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THE BALANCED SCORECARD (BSC) METHOD: FROM THEORY TO PRACTICE

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Abstract

Performance management has become a legislative requirement for the private and local sectors. Unfortunately, not many tools exist to measure and monitor public and private service delivery effectively. Managersrequire accurate information to ensure that their decisions are not based on emotions and assumptions, but that theinformation with regard to service delivery is accurate and relevant. In modern business models, intangible assets suchas employee skills and knowledge levels, customer and supplier relationships, and an innovative culture are critical inproviding the much-needed cutting-edge to the organization. This is where tools like the balanced scorecard methodhold relevance for the enterprise. Developed by Robert Kaplan and David Norton, the balanced scorecard methodtranslates an organization's strategy into performance objectives, measures, targets and initiatives. It is based on four balanced perspectives, and links them together with the concept of cause and effect. A proper balanced scorecard canpredict the effectiveness of an organization's strategy through a series of linked performance measures based on fourperspectives including:
1.Finance, 2.Customers, 3.Internal processes, 4.Employee learning and growth.

Keywords: balanced scorecard, strategy maps, performance measurement

Introduction

Balanced scorecard is a management system that enables organizations to translate the vision and strategy into action. This system provides feedback on internal business processes and external outcomes to continually improve organizational performance and results. Robert Kaplan and David Norton created the balanced scorecard approach in the early 1990s. Most traditional management systems focus on the financial performance of an organization. According to those who support the balanced scorecard, the financial approach is unbalanced and has major limitations:

1.Financial data typically reflect an organization's past performance. Therefore, they may not accurately represent the current state of the organization or what is likely to happen to the organization in the future.

2. It is not uncommon for the current market value of an organization to exceed the market value of its assets. There are financial ratios that reflect the value of a company's assets relative to its market value. The difference between the market value of

an organization and the current market value of the organization's assets is often referred to as intangible assets.Traditional financial measures do not cover these intangible assets.
The main purpose of this article is to analyze the Balanced Scorecard method theory and practice. Thearticle seeks to analyze this three matters :
1.origins of the Balanced Scorecard method,
2.evaluate this method in privateand public sectors
3.analyse the strategy mapping process.

1.Origins of the Balance Scorecard Method

The Balanced Scorecard was developed byRobert Kaplan and David Norton (1992). In 1990,Kaplan and Norton led a research study of a lot ofcompanies with the purpose of exploring the newmethods of performance measurement. The importance of the study was a growing belief that financial measures of performance were ineffective forthe modern business enterprise. Representatives ofthe study companies, along with Kaplan and Norton,were convinced that reliance on financial measuresof performance had an affect on their ability to create value. The group discussed a number of possiblealternatives but settled on the idea of a scorecard,featuring performance measures capturing activitiesfrom throughout the organization—customer issues,internal business processes, employee activities, andof course shareholder concerns. Kaplan and Nortonintroduced the new tool the Balanced Scorecard andlater summarized the concept in the first of three*Harvard Business Review* articles, "The BalancedScorecard—Measures That Drive Performance."
The Balanced Scorecard has been translated and effectively implemented in both the nonprofit and public sectors. Success stories are beginning to accumulate and studies suggest the Balanced Scorecard is of great benefit to both these organization types.
The BSC was originally created primarily asa measurement system and as an answer to a criticism concerning the unilateral measurement of theperformance ability of a company.
It was organizedthrough four different perspectives:
a· **The financial perspective***:* to succeed financially, how should we appear to our share-holders? Examples of this perspective include financial ratios and various cash flowmeasures.
b· **The customer perspective***:* to achieve ourvision, how should we appear to our customers? Examples of this perspective includethe amount of time spent on customer callsand customer survey data.
c· **The internal perspective***:* to satisfy our share-holders and customers, what business processes must we excel at? The internal businessprocesses that are often classified as missionoriented and support oriented. Examples ofthis perspective include the length of timespent prospecting and the amount of reworkrequired.
d· **The learning perspective***:* to achieve our vision, how will we sustain our ability to changeand improve? Includes employee training and organizational attitudes related to both employee and organizational improvement.
Examples of this perspective include the amount of revenue that comes from new ideas and measures of the types and length of time spent training staff.
There are many benefits and challenges to thebalanced scorecard. The primary benefit is that ithelps organizations translate strategy into action. By
defining and communicating performance metricsrelated to the overall strategy of the company, thebalanced scorecard brings the strategy to life. It also
enables employees at all levels of the organization tofocus on important business drivers.

The main challenge of this system is that it canbe difficult and time-consuming to implement. Kaplanand Norton originally estimated that it wouldtake an organization a little more than two years tofully implement the system throughout the organization.Some organizations implement it quicker,for some it takes longer. The bottom line is that thebalanced scorecard requires a sustained, long-termcommitment at all levels in the organization for it tobe effective.
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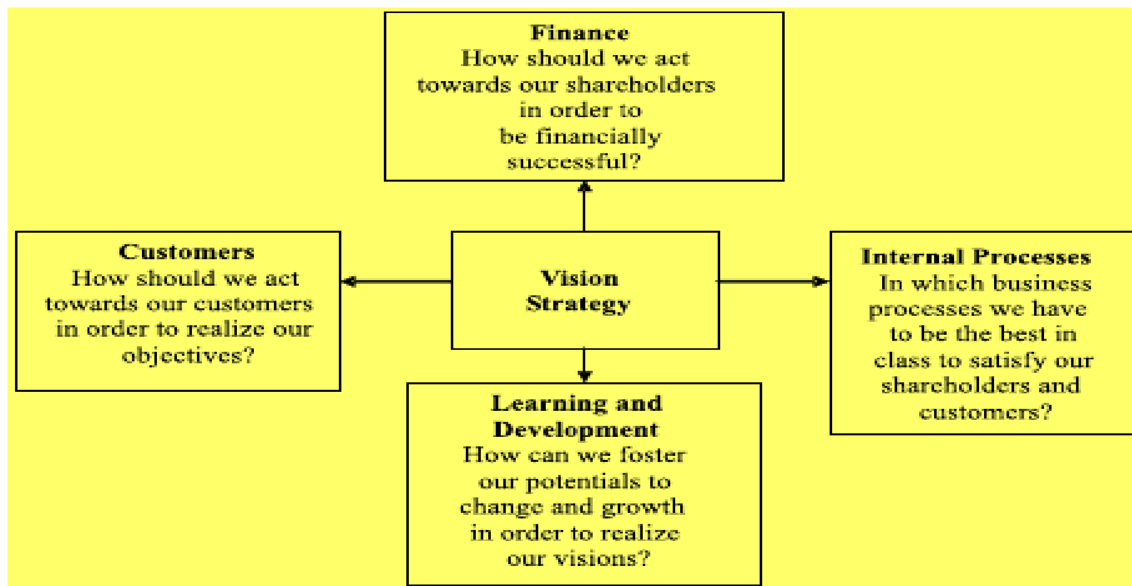


Figure 1. The methodology of the Balanced Scorecard

Features	Private Sector	Public Sector
Focus	Shareholder value	Mission effectiveness
Financial goals	Profit; market share growth; innovation; creativity	Cost reduction; efficiency; account-ability to the public
Efficiency concerns of clients	No	Yes
Desired outcome	Customer satisfaction	Stakeholder satisfaction
Stakeholders	Stockholders; bondholders	taxpayers; legislators; inspectors
Who defines budget priorities	Customer demand	Leadership; legislators; funding agencies
Key success factors	Uniqueness; advanced technology	Sameness; economies of scale; standardized technology

Table 1. Comparison of Balanced Scorecards in the Privateand Public Sectors

2. Comparing the Balanced Scorecard between private and public sectors

Using the same performance metrics in the public sector as the private sector is likely to be ineffective sincepublic sector goals differ drastically from those of the private sector. Private sectorfocus is primarily on *shareholder* value: *the bottomline*. Funding comes fromvarious sources, and as longas shareholder financial needsare met, the companycan function as it pleases(see table 1). The publicsector faces a quite differentenvironment.Public sectorfunding comes, in mostcases, from the taxpayers it is servicing. the measure of success is not shareholder value or profit but rather *how well the agencyis meeting the mission* given to themby congressional statute or executive order. Although the agency can oftentimesperform this mission in whatever way it sees fit, it is still boundby the directive of the mission. thus, strategic value comes in the form offulfilling the mission, and fulfilling the mission comes down to customer satisfaction with the agency’s service. however, defining customer needs is a bit more complex. A second differenceevolves through the number of customers or stakeholders that a publicsector organization must serve.
The Balanced Scorecard can be effective in the public, if and only if, the current perspectives are rearranged (see Figure 3). The four perspectives of the
current version of the Balanced Scorecard can still be applied in government organizations as long as they are rearranged according to governmental priorities. Therefore, it is clear that above considerations seem to have considerable impact on the ability of the Balanced Scorecard in ensuring best customer satisfaction. These considerations, if positively dealt with, may contribute to employee satisfaction, superior employee performance, sound internal business process and in turn, may lead to efficient stewardship of taxpayers’ money.

Furthermore, the best possible use of taxpayers' money may eventually lead to achieving the bottom-line objective - absolute customer satisfaction. In the light of the above observations, it is clear that some modifications are needed to the current version of the Balanced Scorecard for its use in the government sector as an effective performance measurement and management tool. Although significant research has taken place and various modifications to the current version of the Balanced Scorecard have been suggested by the researchers for the private sector, no studies have been found recommending a modified Balanced Scorecard model for the government sector. The following diagram (Figure 3) is suggested for the government sector, keeping in mind that "Customer" perspective is the bottom line of government sector. The Balanced Scorecard Institute has compared the different strategic objectives of the public and private Sectors. Table 2 shows the differences in each strategic level:

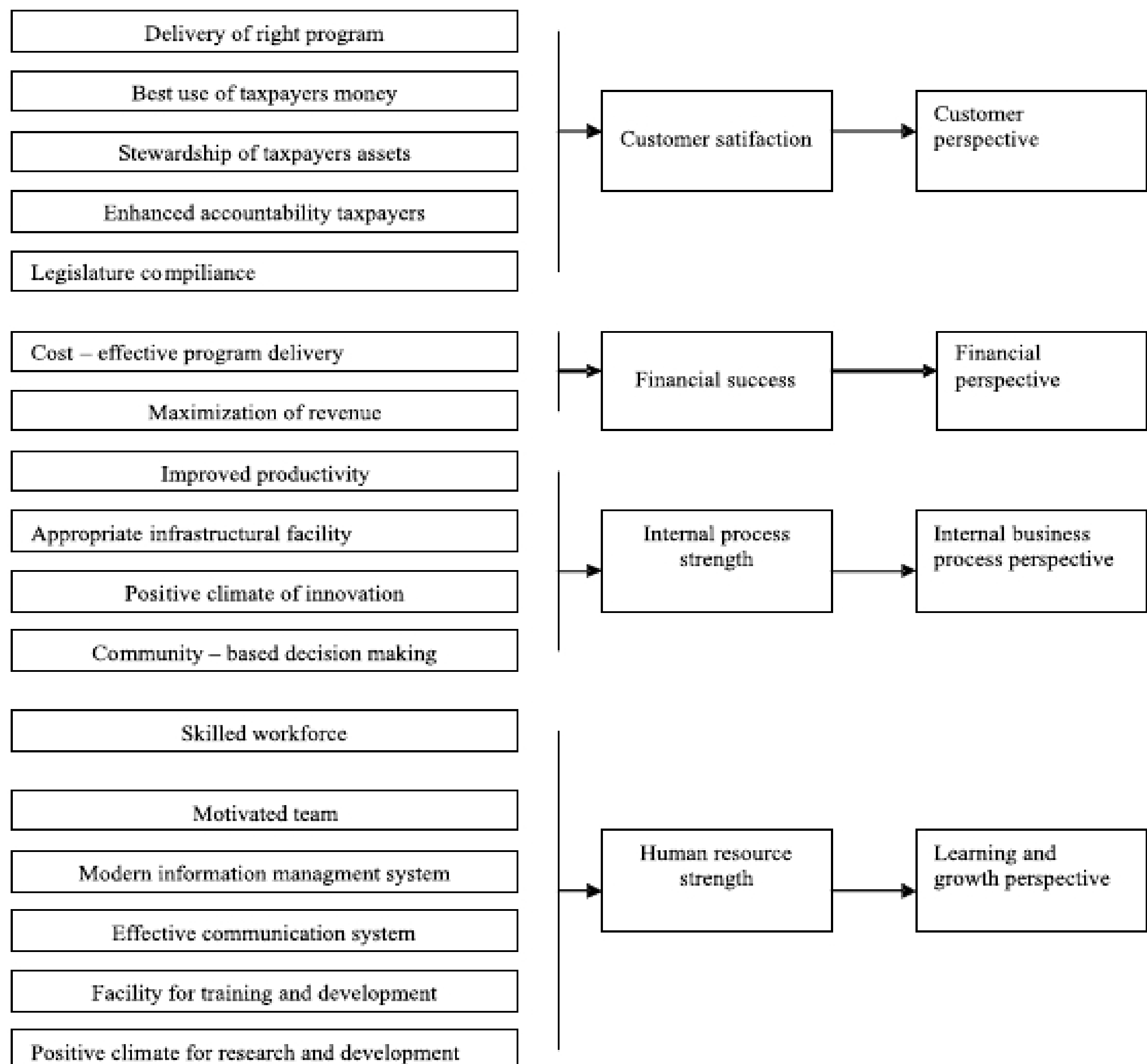


Figure 3. Is it meaningful to measure performance in public sector?

Table 2. Comparison of Private and Public Sector Strategies

Strategy	Private Sector	Public Sector
common target	competitive	achievement of mission
financial target	profit, growth, increasing market share	cost reduction, effectiveness
values	innovation, creativity, acceptance	responsibility to the public, equity, integrity
desired result	customer satisfaction	customer satisfaction
stakeholder	founder, market, stockholder	tax payer, legislator, auditor
prioritisation of budget	customer demand	management, legislator
orientation in terms of security	securing intellectual property	national security
critical factors for success	growthrate, revenue, market share, uniqueness, superior technology	best management practices, consistency, standardised technology

A special requirement for adoption is needed for the financial perspective. Even though the Balanced Scorecard seems to be balanced all perspectives and measures are aligned to the financial success and profitability of the organization.

The Public Sector's financial perspective is
mainly adjusted to budget targets, saving potentials, securing the basis for taxes, sustainment of credit worthiness and similar.

Some of the facts which are especially important for adoption of the Balanced Scorecard approach in public sector are:

- The closeness to political interests needs a special thoughtfulness and sensibility.
- It is important to explain employees and representatives the Balanced Scorecard's usefulness.

The implementation of a Balanced Scorecard requires an effective controlling system which assembles measures, values and other significant reporting
data. Public sector still needs to catch up here. Accordingly from the beginning this should be allowed for.

- A balance between a tight schedule and adequate time for practice, communication
and feedback during strategy discussion has to be found. To keep motivation high the rollout should be kept short. Adoption needs dynamics, especially in the Public Sector.

3. Strategy mapping

The strategy map has turned out to be as important an innovation as the original Balanced Scorecard itself. Executives find the visual representation of strategy both natural and powerful. Strategy maps provide increased granularity for executives to describe and manage strategy at an operational level of detail. A strategy map provides a visual framework for an organization's strategy – how it intends to create value. Specifically, a good strategy map will link togather :

1. The desired productivity and growth outcomes.
2. The customer value proposition which will be needed.
3. Outstanding performance in internal processes.
4. The capabilities required from intangible assets.

In effect, a strategy map captures the organization'sstrategy in visual form so that managers canbetter execute their desired strategy. Strategy mapsare built around the structure of these four perspectives.They ensure that the organization's objectivesin each of these perspectives are consistent and internallyaligned. That alignment, in turn, means the organization is focused and performing at an optimal level rather than having the actions of one part of the organization impact on the results achieved byanother part(Hers,1998). Strategy maps clarify all cause-and-effect relationships so that an effective strategy can be developed and then optimized over time. They are the interface between strategy and the Balanced Scorecard. Conceptually, a strategy map links the high-level goals of the organization – its mission, values and vision – with meaningful and actionable steps each an employee can take. Strategy maps also provide
balance between the various competing dynamics every organization faces:

_ Whether to invest in intangible assets that will generate strong long-term revenue growth or focus on cutting costs more aggressively so as to boost short-term results.

_ How to differentiate your organization from your competitors by clarifying your value strategy
– which usually involves one of the four different approaches already mentioned:

1. Offering the lowest total cost to customers
2. Product leadership – always offering superior products
3. Making available complete customer solutions
4. Locking-in customers so that it would be hard to switch to other vendors:

a) Which internal processes to focus on and optimize and which to outsource.

b) How to balance the allocation of resources between the various internal processes in such a way that different benefits are delivered at various points of time.

c) How to align everything the organization does in such a way that the efforts of one part of the company do not have a negative impact on the results achieved elsewhere.

d) How to make good management decisions about investments in intangible assets as the drivers of organizational growth in the future(Du Mee,1996).

A company or other organization creates value by producing goods and services that can be sold for profit. At one time, it was suggested that managing these processes was the most important duty of management. In today's competitive environment, however, operational excellence alone is not sufficient to provide a sustainable competitive edge. A strategy map (see Figure 4) helps ensure internal processes are well executed and properly aligned with intangible assets and the customer value proposition.

The four key internal processes by which organizations create value according to (Kaplan, Norton,2002) are :

- Operations management processes;
- Customer management processes;
- Innovation processes;
- Regulatory and social processes;

In the operations management area, organizations are:

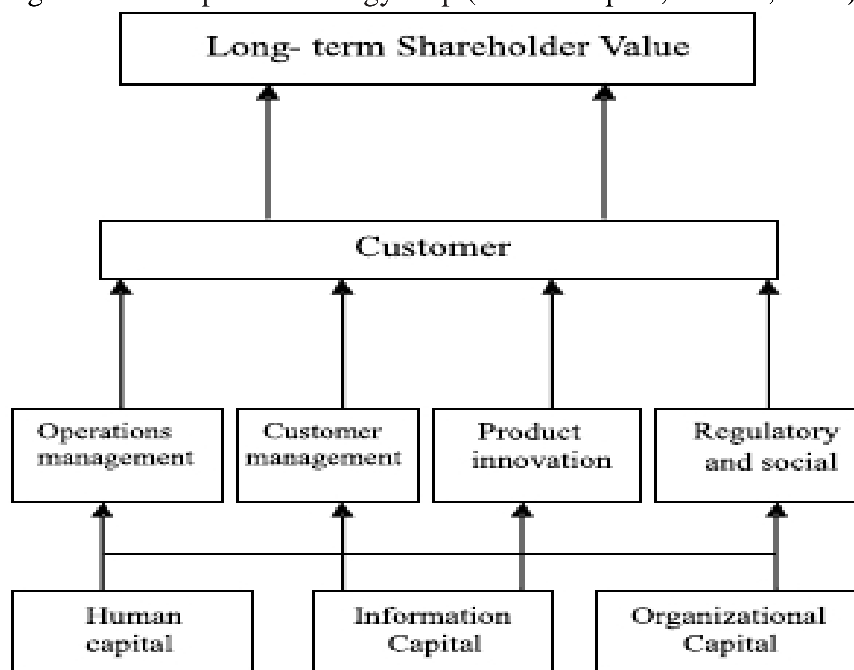
- Attempting to develop deeper relationships with suppliers with the goal of lowering
the total cost of procuring all the materials needed to products the customer is offered. Generally, this involves simplifying ordering and accounting functions to lower administrative costs as far as possible.

– Looking for new ways to actually produce the products and services as efficiently as possible through continuous improvement of processes and enhanced efficiency initiatives.

– Attempting to lower the costs of distribution and delivery in any way possible.

– Trying to get a better idea of the risks involved in doing business and then finding effective ways to offset and minimize those risks to a better effect.

Figure 4. A simplified strategy map (source Kaplan, Norton, 2002)



By focusing on operations management, organizations attempt to inject key features into their value proposition:

1. Competitive prices
2. High levels of quality
3. Speedy delivery of the goods purchased
4. A comprehensive solution to customer problems.

A well thought out and integrated strategy map provides strategic focus to these key internal processes. Or, put differently, a strategy map helps link process improvement programs to

important organizational outcomes. Strategy maps help organizations improve the right things, not just the more obvious things.

Strategy maps are also useful where organizations have embarked on quality management programs such as Total Quality Management (TQM),
Six Sigma or Activity-based Management (ABM). The strategy map helps embed these quality management efforts within a strategic framework that will provide cause-and effect accountability and measurement metrics.

Strategy maps can be used dynamically to create an action plan rather than passively as snapshots of corporate intent. To use a strategy map and Balanced Scorecard together effectively in this wayis a six step process:

1**. Establish and define what the current valuegap is for shareholders**; or in other words, set the financialobjectives, measures and targets. Determine
how much long-term revenue growth and short-termproductivity improvements you will work towardsachieving. These should be stretch targets that will challenge the organization.

2. **Reconcile your current value proposition**; byidentifying your current target customer segments,
clarifying the value proposition you now use, selectingyour measures and reconciling your customerobjectives to the goals of financial growth. You might
also decide on a new customer proposition that willgenerate the growth you desire.

3. **Establish your projected time line**; how quicklyyou anticipate your new internal processes andthemes can begin to generate the kinds of financial
results required. This should indicate which goalsare achievable and which goals may need furtheradjustment.

4. **Identify your key strategic themes**; those criticalfew internal processes which will have the greatestimpact on the customer value proposition. You
also highlight which internal processes are the driversfor those targets and create some linked objectives,measures and targets.

5. **Identify and align your intangible assets**; byassessing the level of strategic readiness of each intangibleasset. You then set targets on how to increaseeach asset’s level of readiness individually.

6**. Specify and fund the strategic initiativesrequired to execute the strategy**; so there is clarityabout the level and sources of funding required. The
cause-and-effect linkage of the strategy map, BalancedScorecard and action plan should help visualizethe logic involved. These steps mean that passive
statements of intent are given substance and relevance.For example, a strategic objective to “Reducethe typical product development cycle” is appealing
but also open to individual interpretation. When it istransformed into something like “Reduce the productdevelopment cycle from three years to nine months”,everyone in the organization realizes this will requiresome breakthrough, outside-the-box thinking ratherthan minor enhancements(Marco,2006).

Conclusions

The Balanced Scorecard was developed, between others, by Robert Kaplan and David Norton. It was originally created primarily as a measurement

system and as an answer to criticism concerning the unilateral measurement of the performance ability of a company. It was organized through four different perspectives: the financial perspective, the customer perspective, the internal perspective, the learning perspective.

The Balanced Scorecard provides the cornerstone for a new strategic management system. The scorecard enables organizations to introduce new governance and renew process focusing on strategy. It does not rely on short-term financial measures as the sole indicators of performance but it does the following additional functions (Ghosh, Mukherjee, 2006):

1. Translate strategy to action, making strategy everyone's job.
2. Manage the intangible assets e.g. customer loyalty, innovation, employee capabilities.
3. Leverage cross functionality without changing the structure of the business.
4. Measure what matters the critical few vs. the important many in real time, not just after the facts.
5. Create a daily management system for the day-to-day navigation of the business.

A Balanced Scorecard, however, suffers from some major drawbacks. The most important among these are (Ghosh, Mukherjee, 2006):

1. The Balanced Scorecard decomposes the organization's primary objectives (financial perspective) into customer, internal process and learning and growth objectives (operating perspectives) in a way that is reminiscent of the way that the Dupont formula decomposed the return on capital employed metric into front-line operational measures.
2. To make scorecard useful, it should be prepared in conformity with the overall business strategies. Thus, companies may bias their scorecards to the dimensions that closely support their strategic direction.
3. It is difficult to integrate a company's scorecard into its planning, budgeting and resource allocation process; especially when scorecard metrics are changed.
4. In order to make the scorecard more useful and practical it is necessary to assign weights to different measures (both financial and non-financial) on the basis of their importance to the organization for specifying trade-off between financial and nonfinancial measures.
5. To make the scorecard more efficient and useful it should include a large number of both financial and non- financial measures and these should be continually modified on the basis of measurement feedback.
6. There are some organizations like investment companies to which Balanced Scorecards have little value as they are interested in improving financial performance only.
7. The creditors, debenture holders and even shareholders of an organization are interested in financial performance rather than operating performance which compels the management to give much emphasis on financial perspective of the organization making the scorecard imbalanced.

Creating the balanced scorecard is a critical step in the strategic process. So many organizations create a strategic plan and then dutifully ignore it because day-to-day issues / firefighting tends to take precedence. The scorecard periodically reminds the organization what the critical strategic issues are and gives the necessary feedback on the progress toward achieving them.

It is important that the scorecard is like a scale. The role of the scale when you are on a diet is not to make you lose weight. The scale merely provides you with feedback on how you are doing. In the same way, building a balanced scorecard will not improve organizational performance. It will simply give you feedback to know how well you are achieving your strategic direction.

The real strength of the linkages between the strategy map, Balanced Scorecard and action plan is consistency. Instead of a fragmented approach where one part of the organization pursues a different agenda from another part, everyone uses the same overall strategy. The vision is consistent with the strategy to get there. People can be inspired to act because they see that it is feasible to get to where the management wants to head.

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