

Learn the FM: What is the Balanced Scorecard part 1?

In 1992, an article by **Robert Kaplan and David Norton** entitled "The Balanced Scorecard - Measures that Drive Performance" in the Harvard Business Review caused a lot of attention for their method, and led to their business bestseller, "**The Balanced Scorecard: Translating Strategy into Action**", published in 1996.

The financial performance of an organization is essential for its success. Even non-profit organizations must deal in a sensible way with funds they receive. However, a pure financial approach for managing organizations suffers from two drawbacks:

- It is **historical**. Whilst it tells us what has happened to the organization, it may not tell us what is currently happening. Nor it is a good indicator of future performance.
- It is too **low**. It is common for the current market value of an organization to exceed the market value of its assets. Tobin's-q measures the ratio of the value of a company's assets to its market value. The excess value is resulting from intangible assets. This kind of value is not measured by normal financial reporting.

THE 4 PERSPECTIVES OF THE BALANCED SCORECARD

The Balanced Scorecard method of Kaplan and Norton is a strategic approach, and performance management system, that enables organizations to translate a company's vision and strategy into implementation, working from 4 perspectives:

1. **Financial perspective.**
2. **Customer perspective.**
3. **Business process perspective.**
4. **Learning and growth perspective.**

This allows the monitoring of present performance, but the method also tries to capture information about how well the organization is positioned to perform in the future.

BENEFITS OF THE BALANCED SCORECARD

Kaplan and Norton cite the following benefits of the usage of the Balanced Scorecard:

- Focusing the whole organization on the few key things needed to create breakthrough performance.
- Helps to integrate various corporate programs. Such as: quality, re-engineering, and customer service initiatives.
- Breaking down strategic measures towards lower levels, so that unit managers, operators, and employees can see what's required at their level to achieve excellent overall performance.

THE 4 PERSPECTIVES OF THE BALANCED SCORECARD WILL FOLLOW...

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