THE BALANCED SCORECARD AS A TOOLKIT OF PERFORMANCE MEASUREMENT

Le balanced scorecard comme outil de mesure de la performance

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Abstract:
The balanced scorecard appeared following the work of Kaplan and Norton in 1990. It is an enterprise performance management tool which consists of four areas: finance, customers, internal processes and learning and development. At that time, there were changes in the industrial world when exclusively financial performance approach is outdated. With the incorporation of intangible assets and the articulation of the four axes, each one of them contributes to the objectives of the other. Thus, the financial approach is enhanced by the contribution of intangibles. Its implementation by the company which is focused strategy, confirmed us throughout the process its importance as a fundamental tool for measuring all the sides of performance.
Keywords: balanced scorecard, performance, intangible assets, overall performance, strategy

Résumé :
Le balanced scorecard est apparu suite aux travaux de Kaplan et Norton vers 1990. C’est un outil de pilotage de la performance de l’entreprise composé de quatre axes : finances, clients, processus internes et apprentissage et développement. A cette période, il y avait des transformations dans le monde industriel ou une approche exclusivement financière de la performance est dépassée. Avec l’incorporation des actifs immatériels et l’articulation des quatre axes, chacun contribue à la réalisation des objectifs de l’autre. Ainsi, l’approche financière est améliorée par l’apport des éléments incorporels. Sa mise en œuvre par l’entreprise qui l’a rendue orientée stratégie, nous a confirmé, tout au long de la démarche son importance comme outil fondamental de mesure de la performance globale.
Mots clefs : balanced scorecard, performance, actifs immatériels, performance globale, stratégie

Introduction

Various factors have contributed to the emergence of new approaches in analyzing performance management within organizations, particularly in american and europeen companies. Other elements have led to a revisit of the valuation of principles of the companies as well as their mode of management. In this order of ideas, kaplan said in 1992 “what you measure is what you get”[1]. However, with the formalization of the balanced scorecard at the beginning of the Nineties by Kaplan and Norton, financial logic gradually gave way to an increasingly balanced logic, including the valuation of intangible capital (assets) such as brand, innovations, development research, skills, performance of internal and external processes, etc. At this period executives understand that traditional financial accounting…. can give misleading signals for continuous improvement and innovation”[2]**.**

This has led to the emergence, in the same way, of a desire to put in place a clearly defined strategy. In this context, we identify the problem in this paper, which is based on the following question: how can performance management through the balanced scorecard create value for a company?

I Appearance and principles of the balanced scorecard

We said at first that the balanced scorecard was created by the twin authors: Kaplan and Norton in 1992. By the way, the appearance of their book: « how to use the balanced scorecard? The strategy focused organisation », had given us a new opinion of the rise and fall of management accounting which hadn't become able to explain industrial phenomena and given us a fair value of products. Senior executives had clearly noticed a transformation of the industrial environment, on the one hand and the inability of the traditional management accounting at the time to explain industrial phenomena, in the other hand.

Balanced Scorecard can be defined [3] as « an integrated, organization-wide management system that drives, in an aligned manner, the transformation, improvement and modernization efforts of all hierarchical levels towards the accomplishment of organization's Strategy. For this reason, Balanced Scorecard is also known as a Strategy Execution system. »

Since their first article about Balanced Scorecard, published in 1992 in the Harvard Business Review, Kaplan and Norton have published five books, which have marked the evolution of the balanced scorecard framework and of its implementation methodology, starting with 'The Balanced Scorecard', in 1996 and ending with 'The Execution Premium', in 2008 (now also translated in Romanian, soon to be published).

The Balanced Scorecard is a new method introduced in 1992 to measure a company's activities in four areas: finance, clients, learning and development axis, internal processes. It is a strategic approach to translating the strategy into concrete actions. The construction of the strategic scoreboard must take into account all aspects of performance, but also highlight in addition to the outcome indicators, predictive indicators of the future situation. It must also determine the effects of intangible items on turnover or profit or loss. Moreover, these same elements are valid only by their combination. The financial performance of the company depends on tangible assets and intangible assets. Now, since one can only manage what one can measure, the difficulty resides precisely in this action. The measurement of the performance of intangible assets should be based on non-financial indicators. But here, a cause-and-effect relationship card must be established to explain the financial performance of the business. Cause-and-effects relationships define four complementary levels of performance that define the four perspectives. Presented by Kaplan and Norton, the balanced scorecard "look at the business from four important perspectives" [4]. In the same time, it links performance measures and gives answers to four basic questions, always according to Kaplan and Norton[5] as following:

- How do customers see us? (customer perspective)
- What must we excel at? (internal perspective)
- Can we continue to improve and create value? (innovation and learning perspective)
- How do we look to shareholders? (Financial perspective).

1) The financial perspective

The objective of this axis is to ensure an increase in shareholder value. This translates into an increase in the value of the share and consequently the income of the shareholders. All of the BSC's axes contribute to a chain of causality to increase value for the shareholder. The financial objectives, predictive of profitability, are measured by the ROI (return on capital invested) or the EVA (economic value added).

2) The customer perspective

As a result, good financial results are achieved through increased customer satisfaction. This approach involves the managers of the company in the value provided to customers. This is expressed by knowing the customer's needs, determining the company's positioning in terms of operational excellence (quality, lead time, brand, relationship, etc.) and product presentation as market leadership thanks to technological and commercial innovations. It is necessary the company excels in one of these dimensions without neglecting or dropping the other two.

3) Internal processes perspective

The action marks the objectives and measures on the internal process axis that drive performance. Because of this, the competitive advantage is expressed not only from the superiority of the product or the brand, but also from the internal processes. These objectives revolve around innovation, improved production and customer relations (after-sales service). Improved supply chain management, asset and resource utilization also supports internal processes.

4) Learning and growth perspective

Lastly, this latter axis touches on an indispensable element on which the company can rely; that of intangible resources. Human resources are an indispensable means of ensuring the company's competitiveness. The latter must, moreover, be vigilant in developing the skills of its employees. It must also ensure the degree of mastery of key technologies in a good social climate. Training is a means of developing these skills and competencies.

Balanced Scorecards include performance indicators and steering indicators. However, causal relationships have shown operational evaluations focused on client satisfaction, organizational learning, internal processes, and human development. To do this, a relevant strategy must be used to make the whole system coherent. In implementing the strategy, managers are often confronted with three categories of difficulties:

1) The difficulty of translating strategic objectives into operational objectives due particularly to weak internal communication. This makes the contribution and involvement of each element of the company more difficult in its strategy,

2) The resource allocation system is biased due to the omission of certain objectives. The preparation and implementation of the strategy is carried out by the senior executives without taking into account the base and all the actors who implement it. This gradually transforms the strategic vision into a budgetary procedure led by the finance department.

3) Leaders (managers and chairmen) advocate a short-term vision to the detriment of a long-term vision.

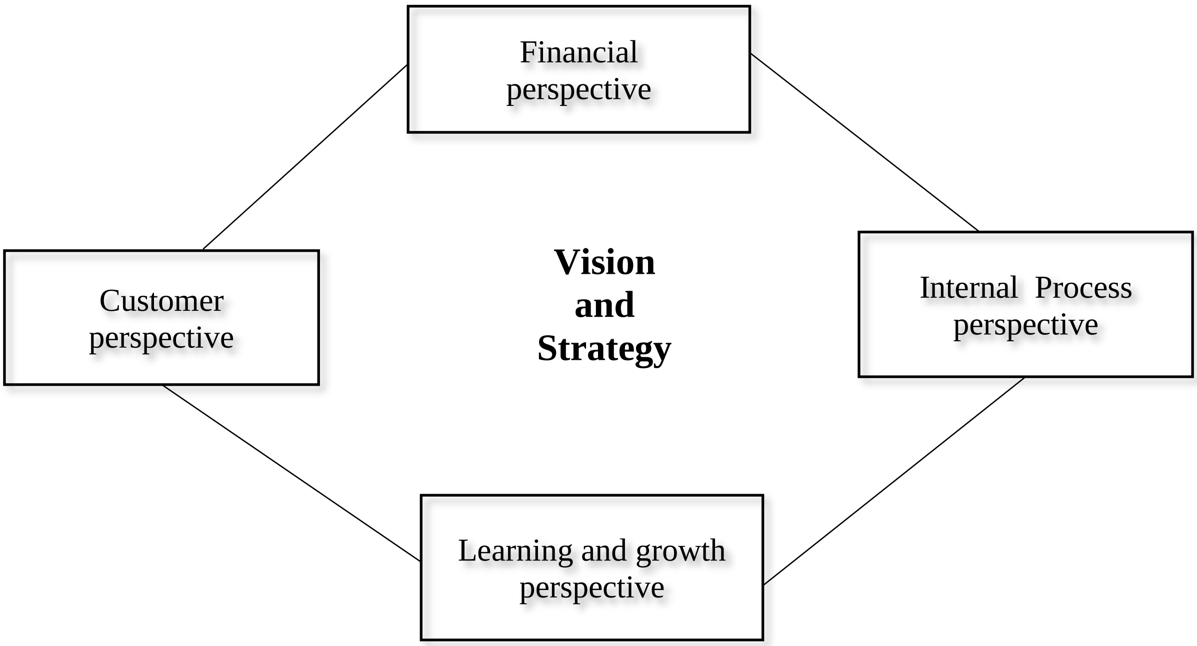
I.2. The balanced Scorecard: A representation of strategy

Because of the different barriers existing in the implementation of the strategy, such as vision barrier, resource barrier or management barriers, strategic plans only fail. At the end, only 5% of the workforce understood their company's strategy and only 25% of managers have incentives linked to strategy. In fact upper level management creates the strategy. Therefore, companies need a new way of communicating strategy to the end user that means everybody's business from the bottom up, particularly the executives because the execution takes place. It's about the balanced scorecard is not a simple decision-making management dashboard. It is a balanced performance measurement system and with it, the strategy reaches everybody. The strategy is expressed in terms of measurement, goals and objectives. The first step is to formalize the strategy and then to define it in operational objectives. This approach seeks to:

1) Monitor all the factors determining performance. One is not limited to financial aspects. it's the non-financial objectives that make it possible to achieve the financial objectives. Thus, customer satisfaction is assessed by indicators measuring the answers given to consumer expectations. The indicators related to the internal processes allow us to know the improvement of the processes of innovation and maintenance. Finally, indicators on organizational learning and human development reflect the actions taken in the area of training and skills development.

2) It also seeks to highlight the causal relationships between operational performance and the strategic outcome.
3) Another element of the balanced scorecard approach is to control the operation of the entire company and not to control only the outcome. As a result, Kaplan and Norton propose the lagging indicators used once the action is completed and leading indicators or leading indicators located further upstream. They act as an alarm signal before deterioration of performance. Thus, if the degree of customer satisfaction is the result, the action is focused on the error rate or the response time to customer requests.
More precisely, Balanced Scorecard represents a framework for aligned Strategic Planning and for the consistent management of the organizational and individual performance in the execution of the Strategic Plan.

Schema n°1: The perspectives of the balanced scorecard



Source: Kaplan and Norton, measures that drive performance

I.3. How can we have an organization focused strategy?

The concept "business strategy" is commonly used in the business community. However, to define the strategy, we can return to the characteristics of strategic decisions, especially, the "long-term" character of strategic decisions. This orientation is being progressively implemented in the context of the operational plans and annual plans. Strategic decisions are designed to achieve a competitive advantage. This is perceived through quality, price, innovation, comfort in the use of the product, etc .... . However, continuing to manufacture products with a very long life cycle is certainly not the best way to win a competitive advantage. Given that the sector is highly competitive, the advantage is commonly obtained by innovation, not by prices or low costs. Since the characteristics of the products are the same or can be similar, prices are very close to each other because margins are very low. Innovation and the creation of new products must be taken into account as the lifecycle of the product is rendered obsolete, less competitive and less attractive.

I.4. Creating synergies between the organization and its strategy

Profit centers are in the same moment centers of turnover and cost centers. Generally, these centers are the tools for implementing the strategy adopted by the company. For the description of this strategy, we have the so called “strategy maps” and for its implementation, the Balanced Scorecard offers a very powerful framework to profit centers. However, for an organization focused strategy, each profit center must have its own Balanced Scorecard, in addition to that of the headquarters of the company. In this time, we speak about the strategy corporate.

The overall strategy is defined not only for each center, but also for the entire company. Its implementation is, for the most part, for all profit centers as well as support units. Thus, for the maximum efficiency of the company, it is necessary to exploit an appropriateness strategy and to find adequacy between this strategy and all the dashboards of each unit, hence the creation of synergies. Different relationships between units are created. They constitute what R. Kaplan called **"the strategic structure**"[6]. The creation of synergies through the strategic structure clearly demonstrates the role of the company's headquarters. This role is all the greater as the headquarter reaches all the synergies among its different parts. Contrary to this, and the general management is not able to create synergies, this is not enough for the development of the discretionary services of an unproductive unit.

The reality of the company has demonstrated worldwide, as well as scientific research initiated by some authors[7], like A. Chandler, including the existence and growth of complex businesses through administrative centers. In fact, these companies have been able to create competitive advantages by relying on synergies between profit centers. This has resulted in economies of scale in the development and manufacture of products as well as in other functions such as marketing or customer relations. This cannot be achieved without effective control by the parent company over its subsidiaries. It thus creates more value through its "parental advantage" than competitive companies because in this last case, “the parental advantage” does not exist.
Parental advantage can come from many sources such as "joint management and exploitation between profit centers, capabilities, functions, customers, technologies, key skills or external relations ..." . "Parental advantage" can also come from the ability of the parent company to apply effective management systems "for some types of companies which have to excel in market identification and product development." A third source of advantage also comes from the ability of the parent company to distribute capital and staff fairly between its different profit centers. "Parental benefits" cannot be achieved without a true resource-based institutional strategy. Thus, for Collis and Montgomery[8], "in a great institutional strategy, all the elements (resources, activities and organization) are in adequacy with each other. This matching is managed by the quality of the resources of the company, its strengths, its skills and its productive capacities ". Ultimately, parental benefits and matching of resources are achieved through balanced scorecard linkages.

II: Translation of the strategy into operational terms

We can propose, in this way, two definitions of the strategy because we deal about the obligation to translate the strategy into operational terms on the part of the company. In fact, I. Ansoff[9] considers strategy as "the control of the changes of the business system's relationship with its environment and the border of this system with what is not it". These changes with the environment (market share, volume of investments, new products, etc ...) take place over the long term. Relationships with the "enterprise" system and the rest necessarily arise, hence the need to steer these different actions. M. Porter[10] talks about a resource allocation system that engages the business in the long run.

II.1 The implementation of strategic maps

Strategic maps are a cause-and-effect diagram that represents the links between the different objectives of the four perspectives of the balanced scorecard. For the construction and implementation of the prospective scorecard, the strategic map is the keystone of the framework of this project. Thus, Kaplan and Norton consider a strategic map as a generic structure for the description of the strategy. In this descriptive framework of the strategy, the need appears in linking two important components of assets in value-creating activities: intangible and material assets. In all cases, the strategic map uses the causal relationship between the fourth axis (while proposing the assumptions of the strategy) At the end, the primary objective is to research, find the activities wealth creator and include them not only in the strategy but also in the strategy map.

In addition, the strategic map explores the assumptions of the strategy. Because of this, the strategy must be only some starting hypothesis. In the fourth perspectives of the dashboard, we, always, find indicators embedded in a chain of cause and effect relationships. These indicators represent the assumptions of the strategy. The construction of the model starts from the top down with the financial strategy. The work consists in defining the strategic objectives and the indicators specific to each perspective. After that, we highlight the causal relationships between the different indicators.

Mapping of strategies appears necessary when improving the implementation and execution of the strategy outlined. The strategic analysis of the map begins with the fourth perspective, which is "learning and development". The strategic objectives of this progressive axis is to achieve the objectives of the axis "process" which, in turn, support the objectives of the "customers" perspective. The "customers" perspective progresses towards achieving the objectives of the "finance" axis. The strategic objectives of each one of the fourth perspectives must be in line with the strategic mission of the organization. The strategic map becomes a model of value creator.

The Balanced Scorecard is positioned in a middle position between four values which are the Missions, Key Values, Vision and Strategy, on the one hand and Strategic Projects, Personal Objectives and Strategic Outcomes, on the other hand . This median position allows it to be a performance management tool thanks to the result indicators (lagging indicators) and monitoring indicators leading indicators). Performance is named from the strategic goals, to be implemented and executed. It is also necessary to monitor the application of this strategy in order to avoid any derailment. On the other hand, the strategic results are the result of a long process of implementation of the strategy. The implementation of the strategy must be done with the involvement of all the social actors of the company.

Strategic maps are a management system for visualizing the strategy. The complexity of the links between the strategic objectives of each perspective of the balanced scorecard gives the "recipe" for the achievement of a major strategic objective of the company. From there, we understand that the strategic dashboards and their graphic representations on the Strategic Maps provide a logical and comprehensive way of describing the strategy. They clearly express the desired results of the organization and the assumptions about how this assumptions and objectives can be achieved.

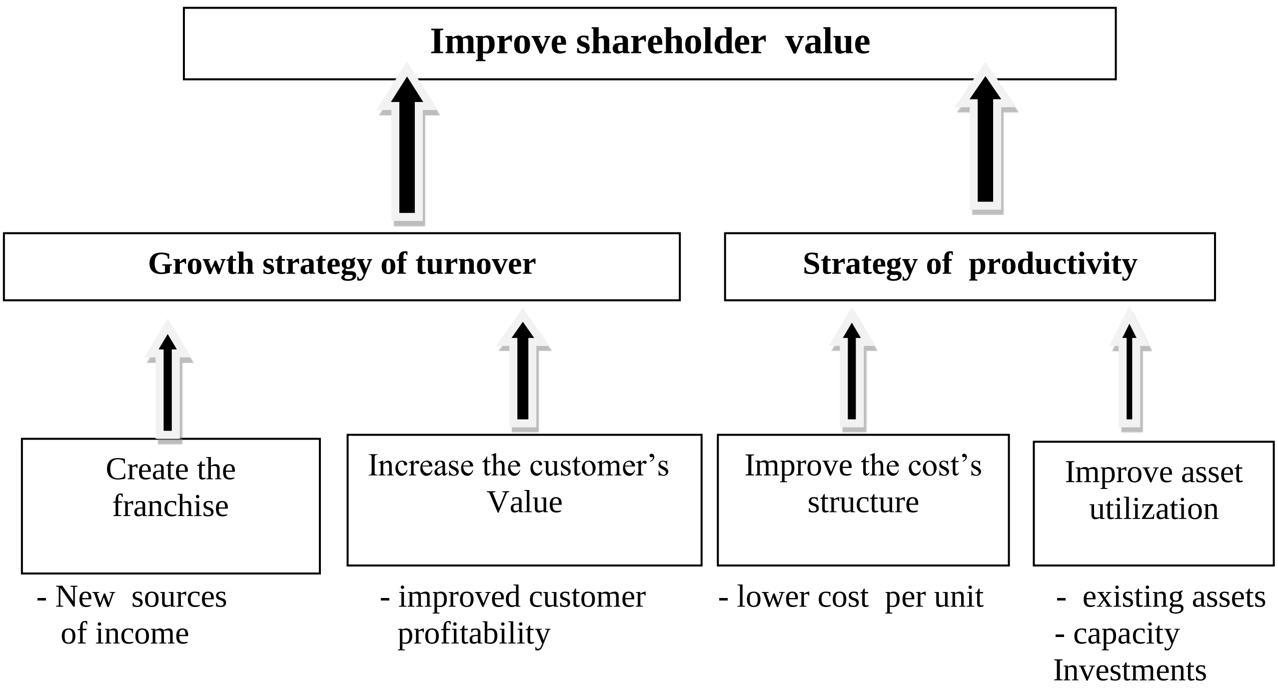
Strategic maps present the strategy as an ongoing (continuous) process. It signs up in the time and starts with all the missions of the company. Those missions must also be supported by all the employees. Finally, the management system, put in place, must ensure that the mission of the organization is well translated. This marks the continuity and extension of the strategy. The system must ensure that the strategy is the daily business of all employees. The strategy is then a step in a continuum. It is inscribed in time, mainly in the long run. To implement it, the company defines not only its own missions that accompanies them but also the key values. These latters (values and missions) remain stable over time as they contribute to defining the vision of the organization that gives an image of the future. This picture plays the role of starter that triggers the movement of mission stability and values.

II.2 The strategy is an assumption

The vision sheds light on all the decisions to be made in the context of the company’s missions. The vision is closely linked to the strategy because it gives an image of the destination (objective). On the other hand, the strategy describes the logic of the means to be implemented to achieve this. Subsequently, one or the other (strategy and vision) cannot take place separately. The vision exists to illuminate the path to strategy; whereas the strategy has meaning only within the framework of a clear vision. Kaplan[11] considers the fundamentals of the strategy as the activities in which the organization chooses to excel. The company has a multitude of activities of which only one part of them is profitable. This is why the choice is made to concentrate efforts in activities deemed

profitable. This creates, moreover, a price differentiation emanating from the activities and the way in which they are carried out.
To create a sustainable strategic position, the company must create a system of activities in which they reinforce each other. The Balanced Scorecard serves as an organized framework to describe the progress of these activities and their logical sequence. Its objective is to develop a vision of the strategy that it considers as a set of hypotheses. The company, induced in a strategic movement, moves from a current position (A) to a future position (B) with, however, a wish that the position (B) is more comfortable and better than the position (A). The course traversed from position (A) to position (B) includes a certain number of hypotheses (assumptions) connected to each other by causal relations. The strategic assumptions prepare for the identification of the activities leading to the desired results. For the measure, forward-looking and monitoring indicators are forecast.
The financial perspective is at the top of the strategic map. It defines the financial strategy to create growth, financial profitability and value for the shareholder that is the result sought by any strategy. In the beginning, value creation was measured by the concept called “Return on investment” (ROI). This concept was created by R. Brown in 1920, but at last, companies have adopted other methods of measuring value such as “Economic Value Added” (EVA) or discounted cash flow (DCF). Today, the calculation of EVA, as a financial indicator, is widespread in the determination of shareholder value. The financial performance objective for improving shareholder value stems from two strategies: growth and productivity. The revenue growth strategy is based on the development of new sources of revenue and profitability. This gives us the development of strategic maps based on both strategies.

Scheme n°2 : Development of the strategic map : the financial perspective



Source : R. Kaplan, D. Norton, op cité p 91

In the financial perspective, situated in the first level of the balanced scorecard, the company has to improve the shareholder value. This objective must be achieved by developing two actions: first we speak about “growth strategy of turnover” and second about “strategy of productivity”. In this term, strategy focuses on two key points: the creation of the franchise and the growth of value for the customer. The first axis seeks new sources of income from new markets, products or customers. The second axis is responsible for working with customers already acquired in the sense of deepening relations with the company. The productivity strategy is geared towards the effective execution of operational activities for customers whose relationship is already well advanced. The productivity strategy is responsible for improving the cost structure and the compression (reduction) of direct and indirect costs on the one hand and improving the use of assets on the other. Improved use of assets underpins the reduction in fixed capital and working capital needed to maintain an acceptable level of activity consistent with the objectives set and the desired levels of production.

II.3 The strategy defines a differentiated value proposition

II.3.1 Strategy and value proposition

The company's value proposition to its customers lies at the heart of its strategy in the customer focus[12]. In fact, the value proposition to the customer marks the combination of four elements linked to the product: the price, the quality of service, the relations and the brand image that the supplier provides to the customer during the sale of the product. In this case, the strategy aims at differentiating the competition in the market segments defined by the value proposition. In general, the company differentiates itself from its competitors by a differentiated offer, failing to enter the spiral of competition that forces it to share the market with, however, the commitment of additional investments. Three strategies are known to differentiate themselves in the market:

- The superiority of the product: it is a strategy of excellence adopted by the company that pushes it into the unknown or the highly desirable.
- Customer intimacy: the company chooses to tighten, improve and maintain intimate relationships with customers it already knows.
- Operational excellence: the choice for the path of excellence requires a perfect mastery of quality, price and ease of purchase processes.

It is clear that the different aspects of the value proposition are associated to the strategy adopted. The company that chooses operational excellence releases indicators on the competitive price, the quality perceived by the customer, the time and the punctuality of delivery. If the strategic choice is focused on product superiority, the company must excel in the functionality, features and performance of the product. The value proposition focuses on targeting customers. The company looks for the value proposition in which it will excel. At the same time, the target customers, in their purchase decision, respond favorably to the value proposition made by the company. Thus, the indicators of measurement of the result for the customer are satisfaction, volume of purchases, loyalty, part of the account, market share and profitability. "The specific strategy is reflected in the client focus of the Balanced Scorecard by focusing on a value proposition and measuring results for targeted clients"[13].

In the same order of ideas, M. Porter describes the activities in an internal process that makes up the value chain. The schema of these activities is taken over by R. Kaplan with, however, an articulation with the four strategic themes (perspectives) of the Balanced Scorecard. Of the three processes mentioned above, the company must excel in, at least, one of them. This must have the maximum impact on the value proposition for the client. The latest regulatory and ecological process pushes the organization to behave as a corporate citizen. Where regulatory, community, safety and environmental considerations exists, this process becomes vital to the success of the strategy. So there are three strategies: product superiority, customer intimacy, and operational excellence.

Conclusion: The implementation of the balanced scorecard and performance management

Through the presentation above, the balanced scorecard approach appears as a balanced vision of performance. In addition to this balanced vision, the Balanced Scorecard, which is an indispensable tool for implementing the strategy and performance management, includes financial and non-financial indicators and it inserts not only the short term but also the long term. The indicators are divided into two categories: intermediate and follow-up indicators (leading indicators) and outcome measures (lagging indicators). This action is the only one able to measure the creation of value for the shareholder from the company. The aim is to articulate the initiatives of employees, management and the company around the strategy and to identify new processes in order to meet the expectations of customers and shareholders. In the deployment of the strategy, three steps find their logic in this approach: Planning (design), Execution (implementation) and verification (control and monitoring of the execution).

From this point of view, we have to deal with a “business model” which is a synthetic representation of the company's business. This necessary representation describes the main aspects of an organization's activity both in terms of its objectives and the resources and means to be implemented. It's about defining:

- The markets,
- The couples products x markets,
- Expected performances by segment, level of profitability, levels of capital and resources deployed, product life cycles, evolution and prospects,
- The key factors of success by segment and by couple products x markets.

If the markets (national or foreign market) and the couples products-markets are defined, the other elements of the business model are retracted, or at least poorly defined. The objectives are of a general nature and the means to be deployed are those already existing. Investments (in terms of participation in particular) and to be implemented require a strategic nature. However, in the balanced scorecard approach, at least the Return On Investments (ROI), the economic value added (EVA) or the discounted cash flows (DCF) must be determined because they are parameters of shareholder satisfaction. Customer satisfaction must also be a step in the BSC process like internal processes or learning and growth. The balanced scorecard provides an integrated perspective on goals, targets and measures of progress[14].

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