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## BALANCED SCORECARD IN STRATEGIC MANAGEMENT PROCESS

Balanced scorecard is a concept that enables comprehensive strategic management in an enterprise. The analysis of literature allows to state that balanced scorecard evolves continuously, because of which it enjoys a great interest from as well theoreticians as practitioners of this issue. This modern concept allows converting the strategy of the enterprise into operational activities and objectives. The main purpose of the article is to work out an original proposal of measures of balanced scorecard for non-profit unit based by the example of community centre. The genesis of balanced scorecard, its essence, functions performed in the enterprise and the possibilities of using it in various types of organizations are presented in the article. Also proposal of strategic goals and measures of balanced scorecard for community centre is depicted in the article. Balanced scorecard is flexible and universal method, thanks to which it effectively fulfills the objectives set by managers of the organization.

**Keywords:** balanced scorecard, strategic management, enterprise.

### 1. INTRODUCTION

In turbulent environment that we are observing currently, it is particularly important for an enterprise to assess comprehensively and measure its activity. Traditional measures fulfilled their role well in the past, but now information about finances of the enterprise in the context of the past is not enough. Managerial staff also needs to use data concerning activities that can change financial position of the entity in the future. It should be remembered that there is not any universal indicator that would perfectly describe each aspect of activity of the enterprise. These days the management of economic entity requires broad view in order to perceive the enterprise from various points of view simultaneously (Sobańska [red.] 2003).

The right evaluation of the strategy implemented in the enterprise requires appropriate selection of methods of measuring effectiveness of activity of the unit in its various areas in long period. We are talking about such measures that enable monitoring current results of activity related to the implementation of strategy and the achievement of mission of the enterprise. An effective and modern concept of the implementation of strategy of the organization is balanced scorecard (BSC) (Nowak, 2009).

The main aim of the article is to work out an original proposal of measures of balanced scorecard for a non-profit unit by the example of community centre. The essence and the

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genesis of the concept of BSC were described, then its characteristic and development in terms of fulfilled role in economic unit were presented. In the last part of the article simplified model of BSC for such institution as community centre, i.e. non-profit organization was proposed. Following research thesis was formulated: balanced scorecard is a method of management accounting supporting the implementation and realization of strategy in non-profit units by the example of community centre. Research methods used in the article are the study by action and critical analysis of literature.

## 2. THE ESSENCE OF BALANCED SCORECARD

Balanced scorecard is a concept of the implementation of strategy in the enterprise, it consists in converting the mission, the vision and the strategy of the organization into measures and quantitative objectives (Pierścionek, 2011). Balanced scorecard or in other words strategic scorecard is more and more popular method, which allows converting the main strategic objectives into detailed operational tasks. The basic objective of BSC is to coordinate and combine financial results of the enterprise with perspective development and market successes (Kirejczyk, 2008). Some authors also call BSC in other names. It is believed that it is one of the most frequently described and the most widespread concepts of measurement of achievement within management accounting (Sobańska [red.] 2010).

In the second half of the 20th century, the search for an instrument that could be the basis for a comprehensive assessment and measurement of results in the organization began. In the enterprise Analog Devices, Inc. the attempt was made to implement new solutions. This production enterprise was established in 1965 in Cambridge and since its establishment its sales increased significantly, but since 1984 its financial results began to deteriorate visibly. From this moment the enterprise implemented various techniques, such as TQM, half-life or finally corporate scorecard, which is a tool for broader assessment and measurement of results (Nita, 2008). Next R.S. Kaplan and D.P. Norton, who are considered to be precursors of balanced scorecard undertook research in this direction. In 1992 they published scientific article in the *Harvard Business Review* on BSC (Kaplan, Norton, 1992). Then they published further publications related to balanced scorecard, among other things:

1. Putting the Balanced Scorecard to Work in 1993.
2. The Balanced Scorecard Translating Strategy into Action in 1996.
3. Strategy maps: Converting intangible assets into tangible outcomes in 2004.

A strategy is a plan or a model that combines main policies, objectives and sequences of activities of the organization into coherent whole. The strategy also helps to allocate resources and manage them in effective and unique way using for it information about competencies and weaknesses of the enterprise, as well as anticipated movements of competitors on the market and changes in the environment. Balanced scorecard, which was worked out correctly, should answer following questions related to strategy (Sobańska, 2010):

1. Is the adopted strategy implemented?
2. Was the implemented strategy appropriate?

Strategy determines the uniqueness of organization, thanks to it given enterprise can be clearly distinguished from other enterprises existing on the market. Just for this reason strategy is a key tool of management of each enterprise. Balanced scorecard allows converting strategy of economic unit into internally coherent set of measures and objectives necessary to implement economic strategies (Lew, 2015).

Designing BSC for given enterprise requires from its specialists of management accounting and managers (Jaruga, Kabalski, Szychta, 2014):

1. Presenting strategy using map of strategy. The concept of strategy map was created by the proponents of BSC R.S. Kaplan and D.P. Norton (Kaplan, Norton, 1992).
2. Designing coherent strategy designed for the implementation of objectives of activity set on the basis of adopted visions and missions of the enterprise.
3. An appropriate selection of measures necessary for measurement of achievements of the enterprise in the implementation of strategic objectives and purposes divided into groups called perspectives.

BSC does not have to be treated only as balanced measures of the effectiveness of undertaken in the enterprise long-term activities, but also as a kind of system of strategic management, which is to support the implementation of strategy of the unit. In such depiction BSC helps to work out the vision of the company and to gain support for implemented strategy and vision. Balanced scorecard also explains measures and strategic objectives and allows to integrate them with management system. It also supports taking strategic initiatives as well as planning and setting specific objectives. BSC supports the improvement of systems aimed at monitoring the implementation of strategy and development of the enterprise (Nowak, 2009).

### 3. CHARACTERISTIC OF BALANCED SCORECARD

Strategic objectives of the organization and measures of their achievement were divided into groups called perspectives. Perspectives distinguished by the authors include all areas of activity of economic entities, i.e. (Lew, 2015):

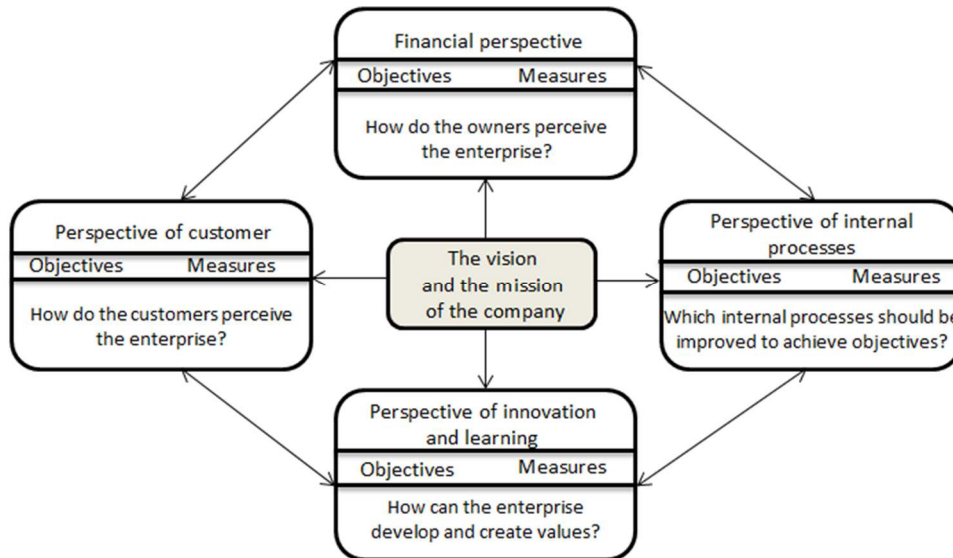
1. Financial perspective.
2. Perspective of the customer.
3. Perspective of internal processes.
4. Perspective of innovation and learning.

Analyzing picture 1 it can be stated that balanced scorecard allows the enterprise to monitor not only financial results, but also satisfaction of the customer, the ability of the organization to develop and the results of business processes (Kotapski, Kowalak, Lew, 2008, p. 193). It should also be emphasized that BSC is flexible method, which can be effectively adjusted to the needs of specific organization. Also perspectives distinguished in can look variously depending on the type of activity. The structure of BSC will be different in profit-oriented enterprises and in non-profit entities.

Financial perspective of BSC refers to the financial situation of economic entity. It is designed for determination of possibilities and conditions of creating values for the owners based on free cash flows, among other things using economic added value (Zyznarska-Dworczak, 2012).

Perspective of the customer is aimed at answering the question, how our organization is perceived by the customers. Customer focus is most often the basic element of creating strategy in modern enterprises. The reason for it is very simple, it results from the fact that appropriate relations of the enterprise with the customers allow to achieve revenues, and consequently contribute to achievement of financial objectives of the enterprise Świdarska [red.] 2010). In this perspective there are specific relations between measures. Satisfied customers influence gaining new customers and retaining already acquired customers.

While retention and acquisition of customers allows to increase financial effectiveness of customer service (Piosik, 2006).



Picture 1. Perspectives of balanced scorecard

Source: own study on the basis of (Kaplan, Norton, 1996; Sobańska, 2003).

Perspective of internal processes is next link of the construction of BSC. It contains key activities and processes needed to achieve the objectives set in financial perspective and perspective of the customer. For effective meeting interests of owners and customers the enterprises have to focus not only on reduction of costs and duration and improvement of quality of operational processes (Nita, 2008). Within perspective of internal processes the most often used measures are: the number of newly implemented solutions, expenditures on research and development, revenues from sales of products introduced to the market, efficiency of production, costs of operational processes, quality of products and effectiveness of processing (Jaruga, Kabalski, Szychta, 2014).

Within perspective of innovation and learning skills and resources are identified, which given economic unit has to develop to guarantee himself possibilities of long-term growth. Processes of learning are the source of development of skills and resources of economic unit. The ability of organization to develop and learn depends on three factors: systems, staff and procedures (Pierścionek, 2011). Measures depicted in this perspective can be: turnover of key employees, satisfaction of employees, expenditures on their training courses, time necessary to work out new product, or the number of employees improving their qualifications (Jaruga, Kabalski, Szychta, 2014).

To main features of BSC can be counted the balance between set objectives and measures in the different perspectives and their connection by means of cause and effect relationships. Connection of objectives and their measures from particular perspectives in logical way makes employees aware that improvement of results in one perspective allows to achieve better results in other areas. Final result of all achieved objectives and taken

activities should be achievement by the owners satisfactory return on invested capital. On this basis it can be stated that taking activities in perspective of learning and growth, perspective of processes and perspective of the customers determines results achieved in financial perspective. Balancing objectives in particular perspectives prevents unfavorable phenomena inside the enterprise, for example phenomena consisting in it that objectives pursued within one perspective could be achieved at the expense of others. For this reason in balanced scorecard measures concerning as well activities related to the past as these measures, which can influence future results of the enterprise should be contained. Thanks to this the enterprise will defend itself against a situation, in which it shows short-term profits and neglects in this way investments with developmental character (Nowak [red.] 2008).

Four perspectives included in BSC enable linking operational and strategic objectives and also they allow to monitor comprehensively operational processes for their compliance with selected strategy of the enterprise. BSC perceived in this way can be the basis of the system of strategic management of economic entity. This is reflected by following processes (Sobańska, 2003):

1. The explanation of strategy and vision.
2. The coordination and the communication.
3. Planning.
4. Feedback and learning.

It should be emphasized that BSC is a concept that requires the concentration on strategy, teamwork and strategic learning using rather feedback than control and reporting. The system of strategic management in this context requires continuous testing strategy, management control of strategy and its adaptation to permanently changing conditions (Nita, 2008).

#### **4. USING BALANCED SCORECARD IN NON-PROFIT ENTITIES**

In non-profit entities the layout of the BSC should be above all oriented towards meeting the requirements of recipients (i.e. local community, founders of financial assets or recipients of services (Jaruga, Kabalski, Szycha, 2014). In Polish reality it was also attempted to adapt BSC to the needs of management of various types of non-profit organizations. M. Nieplowicz analyzed 65 cities with district rights and proposed the use of concept of BSC (Nieplowicz, 2006). In 2017 also M. Nieplowicz proposed to adapt BSC to the needs of management of museum on the example of Historical Museum of the City of Kraków (Nieplowicz, 2013). P. Urbanek in his article indicated examples of perspectives within balanced scorecard for various universities (Urbanek, 2017). J. Świerk analyzed in her research the implementation of BSC in various institutions, including hospital, common court, or housing association (Świerk, 2017).

Continuous interest of many researchers and authors in the implementation of a balanced scorecard in non-profit entities proves that this topic is needed and the concept of BSC is flexible enough that it can be successfully implemented in this type of institutions.

Community centres are organizations operating in Poland that need management in the long-term. The development of private institutions carrying out similar tasks and goals, such as cinemas, clubs and venues organizing occasional events, causes that cultural centers have a problem with finding people interested in their activities. Community centres are found in many places in Poland, and each individual unit employs several or a dozen employees.

These units benefit from limited financial resources, and in recent years, they have been supported by EU subsidies. However, the development concerned the reconstruction and renovation of the buildings themselves, while there is still a lack of action and development plan for these units in the long-term perspective. Wherefore for organizations operating in Poland, such as community centres, it is possible to propose the implementation of balanced scorecard. Following perspectives within BSC were distinguished for the institution of community centre: perspective of recipients, perspective of involvement of employees, financial perspective, perspective of internal processes, perspective of development. The proposal of set of illustrative objectives and measures for community centre was presented in table 1.

Table 1. Illustrative objectives and measures of balanced scorecard for community centre

<b>Strategic objectives</b>	<b>Measures</b>
<b>Perspective of recipients</b>	
The increase of satisfaction of local community	<ul style="list-style-type: none"> <li>• indicator of satisfaction of inhabitants</li> <li>• number of complaints of inhabitants</li> </ul>
The improvement of availability of offered services	<ul style="list-style-type: none"> <li>• number of inhabitants using offered services</li> <li>• indicator of level of knowledge of inhabitants about the type of offered services</li> </ul>
<b>Perspective of involvement of employees</b>	
The increase of initiatives taken by employees	<ul style="list-style-type: none"> <li>• number of taken initiatives by employees</li> <li>• level of granted bonus for employees</li> </ul>
Building better relationships between local community and employees	<ul style="list-style-type: none"> <li>• Indicator of inhabitants, who use constantly offered services</li> <li>• opinion of inhabitants about involvement of employees(questionnaire surveys)</li> </ul>
<b>Financial perspective</b>	
Ensuring assets for covering costs of activity	<ul style="list-style-type: none"> <li>• level of assets granted by national budget</li> <li>• level of assets obtained from the subsidy</li> </ul>
The growth of financial stability	<ul style="list-style-type: none"> <li>• indicator of liquidity</li> <li>• indicator of profitability</li> </ul>
<b>Perspective of internal processes</b>	
The improvement of quality of taken initiatives	<ul style="list-style-type: none"> <li>• number of obtained certificates</li> <li>• number of organizations cooperating with community centre</li> </ul>
The improvement of efficiency and quality of work of employees	<ul style="list-style-type: none"> <li>• number of training courses, in which employees participate</li> <li>• indicator of rotation of employees</li> </ul>
<b>Perspective of development</b>	
Making possessed resources more attractive	<ul style="list-style-type: none"> <li>• The value of assets transferred for development of particular initiatives</li> <li>• the value of assets transferred for renovations</li> </ul>
Introduction of innovations	<ul style="list-style-type: none"> <li>• number of bought equipment related to modern technology</li> <li>• number of training courses of employees concerning modern technologies</li> </ul>

Source: own elaboration.

Community centres are institutions, which base their activity on cooperation with society, especially on local scale. On the basis of own observations main strategic objectives and measures are distinguished in Table 1; the recipients of services and initiatives undertaken by community centres are mostly inhabitants of local places. BSC is a tool that could help the management of particular community centres to manage their organization. In balanced scorecard for community centre, perspective of recipients was considered to be the most important perspective (which in basic model of BSC corresponds to perspective of the customers). The activity of community centres is ensured thanks to recipients, who are most often inhabitants of given local community. Another very important perspective at BSC for community centre is perspective of involvement of employees. Employees together with recipients guarantee the existence of community centres. By creating effective strategy for community centre it is important to take human factors into consideration.

Thanks to the wording of BSC, individual community centres should develop specific objectives of their organization. The presented model is a general model, which should be adapted to the local conditions of a given community centre. Certainly, managers should focus on activities that will satisfy and keep their recipients. In one community, recipients may prefer more to organize various events, in other exhibitions or activities related to art. In order to obtain this information, an interview and surveys will help, which can be successfully carried out by the employees of a given unit, because those who are closest to the given community and often have relations with recipients of community centre services.

Proper implementation of BSC in a community centre will ensure that these non-profit units function and prosper in the long-term perspective, that is the next few years. *Ipsa facto*, the research thesis put forward was confirmed. However, it should be remembered that the process of implementation of BSC in specific entity requires wider analysis and in-depth research.

## 5. CONCLUSIONS

Community centres are non-profit entities where there is a lack of proper management in the long-term perspective and the use of strategic management methods. One of the methods that would enable effective strategic management of community centre is a Balanced Scorecard.

BSC correctly implemented in a community centre will allow for the identification of five basic perspectives: recipients, involvement of employees, financial, internal processes and development. These are the main areas on which community centres should focus to ensure long-term and effective functioning. The order of the listed perspectives reflects the importance of the given perspective.

In the created model of BSC, the perspective of recipients and the perspective of employee involvement were considered the most important perspectives. The recipients of services offered by a given community centre are residents of a given local community. A community centre is a non-profit entity that without the recipients would lose the sense of action. The more people interested in initiatives taken in community centres, the greater the possibilities of action, as well as the motivation of employees whose involvement is also very important in the development of community centres. Employees have the greatest contact with the inhabitants of local communities and often form relationships with them. It is primarily the employees who care about what atmosphere prevails in a particular community centre and what initiatives are being taken. An employee, who knows the recipients of

services well, can effectively choose the methods of action and events organized so that the local community is satisfied.

The financial perspective was deemed to be less important than recipients and involvement of employees, but it should be remembered that without financial means a community centre could not exist. The basic source of financing are funds received from the state budget. However, the managers of a given unit may seek additional sources of financing. Most often they are EU grants and various types of sponsors, often local investors who willingly support culture and tradition.

The perspective of internal processes and the financial perspective are areas supporting other perspectives. It is important to provide high quality services offered by the community centre, because we are currently observing progressive globalization. Local recipients have easy access to various types of similar services offered by other units. Community centres, despite their attachment to tradition and culture, should meet today's innovations, which in many cases will improve the availability and quality of services.

The presented model of BSC for community centres is a general model, which should be extended and adapted to a specific unit.

The barrier to introducing the model in practice may be insufficient knowledge of the managers of community centres. Often these are people who have no experience in implementing BSC, and have never even heard of such a method. A poorly implemented model will not fulfill its functions correctly. However, it may not be possible to hire a specialist because community centres have limited financial resources.

Due to the small amount of financial resources in cultural centres, it is important that all employees of the unit are involved in the implementation and operation of the BSC. Managers should therefore use additional motivation techniques if necessary.

After completing the implementation of BSC, managers should remember to constantly monitor and possibly adjust the model to the changing external and internal conditions of the unit. The BSC developed at a given moment will require modifications and improvements.

## SUMMARY

Balanced scorecard is most often perceived as an instrument of implementation of an strategy of entity and on the other hand as the system of strategic management. By means of BSC the process of creating value in organization can be monitored and it is told about communication role of this concept. R.S. Kaplan and D.P. Norton indicate that the original premise of creation of BSC was limitations of commonly used traditional financial measures, which enabled to measure past achievements, but there was a lack of an instrument oriented on future. In our times the range of usefulness of BSC increases continuously and it contains three main areas, thanks to which it can be stated that balanced scorecard is (Nita, 2008):

1. System of comprehensive measurement of achievements of the enterprise in coherent way.
2. Instrument of visualization, description of strategy in the entity.
3. Comprehensive system enabling strategic management of the enterprise.

Balanced scorecard is also criticized by some authors. They argue that this concept lacks appropriate visibility of basic source of profit of the enterprise, which are its employees. BSC focuses above all on strategy of the entity. However the evolution of this concept led



to positive changes, so that BSC concentrates also on quantification of intangible assets, which include to a large extent intellectual capital (Lew, 2015).

Since the beginning of the 1990s a lot of time passed, but BSC is still perceived as instrument of modern management of the enterprise. It happens so, because it is a concept, which adapts to current market conditions. The universality of BSC allows it to apply it in many enterprises and other types of entities. In the article exemplary concept of BSC was presented, which can be used in community centres operating on Polish market. It is one of many examples of the use of balanced scorecard in non-profit organizations. More and more recent scientific publications on this concept allow to believe that it will develop continuously.

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