

UDC 005.962.13(497.7) THE IMPORTANCE OF BALANCED SCORECARD AS A STRATEGIC MANAGEMENT TOOL AND ITS IMPLEMENTATION IN THE COMPANIES IN R. MACEDONIA AND WORLDWIDE

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Abstract

Robert Kaplan and David Norton have been, and remained among the most influential authors in the field of Performance Management and their Balanced Scorecard still is the most successful concept in this field. This paper describes the evolution of Balanced Scorecard distinguishing three main evolution phases in its development, concerning the strategic and performance management literature. The paper examines the results of BSC implementation in the companies worldwide, and compares with the results of its employment in Republic of Macedonia. Also suggest potential improvements for ensuring higher implementation rate in Macedonia.

Key words: Performance Management, Balanced Scorecard (BSC), Republic of Macedonia

I. Introduction

In the information age that we are living in, many companies and products live and die on information, and the most successful companies are the ones who use their intangible assets better and faster. Intangibles such as intellectual capital, customer and supplier relationship, product development and innovation, are nowadays the drivers of company life, much more than land, capital or labour [1]. But on the other hand, long period of time managers were trapped with archaic accounting tools, developed hundreds of years ago, with which was almost impossible to determine the company key success factors or to become aware of their value. What is even worse, in crisis periods for the companies, managers' attention was put on improving the efficiency of the physical assets only, by undertaking severe cost-reduction programs focused on future value-creating functions such as human resource training, new product development, innovation and market research.

Many have criticized financial measures because of their well-documented inadequacies, their back-ward looking focus, and their inability to reflect contemporary value-creating actions [2]. Managers' exclusive

reliance on financial measures alone when making their decisions often led in failure to incorporate these "hidden value" drivers.

Once the need for new performance measurement tools was recognized, impressive attention was attracted, both among academics and practitioners. New research papers and articles on this topic are being published at a remarkable rate of one every five hours of every working day since 1994 [3]. To date there are more than 31 million web-sites dedicated to performance measurement and performance management, and hundreds of IT companies are offering different software solutions and applications for measuring and managing company performance.

Like in any rapidly growing research field we have been witnesses of the development of many new approaches and performance measurement frameworks, such as Performance Measurement Matrix [4], Performance Pyramid [5], Results-Determinants Framework [6], of course, Balanced Scorecard (BSC) [7], and most recently Performance Prism [8].

Only few of these measurement systems have drawn managers' attention just enough to initiate reach stream of their implementation. Balanced scorecard was definitely one of them. At first introduced as performance measurement reporting tool in the early 1990's by Robert S. Kaplan and David P. Norton, this approach relatively fast evolved in strategic management system with a clear ambition to go further toward an all-encompassing strategic and control system. Despite its unchanged fundament of four perspectives with limited number of measures classified and carefully linked with the strategy, many new elements and features represented its historical development (see Figure 1). This paper aims to describe the evolution of Balanced Scorecard distinguishing three main evolution phases in its development, concerning the strategic and performance management literature.

Table 1: Historic overview of the evolution of Balanced Scorecard

1992 "The BSC: Measures that Drive Performance" (HBR Article)	Balance between financial and non-financial measures Four perspective view
1993 "Putting the BSC to Work" (HBR Article)	Link measures to strategy
1996 "Using the BSC as a Strategic Management System" (HBR Article) The BSC: Translating Strategy into Action (book)	Four Management Processes -translate the vision -communicate and link -business planning and goals -feedback and learning Employment of causal chain
1999 The Strategy Focused Organization (book)	Higher focus on BSC as the center of the management system
2000 "Having Trouble with Your Strategy? Then Map It." (HBR Article)	Introduction of strategy maps
2003 Strategy Maps (book)	Broadening of the role of BSC in the strategic process with the concept of "strategy map" How to create, manage and communicate a strategy
2005 "The Office of Strategy Management" (HBR Article)	Establishment of a new corporate-level unit, an Office of Strategy Management (OSM) Primary responsibility: managing strategy

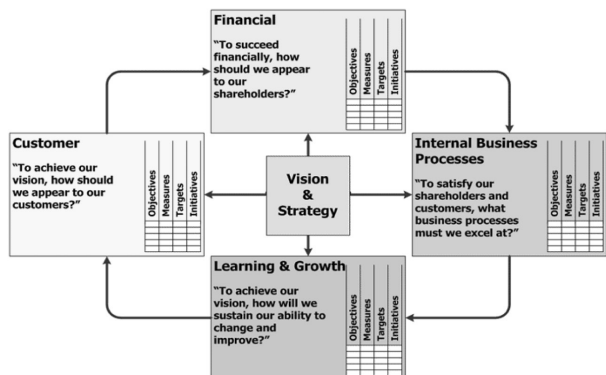
II. Balanced Scorecard as a performance measurement tool

As a result of a year-long research with twelve companies on the future of the performance measurement, Robert S. Kaplan and David P. Norton published the summarized results in their 1992 Harvard Business Review article: "The Balanced Scorecard: Measures that Drive Performance". BSC was the first original, consistent and logical approach that with its "4box" simplicity was providing balance between financial and non-financial measures, leading and lagging indicators and short and long-term objectives. The authors proposed to managers, in addition to traditional financial measures, to fill out the empty boxes with limited number of customized measures from three other business perspectives: Innovation and Learning, Internal Business and Customer Perspective. Each perspective's measures should provide answers to the performance questions: How do we look to shareholders? (Financial Perspective); How do customers see us? (Customer Perspective); What must we excel at? (Internal Business Perspective); Can we continue to improve and create value? (Innovation and Learning Perspective see Figure 2).

The definition of Balanced Scorecard was imprecise and focused on the selection of measures for each of the perspectives. The authors' precaution on managers' well-documented measurement assertiveness [9] was shown with the alert that they shouldn't put their focus on identifying what could be measured in the company, but on choosing only limited number of measures customized by using attitudinal questions related to the company vision and strategic goals. They endorsed that by "putting vision and strategy in the center of the measurement system" improved organizational performance can be expected, but only if appropriate changes in human behavior are made and necessary actions to achieve those goals are carried out.

Kaplan and Norton noted two very important preliminary findings of the employment of BSC:

Fig.1: The Balanced Scorecard links performance measures (from Kaplan & Norton, 1992)



1. BSC "brings together, in a single management report, many of the seemingly disparate elements of the company's competitive agenda..."

2. BSC helped to determine if improvement in one area was achieved by sub-optimization in another area.

Definitely, BSC was the first original, logical and simple measurement system and had drawn great interest, both among academics and practitioners. But despite its popularity and great implementation rate, many difficulties associated with the design and implementation appeared, generally because of the vague definition, which lead to free interpretation, simple "causality" between the four perspectives that was not deeper explained and with no precise advices given about the design and implementation of the Balanced Scorecard. Associated literature confirmed the originality and utility of the concept [10], but also noted many imperfections in the initial design and recommended further improvements.

III. Balanced Scorecard as a new strategic performance management system

However, immediately after the first HBR article many managers employed BSC in their companies. Despite the implementation and design problems, most of them noted that not only that BSC provides a wider and more comprehensive picture of the company's future by putting their focus on the key drivers of future performance instead of past performance, but it also secures a framework for some core management processes such as: goal setting, resource allocation, planning and budgeting, strategic initiatives and feedback and learning.

The confirmation of the strong link between performance measures and future desired company destination was initiation signal for the authors to enhance BSC and to identify its second evolution phase from performance measurement reporting tool to a strategic management system. Four new management processes were introduced in their 1996 HBR article "Using the Balanced Scorecard as a Strategic Management System": translating the vision, communicating and linking, business planning and feedback and learning (see figure 3).

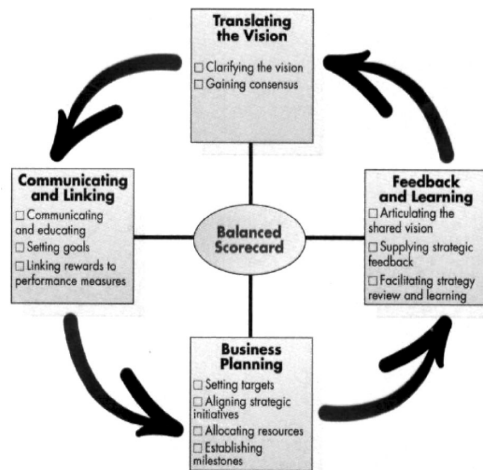


Fig.2: Managing strategy:
four processes
(from Kaplan & Norton, 1996)

"Translating the vision" management process was intended to help managers with the crucial problem that "lofty vision and strategy statements don't translate easily into action at the local level" [11] by gaining consensus on how to clarify the vision and company strategy and by identifying strategic objectives in each perspective. "Communicating and linking" process was intended everyone in the organizations to become familiar with the company strategy and objectives and to ensure strategic alignment between the different business units and individuals working there. For that purpose departments and individual scorecards were introduced as a result of the cascade process of BSC. Third process known as "Business planning" was consisted of setting targets and milestones and synchronizing and aligning strategic initiatives and resources to them in order to enable achievement of the strategic objectives. The last one "Feedback and learning" was intended to provide a monitoring of the progress of the short-term departmental and individual results in each perspective against targets and to enable evaluation of the strategy.

Also further improvements were made on simple "causality" between the four perspectives, only mentioned in the first phase. Many BSC designs began to utilize linkages between the strategic objectives across the perspectives. These cause and effect relationships have been developed in order to identify the key performance drivers that ultimately will lead to execution of the strategy. The representation of explicit causality at first, between the measures known as "Strategic Linkage Model" and later in 2001 between the strategic objectives known as "Strategy Map", became an increasingly important element of BSC design. These

improvements had rounded the picture of BSC as new strategic management system away from a simple performance measurement tool.

IV. Toward an all-encompassing strategic and control system

Fortunately, Kaplan and Norton didn't stop there. Astonished by the results from a research conducted in 1999 that "70% to 90% of effectively formulated strategies were poorly executed" [12] they started their own research on 250 companies that had already implemented BSC and were members of their Balanced Scorecard Collaborative.⁹ They found out that "of 250 companies, 125 said that it is too early to tell the impact of the scorecard, and from the other 125, 19 reported to have achieved significantly better results, 80 said they saw some progress and 26 said they had limited or no better results" [13]. When they drilled deeper into to identify the major differences between the "good" and "bad" strategy executors, they concluded that companies who achieved solid results had better understanding for the importance of performance management processes or scorecard, had utilized strategy maps more, and had significantly more extended communication with their employees, which was a great confirmation of the practical importance of BSC if it is implemented correctly. Motivated by these findings they went even further in the improvement on the BSC. Several new ideas were introduced in their new books *The Strategy- Focused Organization* (2001) and *Strategy Maps* (2003).

"Destination Statement" was the first additional innovation in the BSC design. The authors had noticed that despite of the common understanding and defining of the company strategy, members of the management teams still had problems when began operationalizing it through selection of strategic objectives and targets and their linking in the system. As a solution to this problem the Destination Statement was developed to secure and to show a clear picture about what is company trying to achieve and what it is likely to look like at an agreed future date. This new element in the BSC design was intended to provide final consensus about these matters among managers before they will start to select the objectives and to articulate hypotheses of causality.

The second and probably one of the biggest enhancements of BSC had been done by introducing the "Strategy Map" concept. (See Figure 4) It was a logical architecture that defined the strategy by specifying the relationships between shareholders, customers, internal business processes and capabilities. A strategy map was providing a one page visualization of the strategy with precise overview of the objectives of each perspective and their integration and combination toward execution of the strategy. This enabled better communication through the organization, improved employees' understanding and awareness of strategy and allowed better execution and management of the strategy. "The most important broadening of the role of BSC in the strategic process is the concept of "strategy map" in which the scorecard is the primary basis, not just for articulating the strategy of the company, but also for conceptualizing how the strategy works in terms of underlying dynamics through which strategy drives performance" [14].

A prove to the previous statement is Kaplan and Norton's new article "The Office of Strategy Management" (2005) in which they suggested "establishing of a new corporate-level unit, an Office of Strategy Management (OSM)" [15] with prime responsibility for managing strategy by execution of nine processes: Scorecard management, Organization Alignment, Strategy Communication, Strategy Reviews, Initiative Management, Strategy Development and Update, Planning and Budgeting, Employee Alignment and Knowledge Management. The OSM should be consisted of 6-10 employees depending of the organization complexity and should report directly to the CEO. The OSM is intended to ensure that all previously uncoordinated, unaligned or disparate management processes to be performed in an integrated manner.

9) The Balanced Scorecard Collaborative was established in 1999 by Kaplan and Norton to provide support, training, education and research for the companies that are interested in the system - www.bscoll.com

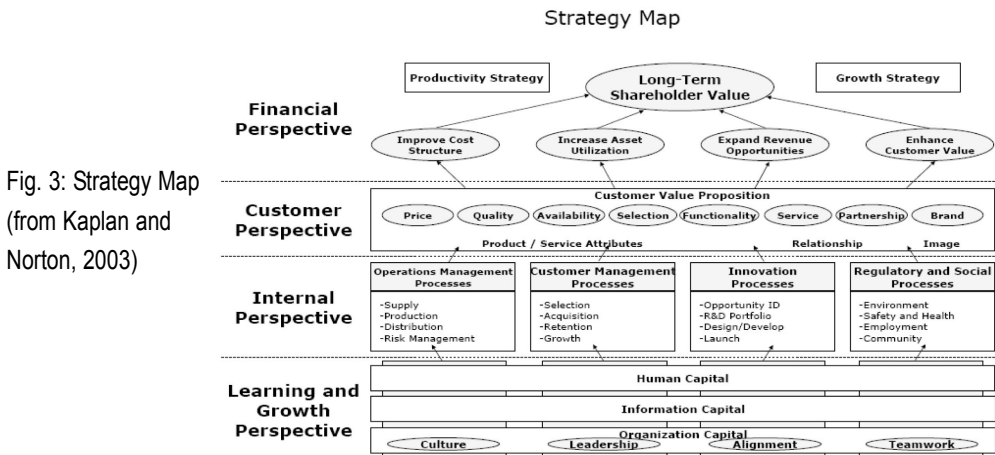


Fig. 3: Strategy Map (from Kaplan and Norton, 2003)

V. Reported results of Balanced Scorecard implementation in the companies worldwide

The Balanced Scorecard has been successfully implemented in almost all types of organizations: large, medium and small, production and services, public and private, profit or nonprofit organizations. Research shows that 60 per cent of Fortune 1000 companies have experimented with BSC [16], and U.S. Gartner Group predicted 60 per cent of all U.S. large companies had adopted BSC by the end of 2000, and 85 per cent of the companies will have performance measurement initiatives underway by the end of 2004 [17]. A Finnish survey found that 31 per cent of the responding companies had some kind of BSC system, and another 30 per cent were implementing one [18]. Also approximately 75 per cent of the European companies that had been surveyed had changed their measurement system in the last three years and are expecting to continue with the changes in the future [19].

Definitely, Robert Kaplan and David Norton have been, and remained among the most influential authors in the field of Performance Management. Their Balanced Scorecard still is the most popular concept in this field that has swept the business world. But despite its apparent popularity, only limited systematic and relevant research-based evidence on the BSC efficiency exists. Most of them are isolated successful company cases (Mobil, Siemens, Motorola, Hilton, BMW) that Kaplan and Norton collaborated with during the implementation process, or after as clients of their consulting firm. Nevertheless, there is no doubt that their research results are relevant, but because of the fact that they are inventors and promoters of the concept, and in order to avoid any suspicion that their results can be influenced by their work, we will refer only to other independent research done last few years. One of these is the research carried out by Lawson, Stratton and Hatch in 2003 on 150 manufacturing, service and governmental companies to explore the benefits that scorecard concept provides.¹⁰ The results were that almost two-thirds of the surveyed companies agreed that significant benefits had been realized from using of scorecard system. They reported that as a result of appropriate alignment of the employee behavior and communicating the strategy through the organization, which are the basic objectives of scorecard system, they achieved "reduction in over-heads of 25% for the last three year, significant improvement in employee satisfaction and the highest sells and profit ever" [20].

Another case that confirms the benefits of the employment of BSC concept is the experimental study performed by Davis and Albright in retail bank. They found evidence of superior financial performance of the brunches that implemented BSC when compared to branches that didn't [21]. A clear relationship between

¹⁰ The authors use the term "scorecard system" to include both scorecard as control tool and process, or technique, of integrating the scorecard system into the over-all performance-achievement cycle of the firm.

non-financial measurement and financial performance was found in the study of a hotel chain performed by Banker [22]. Very interesting findings have been reported by Ittner and Larcker, probably two of the most influential researchers in the field of performance management systems. In their study of financial services companies in U.S., they concluded that companies using non-financial measures generally have higher stock market return and higher measurement system satisfaction [23]. In their next study on the importance on building and verifying causal models undertaken on 157 companies they noted that "Businesses that do not scrupulously uncover the fundamental drivers of their units' performance face several potential problems. They often end up measuring too many things, trying to fill every perceived gap in the measurement system" [24]. They confirmed that companies that use valid and well-established causal model as a base for decision making process in average have higher return than the other companies.

However, we shall feel irresponsible not to mention results from some other research. Apart from many successful cases of BSC users, and grate rate of its implementation among the companies worldwide, BSC implementation is not easy or naive process. First, recent studies showed that implementation of performance measurement systems such as BSC can last between 18-24 months [25]. Second, in another research on 15 companies in Northern Europe was concluded that only half of the companies have succeeded to implement BSC. The authors also noted that their results have been supported with similar findings in the research of Venkatraman and Gering: "there have been as many unsuccessful implementations as successful ones" [26].

VI. Results from BSC employment in Republic of Macedonia

During 2007 and 2008 we conducted a planned survey in order to explore the employment of the most widely used performance measurement tools and management techniques for improving business performance such as BSC. A structured questionnaire (previously pretested on a smaller subset of target respondents) was used as a research method on 52 Macedonian companies deliberate selected from almost all types of organizations: large, medium and small, production and services, public and private, successful and less successful.

The results show us that all of the surveyed companies have already defined company strategy. Most of them (nearly 81% of the companies) actively or partly have involved their employees in defining company's strategy, so we can conclude that in most companies employees are acquainted with it. Only 10% of the managers quoted that their employees didn't know the company strategy. Even though 75% of the managers are claiming they have defined specific goals and targets for each organizational unit or responsibility center and that they are following their achievement in the real time, still when they were asked to point out at least 3 most important operations or working processes for the future of their company, only 50% of them did it. This can be seen as a symptom that Macedonian managers in order to ensure themselves that are taking control over their companies, they are tracking many things, but not those essential for the company success. This allegation was confirmed with the results of the question about the number of financial or non-financial indicators they are using in everyday working. Most of the small companies' managers have noted that usually they are using between 6-10 key performance indicators, while medium-sized and large companies' managers underlined between 11-15 KPIs and more than 15 KPIs chronologically. Also nearly 82% stated that they would reduce their number if they can.

Although these results definitely are corresponding with the world most cited reasons for the evolution of BSC concept, still the Macedonian implementation results are not in accordance with the rest of the world. Only 6 from 52 companies or around 11.5% of the surveyed companies are using BSC as a strategic management tool for improving its business performance¹¹ (Table 2).

11) Five of this six BSC users are ranked by Euro Business Center - Skopje as one of the 200 Largest and Most Successful Companies in Macedonia by several financial indicators, gathered from authorized financial institutions in Republic of Macedonia.

Table 2. Balanced Scorecard Users in Republic of Macedonia

BSC users in Macedonia	Industry	Ownership	Company Size	1st Year BSC Influence on Company Profitability	Long Term Profit Expectations under BSC Influence
1	Telecommunications	Foreign investor	Large	Inconsiderably increased	Considerably increased
2	Telecommunications	Foreign investor	Large	Not changed	Considerably increased
3	Banking and Finance	Foreign investor	Large	Inconsiderably increased	Considerably increased
4	Production	Domestic investor	Medium	Not changed	Considerably increased
5	Transportation	Public owned	Large	Inconsiderably increased	Considerably increased
6	Consulting and Training	Domestic investor	Small	Not changed	Considerably increased

We have to admit that this BSC implementation rate (11.5%) is far from the US (around 85%) and European average (around 75%). But maybe more important is to determine the key reasons for such results. If we go further in our survey we can conclude that most of the managers have stated that are not familiar with this performance tool (20 managers) or they are interested in and would like to implement it but are not prepared because of the financial issues (8 companies), lack of know-how (18 companies) or lack of time (6 companies).

Of course the implementation time and efforts can significantly be reduced by using one of the many professional BSC software that are offered on the market, or by using help from academics, professionals and consultants. But definitely in order to achieve ultimate results that can be provided by the employment of the BSC, managers should be prepared to carry out many changes in their organizations such as: to implement the BSC throughout the whole organization, carefully to determine the key drivers of their success and to link them with the strategy, to secure better transparency, to be able to understand, discuss and educate their employees how managers derive their metrics and their inter-relationship, to focus their decision-making process primary on execution of the strategic objectives, to motivate the employees to strive for top performance results and many more. Only if companies are using BSC as a learning tool not just as a control tool they can achieve ultimate results.

The BSC enables a focus on long-term growth versus a short-term focus on quarterly or even monthly results. BSC extend or improve financial measures and its short-term focus on company's results and performance. Actually, BSC provide balance between long-term and short-term goals and contribute to their achievements. Gumbus and Lussier [27] have summarized six ways on which BSC helps an organization:

1. Promotes growth - due to focus on long term strategic outcomes, not just short-term operational results.
2. Tracks performance - individual and collective results can be tracked against targets in order to correct and improve.
3. Provides focus - when measures are aligned to a few critical strategies, the BSC provides focus on what is important to the company.
4. Alignment to goals - when you measure what is truly important to success, the measures become linked and support each other. Alignment occurs across the organization.
5. Goal clarity - the BSC helps respond to the question, "How does what I do daily contribute to the goals of the enterprise?"
6. Accountability - individuals are assigned as owners of metrics in order to provide clear accountability for results.

As BSC still continue to evolve as a flexible concept we would like to use the opportunity to suggest further research directions:

-What are the experiences of the employment of BSC in the companies from our neighboring countries such as Pliva, Ericsson Nikola Tesla, Podravka, Elektrokontakt, Megatrend? There are very few modest researches done in the field of performance measurement and management among these countries even though all of them strive to enter EU, known as highly competitive global market where most of their competitors have already done a lot of improvements.

If we, as academics, feel responsible for our economy results and for our companies' performance, at least what we can do, is to introduce to companies and whole business environment the latest achievements in this field and to explore that few cases of BSC employment, so we can present the results and attract attention of many others that are not familiar with this concept.

VI. Conclusion

Balanced Scorecard concept, when developed 14 years ago, significantly differed from any other performance measurement system and attracted impressive attention, both among academics and practitioners. Initially, it was introduced as performance measurement tool that can be successfully used to avoid financial measurements' short-termism by balancing it against a customer perspective, an internal business perspective and innovation and growth perspective. Linked in an integrated set of unique strategy objectives, translated through clearly defined metrics and targets, BSC enables company's strategic goals to be cascade down in the organization so any department or employee has its own set of measurable objectives. "The creation of a system of measurement that would enable companies to keep track of many dimensions in a systematic way is an incredibly powerful concept" [28], that in 1997 Harvard Business Review labeled it as one of the 75 most influential ideas of 20th Century. By putting the strategy at the center of the performance measurement system, BSC became an effective tool not just for articulating the strategy of the company, but also for conceptualizing how does it work, and soon had evolved into a strategic management system with a clear ambition for developing further toward an all-encompassing strategic and control system. As a concept which declares great flexibility and success, it should encourage the managers from our countries to consider employing the effective insights gained so far.

Republic of Macedonia is a country in transition. As each country that began with the process of privatization in late eighties, many processes lagging in Macedonian practice. Few years ago foreign investors started to invest in Macedonia. Now we have stock exchange with numerous foreign investors and it is reasonable that companies in RM should follow world trends in overall business operations and consequently to follow latest trends in performance measurement. From our up to now experience we can make general conclusion that only in companies with foreign investors, performance measurement approaches are practiced. As precede phase of performance measurement, companies have divided themselves into responsibility centers (cost, revenue, investment). Further, few companies even practice some performance measurement system but it is either focused on financial measures or its non-financial measures are not in relation with company's strategy and overall objectives. Other general conclusion that could be made is using of financial measures as means for measuring performance of responsibility centers and company in a whole. Such financial measures are included and calculated only for the requirements of internal reporting to managers. But, with entering foreign investments in RM, obvious is the trend in Macedonian companies to research for the most appropriate performance measurement system. Although, the sequence of things should be reverse, firstly to implement particular performance measurement system in order to prepare reliable information for investors and on that way to attract investors, the important fact here is that companies have started to look for "the best" performance measurement system and ways on which it could be implemented. In fact, foreign investors impose requirements to domestic companies to implement performance measurement systems. Although performance measurement in RM is in its early stage, actual is the effort

from academicians and practitioners to stimulate and to help domestic companies to use reliable performance measurement and reliable reporting on it. Even more, in this period of financial and economic crises that Macedonian companies can also feel, the implementation of performance measurements systems is more essential and important. Companies have to be encouraged to invest in performance measurement systems and to implement them as a tool for detecting inefficiencies in their operations, price variances, analyzing customers needs, reducing costs and their better allocation, altering and innovating products etc. All of these opportunities help to be achieved two goals on which companies are most focused these days: improving companies' performance and better crises overcoming.

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