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# Implementation of Balanced Score Card Frame Work as A Performance Management Tool

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## Abstract

*The Balanced Scorecard (BSC), initially developed by Kaplan and Norton is considered as the Performance Management System by organizations World Wide.*

*The concept has been adopted by both for-profit and nonprofit organizations throughout the world. This system recommends that a business should be audited from four perspectives i.e. financial, customer, process as well as learning and growth. Metrics should be developed on the basis of four above factors and then data collected should be analyzed to find relative importance of these factors. The paper discusses the growing importance of Balanced Scorecard Performance Systems and then looks at the implementation of the “Balanced Score Card Performance Management System” in Indian companies –Tata Motors and Pantaloon Retail (India ) Limited. This paper describes and illustrates the balanced scorecard as a tool to implement Companies strategies.*

**Keywords:** Performance Management, Strategy Planning, Balanced Scorecard, Strategy Mapping

## Introduction

Organizations from both the public and private sector increasingly have been using **Performance Management** to create initiatives among the employee to get specific outcomes. This process motivates the employee through setting goals, measuring progress, giving feedback, coaching for improved performance and rewarding achievements. If Performance Management is implemented correctly with specific objectives tied to the strategic and operational plan, organizational performance outcomes are likely to improve very quickly.

The Balanced Scorecard (BSC) is a strategic planning and management system that is used extensively in business and industry, Government, and nonprofit organizations worldwide to align business activities

with the vision and strategy of the organization. It is a semi-standard structured report, supported by design methods and automation tools that can be used by managers to keep track of the execution of activities by the staff within their control and to monitor the consequence arising from these actions.

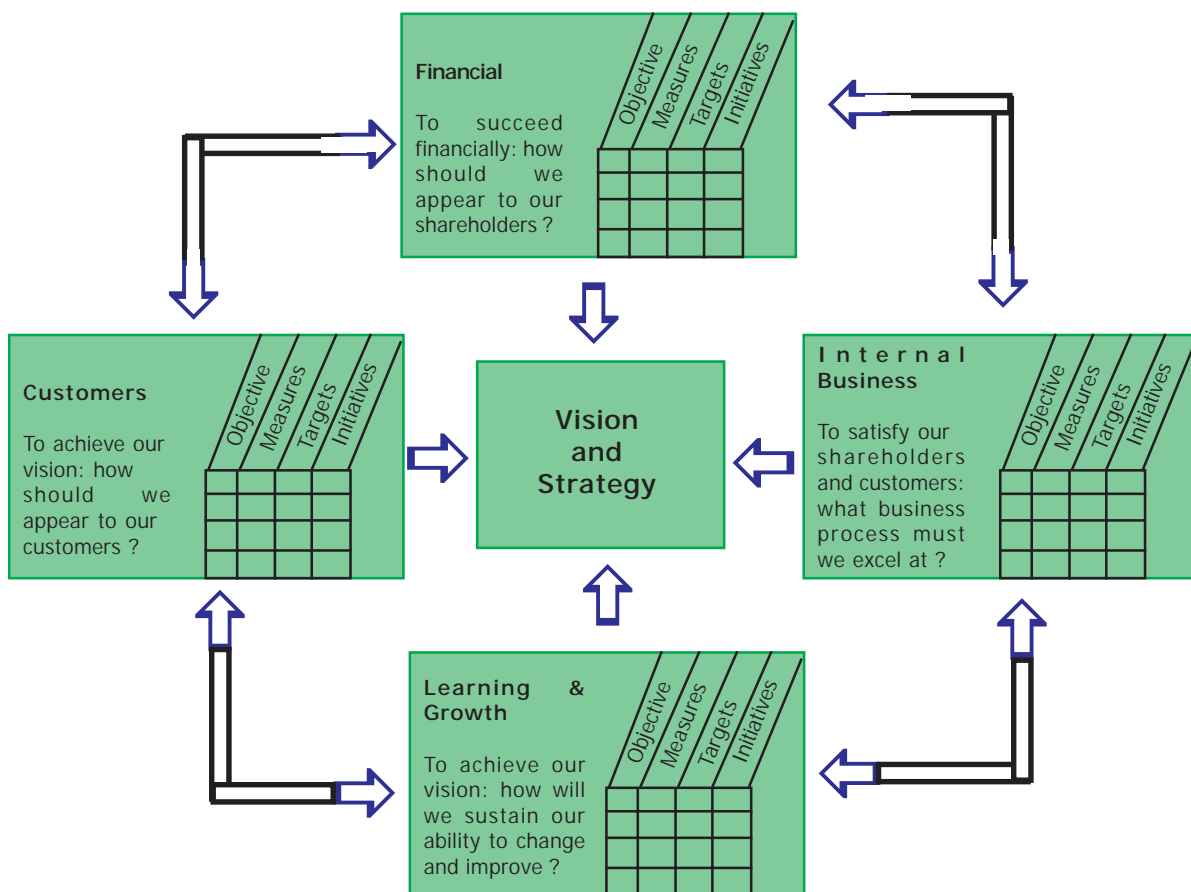
## Customer Management Processes

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Earlier, the Balanced Scorecard was evolved as a simple performance measurement framework to a full strategic planning and management system. The Balanced Scorecard has supplemented traditional financial measures with additional criteria viz. performance from three perspectives namely *those of customers, internal business processes, and learning and growth*. The new approach of

strategic management was first detailed in a series of articles and books by Kaplan and Norton. The new framework by these two authors not only provides performance measurements, but helps planners to identify what should be done and measured for improving performance.

### Balanced Scorecard Framework



\* Adapted from Kaplan & Norton, *The Balanced Scorecard*, Harvard Business School Press : Original from HBR Jan/Feb 1996 p. 76

#### 1) Customer Perspective

Recent management philosophy has shown an increasing realization of the importance of the customer focus and customer satisfaction in any company. The customer perspective addresses the

question of how the firm is viewed by its customers and how well the firm is serving its targeted customers in order to meet the financial objectives. The scorecard focuses on customer concerns primarily in four categories: Punctuality, Quality, Performance & Service and Costs.

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**Particular areas of focus on the consumer's perspective would include:**

- Customer service
- New products
- New markets
- Customer retention
- Customer satisfaction

Measures for introducing the Customer's Perspective should be well integrated into the company strategy and financial goals. Otherwise, the marketing campaign will be inappropriate resulting into huge losses or bringing only short-term results.

### **Financial Perspective**

Timely and accurate financial data are always needed by an organization. In fact, often there are more than enough handling and processing of financial data. Financial indicators in Balanced Scorecard represent profitability, revenue increase and asset returns. This proves strong ties of Balanced Scorecard with a long-term strategy of organizations. Essentially Financial aspects of Scorecard focuses on issues namely:

**Financial Goals to be focused would be:**

- Growth: goal of the firm is growth
- Sustain: the goal of the firm is profitability
- Harvest: the goal of the firm is cash flow and reduction in capital requirements.

### **3) Internal Business Process Perspective**

The internal business process perspective is the area that most operational managers feel comfortable with. This is the area where measurement takes place on things that they know and manage on a daily basis. Metrics based on this prospective allow the managers to know how well their business is running and whether products and services conform to customer requirements. These metrics have to be carefully designed by those who know these processes most intimately with unique missions of the company. These are not something that can be developed by outside consultants. Processes making up the internal

business process chain are the innovations process, the operations process and the service follow up process

### **4) Learning and Growth Perspective**

Performance measures will be incomplete without taking into consideration human resource development and innovation by employee. In any organization, particularly, a knowledge-based organization, human resource is the critical resource. In the current climate of rapid technological change, it is becoming necessary for knowledge workers to be in a continuous learning mode. The learning and growth perspective of the BSC identifies the infrastructure that the organization must build to create long term growth and improvement. It address the question of how the firm must learn, improve, and innovate in order to meet its objectives. Much of this perspective is employee centered. Managers should ensure that they act like mentors and tutors within an organization and pay adequate attention to employees' training and development. There should be communication among workers that allows them to readily get help on a problem when it is needed.

**The key issues to be focused :**

- Can we continue to improve and create value?
- In which areas must the organization improve?
- How can the company continue to improve and create value in the future?
- What should it be doing to make this happen?
- Objectives in learning and growth perspective are drivers that encourage implementation of goals set in the financial, customer and internal processes objectives. All goals and measures in learning and growth objective must be subordinated to strategic goals of the company formulated in BSC.

### **Literature Review**

In the literature review, we try to explore the concepts of Balanced Scorecard (BSC). Kaplan and Norton(1992) proposed that financial measures of a

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company's performance should be supplemented with other measures that capture intangible assets of the organization. Authors suggested that in order to capture intangible assets of the organization, it is essential that measures of score card should include customers' perceptible, internal process, learning and growth as complement to financial ones to give a clear picture of the company's performance. Kaplan and Norton(1996) describe BSC as a management communication tool that could be used not only to spread the vision of the organization and also to measure and communicate the success of the strategy to its stakeholders. BSC is used as a framework which provides the linkages between performance measures and strategic objectives (Banker, Janakiraman& Konstans,2001). Likewise, Olive (2003) considers balanced scorecard as a customized communication tool within a management control system applied at different levels of the organization and for different strategies.

### **Transformation of Tata Motors-the Balanced Scorecard Approach**

TATA Motors, previously known as Tata Engineering and Locomotive Co. Ltd. (TELCO), is one of the largest companies in the Tata Group and one of India's largest business houses. Tata Motors comprise of two divisions, the Passenger Car Business Unit and Commercial Vehicle Business Unit (CVBU). It is the largest and most prominent market leader in the manufacture of commercial business vehicles in India. With a workforce of over 26000, it is one of the top truck manufacturers in the world.

But in 2000, Tata Motors plunged into an unprecedented crisis when demand for its trucks suddenly collapsed. Sales loss in this segment was compounded by heavy investment due to company's entry into the passenger car business during the period. Factors such as the cost of complying with new emissions standards and an increasing threat from overseas competitors were responsible for the for \$108.62 million loss for the year 2000 which was announced by Tata Motors to the market.

Ravi Kant , CVBU's executive director ( the equivalent of CEO), laid out an aggressive new plan to reverse the slide. The plan, called for stringent cost cutting

across unit operations, supported by more effective formulation and execution of the strategy. To augment this process, the management of Tata Motors resolved to adopt the Balanced Scorecard in the Performance Framework as the key tool to achieve these goals. The Scorecard incorporates SQDCM (Safety, Quality, Delivery, Cost and Morale). The implementation of the Balanced Scorecard has enabled greater focus on different elements of operational performance. Defining, cascading and communicating strategies across the organization have brought about transparency and alignment.

The CVBU had a high-level Steering Committee comprising cross-functional heads and other key officers who reported to Kant for creating a Strategy Map and Balanced Scorecard. This committee then appointed a five member team for Scorecard creation and deployment. Extensive discussion and interaction to generate ideas for development of the Scorecard were carried out. Later, the CVBU cascaded the Balanced Scorecard to the lowest level of employees working in the organization. Strategy mapping workshops were organized within plants and across functions. A review process was put in place for monitoring and analyzing performance on local Balanced Scorecards of which over 300 were created. As the part of the process, lower level Scorecards were linked to the higher level ones. This helped align the strategic initiatives to challenges faced by the Unit.

First, the top objective for CVBU's was set as *"Be among the Top five Profitable CV(commercial vehicle) Manufacturers Globally"*. This objective was supplemented by two other auxiliary objectives such as revenue growth objective with motto *"Grow International Business"* and productivity objective with the motto *"Be the Lowest Cost Manufacturer of CV's Globally"*. CVBU's main Internal Process Objective *"Enhance Product and Service Quality Levels"* was executed in the company's Jamshedpur manufacturing plant in two sets of objectives namely *"Quality and Consistency"* and *"Ensure New Products adhering to Cost, Time and Quality Targets."*

The results were immediate and spectacular. Within two years, CVBU had turned over to register a profit of Rs. 107 million from the loss of Rs. 108.62 million accounting for a whopping 60% of TATA Motors

inventory turnover. The success path of Balanced Score Card did not stop here. In the beginning, CVBU started the Balanced Scorecard only with six hierarchical Levels. At this time, they developed three hundred and thirty one Scorecards. In addition, they were looking forward to proliferate it to the lowest level of organizational structure.

The CVBU of Tata Motors was among the first Asian organizations to be inducted into the prestigious Balanced Scorecard Hall of Fame in recognition of its exemplary success with the model. In this way, Balanced Scorecard framework played a vital role in the success story of TATA Motors CVBU.

### BALANCED SCORECARD AT TATA MOTORS

Financial Perspective	Customer Perspective	Business Process Perspective	Learning and Growth Perspective
<ul style="list-style-type: none"> <li>-Be a dominant player in domestic market in all segments.</li> <li>-Growth International business.</li> <li>- be among the top five profitable CV(commercial vehicle) manufacturers globally</li> <li>-be the lowest cost manufacturer of CV's globally</li> </ul>	<ul style="list-style-type: none"> <li>-Enhance product offering</li> <li>-Increase accessibility for customers</li> <li>-Enhance value for Channel partners</li> <li>-Enhance Customer satisfaction through safe, reliable and good value products and services</li> </ul>	<ul style="list-style-type: none"> <li>-Install globally benchmarked processes in:               <ul style="list-style-type: none"> <li>· Design and Development</li> <li>· Sales and marketing</li> <li>· Manufacturing and vendor management</li> </ul> </li> <li>-Excel in Corporate governance social responsibility</li> </ul>	<ul style="list-style-type: none"> <li>-Align Employees to the Corporate strategy</li> <li>-Enhance Employee Satisfaction</li> <li>-Create high performance culture among employees</li> <li>-Map to source and develop strategic competencies</li> </ul>

### Balanced Scorecard at Pantaloon Retail (India) Limited

Pantaloon Retail (India) Limited, is India's leading retailer that operates multiple retail formats in the lifestyle segment of the Indian consumer market. The company owns and manages multiple retail formats that cater to a wide cross-section of the Indian society.

The road to develop the balanced scorecard at Pantaloon began keeping in mind the vision of the company to achieve sales of Rs 1000 crore and PBDIT of 11 per cent by the year 2005. With this vision in mind, the four parameters - Financials, Customer service, Internal processes and Learning &

Growth were incorporated which were applicable for all to the people from the corporate boardroom at Pantaloon to employees at the headquarters and the stores

The operation of balanced scorecard System in Pantaloon is as follows. The process begins with the the Corporate Scorecard and thereon, it flows to individual department. Further, employees from respective department get their Scorecard from the respective departments. The employee in the departments are given four objective that can be measured. Employees are given projects to achieve the objectives. The focus is only on rewarding the employees who meet the financial targets.

Four objectives are based on Financial, Customer Services, Internal Processes and Learning & Growth which are aligned with the goal of achieving the overall vision of the company. For assessing the performance of the employee, four objectives are incorporated with weightages given to each one. The company has been

one of the pioneers in India in using the Balanced Scorecard tool to measure performance, motivate and incentivize its employees. In Pantaloon, Middle and Senior-level Managers at the company can receive up to 50 per cent of their remuneration as incentive based on the Balanced Scorecard Assessments.

### Balanced Scorecard at Pantaloons

Financial Perspective	<ul style="list-style-type: none"> <li>· Return on investment</li> <li>· Return on marketing investment</li> <li>· Costs of sales</li> <li>· Sales per employee</li> </ul>
Customer Perspective	<ul style="list-style-type: none"> <li>· No. of new customers</li> <li>· Service</li> <li>· Conversion rate</li> <li>· Customer returns and complaint</li> <li>· Customer satisfaction surveys</li> <li>· Price</li> <li>· Percentage increase in the market share</li> </ul>
Internal Business Perspective	<ul style="list-style-type: none"> <li>· Inventory Turnover rate</li> <li>· Effectiveness of Distribution Channels</li> <li>· Transit Time</li> <li>· Total cycle time, machine efficiency</li> <li>· Number of accidents, severity of accidents</li> </ul>
Learning and Growth Perspective	<ul style="list-style-type: none"> <li>· Number of new apparel designs</li> <li>· Employee turnover</li> <li>· Employee satisfaction and retention</li> </ul>

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## Why Companies Use Balanced Scorecard

A large number of companies are motivated to implement the balanced scorecard for the following reasons.

### 1. Better Strategic Planning.

The balanced scorecard provides executives with a comprehensive framework that can translate a company's vision and strategy into a coherent and link these to a set of performance measures. The business model is visualized in the Strategy Map which focuses on cause-and-effect relationships. Both performance outcomes as well as key intangible enablers of future performance are identified to create a complete picture of the strategy.

### 2. Align strategy to all level of management operations

This is done through evolving the breakup of strategic measures up to the lower level of the organization. This way both managers and employees know what they require to achieve excellent overall performance. For example, an organization might have overall goals to increase productivity by 5 per cent. By breaking down its productivity measures up to the lower level of the organization as part of a Balanced Scorecard, every member of the organization would have the clear target that support the overall goal.

### 3. Improved Strategy Communication

The fact that the strategy with all its interrelated objectives is mapped on one piece of paper allows companies to easily communicate the strategy internally and externally. Therefore, it can be used to educate employees on the company strategy and demonstrate how their work affects overall performance

### 4. Comprehensive

The balanced scorecard allows a comprehensive view of all functions that affect business performance. Rather than focusing on a specific area of financial performance, it focuses on the full spectrum of

business performance. In addition to financial measures, they look at measures of customer experience, development and retention process of the employee.

### 5. Comparable

In fact, Balanced Scorecards are often used in companies with continuous improvement programmes. This system has a mechanism to compare company targets with industry benchmarks. Hence, by using the same key performance indicators and metrix consistently, The company can achieve improvement over time.

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