

SCOPE AND METHODOLOGICAL CORRECTNESS OF USING THE BALANCED SCORECARD METHOD FOR MANAGEMENT PERFORMANCE-BASED COMPENSATION IN MID-SIZE CZECH COMPANIES: A QUALITATIVE SURVEY

^aJAN URBAN, ^bMICHAL RUSCHAK, ^cBLANKA BOROVKOVÁ

^{a,c}*Faculty of Corporate Strategy, Institute of Technology and Business in České Budějovice,*

Okružní 517/10, 370 01 České Budějovice Czech Republic

^b*Pan-European University, College of Entrepreneurship and Law, Praha, Czech Republic*

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Abstract: Performance remuneration of managers using the balanced scorecard (BSC) method has two main advantages. The first is the motivational criteria derived directly corporate strategy, the second is the "balanced" nature of remuneration based on other performance targets in addition to "traditional" financial indicators. However, the prerequisite for the effectiveness of this method is its correct use, which assumes that the essence of the method and the individual components of its methodology are correctly understood and applied. The article deals with the extent of occurrence of this method as a tool for performance remuneration in Czech companies, and the extent to which its practical application corresponds to its methodological assumptions and requirements. The paper uses a qualitative survey carried out in mid-size and large enterprises in the Czech Republic to determine to what extent the prevailing way in which the method is used can be regarded as a tool increasing the value added of performance-based management compensation, what are the basic prerequisites for an effective use of this method, and what main modifications/adaptations leading to its higher effectiveness the method allows without losing its rationale.

Keywords: Corporate strategy, Management compensation, Balanced Scorecard Method, HR management, Promoting the effectiveness of Management Compensation

1 Introduction

The BSC method (Kaplan, 2012; Kaplan & McMillan, 2020; Kaplan & Norton, 2007a) was created as a tool for better/unbiased measurement of corporate performance, a clear expression (and better understanding) of the company's goals, coordination of the goals of individual organizational units, and thus better enforcement of the company's strategy (Bochenek, 2019; Zandieh et al., 2020). Last but not least it is a method of involving managers in meeting the goals that follow from the corporate strategy. BSC has also been selected by the editors of Harvard Business Review as one of the most influential business ideas of the past 75 years (Kaplan & Norton, 2007b). Its advantage is it can be used in very different environments in both private and public sectors (Zawawi et al., 2020; Zorek, 2020,).

The starting point of the BSC method is a clear idea of the corporate strategy (Sharma & Sharma, 2020). Another prerequisite is its conversion into operational performance indicators, not only for the company as a whole, but also for its organizational units or jobs (Dudic, et al., 2020). It can also include the determination of activities (actions, projects), on the basis of which the company or its department of its strategic plans, or performance indicators will be reached (Kurniawan, et al., 2021).

The strategic intentions of the company and its units as well as their corresponding indicators are expressed within the framework of the BSC method on the basis of four performance perspectives. These include a financial perspective and three non-financial perspectives referred to as "customer", "internal processes" and "learning or personal growth of employees". The strategic plans and their indicators established within these perspectives for individual departments and/or job jobs are in principle different and correspond to their nature, management level as well as authorities (Karun Kumar & Kesava Rao, 2020, Lee et al., 2021).

The main difference between the BSC method and other multi-criteria remuneration systems lies in the expansion of traditional financial performance indicators by non-financial criteria (Bajnai

& Popovics, 2020). Financial indicators used as performance criteria and performance remuneration tools do not always give managers the right signals when it comes to the long-term development of the company, but also quality and innovation. The main role of non-financial perspectives is to limit short-sighted financial orientation in the management of the company and to focus the motivation of its managers on indicators supporting the long-term success of the company (Kaplan & Norton, 2007a).

The involvement of non-financial performance perspectives means that performance planning and evaluation focuses not only on results (indicators evaluating the company's past financial performance), but also on the means or prerequisites for the future or long-term success of the company, such as the loyalty and satisfaction of corporate customers, innovation and improvement internal processes or the development of the qualification level of employees. Some of the non-financial indicators have the nature of a "lever" in relation to financial indicators, which allows them to better control these indicators, or to take the necessary steps to achieve them in time (Abedian et al., 2021).

The strategic intention of the company within the financial perspective (corresponding to the interests of the company owners) can be, for example, an increase in the profitability of resources, corresponding indicators of the profitability of assets or investments. However, depending on the stage of the company's development, it may also be about other plans, or criteria, for example, turnover growth rate (for a company that is in the growth stage) or, conversely, cash-flow (for a company in the "harvest" stage and whose goal is cash and a reduction in capital requirements).

The purpose of the customer perspective is to motivate managers or other employees to better satisfy the needs of customers and increase their loyalty to the company, without which the goals of the financial perspective cannot be achieved in the long term. The goals of the customer perspective usually relate to four areas important to customers, namely the time (speed) of production delivery, its quality, product or service innovations and costs, respectively. cost of production (Asiaei & Bontis, 2019).

A strategic intention corresponding to the customer perspective can be, for example, to satisfy customer requirements above the level of the competition, to focus on new market segments or to create partnerships with key customers (Sanchez-Marquez et al., 2020). Corresponding indicators can be compliance with customer service standards, the proportion of complaints, the development of sales from new segments or the number of newly concluded partnerships with customers (Kaplan, 2012).

The perspective of internal processes refers to the effectiveness of internal business procedures, especially those that are decisive for satisfying the needs of the company's owners and customers (and on which the company should therefore focus its attention). The strategic intentions of this perspective can be, for example, increasing productivity, improving quality, shortening lead times, etc., corresponding indicators of work productivity, the number of internal complaints, shortening process time, etc.

A learning and growth perspective reflects the personnel prerequisites necessary to improve business processes. Most of the indicators of this perspective are therefore related to the capabilities of managers and employees, for example the acquisition of new capabilities, improvement or change of existing procedures, etc. (Chopra & Gupta, 2019, Hitka et al., 2021, Caha & Ruschak, 2017).

2 Literature research

The successful use of the BSC method presupposes compliance with its basic performance perspectives (Aryani & Setiawan, 2020). However, this does not mean that these perspectives cannot be in specific cases slightly modified in a way that corresponds to the nature of the company and its goals (De Freitas et al., 2021). However, the number and importance of perspectives should not change too much (Benková et al., 2020).

An example can be a financial institution that, when applying the BSC method, can divide the evaluation perspectives into six perspective groups. These can be, for example, cover the financial, strategy implementation, customer, control, human resources and compliance perspectives (Sarigül & Coşkun, 2021, Sucozhañay et al., 2021). At the top of the organization, its turnover, costs and profit margin indicators can, as indicators, be assigned to the financial perspective, while numbers of customers in individual product segments, numbers of new customers, the amount of managed assets per customer and revenue per customer by individual segment (Khaled & Bani-Ahmad, 2018) could serve as strategy implementation indicators.

The customer perspective can be evaluated using the institution's market share, customer satisfaction with the company's services and service quality, and the control perspective based on the results of regular internal audits and checks on compliance with general legal and internal regulations (Kaplan, 2009).

Perspectives of human resources and compliance with standards can, depending on corporate strategy, be evaluated, for example, based on qualitative (verbal) evaluations of higher managers. The indicators of the human resources perspective can include, among other things, e.g. the level of teamwork, the results of training and development of employees and managers, and employee satisfaction. Adherence to standards can include, for example, evaluation of managers' leadership skills, adherence to ethical principles and customer orientation, etc. (Raval et al., 2019).

Use of the BSC method for performance-based remuneration

The performance indicators of the company, its departments and individual jobs, which the BSC method uses, serve not only as a means of planning, but also as a means of evaluating and rewarding performance (38) which can be used even in turbulent environment (Zandieh et al., 2020). Its use is based on performance remuneration in the form of bonuses based on balanced fulfilment or exceeding indicators, or evaluation criteria within individual performance perspectives (Hussein & Kazem, 2019).

Its introduction as a performance-based remuneration tool therefore presupposes:

- establish appropriate performance criteria and their target values for individual managers or other jobs. In the case of most managerial positions, the set target values will be annual, for business positions, usually quarterly. Targets for individual criteria can be set either in the form of absolute amounts or growth rates, usually compared to the previous year (Kurniawan et al., 2021),
- create a reliable information system that continuously informs employees and their superiors about the fulfilment of performance indicators. A system that provides early warning about potential problems with performance indicators is optimal,
- establish principles of balanced summative assessment. The goal of the BSC method is for the company to achieve good results in all performance perspectives. It is therefore usually necessary to assign certain relative weights to individual indicators. At the same time, however, it is necessary to prevent the non-fulfilment of some indicators from being compensated by the fulfilment of other indicators during the evaluation (Rafiq et al., 2020)

Choice of motivational indicators

The choice of a limited number of indicators characterizing the performance of the company, its departments and positions from the point of view of individual performance perspectives is one of the key questions of the BSC method (Elbanna et al., 2022).

Indicators corresponding to individual perspectives should also be related to each other. They should therefore be chosen to support the goals of the other perspectives. For example, fulfilling the criteria of the learning perspective and personal growth of employees should lead to the improvement of business processes, which should result in higher customer loyalty and, in turn, a higher return on invested capital (Horváth & Gleich, 2022).

The so-called business model of the company can help to set performance indicators correctly, which indicates causal relationships between the main factors or "levers" of business performance (characterized using non-financial indicators) on the one hand (Truong et al., 2020), and expected results (financial indicators) on the other. Ideally, this model should be created before individual performance indicators are selected (Preißner, 2019).

Indicators should also be set so that the fulfilment of goals at lower levels of the organization supports the goals of higher units, or the company as a whole. However, the interconnectedness of the goals set at higher and lower levels of the organization does not mean that the same indicators should also be used at these levels (Ha et al., 2022).

Linking motivational indicators

The basis of the BSC method as a performance-based remuneration tool is to achieve the interest of managers and other employees in the balanced fulfilment of the target values of the company's indicators, i.e., their fulfilment in all performance perspectives. The fulfilment of the motivational criteria used by the method must be summarized in a certain way and in some cases also weighed in a certain way in order to determine the reward. Here, too, occasional problems can be encountered in practice (Panggabean & Jermias, 2020).

The purpose of the BSC method is that managers or other employees can receive their bonus only in a situation where they (at least partially) meet all motivational indicators (Gomes & Romão, 2019), i.e., not only those that are easier to meet in the given situation (Oliveira et al., 2021). In other words, good results in one of the evaluated perspectives, for example, profitability, should not be achieved at the expense of other important indicators, for example, customer satisfaction, related to the assumptions of the successful development of the company in the future (Nørreklit & Falconer, 2007).

If performance pay did not respond to this danger, it could easily lead to a preference for criteria that are given more weight or are easier to achieve, and to neglect criteria that are less relevant to the reward. In summary, this remuneration could motivate in a way that would worsen the company's performance in the long term (Gallo et al., 2018).

The easiest method to prevent an unbalanced assessment is to set the minimum or maximum required values of all criteria. Payment of the reward is then tied to the achievement of the minimum or maximum values of all indicators at the same time. The minimum required values can be, for example, slightly reduced target values of individual indicators.

An example can be the evaluation of the results of individual bank branches, in which the condition for payment of a bonus to their managers is the achievement of a certain minimum level of customer satisfaction. This level can be set, for example, as 75 percent of the level achieved by the most successful affiliate. Similarly, achieving a certain rate of turnover growth or a certain result in the regular internal audit of branches can be used as minimum values to qualify for a bonus (Ferber Pineyrua et al., 2021).

A combination of several evaluation criteria can be used even if the individual criteria are based on the verbal evaluation of direct superiors (as can be the case, especially for "ranking" jobs) (Nair, 2004). In this case, the evaluation results within the individual perspectives are divided into three groups corresponding to "achieving", "exceeding" or "not achieving" the expected goals. These results are then summarized by the superiors, as to whether the overall fulfilment of the criteria in the individual perspectives "exceeds expectations", "meets expectations" or "does not meet them". The results for the individual perspectives are then summarized again in an overall assessment falling into one of the three categories mentioned above (Lee et al., 2021).

The amount of the bonus is then determined differently according to the category into which the summary assessment falls (Mio et al., 2022). The balance of evaluation of individual criteria can be achieved, for example, in such a way that an employee whose aggregate evaluation of criteria within a certain perspective is "below expectations" cannot receive an overall evaluation of "above expectations" (corresponding to the highest bonus), regardless of how as a result, his rating with other perspectives will end (Martini & Suardana, 2019).

Weights of motivational criteria

The weights of individual motivational criteria used in determining the bonus should correspond to the importance of individual indicators for achieving the goals of individual perspectives, or goals of the firm as a whole, and should remain relatively constant (Marzuki et al., 2020). Although financial performance criteria usually receive the highest weight, their relative importance should not be so high that it overshadows other indicators (Estiasih, 2021).

The most frequently used method of weighing individual motivational criteria is based on the fact that performance criteria are assigned percentage weights, the sum of which is equal to one hundred. The absolute amount of remuneration for the fulfilment of individual performance indicators is then in ratios corresponding to the weight of the individual criteria (Marcu, 2020).

A better variant of the mentioned procedure is to weight the individual motivational criteria by assigning them percentages corresponding to the share of the basic salary, which the employee receives as a bonus for fulfilling the given criteria. In this case, the bonus corresponding to the fulfilment of all motivational criteria is given as a percentage of the basic (annual) salary corresponding to the sum of (partial) percentages obtained for individual indicators (Faizova et al., 2020).

In this case, the weights of the individual criteria are determined indirectly – the amount of the percentage of the basic salary that can be obtained as a bonus for meeting the individual criteria (Estiasih, 2021). The advantage of this procedure is the easier possibility to reward managers or other employees even for achieving better than planned results (if this is desirable for the company). In this case, the manager receives an additional bonus for exceeding the performance targets determined again as a percentage of the base salary (Martini & Suardana, 2019). This procedure is usually more suitable especially for business managers, for whom it is not desirable to create a "ceiling" for their performance rewards (Mio et al., 2022).

In line with what we said in the previous section, rewards should always be all-or-nothing. Therefore, if a manager or employee achieves the required values for only some criteria, his remuneration should not be "cut" (by the remuneration attributable to unfulfilled indicators), but he should not be awarded any remuneration. The "consolation price" is contrary to the requirement of balanced fulfilment of the performance indicators of individual perspectives (Marcu, 2020).

3 Methodology and Data

The purpose of the article, based on a qualitative analysis using management questionnaires and semi-structured interviews, mainly with human resource managers of mid-sized and bigger businesses, was to find out to what extent do the companies surveyed use the BSC method as a management performance compensation system, to what extent do they use a multicriterial compensation system inspired by the BSC method, and, in this regard, how successful they are in achieving the goals of their strategy.

More specifically, the research questions covered the following issues:

- (i) do the companies surveyed use the BSC method as a tool of performance-based compensation,
- (ii) do the companies using this method apply it strictly in accordance with its methodology,
- (iii) if the use of the BSC method deviates from its methodological guidelines, what are the main forms/reasons of these deviations and which deviations do not destroy the meaning or sense of the method,
- (iv) how do the surveyed companies, regardless whether they use the BSC method or not, do themselves evaluate (on a scale 1 to 5) their ability to reach, through their compensation system, their business strategy
- (v) how do the companies surveyed, regardless whether they use do the BSC method or not, evaluate (on a scale 1 to 5) themselves their ability to motivate their managers.

Questions obtained in the questionnaires covered both the issue of the BSC method use and the issue to what extent does the alternative and/or modified performance-based compensation system they use contribute to the performance of the company and implementation of its strategy.

Data collection was carried out in the first quarter of 2023, using simple random sampling and the units of sampling were companies operating mainly in Bohemia. A total of 75 companies were included in the research whereby the majority of firms surveyed were either joint-stock corporation or limited liability companies. The number of employees in these companies ranged from 365 to 867 persons, and most of the companies operated in manufacturing, logistics, trade and financial industries.

4 Results and discussion

The analyses of the research questions which followed from the questionnaires answers and interviews statements were the following:

- (i) the percentage of companies surveyed that used the BSC method was less than a half, namely 41percent, and thus not very high (see below)
- (ii) the percentage of companies, out of those that used the BSC method, that strictly applied the original methodology suggested by Kaplan and Norton, was about a half (see below). On a scale 1-5 the company themselves rated (on average) their level of adherence to the original BSC method (1 being strict adherence, 5 a rather lay adherence) as 3,2
- (iii) the main forms/reasons for deviations of the actually used BSC method compared with the original BSC methodology covered the followings:
 - a. a clearly defined company strategy was missing. The BSC method is based on clear corporate goals organized into individual performance perspectives and on the relationships between strategic plans and selected indicators. Without this assumption, the use of the method becomes formal and cannot be very successful. The relative stability of the selected

- indicators should correspond to the strategic nature of the plans in individual perspectives.
- b. too many indicators. Balanced management and performance evaluation cannot be equated with the use of a large number of indicators. A large number of performance criteria dilutes attention to priority goals and creates the danger that the efforts of managers and employees will be directed in the wrong direction. It can also happen that the performance of departments or people will be evaluated positively (because they reached the required value of a number of indicators), although this was not the case for key indicators.
 - c. predominance of indicators relating to the past. The principle of the BSC method consists not only in the use of non-financial indicators, but also in the fact that it includes indicators indicating the company's ability to achieve performance in the future. Therefore, indicators relating to the past development of the company should not predominate among the selected indicators. A similar pitfall can be the tendency to focus performance evaluation in individual perspectives only or preferentially on indicators that are easier to measure. The ease of measuring performance criteria may not be related to their true meaning.
 - d. use of adopted or overly general indicators. Using indicators taken from the practice of other companies is usually not very happy. Each company should try to create its own specific indicators corresponding to its strategy and the possibilities of obtaining competitive advantages.
 - e. the choice of indicators that do not correspond to the nature of the organizational unit or the given level of management. The performance indicators used should not be influenced by factors that are beyond the control of managers, or employees whose work they evaluate. Therefore, it should not be, for example, indicators, the fulfilment of which affects decisions made at a higher management level. An example can be a profit indicator, which is influenced by the prices achieved, which a given, for example, operating unit has no possibility to influence, or an indicator of customer satisfaction, which is mainly influenced by the product characteristics determined by the management of the organization.
- (iv) the success of the companies surveyed to adhere to their strategy through their compensation system was rated (on average) on a 1-5 scale (1 being the best) as 4,2 by companies that used the original form of the BSC method. The same indicators for companies using a modified BSC method and not using this method at all were 2,9 and 3,2 respectively which suggest that the ability of a deliberately modified BSC method as a tool of reaching corporate strategy can be actually worse than using other multicriteria management compensation methods.
 - (v) as for their ability to motivate their managers there was, based on their self-evaluation, no significant difference between companies using the BSC method and using other multiple criteria compensation systems

6 Conclusion

The survey confirmed (Lee et al., 2021) that the key issues of the BSC method include the choice of specific indicators of individual perspectives serving as a motivation tool. These indicators should correspond to the goals of individual perspectives, and thus the company as a whole, while the goals at lower levels of the organization should be set to support the goals of higher units (Soderberg et al., 2011). For example, fulfilling the criteria of the learning perspective and personal growth of employees should lead to the improvement of business processes, which should result in higher customer loyalty and, in turn, a higher return on invested capital (Quesado et al., 2022).

It also showed that the BSC method allows a reasonable level of flexibility provided its key rationale is adhered to. Especially, this means the chosen motivational indicators should be different for each organizational unit and at each management level, as it corresponds to the role and capabilities of their leaders. The interconnectedness of goals at higher and lower units does not mean that the same indicators should be used here: the use of the same motivational indicators (for example, profit indicators), albeit with different weights, at different levels of management, which can sometimes be encountered in practice, is a misunderstanding of the principles of the method. For example, if the goals at the top of the organization are expressed by profitability indicators, at a lower level of the company they may correspond to unit cost indicators, and to those at an even lower level, for example, requirements for better calibration of operational equipment, etc. The total number of motivational indicators should not be too large: two to four indicators related to each of the performance perspectives are optimal.

Also, the survey showed, that the successful use of the BSC method requires observing the perspectives from which the company's performance is evaluated. However, this does not mean that these perspectives cannot be slightly modified in a specific case in a way that corresponds to the nature of the company and its goals. An example mentioned above can be a financial institution that, when applying the BSC method, divided the evaluation perspectives into six groups. The perspectives were identified as financial, strategy implementation, customer, control, human resources and compliance. At the top of the organization, turnover, cost and profit margin indicators were assigned to the financial perspective, to the strategic number of customers in individual product segments, the number of new customers, the amount of managed assets per customer and revenue per customer by individual segment. The customer perspective was evaluated using market share, customer satisfaction with the company's services and service quality, and the control perspective based on the results of regular internal audits and checks on compliance with general legal and internal regulations.

Perspectives of human resources and compliance with standards were, in this particular example, evaluated based on qualitative (verbal) evaluations of superior managers. The indicators of the human resources perspective included, among other things, the level of teamwork, the results of training and development of employees and managers, and employee satisfaction. Adherence to standards included, for example, evaluation of managers' leadership skills, adherence to ethical principles and customer orientation, etc.

Connection and weighting of indicators

The survey emphasized that the motivational criteria used by the BSC method must be summarized in a certain way to determine the total remuneration of employees and converted into a bonus value. In some cases, it may be appropriate to weight individual indicators in a certain way. Summary or however, the weighting of the indicators should not violate the basic principle of the method, which is a balanced evaluation of the achieved performance. Here, too, one can encounter frequent problems in practice.

The meaning/prerequisite of the BSC method requires that managers or other employees receive a bonus only in a situation where they (at least partially) fulfil all of the motivational indicators, i.e., not only those whose fulfilment is easier in the given situation. Expressed in other words, good results in one of the evaluated perspectives (for example, customer satisfaction) should not be achieved at the expense of other important indicators, for example, profitability or indicators related to the assumptions of the successful development of the company in the future.

The easiest method to prevent an unbalanced assessment, the example of companies surveyed showed, is to exclude the possibility of compensation of one indicator by another. In practice, this means setting the minimum or maximum values of

certain indicators ("performance bars") that managers or units controlled by them must reach or not exceed. These "bars" can be, for example, slightly reduced target values of individual indicators. The payment of the bonus is conditional on the "bar" being reached in all cases.

An example can be the evaluation of the results of individual bank branches, in which the condition for bonus payment is the achievement of a certain level of customer satisfaction. This level can be set, for example, as 75 percent of the level achieved by the most successful branch. Similarly, the achievement of a certain rate of turnover growth or a certain result in the regular internal audit of branches can be used as "bars" to qualify for a bonus.

A balanced combination of motivational indicators can also rely on the evaluation of superiors. In this case, the resulting values of the indicators within the individual perspectives are divided into three groups corresponding to achieving, exceeding or not achieving the goals. These results are then summarized by superiors in the sense of whether the fulfilment of indicators in individual perspectives exceeds expectations, meets expectations or does not meet them. The results for the individual perspectives are then summarized again in an overall assessment falling into one of the three categories listed. The amount of the bonus is determined differently according to the category into which the summary assessment falls.

Even within this approach, it is possible to use "bar" methods. For example, a manager whose overall rating of the indicators falling under the financial or customer perspective is below expectations cannot receive an overall rating of "above expectations" corresponding to the highest bonus, regardless of the result of the evaluation of the other perspectives.

The weights of individual motivational criteria used in determining the bonus should correspond to the importance of individual indicators for achieving the goals of individual perspectives, or goals of the firm as a whole, and should remain relatively constant. Although financial performance criteria usually receive the highest weight, their relative importance should not be so high that it overshadows other indicators.

The most frequently used method of weighing individual motivational criteria is based on the fact that performance criteria are assigned percentage weights, the sum of which is equal to one hundred. A variant of the mentioned procedure is to weigh the individual motivational criteria by assigning them percentages corresponding to the share of the basic salary, which the employee receives as a bonus for meeting the given criteria. In this case, the bonus corresponding to the fulfilment of all motivational criteria is given as a percentage of the basic (annual) salary corresponding to the sum of the partial percentages obtained for individual indicators.

In this case, the weights of the individual criteria are determined indirectly – the amount of the percentage of the basic salary that can be obtained as a bonus for meeting the individual criteria. The advantage of this procedure is the easier possibility to reward managers even for achieving better than planned results. In this case, the manager receives an additional bonus for exceeding the performance targets determined again as a percentage of the base salary. This procedure is usually more suitable especially for business managers, for whom it is not desirable to create a "ceiling" for their performance rewards.

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Primary Paper Section: A

Secondary Paper Section: EA, AH