UNIVERSITATEA DE VEST DIN TIMIŞOARA
FACULTATEA DE ECONOMIE ŞI DE ADMINISTRARE A AFACERILOR
FEAA

www.tje.uvt.ro

Timişoara Journal of Economics

Volume 1 Issue 4 | 2008

Ioan TALPOŞ, Vasile DOGARU — An Overview of the Research Activities of professor Kozo Mayumi: Nicholas Georgescu-Roegen's Bioeconomics

François FULCONIS, Thierry GARROT — L'enseignement numerique dans l'espace europeen de formation: etude du management du "CAmpus Numerique en Economie-GEstion"

Corina GROSU, Alina ALMĂŞAN — Balanced Scorecard: a Tool for Performance Monitoring and Improvement

Alexandru JIVAN — Marketing, Liberalist Spirit and Nature

Agata PIERSCIENIAK, Katarzyna SZARA — Current Challenges of Managers in Poland

Bruno SALGUES, Kalyan BOLLAMPALLY — Society Change or Organisational Evolution ? Global or Local e-Pharmacies ?

Gheorghe BĂILEŞTEANU — The Need for Accuracy

ISSN: 1842-7340

EUV Editura Universităţii de Vest

www.tje.uvt.ro

Timişoara Journal of Economics

Volume 1 Issue 4 | 2008

Editura Universităţii de Vest

Content

An Overview of the Research Activities of professor Kozo Mayumi: Nicholas Georgescu-Roegen's Bioeconomics 286
Ioan TALPOŞ,
Vasile DOGARU

L'enseignement numerique dans l'espace europeen de formation: etude du management du "CAmpus Numerique en Economie-GEstion" 293
François FULCONIS,
Thierry GARROT

Balanced Scorecard: a Tool for Performance Monitoring and Improvement.. 311
Corina GROSU,
Alina ALMĂŞAN

Marketing, Liberalist Spirit and Nature 321
Alexandru JIVAN

Current Challenges of Managers in Poland 343
Agata PIERŚCIENIAK ,
Katarzyna SZARA

Society Change or Organisational Evolution ? Global or Local e-Pharmacies ? 351
Bruno SALGUES,
Kalyan BOLLAMPALLY

The Need for Accuracy 365
Gheorghe BĂILEŞTEANU

BALANCED SCORECARD: A TOOL FOR PERFORMANCE MONITORING AND IMPROVEMENT

Corina GROSU*

Alina ALMĂŞAN **

To successfully compete with companies from all over the world, any organization must have useful tools to measure, monitor and improve its performance. Such tools must be adapted to the information needs of a company, which is forced to action in a complex environment.

Balanced scorecard is considered such an important tool, a system of measures which enables to understand the way in which performance is built, by establishing a balance between four forces, based on a process approach of the organization.

If it is correctly created and implemented, the balanced scorecard enables to create a relationship between different performance measurement measures, in order to achieve the final goal – value creation for the shareholder.

Key words: performance, activities, processes, balanced scorecard

JEL classification: C81, D63, L26, O21

1. INTRODUCTION

Through its actions, any organization tries to become the best, the most powerful of all enterprises in the same domain. In other words, companies permanently try to achieve higher performances. As early as 1992, Johnson said that "the only way for a company to survive in present environment is the search of competitive excellence".

From the mid 70's American and European companies have been forced to cope with a severe competition coming from Asiatic companies, which offered high quality products at lower costs. Then, many countries were opened to the market economy, which generated some important changes within the organizations.

Globalization brought with it business internationalization, by extending the supply chains, as well as the distribution and transport chains. It isn't enough anymore for companies to compete with local firms, they must confront with the best companies from all over the world. As Kaplan said "a company could survive and prosper only if its costs, quality, and product capabilities were as good as those of the best companies in the world". (Atkinson, Kaplan & Young, 2004: p.15)

David Ulrich and Dale Lake added: „Any organization which wants to successfully compete on today's market must focus on the company's build, relying not only on external data, but on the internal too".

The competitive and more complex environment forces the enterprises to frequent and quick adjustments in diffe-

* Professor, PhD., West University of Timişoara, Faculty of Economics and Business Administration

**PhD., West University of Timişoara, Faculty of Economics and Business Administration

rent areas (production, distribution, different as well as finance).

The competitive and more complex environment forces the enterprises to frequent and quick adjustments in different areas (production, distribution, as well as finance).

2. THEORETICAL BACKGROUND

In order to survive in an unstable environment, an enterprise must make sure that all the undertaken activities will create value. This judgement, based on the contribution of the activities to value creation, stays at the basis of performance interpretation.

A higher performance imposes a rethinking of all processes included in the value creation mechanisms.

The evolutions from today's environment demand new, cross-functional, process-based, project-based or network-based organization forms. The characteristics of these forms are adaptability and "flattening" of the organizational structure, by reducing the number of hierarchical levels and even the outsourcing of some activities. Being close to the customer also imposes a cross-functional structure along the value chain (Michael Porter) or a process-based structure, which requires defining the activities and processes of an organization.

Everything that an enterprise undertakes in order to achieve its objectives can be divided in many elementary tasks of different nature, called activities.

From Lorino's point of view, activity-based management represents "a new technique, translated in a completely renewed panoply of tools and methods, from operational performance measurement to human resource management, through material flows management, value analysis and investments appraisal".

An efficient management must be "built" in a way that allows performance analysis and understanding (diagnosis), as well as the achievement of the organization strategy (guiding). Dividing an entity into activities helps to understand the cost causes, because the activities are not depending on organizational changes.

The simple identification of activities isn't enough, if the relations between them are not properly managed within the processes. The process is a number of activities, combined to achieve a complex objective. Process management means the observation of process drivers and resource drivers by the activities that compose the processes. This type of process management allows, besides determining the costs, quality and time analysis and appraisal and implicitly, the analysis and appraisal to customer satisfaction.

In order to answer to these evolutions, the management needs more pertinent information to make the appropriate adjustments, thus assuring a decisive competitive advantage.

The tool which allows the performance appraisal of an organization, seen as a whole (as a system), is the balanced scorecard.

The balanced scorecard is defined as a system of measures which allows understanding the way in which performance is built, by establishing a balance between four forces, based on a process "cutting" of the organization.

This management tool has the mission to provide a strategic vision at all organizational levels (Kaplan & Norton, 2001: p.93). It is based on competitive factors (key factors of success, risk factors), performance measures, targets and improvement actions aimed by the organization; it ensures the coherence of the running of operational level with the strategy.

Timişoara Journal of Economics

Balanced scorecard includes an ensemble of financial and nonfinanical measures for short term and long term performance appraisal, in a unique synthetic way. The upper levels at which the measures are defined impose a future "declination" of these measures at lower levels, in accordance with the top-down approach. Thus, the board "translates" the top management strategy in concrete objectives for the operational segments.

The measures transposed at lower levels become thereby "sub-ensembles" of measures, which express the contribution of those lower levels to the global performance of the enterprise.

The appearance of this tool represents a reaction to the American practice, which prevailed at the beginning of the 90's - the performance appraisal of the organizations based exclusively on financial measures, which in their turn, favoured the short term result, to the prejudice of the long term strategy.

Non-financial and operational measures reflect essential evolutions which affect the enterprise. The financial advantages of these evolutions can not be expressed through immediate short term advantages and earnings. On the other hand, a significant increase of non-financial measures foresees a future increase of value. Such an increase of customer satisfaction can be the signal of a future increase in sales and, implicitly in profits.

Balancing the combination of financial and non-financial measures, the balanced scorecard draws the managers' attention on long term performances, as well as on immediate performances.

Balanced scorecard assesses the organizational performance from four perspectives: financial, customer, internal process, and learning-growth.

The financial perspective

= „the financial health"

– refers to the financial performances of the enterprises (increasing the sales, reducing the cost, improving the profitability, increasing the margins etc). Questions which need answers: How do the shareholders see the organization? What can the enterprise bring them?

The customer perspective

= „the customer's satisfaction"

– enterprise growth involves customers satisfaction, sales increase and their profitability (market share, number of new customers, profitability rate of different organizational segments etc.). How do the customers see the enterprise? Which are the customer's expectations regarding the enterprise?

The internal perspective

= „the processes control".

This perspective interrogates the essential processes which have a lasting contribution in ensuring a competitive advantage for an enterprise.

Innovation is obviously, a determinative process (the importance of research, the number of patents, the proportion of new products etc). The quality of post-sale services represents an essential part in customer satisfaction, the terms for deficiency remedies etc.

In the production process, the manager's preoccupations regard: product quality, production time, inactivity time etc. The questions aimed at: How can the internal processes of the business are controlled in order to create customers value? Which are the processes in which a company must excel in order to continuously satisfy the customers?

The learning and growth perspective
= „the change guiding"

– regards the methods for achieving the strategic objectives. This perspective aims at the employee's abilities and attitudes, the "learning" capacity of the organization. It identifies the domains in which the organization must excel, so that its internal processes are the best, in order to create value for shareholders and for customers.

From this point of view, the interest can be oriented towards the following areas:

- the employees' aptitude, measured by the competence level, the inquiry for employees' satisfaction, the fluctuation (the proportion of employees which leave the enterprise during a certain period) and the employees productivity;
- the efficiency of the informational system, measured by the rate of front-line employees, having access to information about customers, the ratio of on-time return information;
- the motivation and the autonomy, measured by the number of suggestion per employee, the suggestions' effects and the individual and collective rewards.

The questions aimed at: How can the company stay successful in the future? How can we learn and communicate in order to improve ourselves and to accomplish our vision?

The four perspectives of the balanced scorecard "cover the financial success, the market leadership, the customer loyalty, the capital development, the control of business processes and, partly, the consequences for the community" (Rampersad, 2005: p.36).

The components of a balanced scorecard built for an organization must explain along the four perspectives presented in *Figure 1.*

The organization's mission	→	**Why do we exist?** (contains the identity of an organization and shows the reasons of its existence; what basic need does it cover?)
↓ ↑		
The organization's vision	→	**What direction do we go to?** (indicates what the organization wants to achieve in a certain period; what are the values it believes in and what is essential for its success?)
↓ ↑		
The organization's key factors of success	→	**What differentiates us?** (identifies the essential factors for the organization's sustainability, as well as the necessary competences to ensure the competitive advantage)
↓ ↑		
The organization's objectives	→	**What results do we want?** (describes the expected results, creating realistic references)
↓ ↑		
The organization's performance Measures and targets	→	**How can we measure the results?** (what does the organization undertake in order for its objectives to be quantifiable; what values can be obtained; what signals do the measures offer in order to guide the organization)
↓ ↑		
Improvement actions / initiatives	→	**How can we achieve the results?** (refers to the manner of realizing the objectives and the continuous learning process)

Figure 1. The components of a balanced scorecard

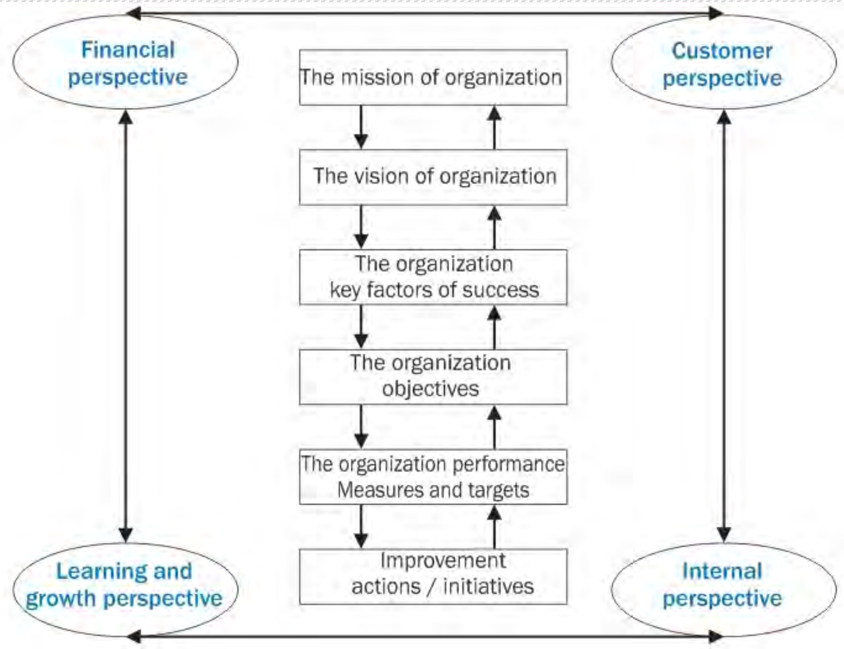

Figure 2. **Interconnection between BSC components and the four perspectives**

The framing of these elements according to the balanced scorecard perspectives can be presented as the following interconnection figured in *Figure 2* (adaptation after Rampersad, 2005: p.41).

This approach starts from a visual representation of strategy and of interdependences between the four perspectives, starting with the learning-development perspective and ending with the financial perspective. Permanently, this demarche will aim at the long term value creation for shareholders.

The articulation of the four perspectives is very important and it can be accomplished by starting with the employees' motivation to achieve the strategic objectives, the excellence through continuous improvement of the internal processes, the customer orientation and finishing with the achievement of the financial strategic objectives.

So, every established objective for every balanced scorecard perspective can be presented as a cause-effect relationships chain. In other words, this tool will include objectives, measures, targets and actions for every key factor of success.

A correlation between the objectives and actions along the four perspectives can be presented as *Figure 3* shows (adaptation after Atkinson, Kaplan & Young, 2004: p.366, 373).

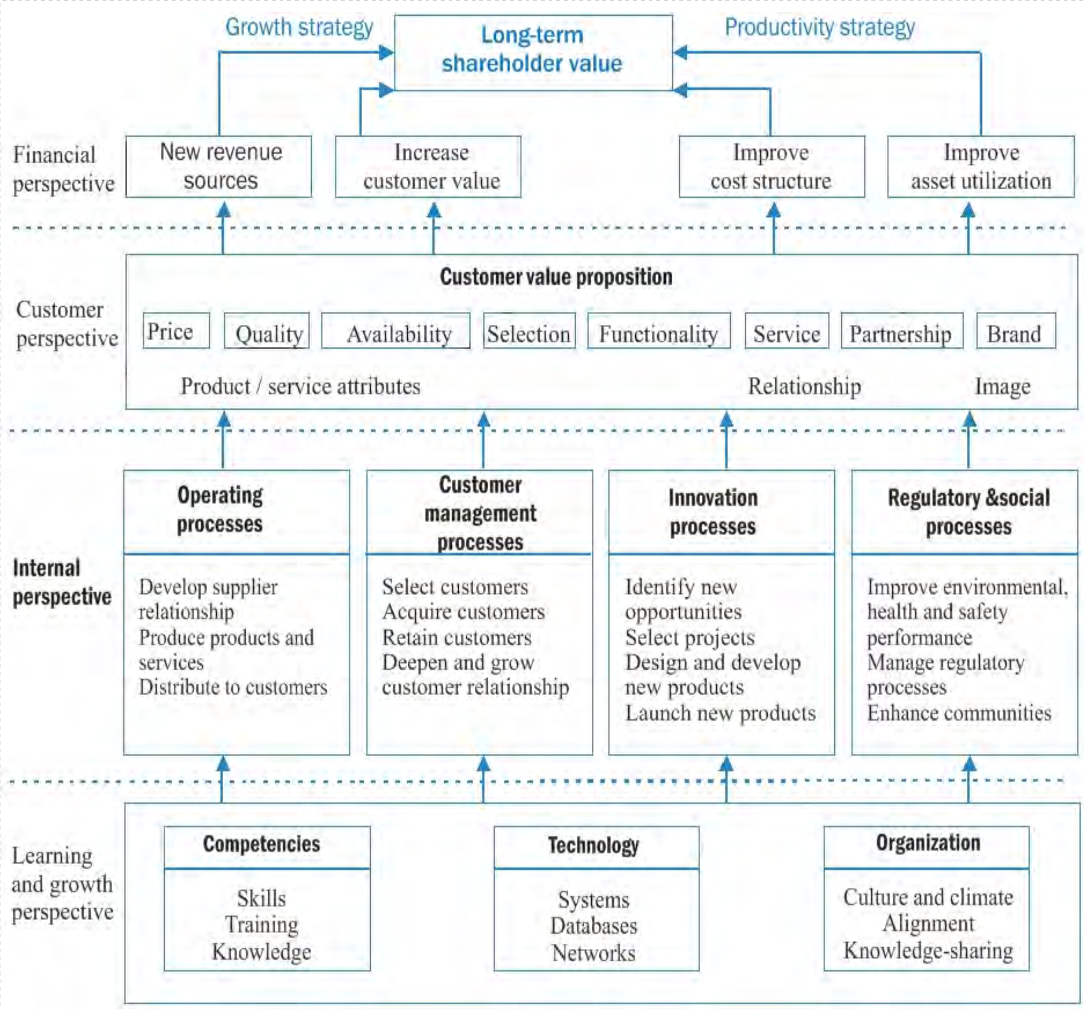

Figure 3. **The correlation between objectives and actions along the four perspectives**

3. METHOD AND RESULTS

We will illustrate the way in which the balanced scorecard is elaborated (for the financial perspective – *Table 1*) having as model the Business Jet company (Rampersad, 2005: p.104).

The process of the mission and vision development starts with the management team which conceptually formulates the organizational mission and vision and then communicates it to the interested parts. In practice, this dissemination of the common goal is made at all organizational levels, using brainstorming. The managers must provide guidance and help, must think with the employees (not think for them), must help and train the employees, showing how to use their energy in a trustworthy and team-spirited environment.

Taking into consideration this approach, the Business Jet Company suggests the following:

Table 1

The BSC for the financial perspective

Key factors of success	Strategic objectives	Performance measures	Targets	Improvement actions/initiatives
Better financial results and growing profitability	Maximize the shareholder value	The sales increase	10% in 3 years	Increasing the tickets price with 5% for business class
		The aircraft occupation rate	Increase with 30% in 3 years	The extend of the service package Introducing a rewarding system The intensification of the promotion campaign
	Higher profits	Net benefits on constant owners' equity	Increase with15% in 3 years	The profits growth Closing the unprofitable units Eliminate the equipment rent
	Better cash-flow	The increase of gross margin	15 mil $ at the end of the next year	Reducing the costs
		The reduction of maintenance costs	3 mil $ in the following 3 years	Redefining the limit of maintaining parts inventories
		Lower percent of operational costs	10% lower yearly	The outsourcing of the catering activities Performing a study for deficiencies cost Introducing the departmental budgets The analysis of the acquisition process and its efficient execution

- **The organization's mission:**
  „we are a safe, trustworthy Airline Company for businesspeople"
- **The organization's vision:**
  „we wish to become a professional organization from all perspectives, an organization to be the first choice for businesspeople who travel in the regions where we are operate".

Balanced scorecard considers profit maximization the final goal for any company. This can be achieved either by sales increase or by productivity increase.

The revenues increase depends to a great extent on the firm's relationships with clients and this objective can be achieved by finding new sources of revenues (new products, new clients, and new markets) or by increasing the value offered to the customer. In its turn, the productivity increase can be achieved either by reducing the cost or by using its assets more efficiently - reducing the costs at the same time.

The financial objectives are, usually, correlated with the profitability. Among the *measures* which can help to appraise achievement of financial objectives one can mention: operational revenues, return on investment, profitability margins, economic value added etc.

Diagrammatic, this financial perspective can be presented as in *Figure 4* (Atkinson, Kaplan & Young, 2004: p.361).

4. DISCUSSIONS

A well-conceived balanced scorecard must have de following characteristics:

- explains and "translates" the organization strategy, expressing a number of causal relationships; every performance measure represents a "link" in the causal chain which starts from learning and growth to the financial results;
- ensures that all members of the organization know its strategy, expressing it as a coherent ensemble of intelligible and quantifiable operational objectives;
- insists on the financial objectives and measures; managers tend to consider innovation, quality and customer satisfaction as a goal in itself, but if adequately coordinated and correlated, they can become real premises of the financial results;
- presents the relevant measures for the responsibility level, explaining the measures determinant for implementing the strategy;
- warns about the non-optimal choices which can affect the operational and financial conditions of the performance.

Besides the advantages of this tool for performance monitoring, when using it, one has to take into consideration some disadvantages or pitfalls**:**

- the established causal relationships represent rather hypotheses than rigorous relationships with clear evidence regarding the time stability. The experience that allows the board adjustment including non-financial objectives and measures is more important than the ambition to create a perfect board right from the beginning (which is illusory, anyway). In this way, the anticipation of better financial performances is ensured.
- determining some maximization objectives for all measures can not be realistic; the arbitrage between different strategic objectives ensures a more realistic setting of the measures in accordance with the competitive advantage aimed at;

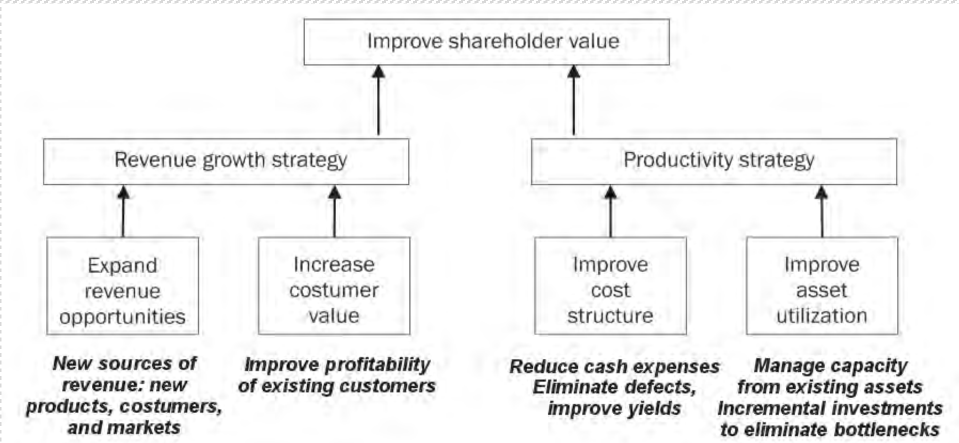

Figure 4. **The correlation between objectives and actions for financial perspective**

- the existence of the risk of measures "manipulation"; it is necessary to achieve a compromise between the multitude of information and their degree of precision or subjectivity / objectivity;
- the cost / advantage relation – ignoring it can "focus" the attention on some measures that don't generate the desired financial advantages, in comparison with the effort claimed by them;
- one must not ignore the non-financial measures in the assessment of both managers and employees at all operational levels.

5. CONCLUSIONS

CAs any managerial tool, the balanced scorecard has not given the desired results in all organizations where it was used, either because of the small number of measures used for every perspective or because of a great number of such measures, so that the managers' attention was dissipated and distracted from the measures with a significant impact.

The organization's problems are not generated by a "weak" balanced scorecard, but by a weak development and implementation process of this tool. Thus, Kaplan (p.389) identifies the following problems that may occur in a company when building and using the balanced scorecard:

a) *the top management is not committed* – many times, the failure of this demarche is generated by the delegation of it to the middle management. The top management implication is very important for many reasons: few middle managers understand the strategy for the entire company, they depend on the top management to articulate these strategies; only the top management can make decisions about the organization's strategy.
b) *the top management tries to build the balanced scorecard alone* – unless all managers are committed in this "construction", the strategy implementation will be very difficult;
c) *the balanced scorecard responsibilities are not decentralized* – if the top managers consider that only them can know and understand the strategy, without being known by other managers its implementation will face serious obstacles;
d) *the balanced scorecard construction is treated as the one-time event* – some organizations want the perfect scorecard and they implement this tool only when are they sure that they have the perfect set of measures, thinking that they have only one occasion to implement the scorecard, so the time to identify the measures and to collect the data is too long; it must be known that the objectives, measures and data collection processes can change in time, based on organizational learning;
e) *the balanced scorecard is treated as a system project* – it would be normal that this approach should be considered a managerial project; there were some companies that thought that this project could be acquired from outside consultants; thus, the managers had only some general information about the data collected by an information system.

Companies that have succeeded in implementing the balanced scorecard have extended in time their system of measures to the non-financial measures.

It can be noticed that the balanced scorecard is a complex tool of performance measurement which aims, firstly at the balance between:

- the short term and the long term – articulating the strategy with the actions;
- the outside and inside of the organization – the external objectives (regarding the engagements to the clients) and the internal ones (regarding the employees)

are translated in the internal processes;

- value and cost – assures management of the cost-value couple for the clients;
- control and information, as well as communication and learning.

The companies that use the balanced scorecard are from different sectors of activities (from manufacturing to service companies and non-profit organization). This tool helps the employees to be aware of the fact that their actions and their decisions have a more or less visible impact on the organizational performance.

The balanced scorecard implies a translation of the firm's strategy into objectives and concrete actions. The key point of this approach is **balance** (Albu & Albu, p. 123) that is why any analysis area shouldn't be "punished" for others. The four perspectives allow to obtain a balance between the short time and long time objectives, as well as the value for clients and for shareholders.

BIBLIOGRAPHY

1. Albu, N., Albu C. (2003) – *Instrumente de management al performanței vol.II Control de gestiune.* Editura Economică. Bucureşti.
2. Atkinson, A.A., Kaplan, R.S., Young, S.M. (2004) – *Management Accounting 4th edition*. Pearson Prentice Hall, Upper Saddle River, New Jersey
3. Bryant, L., Jones, D.A., Widener, S.K. (2004) - Managing Value Creation within the Firm: an Examination of Multiple Performance Measures. *Journal of Management Accounting Research*, Vol. 16, pp.107 – 131.
4. Davis, S., Albright, T. (2004) – An investigation of the effect of Balanced Scorecard implementation on financial performance. *Management Accounting Research*, no.15, pp. 135 – 153.
5. DeBusk, G.K., Crabtree, A.D. (2006) – Does the Balanced Scorecard Improve Performance ? *Management Accounting Quarterly*, Fall, Vol. 8, no.1, pp.44 – 49.
6. Kaplan, R.S., Norton, D.P. (2001) – Transforming the Balanced Scorecard from Performance Measurement to Strategic Management: part I. *Accounting Horizons*, Vol. 15, no.1, pp. 87 – 104.
7. Nørreklit, H. (2000) – The balance on the Balanced Scorecard – a critical analysis of some of its assumptions. *Management Accounting Research*, no.11, pp. 65 – 88.
8. Rampersad, H.K. (2005) – *Total performance scorecard*. Editura Didactică şi Pedagogică, Bucureşti.
9. Schuster, P., Jameson, M. (2003) – The Past Performance and Future Value of Companies. *Management Accounting Quarterly, Summer*, Vol.4, no.4., pp. 41 – 53