

PERFORMANCE MANAGEMENT BY IMPLEMENTING THE BALANCED SCORECARD SYSTEM – THE SYSTEM OF INDICATORS

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***Abstract.** Balanced Scorecard is founded in a mod actual and cost-effective in science of the strategy and is required to be observed as a management system and not just as a rudimentary element of assessing the success.*

***Keywords:** Cost inducers, Cost objects, Profit items, Balanced Scorecard method, Performance intensity.*

***JEL Classification:** H26; E62, M41*

The implementation of the BS system involves specifying both goals and success indicators characteristics of each size, which start from the task and strategy of society which in most cases symbolizes common assertions, which do not can be measured. In this way, BS makes the way to transform some of the desi rate that fully enact the scope of the company's activity in precise, quantifiable points and evaluated by a variety of individuals involved in society. Also, the BS involves ensuring a stability between the assessment indices of success consisting for external users – partners and customers and those made up for internal users. Also, these benchmarks of success must be characterized so as to ensure a balance between indices of previous success and those characterizing the possible future success.

The direct connection between the four proportions, and the expansion mode of one inspires the next one is easy to understand. The essence of the four dimensions is given by the investment in assimilation and development that will serve as a foundation for expanding or perfecting internal transformations. By improving them, internal transformations will guarantee the satisfaction of customers, and obtaining customer satisfaction will bring the company profitability and financial stability.

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If the conception of a society makes reference to the favorable state that is intended to be attained in the long term, the strategy re-exposed the concrete ways of achieving the perspective. The strategy proposes the general setting for directing alternatives that provoke the nature and route of an organization¹.

The ongoing globalization constrains organizations in discovering the ways of acquiring competitive privilege by exploiting unattainable resources – intellectual resources, lilt with customers, by confronting the previous stage, the period of industrialization in which the competitive interest was assimilated only by the exploitation of physical, tangible. In this way, the determination of the structural strategy only on the basis of financial assessment and describing the goal of past judgments is no longer an operative, requiring a way of providing real-time feedback allowing for a successive oversight of the progress. Precisely, the mere characterization and the expectation of a strategy is lacking in yield without the existence of a real way of applying it.

The BS system examination allows the recognition of three fundamental functions that it has:

1. The function of assessing success – what constitutes the fundamental enhancement of the method and which is entrusted with the definition of indices, both financial and non-financial, that can be hierarchized in two classes: execution indices² or leading indicators³.

2. Entrusting a strategic management system.

3. Communication function performed by "translating" the concept and organizational strategy at the quantifiable goal level by all categories of staff and for which are specific reminder channels.

The proportion of the study – development

The first proportion of BS refers to personnel training and corporate culture also of staff and organization, taking into record how it revolves around ways to improve and develop the value⁴. The foundation of this proportion is represented by the ability of staff and informational structure of acclimatization of constant changes.

¹ Armstrong M. (2004), *Managing Performance-Performance management in action*, Chartered Institute of Personnel&Development, London

² Lag indicators

³ Lead indicators

⁴ Chang, Chow – 1999:397

Kaplan and Norton have specified the structure of this proportion, specifically:

- human resources (staff skills, their talents and acquainted)
- informational resources (databases, information systems, networks and technology infrastructure)
- organizational resources (culture, domination, teamwork, knowledge coordination)

According to the authors, the study and development strategy characterizes the unattainable assets of the organization to carry out both current activities and the development of customer relationships to a high degree of performance⁵.

The name of the study-development proportion was subsequently amended, the first name being the renewal and study. According to the authors of the BS system, this proportion was considered to be very difficult to achieve, being counted as the "black hole" of the method.

a. Proportion of internal transformations

The second proportion of BS, the proportion of internal transformations, is a tool the use of which uses the identification directors of critical transformation to achieve the goals imposed by both customers and shareholders, being the proportion that customizes the BS system of classic performance computing systems⁶.

The content of this dimension consists of processes that manage compliance with the regulations in force, processes pertaining to the social dimension of activity relative to the protection of the natural environment, health and safety of staff, support local community.

b. Financial proportion

Although its importance is a very little relevant, the financial proportion is the essential source of information in order to estimate the success of society. Obtaining genuine information in a short period is a priority, as well as information related to the risk determination and the annexes to the cost-benefit arrangement⁷.

c. Proportion of customer satisfaction

It can be seen that in the absence of customer satisfaction through the products or services rendered, there can be no increase and development of

⁵ Kaplan R. S., Norton D. P. (2000), *The Strategy-Focused Organization*, Strategy and Leadership, no. 29(3), pp. 41-42

⁶ Kaplan, R., Norton, D., *op.cit.*

⁷ The Balanced Scorecard Institute, 2004:1

a business, or success cannot be guaranteed. The analysis of this proportion has as its starting point the typology of consumers and the kind of motivation for which the products or services are rendered.

The start point of the implementation of the BS system sits in researching available resources and establishing a realistic vision at the level of the entity on vision, goals and action plans. The requirement of employees of all units and at all stages in this action allows the translation of the mission and the vision into exact action plans at unit level that must have characteristic dashboards.

Conducting a detailed process of debating the available resources and defining the concrete analysis plans necessary to achieve the entity's purpose ensures the understanding of general long-term tactics for all personnel and allows for the coverage and its loyalty, at the same time as the increasing potential for long-term objectives to be achieved⁸. It is also facilitated the integrated actuation of financial and strategic planning, leaders occupying the same time by the strategic plan and placement of the related resources.

The application of BS through this first step should be to ensure the effectiveness of communicating the results and actions, specifying the objectives and establishing a clear link between the motivational rewards provided for their attainment and the indicators of performance.

Summarized the specific activities of stage one, they refer to the "translation" of imagination for operational purposes, personally involved whose performance is appreciated, recognition of actions specific to each administrative unit or department, establish techniques and tools for evaluation and presentation of results and guarantee a flexible process, allowing control of its periodic content.

The essential problem faced by the entities is the activity of the business environment that makes the strategies that were valid at the beginning of application to destroy its relevance due to the rapid changes in the external framework. The balanced scoreboard does not fall in this respect due to the fact that it approves the conduct of an undeveloped process of learning by making permanent feedback, the test of assumptions from which the strategies were outlined and the adjustment at the time according to the indicators.

As the terminus of the method of planning the introduction of the methodology offers three important effects: in the long term, the operationalization of objectives by specifying metrics to be achieved for

⁸ Hendriks K., Menor L., Wiedman C. (2004), *The Balanced Scorecard: To Adopt or Not to Adopt?*, Ivey Business Journal no. 69(2)

the four directions analyzed under this methods, recognition of the actions necessary to achieve the objectives as well as the placement of the need for resources to succeed these actions. Also following the planning action, the employees will have a process to monitor their own development in achieving a set performance, found in the achievement of the strategy⁹.

As the consequences of performance are highlighted periodically and are analyzed by reporting with established targets, it is very important to specify the inducers of performance and causal relationships that exist between success factors, vision and success indicators (Figure 1).

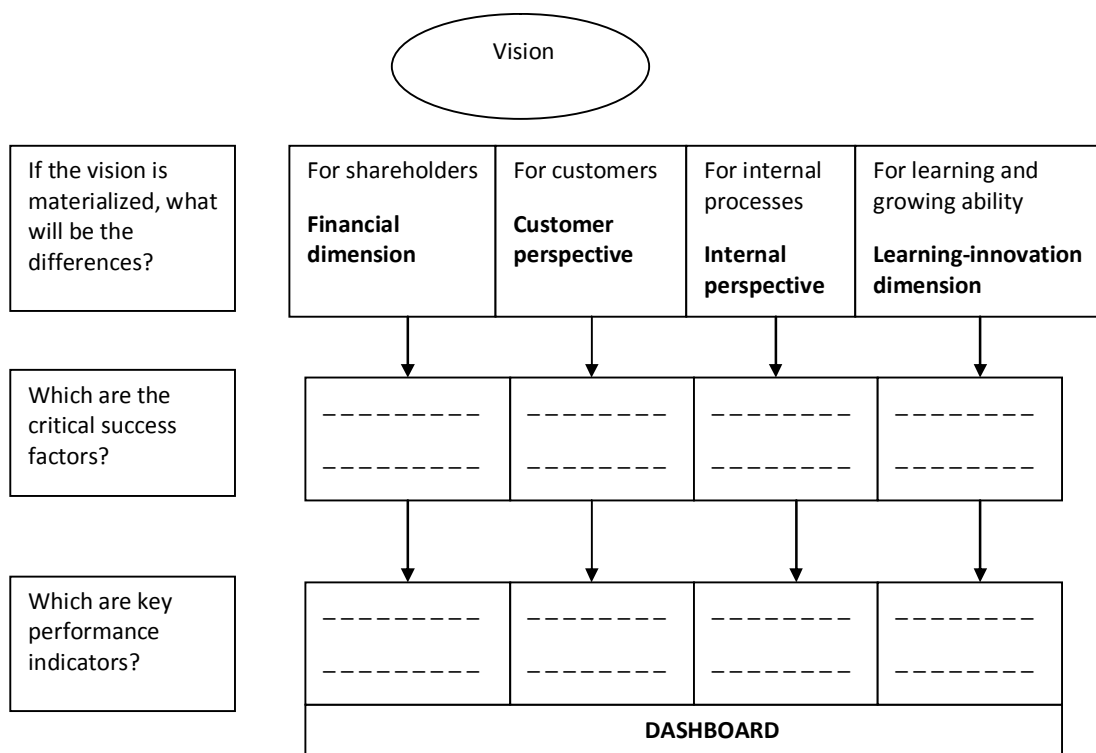


Figure 1. Determination of the relationship between performance and indicate.
Source: Kaplan R., Norton (1993)

As we can see from Figure 1, the balanced scoreboard comprises causal relationships with effect on strategic objectives, which allows for the assessment of critical factors of success at times of time and making adjustments where necessary.

⁹ Burney L., Swanson N. (2010), *The Relationship between Balanced Scorecard Characteristics and Managers Job Satisfaction*, Journal of Managerial Issues, no. 22(2), pp. 166-181

Knowing in detail the causal relationships, by making the scoreboard balanced the leaders observe the movements from the targets set as soon as they take place and have the capacity to act immediately on the causes they have produced.

The implementation of the method involves the completion of six stages, presentation in Figure 2.

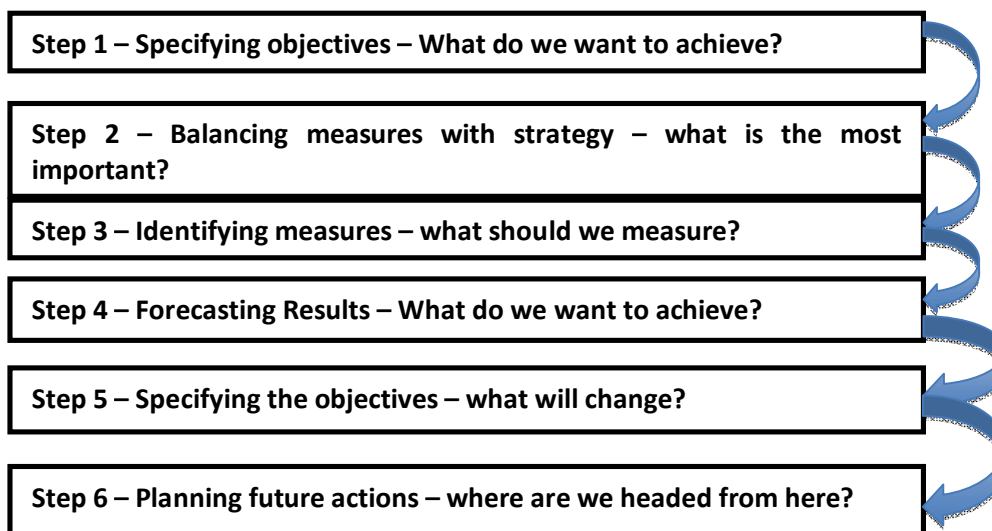


Figure 2. The methodology for the implementation of the BS system in six steps.

Source: Vitale M., Mavrinac S.C., Hauser M. (1994), *New Process/Financial Scorecard: A Strategic Performance Measurement System*, Planning Review no. 22, pp. 12-16.

One of the great mistakes that entities make in the implementation of the BS system is the inability to relate performance questioning systems with the organizational process, due to the subjectivity of leaders who have the ability to choose and handle the indicators chosen to acquire their own advantages in terms of image or even bonuses for the financial performance achieved¹⁰.

The characteristics of the method also refer to the quantification of results, which are results of previous steps and dimensions that can predict future performance. Defining indicators take into account the perspective-strategy report, and which are interdependent on a cause-effect connection.

The research carried out about the perception modulations of the entities on the advantages offered by using non-financial indices showed

¹⁰ Ittner C.D., Larcker, D. F. (2003), *Coming Up Short on Nonfinancial Performance Measurement*, Harvard Business Review, November, p. 89.

that they refer to the fact that directors receive a quick presentation of the evolution of the previous business. The implementation of the financial reports, the staff can be provided with additional clarification on the necessary steps towards achieving strategic goals, and entrepreneurial are given accurate information on the total evolution of entity¹¹.

The use of non-financial indices is linked in a suggestive manner with strategies guided to the renewal, the takeover of strategic initiatives that are of quality, the increase in product growth stage, industry-stage conventions or the stage of financial danger¹². The ratio between non-financial selects and current and future developments is the level of harmonization of indices and the company's traits.

The common mistakes of entities characterizing non-financial indices refer to the lack of connection between them and strategy, the absence of characterization of correct standards of succession to the achievement of erroneous calculation actions.

The approach of succession indices requires being a holistic one¹³ and they also have to follow the predefined principles of indices, namely:

- significance
- power integration
- durability
- accountability
- credibility
- management skill
- feature in communication
- contemporaneity
- solidity
- plausibility
- distinction.

Success indices must render the most remarkable results of the entity (meaning), the easy calculation performed by each department with their related data (accounting), the connection of all effects to the degree (power of integration), have a compute of calculation and a principle of this so that the multiple types of approach lead to the same calculation mode (credibility). The structure of the indices requires it to be able to propose

¹¹ Ittner C. D., Larcker D. F. (2003), *Coming Up Short on Nonfinancial Performance Measurement*, Harvard Business Review, Volume 81, Issue 11, pp. 88-95

¹² Said A. A., Hassanb Elnaby H. R., Wier B. (2003), *An empirical investigation of the performance consequences of nonfinancial measures*, Journal of management Accounting Research, no. 15, pp. 193-223

¹³ Duvel O., Rumbel C. (1998), *The balanced scorecard from vision to action*, Management Today, 14(4), pp. 38-40

anticipation of the trend of subsequent effects (durability), the effects provided must be able to be administered, and how they are expressed impose an easy way to understand the sector sinterested (facility in communication). The value is a thorough guarantee of the structure of indicators, a way of verifying the ability to manipulate the effects (plausibility) and the fairly extensive additivity of the indices that can provide the employees with a clean and thorough vision of the achievement of characteristic goals (distinction).

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