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A proposed model of balance score cards for enterprise governance

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Abstract:

This paper aims to introduce a theoretical balance score cards for enterprise governance.

To reach this aim, this study consists of five sections

This paper suggest to test this model of balance score cards

Key words: governance, enterprise governance, balance score cards

1. introduction :

Ratnatunga and Alam 2011argued that the governance process is about both accountability and value creation .it is important to evaluate the process in terms of the different roles played by directors and senior managers especially in terms of strategic decision making and resources deployment to achieve organizational objectives it follows that an organization governance arrangements are important in determining clear objectives for management and staff to device a system for sound decision making in risk and performance management

It is this value creation aspect of enterprise governance, where management accounting can be useful.

Traditionally management accounting technique such as budgeting, standard costing and variance have been used for performance evaluation and rewards efforts of managers and staff in addition that the CIMA introduce a strategic balance score cards based on 4 dimension (The Strategic Position Strategic Options Strategic Implementation Strategic Risks) based on the literature review, This current paper aims to introduce a model of balance score card for enterprise governance

2. <u>**Governance and effective governance**</u>:

2.1. Corporate governance definition

Martin potucek 2005 defines Governance as a system of values, policies and institutions by which a society manages its economic, political and social affairs through interactions within and among the state, civil society and private sector. It operates at every level of human enterprise, meanwhile Sarra 2011, p: 581views that governance generally refers to the oversight and management of firms, including strategic planning and risk management, oversight of Regulatory compliance, independent monitoring of audit functions, economic Sustainability and corporate responses to market changes.

In addition, Lawrence and Lorsch, 198 6as cited by Kooskora 2008, p: 196 defined governance as a field in economics that Investigates how to secure motivate efficient management of corporations by the use of Incentive mechanisms such as contracts, organizational designs and legislation. We can argue that in the mainstream or neoclassical approach the term CG is typically defined narrowly, as the processes of supervision and control intended to ensure that the company's management acts in accordance with the interests of the shareholders.

Zing ales (1998a) views governance systems as the complex set of constraints that shape the ex post bargaining over the quasi-rents generated by the firm. Shleifer and Vishny (1997) define corporate governance as the ways in which suppliers of finance to operations assure themselves of getting a return on their investment. Taking a broad perspective on the issues, Gillian and Starks (1998) define corporate governance as the system of laws, rules, and factors that control operations at a company. Irrespective of the particular definition used, researchers often view corporate governance mechanisms as falling into one of two groups: those internal to firms and those external to firms. Cited by Gill an &Stuart 2006p:382

2.2. governance in theories:

During the last decade, theoretical studies have produced a series of conceptual models explaining the causal relationships between corporate governance and corporate performance. These include the behavioral agency model (Wiseman and Gomez-Mejia., 1998), the finance model (Shleifer and Vishny, 1997;Demirag *et al.* , 1998), the participative model (Collier and Esteban, 1999), the policy governance model (Carver, 1999), the political model (Pound, 1992; Schwab and Thomas, 1998), the stakeholder model (Buchholz, 1992; Donaldson and Preston, 1995), the stewardship model (Tricker, 1994; Davis *et al.*, 1997; Keasey and Wright, 1997), and the strategic leadership model (Simons, 1995; Charan, 1998;Davies, 1999; Forbes and Milkien, 1999). As shown in Table1, these models examine the Subject from the different perspectives of a financier or other stakeholders Empirical

Journal of finance and accounting

studies of and composition the relationship between corporate governance and corporate performance focus on specific dimensions or attributes of corporate governance. Important aspects frequently studied include: the board structure; the role of nonexecutive directors; other control mechanisms such as director and managerial stockholdings, ownership concentration, debt financing, executive labor market and corporate control market; top management compensation; capital market pressure and short-termism; social responsibilities; and internationalization. As observed by several surveys of these empirical

Studies, the findings have been mixed and no firm conclusion can be drawn from them (Agrawal and Knoeber, 1996; Lin, 1996; Shleifer and Vishny, 1997; Keasey and Wright, 1997; Bhagat and Black, 1999; Gugler, 1999; Maher and Andersson, 1999; Cravens and Wallace, 2000; Hamilton, 2000 (chi-ku-ho 2005, pp: 213-214) summary of these studies illustrated in the following table1

1.1. the enterprise governance definition:

the CIMA report 2004 defines enterprise governance as the set of responsibilities and practices exercised by the boards and executive management with the goal of providing strategic direction , ensuring that objectives are achieved , ascertaining that risks are managed appropriately and verifying that the organization "s resources are used responsibly .

this holistic definition reflects the dual role of the boards of directors in both monitoring and strategy acknowledging the inherent short and long term tension between governance and value creation .it is also covers the internal management of the organization as well as the outward facing aspects (lees 2004, p:5)

The enterprise governance' framework (FIGURE 1):

The figure illustrates the reach of enterprise governance – it constitutes the entire accountability framework of an organization. There are two dimensions of enterprise governance– conformance and performance. In general, the

Conformance dimension takes an historic view while the performance view is forward-looking.

The diagram is similar to the one that illustrates the domain of the finance function in a recent comprehensive study on Competencies (FMAC, 2002). The lines show that, although conformance feeds directly to accountability and performance to value creation, conformance can also feed to value creation while performance can feed to assurance.

The Conformance Dimension covers issues such as:

• The roles of the chairman and CEO

• The board of directors e.g. composition, non executive directors, training etc

• Board committees e.g. audit, remuneration and nominations committees

Journal of finance and accounting

The performance dimension does not lend itself as easily to a regime of standards and audit. Instead, it is desirable to develop a range of best practice tools and techniques that need to be applied intelligently to different types of Organization. These tools and techniques are very much the domain of the professional accountant in business.

The focus here is on helping the board to make strategic decisions, understand its appetite for risk and its key drivers of performance. Implementation of strategy and its ongoing relevance and success must then be assessed on a regular basis

In addition Tricker 1994 suggests that the two main functions of the boards of directors: conformance and performance

3. Balanced score cards

Kaplan and Norton (1992) introduced and developed a new performance measurement and management system called the balanced scorecards, the BSC consists of measures in the following categories: financial, customer, internal business process and learning and growth perspectives. The majority of measures in the last three categories are non –financial measure, the four categories are linked by cause and effect relationship (Kang, 2008, p. 15). Prior literature has identified a number of purposes for which firms use the BSC (Beasley et al., 2006).

Malmi (2001) finds two different types of BSC usages. Some firms used the scorecard as a management by objectives system, where targets were used and rewards were based on achieving those targets. In contrast, other firms used the BSC as an information system to provide their managers with a tool to improve performance. Speckbacher et al. (2003) develop classification of three different types of BSC usages that firms are going through sequentially. When firms develop a scorecard they often start with a strategic performance measurement system, which includes a set of financial and non-financial measures. Afterwards, the cause and effect relationships between the different (sets of) measures are developed further to translate the firm strategy to operational activities. This is the type II of BSC

Finally, the most sophisticated type of use is a fully-developed scorecard that implements firm's strategy through communication, action plans, and incentives. Many firms never succeed in using the scorecard in this particular type III way. Of the 42 firms in the sample of Speckbacher et al. (2003) 21, 9and 12 firms used the BSC in a type I, type II or type III fashion, respectively. In a sample of 92 Australian firms, Bedford et al. (2006) found that 43.5% don't use cause and effect logic in the design of BSCs, 7.6%use it only among perspectives, 14.1% only among measures and 34.8% between both measures and perspectives. 52% of the firms tied the BSC to incentives for higher level managers, whereas, this was 41%for staff employees. Wiersma (2009) argued that BSCs that are used at multiple levels are better able to create a common language in which the strategy developed at the top of the firm or business unit is operational led in performance metrics. Moreover, the scorecard was used most often at the corporate level (96% of users) and at the business unit level (91%). Only 62% used it at the individual level (Wiersma, 2009, p. 241)* cited by el Sayed et al 2011, p: 190

Journal of finance and accounting

Eldenburgh *et al.* (2010) agree that a balanced scorecard is a formal approach used to help organizations translate their vision into objectives that can be measured and monitored using both financial and non financial performance measures. A good performance measurement system is one that helps us to identify the drivers (causes) of performance, or lack thereof, and therefore guide us in making decisions that will improve performance (Hulbert and Fitzroy, 2004). The balanced scorecard implements strategy by providing a comprehensive performance measurement tool. This tool reflects measures critical for the success of the organization's strategy and thereby provides means for aligning the performance measurement in the organization to the organization's strategy.

Ehrhardt and Brigham (2009) observed that there were challenges which have to be addressed in order for the balanced scorecard to be implemented successfully. They include the need for strong support of the balanced scorecard from top management.

The balanced scorecard should accurately reflect the organization's strategy. For every benefit or challenge mentioned above there may be a need to provide a management accounting report either as a mini report relevant to that section or as a part of the whole balanced scorecard report to the managers and directors. Therefore management accounting reports using the balanced scorecard may provide the board with a clear view of the entire organization and enable them to make decisions on control of the organization in its entirety.

1. The organization should have a process that reviews and modifies the scorecard as the organization's strategy and resources change.

2. The managers and employees should have clear incentives linked to the balanced scorecard.

3. The balanced scorecard should have processes assuring accuracy and reliability of the information within it.

4. The organization should ensure that relevant portions of the scorecard are readily accessible to those responsible for measures, and that the information is also secure, available only to authorized staff.(Mayanja2010, pp: 27-28)

Kaplan and Norton 2006 cited by Mayanja2010, p: 41-42 suggested a three-component balanced scorecard to address the evaluation and performance issues of the board and its directors namely:

The Organization balanced scorecard which, as a tool to manage the entire organization, describes the organization strategy, measures and targets.

The Board balanced scorecard which, as a tool to manage the performances of the board and its committees, defines the strategic contributions of the board and clarifies the strategic information required by the board.

The Executive balanced scorecard which, as a tool to assess and reward the performance of executives, defines the specific contributions of each executive.

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4. The proposed model of balanced score cards

4.1. enterprise governance and balance scorecard in the literature

Enterprise governance is a comprehensive term encompassing corporate governance, conformance, and business governance and value creation (PAIB 2004, p.10). Corporate governance is related to accountability and assurance, while business governance is related to value creation and resource utilization.

The PAIB (2003) summarized the relationships of the two governances as follows:

‘Enterprise governance is an emerging term, which describes a framework covering both the corporate and the business governances of an organization.

Achieving a panacea of good corporate governance, that is linked strategically with performance management will enable companies to focus on the key drivers that move their business forward. This is both a challenge and an opportunity'. The distinguishing feature of business governance is its assessment of risk from the two angles of internal control and strategic management. A *Strategic*

Scorecard, but not *the Balanced Scorecard*, fills the strategic oversight gap. The Strategic Scorecard is not a planning tool, but it is an oversight tool, to help the board of directors grasp all aspects of the strategic process. It is made up of four basic elements: strategic position, strategic options, strategic implementation, and strategic risks. By using the scorecard, the governing board of an enterprise can identify the key points in, and timing of, effective strategic decision-making and recognize 'milestones in strategic implementation together with the identification and mitigation of strategic risk' (PAIB, 2004, p. 6). Such a scorecard thus attaches importance to filling the strategic oversight gap in transformational changes such as mergers, acquisitions and bankruptcies, which the Balanced Scorecard does not address (PAIB, p.24). While the Balanced Scorecard is operational and reactive with respect to a given strategy, the Strategic Scorecard fulfills its function with respect to transformation and abrupt change.

Prickett (2004, p.15) argues that the Strategic Scorecard forces boards to consider where the company is now, what its options are, and how it will manage risks cited by Nishimura2006 ,p11 so I purpose the following balance score cards for enterprise governance

4.2. The proposed model of balanced scorecard

The proposed model of balanced scorecards consists of two parts (conformance balance) and performance balance as illustrated in the figure2

The conformance balance scorecard consists of five dimensions:

1. Financial indicators such as: return on equity, market share, return on investment ----extra
2. Customer satisfaction: measure of quality, customer services,
3. Operations systems technology adopted
4. Employee training , experience and education
5. Compliance with law and regulation

<u>Journal of finance and accounting</u>

The performance balanced scorecard consists of six dimensions as the following:

1. SWOT analysis:
2. Strategy implementatition: leaderships or differentiation
3. New technology needed or no
4. Strategic hr decision such as: recruitment plan, board of director's fees
5. Merger and acquisition
6. Risk management

5.3 How does it work?

There is a link between the conformance balance score cards and the performance scorecards as mentioned in the following figure3

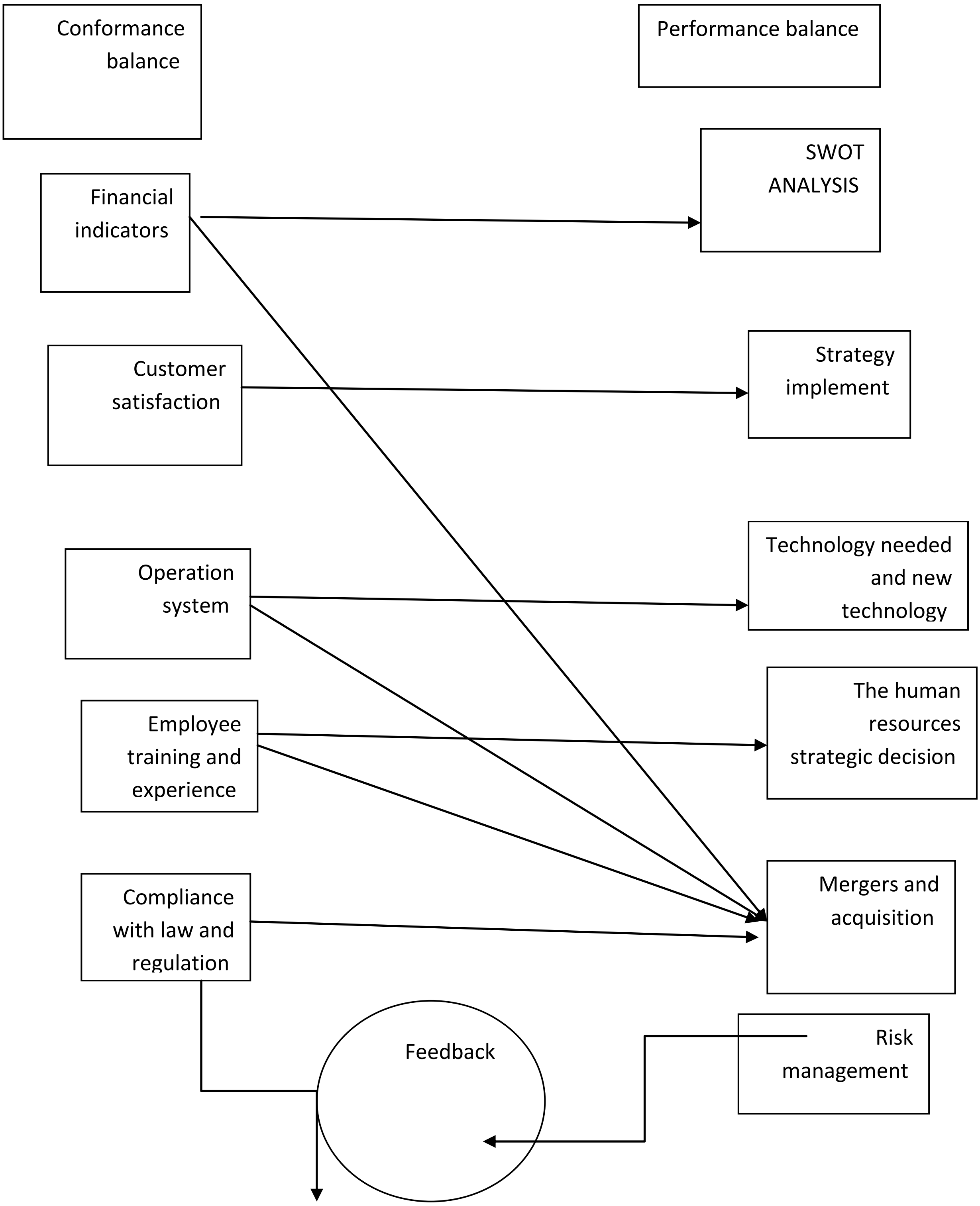

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Table one: summaries of studies of governance in literature:

Model	Perspective of corporate governance	Finding and explanation
Behavioral Agency Model – Wiseman and Gomez-Mejia1998)	To define executive risk-bearing and risk taking behaviors in relation to loss aversion and loss minimization, and devise propositions of enhancing Corporate governance.	Positively framed problems increase risk-bearing, which in Turn has a negative effect on risk-taking. Risk-bearing results from threats to future base pay and anticipated adjustments To that pay. To the extent that future base pay is insulated from the threat of loss, agent risk-bearing is reduced and agents may be more willing to pursue contingent pay Through riskier strategic choices.
Stewardship Model – Davis *et al.*(1997)	To monitor managers as stewards or caretakers of organizational interests, which is involvement and long-term oriented, and aims to maximize Performance.	Managers whose needs are based on growth, achievement and self-actualization and who are intrinsically motivated may gain greater utility by accomplishing organizational Rather than personal agenda. Managers in situations with collective culture and lower power distance are more likely To identify with their organizations, commit to Organizational values and to serve organizational ends.
Tricker (1994	Two main functions of the board of directors: conformance and performance	The conformance roles are past and present oriented, providing accountability, monitoring and supervision; and the performance roles are future oriented, including strategy formulation and policymaking
Stakeholder Model – Buchholz (1992)	To allow participation of a wider constituent groups (with economic and/ or social stakes in corporate activities) in the governance process, assuring that their interests are taken into account in corporate decision making	Give shareholders increased rights to participate in Important decisions. More outside directors to alleviate concern boards are too Subservient to management. Institute industrial democracy with participation of institutional investors, and codetermination scheme to allow workers participating in Management. Reinforce federal statutes over issues such as insider trading, Hostile takeover.
Participative Model – Collier and Esteban (1999)	To address the contextual and organization limitations of other models (finance, stewardship, stakeholder and political) so as to adapt to the changing World.	Organizations should adopt participative, flexible and open Systems and processes in order to adapt to changes. The governance model is cybernetic: responsive, adaptive by continuous differentiation and continually learning; and promote freedom and creativity to produce emergent

		patterns of good governance and to form the basis of the Ethical quality of participative governance.
Davies (1999	Key foundations for strategic leadership are: • effective board of directors; • shared strategic direction; and • strong strategic management process	Competences of directors: strategic perception, decision making, analytical and communication skill, effective interaction, ability to plan, delegate, appraise and develop others, achievement through risk taking, resilience, integrity, independence Board strategic leadership: establish a vision and values which set the target and tone of the company; decide strategy through a process involving people who have to deliver it; involve stakeholders and develop stakeholder Value as well as shareholder value. Strategic management processes: board and business units contributing plans and strategies, monitoring of Implementation and empowerment. Additional reporting on: views on quality of governance, validation of long-term health, competences and knowledge Base, progress towards purpose, audit of processes and Shareholder value.
Forbes and Milliken (1999)	To develop a model of board process assuring strategic decision-making effectiveness	Board effort norms (ensuring preparation, participation and analysis), cognitive conflict (leveraging differences of perspective), presence and use of knowledge and skills will Be positively related to board task performance. Board cohesiveness will be related in a curvilinear manner to board task performance; and will be less likely to detract from board task performance when the board has a high Level of cognitive conflict. Job-related diversity on the board will be positively related to the presence of functional area knowledge and skills and Cognitive conflict on the board.
Simons (1995) .	To develop a system of controls to cope With the growth of empowerment.	Communicate core values and mission; specify and enforce rules of the game; build and support clear targets; open organizational dialogue to encourage learning

FIGURE ONE: illustrated the parties of enterprise governance

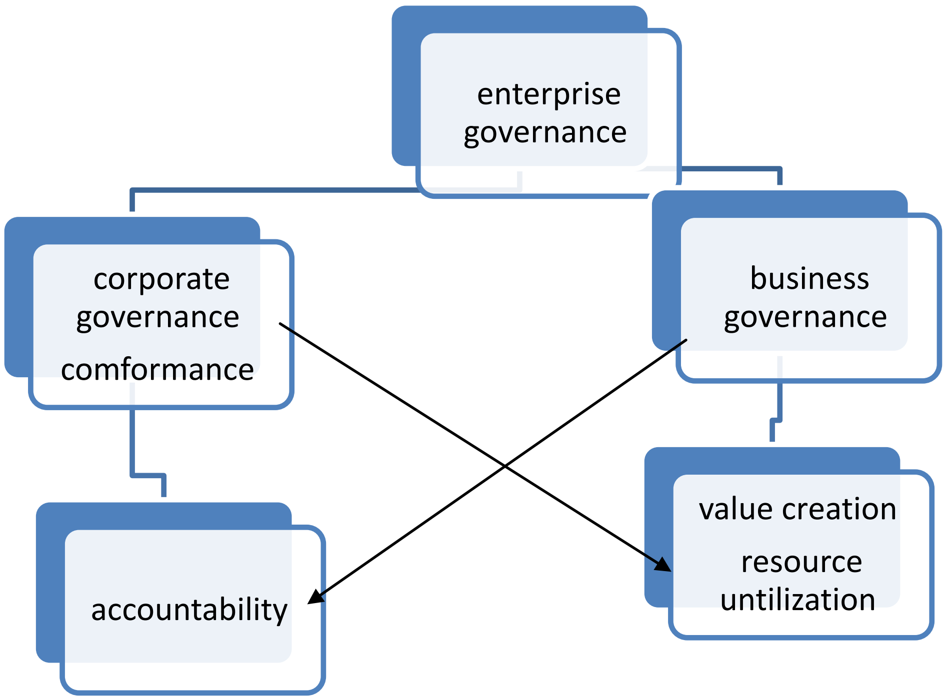

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Figure two: The enterprise governance balanced scorecards compose of: