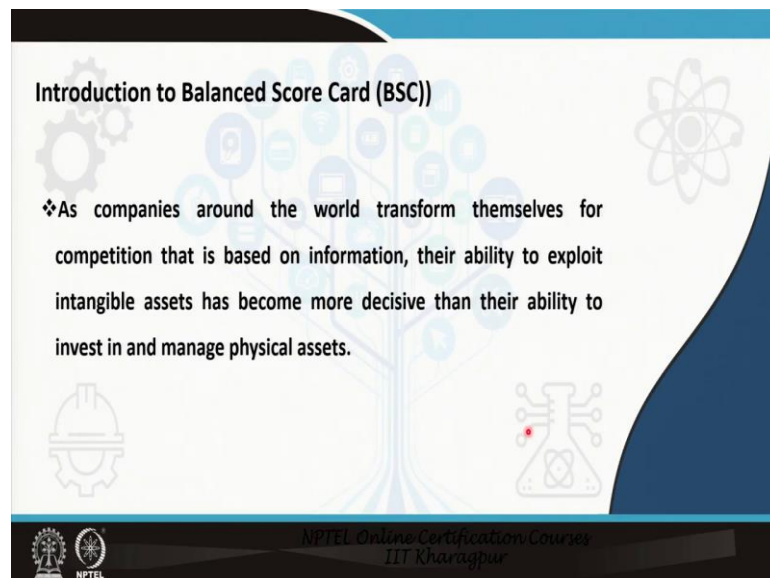


Management Information System
Prof. Kunal Kanti Ghosh
Vinod Gupta School of Management
Indian Institute of Technology, Kharagpur

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

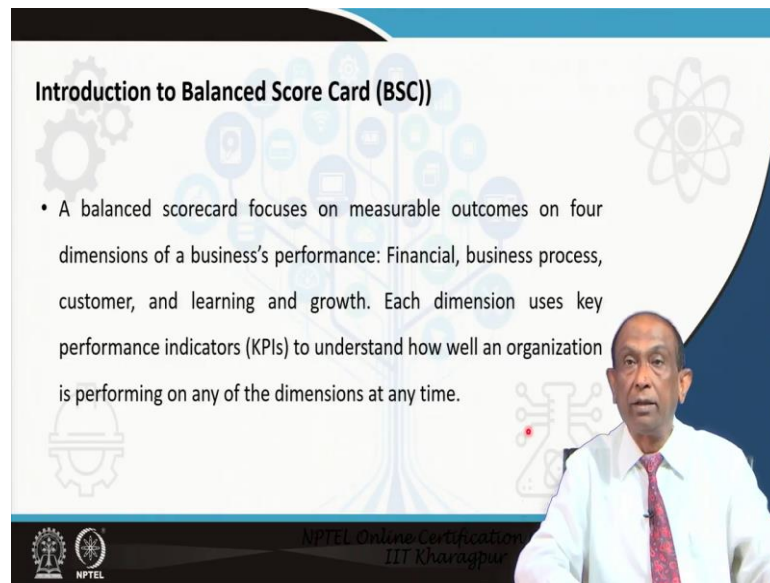
Hi, welcome to the 3rd Module of the 7th Week on “Management Information Systems”! In the last module, we had talked about the need for introducing performance measures of a firm in a balanced manner taking into consideration, not only it is financial objectives but also there is a need to focus on customer 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.

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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.

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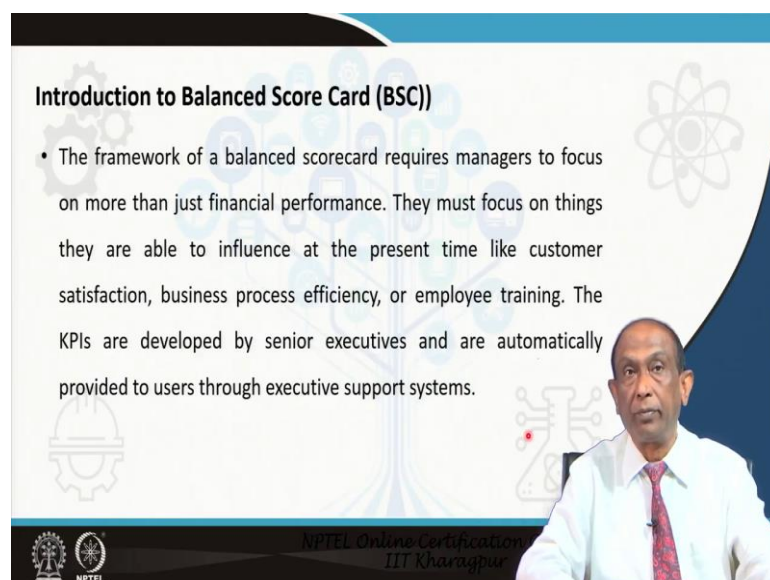
Introduction to Balanced Score Card (BSC)

- A balanced scorecard focuses on measurable outcomes on four dimensions of a business's performance: Financial, business process, customer, and learning and growth. Each dimension uses key performance indicators (KPIs) to understand how well an organization is performing on any of the dimensions at any time.

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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.

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Introduction to Balanced Score Card (BSC)

- The framework of a balanced scorecard requires managers to focus on more than just financial performance. They must focus on things they are able to influence at the present time like customer satisfaction, business process efficiency, or employee training. The KPIs are developed by senior executives and are automatically provided to users through executive support systems.

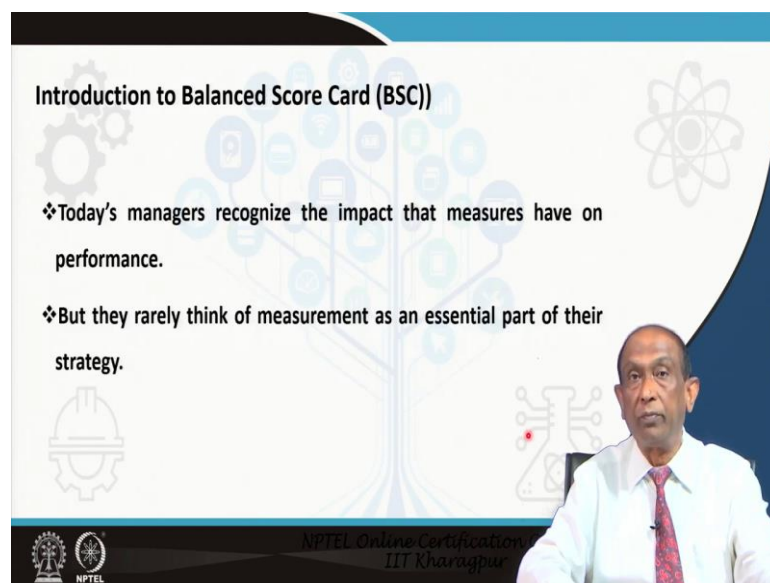
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The framework of a balanced scorecard requires managers to focus on more than just financial performance. They must focus on things that are able to influence the

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.

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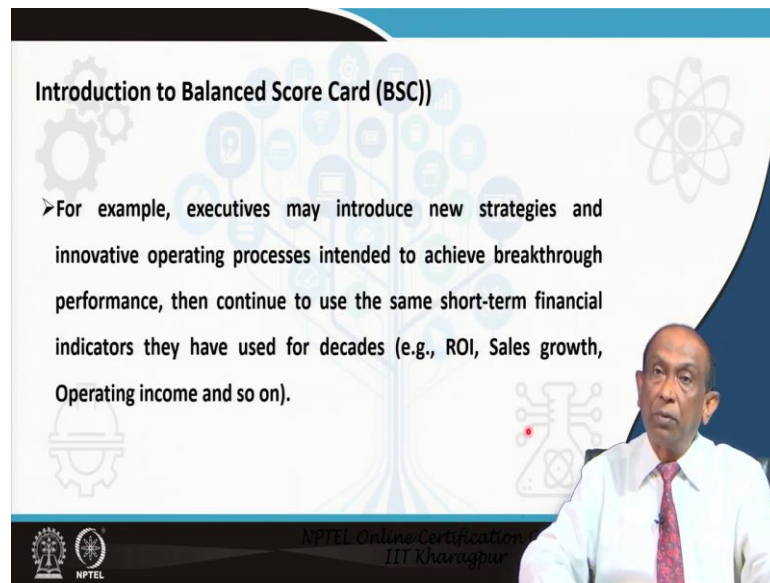
The slide is titled "Introduction to Balanced Score Card (BSC)". It features a background with various icons including gears, a tree, a hard hat, and a circuit board. The text on the slide reads:

- ❖ Today's managers recognize the impact that measures have on performance.
- ❖ But they rarely think of measurement as an essential part of their strategy.

In the bottom right corner, there is a video inset of a man in a white shirt and tie speaking. At the bottom of the slide, there are logos for NPTEL and IIT Kharagpur.

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.

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The slide features a white background with a blue header and footer. The title 'Introduction to Balanced Score Card (BSC)' is in the top left. A bulleted point is in the center. The speaker, a man in a white shirt and red tie, is in the bottom right. The footer contains the NPTEL logo and text.

Introduction to Balanced Score Card (BSC)

- For example, executives may introduce new strategies and innovative operating processes intended to achieve breakthrough performance, then continue to use the same short-term financial indicators they have used for decades (e.g., ROI, Sales growth, Operating income and so on).

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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.

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Introduction to Balanced Score Card (BSC)

- Hence 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 initiatives.

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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.

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Introduction to Balanced Score Card (BSC)

- ❖ BSC enables companies to track financial results while simultaneously monitoring progress in building the capabilities and acquire the intangible assets they need for future growth.

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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.

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Introduction to Balanced Score Card (BSC)

- BSC addresses a serious deficiency in traditional management systems : their inability to link a company's long-term strategy with its short term actions.
- BSC is a comprehensive framework that translates a company's strategic objectives into a coherent set of performance measures.

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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.

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Introduction to Balanced Score Card (BSC)

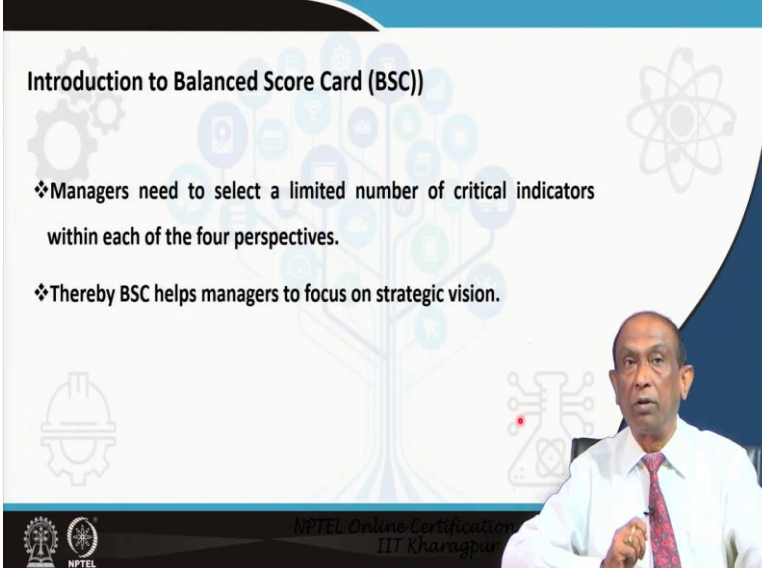
❖ Balanced Score Card is a framework for operationalizing a firm's strategic plan by focusing on measurable outcomes on four dimensions of a firm's performance:

- Financial
- Customer
- Business process
- Learning and Growth

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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.

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The slide features a light blue background with a central graphic of a tree whose branches are represented by various icons like gears, a lightbulb, and a network diagram. The text on the slide is as follows:

Introduction to Balanced Score Card (BSC)

- ❖ Managers need to select a limited number of critical indicators within each of the four perspectives.
- ❖ Thereby BSC helps managers to focus on strategic vision.

In the bottom right corner, a man in a white shirt and red tie is speaking. The bottom of the slide includes the NPTEL logo and the text 'NPTEL Online Certification IIT Kharagpur'.

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.

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Introduction to Balanced Score Card (BSC)

❖ While traditional financial measures report on what happened last period without indicating how managers can improve performance in the next, BSC functions as the cornerstone of a company's current and future success.

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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.

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Introduction to Balanced Score Card (BSC)

- ❖ Unlike conventional metrics , BSC provides balance between external measures like operating income and internal measures like new product development.

The slide features a background with various icons including gears, a lightbulb, a tree, and a hard hat. A speaker, a man in a white shirt and tie, is visible in the bottom right corner. The NPTEL logo and 'NPTEL Online Certification IIT Kharagpur' are at the bottom.

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

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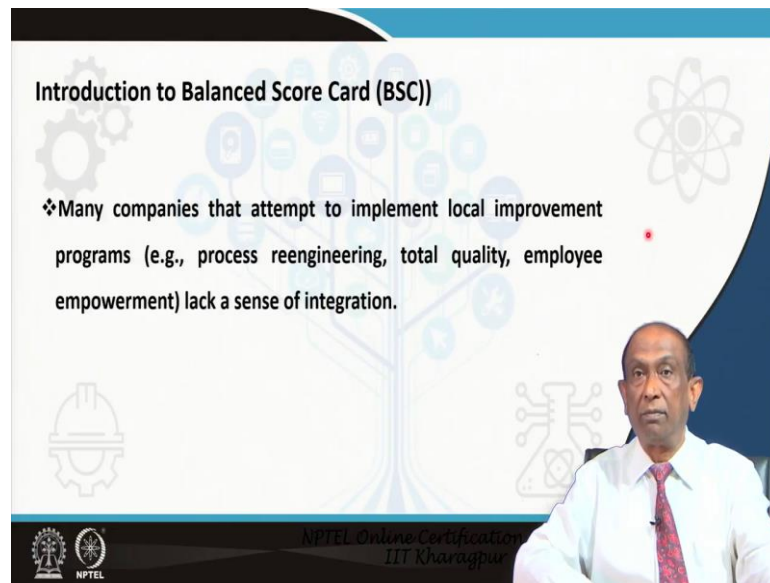
Introduction to Balanced Score Card (BSC)

- This balanced set of measures both 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

The slide features a background with various icons including gears, a lightbulb, a tree, and a hard hat. A speaker, a man in a white shirt and tie, is visible in the bottom right corner. The NPTEL logo and 'NPTEL Online Certification IIT Kharagpur' are at the bottom.

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.

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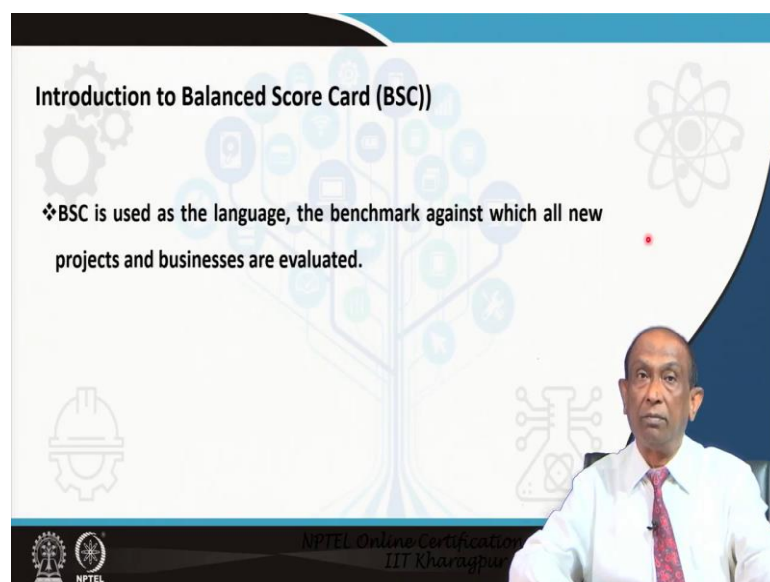
Introduction to Balanced Score Card (BSC)

❖ Many companies that attempt to implement local improvement programs (e.g., process reengineering, total quality, employee empowerment) lack a sense of integration.

The slide features a background with various icons including gears, a hard hat, a tree-like structure, and a molecular model. A speaker, a man in a white shirt and tie, is visible in the bottom right corner. The NPTEL logo and 'NPTEL Online Certification IIT Kharagpur' are at the bottom.

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.

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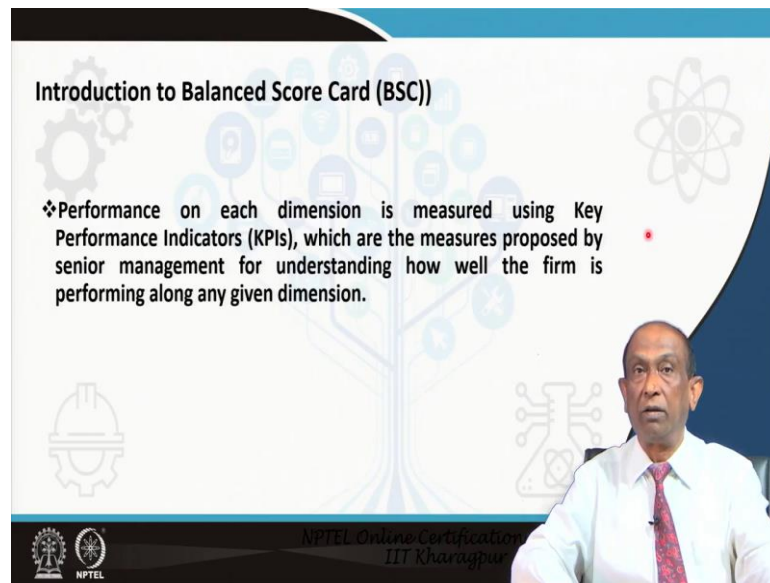
Introduction to Balanced Score Card (BSC)

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

The slide features a background with various icons including gears, a hard hat, a tree-like structure, and a molecular model. A speaker, a man in a white shirt and tie, is visible in the bottom right corner. The NPTEL logo and 'NPTEL Online Certification IIT Kharagpur' are at the bottom.

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

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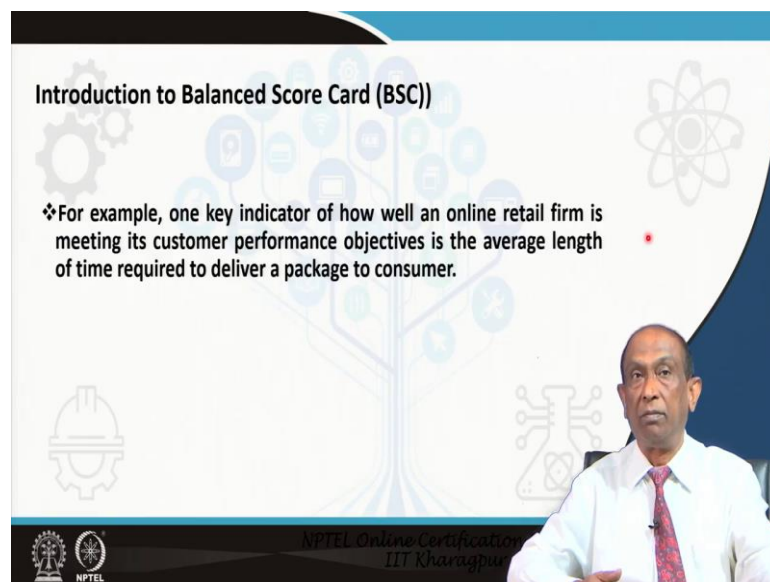
Introduction to Balanced Score Card (BSC)

- ❖ Performance on each dimension is measured using Key Performance Indicators (KPIs), which are the measures proposed by senior management for understanding how well the firm is performing along any given dimension.

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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.

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Introduction to Balanced Score Card (BSC)

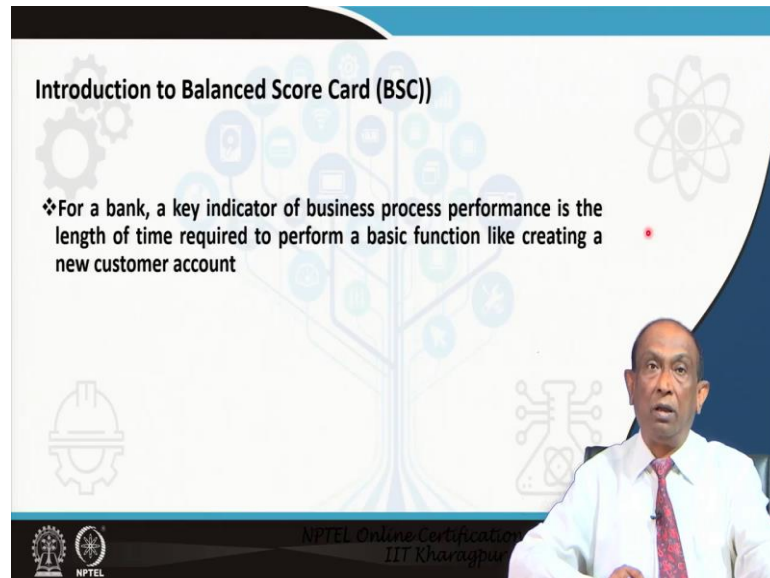
- ❖ For example, one key indicator of how well an online retail firm is meeting its customer performance objectives is the average length of time required to deliver a package to consumer.

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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.

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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.

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The slide features a background with a stylized tree of icons representing various business metrics. The text on the slide is as follows:

Introduction to Balanced Score Card (BSC)

❖ The balanced scorecard framework is thought to be “balanced” because it causes managers to focus on more than just financial performance

The slide also includes the NPTEL logo and the text 'NPTEL Online Certification Course IIT Kharagpur' at the bottom.

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

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The slide features the same background as the previous slide. The text on the slide is as follows:

Introduction to Balanced Score Card (BSC)

❖ In this view, financial performance is past history – the result of past actions – and

✓ managers should focus on the things they are able to influence today, such as

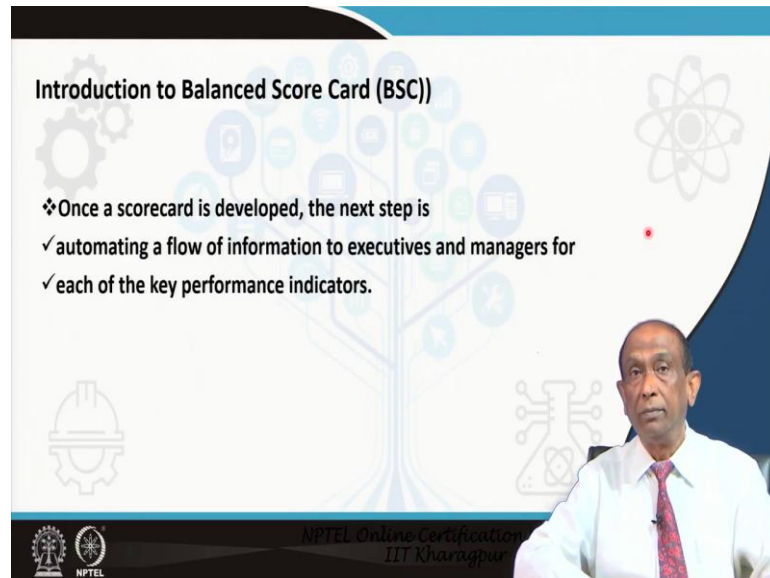
- business process efficiency,
- customer satisfaction, and
- employee training

The slide also includes the NPTEL logo and the text 'NPTEL Online Certification Course IIT Kharagpur' at the bottom.

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.

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The image shows a presentation slide with a white background and a blue header. The title is "Introduction to Balanced Score Card (BSC)". Below the title, there is a list of bullet points: "❖ Once a scorecard is developed, the next step is", "✓ automating a flow of information to executives and managers for", and "✓ each of the key performance indicators." The slide is decorated with various icons: gears, a tree with nodes, a hard hat, and a molecular structure. In the bottom left corner, there are logos for IIT Kharagpur and NPTEL. In the bottom right corner, there is text that reads "NPTEL Online Certification IIT Kharagpur". A man in a white shirt and red tie is visible in the bottom right corner of the slide, appearing to be the speaker.

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.

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Introduction to Balanced Score Card (BSC)

- Clearly communicating the Vision & Strategy of the Company.
- Selecting a balanced set of measures.
- Aligning action plans to the Objectives.
- Linking organizational objectives to individual goals

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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.

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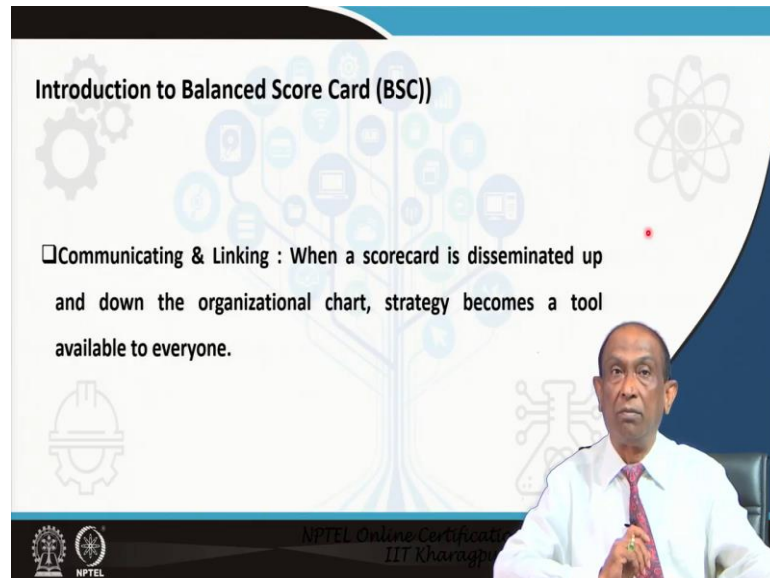
Introduction to Balanced Score Card (BSC)

- Translating the Vision : By relying on measurement, BSC forces the managers to come to agreement on the metrics they will operationalize to realize their vision.

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

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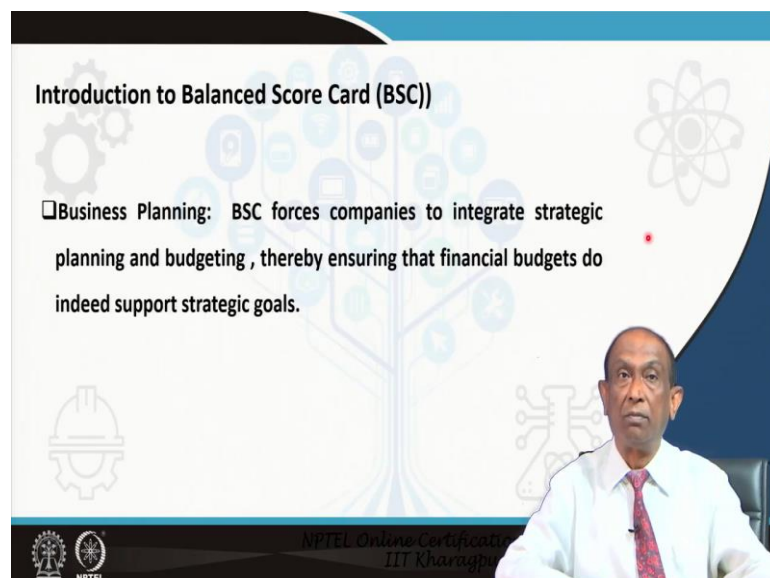
Introduction to Balanced Score Card (BSC)

- **Communicating & Linking** : When a scorecard is disseminated up and down the organizational chart, strategy becomes a tool available to everyone.

The slide features a background with various icons including gears, a tree, a lightbulb, and a person. The NPTEL logo is visible in the bottom left corner, and the text 'NPTEL Online Certificate IIT Kharagpur' is at the bottom center. A speaker is visible in the bottom right corner of the slide frame.

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.

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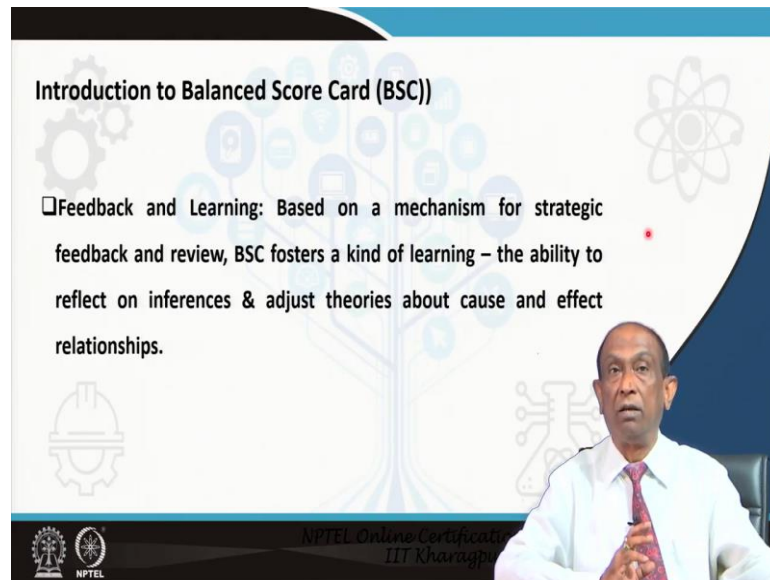
Introduction to Balanced Score Card (BSC)

- **Business Planning**: BSC forces companies to integrate strategic planning and budgeting , thereby ensuring that financial budgets do indeed support strategic goals.

The slide features a background with various icons including gears, a tree, a lightbulb, and a person. The NPTEL logo is visible in the bottom left corner, and the text 'NPTEL Online Certificate IIT Kharagpur' is at the bottom center. A speaker is visible in the bottom right corner of the slide frame.

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

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Introduction to Balanced Score Card (BSC)

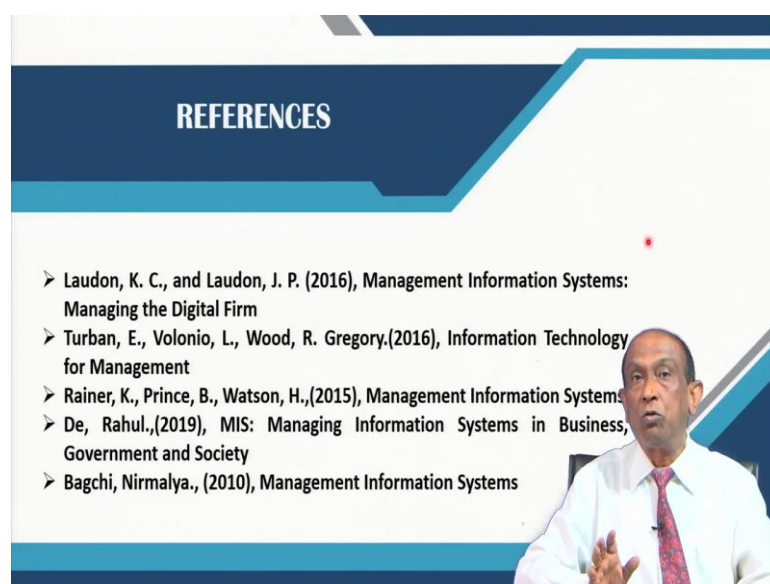
❑ **Feedback and Learning:** Based on a mechanism for strategic feedback and review, BSC fosters a kind of learning – the ability to reflect on inferences & adjust theories about cause and effect relationships.

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The slide features a background with various icons including gears, a tree, and a hard hat. A speaker in a white shirt and tie is visible in the bottom right corner of the slide frame.

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.

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REFERENCES

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The slide has a blue and white geometric design. A speaker in a white shirt and tie is visible in the bottom right corner of the slide frame.

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!