Review

The balanced scorecard (BSC) implications on the increase of public companies performance

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Economic considerations of the present require that various entities, public or private, adopt a strategic management that is able to ensure the achievement of performance. In achieving the targets, due to the dynamic and complex environment of action, the implementation of management control systems becomes essential. Selecting and applying the most effective of these systems facilitate the entry of public companies on an efficiency path. They are also able to provide clarification in relation to organizational goals and targets, to propose the most appropriate methods necessary to achieve, and also, to explain the link between the processes of defining strategies and ongoing operational activities. Obviously, these control systems must be able to evaluate performance, not only quantitatively but also qualitatively, both ex-ante and ex-post. In this context, approaching the balanced scorecard (BSC) and key performance indicators (KIPs) as nonfinancial tools to measure performance, may acquire a special importance. Currently, when bringing into question the public sector, things speak for themselves: central and local state government still hold many companies in Romania (several hundred): national companies, autonomous administration, commercial companies. We consider the large-scale economic entities, in ministries (corporate/ national companies), public and local public companies, which provide utilities related to heating, water, sewage or sanitation. Assuming that on short term, as a result of the restructuring/ privatization, there will not be a significant decrease in the sector in question, we believe that a widespread use of non-financial instruments for measuring the performance of public companies is more than necessary. This is particularly so since the international monetary fund (IMF), as a creditor of the Romanian state, closely monitors the performance of that sector, aiming to reduce budget deficits. That is why we try to offer an overview of the issue of performance evaluation and management control system, presenting an innovative tool of strategic management, as BSC, with the intention to highlight and understand the reasons why an entity should implement this method, illustrating how its process of construction can create changes and produce results.

Key words: Public entities, state sector, balanced scorecard (BSC), key performance indicators (KPI), managerial control, efficient method.

INTRODUCTION

Studies undertaken so far show that, any indicator can provide a clear vision on the performance of organizations in the identification of items, with major impacts in terms of organizational changes. These were the premises that constituted the basis for the present paper, the author proposing a study of the balance scorecard (BSC) and of the performance key indicators (KPIs) as non-financial tools for measuring the performance of public companies.

Obviously, to the same extent, such tools can be important also for economic entities from the private sector, but in the current context, the issue of state sector performance arises more acutely. We envisage that, on one hand, frequently, public enterprises still produce losses, but also that, on the other hand, by total/partial privatization (some stocks) or only concerning the management, premises could be created for new financial resources necessary for balancing the state
Table 1. Set of questions, on areas of relevance to the BSC.

<table>
<thead>
<tr>
<th>Field</th>
<th>Question</th>
</tr>
</thead>
<tbody>
<tr>
<td>Economic and financial</td>
<td>How are we perceived by our stakeholders?</td>
</tr>
<tr>
<td>Customers/Market</td>
<td>How are we perceived on the market and generally seen by different carriers of interest of the organization?</td>
</tr>
<tr>
<td>Internal processes</td>
<td>What are the processes that we must excel in to create competitive differences?</td>
</tr>
<tr>
<td>Skills/Growth</td>
<td>What are the areas that we must preside in order to develop our capabilities to improve and change?</td>
</tr>
</tbody>
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budget.

It is illustrative that, in 2009, the balances of the 45 largest companies - with 200,000 employees - subordinated to some institutions of the central state administration (ministries or AVAS) reveal total losses of 70 million Euros (Petrescu, 2010), although towards these ones are oriented important public financial resources, by way of grants. Given the average profitability of companies in Romania, which is about 10% of the turnover, we consider that if state firms were competently administrated, they would bring to the state budget revenues of around 1 billion euros per year, that is, 0.8% of GDP.

Clearly, we also find here, the explanation for which this category of companies is subject to a complex monitoring, and in the recent agreements with the IMF, they have agreed to some restructuring and privatization solutions. Such measures are aimed at the large-scale economic entities, subordinated to ministries (corporate/national companies), but also local public companies, which provide utilities related to heating, water, sewage or sanitation. Assuming that on short term, as a result of the restructuring/privatization, there will not be a significant decrease in the sector in question, we believe that a widespread use of non-financial instruments for measuring the performance of public companies is more than necessary.

Actually, the purpose of this paper is to provide an overview of the issue of performance evaluation and management control system, but especially to deepen an innovative strategic management tool as BSC, trying to highlight and understand the reasons why an entity should implement this method, showing how its building process can create change and produce results.

An adequate space is offered to the treatment of the BSC model and its principles, objectives and its four perspectives. Starting from the basic model of the BSC, described by Norton and Kaplan (2000), we prove the way in which such a tool, built for the entity, can bring advantages in its strategic management, with effects in the four fundamental moments of a strategic management.

The BSC model is based on a precise and punctual description of the following “issues”, with responses to specific questions (Kaplan and Norton, 2000):

1. Mission (Why are we here?)

2. Vision (Where we go?)

3. Strategic themes (How do we get to where we want?)

4. Operational objectives (What should we do about this?)

5. Quantifiable indicators (How do we check if we are going in the right direction?) and

6. Actions (What should we do to correct them?).

Prospects – they show the coverage manner of the development of the activity in the future, represent the dimensions that allow the creation of value for the entity (the imperatives of value creation) and control the business. Related to the strategic themes and therefore, to the strategic vision, they effectively allow the individualization of those operational objectives (critical success factors) that represent the conductive wire at the operational level, facilitating a unitary action.

The quantifications are extremely important (what you quantify), meaning, you need to know what you want to measure; the BSC model, unlike management control modern systems, which tend to measure everything, determines the focus of attention only on what actually allows verification and achievement of imposed goals.

The paper concludes with a summary of a panoramic picture on the dissemination of BSC and on the difficulties that some entities have encountered in its implementation.

THE SIGNIFICATION OF THE BSC MODEL IN THE MANAGERIAL SPHERE AND CORRELATIONS WITH THE CORPORATE GOVERNANCE

The balance scorecard (BSC) is an efficient method for managers and administrators to pursue the reporting and analysis using KPIs to determine whether the operational activities are aligned with strategies and with the overall vision of the entity. The BSC methodology is a management technique designed to structure a “score card” and to view the financial data, those concerning the processes and customers (Kaplan and Norton, 2000).

The BSC concept refers to the model of planning and management of objectives, initiated by Norton and Kaplan. This model is based on obtaining the company's success, on its ability to translate the economic strategies which should be consistent with the four perspectives.

According to the same authors, the set of questions to which answers must be found is as shown in Table 1.
By answering these questions, critical success factors (FCS) can be identified on which the entity must score, and on their base, KPIs are defined as being able to measure and explain how each factor contributes to the pursuit of strategic objectives of the entity.

An important role in applying these non-financial tools is the existing corporate governance model. An integrated model of corporate governance will be influenced primarily by the national and international context.

Contextual factors, including accounting fraud at the expense of shareholders, financial scandals, economic crises and crises of confidence on financial markets have competed at a higher increase of transparency and accountability of the entity (especially those listed).

The proliferation of rules, lines of guidance, regulations and codes of government led to an excessive focus on adaptation to rules (Muras et al., 2008). The risks associated with these ongoing dynamics are represented by: the cost of adapting the rules - with negative effects on performance; rigidity and management coercion; the actual benefits for shareholders and investors.

The presence of rules is not enough to ensure a good business leadership; hence, it results in the need to go beyond the obedience to the rule in question. In addition to this type of submission, an integrated governance involves, first, the guarantee of a better economic governance and to be fully responsible, the following are necessary (Terzani, 1999):

- Mechanisms for verifying compliance with the rules (obedience to the rules),
- Management objectives directed towards the interests of stakeholders (performance), and
- Respecting the rules as common heritage (knowledge).

As it can be seen in Figure 1, the three arrows of the responsibility are pointing to three different dimensions of governance. The corporate governance focuses on compliance of norms, external and internal codes and regulations (Figure 2). This aspect of the corporate governance is important because a biased approach harms the image and the reputation of the entity (Brusa, 2000).

The management based on quantification is focused on aligning processes and activities to strategies to maximize economic performance and value creation. Finally, the governance based on knowledge manages the processes of knowledge learning and sharing, focusing attention on orienting individual values and behaviors to the principles, mission and strategies of the entity.

MANAGERIAL CONTROL AND CORPORATE GOVERNANCE

The role of management control (CdG) and control systems (CFO) in the sphere of the corporate governance is summarized in Figure 3. The mechanisms on the operational management concern includes (Brusa, 2000):

- Highlighting the administrative actions and the financial and economic communication, oriented towards the outdoor environment (financial reporting);
- Managing and monitoring internal control systems (internal audit) and the evacuation of risks of key economic processes;
- Designing organizational structures and choice of internal coordination mechanisms;
- Definition of economic governance and ethical codes on various administrative occupations;
- Customizing the value created for shareholders, and
- Determining the value created for carriers of interest in the organization and the social responsibility of the corporation.

In the performance-based governance, the action of the internal control is presented in Figure 4. Introduction of tools and methodology for measuring economic performance to identify the real value orientation of the business involves (Bocchino, 2000):

- Developing the ability to analyze the produced reports and the critical interpretation of risks/business opportunities;
- Common analysis of strategies, budgets and performance achieved;
- Performance evaluation and incentives to achieve it;
- Interpretation and monitoring of processes and projects in an optics-based economic activity (budgeting management);
- Analysis of dynamics and of financial risks faced by the entity; and
- Redesign of production and administrative processes (Sigma methodology - 6).

The role of the internal control within the knowledge-based governance can be presented according to Figure 5. Using information technologies to improve efficiency and integration of business processes involves, in particular,

- analysis and evaluation of human capital skills;
- participation by a common language for evaluating and coordinating the leadership activity, internal consulting, coaching;
- management of innovative processes;
- identification, presentation and evaluation of capital, and
- identification, representation and evaluation of intangible capital.

Therefore, a synthetic analysis of the aforementioned concerns, on one hand, that the control activity provides the standard financial reporting of governance mechanisms between interested users (actual or potential), through the dissemination of a specific report and the submission to the economic ethics (spirit of devotion). On the other hand, it becomes important to monitor and improve the performance achieved, in relation to operational/financial risks identified.

The measurements through quantification and assurance, monitoring and improvement of production and administrative processes are considered critical for the customer, for two main considerations. Firstly, because it requires direct and specific economic culture and to integrate technical and operational aspects (number of defects, delays in orders records) and their economic and financial consequences (reduced costs, increased profits, etc.). Then, secondly, because we are dealing with the rigid application (subject to rules) of a rigorous methodology, called D-MAIC (define, measure, analyse, improve, control).

**PERFORMANCE INDICATORS**

In the sphere analysed, performance indicators, or rather the integrated system of indicators are used mainly in order to control the performance. These indicators should be oriented by the entity towards achieving the strategies, which is the reason why all the phases of planning and control process must also be controlled by means of indicators, to allow a clear track of the progress against objectives and the initiation, in case of misconduct, of corrective actions.

Currently, economic growth is the main concern of top managers running an entity on the position of chief executive officer (CEO). In the presence of interesting values of profit and developing markets, the priority is clearly the occupation of available market segments before they are saturated by other competitors; the best way to pursue the increase being the innovation of processes or products.

The KPIs are financial measurement units and are not only used by the entity to control and evaluate performance. KPI aligns with the measurement of performance, being faced with the strategic objectives of
the entity; they vary from one entity to another, being usually defined by the shareholders.

Note that while the business grows to achieve strategic objectives, progress is measured by changes in KPIs (Strennini, 2005). Here is why these indicators should be:

- specific - that is correlated with the entity’s objectives;
- measurable - in order to enable entities to check their progress;
- relevant - with direct reference to the business and to „measure”, and
- correlated with the time allowed to goals within a specific time horizon.

Also, they can actually be established depending on the type of business to which they relate. In practice, KPIs are used by executives, analysts, IT specialists and business partners to control the economic activity, to measure the performance and to update any form of managerial performance. In addition to being aligned to the strategic objectives of the entity, they are related to business activities.

Evaluation according to BSC involves the analysis of the performance indicators that will be balanced - in order to reflect all vital dimensions of value creating - to focus attention on them and align strategies (Cannon et al., 2007).

**ASPECTS ON THE BSC IMPLEMENTATION MODEL**

The proper implementation of the BSC methodology therefore means (Kaplan and Norton, 1993):

- To translate the strategy into operational terms;
- To line (to join) the organization of activities to strategies, with the aim to create synergy;
- To motivate the entity, making from strategies everyone’s responsibility in part;
- To adapt strategies to changes in the context of a continuous process, and
- To activate the changes through a leadership management.

The planning and control solution for the development of the entity’s activity refers mainly to the management control technique through the BSC, which consists essentially in setting strategic objectives and individualizing operational key performance indicators (KPI), and specific and responsible parameters, an objective that if achieved, ensures the correct implementation and a specific update of the strategic plan (Kaplan and Norton, 1993). The functions and objectives of the BSC are given by:

- The application in the entity of a model of the BSC to be assisted by consultants and to allow the definition of a strategy and the quantification of strategic objectives through specific KPIs;
- Updating the analysis of deviations on the budgets, involving the entity in exploiting a graphic communication as simple and immediate;
- The efficiency of on-line control (visual) and of the analysis of specific objectives set by the online scoreboard;
- Choosing the right KPIs, opting for a large database, simultaneously tested, with reference to each sector, activity and business model (diagnostic capacity);
- Setting correct reference trends for each KPI;
- Import/export activity, which is intended to facilitate the collection of data from/to the internal system and allowing the configuration of an optimum dashboard (number of KPIs, their combination, the relationship between them);
- The term “aggregation logic” of all the indicators (scorecards tree);
- Making the vertical navigation for every indicator (drill-down) for a better understanding of the relation cause-effect of the economic phenomena;
- Structuring a Web interface to maximize the financial communication process and the performance within the organization, and
- Activation of an “alert” system, automatic for each KIP and for each responsible.

KPI indicators refer to non-economic indicators relating to those events or future economic activity. In the BSC model, the most appropriate KPIs for each of the four perspectives in a chain of "means-goals" are identified, these indicators are being assigned to different managers in the company to make them accountable. Those indicators must be communicated at the operational level to guide all actions (Kaplan and Norton, 2001).

The relevant indicators, which should form the basis of this conceptual approach, believed to be optimal, are as follows (Kaplan and Norton, 2000): competences, customer satisfaction, customer loyalty, punctual recording of orders, active cycle/ production cycle/ passive cycle, etc.

**CONCLUSIONS**

In the BSC model, the close correlation between performance indicators and critical economic processes allows different economic areas to identify and measure the contribution of their own actions to improve the performance in other areas and to pursue the economic results. In this respect, unlike other instruments, the BSC creates understanding, integration and alignment within the entity, between the economic strategies and the company interests and responsibilities for each responsible, regardless of the area where it operates.

The potential of the BSC model can express in a clear manner, the contributions obtained in sectors considered
to be of support, such as the functioning of human resources department, which can be demonstrated by recourse to models used in each area or sector, while defining the entity’s strategies, and objectives of the sector, under the four fundamental perspectives of BSC.

What we particularly want to emphasize is that the achievement of BSC in a company does not necessarily mean that it must be made a massive investment in technology and resources; together with this approach, was also introduced within the entity this instrument, becoming feasible or rather functional in its simplest form, through common use of financial instruments, using indicators based on data located in the entity and involving people who know the necessary information.

To synthesize, we show that the understanding of the economic and financial context of the entity is an essential requirement, but often, the management does not have the appropriate information to decide. We can say that the BSC model and especially the performance management systems overcome that obstacle, by targeting the management control in a strategic optics, using KPI indicators, the achievement of the economic performance and of the proposed objectives.

To support this, many cases of Western public companies revealed the costs, benefits, problems and solutions related to the introduction of methods and systems for recording and monitoring the performance. However, to achieve a desired level of their targets, these companies needed a strategic management meant to ensure the performance, that creates value, while characterized by sustainability.

REFERENCES