

Reviewing Balance Scorecard (BSC) application in management accounting

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ABSTRACT

Balanced evaluation technique is one of the most important and modern techniques of evaluating organization's performance operations and according to the development of organization's performance evaluation methods, it is necessary to pay attention to select a method that has the most investment return rate as much as possible. This paper addresses the reviewing of "balanced evaluation" technique that is one of the most modern techniques of management accounting. Then balanced evaluation technique and its aspects and necessary steps in order to prepare it are described briefly. Finally, challenges and solutions presentation are addressed to remove the challenges of evaluating this technique.

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1. Introduction

Just during 15 recent years, efficiency increase has been being 45 times that this miraculous increase has been mainly the result of improvement in organizations' managerial systems and correct scientific, research and economic policies in industrial developed countries. Low levels of efficiency, which is one of the features of most less developed countries, is due to the different effective factors on efficiency that a number of these factors are out of the society's control and some of them are controllable and we can seek an alternative for them (Hoseini Motlagh and Ghadrddan, 2007). There were different models in the world in order to evaluate the performance of the organizations and now they are also being reviewed and improved. The modern literature of management accounting emphasizes on using non-financial indicators as a means to overcome the attributed inefficiencies to financial indicators and in fact believes that non-financial indicators must be used together with financial indicators. For example, Niven (2001) suggests that traditional financial performance indicators must be used with non-financial indicators such as indicators for efficiency, market share, social responsibility, products development and staff performance as a supplement (Niven, 2001). Furthermore, Zimmerman (2000) also mentions that non-financial indicators are necessary for operations control goals and result in using artificial controls and balanced evaluation system (Zimmerman, 2000). In this paper, it has been tried first to explain the concepts and principles of BSC and then to address its role in management accounting.

1- Theoretical background

2-1 Appearance history of BSC

Balanced evaluation was offered in 1992 by Kaplan and David Norton in order to convert perspective and strategy to goals. Strategy explains how to adapt the capacities of an organization with the existent opportunities in the market in order to realize the whole organization's goals. Therefore, the purpose of implementing a strategy is to achieve predetermined goals. According to Kaplan and Norton, the main goal of economic unit is to remain in the market. The thing that is also seen in remaining in the market is product quality that the customer's satisfaction also determines quality. Balanced evaluation offers an important role in organization progress by focusing on performance measuring and its adaptation with strategy. This innovation has changed the thought of many of managers about the method of organization's management. Now they offer strategy with more attention and clearly and find the organization as an integrated and appropriate set of activities and know the strategy related to performance measuring system (Kaplan and Norton, 1992).

2-2 Definition and aspects of BSC

One method that helps much to implement the strategy and operationalize it better and better is Balanced Score Card method (BSC). BSC method was mentioned in 1992 by Robert Kaplan, Harvard University's business school professor and David Norton who was the manager of Nolan Norton Research Company related to the consulting organization of KMPG and was welcomed by many organizations. The conducted studies in the world introduce BSC as one of the most powerful methods of implementing strategy. In other words, a revolution has been occurred in performance measuring techniques and frameworks in the last 20 years that BSC sample is more popular than the others. Haket group have reported that more than 700 American organizations have applied mature users (the purpose of BSC mature users is the organizations that perform financial and non-financial indicators for managing strategic movement and managing more than 75 percent of projects or organization supported innovations (Christsen, 2008). BSC contains a set of indicators that offers the managers a fast but comprehensive view of their business. The primary framework of BSC that was offered by Kaplan and Norton in 1992 contains 4 groups of indicators that form four sides of this model:

- Financial indicators
- Customer indicators
- Operational (process) indicators
- Learning and growth indicators

These indicators have been explained briefly as follows:

A) Customer aspect

Knowing that how the company acts from customers' viewpoint is one of the requirements of senior management. BSC wants the managers to translate their general operation statement about customers' services to specific indicators that reflect important factors for customer into some measures (EFQM excellence levels, 2003). In customer aspect, this question must be answered that who the main customers of the company are. Meanwhile answering this question, the following measures can be referred:

- Satisfaction and loyalty of the customer
- Attracting and keeping customer

This aspect can also be applied in the direction of cases such as generating opportunities for strategic planning, continuity of information systems products, understanding necessities and support and new services (Sparks, 2001).

B) Internal process aspect: We must learn what skills?

Internal measures for BSC must be from the processes that have more effects on customer's satisfaction. For example, the factors those are effective on time, quality, staff's skills and efficiency. Organizations also must identify their competitive advantages such as core competencies and key technologies that are required for achieving continuous leadership in the market. From enterprise internal process (operations) view, organizations must choose methods for their activity that result in value creation for customers and shareholders. In this field, product modification and development, reengineering and company's structure modification must be considered. In this section, the measures related to the following questions can be useful:

- Is enterprise relationships progress and control rate considered with the other companies involved in production or services such as raw materials suppliers?
- Does the organization have appropriate mechanism to identify and diagnose expectations and passive needs of their customers?
- Are products sending and services offering to customers performed efficiently, reliably and responsibly?
- Are after sales services so that can attract customers' satisfaction? (Shokri, 2008).

C) Innovation and growth and learning aspects: Do we continue to improve and create value?

Modifying information flow structure, does company's staff have enough knowledge for working with new systems? Is the atmosphere of creativity and innovation in enterprise strengthened? For this purpose, we must seek solutions to provide staff's material and spiritual needs in the all fields. Then we measure their progress by establishing appropriate measures. Among the appropriate measures for this aspect, these cases can be referred:

- Staff's skill
- Staff's partnership

The purpose of growth and learning is the organization's attempts in the course of training, staff motivation and empowerment and generally human resources systems' quality improvement (Atash pour and Noorbakhsh, 2010). Growth and learning can be summarized in this question, how we can continue the values of improvement and innovation? Sever competition in the contemporary world needs organizations that improve their existent processes and products continuously. The organization's ability to initiate, improve and learn depends directly on the organization's values of interest (Chavan, 2009).

D) Financial aspect: how we appear in view of the shareholders?

According to the activities of the other three aspects, if the attempts don't result in changing and improving the company's financial status, it doesn't provide any benefit for enterprise. Among the important measures that used in financial aspect, the following cases can be referred:

- Profitability that is measured by return on investment (ROI)
- Economic value added measure (EVA)

Financial aspect seeks answering to this question that how we behave with shareholders? And what we do for our shareholders to achieve financial success? (Shokri, 2008)

All of the aspects of scorecard can be summarized in the following figure 1:

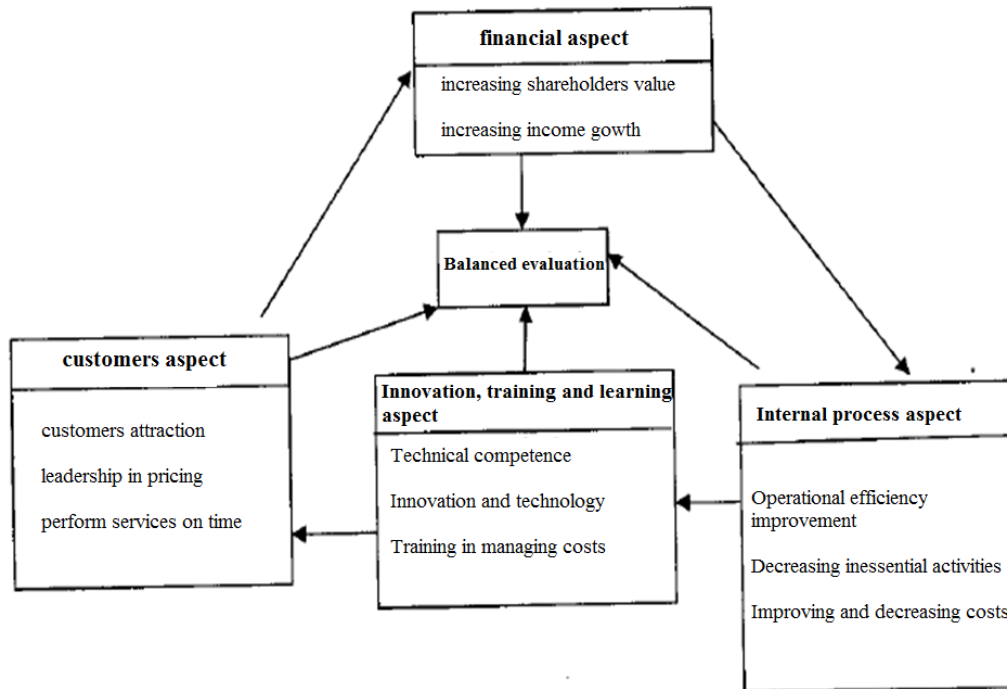


Figure 1: The aspects of BSC

2-3 Process of creating balanced evaluation in organization

BSC is used as a framework in order to develop performance reports in the organizations; this method enables the management to translate perspective, mission, goals and strategy of the organization in different enterprise units to a series of performance measuring indicators. A study that was performed by USA management accountants institute shows that BSC is a pioneer system for strategic management and organization's performance and has left behind quality management or financial management based systems (Mohammad Nejad, 2009). Although balanced evaluation in each organization must be implemented according to its special condition and related industry features, a general process can be discussed and reviewed and can be described as follows: 1- Developing strategic principles, 2- Determining main elements, 3- BSC development that each one of the stages contains subsets that have been shown in figure 2:

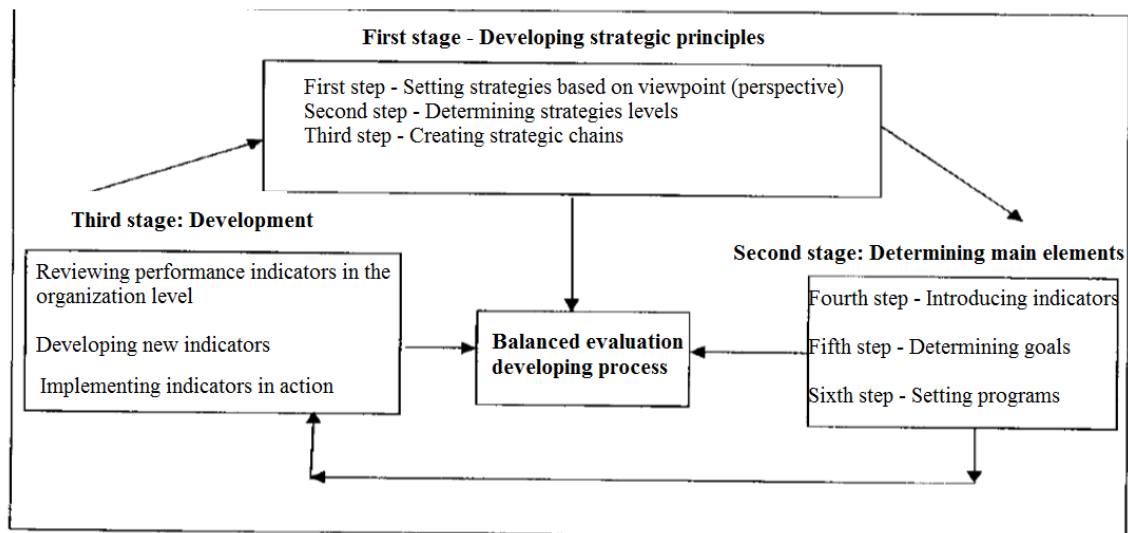


Figure 2: Balanced evaluation developing process

2-3-1 Potential challenges of balanced evaluation:

- The possibility of the existence of problems about training information accuracy
- The possibility of the existence of a tension between process evaluation and result evaluation
- Increasing necessary time for managing BSC and ensure the information accuracy
- The existence of interests in some directors about short-time benefits of BSC elements

2-3-2 Solutions of confronting with balanced evaluation challenges:

- Self-control role can be important for providing information and quality assurance processes related to information accuracy and reliability
- Developing more effective relationship in organization for optimal performance
- The developed savings in collecting and reviewing the reported information accuracy nullify the subject of increasing necessary time for managing BSC

2- Discussion and conclusion

BSC is a performance management system that can be applied in all of the organizations with any area for setting viewpoints with customers' needs, daily works, institute's strategy evaluation and management, operations' efficiency improvement control, organizational capacity developing and relational programs for all staffs. In the other words, BSC provides this possibility and ability that financial indicators; customers' results and organization's capacity are being studied simultaneously. Traditional financial indicators show what happened at the end of financial period without determining that how the manager can improve future performance while BSC is the base of the organization's present and future success. In fact, it can be said that BSC nowadays becomes like a language to evaluate institutes. Briefly, BSC is a Top-Down system on organizational performance, in which general perspectives must be classified as the first stage (general goals) and managers must decide that which strategy reach us to our goals after organizational structure and infrastructure stability. BSC meanwhile helping the management in acquiring organization's information sources application and results from products production; helps him/her in reviewing performance empty spaces strategy elements and parts (Unknown capabilities). BSC enables the manager to know economic conditions results, quantitative goals, seasonal conditions, competitors' activities, physical capacity planning and labor productivity and production problems and to act about the elimination of defects by gathering suggestions and making decision and helps him/her whether or not to allocate resources? Withdraw? Do modern actions? Etc.

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