

## **THE CONTRIBUTION OF THE BALANCED SCORECARD AS A STRATEGIC MANAGEMENT TOOL IN MANAGEMENT SUPPORT**

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### **SUMMARY**

Balanced scorecard - BSC – treated initially as a system of performance measurement with base in indicators, that through time improved and today it is possible to affirm that it is a management tool. It presents an order of concepts and preexisting ideas in a logical, objective and intelligent way. Its correct application implies a series of advantages, such as the integration of financial and nonfinancial measures, the communication feedback of the strategy, the bond with planning and budget, major focus in aligning the organization.

The benefits of the implantation are the most variable, where we can aim that the BSC offers a methodology of enterprise management that only proposes as financial measurement indicators the operational performance. The strategic application transforms

that methodology into a management tool and available to the whole organization.

**KEY WORDS:** Balanced scorecard; management tool; strategy and planning.

## **INTRODUCTION**

Strategic planning consists of developing an interrelated contract connection, explicit and implicit, mainly between the enterprise and its groups of clients, employees, partners and community.

According to Atkinson, "planning is to identify what the proprietors expect of their participation in the enterprise and that they must choose a strategy to reach the primary objectives of the enterprise". [Atkinson et al, 2000, p.566]<sup>(1)</sup>.

The definition for the strategy consists of three approaches: The first, relates strategy to planning, the second increases the concept, highlighting that it is a desired vision of future and the means to reach it. A third approach places the strategy in a pragmatic way, as organizations direction instrument, not necessarily a plan, but a mature behavior to locate the organization in its environment, knowing and using available resources.

The planning is the process to decide what is due to be done and how to do it, before the action itself. The process of strategic planning of orientation can be divided into mission and vision. Thus, Mission - it deals with the reason of being of the organization, the reason for its existence. Almeida describes that "the mission is defined in the aims; and Vision - for the individuals, the vision is the taste and the facility to become involved in an activity". [Almeida, M.I.R., 2001, 14 P]<sup>(2)</sup>.

For the organizations, the definition also is applied and is completed with the future vision. Campos describes it as "a foreseen situation for the future of the organization". [Fields, V.F., 1996, 303 P]<sup>(3)</sup>.

The direction process follows: strategy - when to choose the strategy the administrator

can take advantage of a series of generic classifications of the strategic subjects; and objective - that is a concrete point that is wanted to be reached, needing to have numerical parameters and data to be reached.

According to Gaj:

The strategic administration is the system to administer, with emphasis in the balance between turbulence, training and strategy.

Therefore, the strategic transformation must happen in three dimensions: internal responsibility, intensity of the external bonds and transformation of the strategic position. [Gaj, L., 1987, P 176]<sup>(4)</sup>.

Accounting is the instrument that supplies the maximum of information for the decision making in the enterprise; it can be studied in diverse ways and numerous approaches to the solution of matters, like the recognition of income, for example. Six approaches are presented: fiscal, legal, ethical, economy and structural.

Starting off from an economy concept, accounting can be studied on the management and financial approach. Where the financial accounting is exposed with external purposes, like: shareholders, creditors and government authorities. The management accounting must have as its objective to produce operational and financial information for employees and administrators.

The system is a set of interdependent elements, or a whole or parts that interrelate forming an all unitary and complex one. The systems are open or closed; the closed systems are those isolated in the environment and the open systems are those that communicate with the environment. Therefore, the information system, besides being an open system, is the main element of communication between the management systems and their environments.

Cassarro affirms that:

Technically, the data are basic information before being processed by a computer, whereas the information is rapporteurs, the results of the data processing. The data

fed, are introduced in the system and the information is produced. [Cassarro, A.C., 1988, P 38.]<sup>(6)</sup>.

There are many ways to conceptualize the information, depending on the angle of observation and of the field of knowledge in which such concept is looked for. From the more specific point of view of information system, the concept is examined as from the understanding of the information as a result of the data processing. Thus, it is possible to understand the data as an information element, that, taken separately, it does not transmit any knowledge, that is to say, does not contain an intrinsic meaning.

The information system is a combination of people, facilities, technologies, means, procedures and controls, with which one tries to maintain excellent communication channels, process routine transactions, to draw attention of the leaders and other people for internal and external events, to assure that intelligent decisions are taken.

We can deduce that the information system contemplates the storage and the data processing, organizing them to transform them into useful information so that the administrators make decisions and the control of the organizational activities. The information generated by the information system must serve as a support instrument as the managers of the organizations. The information system must provide the managers with information as much on the past as for the future.

The process to make decision according to Pereira's opinion:

Rationality is the capacity to use the reason to know, to judge, to elaborate thoughts and explanations and is it which permits man to choose between alternatives, to judge the risks resulting from its consequences and to carry out conscious and deliberate elections. As all decisions include facts and judgments of a content, it also has an ethical content. [Pereira, M.J.L.B.1997, P 177]<sup>(6)</sup>.

Considering that the management accounting is an instrument of information within the

enterprise able to take care of the needs of its leaders to make rational decisions, the propose research will have as its aim the collection of information able to attend to the needs of the enterprises to make decisions.

A managerial information system must, therefore, provide information related to the past and the present of the enterprise. As well as of the future, related to relevant facts, as much inside as outside the organization, to help to the decision-making process and to provide a support to the functions of planning and control. The management accounting is characterized for supplying data and information to the administrators in order to help in the decision-making process.

Therefore the financial accounting, also called general accounting, is a set of information ordinates that can be used as a base for management information.

### **1. Balanced Scorecard**

The BSC was not originated from the concepts of strategic administration. The appearance is related to the limitations of the traditional systems of performance evaluation, which is still one of the problems of the strategic planning. Meanwhile, in agreement with its evolution and use, this instrument became an important tool of strategic management. More than an exercise of measurement of the BSC, it motivates improvements and increases in critical areas, like development of products, processes, clients and markets.

The accounting had not suitably accompanied those changes and the accounting texts did not present discussions on techniques, procedures or properties of the mensuration of productivity. The mensuration of the productivity, to which everything indicated, still had been considered as part of the information that gave support to the managers in their decisions and control activities.

Accounting could not play the main role to promote or implement technological innovations and organizational changes, but it could play a critical role in that effort, developing new nonfinancial performance measures, such as productivity, quality, and costs of inventories among others, to evaluate the progress of the enterprise in relation to those

changes.

The traditional systems of measurement of performance, as a support to the management of the great enterprises with multiple activities and products, were criticized for not helping in the evaluation of the efficiency of the processes and results of their products.

In agreement with Kaplan and Norton (1992), the BSC indicates as to what must be measured, the strategic key factor and how that information must be arranged so that they can have greater utility in the business management.

### **1.1. Definition and Objectives of the Balanced Scorecard**

Kaplan and Norton (2000), initially defined the BSC as a system of performance measurement and, later, as a system of strategic management.

The definition is interesting as to the process of taking decisions.

Meanwhile, it is possible to make some criticisms. First, the BSC has as its aim the process of decisions, because it also it focuses the communication of the strategy and the feedback of its behavior.

Although the BSC does not only direct to make decision and it does not contemplate all the components of a system, it seems more suitable to classify it as a management tool.

The main objective of the BSC is in the relation of strategic planning with the operational actions of the enterprise by means of the following actions: to clarify and to translate the vision and the strategy; to communicate and to associate objectives and strategic measures; to plan, to establish goals and order strategic initiatives; improve feedback and the strategic learning.

In agreement with Kaplan and Norton (1997), the logic of the BSC method must possess as components: strategic targets – it implies the translation of the vision of the future in organized objectives in relation to cause and effect, and clear forms; indicating keys of performance - as it will be measured and accompany the success of each objective; establishing goals throughout time – it treats with the level of awaited performance or the rate of necessary improvement for each indicator, action plan and strategic projects - associated

to the prepared goals, plans of action and projects should be established in order to make viable their reach.

## **1. 2 BSC's Business Perspective – Financial, Clients, Internal Processes and Learning and Growth**

In order to understand better the operation of the value perspective, it is precise to have in mind that the BSC is the evolution of a measurement system for the model of integrated strategic management.

In agreement with Herrero:

The ideas presented by the thinkers of businesses, propitiate the common language to facilitate the unfolding of the dialog between the executive leader of the project and the members of the team responsible by the formulation and implementation of the BSC. [Herrero, E., 2005, P. 64-65]<sup>(7)</sup>.

One of the major contributions of the BSC is to make possible the translation of the strategy into objectives, measures and initiatives for easy understanding by the participants of the organization.

### **1.2.1 The Financial Perspective**

The financial perspective has as its objective to show if the strategies chosen and implemented by an organization are contributing to the rise of the market value of the enterprise, to the generation of economy value and the increase of the wealth of the partners.

Porter explains that “the return on investments in the long term is the departure point to reach a good strategy”. [Porter, M., 2000, P 23]<sup>(8)</sup>. The performance of any enterprise is motivated by the yield derived from the business and the position that the enterprise occupies within the scope of its main competition.

For Kaplan and Norton, “the financial objectives help the change of focus for the other perspective of the BSC”. [Kaplan, R.S and Norton, D.P., 1997, 49 P]<sup>(9)</sup>. Any measurement must be part of a relation chain of cause and effect that culminate with the improvement of the financial performance. Scorecard must tell the history of the strategy, beginning by the

long term financial objectives and relating the actions that need to be taken re o the internal clients, internal processes and, finally, personnel and systems, in order that, in long term, the economy performance takes place.

Therefore, the development of the BSC must begin with an intense dialog between the main executive of the business unit and the financial director of the enterprise on the financial category and the specific objectives of the unit. That dialog will identify the role of the business unit within the enterprise structure. In agreement with the phases, three financial subjects are suggested which structure the enterprise strategy: growth of income; reduction of costs for productivity improvement and use of assets - strategy of investments.

The units of financial performance indicate if the strategy of the enterprise and its implementation and execution are contributing for the improvement of the results.

### **1.2.2 The Clients' Perspective**

The perspective of the client must by objective show if the strategic elections implemented by an organization are contributing for the increase of the value perceived by the client in relation to products, services, mark image, experience of purchase and relation. The client's perspective describes if the proposal of value for the clients' segments is being made specific.

The satisfaction and retention of the client and the approach in the market are the forces that stimulate the organizations which wish to survive and to prosper. The major principle is the respect for the value of the satisfaction of the client at all times, and by the knowledge of how to collect, analyze and use the information of the clients and the market with a view to increase businesses.

According to Kaplan and Norton, "the value proposals are the vectors for the essential measures of result in the clients' perspective". [Kaplan, R.S and Norton, D.P., 1997, P 67-68]<sup>(10)</sup>. It describes the unique product combination, price, service, relation and image that the business offers to the clients.

For Kaplan and Norton, "the proposal of value determines the segments of market

aspired by the strategy and the way in which the organization will be distinguished in the segments objective in relation to the concurrence". [Kaplan, R. S and Norton, D.P., 2000, P. 98-99]<sup>(11)</sup>.

The correct identification of the objects are the perspective of the client and attributes of the value proposal, it orients towards the election of the objectives of the dimension of internal processes.

Therefore, the enterprises that adopt the BSC as management system must choose, for example, the following strategic matters: life value of the clients, participation in the purchases of the client, profit of the clients, relationship with the clients, satisfaction of the clients and participation in the market.

### **1.2.3 The Perspective of the Internal Processes**

The perspective of the internal processes takes us to the subject of strategy execution, that is to say, if the plan of the high administration to generate economy value for the clients and, consequently, to rise the market value of the enterprise and the wealth of the partners it is being implemented successfully.

In that perspective of the BSC, the executive leader and the project team identify the critic processes of the business which are essential to transform the proposal of value into a reality for the client and source of competitive advantage.

For Kaplan and Norton, "the measurement systems of performance of the majority of the enterprises locate the majority of the existing operational processes". [Kaplan, R.S and Norton, D.P., 1997, P 97]<sup>(12)</sup>. In the BSC, it is recommended that the executives define a complete chain of value of the internal processes that would begin with the process of innovation, identification of the present and future needs of the clients and unfolding of new solutions so that those needs, continue with the operation processes, hand over the products and benefit of services to the existing clients, and finishes with the post-sales services, offer of services that complement the value provided to the clients by products or services of a enterprise.

The identification of the critic processes by means of the decade of the value chain allows the selection of the performance indicators that better measure the critic processes. While, the traditional accounting and costs systems may not be prepared to measure the identifiers with the vision of processes. Kaplan and Norton (1997) emphasize that, generally, the analysis of costs supported in activities allows the enterprises to measure the cost of processes that, together with the measurement of quality and the cycle time, offer important parameters. The measurement that the enterprises use, the continuous improvement or the discontinuous improvement of important internal processes, the three sets of measures - with base in costs, quality and time - will offer data that will indicate if the goals of those programs of improvement are being reached.

#### **1.2.4 The Perspective of Learning and Growth**

The perspective of learning and growth must have as objective to evaluate what is the value of the employment for the enterprise in three levels of contribution: as an individual, as a member of a team or like somebody integrated to the organizational culture. Thus, the administrators need to identify which is the structure which in the long term will make the growth of the enterprise viable.

According to Kaplan and Norton, "the ability of an organization to innovate, to improve and to learn is related directly to their value". [Kaplan, R.S and Norton, D.P., 1996, P 75.]<sup>(13)</sup>. In other words, only by means of its ability to send new products, to create more value for its clients and to improve its operational efficiency, an enterprise is able to penetrate into new markets, increase income and margins, growing and increasing the value for its partners.

The elaboration of balanced scorecard reveals three categories of objectives for the perspective of learning and growth: capacity of the employees; capacity of the information systems and motivation, empowerment and order.

In agreement with what Herrero affirms:

The visionary enterprises recognize that their main sources of renovation are the people motivated and in agreement with the values of the organization, being that in

this sense, those enterprises develop a set of practices considered as essential for the development of their organizational culture. [Herrero, E., 2005, P 186.](<sup>14</sup>).

### 1.3 Construcción of a BSC

Every enterprise has its own characteristics and may wish to follow its own way for the construction of the BSC. While, we can delineate a typical and systematic plan that we used to create scorecards in the organizations In the case of being executed in a suitable form, this process of four stages (financial, clients, internal processes, learning and growth) will stimulate the commitment of the executives and managers, and help to reach the objectives of the programs.

The great objective is to promote an understanding and a critical analysis of the directions of businesses and the vision of future, and to rescue the strategic directives, analyzing its coherence with the direction of business and the vision of future. It is a diagnosis of fundamental importance, because all the work of definition of objectives and indicators require supplies for the strategic planning.

The activities of this stage imply placing the strategic targets in the four dimensions of the BSC, correlating them among each other. In that process there could appear lagoons in the relation between the integral individuals of the process, which will have to be eliminated as from new discussions and analysis of the strategic planning of the organization.

The intention of the BSC is to tell the history of the enterprise. The four presented dimensions are constituted sufficient for the majority of the enterprises.

Another important point is the necessity to divide the objectives in great strategic themes. For Kaplan and Norton, "the strategic themes reflect the vision of the executives according to whom it must be done internally for obtaining strategic results". [Kaplan, R.S and Norton, D.P., 2000, P 90.](<sup>15</sup>).

When treating on the election and elaboration of the indicators, the main target of the selection of indicators is the identification of those which better communicate the meaning of the strategy.

A great challenge in the definition of key indicating is to stimulate and to develop the culture of evaluation of strategic performance.

Considering this great objective, the indicators will have to be defined in numbers to monitor and to evaluate the strategy of the organization.

For each defined indicator, a picture with origin of data is created, that is to say, any entity of the organization will be responsible for the provision of information associated to each sector.

Kaplan and Norton affirm that “a strategic map well constructed must show the relations between the internal processes and the intangible assets”. [Kaplan, R.S and Norton, D.P., 2004, P 354]<sup>(16)</sup>.

### **1.3.1 Elaboration of the Implementation Plan**

Once defined the indicators associated to the different strategic targets, then goals, plans of action and people in charge are defined, in order to direct the implementation of the strategy. As a final activity, those projects and plans of action in time are prioritized, in agreement with the availability of existing resources for their operation. That priority facilitates the support and the control of the projects.

In this stage also is defined all the process of monitoring and control of the strategy of the organization, including the definition of the frequency of the accomplishment of meetings of heads, the procedures for the communication of correction of and strategic redefinitions, the mechanisms to authorize the data collection and the visualization of the indicators throughout time and the deployment of BSC in tactical and operational levels.

Kaplan and Norton affirm:

A typical project of introduction of scorecard can take 16 weeks. Nor all the time necessary is occupied with the activities of scorecard.

The chronogram is, to a large extent, determined by the availability of the executives for interviews, workshops and meetings of sub-groups. [Kaplan, R.S and Norton, D.P., 1997, P 323.]<sup>(17)</sup>.

The speed whereupon the new strategies produce results indicates that the success of

the enterprises does not arise from the launching of new products or extraordinary services, great investments of capital or until of the construction of new intangible or intellectual assets.

The BSC shows a referential to describe and to communicate the strategy in coherent form and with imagination. It is not possible to implement the strategy without describing. The use of scorecard of quantitative indicators, but nonfinancial, makes possible the description and measuring of the process of value creation, and not of the simple inference.

For Kaplan and Norton:

The organizations focused in the strategy break that barrier. The executives replace the structures of the formal information for themes and strategic priorities that make possible the diffusion of a consistent message and the adoption of a set of coherent priorities in all the different dispersed organizational units. [Kaplan, R.S and Norton, D.P., 2000, P 22]<sup>(18)</sup>.

The organizations focused on strategy demand that all the employees understand it and carry out their daily tasks so that they contribute to its success. AS it is a vertical communication. The executives must use the BSC as a tool in the processes to communicate the strategy and to educate the organization.

The successful enterprises that adopted BSC implemented a process of management of the strategy. Concerning a process that integrates the tactical management and the strategic management in a unique and continuous intermissive process.

The initial BSC represent hypothesis on the strategy and are best the approximate the actions that result in the financial event in a long term.

The successful program of BSC begins with the recognition about which it is not a measurement project, but of a program of changes.

Initially the reference is the mobilization and the creation of impulse for the launching of the process. After the mobilization of the organization, the reference converts the governability, with emphasis in current focuses and based on team work, as a way to realize with the non constructed nature, the transition for a new performance model. Finally, to

develop to a new management model, a strategic management system that institutionalizes the new cultural values and the new structures in a new management system. The new phases can be develop throughout two or three years.

## **CONCLUSION**

Strategic planning consists of developing an interrelated contract connection, explicit and implicit, mainly between the enterprise and its groups of clients, employees, partners and community.

The process of strategic orientation planning can be divided in mission, which is the reason of existing of the organization, and vision, which for the individuals is the taste and the facility to integrate itself into an activity.

So that the enterprise stays in the market, it is essential that its managers be conscious that it becomes necessary to realize quantitative and qualitative evaluations of performance, to aid in the decisions and remedial actions.

When calculating the influences that can be brought about by internal and external actions, the enterprise must perceive that hardly with traditional evaluations, always ligatures to the production or the commercialization, it does not consider the benefits of the action evaluations, directed for other links of the value chain, where the client is found.

We can conclude that the BSC, as a new system of strategic management, produces a clear understanding of how the decision of the manager can impact directly not only in his area of responsibility, but in all the strategy of the enterprise, contributing in the relation of the actions of today with the goals of tomorrow.

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