THE SCORECARD, A FUNDAMENTAL STRATEGIC ELEMENT OF THE PERFORMANCE MANAGEMENT

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Abstract: The Balanced Scorecard represents a holistic approach in which people's creativity and their availability for leaning are turned to good account to everyone's advantage. In the context of a flux of technological revolutions and permanent redefinition of values we notice that the solution taken into account today become more rapidly tomorrow's problems. The value of the organizations tends to reside in the personnel and teams not in equipment or assets. In this scientific approach, the present study makes an attempt to present the definition and the development of the balanced scorecard in the new performance management system in bank activity. It has been noticed that the Romanian banking management focuses on financial performance, with a strong tendency for administrative processes and procedures, to the detriment of innovation, of the relationship with the clients and of the personnel development. In addition, the bank consumes a huge quantity of paper in the process of measuring performance. Taking all this into account, a decision has been made for the balanced scorecard method to be used in territorial banking, from bottom upwards, at the level of regional, zonal and branch managers.

1. ORGANIZATIONAL BALANCED SCORECARD - AN INSTRUMENT OF STRATEGIC MANAGEMENT

Organizational Balanced Scorecard is a managerial instrument used in order to achieve an operational strategic vision at all levels. It is a frame for the systemic development of the vision of the organization. The structural elements are presented below:

- The mission of the organization includes its identity and indicates the reasons for its existence: who it exists for, why it exists, the needs it provides for, what its final goal is, what its basic function is and which the most important interest groups in the organization are. An efficiently formulated mission creates a sense of unity in the employees' behaviour. The criteria that a clearly formulated mission should meet are:

- the mission should be short, concrete, clear and easy to understand for any person in the organization, in order to be used as a concrete guide in planning the actions;
- the mission does not explicitly focus on profitability or any other financial element;
- the mission is realistic, being acknowledged by everybody;
- the mission is specific to each organization;
- the mission is to be defined in positive terms.

The mission determines the nature of the organization and is unlimited in time. A successful mission declaration describes the line of business, in terms of clients, employees, services and products. It helps the employees to gain a common understanding of the main purpose, to increase their loyalty and to explain what makes their organization different.

In the case study presented here, the manager and his management team formulated the following mission declaration: “Let’s be the best financial service bank in Romania”. With the new declaration, the project team organized workshops dedicated to conceiving and adjusting the balanced scorecard. In the workshops took part people chosen to represent all the managerial levels in the operational area of the bank.

- The vision indicates what the organization wants to achieve, what is essential for its success and the critical success factors that make it unique. Unlike the mission, the vision is connected to time. Accurately formulated, the vision shows the employees how their activity contributes to the success of the entire organization. In an organization without mission or vision, the decisions are made on the spot and the chances are short-termed. The vision of the organization is based on a set of fundamental values which express the way we behave and the way we see our clients, employees, shareholders; it is based on a shared set of values that are used to strengthen the total involvement and loyalty of the employees. Only with a mission and a vision based on shares values, will the personal goals of the employees closely correspond to those of the organization.

An efficiently formulated vision meets the following requirements:

- the vision is ambitious and challenging; appeals directly to people and gives them an attractive perspective on the final goal;
- the vision induces today’s actions to achieve an optimal future;
- the vision is complete, taking into account the four dimensions of the scorecard: the financial aspect, the clients, the intern process, knowledge and learning, as well as the society;
- the vision must be revised every ten years to keep it up-to-date;
- the vision is specific to the organization.

The development of the mission and of the vision begins with the management team, who develops the conceptual form of the mission and the vision, which is then communicated to the interested parties. Taking into account the feedback, adjustments are made and a new declaration of mission and vision of the organization is formulated and acknowledged by almost all the employees.

- The critical success factors of the organization

A critical success factor is one in which the organization should excel in order to survive or one of an extreme importance for the success of the organization. During the workshops organized at the bank under consideration, the project team and its coworkers identified the critical success factors and indicators for the four perspectives of the balanced scorecard: the financial-economic one, the client’s, that of the intern process and of the personnel development. About 70% of the performance indicators were identified in the already existing managerial sources of information. In order to decide on the indicators to be chosen, the following criteria have been taken into account:

- data availability and accuracy;
- their relevance for the critical success factors;
- the priority/ importance of each indicator;
- positive impact on the behaviour;
- the ability of the users to influence/ control what it measures.

- The organization goals

These goals derive directly from the critical success factors and create realistic aims. Each critical success factor has one or more goals related to one of the four dimensions of the scorecard. These strategic goals are part of the cause – effect chain, from which goal of the organization results. The goals which do not contribute to the achievement of the final goal are eliminated from the scorecard.

- The performance indicators of the organization

These indicators represent the standards which are considered in order to measure the progress towards the strategic goals. When the performance indicators are interconnected, they may give signals on time to the managers to guide the organization, based on the measurement of the changes in the process and on comparison of the results to the standards.

Table 1 presents the main performance indicators used by the bank under consideration in the four dimensions of the balanced scorecard.

Table 1

The main performance indicators in the bank's activity

Financial – economic perspective	Client perspective
- the size of the mortgage credit market rate - the increase in the sales volume and in the market rate of other products - the new business profile (quality and profitability) - the control and management of arrears	- client's satisfaction degree - public relations - clients' perception over the quality, the efficiency and the receptivity of the services
Intern process perspective	Development personnel perspective
- efficiency and productivity - systems' ability to operate - provision of irreproachable services	- mapping out plans of career development for all the employed personnel - guidance to the personnel - training and development - communication

It is preferred that not too many performance indicators be chosen; two or three performance indicators for each strategic goal are enough.

- The organization's targets

A target is a quantitative goal of a performance indicator, meaning the values that must be achieved. The targets can be based on the management's expectations, the client's needs or the results of the benchmarking studies

- The actions taken to improve the organization

The improvement actions are strategies adopted to accomplish the mission, the vision and the goals of the organization. The actions with the highest contribution to the critical success factors are chosen to be implemented.

2. DEVELOPING THE NEW PERFORMANCE MANAGEMENT SYSTEM THROUGH THE BALANCED SCORECARD METHOD AT BRANCH 5XXX

In order to ensure data confidentiality, the bank used to exemplify our study case regarding the performance management through the use of the balanced scorecard, was labeled as 'Bank X'. The bank has more branches and agencies. At the core of the business, there are three types of operations: retail (mortgages, saving deposit, and other banking operations for natural persons), credits, personal insurance, deposits and long-term protection instruments and treasury.

The bank manager, who attended a course on balanced Scorecard method, is aware that this is closely linked to the strategic goals of the organization and the new management system reduces the number of documents needed for measuring the performance, and thus paper consumption. The managerial team reaches the conclusion that the organization is not ready yet for an ample process of revising the strategy. Still, there was an urgent requirement for a better system to help the regional, zonal and branch managers in the management of their daily activities. The territorial bank operations are mainly retail operations taking place within branches. Thus, a decision has been made, for the balanced scorecard method to be used, introducing it from the bottom upwards.

Even thought the bank manager became an enthusiastic advocate for the scorecard he was worried about some aspects and was wondering whether the balanced scorecard does not distract the attention from the importance of the financial results. On the other hand, as a result of the workshop dedicated to the development of the scorecard, some of the participants from the operational area, had the tendency to consider the four perspectives of the balanced scorecard (financial, clients, intern process and personnel development) as independent. As a reaction to this unreal aspect, the bank management team promoted, among the employees, the idea that all four perspectives of the scorecard are equally important and interconnected. The reasoning behind this idea is:

- If we have the personnel we need, well-trained and motivated (personnel development perspective) …
- … and if our intern processes are carried on correctly (intern processes perspective), …
- … then the our clients will be satisfied and their loyalty will increase (client perspective), …
- … thus we will hold/expand the market (financial-economic perspective).

The main targets of the new performance management system are:

- to hold the existent clients and strike new deals with them;
- to gain new clients;
- to improve the management and the performance of the branches;
- better client attendance ;
- to stimulate personnel development
- to cut the red tape

As for the benefits of the scorecard, the implementation project team identified the following:

- helping the branch activity focus on fulfilling the mission and the values of the organization with the aid of a combination of financial and non-financial indicators;
- to develop a more balanced, more focused and more future-oriented system for operational performance measurement;

- a better understanding of the connection between individual performance or branch performance and general performance of the company;
- enhancing the picture of the financial performance and intern processes with the clients' and employees' opinions and visions;
- the help offered to managers to identify the critical success factors in the four perspectives and to settle the improvement actions.

Thus, after other two months of simulating the Balanced Scorecard, we went on to launch the new performance management system which provides a set of financial and non-financial indicators to guide the managerial and productive activity towards the achievement of the mission and the values of the organization.

The Scorecard information is accessed by the means of computers equipped with the processing program of the new method of performance management. The financial-economic perspective and that of the intern processes are updated monthly; the client perspective is updated quarterly, using two different indicators and the personnel development perspective is updated every six months.

The screen in the figure below shows the most recent values for each performance indicator and for each perspective.

It can be noticed that the branch sheet shows only two performance indicators for intern process. This can be explained as part of the mortgage, loan and account processing and administration has been transferred from branches to the big service centers. Thus, the branches have to manage the direct relationship with the clients and the initial phases of the processing. Some performance indicators, such as the volume of the mortgages closed over a certain period of time or the mortgage credit volume will show on the sheets of the centers. In addition, indicators like the number of transferred services from one unit to another (between branches, estate agencies and financial services) are highlighted in the centralized sheets, not at the branch level.

From the main window can be accessed more windows, which present in detail all the values taken into account, making possible the analysis of their performances and tendencies.

Each zonal manager has access to the scorecard of the zonal network he is in charge of. The zonal manager has to discuss the performances with the regional manager and settle the steps to be taken for their improvement.

The concrete means of employing the scorecard at the branch level may differ from one manager to another. For example, some managers consider more carefully the financial window, paying special attention to the values below the preset level, for further information they access the windows behind the first one to compare the date to those of the previous month, and sometimes of the previous year. Branch managers use the scorecard to identify the poor performance domains and focus on improvement measures. Other branch managers take into account the impact of the problems appearing in one of the windows on the other perspectives of the scorecard.

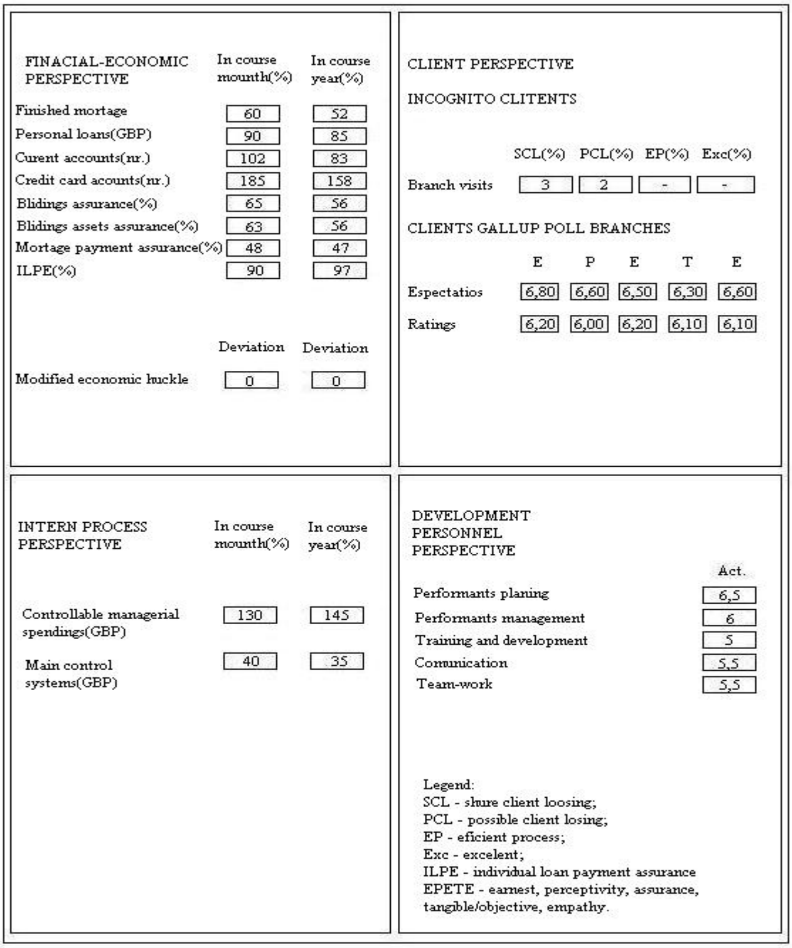

Fig.1: The values of the performances achieved according to the targets established within the X Bank

For example, the problems signaled out in the client window must be approached by training and personnel development actions. On the other hand, the problems in the client window are the cause of poor performances in the financial window. What is more, there are some managers who use the positive results in the scorecard as a stimulus in creating new methods for continuous improvement, as a valuation of the employees, as an instrument in setting new goals.

3. THE ADVANTAGES AND THE DRAWBACKS OF THE SCORECARD METHOD IN THE VIEW OF THE BANK UNDER CONSIDERATION MANAGERS

An analysis of the interviews given by the regional, zonal and branch managers shows the following:

- some managers admitted to not having used the scorecard;
- other managers stated that they very rarely make use of the computerized information provided by the Scorecard as it can be obtained from other sources (e.g. the documents attached to the surveys carried out of the clients and the personnel);

- more than 50% of the interviewed managers consider that the scorecard must be taken seriously, in the unity of the four perspectives, to take measures for continuous improvement and to setting new goals.

The advantages of using the Scorecard in the banking performance management:

- encourages a global approach to performance management, referring both to the activity quality and to the business volume;
- it can be accessed from any branch computer, by any member;
- it is a visual instrument which links individual performance to the branch performance, or to the zonal network;
- it signals differences between performances and preset targets and shows the tendencies of the performance year after year;
- reduces the amount of paper used in monitoring performance;
- it encourages the managers to give up unproductive activities;
- it encourages the managers to pursue long-term performances and not to resort to short-term remedies;
- the concept is logical and easy to understand both for the managers and for the personnel;
- the managers can get immediate feedback from the personnel, which helps them in the management of the performance problems;
- it ensures a clear focus on the essential results of the activity;
- it pursues minutely the performance and clearly identifies its tendencies;
- it is a practical approach on which different special activities can be based;
- there is enough contextual information.

The drawbacks of the scorecard, in the view of the bank's employees:

- the comparison of the performance only with the established target, makes the performance differences between branches or zonal networks unobservable;
- all the aspects in the personnel development perspective are very difficult to quantify and measure (e.g. the training level of an employee can be measured only by his results, i.e. the achievement of the financial goals and those related to client attendance);
- collecting the results of the scorecard in the performance management activity is seen by some of the employees as a simple exercise of filing-in forms;
- the information regarding individual contribution to the performance are obtained manually;
- some managers consider that the balanced scorecard is not 'balanced', because the financial dial represents the driving force of the bank, i.e. the increase in the profit and the cost reduction;
- very often, the information is not updated on time in the whole system;
- the four windows are attached the same importance, even though the destiny of the bank depends on the existing business and the new ones;
- the transposition of high level organizational targets into performance management measures can be very difficult especially when we talk about people with limited range of responsibilities.

CONCLUSION

After the effort made to implement the balanced scorecard, in which the four perspectives are equally stressed, the bank's managers are facing a new dilemma. They believe that the interest equally taken in the four perspectives distracts the attention from the financial results of the bank. In other words, they consider that the balanced scorecard should be modified so that the financial-economic perspective prevails. In order to sustain this point of view the managers argue that:

- we improve the intern process to sell more at each interview for mortgage agreement;
- we invest in this training program to increase the productivity of sales agents.

The bank management must decide whether it opts for adapting and adjusting the balanced scorecard or abandons the idea of balance to choose a more suitable pattern.

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