Evaluating the revolutionary process of performance management based on balanced score cards (BSC)

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Abstract:
Contemporary organizations face complicated and changing environment. Fast changes of technology and influx of different management solutions to improve organizations’ condition have made the managers to face several challenges. In such environment, performance evaluation and management would be very demanding; since the evaluation of organizations only based on profit, loss and financial balance sheet makes it astray. The reason is not paying attention to organizational assets, informative assets and human assets. In this regard the creation of balanced score cards (BSC) helped the managers to measure the performance in four aspects i.e. Financial, customer, business process, growth and learning. This led to transition and understanding of mission, vision, strategy, and performance expectations to all internal and external stakeholders of organizations. This study by the means of descriptive-analytical method, reviewed the four basic dimensions of balanced score cards and investigated the revolutionary process and development of these cards within three generations.

Keyword: balanced score cards – technology developments – performance – strategic communications

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Introduction

If organizations want to be immune in information age competition, they should establish proper management and measure systems based on their strategies and abilities. Unfortunately, while many of organizations believe in strategies related to customers’ relationships, core competencies and organizational abilities, they have established performance and motivation measurement just based on financial measures (Card and Maclver, 2003). In the late 1980’s increasing numbers of managers in different business and industrial departments concluded that traditional management and financial accounting was not able to give full details to their company’s managers. Although these managers received enormous financial information in different types, they usually had little non-financial critical information for their daily operations and defining their long-term strategy. These managers expected a revolution in performance measurements. They pursued measures in the regards of quality, customer satisfaction, time cycle, pollution control and the rest of non-financial factors. The results of these actions to make changes produced an innovation in management. It made them able to manage complicated operations and delicate strategies of the organization (Kaplan and Norton, 1996). Contemporary organizations, in order to survive, should perform strategically perfect as well as during the process; and one of the frameworks that makes the relation between strategy and process excellent, is balanced score card (Ansari et al., 2004). Using appropriate and consistent technology and methodology which can be flexible towards pressures derived by ongoing changes and intermittent social, political and economic challenges, is inevitable. Using balanced score card in operating performance improvements strategies in public service, is effective and valuable (Haj Rezaei, 2004). Balanced score card is a multiple measures tool for strategic and measurement performance. This system assesses the company performance in five main aspects: economical, customer oriented, internal business, development training and finally mission and ultimate goal. Balanced score card is conceptualized on this hypothesis that effective use of investment is not the conclusive factor for competitive advantages, but growing factors like mind asset, knowledge production or customer oriented are of more importance (Yuksel, 2009).

Balanced score card

In 1992, Professor Kaplan accompanied by PhD Norton offered the balanced score card system. From then, this system has been used in different companies. They presented the balanced score card as a set of measures which gave a comprehensive vision to managers. The balanced score cards consists of financial measures that show the results of activities. While, financial measures
in the presence of non-financial measures in regard with customers are internal business processes, these measures are considered as stimuli for future financial performance (Abran and Buglione, 2003).

Balanced score card model is a set of processes defined as data, output and tools of converting data to output. Thus one of the purposes of using balanced score card is to evaluate a project during its lifecycle (Eilat et al., 2006). Approximately all of the organizations are familiar with applying financial and non-financial indicators. They apply non-financial indicators in association with improvements and developments in the organization, for example in production line operations or occasional problems with customers. They have been aware of the possibility of investigating operational feedback and short term operation control through this measuring system. The difference between balanced evaluation cards with common methods in evaluating an organization performance is that financial and non-financial indicators should be considered as a part of informative system that all the levels of staff in an organization should have access to them. Despite the fact that staff should be aware of financial consequences for their decisions and actions, it’s necessary that top managers know the necessary stimuli of long term financial achievements of the organization. In other words, balanced score card should be able to convert mission and business strategy to indicators and tangible objectives. Balanced score card functions beyond an operational or tactical measurement system. Innovative organizations use this method as strategic management system in order to manage and drive long term strategies of the organization (Milis, 2004). Managers by the means of this method assess different business department in the organization from the perspective of staff, systems process required for future performance improvement and promote internal capabilities of the company. Government agencies and related organizations differ significantly from strategy of private sector. For example, in the majority of these programs, financial aspect cannot be located in the highest place of strategy map; since making profit is not the main purpose of government programs and organizations.

**Why balanced score card?**

There is a good reason for choosing the term balanced score card. Managers have accepted this notion that the real meaning of score card is a simple written note and a brief way to collect all critical variables of operating an organization all together in a page. They have accepted also that the term balanced represents the balance among performance measures, the balance between the lead and lag measures, financial and non-financial measures, internal and external measures. The point should be mentioned is that the word balanced doesn’t necessarily imply 100 percent
equality among all the measures. Its simple meaning is to create a balance in one dimensional focus on financial measures because of an intensified focus on non-financial measures (Mooraj and Fredrik, 1992).

**Balanced score card dimensions**

Objectives and measures of balanced score card stem from strategy and perspective of an organization. Balanced score card views objectives and measures of organization performance from 4 perspectives: financial, customers, internal business processes and growth and learning. These four points of view provide a construct for balanced score card (Wade and Recardo, 2001).

- **Financial perspective**
  Balanced score card includes financial perspective and has a great focus on it; in fact if the improved operations of a company fails to reach financial performance, the executive managers of balanced score card should revise their strategies and programs. Since financial measures are valuable in order to summarize the results of economic activities. The measures of financial performance indicate that whether company's strategy, performances and actions improve the lower levels. In this perspective financial objectives particularly those are dependent on profitability include operational income, return of asset or recently economic value added, are measured; the growth rate of sales or production of cash flow are other financial objectives (Lamotte and Carter, 2000).

- **Customer perspective**
  In customer perspective of balanced score card, managers consider parts of market that its business department will compete and also internal and external customers. According to this, they define performance measures of business department in target sectors. This perspective particularly include several main or general size of successful output gained by a well-formulated and well-implemented strategy. Main output measures include customer satisfaction, customer retention, providing new customers, customer profitability and market share in target sectors (Thakkar, 2007). However customer prospective also includes specific sizes of valuable suggestions that a company provides for customers in target market. Specific stimuli of each section of customer outputs indicate those factors which are important for customers to be loyal to their suppliers. These factors can be a constant flow of products and innovative services or the ability of supplier to accommodate urgent demands with the ability to develop new products or methods to satisfy their needs. Customer perspective makes business managers able to clarify strategy based on customer and market which means high return of asset (Kaplan and Norton, 2005).
- Internal business processes perspective

In the perspective of internal business processes, executors define critical internal processes in which the organization should be superior. These processes make the business department able to provide valuable suggestions to acquire and retain customers in target market sectors and also satisfy expectations of stakeholders in the term of returning the asset (Amaratunga et al., 2001). The measures of internal business process focus on those internal processes which are effective to satisfy customers and achieve financial objectives. Internal business process perspective indicates two basic differences between traditional methods and balanced score card in measuring performance. Traditional methods try to monitor and improve existing processes. Along with financial performance measures, they may look for quality and time-based measures. But yet they focus on existing processes to be improved (Papenhausen and Einstein, 2006).

The second notable approach of balanced score card is to use innovative processes in internal business process perspective. Traditional Systems of performance measurement focus on processes to offer new products and services to the customers. They try to control and improve existing operations which indicates short wave of creating value for customers. This short wave of creating value starts, when an inquiry from existing customers for existing services or products is received and ends through offering the product or service to the customer. So in this way, the organization creates values by the means of production and offering the products (Kaplan and Norton, 1992),

But long term financial success stimuli may need an organization to produce new products or services completely from the beginning so that it could satisfy existing and future customers. Innovation process or long wave of creating value, for many companies, is a stronger future financial performance stimulus in comparison with short term operational cycle. Since sometimes development and achievement new areas of customer is more critical than focusing on existing processes (Kaplan and Norton, 2005). For many companies, the ability to successful management of a new product development process or acquiring new areas of customer is more critical than efficiency, uniformity and responsibility management of existing performance; since this issue is more likely to affect their future economic performance (Papenhausen and Einstein, 2006).

However, managers shouldn’t choose just one of these two critical processes. Internal business process perspective of balanced score card considers objectives and measures of both innovative cycle of long wave and operational cycle of short wave.
- Growth and learning perspective

The fourth perspective of balanced score card is growth and learning which identifies infrastructures that organizations should create in order to reach long term growth improvement. Customer and internal business process are the most critical factors for current and future success of organizations. It is unlikely that businesses could be able to meet their long term goals for customers and internal process by the use of existing technologies and abilities (Lamotte and Carter, 2000; Kaplan and Norton, 2005). Furthermore, intense global competition necessitates organizations to improve their ability so as to create value continuously for customers and stakeholders. Organizational growth and learning stems from three main sources: individuals, systems and organizational approaches. Financial targets, customer and internal business process of balanced score card are indicative of a great gap which exists between existing abilities of individuals, systems, existing approaches and what they need to reach a favorable performance. In order to remove and minimize this gap, businesses should invest in staff skills, information technology, systems and appropriateness of organizational approach and procedures. These objectives clearly arise in the growth and learning perspective of balanced score card. Abilities of informative systems could be measured by punctual access to critical customers and information of internal business process for the staff that makes critical decisions. Organizational approaches can examine appropriateness of staff motivations with organizational success factors and measure critical improvement rates in the area of customers and internal processes (Murphy and Russell, 2002).

Balanced score card developments

In 1983 Professor Kaplan criticized traditional management control significantly and performance measurement particularly. These visions continued till 1992 when Professor Kaplan accompanied by PhD Norton introduced balanced score card framework in an article titled » The balanced score card – measures that drive performance «. This method had such an effect on organizations that in 1997, balanced score card was considered as the largest development of business performance measurement over the past 75 years. Balanced score card, from its development in the early 90’s till now, has been changed from different aspects. When the balanced score card perspective was made, Professor Kaplan et al considered it as a tool to measure the performance (Andersen et al., 2008). Balanced score card was considered as a method to identify and measure performance accurately in an organization. This was the first generation of balanced score card, its main constituents were strategy division among four perspectives (financial, customer, internal process, growth and learning), strategic targets, performance indicators, the lead indicators, Performance
key indicators and rewards system related with performance. Balanced score card in this
generation was shaped in the most basic form but needed an evolution as the next step (Lamotte
and Carter, 2000). Although the first generation was the most basic part of balanced score card, it
included just small level of balanced score card. In fact, many companies whom balanced score
card has been introduced, realized that this method wasn’t only a framework but included extra
advantages for accurate evaluation of organization achievements. For this reason, cycle of four-
staged improvement (plan-do-check-act) has been used along with balanced score card. These
advantages, by a detailed analysis of existing gap between determined organizational objectives
for performance and actual results, gradually lead to identifying effects of unfavorable
performances and addressing operational problems. Reflecting previous details of implementing
balanced score card on the next score card causes skills in high levels of organization to identify
problems (Buglione and Abran, 2000).

In this step balanced score card can be applied as management system core in the cycle of
improvement all over the organization. This step is called second generation of balanced score
card. In actual fact, those companies that have the best experiences in applying this framework in
the first generation, moved toward this stage and started to achieve extra outputs of balanced score
card. Developing the framework of balanced score card continued. In the last book of Professor
Kaplan et al (strategy focused organization), balanced score card is introduced as comprehensive
framework of changing the organization. Different elements have been introduced in this
generation which didn’t exist in the first and second generations. Strategy map and strategic
communication and change in organizational condition are some of them. Strategy map explains
the strategic position of an organization as a map. Organizational critical communications of
managers with ordinary staff of the organization are shown in a map titled strategic
communication. And change in organizational condition is introduced in order to apply abilities of
supervisors and ordinary staff among strategic communication. A map strategy is a paradigm, a
two dimensional map of operations and organizations’ strategy. This map shows the financial
targets as final objectives; along with this, each of four perspectives of strategic objectives is
related to each other through vectors which show their connections. Furthermore, relations of all
objectives about financial performance have been shown. Strategic map includes significant
characteristics which didn’t exist in previous models of balanced score card (Cheng et al., 2003).
Conclusions

Nowadays organizations, in order to confront with challenges, need to use proper and flexible technology. In this regard, balanced score card can help organizations to implement performance improvement strategies in public service sector. Regarding balanced score card dimensions and arisen development over three generations, choosing each models of this card is subject to critical points and issues that management may face them in business. If our focus is on strategies, communications subject and identifying them as a problem, balanced score card can be used as a tool for strategic management and if our focus is on performance measurement, what has been introduced in the first generation may suffice.

References

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