

## **Enhancing Organizational Performance through Balance Scorecard with Strategic Management Activities**

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*Abstract: Balanced Scorecard (BSC) is one of the management organizational performance enhancing technique. BSC is a strategic management system that is used broadly in industries. It is used globally to support business activities to the vision of the organization for enhancing organizational performance and improving internal and external communications within the organization. A major concern in organizational performance improvement entails the conception and use of performance measures or indicators. The success of the balanced scorecard will depend on the clear classification of non-financial and financial variables. Before the organization is ready to implement a balanced scorecard a consensus of the organizations vision and strategy has to be reached. The components of the balanced scorecard claim that it aligns with strategy leading to better motivation and communication which causes better performance. The objectives of this paper are to facilitating strategic planning for organizations, and to examine the process of identifying performance measures linking department's BSC to the overall BSC for the organization.*

*Keywords: BSC, Balanced Scorecard strategy, Performance measurement, Strategic management, Organizational performance.*

### **I. INTRODUCTION:**

The conventional performance measurement systems based on financial metrics alone have been considered inadequate and more attention is being paid to non-financial metrics. Various wider performance measurement systems have been designed, of which BSC, Kaplan and Norton, (1996) has been most extensively accepted and least criticized. A high rate of failure and various realistic difficulties however, are related with the implementation of BSC.

The aim of the BSC is to express, manage and change in support of the long-term strategy in order to manage performance. It acts as a vehicle for bringing in the change component within the organization.

The highest-level scorecard is ideally at the corporate level, but the BSC may be implemented at the division or department level. The BSC framework is used to apply approach from four perspectives, Kaplan and Norton, (1996b): financial performance, learning and growth, customers and internal business processes.

It allows, for the first time, an organization to look ahead using principal indicators instead of only looking back using lagging indicators. The balanced scorecard puts strategy the main driver of results today at the center of the management process.

The BSC is a management system designed to link and align the organization with its strategy at all levels. After the BSC is formulated at the corporate level of the organization, it is cascaded downward to strategic business units and support departments.

### **II. LITRATURE REVIEW**

The BSC matches financial measures of past performance with measures of the drivers of future performance, Kaplan and Norton, (1996). BSC, as a strategic management system integrates financial and non-financial perspectives. In each perspective, strategies are translated into specific goals and measures. The goals and objectives along with the designed performance measures are communicated throughout the organization. The aims are planned and set to support with strategic proposals and strategic feedback and knowledge is enhanced.

Ho and Mckay (2002) examine the implementation of BSC within two organizations and find that one of them was extremely satisfied with BSC, while the other found BSC an ineffective management tool and discarded it. They imply that delay in feedback and an unmanageable number of parameters selected by the second organisation might have contributed to discarding BSC. Bourne (2002) points out that BSC is designed to implement the selected strategy, but fails to ask the question whether the selected strategy is the right strategy

for the business. The same study finds that effective management control using the BSC appears to indirectly cause positive outcomes through strategic alignment.

According to the Hackett Group's survey (2004), less than 20 per cent of companies who invested in BSC have mature balanced scorecard implementations that are generating value. The survey argues that most companies rely on too many metrics and heavily weighted internal finance data, making the scorecards unbalanced. Pforsich (2005) repeated this, claiming that there is a maximum chances of failure when it comes to BSC implementations, and points out along with Chow (1998) that when it approaches to implementation of BSC, translating common concepts into tangible action and operationalisation of measures is challenging.

Hoque & James (2000) examine the relationship between market position, organization size, product life-cycle stages, Balanced Scorecard practices and organizational performance. It also suggests that greater BSC practices is associated with enhanced performance, but this relationship is largely independent of organization size, product life cycle or market position. Neely et al. (1997) carried out an empirical investigation to explore the performance impact of BSC by employing a quasi-experimental design methodology. They found that while analyzing the data from a business that implemented BSC; it appeared that implementation might have had a positive impact on sales, gross profit and net profit.

Neely (2003) state that first generation performance measurement systems are static. There is significant literature on designing Performance Measurement Systems (PMS) with many providing a good set of directions (Neely et al., 1997). The performance measurement systems however, keep evolving. To date, very few people have explored how this evolution can be managed, a fact confirmed by Neely (1999). The traditional planning in strategic management is driven by a conception of balance as a strategic balance between existing internal resources and external opportunities (Bordum, A., 2010).

A performance measure is information delivered to the management function, evaluating the efficiency and the effectiveness of a process, resource or an outcome. Performance measures could be identified into different levels according to the decision-making process. Its measures are strategic, tactical and operational (Papakiriakopoulos, D. and Pramatar, K., 2010).

Balance scorecard is one of the mostly used methods on performance management system. Several methods have been developed to measure intangible asset

such as market capitalization approach, direct intellectual capital measurement approach, scorecard approach and economic-value added approach (Calisir, F., et al., 2010).

Gunasekaran et al. (2001) develop a framework for respectively measuring the performances from strategic, tactical and operational levels in supply chains; this framework mainly deals with supplier, delivery, customer service and inventory and logistics costs.

Salaheldin Ismail (2009) shows the importance of the BSC for strategic and sustainable continuous improvement capability at the operational level. He suggests that BSCs have proved to be a powerful tool for the strategic management not only of the overall company, but for the production division or at the operational level in particular.

Barnali Chaklader & Deya Roy (2010) identified that traditional BSC includes four viewpoints: financial, customer, learning and innovation and internal process but excludes two significant long term viewpoints: environmental and social.

Ghani et al. (2010) identify the results specify that performance measurement does influence service quality. They show significant differences between organizations that have high level of BSC adoption on their level of service quality and those organizations that have low level of BSC adoption. Singh Ram Janm & Sohani Nagendra (2011) identified that performance measurement activities have an important role to play in setting objective, evaluating firm performance and enhance customer service. Singh Ram Janm et al. (2013) identified that in many of the survey studies, supply chain integration enhance the organizational performance of enterprises.

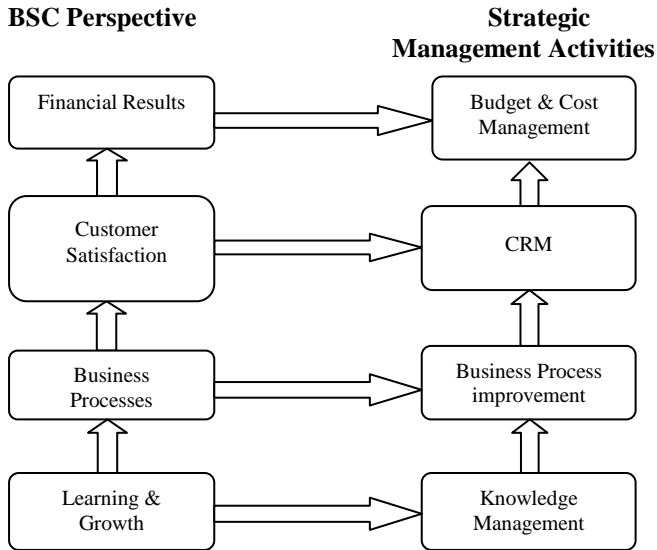
### **III. METHODOLOGY:**

Our objectives in this paper are to discuss different phases of BSC implementation as a methodology for facilitating strategic planning for organizations and to examine the process of identifying performance measures linking department's BSC to the overall BSC for the organization. We will examine the cause-effect relationship between performance measures and linkages between the overall objectives for the department and the goals of the organization.

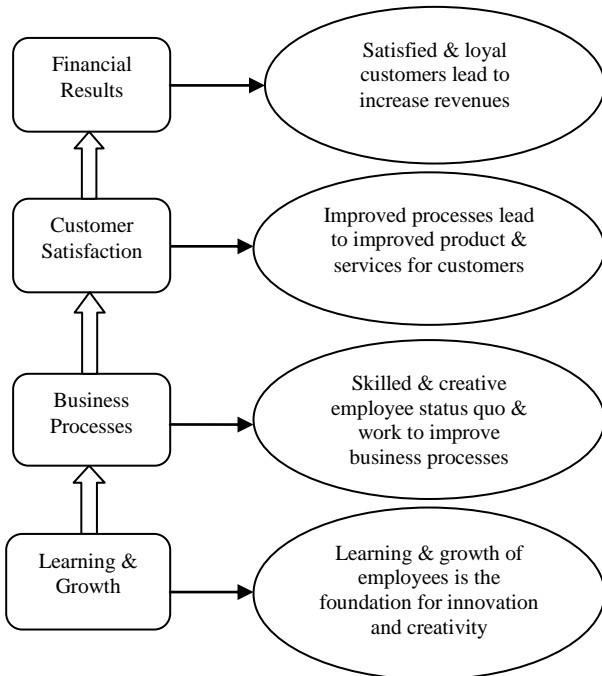
A firm can develop a seemingly brilliant strategy designed to achieve competitive advantage and grow the firm, but implementing strategy is the management challenge. The BSC strategic management system requires organizations to translate strategic goals into relevant measures of performance. Financial and nonfinancial measures are indicators of the extent that strategies are successfully being implemented throughout the

organization, and whether strategic goals are being achieved.

**BSC Perspective**



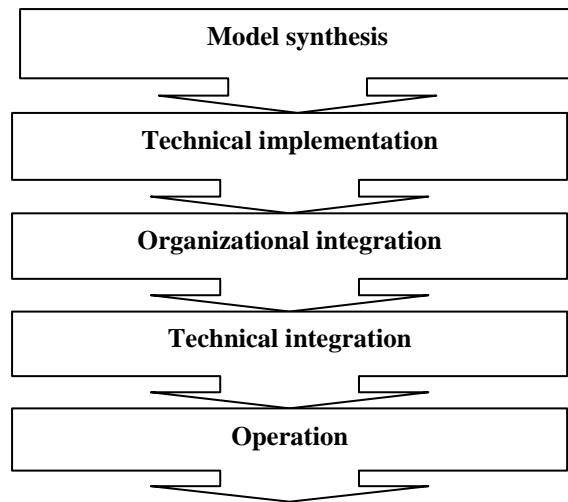
**Fig. 1: Relation between BSC perspective and strategic management activities**



**Fig. 2: Causes & effects of BSC perspective**

**BSC Implementation Phases:** Several different procedures describing the building process of a Balanced

Scorecard have been presented. The procedure described below is just one of them and is not necessarily better than other procedure. Before the organization is ready to implement Balanced Scorecard consent of the organizations vision and strategy has to be reached. Many of the phases can be performed parallel. This will shorten the total implementation schedule significantly.



**Fig. 3: BSC Implementation Phases**

**Table1: Different BSC Implementation Phases & Implementation Activities**

	Different BSC Implementation phases	Implementation Activities
Phase 1	Model Synthesis	<p><b>Strategy Synthesis:</b> The objective of the strategy synthesis phase is to form and commit the management to a consensus view about the organizations vision and strategies. It is not unheard of that there exist several different view s of vision and the strategic principles within an organization.</p> <p><b>Measure synthesis:</b> During the measure synthesis phase the strategy of the organization is enumerated into measures or Key Performance Indicators (KPI's).</p>
Phase 2	Technical Implementation	<p># Installation of the software,</p> <p># Basic training for the persons building scorecards</p> <p># Building of the scorecards</p> <p># Setting target and alarm levels</p>

		# Setting calculation formulas to consolidate the data # Defining graphical properties for graphs
<b>Phase 3</b>	<b>Organizational Integration</b>	# Definition of the persons who are responsible for measure data and their empowerment. # Explanation of the objectives of BSC implementation to the employees. # Re-engineering the strategy procedure and management. # Re-engineering the treatment process.
<b>Phase 4</b>	<b>Technical Integration</b>	# Identification of the imported measures and the source systems # Analysis of the database structure and exporting capabilities of the operative systems # Defining the procedure to get measure data from data sources including data identification, modification and scheduling. # Implementation of the link between BSC Scorecard and the operative systems. Technical integration can be executed parallel with organizational integration and often somewhat overlaps the operation phase. Effort and calendar time needed for this phase are highly dependent on the number and the complexity of the source systems.
<b>Phase 5</b>	<b>Operation of the BSC System</b>	During the organizational integration phase the Balanced Scorecard is incorporated to the normal management and reporting processes of the organization. Within these processes following tasks are performed regularly. # Update measure values # Analyze the Balanced Scorecard results # Report the Balanced Scorecard Results # Refine the Balanced Scorecard model

#### IV. CONCLUSION

The BSC is therefore a very significant strategic management tool which helps an organization not only to enhance performance, but also decide the strategies needed to be customized so that the long-term objectives are achieved. The application of BSC ensures the consistency of vision and action which is the first step towards the development of a successful organization. Also, appropriate implementation can ensure the development of capabilities within an organization which will help it in

developing a competitive advantage, without which it cannot be expected to better its competitors.

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