

# THE BALANCED SCORECARD

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## Introduction

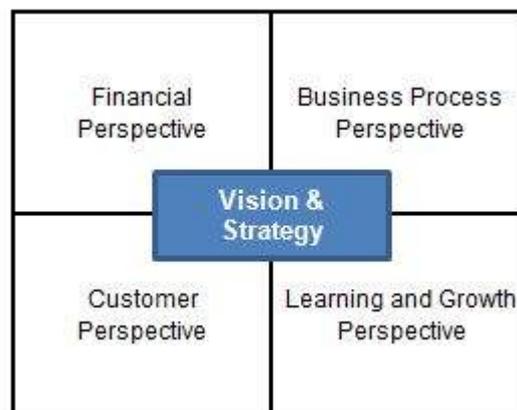
The balance scorecard is used as a strategic planning and a management technique. This is widely used in many organizations, regardless of their scale, to align the organization's performance to its vision and objectives.

The scorecard is also used as a tool, which improves the communication and feedback process between the employees and management and to monitor performance of the organizational objectives.

As the name depicts, the balanced scorecard concept was developed not only to evaluate the financial performance of a business organization, but also to address customer concerns, business process optimization, and enhancement of learning tools and mechanisms.

## The Basics of Balanced Scorecard

Following is the simplest illustration of the concept of balanced scorecard. The four boxes represent the main areas of consideration under balanced scorecard. All four main areas of consideration are bound by the business organization's vision and strategy.



The balanced scorecard is divided into four main areas and a successful organization is one that finds the right balance between these areas.

Each area *perspective* represents a different aspect of the business organization in order to operate at optimal capacity.

- **Financial Perspective** - This consists of costs or measurement involved, in terms of rate of return on capital *ROI* employed and operating income of the organization.
- **Customer Perspective** - Measures the level of customer satisfaction, customer retention and market share held by the organization.
- **Business Process Perspective** - This consists of measures such as cost and quality related to the business processes.
- **Learning and Growth Perspective** - Consists of measures such as employee satisfaction, employee retention and knowledge management.

The four perspectives are interrelated. Therefore, they do not function independently. In real-world situations, organizations need one or more perspectives combined together to achieve its business objectives.

For example, Customer Perspective is needed to determine the Financial Perspective, which in turn can be used to improve the Learning and Growth Perspective.

## Features of Balanced Scorecard

From the above diagram, you will see that there are four perspectives on a balanced scorecard. Each of these four perspectives should be considered with respect to the following factors.

When it comes to defining and assessing the four perspectives, following factors are used:

- **Objectives** - This reflects the organization's objectives such as profitability or market share.
- **Measures** - Based on the objectives, measures will be put in place to gauge the progress of achieving objectives.
- **Targets** - This could be department based or overall as a company. There will be specific targets that have been set to achieve the measures.
- **Initiatives** - These could be classified as actions that are taken to meet the objectives.

## **A Tool of Strategic Management**

The objective of the balanced scorecard was to create a system, which could measure the performance of an organization and to improve any back lags that occur.

The popularity of the balanced scorecard increased over time due to its logical process and methods. Hence, it became a management strategy, which could be used across various functions within an organization.

The balanced scorecard helped the management to understand its objectives and roles in the bigger picture. It also helps management team to measure the performance in terms of quantity.

The balanced scorecard also plays a vital role when it comes to communication of strategic objectives.

One of the main reasons for many organizations to be unsuccessful is that they fail to understand and adhere to the objectives that have been set for the organization.

The balanced scorecard provides a solution for this by breaking down objectives and making it easier for management and employees to understand.

Planning, setting targets and aligning strategy are two of the key areas where the balanced scorecard can contribute. Targets are set out for each of the four perspectives in terms of long-term objectives.

However, these targets are mostly achievable even in the short run. Measures are taken in align with achieving the targets.

Strategic feedback and learning is the next area, where the balanced scorecard plays a role. In strategic feedback and learning, the management gets up-to-date reviews regarding the success of the plan and the performance of the strategy.

## **The Need for a Balanced Scorecard**

Following are some of the points that describe the need for implementing a balanced scorecard:

- Increases the focus on the business strategy and its outcomes.
- Leads to improvised organizational performance through measurements.
- Align the workforce to meet the organization's strategy on a day-to-day basis.
- Targeting the key determinants or drivers of future performance.
- Improves the level of communication in relation to the organization's strategy and vision.
- Helps to prioritize projects according to the timeframe and other priority factors.

## **Conclusion**

As the name denotes, balanced scorecard creates a right balance between the components of organization's objectives and vision.

It's a mechanism that helps the management to track down the performance of the organization and can be used as a management strategy.

It provides an extensive overview of a company's objectives rather than limiting itself only to financial values.

This creates a strong brand name amongst its existing and potential customers and a reputation amongst the organization's workforce.

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