
Balanced Scorecard as a Tool Supporting Organization Management

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Leszek Szczupak¹, Maciej Stajniak²

Abstract:

Purpose: The purpose of this article is to present the Balanced scorecard as a tool to support management decisions in an organization.

Design/Methodology/Approach: The research method used is an analysis of secondary data available in the literature and an analysis of the application of the method in the organisation.

Findings: The paper presents the stages of implementing a strategic scorecard in organisations and the effects that can be achieved by an enterprise implementing this method in its management processes. The research method used is an analysis of secondary data available in the literature and an analysis of the application of the method in the organisation.

Practical implications: The analysis of the literature data carried out makes it possible to apply the described method in the practical operation of an organisation. The application of the strategic scorecard in an organisation makes it possible to improve the effectiveness of the company's functioning. The presented method can increase the effectiveness of the organisation's functioning and thus increase its competitiveness.

Originality/ value: The originality of the research conducted can be assessed from the point of view of the applicability of the method described and its impact on organisational management. The practical aspects of the application of the strategic scorecard are also presented. The development of the economy and changing consumer preferences require the application of new management methods responding to these changing expectations. The studies carried out weave into the general body of scientific work of various, social and economic studies. The studies presented provide some scientific value, with the opportunity to view the full data analysed and evaluated.

Keywords: Balanced Scorecard, strategic scorecard, organisational management.

JEL codes: B41, M10.

Paper type: A research study.

¹Assistant Professor, Department of Management, Faculty of Social Sciences, Calisia University – Kalisz, Poland, l.szczupak@akademikaliska.edu.pl;

²Professor, Department of Management, Faculty of Social Sciences, Calisia University – Kalisz, Poland, Department of Transport and Freight Forwarding, Poznan School of Logistics (WSL), l.szczupak@akademikaliska.edu.pl;

1. Introduction

Contemporary market sets high demands for enterprises. Globalization caused that nowadays these are not economic entities but clients themselves, who decide what product and of which brand to choose (Nowicka-Skowron and Ślusarczyk, 2007). These competitive days, it is not enough to produce something. Before clients decide to buy a product, they pay special attention to the product's quality, price and a lot of added values offered by an entity, such as, for example the time the product arrives to the client. Thus, features due to which certain enterprise distinguishes itself among other companies and the way it is going to fulfill clients' sophisticated requirements become very significant. As a reaction to such market's requirements, business entities have to improve their functionality which means implementing ongoing changes on different levels of their activity.

Therefore, focusing only on financial measures may lead to wrong functioning of an entity. It may be a result of some limitations connected with financial measures, since they do not convey such information as, for example, "the quality of a product, client's satisfaction, production flexibility, delivery time" (Świdarska, 2017).

Currently, the increase of market demands and competition made enterprises look for new methods. For the time being, management accounting as a group of effective methods and tools (Leszczynski and Wnuk-Pel, 2015), has been an efficient element in the management of an enterprise. Unfortunately, in times of dynamically developing competition, accounting is no longer fully sufficient.

In the late 1980s in the USA ADI company, which produced semiconductors, began research concerning its competitive market position improvement. Subsequently, in the early 1990s ADI set objectives and grouped them into Corporate Scorecard, which played a very significant role in works devoted to Balanced Scorecard. Works connected with this new tool were performed by a group of specialists led by Robert Kaplan and Dawid Norton. On the basis of previous research results and objectives grouped by ADI company, a new tool called Balanced Scorecard (BSC) has been created (Świdarska, 2017).

"BSC referred to as a concept, method, system or tool of management in subject literature, allows organizations to transfer agreed visions and strategies into operational actions and individual goals, which are comprehensible for employees on different levels of the organization" (Archutowska, 2008). The most important objective of Balanced Scorecard is realizing a development strategy. BSC facilitates determining measurable and verifiable strategic goals. It also constitutes an effective way of joining objectives, which allows to monitor and evaluate the way they are performed (Nowak, 2003).

"The strategy chosen by an enterprise, and especially by management has a great influence on its success or failure, as well as on its survival or collapse"

(Nowakowska-Grunt and Starostka-Patyk, 2009). A tool such as balanced scorecard uncovers a problem and allows to solve it. Its essence is a consequence of a need to look for such methods which extort establishing cooperation between technical and administrative workers and, on the other hand, managing staff, since the direction which the business entity follows really depends on them.

It is also worth adding that, unfortunately, both of these groups have different perception of activities and effects which are to be performed (Sierpiska and Niedbała, 2022). The authors of the tool called Balanced Scorecard emphasized four perspectives which are most crucial from the point of view of company's actions. This is the place where strategic aims are formulated with their measures and target values, as well as all kinds of actions which need to be performed to achieve the set goals.

Therefore, the main task of discussed tool is matching in different scopes of intentions, as well as measures due to cause and effect relation, and then balancing them. A good match of goals with measures in perspectives shows the staff how the increase of scores within one area influences other areas, eg. improvement of all three perspectives influences results achieved in a financial perspective (Nowak, 2008).

Financial and non-financial measures are necessary in order to manage the company well. Without them, the managing staff is not able to manage and fulfill market demands (Leszczyński and Wuk-Pel, 2015) Information collected due to financial and non-financial measures is of great importance, not only in a certain moment of company functioning, but also in subsequent periods. The ultimate effects arising from Balance scorecard use may be achieved when. (Świdarska, 2017).

1. Available financial and non-financial measures are developed on the basis of previously created vision and strategy (for example of an organization);
2. Measures are related on cause and effect basis so that they characterize entity's strategic aim;
3. Measures used in the scorecard in all indicated perspectives are balanced.

2. Balanced Scorecard Structure

There are four perspectives in BSC:

- 'a client's perspective;
- internal processes perspective;
- development perspective;
- finance perspective'.

"It is (...) a kind of a proposition of a company's effectiveness measurement structure with individual measures collection being a derivative of different market

situations, products' strategies or a kind of competition for every enterprise individually. This collation, along with previously specified company's intentions, shows market/clients' expectations from the enterprise, chances of these requirements' realization, as well as necessary expenditures to realize them

All the perspectives specify, among others:

- 'strategic objectives within a certain area;
- the way objectives realization is measured (objectives have to be specified in a way which allows to measure them);
- target values which the enterprise wants to achieve;
- all kinds of actions which have to be realized in order to achieve desired goals' (Sierpiska and Niedbała, 2022).

Balanced scorecard allows to analyze and evaluate the enterprise's place in all perspectives. While using Balanced scorecard, it is very important to remember about all measures, however, there should not be too many of them. The abundance of measures may lead to difficulties with recognizing which are crucial, and which are not that important in the enterprise. (Leszczynski and Wnuk-Pel, 2015). A characteristic of each perspective is presented below.

2.1 Client's Perspective

In the times of great market competition, the majority of enterprises aiming at building strong position on market, first of all concentrate their actions on clients. The main task of management while creating enterprise's strategy is making decision connected with commercial offer directed to target markets and sectors. It is reflected in a Balanced scorecard, since it is a place where market shares and clients' satisfaction measures are defined. Kaplan and Norton divided measures in client's perspective into following groups, general measures used in the majority of enterprises and leading measures.

General measures include, among others, client's satisfaction, sales growth pace, gaining new contractors etc. These gauges are resulting measures which characterize the effects of undertakings performed by the enterprise. Leading measures, on the other hand, describe the way enterprises should act to achieve desired objectives, first of all how to achieve client's satisfaction and how to get other clients and build even better position on market (Świdarska, 2017).

Great importance of company's relations with clients may be portrayed on the basis of an enterprise which decided to make a research among its most crucial customers and asked them to place the company in the ranking with other enterprises representing the same industry. The ranking was connected with client's satisfaction with services, prices and good delivery time.

The research results showed that clients put the company in the middle of the ranking, which mobilized the enterprise to put more effort in their actions (Sierpinska and Niedbała, 2022).

2.2 Internal Processes Perspective

According to BSC assumptions, internal processes analysis should give an answer to the question which internal processes ought to be improved and how to do it well. There may be different motivations to improve processes. They may arise from client's need, benchmarking or from a set goal' (Archutowska, 2008). Taking into consideration fulfilling client's requirements, the most important processes taking place in a company are innovative processes which analyze clients' expectations (specify which products clients expect and which features of a product are the key ones, and which are less important), as well as operation processes and after-sale processes (Świdarska, 2017).

2.3 Development Perspective

In the course of developing the perspective analysis, actions leading to long-term growth and company's value improvement are being researched. Hence, appropriate financial resources should be spent on products' research and development in order to ensure long-term development of a company. In view of the above, also modern technological solutions ought to be implemented in a company.

Thus, allocating sufficient funds into personnel, modern technologies, as well as in proper organizational undertakings is indispensable. Such approach allows for ongoing development and improvement in an organization and facilitates its development in subsequent periods (Leszczynski and Wnuk-Pel, 2015).

2.4 Financial Perspective

Financial perspective analyses if strategy implemented by an organization fulfills the most significant task, which is 'ensuring owners internal rate of return exceeding their expectations' (Świdarska, 2017). Profitability analysis can be, among others, included in the area recognized in this perspective. The measures in the financial perspective are an effect of how the change of organization functioning presented in the client's perspective translates to financial results. Financial perspective constitutes a kind of collation of other perspectives, on the basis of which effects of business entity functioning can be defined (Leszczynski and Wnuk-Pel, 2015).

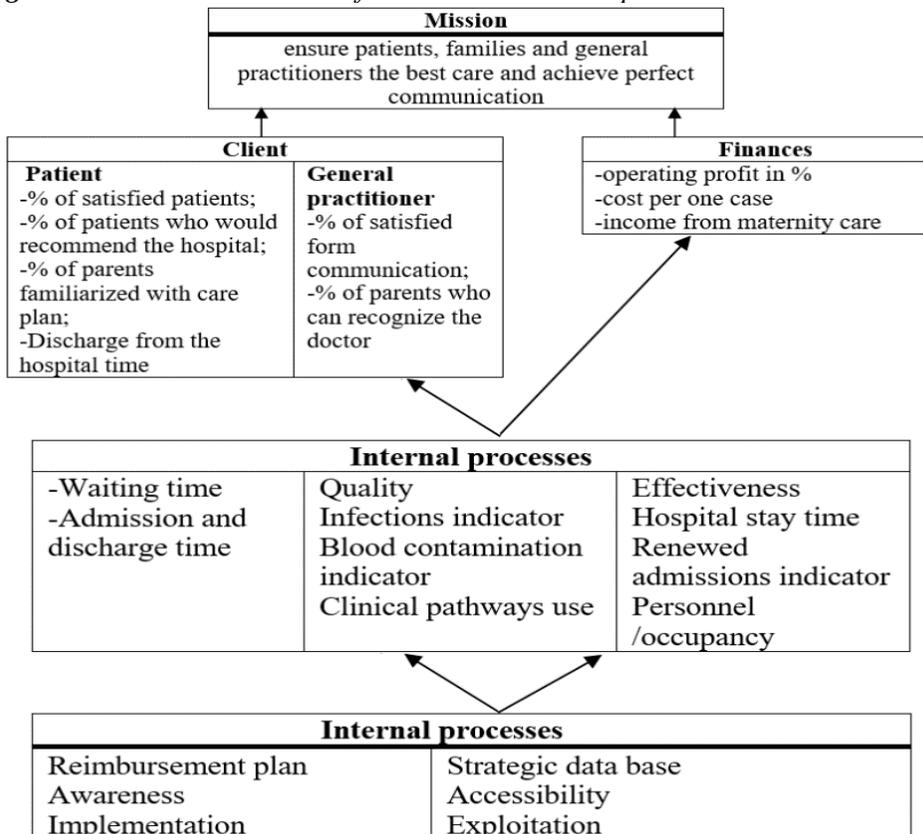
“There is no one universal balance scorecard which could be implemented in each organization. Therefore, BSC of an organization constitutes a unique composition of goals, tools supporting achievement of these goals and a set of measures recording the effects of taken actions” (Archutowska, 2008).

3. The Example of Balance Scorecard Use

Balanced scorecard is a method used in both private and public sectors. Duke Children’s Hospital is an example of an organization where Balanced Scorecard has been implemented when:

- cost per one patient increased by 35% in comparison with the previous year;
- average time of patient’s stay in the hospital increased by 15% in comparison to previously made plans;
- losses arising from organization functioning were noticed;
- the personnel was dissatisfied;
- remedial steps undertaken before in order to improve Duke Children’s Hospital were inappropriate.

Figure 1. Balanced Scorecard of Duke Children’s Hospital



Source: (Leszczyński and Wnuk-Pel, 2015), p. 622.

Net profit increase by 50 million dollars, decrease of costs by 30 million dollars, clients, their families and personnel's satisfaction increase, reduction of patients' hospital stay time were, among others, the effects of using Balance Scorecard (BSC). The hospital received these results in a short time – about 3 years time (Leszczyński and Wnuk-Pel, 2015).

4. Conclusion

Creating Balanced Scorecard by Kaplan and Norton made it possible to use this method in both private and public sectors, which is well presented by the above discussed example. Moreover, it allowed a certain entity to use received data in managing the organization in the following years. Balanced Scorecard is referred to as a method which transforms the organization strategy into appropriate objectives and measures. Methods which had been used before BSC was introduced, had most usually presented financial results arising from a certain entity functioning, but had not analyzed clients or personnel's satisfaction or many other areas of a company.

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