement programmes; for example, process reengineering, total quality, management employee empowerment and so on, they lack a sense of integration. Because in most cases, these new initiatives are introduced in the organization in an isolated manner, in a standalone manner and there is no integrated perspective as a whole for the deployment of strategy.

(Refer Slide Time: 19:48)



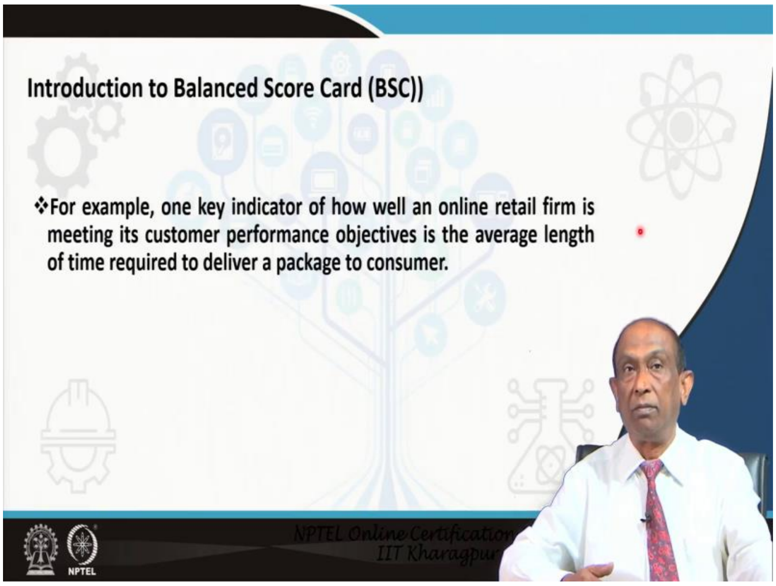
BSC is used as the language, the benchmark against which all new projects and businesses are evaluated.

(Refer Slide Time: 20:13)



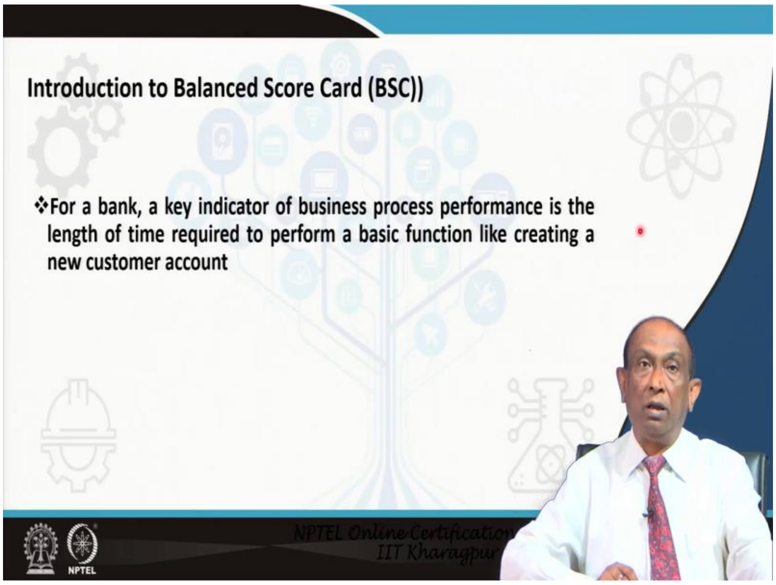
Performance on each dimension is measured using key performance indicators; KPIs, which are basically the measures proposed by senior management for understanding how well the firm is performing along any given dimension.

(Refer Slide Time: 20:49)



For example, one key indicator of how well an online retail firm is meeting its customer performance objectives is the average length of time required to deliver a package to consumer. So, average length of time required to deliver a package to consumer is one of the KPIs related to customer's perspective for an online retail firm. Like this, various KPIs need to be carefully designed and deployed by senior executives.

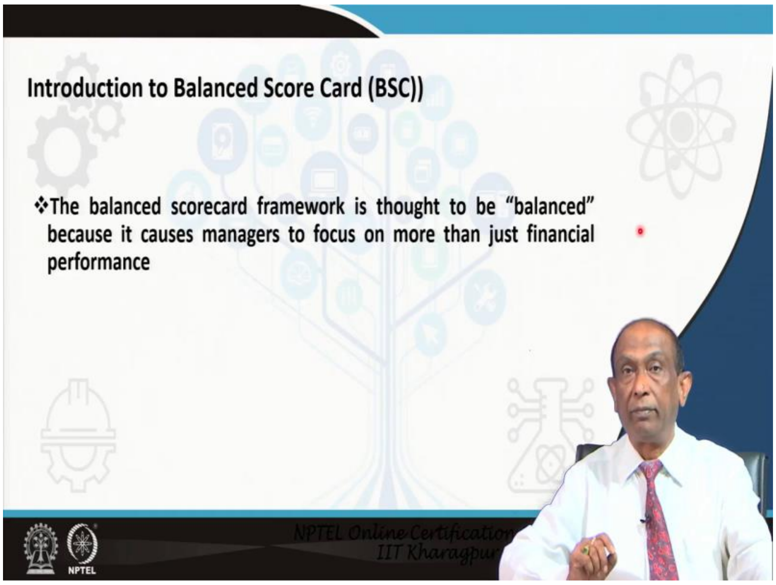
(Refer Slide Time: 21:44)



For a bank, a key indicator of business process performance maybe the length of time required to perform a basic function like creating a new customer account. So, another KPI related to business process perspective or that particular dimension for a bank is average length of time required to create a new customer account.

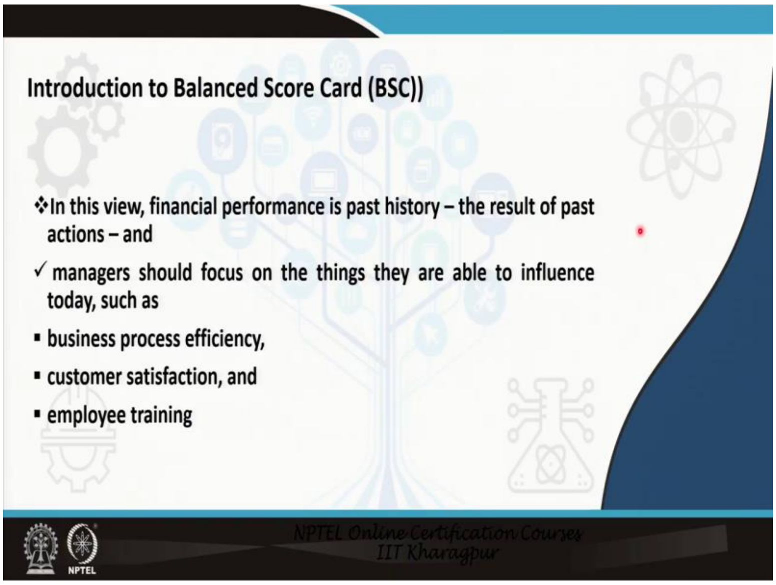
And, if that time is reasonably short; that means, the bank is doing well with respect to the business process perspective or that dimension. So, design of KPIs it is very very important and needs to be very carefully deployed.

(Refer Slide Time: 23:17)



The balanced scorecard framework is thought to be "balanced" because it is causing managers to concentrate or focus on more than just financial performance.

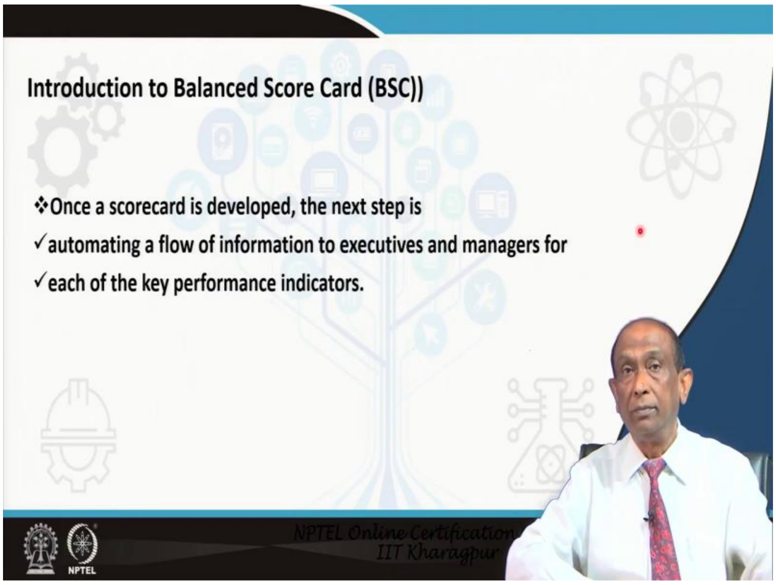
(Refer Slide Time: 23:46)



In this view, financial performance is just a past history – the result of past actions and most of the indicators associated with this financial performance are lagging indicators. But, in order that the balanced scorecard can be a powerful vehicle for achieving or deploying an organization's strategy is that, through the balanced scorecard managers should focus on those things that they are able to influence today at this point in time.

For example, efficiency of all the business processes, achievement of customer satisfaction, and maybe effective deployment of employee training.

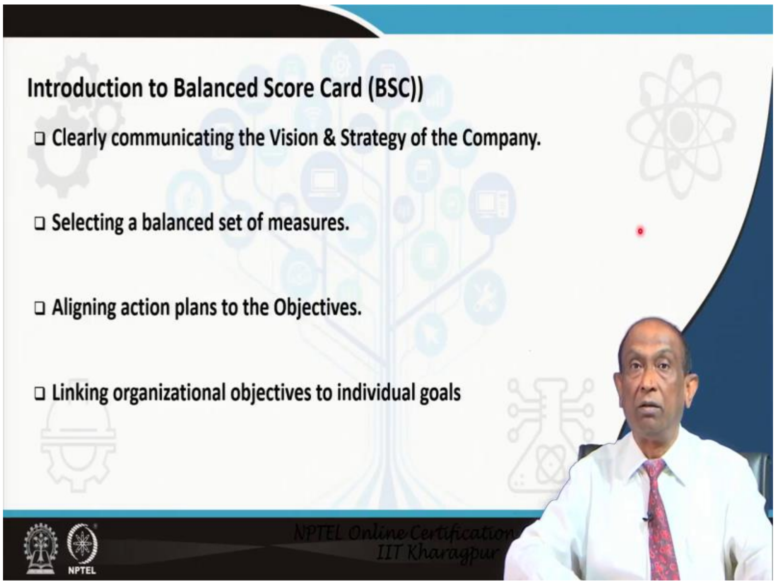
(Refer Slide Time: 25:10)



Once a scorecard is developed, the next step is to automate the flow of information to executives and managers for each of these key performance indicators. That means, the design of these indicators should be such, that not only they are comprehensible; that means, easy to understand, but all of these indicators should be measurable and the organization should have a database, wherein all the input data to compute these indicators can be captured and maintained and, did that data can be easily accessed or retrieved for computation of these indicators.

Sometimes, the systems are so well designed that this particular module the BSC fetches the required data and the model computes the indicators and displays the value of these indicators through a dashboard which are presented onto the terminals of the executives. Sometimes the indicators are associated with pictures or graphs, so that the managers can appreciate and understand those indicators in a proper manner.

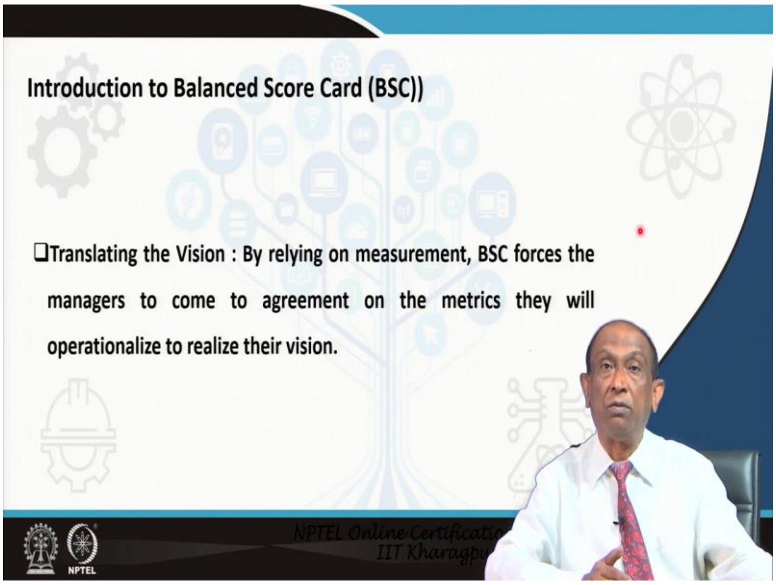
(Refer Slide Time: 27:29)



So, balance scorecard is a vehicle for clearly communicating the vision and the strategy of a company. The important thing is selecting a balanced set of measures, aligning action plans to the firm's objectives and linking off organizational objectives to individual goals.

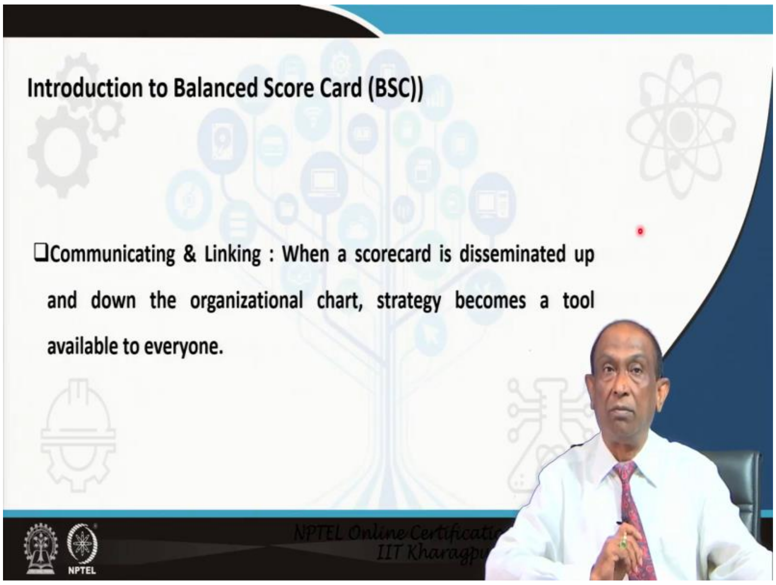
And, sometimes the key result areas of the individuals, they can be linked with the organizational objectives. So employees; they understand whatever they are doing, how it is helping the organization or the firm to achieve its objectives.

(Refer Slide Time: 28:41)



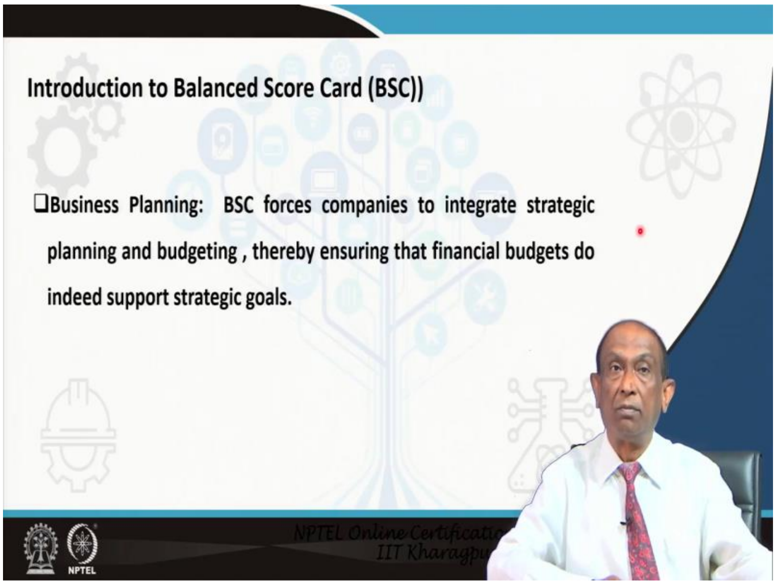
So, BSC forces managers through this reliance on measurement to come to agreement on the metrics that they will require to realize their vision.

(Refer Slide Time: 29:15)



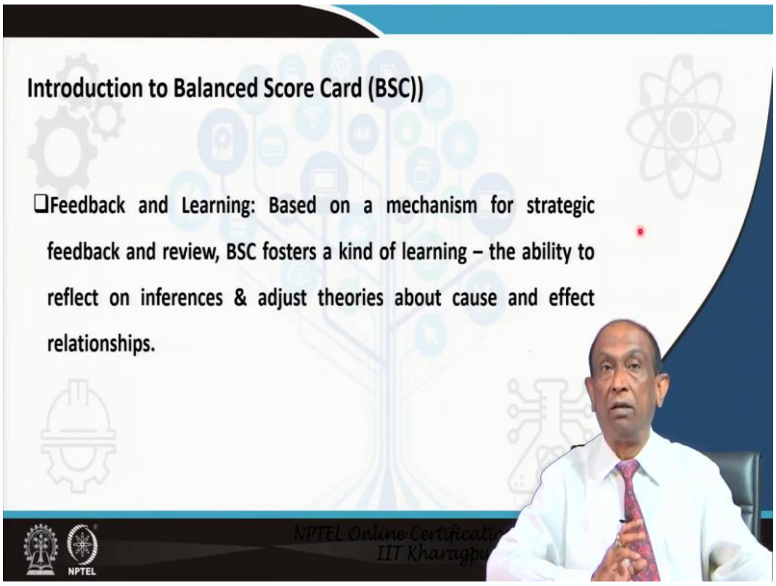
BSC also helps in communicating and linking; when this balance scorecard is disseminated up and down the organizational chart, strategy becomes a tool available to everyone. Everyone understands the organization’s goals and objectives in an appropriate manner. Hence, cascading strategy through balanced scorecard is one of the important success measures of all world class companies.

(Refer Slide Time: 30:09)



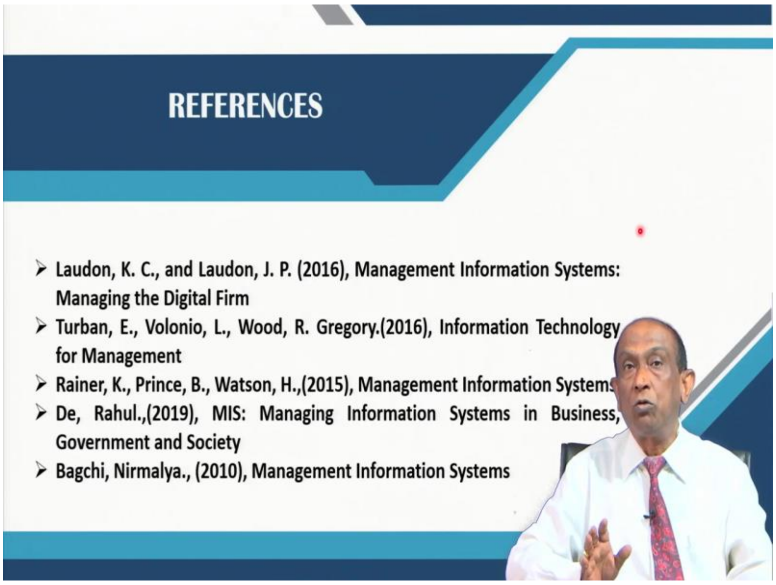
Balanced scorecard forces companies to integrate strategic planning and budgeting, thereby ensuring that financial budgets do indeed support the strategic goals of the organization.

(Refer Slide Time: 30:33)



And last but not the least, based on a mechanism for strategic feedback and review, balance scorecard fosters a kind of learning which is the ability to reflect on the inferences and adjust the theories about cause and effect relationships.

(Refer Slide Time: 31:12)



This in short is what we wanted to communicate and make you understand related to this concept of balanced score card. These are the references that have been used for preparing and delivering this particular module.

Thank you for your patience!