

The Significance of the Balanced Scorecard financial perspective - presented through the example of the AMOENA Medical Devices Trade and Provider Ltd.

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Abstract. Rapid changes occur in the economic environment of the companies, especially nowadays. Therefore, the validity of strategies significantly reduced by now. With the help of the Balanced Scorecard we have a bigger chance to implement the strategy and beside this the value adding ability of the company can also be increased and measured. The Hungarian AMOENA Medical Devices Trade and Provider Ltd. have already built their BSC system which unfortunately did not work. This BSC has been revised in 2010, now it has been updated, and I would like to present the applicability and development opportunities of the BSC system through this the example.

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INTRODUCTION

All companies need to have some strategy which is including their long-term visions and aims but this should be change due to special occasions like the financial crisis. In the early 1990s a new strategic balanced scorecard system (hereinafter referred as BSC) was developed by Robert S. Kaplan and David P. Norton. This system has changed the focus of analysis from the features of the financial indicators. The above mentioned index-system was used by the analyzed company and this system has been revised several times. (Fekete, 2001).

BASIC ASSUMPTION

The implementation and the control of the strategy should be based on some kind of measurement. At this time we are able to measure the efficiency of the decisions made in the past, on the other hand we can define the expected future performance of the enterprise. Shaping and operating of this the measurement system has become scope of duties of the managers. Many of non-financial areas should be analyzed too but there are no – or much less – objective indicators. (Objective indicators for example: the commitment of the employees to the aims of their company, or the development of suppliers of the company.)

The other problem is that companies do not, or hardly able to understand the connection with the cause and effect of the organizational and individual factors of efficiency. Under evenness we mean trying to generate a balance of different viewpoints on one hand, on the other hand it takes into account the results of easily quantifiable objectives and performance indicators which are depending on individual adjudication. It is based on performance indicators because the system translates the strategic objectives into specific indicators. This is a planning system, because by the indicators targets can be given and of course to these objectives actions and costs must be ordered. It is a rating system because it continuously matches the targets with the real performance. Overall this type of strategy formulation and implementation has become a well known and used practice in the past decade in Hungary (on a large corporate level).

Table 1

Compare of the strategic balanced scorecard and conventional performance indicators

| Traditional indicators | Balanced scorecard indicators |
|--|---|
| These indicators measure the full range of company's operations. | They concentrate only on the key strategic areas. |
| There are not cause and effect relations. | They are linked to a logical chain. |
| The activities are not always driven by the strategy. | The plan derived always the values from the strategy. |
| Shorter-term targets are defined. | They formulate longer term expectations. |
| They do not communicate the strategy. | They communicate the strategy. |
| The targets and indicators are not assigned to actions. | Targets and indicators are assigned to actions. |

Source: (Szóka, 2007. p. 136.)

As it is shown in table above, this strategic tool give a simpler and more transparent overview about the operation processes of the company for managers, than the conventional one-sided performance measuring methods. In case on other methods can be a problem that they do not indicate a cause and effect relationship, or they focusing on too many targets, or the performance may be voluminous and confusing.

DEVELOPMENT OF THE BALANCED SCORECARD¹ AND ITS POINTS OF VIEW

The balanced strategy BSC assessment system consists four equal, closely related viewpoints: financial, customer, operational processes perspective and learning-development perspective (Norton and Kaplan, 2004).

Each perspective determines strategic goals which can provide a competitive advantage for the company. The strategic objectives are driven by the core values, vision and missions. In order to monitor their achievements, indicators are being developed. The efficiency is analyzed afterwards. These performance indicators are combined with other indicators which impact the future performance the most; we call them performance – causative index numbers. The performing index – unlike the results indicators – focuses on the longer-term goals. Finally they specified the necessary implementation and actions.

In the Figure 1 we see the classic BSC's four traditional viewpoints within it can be seen how to break down the concept the mission and the strategy to operational objectives. Based on the mission and strategy

¹ Based on Láng [2010] and Szóka [2007]

we determine specific targets in each view point. The objectives and indicators have to be matched to one and other and shall be consistent with corporate strategy.

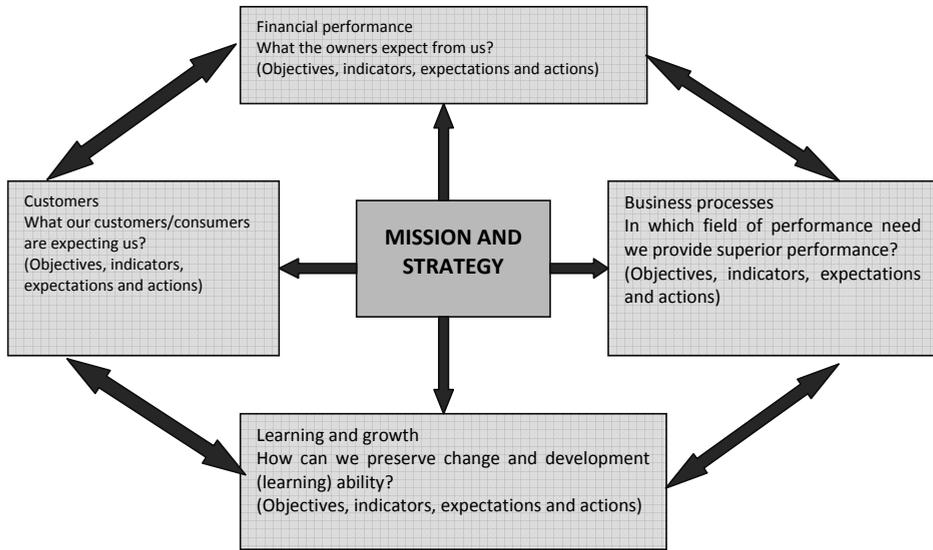


Figure 1. The Balanced Scorecard system
 Source: Norton and Kaplan, 2004., p. 20.

Because of the diversity of the organization and markets, the BSC is different from all organizations that is the reason why the BSC can include more than these four viewpoints. There may be a fifth aspect or the four viewpoints can be watched in different resolutions depending on which are the most important strategically factors in the company. For example, it could be the public tasks in the public sector and protection of the environment at environmentally responsible companies. The four viewpoints can mean – in different resolution – the changing of the hierarchical order of the viewpoints, or it is possible to exchange one of the viewpoints to another strategically important perspective, for example, instead of learning and development, innovation may appear as a new viewpoint at telecommunications organizations.

The hierarchical orders of perspectives are given on the strategic map because provides the logical structure. First the financial viewpoints are on the top, because the financial goals are counted as the most important elements of business success and the company needs to satisfy the owners or shareholders' primarily. Secondly because this perspective shows that the organization's strategy is profitable or not. Perhaps the company is very good at the other three areas, but in case that it does not meet the financial requirements then BSC can not be considered successfully. The second dimension is the customers' viewpoint because customers buy the company's products and services so they give the sales revenue. This revenue is necessary to achieve the financial goals through the provision margin and the profit. Satisfied customers lead to higher revenues and to the increase of organization's market share. The viewpoint of the internal processes is in third place because the corporate processes affect the financial income through the customers' satisfaction too. The fourth viewpoint is the learning and development perspective. This provides the base of the realization of the previous three viewpoints. We represented on a strategy map the cause and effect relationships which help

implementation of the strategy. These shows how can affect the implementing one strategic aim to achieving other objectives of the target system. It is important to take into consideration the cause and affect chain which is based on the strategy by specifying the indicators; this is the basic idea of the BSC. The objectives and indicators must encompass all detailed aspects; otherwise it will not work the BSC.

INTRODUCTION OF THE COMPANY AND ITS ACTIVITIES²

The parent company of the Hungarian joint ventures was founded in 1975, by Cornelius Rechenberg, he was a chemical engineer. At that time came to mind to establish a privately owned company, called Amoena. The Upper Bavarian family business which started its activity in Raubling became a market leader worldwide. Braches were created in 1978 in Atlanta, which have become also world leaders at development and sales. The mission of the organization is to recover those women's former beauty and quality of life that had a breast surgery.

The Hungarian Amoena Medical Devices Trade and Service Limited Liability Company were established by three million Forint registered capitals, and it is owned equally by German and Hungarian entrepreneurs. The main activity is retail and wholesale. The company was committed to improve the quality of life of woman who had a breast surgery.

The distributed high quality prostheses, special underwear, swimwear and other accessory products and AmoenaLife magazine which was published nine years ago and Amoena Club wish to restore their patients' confidence. The company is working on an exclusive but an ever-expanding specialist medical equipment market according to several laws, regulations and restrictions. Their activity is closely related to the health care therefore their activities are largely determined by the National Health Insurance Fund (hereafter NHIF).

This organization carries out the accounting of the medical aid supports. The NHIF determines the rate of support from the Social Insurance budget by the different diseases, disabilities. It increases the importance of this organization that the breast cancer is the most common cancer of women in Hungary unfortunately and the incidence steadily increasing. Most patients are in the age of 45-65 years but this disease occurs by the younger and older people also. Globally, the situation is worse, the disease is more frequent in civilized countries than in developing countries, and therefore it is important to focus on this segment of the market.

The Amoena Ltd has quality products on the market however, their prices exceeds the competitors ones. The price is influenced by several factors. Firstly, the supply prices are equal all over the world because the products are purchased from the Bavarian Center to all countries. Another influencing factor is the fluctuation of Forint and the Euro exchange rate. The third influencing factor is the changing of the VAT respectively the rate of subsidy given by the NHIF which is reduced from 85% to 80% in the case of silicone prostheses. The Amoena Ltd. has to take into account the products, services and prices of its competitors. Amoena Ltd ensures its difference from its competitors not only by good quality products but it is up to build an appropriate relationship and high quality supply processes.

THE BALANCED SCORECARD SYSTEM OF THE AMOENA LTD.

The economic environment of enterprises has changed significantly in the last few decades, the consistency replaced by the continuous volatility. In such environment it is extremely difficult to acquire a lasting

² The AMONEA Company contributed the demonstration and further development of their BSC system.

competitive advantage. The competitive and profitable direction of AMOENA Ltd. and the integration of the non-financial indicators was a real big challenge to the leaders of the enterprise; therefore they developed their BSC concept.

Financial viewpoint

In the former BSC system the growth targets were the sales, pre-tax profit and market share position in the region. The managers assigned five aims to improve these growth objectives. The first was to increase the number of recipe-sales, the second was to increase the proportion of prosthesis sales in retail trade, the third was to fix the receipts service, the fourth was to increase the patients' loyalty; the fifth was to help to the network of partnerships. The first two objects meant a volume increase that measured the three indices which were assigned to the objectives: the number of recipe-sales compared to previous year's data, increase of the rate of redemption of the prosthesis and increasing the rate of selling the prosthesis in retail. The third growth objective was to steer the services through receipts into the right direction which served the increase of patient's awareness. Its indicator is: how much affected women bought the bra and prosthesis in every year. The fourth objective was to increase the patient's loyalty. The patients would like to achieve this by specific promotions, loyalty points, vouchers, by widening the enforcement of possibilities by the club discounts, and as well as with the promotion and sale of new, more modern and more expensive products for the less price-sensitive patients. Regard of this they wanted to measure the stakeholder's loyalty and price sensitivity and the possibility of widening the specific actions and their validation and as well the extension of the club's database. Finally in the fifth aim the club discounts and the turnover related discounts are included to the different distribution discounts as well.

Customers' viewpoint

To increase the sales and profit (as part of the financial division) they wanted to support two strategic themes: customer-profitability, and as well to increase the loyalty of customers. They wanted to achieve the customer-profitability by specific promotions, increasing the number of loyal customers and selling products with higher profit margin. The indicators include the patients' loyalty, the rate of utilized promotions and higher profit margin products. Improvement of these indicators served the raise of awareness of the patients' and selling more expensive products for the less price-sensitive patients. They tried to increase the number of loyal customers by satisfying their needs more effectively and with additional discounts. The acquainting and endearing of the more profitable products was done through the sellers and secondly through the magazine. The further loyalty was provided by the customer care, giving special discounts for the club; inform patients and the faultless achieving of the delivery goals. The main goal of distributors' is to correctly satisfy the retailers' orders.

Viewpoint of business processes

The following aims have been appeared in the business process viewpoint: the minimum own inventory, evolving the distributors' optimal inventory, increasing the value of an average package, the more equitable distribution of the allowances by region done by the organization, the reduction of the human resource requirements, reducing the exchange rate loss, and finally rationalization of the fixed costs, wages and contributions. The optimal minimum inventory level was deduced from the products which were purchased

during the previous year, while the external effects of environmental changes were taken into account. Its aim was to reduce the potential stock deficiency. It is strategically important for the company to help their distributors and increase their own profits so they tried to establish an optimal inventory for retailers which are the best for patient's needs and it turns quickly. The second goal is to increase the value of the so called average packets' content by increasing the volume of sales and granted discounts. The third aim is the more equitable distribution of the allowances by region done by the organization. The third aim has served the developing of three different price categories at the wholesale trade based on the turnovers. The regional profits were also observed but it was important for the company to reward also the distributors who have ordered periodically and predictable large amounts. The company purchases its goods from Germany therefore it had to face with the problem of fluctuating of forint-euro exchange rates. So in this view point the next goal was to reduce exchange rate loss. They bought a high amount of Euros at low rate or increased their inventory of goods when they could get a lower price. It led to the process that the company bought less but larger amounts of goods due the significant transport costs. The aim of the human costs was the reduction of the salary contribution and social security contribution. In that context, reduction of per capita benefits was expected because that was the only way for the company to reduce the wage and social security contributions costs. The rationalizing of the fixed costs was based on the calculation and reducing of fixed costs these were the wage costs, mailing costs, the rent for the shops and reduce operational costs.

Learning and growth viewpoint

The viewpoint of learning and growing is the basis of establishing of the strategy, it determines the abilities and motivation of employees and the role of information technology because all is based on these. It is not easy to define what information and skills are needed to be able to improve the processes as well creating a higher customer value. In this viewpoint the internal process objectives and targets are supported two strategic aims: the competences and consciousness.

The competences include the improve of the user's computer knowledge and knowledge of foreign languages, controls and sanctions, risk and priority management, and communication.

The last mentioned includes the communication with customers and distributors, and of course colleagues. It is important to have contact with retailers as well as the decrease of misunderstandings in daily communication with employees. This strategy topic included the sales training also that determined the sale of products that should be sold mostly, and the compound of the inventory that distributors had fix. Among the competences the basic legal knowledge has also been highlighted because the employees need to know the billing, warranty, as well as contracts. The other objective in the viewpoint of learning and development was connected to the consciousness. Includes the understanding of the targets of processes and the understanding of different contacts/connections, the loyalty employees' and the thoroughness. It is also important that staff have to have adequate knowledge of products and to cooperate with their colleagues.

OPTIMIZATION OF THE AMOENA LTD.'S BALANCED SCORECARD SYSTEM

The BSC created by Amoena Ltd. did not pass the formal requirements because the objectives did not contain all strategic objectives and too many indicators were examined. Fewer, but more important targets were marked and I specified the strategic map which contains the cause-effect relationships. This corrected strategy map shows the 2nd and the 3th Figure. I also ordered action to the objectives and the targets shows the required values. The number of indicators is correct; in the original BSC were too many indicators.

The company's modified strategic map and the targets

| | | | |
|---|--|--|---|
| Financial Viewpoints | <p>TARGETS</p> <ul style="list-style-type: none"> Return Growth of income Optimum exploit of the NHIF <p>INDICATORS</p> <ul style="list-style-type: none"> 1) Return on sales (ROS) (%) 2) Return in investment (ROD) (%) 3) Sales growth index (előző évi = 100%) 4) The revenue change index (The sales of the higher margin products) (previous year = 100%) 5) Diverted subsidies rate as a percentage of sales revenue (%) <p>ACTIONS</p> <ul style="list-style-type: none"> The cost and revenue optimization to improve the profit, analysis of the ROI components Encourage of the development of customer loyalty, the awareness of the customers and distributors about the advantages of the new, higher margin products Follow up the NHIF the modifications, minimize the mistakes, timely implementation of the changes in the corporate governance system | <p>TARGETS</p> <ul style="list-style-type: none"> > 10,00% > 6% > 108% > 107% < 3% | |
| Customer Viewpoints | <p>TARGETS</p> <ul style="list-style-type: none"> Increase of customer's loyalty Renewing customers rate (%) Satisfaction with services and the assortment (1-10) <p>INDICATORS</p> <ul style="list-style-type: none"> 1) Renewing customers rate (%) 2) Satisfaction with services and the assortment (1-10) <p>ACTIONS</p> <ul style="list-style-type: none"> More comfortable shopping area, information on new products, validation of club discounts Distribution only high quality products, exchange of products in case of quality defects Improvement of the stock management, sales forecast on last year data (same period), taking into account the possible modifying effects | <p>TARGETS</p> <ul style="list-style-type: none"> > 75% > 8,8 | |
| Business processes Viewpoints | <p>TARGET OF COMPLIANCE TO SUPPORT CONDITIONS OF NHIF INDICATOR</p> <ul style="list-style-type: none"> Changes application which required by the NHIF (%) <p>TARGET > 98-100 %</p> <p>ACTIONS</p> <ul style="list-style-type: none"> Monitoring all changes, adaptation and integration of the modifications in the corporate governance system. | <p>INDICATORS</p> <ul style="list-style-type: none"> 2) The sales rate of higher margin's products (%) 3) Sales value per order (Eft) 4) Stock turnover index for highlighted distributors <p>ACTIONS</p> <ul style="list-style-type: none"> Improve the sales and marketing techniques Increasing of the average pocket value by discounts Introduction of the re-structured stock for highlighted distributors | <p>TARGETS</p> <ul style="list-style-type: none"> > 25% > 100 Eft > 8,5 |
| Learning and growth Viewpoints | <p>LEARNING AND GROWTH TARGETS INDICATORS</p> <ul style="list-style-type: none"> Skills development Create motivating working atmosphere and appreciation Development of IT Consumption of labor | <p>TARGETS</p> <ul style="list-style-type: none"> ~ 2% > 8 > 29 > 8,5 | <p>OPERATIONAL TARGETS INDICATORS</p> <ul style="list-style-type: none"> Rapid solution of the occurred problems Cost and revenue optimization Reducing of costs rate (1-10) <p>ACTIONS</p> <ul style="list-style-type: none"> Develop the individual and group skills, competencies Development of the controlling system |
| <p>BUILDING A MUTUALLY BENEFICIAL RELATIONSHIP WITH DISTRIBUTORS</p> | | <p>INDICATORS</p> <ul style="list-style-type: none"> Distributors commitment (1-10) Perfect deliverable rate (%) The quality in contact with the highlighted distributors and insuring the special discounts <p>TARGETS</p> <ul style="list-style-type: none"> > 6,5 > 98,5% > 9,0 | <p>INDICATORS</p> <ul style="list-style-type: none"> Time between the problem request and solving (1-10) Reducing of costs rate (1-10) <p>TARGETS</p> <ul style="list-style-type: none"> > 9,0 > 8,0 |

Figure 2. The Company's modified strategic map and the targets
Source: Szóka, 2012.

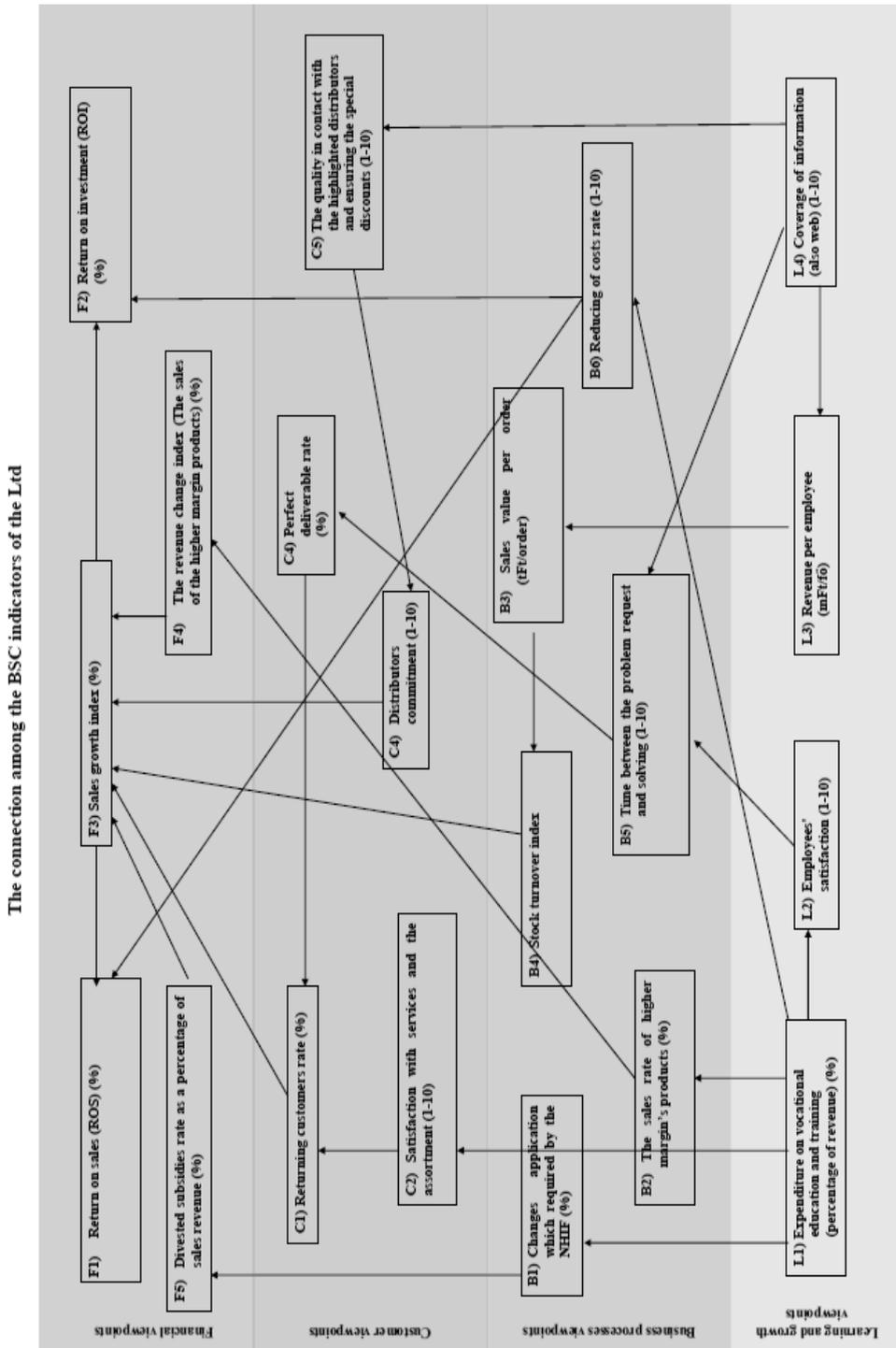


Figure 3. The connection among the indicators
Source: Szóka, 2012.

THE INDICATORS REPRESENT THE INITIALS OF THE VIEWPOINTS. THE ARROWS SHOW THE INTERDEPENDENCES.

Financial viewpoint

The financial viewpoint includes the return on investment, the increase of revenue and the optimal utilization of subsidy³ presented by the NHIF. The third Figure shows that the increasing of the revenue is in the focus because it is the basis of any further increase of profit and return. This would improve by the sales of higher margin products, and the reduction of subsidies. The positive change of the growth of sales indicators highly contribute the growth of the top - gross margin and return on assets - two indicators. Among the actions which are order/connected to the financial viewpoint appear the optimization of costs and the analysis of the ROI indicator's components. The latter is essential because this indicator can be improved even by reducing the profit degrading elements in short term – like the investments, repairs and provisioning – however, a long-term destitute of these could lead to the jeopardize the future of the company (Szóka, 2007). To increase the revenue the customers' loyalty should be inspired. Widen of awareness of the customers and distributors are necessary about the advantages of the new, higher margin products. It is essential to follow up the modifications of NHIF to correctly utilize the support of NHIF, the timely implementation of the changes in the corporate governance system is needed and it is important to minimize the number of mistakes.

The viewpoint of Customers

The goals of the financial viewpoint should be based on customers' viewpoint first; each indicator's aim is the maintaining and strengthening the customer relationships. The apparent the distributor next to the retail customers is strategically important because the company operates as a wholesaler too and the company sells goods to retailers nation-wide. The distributors were left out from the original BSC even though that the operation of retail network – through improving the position of national sales – significantly contributes the achievement of the financial main aim. The increase in the proportion of the correct order completions can improve a lot of factors, at the same time it encompasses the whole customers' viewpoint so, we can say, that is the most important indicators. That ensures identification and elimination of returning problems. The supply of the distributors with prospectuses and a “distribution day” should lead to the realization of special discounts. The company can increase the number of returning customers by ensuring the customers' satisfaction and we can win new clients too. This combination results the increase of the market share which will positively influence the realization of financial targets. To know the stakeholder's needs is necessary to create value for our customers. It is achieved by the development of the German parent company's products with the involvement of the patients and taking into account the needs. The company achieves the increase of customer loyalty by providing the club discounts, transforming the customer's area more comfortable and the provision of information during the service. Quality guarantees only distribution of quality products. The distribution of quality products ensures the provision of quality, only. Even of a quality fault the company offers a product exchange or provides a purchasing discount equal to the value of the product. The wide selection of products can be accomplished by improving the inventory management and by the sales I forecast.

³ In the original BSC produced by the company did not appear the support of the NHIF even though the company gets the allowance due products sold on prescription from the NHIF. This is a significant part – 70 to 80% of – of the products price.

The business processes viewpoint

The main weakness of the BSC is that the objective of fulfilling the expectations of NHIF is missing though this objective has great influence on the company's results through the divested subsidy. The indicator can take on positive values if the company fully complies with the deadlines and all the changes are integrated to their corporate governance system. The improving sale of the higher margin products and the growth of sales value per order are directly and indirectly improve the main goal. They improving the sales techniques and marketing processes in order to achieve the sales targets. The reduction of the interval between find & solve the problems is included in operational goals whereupon less defective execution is realized in the customer viewpoint which has also an indirect effect on the improvement of results. Actions are connected to the operational aims, which are: the rapid improvements of problems are achieved by the development of the individual and team skills, ensure the extension of the warehouse clubs with awareness and promotion of club discounts, as well as the company will achieve the cost and revenue optimization aims with the development and improvement of the controlling system.

The learning and growth viewpoint

The learning and growth are the basis for realization of the other three different viewpoints on the strategic map, therefore it is very important that the employees are aware of the required tasks and recognize their performance. The tasks should be dedicated by the managers as they are still on a high level and still feasible. Combination of these factors can provide the satisfaction of workers' desire for success and increase their efficiency. The technical upgrade of the information technology is an important field too. People who are supporting the decision and decision-makers have to get reliable information to do their tasks. The fourth viewpoint is the learning and growth one which includes the following indicators, targets and actions: skills development, to create motivating working atmosphere and appreciation, development of information technology and labour-utilization efficiency. The increase of vocational education and training indicators are connected to the target of skills development. The created motivating working atmosphere and appreciation can be measured by employee's satisfaction and the development of information technology can be measured by the information coverage. This also includes the development of individual and group skills, the developments of competences that are the basis of efficiency of the labour-utilization increase. The effect of the expenditure on vocational education and training – directly or indirectly – is extended for all viewpoints. The review of the BSC system and its implementation is recommended on a quarterly basis due the current crisis and the political-legal and economic uncertainties.

CLOSING THOUGHTS

The BSC sets that strategic way on which the corporation or institution need to move and this way the company must be monitored and corrected continuously. This balanced scorecard could investigate the influencing factors of the corporate performance evolution in extremely complex way, it always focuses on the essence and the future developments are kept in mind also, however, this itself is not a guarantee of success. The business processes, learning and growth viewpoints are getting more and more important in companies', achieving the operational excellence comes to the fore and they angle to motivate the employees and increasing of the commitment. The human factor, the methodology and the correct application of communication are playing an important role. Employees will be able to help the implementation of the strategy if they know it and embrace it. If the vision and strategy are formulated properly and apply the BSC then

the management gets a strategic management and controlling device which enables the implementation of the strategy that could be continuously monitored and the annual planning becomes easier. The BSC system improves the operation of the incentive system; it shows the ratio of added value done by the individual employees connected to the achievement of corporate strategy, the corporate objectives can be detailed to measurable individual goals, which implementation measuring indicators can be tied to the remuneration system. A learning process can begin, where the managers could learn how to lead a company, the employees will learn that they are important components in the engine of the company and that their goals are compatible with the company's ones.

Finally, it is very important that the top management is committed in the achievement of the BSC; otherwise the BSC will not really help the implementation of the strategy.

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