

## Balanced Scorecard

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Sundar Sankaran\*  
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According to a study by Fortune, the leading international business magazine, less than 10 per cent of strategies effectively formulated, are effectively executed. It is shocking that 9 out of 10 strategies fail, even if they are well formulated.

Last week, I met Mr. Naresh Makhijani of Balanced Scorecard Solutions Pte Ltd, Singapore. According to him, strategy implementation could fail on account of any of the following lacunae –

- Strategy is not understood by those who must implement it. It is not translated into objectives that people down the line understand.
- Management systems are designed for operational control and tied to budgets, not strategy. Majority of the information comes from accounting systems, although currency is a poor proxy for root causes.
- Key processes are not designed to leverage the drivers of strategy. If customers value innovation, then the organization needs to have processes that promote innovation.
- Personal goals, knowledge building and competencies are not linked to strategy implementation. Thus, the alignment between the individual and the organization is lost.

A framework that addresses these issues and facilitates strategy implementation is the **Balanced Scorecard** (BSC). Robert S Kaplan of the Harvard Business School, together with David P Norton of Renaissance Solutions of Massachusetts conceived the BSC<sup>1</sup> in the mid-nineties. Since then, over 60 per cent of the Fortune 1000 companies have adopted it. Balanced Scorecard is equally relevant to small and medium enterprise, government departments and not-for-profit ventures.

The starting point for constructing a BSC for any company is its strategy map – *where the organisation proposes to go and how*. This throws up the critical perspectives that would determine the success or otherwise of the strategy. These could, for instance, include -

1. **Financial Perspective** *To succeed financially, how should we appear to our shareholders?* This converts into rupees, the consequences of actions already taken – and proposed.
2. **Customer Perspective** *To achieve our vision how should we appear to our customers?* A good customer perspective would measure the value propositions that the customer values.

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\* Director, Advantage-India Consulting Private Limited

<sup>1</sup> Robert S Kaplan and David P Norton, *Translating Strategy Into Action*, 1996, HBS Press

3. **Internal process perspective** *To satisfy our shareholders and customers, what business processes must we excel at?* This enables the organization to deliver the value propositions that will attract and retain customers.
4. **Learning and growth perspective** *To achieve our vision, how will we sustain our ability to change and improve* Here, the BS identifies the infrastructure that organization must build to create long term growth and improvement. This could revolve around 3 sources – people, systems and organization procedures

A well-constructed BSC would include Objectives, Measures, Targets and Initiatives for each perspective.

The best Balanced Scorecards are more than collections of critical indicators or key success factors. The multiple measures on a properly constructed Balanced Scorecard should consist of a linked series of objectives and measures that are both consistent and mutually reinforcing. The metaphor should be a flight simulator, not a dashboard of instrument dials. Like a flight simulator, the scorecard should incorporate the complex set of cause-and-effect relationships among the critical variables, including leads, lags, and feedback loops, that describe the trajectory, the flight plan of the strategy.<sup>2</sup>

In order to be effective, BSC should be implemented under a framework of four independent processes -

1. **Translating the vision** - helps managers build a consensus around the organisation's vision and strategy
2. **Communicating and linking** - lets managers communicate their strategy up and down the organisation and links it to departmental and individual objectives.
3. **Business Planning** - enables organisations to integrate their business and financial plans
4. **Feedback and learning** - gives organisations the capacity for strategic learning.

According to Naresh, globally companies use BSC for any of the following purposes -

- Resource allocation
- Performance management
- Process management
- Communication and feedback
- Human Resource System

BSC is a useful tool for top management to communicate its vision across the organization, monitor the progress towards realizing the vision and manage the expectations of all stakeholders. *Indian companies are well advised to use the BSC to ensure successful implementation of their corporate strategies.*

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<sup>2</sup> ibid