

“EVALUATING THE FINANCIAL PERFORMANCE OF GAIL (INDIA) LTD, USING BALANCED SCORE CARD”

Abstract

India opened up its economy in 1991 through its LPG Policy (Liberalization, Privatization and Globalization), then on the economy is being criticised for not following an effective evaluation system and the systems which are used lack futuristic outlook. The relevance of these evaluation techniques are in question in the technology era. Therefore, in this current research work Balanced Score Card technique is used to evaluate the performance of a Public Sector Undertaking, that is, GAIL (India) Ltd. The Balanced Score Card is considered as a well known technique which is widely used in the performance evaluation of a concern which can react to situations.

Balanced Score Card will help in the process of Strategic Planning, Process Management and Performance Evaluation from four perspectives, namely, Financial, Customer, Internal Process, Learning and Growth. These four perspectives are based on the Vision and Mission Statements of a firm and will give new way of approaching to a problem.

This study focuses on GAIL (India) Ltd and how it is using Balanced Score Card technique to shape its futuristic strategies and tuning its Vision as a Company. It is seen in the process of interpretation that the Financial Perspective has been the vital perspective followed by customer’s perspective, Internal Business Perspective, finally, Learning and Growth. It is observed in the process of evaluation that the implementation of Balanced Score Card has given good results to GAIL India and it has led to the reduction of cost. It also has contributed in Cost Control.

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For the purpose of convenience GAIL India has identified various centres such as Budget Centre, Cost Centre and Profit Centre. This kind of classification has helped the company in the process of price mechanism and other performance management tools. The current study also has thrown light on one more important factor that Indian Public Sector Undertakings are ahead of US firms in the adoption of this technique. Close to 48% of Indian PSUs adopt this technique as compared to 43 % by US based companies.

Keywords: Balanced Score Card, Profit Centre, Cost Centre, Budget Centre, Financial Perspective, Public Sector Undertaking, Internal Process.

I. INTRODUCTION

Kaplan and Norton (1992, 2000, 2001, 2004) has presented the Balanced Score Card as an alternative to evaluate the financial performance of any concern. It is now recognized as a well known measure to evaluate the financial performance of a concern using four perspectives. Kaplan and Norton (1992) developed an innovative multi-dimensional performance measure known as Balanced Score Card. This measure is considered to be the integration of conventional and modern techniques with the inclusion of financial measures as well as operating measures. It takes into consideration customer satisfaction, internal business processes, learning and growth activities. This method tries to integrate Mission Statement of the company with the Vision Statement. The technique tries to link short term operational controls with long term vision strategies of the concern. It also throws light on the relationship between business processes and the customer satisfaction.

II. ORIGIN

The Origin of Balanced Score Card dates back to 1988, when KPMG designed one performance evaluation system for Apple. Later in 1990, the Nolan and Norton Institute sponsored a research project titled “Evaluation of Future Organization Performance”, led by Professor Robert Kaplan of Harvard University as a representative from academia and CEO Nolan, David Norton as a representative of Industry to evaluate the performance of 12 companies. This project was completed in 1990 and the paper got published in the Harvard Business Review. Norton and Kaplan mentioned the concept of Balanced Score Card, which applies overall management system for quickly understanding the status of one’s business. The Balanced Score Card is considered as an integrated system which translates strategy into action. The key purpose identified was transform the operations of a business and to improve competitiveness.

The four perspectives as identified under this are as follows:

- Financial Indicators
- Customer Perspective
- Internal Process Perspective
- Learning and Growth Prospective

These four perspectives are the combination of traditional Financial Indicators along with customer perceptiveness. The four perspectives mentioned above is being used for individual and team objectives, balanced score card is been developed as a strategic management tool. It is used as a blueprint of company’s strategies.

III. REVIEW OF LITERATURE

1. **Kaplan and Norton (1992)** developed an innovative multi-dimensional corporate performance score card known as Balanced Scorecard. The technique selects multiple key performance indicators that supplement traditional financial measures along with operational measures such as customer satisfaction, internal business process, learning

and growth. This technique tries to integrate short term operational controls with long term vision and strategies of a business.

2. **Behrouz Aslani (2009)** emphasizes on the implementation part of Balanced Score card in the public sector undertakings. According to this study the methodology followed in the balanced score card influences communication among the management and the stake holders.
3. **Robert S Kaplan (2009)** has argued that for the effective implementation of Balanced Score Card the organizations require good managers who can lead and manage the entire team.
4. **Andra Gumbos and Bridget Lyons (2002)** has presented overall review of Balance Score Card. It links performance measures by linking at a firm’s strategic vision from four different perspectives. They have recorded that because of this score card the businesses have evolved into better enterprises.
5. **Robert S Kaplan, David P Norton (1996)** in their work have proved that successful implementation of BSC will result in increased operating income, increased return on income, Return on Capital Employed. All these have resulted in increased Economic Value to the company.
6. **John Griffiths (2003)** presents the results of a study conducted in New Zealand, the study emphasized on learning the implementation of BSC in government departments of New Zealand. The research work has clearly shown that BSC has unique characteristics which build the gap between an organization’s strategy and annual work program.
7. **Lanen (1999)** have explained the concept of BSC to the extent to which the organizational performance measures are used and they have examined their relevance from internal and external perspectives. The work has measured the financial and qualitative aspects of all the four perspectives.
8. **Joshi (2011)** has given special importance to the Management Accounting practices in sixty large and medium sized manufacturing organizations in India and compared the results with that of other countries. The study has revealed that more Indian companies are adopting BSC as a tool to evaluate the financial performance.

IV. OBJECTIVES OF THE STUDY

- To identify and analyze key performance indicators in the financial performance analysis of GAIL (India) Ltd.
- To Study the Financial Perspective of GAIL (India) Ltd, using balanced score Card for three years.
- To identify the steps involved in the implementation of Balanced Score Card
- To identify the relevance of BSC as a technique in Indian Public Sector Undertakings

V. METHODOLOGY

The study is based on the financial record collected from GAIL (India) Ltd. for three years from 2020 to 2022. All the data was sourced from the secondary sources using printed materials, website of the company and recorded facts on the stock exchanges.

VI. STATISTICAL TOOLS USED

For the purpose of analysis and interpretation Time Series Analysis (Method of Least Squares) and Economic Value Addition techniques were used.

VII. ANALYSIS AND FINDINGS

The Straight Line to be Fitted to the Data: $Y_c = Na + b\sum X$

Using the following Equations: $\sum Y = Na + b\sum X$ ----- 1

$$\sum XY = a \sum X + b \sum X^2$$

Table 1: Showing Sales Forecast for 3 Years using Time Series Analysis

Year (X)	Sales (Y)	XY	X ²	Y _c
2020	8432.21	0	0	8698.11
2021	10982.35	10982.35	1	11283.12
2022	12322.22	24644.44	4	13456.21

Table 2: Showing Forecasted Sales for Coming Three Years

Particulars	2023	2024	2025	2026
Forecasted Sales (Using Time Series)	13485.98	15348.23	17346.98	19234.54

The Findings indicate that company has a healthy sales growth over the period of three years and as a result for future four years also it is expected to have positive sales growth.

Table 3: Showing Export Forecast for 3 Years using Time Series Analysis

Year (X)	Sales (Y)	XY	X ²	Y _c
2020	322.81	0	0	342.56
2021	389.07	389.07	1	394.57
2022	432.21	864.42	4	444.32

Table 4: Showing Forecasted Exports for Coming Three Years

Particulars	2023	2024	2025	2026
Forecasted Exports (Using Time Series)	478.24	522.47	556.87	589.98

From the above analysis it can be interpreted that the company has high potential for exports. The company is expected to achieve 589.98 crore by the end of 2026 Accounting Year. During the analysis it is also found that the firm’s revenue expectations from foreign exports are exemplary and they are positive over a period of next four years.

This kind of positive export expectation over a period of four years calls for greater cooperation from all the departments. Therefore, it is advised to all the departments to strictly adhere to the concept of Balanced Score Card by setting different objectives and taking different initiatives in each department.

Table 5: Showing Value Added Forecast using Time Series Analysis

Year (X)	Sales (Y)	XY	X ²	Y _c
2020	3456.89	0	0	
2021	4324.72	4324.72	1	
2022	5123.21	10246.42	4	

Table 6: Showing Forecasted Value Addition

Particulars	2023	2024	2025	2026
Forecasted Value Addition	5553.34	5895.76	6125.23	6798.02

Economic Value Addition = NOPAT – (Capital * Cost of Capital)

Economic Value Addition = 2546.23—(7834.56 *0.1891)

Economic Value Addition = 2546.23—1481.51

Economic Value Addition = 1064.72

VIII. CONCLUSIONS

From the above analysis it can be concluded that the overall financial position of the concern is healthy and progressive. The company’s cost of capital seems to be higher because of debt content and if it could able to draw a healthy debt equity ratio it would influence its operations in the long run. Again, company’s export operations are also looking very positive with healthy growth in exports and the predicted exports are also positively growing. The success of any business depends upon its strategy formulation and its effective implementation. If the company religiously follow the Balanced Score Card it can achieve the goals effectively in long run. The BSC will give clear picture on its objectives and targets. Setting clear cut objectives and taking actions to achieve these objectives would lead towards the achievement of company’s vision. Balanced Score Card is considered to be the rick framework with multiple dimensions like financial, customer and internal business process, learning and growth which would help the company to reach its set objectives. This study emphasizes on the usage of Balanced Score Card in achieving and reaching the set objectives.

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