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Internal and External Processes Improvement, a New Dimension of Balance Scorecard and Its Impact on Organizational Performance

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Abstract. *When talking about performance, financial aspects come first. Besides that, when organizational performance is the main subject, redesign of the processes, inputs and outputs analysis are various aspects taken into consideration. Financial indicators such as return of investment and earnings per share are no longer enough. Nowadays, process measurement, change management initiatives, risk analysis, stakeholder engagement, innovative financial measures, people learning and development, organizational culture orientation toward global trends, as well as KPI's commitment are dimensions and future perspectives of the new approach of organizational success. This research will present the way an instrument as Balance Scorecard can secure competitive advantage and improve organizational performance by linking strategic goals, operational performance indicators and stakeholder's enlarged participation. The research methodology questioned the perception related to balance scorecard main directions within companies belonging on the automotive and manufacturing industry. The four dimensions of Original Balance Scorecard model – financial perspective, customer perspective, internal business perspective and innovation and learning perspective – applied at all levels within the organization generate better measurable results, with a positive impact on people engagement and responsibility. The new proposed dimension, stakeholders' participation gives substance on organization's way of defining its purpose on the societal market that it belongs to.*

Keywords: *Performance, KPI, Stakeholders, Balance Scorecard, Improvement.*

Introduction

Organizational performance improvement, capacity building to achieve organizational goals and objectives are followed by most of the leaders. The way strategical management is applied, leadership implementation and action, the dialogue established with the internal and external stakeholders, the financial control and internal processes improvement are followed through: settling SMART objectives; following the connection between objectives, results, designated persons and associated KPIs; quality and quantity of data collected; the analysis methodology; having a transparent and open communication and dialogue, both internally and externally and also a 3E approach in setting up corrective and preventive actions.

The research intended to find out whether a methodology based on Balance Scorecard instrument can be used to improve organizational performance, both in private companies and public institutions, as well as external perspective over the organization, by generating quality inputs at all levels that can be used at strategical and operational one.

The research methodology was based on documentary review, deductions and constraints that are recognized in industries or public sector as guidelines, voluntary standards or present at organizational level within internal procedure internationally agreed or locally implemented depending on the company setup, maturity, visions on global engagement, goals and objectives. Quantitative research based on a questionnaire and interviews with specialist and process owners

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from different activity sectors or positions within the organizations were also performed as part of the research.a

The following hypothesis have been followed:

Hypothesis 1: Using Balance Scorecard dimensions model in developing an organizational performance measurement methodology has a positive impact on better understanding the overall results;

Hypothesis 2: Performance management system within an organization is positively correlated with stakeholder engagement;

Hypothesis 3: There is a positive association between organizational culture based on global engagement and performance.

Literature review

There have been many studies recently treating the performance within the organizations and there are also many dimensions and instruments or methodologies that have been implemented. The generic definition of performance is that it involves the outputs – in term of results – of an organization measured against its intended or unintended requirements.

Performance management is a continuous process of identifying, measuring and developing performance in organizations by linking each individual's performance and objectives to the organization's overall mission and goals, as mentioned by Aguinis (2011), who reiterates the importance of involving each person within the organization in achieving company shared mission, vision and formal or informal recognition of each individual contribution in company results. Strategic planning, mission, strategy, objectives, results, team, efficiency, effectiveness are terms often used when explaining organizational performance dimensions.

There are also studies that refer to operational indicators – whether or not related to production –, marketing indicators, company's position vis-à-vis competitors, as well as employee perception and behavior at work: satisfaction, commitment, trust, motivation, decision making approach, familiarity, absenteeism etc. as variables of the organizational performance. The depreciation of the investment, the share price, the current liquidity level are indicators pursued by Kotter & Hasket (in Sorensen-2011) [1] and by Denison (1990) [2]; they studied different companies and managers and the way the performance was improved by the positive result of the identified type of culture.

There are also other researchers who have studied and interpreted the clear way in which certain types of organizational culture, mostly a strong one, influence economic performance (Deal and Kennedy, 1982[3]; Sorensen, 2001 [1]; Denison, 1990 [2]).

Abu Jadad (2010) [4] refers to performance as a 3E result – same as INTOSAI standards do –, as well as using the resources as a consequence of other models of performance, focused on industry characteristics, company position comparing to the competitors and the quality of resources. As an extension of all these, Griffin (2003), in Abu Jadad mentions performance as the level of accomplishment of stakeholder's goals and objectives.

Armstrong & Ward [5], make an interesting review of how performance management has evolved as a concept, starting with the tailoring system of the 1920s, going to people's rewarding system of the 1930s, feedback approach along with organizational structure, teams' and company's objectives in the 1950s, 1970s – employees consultation and engagement, an approach that became even more actual also in the present times. The 80s and the 90s are 3E influenced and the early years of the new century are focused on social responsibility and sustainable development, two important aspects with their impact on organizations strategic objectives and goals.

Performance measurement is considered having its roots in medieval centuries. The next stated period is the pre-industrial ages and the movement from unique production to series production, when the concept of productivity become more important.

Why should organizations implement a performance management system? Because of the strategic, operational, data and documents control, development and learning advantages, as well as external ones- establishing trust relationships with all stakeholders, gain visibility etc. A formal performance management system improves strategy implementation at every level, in a more systematic way and on a continuous basis, reducing time and costs, giving the premises for a better measurement and a KPI approach within the organization. Constructive feedback on processes functionality and lesson learned represents important inputs over the partial and overall results, identifying also ways of improvement. Performance management system helps leaders use the information and facts for better positioning in negotiations, declarations and acting on behalf of the organization and also other stakeholders (clients, customers, shareholders, board members, suppliers, authorities, competitors, professional associations) to identify organization status in terms of performance, results, image etc. Identified KPIs, the approach and results of the measurement system implemented at organizational level give feedback also on risk & opportunities identified relevant at a certain moment. The internal visibility provided by a measurement system supports better and faster not only budget decisions and control of processes in the organization, but strategic business decisions also. Another advantage is that it permits benchmarking of process and overall organizational performance against outside environment-competitors, other organizations within the market.

A recognized issue related to companies' development is that there is no formal performance management system formal or internally recognized as such, or not a functional one, capable to provide measurable outlooks on the entire results and to show the extent to which the objectives are met. Moreover, even if stakeholders participation concept is not a new one, establishing a constructive and structured dialogue and engagement in order to maximize company visibility and overall non-financial performance, is not a common practice for most of the private companies or public institutions.

An approach of openness toward the stakeholders, effective methodologies and assessments framework are needed in order to have a better perspective of the present, compared to the past and looking to the future, related to company maturity, business predictions and society trends. All interested parties would benefit from the development of a culture that perceives the existence of a performance management system and understands how it could be effectively used together with the internal control system and the constructive dialogue with internal and external stakeholders.

The public sector is the largest "sector" of the EU. It employs about 75 million people or about 25% of the workforce. Public spending amounts to almost 50% of GDP. Drucker is one of the many authors that studied performance measurement both in private companies and public sector. There have been many studies lately talking about performance measurement in public institutions, some of them related to the historical approach, the importance of the measurement, the models and dimensions of study, all this following the goal of helping managers in the process of achieving strategical objectives through: a better understanding and response to community needs, a healthier way of budget construction, resources allocation, root cause identification of problems, personnel motivation, processes evaluation in terms of KPIs, follow-up on planned activities etc. Destination statement, explaining how the management performance system was implemented and the extent to which the objectives have been met is a research path followed by Cobbold & Lawrie. [6]

Different models and methodologies were used to measure and assess performance within an organization. Balanced scorecard is a often used well-known tool. Developed in the early '90s by Kaplan & Norton [7] at Harvard Business School, it represents a popular framework that helps managers understand organization's performance, from different perspectives like: stakeholders, internal processes, financial issues and human resources policies and trying to balance all these in a sustainable way; The Triple Bottom line is a framework that analyses organizational performance taking into consideration the people, the planet and the profit; PDCA cycle, well-known concept frequently used in quality management, continuous improvement, life cycle assessment and risk and opportunities identification; Drucker's Management through objectives having relevant KPIs implemented and followed; TPMC's High-Performance Organization Analytics focused on leadership and management, conformity and safety, structure and processes, strategy and execution, knowledge and skills, people and culture, communication and culture, performance and rewards [8]; Organizational Performance Assessment (OPA) is an Assessment Model developed by the International Development Resource Centre (IDRC) and Universalia; The same model is used by FAO when analyzing organizational performance, taking also into consideration the extent to which an organization responds to the needs of its stakeholders and to sustainability goals. [9] Dixon PMQ Model that concentrates on six dimensions (competitiveness, financial control, quality of service, flexibility, resources utilization, innovation) by searching on results and determinants; DuPont RONA Model, developed and used by General Electric Model as companies' proposed models; EFQM Business Model [10], Fitzgerald Performance Management Model etc.

Methodology

The following objectives related to the proposed performance management systems methodology within an organization were considered:

- Analysing the financial responsibility and also determine whether or not it adapts to the intended results in terms of sustainability and all stakeholders needs; also raise the transparency of financial resources directed to main performance triggers of every organization compared to the market trends.
- Evaluating employee's engagement to performance and continuous improvement of all operations, by adjusting activities, following efficiency and efficacity in a dynamic, risk-based society;
- Consolidation of all capacities to understand and respond to contextual challenges and change in environmental, politics, economy, technology and society;
- Verifying if every department and level in the organization follows the established processes, enabling achievement of the company's corporate culture objectives.
- Limit the potential problems reoccurring (lack in achieving strategic goals, misleading the stakeholders, weakening the trusty relationship with the stakeholders);
- Building and sustaining trust within the organization and interested parties.

When implementing Balance Scorecard performance management system the research premises usually are: performance management is a basic approach in organizational development, strategical management, management through objectives and KPIs are important instruments to be used, internal and external approach is an important factor when corroborating the results and the fact that stakeholders' dialogue and integration of financial and nonfinancial indicators are highly recommended.

With the acknowledgement that any research design has limitations, the goal of this paper is to present a broad test of the three hypotheses, using professional perceptions as the primary data, to be used for future improvements.

Burdus methodological steps were used in researching the stage of performance management within the organization [11]. A quantitative research based on a questionnaire was applied on process owners, employees and other stakeholders' feedback and observations (clients, beneficiaries, suppliers), giving the respondents the opportunity to comment on their overall perceptions on the dimension adequacy and responsiveness to the actual trends in business an organizational performance. The questionnaires consisted in 15 questions – a mixed Likert scale and close-ended Questions. Qualitative research was based on interviews with the specialist and practitioners (performance representatives, quality representatives, technical/ operations managers, sustainability head, global engagement head, executives), mostly upper- middle managers, working in organizations in oil & gas, manufacturing, automotive industry, services, food industry, construction services etc., having between 10-1200 employees. Documentary analysis was also a part of the research, focus on of the current strategic documents within the organization, guidelines and procedures and instructions defining processes and activities, reporting approach and main records.

PREDIAGNOSIS ACTIVITIES

- research area of application and
- selection of the methods used
  - community/ sector/ industry profiles
  - questionnaires, surveys or individual interviews which collect process owners (performance representatives, quality representatives, technical/ operations managers, sustainability head, global engagement head, executives), employees and other stakeholders' feedback and observations
  - direct observation, including photographs and video recordings
  - information and statistics about who accesses the service
  - cost analysis and budgets
  - records - files, case notes, logs, diaries, correspondence
  - case studies

DIAGNOSIS ANALYSIS in order to reduce the problems and exploring opportunities

- Applying the methods on the sample of the choosen population
  - qualitative (feedback, memos, reports and observations, interviews results)
  - quantitative (questionaire results, statistics, figures and financial and nonfinancial records)
- Analysis of the data collected

POST DIAGNOSIS ACTIVITIES

Propose a performance management implementation model;

Implementation activities;

Internal audit on performance management;

Identifying improvement actions and lessons learned

Figure 1. Organizational performance system research (Source: the author).

Results and discussions

The research had some results in terms of hypothesis confirmation. Some conclusions were also revealed.

Hypothesis 1 stated that using Balance Scorecard dimensions model in developing an organizational performance measurement methodology has positive impact on better understanding the overall results. The hypothesis was confirmed. 67% of the interviewed persons admitted that using BSC helps all the employees to better understand the expectations and measure the results, 19% considered this to be important and 14 % was undecided about the actual benefits.

The four dimensions of Original Balance Scorecard model – financial perspective, customer perspective, internal business perspective and innovation and learning perspective – approached and implemented at all levels within the organization determine better measurable results, with a positive impact on people engagement, responsibility and the continuous dialogue with other stakeholders. The integration of these dimensions can lead to better strategic decisions of the management, increase supply chain and market transparency and the entrusted image for the customers. Process improvement cannot be seen without taking into consideration the whole system, meaning parts brought together, their interaction, as well as the interaction with the environment, the relation between inputs and outputs, the working framework, the feedback.

Hypothesis 2 stated that performance management system within an organization is positively correlated with stakeholder engagement. This hypothesis was also confirmed. The majority of those taking part in the research (78%) identified different stakeholders (employees, managers, mother companies, suppliers and supply chain, subcontractors and other externalized collaborators) as parts that could or definitely are influencing the performance management systems designed in the organization, conducting to better results and having a positive correlation. A negative correlation mentioned during interviews was the one with the authorities. This could be a future research theme.

In order to maximize the quality of the actions and relevance of the collected data, to be used more efficient, we propose to add to the traditional Balance Scorecard model a new dimension, the 5th one, related to stakeholder participation, considering that as a must in present time, when the organizations need to be more open to the environment, to demonstrate that they better understand the needs of the internal and external interested parties and use it by establishing the strategical goals, the policies, roles and resources allocation.

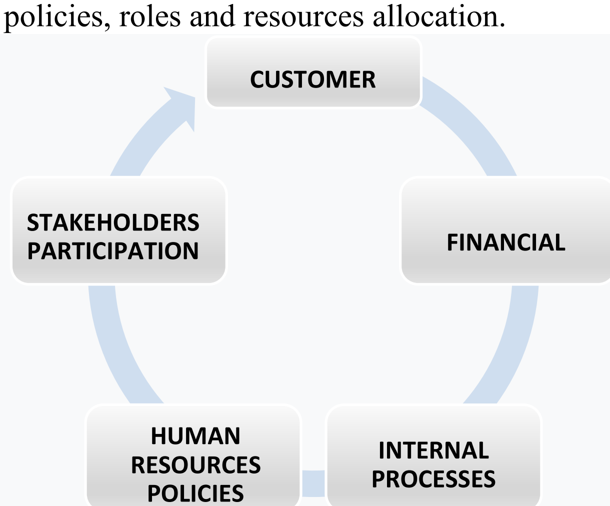

Figure 2. Five dimensions of the BSC Model

Source: the author. Adaptation of the Kaplan BSC Model.

The premises on adding a new dimension of BSC Model have roots in global trends, due to large preoccupation for environment, ethics, transparency, fair commercial conducts, nations wellness etc.

Measuring the overall performance remains a main issue for institutional and organizational development; It remains a main scope of many of the stakeholders (including the executives, the board and the shareholders), and become more and more important for others- community, authorities where the organizations are active, entire supply chain which has an extended length and is more complex lately.

Strategic management, defined and followed in a sustainable way is a must nowadays. Approaching the risk in all activities, decision making based on facts along the entire supply chain and for the whole product/ service life cycle means involving every stakeholder on the way into a continuous dialogue, learning one from each other and always considering the impact.

Process-based, as well as system-based approach are part of the figurative documentation and implementation of the performance management systems. Understanding every process role, along with each stakeholder role and reasonability, defining the most relevant criteria and indicators to be measured, approach the results into a systematic way in the benefit of all the stakeholders help measure the performance in a sustained strategical way.

Leadership, relationship management, people engagement, evidence-based decision making, client focus, process approach, improvement are principles that are taken into consideration.

Dialogue with all stakeholders is recommended, as stated above, using needs analysis, feedback, common approach, that can conduct to same or shared goals, objectives and actions. Win-win partnerships re frequently used nowadays. Based on shared values or interests, they conduct to common decisions that affect large percentage of clients, people, communities, industries etc. The most impacting from the stakeholder perspective to conduct to performance is the alliance between producers using the same supply chain, the same production capacities leading to innovative actions toward sustainably and business practices. Other more informal alliance are those formed by customers and suppliers in order to impose a certain behavior to the producers or to the authorities.

It is becoming increasingly obvious that all results of the traditional BSC's established dimensions have to be filtered from stakeholder's perspective, which corresponds to new ways of acting.

Customer perspective is more and more influenced by community needs and global trends, as globalization and internationalization of markets becomes more complex and demanding. This can challenge the organization to understand and face consumer behavior as a component of its performance.

The financial way of analyzing an organization should be switched to impact the resources' allocation for better results in terms of customer satisfaction (direct and indirect customers) and developing products or providing services according to specified and unspecified requirements, safety, environmental and social responsible requirements through its whole lifecycle.

Internal processes perspective directs the research on internal clients/external client's concept, inputs and outputs and feedback. Internal processes are increasingly oriented towards the outside environment. One aspect to be mentioned here is the outsourced/sub-contracted processes that run under the control of the organization and influence performance. The supply chain and business continuity are important elements that affect the way internal process's function and influence external perception and trust on the organization mission and scope.

Hypothesis 3 of the research stated that there is a positive association between organizational culture based on global engagement and performance. The hypothesis was also confirmed, 56% from the responders mentioned that their organizational culture based on international coverage helps understanding and following performance and creating a local climate performance oriented- with focus on KPIs, establish individual objectives based on strategic ones and adjust them depending on the results.

Employee's development and human resources policies are no longer perspectives with a unique player, either the employer or the company. Competitors, clients, the labor market, the authorities, clients and producers' associations, universities and other scientific bodies are interested parties that influence the human resources policy.

Below it can be seen the relation between the company as a system, or a sum of processes that is defined by an organizational context (core scope of the organization, main authorities and responsibilities, internal and external issues that influence the way of acting and the outcomes, interested parties needs and expectations), and the way the results of the already mentioned elements impact the construction of performance system within an organization.

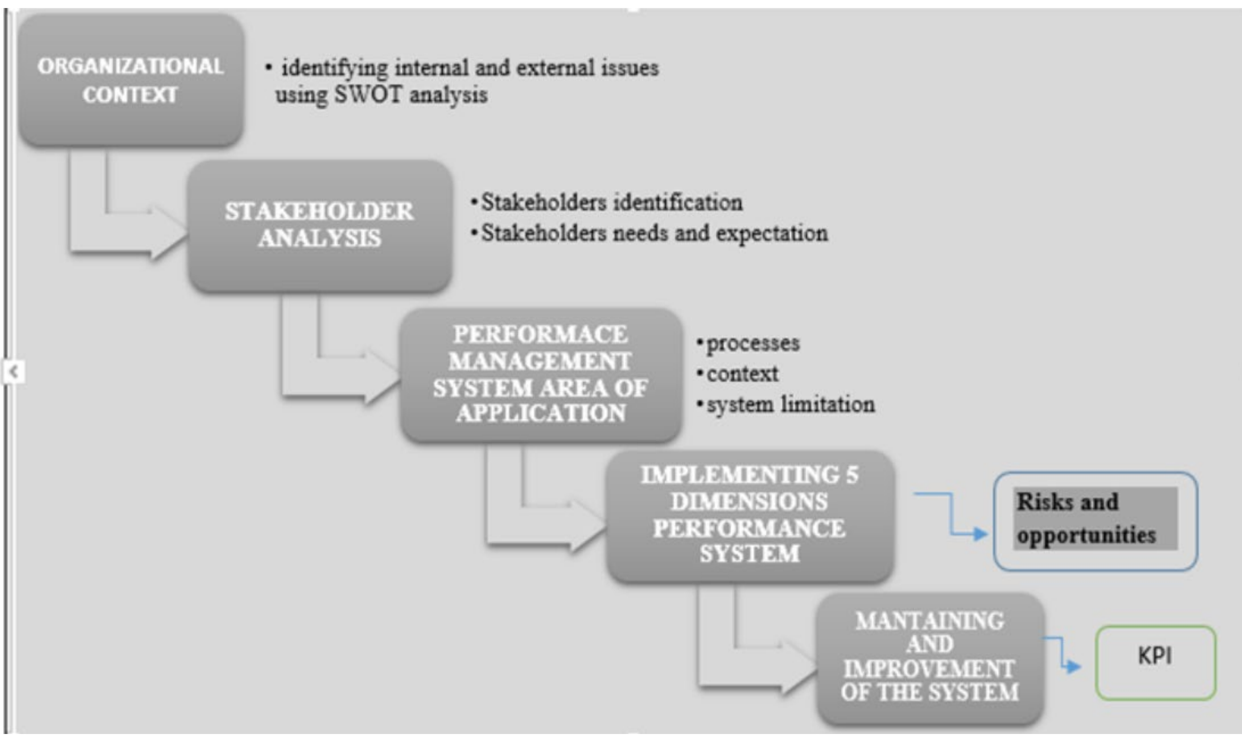

Figure 3. Performance management system – the relation between organizational context, interested parties, processes functionality

Source: the author.

In the 5 dimensions' performance system, the organizational context could be analyzed using SWOT, extensive research that includes internal and external factors, with positive and negative impacts on organization functionality. The strengths and weaknesses within an organization usually have as origins: the resources (personnel, technology, other assets, financial resources), the way the processes are designed and implemented, the procedures that are used, the supply chain, the main process/products of the organization. The opportunities and threats within

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an organization usually go with social, economic and political factors, the competition, the sector development, work dynamics, governmental risk.

Knowing the context, the next important step is stakeholder identification and analysis of their needs and expectations, the goal being to establish a constructive dialogue with the relevant ones in order to get a better functionality, image and performance.

The performance process will be established by taking into consideration business risks and opportunities, the needs of inputs and desired outputs, the responsibilities involved and the communication channels, in order to have a wider perspective following the organizational context and reaching strategic performance. A performance management based on KPIs is a must that links the implementation and improvement stages. Also acting towards improvement, continuous lesson learned approach are pillars that indicate a mature and ongoing organization oriented towards progress.

Besides financial implications, processes redesign, inputs and outputs analysis are various aspects taken into consideration when organizational performance is subject to discussion. Financial indicators such as return of investment and earnings per share are no longer enough. Today, process measurements, change management initiatives, risk analysis, stakeholder engagement, innovative financial measures, people learning and development as well as KPI' commitment are dimensions of the new approach of organizational success and future perspectives. This research present the way Balance Scorecard can secure competitive advantage and improve organizational performance by linking strategic goals, operational performance indicators and stakeholders' participation.

Below it can be seen the way an organization should approach the BSC Model for optimal results following some key questions: what are we trying to achieve? (organizational priorities in terms of mission and vision), what strategic objectives do we need to rectify in order to achieve our mission? how do we know if we get there? (measurements):

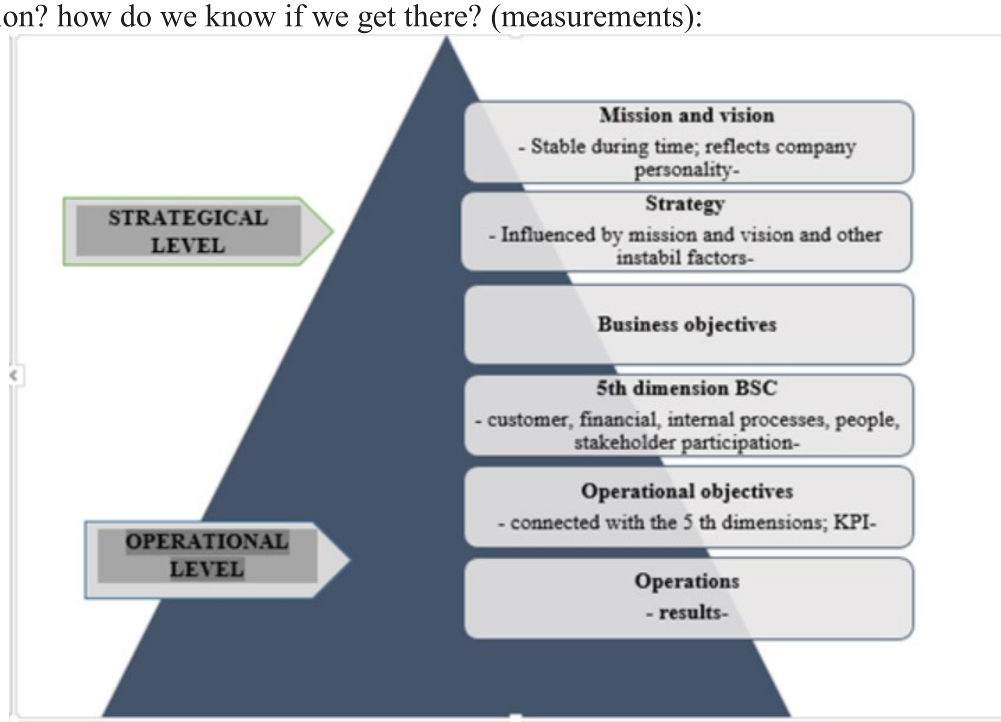

Figure 4. The proactive 5th dimension BSC by linking strategical approach and operational implementation

Source: the author.

Conclusion

Competitiveness and innovation for the benefit of society are the company's attributes in the present.

By analyzing the environmental perspective, the ethics, fair conduct, leading for a sustainable future and by considering stakeholder's dialogue as a statement of the organizational development, the proactive spirit of the company comes first. This is one of the advantages of applying this new dimension of BSC model, meant to provide a competitive advantage to the organization, to obtain a more important position on the market, better use of its resources by anticipating the needs of stakeholders and setting the strategy, followed by realistic, feasible objectives, directly connected with the environment, community and other external factors.

These findings give the opportunity for further research of the internal and external risks and opportunities seen as preventive actions for a better understanding of available actions toward organizational continuous improvement and also to analyze more in depth how a culture globally oriented influence local performance.

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