

## BALANCED SCORECARD CONCEPT OF BALANCED MEASUREMENT OF PERFORMANCES

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### SUMMARY

*In the era of strategic orientation adequate information are needed in order to perform successful planning, decision making, supervision of success and control. It is therefore necessary for managing system to take into account external factors, i.e. use of strategic information based on which it would be possible to predict whether or not the organization and its operations would be competitive in the coming period. In order to precisely evaluate its efficiency the organization must determine which method is suitable for evaluation. This paper analyses Balanced Scorecard – BSC (concept of balanced measurement of performances) for which the studies have shown that in comparison with other methods this one is most focused on results and nearest to users.*

**Key words:** Balanced Scorecard, strategic goals, performances

### 1. INTRODUCTION

Today, most organizations devote significant time and resources to measure, analyze and evaluate their own products or services, process capability, customer satisfaction and overall achievement of the set strategic objectives. Organization really make this, one way or another. However, despite the obvious costs, studies show that only about 35 percent of the tested rated current measuring system performance as effective or very effective.[3]

This should mean that, although the methods of operation greatly changed in the last 20-30 years, our measurement systems and management remained at the level of the past. If the reasons are emphasized, it could be mentioned the fact that while in the past the value created mainly based on fixed assets stated in accounting profit, in the modern business environment value is in most realized on the basis of intangible assets not recognized in the accounting profit. This applies especially to property resulting from intellectual work. Depending on the organization and its activities, the intangible assets can include relationships with suppliers, customers, employees' knowledge, innovation culture, information technology, whose quality affects the competitiveness of the organization and can not be seen directly in the balance.

In the past few decades, the traditional system of measurement, assessment and control of business performance was strong, and exposed to constant criticism.

For these reasons, a number of different views on the development of measuring and evaluating the success of the business appeared and a several different models for measuring business performance has been developed, of which the *Balanced scorecard* (BSC) methodology has become unavoidable.

### 2. THEORETICAL MODEL BALANCED SCORECARD

Objections to the traditional systems of measurement, assessment and control of business performance imposed the need for a control system that balances the historical financial information with everyday drivers of business success in a way that enables the efficient performance of the organization's business strategy.

The appearance of the Balanced Scorecard concept proved to be a valuable and irreplaceable solution. Balanced Scorecard is a model that is most widely used because of its rationality and profitability by tracking the optimal number of key features whose selection derived from the vision and strategy of the organization. Studies have shown that BSC compared to the other methods is mostly focused on the results and the closest to the user, and in addition easy to connect with other performance measurement tools that are already used in the organization.

Balanced Scorecard is a new concept introduced by the scientist Robert Kaplan and David Norton in 1992. the journal Harvard Business Review. This is a revolutionary new system for measuring performance. The key idea of the concept of BSC are:[2]

- The financial indicators alone are not sufficient to manage complex organizations in challenging conditions,
- Balanced view of organizational performance must include at least four areas: finance, customers (users), internal business processes, learning and development,
- The BSC provides the implementation of the strategy to life, to mobilize all available resources for its implementation, as well as learning and feedback.

Maintaining the financial measurement of past performance, BSC introduces holders of future financial performance, including: customers, internal business processes and learning and growth perspectives. It should provide a framework for the transformation vision and strategy into measurable business goals, and measuring performance, particularly in key business areas.

**Financial perspective.** Kaplan and Norton certainly do not neglect the traditional need to monitor financial performance. Through this perspective the traditional financial indicators, such as income, return on investment, profits, sales growth, etc. are measured., and Kaplan and Norton have identified two main strategic directions within this perspective: revenue growth strategy, which includes developing new products and services, quality improvement, market expansion, etc., and productivity improvement strategy, focused on reducing operating costs.

**User perspective.** Today's management philosophy indicates an increase in the importance of customer orientation and customer satisfaction in any sphere of business. The leading indicator in this perspective is that if users are not satisfied, they will probably find other suppliers to reply to their needs and requirements. User satisfaction should be analyzed with respect to the types of users and the processes whom we provide a product or service to the user groups.

**Perspective of internal processes.** This perspective includes measurements that show managers how well the job is being done and whether their products or services meet customer requirements (the mission of the organization). Within this perspective we usually measure quantities such as efficiency improving, time of developing and introducing new products, relationships with suppliers etc. Besides the strategic management process, two types of business processes can be defined here: those that are oriented toward the mission of the organization and support processes.

**The prospect of learning and development.** In the current circumstances of permanent and accelerated technological change and considering that people are the main resource of the organization, continuing (lifelong) learning is increasingly becoming a necessity. Here Kaplan and Norton emphasize that 'learning' is more than 'training' and that it involves becoming a consultant and instructor within the organization and facilitated communication with the workers, offering of adequate and timely support. Within this perspective three sets of indicators are emphasized: the ability of employees (knowledge and skills), access to information (info-systems development, Internet) and employee motivation.

The concept of balanced scorecard bussines displays summary level data and includes metrics of greatest importance to the organization in each of these four areas of business. Kaplan and Norton suggest that success in applying the concept of balanced scorecard business result is closely related to the possibility that the selected metrics encourage appropriate action and change for the organization, as well as within the organization. Balanced Scorecard emerged as a proven and effective tool in the effort to recognize the intangible value, describe them and turn them into real value for all stakeholders: owners, employees, the organizations and to be used as a process that allows the company to implement business strategies. BSC methodology is based on the idea that the result of the organization is not measured only by finance, but the consequences of the financial results of the other

three major areas: customer satisfaction, internal business processes, and learning and development. According to the methodology, first the organization objectives for each area are defined, then the goals for each employee, and finally the corresponding metrics for measurement the objective achievement through a system of Key performance indicators (KPI). After that, the results are compared with the plan and the concrete action are taken.

To find out whether the organization goals are achieved, they should be measured. What is not measured can not be improved. Measurement and reporting are carried out by the critical success factors in each perspective. Different key business processes are measured and thus closes the circuit and creates strategic feedback to those who started the process, ie. the executive management. Based on the BSC, they can examine and improve its previous decisions and affect the future development of the business.

A good BSC should also have a mix of measurement results (residual indicators or financial perspective) and holders of performance (leading indicators, ie. Perspective of the customer, internal process and learning and growth). The results of measurements without performance carriers do not show how the results will be realized and do not give an early indication of whether the strategy is implemented successfully.

### **3. DEVELOPMENT AND IMPLEMENTATION OF BALANCED SCORECARD**

In models of building a Balanced Scorecard most of the authors can identify the following phases: analysis of the organization and its environment, determining the vision and mission of the organization, defining strategy, setting perspective, identification of critical success factors and define metric.[1]

**Analysis of the organization and its environment** is the first step (assessment) to estimate the basis of the company, the basic beliefs and values, market opportunities, competition, financial position, short-term and long-term goals, and understanding of customer needs. There are several different methods of the strategic analysis of the organization, but the most used one is SWOT analysis. It is implemented in two phases. The first involves the collection of key parameters of the company and its environment, while the other one is a classification of the collected parameters in groups by hazard, chance, strengths and weaknesses.

**Establishing the vision and mission of the organization** is made by the top management of the organization and they are responsible for it. The vision is the most general representation of directions in which the organization plans to develop, and the mission defines and continues to define the company's vision in terms of the business areas in which they want to compete, then target markets, geographic areas of operation and production services. The purpose of the vision is to lead, control and motivate the entire organization towards achieving the common goals of the organization in the future. The vision should be clear, feasible, challenging, practical and oriented towards the future and it should identify the critical success factors of the organization, respect the priorities of all stakeholders and to be durable and flexible.

**Defining the strategy** is a development of the comprehensive business strategy. The process of defining the strategy consists of defining strategic objectives and measures that should be undertaken to achieve them. The remaining stages in the construction of the BSC concept provide a basis to test whether our strategies work, how efficiently they run, and how effective they are in achieving organization goals.

**Setting perspective** is done by the organization itself. According to the authors of the methodology, four basic perspective are used in the initial implementation, but the organizations should choose an additional perspective depending on their specific situation. It is necessary to ensure that the chosen perspective provide a balance of quantitative and qualitative, subjective and objective, financial and nonfinancial, historical and future scale of success.

**Identification of critical success factors** is very important because the achievement of defined strategic objective depends on them. Organization should identify the critical success factors in every perspective. This is a very delicate task, because a good knowledge of the current state of the organization is required, and the error in this part of the implementation of the BSC can cause large effects on the achievement of the vision and strategy. Success factor is considered to be achieved when its characteristics are within the limits of metrics.

**Defining metrics** (performance measures) for each critical success factor should at least one measurement characteristics be defined. In order to develop adequate standards of performance, the desired results (outcomes) and the processes used to produce them should be understood. The desired results are measured from the perspective of internal and external users, and the process are measured from the perspective of actors in the process and activities needed to meet user requirements. Relations between the results we want to achieve and processes needed to obtain these results must be fully understood before determining the measure of the performances. For every measure it is necessary to provide a description, frequency, measurement tool and target values that are used to compared with the measured value.

**Action plan of the goals achievement** is implemented after the defined metrics of critical success factors and when we know the whole action plan of BSC. If the management wants the whole organization follows a plan of action, it is necessary to make sure that all employees are aware of and understand the plan. There is no success in the implementation and operation of the BSC unless all employees are aware of it and work as a team. When we have developed a plan of action with the obligations of employees and continuous feedback of the plan, then we get an action plan to achieve the desired goals.

#### 4. CONCLUSION

BSC is a tool and methodology for transforming strategic objectives into performance indicators. She is a structured approach to the use of information related to performance measurement; it simplifies goals setting and helps in allocating resources and ensuring managers maintain or change strategies to achieve goals; enables reporting on the progress of achieving the same.[1, 4]

BSC methodology is based on the idea that the result of the organization is not measured only by finance, but that the financial result depends on the other three key business areas: internal business processes, learning and development (human resources) and satisfaction of users. Every successful organization is based on these four basic perspectives equally important in setting and monitoring goals.

It can be said that the most important setting is the whole methodology focuses on intangible assets, which is the most valuable business assets of the organization in the information economy and its competitive advantage. Quality organization, optimized business processes, the accumulated knowledge of employees and attitude towards customers are intangible assets, and strategic management of these resources, which makes more than three-quarters of the assets of the organization, results in a positive financial result.

BSC methodology provides a basis for the realization of a good strategy in a good way, and effective management of changes. Construction of the BSC system for measuring business performance contributes to, among other things, that people start to think differently (more strategic) of the organization and the approach to work.

#### 5. REFERENCES

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