IMPROVED FINANCIAL PERFORMANCE THROUGH BALANCED SCORECARD INTEGRATION IN THE BUDGETING PROCESS

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ABSTRACT

The Balanced Scorecard was introduced in 1992 and has proved itself as a valuable strategic performance measure and management tool. This paper investigated whether there is a relationship between the integration of the Balanced Scorecard into an organisation's budgeting process and improved financial performance of an organisation.
The results of the reported survey among the South African members of the Charted Institute of Management Accountants confirmed that a relationship exist between the Balanced Scorecard's integration into the budgeting process and improved financial performance.

KEYWORDS: Balanced Scorecard, Budgeting process, Financial performance

INTRODUCTION

To determine whether progress towards the achievement of objectives is actually being made, there should be regular measurement of results (Ingram, Albright & Hill 2001:312; Garrison *et al.* 2006). The measures for determining the achievement of objectives should incorporate all aspects that are measurable.

The Balanced Scorecard (BSC) (Kaplan & Norton 1996) reflects the balance provided between short- and long-term objectives, between financial and non-financial measures, between lagging (financial measures that mirror what happened in the past) and leading (measures that affect financial performance later) indicators, and between external and internal performance perspectives. Niven (2002:6-7) supported the statements of Kaplan and Norton and added that financial measures would serve better as a means of reporting on the stewardship of funds entrusted to managements' care rather than as a means of charting the future direction of an organisation. The BSC as a strategic and performance management system enables organisations to translate a company's vision and strategy into implementation. It works from the financial, customer, business process and learning and growth perspectives (Kaplan & Norton 1992). The BSC retains measures of financial performance, but supplements these measures with the measures from the other three perspectives. The BSC enables organisations to track financial results while monitoring the progress made in respect of building the capacities needed for their growth.

Atkinson *et al.* (1997:94) noted that the BSC is among the most significant developments in management accounting and deserves intense research attention. Creelman & Makhijani, (2005:34), however, raises a concern that it has become difficult to judge the overall success of the BSC as a management tool, since what the term "Balanced Scorecard" means to one practitioner may be totally different to what it means to another.

Much has been written on the contributions of the BSC. Few studies directly assess the financial performance benefits associated with the BSC as indicated in the literature review.

Improved financial performance after implementing the BSC relies on the identification of key leading indicators of desired financial performance. The indicators used in this study are the actual key performance indicators that are housed within the financial perspective as identified by the developers of the BSC. These indicators include cash flow, sales growth, operating income, market share and return on equity. The choice of the actual key performance indicators was made because previous studies (Davis & Albright 2004:144) used organisation-wide financial measures or self-reported measures that may not have been the stated targets of improvement.

The paper is set out as follows:

- literature review;
- research method;
- analysis and interpretation of research findings, and
- conclusion.

The purpose of this study was to investigate whether the implementation of the BSC leads to improved financial performance by determining whether there is a relationship between the integration of the BSC into the budgeting process and any improved financial performance. Second, to determine whether the BSC was implemented to contend with increasing competition as to rectify poor financial performance.