

NEW PERSPECTIVES IN DEVELOPING THE BALANCE SCORECARD CONCEPT

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ABSTRACT

The main role for researchers and organizational theorists is to translate their statements and principles into practical tools applicable in the management activity. Sometimes, these tools used in managerial practice are not rigorously developed and applied, some eventually contradicting the initial assumptions. However, most of the times, the concepts go through a natural cycle of developing, harmonizing and refining their own statements and demonstrations, with the support of the authors and / or other researchers. Also, the manifestation in management of any action that claims the increase of the performances in the financial or non-financial fields must be accompanied by a set of measuring and evaluation tools. Robert Kaplan and David Norton are best known as the originators of the Balanced Scorecard (BSC) concept which adds to the managerial equation the imperative necessity of aligning the individual and organizational effort with the organizational vision and strategic objectives, in a whole defined by four perspectives: financial, customer and stakeholder, internal processes and organizational capacity of learning and growth. Balanced Scorecard is a concept used in private and public sector organizations, used to point / highlight the vision, missions, strategic goals of an organization, to evaluate the performance of strategic management and to be used as a tool as well effective internal communication. Over the time, like any other concept in the field of social sciences, BSC goes through a continuous process of adaptation and improvement of its own statements, methods and tools.

KEYWORDS:

Balanced Scorecard, strategic management, management of performance

1. Introduction

At this new beginning of the century, the world is seen evolving at an accelerated pace and we are witnessing the transition from the post-industrial era to the information, knowledge and innovation society. The main drivers of transformation,

information technology, and digital communication, have led to an information explosion that reshapes the entire range of activities subscribed to the social organization, including the economy, education, armed conflict, culture, environmental protection, and even politics.

Far from having reached the climax in its evolution, information and communication technology requires human society to identify and apply new solutions in the whole spectrum of production activities, services or management. Leadership, control and evaluation, loyalty, experience, continuous education is stimulated with increasing intensity.

Public or private organizations are challenged to develop new organizational skills, such as adaptation and flexibility to respond quickly to changes in technology, competitive challenges or customer preferences. Organizations cannot be competitive or successful if the entire individual and organizational effort is not aligned with the existing level of information systems and technologies and if all of these are not aligned with the organizational strategy and vision.

The managerial activity acquires new dimensions, starting from the theorizing of the field and identifying the processes and tools for applying in practice the new concepts. Balanced Scorecard (BSC) is such a concept that gives managers a quick and comprehensive assessment of the organization's activity, the data and information measured and evaluated being synthesized in four major financial frameworks, clients, internal processes, development, and improvement.

The Balanced Scorecard concept appeared in the US in the early 1990s and is described and developed successively by its authors, Dr. Robert S. Kaplan Professor at Harvard University and Dr. David P. Norton, as a framework for measuring organizational and management performance strategic. The BSC concept represents an ongoing challenge for both managers and other researchers to refine, improve and adapt to the new challenges and transformations dictated by the information society.

The management approach through the BSC directs the private organizational structures towards obtaining the competitive

advantage and the profit, the public ones towards the improvement of the services to the citizens, by approaching a flexible, adaptable behavior, oriented to the performance, efficiency, and progress.

2. Brief history of the Balanced Scorecard

Thus, permanently found in human attention and concerns, the science of organizing and managing human activities is characterized by a continuous evolution of conceptual definitions, methods or instruments of interpretation, application, and evaluation, the final aim is the optimization of human resources, technical resources, and processes specific to the activity carried out.

The appearance of the BSC concept takes place during the period when in the equation of achieving success in business, increasingly visible and powerful, non-financial indicators is manifested. Until then, financial indicators provided the basis for interpreting organizational and managerial performance, but in a way that reflected the past and not the future perspective.

Balanced Scorecard has introduced new dimensions in strategic level management. By publishing *The Balanced Scorecard: Measures that Drive Performance*, in 1992, in Harvard Business Review, David Norton and Robert S. Kaplan introduced non-financial indicators into the analysis and control of the management process. A decade before the publication of the article signed by David Norton and Robert S. Kaplan, concerns and discussions about the role and importance of non-financial indicators within an organization is observed in the US academic and government environment.

A comprehensive definition of the concept can be as follows: "A balanced scorecard is a strategic management performance metric used to identify and improve various internal business functions and their resulting external outcomes. Balanced scorecards are used to measure

and provide feedback to organizations. Data collection is crucial to providing quantitative results as managers and executives gather and interpret the information and use it to make better decisions for the organization” (Evan, 2020).

Over the time, the concept has encountered a series of changes dictated by the need to strive for perfection or correct some shortcomings. Its evolution can be classified into three main stages (Lewrie & Cobbold, 2004):

– the first stage was consisted of introducing the four perspectives: financial, customer and stakeholder, internal processes and organizational capacity of learning and growth, these being considered as a basis in identifying, selecting, defining and subsequently evaluating the measures necessary for the implementation of the strategy; the dissatisfaction that arose against these four perspective was related to uncertainty in identifying and correlating the performance indicators with one of the four perspectives; the works published by David Norton and Robert S. Kaplan in Harvard Business Review that originally defined the concept are: *The Balanced Scorecard-Measures that Drive Performance* (1992), *Putting the Balanced Scorecard to Work* (1993), *Using the Balanced Scorecard as a Strategic Management System* (1996);

– the second stage consisted in the introduction of the strategic map as a central point in defining and supporting the strategy; the strategic map presents in a visual format the inter-dependence and the inter-causality of the strategic objectives, defined in the context of the four perspectives; David Norton and Robert S. Kaplan, *Having Trouble with your Strategy? Then Map It* (2000), *Strategy Maps, Converting Intangible Assets Into Tangible Outcomes* (2004);

– the third stage differs from the previous ones by emphasizing the importance of introducing the vision within

an organization; this last step gives a future perspective that is the basis for identifying and selecting those strategic objectives, from the four perspectives, necessary to be implemented and permanently evaluated within the management process of an organization; introducing the vision together with the mission of the organization, ensures the possibility of implementing the BSC concept and the framework of public sector organizations, by eliminating the objectives related to the profit and establishing strategic objectives that will lead to ensuring quality public services in the relation of the state with its citizens; also, it is highlighted a new role that BSC ensures within an organization, that of internal communication, horizontal and vertical and external by adopting a strategic communication outside the company; it is stressed the need for a self-contained structure within the organization whose tasks are to facilitate and evaluate the way of implementing the BSC concept; David Norton and Robert S. Kaplan, *The Execution Premium: Linking Strategy to Operations* (2008).

It can be observed the positive evolution of the concept from a simple instrument of measurement and evaluation of the management to the complex system of management of a strategy. Characteristics of the evolution of the concept are the continuous correction of the weakness's points identified in the organizational practice.

3. Possible directions for developing the Balanced Scorecard

In the 80s and 90s, the growing dynamism of the business environment focused on organizational resources and capabilities as the main sources of sustainable competitive advantage and as a basis for formulating the strategy. The main evolutions that followed later emphasized the strategy and the external environment, reducing the internal dimension of the training of the employees (Grant, 1999). Kaplan and Norton introduced intangible

resources into the equation: technology, reputation, and organizational culture, human resource – skills, knowledge, communication, and motivation.

In their work, Kaplan and Norton suggested that the BSC concept should not be analyzed and applied strictly in the form defined by them, with organizations having the freedom to add new dimensions that correspond to their own specificity or their own package of measures to support the organizational strategy. To ensure success, the vision and mission of the organization were expressed in operational terms as operational objectives, critical indicators / thresholds, initiatives for the implementation of objectives, metrics for measuring and evaluating progress. All these aspects contribute to the individual and organizational alignment to the organizational strategy, to highlighting the role of the employees in fulfilling the tasks and tasks.

BSC complements traditional performance appraisal measures through the financial perspective, with three additional perspectives, clients, internal processes and learning and growth, in order to accurately monitor progress, build new capabilities and acquire intangible assets, crucial for performance and competitiveness future.

The analyzes carried out by different researchers as well as the lessons identified through the implementation of the Balanced Scorecard allowed the synthesis of the strengths of the concept (Gomes & Romao, 2014):

- represents a multidimensional approach for measuring and evaluating performance that is specifically linked to organizational strategy;

- translate the strategy into operational terms, ensuring the alignment with the strategy and highlighting the role of the employees on the implementation of the strategy;

- it is a hierarchical system of strategic objectives divided on four perspectives, the effort not being put only on the financial dimension;

- represents a framework for measuring and evaluating performance that focuses managers' attention in just a few steps and presents the interconditionality and interdependence between different functional areas;

- brings into the equation of strategy, in equal shares, the internal and external revealing aspects; stresses the importance of internal processes for achieving the objectives, but also the expectations of customers and the degree of market competitiveness;

- when well designed, the organizational strategy would be described by the strategic objectives and the implementation initiatives chosen;

- it allows the employees to understand the organization's strategy and the interdependence between the daily activities and the fulfillment of the strategic objectives; facilitates ongoing evaluation and feedback;

- clarifies strategic objectives at operational level and facilitates communication;

- it has applicability in all fields, regardless of the size of the organization; contributes to the monitoring of progress and to better internal communication among employees;

- vertical communication allows managers to understand how their actions and decisions affect the development of initiatives;

- introduced into the equation of success the learning and growth dimension that underlies business innovation;

- defining the organizational vision, mission and strategy is a means of internal and external communication and management of the strategy.

Generally, the same theorists, in specialized papers, also point out the limitations of the Balanced Scorecard, as follows (Gomes & Romao, 2014):

- the defined quadrants do not specifically include the economic relations related to the logistical support and the

administrative relations with the state institutions;

- suggested linear chain: better trained employees plan more efficient internal processes, which in turn will lead to greater customer satisfaction and profit growth, with all the sequential logic yet a simplification of reality;

- planning the interconditionality between various operational or strategic objectives (cause-effect relationship) is crucial, because invalid projections feed the dashboard with incorrect information, resulting in dysfunctional organizational behaviors and optimal sub-level performance;

- the same invalid conditioning on the cause-effect relationship, applied also in the case of establishing the performance indicators and the critical thresholds has negative consequences on the organizational performance;

- does not provide any mechanism / instrument that maintains the relevance of the measures defined initially;

- lack of focus on the size of the human resource of the organization is perhaps the greatest weakness;

- the total lack, on the external dimension, of market and competition analysis;

- does not monitor competition or technological evolution and impact on internal processes; the effect generated can lead to serious dysfunctional behavior and the loss of control over the implementation of the strategy;

- in practice, some selected performance indicators are not fully aligned with the strategic objectives, leading to a waste of human and material resources;

- the obvious existence of a cause-effect relationship dramatically diminishes the existence or definition of an organizational strategy;

- problems inherent in the implementation of a strategy create difficulties in maintaining a balance between financial and non-financial performance indicators;

- the concept had different meanings at different times;

- the setting of specific strategic objectives, without a medium to high temporal perspective, involves projections and consumption of organizational capabilities and competences;

- very often, organizations do not understand exactly what it is and its implications.

If the strengths represent the success of the theoretical approach and the practical applicability of the concept, the weak points represent the starting point in the re-analysis of certain aspects claimed by different entities. It can be observed that the critical points brought by the BSC come mainly from the academic field.

Starting with the analysis of the weaknesses, we can find many possibilities for correction, refinement, and re-analysis of the BSC concept. The limitations identified, in theory, or practice can be eliminated punctually depending on the nature, objectives, and strategy of the organization by identifying new procedures, new performance indicators, resizing initiatives, etc. The limitations identified above do not have universal applicability, precisely because of the diversity of nature and the domain in which an organization's activities manifests itself. Also, although the social sciences are intrinsically linked to the exact sciences, not all existing concepts are subject to mathematical or exact relationships. The multitude of factors that are taken into account and the possibilities of occurrence and manifestation of risks do not allow accurate and reliable forecasts. Also, organizational management and the process of implementing strategies are more dependent on the evolution of technologies and tools that support the development of a strategy and less on new concepts.

Another approach regarding the evolution of the Balanced Scorecard is the addition of new perspectives that will improve the whole process of implementation and support of the strategy:

– sustainability of the BSC; this approach is a starting point for integrating environmental and social problems into the management process;

– development and innovation in the realization of products and services; performance and quality can be measured and evaluated;

– the realization of the strategic map in accordance with Benefit Dependency Network (BDN) (Ward, Murray & Daniel, 2004) format – a diagram that presents cause-effect relationships and offers answers to the questions: Why?, What?, Who? and How?

Close attention must also be given to the time dimension in formulating the strategy, strategic objectives, identifying and selecting performance indicators, the degree of accuracy selected for the metrics. By analogy with an automated adjustment system, the dynamics recorded both in the input data and in the measured and evaluated ones and related to the four defined dimensions require the application of corrections in time.

In the medium and long term, the assumptions from which the strategy was developed and implemented could be changed, the initial predictability changing with the internal evolution recorded by the implementation of the policies/plans for implementing the strategy and with the external evolution of the environment. This dynamic should not be viewed as a need to redo the entire process of strategic analysis and transformation, but only as a need for continuous evaluation and redefinition of operational objectives, priorities or performance indicators, otherwise BSC could be block in some rigidity and immobility.

At the present time, the implementation of the Balanced Scorecard is supported by software that allows real-time evaluation of the performances achieved in the four quadrants and implicitly the rapid decision-making in case of anomalies of the actions of implementing a strategy.

Given the information society to which we are moving with rapid steps, it becomes mandatory to create a knowledge bank that will provide support in decision making at any level, strategically or operationally. The definition and implementation of a database in the spirit of the BSC concept will favor the achievement of efficiency and effectiveness in any field.

Knowledge bank for the field of defense is, in fact, an entity organized on sets of valid, relevant and sufficient knowledge, depending on their scope. The knowledge stored on this platform may comprise categories like: lessons learned and best practices, scientific papers, specialized publications, multimedia materials, course materials, bachelor's, dissertation and doctoral theses, which can be also use in the perspective of BSC of learning and growth. It wills mostly a powerful and modern instrument in the hand of managers to support in decision making and to create a frame for lifelong learning.

The advantages of depositing in a knowledge bank consist of:

- providing access for all users to a direct and rapid means of scientific communication;
- increasing the access to the results of the research activities and the degree of use of the research results;
- preservation of copyright;
- accumulation and use of knowledge at the individual and organizational level;
- facilitating exchanges of knowledge between its members.

On the other hand, the successful use of BSC within public institutions can be evaluated through transparent decision-making policies, successful implementation of reforms, implementation of efficient management, transparency of internal activities and processes, etc. The implementation of the Balanced Scorecard in the public institutions and in the specific ones of the defense sector leads to the improvement of the overall performances,

the successful implementation of the reforms, the transparency of the internal activities and processes, the better internal communication and external information, the awareness of joining the individual effort to the achieved strategic goals.

4. Conclusions

Currently, organizations operate and compete in a very dynamic environment, under intense competitive pressure, to make products / services better, faster, and cheaper. In order to gain a lasting competitive advantage, organizations need to invest in new capabilities, state-of-the-art technologies, knowledge, and innovation. The investments they have to make include both financial and non-financial, tangible or intangible assets. Innovations must provide flexibility and expertise in their own business environment. The continuous training of the staff and the assurance of an efficient internal procedural framework are challenges that add value to the organization. The Balanced Scorecard concept, from its appearance until now, represents an innovative approach that allows an organization to perform, which can be used as:

- strategic management and control system;
- performance management system;
- strategic communication tool.

An increasing number of companies are using performance evaluation systems in practice, taking into account non-financial indicators, especially in areas such as customer satisfaction, customer loyalty or continuous staff training. The BSC addresses a major concern of managers, namely to monitor and ensure that the objectives of the organization's strategy are correctly implemented and tend towards the vision.

It also allows us to monitor the evolution of organizational decisions, taking into account a set of key indicators to maintain high performance. Each person in the organization must understand each particular aspect of the strategy to help the institutional effort to achieve successful strategy implementation. BSC represents the natural evolution of management practices that began to emerge in the post-industrial era.

But, like any concept tributary to the previous models and to the degree of development of the existing technique and technologies, with the passage of time, it may undergo modifications, additions, refinements of the constituent ideas.

The BSC was designed to be applied by itself, but in order to create an image corresponding to the current dynamic reality, it is necessary to supplement it, depending on the specificity of the organization, with other tools or dimensions. Also, a periodic reassessment of the strategic objectives is required with the implementation of the strategy, in order to apply any corrections on the performance indicators and adjust the internal processes.

The ability to react to the dynamic business environment, interconnected with the necessary internal changes, represents challenges that require special attention and the use of performance management systems. The external competitive factors associated with innovation and knowledge represent a challenge in the current business climate. Management concepts that ignore this new reality can jeopardize the sustainable and sustainable future of organizations, and the Balanced Scorecard must adapt to new challenges.

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