Balance Score Card

Introduction

The term balanced scorecard (BSC) refers to a strategic management performance metric used to identify and improve various internal business functions and their resulting external outcomes. Used to measure and provide feedback to organizations, balanced scorecards are common among companies in the United States, the United Kingdom, Japan, and Europe. Data collection is crucial to providing quantitative results as managers and executives gather and interpret the information. Company personnel can use this information to make better decisions for the future of their organizations.

The concept of balanced scorecards was first introduced in 1992 by David Norton and Robert Kaplan, who took previous metric performance measures and adapted them to include nonfinancial information. Balanced scorecards were originally developed for for-profit companies but were later adapted for use by nonprofits and government agencies.

The Balanced scorecards involves measuring four main aspects of a business: Learning and growth, business processes, customers, and finance.

Balanced scorecards allow companies to pool information in a single report, to provide information into service and quality in addition to financial performance, and to help improve efficiencies.

Definition

A balanced scorecard is a performance metric used to identify, improve, and control a business's various functions and resulting outcomes.

Balanced Score Card perspectives

The balanced scorecard allows managers to look at the business from Four important perspectives.
These perspectives provide answers to Four important Questions

- How do customers see us?
  Customer perspectives are collected to gauge customer satisfaction with the quality, price, and availability of products or services. Customers provide feedback about their satisfaction with current products.

- What must we excel at?
  Internal Business processes are evaluated by investigating how well products are manufactured. Operational management is analyzed to track any gaps, delays, bottlenecks, shortages, or waste.

- Can we continue to improve and create value?
  Learning and growth are analyzed through the investigation of training and knowledge resources. This first leg handles how well information is captured and how effectively employees use that information to convert it to a competitive advantage within the industry.

- How do we look to shareholders?
  Financial data, such as sales, expenditures, and income are used to understand financial performance. These financial metrics may include dollar amounts, financial ratios, budget variances, or income targets.

Example

Think of the balanced scorecard as the dials and indicators in an airplane cockpit. For the complex task of navigating and flying an airplane, pilots need detailed information about many aspects of the flight. They need information on fuel, air speed, altitude, bearing, destination, and other indicators that summarize the current and predicted environment. Reliance on one instrument can be fatal. Similarly, the complexity of managing an organization today requires that managers be able to view performance in several areas simultaneously.
Here is an example of a business executives who would like to be the most valuable company in terms of customer satisfaction and profitability in their industry.

To design the balance score card, you need to consider the following elements for each perspective:

- Objectives
- Goals
- Indicators
- Initiatives

Financial perspective:

Objectives: To increase increasing sales and reduce cost
Goals: 15% increase in net sale and 10% decrease in operation cost
Indicators: It will be their financial statement
Initiatives: They would need to reduce their cost, and that can be done by negotiating with their suppliers

Customer perspective:

The objective for this perspective would be something like "To be the customers reference for various products".
And therefore, the goal of the business must increase in launching new products, and the number of new products launched per quarter will be a good indicator.
Initiatives: Creating an innovation and development committee will be a good initiative.

Internal process perspective:

The objective for this perspective: Continuous process of developing new products. A number of new products every month will be a goal for Internal process perspective. To have a good indicator, this will be exported from project innovation reports. For the initiative, acquiring a software for managing product development will be a good initiative.

Learning & Growth perspective:

Objective: to have extremely knowledgeable human capital in product development. The goal is to retain a number of employees with high knowledge in products development. This number of employees will be a good indicator.
Hiring new employees with many years of experience to train current employees will be a good initiative.

Perspective ↓	OBJECTIVES	GOALS	INDICATORS	INITIATIVES
Financial	To increase sales and reduce cost	15% increase in net sale and 10% decrease in operation cost	Financial statement	Negotiate with suppliers
Customer	To be a reference for a variety of products	Increase in launching new product every quarter by 15% products	Number of new products launched per quarter	Create an innovation and development committee
Internal process	To be able to develop new products constantly	Start at least Five new product development projects every month	Project innovation reports	Acquire specific software for managing product development
Learning & Growth	To have extremely knowledgeable staff in product development	Have at least Two employees with high knowledge and experience in product development	Number of experienced product development employees	Recruit new an employee with Ten years experience to train current employees