The Balanced Scorecard: Keeping Updated and Aligned with Today’s Business Trends

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ABSTRACT
Organizations are challenged to develop new organizational skills such as flexibility or expertise in order to quickly respond to changes in technology, competition and customer preferences. Companies cannot be competitive or successful if their business and information systems and technology (IS/IT) strategies are not strategic aligned. Nowadays, the importance of intangible assets is higher than traditional physical assets and performance measurement tools need to capture this new reality. Measuring organizational performance is a continuous challenge for both managers and researchers. Balanced scorecard (BSC) is a powerful tool that gives to managers a fast, but comprehensive view of the business including operational measures on customer satisfaction, organization’s innovation, activities improvement, as well as financial measurements. In this paper the authors address the BSC and promote the discussion about the strengths and the limitations and pointing out new developments to overcome the today’s business trends.

KEYWORDS
Balanced Scorecard, IS/IT Investments, Performance Measurements, Strategic Alignment, Strategy Map

INTRODUCTION
Organizations are required to act in the best of their abilities in the face of competition resulting from globalization and other market factors (Ashurst & Doherty, 2003). To respond to the constraints of the new business environment, the successful organizations developed three major strategies (Gomes & Romão, 2012): (1) Training employees in the use of Information Systems/IT (IS/IT) to provide organizations of knowledge and responsiveness to answer the pressures to change. (2) Choosing for collaborative platforms involving all relevant stakeholders (customers, suppliers, and employees) in the business process. (3) Finding ways of obtaining superior performance using the frameworks to assist management processes. The inability to realize the “real” value from IS/IT investments lies mainly in the lack of alignment between the business and the strategies for IS/IT (Henderson & Venkatraman, 1999).

Strategic alignment positively influences Information Technology (IT) effectiveness (Porter, 1987; Galliers, 1991), leading to greater business profitability (Luftman, 1996). From the perspective of IS/IT, the problems of non-alignment with the business strategy typically result in reactive postures against IS/IT technologies being seen as a cost center and not as a strategic “business partner”. From the business point of view, the non-alignment of IS/IT result in a decreasing income arising from investments in technology and a reduction of competitive capabilities for the organization.

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(Tallon, Kraemer, & Gurbaxani, 2000). With the shift to a new business environment with great predominance of intangible assets such as knowledge and innovation, organizations are required to manage environments of great complexity, mobility and uncertainty (Voelpel et al., 2006).

Knowledge management becomes an important key driver of organizational performance and a critical tool for organization survival, competitiveness and profitability (Omotayo, 2015). The increasing emphasis on intellectual capital is essential for a proper development of innovative products, distribution, and to improve the market value of the organization (Bose and Thomas, 2007). The impact of market structure on firm performance has been the subject of considerable discussion and debate in strategic management (Porter & Siggelkow, 2008). For many companies, the competitive advantage is seen as a continuous process of performance improvement, looking for best practices and enhancing new capabilities, gaining a return-on-investment (ROI) above the industry average (Porter, 1985) or an implementation of an effective strategy not simultaneously used by current or future competitors Barney (1991).

Scholars have extended Resource Based-View (RBV) to dynamic markets (Teece et al., 1997). The rationale is that RBV has not adequately explained how and why certain firms have competitive advantage in situations of rapid and unpredictable change. The search for new products or services and for more efficiently processes and procedures developing the dynamic capabilities to quickly respond to the external challenges and effectively continuous changes, adapting to new industrial trends (Teece et al., 1997). Sustainable competitive advantage depends on the construction and operation of a set of “core competencies” (Prakash & Hamel, 1990). For managers, the challenge is to identify, develop, protect and provide resources and capabilities in a way that gives the organization a future competitive advantage and, thus, a higher return on capital (Amit & Schoemaker, 1993).

THEORETICAL BACKGROUND

Business Scorecard (BSC) and Performance Measuring Tools

The maintenance of an effective performance management system is a crucial issue to ensure the survival as it plays an important role in leading the organizations. Otley (1999) identified five main set of issues that any organization should addressed: (1) What are the main goals of the organization and how to measure them? (2) What are the strategies and initiatives to establish these goals and how to measure them? (3) What level of performance does the organization needed? (4) What rewards for the achievement of this performance? (5) What are the necessary information flows to enable the organization to learn from its experience.

Historically, performance measurement systems have been developed as a means of monitoring and maintaining organizational control to ensure that the proposed strategies are suitable to the proposed objectives (Neely et al., 1997). Some authors argue that non-financial indicators better reflect the investment and the performance of the more intangible aspects, which are good at predicting the future financial performance (Epstein & Manzoni, 1998; Kaplan & Norton, 2004).

These intangibles can be a source of sustainable competitive advantage and are the resources that the organization owns that are not easily imitable (Barney, 1991; Marr et al., 2004; Prahalad & Hamel, 1990). Several mistakes are committed by organizations when trying to measure the non-financial performance, such as (Ittner & Larcker, 2003): (1) Lack of alignment between measurements with strategy – a key challenge for companies is to determine which non-financial measures need to be implemented. (2) Validate the measurements - do not validate the model, which leads to measure many things, and most of them are irrelevant. (3) Set up the right goals and measures. (4) Wrong measurements – research indicates that 70% of companies used metrics that have no statistical validity.

The traditional financial accounting measures can give misleading signals for continuous improvement and innovation in organizations, and are generally non-aligned with the capabilities and skills required for today’s organizations in the preparation of their future (Maltz et al., 2003).
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