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BALANCED SCORECARD AS MANAGEMENT FRAMEWORK

Abstract: *The concept of BSC is most seen through strategic map that characterized with explicative research with strategic assumptions in architecture measures what makes from BSC very important strategic tool. To define strategy through map, we need first to define strategic objectives that will bring knowledge of strategy and than connect them in cause-consequent chain of hypothesis and like that to link knowledge of whole strategy. To successfully implement any strategy it must be understood and acted on by every level of the firm. Cascading the Scorecard means driving it down into the organization and giving all employees the opportunity to demonstrate how their day-to-day activities contribute to the company's strategy. All organizational levels distinguish their value creating activities by developing Scorecards that link to the high-level corporate objectives The Balanced Scorecard approach supplements financial measurements with non-financial measures that indicate the actions that increase future financial performance. Strategy maps and Balanced Scorecards help companies translate, communicate, and measure their strategies.The Balanced Scorecard approach not only provides a measure of non-financial performance; it links the measurement to strategy. An important element of the Balanced Scorecard is identifying the goals of the company and the steps to achieve these goals. The balanced scorecard combines an effective measurement system that helps solidify a company's strategic objectives with a management system that can help drive change in key areas such as product, process, customer, and market development.*

Keywords: *BSC, management, organizations, framework*

1. INTRODUCTION

The balanced scorecard is a widely-used management framework for optimal measurement of organizational performance which was developed by Kaplan and Norton 1992 years.

Balanced Scorecard is system of connected and balanced objectives, measures and actions that will make possible definition of consistent planned activities through whole organization [1,2].

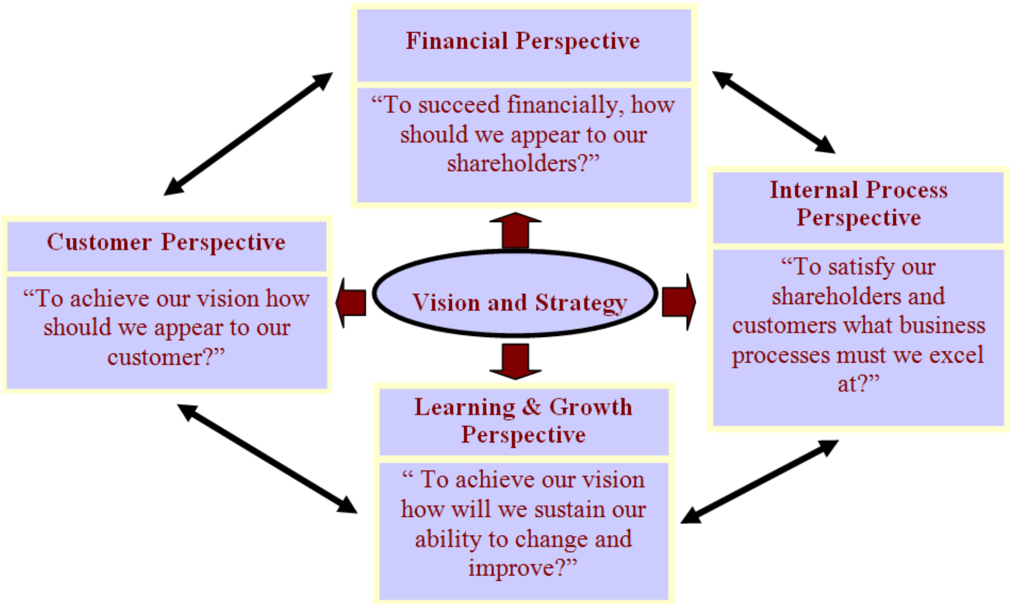
We can see on next picture 1. BSC with 4 basic perspectives. Each perspective should be defined with objectives, measures, targets and activities.

Companies need to translate their strategic plan's revenue targets into a sales forecast. Whether done annually or quarterly, any operating plan is launched from a sales forecast, a task facilitated by analytic approaches such as driver-based planning. Anticipating the need to derive a detailed operating plan, the sales forecast should incorporate the expected quantity, mix, and nature of individual sales orders, production runs, and transactions.

Companies use sophisticated analytic tools to review the performance of their strategies, including customer relationship management software and analytic modeling to capture and profile customer behavior [2,3,4].

It is good that companies now have a large number of strategic and operational tools to choose from, but they still lack a theory or framework to guide the successful integration of the many tools.

Companies struggle with the question of how to make these various strategy planning and operational improvement tools work together in a coherent system. The implementation of the tools is ad hoc, with little interchange and coordination. As a consequence, the tools don't work coherently to drive results through the organization. Much of what we advocate is common sense; it's a system that connects the dots among all a company's myriad current tools and methodologies so that they can all be focused on an over-arching goal: successful execution of a company's strategy [4,5,6].

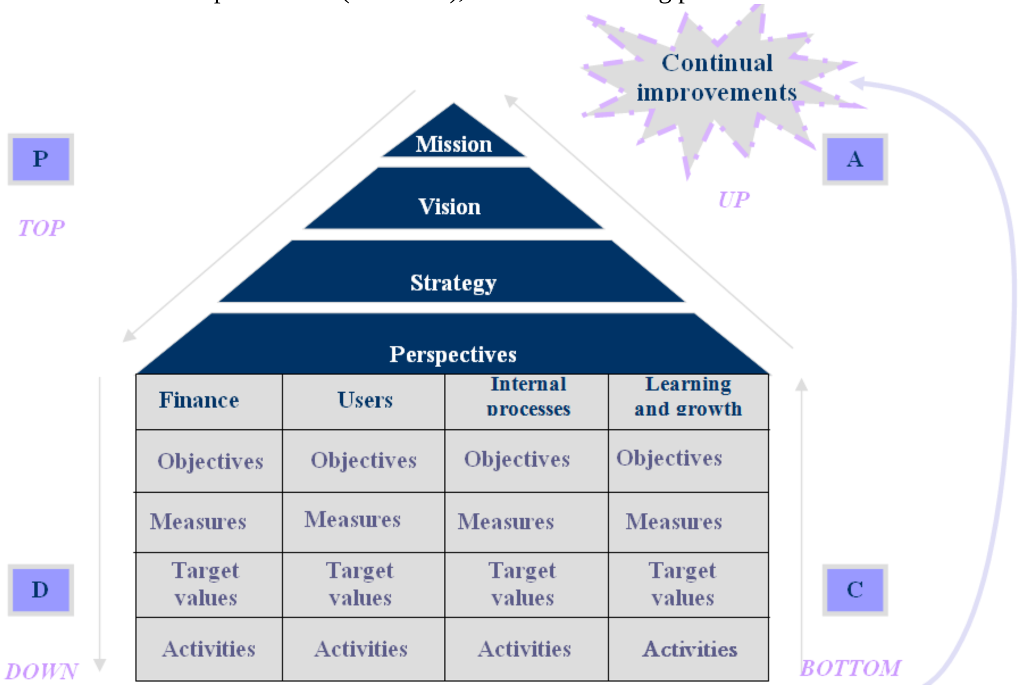


Picture 1. Perspectives of Balanced Scorecard

Each perspective contains parameters as follow [6,7] :

- Objectives – What is necessary to do for achieve success?
- Measures – Which parameters will we choose and measure to approve our success?
- Targets – Which quantitative values will we take to determining success of measurement?
- Initiatives (Activities) – What is it necessary to do to achieve our targets?

BSC is the best solution for implementation strategy in the company and their principal duty is to transform the mission, vision and strategy of the company into the clear system for measuring the efficiency-output (picture 2.) shown with the line Top-Down. So that the strategy should be transferred into clearly set up goals (objectives) according to all the perspectives, and then, for all of them to define the parameters (measures), target values and the activities in order to achieve these goals. But, very important part of BSC can also be seen in Bottom Up line where the degree of realization of set up goals is measured through the activities directed towards the final values of the measuring parameters.



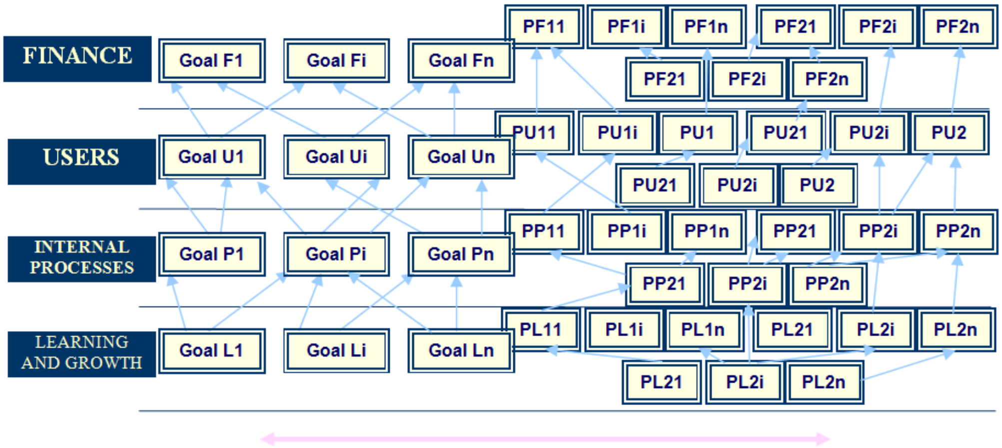
Picture 2. PDCA and BSC

In that way the action in Company is constantly urged towards permanent improvements through PDCA cycle because, nowadays in very changeable surroundings, it is not possible to define the strategy once and to apply it without its checking and improvements.

2. STRATEGIC MAP OF BSC

The concept of BSC is most seen through strategic map that characterized with explicative research with strategic assumptions in architecture measures what makes from BSC very important strategic tool [3]. To define strategy through map, we need first to define strategic objectives that will bring knowledge of strategy and than connect them in cause-consequent chain of hypothesis and like that to link knowledge of whole strategy [3,8]. After creation of causal-consequence link of strategic creation this link will helps to implementation of defined strategy. The balanced scorecard combines an effective measurement system that helps solidify a company’s strategic objectives with a management system that can help drive change in key areas such as product, process, customer, and market development. The measures of the balanced scorecard helps focus a company’s strategic vision, encourages thinking about current and future success and helps provide a balance between external and internal measures. This broad view helps managers see what trade offs they are making among their key success factors. The organization's measurement system affects the behavior of managers and employees. But many senior managers recognize that no single measurement can provide enough information about the critical areas of the business [1,2].

Therefore, a balanced set of measurements is needed. Organizations today use decentralized business units that focus on intangible knowledge, capabilities, and relationships created by employees. Some organizations understand that strategy must become a continual and participative process. The change from centralized command and financial measures that come from past actions can no longer measure the objectives that need to be addressed.



Picture 3. Causative relations of goals and measures of organizations

Causative relations of goals and indicators of organizations could be form as follow [8,9,10]:

- Within one perspective
- Between non-financial perspectives
- Between financial and non-financial perspectives
- After translating strategy into measures, that process must be analyzed backward if we want to evaluate successful of implementing strategy.

Choice of proper indicators is of great importance in implementation BSC. On one hand, they must comprise all key processes of the organization, and on the other hand, one must see that their number is not too big because in that case image of the organization becomes unclear and complicated to follow. There is a recommendation that for 4 standard perspectives should be chosen about from 20 to 25 indicators (measures). If we want achieve that number it is necessary to limit number of perspectives objectives on about three to four.

The financial standing of a business is of great concern to management. Budgeting, fixed costs, accounting departments are all part of day to day business life. Quality, or the lack of quality, results in a cost that requires measuring and reporting on in some form. The traditional approach to quality economics uses prevention, appraisal, internal failure and external failure as the four areas for data gathering. The process cost modeling does exactly what it's title suggests. The costs are based directly on individual processes. These costs include labour, materials, resources, standards etc. The concept of the traditional approach is relatively easy to understand. Teaching managers the theory of the traditional approach takes less time. The process cost model is a relatively new idea. It follows current quality ideas such as identifying and documenting processes. The traditional approach came into use in the 1950's. It therefore has factual data to back up the theory.

However this is an old idea. With the process cost modeling, costs are clearly related to specific areas within a process. Monitoring of a project aimed at improving quality within a process can be conducted using the process cost model to mark the cost before and after the project.

3. Cascading balanced scorecard

To successfully implement any strategy it must be understood and acted on by every level of the firm. Cascading the Scorecard means driving it down into the organization and giving all employees the opportunity to demonstrate how their day-to-day activities contribute to the company’s strategy. All organizational levels distinguish their value creating activities by developing Scorecards that link to the high-level corporate objectives.

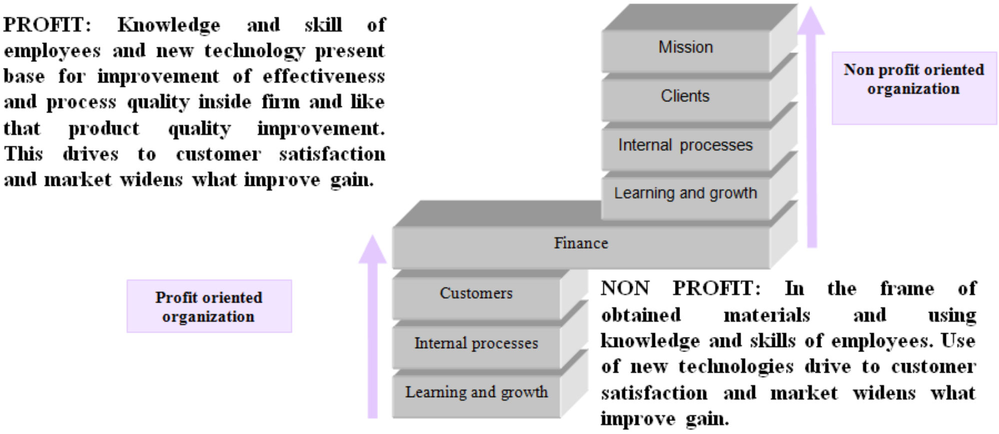
So, after creating corporative BSC it is necessary to create BSC model for lower level. On that way activities of all levels could be connect with corporative objectives

Objectives in corporative BSC represent four key strategies in organization according perspectives. Lower levels in organization have to analyze corporative objectives and how they can influence on it. According that they have to define their own objectives and measures.

Cascading scorecard down into organization could be finished with personal or team scorecard.

BSC was originally oriented on profit organization but later it was modified for public and non profit organization.

Public and non profit organization is oriented on client's satisfaction, according mission. They are not oriented on profit and according that original BSC have to be transformed. So financial perspectives shouldn’t be an objective like in profit oriented organization. In these organizations financial perspective represented budget.



Picture 4. BSC profit and non-profit organization

An example scorecard [3,4,6] is provided for a company called Electronic Circuits Incorporated (ECI) – table 1.

Table 1.– ECI 's Balanced Scorecard

Perspectives	Questions	Goals	Measurements
Customer	How do customers see us?	New products.	Percent of sales from new products.
		Responsive supply.	On-time delivery as defined by the customer.
		Preferred supplier.	Share of key account's purchases.
		Customer partnership.	Number of cooperative engineering efforts.
Internal business	What must we excel at?	Technology capability.	Manufacturing geometry versus the competition.
		Manufacturing excellence.	Cycle time, Unit cost and Yield.
		Design productivity.	Silicon efficiency and Engineering efficiency.
		New product introduction.	Actual introduction schedule versus planned introduction.
Innovation & learning	Can we continue to improve & create value?	Technology leadership.	Time to develop the next generation.
		Manufacturing learning.	Process time to maturity.
		Product focus.	Percent of products that equal 80% of sales.
		Time to market.	New product introduction versus the competition.
Financial	How do we look to shareholders?	Survive.	Cash flow.
		Succeed.	Quarterly sales growth and operating income by division.
		Prosper.	Increased market share and Return on Equity.

The Balanced Scorecard helps form a strategy for this implementation, but it is not designed to be used as a blueprint because every company is different. Companies have different goals, different customers, and different industries. This is precisely the reason why the Balanced Scorecard is needed to help form one strategy for the business and bring all areas of that business to work in harmony for the achievement of that one goal. The structure and strategy of an organization must be reflected in the Balanced Scorecard. It is possible that an organization consists of strategic business units that have their own scorecard, and these individual scorecards cannot be combined into one larger scorecard. In that instance, overall performance of the organization usually provides the measurement of how well the individual scorecards are doing. It is best to try and find a common theme or strategy that can traverse all units of business. When this occurs, the role of the larger scorecard would be to police the individual scorecards and measure how effective they are in achieving the common strategy. The

Balanced Scorecard is designed to bring together a company to focus on the structure of the company and to achieve the overall goal.

The process of developing a good Balanced Scorecard gives an organization, usually for the first time, a clear picture of the future and a path for getting there. Every step of the way provides insight on how to improve the business process of achieving the one strategy. According to the Kaplan and Norton, "This distinction between a measurement and a management system is subtle but crucial. The measurement system should be only a means to achieve an even more important goal - a strategic management system that helps executives implement and gain feedback about their strategy."

The scorecard allows managers to introduce four new processes;

1. translating the vision,
2. communicating and linking,
3. business planning, and
4. feedback and learning. [3,4]

Translating the vision is a means of expressing the mission/vision statements with an integrated set of objectives and measures. This forces the top management to develop operational measures, which requires them to discuss, and eventually agree on, a means of achieving the goals of the company. Communicating and linking is a process that facilitates the communication of strategies throughout the entire organization. Departmental and individual objectives must be aligned with the strategy through evaluation procedures and incentives. To have goal congruence between the individual employees and the company, scorecard users engage in three activities: communicating and educating, setting goals, and linking rewards to performance measures which are in turn linked to the overall strategy. Communicating and educating is achieved by maintaining policies that ensure all employees are aware of the strategies of the organization. Also, it is important for the lower level employees to be able to communicate upwards about whether or not the strategies are realistic from the competitive or operational perspective. Setting goals alone is not sufficient to change employee's mind-set. Linking rewards to performance is an important incentive to help an organization achieve its purpose. What the balanced scorecard adds to the traditional means of linking rewards to financial performance is that it takes a more holistic look at the organization. It ensures that the correct criteria are used as a measure of performance before rewards are given. Business planning is the third process used by managers with the balanced scorecard. By using the scorecard, businesses will integrate their strategic planning and budgeting processes. This makes sure that the budgets support the strategies of the company. The users of the scorecard pick measures that represent each of the four perspectives, and then set targets for each. Then they will decide which specific actions will help them in reaching those targets. Using short-term milestones to evaluate the progress toward the strategic goal is what results from using the balanced scorecard. The fourth, and final, process is feedback and learning. With the balanced scorecard in place managers can monitor feedback and relate this to the strategy.

4. CONCLUSION

The balanced scorecard (BSC) enables business to transform its overall organizational strategy into effective management. The balanced scorecard is a performance measurement system, a strategic management system and a communication tool. It has already been widely used in manufacturing, service, and in non-profit and government organizations etc. with excellent effects. Previous literature also pointed out that balanced scorecard of profit and non-profit organizations has a different framework. They can be adjusted or decreased according to individual case studies or industry culture characteristics.

The balanced scorecard introduced emphasizes on mission and vision first, followed by the financial and customer perspectives, and lastly, the internal process perspective, which is a combination of the innovation and learning perspectives. Non-profit organizations should learn from profit organizations to underemphasize missions and visions and pay more attention to operation costs and benefits. This will help them implement performance management that can increase product/service quality and create organizational competitiveness advantages.

The balanced scorecard combines an effective measurement system that helps solidify a company's strategic objectives with a management system that can help drive change in key areas such as product, process, customer, and market development. The measures of the balanced scorecard helps focus a company's strategic vision, encourages thinking about current and future success and helps provide a balance between external and internal measures. This broad view helps managers see what trade offs they are making among their key success factors. The organization's measurement system affects the behavior of managers and employees. But many senior managers recognize that no single measurement can provide enough information about the critical areas of the business. Therefore, a balanced set of measurements is needed.

Organizations today use decentralized business units that focus on intangible knowledge, capabilities, and relationships created by employees. Some organizations understand that strategy must become a continual and participative process. The change from centralized command and financial measures that come from past actions can no longer measure the objectives that need to be addressed. We must measure the strategy and the best tool to do this is balanced scorecard.

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