The balance scorecard enhances essay

According to Kaplan R. S. & Norton D. P. (1996), the balance scorecard enhances the traditional financial measures with standards for performance in three non-financial areas like relationship between company and customer, internal business process and, learning and growth. It will assist the company to coordinate its' operation and ensure all businesses activities parallel to the company's strategies. The balance scorecard consists of four processes that combine short-term activities to long-term objectives. These processes include translating the vision, communicating and linking, business planning and, feedback and learning.

The main objective of the first process – translating the vision – is to clarify the understanding of management team about the vision and strategy. Then, it will help managers to build a consensus around the organization's vision and strategy. After that an integrated set of objectives and measures in vision and strategy statement will be developed which subsequently required the agreement by all senior executives. This strategy can be referred as the long term drivers of success. The second process – communicating and linking – is to disseminate the strategy up and down the organization and link it to departmental and individual objectives.

So the long-term strategy will be understood by all the level of the organization. Then, it will communicate and educate these targets to individual performance and link the rewards based on their performance measures. As a result, each individual will understand their objective and target and support the overall strategy. The third process – business planning – is to integrate the company business with the financial plans. Normally, the balance scorecard will force the manager to integrate strategic planning with budgeting in order to make sure the financial budgets support the strategic goal.

They will allocate resource and set the priorities according to four scorecard perspectives which are financial; customer; internal business processes; and, learning and growth. Then, they will undertake and coordinate those initiatives that move toward the long-term strategic objectives. The fourth process – feedback and learning – provide a mechanism for strategic feedback and review to the company, and fosters a strategic learning to the organization. The strategic feedback and review will evaluate whether the individual, departments and company performance able to achieve the company’s budgeted financial goal or not.

Normally, they perform the short-term results monitoring from the three additional perspectives like customer, internal business processes and, learning and growth. They will compare the current performance with previous achievement and future objectives. On the other hand, strategic learning involves feedback collection, testing the hypothesis on which strategy was used and formulate the necessary adjustment. These four scorecard processes are a continuous cycle which allows strategic adjustment to be made continually. Meanwhile, it also allows managers to evaluate the effectiveness of the strategies at any point of implementation.

The usage or purpose of balance scorecard had evolved from performance measurement to strategic management via a series of processes that consist of translating the vision; communicating and linking; business planning; feedback and learning which are described clearly above. There are several reasons that make the balance scorecard a tool for strategic management. First, the balance scorecard consists of the measures that are linked together on a cause-and-effect basis where the nonfinancial measures are communicated into the strategy implementation.

Second, the evolution of economy from tangible assets dominated to intangible assets dominated at the end of 20th century had made financial statements inadequately to capture vital information for company. This is because the value of intangible assets is implicit or indirect and it can influence the financial outcomes via the cause-and-effect basis since the intangible assets rarely have value by themselves. Nevertheless, balance scorecard can indicate the changing nature of technology and competitive advantages. It is used to supplements the conventional financial reporting.

Balance scorecard can communicate the nonfinancial measures into the strategic management via four perspectives which include financial; customer; internal business processes; learning and growth. These four perspectives are in cause-and-effect basis where the acquired of necessary learning and growth can improve the internal business processes and then achieve customers’ satisfaction and finally accomplish the desired financial goal or objective. The construction of strategy maps are top down, begin with the goal or objective and then the means that direct to the destination.

Financial perspective generally includes increase of shareholder value or economic value. This can be done through revenue growth and productivity where revenue growth involves expending new products, new markets and new customers or enhance sales to current consumers. Productivity strategy involves lowering cost or improves assets utilization effectiveness. Customer perspective consists of customer-value proposition that differentiate companies through operational excellence, customer intimacy excellence and product leadership. Internal processes perspective can be identified after the identification of financial and customer perspective.

This perspective includes internal business processes that can support the shareholders' and customers' satisfaction. Finally is the foundation of any strategy which is learning and growth perspective. This is the creation of scenario that supports organizational learning and growth. According to Kaplan R. S. & Norton D. P. (2001), two more scorecards are introduced and are regularly used in practice; they are stakeholder scorecards and key performance indicator scorecards. The stakeholder scorecard is not sufficient to form a management system but it is providing the first step on the way to a strategy scorecard.

Stakeholder scorecard emphasizes the stakeholders of an organization which comprise of customers, suppliers and shareholders. This scorecard will define the goals of organization for these stakeholders such as ' good place to work' and ' good place to shop'. This scorecard also assists in the organizations that do not have internal synergies across business units by providing the different business units with the same basic focus. Business unit strategy scorecards are then build based on the organization's stakeholder scorecard.

Key performance indicator (KPI) scorecard is a scorecard that focuses on internal-process measure that emphasize on an initiative rather than an outcome. It is not complete as compare to strategy balance scorecard since it does not consider the relationship between the internal measure such as profit, portfolio, people and process with the customer-value proposition; and connection of learning and growth with internal process improvement, customer and financial outcomes. KPI scorecard is useful when there is a strategic program at a higher level. Balance scorecard is also used by the nonprofit and government organizations (NPGOs).

But at the beginning of application, there are some problems found where NPGOs have usually no clearly defining strategy and the financial objective is not the destination of NPGOs' scorecard. During that time, most of the scorecards of NPGOs are focus on process improvements, unlike profit organizations that focus on product leadership or customer intimacy. This cause the scorecards of NPGOs are more like the KPI scorecards instead of strategy scorecards. However, there are some modifications later on to improve the application of strategy scorecard by NPGOs.

These include placing both the donor perspective and recipient perspective at the top of the balance scorecard instead of financial perspective. There are three high-level perspectives in the modified scorecard for NPGOs: minimize cost of providing service, including social cost; value created that benefit the citizens; and support of legitimizing authorities. It is similar to the strategy scorecard of profit organization in which mission is supported by the three high-level perspectives mention previously then these three perspectives are supported by internal processes and follow by learning and growth as the fundamental of any strategy.

Balance scorecard not only provides company with performance measurement, the linkage between internal processes and external satisfaction that finally support the organizational goal has lead it to be used in the strategic management system. Balance scorecard provides a guideline for organization to reach their targeted goal or objective. In the part two of the same topic by Kaplan and Norton, it will further discuss about the usage of BSC and strategy maps by the organizations in order to accomplish and integrate transformations.

The steps would include redefine their relationships with customers, reengineer the business operation, enhance the skill of workers and deploy new technology infrastructures. It also mentioned the simple plans that can be implemented towards success of the transforming program. The authors demonstrated five principles of a strategy-focused organization to achieve success and increase organization performance regard neither different ways nor sequences. These five principles describe the most crucial key elements of building an organization and able to focus on the strategy.

The five principles will be discussed as per following paragraph. In an organization is consists of different level of employees from lower rank likes cleaner or receptionist until to top management of board directors. The width range and huge differences in knowledge and skills lead to a challenges for an organization to introduce the vision and mission in the organization in one way. Therefore, the first principle emphasized by Kaplan and Norton is to translate the strategy into operational terms. This is a critical step for ll the organization when trying to translate their strategy in their organization. After translating the strategy into operational terms, it is important to align the organization to the strategy. This becomes the second principles in transforming the Balanced Score card into Strategic Management. An organizations is consists of different entities and not just only one entity. Organization need to align the corporate strategy that you can create synergies with the business units (example: marketing and operation unit), staff functions (human resources) and shared corporate services (information technology).

Communication among organization is the key success factor towards success of strategy implementation. A menu of the strategy should be provided which includes the level of quality, the response time, the cost involved and their functionality. The old saying always in mind that some behavior can be changed is we keep on doing the same thing in more than 21 days. The strategy must become part the daily and simple reminder among employees. Innovation is needed in creating and translating the strategy. Therefore, the third principle is to make the strategy everyone's everybody job.

Employees in the organization have to understand the strategy and applied the strategy in their daily basis workplace. Top down communication instead of top down instruction is the key success factors. Human resources playing an important roles in training and educate their employees. Incentive compensation either monetary or non monetary will motivate the employees to cooperate and apply the strategy toward success. Strategy no only needs to be succeeding in launching time but also need continuous improvement.

Principle four mentioned the strategy to become a continual process by reviewing the previous and current performance and discuss the variance and action plan toward it. “ Double-loop process” is introduced by linking the budgeting process with the strategy in order to develop and improve the existing product or services in organization. This process also involves review strategy in management meeting with information feedback system and a process of adaption the evolved strategy in used for long term financial success.

Cause and effect linkages are needed to estimate and expect the long term financial success. The last but not the least principle is to focus on mobilization of leadership to change. This is the tough part and teamwork spirits is required. It is about a change process and top management should be role model and actively involve in the strategy until the new cultural value and process id vividly instilled overall organization. Three major discrete action is advised to minimized and risks and failure. There are the establishment of sense of urgency, guiding coalition creation, and developing vision and mission.

BSC should be related to other approach in managerial accounting to ensure the maximum benefit is achieved through integration of all value creation. Shareholder value management always underestimates or overestimates the problem in organization. Complementation BSC with shareholder value metric will lead to short term productivity improvement and long term sustainable revenue growth. ABC (Activity Based Costing) is a model that able to relate the organizational expenses with operation process such as marketing, sales, manufacturing and others.

It is also another alternative to improve the financial system by detecting the defect. Cost, quality and time are the criteria for the performance and process. Combining of BSC and ABC can be used as a measurement for individual customer profit. The outcomes can be loyalty, satisfaction customers, market share and account share. TQM (Total Quality Management) is integrated with the BSC in cause and effect method that enhance the quality programs by looking at the internal perspective and the financial perspective.