THE IMPLEMENTATION OF BSC INTO THE MANAGEMENT OF SLOVAK COMPANIES

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Implementation of the Balanced Scorecard method to the management system of Slovak businesses seems to be a real problem. A large number of factors are involved in the use of this method in the business management, from theoretical concepts to practical applications. The largest, respectively the most significant problem is in the misunderstanding of the importance and benefits of this method, but also in financial difficulty of Balanced Scorecard model implementation to the life of Slovak companies. Small and medium-sized businesses in particular are concerned about this method because it is rather expensive for them and they are not convinced of its benefits and positive results. In addition, the present time is significantly affected by a lack of funds for the implementation of expensive software solutions for business management and controlling. Balanced Scorecard method, however, is an area that cannot be omitted due to lack of funds. It is the area that is important to develop in time of lack of funds, because the right setting of goals helps to overcome this problem as well. No expensive software solutions of Balanced Scorecard from IT companies are needed but healthy strategic thinking of managers of enterprises. Only those who work in the company know it the best. The benefit of this paper is to point out away of applying BSC method without application of software products of IT companies but by the initiative of managers and employees in selected Slovak companies.

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INTRODUCTION

Implementation of Balanced Scorecard (BSC) into the management system of Slovak businesses is a real problem faced by managers. Variety of factors—from theoretical concepts to practical applications—participate in the use of this method in the management of enterprises. The most significant problem is in the misunderstanding of the importance and benefits of this method as well as in financial costs of Balanced Scorecard implementation to the Slovak businesses. Particularly small and medium enterprises are afraid of this method since its introduction is expensive for them and management of these businesses is not convinced about the benefits of this method. Another problem is the absence of manual or single procedure for creation of the model applicable in all types of business. Nowadays there are several BSC applications on the market designed for different types of enterprises as well as for various types of business processes. Providers of these applications address a number of issues particularly related to the unpreparedness of enterprises to implement selected BSC application. The consultation with several providers of BSC applications resulted in the demand for the creation of BSC model, particularly for small and medium businesses, and efficient implementation of this model. BSC would be important tool for the managers of enterprises. Contribution of BSC would appreciate not only managers but also providers of IT solutions, whose communication with businesses on the issues of preparedness and ensuring background for the implementation of BSC application would be easier. This would resolve number of issues, from the perspective of both submitter and provider of BSC implementation.

I. LITERATURE REVIEW

Balanced Scorecard was developed by U.S. consultants Robert S. Kaplan and David P. Norton in 1990s. Since that time, it has received more and more popularity mainly due to its complexity and clarity for management at all levels.¹ Balanced Scorecard was initially focused on

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¹ See L. Dumitrescu, & M. Fuciu, *Balanced Scorecard—A New Tool for Strategic Management*, 28(2) BULLETIN SCIENTIFIC 37—42 (2009).

strategic management of business, this method gradually developed to the level of operational management and currently it is a comprehensive system of planning and control. Balanced Scorecard determines a balanced system of strategic objectives and decomposes them into partial objectives, including indicators and benchmarks.

Since 1990 three generations of BSC formed:

1. BSC, as business performance measurement system. BSC concept was first published in 1992 in the journal *Harvard Business Review* by Kaplan and Norton. This concept was the product of an annual research in 12 companies.

BSC, as a system of strategy implementation. The era of the second generation is a big step forward for the BSC—from the one of measuring performance to the BSC—a system for strategy implementation. It defined the link between the metrics and goals as well as the goals and subjects responsible. Cascading and decomposition of goals has subsequently raised the issue of strategic alignment within the organization.²³ The second area, causality, was shifted from the indicated links between the perspectives of the first generation towards to cause-and-effect relations between the criteria in the new generation. On one hand, this shift enriched the BSC system by a Strategic Linkage Model, but on the other hand it raised the conceptual issue, which has become the lurking object of discussion even today such as the way of analyzing, defining and verifying the causalities involved.⁴ The discussions are focused mostly on two areas, namely, on how the strategic lineage model is conceived, in terms of interlinking the BSC and the vision and strategy,⁵ so rarely defined in practice or not involved in company-wide consensus. The second area was about determining the target values to the individual criteria (Target Setting), where companies lack elaborate methodology.⁶

BSC, as a strategic management system. Numerous findings about the

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² See R. S. KAPLAN, & D. P. NORTON, *THE BALANCED SCORECARD: TRANSLATING STRATEGY INTO ACTION* (1th ed., Boston: Harvard Business School Press 1996).

³ See N. OLVE, J. ROY, & M. WETTER, *PERFORMANCE DRIVERS: A PRACTICAL GUIDE TO USING THE BALANCED SCORECARD* (1th ed. New York: John Wiley 1999).

⁴ See P. Brewer, *Putting Strategy into the Balanced Scorecard*, 83(7) *STRATEGIC FINANCE* 44—52 (2002).

⁵ See I.C. Cobbold, & G. J. G. Lawrie, 2002, *The Development of the Balanced Scorecard as a Strategic Management Tool*, Proceedings of Third International Conference on Performance Measurement and Management (Boston: MA-Performance Measurement Association).

⁶ See M. Antošová, B. Mihalčová, & A. Csikósová, 2014, *Assessment of the Balanced Scorecard System Functionality in Slovak Companies*, 9(1) *JOURNAL OF APPLIED ECONOMICS AND SCIENCE* 15—25 (2014).

issue of this generation of BSC summarize Gavurová in her study.⁷ The third generation BSC systems are typical for the interlinking strategy and the management of competitive advantages as well as the management of transformational changes.⁸ The first BSC models featuring a new item of the so called Destination Statement—declaration of goals, are appearing on the scene in the course of 1998—1999. The number of subjects implementing the third generation BSC is continuously increasing since then on.⁹¹⁰

Several views on BSC:

On the basis of the company vision BSC formulates partial objectives in individual areas of the business and connects them. Subsequently it selects indicators which provide feedback to top management on whether the chosen strategy works. If the strategy does not work, BSC indicates to managers that the adjustment should be made.¹¹

The aim of BSC is the achievement of comprehensive balance in several ways:

- between short-term and long-term goals,
- between value-based and in-kind indicators,
- between delayed indicators and drivers,
- between internal and external performance indicators.¹²

The success of the business is influenced not only by the area in which business operates but also by management methods used. Balanced Scorecard is a new comprehensive approach to business management. It comprises all previous attempts to improve business management, as well as traditional methods used, such as financial analysis, principles of controlling and principles of process management and reengineering. All these methods are supplemented by two important aspects—the customer care and the

⁷ See B. Gavurová, *Balanced Scorecard in Corporate Governance*, 2 ECONOMIC JOURNAL 163—167 (in Slovak, 2011)

⁸ *Ibidem*, footnote 6.

⁹ See G. J. G. Lawrie & I. C. Cobbald, *Development of the 3rd Generation Balanced Scorecard. Evolution of the Balanced Scorecard into an Effective Strategic Performance Management Tool* (2004). Available at

http://www.dps.tesoro.it/cd_cooperazione_bilaterale/docs/6.toolbox/13.supporting_documents/3.performance_management_casoni/3.development_iii_generation_balanced_scorecard.pdf. (Last visited June 17, 2014)

¹⁰ See H. V. Andersen, G. Lawrie & N. Savic, 2004, *Effective Quality Management through Third-Generation Balanced Scorecard*, 53(7) INTERNATIONAL JOURNAL OF PRODUCTIVITY AND PERFORMANCE MANAGEMENT 634—645 (2004).

¹¹ See P. A. Phillips, *The Balanced Scorecard and Strategic Control: A Hotel Case Study Analysis*, 27(6) THE SERVICE INDUSTRIES JOURNAL 731—746 (2007).

¹² See J. FIBÍROVÁ AND L. ŠOLJAKOVÁ, *VALUE MANAGEMENT TOOLS AND BUSINESS PERFORMANCE MEASUREMENT* (1th ed., Prague: Wolter Kluwer, in Czech 2005).

employee care.¹³ BSC is a system for performance measurement, in which it is necessary to keep in mind the most important aspects of entrepreneurship. They are expressed in company vision, mission and strategy.¹⁴

According to Horváth & Partners Balanced Scorecard is a special kind of realization, representation and monitoring the strategy. With its assistance the probability of application of proposed strategy increases significantly. Its starting point was represented by the criticism of strong financial focus on American management system. In order to adequately assess creation of aggregate enterprise value this one-sided financial orientation should be relativized and extended by a balanced set of financial and non-financial measures. Horváth & Partners also refer to finding of early users of this concept that with the correct selection of objectives and indicators BSC explains strategic direction of the business and at the same time it allows measurement of the achievement of strategic objectives.¹⁵

II. CURRENT POSITION OF BSC IN THE SLOVAK REPUBLIC

In the Slovak Republic, several researches which concerned the application of BSC in the management of Slovak businesses were conducted. The research sample consisted of businesses achieving turnover of around 5 million EUR. 13% of them formed construction companies, 8% wholesale and retail companies, 13% transportation companies, 47% companies from the mining and engineering industry, companies of professional and scientific activities accounted for 7% and other activities accounted for the remaining share. Within these surveys was also examined whether the companies established top long-term target. 84% of top managers of these companies responded positively to this question. Survey participants were within the measurement system further asked about the performance indicators used to measure long-term goal. Indicator annual profit received 30% as well as indicator annual turnover which also reached 30%. 18% of the companies' measure performance with the use of market share, 5% of the subjects' measure value creation for the owner, 5% of the companies' measure the size of export, 4% of respondents use EVA indicator and 3% use indicator paid profit shares. 5% of respondents use other performance

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¹³ See I. Hudáková, *Balanced Scorecard—A Way to Success in the Strategic Business Management*, 11 ENTREPRENEUR ADVISOR (2008). Available at https://www.pp.sk/6412/BALANCED-SCORECARD--cesta-k-uspechu-v-strategickom-riadeni-podnikov_A-DAU28723.aspx. (in Slovak, last visited July 15, 2014)

¹⁴ See P. GALLO, *MANAGEMENT AND CONTROLLING ANALYSES* (1th ed., Presov: Dominanta 2013).

¹⁵ See HORVÁTH & PARTNERS, *BALANCED SCORECARD IN PRACTICE* (1th ed., Prague: Profess Consulting, in Czech 2002)

indicators such as financial stability and independence, Altman Z-score, EBIT, ROA, ROE, ROI, cash flow, covering contribution, value added, productivity indicators, number of awards of product innovation, customer loyalty index, employee satisfaction and customer satisfaction. Within the survey the question of the relationship between strategy and performance measurement was addressed. 50% of respondents answered positively to this question. The survey was also focused on the extent of the use of modern management techniques, within them BSC. Worldwide use of BSC (within the most commonly used management tools) annually evaluates Bain & Company. Since 1993 this company examines opinions of the managers around the world on the use of management tools and satisfaction with them. The company currently has a database of nearly 10,000 respondents and can systematically trace the effectiveness of the worldwide use of management tools. The results were processed by Rigby and Bilodeau in the report “Management Tools and Trends 2011”.¹⁶ If we look closely at the results, BSC is the eighth most commonly used management method from 25 tools used in Europe. Compared to the world both methods—Balanced Scorecard and Benchmarking—reached the worst decline from the most widely used tools in Slovakia. It is interesting to notice how striking is the difference in the use of BSC in Slovakia (8%) and in the world (53%) (Chart1).

Chart 1. Comparison of the Use of BSC in Slovakia and in the World¹⁷.

It is evident that Slovak companies do not have sufficient knowledge about this world extended method. Respectively these companies do not trust this method; they do not understand its meaning or are concerned about

¹⁶ See D. Rigby & B. Bilodeau, *Management Tools and Trends* (2011). Available at http://www.bain.com/Images/BAIN_BRIEF_Management_Tools.pdf (last visited June 27, 2014).

¹⁷ *Ibidem*, footnote 16.

its expensive application. Within the analysis of international companies it is interesting to note that the number of BSC applications declined but the satisfaction with the implementation of this method increased.¹⁸¹⁹

Table 1 summarizes the most common goals used by managers when creating BSC strategy map. These results were obtained based on the surveys of Slovak businesses performed by Dominanta, Ltd.

Table 1 Results of the Surveys of Slovak Businesses on BSC²⁰.

Perspective	Objectives preferred in Slovak businesses	Measures	Advantages and disadvantages
Financial perspective	To increase enterprise value, to increase Return on Equity, to accelerate Assets Turnover, to increase Current Ratio	Economic Value Added—EVA, Free Cash Flow to Firm—FCFF, Return on Assets—ROA, Return on Equity—ROE, Assets Turnover, Current Ratio	Advantage —objectives and measures are easy to identify. Disadvantage —linking of the measures with the past.
Customer perspective	To increase market share, to retain customers, to acquire new customers, to increase customer satisfaction, to increase customer profitability	Share of business sales on total sales of the sector, number of customers, number of new customers, proportion of new customers to the total loyalty of customers in %, covering contribution to customer, sales to customer	Advantage —objectives and measures are easy to identify. Disadvantage —unavailability of the data and database necessary for the measurement, there is a need to link to CRM.
Internal perspective of BSC	To optimize key processes, to introduce ABC, to reduce errors rate of products, to develop new product, to innovate products	Optimization time, fulfillment of the scheduled time for the ABC introduction, percentage of error products on the total number of products, percentage of fulfillment of the tasks in new product development	Advantage —monitoring the objectives that have not been priority for the enterprise yet Disadvantage —difficult to measure, values of indicators are measured as the scores, or %.
Perspective of BSC potentials	To increase labor productivity, to increase employee loyalty, to improve motivation, to improve training and educational systems.	Labor productivity, loyalty expressed in points or %, percentage of fluctuation turnover, share of educational costs on total personnel costs	Advantage —introduction of the most important objectives to improve business performance Disadvantage —missing data for objectives measurement

III. PROPOSING SOLUTIONS FOR THE BSC DEVELOPMENT

Based on the above mentioned it is possible to draw conclusions and results in the area of building of BSC model with connection to company

¹⁸ *Ibidem*, footnote 16.

¹⁹ See Ľ. Karabašová, *Methodological Procedure for Applying Balanced Scorecard in the Organization* (2010). Available at <http://www.dominanta.sk/MetodikaBSC.pdf> (last visited June 19, 2014).

²⁰ See J. Horváthová, *Experience in Building BSC in Practice*, 1(6) FINANCIAL MANAGEMENT 44—52 (in Slovak 2012).

strategy, this model is illustrated in Chart 2.

The proposed model illustrates that building of BSC in Slovak businesses starts with preliminary and analytical phase within which all input documents, used in the strategic management of business, are analyzed. Very important step is the verification of the conclusions of business strategy and formulation of the mission, vision and strategy of the business. The construction of strategic management system focused on BSC should be based on the number of input analysis and input information. Under the analysis of current situation, it is possible to formulate future objectives. Analysis of the current situation besides the analysis of the financial and economic position of the company includes also SWOT analysis, GE analysis, analysis of the critical factors for success, analysis of potentials, weaknesses and others. In addition to internal analysis of the business, its strategy, current state of strategic management and state of BSC, it is necessary to analyze the trends and development in BSC systems and opportunities which they provide. Internal and external analysis is followed by formulation of requirements on BSC outputs.

Chart 2. Model Balanced Scorecard²¹.

²¹ See J. HORVÁTHOVÁ, M. MOKRIŠOVÁ AND A. SUHÁNYIOVÁ, EVALUATION OF BUSINESS PERFORMANCE WITH THE USE OF CREDITWORTHY MODEL (1th ed., Presov: Bookman, s.r.o 2013)

Very important step in BSC building is formation of BSC perspectives within which objectives, benchmarks and drivers have to be formulated. By connect in the perspectives we form strategy map in which individual objectives are connected by cause-and-effect relations. The procedure for BSC implementation applied in specific company with detailed schedule of each step is shown in the Table 2.

Table 2 Procedure for BSC Implementation²².

Actions	Description
Prepare conditions for BSC building	Analysis of current situation, SWOT analysis, analysis of competition, analysis of the business profile, input analysis, financial and economic analysis.
Analysis of critical factors for success	Assessment of critical success factors, assessment of the business profile, analysis of BSC perspectives.
Proposal of mission statement and vision.	Formulation of the basic philosophy of the company, the company's vision and mission.
Proposal for a strategy	Draft strategy and the action plans on its fulfilment.
Strategy map	Strategy map creation with perspectives: financial, customer, internal processes, potentials.
Key Performance Indicators	Defining the measurement of objectives. Objectives—Measures—Value drivers.
Benefits of BSC	Implementation of strategy, redesign of processes.
Business Process Reengineering	BSC reporting, assessment of BSC indicators, proposal of new processes and indicators, objectives, feedback.

IV. RESULTS AND DISCUSSION

This chapter describes the basic difficulties and benefits of BSC implementation.

A. *Difficulties of BSC*

Building and implementing a Balanced Scorecard is a complex process. There may be several reasons for the failure of BSC building. These reasons may be of different sorts. One of these reasons is exaggerative initiative towards technological part of BSC building, as well as excessive investments in information technologies realized without:

- the support of relevant enterprise infrastructure,
- analysis of business processes and their subsequent redesign,
- modification and adaptation of organization structure,
- ensuring efficient information flow,
- change of thought,
- any change in workload,

²² *Ibidem*, footnote 21.

- adequate training and motivation of staff.

The reason for Balanced Scorecard failure in enterprise may be a missing connection of BSC with business strategy or implementing BSC without business strategy formation and its linking to the operational management. Employees of the business may also participate in the failure of BSC, if they are not sufficiently familiar with idea and benefits of BSC and are not motivated towards its successful application. However, the main reason why BSC is not applied in practice is expensive BSC information systems.

It must be said that the best BSC system is implemented by business's employees who formulate future mission, vision and strategy of the company in the best way. The above mentioned is confirmed by the successful implementation of this method in a few Slovak companies where managed to introduce BSC within a few months by business's employees in collaboration with an external consultant. The basis for BSC implementation formed an existing strategy of the company, which was based on the initial analysis adjusted and adapted to the new requirements. Within a few workshops an innovative strategy of the company was transformed into strategic goals of individual BSC perspectives and elaborated to lower management levels. The whole process was taking place within one year, without any special technological and technical requirements. However it is necessary to highlight the huge enthusiasm of BSC team.

Based on the analysis conducted before the introduction of BSC, following key issues associated with the implementation of BSC were identified:

- Inadequate input analysis before the introduction of BSC system.
- Unpreparedness of managers and employees for BSC implementation.
- Employees concerns of the innovations and particularly of losing their job.
- Missing database of information for BSC system.
- Missing data and databases from the perspectives of internal processes, potentials and customers.
- Unbalance of the various BSC perspectives.
- Missing connection between strategy and budget.
- Absence of work with analytical data.
- Incorrectly defined reports for individual management levels.
- Failure to complete BSC vision to the end.

B. Key Benefits of BSC

The greatest benefit of BSC results from the way of its creation. BSC is nothing new it is just a networking and application of the above mentioned facts. What makes BSC original? It is the process of detecting the enterprise value drivers and also linking of enterprise strategy with operational management.

Enterprises which have implemented BSC understand importance of the strategy. Employees of enterprises implement partial objectives and are doing everything to meet them. By the introduction of BSC the strategic objectives are sufficiently specified in the form of strategy map and therefore they set out a clear direction and give employees incentives for future development.

BSC benefit for the management of the company according to²³ can be seen in two basic levels:

Management level:

- management focus on fundamental issues and relationships,
- orientation of reporting on strategically important information,
- interconnection of business management and strategies using objectives,

Integration of staff, customers, company's performance and operational processes into one efficiently functioning unit.

Communication level:

- employees of the company are more familiar with the strategies,
- their own work is more integrated with strategies,
- their utilization of IT on all levels of management is better.

According to²⁴ the BSC benefits include:

- BSC decomposes company strategy (vision, mission, goals) in to quantifiable criteria,
- BSC supports implementation and management of changes within the company,
- BSC increases quality of information necessary for strategic decision making,
- BSC offers framework for communicating strategy throughout the company,
- BSC helps to identify redundant processes and inefficient activities,
- BSC reveals weaknesses in company performance.

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²³ *Ibidem*, footnote 21.

²⁴ *Ibidem*, footnote 6.

CONCLUSION

During BSC implementation business must be prepared for certain risks that may occur and finally cause the failure of the project. If the enterprise is able to identify these risks on time and prepare for them, the probability of successful implementation of BSC increases significantly. The following recommendations to managers are intended to reduce risk of problems described above, to serve as prevention and also assumption for successful operation of BSC in the company.

Recommendations to managers:

- to perform a detailed analysis of the current (financial, customer, process and personal) situation in the business,
- to carry out a detailed analysis of current business strategy and its interconnection with operational management of the company,
- to become familiar with the theory and current practice of BSC—the role of BSC, procedure of its implementation and its principles and especially to make a decision which objectives should be achieved by BSC implementation,
- to consider the impact of changes on employees, individually and collectively, to involve employees in preparing for the change and indicate the reasons for change, including the consequences and benefits resulting from these changes, to assure them that the change will not lead to the termination of employment relationship with them,
- to use tools of project and process management,
- to understand the role of technology in BSC implementation (only as a support tool),
- to build a skilled implementation team,
- to divide BSC implementation into individual parts, i.e. to choose progressive BSC implementation, create database of BSC system with on-line access for all employees,
- to define the range of the data necessary for BSC operation but also those persons who are responsible for the data collection,
- to identify the project and process driver of BSC implementation.

Applying BSC method and its successful implementation into several Slovak enterprises has achieved highly positive and beneficial results. After a successful implementation of this system in business management, BSC operates in these businesses for several years.