The Balanced Scorecard and the Accountant as a Valued "Strategic Partner"

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The role of accountants has changed. Where they used to perform only traditional functions, accountants are now becoming organizational strategic partners. The Balanced Scorecard, a management system that links strategy to financial and non-financial measures in four key areas of an organization, is an excellent tool that accountants can use to solidify their position as valued members of the management team.

Introduction

In recent years, the role of accountants in organizations has changed dramatically. Terms such as "business partner" and "strategic partner" have been coined to emphasize the expanded role accountants are playing in organizations. No longer are they seen merely as "bean counters;" instead, accountants have become a valued part of the management team. No longer are accountants seen simply as gatherers of information for decision-makers; now they have become active participants in the decision-making process.

One of the most recent developments in accounting has been the concept of the "Balanced Scorecard." This has received considerable attention, because the Scorecard includes two significant changes from traditional financial reporting. The first is an incorporation of non-financial measures, along with financial measures. The second and most important change is the alignment of these measures with organizational strategy. By bringing these elements together in an integrated fashion, the Balanced Scorecard helps top management solidify their strategies, communicate those strategies to the rest of the organization, and evaluate the organization's progress toward accomplishing their strategic objectives [5]. Accountants should embrace the Balanced Scorecard concept, and should lead the way in implementing it. In doing so, accountants can increase their value to an organization and solidify their positions as valued members of the strategic management team.

The Changing Role of Accountants

In May 1998, Peter Leitner pointed out some of the significant changes in the role of accountants. He stated in his article "Beyond the Numbers" that accounting managers, controllers, treasurers, and chief financial officers were expected by their organizations to go beyond traditional accounting functions, and operate as corporate strategists as well [7].

Further evidence of the changing role of organizational accountants occurred in March 1999, when the Institute of Management Accountants (IMA) changed the name of their major publication from "The Management Accountant" to "Strategic Finance." The IMA's leadership felt they were not abandoning management accounting, but that the change was necessary due to the expanding role accountants were playing in organizations [9].

In June 1999, George Deeble stated that "accountants are willing and able to take an active role in running a company." He went on to say that an important part of building a successful business was to have the right internal processes, "which is one of the things accountants do — help companies build the right infrastructure [1]."

Probably the most profound example of the changing role of the accountant in organizations is seen in the article "Counting More, Counting Less: Transformations in the Management Accounting Profession." In this September 1999 article, authors Russell, Siegel, and Kulesza compared the responses of organizational accountants from the IMA's 1999 Practice Analysis of Management Accounting to accountants' responses from the IMA's 1995 Practice Analysis. This comparison revealed several significant changes that had occurred in the management accounting profession in just five years. Some of their results were that:

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- Compared to five years ago, 70% of the respondents felt that people outside the finance function believed that management accountants brought more value to the organization.
- Instead of accountants working in accounting departments, as they traditionally had, over 20% of the respondents stated that at least half of the management accountants were now located in operating departments, where they served as part of the business team.
- Over the past five years, there has been a significant shift in the work that management accountants perform. The results indicated that more time is being spent on internal consulting, and the most critical activity accountants are involved in is strategic planning [8].
- Russell, Siegel, and Kulesza concluded that management accountants would become more involved in running businesses. In addition, the role of the management accountant has gone beyond being a "business partner" to being a member of the Strategic management team ("strategic partner") [8].

The previous statements provide considerable evidence that the role of accountants in organizations has expanded, and more and more accountants are being given the opportunity to demonstrate their abilities and increase their value to the organization as a member of the strategic management team. However, to some extent, this window of opportunity could close if accountants do not seize the moment.

In Jon Scheumann's April 1999 article, "Why Isn't the Controller Having More Impact," he warns that in many cases controllers are failing to prove to top executives and operational managers that they belong at the planning table [9]. The Balanced Scorecard could be the type of tool that accountants could bring to the table in order to cement their positions as valued members of the strategic management team.

The Balanced Scorecard

In 1992, Robert Kaplan and David Norton introduced a measurement system that they called "the Balanced Scorecard." It was their attempt to address the long-known inadequacies of managing an organization solely by utilizing traditional financial measures, such as return on investment and earnings per share. Kaplan and Norton realized that financial measures may have worked well in the industrial era, but were "out of step with the skills and competencies companies were trying to master in the current, highly competitive environment companies were facing today" [3].

The Balanced Scorecard consists of a set of traditional financial measures that indicate the results of actions already taken, and a set of operational measures that are indicators of future financial performance [3]. Most importantly, the Balanced Scorecard begins with the organization's strategy. From there operational goals and objectives are established, and performance measures are developed in alignment with the organization's strategy. Finally, financial measures are determined to insure that the links between strategy and improvement in the performance measures translates into improved financial success [5].

There are some key issues that need to be highlighted in relation to the Balanced Scorecard. First, the organization's strategy is the beginning point of the process that enables top management to solidify, in their own minds, what the company's strategy is and what objectives need to be accomplished based on that strategy. The objectives, operational activities necessary to accomplish the objectives, and the financial and operational measures necessary to monitor operational success, are all done based on the organization's strategy. Finally, the objectives and measures are developed from four key perspectives: financial, customer, internal business processes, and learning and growth.

The financial perspective evaluates the profitability of the strategy and the stockholders' perception of the organization. For example, depending on the strategy, the financial measures could include cash flow, sales growth, operating income, market share and/or return on equity.

The customer perspective identifies the target market segments and the success of the organization in those markets. Some customer perspective operational measures could be percent of sales from new customers or products, on-time delivery, and share of key account purchases.

Internal business process perspective focuses on the internal operations that increase value to the customer (customer perspective) and the increasing shareholder wealth (financial perspective). Operational internal measures could include cycle time, unit cost, number of defect units, and new product actual introduction schedule versus planned schedule.

The learning and growth perspective identifies the organization capabilities necessary to accomplish the internal business process objectives, which in turn will increase customer and shareholder value. Measures could include product processing time, number of new product introductions versus the competition, and percent of products that equal 80% of sales [2].

It should be repeated that the specific objectives and measures incorporated into each of these perspectives are contingent on the individual company's strategy. Therefore, no organization's Balanced Scorecard is the same as that of another company.

Additional Advantages

The basic concept of the Balanced Scorecard — starting with an organization's strategy and developing objectives and measures consistent with that strategy — provides a powerful advantage for a company. There are other benefits, as well.

- The Scorecard enables the organization to communicate its strategy down through the company by means of the objectives and measures implemented. This reduces confusion among lower level managers and employees, and hopefully eliminates actions inconsistent with the company's strategy [5].
- The Balanced Scorecard consolidates all of the various vital components of the organization into one management report. This gives managers a fast but comprehensive view of the business [4].
- Lastly, the Balanced Scorecard enables executives to evaluate the casual relations between the company's strategy, objectives, and financial and operational measures. Often, this process results in executives reformulating the company's objectives, measures, and sometimes even the company's strategy itself [5] [6].

Conclusion

Accountants are well trained and highly capable of providing a valuable contribution to organizations as members of the strategic management team. However, in many cases, senior management retains the traditional idea of an accountant as a "bean counter."

To eliminate this antiquated notion, accountants need to demonstrate their capabilities to top management as often as possible. The Balanced Scorecard is a valuable tool that can help accountants solidify their positions as strategic partners. For this reason, as well as the intrinsic value of the Balanced Scorecard to a company, accountants should be leading the way towards implementing the Balanced Scorecard within organizations.

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