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BSC/ABC EFFICIENCY AND PERFORMANCE STRATEGY

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Abstract:

Currently a rapid boom has been experienced in telecom sectors. In such a milieu, the pursuit of enhancing service quality has become imperative among the service providers. The balanced scorecard should be viewed as a dynamic system that evolves as the company's strategy evolves. The four perspectives of the scorecard permit a balance between shortterm and long-term objectives, between outcomes desired and performance drivers of those outcomes, and between hard objectives measures and soften more objective measures. This balance set of measures that reveal the trade-offs that managers have already made among performance measures and encourage them to achieve their goals in the future without making trade-offs among key success factors.
Key words: *BSC, ABC, telecommunication, processes, management*
JEL classification: *L80, L840, M10, M190*

1. Introduction

To cultivate the full profit potentials of customers, many companies already try to measure and use customer value in their management activities (Gloy, Akridge, & Preckel, 1997; Rosset, Neumann, Eick, Vatnik, & Idan, 2002; Verhoef, & Donkers, 2001). Therefore, many firms are needed to assess their customers' value and build strategies to retain profitable customers. Ax and Bjornenak`s (2005) study noted that in addition to Kaplan and Norton`s four perspectives, the majority of Swedish organisations include an employee perspective.

Norreklit (2003) suggests that the BSC may be good at justifying cost reductions and at making employees increase their level of customer service. The environmentally sensitive industries are those in the energy, utilities, transportation, materials and telecommunication industries (Elijido-Ten, 2007).

Currently a rapid boom has been experienced in telecom sectors. In such a milieu, the pursuit of enhancing service quality has become imperative among the service providers (Seth et al, 2006). Industrialists are now framing strategies to explore the hidden competitive advantage of services. One of the prime issues in this context is the systematic comparative evaluation of the various alternatives strategies by the service sector (Rehsi, et al. 2006).

Documenting the case of AT&T (telecommunications) on the design and implementation of the Balanced Scorecard, Letza (1996) found that there is a need to balance the 'internal and external perspectives' and the 'short-term financial goals' as against the 'long-

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term growth opportunities.' Kaplan and Norton (2001) have documented the experiences of Mobil and Motorola with the Balanced Scorecard in communicating with their employees on the goals and mission of the company and, in turn, influencing this behaviour and performance.

2. BSC and ABC performance measures in telecommunication

Performance measures used in the balanced scorecard approach tend to fall into four groups: financial, customer, internal business process, and learning and growth. A few points concerning the balanced scorecard to be emphasized; First the balanced scorecard should be tailored to the company's strategy ; each company's balanced scorecard should be unique, they should not be interpreted as general templates to be fitted to each company. Second, the balanced scorecard reflects a particular strategy, or, theory, about how a company can further its objectives by taking specific actions.

The theory should be viewed as tentative and subject to change if the action do not result in improvements in the company financial and other goals. The balanced scorecard should be viewed as a dynamic system that evolves as the company's strategy evolves.

The four perspectives of the scorecard permit a balance between shortterm and long--term objectives, between outcomes desired and performance drivers of those outcomes, and between hard objectives measures and soften more objective measures. While the multiplicity of measures on a balanced scorecard may seem confusing, properly constructed scorecards contain a unity of purpose since all the measures are directed toward achieving an integrated strategy. Since the Balanced scorecard tool aims at communicating the strategy to the entire company, there might be a better chances for knowledge management work to succeed. All employees of a company using this tool should know where they are heading. They will then have the possibility to judge their own actions in the light of the company's complete strategies. The frameworks have increasingly purported to represent not merely a way of measuring the success of an organization but go further in that they offer managers a "road-map" by which they can manage. In particular they focus on the way in which a strategic vision can be realized. A company's ability to innovate, improve, and learn ties directly to the company's value. That is , only through the ability to launch new products, create more value for customers, and improve operating efficiency continually a company can penetrate new markets and increase revenues and margins-in short, grow and thereby increase shareholder value. Financing research and development activities helps companies to solve perpetual problems, create new services and products, and predict the characteristics of future environment to be able to avoid sudden crises.

Learning objectives should drive to growth and concentrate on the training needs of the employees and the renewal of manufacturing supplemental operations. Businesses are unlikely to be able to meet their long-term targets for customers and internal processes using today's technologies and capabilities. The financial, customer, and internal-business--process objectives on the balanced scorecard typically will reveal large gaps between the existing capabilities of people, systems, and procedures and what will be required to achieve breakthrough performance. Many organizations espouse strategies about customer relationships, core competencies, and organizational capabilities while motivating and measuring performance only with financial measures. The Balanced scorecard retains financial

measurement as a critical summery of managerial and business performance, but it highlights a more general and integrated set of measurements that link current customer, internal process, employee, and system performance to long-term financial success. The scorecard outcomes and performance drivers should measure those factors that create competitive advantage and breakthroughs for an organization. Thus, all stakeholder interests, when they are vital for the success of the business unit's strategy, can be incorporated in a Balanced Scorecard. Stakeholder objectives, however, should not be appended to the scorecard via an isolated set of measures that managers must keep "in control." BSC therefore enabled companies to track financial results while simultaneously monitoring progress in building the capabilities and acquiring the intangible assets they would need for future growth. The scorecard was not a replacement for financial measures it was their complement.

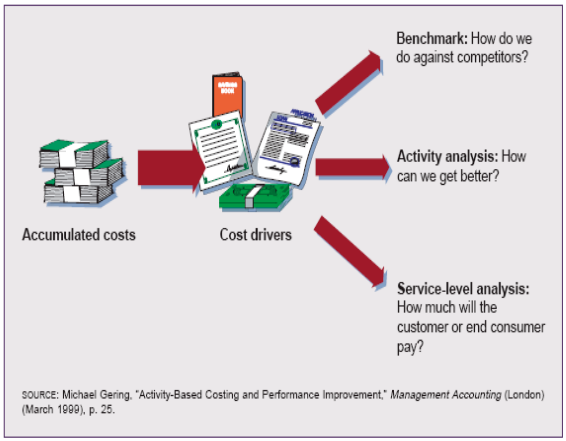

Figure 1. ABC data and cost management [11]

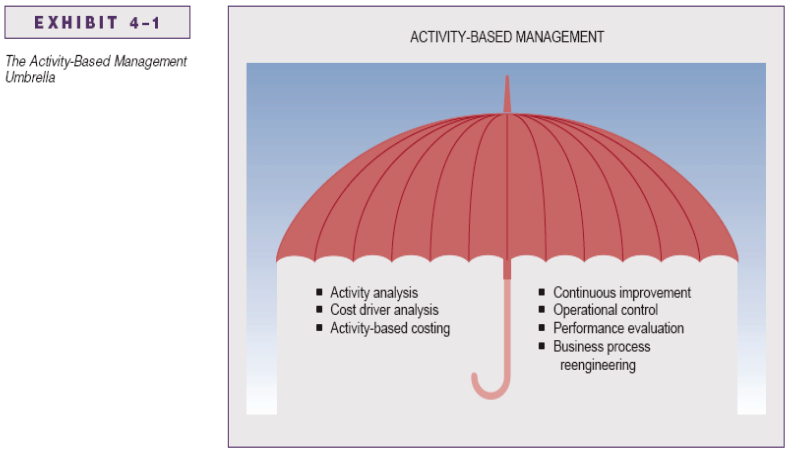

Figure 2. ABC management umbrella [11]

The International Standards Organization makes the central principle of the pursuit of quality clear—to establish processes that will maximize service to customers. The first iteration of TQM/CGI provoked a debate about its social as well as technical implications, and demonstrated the disconnect between the philosophy of the management process and the purposes of the companies for which it was being proposed.

It is good that companies now have a large number of strategic and operational tools to choose from, but they still lack a theory or framework to guide the successful integration of the many tools. Companies struggle with the question of how to make these various strategy planning and operational improvement tools work together in a coherent system. The implementation of the tools is ad hoc, with little interchange and coordination. As a consequence, the tools don't work coherently to drive results through the organization. Much of what we advocate is common sense; it's a *system* that connects the dots among all a company's myriad current tools and methodologies so that they can all be focused on an over-arching goal: successful execution of a company's strategy.

Companies need to translate their strategic plan's revenue targets into a sales forecast. Whether done annually or quarterly, any operating plan is launched from a sales forecast, a task facilitated by analytic approaches such as driver-based planning. Anticipating the need to derive a detailed operating plan, the sales forecast should incorporate the expected quantity, mix, and nature of individual sales orders, production runs, and transactions.

3. Level of costs in telecommunication

Managers recognize the impact that measures have on performance, but they rarely think of measurement as an essential part of their strategy. When executives renew strategies, they logically should create new measures. "For example, executives may introduce new strategies and innovative operating processes intended to achieve breakthrough performance, then continue to use the same short-term financial indicators they have used for decades: like return-oninvestment, sales growth, and operating income. These managers failed not only to introduce new measures to monitor new goals and processes but also to question whether or not their old measures are revealed to the new initiatives".

Each performance objective should be supported by at least one measure that will indicate an organization's performance against that objective. Measures should be precisely defined including the following elements [1-5]:

- Population to be measured.
- The method of measurement.
- The data source.
- The time period for the measurement.

Whenever possible they should be written as mathematical formula. Ideally, measures should possess the following characteristics [5-8]:

- Objective- not judgment calls
- Controllable- the results are substantially in the hands of the organization with the effects of potential outside influences minimized
- Simple – easily understood and measuring only one thing.
- Timely – frequently available indicators of recent or current performance

- Accurate – reliable, precise, sensitive indicators of results
- Graded – traceable data available before system failure-not binary yes/no measures
- Cost-effective – providing data worth the cost of gathering it
- Useful – providing data necessary for the organization to manage the business
- Motivating – achieving the targets should drive good business.

In process measures are no less important than outcome measures as they will drive future performance; However, success is only desirable in these metrics, to extent that it leads to success in outcome measures. Success in these measures alone will not satisfy customers. Poor performance in these measures may be addressed in time to prevent negative impact on process outcomes and customer satisfaction. Generally, in-process measures are management tools to drive and sustain performance. Traditional metrics may separate between internal measures, and external measures in order to make performance analysis easier, but according to Kaplan the information from the four perspectives suppose to provides balance between external measures like operating income and internal measures like new product development. This balance set of measures that reveal the trade-offs that managers have already made among performance measures and encourage them to achieve their goals in the future without making trade-offs among key success factors. As a senior executive at one major company said," previously, the one-year budget was our primary management planning device. The BSC now used as the language, the benchmark against which all new projects and businesses are evaluated" To obtain a correct cause and effect relationships among measures that drive performance toward the firm's goals, the Balanced Scorecard should contain a mix of Leading and Lagging indicators. If we concentrate on the Lagging indicators separated from their drivers, we are not entitled to specify the causes of success or failure, and yet to repeat the success experience or even know how to avoid failure. Without performance drivers, Lagging indicators cannot inform us of how we hope to achieve our results. Conversely, Leading indicators may afford key improvements through the organization, but on their own, they don't reveal whether these improvements are leading to improved customer and financial results or not.

Coming up with the Lagging measures probably will not pose much of a challenge, because measurement language is awash in such indicators: Sales, profits, satisfaction and many others are common measures in use today. It is appropriate to feature a number of these Lagging indicators on the scorecard. While a company may share such measures with many other organizations, its Leading indicators set the company apart by identifying the specific activities and processes considered as critical to driving those Lagging indicators of success. Understanding the relationship between leading and lagging indicators may help to look at the measurement from another point view.

EXHIBIT 4-4

Levels of Costs

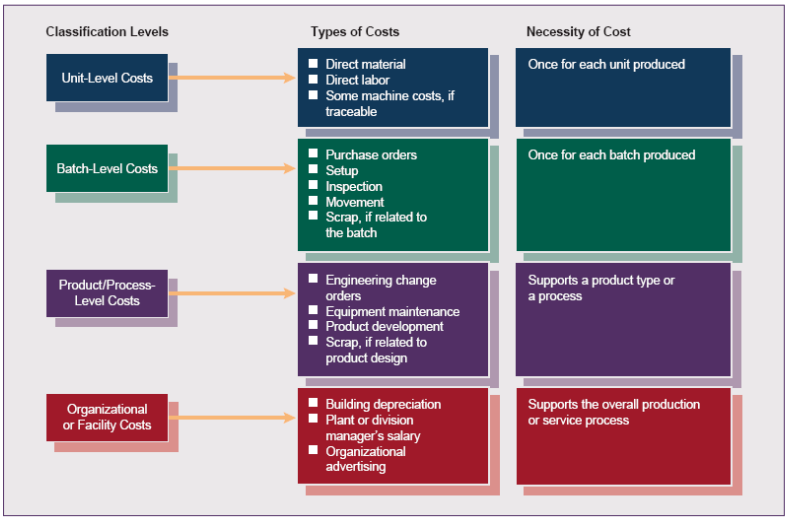

Figure 3. Level of costs

Companies use sophisticated analytic tools to review the performance of their strategies, including customer relationship management software and analytic modeling to capture and profile customer behaviour. Activity-based costing is used to assess product and customer profitability, key indicators of strategy success.

Companies can use a time-driven activity-based costing (TDABC) model to translate detailed sales forecasts into estimates of the resource capacity required for the forecast periods. Activity-based costing has been widely promoted as a tool to measure the cost and profitability of processes, products, customers, channels, regions, and business units. But its "killer app" is for resource planning and budgeting. Because a TDABC model uses capacity drivers, typically time, to map resource expenses to the transactions, products, and customers handled by each process, such a model can easily translate the forecasts of sales and process improvements into the quantity of resources – people, equipment, and facilities – required to fulfil the plan.

Activity-based costing (ABC) was developed to correct another defect in financial systems—the inability of traditional costing systems to identify the drivers of indirect and support costs. ABC operates by relating organizational spending to activities and processes that support the design, production, marketing, and delivery of products and services to customers.

The first linkage between ABC and the BSC occurs in the operational measures of the BSC's internal process perspective. Three parameters—cost, quality, and time—usually define the operating performance of any process. Quality and time are relatively easy to measure since they are based on physical measurements. Cost, however, is an analytic concept that cannot be measured by a stopwatch or a laser-gauging instrument. Only with

an ABC model can organizational expenses be accurately traced to processes of product development, marketing and sales, manufacturing, distribution, and service delivery.

A second linkage occurs when an ABC model is used to measure the profitability of individual customers. The BSC customer perspective typically includes customer outcome measures such as acquisition, satisfaction, retention, account share, and market share. But companies also need to measure whether their loyal, satisfied customers are profitable. Balancing measures such as customer profitability or percentage of unprofitable customers help managers ensure they are not improving their customer measures at the expense of high-level financial profitability measures.

A third linkage arises when the ABC model is used for activity-based budgeting: combining information on the forecasted volume and mix of products and services with anticipated activity and process efficiencies to construct a bottom-up budget for forthcoming periods. With the BSC providing the management process for defining the strategic budget, and activity-based budgeting used to develop the operational budget, managers have powerful analytic tools for their budgeting processes.

ABC can also be combined with shareholder value management by applying ABC principles to assign assets to activities and then to cost objects. This enables capital costs and residual income to be calculated at the individual product and customer level.

4. Improving management processes in telecommunication

BSC could be used as a measurement system by implementing the following steps [8-11]:

1. Specifying the objectives as they are extracted from values, vision, mission, and goals.
2. Discover those most critical objectives as factors of success and transform them to at least one measure against each objective and to be aware of distributing them among the BSC's four interrelated perspectives.
3. Analyze the specified measures to Lag indicators, which are the end-line desired results, and the leading indicators, which interpret the results and discover the factors.
4. When every thing about the measurement template become clear, we pass this template through the different levels of the employees as a mean of informing every individual about his role in attaining the satisfying performance.

So analyzing, informing, cascading, and deploying processes companies who adapted early Balanced scorecard concepts to improve their performance measurement systems, achieved tangible but narrow results. Adopting those concepts provided clarification, consensus, and focus on the desired improvements in performance. Recently many companies have expanded their use of the Balanced Scorecard, employing it as the foundation of an integrated and iterative strategic management system.. They are using the measurement focus of the scorecard to accomplish critical management processes [10-11]:

- Clarify and update strategy .
- Communicate strategy throughout the company.
- Align unit and individual goals with the strategy.
- Link strategic objectives to long- term targets and annual budgets.

- Identify and align strategic initiatives .
- Conduct periodic performance reviews to learn about and improve strategy.

The Balanced Scorecard enables a company to align its management process and focuses the entire organization on implementing long-term strategy. The BSC provides a framework for managing the implementation of strategy while allowing the strategy itself to evolve in response to changes in the company's competitive market, and technological environments. Applying the Balanced Scorecard as an evaluation system in any firm requires the perception of techniques of realizing the strategic management of the activity, and translating that strategy to a balanced scorecard. So the management, while applying BSC system, depends on using the scorecard in managing the firm. It means that the firm should prepare a specification for all the stages of execution.

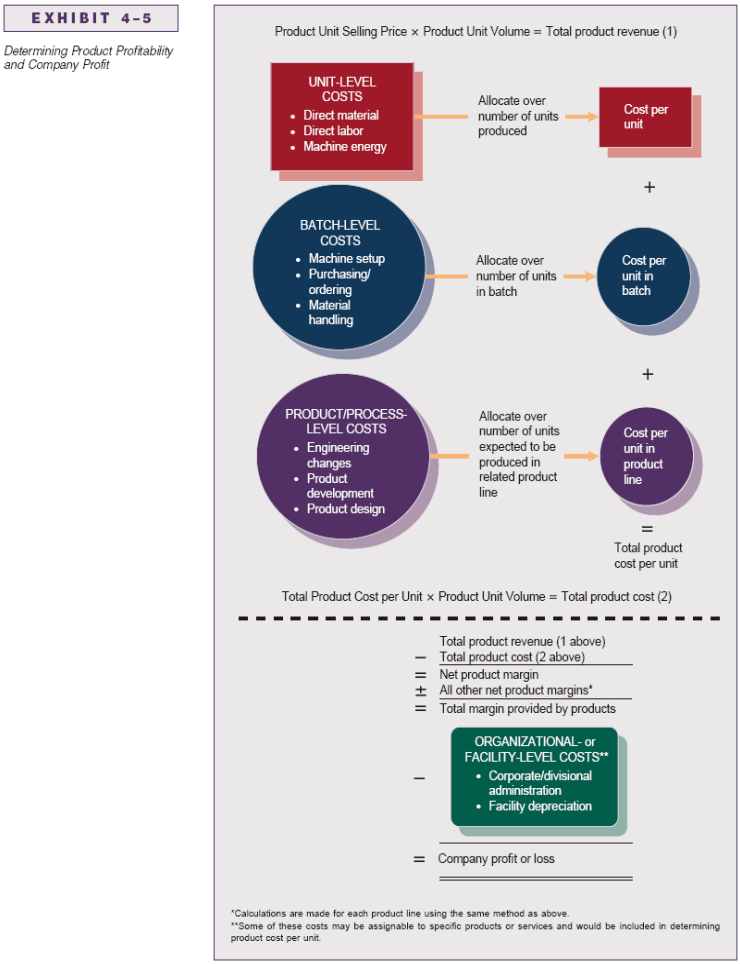

Figure 4. Determining product profitability and company profit

The new strategy may improve productivity through economies to scale but enhance financial performance by decreasing the selling price. For the profit-maximizing firm it is important that demand and production will stay at the optimal level, which gives rise for demand and production-oriented performance measurement system. However, for a revenue maximizing-firm it is more important to focus on customer relationship management (CRM) and development and learning (D&L). When we have unrelated measurements, whatever the number is, it will be considered a big one. Here we have to be aware of distinguishing between diagnostic measures, and strategic measures, the first kind could be in hundreds or thousands since they are needed to be monitored to ensure that the corporations are functioning as expected, and to signal when corrective action must be taken, these measures capture the necessary " hygiene factors" that enable the company to operate, but don't drive to competitive success.

Data collection, environmental analysis, cause-and-effect chain, strategy mapping, and processing systems are some hard mental work that could be done by the sharing of enthusiastic and persisting highlevel team members to design a measurement system, but to implement an efficient and effective measurement system need much more effort and persistence. People who made the hard work in designing the measurement system will find themselves must educate and train the employees who will use it. The new measurements mean new goals and objectives linked to an initiated strategy, in other word it means change.

In their framework of balanced scorecard developing plan, Kaplan and Norton (2001) specified the last two actions for implementing the scorecard : Implementation is the seventh suggested step in which "a newly formed team develops an implementation plan for the scorecard, including linking the measures to database and information systems, communicating the balanced scorecard through the organization, and encouraging and facilitating the development of second-level metrics for decentralized units". The execution of the Balanced Scorecard as a measurement and a strategic system should be monitored instantly, if the measurements were accurate and the results are satisfying , that must support the strategy, if we have some deficiency, so it should be decided if that refer to bad strategy or poor performance ?

Paul Niven(2006) suggests creating binders and electronic file directories that mirror the specific steps in the company's plan. The importance of the electronic files stems from the ability of every member of the team to name and store files according to his preferred methods. Each member can develop a process everyone can agree on and post it in a shared drive that every member can access. Some companies create portal to capture all the Balanced Scorecard information including the discussion groups and the latest announcements. However managers should be aware of information abundance and poor data management. Cascading is the process of developing scorecards for every level of organization and aligning the scorecard elements through all layers of the organization. Aligning has been mentioned before as a strategic management process, its purpose is integrating the first scorecard with other parts of business and into the lower-level scorecards. It is clear here that alignment is considered as a technique of building the scorecard consistent to the strategy, but alignment as a sub-process in the implementation stage of the BSC journey, is considered as a matter of communication which makes the final scorecard clear and understood, on the way to achieve consensus and cooperatio.

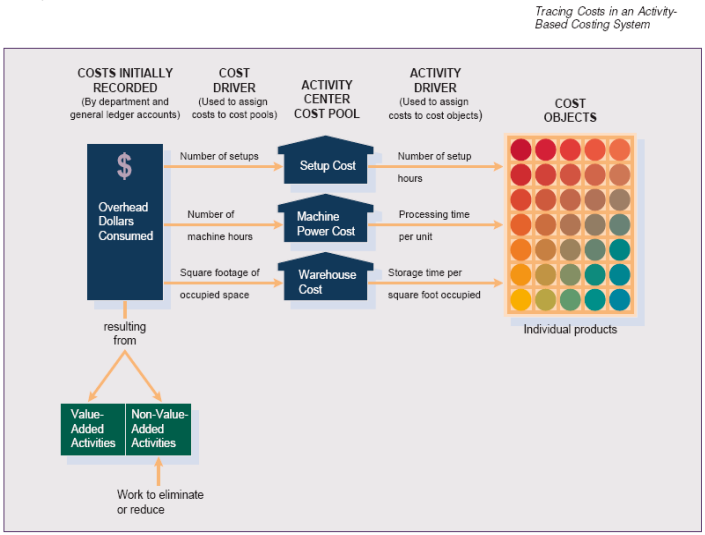

Figure 5. Tracing costs in ABC system

5. Conclusion

As magnitude of the conformity of products to the desired level increases, money incurred because of the imperfections in the products decreases. In short, as costs of achieving good quality rises, costs of poor quality falls. Therefore in a quality cost model, a relationship exists between conformance and nonconformance costs. Increased conformance costs will lead to a reduction in nonconformance costs. On the other hand, excess spending in conformance costs will lead to high total quality costs because they will exceed the reduction in failure costs. As a result, this brings one to the conclusion that when the costs of conformance are balanced with the costs of nonconformance, total quality cost may pass through a near optimum point. Linking rewards to performance is an important incentive to help an organization achieve its purpose. What the balanced scorecard adds to the traditional means of linking rewards to financial performance is that it takes a more holistic look at the organization. It ensures that the correct criteria are used as a measure of performance before rewards are given. Business planning is the third process used by managers with the balanced scorecard. By using the scorecard, businesses will integrate their strategic planning and budgeting processes.

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