Chapter Two

BALANCED SCORECARD CONCEPT AND LITERATURE REVIEW

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Chapter Two
BALANCED SCORECARD CONCEPT AND LITERATURE REVIEW

This chapter elaborates the concepts of Balanced Scorecard, various components of BSC and its applications. The emergence BSC and its evolution into a strategy management system have been discussed. Available literatures, both supportive and critical of BSC have been referred to for this discussion. Balanced Scorecard implementation in the public sector context has also been referred. Further, conceptualisation about the development and implementation of BSC through cascading effect is arrived at. The author has also presented a definition of ‘successful implementation’ of BSC based on the available literature.

2.1. What is Balanced Scorecard

Balanced Scorecard is a strategy management system that helps managers to translate organisation strategy into operational objectives and implement it. BSC framework looks at the strategy from four different perspectives i.e. financial, customer, internal business processes and learning and growth. Thus, it brings in the necessary clarity to strategy. Further, implementation of BSC ensures that strategy gets communicated to all the employees suitably to facilitate implementation by them. Measuring organisational performance through BSC reviews remain integral to BSC concept. Based on the learning from these reviews, strategy gets updated. Thus, the four important steps in BSC designing and implementation include 1) translating vision into operational objectives, 2) communicating the vision and linking it to the individual performance, 3) planning and adjusting the strategy based on feedback and 4) learning.

The concept of Balanced Scorecard was explained by Kaplan and Norton (1996) as:

 Balanced Scorecard complements financial measures of past performance with measures of the drivers of future performance. The objectives and
measures of the scorecard are derived from an organisation’s vision and strategy. The objectives and measures view organisational performance from four perspectives: financial, customer, internal business processes, and learning and growth. These four perspectives provide the framework for the balanced scorecard.

Kaplan and Norton further added that,

Corporate executives can now measure how their business units create value for current and future customers and how they must enhance internal capabilities and the investment in people, systems, and procedures necessary to improve future performance.

BSC, thus, strikes a balance between long term and short term objectives, financial outcomes and performance drivers for the same, and introduces a continuous process of learning and adaption to modified strategies. The strategy is broken down into critical operational strategic objectives considering the customer value proposition (Kaplan and Norton, 1996) and the desired financial results. The performance drivers or the lead objectives to these outcome objectives in the financial and customer perspectives are then identified and placed in the internal business processes and learning and growth perspectives forming a causal relationship. The drawing that shows these objectives placed in different perspectives, linked with arrows depicting causal relationship is known as strategy map (Kaplan and Norton, 2004).

A balance is maintained between the financial and non-financial, short term and long term, and the lead and lag objectives. Each of these objectives are well defined to ensure common understanding of the terms, Appropriate measures, targets and initiatives are identified with respect to each objective. A typical format of balanced scorecard is given in Figure 2.1.
The measures on the balanced scorecard ensure a balance between external measures for shareholders and customers, and internal measures of critical business processes, innovation and learning and growth. It strikes a balance between the outcome measures of past performance (lag indicators); the measures that drive future performance (lead indicators), and also between clearly quantifiable and somewhat subjective measures (Kaplan and Norton, 1996). BSC introduced the idea of measuring the drivers of performance, i.e. the lead indicators while retaining the measures of financial performance, i.e. the lag indicators of performance (Brown, 2000). Measures in each of these perspectives are interlinked such that a change in the leading measure results in a change in the lagging measure (Kaplan and Norton, 2001).
2.1.1. Emergence and Evolution of BSC

In the late 1980s, organisations started realising that, in order to assess the overall health and performance of the organisation, it was important to measure and manage non-financial measures also in addition to the traditional financial measures such as profits, share values, sales volumes etc. Traditional financial measures are usually the lag indicators of the business performance and tell the story of the past. They do not provide any insight into the intangible assets and capabilities that need to be developed in order to be able to achieve the desired financial results. For example, frontline workers in a manufacturing set up are far removed from these financial measures and have no idea about how their day to day work translates into financial results. Thus, financial measures fail in assessing the intangible value possessed by the organisation or the value it can create. They can also fail the knowledge based strategies by treating human capital as expense items; whereas it is widely recognised that human capital is actually the most important component of the value creation chain.

Balanced Scorecard was developed in response to this need (Kaplan & Norton 1992; 1996; 2001). BSC introduced the idea of measuring the drivers of performance, while retaining the measures of financial performance (Brown, 2000).

The term ‘Balanced Scorecard’ was coined by Art Schneiderman in 1987. But, till the early 1990’s the system was understood to be a mix of financial and non-financial measures limited to 15-20 numbers which were clustered in four perspectives. BSC became a popular term when Kaplan and Norton who worked extensively on scorecards published reports of several BSC implementation successes. However, there were no clear definitions of BSC. Understanding about these 1st generation scorecards was deduced from various writings of Kaplan and Norton. In these scorecards, there were design challenges and it was not clear as to how measures were to be selected. The measures were to be related to specific strategic goals, but it was not clear as to how they must be decided.
Kaplan and Norton suggested two innovations in BSC to overcome these design weaknesses- 1) strategic objectives and 2) causal relationship. These scorecards were known as 2nd generation scorecards. In these scorecards, the measures were chosen to relate to specific strategic objectives. The design aimed at having 20-25 strategic objectives, each objective being associated with one or more measures, and spread across four perspectives. Starting from the learning and growth perspective and leading to the financial, the link of causality was shown between the strategic objectives across perspectives from drivers of performance to the outcomes.

A visual representation of the Strategic objectives with causal linkages among strategic objectives in four perspectives, known as strategy map diagram, came into existence in the 2nd generation scorecards. Though 2nd generation scorecards were significant improvement over the first generation scorecards, organisations implementing BSC were facing design challenges especially with respect to measure selections, target setting and cascading. It was assumed that mission/vision or the strategy plan based on which BSC was designed had a common understanding and interpretation by the management team, though there was no design component or specific activity to ensure this. Also, there was no clarity about who makes the selection of strategic objectives. This triggered the development of ‘Destination Statement’.

The 3rd generation scorecards were characterised by destination statements which were clear statements about what the organisation was trying to achieve in a specified time frame. The whole target setting process used it as a reference point. Commonly agreed destination statement enhanced the ownership and utility of BSC. While the focus of the 1st generation scorecards was on measure selection (filtering), the focus of 2nd generation scorecard was on how measures are grouped (Clustering) (Cobbold and Lawrie, 2002); 3rd generation scorecards focused on the shared understanding of the destination statement.

Though, initially, BSC emerged as a performance management system, over a period of time it has come to be known as a strategy management system, with its ultimate aim being the achievement of long term financial performance. Balanced scorecard is seen as a
strategic management system enabling business leaders to meet the challenge of strategy execution.

2.1.2. Basic Components and Characteristics of BSC

There are six basic components of BSC. They are perspectives, themes, objectives, measures, targets, and initiatives.

**Perspectives:** There are four standard perspectives as suggested by Kaplan and Norton. These are financial, customer, internal business process, and learning and growth. However, organisations can choose any number of perspectives as may suit their need of sufficiently measuring the present performance and the drivers of future performance (Kaplan, 1996). The number would depend on how the stakeholders’ expectations are being represented and the manner in which the organisation would decipher their strategy. All relevant factors for strategy execution are accounted for in these perspectives, thus creating a balance between the short term and long term objectives as well as linking the desired outcomes and the performance drivers for those outcomes. Thus, perspectives form the basic architecture of BSC.

**Themes:** Themes are inherent in the strategy and provide an insight into how an organisation would carry out its mission. There are usually three to four basic themes consisting of a collection of objectives across perspectives which enable execution of the theme.

**Objectives:** They highlight critical factors to the success of the organisation which must certainly be achieved.

**Measures:** What gets measured gets achieved. Measures help organisation determine its success in executing strategy. The two fundamental purposes served by measures are

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1 The word ‘Strategy’ is of military origin and is described as a plan of action designed to achieve a particular goal. In the business context, strategy is defined as the direction and scope of an organization over the long-term; which achieves advantage for the organization through its configuration of resources within a challenging environment, to meet the needs of markets and to fulfil stakeholder expectations (Hamel & Prahalad, 1994).
organisational motivation and objective evaluation of the strategy as well as strategic learning.

**Targets:** Targets help define the level of performance or the rate of improvement that is needed.

**Initiatives:** These are key action programs that are required to achieve the objectives.

The distinguishing characteristic of BSC which is not found in other management control systems is the assumption of the cause-and-effect relationships between measures across the four perspectives. Strategy is understood in terms of a series of linked hypothesis that describe cause-and-effect relationships. For example, it can be hypothesised that ‘employee satisfaction’ shall lead to ‘employee retention’ and ‘employee productivity’. Accordingly, when there is improvement in ‘employee satisfaction’ the other two ‘effect’ parameters shall also show improvements. If they don’t, the hypothesis can be considered invalid. Thus, measurements in BSC provide an ongoing account of the projected cause-and-effect relationships across perspectives which are essential for making informed decisions. The causal relationships across four perspectives help predict the financial performance based on the indication from non-financial measures (Kaplan and Norton, 1996).

BSC constitutes a good balance between financial and non-financial measures. Objectives across the four perspectives show balance between the external measures usually present in the financial and customer perspectives and the internal measures that are in the other two perspectives of internal business process and learning and growth. It also indicates a balance between the lag indicators of past performance and the lead indicators that drive future performance.

### 2.1.3. Strategy Map

A pictorial representation of objectives across four perspectives of BSC, with the connectors showing the cause and effect relationship between them is known as strategy map. Figure 2.2 gives an example of a strategy map and defines the components of Balanced Scorecard.
A Strategy map can communicate organisation strategy in just one page and provide a framework for testing assumptions about the strategy. It can be built by first listing perspectives, followed by defining themes, creating objectives and building causal linkages among objectives. Financial perspective shows how strategy balances the long term and short term objectives. Customer perspective highlights the differentiated value proposition the organisation intends to offer to the target customer. It communicates what the organisation intends to do better or different from its competitors.
The perspective of internal processes accomplishes two fundamental components of strategy i.e. ‘to produce and deliver the value proposition for customers, and they improve processes and reduce costs for the productivity component in financial perspective’ (Kaplan and Norton, 2004). Learning and growth perspective aligns the intangible assets with strategy.

2.1.4. Criticism of Causal Relationship

This causal relationship and balance, the very essence of BSC has however, been challenged by some of the academicians like Norreklit (2000) and Brignall (2002). According to Norreklit (2000) causal relationship across perspectives cannot be proven on a generic level. Norreklit also refutes the claim that BSC is a strategic control model. As it does not monitor the competition or technological developments it does not consider any risk from strategic uncertainties. She highlights those other control systems such as the Skandia model which also suggests that financial measures are like the roof of the house which itself is result of activities undertaken at lower levels. Hence, theoretically, BSC is similar and not superior to other recent management control systems even though it may appear that BSC is a revolutionary tool combining the financial measures with non-financial measures. Norreklit (2000) however argues that General Electric used non-financial measures as early as in the 1950s and all recently developed performance management tools seem to have a combination of financial and non-financial measures. Besides, all these tools have performance indicators connected to strategy thereby being an integrated system.

In defense of the cause-and-effect relationship, Bukh et al, (2001), says that the causal relationships in BSC should not be perceived as generic, but specific to the organisation. These are determined by the actual situation and the relevant time dimension between measures. These relationships, in any case, are beliefs and assumptions and not established certainties. By following the logic of cause-and-effect the management of any organisation can come up with its unique strategy and establish measures believed to lead to the desired results.
2.2. Applications of BSC

BSC steers the entire organisation to work towards a shared vision in addition to providing necessary clarity, guidance and control through regular BSC reviews. According to Kaplan and Norton (1996), the balanced scorecard can be used to:

1. Clarify and gain consensus about strategy,
2. Communicate strategy throughout the organisation,
3. Align departmental and personal goals to the strategy,
4. Link strategic objectives to long-term targets and annual budgets,
5. Identify and align strategic initiatives,
6. Perform periodic and systematic strategic reviews, and
7. Obtain feedback to learn about and improve strategy.

Some of the ways in which organisations have been using BSC are discussed in the following, subtitled paragraphs.

2.2.1. BSC as a Management Control and Performance Management System

Management control is defined as ‘systems providing information that is intended to be useful to managers in performing their jobs and to assist organisations in developing and maintaining viable patterns of behavior’ (Otley, 1999:364). BSC, as a control and performance measurement system, ‘provides executives with a comprehensive framework that translates a company’s strategic objectives into a coherent set of performance measures’ (Kaplan and Norton, 1993). Available literature has academic studies both in support of and challenging claims of BSC leading to improvement in performance.

As regards the usage of BSC, Ahn (2001) studied a large automation product supplier in Switzerland and concluded out that implementing BSC not only enhances performance but also aids in communicating strategy, planning and budgeting, strategy oriented specific initiatives. Thus, BSC gets integrated in to the company’s control system. Ahn further recommended that ‘Balanced Scorecard should replace – not complement – a company’s current performance measurement system.’
In a quasi-experimental study of two American Banks, Davis and Albright (2000) found that performance of banking organisations implementing BSC far exceeded the performance of banking organisations that had not implemented BSC. A similar quasi-experimental study by Chi and Hung (2011), re-affirmed that companies that implemented BSC performed commendably well. In direct rebuttal to these, another quasi-experimental study by Neely (2008) indicated that performance impact of BSC was open to question. Performance data for up to three financial years was collected from two divisions of an electrical wholesale business chain in the UK and compared. The business units had similar set-ups, but one of these had implemented BSC and the other had not. The findings indicated similar improvements in sales and gross profits of both the units.

2.2.2. BSC as a Strategy Management System

As mentioned earlier the word ‘Strategy’ has a military origin. In business context, strategy is defined as the direction and scope of an organisation over the long-term; which achieves advantage for the organisation through its configuration of resources within a challenging environment, to meet the needs of markets and to fulfil stakeholder expectations (Hamel & Prahalad, 1994). The process of strategy development has to consider both the external and internal resources. In the ultimate analysis, the benefits of a good strategy are evident only if it gets executed as designed and in time. Strategy execution is a big challenge for the leadership in any organisation (Porter, 1991).

Executing a strategy is an art form that is entirely different from crafting a good one. Execution is the key to successful strategy implementation. Several barriers that impede strategy implementation have been categorised into four categories as shown in Figure 2.3.

To view the barriers in perspective, it must be pointed out only 5 percent of the workforce understands organisational vision and strategy (vision barrier). Only 25 percent of managers have incentives linked to strategy (people barrier); 60 percent of organisations don’t link budgets to strategy (resource barrier) and 85 percent of management teams spend less than one hour discussing strategy (management barrier). Successful implementation of balanced scorecard necessitates overcoming all these barriers.
As a strategy implementation tool, BSC attempts to address all four barriers through an integrated approach and helps organisations to define the value of non-tangible assets. The areas of concern in which the organisation needs to improve become evident and can be worked upon. Changes get initiated and actions aligned with strategic objectives, thus gradually bridging the performance gap. The process of strategy implementation improves results immensely, thereby contributing to overall performance. According to Becker and Huselid (2006) 35 percent improvement in quality of strategy implementation is associated with 30 percent improvement in shareholder value.

Field research of Fortune 500 companies by Malina and Selto (2001) established that management control through BSC appears to positively motivate employees and aligns the organisation to work towards strategy, thus leading to positive results.

In a survey of firms in Germany, Austria and Switzerland, Speckbacher et al. (2003) observed that nearly all the organisations implementing BSC applied all four perspectives of BSC. The study concluded that the commonly expected benefits of using BSC are ‘improved company results’ and ‘improved alignment of strategic objectives with strategy’.

2.2.3. BSC as a Communication Tool

In order to be able to execute strategy, employees must first know and understand it. BSC works as an adept communication tool (Ahn, 2001) which translates the organisational strategy into operational objectives and communicates it suitably to all the employees.
across the organisation. It emphasises the most appropriate operational thrust areas for each employee. This helps employees get a better understanding of their roles and of the performance related measures for implementing strategy (Greatbanks and Tapp, 2007). During quarterly performance reviews, BSC communicates upwards the performance of each business unit/ department/ team and employee, highlighting clearly where the accountability has failed or bringing out the critical organisational issues that need to be attended in order for the strategy to be implemented successfully (Kaplan and Norton, 1996).

2.2.4. BSC as a Tool for Bringing Alignment

The most significant contribution of Balanced Scorecard is its capability to align the entire organisation. Board of Directors, investors and external partners clubbed with complete alignment within results in economic value add (Kaplan and Norton, 2006). Alignment between different business units creates value. When separate business units and support units are aligned; this synergy creates additional value known as enterprise derived value (Kaplan and Norton, 2006). Creating alignment therefore, is the prime responsibility of the corporate office.

Synergies develop from shared customers, shared processes and services and from leveraging the intangible assets such as leadership, knowledge sharing, organisational and human capital development. The corporate headquarter provide a common theme for the diversified business units, such as ‘most valued supplier’, ‘achieve six-sigma levels for quality’ and the operating units interpret these guidelines in their own contexts and build their own balanced scorecard. Similarly, the corporate office also focuses on building common corporate identity and corporate brand that benefits all its business units.

The process of cascading of the scorecards aligns the entire organisation towards common goals. It breaks the higher level scorecards into lower levels down to the employee scorecard whereby measures become meaningful to lower level employees and guide them where to focus their efforts (Davis, 1996). Integrating the IT strategy with the business strategy further provides the competitive edge to the organisation (DerZee and Jong, 1999).
2.2.5. BSC as a Change Management Tool

Organisations also use BSC to introduce change, monitor its pace and communicate the status of the change. In order to monitor and control such transformations, it is essential to ensure that measures are aligned with strategic objectives and that the BSC is not cumbersome in terms of number of measures and administrative overhead. Some critical factors normally associated with transformations include clear transformation plan, and strong communication mechanism. It is observed from the studies (MacBryde, et al., 2012) that even in the absence of these transformation plans, BSC provides structure and focus which helps maintain the pace of change. BSC can integrate the performance management system in such a way that it complements the process of strategic transformation.

2.3. Office of Strategy Management

Some organisations have created a small group to help the organisation have a consistent view of strategy. This group is also responsible for identifying and realising corporate synergies (Kaplan and Norton, 2006). This team usually reports to the Chief Executive and is known as the Office of Strategy Management (OSM). It facilitates strategy development, cascading of balanced scorecards, and collaboration among the various business units to ensure alignment. OSM remains accountable for the overall enterprise value-additions. The identification, selection and management of the strategic initiatives drive the changes in the organisation. Usually these activities are managed by the business units that are closely associated with them. However, OSM may need to intervene when the initiatives fall behind schedule or over budget, or do not deliver the desired results. The group thus owns the accountability for monitoring the progress of the strategic initiatives and reporting the same to the top management (Kaplan and Norton, 2005).

2.4. Cascading and Diffusion of Scorecards

The BSC approach can be applied at all the levels. At the corporate level it translates organisational vision and strategy into overall corporate scorecard. At the level of strategic business units (SBU), teams or even individuals, there can be SBU scorecards, team scorecards or individual scorecards respectively. All it involves is developing the destination statement (or vision) for that particular level, identifying key performance
indicators, setting goals and targets and finding ways to measure progress towards their achievement (Evans, 2005; Sandkuhl et al., 2003; Walker, 1996).

Thus, scorecards are created at all the important levels and even for individual employees. In this manner value creating activities are tapped. This process of creating scorecards at different levels that are properly synchronised with each other is known as cascading of scorecards. Figure 2.4 depicts a typical cascading process. Cascading process interweaves the entire organisation towards one common vision. When the different SBUs and support units are aligned, this synergy creates additional value known as enterprise derived value (Kaplan and Norton, 2006).

![Figure 2.4](image)

**Figure 2.4**

Cascading of Scorecards

Source: Adapted with permission from BSC Advanced Workshop, 2008. *Balanced Scorecard Institute.*

There is no hard and fast rule for the best approach for cascading scorecards. Normally it starts from the top with the SBU scorecards from the corporate scorecard. Thereafter, the scorecards percolate to functions, departments, teams and individuals. This can be seen in the franchise operations that would have top-down common value proposition. Contrary to this in case of the holding companies with diversified businesses, each business may like to
first develop their strategy and scorecard and get it approved by the corporate headquarters. It becomes a kind of accountability contract between business units and the corporate headquarters. Later at some point, the corporate headquarters can develop a corporate level scorecard to aggregate the lead and lag measures of the autonomous business units providing corporate level themes such as benchmarking processes, leadership development, excellent quality, ROCE etc (Kaplan and Norton, 2006). Organisations that have identical decentralised units and also diversified businesses can follow the hybrid cascading process. Nevertheless, it is advisable that each organisation should follow its own customised process suiting the culture of the organisation.

While discussing the diffusion of BSC, Cooper and Ezzamel (2003) challenge the basic design of BSC and the underlying assumptions. One of the assumptions is that strategy awareness and alignment are crucial for organisational success. According to them, it is far from evident and implies ethical problems. Additionally, there are overtones of military like discipline. It assumes that strategy is always doable and that the managers have the necessary empowerment, autonomy and opportunity to lead their teams like warriors. In reality, this may not necessarily be the case.

Another assumption is about the alignment of interest between the managers and the organisations, which again is questionable. According to Cooper and Ezzamel (2003) both the benefits of strategy alignment and the sharing of interest between managers and organisations should be assessed and not assumed. Morgan, (1986) observed that Kaplan and Norton view the organisation as a mechanical body wherein independent elements are assumed to be interlinked together and the human behavioral aspect seemed to be marginalised. With their cause and effect logic, Kaplan and Norton seem to assume that everything is predictable in the organisations. In effect, they seem to have ignored uncertainty and ignorance. Morgan warns, ‘Understanding organisation as a rational, technical process, mechanical imagery tends to underplay the human aspects of organisation, and to overlook the fact that the tasks facing organisations are often much more complex, uncertain, and difficult than those that can be performed by most machines.’ (Morgan, 1986: 34)
2.5. Questioning the Need of BSC

Even while several benefits of BSC have been established, several studies have also refuted the concept and questioned the very need of BSC. Theoretically, the need for BSC can be questioned in terms of Simons’ concept of management control (Simons, 1990; 1995). Simons differentiates management control systems into four types i.e. belief, boundary, diagnostic and interactive. Belief and boundary define the permissible activities for employees in the organisation; diagnostic systems help measure actual performance against plan; and interactive systems focus on discussing future strategies that call for regular management discussion and attention. Simons says that at any given point of time, it is for the management to decide which control system should be given attention. It is situation based. Hence, it is not the control tool, but it is the management that decides which control is to be exercised.

In other words, it is not the tool which is important but the way it is being used is. Based in this reasoning, Simons questions the introduction of new strategic models. The mannerism in which strategy formulation and implementation happens is more important (Simons, 1990; 1995). In this context, the question arises whether it is necessary to have BSC as a separate tool.

According to the case study by Martinez and Gutierrez (2003), though BSC was initially used as a diagnostic control system, it eventually evolved into an interactive tool. The result of their study seems to imply that interactive control is better than the diagnostic systems, and thus differ with the argument put forth by Simons. Further, Stemsrudhagen (2004) studied Norwegian manufacturing companies and established that the structure of performance measurement system anyways constitutes many of the measures found in BSC, independent of the fact if the company implemented BSC or not.

2.6. Developing and Implementing BSC

BSC is rooted in the vision and strategy of the organisation. It translates the mission and strategy into tangible objectives and measures. These measures are the links between the strategy and the operative actions. Hence, the selection and monitoring of measures and
targets is at the heart of BSC implementation. Kaplan and Norton give a five-step development process for BSC as depicted in Figure 2.5. This process is primarily iterative, as each step gets revisited often. As implementation progresses, issues surface and adjustments are required for refining the scorecard.

**Figure 2.5**

**Five Step Development Process for BSC**

The stages of implementation as given by other authors and consultants are along similar lines. The Balanced Scorecard Institute gives nine stages of implementation as shown in Figure 2.6.

**Figure 2.6**

**Building and Implementing a Balanced Scorecard: Nine Steps to Success**

Source: Adapted with permission from BSC Advanced Workshop, 2008.

*Balanced Scorecard Institute*
Further, Kaplan and Norton (2008) suggested a six stage management system for strategy execution which is depicted in Figure 2.7.

**Figure 2.7**

*Six Steps to Strategy Execution Using Balanced Scorecard*


### 2.6.1. Automation of Scorecards

It is evident from the above descriptions that BSC implementation is a long drawn process. In order to expedite implementation process and retain the momentum, organisations automate scorecards. Automation is crucial to successful implementation as it provides visibility to the BSC process, wider participation by employees at all levels, and facilitates a quicker cultural change (Assiri et. al, 2006). It can be integrated into strategic
management system. The software can automatically send right information to the right employee at the right time. E-mail and internet integration with software can be used to share analysis and results with the concerned people. The software can have provisions to include BSC measures, cascaded objectives and measures, target setting, alarms, reports, presentations, graphs and comparison with historical performance. It shall also be integrated with already existing information technology (IT) systems in the organisation to be able to have real time data and avoid any duplication.

BSC software can be either developed in-house or readymade BSC software can be procured from the market. Some examples of BSC software available from vendors are SEM BSC, Oracle BSC, SPImact BSC, BSC Analytic App., Corporater BSC and Comshare MPC. Marr and Neely (2003), give ten selection criteria for choosing most adequate software, namely company and product, scalability, flexibility and customisation, features and functions, communication, technical specifications, data presentation, analysis functionality, service, and future. Additionally, it is important to decide as to when to automate BSC as the timing of automation impacts the chances of success as much as the choice of the software. The timing of automation may be based on factors specific to the organisation and most importantly, its stage in BSC life cycle (Palazzolo, 2004).

In spite of elaborate discussions on the models and the stages of implementation, there is no clear definition of ‘successful implementation’ of BSC. Kaplan and Norton do not appear to have specified as to when it can be declared that BSC implementation has been successful. It can only be deduced from the several cases that have been presented in literature as success stories of BSC implementation.

Studies pertaining to the BSC implementation process are very few. Olsson et al. (2000) studied BSC implementation and based on the result of the case study of Ericsson DataAB, they constructed a theory of BSC implementation which is grounded in theories of organisational change. The case study by Wagensveld and Van de Voort (2003) indicated that BSC implementation requires existing organisational routines to be broken down. In his study of BSC implementation, Kasurinen (2002) identified factors that influence management accounting change.
A roadmap for BSC implementation was presented by Assiri et.al (2006) along with twenty seven critical factors for successful implementation of BSC. Nevertheless, implementing BSC may call for substantial cultural change within the organisation (Chavan, 2009).

2.7. Total Performance Scorecard

The concept of balanced scorecard has been further extended by Hubert Rampersad to total performance scorecard for personal integrity and organisational performance (Rampersad, 2005). He recommends developing personal balanced scorecards (PBSC) for employees along the four perspectives of the scorecard from the personal vision, mission, and key roles and develops performance measures, targets and improvement actions. This initiates the first step of change at the individual level. Further, integration of this PBSC with organisational balanced scorecard (OBSC) shows shared ambitions. Here he also emphasises the importance of ethics in balancing personal ambitions with the shared ambitions. Thus, while pursuing organisational goals, employees achieve their personal ambitions as well and while they toil to develop their competencies, it benefits in achieving organisational objectives. This approach of aligning PBSC with OBSC leads to learning and change at all levels, leading the organisation to attain higher levels of performance.

2.8. Conceptualizing Successful Implementation of BSC

Based on the literature review and study of several implementation cases, the researcher has developed a framework for the implementation of BSC. This framework is used for the purpose of this study.

BSC implementation is understood as the entire journey from the adoption of BSC to its diffusion across organisational hierarchies, its integration into the current management system, and finally the achievement of strategic objectives. In general, the extent of diffusion of BSC within the organisation indicates the extent to which it has been accepted and has to overcome the impediments to implementation. As deduced from available literature, the entire process of institutionalising BSC in an organisation goes through three
major phases i.e. BSC design phase, BSC roll out and implementation phase and BSC sustenance phase as shown in Figure 2.8.

**Figure 2.8**

Different Phases of BSC Implementation

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**2.8.1. Getting the Buy-in of Leaders and Employees**

This stage begins with leaders and employees becoming aware of the concept of BSC and evaluating why and how it can be introduced in the organisation. The ultimate aim of introducing BSC gets discussed and clearly enunciated. It is very important that, at this stage, employees and leaders alike are able to link their personal vision with the organisational vision and see how BSC can help achieve the organisational vision. This stage is characterised by a lot of communication and information sharing. Also, if required, necessary changes to existing policies and procedures could be considered. Once the buy-in for BSC has been created, the next stage of development and implementation of BSC is ready for takeoff.
2.8.2. Developing, Cascading and Reviewing Scorecards

The initial stage of creating awareness and buy-in is followed by the actual design and implementation of scorecards. Scorecards translate the strategy into operational objectives. A strategy is developed showing the hypothetical causal relationships among objectives which explain the assumptions that are embedded in the strategy. This strategic plan is elaborated with clear definitions and measures, targets and initiatives. The operational plans are derived from the strategic plan. Thus, the strategy map and balanced scorecard template is designed. The process of developing BSC template links the strategic objectives and measures to the vision. The higher level scorecard is then cascaded down the hierarchy and across the functions down to the last employee. Support functions and budget get aligned with the common vision and interdependencies are addressed. Periodic review of performance becomes an established practice.

2.8.3. Integrating BSC into Organisational Culture

Once the scorecards are developed at all levels and a system and culture of reviews is put in place, it is important to periodically revise the scorecard to align it with modifications in strategy. Usually, strategies are revisited during yearend reviews and modification, if necessary, is carried out in the context of the changes in business scenario. This necessitates the corresponding changes in the scorecards. It is thus a dynamic process and cyclic in nature. The updated scorecards are then cascaded and communicated down the line. Measures, targets and initiatives also undergo modifications as new learnings happen during the process of implementation.

2.8.4. Characteristics of Successful Implementation of BSC

A BSC implementation is regarded as successful when it goes beyond being a mere transactional implementation. It must succeed in bringing about the necessary transformations needed for achieving strategic results (for example, the case of city of Charlotte). As deduced from various success stories of BSC implementation from the books of Kaplan and Norton, the successful implementation of BSC have the following characteristics:
Awareness: There is awareness among employees about the concept of BSC and an understanding of how it helps in executing organisational strategy. Employees understand the causal relationships among the objectives in all perspectives of the scorecard. Accordingly, they focus on the drivers of desired performance which are usually the objectives in the internal processes and the learning and growth perspective. (Cases of Citizens School and AT&T, Kaplan and Norton, 2001); (Davis, 1996)

Alignment: All support functions, budgets, external partners, competency development initiatives, rewards and incentives are aligned with scorecards. (Cases of Kinnarp Academy, IBM Learning, Borealis, Kaplan and Norton, 2006)

Assessment: Actual performance is regularly assessed vis-a-vis the targets and initiatives mentioned on the scorecard. Regular operational and strategic reviews get conducted. (Case of New York Police Department, NYPD, Kaplan and Norton, 2008)

Achievement: Eventually, successful implementation of BSC leads to achieving the strategic objectives as identified in four perspectives of scorecards, thereby implementing the strategy (Cases of City of Charlotte and Luxefer Gas Cylinder, Kaplan and Norton, 2008).

When above characteristics are visible, it can be said that the balanced scorecard implementation has been successful. True success is achieved when all the employees in the organisation are engaged, not just physically but also mentally and emotionally to achieve the organisational vision. Successful implementation of BSC would also lead to enhanced performance, as claimed by Kaplan and Norton.

2.9. Implementing BSC in Public Sector Undertakings

Harold Wilson made a famous statement that ‘a week is a long time in politics’¹. Keeping this context in view, PSU management may be perceived as having a short-term perspective. This applies even though management may be permanent whilst it is the political masters who drive the short-term action agenda. Olve, Roy and Wetter (1999) also

seem to support this political short-termism in their examination of the use of the Balanced Scorecard in public sector organisations. Tonge and Callaghan (1993) emphasise the growing similarities between the pressures of the public and private sectors. Niven (2002) supports the conclusion that the Balanced Scorecard adapts well to the public and non-profit sectors, but that the focus is on customer perspectives rather than financial objectives.

BSC originated as a performance measurement, but quickly evolved into a widely accepted performance management and strategy implementation tool. The originators of the concept developed it with the private sector in mind. Accordingly, achievement of the financial objectives was the central objective of BSC. The BSC framework asserts that the financial objectives can be achieved by focusing on the drivers of performance in the other three perspectives. It also places value on the perspective of customers and other stakeholders. Thus, it looks at performance from different perspectives and across different objectives and stakeholders. These features of BSC have caught the interest of government and public sector enterprises which have to meet performance management aims and objectives (Aidemark, 2001; Bilkhu-Thompson, 2003; Modell, 2004).

The governments of many nations have moved to adopt the BSC approach for managing performance of the business units and agencies under their control. Besides, the new public management (NPM) in early 90s has put public sector organisations around the world under pressure to demonstrate effective performance management and be more accountable and transparent (Hood, 1995; Boston et, 1996). There is a shift away from bureaucracy to more responsive management (Lapsley and Wright, 2004). This was enforced through government guidelines in countries like Scotland, New Zealand, Italy, Australia, USA and recently Indian government too has issued similar guideline through DPE circular.

The focus of a public sector organisation is very different from that of the private sector (Margarita, 2008); major difference being that the private organisations is profit driven whereas the public organisations are mission driven. A comparison of Balanced Scorecards in private and public sectors as given by Nicholas J Mathys which is shown in table 2.1.
The differences highlighted make it all the more important for the public organisations to have a balanced scorecard in order to remain focused on their mission.

Table 2.1

Comparison of Balanced Scorecards in the Private and Public Sectors

<table>
<thead>
<tr>
<th>FEATURES</th>
<th>PRIVATE SECTOR</th>
<th>PUBLIC SECTOR</th>
</tr>
</thead>
<tbody>
<tr>
<td>Focus</td>
<td>Shareholder Value</td>
<td>Mission Effectiveness</td>
</tr>
<tr>
<td>Financial Goals</td>
<td>Profit; market share growth; innovation; creativity</td>
<td>Cost reduction; efficiency; accountability to the public</td>
</tr>
<tr>
<td>Efficiency concerns of clients</td>
<td>No</td>
<td>Yes</td>
</tr>
<tr>
<td>Desired outcome</td>
<td>Customer satisfaction</td>
<td>Stakeholder satisfaction</td>
</tr>
<tr>
<td>Stakeholders</td>
<td>Stockholders; bondholders</td>
<td>taxpayers; legislators; inspectors</td>
</tr>
<tr>
<td>Who defines budget priorities</td>
<td>Customer demand</td>
<td>Leadership; legislators; funding agencies Sameness; economies of scale; standardised technology</td>
</tr>
<tr>
<td>Key success Factors</td>
<td>Uniqueness; advanced technology</td>
<td></td>
</tr>
</tbody>
</table>


Although, unlike in profit-seeking private firms, financial measures may not be the central focus in PSUs, what is important is to ascertain if the mission of the agency is being achieved (Kaplan and Norton, 2001). Public sector agencies need not necessarily have financial objectives. However, they have the need to translate their primary and political goals into action (Atkinson et al., 1997).

BSC seems to best meet the performance management system requirements of PSU as it goes beyond just financial measures and focuses on the key performance indicators (KPIs).
It compels managers to pay attention to the drivers of performance through inbuilt causal relationships and reports performance. Kaplan and Norton suggest BSC can be easily adapted to public sector organisations by simply re-arranging the perspectives and bringing the customers or constituents to the top of the hierarchy (Kaplan and Norton, 2001; Niven 2006). Academicians such as Forgione (1997), Aidemark (2001), and Bilkhu-Thompson (2003) who examined the utility of BSC in public sector also agree with this view. Chow et al., (1998) observed that BSC provides a clear focus for achieving organisational objectives even though the operating environment in public sector is far more complex as compared to the private sector.

A few academicians, however, disagree with the efficacy of transplanting BSC into the public sector context (Arnaboldi and Lapsley, 2004; Pidd, 2005). Griffiths (2003) observed that identifying causal relationships in public sector is an issue and necessary ‘re-arranging’ of perspectives may damage the performance management potential of BSC, and that it is not a straightforward process. Also, the use of BSC in the public sector has met varying degree of success (Niven, 2005, 2006).

Cavalluzzo and Ittner (2004) highlighted issues such as top management commitment and information systems related issues as barriers in public sector. However, these problems are not restricted to public sector only. They can be equally applied to the private sector as well. In addition to the general factors Northcott and Taulapapa (2012) indicated lack of perceived strategic orientation, issues concerning modifications of BSC to suit organisational context, and poorly understood causal relationship as barriers specific to public sector organisations.

2.10. Balanced Scorecard Implementation in Indian Context

The Indian companies appear to be esurient in their adoption of BSC. The BSC adoption rate is nearly 45.28 percent (Anand et al., 2005) which compares favorably with the global rate of 43.90. A survey (Joshi, 2001) of 60 large & medium Indian manufacturing firms and observed that though financial measures such as ROI, variance analysis, budgetary control were used extensively, there was only moderate use of customer satisfaction surveys, supplier evaluation, and minimal use of non financial measures. This is further
substantiated by Anand et al, (2005) who affirmed that even while implementing BSC, the financial perspective remains most important and the most common difficulties are observed to be determining the causal relationships assigning suitable weights to these relationships.

Singh and Kumar (2007) chronicled some of the major cases of BSC implementation in India such as Godrej-GE Appliances, Philips Electronics, Infosys Technologies, and Tata Consultancy Services. The study by Farooq and Hussain, (2011), indicates that most Indian organisations incorporate BSC as a performance measurement tool and use it to create change and improve performance. The inclination towards adoption of BSC is seen as a recent trend among the PSUs like Bharat Heavy Electrical Limited (BHEL), Steel Authority of India Limited (SAIL), Indian Oil Corporation Limited (IOCL), Bharat Petroleum Corporation Limited (BPCL), and Hindustan Petroleum Corporation Limited (HPCL). The PSUs move to BSC is mainly on account of the government guidelines from department of public enterprises (DPE).

While many companies are spearheading BSC implementation, some of the Indian companies such as Tata Motors, TRENT, New Delhi Power Limited (NDPL), Laxmi Machine Works Limited (LMWL), Infosys and HPCL have already implemented BSC successfully and even been inducted into the ‘Hall of Fame’ by BSC Palladium for BSC execution strategy. There is, however, no published academic literature on the study of implementation of BSC in public sector organisation from India. This study therefore, gains even more significance.

In Indian context, study by Mazumdar (1995) affirmed that the performance of public sector organisations owned by government is only two third as efficient as private sector enterprises. Further, this comparative study discusses the political environment unique to Indian context owing to which the efficiency differences emerge. Study by Kumar and

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1 The Palladium Group Inc. is founded by Dr. Robert S. Kaplan and Dr. David P. Norton. It provides a set of integrated services for strategy design and implementation using Balanced Scorecard to the organization. Hall of Fame by Palladium Group is meant to honor organizations that have achieved extra-ordinary performance through the use of Kaplan-Norton Balanced Scorecard framework.
Mishra (2011) add to this by indicating that private and public sector organisations differ significantly on certain HR issues like strategic HR, human resource planning, training and development, safety and industrial relations etc. Recently, Indian government has placed renewed emphasis on enhancing the performance of the PSUs and guidelines have been issued to follow BSC approach for enterprise performance management through MOUs.

Upon review of BSC literature, it becomes evident that BSC has been positioned as a management tool to ensure the long term health of the organisation. When the strategy is looked at from different perspectives, both the lead and the lag indicators find place on the BSC framework thereby ensuring that the long term initiatives to ensure organisational well being do not get compromised for the short term success. The BSC tool, besides being a performance management tool, is also established as a communication tool, alignment tool and change management tool. The BSC approach can also be extended to develop individual scorecards for employees. While there are academic studies that emphasise its benefits, there are also studies that have found no significant difference between organisations that implement.

Irrespective of the claims of academicians, there is wide acceptance of BSC among practitioners, both in private and public sector. Implementation process has been recognised as a challenging area. It needs more exploration and research, especially in the context of PSUs.