

# “An ounce of performance is worth pounds of promises” ---Managerial decision making with respect to Impact of Balanced Score Card in an organization.

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**Abstract:** Over the past 20 years there has been a revolution of performance measurement techniques and frameworks, The Balanced Scorecard can be considered to be one of the most popular, Weller (2006) reports that more than 700 US organizations have active users of the BSC framework. An active user is defined as a company that uses financial and non-financial measures to manage progress on strategy and performance.

The purpose of this paper is to develop a deeper understanding of the role of the balanced scorecard in strategy implementation and also this study is to determine whether the Balanced Scorecard provides guidance to managerial decision making. Performance measurement has become a crucial factor under the new structure and managers are making use of the Balanced Scorecard to evaluate performance, this begs the question: “ Does the Balanced Scorecard provide effective guidance to managerial decision making? “ This study will provide the basis for research that will improve this vital management activity. And the findings of this study will be useful in providing additional knowledge and theory building to

Scholars, academicians and researchers in examining the application of the BSC as a strategic management tool. The study will provide future researchers with information on the gaps that need to be filled and areas of further research.

However the literature review does not look at any specific company in detail therefore in order to investigate further from the findings of the literature review an empirical study was conducted. The research method used in the research design was a case study; the results were both structured and quantitative. The case study is purely focused on the management and operating activities of a single company (Company X). Therefore the results of the practical research should not be associated with any other company. From a theoretical perspective, the research was conducted in the form of a desktop analysis of literature content ranging from: case studies, existing research papers and published articles. For the empirical study a survey was used to gather information by the distribution and completion of a questionnaire to individuals at all levels of management within the company.

The population size was small and consisted of only managerial staff within the target company. The actual size of the sample was determined by the statistical relevance of the number selected. The data acquired from the survey is processed into graphical illustrations which are then interpreted and a conclusion was drawn.

**Keywords:** Balanced score card, Strategic Management, performance measurement, Strategy.

## Introduction:

### Analysis on the role of balanced scorecard in strategic management

When we come to the role of BSC in strategic management process, it is sound to visualize the activities of strategic management. According to Tsiakkios and Pashiardis (2002) and David R .Fred (1997), there are three main elements/ activities in strategic management process: strategic Analysis, strategic Choice, and strategic implementation.

The Balanced score card is a strategic management tool that allows a company to align its management processes and focuses the entire organization on implementing long term strategy.

Strategy tools can be described as concepts, analytical frameworks, techniques and methodologies that assist strategic managers in making decisions (Clark, 1997). The BSC allows the strategy itself to evolve in response to changes in the company’s competitive environment. A properly constructed score card is one that communicates a strategy through an integrated set of financial and non-financial measures (Kaplan and Norton, 1996; 2007).

The use of the BSC as a strategic management tool involves three key areas. First it involves communicating and educating those that will be involved in strategy execution and implementation; This promotes commitment and accountability to the long term strategy.

The second step involves setting goals where the organizations high level strategic objectives and measures are translated into objectives and measures of operating units and individuals;

The final step involves linking rewards to performance measures with the aim of motivating employees to achieve the set targets and improve corporate performance (Kaplan and Norton, 2007). The balanced score card allows managers to link long term strategic objectives with short term actions.

Using the score card as strategic management system requires four management processes, these include; translating of the organizations vision. The managers have to build a consensus around the vision and strategy and these must be expressed as an integrated set of objectives and measures. The other management process required is communicating and linking. This involves communicating the strategy down the organization to the departmental levels, and ensuring that the long term strategy of the organization is understood by all, and that departmental objectives and individual objectives are understood by everyone. This is usually done in the cascading of the balanced scorecard.

The third process involves business planning, where companies integrate their business and financial plans. Measures of the balanced score card are used for allocation of resources required to achieve both long term and short term the strategic objectives as well as setting priorities to enable the organization only select initiatives that allow it to achieve its objectives. The final management process is feedback and learning. Kaplan and Norton (1997) further point put that companies need to view the scorecard as a tool,that allows for organization leaning. A company can monitor short term results and evaluate strategy in light of recent strategies, that is, real -time learning. The scorecard allows the organization to test its strategy and determine what works and what does not.

Since the inception of the balanced score card in the 1990's various variations have been developed such as the Sustainability Balanced Scorecard (SBSC).This is a new concept that involves incorporating the environmental and social aspects into the BSC. The card seeks to address corporate contributions to sustainability such as business ethics, labor practices and corporate social responsibility .The scorecard is used to overcome conventional approaches to social and environmental management by integrating the pillars of sustainability that is; Economic, ecological and Social pillars, into a single strategic management tool.(Figge et al., 2002).By integrating sustainability measures into business practices,the scorecard clarifies the relationship between sustainability outcomes and profitability and shareholder interests. This can be done by either adding a fifth perspective to the BSC, integrating the measures throughout the four perspectives, or by developing a separate sustainable balanced scorecard (Butler , Henderson and Raiborn, 2011).

#### The top 10 management tools between the periods 2008-2010

Ranking	2008	2017
1	Benchmarking	Benchmarking
2	Strategic Planning	Strategic Planning
3	Mission and Vision Statements	Mission and Vision Statements
4	Customer Relationship Modelling	Customer Relationship Modelling
5	Outsourcing	Outsourcing
6	Balanced Scorecard	Balanced Scorecard
7	Customer Segmentation	Core Competencies
8	Business Process Reengineering	Change Management Programs
9	Core Competencies	Strategic Alliances
10	Mergers and Acquisitions	Customer Segmentation

It illustrates trend changes between 2008 and 2017. The top six management tools remained unchanged. However, there are significant changes in the remaining four management tools. It is quite clear, post the global economic meltdown of 2007/8, that companies are focusing more on core business. The absence of Mergers and Acquisitions in the list for 2017, demonstrates the effect of the global economic crisis and the decrease in interest of inorganic growth and the safer play on core business development where capital outlay is substantially lower. Although the BSC remained sixth it is still regarded as one of the most valued measures. According to Bain &Company (2010) performance management is now regarded as a top priority in many companies, especially in companies that are on the road to recovery. The trend is shifting from companies in developed economies to companies in emerging markets. Iwanicki & Titherington (2011) believe most developed market trends take an approximate three to five years to appear in emerging markets in depth should the market chooses such a path

#### Objectives:

To analyze the history behind the BSC and how it can influence the decision making. This involves identifying the impact of the BSC on decision making from existing research.

To conduct a pragmatic research on the impact of the BSC on managerial decision making in an existing company in Hyderabad.

- This involves in comparing the findings from survey results with existing

The main objective of this research article is to point out the distinctive roles of BSC in strategic management process and in its functional areas such as translating the vision into operational goals, communicating and linking it to individual performance, Business planning and target setting and feedback and learning.

#### Research Methodology:

This section provides an overview of the investigation method used in this study. It begins by identifying the population size and the suitable targets. Next the sampling method is discussed with the process of engagement laid out. The next section discusses the research analysis and pre-testing.

The Sample size in this study is 30 individuals in management positions. The chosen 30 individuals comprise of Executives, Senior Managers and Heads of Departments.

#### **Pre-Testing**

A pilot round of surveys will be sent to  $\pm 5-6$  individuals. Any questions that are not clear can then be adjusted and the remaining surveys distributed to the full population.

#### **What is the Balanced Scorecard used for?**

The table below explores the various uses of the Balanced Scorecard within company.

**Uses of the Balanced Scorecard**

	2015	2016	2017
Strategic Management	34%	34%	37%
Business Reporting	29%	35%	32%
Operational Management	20%	17%	14%
Goals & Incentives	17%	14%	17%

The primary roles of Balanced Scorecard are to provide guidance to strategic management for informed decision making and proper reporting of results. The BSC also drives organizational performance by influencing behaviors and decisions of managers and individuals as well as the way they are appraised.

**Business Reporting Frequency**

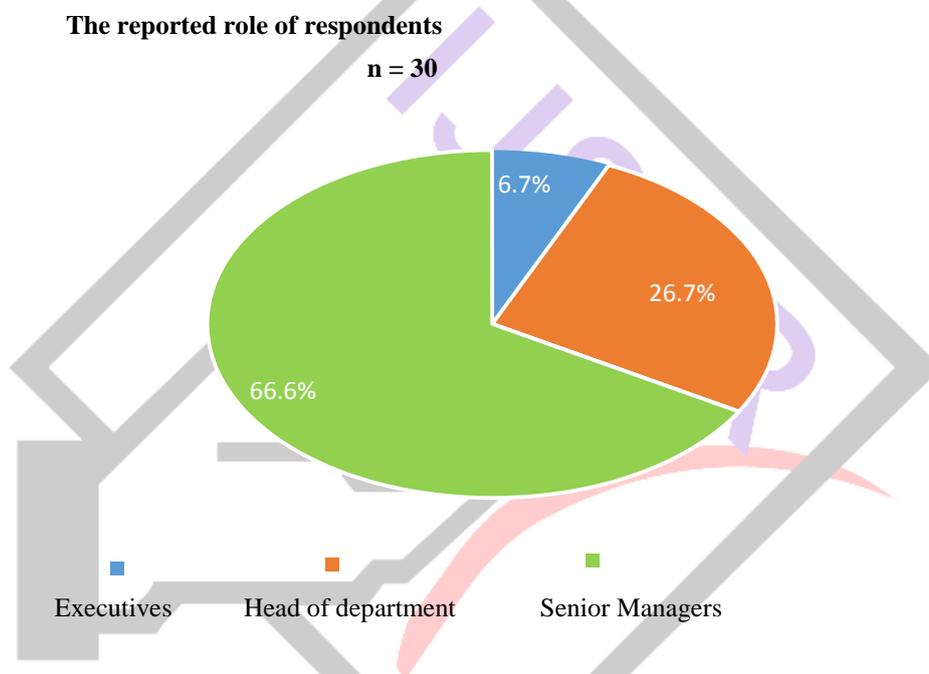
	2015	2016	2017
Monthly	43%	43%	31%
Quarterly	30%	36%	25%
Bi-Annually	13%	11%	18%
Annually	13%	11%	25%

The study found that majority of the Balanced Scorecards that were considered in the survey is reported on a monthly or quarterly basis. The Balanced Scorecards that are reported bi-annually or annually were used exclusively for purposes of incentive payments. Two-thirds reported that there were clear consequences for poor performance against BSC metrics and targets.

	2015	2016	2017
Management Team Itself	56%	44%	42%
Others in Company	27%	19%	31%
Consultants	14%	29%	17%
Performance Team	3%	8%	11%

Occurrences of the management team designing the BSC of a company is on the decrease. (Cobbold & Lawrie, 2002) Having it designed by others in the organization gives lower level management increased insight into performance management and strategic thinking.

The surveys showed that the BSC is a useful management tool. The BSC directly influences managers' decisions and behaviours. The surveys also indicated the spread of uses of the BSC. There is a trend change as to who uses the scorecard, what it is used for and who has taken over the responsibility of designing the company scorecard (Cobbold & Lawrie, 2002). The BSC has seen a transition from a performance measurement tool to a strategy management and control system

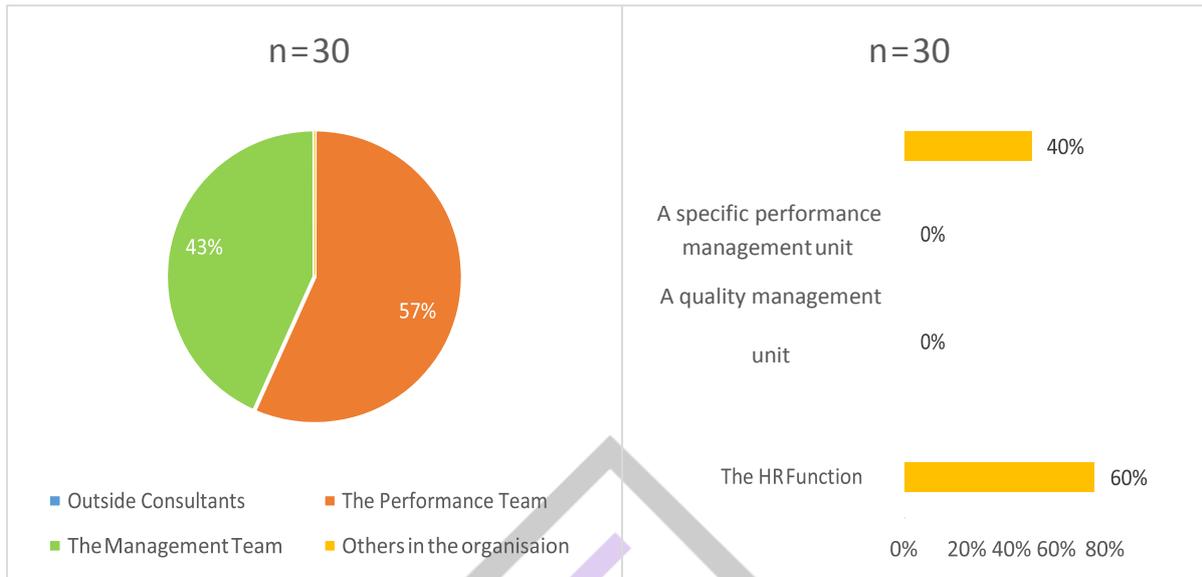


The process of engaging with working individuals to conduct research work was a difficult one. The barrier identified in the process is time. This is a probable cause for the lack of research on topics relating to individuals in an active working environment.

From the research questionnaires collected, the respondents consisted of the following:

- Executives (6.67%)
- Head of Department (26.67%)
- Senior Managers (66.67%)

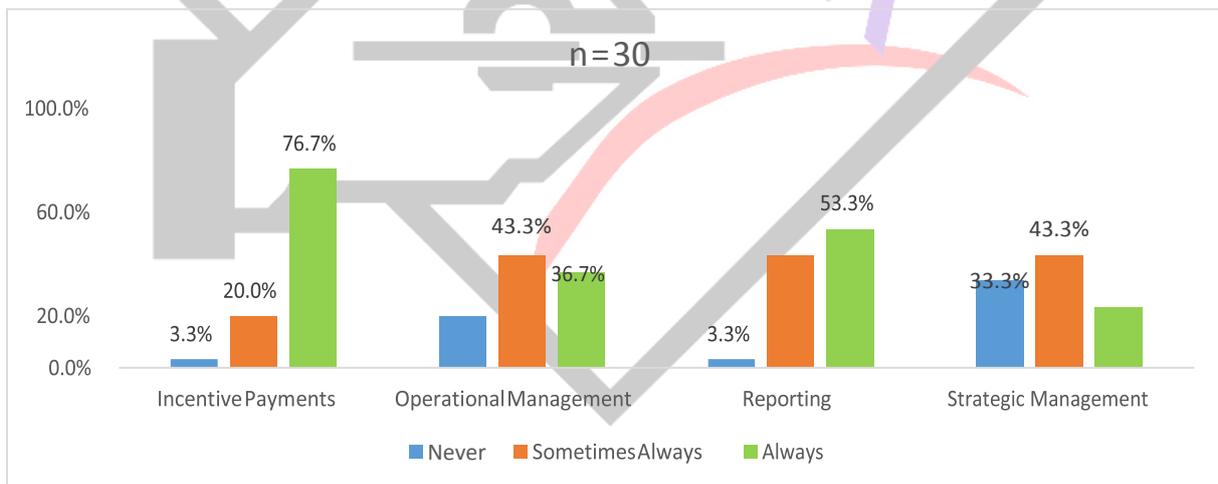
**Who designed the Balanced Scorecard and who manages the Balanced Scorecard?**



The results indicate two business units are clear winners with regards to the responsibility of designing the BSC namely: The Performance Team (57%) and The Management Team (43%). The high response rate for the performance team is mainly due to the company completing an organizational redesign where performance management is on top of everyone’s mind.

Currently the performance management team is run by the human resources department and therefore the HR function manages a significant portion (60%) of the BSC of “Company X”.

**How is the Balanced Scorecard used in “Company X”?**



The respondents had four categories for answering this question, namely:

- Incentive Payments – Rewards based on Balanced Scorecard Results
- Operational Management – Day-to-day performance reporting
- Reporting – For assessing the performance of units and projects
- Strategic Management – Organisational change and development reporting Each

category has three options the respondents must choose from:

- Never
- Sometimes
- Always

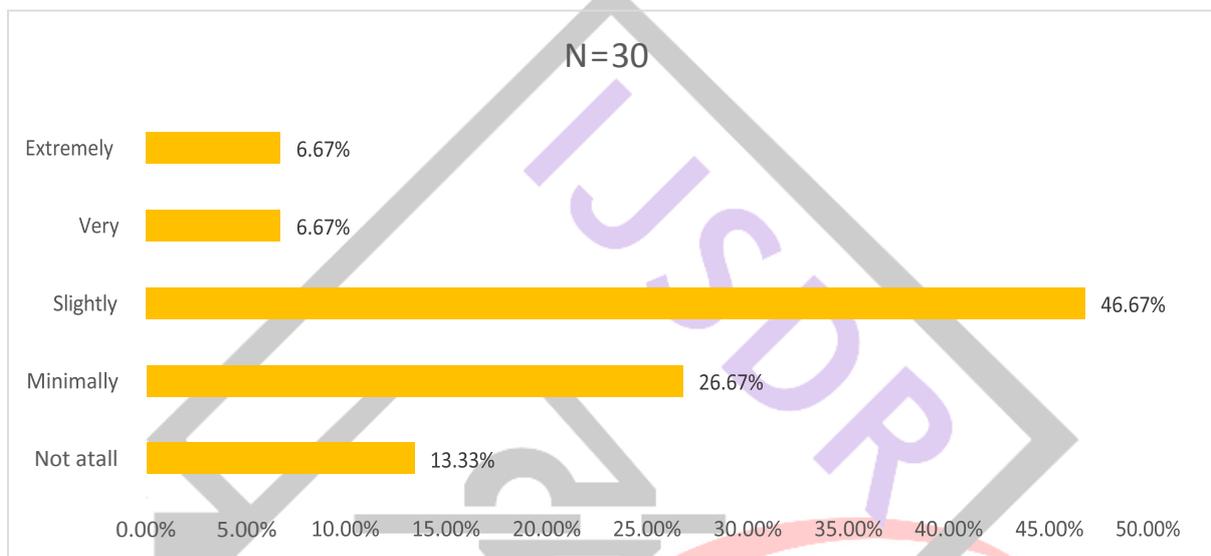
The respondents provided the following responses:

Incentive payments: 76.7% said the BSC is always used in determining how incentive payments are calculated. 20% said they sometimes use the Balance Scorecard for incentive payments.

Operational Management: 43.3% said they sometimes use the BSC for operational management, 36.7% said they sometimes use the BSC for operational management and the remaining 20% said they never use the BSC for operational management. This is a good indication that different departments use the BSC for different reasons and operational management is not a primary areas of use.

Reporting: 53.3% of the respondents stated they always used the BSC results in reporting, whilst 43.4% of the respondents stated they sometimes used the BSC methods in reporting. Some respondents indicated the use of the BSC results in reports are dependent on the reporting theme (i.e. Quarterly Business Reviews will more than likely include results from the BSC, whereas a summary of the past week’s strategic steering committee may not).

**How valuable is the Balanced Scorecard perceived to be in your department?**



Perception is very valuable for an organisation; a positive perception of the BSC framework will create more opportunity for the BSC to be implemented in a department. However looking at the data, the responses are not positive at all 46.67% stated they perceived the BSC to be slightly important and 26.67% indicated they view the BSC as minimally important in their respective departments.

Strategic Management: 43.4% responded they sometimes used the BSC for strategic management, although 33.3% challenged their views and stated they never used the BSC for strategic management. In addition respondents stated the, although a very useful framework is not relatively the preferred choice for strategic management. This may be due to a number of reasons such as:

- The lack of a BSC expert for each department
- The time required in order to implement an accurate BSC exercise
- The BSC should be used for target setting only.

**How important are the different perspectives in the Balanced Scorecard for Company X?**

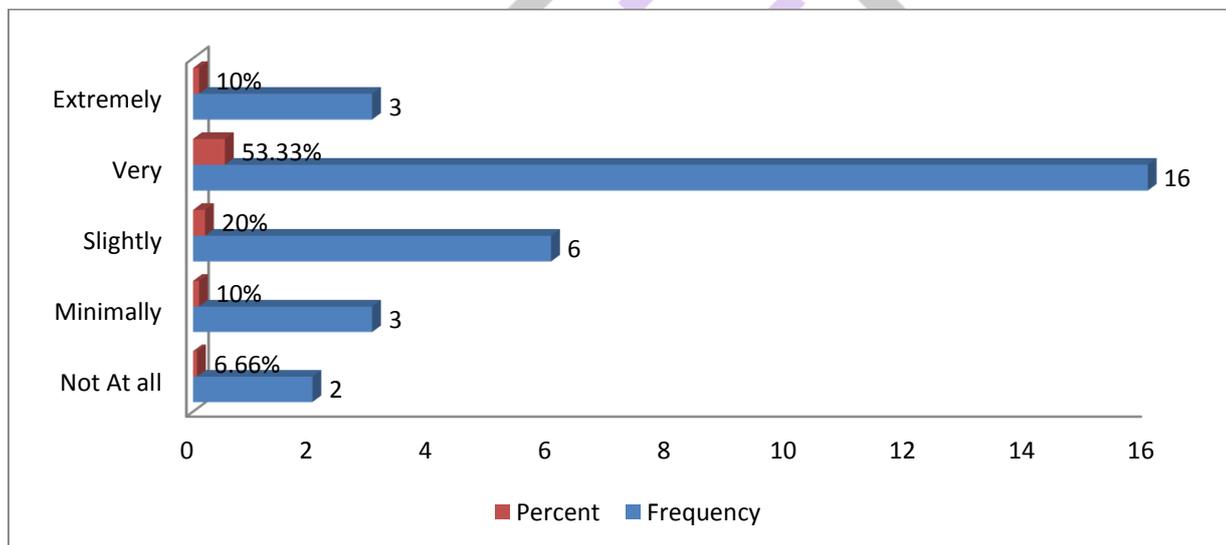
N = 30 each perspective	Very	Little	Not at all
Customer Perspective	100%		
Internal Perspective	60%	36.67%	3.33%

Learning&Growth Perspective	40%	60%	
Financial Perspective	50%	36.67%	13.33%

The data suggests Company M is a very customer centric business, 100% of the respondents surveyed selected the measures from the customer perspective as the most important factor from the BSC framework. The internal perspective was the second most important measure with the financial, learning and growth perspective following picking up the rear in importance.

### Impact of the Balanced Scorecard on long-term decision making

N=30	Frequency	Percent
Not At all	2	6.66%
Minimally	3	10%
Slightly	6	20%
Very	16	53.33%
Extremely	3	10%

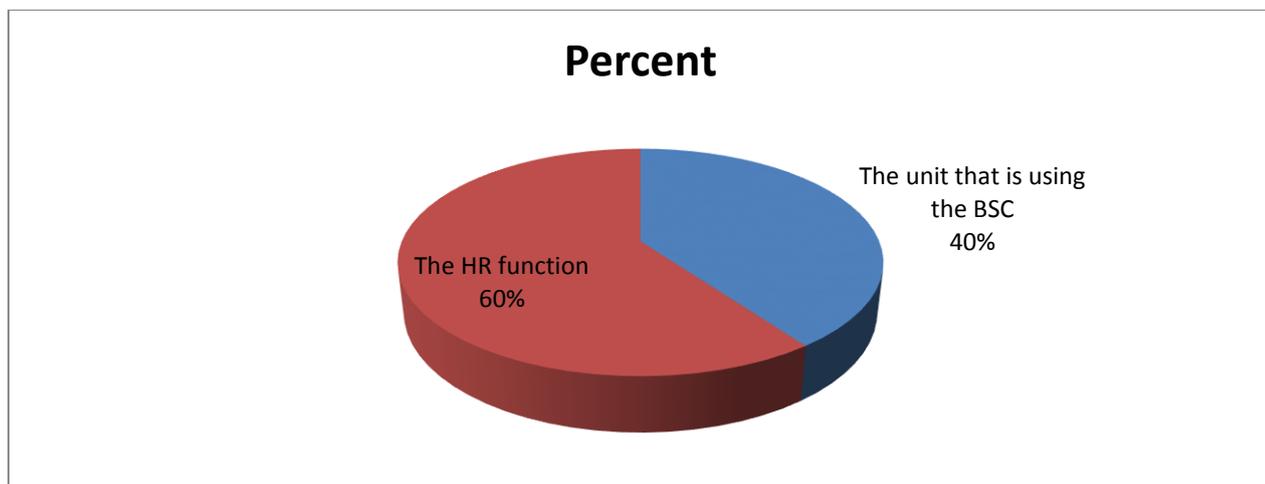


Respondents provided a very positive response for long-term decision making, 53.33% stated they believe the BSC has a very strong impact on long-term decision making.

Respondents believe the four perspectives of the BSC really provide a holistic overview of the company's performance and therefore provide the required indicators to make long term decisions.

### Q2. Who is responsible for managing your Balanced Scorecard?

N=30	Frequency	Percent
The unit that is using the BSC	12	40%
The HR function	18	60%



The data illustrates only two business units were selected by the respondents namely:

The unit that is currently using the BSC concept as well as the HR Function. Again the outcome is expected, Incentive Payments and Reporting were the two most popular uses of the BSC framework in Company X, currently the HR function oversees incentive payments and all other departments that utilizes the BSC manages their own scorecard.

### **Conclusion:**

As it has been shown by the discussion and analysis above, the implementation of BSC is not only useful for measuring performance but also managing the whole strategy of an organization which promotes the effective functioning of the entire strategic management process. Balanced scorecard as a performance measurement can serve as strategic management tool to plan, direct and control the various aspects of performance which need improvement to attain better performance. It is not only a strategic measurement system but also a strategic control one that connects the individual objectives to the strategy. Thus, BSC can act as a catalyst between individual objectives and organizational strategy as it facilitates the translation of vision.

Moreover, in the process of business planning for strategic management, balanced scorecard plays a pivotal role in quantifying long term outcomes, aligning long term goals with short term action and in setting measures to evaluate the progress of the performance. At the last, as the result of BSC's 'balanced' perspectives: financial, customers, internal process and learning and growth, managers get all round insight into organizational performance and they can collect valid feedback in order to evaluate the effectiveness of the strategies and then to make the necessary corrections on strategic management process if necessary.

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