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BALANCED SCORECARD IN SERBIA: MANAGEMENT INNOVATION OR RHETORIC GAME

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Abstract: In performance measurement and management literature, the Balanced Scorecard is the most prominent model. It can be considered as effectiveness measurement, efficiency measurement or performance measurement model. The Balanced Scorecard is one of the newest management innovations and it is in focus of contemporary researchers' attention in management innovation area. The question is if it is something real new in its essence, or just rhetoric came. This paper considers this issue in Serbia, especially.

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Introduction

Transition to market economy and affirmation of the enterprise as a basic economic unit actualize the question of the firm performance evaluation in Serbia. The necessity to change the traditional concept of the Serbian enterprise performance evaluation with its contemporary one is stressed in the paper. The consideration of the relevant factors, the identification and the valuation of various measures (financial and non-financial) of this complex category contribute to design the theoretic-methodological framework necessary for its reliable analysis and evaluation. Correspondingly, the enterprise performance evaluation assumes an integral information basis, i.e. simultaneously application of financial and non-financial measures.

A particular approach to consideration of this very important postulate can be defined by the use of the accounting information. Highly interrelated financial statements provide users with a more reliable set of data and enable the identification of the key enterprise performance financial measures.

In Serbia, it is not simply possible to copy American management theories and concepts because of different ideological and national organizational culture differences. Besides, it is too hard (not say impossible) to compare Serbia with USA bearing in mind the level of economic growth and development of these countries. One of the authors of the Balanced Scorecard concept has already visited Serbia and popularized it among academics and practitioners. But, what are the results? Do Serbian enterprises implement it and how many Serbian managers are familiarized with this concept? The main conclusions in this paper are made on the base of the conducted research on those firms which are considered by authors able to implement Balanced Scorecard concept.

The incidence of the Balanced Scorecard concept in Serbia

It seems that the Balanced Scorecard concept is in focus of contemporary researchers' attention in management innovation area. The question is if such popularity is the result of the convincing theory or just the result of the persuasive rhetoric.

The Balanced Scorecard is one of the newest management innovations. It is directed on resolving the problems connected with the historical nature of the financial measures of the accounting systems. It integrates financial and non-financial variables of strategic measures in causal-consequential relationship, which presumes the following: organizational learning and growth measures → internal business process measures → customer perspective measures → financial measures. This presumption is essential because the measurements in non-financial areas make the measurement system of the business results to be feed-forward control system, which resolves the problem of the historical nature of the accounting data. However, this causal-consequential relationship may be disputable matter. Although, there is a significant covariation between customer loyalty and financial results, generally it does not mean that that bigger customer loyalty is the cause of the long-term financial results. It may be claimed that customers who are not loyal are expensive, but also it does not follow that loyal customers are expensive. Such a conclusion may be a logical fallacy. Statistics can not show that something is a logical fallacy. The lack of causal-consequential relationship is crucial because the invalid prerequisites in feed-forward control system will cause that individual companies anticipate the efficiency indicators that are really wrong and result in dysfunctional organizational behaviour and suboptimal results. Balanced Scorecard is directed to the resolving the problems connected with the strategy implementation. However, the control model is hierarchical "top-down" model. It does find the roots neither in environment nor in organization, and thus may represent the doubtful strategic management tool. Consequently, that what this model offers is not especially theoretical innovative, and also misses the reliable theoretical base.

Generally, many Serbian managers have never heard for this concept. Some of them heard but do not understand it all or partially. Some managers are not willing to accept and learn something new, and not to talk about implementation. As the reasons they quote lack of time, lack of money to implement it because of software costs and so on. Besides,

there is also misunderstanding among academics. Namely, there are different translations and understandings of this concept: list of balanced aims, list of balanced results, and card of balanced performance measures, score list, balanced card, and integrated report about the evaluated enterprise economic position.

I fact, Serbian managers do respect and implement non-financial performance measures and they state that they have already had some kind of balanced scorecard. In recent years, the academics make the efforts to make managers known with this concept. Even more, there are some studies for local governments that include the Balanced Scorecard concept. Namely, there is firstly defined the vision and strategy of the municipality development from which are derived the aims, objectives, measures, targets and initiatives. Some firms made the strategy of development for the following 5 years including the balanced scorecard.

Some firms over which foreign capital dominate more and more implement new managerial innovations imported from the West. But, Serbian managers think there is not something real new in measuring enterprise success and that it is just a rhetoric game. Truly, they do measure success from non-financial perspectives but other than those quoted in traditional Balanced Scorecard concept. Besides, they are satisfied with traditional performance measurement system based on accounting data.

Accounting aspects of Balanced Scorecard implementation in Serbia

To gain a complete picture of how accounting plays its role in Serbian enterprise performance evaluation we must take into consideration the only one conducted research results of the Balanced Scorecard concept application in Serbia, as well as the importance of the obtained data. Conducted research has shown that no single criterion can be used meaningfully in evaluating the performance of all Serbian observed enterprises and their managers and no single criterion is capable of capturing all facets of performance. It is not common for Serbian enterprises to use a mixture of financial and non-financial measures. A very few firms, over which foreign capital dominate, use integral performance evaluation system often designed for foreign firms and extended to Serbian ones. A great number of firms use only financial measures, albeit different ones that are based on the information obtained from financial statements. It has also pointed out that profit, contribution margin, return on investment, EBIT (earnings before interest and taxes), EBITDA (earnings before interest, taxes, depreciation and amortization), sales and the average salary per employee denominated in euro are given primary importance.

The prominence of accounting information in that regard could be explained by the fact that accounting as the only one integrated system of business quantitative analysis is characterized by the integrity of enterprise economic activities treatment, precision of numerical expression and objectivity. The advantage of accounting information is manifested in their main feature to convert different flows, states and relationships to universal, general accepted numerical expression. The major advantage of profit as a measure of performance is that it embodies all the major business functions from marketing (sales revenue), to production (cost of goods sold) to financing (interest expense). A potential problem for Serbian firms in this regard is the tendency of their management to consistently rely on very historical oriented financial performance measures. In a firm performance evaluation one could focus only on the bottom line of financial reporting such as net income and shareholder's equity and abstract many other important enterprise position indicators.

Our financial reporting system is not perfect. Because of the non consistent reporting of economic events by the Serbian accounting system (for a frequently regulation changes), compounded by no comparable methods and estimates, financial statement are, at best, only an approximation of economic reality. In exclusive application of financial measures in performance evaluation system it should be born in mind that: there may be a lack of uniformity in accounting technique during successive accounting periods, the balance sheet is only a snapshot in time and only represents a single estimate of the company position, changes in money values may have a significant impact and the past should really not be relied on as good predictor of the future. Financial statements do not tell us how well the firm is, for example, meeting its delivery schedules or how satisfied its customers are really with its products and after sales service.

Ratio analysis is far more useful than merely considering financial statement absolute numbers. Although ratios facilitate comparisons of performance measures over time and across firms, they even when well specified may suffer from lack of an appropriate benchmark to indicate an optimal level. The use of non financial performance measures which are not shown in balance sheet has significant value and may give more timely indications of the levels of performance achieved than do financial ratios.

Conclusion

Balanced Scorecard concept implementation is very complex and important issue in transition economies. It becomes much more important issue in the period of transition to market economy in Serbia. Having in mind very poor results of Serbian economy and its firms and the lack of experience in performance evaluation it is very important to create and implement a comprehensive performance evaluation model in order to identify areas that need corrective actions and motivate staff to improve the enterprise general position. The importance of the application of this powerful tool in Serbian firms has gained in popularity in recent year in the period of increasing globalization. Well designed and implemented Balanced Scorecard concept can improve performance of organization.

Performance evaluation must be key management control task. In addition to providing measures that can be used to evaluate enterprise and management performance, it is expected that the performance evaluation system to help assess the profitability of current activities, identify areas that need closer attention and allocate scarce resources efficiently. Furthermore, Serbian corporate management must adequately use performance evaluation and related reward system in

order to motivate organizational members to behave in a manner consistent with the organization's goals.

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