



BALANCED SCORE CARD

SUBJECT:ADVANCED MANAGEMENT ACCOUNTING

AMRUTHA RAJA
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KAPLAN & NORTON'S BALANCED SCORECARD

- Kaplan & Norton's Balanced Scorecard model was developed in the early 1990's as an attempt to help firms measure business performance using both financial and non-financial data.
- The aim of the Balanced Scorecard was *"to align business activities to the vision and strategy of the business, improve internal and external communications, and monitor business performance against strategic goals."*
- The balanced scorecard provides a **relevant range of financial and non-financial information** that supports effective business management.

DEFINITION

- the Balanced Scorecard is a strategic planning and management system used to align business activities to the vision and strategy of the organization by monitoring performance against strategic goals.
- The balanced scorecard is a management system aimed at translating an organization's strategic goals into a set of performance objectives that, in turn, are measured, monitored and changed if necessary to ensure that the organization's strategic goals are met.

BACKGROUND TO THE BALANCED SCORECARD:

- No single measures can give a broad picture of the organisation's health.
- So instead of a single measure why not use a composite scorecard involving a number of different measures.
- Kaplan and Norton devised a framework based on four perspectives – financial, customer, internal and learning and growth.
- The organisation should select critical measures for each of these perspectives.

Four Perspectives of the Balanced Scorecard





IN WHAT WAY IS THE SCORECARD A BALANCE?

- The scorecard produces a balance between:
- Four key business perspectives: financial, customer, internal processes and innovation.
- How the organisation sees itself and how others see it.
- The short run and the long run
- The situation at a moment in time and change over time

MAIN BENEFITS OF USING THE BALANCED SCORECARD

- Helps companies focus on what has to be done in order to create a breakthrough performance
- Acts as an integrating device for a variety of corporate programmes
- Makes strategy operational by translating it into performance measures and targets
- Helps break down corporate level measures so that local managers and employees can see what they need to do well if they want to improve organisational effectiveness
- Provides a comprehensive view that overturns the traditional idea of the organisation as a collection of isolated, independent functions and departments

SOME DRAWBACKS OF THE BALANCED SCORECARD MODEL

- A danger that a business will have too many performance indicators
- Need to have balance between the four perspectives – not easy
- Senior management may still be too concerned with financial performance
- Needs to be updated regularly to be useful