

CAN THE USE OF BALANCE SCORE CARD GUARANTEE SURVIVAL AND GROWTH IN TODAY'S ERA OF ECONOMIC UNCERTAINTY?

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ABSTRACT

Due of the increasing globalization and technological disruptions the enterprises have become more vulnerable. They are not only affected by the transformations happening in their economy, rather they also get affected by the development in the other parts of the world. The use of balanced scorecard as a tool of performance measurement gained significance in the recent times. In this backdrop the main aims of this research was to (1) to determine the relevance of Balanced Scorecard for the survival and sustainability of an enterprise, (2) prepare a theoretical framework, (3) understand the concept of balance score card, and (4) analyze how BSC can helps to achieve the strategic goals and safeguard the survival. The current study revealed that unlike traditional performance measurement tools the balance score card presented cause-and-effect linkages between financial and non-financial perspectives and proved that advances in intangible assets get translated into tangible outcomes such as financial returns, large customer base and value creation. Hence rather than focusing only on the financial returns it is far more advisable that the business enterprises strategically design and implement the non-financial perspectives to ensure survival and growth in the times of economic uncertainty.

Keywords: balance scorecards; financial customer; internal processes; learning and growth

INTRODUCTION

In an increasingly competitive world, enterprises need sound management approaches and systems to make accurate strategic decisions. Over the years a large number of methodologies were developed on different facets of performance measurement. However, only a few enterprises succeeded in translating these methodologies into measurable results. To be effective and proficient in 21st century, ventures require to adopt and use rigorous and groundbreaking performance management techniques, which not only support collaboration and configuration of strategies among various operational departments, but also stimulates tactical communication among decision-makers to guarantee high profits and sustainable growth. Enterprises need to adopt a method that results in enhancing financial gains and creating value. Though business enterprises embraced financial metrics which correlated better with owner's value, through economic value added (EVA) and value-based metrics. Yet even today the best financial frameworks fail to capture various dynamics of

performance. According to Daly (1996), Ernst & Young (1998), Dixon, Nanni, & Vollman (1990), Neely (1998), appraisal mechanism founded on performance holds greater validity than assessment system entirely built on financials.

OBJECTIVE OF STUDY

Due to increasing globalization and technological disruptions the enterprises have become more vulnerable. They are not only affected by the transformations happening in their economy, rather they also get affected by the development in other part of the world. The use of balanced scorecard as a technique for performance measurement gained significance in the recent times. In this backdrop the main aims of this research was to (1) to determine the relevance of Balanced Scorecard for the survival and sustainable growth of a business enterprise, (2) prepare a theoretical framework to understand the concept of balance score card, and (3) analyze how BSC can help to achieve the strategic goals and safeguard the survival and sustainable growth.

RESEARCH METHODOLOGY

The research was based on secondary data which was collected from journals, reports of government and private agencies, surveys, and websites. Interviews were conducted with the owners of the fifteen micro and small enterprises to explore whether they used the BSC, but none seem to be using this concept for managing their growth. Though all these enterprises measured their profitability and calculated various cost components but none of them had a well-structured mechanism which integrated their day-to-day operations with their growth strategy.

SIGNIFICANCE OF THE STUDY

The findings from this study would give valuable insights to the owners of the start-up and the micro, small and medium enterprises and would encourage them to adopt BSC technique to attain their goals and objectives. The study will attract the attention of the academicians and researchers, who can conduct further studies to examine the implication of BSC on the operating profits, employee turnover and customer retention.

THEORETICAL FRAMEWORK

Often the causes such as poor management, insufficient finance, lack of expertise to plan and control business activities, market environment, increasing competition, uncertainty and complexity and changing macro-economic situations make the enterprises vulnerable (Basuony, 2014). In 1992 Kaplan and Norton came up with the concept of Balanced Scorecard (BSC), to overcome the insufficiencies of the traditional performance measurement tools. Compared to the traditional approach which relied only on the financial metrics, the BSC provided a holistic performance outlook by incorporating three additional parameters to the existing performance metrics which were purchaser, internal procedure,

learning and growth (Kaplan and Norton, 1992; Kaplan, 2010). By aligning internal business processes and learning and growth perspectives to customer and financial perspectives, the Balanced Scorecard helped the enterprises to avoid failures and improve continued existence (Shadbolt et al., 2003; Giannopoulos et al., 2013; Hoque, 2014).

As defined by Kaplan, R. S. and Norton, D. P. (1996) “the Balanced Scorecard translates an organization’s mission and strategy into a comprehensive set of performance measures that provides the framework for a strategic measurement and management system”. It provides a set of financial and non-financial measures that allows an enterprise to determine its mission and strategy; then transform them into performance metrics, which becomes basis of effective execution of strategic management system. A brief account of the Balanced Scorecard is stated below:

Financials: The financial perspective clearly brings out that it is essential to convert financial agenda into marginal cost and viable goals (Niven, 2011). It outlines financial strategy and metrics of financial performance that would ensure enterprises` reduced costs and improved profits (Ronchetti, 2006). It emphasizes the need to look at customers in order to achieve the organization’s mission and there should be measures which result in long-term value creation for stakeholders, expanding the market and reducing costs.

Customers: Enterprises increasingly realize the significance of customer focus and customer satisfaction in business. Poor performance in this perspective can result in future decline, even if the current financials are decent. The customer perspective comprises of two measures (1) first, customer retention, market share, customer satisfaction, customer acquisition, and customer profitability (Chabrow, 2002; Holloway, 2002; Needleman, 2003) and (2) second, quality, lead time, feature, impression and relation (Kaplan and Norton, 1992). According to Niven (2011), these can be achieved through: (i) operational excellence, (ii) break through innovations, (iii) increased customer intimacy. Ittner and Larcker (1998) stated that customer behavior and financial outcomes move in tandem and tend to change only if level of customer satisfaction diminishes.

Internal Processes: Enterprises need to adopt innovation in products and processes to create value for customers (Kaplan and Norton, 2004). The process of innovation should comprise (1) identifying opportunity for new products and services, (2) managing research and development, (3) conceptualizing new product and service, (4) bringing quality products and services to the markets. It is essential to examine the processes, operations and services (Sharma, 2003) and evaluate whether products and services conform to customer need and requirements.

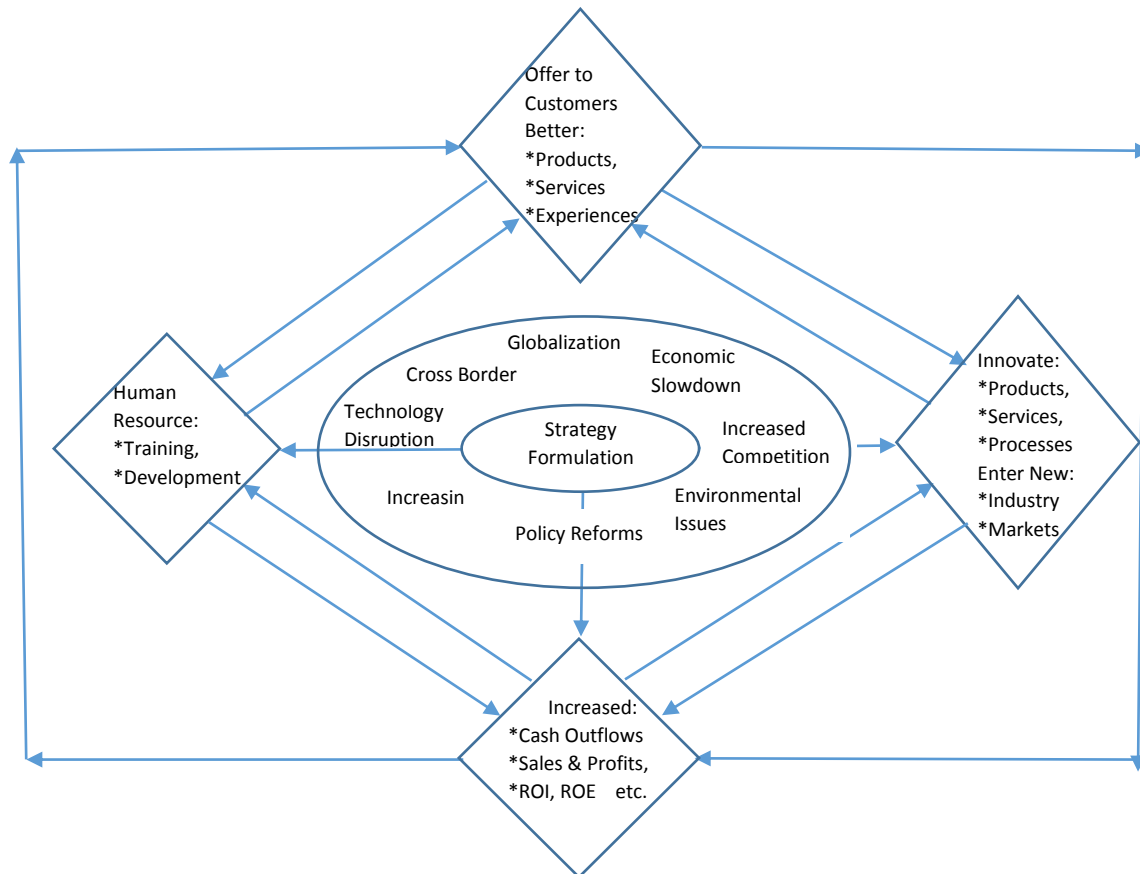
Learning and Growth: Learning and growth include human, information, and organizational capital (Chuang, 2007). The four basic elements of organizational capital, namely teamwork, organizational culture, alignment and leadership, enable and renovate the behavior of an organization to being strategy focused (Kaplan and Norton, 2004). Park and Gagnon (2006), argue that organization’s infrastructures, employees, environment,

motivation, empowerment, employee satisfaction and information systems, improve the learning map. Learning map should also include training, mentoring and easy-interface with technology (Kaplan and Norton, 2007) as people are the only repository of knowledge in an organization and it is the most precious resource.

DISCUSSION

In order to enjoy sustainable growth it is necessary to put in place an efficient performance supervision mechanism. Shift from manufacturing era to information era, has led to increased value of non-financial aspects. With technological development multi-dimensional evaluation in the business has become inevitable. Performance evaluation needs to be integrated with business strategy, with cause-effect links established between performance measures. Traditional performance measurement methods were merely collections of standalone measures, but when used alone, these measures failed to capture the means that led to improved performance. The current research showed that instead of evaluating the standalone criteria's to gauge the performance of an enterprise, it is rather more important to create a cause and effect linkage between the various factors used for measuring the growth of an enterprise. It is important to measure the way advances in intangible perspectives such as customer, learning and growth, internal process, and financial perspective get translated into tangible outcomes such as large customer base, bigger financial returns, and increased value creation.

Our findings were congruous to the results of the earlier research which said that enterprises can use the BSC to support strategic decision-making (Martinsons et al., 1999; Murby and Gould, 2005), to manage intellectual capital (Bose and Thomas, 2007), to develop employees (Ciuzaitė, 2008) and to manage sustainable growth (Shadbolt et al., 2003). Nonetheless, many enterprises can use the BSC to measure the overall performance of an organization (Basu et al., 2009; Horngren et al., 2000; Nzuve and Nyaega, 2011) and effectively accomplish strategic goals and performance (Chi and Hung, 2011; Murby and Gould, 2005; Madsen and Stenheim, 2014). The Balanced Scorecard also provides a dynamic system that helps enterprises to adapt to novel changes (K Fernandes, Vinesh Raja, Andrew Whalley, 2006) and combat uncertainties and thereby ensure survival and sustainable growth (Figure: Use of Balance Score Card to Ensure Survival and Sustainable Growth).



.Figure: Use of Balance Score Card to Ensure Survival and Sustainable Growth

It was found that the Balanced Scorecard does not merely provide a collection of financial and non-financial measures; it rather provides a logical and comprehensive way for enterprises and employees to comprehend the strategy and make them realize and appreciate how they can contribute to strategy implementation. The BSC framework displays the inter-relationship among: financial, customer, internal process and learning and growth perspective. The improvisation of learning and growth of the workforce will facilitate adoption of standardized and quality internal process. This would further lead to creation of innovative products, services and processes, which would eventually result in fulfillment of customer needs, enhancement of customer satisfaction and improvement of customer experience. That would eventually result in increased financial accomplishments. It clearly proves that the enterprises' internal structures have direct implications on the final outcomes. Use of the scorecard will allow the enterprises to redefine their relation with customers, to redesign their fundamental processes, equip their employees with new skills and deploy technologically advanced infrastructure. It may be said that it is necessary that the enterprises should shift from control oriented management system, to a strategic management system, with Balanced Scorecard at its core. BSC helps in identifying major activities that are the drivers (lead indicators) of the desired outcomes (lag indicators) and are set of cause-and-effect relationships that are explicit and can be tested. These drivers will differentiate a company from its competitors and create value for its customer and its shareholders. Thus BSC can be used as a roadmap to move the enterprise from its present position to the desired position.

CONCLUSION

It may thus be concluded that business enterprises need to realize that monetary parameters alone do not sufficiently gauge firm`s health, stand-alone pursuit of financial objectives may lead to ruin in the long-term. The enterprises need to focus on the processes, not metrics, and should be forward-looking rather than backward-looking. It is necessary that enterprises develop framework to translate company`s visions and strategies into specific actionable and measureable goals for evaluating performance.

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