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MEASURING BUSINESS PERFORMANCE THROUGH A FINANCIAL PERSPECTIVE: CHALLENGES AND OPPORTUNITIES FOR IMPROVEMENT IN MODERN ORGANIZATIONS

Abstract

Modern business environments are shaped by rapid change, growing importance of intangible assets, and increased pressure to deliver sustainable financial performance. This paper examines the measurement of business performance from a financial perspective, identifying core challenges—limited recognition and valuation of intangibles, poor data quality, misaligned KPIs, and narrow reliance on traditional financial metrics—and proposes pathways for improvement. It argues for integrating financial and non-financial measures through strategic frameworks such as the Balanced Scorecard, which complements historical financial results with leading operational indicators. The paper also recommends enhanced valuation of intangibles, adoption of advanced analytics and automated data collection, and stronger linkage between measurement systems and strategy to improve managerial decision-making and long-term value creation.

Key words: *Financial perspective, Performance measurement, Balanced Scorecard, Intangibles, Advanced analytics*

JEL classification: *M21, G32*

МЕРЕЊЕ ПОСЛОВНИХ ПЕРФОРМАНСИ КРОЗ ФИНАНСИЈСКУ ПЕРСПЕКТИВУ: ИЗАЗОВИ И МОГУЋНОСТИ ЗА ПОБОЉШАЊЕ У САВРЕМЕНИМ ОРГАНИЗАЦИЈАМА

Апстракт

Модерна пословна окружења обликују брзе промене, растући значај нематеријалне имовине и појачан притисак да се оствари одржива финансијска

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успешност. Овај рад испитује мерење пословних перформанси из финансијске перспективе, идентификујући кључне изазове — ограничено признавање и вредновање нематеријалне имовине, лош квалитет података, неусаглашене КПИ и преуску ослоњеност на традиционалне финансијске метрике — и предлаже путеве за унапређење. Аутор заговара интеграцију финансијских и нефинансијских мера кроз стратешке оквире као што је Уравнотежени систем показатеља (Баланцед Сцорецард), који историјске финансијске резултате допуњава водећим оперативним индикаторима. Рад такође препоручује унапређено вредновање нематеријалне имовине, примену напредне аналитике и аутоматизовано прикупљање података, као и снажније повезивање система мерења са стратегијом ради побољшања менаџерског одлучивања и дугорочне креације вредности.

Кључне речи: *Финансијска перспектива; Мерење перформанси; Баланцед Сцорецард; Нематеријална имовина; Напредна аналитика.*

Introduction

Modern business environments are characterized by accelerated changes and the increasing importance of intangible assets, which today constitute a significant part of the value of leading companies and global value chains (Wang et al., 2025). Under competitive pressure and stakeholder expectations, organizations are forced to achieve sustainable financial performance while simultaneously managing non-financial resources and risks (Ikerd, 2024).

This paper examines the measurement of business performance from a financial perspective, focusing on the main challenges that hinder reliable measurement and interpretation of results (Pérez Estébanez & Sevillano Martín, 2025). Among the key problems are the limited recognition and valuation of intangible assets, which distorts the full picture of the real value of the company; it leads to an underestimation of intellectual capital, brand and data as a resource. Also, poor data quality and insufficient automation of information collection reduce the reliability of analyzes and make it difficult to implement advanced analytics in decision-making (Kumar et al., 2024).

In addition, over-reliance on traditional financial metrics and KPIs' inconsistency with strategic goals prevent management from recognizing early signals of business change. In response to these challenges, the work promotes an integrated approach — combining financial and non-financial indicators through strategic frameworks such as the Balanced Scorecard, which supplements historical financial results with leading operating indicators ((Chehimi & Naro, 2024; Hristov et al., 2019).

In the continuation of the work, technical and organizational ways of improvement will be discussed in more detail: better valuation of intangible assets, application of advanced analytics and automated data collection systems, and a tighter connection between performance measurement systems and strategic management to improve managerial decision-making and permanent value creation.

Strategy in Conditions of Accelerated Technological Change: Theory and Practice

Accelerated technical and technological progress over the past half century, along with a continual increase in the complexity and uncertainty of the external environment, has posed numerous intriguing challenges to many theorists and practitioners when it comes to effective organizational management. The problem of creating — but also of sustaining — competitive advantage thus arises. The very mechanism for achieving such advantages is, in fact, the subject of strategic management theory, which over many years has gone through various stages of development and has only recently become a serious and independent scientific discipline (Rumelt et al., 1994). One of the central questions concerning the evolution of strategic management as a new paradigm at the beginning of the 21st century is how to follow the dynamics of competition under conditions of the accelerated formation of a post-industrial society (Prahalad & Hamel, 1994; Lowendahl & Revang, 1998). What is most important is to make an appropriate choice of management strategies that provide the foundation for building competitive advantage.

Competitive advantage, by its nature, involves striving to gain an advantage over others. In an effort to create a sustainable competitive advantage, organizations try to find a way to stand out from the rest and be competitive. In order to achieve this, organizations implement their competitive strategy, where they lay the foundations for improving and strengthening their competitive advantage, whether it is found in unique resources or, in some other, different capabilities. Porter (1985) states that the appropriate competitive strategy is precisely the one that is based on the competitive advantage of an organization and which can come from having the lowest costs in its activity or having significant desirable differences compared to competitors.

BSC as a Framework for Strategy Implementation and Performance Evaluation

BSC is successfully used worldwide in many institutions, such as government units, manufacturing enterprises, service organizations and non-profit companies. Kaplan and Norton understood the requirements of modern organizations and their need for effective strategy implementation and the creation of a comprehensive system of performance improvement and management, and introduced a new management system, the BSC system. The BSC management system, as a comprehensive framework for evaluating performance and progress in strategy, establishes a balance between short-term and long-term goals.

BSC is a proven framework that explains and implements organizational strategy (Niven, 2006). Today, it represents a strategic management system for managing organizational performance (Brudan, 2010). Also, this approach has at its root the principle of motivational action - the action of an individual and a group to contribute with their abilities and knowledge to the implementation of the organization's strategy (Nair, 2004).

Today's organizations have realized that 80% of their value is created through intangible assets, including human capital (the knowledge and skills of employees),

organizational capital (the organizational culture and values that govern it), and intelligence (sources of information and statistical data) and they no longer conduct a comprehensive performance assessment relying solely on tangible assets (Kaplan & Norton, 2004).

The BSC is designed for organizations of all sizes and industries. This approach helps organizations find answers to the following questions:

- Consumer perception?
- Future focus?
- Capacity for continuous improvement of strategy?
- Shareholder perception?

Selection and Implementation of Key Performance Indicators (KPIs) Within the Balanced Scorecard Approach

The performance evaluation process assesses progress towards achieving set goals and includes information on the efficiency of the transformation of offered products and services and customer satisfaction, achievements and effectiveness of activities in accordance with specific goals.

The greatest challenge in developing a BSC approach is the selection of indicators, which stands out as the necessary identification and development of key (critical) success factors (KSFs) and their associated key (critical) success indicators (KPIs).

Key success factors are approaches to strategically related actions, competitive opportunities and business outputs, which every company must achieve or must focus on achieving in order to be competitive and financially successful.

The success of any performance management program depends on the selection of the right key success indicators (KPIs). The selection of appropriate indicators, which must be oriented towards continuous improvement, is usually a very complex problem on which the success of the implemented KPI depends. “The difficulty of the task in developing a BSC model is not in identifying enough indicators of success, but in selecting a very small number of the most important indicators” (Neely, 2002). “The determination of indicators is one of the main obstacles to the effective implementation of the BSC” (Bryan & Murphy, 2007).

KPIs and their associated KPIs must be linked to the organization’s strategy. It often happens that KPIs and KPIs are an end in themselves and represent the end result, and are not used to improve the system. This choice of performance indicators must be left to the organization. The process of choosing KPIs should involve all employees who will be the users of the developed measures, as well as managers whose work contributes to the strategy.

Performance measurement and control systems are considered to be formal information processes and procedures, the axis that managers use to maintain or modify organizational activity patterns. According to this definition, every performance evaluation system has four main objectives (Simons, 2000):

- The objective of all performance measurement and control systems is to transmit information.
- Performance measurement and control systems demonstrate formal processes and procedures.

- Performance measurement and control systems must be designed for managers.
- Managers use a performance management and measurement system to maintain or modify organizational activity patterns.

Once an organization has determined the areas in which performance measurement is needed, it is time to define key organizational performance indicators (KPIs). After that, the intended results and goals in the identified areas (which are measured by means of established performance measurement indicators) are determined, as well as the manner in which the measurement will be performed.

KPIs (Key Performance Indicators or Key Process Indicators) do not have precise dates of origin, nor do they even have a precise definition, indicating how they can be understood. The fact is that they have two meanings. To begin with, KPIs are a subset of key performance indicators; however, there is also a fundamental misunderstanding about the very essence of the concept: some consider KPI necessarily as a non-financial indicator, while on the other hand, some see KPI as any other number, i.e. an indicator that describes the business.

Performance Monitoring Systems: From Data Quality to Actionable KPIs

Performance monitoring depends on good, quality information, which can only be achieved through a systematic process to ensure consistent data collection, both within and outside the organization (Pierce, 2022). One tool that is often used to help monitor and measure performance and can subsequently contribute to performance improvement is key performance indicators (KPIs).

Some authors believe that all KPIs should influence a business decision within a certain time period. This makes the decision-making process more difficult for decisions made without time constraints. Organizations should identify the areas of business processes that are most critical to the financial success of the organization (Skibniewski & Ghosh, 2009).

KPIs can be valid and effective when applied in a consistent and comprehensive manner. Also, financial performance must be respected as a critical measure of success for any business, but financial KPIs are a closely related set of operational metrics (Bean & Geraghty, 2003). Wherever possible, KPI targets should be based on concrete data and some manipulative formulas. Also, there should be a direct link between KPIs and objectives, from objective to objective, and from objectives to strategies (Griffin, 2004).

There are five criteria for an effective KPI (Hursman, 2010):

- Specificity;
- Measurability;
- Availability;
- Relevance;
- Time-boundness

Metrics are a powerful force that can drive organizational change, but only if the right metrics are developed and implemented well. The wrong metrics can impact

organizational processes and demoralize employees. What characterizes good KPIs is the following (Eckerson, 2009):

- The fewer KPIs, the better.
- Drill-down capability, users can drill down into the details.
- Simple: users understand the KPIs.
- Actionable: users know how to influence outcomes.
- Ownership: KPIs have an owner.
- Users can review the origin and context.
- KPIs lead to desired outcomes.
- Balanced: KPIs consist of financial and non-financial metrics.
- Alignment: KPIs do not undermine each other.
- Validated: employees cannot bypass the KPIs.

BSC as a strategic framework for integrated performance measurement

The starting point of the BSC methodology is that you cannot manage what you cannot measure, but you cannot measure what you cannot describe (Kaplan et al., 1996; Anthony et al., 2007).

The BSC model is a well-known performance management system that divides an organization's objectives into four operational and quantifiable perspectives: internal business processes, financial perspective, customer perspective, and learning and growth (Brzaković et al., 2022; Kaplan & Norton, 1992).

As previously stated, the BSC strategy includes metrics for internal business operations, customer relations, organizational learning and development, and financial success. The organization's aims and strategy should be reflected in the BSC measurements that each business unit creates. While some of these metrics will be specific to each business unit, others will be shared by all participants, or units (Brzaković et al., 2022; Gascho et al., 2000).

The four main perspectives of the BSC approach are (Hannabarger et al., 2011):

- Financial perspective – measures the company's success in increasing shareholder value, i.e. whether the organization's strategy contributes to improving the organization's financial condition.
- Customer perspective – measures how the organization's customer-oriented strategies and activities affect customer loyalty and higher profitability.
- Internal business process perspective – measures how processes within the organization should be carried out in order to increase the organization's efficiency.
- Learning and development perspective – measures how innovation, education and employee satisfaction contribute to the achievement of strategic goals.

The four perspectives listed above do not eliminate each other, but rather support the goals of various management techniques (such as strategic planning, Total Quality Management), which have been used in the years since the BSC appeared. Each perspective contains and is viewed through four parameters, which are:

- Objectives – What needs to be done to achieve success?
- Measures – What parameters will be selected and monitored to demonstrate business success?
- Target values – What quantitative values will we use to determine the success of the measurement?
- Initiatives: What needs to be done to achieve the set goals?

According to the BSC concept, all financial and non-financial measures should be included and be part of the information system at all levels of the organization (Kaplan & Norton, 2006).

The BSC approach contributes to improving organizational performance by enabling the existence of four main elements, which, compared to other frameworks, distinguish strategic management and learning (Kaplan & Norton, 2007):

- Clarification of the vision and mission for all employees within the organization.
- The role of communication as a factor in integrating all efforts of individual business units to meet organizational goals.
- Focus on the importance of the approach as a tool that enables a revised strategy.
- Focus on strategic feedback, by including expert knowledge about changes in the competitive environment.

It would be desirable for the BSC approach to be implemented in all organizations as a system for measuring and improving performance. In this way, the organization, based on a set of different financial and non-financial indicators, would know where it stands in relation to its set and planned goals (Kaplan & Norton, 1996).

The BSC approach provides the opportunity for strategic goals to be transparent and transformed into goals for all segments of the organization, as well as all employees. The strategy should be defined in such a way that each organizational unit, each segment, each process owner, and even each employee, can and must recognize its role in the defined strategic goals and thus determine its own goals and activities towards their fulfillment and improvement of the organization's performance indicators themselves.

The role of the BSC approach is that it contains the right mix of measurement and evaluation of processes and added value for customers, which can lead us to the desired and planned financial results (Niven, 2010).

Financial Perspective

Generally speaking, financial performance measures can be considered the most important component in the implementation of a company's strategy (Al-Hosaini et al., 2023). This is due to the main role of supporting and improving the organization. The goal of the main financial perspective is to increase shareholder value, growth and profitability.

The financial strategy is typically the first step in creating the strategy map itself. As previously said, this viewpoint seeks to expand the company, boost sales, and enhance shareholder value. Entering new markets, providing new goods and services, or drawing in new clients are all ways to boost revenue. Another strategy is to improve the value of current clients by fortifying existing ties through the expansion of the offer. There are often two approaches to productivity: the first is lowering direct and indirect costs to improve the cost structure, and the second involves lowering working and fixed capital to better utilize current assets.

Since making a profit is the main objective that any corporation aspires to, the financial viewpoint is the most crucial component of business. In order to maximize profits, the BSC approach's financial perspective comprises objectives and metrics that

serve as the organization's ultimate gauge of success. Setting goals that measure financial performance in conjunction with a variety of other activities that can be used to engage employees can help achieve long-term financial growth. This is because achieving goals in the learning and development perspective, internal business processes, and customer perspectives results in a financial perspective that highlights the significance of financial performance indicators, but not as the only indicator of achieving organizational goals. Organizations should take non-financial aspects into account if they wish to use the BSC strategy to gain the most advantage. Organizations may develop short-term goals and overlook long-term value and investments if they only concentrate on attaining short-term financial results. They may also overlook the significance of intellectual and intangible assets, which are crucial to an organization's development (Kaplan et al., 1996). It is suggestive that the following financial metrics can be employed: return on investment, return on invested capital, gross margin percentage, and cost reduction in critical sectors (Kaplan et al., 1996; Collis et al., 2012).

In addition to the above measures, it is recommended that organizations consider indicators that reflect the economic value created above the cost of capital — eg. Return on Invested Capital (ROIC) or Economic Value Added (EVA) — because they better reflect a company's long-term ability to generate new value for shareholders, especially when compared to the average cost of capital. These metrics help distinguish growth that truly creates value from growth that is financially neutral or destructive.

For financial indicators to be useful in practice, they must be clearly linked to management actions and sources of value defined in other BSC perspectives. In other words: we must have an explicit "cause and effect" path (strategy map) that shows how improvements in learning and growth, process optimization or customer experience lead to increased revenue, reduced costs or better utilization of assets, and then to financial performance. This enables management to plan initiatives that are simultaneously actionable and measurable.

Special attention should be paid to the choice of reference values and targeting methodology: target values for financial KPIs should be set based on benchmarking (comparable industry indicators), historical performance and realistic business scenarios. Using unique, manipulative or unrealistic goals leads to loss of trust and "gaming" behavior; on the other hand, transparent, data-driven goals encourage alignment and accountability. Also, it's useful to combine absolute financial goals (eg EBIT, net profit) with relative measures (eg revenue growth by segment, margins vs competition) for the bigger picture.

Intangible assets — human capital, information resources, and organizational capital — often make up the majority of a firm's future value; therefore, organizations must actively measure and manage those drivers through KPIs from a learning and growth perspective. The BSC tools allow to map that "intangible" value to concrete initiatives (eg competence development, knowledge management systems, IT investments) and to monitor how changes in those areas affect financial results. Otherwise, financial indicators remain reactionary and do not explain the source of long-term growth.

Finally, the practical implementation of the financial perspective requires an integrated reporting system — dashboards that enable drill-down analysis, regular KPI audits and data validation mechanisms. It is recommended that financial KPIs are not set in isolation, but that they be part of a dynamic set of indicators that are revised quarterly,

with clearly defined owners and mechanisms for corrective action. This reduces the risk of focusing only on short-term financial results and increases the chance of achieving sustainable growth.

Financial performance is most commonly assessed by a set of financial ratios — for example ROE, ROA, return on capital, return on sales (ROS) and operating margin — which synthesize information taken from a company's financial statements to give a multi-faceted view of its condition (Gilchris, 2013). Ratios allow analysts to standardize and compare core economic relationships (profitability, efficiency, leverage and market valuation) across time and between firms, so they provide a broader perspective than absolute numbers alone.

Because these indicators are calculated from balance-sheet and income-statement items, the emphasis of financial performance analysis naturally falls on variables that originate in formal financial reporting. Practical groupings of ratios commonly used in analysis include liquidity ratios (which assess short-term cash availability and the firm's ability to meet immediate obligations), activity or efficiency ratios (which show how rapidly assets are converted into sales or cash), debt or solvency ratios (which reflect long-term financing structure and capacity to service obligations), profitability ratios (which measure how well assets and sales generate returns), and market ratios (which capture investors' valuation of the firm and shareholder returns).

Analysts typically do not rely on individual ratios, but link them into comprehensive decompositions—a classic example is DuPont's analysis—to break down return on equity (ROE) into the components of margin, asset turnover, and leverage. In this way, it is possible to more precisely determine whether changes in performance result from improvements in operational efficiency, stronger ability to form prices or changes in the capital structure, instead of drawing conclusions from isolated numbers.

Advanced Financial Metrics

Advanced financial metrics shift the focus from simply tracking revenue and expenses to measures that quantify value creation, capital allocation efficiency, and growth sustainability. Among the most important measures that management uses today are Return on Invested Capital (ROIC) — an indicator of the efficiency of investment of funds in business, useful for assessing whether a business unit achieves returns above the cost of capital; accurate calculations of NOPAT and invested capital are crucial to the interpretation of ROIC.

One widely used value-based performance metric is Economic Value Added (EVA) — a measure that has gained considerable attention for assessing corporate performance and promoting shareholder value. EVA was developed and championed by Stern Stewart & Company as a managerial tool to quantify a firm's economic profit and thereby support better managerial decision-making (Chen, and Dodd, 1997).

A related and conceptually important measure is Economic Value Added (EVA), i.e. economic profit, which measures profit after tax minus the "cost" of capital (WACC × invested capital) — EVA directly indicates whether the company has created surplus value for shareholders. EVA is useful for drill-down analyzes by business units and for evaluating investment decisions.

For the operational and liquidity dimension, the Cash Conversion Cycle (CCC) and cash flow indicators (e.g. Free Cash Flow — FCF) are key: CCC reveals how quickly inventory and receivables are converted into cash, and FCF shows the company's actual ability to finance growth and pay dividends without additional capital. A shrinking CCC and stable positive FCF are often direct predictors of a company's resilience in a crisis.

The Cash Conversion Cycle (CCC) is a widely used performance metric that evaluates how effectively a firm manages its working capital by measuring the timing of cash inflows and outflows associated with operations. It is calculated as the sum of Days Inventory Outstanding (DIO) and Days Sales Outstanding (DSO) minus Days Payables Outstanding (DPO), and thus directly links inventory management, receivables collection and payables management into a single, actionable indicator. (Asman et al., 2022)

Effective working-capital management—reflected in a shorter CCC—helps firms improve liquidity, reduce short-term financing needs and support profitability goals. Although research on CCC has a long history, academic and practitioner interest has grown recently as firms' operating models and supply-chain dynamics have evolved, so the CCC observed in practice can change significantly over time and across industries.

In empirical work, researchers commonly use the CCC components (DSO, DIO, DPO) as independent variables and probe their relationship with firm performance proxies such as Return on Assets (ROA) and Return on Equity (ROE); many studies document an inverse relationship—i.e., reductions in CCC (faster cash conversion) tend to be associated with higher profitability—although the relationship can be complex and sometimes non-linear depending on firm characteristics, industry context and sample period.

Consequently, a conceptual framework that links CCC components to performance (controlling for size, leverage and asset structure) is useful for clarifying causal pathways and guiding empirical tests. This study therefore frames DSO, DIO and DPO as the key independent constructs and ROA/ROE as primary outcome measures, contributing to the literature by outlining a structured approach for analysing how variations in the CCC translate into firm performance.

Over the years, a number of authors have examined how working capital management affects profitability, with results often varying across industries, time periods, and methodologies. For example, a study by Sugathadas (2018) for the manufacturing sector on the Colombo Stock Exchange indicates a negative association between a longer CCC and firm performance, meaning that a shorter cycle often goes hand in hand with better profitability.

On the other hand, Margaretha and Oktaviani (2016) in a study of Indonesian companies find a heterogeneous impact of CCC — a negative association with ROA, but at the same time a positive correlation with ROE — which shows that different financial measures may respond differently to changes in CCC. due to this heterogeneity of results in different studies, it is necessary to cautiously interpret the general conclusions and take into account the specificities of the sample, sector and used indicators when drawing implications for the practice and policy of working capital management.

Composite and decomposition techniques, such as DuPont analysis, help break down ROE into margin, asset turnover, and leverage—allowing managers to recognize whether ROE growth is due to improved operating efficiency, better asset utilization, or increased debt risk.

It is important to note the limitations: many of these metrics require adjustments to accounting items and precise estimation of WACC; some are less applicable in intensive-intangible industries (eg software) without additional indicators for intellectual capital. Combining value-based measures (ROIC, EVA), cash-oriented indicators (FCF, CCC) and decomposition frameworks (DuPont) provides a comprehensive and practical set for making strategic decisions and monitoring long-term growth sustainability.

Limitations of Relying Solely on Financial Analysis in Evaluating Performance

Relying exclusively on financial analysis when evaluating business performance has several serious drawbacks that can lead to wrong conclusions and bad managerial decisions. First, financial reports are retrospective — they reflect past events and do not catch early signals of change in market trends, innovations or service quality, so relying on them alone often leads to delayed reactions (Brzaković, 2018).

Second, financial analysis is suitable for quantitative assessment, but ignores the intangible resources that make up most of the modern value of a company (knowledge, brand, organizational capital). Such a "raw" focus can encourage a short-term approach (maximizing profits today) to the detriment of long-term investments in development and innovation.

Third, accounting data may be subject to manipulation or different interpretations due to accounting policies and estimates (eg, depreciation, inventory valuation), which reduces the objectivity of financial indicators and makes comparisons between firms or periods difficult.

Fourth, a focus only on financial quotas often neglects operational and process aspects — for example, problems in product quality, customer satisfaction, or process efficiency will not be immediately reflected in profit margins, but in the long term they impair the sustainability of the business.

Fifth, overreliance on financial indicators can create perverse incentives: managers may "optimize" indicators by short-term cost cuts or delaying investments to show better quarterly results, instead of working to actually improve value.

Due to all of the above, financial analysis should be the foundation, but not the only instrument — it must be complemented by systematic monitoring of non-financial indicators and quality information processes so that management can get a complete, dynamic and reliable picture of performance.

There are two basic types of performance: financial and non-financial. According to one common approach, a company's overall operations can be viewed through three dimensions — productivity, profitability, and market premium. Productivity refers to a firm's ability to efficiently convert inputs into outputs; profitability measures how much revenues exceed costs; while the market premium describes how much the company's market value exceeds its book value (ie the "market premium") (Walker D.,2001).

It is important to emphasize, however, that financial indicators often behave as backward (retrospective) indicators — they reflect what has already happened and may lag behind real changes in the business or market. Therefore, relying solely on financial metrics can lead to missing early signals (eg declining service quality, loss of market share, or erosion of intellectual capital), leading to late or inadequate decisions.

Because of these limitations, it is advisable to combine financial and non-financial indicators: non-financial KPIs (eg customer satisfaction, employee retention rate, speed of innovation) often serve as leading indicators that explain and predict future financial results. In practice, an integrated approach (as in the Balanced Scorecard model) allows management to link operational drivers of value to financial outcomes and thereby avoid the pitfalls of relying exclusively on accounting figures.

Buyer's Perspective

In recent years, most organizations have developed their own customer-centric vision, as customer focus and satisfaction are considered important for any sector. The primary goal of an organization based on a customer perspective is to provide excellent service, quality, and customer satisfaction so that the business can maintain a good reputation among customers (Amaratunga et al., 2000).

The main leading indicator of this perspective is the satisfaction of the needs and expectations of key users, i.e. customers. Another important factor that all businesses must consider is to ensure that all products and services are delivered on time and that market conditions are classified in a way that allows for measurement of share in specific sectors (Kaplan et al., 1996).

Internal Processes

Internal processes can be used to categorize customer and organizational goals. This is achieved by measuring the company's processes to achieve the best performance outcomes. By implementing an internal process perspective, customer and financial strategic goals can be achieved (Kaplan et al., 1996).

The goals of this perspective are usually set after the financial and customer perspectives, because this segment actually identifies the processes critical to achieving customer and owner goals, and creating value for the organization.

The connection between processes and customers is very important, because here we signal two major transitions: from internal (employees, climate, processes) to external (customers), and from intangible (skills and knowledge) to tangible (customer outcomes and financial rewards). Customer outcomes signal the "what?", and internal processes provide the answer to the "how?" of strategic implementation (Niven, 2010).

Financial gains, which are based on improved business processes, occur in several phases. The first phase is cost reduction, which occurs due to improved business processes. This phase creates short-term benefits for the organization. The second phase is revenue growth based on deeper customer relationships and leads to improved financial performance in the medium term. The third phase is innovation, which can lead to long-term revenue and profit improvements. Therefore, an organization should implement all three phases in improving business processes.

Learning and Development Perspective

It has been recognized that the weakest perspective in the BSC approach is the learning and development perspective. For years, as one executive described it, the learning and growth perspective has been the "black hole of the BSC." Although companies have had generic measures of employee performance, such as employee satisfaction and morale, no company has had a metric that measures and links employee performance to the organization's strategy. Several scholars have investigated the relationship between improving human resources and improving financial performance (Becker et al., 1998; Huselid, 1995).

The learning and development perspective is the most neglected perspective in organizations. Organizational growth and development are impossible without employees. Employee satisfaction is most often measured by completing anonymous questionnaires or surveys at the organization level. The greater the satisfaction, the better their performance will be, and this can be achieved in a number of ways: by participating in the organization's actions, by providing opportunities to fulfill personal goals, by a quality work environment, by good internal communication. Employees are aware of the shared vision, mission and strategy of the organization, so they fully understand it and identify their goals with the goals of the organization (Atkinson et al., 2007).

It can be concluded that, in order to achieve ambitious goals in the first three perspectives of the BSC approach, they will depend on the organizational capabilities of the learning and growth perspective, which are the drivers of excellent achievements (Kaplan & Norton, 2010).

Advantages and Criticisms of the Balanced Scorecard (BSC): Theory, Flexibility and Limitations

According to some authors, the advantages of the BSC approach can be considered (Yongvanich & Guthrie, 2009):

- Strategy transfer throughout the organization;
- Better relationship of organizational and personal goals with reward policy;
- Improved strategic learning (control and feedback);
- Expanding the causal and effective understanding of managers' performance criteria and empowerment for strategic decision-making;
- Creating a balance between internal and external performance and financial and non-financial criteria;
- Flexibility and compatibility with any organization.

The advantage of the BSC model is certainly that it can be used by companies in any industry. However, different competitive environments require different groups of performance indicators. Therefore, they must be adapted to the vision, or purpose of the company, strategy, technology and organizational culture. The advantages can be defined through the following points (Hočevar, 2007):

- Connectivity – connects and harmonizes numerous, at first glance separate, but actually dependent areas of competitive business. By forcing managers

to consider all significant indicators simultaneously, they can prevent improvements in one area from being made at the expense of other areas.

- Strategy delivery – The essence of the BSC approach is strategy, not monitoring, as in traditional measurement methods, which arise from financial points of view, and then determine what employees should do, and then monitor their success. The BSC approach involves employees in choosing those actions that will lead to a common goal.
- Non-financial indicators – Some organizations use modern non-financial indicators to assess business performance, but have not decided which indicators are key to assessing the success of the organization as a whole.
- Usability – Users of the information provided by the BSC approach are external and internal. External users focus on the financial and customer perspectives. Internal users focus on the remaining two perspectives.

Although large organizations, as well as non-profits, have successfully adopted the BSC approach, it has been the subject of criticism from both theorists and practitioners (Norreklit, 2000).

One of the shortcomings of the BSC approach is related to the number of perspectives, which depend primarily on the needs and conditions in which the organization operates. An organization does not have to adhere to all four perspectives, i.e. the original concept, which can negatively affect it. Some organizations may also need additional perspectives. It is a mistake to use the BSC approach only as a measurement system, and not as a strategic management system (Pešalj, 2006).

Also, organizations should be aware of at least three other limiting factors of the BSC approach (Pešalj, 2006):

- Innovation – the BSC approach is not a revolutionary way of measuring business success, because non-financial indicators have already been used in practice and theory to measure business success. In addition, it is argued that it is difficult to measure effects in organizations where innovations are very important for competitiveness and where organizations must regularly adapt to new market situations (Schoenfeld, 1991).
- Incompleteness – the BSC approach covers a number of important areas of business. However, in the proposed model, the perspectives are not complete.
- Comprehensiveness – the BSC approach represents an extensive system of indicators and information and can cause difficulties in assessing the success of the organization's business as a whole, or in comparing the business of an organization with others.
- In addition, the following characteristics of the approach itself can be listed as shortcomings of the BSC approach (Lipe & Salterio, 2002):
- There is no weighting system;
- It does not consider the views of shareholders and other external stakeholders in emphasizing the formulation and implementation of strategies;
- The connections between fields are not clear;
- The attributes of the BSC model are inaccurate, subjective and linguistic, and inappropriate models are used for evaluation;
- Users subjectively integrate the results.

Despite its success in many organizations around the world, the BSC approach has sometimes been criticized, especially among a wide range of academics. The most important criticisms relate to the following:

- The characteristics of the relationships between the measurement areas in the BSC approach.
- The approach ignores the time dimension.
- The BSC's reliance on a limited number of measures (Hudson et al., 2001; Mårtensson, 2009).
- The lack of integration between top-level and operational-level measures (Akkermans & Van Oorscht, 2005).
- The overemphasis on those internal processes that deal with external processes (Akkermans & Van Oorscht, 2005).
- The BSC concept, without modification, is not effective enough to contribute to corporate sustainability (Bieker, 2003).

BSC Implementation: Problems, Consequences and Solutions

In order for organizations to successfully implement the BSC approach, they must skillfully avoid some pitfalls. The problems that organizations may encounter when implementing the BSC approach are (Brzaković, 2018; Niven, 2006):

1. Early linking of the BSC to key management processes (budgeting, compensation, corporate governance) often leads to omissions. BSC should be developed in order: first strategy communication (strategy map), then measurement, and only at the end complete transition to strategic management. Recklessly tying metrics to salaries or budgets is particularly dangerous — it can distort managers' behavior and encourage "gaming" metrics for short-term profit. Also, new or overly ambitious goals often seem unattainable and demotivate employees. The safest approach is a phased implementation: pilot projects, verification of metrics and only then carefully aligning the reward system.
2. Not every organization needs to have multiple levels of BSC — smaller firms or individual work departments can often work effectively with a single, common scorecard. However, in larger and more complex organizations it is necessary to "cascade" the corporate BSC down to lower levels in order to achieve full alignment and benefits of the system. Without such translation of goals to units and teams, front-line employees often remain disconnected from strategy: indicators from the top can motivate in the abstract, but rarely affect day-to-day operations. True integration is achieved only when each level of the organization has its own customized scorecards and when employees themselves can clearly explain how their work contributes to overall success.
3. The team's success lies in the wealth of different perspectives that members bring from their respective parts of the organization. BSC works best in teams where these different views and experiences meet through constructive discussions and argumentative debates, which gives a credible and comprehensive picture of the state of the entire organization.

4. Mere repackaging of existing measures into four perspectives does not make a quality BSC. It often happens that teams, out of habit or out of a desire to please management, take the old metrics and simply arrange them by perspective, believing that this is the new scorecard. After several reporting cycles, the results usually remain the same, so the meaning of the BSC is rightly questioned. The real value of the BSC lies in the identification of "missing" and innovative measures and their mutual interaction — only then does the scorecard become an instrument that really drives the implementation of the strategy.
5. BSC assumes the principle of balance: alignment of interests of internal and external actors, balance of short-term opportunities and long-term value creation, as well as alignment of lagging and leading indicators and financial and non-financial measures. If an organization promotes this "balance" only formally, while at the same time rewarding behaviors that go in the opposite direction, it quickly collapses the credibility and effectiveness of the system itself.
6. Organizations that expect benefits from the BSC and don't put effort into regular reporting and discussion of results are doomed to disappointment — a scorecard alone without consistent communication and analysis won't produce change. The results must be regularly available throughout the organization and included in the agenda of management meetings, in order to draw insights from the raw data, discuss the consequences and initiate concrete corrective actions. Without such a process, information remains unprocessed and the opportunity to make BSC a real tool for gaining competitive advantage is missed.
7. The lack of clear guidelines for the BSC program often leads to a superficial and ritualistic acceptance of the concept: organizations adopt the BSC because "they should", but without concrete goals and an implementation plan. If the team does not define what problems the BSC should solve and how it will measure success, the scorecard quickly becomes an addition to other initiatives rather than an independent tool for change. As a result, BSC may remain neglected or misused as just another project within existing programs.
8. It is difficult to successfully introduce a strategic management system without a clearly defined strategy; The core of the BSC approach is precisely that strategy guides decisions and ensures top-down alignment. BSC without a previously developed strategy becomes just a set of indicators without real strategic value. At the same time, the process of building a BSC often helps the organization to review and refine its strategy through detailed discussions and measurements, which promotes the achievement of better performance.
9. In the rush to implement BSC, detailed training of real users is often skipped. The organization can hold only promotional meetings and give superficial information about the model, so due to its apparent simplicity, the training remains at a high level. This leads to the expectation that employees "instinctively" create effective measures, which rarely yields good results. Practical, targeted role-based education is needed for BSC to really take off
10. Leadership is key — without clear and ongoing support from the top, the

BSC initiative is likely to stall. The process takes place in phases (decoding the strategy, setting goals, measures and initiatives, cascading, integration into managerial processes) and a "rope" is needed that holds it all together: an engaged, visible and committed leader. If such a leader does not exist or is not actively involved at every stage, the project quickly loses momentum and can stall. In short, there is no substitute for energetic and informed leadership support in implementing and maintaining a BSC.

Conclusion

This paper shows that the financial perspective remains the core of business performance evaluation because financial indicators directly measure value creation, liquidity, and the ability to finance growth and shareholder returns. However, the analysis also confirms the limitations of relying exclusively on accounting and retrospective metrics: without associated leading indicators from the areas of processes, customers and learning, financial indicators often arrive too late for management to react proactively.

In practical terms, it is recommended that management maintain a focus on key financial metrics — such as ROIC, EVA, FCF, profitability ratios, and the DuPont decomposition — because they quantify value creation and the efficiency of capital allocation. In parallel, CCC and components (DSO, DIO, DPO) should be systematically monitored due to their direct impact on liquidity and short-term financial needs. Financial KPIs must be clearly linked to management actions, have defined owners, realistic target values and audit frequency.

However, a sustainable and correct interpretation of those measures requires integration with the BSC approach: it is necessary to link financial goals with operational initiatives, customer satisfaction indicators and learning and growth indicators in order to discover causal paths leading to financial results. Also, data quality, reporting automation and regular drill-down dashboards are crucial for financial signals to become actionable. In the end, the focus on financial metrics should remain primary, but within a balanced and strategically connected KPI system — only then will financial results become an authoritative indicator of long-term value creation and sustainable success of the organization.

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