Balanced Scorecard Should be Attention More in Organizations

Ali Khozein[1]
Department of Accounting, Aliabad Katoul Branch, Islamic Azad University, Aliabad Katoul, Iran
Email: khozain@yahoo.com

Abstract
A balanced scorecard is a strategic planning and management system used to align business activities to the vision statement of an organization. More cynically, and in some cases realistically, a balanced scorecard attempts to translate the sometimes vague, pious hopes of a company's vision and mission statement into the practicalities of managing the business better at every level. In this paper we discussed about the importance of balanced scorecard as an advanced performance measurement and its benefits. Also balanced scorecard implementation is argued.

Keywords: *Balanced Scorecard, performance measurement, Organizations.*

Introduction

Most of managers have heard some version of the standard performance measurement clinches: "what gets measured gets done," "if you don't measure results, you can't tell success from failure and thus you can't claim or reward success or avoid unintentionally rewarding failure," "if you can't recognize success, you can't learn from it; "if you can't recognize failure, you can't correct it," "if you can't measure it, you can neither manage it nor improve it," but what eludes many of us is the easy path to identifying truly strategic measurements without falling back on things that are easier to measure such as input, project or operational process measurements. To be successful in a competitive environment, organizations must pursue and execute strategies consistent with their mission. Management needs to align its goals and objectives with those of the organization to execute strategies effectively. With this alignment, managers are motivated to attain higher levels of individual performance. Using a Balanced Scorecard (BSC) system is an integral component in these

[1] Correspondence Author: Ali Khozein, Islamic Azad University,Aliabad Katoul Branch, Aliabad Katoul, IRAN , Email: khozain@yahoo.com

alignment efforts. It is also necessary for the company's results to improve with the use of the BSC, and, in the case of a profit-seeking firm, the BSC should be associated with improved financial performance (Biggart et al., 2010).

One unique characteristic of the Balanced Scorecard concept is its evolving nature, as it witnessed a continual transformation process ever since its launch. The most simplistic way to refer to the BSC is as a tool, albeit with different blends: a comprehensive management tool (Ahn, 2001), strategic management instrument (Hueng, 2000) or strategic management tool (Pforsich, 2005). Some authors recognized early that the BSC is more than a performance measurement technique and considered it to be a management system (Butler et al., 1997). Just to be sure or in order to contribute to the confusion, some authors prefer to use both at the same time: "formal management technique and formal management system" (Hassan and Tibbits, 2000). Others consider the BSC to be a management philosophy as well as a performance management system (Hanson and Towle, 2000). Although it is fairly common for management concepts to have various definitions, the BSC literature goes a step further. The concept is not only defined differently, but it is presented and perceived in various ways.

eab group (2010) thought the Balanced Scorecard has multiple meanings. The initial meaning when it was first popularized in early 90s was of an approach for generating a performance report, by grouping performance measures by perspectives, the most commonly used being: Financial, Customer, Internal Processed and Innovation and Learning. Gradually, this management tool evolved to become the basis on a performance management system that uses strategic, operational and individual performance plans as the basis for a communicating, monitoring and improving organizational performance. In this paper the importance of BSC and the ways of its implementation are going to be discussed.

What Is a BSC SYSTEM?

The Balanced Scorecard (BSC) is a strategic performance management framework that allows organizations to manage and measure the delivery of their strategy. The Balanced Scorecard is a performance measurement tool developed in 1992 by Harvard Business School professor Robert S. Kaplan and management consultant David P. Norton. Kaplan and Norton's research led them to believe that traditional financial measures, like return on investment, could not provide an accurate picture of a company's performance in the innovative business environment of the 1990s. Rather than forcing managers to choose between "hard" financial measures and "soft" operational measures -such as customer retention, product development cycle times, or employee satisfaction- they developed a method that would allow managers to consider both types of measures in a balanced way. "The Balanced Scorecard includes financial measures that tell the results of actions already taken," Kaplan and Norton explained in the seminal 1992 Harvard Business Review article that launched the Balanced Scorecard methodology".

The following definitions of the Balanced Scorecard concept present a rich picture from multiple angles. Kaplan and Norton (1992) believed that "The Balanced Scorecard retains traditional financial measures. But financial measures tell the story of past events, an adequate story for industrial age companies for which investments in long-term capabilities and customer relationships were not critical for success. These financial measures are inadequate, however, for guiding and evaluating the journey that information age companies must make to create future value through investment in customers, suppliers, employees, processes, technology, and innovation." It could be considered as a tool that translates an organization's mission and strategy into a comprehensive set of performance measures that provides the framework for a strategic measurement and management system." (Balanced Scorecard Collaborative, 2005, Online) According with The Balanced Scorecard Institute (2010), it is a strategic planning and management system that is used extensively in business and industry, government, and nonprofit organizations worldwide to align business activities to the vision and strategy of the organization, improve internal and external communications, and monitor organization performance against strategic goals.

Like most good ideas, the concept of the Balanced Scorecard is very simple. Kaplan and Norton identified four generic perspectives that cover the main strategic focus areas of a company. The idea was to use this model as a template for designing objectives and measures in each of the following perspectives. It complements the financial measures with operational measures on customer satisfaction, internal processes, and the organization's innovation and improvement activities- operational measures that are the drivers of future financial performance."

- The Financial Perspective covers the financial objectives of an organization and allows managers to track financial success and shareholder value. Kaplan and Norton do not disregard the traditional need for financial data. Timely and accurate funding data will always be a priority, and managers will do whatever necessary to provide it. In fact, often there is more than enough handling and processing of financial data. With the implementation of a corporate database, it is hoped that more of the processing can be centralized and automated. But the point is that the current emphasis on financials leads to the "unbalanced" situation with regard to other perspectives. There is perhaps a need to include additional financial-related data, such as risk assessment and cost-benefit data, in this category. Some financial perspective factors are return on investment, cash flow, return on capital employed and financial results (quarterly/yearly).

- The Customer Perspective covers the customer objectives such as customer satisfaction, market share goals as well as product and service attributes. Recent management philosophy has shown an increasing realization of the importance of customer focus and customer satisfaction in any business. These are leading indicators: if customers are not satisfied, they will eventually find other suppliers that will meet their needs. Poor performance from this perspective is thus a leading indicator of future decline, even though the current financial picture may look good. In developing metrics for satisfaction, customers should be analyzed in terms of kinds of customers and the kinds of processes for which we are providing a product or service to those customer groups. Some customer perspective factors are delivery performance to customer, quality performance for customer, customer satisfaction rate, customer percentage of market and customer retention rate.
- The Internal Process Perspective covers internal operational goals and outlines the key processes necessary to deliver the customer objectives. This perspective refers to internal business processes. Metrics based on this perspective allow the managers to know how well their business is running, and whether its products and services conform to customer requirements (the mission). These metrics have to be carefully designed by those who know these processes most intimately; with our unique missions these are not something that can be developed by outside consultants. Some internal process perspective factors are number of activities per function, duplicate activities across functions, process alignment (is the right process in the right department?), process bottlenecks and process automation.
- The Learning and Growth Perspective covers the intangible drivers of future success such as human capital, organizational capital and information capital including skills, training, organizational culture, leadership, systems and databases. This perspective includes employee training and corporate cultural attitudes related to both individual and corporate self-improvement. In a knowledge-worker organization, people -- the only repository of knowledge -- are the main resource. In the current climate of rapid technological change, it is becoming necessary for knowledge workers to be in a continuous learning mode. Metrics can be put into place to guide managers in focusing

training funds where they can help the most. In any case, learning and growth constitute the essential foundation for success of any knowledge-worker organization. Kaplan and Norton emphasize that 'learning' is more than 'training'; it also includes things like mentors and tutors within the organization, as well as that ease of communication among workers that allows them to readily get help on a problem when it is needed. It also includes technological tools; what the Baldrige criteria call "high performance work systems." Some learning and growth perspective factors are "is there the correct level of expertise for the job?, employee turnover, job satisfaction and training/learning opportunities

Balanced Scorecard Implementation

It is demonstrated the need for organizations to implement a set of performance measures that is multi dimensional. This reflects the need to measure all the areas of performance that are important to the organization's success. The most widely known approach to performance measurement, the Balanced Scorecard is now widely used as a strategy development and execution tool but was developed in an operational environment.

The Balanced Scorecard (BSC) translates a firm's mission and strategy into a set of understandable performance measures (indicators), so that the strategy could be understood, communicated and measured; thus, serving as a basis for all the activities. Moreover, the indicators allow monitoring the accuracy level of strategy implementation (Kaplan & Norton, 1996). In order to respond to the firm's vision and strategy, the BSC uses four business perspectives. A financial perspective that establishes the financial objectives that must be attain in order to satisfy the shareholders, interests. A customer perspective that establishes the objectives will permit to meet the customers' needs in order to reach the established financial aims. An internal processes perspective establishes the processes in which excellence needs to be achieved in order to satisfy customers. A learning and growth perspective that establishes the way in which the firm must learn and innovate to attain all the goals proposed in the other perspectives.

It is worth mentioning that before the Balanced Scorecard was implemented, the corporation was working on strategic projects, such as Activity-based Costing, which besides permitting to link the firm's needs and priorities, it offered a sustained frame for resource management, as well as exposing the differences in quality practices through the segments and departments. The BSC elaboration process required an integral entrepreneurial vision of the business into the future, which forced the restructuring of the corporation's strategic framework. In other words, an Entrepreneurial Strategic Planning was required in order to define the managerial indicators.

The corporation's strategic framework was initiated by reviewing the business's definition, so as to clarify the reasons for the existence of the firm, as well as its future projection. The organization's mission, vision and values were reviewed and this was in charge of the Management Committee, which was formed by the General Manager and all the firm's Managers. An experiment developed by Swain et al. (2002) suggests that the perceived linkage between BSC metrics and divisional strategy has a significant and positive effect on the use of these metrics in individual's performance evaluation processes.

After reviewing the business definition, a strategic analysis was conducted in the firm in order to identify the strategic position and potential that would orient future actions, evaluating the corporation's external and internal environment, and finally, establishing the Strengths, Weaknesses, Opportunities and Threats Matrix (SWOT). This analysis sought to identify the strong and weak points influencing the firm's actions; both, the ones it could handle directly as they represented variables under the responsibility of the internal management, and those it could not handle as they belonged to the external environment.

Finally, detailed plans were defined for each of the strategic initiatives in order to establish, with greater clarity and accuracy, the courses of action needed to execute each strategic initiative. This involved the elaboration of specific programs, and the appointment of people in charge, terms and resources. It is commonly stated that one of the main benefits of the Balanced Scorecard in particular, is that is translates strategy into action, and that measures should be derived from strategy (Neely et al. 1995)

As part of the implementation, it was necessary to align the organization with the strategy by translating the planning into individual operative plans performed by each area head or manager. Their fulfillment is measured within the annual process of Performance Measurement, by which efforts within established levels are rewarded through the benefits and compensation system.

These factors such as corporate culture, alignment, review and update, communication and reporting, involvement of employees, management understanding, compensation link, management leadership and commitment, clear and balanced framework, agreement on strategy and success map, data processes and IT support are heavily influenced by the change management literature reflecting the need not only to manage the implementation of a performance management system but also the ongoing change hat results from the review and management of performance (Franco and Bourne2003).

The Key Benefits of Using Balanced Scorecards

Research has shown that organizations that use a Balanced Scorecard approach tend to outperform organizations without a formal approach to strategic performance management. The key benefits of using a BSC include:

1. Better Strategic Planning – The Balanced Scorecard provides a powerful framework for building and communicating strategy. The business model is visualised in a Strategy Map which forces managers to think about cause-and-effect relationships. The process of creating a Strategy Map ensures that consensus is reached over a set of interrelated strategic objectives. It means that performance outcomes as well as key enablers or drivers of future performance (such as the intangibles) are identified to create a complete picture of the strategy.
2. Improved Strategy Communication & Execution – The fact that the strategy with all its interrelated objectives is mapped on one piece of paper allows companies to easily communicate strategy internally and externally. We have known for a long time that a picture is worth a thousand words. This 'plan on a page' facilities the understanding of the strategy and helps to engage staff and external stakeholders in the delivery and review of strategy. In the end it is impossible to execute a strategy that is not understood by everybody.
3. Better Management Information – The Balanced Scorecard approach forces organizations to design key performance indicators for their various strategic objectives. This ensures that companies are measuring what actually matters. Research shows that companies with a BSC approach tend to report higher quality management information and gain increasing benefits from the way this information is used to guide management and decision making.
4. Improved Performance Reporting – companies using a Balanced Scorecard approach tend to produce better performance reports than organizations without such a structured approach to performance management. Increasing needs and requirements for transparency can be met if companies create meaningful management reports and dashboards to communicate performance both internally and externally.
5. Better Strategic Alignment – organizations with a Balanced Scorecard are able to better align their organization with the strategic objectives. In order to execute a plan well, organizations need to ensure that all business and support units are working

towards the same goals. Cascading the Balanced Scorecard into those units will help to achieve that and link strategy to operations.

6. Better Organizational Alignment – well implemented Balanced Scorecards also help to align organizational processes such as budgeting, risk management and analytics with the strategic priorities. This will help to create a truly strategy focused organization.

These are compelling benefits; however, they won't be realized if the Balanced Scorecard is implemented half-heartedly or if too many short cuts are taken during the implementation. (api, 2012)

Conclusion

The idea of the Balanced Scorecard is simple but extremely powerful if implemented well. As long as you use the key ideas of the BSC to (a) create a unique strategy and visualize it in a cause-and-effect map, (b) align the organization and its processes to the objectives identified in the strategic map, (c) design meaningful key performance indicators and (d) use them to facilitate learning and improved decision making you will end up with a powerful tool that should lead to better performance.

A Balanced Scorecard approach generally has four perspectives included financial, internal business processes, learning and growth (human focus, or learning and development) and customer. Each of the four perspectives is interdependent improvement in just one area is not necessarily a recipe for success in the other areas.

Implementing the Balanced Scorecard system company-wide should be the key to the successful realization of the strategic plan/vision. A balanced scorecard should result in improved processes, motivated/educated employees, enhanced information systems, monitored progress, greater customer satisfaction and increased financial usage.

The key benefits of using a BSC include better strategic planning, improved strategy communication and execution, better management information, improved performance reporting , better Strategic alignment and better organizational alignment.

Refrences:

1. Advanced Performance Institute (API).What is a Balanced Scorecard?. Available in: http://www.ap-institute.com/Balanced%20Scorecard.html (2012)

2. Ahn, H.,2001. Applying the Balanced Scorecard concept: An experience report. Long Range Planning, Vol. 34, No. 4, pp. 441-461.
3. Balanced Scorecard Collaborative, 2010. Learning Centre Section. FAQs and Glossary, available at: https://www.bscol.com/bsc_online/learning/faqs/index.cfm?id=D84E0D4C-BDC5-11D4-A8C400508BDC96C1.
4. Balanced Scorecard Institute, 2010. Available at: http://www.balancedscorecard.org/bscresources/aboutthebalancedscorecard/tabid/55/default.aspx.
5. Biggart, T.B., Burney, L.L., Lanagan, R.F., and Harden J.W., 2010. Is a Balanced Scorecard Useful in a Competitive Retail Environment? Management Accounting, VOL. 12, NO. 1
6. Butler, A., Letza, S., R. & Neale, B., 1997. Linking the Balanced Scorecard to strategy, Long Range Planning, Vol. 30, No. 2, pp. 242-253.
7. eab group, 2010. Performance Management - Balanced Scorecard, available at: http://www.eabgroup.com.au/en/section/performance-management/balanced-scorecard-i18.html.
8. Franco, M. and Bourne, M., 2003. Factors that Play a Role in "Managing Through Measures", Management Decision, Vol. 41, No. 8, pp 698-710.
9. Hanson, J. & Towle, J., 2000. The Balanced Scorecard: Not just another fad, Credit Union Executive. Journal, Vol. 40, No. 1, pp. 12-16.
10. Hasan, H. & Tibbits, H., R., 2000. Strategic management of electronic commerce: an adaptation of the Balanced Scorecard, Internet Research, Vol. 10, No. 5, pp. 439-450.
11. Hueng, P., 2000. Process performance measurement system: a tool to support process-based organizations, Total Quality Management, Vol. 11, No. 1, pp. 67-85.
12. Kaplan, R., S. & Norton, D., P., 1992. The Balanced Scorecard. Measures that drive performance, Harvard Business Review, January-February, 1992, pp. 70-79.
13. Kaplan, R., S. & Norton, D., P., 1996. Using the Balanced Scorecard as a strategic management system, Harvard Business Review, January-February, 1996.
14. Neely, A.D., Gregory, M. and Platts, K., 1995. Performance Measurement System Design: A Literature Review and Research Agenda. International Journal of Operations and Production Management, 15(4), pp. 80-116.
15. Pforsich, H., 2005. Does Your Scorecard Need A Workshop?, Strategic Finance, Vol. 86, No. 8, pp. 30-35.