

# Application of the Balanced Scorecard into the Formulation of the Firm Strategy

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**Abstract**—In contemporary global and dynamically developing environment there is a need of the strategic planning fundamental. It is complicated, but at the same time important process from the point of view of continual keeping of competitive advantage. The aim of the paper is formulation of strategic goals for the needs of the small enterprises. There will be used Balanced Scorecard as a balanced system of the indicators for the clearing and transferring vision into particular goals. In particular perspectives the theme will be focused on strategic goals. Consequently will be mention the concept of the competitiveness IDINMOSU. This connect to Balanced Scorecard.

**Keywords**—Corporate strategic management, strategic goals, Balanced Scorecard, strategic operations

## I. INTRODUCTION

Companies in the Czech Republic, especially small and middle, are nowadays exposed to big pressure of political and economic changes, to which happens in last years in Europe. In front of this topic are questions about environment character in which is company promoted, then the position which company contains, images how should the company be, how will reach its vision what has company keep and what to change. Important are also questions about the Czech Republic before entering to the European Community, because companies have to revalue their positions and make new strategies in which they will be able to defend their current positions and play on new occasions.

The aim is the formulation of strategic things for small company needs in conditions of the business are of the Czech Republic. Strategic aims and operations will be formulate according the method called Balanced Scorecard and its 4 perspectives: financial, customer, internal company processes, learning and growing up. The result should be showing of the competition strategy which will help to the small company survive in current hard and full competitive time. To Balanced Scorecard connect concept of competitiveness – IDINMOSU. This concept respect modern developments of the enterprise in meaning to the potential in theory of the firm and in practice. strategic proceedings regarding method balanced scorecard

Making and keeping working the company strategy is not primitive. It is taken as the high level achievement of manager and it is not only question of sophisticated formal benefactors,

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but especially it is aim of understanding and managing manager's work. Regularly there are shown new ways and methods which may help to improvement of mechanic achievement. One of these mechanisms is Balanced Scorecard. This method should balance whole system of evaluation and to change current assembly and also absolutely prefer financial things. There are recommended also other perspectives than only financial one. The stance suppose connection of result in different perspectives not their separation. Customer perspective and learning perspective by now none of there methods didn't take in mind and company proceedings was crazy and unsystematic [12].

### A. Subject of Balanced Scorecard method

Approaches done in past (financial analysis, controlling, process, proceedings, reengineering etc.) took in mind only financial page of business and internal company processes. There was missing company vision and strategy which was made into financial and internal section but also to customer area and area of decreasing efficiency of employees [9].

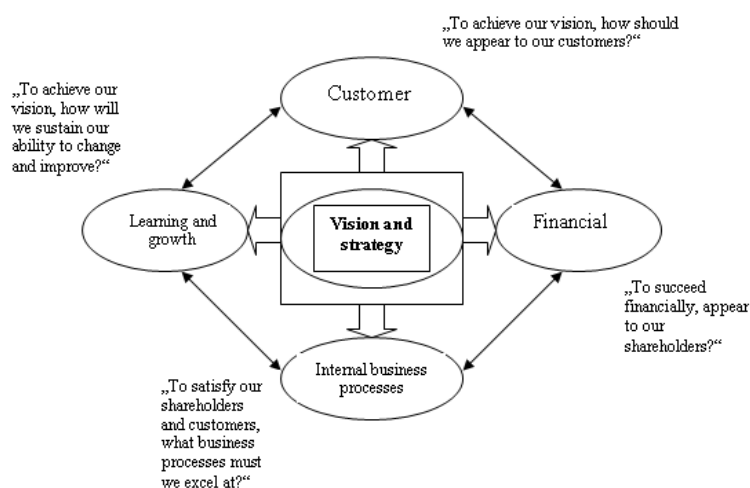


Fig. 1 Scheme of Balanced Scorecard

Financial – connects financial aims with the total company strategy. Financial aims are “focus” to which are traveling other ways of the perspective Balanced Scorecard. There are 2wayz , one where has to define financial achievement which is waited from the strategy and the second one must value aims and ways in all other perspectives of Balanced Scorecard.

Customer – helps the company to form that type of the

strategy oriented to customer and the market which would arrange him high financial return. The company has to identify the customer and the market segments and also their criteria of efficiency. It is oriented only to these which are for them important factor of the sources what is the part of the financial aims.

Internal business processes – include the aims and the criteria for the longtime innovation cycles and also for the short-time cycles. The company has to determine the main internal processes which are important for the reaching perfect results of the company. The given criteria have the biggest influence for the satisfied customers.

Learning and growth – form of the company infrastructure which is important for the planning longtime achievement and the improvement. The current technology and abilities are not enough nowadays. The global competition forces all companies to improve each other. The company has to invest to the improvement of their employees, to improve technology and systems, to innovate the company procedures and groovy ways [7].

The main reason to the using Balanced Scorecard is leading over the strategy to the common practice. Regarding the more complicated and dynamic competition was strictly increased the time of strategy validity and about the success decides its important and strict realization. Balanced Scorecard means also main changes in planning process. Balanced Scorecard will prolong the level of the strategic planning bud on the other side is able to cut planning operation. Shortly said it happens the whole cut of planning process.

## II. DISCUSSION FOR THE CURRENT SITUATION OF ANALYZE SOCIETY

### A. Company profile

The company Remel, s. r. o. was established in 1994 and it is taken in the category of the small and middle companies with sit in the Czech Republic. Today is a steady company which offers complete electro-mounting and business services. It is well-known electro-mounting company no only in Moravian district.

Nowadays there are 6 employees including 2 engineering inspectors. Thanks of the personal and the technical equipment is can supply all electro-mounting work from the project to the engineering. The shipments are realized not only in the Czech Republic but also abroad in the Russia, the European Community and the Switzerland.

### B. Company analysis

Regarding done closer of account from 2007 and 2008 were counted following indexes which can strictly influence strategic aims. These which can't shown by numbers will be commented by words.

TABLE I  
 IDENTIFICATION OF THE SOURCES, SKILLS AND THEIR USAGE

Indicator	Year	
	2007	2008
Time of reserves turnover (days)	43	32
Time of debts turnover (days)	93	100
Time of claims turnover (days)	46	61
Labour productivity (revenue from sales/man effort)	806	1 010
Rate of labour produktivity increase (%)	25,3	33
Profitability of own capital	0	0,63
Accounts hazard	0,75	0,56
Common liquidity	1,34	1,72
Available liquidity	0,87	1,4
Prompt liquidity	0,38	0,79

Resource: Self elaboration

Human resources – the company has 6 employees in the main working process but id can be changed during the year because of the season work. Often there are employed students and foreigners. Another education of employees is not realized. Between employees and director is the good communication with any barriers.

Financial sources – year 2008 was fractural for this company, because after several years the company had the profit 900 000 CZK. The loss from previous years it didn't cover.

Intangible sources – the company doesn't realize investments to resource and development what can damp it against the competition. Customers will choose between companies which can oblige to their request and which will accept also new trends in this area. The main intangible source is only its reputation and the loyalty of customers.

### C. SWOT analysis

Upon mentioned articles and upon analysis of outer company environment which was done by method PEST and according the Porter model was made SWOT analysis. It was elaborated in my diploma paper [8]. Evaluation was done by scale 1 – 5 and importance 0 – 1.0.

TABLE II  
STRONG POINTS OF COMPANY

Strong points	valuation (V)	relevancy (R)	V.R
goodwill	4	1	4
cost advantage - exploitation of the action offers and discounts	3	0,7	2,1
relatively high the labour productivity	3	0,5	1,5
ability of the staffs to train in the new technologies and methods	2	0,4	0,8
relatively low the labour productivity	2	0,3	0,6
skilled labour	4	0,8	3,2
good technical state of the tools	5	0,7	3,5
troublefree communication with the staffs and with others interest groups	3	0,5	1,5
informal ties in the workplace	3	0,3	0,9
adherence to the concerted dates	4	1	4
stealing of time of reserves turnover	3	0,5	1,5
absent of the loan capital	5	0,8	4
<b>Strong points</b>	<b>x</b>	<b>x</b>	<b>27,6</b>

Source: self elaboration

TABLE III  
WEAK POINTS OF COMPANY

Weak points	valuation (V)	relevancy (R)	V.R
location of the company	-4	0,7	-2,8
wrong technical state of the business building	-3	0,3	-0,9
no cooperation with the employment office and with personal placement services	-3	0,4	-1,2
poor quality of the web sites	-2	0,3	-0,6
absence of the inmaterial sources - the patents, know - how	-4	0,6	-2,4
absent of the research and development	-3	0,5	-1,5
low the leverage	-4	0,8	-3,2
lower economic power compared with the larger business	-3	0,6	-1,8
conservative approach to the innovation	-5	0,7	-3,5
absence of the financial sources for the purchase of the new technologies	-3	0,7	-2,1
absence of the financial sources for the self research and development	-4	0,8	-3,2
absent for the marketing analyse and strategy	-4	0,9	-3,6
<b>Weak points</b>	<b>x</b>	<b>x</b>	<b>-26,8</b>

Source: self elaboration

In compare strong points of the company and weak points was found the superiority of strong point and this at value 0.8.

TABLE IV  
OPPORTUNITIES OF COMPANY

Opportunities	valuation (V)	relevancy (R)	V.R
exploitation of the new markets	2	0,8	1,6
outsourcing	4	0,5	2
adaptable workforce	2	0,6	1,2
relatively high end of the education for the staffs	3	0,8	2,4
availability of the skilled labour	2	0,7	1,4
implemantion of the next vocational training	1	0,6	0,6
development of the information and communication technologies	3	0,6	1,8
chairmanship of the Czech Republic in EU	3	0,3	0,9
positive development of the GDP	4	0,7	2,8
acceptance of the single currency Euro	3	0,4	1,2
increasing demand	5	1	5
rising of the suppliers	4	0,9	3,6
<b>Opportunities</b>	<b>x</b>	<b>x</b>	<b>24,5</b>

Source: self elaboration

TABLE V  
JEOPARDY OF COMPANY

Jeopardy	valuation (V)	relevancy (R)	V.R
entry of the forceful competitor on the market	-4	0,9	-3,6
international trade barriers	-2	0,5	-1
new competitors with the new resolution	-4	1	-4
market barriers - the taxes and duties	-3	0,7	-2,1
falling demand on the part of the pivotal customers	-4	1	-4
reform of the public finance	-3	0,5	-1,5
unfavourable tax treatment	-3	0,7	-2,1
negative attitude to the tax office	-2	0,4	-0,8
administrative costingness	-3	0,3	-0,9
political instability	-4	0,2	-0,8
rising of the inflation	-3	0,6	-1,8
rising of the energy price	-4	0,8	-3,2
forceful Czech currency	-5	0,7	-3,5
menace of the substitutes	-3	0,6	-1,8
<b>Jeopardy</b>	<b>x</b>	<b>x</b>	<b>-31,1</b>

Source: self elaboration

In compare occasions and jeopardy was found superiority jeopardy and this at value 6.6. Combination of superiority of strengths and jeopardy is the company taken to strategy defensive with effort to maintain their position.

### III. APPLICATION OF BALANCED SCORECARD

The assessment of strategic aims according Balanced Scorecard means several aims in each perspective on which depends the success of strategy. It is important to solve only these which will be strategically important and which will determine real orientation of company to the future. The main aim is to remain away assessment of too many aims because their realization would be nearly impossible and the strategy would lose its meaning. It is not enough to choose only aims which will be realized, but also the way regarding which will be reached strategic operations.

#### A. Financial

Here are determined 4 aims whose criteria are different indexes of financial analysis which were used during financial sources evaluation by checking ability of the company.

1. Return on owner's equity increment
2. Cut-down direct and keeping same height of indirect costs
3. Labour productivity increment
4. Liquidity keeping at current value

#### **Return on owner's equity increment**

The main aim here is not to increase the value of style, but especially increase own capital via declared profit. In 2007 reached ROE 63 %. Its high value means low value of own capital, because of the reason of negative results accrued of economy from last years. At the increment profit we can not use only 1 strategy operation. There are many factors which depend on getting profit. Especially there have to be used strengths of the company and occasions getting from business area. The company want to hold acquired position at the market and hold its profit. There won't be do any huge innovations and won't be offer any new services. The profit will be increased according to earnings under occasion of still build-up new houses, flats and other objects. The final value of ROE for current period is around 50 %, what matches profit value from previous period.

#### **Cut-down direct and keeping same height of indirect costs**

The company will buy all supplies mainly according the sales for good prices and for savings. Wages will be let at the same level and will copy only the inflation. The company can't influence increment of the energy price. Regularly each month will be control development of costs in compare with same month from last year. Regarding the results will be done situations for their elimination. In 2008 took place compare with previous year for decreasing the material usage of around 18 %. There were also decreased costs connected with the company function. The aim is to keep that tempo of decreasing costs.

#### **Labour productivity increment**

The labour productivity is very high, but the groin is the fact, that the growth rate reaches lower value than the growth rate of wages. If the rising of wage costs copy the inflation

rising, there is the only 1 possibility how to balance both rates. It is increasing the rate of labour productivity. This can be done by 2 possibilities. By decreasing number of employees or increasing the sales. The more possible is 2<sup>nd</sup> possibility in relation to aim in the customer perspective – the increasing of rate rising about 15 % year.

#### **Liquidity keeping at current value**

Regarding the liquidity ratios was found that the company reaches nearly optimal values of common liquidity but exceed it in case of immediate and strict liquidity. The company uses optimal expenses without meaning. They can be used more effective. In the future will be invest to short-term stocks and bonds to be at short notice taken over to cash. It will be invest to optima height of value indicator which will be regularly found out (each 3months).

#### B. Customer

The main aim is to reach the customer loyalty. There will be used churn management. Its modern using includes an idea called churn reduction, limitation of customer losses what means:

- know customers and know, who left and who stay
- analyze historical dates about these customers
- be able to know who are loyal and not loyal customers

For this period (3 years) the company is looking for following strategy aims.

1. Customer loyalty
2. Keeping current position in the market
3. Higher dependability of services
4. To improve the communication with customers

#### **Customer loyalty**

The main condition for increasing customer loyalty is to offer perfect service and to prevent not well done job. Here is the aim of increasing more than 50 % customers. Nowadays there are mainly big companies as satisfied customers thanks to which company gets more than 50 % at incomes. The biggest customer is company Siemens nowadays.

#### **Keeping current position in the market**

The company opt for the strategy with aim to defend against own minded out position at the market. It doesn't have to star stagnate and so it make an effort to reach earnings around 15 % per year to partly rise the growth rate of labour productivity and to decrease difference between parts of the growth rate of wages. Regularly will be checked development in are of Nový Jičín city via website on interne, from trade register and other information sources. The other aim is to keep main activities at all other activities of company – 70 %.

#### **Higher dependability of services**

Services are offered at high level with minimum amount of claims. In will be tried to reach situation, where will be part of claims at all realized shipments not more than 5 %. All means for work (equipment, machines) will be regularly controlled

minimum 2 times per year. During revision is not enough only check the safety of the electric equipment by survey but it is very important to keep strict conditions of products. Results are written to book of revisions. Services are offered by requests of normative suggestion ČSN 33 2000.

#### **To improve the communication with customers**

There will be done regularly communication with customers via filling checklist. It will be aimed at satisfaction and then counted and evaluated. The problem will come by compare with normative because there are also soft data which can't be compared with competition.

#### *C. Internal business processes*

In this perspective are given 4 strategic aims:

1. Shortening time of debts and claims turnover
2. Start of on-line communication with customers via internet
3. Keeping dates of ordered shipments
4. Employ the strategy

#### **Shortening times of debts and claims turnover**

Once per month will be calculated times of debts and claims turnover and it will be compared with payment terms. It will be also checked if these times are consistent. Date of payment is determined in 45 days and this value should reach this indicator. It means that claims can't yearly increase more than 23 % by respecting aims given in customer perspective – increase of earnings of 15 % per year. Dates of debts payment are 3 months. It is long time and the company could have several unexpected problems, so because is needed to make short at 60 days. There will be kept rule of responsibility where the time of claims turnover is shorter than the time of debts turnover.

#### **Start of on-line communication with customers via internet**

Company used for communication only mobile phone. The personal in the company site is practically not organized. To acceleration of whole production process will be established on-line communication via own websites. There will be invited specialist who will arrange this service, who will install all and will teach about function the owner and the other people who will use this type of communication.

#### **Keeping dates of ordered shipments**

Nowadays is not problem with keeping time. During the time of function this company it happened only once in year 2007, when the company had signed contracts for bigger projects which were expressed that time. In case of bigger amount of shipments will the work made by team-workers especially by students of technical electrical secondary school.

#### **Employ the strategy**

Without tenderable strategy nowadays are many companies convicted for doom. In the current situation in globalized and dynamically booming world it is not only aim of big and transnational companies, but also small and middle sized companies. The company should partly keep formulated strategy, to react for business environment development and development in own company.

#### *D. Learning and growth*

In this perspective is needed to check ability of employees, ability of information system and also the motivation etc. There are given 3 strategic aims:

1. Increase the qualification of the employees
2. Improve the quality of own websites about the company
3. Improve the communication between employees and to motivate them better

#### **Increase the qualification of the employees**

Employees of this company dispose of acceptable qualification and most of them are working in the company for long time. The biggest problem is the language facility which will be solved by language courses. The company starts to expand with foreign market and the knowledge of foreign language is necessary. The company has plan to invest to its employees in next 3 years by courses and will try to get at least one graduate of secondary school.

#### **Improve the quality of own websites about the company**

The websites reach the lowest level. The potential customer will not get any information from website then. It is necessary to improve the view and informative level of websites. There will be written the basic information about service and its prices, then also reference and contacts, ethics code and principles about leading the company.

#### **Improve the communication between employees and to motivate them better**

Here are ways how will be improved the communication in the company:

- To communicate regularly at informal level
- If there is something very important and employee is not at work that time, it will be needed to send all important information by email to him or contact him by other way
- To update all information at websites
- To realize regularly meetings

#### IV. CONCEPT OF COMPETITIVENESS - IDINMOSU

Virtual company is nowadays modern form of enterprise. Almost any company contain elements of virtuality. There are more and more distinct. It is possible to divide it according to: [10]

- origin and purpose,
- structure and managerial hierarchy,

- degree of abstraction,
- constitution of company, interfirm interaction.

1. according to origin and purpose
  - virtual company nascent towards one project
  - virtual company nascent with lasting perspective
2. according structure and managerial hierarchy
  - focal
  - tree
  - net
3. according degree of abstraction
  - company with zero stage of abstraction
  - first stage of abstraction
  - second stage of abstraction
4. according to constitution of company, interfirm interaction and determination of bound
  - technological company
  - distributed company
  - externalised company
  - cyber company
  - temporary net

In terms of analysed company is it company with lasting perspective because it last as long as subserve its purpose. It has not structure and managerial hierarchy which is typical for a virtual company. It is company with first stage of abstraction and technological company.

Arises question which way can be evaluate competitiveness of these new forms of enterprise. Very practicable appears the concept IDINMOSU which is very complex.

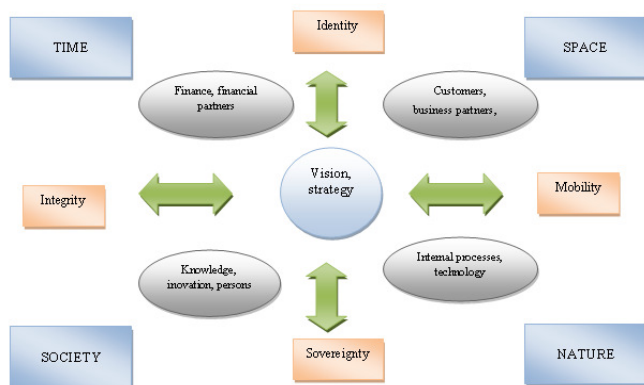


Fig. 2 Concept IDINMOSU [3]

To Balanced Scorecard connect this concept. It is a process of complicated and multiple transoframation of potential and human craft. It begin of base external potential transformation which is evolve to next levels of competition potential. This new conception mean fact, that competitiveness influence also

soft factors – identity, integrity, sovereignty, mobility.<sup>1</sup>

## V. SUMMARY

In each perspective were provided 15 strategic aims. There was effort of understanding the aim and its disclosure for each perspective. Chosen were only these which have some strategy meaning for the company. By some aims is not possible to give criteria so they will be checked verbally. Especially it will be in internal business process and in learning and growth. In practice exist deep between agreed strategy and its realization. Only this will decide about its success. The ability of leading strategy pertains in between important competition advantages of company. To be successful company has to prevent cause of failure and to minimize them. It is needed to orient employer to employees, to inform them about everything properly etc. This will have important effect of effective strategy in practice and ensuring successful development of company for the future. To Balanced Scorecard connected concept IDINMOSU, which is object of the research. It is realized in co-operation with VSB - Technical University of Ostrava, university in Plzeň and Zlín. This paper describe partial results of this research.

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