

# Development and Transformation of the Balanced Scorecard Concept

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**Abstract:** The article examines the evolution of the Balanced Scorecard (BSC) - from a tool for measuring organizational performance to an integrated framework for strategic management and control. It analyzes the limitations of traditional financial control, which fails to account for intangible assets, innovation, and long-term goals. The main stages in the development of the BSC are outlined, including its transition to a third-generation model that incorporates measurement, feedback, communication, and active management involvement. The article emphasizes the role of the BSC as a key managerial tool in today's knowledge-based and sustainability-oriented economy.

**Key-Words:** Balanced Scorecard; Strategic Management; Performance Measurement; Organizational Control; Intangible Assets; Knowledge-Based Economy.

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## 1 Introduction

There is a growing criticism of traditional management and control as only justified on financial criteria. The reason for this is that conditions today differ from the conditions at the time when the understanding of the meaning of traditional management and control was established. The strategy that underpins the processes that meet the customer's needs is incompatible with short-term thinking, the result of focusing solely on the financial criteria. Critical views on classical control are being formed as it generates certain management deficits because:

Provides misleading information in making decisions. The basis for decisionmaking in a company is generated by information on costs, revenue and profitability. Traditional financial criteria show the results of past activities. Such information may result in an action incompatible with the strategic objectives [4];

Does not take into account the requirements of today's organization and strategy. Focus on monetary criteria forces companies to ignore less tangible nonfinancial criteria such as product quality, customer satisfaction, delivery times, flexibility, time to develop a new product and a higher level of workers' know-how. Criteria used record false signals about enterprise performance and profitability;

Encourages short-term thinking and sub-optimization. Financial control does not imply long-term thinking. It can lead to cutbacks in research and development, return to obsolete training methods, weak motivation and initiative programs, and delays in investment plans. So the main problem is "sub-optimization" over time, and the challenge is to strike a balance between short and long-term work;

Management based on financial criteria diminishes the role of control. The structure of management and control systems is determined by the need for financial accounting on external information. The company's shareholders are constantly asking for information about the business's performance so they can be compared with alternative investment opportunities. Only financial criteria do not provide reliable and accurate information about business development [5];

Generates misleading information on cost allocation and investment control. The traditional basis for cost allocation - distribution of indirect costs based on direct costs - is obsolete. The relationship between direct and indirect costs has changed as a result of increased research and development costs, joint work rationalization of production, and so on. Mixed product subsidies make it difficult to assess the actual returns of each product. In addition, it is often not possible to assess the long-term development costs of a product. Costs should be

allocated in a way different from the traditional method of standard additives;

Delivers abstract information to the employees. Another shortcoming of the financial criteria is that they do not mean anything to a large part of the organization, consisting of employees who do not find a link between their work and the figures in the different types of reports. The systems are too complicated and thus become an obstacle to the front line flexibility [2];

The role of the business environment is ignored. Traditional systems built on financial criteria ignore the prospect of a client and a competitor and thus fail to warn us of the changes in the subject of the company's activities and in industry: the financial key ratios of most control-management systems are directed more inward than outward. The criteria are used for comparisons with past periods based on internally generated standards. It is so much harder to compare the company with its competitors, though that information is as important as the company's performance to achieve its goals;

Opportunities of misleading information. Today's leaders are inclined to use information from monthly and quarterly reports - a factor that tilts the balance in favor of short-term investment decisions. In addition, this short-term perspective allows the manipulation of financial criteria so that financial key ratios may be misleading and unreliable for analytical and decision-making purposes [2]. It is precisely the dynamics of the balance between attitude and state that sets the agenda for solving the dilemma: a document or a process is the BSC model. When talking about the BSC it is considered that success should reflect the balance between several important elements of work, the reasonable balance between attitude and the state of developed and developing components [3]. It is equally important that the BSC is shaped as a document of achieved and expected results. It is then an alternative way of visualizing the business plan.

## **2 Balanced Scorecard Evolution: From Performance Measurement to Strategic Execution**

In the early models, the BSC is considered as a value measurement method. In these cases, it is very difficult to look for serious reasons for the process to be linked to strategy management and control. At this early stage, the development of BSC is tied to concrete initiatives and events, planned and budgetary provision. There is mutual influence between the shape of the BSC and the entire planning

process, in particular the budgeting process. It implies a balance between short and long-term planning and an opportunity to set the necessary strategic direction for the efforts of each member of the organization. The BSC often creates occasions for discussions that might not have taken place without it, but are important because of its use. Thus, a document is formally a BSC, but it also contains much more.

The idea goes far beyond just creating an evaluation system. Although there are many views on the BSC, too many other content is also included in this concept. Practice has shown that BSCs have different applications - from budget management to strategy management. They all have a common trait: their emergence in recent years is driven by the need to measure and manage both the efficiency of the activities of the organizations under consideration and far more complex processes such as the implementation of strategies. Underlying the concept of BSC is the idea of forming an innovation system to measure the activities of organizations.

At present, organizations and corporations operate in a new kind of economic environment based on knowledge where it is necessary to manage practically nonmeasurable activities such as innovation and human capital. Organizations themselves are aware of how new phenomena exist in the new kind of economy, such as people's knowledge, new technologies and software products, corporate culture that fosters innovation. It is reported that organizations do not have the right tools to successfully implement their new strategies and to successfully control them [8].

Based on the examined models of the BSC, the following conclusions could be drawn [15]:

In the evolution of the BSC, several major development lines can be highlighted: development of the BSC as a measurement tool and a tool for better reflection of the status and development of organizations; development of the BSC as a measurement instrument in strategic management and as a control instrument; development of the BSC as a measurement and management tool for the needs of the different levels of the organization.

The development of the BSC as a measurement tool marks different stages of its improvement, which are related primarily to the enrichment of the parameters included in it and to the study of the relations and the relationships between them. Based on the gradual understanding of the new success factors of organizations, the range of indicators included in the BSC is expanded and clarified and approaches and methods for measuring their meanings are developed and implemented. The

centerpiece of this process is the increasing attention and ability of organizations to explore the relationships and relations between different indicators and to rank them according to their role in the strategy. As a result, at the beginning of the century, significant leadership in implementing the BSC achieved the necessary maturity of opportunities for operationalization of the strategy in indicator models;

As early as the first years of its promotion, the BSC began to be validated not only as a tool for measuring and modeling organizations but above all as a tool for modeling and implementing the strategy. Initially, the views in this regard are too general and represent the BSC as a strategic management tool. Gradually, emphasis has been placed on the role in controlling the implementation of the strategy, and in the last years, they have increasingly specified their role as a strategic control tool. The understanding that the card's purpose is to highlight the key controllable parameters in the strategy that has already been developed and to ensure that their meanings and implementation measures are targeted is becoming more conceived;

Achievements in the development and implementation of the BSC at the organization and enforcement level and as a tool for strategic control lead to the dissemination of this process in the structural units of the organization. The leading implementation organizations achieve the formation of a hierarchically built system of BSCs, including the individual level. This is how the BSC is fully validated as a tool for control and evaluation and a central factor in targeting efforts at all organizational levels to implement the strategy;

The evolution of the BSC in all directions has been stimulated and accelerated by the development and dissemination of computer-assisted management technologies that facilitate the use of the BSC. Information technology related to BSC implementation is not yet integrated organically into ERP systems, but in many cases they are successfully upgraded or run in parallel as a module of management information systems.

The BSC was originally designed to give managers structured information from performance criteria based on a combination of leading and delayed indicators. But from the moment of its introduction, BSC has gradually evolved from a tool for organizing criteria into a strategic control mechanism. It evolves both in its construction, in the process of creation and in use patterns. This evolution goes through three stages, reaching what is now called the third-generation BSC [15]. Third-generation BSC is a methodology for managing and

evaluating the work of organizations on their way to achieving strategic goals. But years of practical experience and scientific work are needed to overcome the shortcomings of the original model, which is most often associated with the failure of the BSC to be an effective tool for corporate governance and control. Typical problems such as lack of ownership of management, monitoring only financial criteria, and the inability to force the management system to develop and improve are already addressed.

The ideas of the third-generation BSCs are based on the following key concepts of business management and strategic development control. The model weight is placed on the following items from the content of organizational management:

Cause: Finding and developing the activities needed to reach key results and implement strategies;

Training: Use feedback to find ways to improve and improve your work;

Ownership: Use consensus to make everyone aware of what needs to be done and to engage fully in the process;

Communication: providing clear and unambiguous information for goal disclosure and optimization of organizational activity.

A significant breakthrough during the evolution of BSC is the realization that the successful use of this tool is not only dependent on the use of proper methods for selecting the criteria included in it, but also by the fact that organizations are implementing the right management processes that enable it to be effectively used by managers. These statements provoke the development of the BSC as a management and control framework, which proves the hypotheses by taking them out of the following factors: a pronounced wording for a "desirable state" or a strategic destination (positioning); medium-term strategic objectives to be assessed, decomposed into activities and outcomes and, if necessary, standard prospects; specific and clearly defined goals, interpreted on the basis of vision, mission and strategy; priority initiatives relating to the structuring and implementation of strategic objectives; analysis of expectations and organizational needs and on this basis formation of criteria for defining key characteristics, defined as a system of criteria.

The last-generation effective BSCs are those developed with the active involvement of the management team that will use them to manage the organization. Essential to success is the application of a technologically sound and appropriate creation process. The use of an "easy" process is recommended, according to which the management

team itself defines the "content", which largely implies a positive and timely outcome.

The analysis of the evolution of the concept of BSC and the evolution of the concept of strategic management and control clearly reveals similarities in terms of development trends and alternatives for improvement, which lead to the following implications [9]:

First. The BSC model from a value-enhancing organizational performance tool is transformed into a tool for managing and controlling the strategy. In this way, it can be assumed that a kind of expression of the transition in managerial thinking is formed in terms of management control systems in which the financial burden is redirected towards strategic control. Improving the concept of strategic management and control and modeling of its model area has a significant impact in forming a model prototype related to the concept of BSC.

All three models of strategic control have a very strong influence on the first generation BSC. From the three-step model, the principle of linking the environment with the strategy-building process is borrowed. From the process model comes the trend that deepens the development processes of the organization, namely the organizational training as a form of development of the training organization. From the conceptual model, that the control can be realized through criteria and objectives, which are differentiated in the BSC as indicators, summarized in several main areas / perspectives. By examining these concepts and their development, it can be concluded that in the process of mutual influence they aim to improve.

The transition to the second generation of BSC resonates fundamentally and predominantly in the development of the model area of strategic control. The deepening of the strategic orientation on the BSC reveals the emergence of overlapping and generalizing indicators, which in the strategic management and control systems are defined as criteria for the rapid preliminary, respectively the subsequent, reverse control. Here, however, BSCs record a certain priority in the establishment of the strategic relations model.

Second. Developing the idea of the learning organization finds a particularly strong charge in reconciling strategic control concepts and BSC. Though strategic correction models have been marked and corrected by the feedback on the behavior of the organization under review, this process has recorded a deepening in BSCs. As the most organized form of feedback, corrective actions, if necessary, can take the form of seminars to discuss the recorded results and expected changes in

organizational behavior. In this case, we can talk about a particular form of organizational selfimprovement and training. This deepening trend brings about the creation of sustainable value by the organization, provoking the improvement of the methods of use and mobilization of its intangible assets - human capital, databases and information systems, sensitive high-quality processes, customer and trade relations, for the innovation and highly developed organizational culture. Perhaps this is the most significant evidence of the recent trend of shifting the focus from an economy based on tangible assets to an economy based on intangible assets, knowledge and service.

Third. As the most important moment in the process of analysis on the relationship between the concepts of strategic management and control and of BSC is their reconciliation and the formation of a qualitatively new model. Theories prevailing among the leaders of governance have not created a particularly serious and universal strategic framework. Strategic doctrines are centered on shareholder, customer management, process management, quality, key competencies, innovation, human resources, information technology, organizational structures and training. And while each of the above-mentioned strands is in itself extremely important, none of them provides a thorough and integrated approach to strategy development. Even the theory of M. Porter [6], based on positioning for a competitive advantage, does not provide a comprehensive vision of strategy. It is here that we can speak of a unified, consistent system of realization of management and control over the strategy that results from conceptual eclecticism and model consolidation. This new model, a new strategic framework, exposes in a new way the importance of strategic management and control, based on a system of indicators and a portfolio of perspectives linking efficiency and strategies, between short and long-term results, forming a unity between the present and the future.

These three implications suggest that in the management and consulting practice, the BSC is validated and improving as a tool for strategic management and control. At the last stage of the evolution of the concept, the indicators for measuring the performance of not only the organizational activity, but above all its strategy, are being revolutionized. Along with the imposition of strategic maps as a tool for effective management and precision control, the latest card designs are presented as a brilliant, accurate and holistic method to consolidate the most critical moments in the art of

modern governance and the challenges of modern control.

### 3 Conclusion

The Balanced Scorecard has gone through three main generations, each expanding and improving upon the previous one. The first generation focused primarily on measuring performance through a balanced set of indicators, while the second added strategic management and control, linking objectives and activities to the implementation of the strategy. The third generation develops the BSC into a full-fledged management and control tool that includes active management participation, feedback, training and communication, and thus supports the effective implementation of strategic objectives. This evolution reflects the need for a more holistic and integrated approach to management in the conditions of today's dynamic and knowledge-based economy [1; 7; 10-14; 16].

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