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THE BSC METHOD USED IN ACHIEVING ORGANISATIONAL STRATEGIC OBJECTIVES

Viewpoint
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Abstract

The main objective of this paper is the examination of the concept of Balance Scorecard method and its possibilities in achieving process of the strategic objectives of the entity. The author has developed a Strategy map for an entity that transports goods by lorry. The Strategy map it is an important device used to communicate the strategy, focus organization efforts and implement the strategy developed by the management of the entity. The authors recommended, as well, the form of an internal report „Indicator’s sheet”, used for reporting the mode of achievement of each measure set out in the Strategy map.

Introduction

Modern entities are some open economic systems that operate in uncertain external environment, being submitted to continuous changes, the nature of which is rather drastic. The key factor that determines the development of the entity nowadays is the competition, and in order to activate with success under a fierce competitive struggle it is necessary to have an effective strategy.

The establishment of a strategy and also strategic objectives that result from it derives from the preoccupation with more general problems that brings the entity in a position in which it has to cope with and operate efficiently and effectively in the external environment in which it is located.

In order to achieve a fixed strategy, it must contain a description of the financial aspirations, of the customers they serve, of the key processes developed within the entity, and of course the skill of human resources, knowledge and their skills which guide the entity to success, that is possible only if there is an optimal information basis in the entity. Such an information base used for making strategic management decisions that allow the entity to obtain competitive and stable advantages and an authoritative activity under competitive business environment – refers to the strategic management accounting.

In specialized literature it is recognized that the most effective tool of strategic management accounting that "facilitates the strategy and enables the best communication of the strategy to all members of the entity is the dashboard of performance measures", also known as the Balanced Score card method (hereafter referred to as the BSC). The dashboard of performance measures is an answer to the insufficiency of traditional management accounting in substantiation of strategic decisions taken by managers. In 1992, Kaplan and Norton have taken up Robert Eccles' doctrine (1991) with the intention to support strategic management by using a Balanced Scorecard (BSC) model, which was further appreciated by many researchers who have continued and developed their idea.

Content

The roots of the phrase balanced scorecard include The "*Tableau de Bord*" – literally, that is a "dashboard" of performance measures. The balanced scorecard is a strategic planning and management system that is used extensively in business and industry, government, and non-profit organizations worldwide to align business activities to the vision and strategy of the organization, improve internal and external communications, and monitor organization performance against strategic goals. The key is to focus not only on financial outcomes but also on human problems that

influence these results, so as the entity must focus on the future of the business and act on long term.

BSC is actually one of the most recent management control tool and can take the form of a balanced assessment scheme (**Kaplan and Norton, 1996**) constituting a model for the performance analysis and control of the entity under investigation and observation, in their multifaceted nature, being able to provide a method for measuring managerial variables, responsible for the company's success, registered on various level of activity. These variables are of different types, pertain to certain fields of activity and are in a strong interrelationship, leading to the possibility to collect information on matters relating not only to the current situation, but also to future ones, in the medium/long term.

In the modern era of information technology, it is essential to take advantage of the inherent intellectual assets and be able to manage them cautiously than to invest and manage concrete and tangible assets. At the same time, intangible assets allow us to establish fiduciary relations with our customers, to introduce high quality customized products and services, and in the short-term to create new information technologies and systems, namely to motivate staff so as to continuously improve professional competences and skills.

The need to use a BSC model also awoke from the awareness that a company's results cannot be described with just one type of indicators. Apart from these classical indicators, of economic and financial nature, we obviously need to find another type of representation of the intermediate steps taken by a company in its activity in order to reach the final outcome. But performance measurement systems are not only oriented to formal, isolated domains. Strategic management also deals with relationships between different stakeholders, strategic goals, strategies, resources, and capabilities. In this paradigm of instrumental rationality, managers derive the strategic goals from the specific purpose and mission of the business (**Moller and Schaltegger, 2008**). To that effect, BSC proposes a reading of the company's multi-layered results which use in a balanced manner a system of various indicators which are in their turn polarised towards the following perspectives:

- results: express a company's capacity to pursue, by achieving specific objectives, strategic objectives relevant to its own mission;
- customers: measure, understand and change (guide) the customers' perception of the company's results;
- internal business processes: measure the internal management processes in which the organisation must excel, thus guaranteeing the best economic results.

- growth and development: deals with a BSC model with higher values, because it highlights the company's economic valence as a sustainable system. As part of this pillar, the company's economic objectives are defined, determining the necessary conditions so that the results would not be considered yearly goals to be reached, but rather a transitional partition in the company life so as to achieve better results in the following years. Within this pillar, we can identify those indicators which define the initiatives designed for the continuous growth of professional competences and generally for the company's economic growth. Therefore, the creation of a strategic portfolio by using the diagram proposed by BSC begins with a reflection on the company's mission and vision for the development of the necessary system of indicators, according to the four pillars (Figure no. 1) BSC operating diagram.

Within the BSC framework, managers turn their attention towards non-financial indicators which are used to assess the degree of customer and employee satisfaction, the length of processes and quality of the results. These indicators, called by experts leading indicators, support and facilitate the anticipation of the future business financial performance, because only with a motivated team driven by efficient and customer-oriented processes, on a market of satisfied consumers, providing better products manufactured in economic efficiency conditions can they reach sustainable development in terms of profitability (**tef nescu and Silivestru, 2012**).

Logical requirements in changing the performance measurement models (**Aureli Selena, 2009**):

1. *Companies keep on acting based on a long-term strategy*, defined in the past without activating a regular review process for this strategy (concerning the control seen as a verification of the results and only in exceptional circumstances the strategy is to blame – that is the logic of a strategic plan). In this respect, the condition of the logic of changing the control vision is represented by the restlessness of the business environment and market dynamics.

2. Another aspect worth considering is the *breach between leaders and followers*. In this respect, another condition is represented by the market dynamics and rate of change imposed on the companies. Companies keep on running "mechanically", first defining the strategy, then the structure and in the end the operational mechanisms (the information control system), delegating the implementation of the strategies to subjects who do not partake in the strategic decision-making.

3. *Vertical learning*. The relationship between objectives and outcomes is only vertically analysed by the company. In this respect, only top managers learn from mistakes, while at operational

levels there are no learning mechanisms, and for this reason control is only seen as a time of verification conducted by the top manager and not as a time of communication.

4. *Little information provided by the traditional economic and financial indicators*. Competition is not based only on internal efficiency (cost-based competition) but also on new competitive variables, such as: innovation, time and customer satisfaction. However, companies keep on focusing their attention on the economic and financial results (e.g.: ROI, turnover, ROS and ROE) without taking into account the qualitative factors leading to these outcomes. Under these circumstances, we must underline that there are no economic and financial indicators which could offer a complete picture of the entity's performance and thus it is necessary to reconsider the traditional control systems and move to an integrated measuring system which should comprise: both the economic and financial aspects and the qualitative ones, on short-time as well as on the long-term.

BSC is a dashboard which integrates short, medium and long-term vision and controls organisational performance in four key perspectives: financial results (short-term objectives); customer (medium-term objectives); internal business processes (medium-term objectives); growth and learning initiatives (long-term objectives). The BSC fundamental thinking lies in planning a set of interrelated indicators designed as a pattern to interpret the company, thus allowing for an overall assessment of the outcomes. The BSC indicators translate the company's mission and strategy into actions, aligning the behaviour of all the subjects pertaining to that entity. In conclusion, the BSC may be used as a strategic control tool and as an analysis model for defining the entity's strategic position, not ignoring the traditional control tools because they add to financial accounting and the budget.

The BSC suggests considering the organisation from four perspectives:

1. The Financial Perspective - shows if the creation, implementation and execution of the strategy leads to a profit increase. It shows how the entity is seen from the shareholders' perspective. The economic and financial perspective allows, as part of the BSC, the identification of the company's output, in the order of reaching its own strategic economic and financial objectives and not overlooking to maintain the conditions of efficiency and effectiveness. The expectant return carries an ex-post because it has the purpose to highlight the economic consequences of past actions; for this reason, the traditional dashboard systems are often employed in management control.

Kaplan and Norton's model does not ignore the necessity to monitor the traditional economic

and financial metrics, but it also imposes a balance between these types of indicators and the ones inherent to other perspectives (Occhipinti Nicola, 2005). Taken together, the indicators show whether companies and their subunits have improved their performance across a range of activities and outcomes (Schaltegger and Burritt, 2000).

The BSC aims at evaluating the management processes based on its ability to maintain financial balance, which becomes the benchmark in assessing management and to provide efficient services according to the sustainable efficiency levels. In order to register maximum outcomes, three economic and financial objectives may be established to lead organisational strategy, as follows:

- a) increasing revenues and the mix;
- b) reducing costs/improving productivity;
- c) using resources/investment strategy.

2. The Customer Perspective – show the entity considers the customers' point of view: customer satisfaction, the attraction of new customers, keeping customers, their profitability and the target market segments.

This customer-oriented pillar allows the company to adapt its outcomes measuring metrics to their customers - satisfaction, responsibility for their needs and expectations considering the target customers and market segments. Apart from this pillar, it is possible to clearly identify and measure value propositions taking place on target customers and market segments. The already existing customer portfolio and possible future customers are 2 different contexts, as they do not have the same preferences and thus different values are assigned to the products and services. In order to define organisational strategy, it is necessary to conduct market studies which could present market segments on customers and their preferences as factors: quality process, functionalities, image, reputation.

3. The Business Process Perspective – analysis of the processes at which the entity must excel.

As part of the internal management processes pillar, the processes having the most significant impact on creating value and consolidating market relations are analysed and kept under observation. The measuring models to be used are the ones measuring the efficiency and effectiveness of such processes, allowing managers to see at any time the manner in which the performance achieved influences the business progress and also if the resulted products and services satisfy the customers' needs. Therefore, in this stage, the question should be: "To satisfy our capital owners and customers, which are the processes and especially the activities in which we should excel?" Generally, the objectives and measures from this dimension are defined after the

identification of the objectives and measures on the economic and financial perspective.

4. The Learning & Development Perspective – long-term changes and improvements conducted by the entity to ensure achievement of its vision. Competition and environmental characteristics force the companies "to continuously improve the skills to deliver value to customers and shareholders". The learning and development perspective takes into consideration the motivation of the company and employees to improve their qualification through continuous learning. The most useful indicators used in measuring learning and development processes include employee satisfaction and degree of loyalty, their qualification and the capacity of performance of the information system.

The concept of BSC method lies in the fact that strategic objectives are listed by indicators, target values and action plans. The constituent elements of the BSC are: strategic objectives, performance measures, target values and strategic initiatives, as shown in Figure 1. Starting from these general views, at the level of an entity, specific strategic goals are established, which the entity must achieve if it wants the strategy to be successful. The strategic objectives are the main element of the BSC method. They ensure concretization of strategic directions and must be made clearly and explicitly as it can be seen in the **Figure 1**.

For this reason, the objectives must consistently support in achieving the entity's mission and managers' vision. Therefore in defining the objectives, it is important to determine how they will be measured and compared with the values that we believe should define the success of their process, this being possible through performance measures.

The performance measures play an important role in implementing the BSC method, as their current and projected values (targets) constitute the core of the entity's reporting system. That is why the definition and choice of measures should involve all participants in the development of BSC method which will be the recipients of the reports.

As a result, we get a balanced scorecard which consists of a set of objectives, in which each objective is associated with one or more performance measures, targets (target values) and concrete initiatives that are necessary for the implementation.

Generalizing the above, the process of implementation of the BSC method can be represented schematically in the following way in the **Figure 2**.

In compliance with the order of the work steps listed above, the author tried to develop a prospective dash board for an entity that transports goods by lorry, which was generalized in designing

the Strategy Map. The structure of the Strategy Map structure proposed by the author is represented in **Figure 3**.

The author believes that in order to analyze the degree of achievement of the strategic objectives established in the Strategy Map, each manager responsible for achieving a specific performance measure should prepare a special monthly internal report called “*Indicator’s sheet*”. The form and content recommended by the author for this report is given in the **Table 1**.

This management report will allow the manager to control all critical measures (indicators) to achieve the strategic objectives set for a given structural subdivision and to monitor compliance with limits, normative and requirements set in the entity.

Conclusion

Executive Directors or managers of local enterprises still do not realize the necessity of implementing BSC and the need of consultancy in the process of identification of effective strategies. The development of indicators to measure the strategies implementation and the rules for the development of promotion strategies among employees and the increasing competition real so other objectives which must be placed on the work table for BSC development in the Republic of Moldova.

The BSC method is recommended for those companies in need of expansion and an increase of their sales activity, which need to process alignment to strategy, to develop an effective strategy, ensure flexibility of strategies, timing branches activity, to monitor and evaluate strategies, to provide employee motivation and ISO synchronization with strategy.

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Table no. 1
Indicator's Sheet

The perspective	Customers			
The indicator's name	Customer Satisfaction Index (Isc)			
The strategic objective	the satisfaction of consumers about transportation of goods by lorry services			
The unit of measure	%			
The range of possible measurements	From 0 to 100			
The formula for calculating the indicator	$Isc = \sum_{i=1}^n \frac{P_i \times NS_i}{n}$ where: P _i - the weight of importance of each customer expectations (from 0 to 100%); NS _i - the level (score) of the customer satisfaction for each expectation (from 1 to 5); i - the running number of customer's expectation (from 1 to n); n - the number of customer's expectation.			
The frequency of calculation	Monthly			
The type of target size				
The value of indicator	2015			
	<table border="1"> <tr> <td>January</td> <td>February</td> <td>March</td> </tr> </table>	January	February	March
January	February	March		
The current value				
The target value	95%			
The allowed deviation limit	5%			
The responsible manager	Marketing Department Manager			
Name, Surname				
Signature				

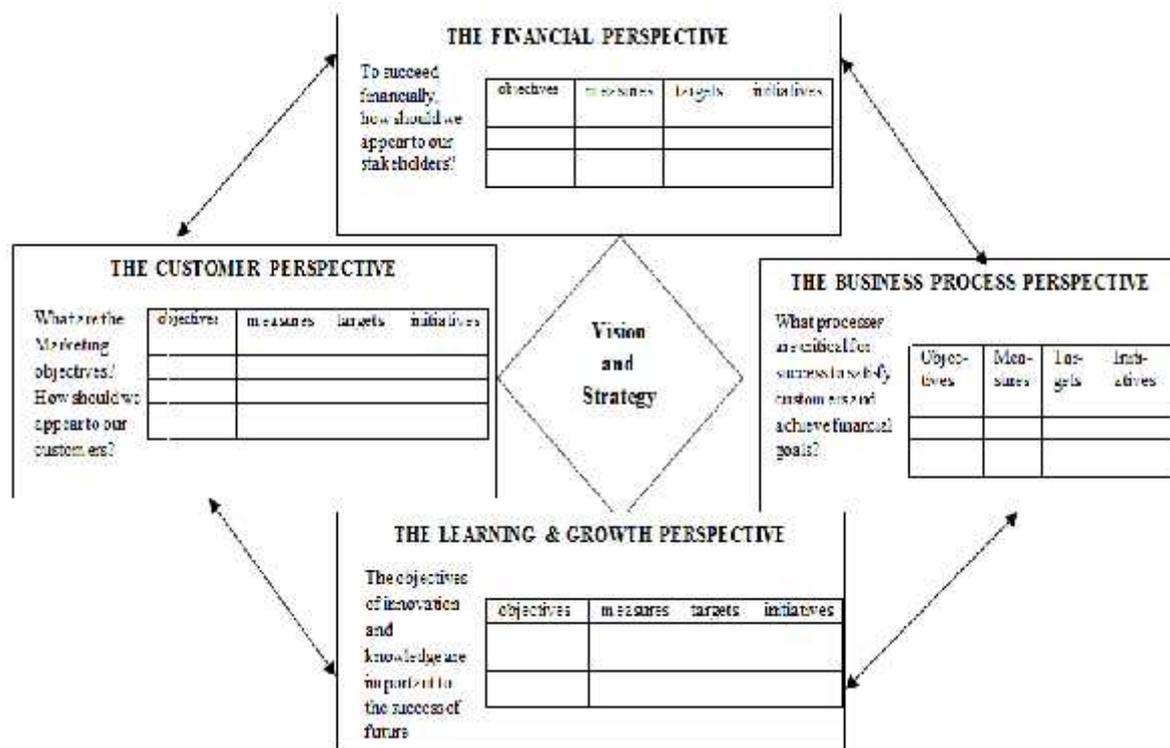


Fig.No. 1 The components of BSC method

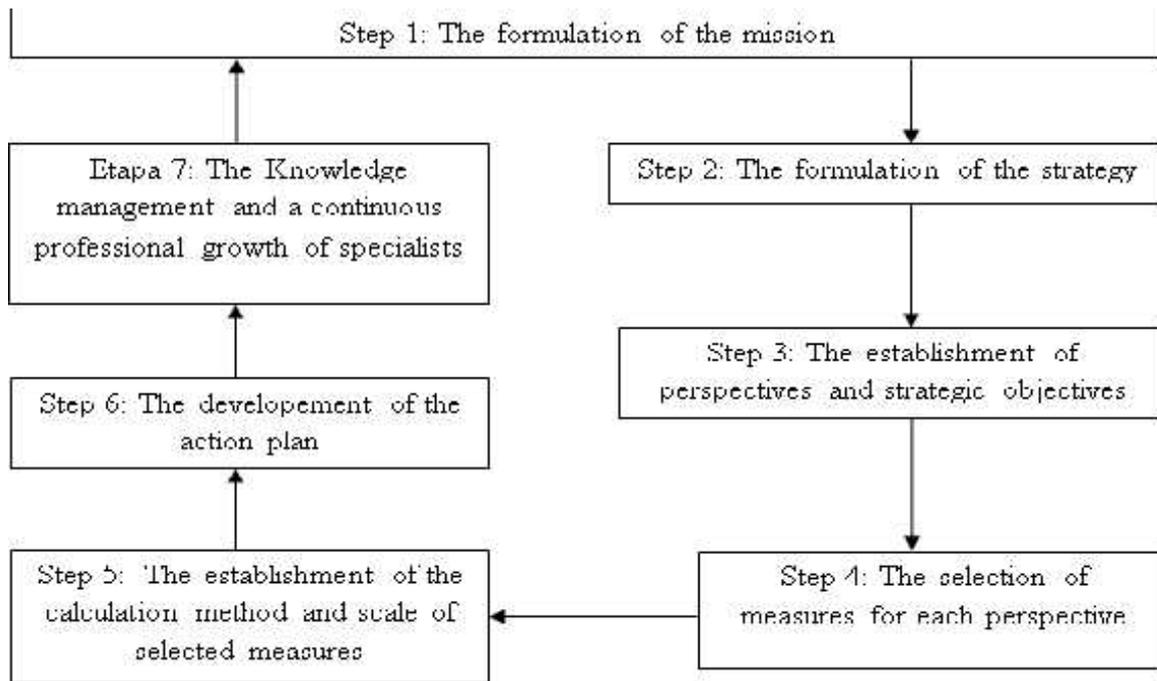


Fig. No. 2 The process of implementation of the BSC method

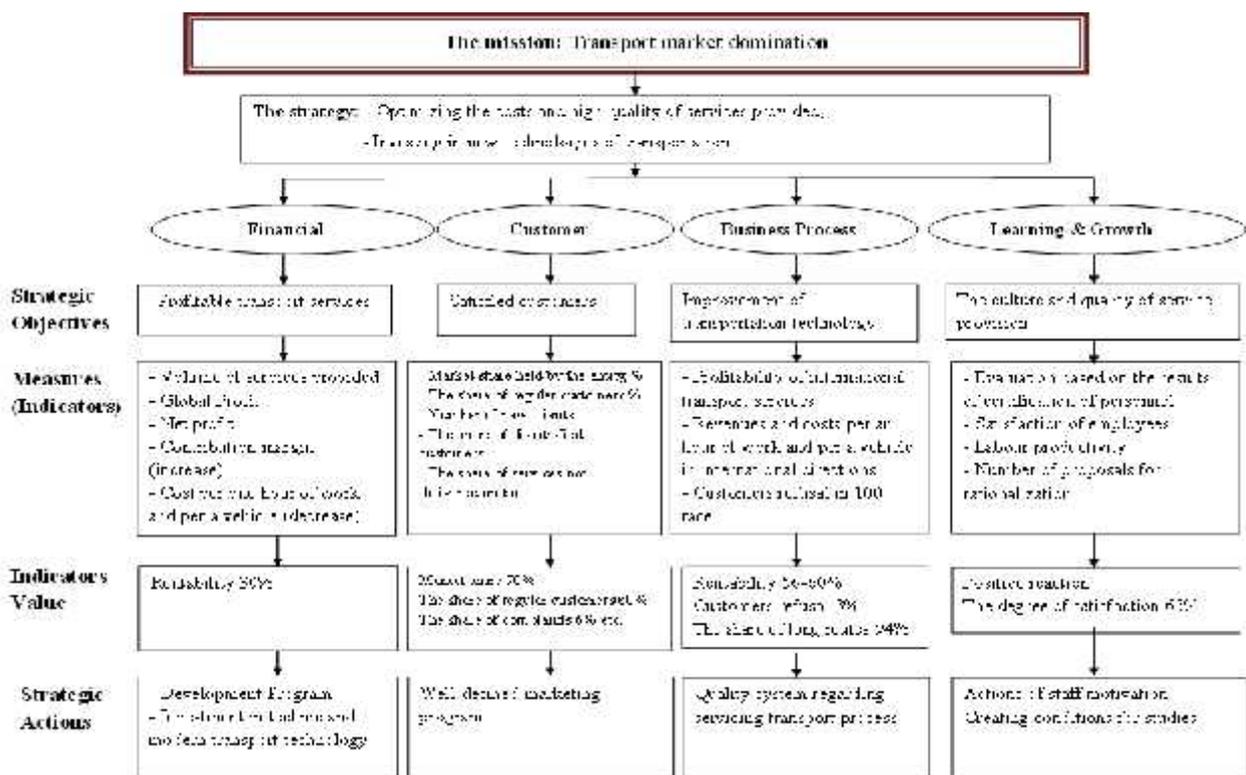


Fig. No. 3 Strategy Map for an entity that transports goods by lorry

