

## **NEW DIMENSIONS OF BALANCED SCORECARD**

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### **—Abstract—**

The Balanced Scorecard's primary form of novelty is that it connects strategic management with control and it relies not only on financial but non-financial indicators also. Its simplicity, transparency, and substantive responses on management problems made it extremely popular. Introduction of the Balanced Scorecard requires innovative organizational culture, otherwise the development can be hugely tiring and energy-intensive.

Strategists (senior), executive staff, together with the whole organization go through a learning process while implementing the model. Controlling is in charge of monitoring the plan to be carried out properly.

In our presentation we would like to create a picture of corporate performance evaluation systems with particular focus on the traditional financial aspects highlighting their deficiencies.

Briefly we also would like to show those complex corporate performance evaluation approaches introduced in the 21st Century also known as the information age, which contributed significantly to the value creation in businesses.

Furthermore we find it important to describe the main features, steps of introduction and conditions of the Balanced Scorecard. Finally our target was to provide a possible adaptation of the Balanced Scorecard methodology to a company's controlling system.

**Key words:** *controlling, balanced scorecard, organizational culture*

**JEL classification:** M31

## INTRODUCTION

Several views came to light about Balanced Scorecard by the authors Kaplan and Norton (1992) who developed this strategic scorecard system. They wanted to find a balanced model between financial and on-financial and operative and non-operative indicators in other words subjective and objective perspectives. Later, the authors and other practitioners improved it both in a methodological and design standpoint.

Balanced Scorecard (BSC) is a strategic management tool, framework. Its novelty is that it links control and strategic management in which both traditional aspects and other, non-financial indicators are displayed. Thus, it highlight details such as employee retention and customer satisfaction. It became well-known as a result of its simplicity, clarity and substantial answers to several management problems. It provides a quick and comprehensive overview for the owners and managers about the operation of the business. It is balanced as the financial indicators characterizes the company's past and the non-financial indicators the company's future performances. (LINDNER S. – DIHEN L., 2005., P.13.)

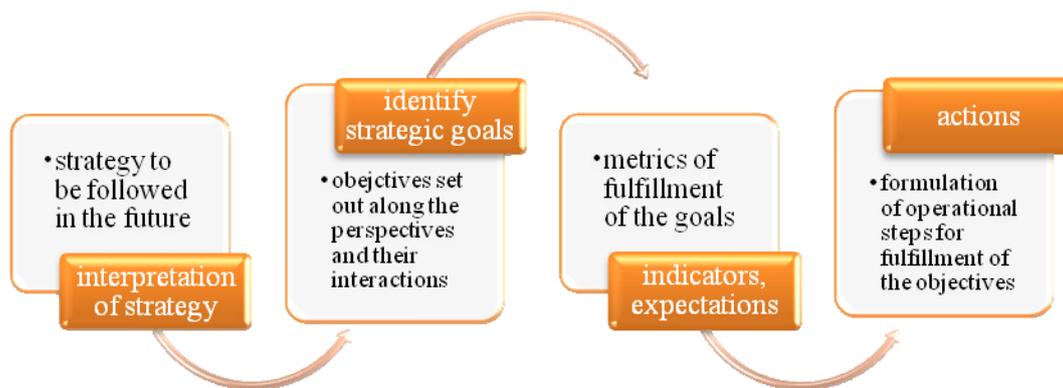
Some of the key objectives are: improvement of competitiveness, clarification of the strategy, consensus and the communication of the strategy to the stakeholders, as well as the coordination of individual and organizational objectives. BSC aims to link strategic goals to long-term targets, annual planning, determination and harmonization of strategic projects, periodic review of the strategy, feedback, strategic learning.

Its mission is to serve customer satisfaction to its best through providing high value-added products, avoiding the short-term price- and cost-cutting competition. It motivates companies to have perspective thinking, forcing them to create competitive advantage and sustainability which conveys strategy (mission) to the organization by creating the balance between financial and non-financial, short- and long-term as well as prognostic and historical indicators.

Balanced Scorecards four perspectives are the following:

- financial perspective
- customer perspective
- innovation and learning
- internal business perspective

Within the perspectives the followings must be identified: strategic indicators, expected results or level (targets) and the necessary steps or actions in order to achieve the goals.



**Figure 1:** Appropriate steps in the development of BSC

**Source:** own construction

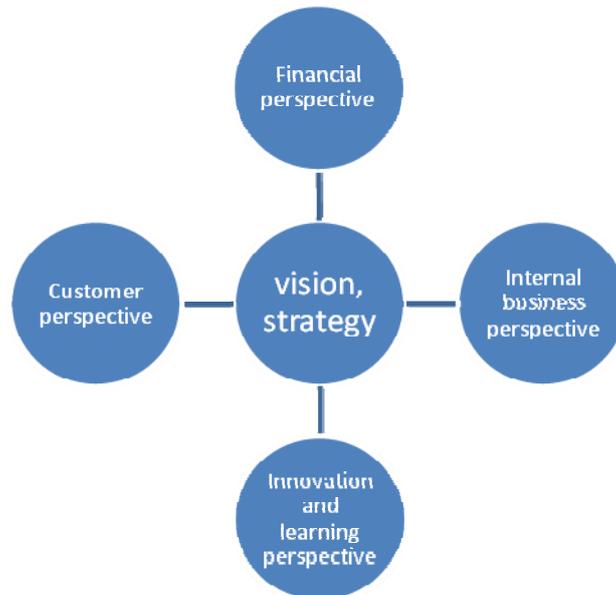
**Financial perspective:** What should the company achieve in order to be successful? Potential financial goals can be e.g. increasing sales, more profitable orders, increasing overall profitability and cash-flow improvement. The novelty of the BSC that it highlights not only the financial viability but also other factors as well for example the customer satisfaction, employee performance and learning and development. This is proved by several survey carried out by Horvath&Parnters (2001-2005) showing that BSC has a positive effect on both revenues and profit trends as well as on a number of non-financial indicators such as the quality of work and customer satisfaction (Controlling portal).

**Customer perspective:** What can we do to increase customer satisfaction? How to communicate to customers that the strategy can successfully be achieved and accomplished? Possible strategic targets are: increasing the number of customers (or retain); generating new customer needs, increase market awareness and build new image.

**Internal business perspective:** In order to reach customer satisfaction and financial success, which processes should be changed or optimized? Which are the main processes through which the organization is able to improve performance and increase owners' and customers' satisfaction? Potential goals can be: optimizing production process (machine capacity, labor performance, quality improvement), increasing sales, process orientation, faster contract work and wider strategic partnerships.

**Innovation and learning perspective:** What are the long-term individual and organizational learning tasks? What innovation can help the organization to realize the vision? Strategic goals used in this perspective are: career plans, developing career paths, financial and non-financial incentive system, defining future skills that are required for the company, management and staff focused trainings etc. (LINDNER S. – DIHEN L., 2005., P.13.)

The relationship between the four perspectives are as important as the indicators connected to the perspectives.



**Figure 2. :** BSC perspectives

**Source:** own construction, based on Kaplan-Norton (1992)

## INDICATORS

Balanced Scorecard seeks to assign indicators to strategy instead of present processes. Indicators have a cause-effect relationship in the model which are connected. This chain describes how existing investments can improve the future financial performance. The direction of the cause and effect relationships is: Learning and growth, Internal business process, Customer, Financial.

According to the literature the number of proposed indicators used in the model in each perspective should be no more than 4-7. It is essential that the indices are able to correctly represent the objectives and the behavioral influence also should be detected which are related to the performance goals. Of course, the previously used indicators by the company should be separated.

BSC complements the traditional, past oriented financial accounting indicators with factors that mostly effect future performance (forward looking indicators). In practice, a strategic goal typically can only be described by several indicators. even more frequent that a given objective can be reached with multiple actions.

An action can have a direct impact on many indicators. The expected effects are quantified using the correlation coefficient (the strength of the relationship) and a time constant (length of the delay one indicator causes in the other one).

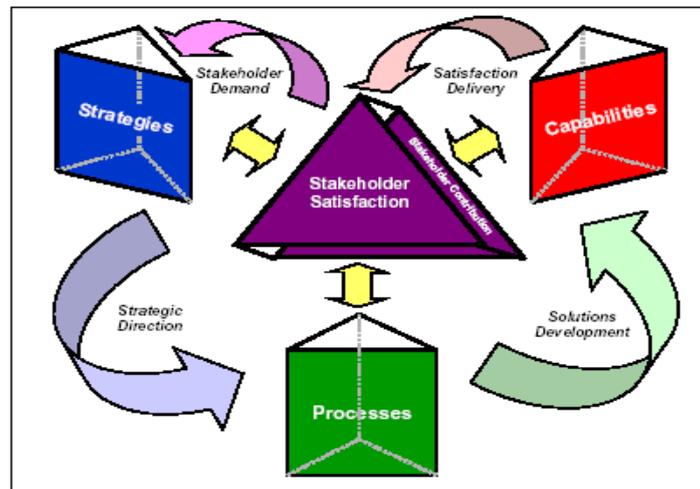
Balanced Scorecard made the weak points of the traditional financial approach clear regarding the influence on business processes. Thus, it has become from an evaluation system to a management system. BSC has several advantages such as:

- emphasizes the importance of equilibrium dimensions
- reduction of high-complexity
- translate strategy into indicators and assign those to strategic areas
- creation of a cause-effect relationship among the indicators, etc.

### **PERFORMANCE PRISM**

One of the weak points of the BSC is that it does not cover all of the participants. Mostly this is what the performance prism is trying to overcome. It is a new, business performance measurement, integrated tool of the management. The model examines five stakeholders (lenders, customers, agents, suppliers, taxing authorities and shareholders) and the relationship with them. The stakeholders' expectations serves as a starting point for the prism to develop the strategic goals which is then followed by the formulation of key business processes and then the capabilities. The latter are the building blocks of the company's business competitiveness: people, solutions, technologies and infrastructure combinations that allow processes to be executed and developed. The fifth page of the prism is the contribution of the stakeholders (Wimmer). They are logically interlinked, where stakeholder satisfaction raises the question that who the key stakeholders are and what do they want and need. Secondly, the strategies perspective ask what strategies we have to put in place to satisfy the wants and needs of these key stakeholders. Processes perspective forms the question what critical processes we require if we are to execute these strategies. What capabilities do we need to operate and enhance these processes can be found in the capabilities perspective. Finally, the stakeholder contribution examines what contributions we require from our stakeholders if we are to maintain and develop these capabilities.(Andy,2002)

It shows the hidden complexity of something as simple as white light. So it is with the Performance Prism. It illustrates the complexity of performance measurement and management. (Andy 2002).



**Figure 3.:** Performance Prism  
**Source:** Andy Neely & Chris Adams (2002)

## CONCLUSION

Both the Balanced Scorecard and the Performance Prism have are dimensions regarding the evaluation and measurement of performance. It has opened the door to a new approach that is not only focusing on financial but non-financial, subjective indicators too. BSC already pointed out that customers should be part of the evaluation and –through innovation and learning perspective – the internal processes and the employees. The Performance Prism model places more emphasis on the overall stakeholder approach with particular emphasis to the company's expectations and their contribution to the organizational performance.

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