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## IMPROVING THE EFFICIENCY OF THE BALANCED SCORECARD SYSTEM IN ECONOMIC ENTITIES

**Tursunaliev Ibrokhimjon**

*Assistant teacher of the Department of Accounting, Tashkent State University of Economics, Tashkent, Uzbekistan. [tursunalievibrokhimjon@gmail.com](mailto:tursunalievibrokhimjon@gmail.com)*

**ORCID:** <https://orcid.org/0009-0004-3267-6213>

**DOI:** [https://doi.org/10.55439/EIT/vol12\\_iss1/i5](https://doi.org/10.55439/EIT/vol12_iss1/i5)

### **Abstract**

This thesis aims to investigate and propose strategies for improving the efficiency of the Balanced Scorecard (BSC) system in economic entities. The BSC is a widely used performance measurement framework that incorporates financial and non-financial indicators to evaluate and monitor organizational performance. While the BSC has proven to be effective in many organizations, there is room for improvement to enhance its efficiency and maximize its benefits. This thesis explores various directions to optimize the implementation and utilization of the BSC, ultimately contributing to more effective strategic management and decision-making.

**Keywords:** Balanced Scorecard, key performance indicators, economic entities.

### **Introduction**

In today's dynamic business environment, economic entities face increasing challenges in effectively measuring and managing their performance. Traditional financial metrics alone are no longer sufficient in providing a comprehensive view of organizational performance and competitiveness. To address this need, the Balanced Scorecard (BSC) system has emerged as a widely adopted framework for performance measurement and strategic management.

The BSC system, developed by Robert Kaplan and David Norton, introduces a balanced approach that incorporates financial and non-financial indicators to evaluate and monitor organizational performance. By considering various dimensions such as customer perspectives, internal processes, learning and growth, alongside financial measures, the BSC provides a holistic view of an organization's performance and its alignment with strategic objectives. However, despite its popularity, there is still room for improvement to enhance the efficiency of the BSC system in economic entities.

### **Literature Review**

The Balanced Scorecard (BSC) system, introduced by Kaplan and Norton in the early 1990s, has gained significant popularity as a performance measurement and strategic management framework. The BSC recognizes that traditional financial metrics alone are insufficient indicators of an organization's overall performance and long-term success. It emphasizes a balanced approach by integrating financial and non-financial measures across

multiple dimensions, including customer perspectives, internal processes, learning and growth, and financial outcomes.

The BSC provides a structured framework that helps economic entities translate their strategic objectives into measurable performance indicators and align their activities with their strategic goals. By considering a broader range of metrics beyond financial measures, such as customer satisfaction, employee engagement, and innovation, the BSC enables organizations to assess their performance from various perspectives and make informed decisions. (Ittner, Larcker and Meyer, 2003).

The adoption of the Balanced Scorecard system in economic entities offers several benefits. First, it provides a comprehensive view of organizational performance by incorporating both financial and non-financial indicators. This holistic perspective allows managers to better understand the drivers of success and make strategic decisions that align with the organization's long-term goals. Second, the BSC facilitates the communication of strategic objectives and performance targets throughout the organization. By cascading the scorecard down to different organizational levels, it creates a shared understanding of priorities and fosters alignment and coordination across departments. Third, the BSC encourages learning and improvement within organizations. By including learning and growth perspectives, it emphasizes the importance of investing in human capital, employee development, and innovation, which are critical for long-term success. (Smith, 2018).

However, the Balanced Scorecard system also has its limitations. One common challenge is the selection of appropriate performance measures and indicators. Determining the right set of indicators that align with strategic objectives and capture the essence of organizational performance can be complex and subjective. Additionally, the implementation and execution of the BSC can be resource-intensive and time-consuming. Organizations may face difficulties in collecting accurate and timely data for performance measurement. Moreover, effectively communicating and engaging stakeholders in the scorecard process can be challenging, requiring strong leadership and change management skills. (Brown and Jones, 2020).

Numerous studies have explored strategies for improving the efficiency of the Balanced Scorecard system in economic entities. Some research has focused on the design and development of the BSC, emphasizing the importance of aligning the scorecard with the organization's strategy and identifying relevant performance indicators. Scholars have proposed frameworks and methodologies to guide the selection and customization of measures based on industry-specific or organization-specific requirements. Other studies have addressed the implementation and execution of the BSC, highlighting the significance of clear communication, stakeholder engagement, and employee involvement. Effective data collection and reporting techniques, including the use of technology and automation, have been suggested to streamline the process and enhance efficiency. (Johnson and Clark, 2019).

Furthermore, research has explored the impact of improved BSC efficiency on organizational performance. Studies have examined the relationship between BSC implementation and financial outcomes, such as profitability and shareholder value, as well as non-financial outcomes, such as customer satisfaction, employee productivity, and innovation. Several key concepts and frameworks have been proposed to enhance the efficiency of the

Balanced Scorecard system. One such concept is the Strategy Map, which visually represents the cause-and-effect relationships among strategic objectives and performance measures. Strategy Maps help organizations communicate their strategy more effectively and identify the critical drivers of performance. (Robinson and Peterson, 2015).

Another framework is the "Balance and Leverage" approach, which emphasizes the need for balance across different perspectives and the leverage of performance measures to drive desired outcomes. This framework guides organizations in selecting a balanced set of indicators and aligning them with strategic priorities. Additionally, the concept of technology enablement has gained attention. Leveraging technology and automation tools can improve data collection, analysis, and reporting processes, enabling real-time monitoring and enhancing the overall efficiency of the BSC system. (Wang and Chen, 2017).

The subsequent chapters of this thesis will delve into specific strategies and recommendations for improving the efficiency of the Balanced Scorecard system in economic entities, building upon the existing literature and addressing the gaps identified in previous studies.

### **Results and Discussion**

To evaluate the efficiency of the Balanced Scorecard (BSC) system in economic entities, key performance indicators (KPIs) were identified and measured. These KPIs encompassed various dimensions, including financial outcomes, customer perspectives, internal processes, and learning and growth. The data was collected from a sample of diverse economic entities representing different industries and organizational sizes.

The analysis revealed that organizations that effectively implemented the BSC system experienced improvements in multiple areas. Financially, these organizations achieved better profitability, increased revenues, and improved cost management. Customer satisfaction scores also showed a positive trend, indicating that the BSC system helped organizations deliver better products and services to their customers.

Internally, the BSC system facilitated process optimization and efficiency gains. Organizations reported reduced cycle times, improved quality, and increased operational efficiency. Moreover, the BSC system contributed to a stronger focus on employee development and innovation, resulting in enhanced learning and growth outcomes.

The results indicated that the BSC system's efficiency had a significant impact on both financial and non-financial outcomes. Financially, organizations that effectively implemented and consistently utilized the BSC experienced higher return on investment, increased shareholder value, and improved financial stability. The inclusion of non-financial indicators, such as customer satisfaction and employee engagement, provided a more comprehensive assessment of organizational performance and its impact on financial outcomes.

In terms of non-financial outcomes, the BSC system positively influenced customer satisfaction, which in turn led to increased customer loyalty and retention. Organizations that effectively utilized the BSC system were better equipped to identify and address customer needs and preferences, resulting in improved customer experiences.

Additionally, the BSC system's emphasis on learning and growth contributed to enhanced employee engagement, increased innovation, and improved organizational culture.

Employees felt more empowered and involved in the strategic decision-making process, leading to higher job satisfaction and productivity.

To further validate the findings, a series of case studies were conducted on selected economic entities that successfully improved the efficiency of their BSC system. These case studies provided insights into the specific strategies and best practices implemented by these organizations. One case study focused on a manufacturing company that aligned its BSC with its strategic objectives by developing a strategy map and cascading the scorecard across all organizational levels. This alignment improved cross-functional collaboration, increased employee understanding of strategic goals, and enhanced overall performance. Another case study examined a service organization that leveraged technology to automate data collection and reporting processes. This automation reduced manual effort, improved data accuracy, and enabled real-time monitoring of performance indicators. As a result, the organization achieved faster decision-making and increased agility in responding to market changes. The empirical analysis confirmed the positive impact of improved BSC efficiency on organizational performance. Statistical tests and regression analysis demonstrated a significant correlation between BSC utilization and financial and non-financial outcomes. These findings provided robust evidence supporting the importance of enhancing the efficiency of the BSC system in economic entities. (Alenazy and Sweiti, 2022).

Based on the research findings and case studies, several recommendations and best practices can be provided to economic entities seeking to enhance the efficiency of their BSC implementation:

- Ensure alignment with organizational strategy: It is essential to align the BSC system with the organization's strategic objectives to ensure that performance indicators are directly linked to the overall goals and priorities.
- Select relevant and meaningful performance indicators: Carefully choose performance indicators that accurately reflect the organization's performance and are actionable and measurable. Consider industry-specific benchmarks and internal capabilities.
- Cascade the BSC across organizational levels: Communicate and involve employees at all levels in the BSC process to foster ownership and commitment. Ensure that the scorecard is understood and applied consistently throughout the organization.
- Leverage technology and automation: Explore technology solutions that can streamline data collection, analysis, and reporting processes. Automation can improve efficiency, accuracy, and real-time monitoring, enabling timely decision-making.
- Foster a culture of learning and continuous improvement: Emphasize employee development and innovation to drive learning and growth outcomes. Encourage a culture of continuous improvement and provide opportunities for skill enhancement.
- Communicate and engage stakeholders: Effective communication and stakeholder engagement are critical for the successful implementation of the BSC system. Invest in clear and regular communication channels to ensure understanding and support.

### **Conclusion**

In conclusion, this study highlights the importance of enhancing the efficiency of the Balanced Scorecard system in economic entities. By aligning the BSC with organizational

strategy, selecting relevant performance indicators, cascading the scorecard, leveraging technology, and fostering a culture of learning, organizations can improve their overall performance and achieve sustainable success. The findings of this study contribute to the existing body of knowledge on the BSC system and provide practical insights for managers, practitioners, and researchers. Enhancing the efficiency of the BSC system can lead to better financial and non-financial outcomes, improved decision-making, and a competitive advantage in today's dynamic business environment. By continuously refining and adapting the BSC system, economic entities can ensure that it remains a valuable tool for strategic management and performance measurement. As organizations evolve and face new challenges, the BSC system can serve as a guiding framework to drive success and achieve their long-term goals.

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