Benefits of Using Balanced Scorecard in Strategic and Operational Planning

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Abstract Formulation of the organizational strategies is a complex phase of strategic and operating management in which based on the given information we need to create the future directions for functioning of the organization. Many times in that process the teams for strategic planning rely on the financial reports which represent the financial perspective, neglecting at first sight "the irrelevant" activities that can wait. In the future, this approach can be fatal for a certain organization. Therefore emerges the need for application of Balanced Scorecard as already proven concept to assist the teams in making future strategic plans, which from there will also depend on the operating and organizational strategy. During that is created a solid foundation for the organizations not to focus only on the financial aspects, but also on the internal processes and the human resources. The main goal of this paper is to give a theoretical review of the benefits of using the concept of adjusted balance. The narrower goal is to see how the process of strategic planning the organization directs its efforts towards various aspects because of that distribution in a great deal will depend on the activities of the operating management.

Keywords Balanced Scorecard, Strategic Plan, Operational Plan

1. Introduction

The strategic planning is especially important segment which affects the work of any organization. What is predicted in the strategic plan largely determines the operational planning as well as the current daily activities of the organization. The process of strategic planning is not a simple process, but a complex phase of the strategic management, which depends above all of the information that is at the disposal on the planning team as well as the organizational capacities. In this process are frequently made crucial mistakes by the teams for strategic and operational planning for their focus on the financial perspective of the organization, taking no account of the rest of the important perspectives.

The application of Balanced Scorecard provides equilibrium between multiple perspectives that will enable the organization to develop equally all of its organizational capacities. The basic premise of the balanced card results for the organizations not to jeopardize their future opportunities for action, if the financial perspective is stressed for the account of the strategic perspective [1].

Most frequently in the process of strategic planning are used financial reports which by themselves provide feedback only for the results of previous activities, but do not communicate with the carriers of the future action of the organization [8]. BSC is developed in a way to make balance between business strategy and financial success. In this sense, the traditional BSC concept is directed in four perspectives: finance, clients, internal processes, learning and growth. The next graphic presentation shows the BSC framework and the relations between the four perspectives [11]. (see Figure1)

Excessive emphasis on the financial perspective can promote behavior of managers, as a final result to cause sacrifice of the long-term potentials for creation of values in the organization, in addition to the short-term gains from the functioning [7]. The adjusted balance of strategic and financial control, instead of over-emphasizing one side, allows the organizations to focus on four different perspectives as follows: financial (concerning growth, profitability and risk); users (refers to the amount of value, which according to the perception of users, was created by the services of the organization); perspective of the working process (with focus on the different professional processes which create customer’s satisfaction) and learning and growth (connected with the organization’s efforts to create a climate which will support the change, the innovation and the growth) [9].
Thus, we can conclude that Balanced Scorecard, as a concept, has a purpose to translate the strategy as a sum of measures that will connect the mission and the vision of a separate organization into a whole.

Therefore, despite the fact that Balanced Scorecard includes defining strategic objectives and concepts for measuring the strategy in order to determine the degree of introducing the desired changes or development defined with strategic objectives, includes creation of: strategic map, in which the strategic goals are analysed from four perspectives to explain better the strategy, the causes and the consequences. Essentially, strategic maps are means of communication used to emphasize the creation of values of the organization. They show logical steps and connection between the strategic goals by type and cause-consequence relationship. So, the advancement of the performances in the strategic goals identified in the learning and growth perspectives allow the organization to promote its internal working processes, which, in return, help the organization to realize its desired results in customer and financial perspectives [2].

2. Literature Review

Strategic control is more progressive than traditional type of control in the functioning of the organization, which provides the insufficient results to be unnoticed and mitigated, when it is possible, instead of waiting for something to happen, and then followed by attempts to prevent their repeating [3]. The results obtained in the process of control give us overview of the real disadvantages in the process of strategic implementation and initiate a line of corrective activities of simple or complex type. It happens often, the results of the control to be a foundation for decomposition of the current organizational frame, including major changes in the general strategic and operational plans, their review or a complete change. BSC concept greatly helps in the process of strategic control.

The use of the balanced card for results helps in the organization to see the performance from financial aspect, how clients react on it (client perspective), which are the processes that must be emphasized to exploit its competitive advantage (internal perspective) and what can be done to improve its performance and growing (perspective of learning and growth). In that sense, the organizations use different criteria to measure on what level are they, regarding the four perspectives of their card results. Even though there is no specific rule in the choice of criteria, every organization should choose individually certain number of criteria that will provide a strategic preview of the performances, without many unneeded details [13]. Usage of only traditional financial measures (as an example, return of investment and earnings per share) often can provide false signals about the conditions of the organization. For the problem to be solved BSC provides the managers a full view of the business, including operative measures to satisfy the clients, innovation level and activity for improving the organization, as well as financial measures. Such comprehensiveness is especially important for the managers, so they can focus the investments for future sustainability, and in the same time maintains proper level of financial stability in the presence through financial control [4]. In this context, Kaplan and Norton, as an example use the example with navigation and flying an aircraft to illustrate the concept and the importance of it, generally. For example, the pilots need information for fuel, climate conditions, altitude and destination, which figure as factors. Every concentration only on one measurement can be fatal for the flight. Nowadays, managers are in a similar situation. It is required to review the efficiency in few categories in the same time. That is exactly how BCS helps us, through providing information in four aspects [5].

Considering the operational management as a function, it
is clear that through achieving the organizational goals and creating operational plans, it is essential for coordination and communication of the four perspectives of Balanced Scorecard. If strategic management properly balances the strategic map, then the operating management would have the biggest role in improving the organizational performance and enlarging the productivity as one of the basic indicators for the conditions in certain economy, industry, organization and process. If the productivity is considered as a term between manufactured value and the value of what is produced during the production, then the perspective of the internal operating processes will contribute to achieve the goals, as well as the growth and the development of the organization.

Knowing the processes and the functions in a way that provides clear, well-structured and interesting treatment of the operating management means that in the same time problems will become opportunities, and gained knowledge will apply quickly and easy to different businesses and organizations [14].

First responsibility of every operating management is clear understanding of the strategic goals. This means that the operating management has to develop a clear vision for the way of performing a certain operation. The performance of the operation, in the organizational context has to provide quality, speed, interconnection, flexibility and proper level of expenses. Only in this way, it can contribute for achieving defined organizational long term goals. We assume that when the organization articulates its own “strategy” that means that it reaches decision that brings exact activities which the organization has to make. The decisions made during the acting would be the same. If decisions change, the change has to be alarmed in the strategical direction. Only in this way, the same can produce for achieving the defined organizational goals. That is crossing from strategic to operational level of planning.

Because the operational strategy is full structural formula of decisions and actions, it would directly depend on the implemented strategic map and balance of the four perspectives of Balanced Scorecard.

In this sense, with the implementation of integrated management system and with the application of the systematic holistic system and a wide range of available tools of the strategic and operational management, Kaplan and Norton created hypothesis for the organizations to overcome the difficulties in implementing the strategies, especially the new strategies. The relationship between strategies and operations is presented on the picture below. Of the picture it can be seen that the integrated management system is planned by Kaplan and Norton in six stages, as follows [12](see Figure 2).

![Figure 2. Linking Strategy to operations for competitive advantage](image-url)
Stage 1. Development of strategy

This is a stage in which teams for strategic planning develop the strategy. The process starts with the use of various tools for strategic analysis and defining the strategy. It is of great importance in this stage to define mission, values and vision for proper strategic direction of the organization.

Stage 2. Creating a strategic plan

In this stage, the planning of the strategy should be based on the use of Strategic maps and Balanced Scorecard (actions and targets).

Stage 3. Harmonization on organization with the created strategy

In this stage we use cascade connection of strategic maps and BSC for all organization units. In this way, we have smooth implementation of the strategy and we avoid the “silos effect” on certain working units. The employees also should unify the personal goals and actions in accordance with the set strategic organizational goals.

Stage 4. Plan of operations

The integrated management system provides explicit connection between the strategy and the daily operations. In this stage, it is necessary to use various concepts as quality management, reengineering, process of control boards, prediction, resources capacity planning, dynamic budgets etc.

Stage 5. Monitoring and learning

This stage is extremely important in the control process of the operational plans, how to discover and solve the problems of the operating managers during the process of strategic implementation, as well as control on the strategies, whether they are done properly.

Stage 6. Testing and adaptation of strategy

3. Methodology

Creating organizational strategies is the first and basic stage of strategic management. Complexity of this process is primarily based on the numerous factors that affect the formulation of the objectives in the strategic plan and the aspects that are crucial for guiding the organization in the future that is based on the balance between the financial and developmental perspective.

Great part of the unsatisfactory results of the work in many organizations, are due to misfit of balance between financial and developmental perspective and directing of the strategic goals without considering the impact on the client's perspective and the perspective of the internal processes whose growth and development will contribute to reach the goals of financial perspectives and sustainable competitiveness on the market.

Essentially, for the organizations can be defined the following problem:

- When formulating strategic plan, there are not included activities that relate to the growth and the development of organizations as well as activities directed at customers and satisfying their needs.

The foundation of researching goals is based on the problems which are identified in the area of examination, and they are gained from the knowledge of the practical application of strategic management, as well as the theoretic knowledge of the relevant literature.

As research instruments are used the questionnaire for managers in the researched organizations and questionnaire for employees in the organizations. These instruments include eight organizations in the private sector, which are just a sample in this survey, i.e. eight managers and 71 employees in the same organizations. All organizations are in the private sector and within the frames of small and medium organizations.

With this stage a periodical checking is predicted in order to check if the strategy still matches the context of the organization. This procedure should be conducted at least once a year, or according to its needs on shorter periods. When the strategy is adjusted to the situation, a new strategic cycle of strategic planning and operational guidance is needed.

4. Results

From the inspection in the examinations of the Chi-square test in which are calculated the frequencies of the statements about the attitude and the opinion of the interviewees are derived the following indicators:

4.1. Results from the Interview Conducted with the Management Teams

The first question in the focus of interest refers to a research whether in the strategic plan are calculated activities and initiatives which are directed towards the clients and satisfying of their needs. The results of this question are shown in Table 1. Of the official survey in Table No. 1, the values of Chi-square test of the first question of the questionnaire (Whether in the strategic plan are calculated the activities and the initiatives which are directed towards the clients and the satisfaction of their needs?) indicate that there are statistically significant differences between the statements in the frequencies in management / project team, that we can confirm with the calculated values $X^2 (1, n=8) = .034$, (Sig. = .034)
Table 1. Statistical analysis of the first question: Whether in the strategic plan are calculated the activities and the initiatives which are directed towards the clients and the satisfaction of their needs?

<table>
<thead>
<tr>
<th></th>
<th>Observed N</th>
<th>Expected N</th>
<th>Residual</th>
<th>Test Statistics</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes they are continuously followed</td>
<td>7</td>
<td>4</td>
<td>3</td>
<td></td>
</tr>
<tr>
<td>Partially calculated initiatives</td>
<td>1</td>
<td>4</td>
<td>-3</td>
<td>4,5</td>
</tr>
<tr>
<td>They are not calculated at all</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>1</td>
</tr>
<tr>
<td>Total</td>
<td>8</td>
<td></td>
<td></td>
<td>0,034</td>
</tr>
</tbody>
</table>

Asymp. Sig.

The second question of the questionnaire refers to the internal processes and their promotion within the organization. The results of this question are shown in a table.

2. Of the official survey in the Table 2, the survey questions two (Whether in the strategic plan you have planned activities that relate to promotion of the internal processes?) It is evident the same answers are given from all interviewees from the management/project team.

Table 2. Statistical analysis of the second question: Did you plan activities that relate to promotion of the internal processes in the strategic plan?

<table>
<thead>
<tr>
<th></th>
<th>Observed N</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
<td>8</td>
</tr>
<tr>
<td>Partially calculated</td>
<td>0</td>
</tr>
<tr>
<td>They are not calculated at all</td>
<td>0</td>
</tr>
</tbody>
</table>

The third question of the questionnaire refers to learning and development of the employees in the organization, as one of the perspectives in BSC. The results of this question are given in Table 3. Of the official survey in Table 3, from the obtained values of the Chi-square test on the third question of the questionnaire (Do you invest in training or other forms of learning and development for the employees?) it could be noticed that there are no statistically important differences between the statements in the frequencies of the management/project team that show us the obtained values $X^2 (2, n=8) = .417$, (Sig. = .417).

Table 3. Statistical analysis of the third question: Do you invest in training or other forms of learning and development for the employees?

<table>
<thead>
<tr>
<th></th>
<th>Observed N</th>
<th>Expected N</th>
<th>Residual</th>
<th>Test Statistics</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes training and other kinds</td>
<td>4</td>
<td>2.67</td>
<td>1.33</td>
<td>Chi-Square(a) 1.75</td>
</tr>
<tr>
<td>Transferring experience in the organization</td>
<td>3</td>
<td>2.67</td>
<td>0.33</td>
<td>df 2</td>
</tr>
<tr>
<td>No</td>
<td>1</td>
<td>2.67</td>
<td>-1.67</td>
<td>Asymp. Sig. 0.417</td>
</tr>
<tr>
<td>There is no such specialized training</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>8</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Asymp. Sig.

4.2. Employees

The first question in the questionnaire is for employees of the surveyed organizations and it refers to whether they have participated in the process of strategic and operational planning. The results are showed in Table 4.

By analyzing the table we can draw a conclusion that most employees are claiming they take part in the process of strategic planning, however, the number of respondents that claim that for that purpose is formed a special team in the organization is not small, also the situations in some organizations where employees responded that they had not participated in the process of strategic planning at all are alarming.

Of the official survey in Table 4, the values of the Chi-square test on the forth question of the questionnaire (Do you participate in the process of strategic planning?) guide us to the existence of statistically important differences between the statements in the frequencies of the employees, which is shown by the obtained values $X^2 (2, n=71) = .002$, (Sig. = .002).
The second question of the questionnaire is for the employees in the surveyed organizations and refers to the possibility for development and learning that is offered by the organization as actions of the perspectives of BSC.

By analyzing the table, we can draw a conclusion that most of the interviewed respond that their organization offers them possibility for learning and development, however, the number of respondents that professionally develop by their selves, cannot be neglected, i.e. the organization does not offer them the opportunity for learning and development.

If we go back to Table 3 where for the same perspective respond managers it could be seen that a small number of organizations that do not invest in learning and development, but also in a great percentage of the organizations learning and development are result of the transferring experiences of employees who attended some training, seminars.

In this way, if the organization does not have its own funds to separate for this perspective then it does this by dissemination, which from one side it strengthens the team spirit, collegiality and organizational learning.

Of the official survey in Table 5, the values of the Chi-square test on the fifth question of the questionnaire (Is the organization which you work in, offers you an opportunity for development and learning?) guide us to the existence of statistically important differences between the statements in the frequencies of the employees, which is shown by the obtained values $X^2 (2, n=71) = .000$, (Sig. = .000).

5. Discussion

From the content above, as well as the analysis of the research results, we can draw the conclusion that even though managers and management teams in researched organizations are not aware of the BSC concept, however, in their strategic plans they are directed towards the activities related to customers and satisfying their needs, as well as activities aimed at improving the internal processes.

It seems that in the development for human resources, it is invested very little, which is evident from the results of the questionnaire for managers and employees. However, we can also detect development initiatives of organizational learning, i.e. transfer of experiences between employees in different organizations, through internal training or consultation, which as mechanisms for knowledge transferring are possible with this type of organizations, i.e. SME, considering their small number. Nevertheless, the recommendation for greater involvement of the employees in the process of strategic and operational planning is imposed, using of their ideas, recommendations and opinions.

Although the results of the questionnaire indicate the conclusion that a significant proportion of the respondents participate in the strategic and operational planning, it could not be neglected the number of employees that remain outside of this important stage.

6. Conclusions

However, a large proportion of SME is often put into background process of strategic and operational planning, so in most of the organizations, strategic and operational plans are out of date or are only slightly revised compared to previous ones, and it also happens to be placed in a particular drawer and forgotten. In the literature are listed many reasons why the situations are like that. One of the main reasons is the lack of time that happens to the managers or
management teams. The strategic managers simultaneously fulfill the obligations of operational and line managers, very often. The problems of today impose priority so it would be today not the preparation for the relatively distant future in which other businesses cannot exist if the present problems would not be solved. In addition to this is present the crisis of small business and the existence of strategic plan points them downwards and reduces their ability to deal with the new situations. It is also considered that these small businesses for the small control and influence which they have in their small communities believe that the strategic planning is really unreal [3]. However, in the future we should discover ways for the managers in SME to grasp the importance of creating strategic and operational plans through continuous trainings for this important problem and trainings aimed at strengthening the capacities of organizations for creating quality strategic and operational plans that would represent a real roadmap for all employees in the organizations.

Also, surveys that have been conducted by Kaplan and Norton suggest a low degree of knowledge on the strategy by the employees, a low degree of connection between the strategy and the actions taken by managers, and even 60% of organizations do not connect budgets to strategy. When to all this, it will be added that 85% of top managers spend less than one hour a month to discuss the strategy and that it is often the case organizations not to have formal systems for connecting the strategy with current activities. Thus, as a result we have a very small percentage of successfully formed strategies that are successfully implemented. In this direction is recommended for the strategic focused organization to have in consideration the strategy and the strategic focus in the center of the organizational work and all changes that occur in the organization. In this direction, starting from a clear defined strategy and with the application of BSC are generated opportunities for the strategy to describe and communicate on the best possible way, making it a “navigator” for action on the organization as a whole [12].

REFERENCES


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