

Balanced Scorecard in an Indian Public Sector Enterprise – A Framework for Implementation

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Abstract

The measurement of the performance of the public sector enterprises using financial results alone is not appropriate and lacks futuristic perspective. An organisation which focuses only on financial results may forego opportunities to achieve the strategic objectives. Balanced scorecard concept which caters to both strategic as well as financial objectives can be utilised by the public sector enterprises as they are accountable for the multiple objectives other than profit motive alone. Balanced scorecard offers necessary tools which enable public sector enterprises to combine tangible and intangible measures in their performance measurement system and this approach offers a balanced view taking into account all the complexities involved in public sector enterprises. This aim of the study is to understand the concepts of balance scorecard for implementing the same in Indian public sector enterprises and further work towards the development of framework for implementation.

Keywords: Balanced Scorecard; Public Sector; Framework; Implementation

INTRODUCTION

The performance of any public sector enterprise is criticized on the basis of their poor performance in terms of profit or rate of return on capital investment. The main aspect for judging the poor performance of the enterprise is based on the financial measures used in the evaluation of the performance. The relevance of using only the financial measures or results is questionable and lacks futuristic perspective. The performance of the enterprise may even get worse, when the management lacks strategic perspective or focuses only on short term goals instead of long term goals. The strategic objectives can't be realised if only the financial performance or results like profit margin, EBIT, Cash flow etc are used for the performance measurement. The financial results are the consequences and not the goals or objectives to be achieved.

Way back in early 1990's, Mr Robert Kaplan and Mr David Norton has developed the Balanced Scorecard concept as a framework to measure the non-financial performance of a private industry. Originally it was developed as a means to communicate company strategy, to align unit and individual goals to strategy, to link objectives to long term targets and budgets and to conduct performance reviews to improve strategy of the organisation.

Over the time, the balanced scorecard concept has undergone metamorphosis and has developed into a complete performance management system including the management and execution of the corporate strategy. The balanced scorecard breaks down the Vision, Mission and strategy of the organisation

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into four different interrelated perspectives .i.e. Financial, Customer, Internal Business Processes and Learning & Growth perspective.

The primary purpose of the balanced scorecard is to reveal the strategic intent of the management and to suggest measures to align the day to day activities and priorities to inch towards the strategic objectives of the organisation. The balanced scorecard is used to monitor the progress towards achieving the strategic objectives of an organisation. It measures the performance against the pre-defined targets and indicates whether the performance is within the acceptable ranges.

Implementing the balanced scorecard in public sector enterprises has its own challenges and depends on characteristics and the complexity of environment in which the public sector organisation operates.

As the public sector enterprises receive the funding from the taxpayers, the measures of success, in most of the cases, is how well the public sector enterprises meet its mission and strategic objectives. The financial performance is less critical in public sector enterprises when compared to private enterprises. The basic focal point is on the mission of the organisation rather than the return on investment to shareholders. As the strategic priorities of the public sector organisations are laid out by government policies, they have to take a more bounded approach to strategy development.

According to Adcroft and Willis (2005), there will be considerable challenges in implementing the balanced scorecard principles in public sector enterprises and considering the circumstances unique to them, there shall be adjustments in both design and implementation of balanced scorecard.

In order to tailor balanced scorecard to suit the public sector organisations, Kaplan (2001a) has revised the model to enable the public sector organisations with respect to the following

1. To bridge the gap between vague strategy to the everyday operational measures
2. To develop a framework to follow, by which an organisation can achieve strategic objectives
3. To shift the focus from initiatives and programs to the results/outcomes of the same

2. LITERATURE REVIEW

In order to implement balanced scorecard in a public sector organisation, the concept needs to be understood and interpreted keeping in mind the complexity of the operating environment of public sector enterprise. Various Researches have shown that the balanced scorecard concepts can be understood and interpreted in many ways. An ample number of ways of interpreting balanced scorecard makes it attractive to large number of potential users in various contexts. According to Johanson et. al (2006) the balanced scorecard concept is considered to be flexible enough with a considerable room for interpretation. As per Hansen & Mouritsen (2005), the way the balance scorecard is interpreted and implemented depends on the organisation's specific problems and issues.

Braam & Nijssen (2004) in their research mentions that the effects of using balanced scorecard is related to the way the concept is understood, interpreted, and in turn implemented.

Upon review of balanced scorecard concepts, before implementing , the same needs to be modified considering the business scenario in which the public sector enterprise is operating, political environment unique to Indian context, industrial relations, competitive advantage, stakeholder's expectations etc. In order to sustain the competitive advantage in the ever changing business scenario, corporate India was leaning towards contemporary management concepts as mentioned by Joshi (2001) in his study, which includes the balanced scorecard concept.

According to Johnsen (2001), balanced scorecard can be successfully implemented in a public sector due to the following reasons

1. It is a flexible tool to develop, discuss and decide on the relevant performance indicators in complex organisations
2. It enlightens managers, employees and stakeholders in management control.

Niven (2002) in his book has suggested ten key factors as the prerequisites for successful implementation of the balanced scorecard. Farooq and Hussain (2011) mentions that the Indian organisation started implementing balanced scorecard to create change and improve performance. However, implementing balanced scorecard, particularly in public sector enterprise prima facie looks challenging as advocated by Niven (2005, 2006) who emphasizes that the implementation of balanced scorecard in public sector enterprises has met with varying degree of success.

According to Paul McCunn (2005), KPMG management consultant, estimates the overall failure rate of implementation of Balance Scorecard is at 70%

According to Chen & Jones (2009), ineffective communication across the organisation is the stumbling block for successful implementation of the balanced scorecard. As emphasized by Debusk & Crabtree (2006) in their research, organization wide communication is imperative for employees involvement and acceptance during the implementation of the balanced scorecard.

As per Joan (1999), the balanced scorecard, to be effective, requires a sustained and long-term commitment from all levels in the organization. According to Gumbus & Bridget (2002) who has studied the implementation of the balanced scorecard in M/s Philips Electronics have shared that the company has followed the Top-Down approach to build the Balanced Scorecard. Purohit et. al. (2002) has mentioned that M/s Infosys Technologies has followed the holistic approach towards implementing strategy.

As deduced from the available literature, the balanced scorecard concept is flexible enough and the result is based on the way the concept is understood, interpreted and implemented Effective communication, commitment and Top-Down approach are the few factors, which aids in successful implementation of the balanced scorecard. The ineffective communication and obscurity in translating the strategy into action are common reasons for failure in implementation

3. RESEARCH OBJECTIVE

The objectives of current study are

- a) To understand the balance scorecard concepts keeping in mind the Indian public sector
- b) To develop a framework for implementation of the balanced scorecard in an Indian public sector.

It is believed that the findings of the above study will be of use to the organisations in the Indian scenario during the implementation of the balanced scorecard.

4. RESEARCH mETHODOLOGY

The research methodology followed mainly is of exploratory type. A critical, exploratory and structured review of literature was carried out for a deeper and fresh understanding the balance scorecard concepts

keeping in mind the Indian public sector. Systematic literature review of journals, articles, thesis, books and unpublished materials has been carried out. Further, various case-studies of implementing the balanced scorecard in the industries in the Indian Scenario has been thoroughly studied.

5. BALANCE SCORE CARD CONCEPTS - INDIAN PUBLIC SECTOR

The Public Sector Enterprise or Unit were established with the major objective of the self reliant growth of the Indian national economy. The Other objectives of the public sector enterprises are

- a) To promote redistribution of income and wealth
- b) To create financial resources for development
- c) To encourage the development of stakeholders
- d) To use human resources and material resources in a better way.
- e) Employment generation
- f) Research and development

The public sector enterprises are playing the vital role in the economic development of the country. It is the powerful driver for the economic development of the country and considered as one of the important instrument for the self reliance of the country. It has contributed towards employment, regional development, export promotion & import substitution, contribution to public exchequer, research and development etc.

According to Venkataratnam (1998), the globalisation and liberalisation has brought substantial changes in Indian economy, which includes rapid development of advanced technologies, increased level of competition among players, thinning margin etc. Ever changing business scenarios has pushed the corporate India to look for contemporary management techniques like balanced scorecard as mentioned by Joshi (2001) in his study. The balanced scorecard had strategic relevance and was being used as performance management tool at that time. According to Anand et.al. (2005), the adoption rate of balanced scorecard in India was 45.28% at that time.

The balance scorecard frame work breaks down the mission, vision and strategy into four perspectives, Viz. Financial, Customer, Internal business processes and Learning & Growth perspective. The scope of these four interrelated perspectives is designed to cover both the internal and external activities of the organisation and includes both current and for the future.

The financial perspective focuses on financial performance of an organisation. The customer perspective focuses on performance targets related to customers and the market. The internal process perspective focuses on internal operational goals which are related to the key processes necessary to deliver the customer objectives. The learning and growth perspective focuses on the intangible drivers of future such as skills of the employees, leadership employee alignment, teamwork, knowledge management etc

These perspectives of the balanced scorecard are found to be useful to the public sector enterprises which have to be more accountable to the other objectives other than only profit motive.

According to Margarita (2008), the focus of the public sector enterprises shall be "Mission" driven rather than the "Profit" driven. According to Kaplan & Norton (2001), the central focus of the public sector enterprises is not the financial measures alone. The public sector enterprises need not have the financial objectives as the primary objective. Therefore, balanced scorecard which focuses not only on the financial measures but also on the other performance measures is the most suitable to meet the performance

management requirement of PSU's. Further Kaplan and Norton (2001) mentions that the balanced score card can be adapted easily to suit the public sector enterprise by the reorganisation of the perspectives.

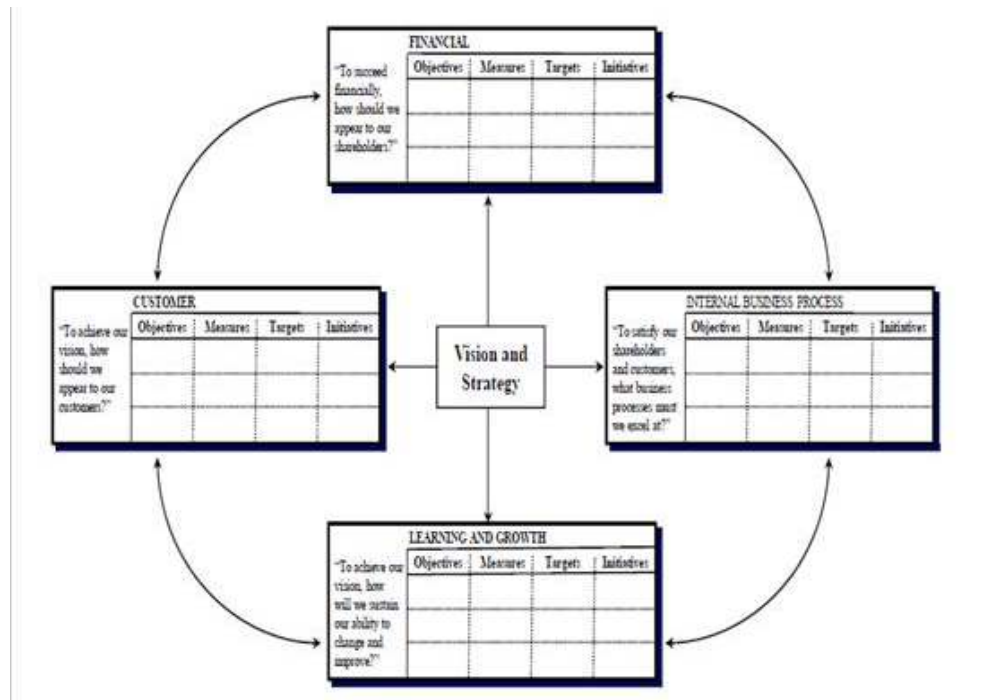


Figure – 1: Four Perspectives of the Balanced Score Card

{Sourced from Kaplan, R. S. and D.P. Norton (1996a) *The Balanced Scorecard: Translating Strategy into action*, Boston: HBS Press}

According to Chow et.al. (1998), even though the operating environment in the public sector enterprise is complex, the balanced scorecard offers a clear focus for the achievement of organisational strategic objectives.

Over the past few years there have been many attempts to implement the BSC in public-sector organizations. However, according to Niven (2006) the implementation of Balanced Scorecard in public sector enterprises has met varying degree of success. The study by Anand et.al. (2005) reveals that the adoption rate of balanced scorecard in corporate India is above 45%.

Batra (2006) emphasizes that the history of balanced scorecard in India is short and there are only limited studies on balanced scorecard in India with mixed experiences. During implementation of the balanced scorecard, one of the biggest hurdle dealt by corporate India is the difficulty in allocating the suitable weightage to different perspectives of the balanced scorecard and also establishing the cause and effect relationship among perspectives.

Also Cavalluzzo & Ittner (2004) mentions about the hurdles like top management commitment and information systems related issues are the barriers for the implementation of the balanced scorecard in the public sector enterprises. Further, Northcott and Taulapapa (2012) emphasizes that the other issues such

as lack of modifications to balanced scorecard to suit organisational context and lack of perceived strategic orientation are the other barriers in addition to the other general barriers for the implementation. The design and implementation of balanced scorecard in a public sector enterprise requires extreme caution as it may impose diverse challenges like the following

1. Compatibility with the inherited management systems which are in use
2. Acceptance of new performance management system
3. Understanding of balanced scorecard metrics throughout the organisation

In the public sector enterprises the priorities as well as primary focus will differ at different managerial levels and for different sections. The published articles/matter on the balanced scorecard focus towards private sector organisations and does not fully cater to the requirements of a public sector organisation in which the balanced score card needs to be implemented.

According to Niven (2002), few of the challenges being faced by public sector organisations during implementation include concerns related to difficulties in measuring outcomes rather than outputs, no motivation to change, technological constraints, lack of soft skills required for implementation, failure to adapt the balanced scorecard to compensation etc.

Balanced scorecard offers the necessary tools which enables the public sector enterprises to combine tangible and intangible measures in their per performance measurement system. It gives a way of not relying only on tangible performance measures for the public sector enterprises. This approach offers a balanced view taking into account all the complexities involved in the public sector enterprises.

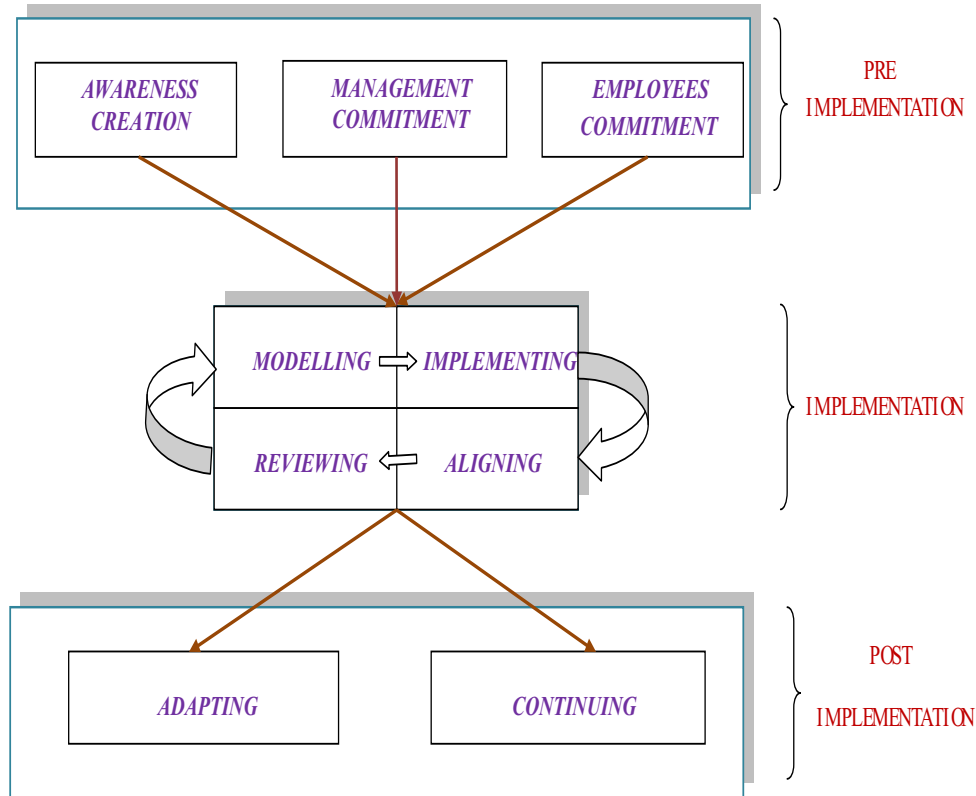
According to the balanced scorecard institute's framework, there are nine steps of success to systematically develop, implement and sustaining a strategic management system. Those steps include

1. Overall organisational assessment
2. Development of business strategy
3. Define strategic objectives
4. Create a strategic map
5. Develop performance measures
6. Identify new strategic initiatives
7. Automating the balanced scorecard system
8. Implement the balanced scorecard throughout the organisation
9. Evaluation of the business strategies.

A thorough re-engineering of the balanced scorecard concepts needs to be carried out to suit the specific requirements of a particular organisation in order to implement the balanced scorecard successfully in an Indian PSU.

6. FRAMEWORK FOR THE IMPLEMENTATION OF BALANCE SCORE CARD IN THE PUBLIC SECTORE

The development of framework does not guarantee the effective implementation. However religiously following the stages of the implementation will lead the organisation towards success. The following is the broad framework for implementation of the balanced scorecard in an Indian Public sector enterprise.



FRAMEWORK FOR THE IMPLEMENTATION OF BALANCED SCORE CARD IN A PUBLIC SECTOR UNIT

Figure 2: Framework for the implementation of balanced score card in a public sector unit

7. PRE-IMPLEMENTATION STAGE

This stage begins with the creating awareness in the organisation about the concepts of the balanced scorecard. The communication as well as information sharing is the key to success in this stage. Communicating the importance and necessity of implementing the balanced scorecard in the organisation as well as the paths to be treaded are the most important steps during this stage. It is very important for management and employees alike to get involved and committed for the successful implementation and thereby inching towards accomplishing the strategic objectives of the organisation.

Communicating the balanced scorecard concepts to operational team will not be an easy task and over a period of time significant changes are needed in the system during implementation. This stage shall be designed keeping in mind the following

1. To deal with number of potentially conflicting and diverse outcomes
2. To change the rules of the operating environment
3. To take a call on trade-offs required during implementation
4. To create an accountability matrix across departments and units

8. IMPLEMENTATION STAGE

This stage begins with the actual modelling and implementation of the Service Level Agreements (SLA's). The SLA's are the documents which decode the strategy map into operational objectives or goals. The SLA is a contract between two functions which sets forth levels of service, which will clarify each internal customer's goals and ensure that both the internal customers gets the service expected. The SLA's clearly documents the measures, targets and responsibility for each of the activities. The activities mentioned in the SLA's are percolated down the hierarchy or levels and ultimately to each of the employee. Then the activities are to be aligned with the budgets, competencies, incentives, rewards etc. Periodic reviews of the SLA's are necessary in order to be on the track for the successful implementation of balanced scorecard. The barriers for the implementation of the balanced scorecard in the public sector enterprises are many and are the important determinants for the successful implementation. During implementation, the following initiatives by the top management of the organisation will reinforce the successful implementation of the balanced scorecard.

1. Adopting participative decision process
2. Adequate resources of the balance scorecard initiatives
3. Continuous learning and training
4. Strong management support.
5. Internal ownership

9. POST IMPLEMENTATION STAGE

This stage is dynamic in nature. The SLA's developed will be reviewed on periodic intervals in order to see that they are aligned with the corporate strategy. In case of any changes in the business scenario, the SLA's shall be modified, if necessary. Measures, targets and responsibilities also shall be modified, if required based on the learning, during the process of implementation. The successful implementation of the balanced scorecard shall be much more than the transactional implementation. It shall be able to transform the day to day actions leading towards the achievement of strategic objectives of the organisation. The top management of the organisation should clearly percolate the strategic objectives throughout the organization in order to create a common understanding of organization's bigger picture and how this relate to individuals' daily activities for the successful implementation. The successful implementation shall also lead to enhanced performance of the organisation

10. CONCLUSION

This study is an attempt to understand the concepts of the balanced scorecard and complexities involved in its implementation in an Indian public sector enterprise, through exploratory research. Further this study also involves development of framework for successful implementation of the same. The successful implementation of the balanced scorecard shall be much more than the transactional implementation. It shall be able to transform the day to day actions leading towards the achievement of strategic objectives of the organisation. The successful implementation shall also lead to enhanced performance of the organisation. However, implementation of the balances scorecard in a public sector organisation requires a sustained and long term commitment at all levels of the organisation for it to be effective. Despite suc-

successful implementation of Balanced Scorecard in organisations all over the globe, there have been several cases, where implementation ended with failure. In order to implement the balanced scorecard in an Indian public sector enterprise successfully, a thorough re-engineering of balanced scorecard concepts needs to be carried out to suit the specific requirements of a particular organisation as the traditional approach does not provide reasonable results. Religiously following the stages of the framework shall ensure success in the implementation of the balanced scorecard.

11. AREAS OF FUTURE RESEARCH

A future study could examine a detailed analysis of specific cases of the implementation of balanced scorecard in Indian public sector enterprises with reference to the framework developed in the current study. Thorough study of successful implementation of the balanced scorecard across various Indian public sector enterprises can be of great use to the practitioners striving hard with the implementation of balanced scorecard in practice. Although the current study provide useful and practical framework for implementation of balanced scorecard in an Indian public sector enterprise, the future research could examine the suitability of the framework developed in terms of implementation in different countries other than India in order to understand the role of culture, ideology and values.

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