BALANCED SCORECARD AND ITS PERSPECTIVES

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***Abstract**: In the contemporary environment whose main feature implies constant and unpredictable change in competition, companies have to pay additional attention to the time and resources both financial and human resources in order to be capable of measuring success performances in their organization. Such a state of the contemporary environment has led to the situation where, apart from the financial aspects of doing business, an organization also has to monitor the other key performance elements, where traditional financial indicators are considered as insufficient for the current environment, which makes performance measurement systems much more complex. The BSC represents the model that came to light in 1990, when Kaplan and Norton conducted a research study entitled: "Performance Measurement in the Organization of the Future." The main reason why Kaplan and Norton conducted the research study was the belief that the financial performance measures were inappropriate for the modern business operations of organizations given the fact that the then organizations were exclusively using financial measures to manage their business operations based upon historical data. The BSC model proposed by Kaplan and Norton is a management tool supportive of the successful implementation of corporate strategies. This was discussed and broadly considered in practice and research. Connecting operational and nonfinancial corporate activities with the causal chains in the context of a company's long-term strategy, the BSC supports the compliance and management of all corporate activities in compliance with their strategic relevance. The balanced scorecard enables taking into consideration the nonmonetary strategic success factors, which exert a significant influence on an organization's economic success. The BSC is therefore a promising starting point which also includes ecological and social aspects in the main management system of an organization.*

***Key words**: balanced scorecard, BSC model, financial perspective, internal processes, performances, buyer perspective*

1. Introduction

The Balanced Scorecard (hereinafter referred to in the abbreviated form BSC) originated from the sports world, namely from boxing. During a boxing match, the referee uses a card called a scorecard to record a boxer's successful and correct hits. In case the match does not end in a knockout, the referee makes a decision based upon the records in the already mentioned scorecard.

In today's contemporary business and business operations, an organization not only has a goal to survive, but also to win a market game. Global technological, economic, political, legal, sociocultural and other factors have had an influence on changes being made faster and on the modeling of the management methodology and practice as well. There are authors who refer to a new strategy management theory which would enable development in the field of creative, proactive strategic contemplations. In today's dynamic networked world, the fact that a whole is greater than the sum of its parts, on the one hand, and that holistic contemplation and such approached should be replaced by or at least amended with analytical ones, on the other, are increasingly being accepted (Hamel, 1998). Today's environment is becoming more and more dynamic and more and more uncertain. The availability of an increasingly larger number of pieces of information, a simple approach to information, as well as oversaturation with information, have led to the world being reoriented from the industrial economy to the knowledge economy (Drucker, 1998).

In the contemporary environment, the companies whose main feature reflects in permanent and unpredictable change in competition have to pay additional attention to the time and resources, both financial and human resources, so as to be able to measure success performances in their organization. Such a state of the contemporary environment has led to the situation in which the organization also has to monitor the other key performance elements apart from the financial aspects of doing business, where the traditional financial indicators are considered as insufficient for the current environment, which makes performance measurement systems much more complex. "The traditional financial indicators were good in the industrial era, but they are obsolete in relation to the necessary competencies and capacities which today's enterprises are doing their best to develop." (Kaplan & Norton, 1992)

It is also due to the changes in the character of labor and doing business that there have been changes from labor-intensive towards capital-intensive, all the way to knowledge-colored-intensive labor and business operations which we are in today, which has led to the key problem faced by management – namely the application of the formulated organizational strategy (Papalexandris et al., 2005).

The key problem identified in the traditional performance measurement and management models is a great tendency to manage business operations only founded on financial performances reporting on past events. Such a performance measurement and management model is insufficient for the successful implementation of the organizational strategy (Niven, 2002; 2014).

The BSC is a model which came to light in 1990, when Kaplan and Norton conducted their research study entitled "Performance Measurement in the Organization of the Future." That research study included ten organizations in which new performance measurement methods were being studied. The main reason why Kaplan and Norton conducted that research study was the belief that the financial performance measures were inappropriate for the modern business operations conducted by organizations given the fact that the then organizations had exclusively been using financial measures to manage their business operations based upon historical data. Because of all the mentioned problems and challenges encountered by contemporary organizations, a later research study carried out with a very small number of the organizations included in the survey assessed the existing approaches to performance measurement as either efficient or very efficient (Kaplan & Norton, 2001).

The BSC model proposed by Kaplan and Norton represents a management tool supportive of the successful implementation of corporate strategies. This was discussed and broadly contemplated in practice and research. Connecting operational and nonfinancial corporate activities with causal chains in the context of a company's long-term strategy, the BSC supports the reconciliation and management of all corporate activities in compliance with their strategic relevance. The balanced indicator enables taking into consideration the nonmonetary strategic success factors that exert a significant influence on the economic success of the organization. The BSC is therefore a promising starting point, which also includes ecological and social aspects in the main management systems of an organization.

Not only is this approach a set of performance indicators, but it also represents something much more than that – it is a management structure modelling an integral planning, management and control process. There is also the need to emphasize the fact that certain segments' and employees' goals are brought into harmony with the company's organizational strategy, so that the BSC approach is considered as the central and organizational framework for the whole management process.

In relation to the first time that it appeared, the BSC approach has changed so some extent, those changes leading to the yet better integration of the strategy into the organizational business operations. This new version of the BSC approach is based upon the continuous improvement of the approach and encompasses six stages (Kaplan & Norton, 2008):

1. The development of a strategy based upon the internal context, the external context and the existing strategy.
2. Strategy planning by developing a “Map Strategy.”
3. Bringing to compliance all initiatives with the organizational strategy.
4. Planning operations – the budget and the strategy need to be connected with each other.
5. Testing and adaptation – whether the strategy is being implemented is checked and necessary modifications to the same are made.

To be even more precise, the BSC concept is implicative of a balanced organizational performance measurement system which implies a balance between short-term and long-term goals, financial and nonfinancial indicators, the leading indicators, as well as both internal and external perspectives of the organization’s performances (Kloppenborg & Petrick, 2002).

2. The Four Fundamental Perspectives of the BSC Approach

2.1. The four perspectives of the BSC Approach

The starting basis of the BSC approach methodology implies that no management is possible of what cannot be measured; in the same way, it is also impossible to measure what cannot be described (Kaplan et al., 1996; Anthony et al., 2007).

The BSC model presented by Kaplan and Norton in 1992 is a popular performance measurement system categorizing the goals of the organization into the four measurable and operational perspectives: learning and growth, the financial perspective, the user perspective, and internal business processes (Kaplan & Norton, 1992).

As has already been mentioned, the BSC approach consists of the measures of financial successfulness, buyer relationships, internal business processes, organizational learning and growth. Each business unit in the organization should develop its own BSC measures so that they should reflect the organization’s goals and strategies. Some of those measures will be common to all participants, i.e. to all units, whereas others will be unique for each business unit (Gascho et al., 2000).

The four main perspectives of the BSC approach according to (Hannabarger et al., 2011) are as follows:

1) the financial perspective – it measures the success made by a company in increasing value for its shareholders, i.e. whether the organizational strategy does contribute to the improvement of the financial state of the organization or not;
2) the buyer perspective – it measures how the organizational strategies and activities oriented towards buyers influence buyer loyalty and greater profitability;
3) the internal business processes perspective – it measures how the processes inside the organization should be carried out so as to increase the efficiency of the organization itself; and
4) the learning and development perspective – it measures how innovations, employee education and employee satisfaction contribute to the achievement of strategic goals.

The foregoing four perspectives do not eliminate one another, but they rather support the goals of different management techniques (such as strategic planning, Total Quality Management), which were being used in the years when the BSC appeared for the first time. Each mentioned perspective contains and is observed through the following four parameters, namely:

- goals – What is it that needs to be done in order to make a success?
- measures – Which parameters will be selected and monitored in order to prove a business success?
- target values – Which quantitative values are going to be used to determine the measurement success?
- initiatives – What is it that needs to be done so as to achieve such set goals?

According to the BSC concept, all financial and nonfinancial measures should be included and they should be a part of the information system at all the organizational levels (Kaplan & Norton, 2006).

The BSC contributes to the improvement of organizational performances, enabling the existence of the four main elements, which, in comparison with the other frameworks, make a difference between strategic management and learning (Kaplan & Norton, 2007):

1. the clarification of the vision and mission for all the employed inside the organization;
2. the role of communication as a factor of the integration of all the efforts made by individual business units intended to meet the organizational goals;

3. be focused on the importance of the approach as the tool enabling a revised strategy; and
4. be focused on strategic feedback by including professional types of knowledge of changes in the competitive environment.

It would be desirable that the BSC approach should be implemented in all organizations as a performance measuring and improvement system. In that manner, based upon a set of different financial and nonfinancial indicators, the organization would be knowledgeable of where it stands in relation to its set and planned goals (Kaplan & Norton, 1996).

The BSC approach offers a possibility for strategic goals to be transparent and converted into the goals of all the organizational segments and all employees as well. A strategy would have to be so defined as to make it possible for each organizational whole, for each segment, for each process owner, even for each single employee in it to be able and obliged to recognize their role in such defined strategic goals, determining their own goals and activities towards meeting them and improving the very indicators of organizational performances in that manner.

The BSC approach has the role to contain in itself regular mixes of measuring and process assessment and additional value for buyers, which may lead to the financial results previously wanted and planned (Niven, 2010).

2.2. The financial perspective

Generally viewed, financial performance measures can be considered as the most important component in the application of the company's strategy. That is a consequence of the main role of support and organizational improvement. The goal to be achieved b the main financial perspective reflects in an increase in shareholder value, growth and profitability.

The construction of a strategy map itself as a rule starts with a financial strategy. As has already been mentioned, this perspective's goal is to increase value for shareholders, to increase income, and to increase organizational growth. An increase in income can be achieved via penetrating new markets, offering new products and services, or attracting new buyers, as well as increasing the value of the existing buyers through strengthening the relationships by broadening the offer. As a rule, there are two productivity approaches: the first relates to the improvement of the cost structure by decreasing direct and indirect costs; the second approach relates to a better utilization of the existing assets through a decrease in labor and fixed capital.

The financial perspective represents the most important aspect of doing business given the fact that profit achievement is the most important goal aspired to by every single organization. The financial perspective of the

BSC approach consists of the goals and measures that represent the ultimate measure of successfulness for the organization for the purpose of profit maximization. The achievement of such goals in the learning and development perspective, the internal business processes perspective and the buyer perspective result in the financial perspective, which indicates the importance of financial performance indicators, but not as the only indicator of the achievement of organizational goals, for which reason long-term financial growth may be achieved using the BSC approach to setting goals which measure such financial performances in combination with a series of the other activities that can be used to engage employees, improve the financial processes, the internal processes and the buyer relationships.
If organizations want to achieve the optimal advantage using the BSC approach, they should also consider the nonfinancial factors, too. If organizations are only focused on achieving short-term financial outcomes, that might lead to that organization only developing short-term goals and ignoring long-term value and investments, simultaneously also neglecting the significance of intellectual and intangible assets, whose main role reflects in organizational development (Kaplan et al., 1996). It is indicative that some among the applicable financial measures are as follows: gross marge percentage, cost reduction in key areas, investment return and invested capital return (Kaplan et al., 1996; Collis et al., 2012).

2.3. The buyer perspective

In the last few years, the majority of organizations have developed their own vision based on the own buyer, given the fact that the buyer focus and satisfaction are considered to be important for any sector. The basic organizational goal based upon the buyer perspective is offering excellent services, an excellent quality and the provision of buyer satisfaction so that business operations would be able to maintain a good reputation amongst them (Amaratunga et al., 2000).

The main leading indicator of this perspective is meeting key user, i.e. key buyer needs and expectations. Yet another factor of importance which all business entities have to consider is ensuring that all the products and services are delivered in time and that market circumstances are so classified to enable the measuring of a share in particular sectors (Kaplan et al., 1996).

The buyer perspective is focused on the buyer’s opinion about the organization and about how the organization wants to be seen by buyers (Norreklit, 2000). Buyer satisfaction is a priority for many organizations, especially today, when the business environment is even more competitive and can act as a very important, even key, performance indicator, which testifies to the efforts made by the organization to be yet more successful (Anderson & Sullivan, 1993). When defining a strategy, it is very important that the market segment and the buyer segment, as well as their wishes with respect to prices, the quality, functionality, etc. should be defined through market research. The organizations that opt for performance excellence have to be very careful about the competition's prices, product and service quality, and the quick realization of the orders made and delivery within the deadline. A personal approach to the buyer (user) requires a quality relationship with the buyer through an exceptional service level and product offer. If the product and service leadership has already been selected, the strategy must be redirected towards such product and service functionality, features and total performance.

There are usually the main four concerns on the user's part related to a product or service offered by an organization, those concerns being the time, the quality, the performances and the service, and the costs. For the reason of that fact, the organization has to bring to compliance its goals according to these four elements, and then to have these goals transformed into special measures.

2.4. The internal processes perspective

Internal process can be used to categorize buyers' and the organization's goals. This is achieved by measuring the company's processes with the aim to achieve the best performance outcome. Conducting the internal process perspective, customer satisfaction and financial strategic goals can be achieved (Kaplan et al., 1996).

Organizational process can also be observed through the use of the BSC approach, and they can ensure that results will be sufficient, i.e. satisfactory. There are two main differences between the traditional approach and the BSC style when performance measurement is concerned. The main two differences are as follows according to (Amaratunga et al., 2000):

- the main method used in the traditional approaches pertained to observing and developing the existing processes, whereas the BSC approach generates new processes, which enable the organization to overcome meeting financial goals and clients' goals;
- in order to introduce new products and services, the BSC approach integrates innovative processes so as to increase the outcome of the introduction of novel products and services.

The goals of this perspective are usually set after the financial perspective and the buyer perspective, since this element de facto identifies the processes critical for the achievement of buyers' and the owners' goals, thus also creating value for the organization itself.

The connectedness of the processes and buyers is very important, since there are two big transitions signalized here, namely the transition from the internal (the employees, the atmosphere, the processes) towards the external (clients), and from the intangible (know-how) towards the tangible (outcomes with buyers and financial rewards). Outcomes with buyers signalize “what?” and the internal processes give the answer to the question “how?” to have it strategically conducted (Niven, 2010).

Financial gains founded on improved business processes may appear in several stages. Stage one is a cost reduction which appears due to the improvement of business processes. It is in this stage that short-term gains for the organization are generated. Stage two represents income growth based on a deepened relationship with buyers, and it leads to the improvement of the financial result in the medium term. Stage three implies innovativeness, which may lead to long-term income and a profit improvement. For that reason, an organization should implement all the three stages in the improvement of its business processes.

2.5. The learning and development perspective

The fact that the learning and development perspective is the weakest perspective in the BSC approach has been recognized as such. As an executive body has described it, learning and the growth perspective have for many years now been “the black hole of the BSC.” Although companies had generic measures for their employees, such as worker satisfaction and moral for example, there was not one single company that had the metrics to measure and connect their employees’ capabilities with the organizational strategy. A few scientists have done research in the connection between the improvement of human resources and the improvement of financial performances (Becker et al., 1998; Huselid, 1995).

According to Kaplan Norton, the learning and growth perspective can be divided into the two main parts (Kaplan & Norton, 1996):

- employee goals: employee competencies can be improved using a training program. Also, employee productivity and retention are achieved through the personal satisfaction they will be provided with by a suitable environment for them to perform their activities and work in.
- the system processes and goals: this aspect is focused on the improvement of the practical infrastructure of the organization, so that permanent and continuous learning can improve the information management ability (for example, communication skills, the data structure and databases).

The BSC approach highlights the importance of investing in the human potential and directs measurements towards the three basic indicators, according to (Podrug et al., 2012):

1. employee satisfaction and their motivation represent a precondition for the improvement of the quality, productivity and buyer satisfaction;
2. employee retention represents the task the organization has to retain those employees with respect to whom the organization has a long-term interest. In the long run, the organization invests in its employees, so their leaving the organization would mean a loss of its intellectual capital.
3. Employee productivity is measured by the manufactured product or service per employee. A product or service can be measured by means of physical measures (the number of products per employee, the number of the miles travelled, etc.) or by means of financial measures (income per employee, a profit per employee, additional value per employee, etc.).

The learning and development perspective is the most neglected one in organizations. An organization's growth and development are impossible to achieve without employees. Employee satisfaction is most frequently measured by filling out anonymous questionnaires or surveys at the level of the organization as a whole. The greater employee satisfaction, the better employee performance, which can be achieved in numerous manners: taking part in the organization's campaigns, providing them with opportunities to meet personal goals, a quality working environment, a good internal communication. Employees are aware of the organization's common vision, mission and strategy, so they do completely understand it and they do identify their own goals with the organization's goals (Atkinson et al., 2007; 2010).

It can be concluded that, in order to achieve ambitious goals in the first three perspectives of the BSC approach, they will depend on the organizational abilities of the learning and growth perspective, which are the driver of excellent achievements according to (Kaplan & Norton, 2010).

2.6. Conclusion

The strategy of the BSC approach in nonprofit organizations is retained at the heart of the system irrespective of the activity. Nonprofit organizations, however, often have no clearly and precisely defined strategy, especially in relation to the time component. While profit organizations are trying to define and implement a strategy, nonprofit ones are turning to creating plans and programs for securing the budget. As a result of that, nonprofit organizations are primarily focused on the internal measurements of efficiency and quality within the framework of the available funds, frequently forgetting the purpose of the existence and the final goal (a service to clients), for which reason the mission (as the most important driver) is put at the top of the BSC card. Yet, it is clear that nonprofit organizations are in need for strategic goals which first clearly define the reasons for the existence of that organization, and only ultimately describe the priorities which the organization has brought itself in compliance with so as to achieve and perfect its own mission. Given the obligation to permanently improve itself through the defined mission and strategic goals, the strategy has yet centrally been placed in the BSC in nonprofit organization as well.

The basic difference between profitable and nonprofitable organizations lies in the fact that profitable ones are strategically oriented, whereas nonprofitable ones are yet prevalently mission-oriented. Nonprofitable organizations start from top (a mission) and come to the user (client) perspective, not the finance one, which is the case with profitable organizations. The private sector has the responsibility towards its shareholders through the results of the financial perspective, whereas the public sector's focus is on client satisfaction and the satisfaction of their needs in accordance with the mission defined by the organization.

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