Research Journal of Finance and Accounting
ISSN 2222-1697 (Paper) ISSN 2222-2847 (Online)
Vol 3, No 10, 2012

A new model for balanced score cards (BSC)

Marwa abdel razek, senior accountant, Egypt
E.mail:Marwa_moh_mm@yahoo.com

Abstract:

This research paper aims to propose a model of a balanced scored which consists of 6 perspectives (financial, customer, internal business process, and employee, risk management, social and environmental)

Introduction:

The balanced scorecards has been called one of the most important management innovation of the 20 th century , Kaplan and Norton published their first article on the balanced scorecards in the 1992 and have followed up with several article that develop the concept , in this research paper I introduce a new model for balanced scorecard , this study contribute to the literature in several ways , in the new model I added three key for measurement which are : social and environmental perspective , risk management perspective , employee perspective instead of learning and innovation perspective

The rest of the paper is illustrates as follow, section 2, the literature review, section 3 the

Proposed model, section 4, an example of the new proposed model, section 5, summary, conclusion and suggest for research

Section2: literature review

The balanced score cards is a performance measurement and strategic management system. It translates an organization mission and strategy into a balanced set of integrated performance measure (Chan 2004)

According to dabhilkar and bengtsson , 2004 " the balanced score cards is am multidimensional approach to performance measurement and management control that is linked specifically to organational strategy , one of the major strengths is the emphasis it places on linking performance measure and actions plans at all levels with business unit strategy .

The balanced score cards vs. other performance measurement:

According to Kaplan and Norton , the stating points for the development of the BSC concept was the idea that the traditional performance measurement systems were adequate in an industrial – age environment but not for today "s information (see Kaplan &Norton 1996,a 2001) while competitive advantage was mainly driven by superior management of tangible assets in the industrial age , it is driven today by managing intangible such as service , innovation , flexibility or knowledge (chandler 1990, Blair 1995 , balkcom et al 1997). Traditional performance measurement uses accounting model of the firm based on two important assumptions that all relevant information on performance can be expresses through financial measure and that the value creation process can be described and managed by a linear additive model. These assumptions are not only made in the financial accountant "s approach of defining firm's value and profit by adding the value of tangible assets in balance sheet. They are also found in residual income model likes on the economic value added approach; both models evaluate assets on the basis of historical costs. The economic value added approach goes beyond the traditional financial accounting data that are again the results of a linear additive approach; however it is much difficulty to attribute the benefit of intangible to specific business units than the benefit of physical assets. Whereas value effect of physical assets usually can be captured by the business units, owning assets where are value effects of fiscal assets usually can be captured by the business unit owning the assets intangible like innovation, expertise, reputation typically imply spillovers entirely the unit making the investment, the balance score cards is a specific approach to handling these problem using an alternative model of the value creation

Process, the balanced scorecards differs from other performance measurement system in that it doesn't try to attribute financial value to intangible and it doesn't put these assets on balance –sheet. in contract to EVA approach or Lev"s (2001) approach the balanced scorecards in a framework for describing value creating strategies that link tangible and intangible assets , this is done by formulating strategic objectives with respect to these assets in four perspective : financial , customer , internal business process , learning and growth (Speckbacher et al 2003)

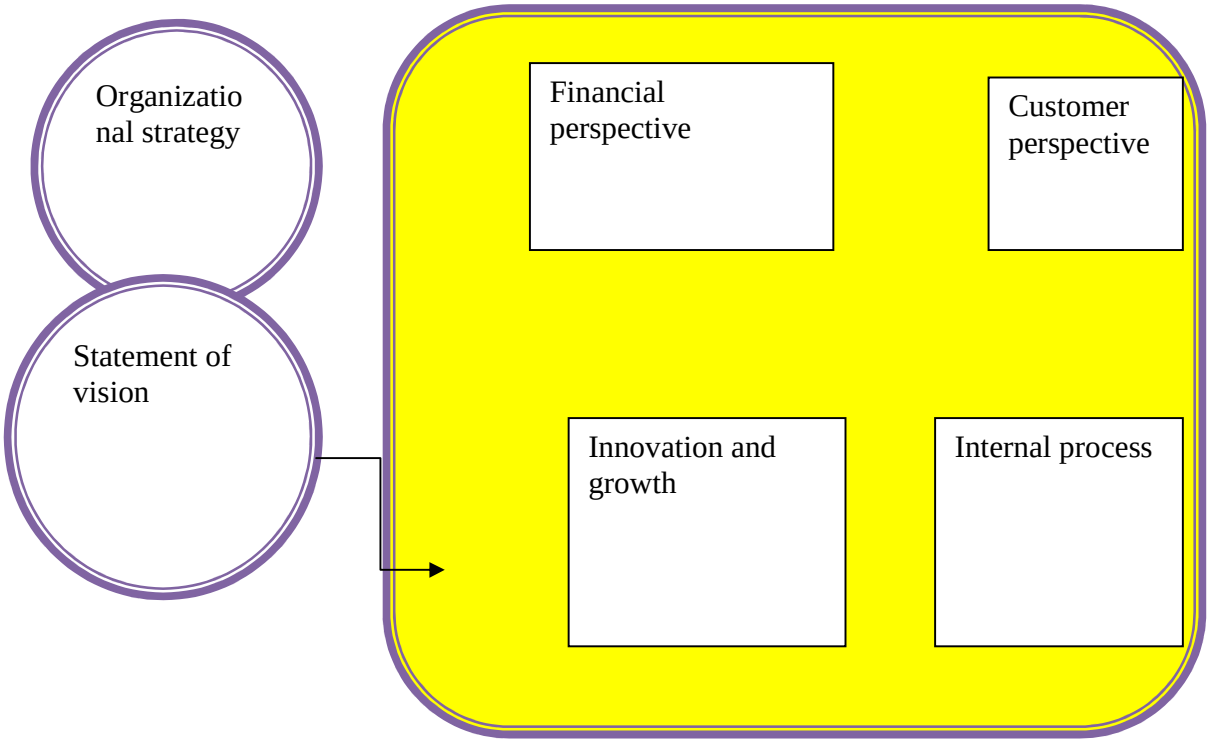
The benefit of the balanced score cards:

1. The process to create a balanced scorecards is at least important as the information system that derives from what is known as scorecards , the most important benefit of the BSC creation process are :
2. They promote the systematic development of vision and strategy and therefore the understanding of how things are going to all management levels
3. They allow the creation of business model specifying the key success factors and their interrelation
4. They minimize information overload by limited the number of measurement considered
5. They force managers to focus specifically on a small group of measurement which are critical for the performance of the organization and the business
6. They make it possible to recognize the essential adjustment of the business and its management through cause and effect analysis , identifying all activities that act as trigger to reach established goals and to which it therefore convenient to allocate the company ' resource
7. The d defined measurement parameters allow one to verify whether a certain strategy has succeeded whether or failed in the stage of projecting future business and not just when the books show the lack of results
8. they facilities top down communication of objective and the alignment of key process to the strategy
9. the scorecards system contain a change of paradigm , the period "s cabinet and the strategy should both be accessible to the crew , access not only allows for closing an information gap but also promote constant and systematic dialog between the boards , the department and the employee about corporate strategy topics(Ritter , 2003)

Models of balanced scorecards in literature:

Kaplan an Norton (1992) developed an innovative multi – dimensional corporate performance score cards known as the balanced scorecards , it provide a framework for selecting multiple key performance indicators that supplement traditional financial measure with operating measure of customer satisfaction , internal business process and learning activities (anand et2005)

The Kaplan and Norton "s balanced score cards approach



The initial financial perspective covered by the BSC includes looking at returns on investment and sales as determinants of whether the firm's strategic implementation and execution have truly led to improvement in business activities. There are three constructs considered: increased return on investment and increased on return on assets as a measure of productivity, increased profit margin as a measure of revenue growth and market share, operating cost and material asset utilization as a measure of cost structure

Customer satisfaction in the BSC is related to the measuring of service performance from customer – response – feedback .this perspective include three constructs: quality and functionality of product as a measure of product attribute, customer response time and satisfaction as a measure of customer relationship and image and reputation as a measure of firm image

The internal processes include four broad constructs: operation management measured by the quality of the operational process and the dependability of the delivery process, customer management measured by larked customer selection, customer acquisition, and target customer retention.

Innovation and learning measure which include such items as employee skills and expertise are focused on those elements that facilitate continuous improvement and growth , it has been argued that a company "s innovativeness in term of the development of new product and process is critical to achievement excellence , the innovation and learning include 3 broad constructs :

Human capital measured by employee skills and know how, organizational capital measured by sharing of worker, knowledge shared vision, objective and value and information capital measured by knowledge management capabilities and accessibility of information (Chen et al 2010)

CIMA2004 introduce a strategic balanced score cards which aims to:

Assist the board, in particular the non-executive directors, in the oversight of an organization's strategic process.

1) Provide an integrated and dynamic framework for dealing with strategy at board level that Focuses on the major strategic issues facing the organization and ensures that the strategy is discussed at board level on a regular basis.
2) Provide strategic information in a consistent and summarized format to help directors to obtain sufficient grasp of the material so that they can offer constructive, informed input.
3) Assist the board in dealing with strategic choice and transformational change and the attendant risks.
4) Provide assurance to the board in relation to the organization's strategic position and progress.

It is made up of four basic elements: strategic position, strategic options, strategic implementation, and strategic risks

Strategic position

This focuses on information that is required to assess the organization's current and likely future position. It covers externally focused information such as economic and market developments and market share as well as internal issues such as competences and resources.

Strategic options

Having set the scene with relevant background and information, the focus of the scorecard shifts towards decision making, strategic options can be defined as those options that have the greatest potential for creating or destroying stakeholder value.

Strategic implementation

At this point, the emphasis of the scorecard is to identify key milestones for the board and to monitor implementation of the agreed strategy. Decisions on appropriate action may be required if things are not proceeding as planned

Strategic risks

This dimension underpins the others by focusing specifically on the major strategic risks that

Pose the greatest threat to the achievement of the organization's strategy as well as key issues Such as the organizations risk appetite.

The particular value of the scorecard lies in the way that it brings all the high-level strategic

Information together in a summarized, but coherent form for the board’s use within a robust

Framework.

This is supported by a strong foundation of high quality management information

Which the board can access if it is felt necessary to explore a particular issue in greater depth.

The key benefit of the scorecard is that it provides the board with the big picture. The scorecard is a very flexible approach in that organizations can use any strategic tools and techniques to undertake their detailed strategic planning and management for each dimension

Callaghan &Mintz 2010 proposes a re- balancing scorecards consists of 4 dimensions as showing in figure 2:

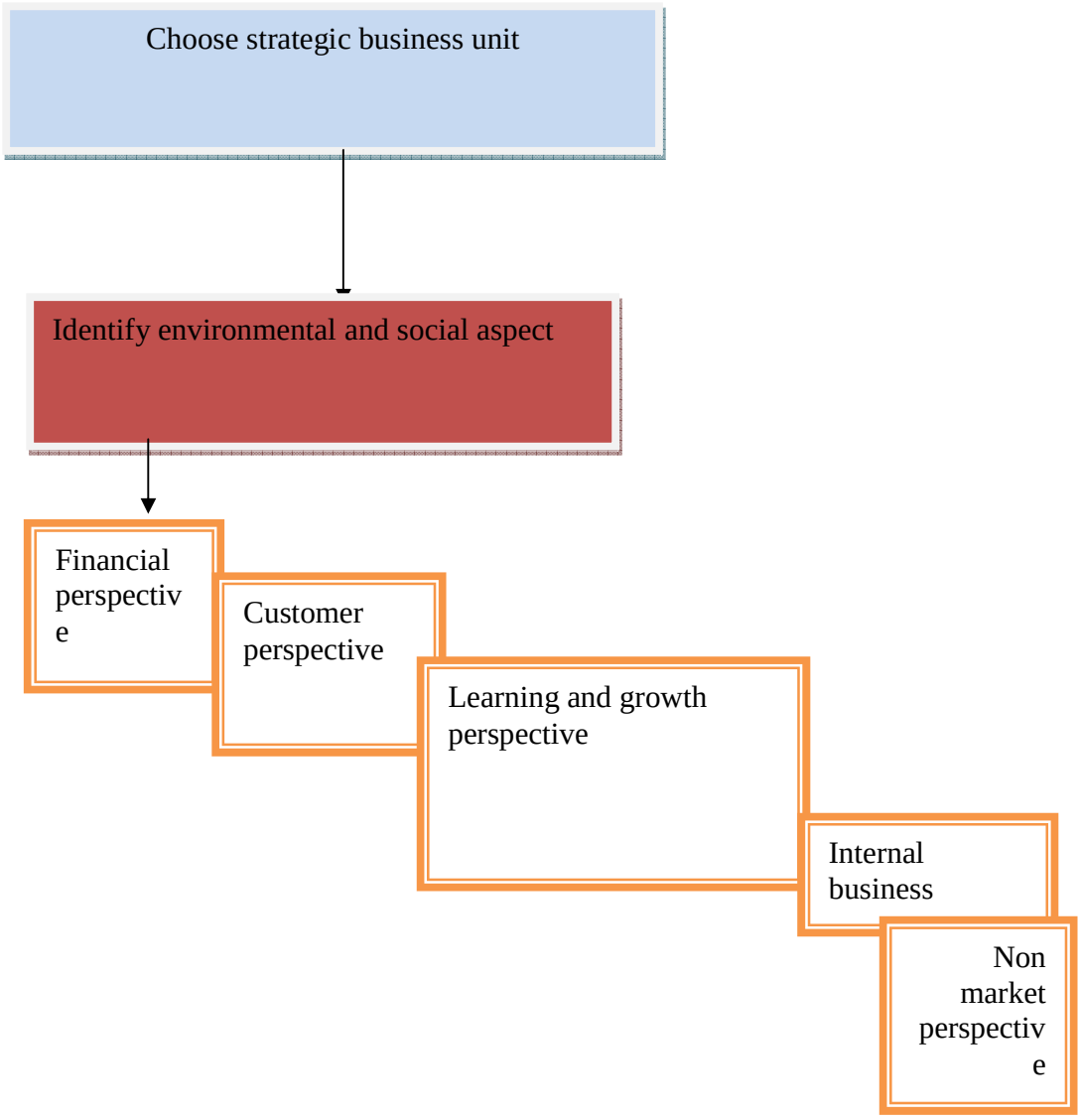
External direct dimension: how do we look to these shareholders, example profitability, liquidity, growth risk, market share, number of customer complaints

External indirect: how do we look to these stakeholders: comply with intent of law, regulation - global reporting initiative, and CEO compensation? Internal adaption: how does the firm adapt, can the firm attain \maintain legitimacy

Internal indirect: which key internal process must we improve, ex: manufacturing, cycle efficiency, and hours of training per employee

Kaplan and Negal 2004, have proposed a balanced scorecard for effective governance, this bSC consists of 3 parts:

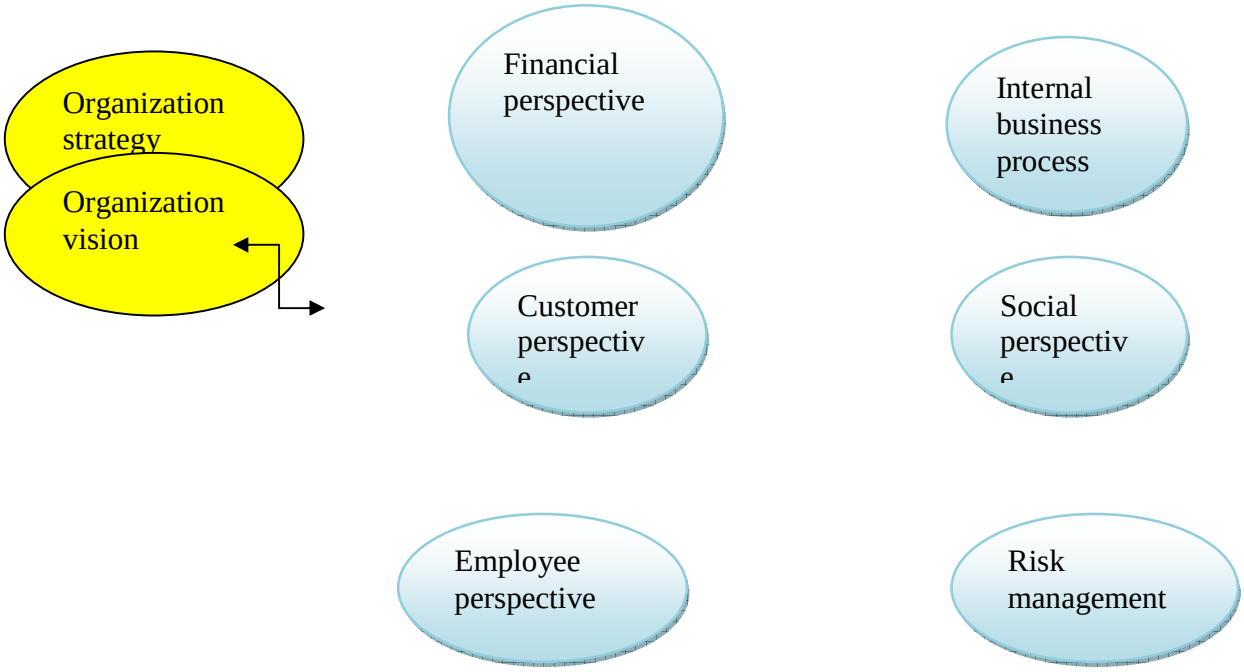
1. Enterprise governance that present the company strategy with detailed description of objectives, performance measure, target and initiatives to be implemented by the chief executives offices and managers throughout the organization
2. A board BSC which defines the strategic contribution of the board includes the strategic data, necessary for the board operation and offers an instrument to monitor the structure and performance of the board and its committee
3. An executives BSC allows the board of directors and the compensation committee to evaluate the performance of the top manager of the organization Figge ET a 2002l propose a model for a balanced scorecards for sustainability, they added a new key for environment and social impact which called the non market perspective. The following figure illustrates the proposed model of figge et al 2002



Section 3: The new proposed model

In this section I propose a new model

The next figure represents my proposed model



Financial perspective:

The financial perspective deals with the traditional objectives and measures such as the return on investment (ROI) and earnings per share (EPS). These measures provide a way to assess how well the company has performed in terms of its financial goals

Customer perspective:

A business entity establishes metrics that measure the customer's satisfaction. A satisfied customer is a loyal customer and in turn creates more revenue for the entity

Internal business process

A business entity attempts to excel in the internal business processes to stay profitable and compete well. Businesses have developed various metrics that measure the efficiency, effectiveness, quality, and other relevant factors associated with profitable strategies. Efficiency and effectiveness in the business processes results in quality products, lower costs of production, and faster delivery, which in turn results in satisfied customers, and thus higher revenues. (Srivastava et al 2001)

Social impact:

Crawford and scaletta 2006 retain the environmental and social impact question that the other balanced scorecard perspective asks: what is the financial impact on the company, what do our customer want, what to do well to achieve this? How do we learn and grow as an organization to do this well, how do social impact and environmental thinking our organization value to do this well, these question embed corporate social responsibility into the strategy

and the social and environmental impact perspective within the strategy map and the balanced scorecards that is tightly linked to the strategy (caraiani et al 2012)

Risk management:

the Sarbanes –Oxley act (SOX) of 2002 has increased board and senior executives' responsibilities for risk and forced a more top –down approach to corporate governance. Moreover the Turnbul report and future regulatory review will encourage similar rigor and transparency in the UK, in addition the European commission plans to strengthen governance by requiring stronger corporate controls on financial practices m reporting and risk management (drew et al 2006)

According to the Committee of Sponsoring Organization of the Tread-way Commission, the enterprise risk management is a process affected by an

Entity's board of directors, management and other personnel applied in strategy setting and across the enterprise, designed to identify potential events that may affect the entity and manage risk to be with its risk appetite, to provide reasonable assurance regarding the achievement of entity objectives (COSO, 2004, p. 3 as cited by Marwa, 2011)

Kaplan and Norton (1996, p. 51) indicate that, "In general, risk management is an overlay, an additional objective that should complement whatever expected return strategy the business unit has chosen." Kaplan and Norton (2004) expand this position by describing the way operating risk, technological risk and environmental risk measures could be utilized used in a BSC. Specifically, such measures could be included into the scorecard's customer perspective or internal perspective. However, the subject of risk comprises very little of the hundreds of pages written on the BSC, which is understandable as the BSC has been presented as a performance measurement framework. Joseph &Scott, (2006)

Employee perspectives

Kaplan and Norton (2004) advocate the importance of learning by devoting one of four perspectives to "Learning & Growth" in their Balanced Scorecard (BSC) tool. In this "Learning & Growth" element they talk about developing strategic competencies, strategic information, culture, leadership, alignment and teamwork (Kaplan and Norton, 2004). According to them, it is important to identify strategic job families and then develop competency profiles detailing the skills, knowledge and values that occupants of such jobs should have (Kaplan and Norton, 2001). Thus, through a Balanced Scorecard, learning organizations can focus on developing the strategic capabilities of organizations and accordingly steer people development initiatives towards achieving strategic objectives. (Archana yemeshvary, (2012)

Section 4, an example of the new model for the balance score cards:

1. The company statement:

our customer are the focus of all we do , our customer success is our success , we understand our customer anticipating and exceeding their needs m, we seek close and durable relationship partnering for the long term –world wide

Moreover, we believe that people make the difference, we insist on integrity and respect for personnel value, our success depends on incorporating different cultures and people who make learning a lifelong experience, we develop word class people through training and education

Furthermore, we work together across title, job responsibility, organizational structure and geographic boundaries, we leverage our resource by sharing information and expertise, we encourage openness and initiative, and we expect participants in decision making and problem solving across all functional area and organizational levels

Finally, we are responsible citizens involved in the committee in which we work; we strive to make our workplace and our world a safer, better and more enjoyable place

2. Company objective:

Based on our mission and vision as illustrated in our company statement we aims to:

1) Realize growth revenue
2) Attract and retain high value from customer
3) Maximize our services quality,
4) Develop cost effective
5) Marketing and create brands
6) Satisfy our internal customer (employee)
7) Reduce risk
8) Protect our environmental protect

3. Performance measure (6 indicator)

Key indicator	Measures
Financial perspective	Return on investment (roa), return on equity (roe) , earning per share , economic value added
Internal business process perspective	Market share in each product , number of new product , benchmark the best competitors , amount of errors and rework ,
Customer perspective	Customer satisfaction ratio , number of incremental customer
Social and environmental perspective	Material recycled Waste to landfill – water emissions – compliance with law and regulation environment
Employee perspective	Gross payroll , food, continuous education – training, computer skills – health and safety , pension plan – employee turnover –employee complaints
Risk management	Cost of capital Debt finance – debt to equity ratio – Hedging funds -

Section 5: summary and conclusion: This research paper aims to introduce model for balanced scorecards which consists of 6 indicator, financial, customer , internal business process, employee, risk management , social and environment process I suggest to implement these framework and research have to find to costs and benefit to use this framework

Reference:

Anand, sahay and saha, (2005), balanced scorecards in Indian companies, vikalpa, vol (30), no: 2, pp: 11-25
Archana yemeshvary , 2012, balanced scorecards –fostering organization toward achieving strategic results , a case study of an oil PSU in India , development and learning organization , vol, 26 , issue 4, pp:13-16
Callaghan &Mintz 2010, a re- balanced scorecards: a strategic approach to enhance managerial performance in complex environment, www.google.com
Chan, (2004), performance measurement and adoption of balanced scorecards, a survey of municipal government in the USA and Canada, international journal of public sector management, vol. (17), no (3), pp: 204-221
Chen, yang , cheng-w , lien , t-sung , (2010), linking the balanced scorecards (BSC) to business management performance – a preliminary concept of fit theory for navigation science and management , international journal of physically science , vol.(5), issue (8), pp.1296-1305
Chirața Caraiani, Camellia Iuliana Lungu, Cornelia Dascălu, Maria Violeta Cimpoeru and Maria Dinu, 2012, social and environmental performance indicators: dimension of integrated reporting and benefit for responsible management and sustainability, African journal of business management, vol (6), and no.14.pp.4990-4997
CIMA 2004, practitioner guide, shareholder and stakeholder approaches to strategic performance measurement using the balanced scorecards, www.CIMA global.com
CIMA report 2004, enterprise governance: getting the balance right, www.google.com
Figge, Hahn, schaletgger &Wagner, (2002), the sustainability balanced scorecards theory and application of a tool for value –based sustainability management, working paper, www.google.com
Joseph calando , Scott lane ,(2006), an introduction to the enterprise risk scorecards , measuring business excellence , vol.(10), issue,(3), pp.31-40
Kaplan and Nagel 2004, improving corporate governance with the balanced scorecard, working paper, www.google.com
Mandar dabhilkar and Lars bengtsson, (2004), balanced score cards for strategic and sustainable continuous improvement capacity, journal of manufacturing technology management, vol.15, issue 4, pp.350-359
Marwa abdel razek, a proposed model of balance scorecards for enterprise governance, an accepted paper for the conference of the 3 th global accounting and organization change conference with held on 14-17 July 2012 Sunway report hotel and spa , Malaysia
Ritter, (2003), the use of balanced scorecards, in the strategic management of corporate communication, an international journal, vol. (8), issue (1), pp: 33-59
Speckbacher , bischof ,Pfeiffer , (2003) , a descriptive analysis on the implementation of balanced scorecards in German – speaking countries , management accounting research , vol.(14), issue (4),pp. 361-388
Srivastava, kogan &vasarheyli, (2001), balanced score cards approach to sustainability and value creation: a challenge for survival in the new economy, the journal of eastern of ILM Calcutta, pp: 1-9