

THE BALANCED SCORECARD – BETWEEN STRATEGIC PLANNING AND IMPROVEMENT OF COMPANY'S PERFORMANCE

TABLOUL DE BORD – ÎNTRE PLANIFICAREA STRATEGICĂ ȘI ÎMBUNĂTĂȚIREA PERFORMANȚELOR ÎNTEPRINDERII

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Abstract. *The Balanced Scorecard is a management system that enables organizations both to clarify their vision and strategy and translate them into action. It is not only a measurement system, it is a complex instrument which provides feedback around both the internal business processes and external outcomes in order to continuously improve strategic performance and results. When fully deployed, the balanced scorecard transforms strategic planning from an academic exercise into the centered point of an enterprise. Working through the balanced scorecard process enables management to define those key perspectives that will drive the business to success, as well as to define how to measure their impact on the performance and the results of the enterprise. The balanced scorecard helps organizations align multiple strategies, from various centers, to the organizational strategy by linking their deliverables to those key perspectives that drive the business. Balanced scorecard provides a clear understanding of the company strategy, and how it is supported by the commitment to objectives from various functional units of the organization.*

Keywords: balanced scorecard, performance, strategy, indicators, customer management, organization capital, human and information capital.

Rezumat. *Tabloul de bord este un sistem de management care sprijină întreprinderile atât în clarificarea viziunii și strategiei proprii, cât și în transpunerea lor în practică. Acesta nu este doar un sistem de măsurare a activității, ci este un instrument complex care oferă informații referitoare la procesele interne ale întreprinderii și la raportările cu exteriorul, în scopul de a îmbunătăți în mod continuu performanțele strategice și rezultatele acesteia. Când este complet implementat, tabloul de bord transformă planificarea strategică dintr-un simplu exercițiu de strategie în punctul central al unei întreprinderi. Prin utilizarea acestui instrument modern de management, este permisă definirea perspectivelor cheie care vor conduce afacerea la succes, precum și modalitatea de măsurare a impactului acestora în performanța și rezultatele viitoare ale întreprinderii. Tabloul de bord ajută organizațiile să alinieze multiple strategii, din diverse centre de lucru, cu strategia de bază a organizației-mamă, prin conectarea punctelor lor forte cu punctele cheie care definesc conduita de afaceri. El oferă o înțelegere mai profundă a strategiei, precum și a modului în care aceasta este susținută de obiectivele specifice ale unităților funcționale ale unei organizații.*

Cuvinte cheie: tablou de bord echilibrat, performanță, strategie, indicatori, gestiunea clienților, capital organizațional, capital uman și informațional

INTRODUCTION

Balanced Scorecard (BSC) is a tool for strategic planning and management system, used extensively in business and industry, government and nonprofit organizations worldwide to align their activities to business strategy and vision, to improve internal and external communication and to monitor the performance of the organization in the context of achieving strategic objectives. It was created by Robert Kaplan (Harvard Business School) and David Norton as a framework for measuring performance and it evolved over time, adding indicators of strategic non-financial performance to the traditional ones and providing to the managers balanced information about the performance of the organization. Although the term was imposed only in the 1990s, the roots of this approach of the performance and strategy are deep, including General Electric's methodology for reporting financial performance in the 50's, and reporting the results of the enterprises from France under the name "Tableau de bord" in the first part of the twentieth century.

MATERIAL AND METHOD

To demonstrate the importance of the Balanced Scorecard to strategic orientation, we started from a theoretical substantiation of this concept and a representative model. The proposed approach requires a formalization of the strategy, aiming the determinant factors of the performance and not just financial issues. We propose to detail several categories of indicators: financial (in order to assess economic performance); level of customer satisfaction (economic performance depending on the answers provided by consumer expectations); internal processes (process improvement and innovation, production and maintenance expressed by lower costs); organizational experience (training, skills development). Controlling the Balanced scorecard clarifies some non-financial objectives which must be carried in order to achieve financial goals; highlighting the sense of cause-effect relationship between operational performance and strategic outcome; monitoring and control of the operations.

Next we will present the results and conclusions on this matter.

RESULTS AND DISCUSSIONS

The Scorecards with strategic orientation are systems of indicators that seek to measure the overall performance (and evolution) in different sizes constituents (Gervais M., 2005). They allow clarifying the strategic objectives and their expression in specific target values. They also provide a general development policy within the organization and a return to strategy for the gradual completion of it. There are three possible system analyses:

- Balanced Scorecard, imagined by R. Kaplan and D. Norton. This instrument remains focused on the financial performance and on the shareholder's value. Operational evaluations are based on customer satisfaction, experience and organizational development. Once the relationship is established, one can identify correct means to measure those business drivers in order to achieve desired economic and financial performance (Kaplan R., D. Norton, 1998);
- A scoreboard that focuses on the intangible capital of the company

(experienced by L. Edvisson) envisages the development of individual and organizational competences;

- A system which is based on the criteria used to accomplish the ISO standards, or to compete for the awards which promote quality (Malcolm Baldrige Award, the European Foundation for Quality Management Award). It is aimed at providing more value to the customer. Next we will focus on the model of the Balanced Scorecard. To obtain the highest possible global outcome, it is first necessary to provide quality services that will be reflected in a series of indicators. They are reporting to key strategic issues and determine the following:

- *Financial indicators* – depend on the adopted strategy. For example, a growing industry will indicate the increase in turnover according to the percentage of sales from new products or new markets. Table 1 provides a guide for choosing the option (R. Kaplan, D. Norton, 2001).

Table 1

Identification of specific financial indicators

	Withdrawal Strategy	Maintenance Strategy	Growth Strategy
<i>Optimizing revenues</i>	Return on product line or category of customers. The percentage of unprofitable customers	Return on product line or category of customers, taking into account new applications of existing products	The increasing rate in turnover per segment. Part of the turnover generated by new products or new customers
<i>Productivity</i>	Unit costs	Cost compared with that of the competitors. The rate of cost reduction. Indirect expenses (from sales)	Turnover per employee
<i>Asset utilization</i>	Return on investment. Rate of asset utilization	The need for working capital. Return on equity. Rate of asset utilization	Investment. Expenditure on research and development (as a percentage of sales)

- *Customer indicators* - are relatively classics: the market level of satisfaction and the loyalty of customers, number of new customers, profitable customers by category. Monitoring indicators are given treats attributes: those relating to product or performance (functionality, price, and quality), the relationship with customers, and those related to brand image and reputation. The selected criterion depends on the strategy of prices and quality service.

- *Indicators of “internal business processes”* - are limited to key processes. For example, if the speed of innovation is essential, the company may choose to follow the development and expect the percentage of sales achieved with new products. It will be taken into consideration the processes of product development and after sales service, because they have an increasingly important role in the current competitive context.

- *Indicators of “organizational experience”* - refer to the level of satisfaction and competence of the staff, level of functionality and performance of information and quality management systems. The decisions generate a training

exercise, a change in the payment system and making available to officials a tool to access information in real time.

- *Monitoring indicators* are deviation between the level of competence and the current situation, the percentage of customers' expenditures, whose remuneration corresponds to the new rules and the appropriate IT equipment.

They allow the identification of practical indicators for measuring the outcome (lagging indicators) whose output intervenes after completion of the action and advanced indicators (leading indicators), located further upstream in time, which play an alarm signal before the performance gets to lower. For example, if the result is the satisfaction of customers, according to the criteria and the rates of error or response time to customer requests, the company can react more quickly to abatement.

By using these indicators, the Balance scorecard is a tool that provides an operational representation of the overall company performance, while enabling guidance and evaluation of the strategy. The Balanced Scorecard offers a model of consistent performance. But he turned from a simple system of measuring performance into a complex system of strategic management is the year of 2001, when Kaplan and Norton published their paper "The Strategy-Focused Organization". They proposed the creation of adjacent instruments, called strategic maps. These are diagrams that describe how an organization creates value by connecting in explicit cause-and effect relationship with each other in the four BSC objectives (financial, customer, processes, learning and growth), using the cause-effect relationship (R. Kaplan, D. Norton, 2001). A model of such a map is shown in figure 1. Following the information contained in the map, the financial perspective looks at creating long-term shareholder value, and builds from a productivity strategy of improving cost structure and asset utilization and a growth strategy of expanding opportunities and enhancing customer value. These four elements of strategy are supported by cost, price, service, quality, functionality, etc., which internally is being translated into improved attributes of products / services, or into an improved brand image of the organization. All these processes are based on the exploitation of human capital, information capital and organization capital. In this way, the Balanced Scorecard facilitates the implementation of the strategy and allows a reflection on the relevance of options (Nobes C., Parker R., 2004).

By working with indicators and using organizational tools, the balanced scorecard allows better communication between strategy units. Managers often limit their messages to their strategic intentions. This attitude is insufficient to transmit clear guidelines. The BSC indicates the strategy by using specified objectives and cause-and-effect linkages between them (Ryals L., McDonald M., 2008).

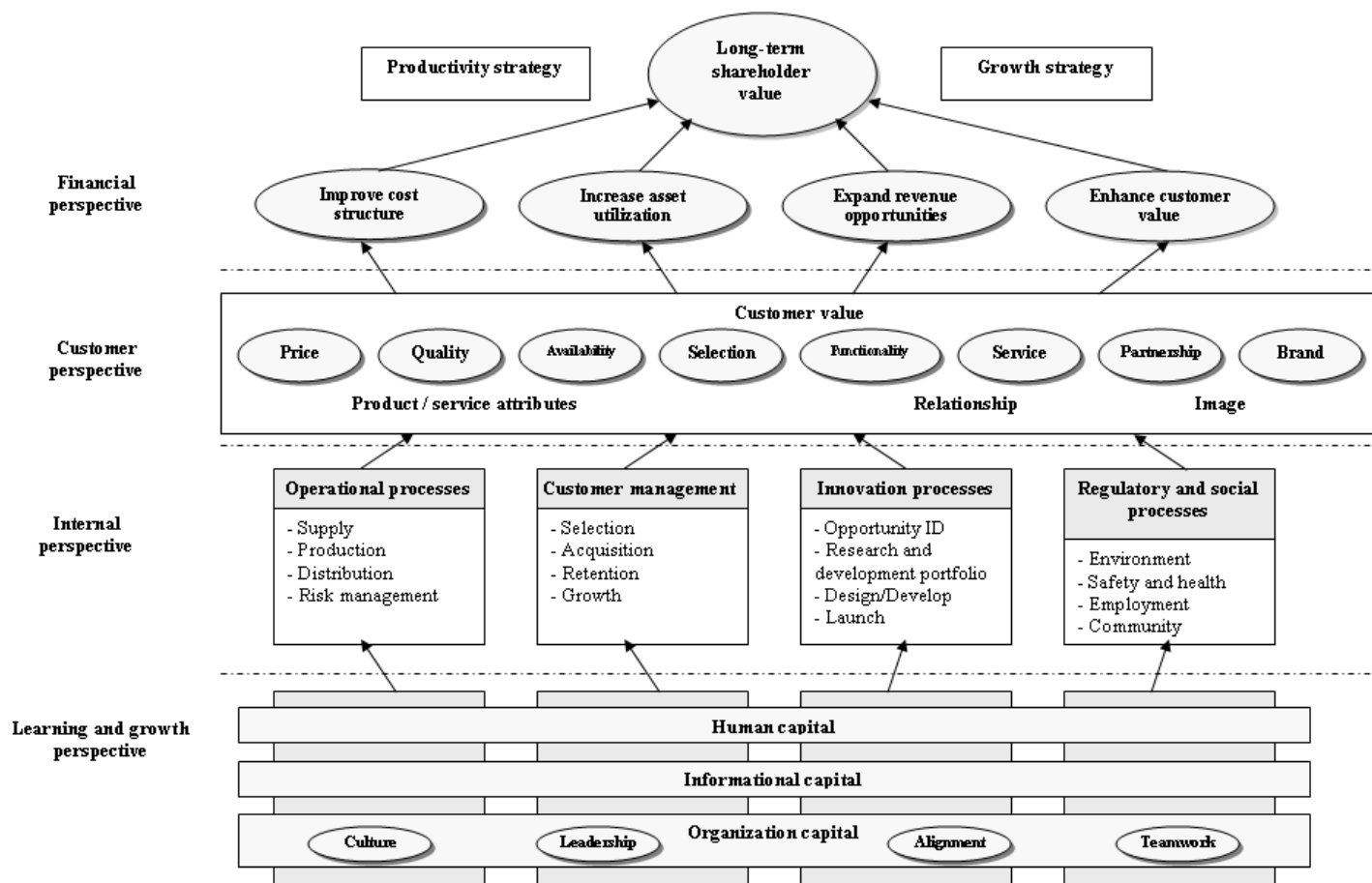


Fig. 1 - Strategy map

CONCLUSIONS

The Balanced scorecard provides a framework to focus on key perspectives that will lead to success, and to constantly assess performance against targets. It helps align key performance measures with strategy.

By connecting such things as shareholder value creation, customer management, process technology, organizational design and learning with one another in one graphical representation, strategy mapping help greatly in describing the strategy and to communicate the strategy among executives and to their employees. In this way alignment can be created around the strategy, which makes a successful implementation of the strategy easier. No small thing, bearing in mind that often, the implementation of a constructed strategy is the biggest challenge.

Although the BSC provides management with a comprehensive picture of business goals and strategies at all levels of an organization, there are limitations of this instrument. The distinction between indicators of action and the ones of result is often ambiguous. Also, the implementation of the strategies implies some difficulties [Glynn J.J., Murphy M.P., Perrin J., Abraham H., 2003]:

- The strategic objectives are insufficiently expressed in operational objectives;
- The resources are not always allocated according to strategic objectives;
- Managers are concerned with short-term objectives against strategy (e.g. the obligation to maintain a price of stocks to meet investors' interest).

The BSC provides a common language for enterprise's business partners. The future will validate its priority by way of relevance, efficiency and potentiating the performance of the organization.

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