

## BALANCED SCORECARD – A STRATEGIC MANAGEMENT SYSTEM

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**Abstract:** *For the development and implementation of Balanced Scorecard (BSC) for the public administration, the organizations assign a significant amount of time, energy and resources, in order to measure performances in the reaching of the strategic goals. Nowadays, we can use BSC, appeared as excellent instrument destined to capture, describe and translate the strategic goals of the organizations into goals fully understood by the whole organization, by departments or by component parts of the organization, and as well by all individual employees or by groups, for a successful implementation of the strategies. BSC is a performance management instrument, which allows the aligning of the goals from the organization strategy to the goals of the departments implied in the strategy accomplishing, respectively to the key-goals and key-indicators of the employees performances. By the Strategy Map are emphasized the main goals and the link between them, which outline the strategy. This is based on the grouping of the goals from the ones perspective BSC chosen, mainly financial, customers/citizens, internal processes and innovation, learning and development and is an excellent instrument, which offers a quick general view („a one-page summary“) of the link between these goals and, implicitly, of the strategy functioning mood.*

*The use of this instrument within the Prefect's Office of Timis County allowed the development of the information from various strategic documents elaborated by the institution, and its transposing in a singular form, structured on perspectives.*

**Keywords:** Balanced Scorecard, Public Management, Measuring of the institutional performance, Strategic Management

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## ***1. Introduction***

Balanced Scorecard (BSC) has been launched in the early '90s, as new management concept. Subsequent to the publishing of the first book on this theme by Dr. Robert Kaplan (professor at the Harvard Business School) and by Dr. David Norton (management consultant), the popularity of the BSC concept rose exponentially, becoming gradually one of the most used management instruments, on international level.

Since its appearance, BSC registered a continuous development, from a simple instrument for measuring of the performance, to a strategic management system of the organizational performance.

The influence and notoriety of the concept, as well in the academic world, as also among practitioners from all organizational categories: governmental, non-profit and corporative, brought it along the past two decades as well critics, as also numerous appreciations. It is used for both organizations, but also for more macroeconomic systems. This happens as even the regions are trying to identify different systems and levers for developing as business units, within a unitary vision (Nastase, Roja, 2012). In 1997, The Academic Journal "Harvard Business Review" considered BSC "one of the most influent management idea and concept of the XX century" (Calabro Lori, 2001, p.72), meanwhile the American Bookkeeping Association granted it in the same year the "Prize for the best theoretical contribution of the year" (Norreklit Hanne, 2003, p. 591).

The last studies performed worldwide by Bain & Company (2009) place BSC on the 6th place in a top of the mostly used overall management instruments. According to the same studies, 53% of the interviewed companies use BSC, with an average satisfaction value of 3,85 out of 5 (Rigby D., Bilodeau B., 2009).

## ***2. BSC Definition. Basic Operating Concepts Of BSC***

The term BSC has multiple meanings. The initial meaning, at the moment of its popularization, in the early '90s, was the one of generating of a performance report, grouping the performance measures into perspectives, of which the most used were: Financial, Customers, Internal Processes, Innovation and Learning.

Gradually, since its appearance, BSC had a continuous development, from a simple instrument for the performance measuring, to a strategic performance management system, which uses plans of strategic operational

and individual performance as base of communication, monitoring and of improving of the organizational performance.

Although the concept has evolved from a strategic management instrument to a performance management system, it kept mainly its initial name, the one of “Balanced Scorecard”, due to its huge popularity (Bryson John M., 2004).

*Balanced Scorecard – “Strategic Performance Management System”*

The main component parts of BSC as Strategic Performance Management System are: the Desired Evolution State, the Strategy Map, the Performance Scorecard (or Balanced Scorecard) and the Initiative Portfolio.

*Balanced Scorecard / Performance Scorecard – Component Part of the Strategic Performance Management System*

BSC or the Performance Scorecard, as performance measuring and management instrument, groups the financial and non-financial key performance indicators (KPIs) into perspectives, out of which the most frequently used are: Financial, Customers, Internal Processes, Innovation & Learning. The four perspectives offer a balance between the short-time goals and the long-time goals, between the desired results and the factors, which lead to those results, and as well between the tangible goals and the unreachable effects.



Figure no. 1. The four perspectives of Balanced Scorecard

Source: adapted from Kaplan & Norton (1996)

### 3. BSC Implementation Methods

#### *Fundamental Decisions, Necessary for Implementation*

Before the proper starting of the project, we need to take a decision regarding the extension degree and the depth of the BSC introducing. In bigger institutions, it is advisable that the leadership team should decide, in first stage, the introducing of BSC in just one section of the institution (for example, a department). The experience gained in this pioneering project may be further used to extend BSC over the whole institution, and as well, in order to detail BSC in all sections.

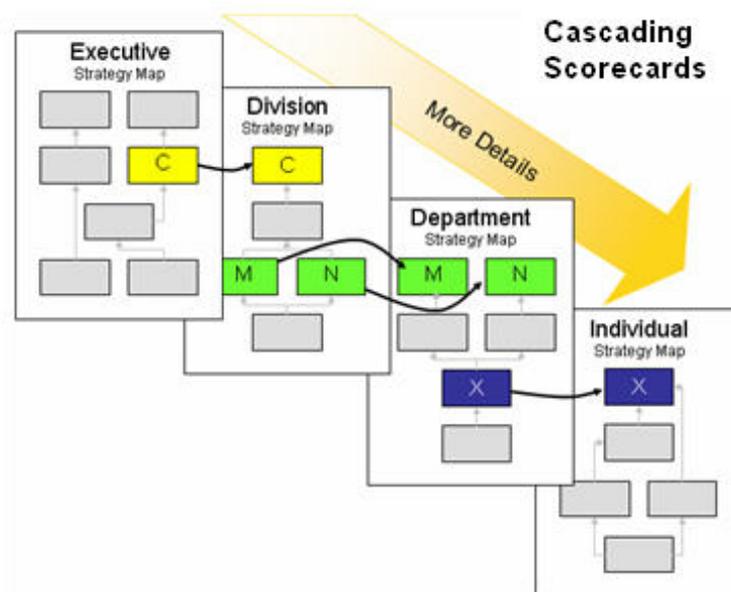


Figure no. 2. BSC Detailing (Cascading)

Source: *Creating Balanced Scorecards people actually use*, Ed Warnock, <http://www.cumulusllc.com/Creating%20Balanced%20Scorecards%20People%20Actually%20Use.htm>

According to the basic BSC principle, the strategy implementation has an impact upon the whole organization, being able to reach up to every employee. In bigger institutions, it is recommendable that BSC, developed over the whole institution, should be implemented also in the organizational units situated in the lower part of the hierarchic pyramid, or in subordinated units (concept defined as “detailing” or “cascading” – see the figure below).

In the development process of the BSC concept have to be implied all members of the leadership team, as well as employees who, subsequently, will act as promoters of BSC within the institution. These may, after the cascading, take over the role of multipliers: they may develop own BSCs for their responsibility areas, or they may adapt the goals within BSC, from level of the whole institution, at the defining of which they have brought their contribution, to the specificity of their own area. After the taking of the fundamental decisions, regarding the extension degree and the profoundness of the BSC introducing, we may pass to the planning and to start the development of the BSC instrument.

#### *Development Management of the BSC Instrument*

The BSC development is a complex project and it is advisable, that its development should be guided after the methods for project management.

In order to implement Balanced Scorecard, the system, which will administrate the strategy execution, it is absolutely necessary to obtain first the support of the person with supreme decision authority.

In order to obtain that the management of the BSC development should provide the framing within the planned time interval, we need, beside a clear defining of the goals and an allotment of the roles and resources, also an establishing of terms and landmarks, in order to offer compulsoriness and transparency. The development planning offers, during its evolution, a reference frame and an orientation landmark for the ones involved. A decisive role has in the planning the identification of the suitable team, within which to be represented the most important decisional factors and the most important key-persons of the institution. Teamwork is essential. She involves not only high level management but, also, and operational level personnel who are responsible with implementing strategies (Panzaru, S., Dragomir, C., 2012, pp. 94). The strategy formulating and execution is a complex phenomenon and is not simple. Depending on the necessities, the team may be extended, by incorporation of some specialist in the aimed field.

#### ***4. Development of the Performance Measurement System – BSC – within the Prefect’s Office of Timis County***

During March 14-18, 2011, 5 employees of the Prefect’s Office of Timis County attended a training session on the BSC instrument (Balanced ScoreCard).

**The first workshop** for the development and adapting of the BSC instrument within the pioneering institutions took place between July 11-12, 2011.

During July 21-22, 2011, I coordinated the consensual sessions regarding the goals, indicators and the initiatives established for the implementation of the **BSC instrument** within the Prefect’s Office of Timis County.

**The second workshop** for development and adapting of the BSC instrument BSC took place between August 4-5, 2011.

By the BSC system, the Prefect’s Office of Timis County may now plan, coordinate and monitor its organizational performance. BSC reveals the institution strategy from four perspectives – *the financial perspective, the citizens/Customers perspective, the perspective of internal processes, the perspective of learning and development* and it allows the transposing of strategic goals into operational goals, actions, indicators and operational targets, up to the last organizational level.

The BSC development and implementation supposed the passing of several stages: identification and assessment of the architectural elements of the organization, analysis of the strategic documents of the institution, choosing of perspectives and establishing of the strategic goals, identification and emphasizing of the relationships between goals, defining of the performance indicators and of the targets, defining of the strategic initiatives, BSC cascading on departments, providing of the computer support and monitoring.

In order to visualize the state, respectively the degree of the goals reaching, in the BSC reporting system is used the traffic light mechanism. Starting from the proposed targets, it has been defined, for which characteristic features of the performance indicators, the accomplishing of the goals has to be represented by the colors green, for which by yellow and for which by red (for example, reached value = green, value improved towards the initial target, but unreached target = yellow, value under the initial level or situated below = red).

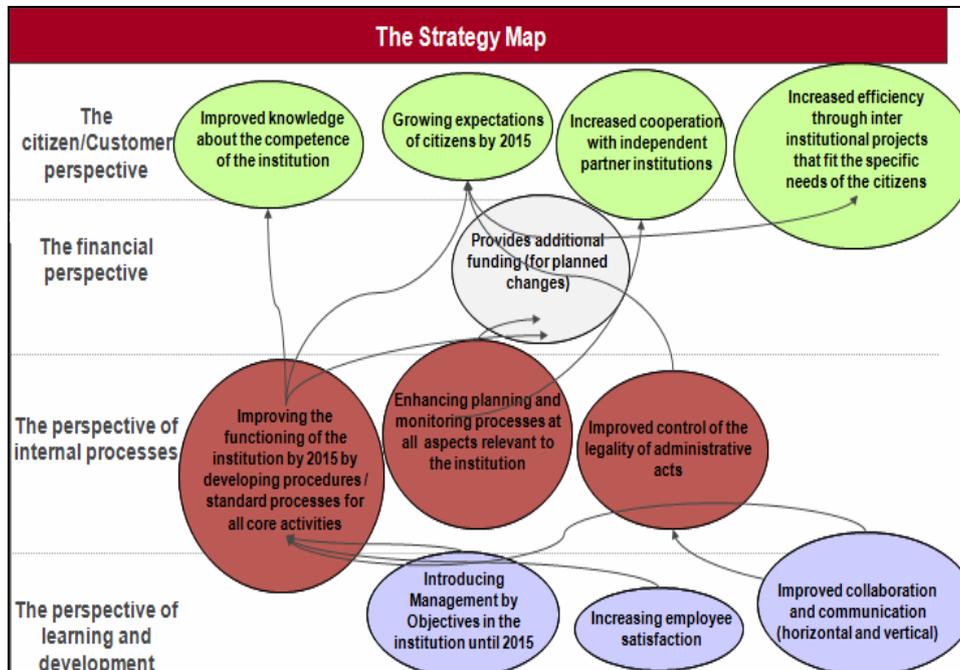


Figure no. 3. Strategy Map of the Prefect's Office of Timis County

Source: Strategy Map, developed after applying of BSC (2011), Prefect's Office of Timis County

The use of this instrument allowed the development of the information from various strategic documents, elaborated within the institution, and its transposing in a single form, structured on perspectives.

### 5. Conclusions

When an organization implements any managerial control instrument, the balance costs/benefit is vital. The decision to implement a system based on **Balanced Scorecard** necessitates a similar analysis. The implementation costs of a new instrument are relatively easy to estimate, but often appears a lack of viable information, regarding the potential benefits. The key benefits which come along with a successful implementation of a strategic system of the performance management, based on Balanced Scorecard, are the improving of the organizational management, by diminishing of the costs and improving of the performance, aligning of the operational activities to the

strategic plan, real implementation and continuous applying of the strategy, taking of better and quicker decisions regarding the budget and the control of the processes within the organization, by the visibility offered by Balanced Scorecard, as well as the recognition of the individual and the team merits, by facilitating of a link between learning, performance and rewards.

A main feature of the Balanced Scorecard as management concept is its multiple facet. There are several theoretical interpretations, as well as many practical approaches, regarding the mood, in which it should be implemented within institutions. Important to be retained is the fact that each organization should adapt its concept, to fit its characteristic features. There is no fix “recipe”, and there are no pre-established standards, for the application and the use of Balanced Scorecard.

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