

## **BALANCED SCORECARD vs. PERFORMANCE PRISM**

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### **ABSTRACT**

*The focus of this paper is to compare two methodologies of organizational performance measurement Performance Prism and Balanced Scorecard. Performance Prism is the second-generation innovative approach of performance management. This method is completely focused on stakeholders. The philosophy of Performance Prism is based on assumption that organizations which want to have long term success must have clear picture about who their stakeholders are and what the stakeholders want. On the other hand, Balanced Scorecard focuses on an organizational strategy and measure an organizational performance from four perspectives: Financial Perspective, Customer Perspective, Internal Processes and Learning and Growth. Performance Prism method criticizes the Balanced Scorecard in a way that a lot of attention is given to a strategy, while very little attention is given to stakeholders. Evolution of Balanced Scorecard went into the direction of including the stakeholders into the model, while maintaining the four perspectives in a performance management. The second major difference between these two methodologies is completely different approach towards intangible assets.*

**Keywords:** Performance Prism, Balanced Score Card, Intangible Assets

### **1. PREFACE**

Within the post-industrial area there are a lot of new strategic information and knowledge used for operating today's business. This leads to complexity of internal and external organization aspects. It includes also growth of intangible assets importance. The influence of business corporation on the society is growing. Although the main target in market economy is considered to be profitability, there are more ones who take into consideration also responsibility of the society. The profitability and responsibility of the society have equal importance. The result of business operation is not only profit, but also an indication of competitive advantage and stability of the company.

Also the role of stakeholders is important in achieving common goals. The employees are the main assets in the company (intellectual capital) and it is important to establish solid relationship and mutual confidence. At the same time, importance should be given to the developing of trust between the business and external clients (customers, suppliers, government, society...) So, the purpose of the business could be either economical (Shareholder Value) or to satisfy stakeholders (Stakeholder Value).

The shareholders value focuses on profitability as an instrument of its property. This perspective takes the attitude that the society's responsibility is not the part of the business issues and it should be focused on achieving economic efficiency. When taking this approach other stakeholders are neglected, but this does not justify the existence of the business. They consider that the responsibility

for employment, local community, consumer's benefit and society development are not business issues and it is within the government responsibility.

Shareholder value is on society responsibility over profitability and the business primarily serves to all the stakeholders. Stakeholder's value stresses society responsibility over profitability where business should serve to all stakeholders. From this perspective, the success of the business is measured by stakeholders' satisfaction and managing of shareholders is considered as a tool and target. The economic and society interests are achieved applying this perspective. The advocates of this perspective do not accept the fact that shareholder could be given more moral rights than other constituents in terms of business.

Recognition of moral rights of stakeholders in relation to the shareholders draw attention to the other values except for financial results. Motivated employees and high level of mutual trust between stakeholders should result in achieving common interest and raised benefit for the society. All of these have lead to the developing of various methodologies for performance measuring such as Balanced Scorecard and Performance Prism.

## **2. BALANCED SCORECARD**

Balanced Scorecard is a methodology of strategic management developed by Robert Kaplan and David Norton in the early of 90-ties. They translated the mission and strategy of bussiness into the set of measures which offer the framework for strategic performance measurement and management system. Balanced Scorecard methodology is based on the assumption that measurements are based on the strategy of business and provide data on core process, inputs and outputs. Managers need balanced presentation of financial and operational indicators. Balanced Scorecard presents set of measurement aimed for top management to look at the business from four perspectives. The complexity of managing business requires having insights into the business from four perspectives simultaneously. The four aspects defined in the Balanced Scorecard are as follows:

- The Financial Perspective
- The Customer Perspective
- The Business (Internal) Process Perspective
- The Learning and Growth Perspective

The gain experience indicates that the traditional measurement of financial indicators could be misleading for developing within the competitive advantage. Traditional measurement of financials is good for industry age, but is in discrepancy with skills and competence used in post-industrial period. There are also intangible assets, such as staff knowledge, relationship with customers and suppliers, organizational and information technology capital and innovation culture, which represent the key for value adding in modern business.

Management analyzes the data obtained by measurement of processes and strategies and monitors results and gets feedback from business operation. The aim is that managers look at the business more clear – from more perspectives – and make long-term decisions. From its origination in 1992, Balanced Scorecard methodology has been developed and modified. There are three stages in developing Balanced Scorecard. :

1. First phase - Balanced Scorecard as a tool for performance measurement (measurement from four perspectives)
2. Second phase - Balanced Scorecard as a system for strategy management (cause-effective relationship between strategic goals in order to achieve strategy aim)
3. Third phase - Balanced Scorecard as a strategic system (development of strategic maps providing logical vision of strategy and strategic aims and their integration when it is implemented; developing of strategic management offices that monitor all the strategic processes).

### **3. PERFORMANCE PRISM**

Performance Prism is an innovative methodology of the second generation in measuring performance. The advantage of this method is that is completely focused on stakeholders: investors, customers, employees, suppliers, legislation bodies and communities. The Performance Prism grounds are belief that long-term success of the business in the today surrounding should have clear vision on key stakeholders and their requirements. It presents the model providing cause and effects of performance. Performance Prism questions the relationship of all the stakeholders involved taking into consideration their needs and the needs of the business. It is comprised of five various effects being connected in a logical way:

1. Stakeholder Satisfaction – who are the key stakeholders and what are their needs?
2. Strategies – which strategies are implemented in order to satisfy their needs? (Strategies provide delivery of values to the stakeholders)
3. Processes – which are our critical processes enabling implementation of the strategy? (strategy is implemented through processes)
4. Capabilities – which capabilities are required for improving processes? (Certain capabilities are required for process operation).
5. Stakeholder Contribution – what kind of contribution are required from stakeholders if we want to keep and develop them. (employees' loyalty, suppliers' profitability, long-term investments ...)

The Performance Prism illustrates the complexity of the today corporation world. The view from the various aspects is required for understanding it. The previous methods used were mainly one-dimensional. The clear understanding the relationship and needs of sides, business and stakeholders could be of crucial importance for successful operation.

### **4. COMPARISON OF BALANCED SCORECARD AND PERFORMANCE PRISM**

Performance Prism and Balanced Scorecard enable managers to have an overview of the business from four perspectives in order to estimate its performance. The Performance Prism vision brings into collision with wide spread philosophy of Balanced Scorecard that the measurements should be performed out of the strategy. Advocates of Performance Prism consider it as a wrong understanding of fundamental purpose of measurement and strategy role. They are of opinion that the strategy within dynamic operation should present the response to the customers' needs and requirements. Therefore Performance Prism starts with the consideration of stakeholders needs, and not with strategy. Many studies revealed that about 90% of managers fail when implementing their strategies. These facts partly initiated the development of Balanced Scorecard. Performance Prism suggests that the main strategy failure is discrepancy between the company's processes and strategy. So one of the perspectives in Performance Prism is process perspective which defines core processes required for strategy implementation.

The majority consider that Balanced Scorecard with its four perspectives pay little attention to the other stakeholders, such as suppliers, employees, but the Balanced Scorecard starts with the question "What do shareholders want?" The shareholders were for the long time the only and the most important stakeholders. With time passing the others get importance such as customers and employees. Suppliers are not represented in the Balanced Scorecard, but in internal process perspective. Many companies mainly provide all the components from the outside sources so the suppliers cannot be underestimated. In order to reduce critics aimed about insufficient attention given to the suppliers Kaplan and Norton introduces the companies' adjustment with the external partners such as suppliers, customers and alliances.

One of the Prism Performance perspectives is a stakeholder's contribution. There is a more need for measurement of customer satisfaction, customer loyalty, customer's profitability, supplier's performance. Much more companies use outsourcing, putting them in dependable position. Supplier's contribution is measured by accuracy, effectiveness, low costs and simply delivery.

Balanced Scorecard provides much more mechanisms for linkage enabling services, duly delivery, innovations, quality and flexibility which should be incorporated in partnership with suppliers. Many companies accepted TQM and JIT as practice which obliged them to built strong partnership with

suppliers. The relationship was previously built on costs, and now it is take into consideration all the capabilities of the suppliers with duly and timely supply.

Balanced Scorecard is often used with external strategic partners. It enables to managers of both companies to reach an agreement on partnership goals. The process for understanding and trust reduce costs of transactions and discrepancy between them. Balanced Scorecard also offers explicit way where inter-organization performance could be measured and partly denied critics that there is a little attention paid to external clients or to the stakeholders groups. Without Balanced Scorecard, the relationship with external partners focuses only on financial measurements such as prices and costs.

When management actively used financial and non-financial measurements from Balanced Scorecard, it is a logical way to transfer this knowledge to the shareholders. Analysts, shareholders and other stakeholders are interested in organizational activities, processes, and all that influence on the financial results. It enables understanding of companies operation and influence on organization performance.

Balanced Scorecard has not been accepted as a way of external reporting. It is accepted a methodology for strategy managing. Financial analyst uses more non-financial data using for forecasting. Non-financial measurements are more valuable for investors where companies are able to implement strategy. In some cases they include it in their annual report.

Having growing aim, the companies are merging in order to eliminate defects from own capabilities and enter into new markets. Results given in McKinsey study indicate that less than quarto alliances have adequate performance measurement. This study provides Balanced Scorecard with financial, strategic, operational and partnership perspectives. This is in a way an answer who consider that Balanced Scorecard do not include all stakeholders connected to the companies.

## **5. CONCLUSION**

Regardless of the critics made on the Balanced Scorecard, it is one of the most popular and influential methods over the fifteenth years time period. Both Balanced Scorecard and Performance Prism offer multi-dimensional balanced picture of the bussiness providing understandable and clear overview of bussiness performance. Development of permormance measurement is continuous process, thus applying any of the methods in managing performance measurement should be dinamic and proactive. Balanced Scorecard is focused on strategy whilst Performance Prism on stakeholders. The choice should not be either/or. The attention should be given to the both bussiness dimensions.

Performance Prism is an example of the new method developed based on the Balanced Scorecard-a. It implies flexibility of the Balanced Scorecard to apply under various circumstances and business requirements. Balanced Scorecard is a powerful tool when combining with other methods (ABC, TQM, CRM,...). where these methods are value-added in terms of strategy, non-financial elements, intangible assets or business aspects.

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