Chapter Three
BALANCED SCORECARD:
REVIEW OF LITERATURE

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CHAPTER OVERVIEW

This chapter embarks upon the concept of Balanced Scorecard. It discusses the evolution and history of Balanced Scorecard. Further, this chapter undertakes a review of existing literature by various scholars on Balanced Scorecard. It also summarizes the studies on Balanced Scorecard carried out in different sectors and countries. The chapter culminates with a discussion on the research gap identified within the existing literature on change management and Balanced Scorecard.

3.1 RECENT DEVELOPMENTS IN ORGANIZATIONAL PERFORMANCE MEASURING SYSTEMS

To assess the merits of a particular strategy, a need for performance measuring tools arises. The past two decades have witnessed a dramatic shift in this process of performance measurement.

3.1.1 From Shareholder Value to Stakeholder Theory

There are several ways to consider the strategy of the firm and each has different implications in reporting organizational performance. The key performance measurement processes are shareholder theory and stakeholder theory (Owen, 2006; Brown & Fraser, 2006). In the 1980s, any firm was viewed as belonging to the shareholders. Shareholder theory used shareholder return to measure overall organization performance and was thus, dominated by organizational performance measurement systems (Porter, 1980).

3.1.2 Stakeholder Theory: The Balanced Scorecard

Early 1990s witnessed a shift to a more stakeholder-based view. The firm was considered as having responsibilities to a wider set of groups including shareholders (Freeman, 1984; Reich, 1998; Post et al., 2002; Brown & Fraser, 2006; Steurer, 2006). Other stakeholders may include employees, customers, suppliers, governments, industry bodies and local communities. Stakeholder theory assesses
organization performance against the expectations of a variety of stakeholder groups that have particular interests in the organization's activities. Stakeholder theory perspective of organizational performance includes shareholder value and recognizes shareholders as single group of stakeholders.

The Balanced Scorecard performance measurement system by Kaplan and Norton (1992a) is based on stakeholder theory. Balanced Scorecard is primarily a tool for measuring external and internal economic value. The original Balanced Scorecard model did not incorporate employee, supplier or community perspectives (Mooraj et al., 1999). Kaplan and Norton originally suggested that a Balanced Scorecard should have a total of 14-16 performance measures, divided into four quadrants with not more than 4-6 performance measurement in each quadrant. The researchers argued that these measures could be integrated and linked by means of cause and effect (Figge et al., 2002). However, most organizations have neither developed causal links between the factors nor found a systematic and consistent way of incorporating either new or less tangible organizational performance measures, such as those related to environmental responsibility or community relationships.

3.1.3 Stakeholder Theory: The Triple Bottom Line

Around the same time that firms began adopting Balanced Scorecard, public, media and community groups started paying more attention to the effect of organizations on the natural environment and society as a whole. Several countries started attributing firms to more than creating economic value. In 1997, the triple bottom line (Elkington, 1997) emerged as a new tool for measuring organizational performance. Although, based on stakeholder theory, it carries a wider perspective of the stakeholders influence on the organization when compared to Balanced Scorecard. The triple bottom line is essentially based on the idea that a firm should measure its performance in relation to stakeholders as well as local communities and governments. The stakeholders may only be those with who firm maintains direct relationships such as by way of employees, suppliers and customers, but a much wider population to which a firm is related indirectly such as the local community and environment. A successful performance measurement needs to include the view of these unconventional stakeholders.
The triple bottom line implies that responsibilities of organizations are much wider than simply those related to the economic aspects of producing products and services. It adds social and environmental measures of performance to the economic measures. Environmental performance refers to the amount of resources, such as energy, land and water, a firm uses in its operations. It also includes the by-products created by an organization, like waste, air emissions and chemical residues. Social performance refers to the impact of a firm and its suppliers on the communities in which it functions. Measures developed by one organization are readily transferable to others, whereas social and environment performance are unique to each organization. Unlike the Balanced Scorecard, the triple bottom line has not been successful in penetrating organizational performance system, as organizations are reluctant in accepting the influence of these performance measures have actual economic production.

3.2 BALANCED SCORECARD: AN INTRODUCTION

During early 1980s many organizational executives were convinced that traditional measures of financial performance do not assist in effective management. Arguing that executives should track financial as well as non-financial metrics, Robert Kaplan and David Norton (1992a) in their first article “The Balanced Scorecard-Measures That Drive Performance”, devised a framework called ‘Balanced Scorecard’. They realized that although traditional financial performance measures worked well for the industrial era, but were proving to be insufficient in measuring the abilities and competencies essential for survival in changing economic environment. The Balanced Scorecard (1992a, 1993, 1996a, 1996b, 1996c, 2000, 2001a) identifies the influence of non-financial factors upon strategic success and present advantages over historical performance measures. It is a set of measures that offers top managers a fast but comprehensive view of the business. Traditional performance indicators tend to measure financial and accounting aspects, impacting long-term productivity and profits, whereas, Balanced Scorecard provides the measures of synthetic indicators which companies should focus on, such as customer reactions, profits, quality and flexible production selection (Martin, 1997). Woods and Grubnic (2008) highlight the potential of Balanced Scorecard to bridge the gap between vague mission statements and day-to-day operations. It serves companies to
integrate strategy, organization framework and vision into management systems. translate the long-term strategy and innovation of customer value into operational activities. It also balances the competitiveness and short-term fortunes of stockholders through blending of traditional and modern indicators (Talbot, 1999).

### 3.2.1 Defining Balanced Scorecard

The Balanced Scorecard was originally a one-year multi-company study (Kaplan & Norton, 1992a). The study concluded that in increasingly complex business environment, dependence on only financial measures was no longer adequate for managing organizations, especially where intellectual capital and knowledge-based assets were critical for success. Kaplan and Norton (1996c) defined Balanced Scorecard as a framework that helps organizations translates strategy into operational objectives that drive both behavior and performance. The Balanced Scorecard strategic management system is comprised of “a framework, core principles and processes that translate an organization’s mission and strategy into a comprehensive set of performance measures strategically aligned with initiatives” (Inamdar et al., 2002, p. 21). The measures and objectives are viewed across four dimensions of performance: financial, customer, internal business process and learning and growth. Every perspective has their respective objectives for three to five years that are communicated throughout the organization and presented on a strategy map (Kaplan & Norton, 1996c). The word balanced in the term ‘Balanced Scorecard’ is indicative of the balanced consideration given to long and short-term objectives, financial and non-financial measures, leading and lagging indicators and external and internal performance perspectives (Kaplan & Norton, 1996b, 1996c: Hendricks et al., 2004).

Rimar and Garstka (1999) highlighted the need to articulate organization’s strategy. Even a clearly stated vision and strategy can be interpreted differently by individual members in an organization. Developing a Balanced Scorecard clarifies the significance of the strategy and translates it into terms that are considered meaningful by the people involved. It focuses on fundamentally changing the way organization is strategically led and not with keeping organizational score. Kanji and Moura (2001) concluded, “the Balanced Scorecard is more than a performance
measurement system. It is commonly adopted as a strategic management system to describe the organization’s vision of the future and create shared understanding; clarify and update corporate strategy; communicate strategic objectives throughout the organization; align customer need and business objectives; work as a holistic model of strategy allowing all employees to see how they contribute to organizational success; link strategic objectives to targets and budgets; build a reward system that is geared to achieving targets; and obtain feedback on the effectiveness of the strategic view" (p. 898).

3.2.2 The Four Perspectives of Balanced Scorecard

The Balanced Scorecard allows the manager to look at the business from four important perspectives, as shown in Exhibit 3.1.

**Financial Perspective: How do we look to shareholders?**

The Balanced Scorecard retains the financial perspective since financial measures are valuable in summarizing the measurable economic consequences of actions already taken (Kaplan & Norton, 1996c). Financial performance measures indicate whether the company's strategy, implementation and execution contribute to bottom-line improvement (Kaplan & Norton, 1992a). Typical financial goals relate to profitability measured by operating income, return on capital employed or economic value added (Kaplan & Norton, 1996c).

Kaplan and Norton (1992a) identified three stages of business’s life cycle: growth, sustain and harvest. During growth businesses are at the early stage of their life cycle. They possess products or services with significant growth potential. In order to capitalize on this potential, organizations have to employ resources to develop and improve new products and services: construct and expand production facilities, build operating capabilities, invest in systems, infrastructure and distribution networks and foster and develop customer relationships. Organizations at the sustain stage attract investment and reinvestment, but are required to receive fine returns on invested capital. These businesses are likely to maintain their existing market share and grow the business. When business units reach a mature phase of their life cycle, the organization harvests the investments made in the previous two stages. These
businesses no longer need significant investment but only adequate to maintain existing equipments and capabilities. The key objective during this phase is to maximize cash flow to the corporation (Kaplan & Norton, 1996c).

Exhibit 3.1: The Balanced Scorecard Framework

Source: Adapted from Kaplan, R. S. and Norton, D. P. (1996b).

Customer Perspective: How do customers see us?

Many organizations have a corporate mission that focuses on customers. Therefore, a company’s performance from its customers’ perspective has become a priority for top management (Kaplan & Norton, 1992a). “Clearly, if business units are to achieve long-run superior financial performance, they must create and deliver products and services that are valued by customers” (Kaplan & Norton, 1996c, p. 63). The customer perspective enables organizations to align their core customer outcome measures: market share, customer retention, customer acquisition, customer satisfaction, customer profitability, to targeted customers and market fragments. It
also helps them to recognize and measure, explicitly, the value propositions they
distribute to targeted customers and markets segments. The value propositions
represent the drivers and the lead indicators for the core customer outcome measures
(Kaplan & Norton, 1996c). Exhibit 3.2 illustrates the core customer outcome
measures.

### Exhibit 3.2: The Customer Perspective-Core Measures

<table>
<thead>
<tr>
<th><strong>Market Share</strong></th>
<th>Indicates the proportion of business in a given market, in terms of number of customers, dollars spent or unit volume sold, that a business unit receives (Kaplan &amp; Norton, 1996c).</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Customer Retention</strong></td>
<td>Records the rate at which a business unit retains the customers (Heskett et al., 1994) and maintains relationships with them (Kaplan &amp; Norton, 1996c).</td>
</tr>
<tr>
<td><strong>Customer Acquisition</strong></td>
<td>Measures the number of new customers added or the total sales to new customers by a business unit (Kaplan &amp; Norton, 1996c).</td>
</tr>
<tr>
<td><strong>Customer Satisfaction</strong></td>
<td>Rates the level of customer satisfaction enabling companies to count on their repeat buying behavior (Jones &amp; Sasser, 1995).</td>
</tr>
<tr>
<td><strong>Customer Profitability</strong></td>
<td>Estimates the individual and aggregate customer profitability with the help of activity-based cost systems (Cooper &amp; Kaplan, 1991).</td>
</tr>
</tbody>
</table>

*Source: Prepared by Researcher*

**Internal Business Process Perspective: What must we excel at?**

Kaplan and Norton (1996c) recommend that managers should define a comprehensive internal-process value chain beginning with the innovation process (identifying existing and future customer needs and developing new solutions to meet those needs), continues through the operations process (delivering existing products and services to existing customers) and ends with after sale service (offering services after the sale that add to the value customers receive from a company’s product and service offerings). The process of deriving objectives and measures for the internal business process perspective represents one of the major
distinctions between the Balanced Scorecard and traditional performance measurement systems. Traditional performance measurement systems focus on controlling and improving existing responsibility centers and departments (Kaplan, 1984; Howell et al., 1987; Johnson & Kaplan, 1987; Kaplan, 1990). Most organizations now-a-days supplement financial measurements with measures of quality, yield and cycle time (Nanni et al., 1988; Cross & Lynch, 1989; Lessner. 1989; Nanni et al., 1990).

**Learning and Growth Perspective: Can we continue to improve and create value?**

Kaplan and Norton (1992a) advocated that organizations are required to introduce continual improvements to their existing products and processes and gain the ability to set up entirely new product with expanded capabilities. The focus was laid on investing for future such as, new equipments and product research and development (Kaplan & Norton, 1996a). They asserted that through the ability to launch new products, generate more value for customers and enhance operating efficiencies continually, organizations can enter new markets and increase revenues (Kaplan & Norton, 1992a).

Argyris and Schon (1978) have define organizational learning as “experience-based improvement in organizational task performance” (p. 323). It is developed from three principal sources namely people, systems and organizational procedures. The financial, customer and internal business process objectives on the Balanced Scorecard reveal large gaps between the existing capabilities of people, systems and procedures and the required competence to realize breakthrough performance. To close these gaps, organizations need to invest in re-skilling employees, enhancing information technology and systems aligning organizational procedures and routines. These objectives are articulated in the learning and growth perspective of the Balanced Scorecard (Kaplan & Norton, 1996c).

**3.2.3 Strategic Processes of Balanced Scorecard**

Through the Balanced Scorecard system Kaplan and Norton (1996a, 1996b, 1996c. 1996d, 2001a) introduce four management processes that, separately and in combination, link long-term strategic objectives with short-term actions. The four
processes involved in implementing a Balanced Scorecard are depicted in Exhibit 3.3.

The first process, *clarifying and translating the vision*, helps managers build a consensus around the organization’s vision and strategy (Kaplan & Norton, 1996d). To act on the words in vision and strategy statements, the statements must be expressed as an integrated set of objectives and measures, agreed upon by all senior executives. To set financial goals, the team must consider whether to emphasize revenue and market growth, profitability or cash flow generation. For the customer perspective, the management must be explicit about the customer and market segments in which it has to compete. Further, the objectives and measures for internal business process represent one of the principle innovations and benefits of the Balanced Scorecard approach. The Balanced Scorecard highlights those processes that are most critical for achieving breakthrough performance for customers and shareholders. Finally, the linkage to learning and growth objectives depicts the rationale for significant investments in re-skilling employees, information technology, systems and organizational procedures. These investments generate major innovation and improvement for internal business processes, customers and shareholders (Kaplan & Norton, 1996c).

The second process, *communicating and linking strategic objectives and measures*, enables managers communicate their strategy up and down the organization and link it to departmental and individual objectives. The Balanced Scorecard gives managers a way to ensure that all levels of organization understand the long-term strategy and that both departmental and individual objectives are aligned with it (Kaplan & Norton, 1996d). Kaplan & Norton (1996c) reported that the strategic objectives and measures of Balanced Scorecard are communicated throughout an organization using company newsletters, bulletin boards, videos and even electronic media such as groupware and networked personal computers. The Balanced Scorecard also encourages a dialogue between business units, corporate executives and board members, not only regarding short-term financial objectives, but also the formulation and implementation of a strategy.
The third process, **business planning, setting targets and aligning strategic initiatives**, facilitates companies to integrate their business and financial plans. Managers find it difficult to integrate diverse initiatives to achieve strategic goal which often results in frequent disappointments. Kaplan & Norton (1996d) advised managers to use the ambitious goals for Balanced Scorecard measures as the basis for allocating resources and setting priorities. This allows undertaking and coordinating only those initiatives that move them toward the long-term strategic objectives. To meet ambitious financial objectives, managers need to identify stretch targets for their customer, internal business process and learning and growth objectives. Once targets for the three perspectives are established, managers can align their strategic quality, response time and reengineering initiatives for accomplishing the breakthrough objectives. The targets for the strategic initiatives are derived from Balanced Scorecard measures such as dramatic time reductions in order fulfillment cycles, shorter time-to-market in product development processes and enhanced employee capabilities (Kaplan & Norton, 1996c).

The fourth process, **enhancing strategic feedback and learning**, is considered to be the most innovative aspect of the entire Balanced Scorecard framework. It offers companies the capacity for strategic learning. Existing feedback and review processes depend on whether the business, its departments or its individual employees have met their budgeted financial goals. Kaplan & Norton (1996c) recognized that with the help of Balanced Scorecard a company can monitor short-term consequences of customers, internal business processes and learning and growth along with evaluating strategy based on recent performance.

The first three strategic processes for Balanced Scorecard are vital for implementing strategy but not sufficient in an unpredictable environment. Together they form an important single-loop-learning process, where the objective remains constant and any deviation from the planned route is considered as an error to be corrected. This single-loop process does not involve re-examination of strategy and techniques employed. Various organizations function in a turbulent environment with complex strategies which lose their validity with change in business conditions. Kaplan and Norton (1992a) suggested that companies must become capable of double-loop
learning, learning that produces a change in people's assumptions and theories about cause-and-effect relationships.

Exhibit 3.3: The Balanced Scorecard as a Strategic Framework for Action


3.2.4 History of Balanced Scorecard

Historically, firms tracked performance based mainly on financial accounting principles (Kaplan & Norton, 1996c; Barber, 2008). Bookkeeping records of financial transactions can be traced back thousands of years, when they were used by Egyptians, Phoenicians and Sumerians to facilitate commercial transactions. A few centuries later, during the age of exploration, the activities of global trading companies were measured and observed by double-entry books of accounts. The industrial revolution, during the nineteenth century, generated massive textile, steel, railroad, machine devices and retailing companies. Researcher found that in evaluating the financial performance of these organizations innovation played a
crucial role on their successful growth (Chandler, 1977; Johnson & Kaplan, 1987). By the 1970s and 1980s a general expression of dissatisfaction with traditional financial metrics was widespread. In the late 1980s and early 1990s this dissatisfaction led to a series of more multi-dimensional or comprehensive performance measurement frameworks. The new frameworks were more balanced and successfully answered the question of "what types of metrics should be used" (Bourne et al., 2000).

The conceptual groundwork for Balanced Scorecard was developed in the 1980’s and 1990’s by academicians and practitioners in several fields such as management accounting, financial and performance measurement. In the early 1900’s French academics had developed a performance measurement system based on the financial and non-financial metrics, called as Tableau de Bord. The tableau de bord was a measurement system developed by process engineers that linked strategy to financial and non-financial performance measures (Epstein & Manzoni, 1997; Mendoza & Zrihen, 2001). Unfortunately, Tableau de Bord was never brought into practice and supporting literature was never translated into English (Kaplan, 1998; Bontis et al., 1999; Halachmi, 2005). Accordingly, the systems that were in place by the 1980s were largely cost or financial based.

The early activity in the 1920’s was the work of DuPont Corporation in developing return on investment (ROI) calculations that led to the myriad of financial ratios. The financial innovations, such as the return-on-investment metric as well as operating and cash budgets, were critical to the great success of early-twentieth century enterprises like DuPont and General Motors (Johnson & Kaplan, 1987). Post-World War II activities shifted the focus on quality initiatives and quality measurement which resulted in outcomes that were not solely financial. Activity-Based Costing (ABC) was the original thinking that led to the development of Balanced Scorecard framework (Bruns & Kaplan, 1987; Johnson & Kaplan, 1987). Bruns and Kaplan (1987) defined activity-based costing as an accounting technique of allocating resource costs through activities carried out to develop products and services for customers in an attempt to understand better product and customer costs and productivity. It is frequently used to support strategic decisions including pricing, outsourcing, and identification of process enhancement initiatives.
Parker (1979) suggested a balanced view on firms' operations comprising financial measures and measures related to marketing strategy, research and development, social responsibility and employees. Elkington (1998) informed that the ideas related to triple bottom line and social accounting were introduced in 1990's and popularized as a response to trace and confirm corporate profits. It also aimed to gain reports on the impact of corporate profits on the environment, world economy and issues related to social justice. It was concluded that triple bottom line is a performance reporting structure focused on the sustainability requirements of corporations worldwide. This concept recommends regular progress reporting on three social responsibilities of large corporations: improving economic prosperity, environmental protection and social equity.

The Sarbanes-Oxley Act (SOX) of 2002 was in response to the downfall of major corporations of United States of America, including Enron and Global Crossings. The Sarbanes-Oxley Act of 2002 is also known as the Public Company Accounting Reform and Investor Protection Act of 2002. It is a federal law in the United States of America enacted as a response to corporate and accounting models. The law challenged and mandated corporations of United States of America to report financial and internal processes. It extended the requirements for reporting data on financial results and internal controls while providing severe penalties for non-compliance (Zhang, 2005).

The emergence of the information era in the twentieth century made many of the fundamental assumptions of industrial age business competition obsolete. It was found that companies could not gain sustainable competitive advantage by merely deploying new technology into physical assets rapidly and excellent management of financial assets and liabilities (Kontoghiorghes, 2003; Kaplan & Norton, 2008a). Bititci et al. (2006) point out that continual improvement methodologies such as total quality management, employee involvement and business process reengineering emphasize the necessity of performance measures for providing impetus to such improvements.
3.2.5 Evolution of the Balanced Scorecard

Through the years, the Balanced Scorecard has evolved, from the performance measurement tool originally introduced by Kaplan and Norton (1992a), to a tool for implementing strategies (Kaplan & Norton, 1996a, 1996b, 1996c, 1996d) and a framework for determining the alignment of organization's human, information and organization capital with its strategy (Kaplan & Norton, 2004a). In 1997, The Harvard Business Review listed Balanced Scorecard as one of the 75 most influential ideas of the 20th century (Bible et al., 2006). This shift has prompted companies to view the Balanced Scorecard as a strategic communication and management system. Pandey (2005) reported that since early 1980s traditional performance measurement system based solely on traditional financial ratios, has been criticized by various practitioners and management theorists for the lack of strategic focus. Research and development, employees’ training, brand building or after-sales services are few examples which might conflict with the short-term profit objective and the long-term customer satisfaction. Also, new performance measurement systems included combination of financial and non-financial set of measures. This led to the introduction of performance drivers, instead of the simple performance measurement (Seminogovas & Rupsys, 2006). Kaplan and Norton’s (1992a) Balanced Scorecard has emerged as a well-accepted performance managerial tool that assists managers with the mechanisms to develop performance objectives and measures linked to strategy. Sanger (1998) highlighted that the Balanced Scorecard acknowledges the deficiencies in many business performance measurement systems, which often depend totally on financial measures and attempts to overcome the deficiencies of existing measurement systems by measuring and analyzing results across a range of activities.

Despite the fact that the Balanced Scorecard only identify three stakeholders: shareholders (financial performance), customers (customer relations) and employees (internal business process and learning and growth) (Kaplan & Norton, 1992a: Wright et al., 1999; Hsu, 2005) and ignores two other significant stakeholders: environment and social matters (Brignall, 2002), the Balanced Scorecard has changed managers’ view of performance for the reason that it carries both financial and non-financial metrics. Whitttaker (2001) recognizes that an effective Balanced
Scorecard will articulate the strategic direction of the company, the motivation for that strategic direction and how it will progress the organization’s performance.

Following Kaplan and Norton’s publications prior to 1997, a significant change is observed in Balanced Scorecard thinking during the mid to late 1990s, that influenced the illustration of Balanced Scorecards. Balanced Scorecard has at least the following attributes now:

- A limited number of measures (Kaplan & Norton, 1992a), between 15-20 (Kaplan & Norton, 1993) and 20-25 (Kaplan & Norton, 1996c).
- Measures clustered into four groups called perspectives (Kaplan & Norton, 1992a, 1993, 1996a, 1996c), originally called “financial”, “customer”, “internal process” and “innovation and learning”. Later, the last two perspectives were renamed “internal business process” and “learning and growth”.
- Measures chosen to relate to specific strategic goals are usually documented in tables with one or more measure associated with each goal (Kaplan & Norton, 1992a, 1993, 1996a, 1996c).
- Measures should be chosen in a manner that gains the active support of the senior managers of the organization. It should reflect their privileged access to strategic information and also the significance of their endorsement and support of the strategic communications that may flow from the Balanced Scorecard once developed (Kaplan & Norton, 1992a, 1993, 1996a, 1996c).
- Kaplan and Norton (1996a) illustrated and discussed the need to show causal links between measures across the Balanced Scorecard perspectives in a fashion that anticipates second-generation Balanced Scorecard features. But later in 1996, they suggested that causality should be between “performance driver [lead]” measures and “outcome [lag]” measures (Kaplan & Norton, 1996c).
First Generation Balanced Scorecard

The Balanced Scorecard has evolved from a mere two-by-two matrix approach for performance measurement through at least another two generations (Cobbold & Lawrie, 2002). Balanced Scorecard was initially described as a simple, “4 box” approach to performance measurement (Kaplan & Norton, 1992a). In addition to financial measures, managers were encouraged to look at measures drawn from three other “perspectives” of the business: learning and growth, internal business process and customer, chosen to represent the major stakeholders in a business (Mooraj et al., 1999).

Definition of what comprised a Balanced Scorecard was sparse and focused on the high level structure of the device. Simple ‘causality’ between the four perspectives was illustrated but not used for specific purpose. Kaplan and Norton (1992a) focused on the selection and reporting of a limited number of measures in each of the four perspectives (Kaplan & Norton, 1992a). They suggested the use of attitudinal questions relating to the vision and goals of the organization to help in the selection of measures to be used.

Kaplan and Norton (1992a) mentioned little about how measure selection activity could be done, beyond general assertions about the design philosophy, for example. “Companies should also attempt to identify and measure the company’s core competencies, the critical technologies needed to ensure continued market leadership” (Kaplan & Norton, 1992a, p. 176). However, the design challenges presented by first-generation Balanced Scorecard design were severe as indicated by practitioners in the literature and authors during their personal experience working in the field (Butler et al., 1997; Ahn, 2001; Irwin, 2002; Radnor & Lovell, 2003). Also, various researchers highlighted the adverse effects of poor measure selection on the effectiveness and adoption rates of Balanced Scorecard (Lingle & Schieman, 1996; Schneiderman, 1999; Malina & Selto, 2001).

The first generation Balanced Scorecards were primarily promoted as a control tool for managers with the ‘red, yellow, green’ reporting of achievement of targets where green indicated a job well done, yellow meant scope for improvement and red needed urgent attention. Despite the Balanced Scorecard success, limitations have
been raised in both the academic and practitioner literature: its key assumptions and relationships (Nørreklit, 2000); not providing direction as to how to improve performance to achieve the desired strategic results (Gautraeu & Kleiner, 2001); uncertainty of cause and effect with finality (Nørreklit, 2000); being costly in terms of cash and time (Lipe & Salterio, 2000; Gautraeu & Kleiner, 2001); the volume of data may overload human decision-makers (Lipe & Salterio, 2002). Butler et al. (1997) argued that the greatest threat while using the Balanced Scorecard is managers selecting wrong measures and group those into the four proposed perspectives and focus on the wrong issues.

**Second Generation Balanced Scorecard**

The practical difficulties related with the design of first generation Balanced Scorecards were noteworthy, since the definition of a Balanced Scorecard was originally vague. Two significant areas of concern were filtering (the process of choosing specific measures to report) and clustering (deciding how to group measures into perspectives). Discussions relating to clustering continue to be rehearsed in the literature (Butler et al., 1997; Kennerley et al., 2000), but discussions relating to filtering are less common, and often appear as part of descriptions of methods of Balanced Scorecard design (Kaplan & Norton, 1996: Olve et al., 1999).

Between 1992 and 1996, Kaplan and Norton focused on researching means to demonstrate causality between measures (Newing, 1995). Measure-based linkages offered a richer model of causality than before, but also presented conceptual problems (Brewer, 2002; Clinton et al., 2002). Mooraj et al. (1999) identified cause-and-effect relationships as a significant attribute of the Balanced Scorecard when selecting appropriate indicators. At the same time they are difficult to integrate with the need for the Balanced Scorecard design to reflect the consensus views of the potential users. However, the idea of strategic linkage became an increasingly important constituent of Balanced Scorecard design methodology as it could be used to specify the critical elements and their linkages for an organization's strategy (Kaplan & Norton, 2001a). Measures were chosen to relate to specific strategic objectives. The design identified about 20-25 strategic objectives each associated
with one or more measures and assigned to one of four perspectives (Olve et al., 1999; Kaplan & Norton, 2000a). In the mid-1990s Balanced Scorecard documentation began to present graphically linkages between the strategic objectives (Kaplan & Norton, 1993) with causality linking across the perspectives on the way to key objectives related to financial performance. The attempt to visually document the major causal relationships between strategic objectives laid out the results in a strategic linkage model or strategy map (Olve et al., 1999; Kaplan & Norton, 1996a, 1996c, 2000a). The second generation Balanced Scorecard moved away from an attitudinal approach, to the selection of measures which had an explicit link between strategy objectives and measure. Cobbold and Lawrie (2002) referred to Balanced Scorecards that incorporate these developments as ‘Second Generation Balanced Scorecards’.

Kaplan and Norton (1996d) reported that these changes enabled Balanced Scorecard to evolve from an improved measurement system to a core management system. The authors realized that early adopters found that the Balanced Scorecard could help their organizations implement and control strategy. Therefore, the second generation Balanced Scorecard was the substitute of simplistic causality between perspectives with identifiable cause-and-effect relationships of strategic management with performance management. One of the consequences of this change was increase in pressure on the design process to accurately reflect the organization’s strategic goals. Another consequence was more awareness of the need to reflect differences in management agenda within differing parts of organizational structures. As a result, attention was given to developing ‘strategic alignment’ between management units by developing Balanced Scorecards as part of a ‘cascade’ at the business unit level (Kaplan & Norton, 1996c; Olve et al., 1999). The representation of causality between strategic objectives, known initially as the ‘Strategic Linkage Model’, and later considered an important part of a Balanced Scorecard design (Kaplan & Norton, 2000a).

Researchers suggested that for many organizations the cause-and-effects are inappropriate since it leaves out one or more important clusters (Kennerley & Neely, 2000; Brignall, 2002) or because the causality links cannot be justified (Nørreklit, 2000). The common thread among these concerns is the need to increase confidence
that the Balanced Scorecard accurately reflects the strategic objectives of the organization and that the linkages shown are significant. Organizations developing second-generation Balanced Scorecards found noteworthy practical problems both with measure selection and target setting (Barney et al., 2004) and with challenges to rationally cascade high-level (Lawrie & Cobbold, 2004).

**Third Generation Balanced Scorecard**

The third generation Balanced Scorecard model is based on a modification of second-generation design characteristics and mechanisms to present greater appreciation of strategy by improved functionality in modeling, studying and co-coordinating holistic relationships over time (Olve et al., 1999; Cobbold & Lawrie, 2002). The origin of the developments stem from the issues related to the validation of strategic objective selection and target setting. These triggered the growth in the late 1990s of a further design element - the destination statement. Destination statements were initially created towards the end of the design process by challenging the managers involved to imagine the impact of the accomplishment of the strategic objectives. This integrative process helped recognize inconsistencies in the profile of objectives preferred (Kennerley & Neely, 2000; Neely et al., 2000; Brignall, 2002) and the final document was found to be useful in validating the targets chosen.

It was quickly realized that management teams were able to discuss, create, and relate to the "destination statement" easily and without indicating the selected objectives. As a result, the design process was reversed, creating destination statement at the beginning of an activity, rather at the end. Further it was found that by working from destination statements, the selection of strategic objectives and articulation of hypotheses of causality was much easier and consensus within a management team could be attained more quickly (Shulver et al., 2000; Cobbold & Lawrie, 2002; Lawrie et al., 2004). Proper planning and awareness, in relation to Balanced Scorecard software systems, was found to be another way to overcome shortfalls (Gautreau & Kleiner, 2001).

Third generation Balanced Scorecards seek to drive transformational change and breakthrough results throughout the organization. Kaplan and Norton (2001a) have asserted that the Balanced Scorecard can be used as an organization framework for
successful strategy implementation. Cobbold and Lawrie (2002) identified key components of a third generation Balanced Scorecard as below:

- **Destination Statement**: A description, ideally including quantitative detail, of what the organization, or part of organization managed by the Balanced Scorecard users, is likely to look like at an agreed future date (Olve et al., 1999; Guidoum, 2000; Shulver et al., 2000; Shulver & Antarkar, 2001; Cobbold & Lawrie, 2002; Lawrie et al., 2004; Barney et al., 2004). The destination statement is sub-divided into descriptive categories that serve a similar purpose to the perspectives in first and second generation Balanced Scorecards (Barney et al., 2004). To decide rationally about organizational activity, an enterprise need to develop a clear idea regarding what the organization is planning to achieve (Senge, 1990; Kotter, 1995).

- **Strategic Objectives**: The destination statement offers a clear and shared picture of an organization at some point in the future, but does not present a suitable focus for management attention between now and then. The organization needs to set up objectives to reach its destination on time. By representing the selected objectives on a strategic linkage model, the design team is encouraged to apply systems thinking (Senge, 1990; Senge et al., 1999) to identify cause-and-effect relationships between the selected objectives.

- **Strategic Linkage Model and Perspectives**: The chosen strategic objectives are spread across four perspectives. Internal business process and learning and growth perspective were replaced by single “activity” perspective. The financial and customer perspective, were replaced by single “outcome” perspective (Cobbold & Lawrie, 2002; Lawrie et al., 2004).

- **Measures and Initiatives**: Once objectives have been decided, measures can be identified. Measures are raised with the purpose to carry management’s ability to monitor the organization’s progress towards achievement of its goals (Olve et al., 1999). Niven (2002) reported that initiatives are with a start and end date and mapped to strategic objectives.

The third generation Balanced Scorecards showed material benefits to organizations resulting from improved functionality as a strategic management tool. As a result, it
attained enhanced ability to support a more flexible and engaging approach to planning and development within complex organizations (Cobbold & Lawrie, 2002).

3.3 CHALLENGES TO BALANCED SCORECARD

There have been many criticisms of the Balanced Scorecard (Van Tassel, 1995; Dinesh & Palmer, 1998; Nørreklit, 2000; Bessire & Baker, 2004; Bourguignon et al., 2004; Bourne, 2008) which includes lack of human relations norm and the tendency to consider organizations as similar to mechanistic systems (Bessire & Baker, 2004; Dinesh & Palmer, 1998). Kaplan and Norton’s use of the jet plane as a metaphor to explain the behavior of organizations is also said to be misleading (Othman, 2007).

Davis and Albright (2004) reported that 77 percent of Balanced Scorecard adopters in the United States of America failed to build up a causal model of their strategy which is regarded as a central idea in the Balanced Scorecard. Related results are depicted in studies on adoption of Balanced Scorecard in Finland, Austria, Malaysia and Germany (Malmi, 2001; Othman, 2006; Speckbacher et al., 2003). The Balanced Scorecard recommends strategy map to represent a graphical illustration of the causal model of an organization’s strategy (Kaplan & Norton, 1996a; Mooraj et al., 1999; Nørreklit, 2000). But, few researchers argue that there is no specific method to help organizations develop the causal model of their strategy (Malmi, 2001; Speckbacher et al., 2003).

Kaplan and Norton (1996a, 2001a) discussed only large organizations and neglected small and medium-sized firms which researchers recommend a “one-size-fits-all” impression which may not be appropriate in all conditions (Fernandez et al., 2005; Johanson et al., 2006). Meyer (2002) reported that the larger a firm, the more difficult it is to implement a Balanced Scorecard and measure non-financial indicators. The Balanced Scorecard offers good coverage of performance measure dimensions, but provides no mechanism for building and maintaining the relevance of defined measures (Hudson et al., 2001). The framework has also been criticized for being static and ignoring the external environment (Atkinson et al., 1997; Brignall, 2002; Nørreklit, 2003; Voelpel et al., 2006). While taking into account the external environment, Kaplan and Norton (1996c, 2001b) mention only customers.
This is in conflict with Porter’s (1980, 1985) five forces and neglects the influences of suppliers, unions and others (Bontis et al., 1999; Halachmi, 2005). Functions such as human resources and information technology play a major role in successful implementation of Balanced Scorecard, yet Kaplan and Norton fail to adequately develop this relationship (Halachmi, 2005; Papalexandris et al., 2005; Ismail, 2007). Since the Balanced Scorecard is specific to companies and their specific competitive environments, it has been an issue whether the Balanced Scorecard is truly a generalizable concept (Halachmi, 2005; Papalexandris et al., 2005; Likierman, 2006).

According to Meyer (2002), there are no performance measures that are leading indicators, even though Balanced Scorecard is based on the balance of leading and lagging measures. It results in uncertainty about the reliability of performance measures to predict future economic value. He also argued that because of the time lag between causes and their effects, the time dimension should be considered in the Scorecard map. ‘Achieving Measurable Performance Improvement in a Changing World’ (2001), KPMG’s performance measurement white paper, outlined several drawbacks to Kaplan and Norton’s Balanced Scorecard. The paper argued that the four perspectives of Balanced Scorecard are limiting. It also highlighted the lack of consideration in the existing perspectives for knowledge creation processes and intellectual capital. Although, the Kaplan and Norton model is compact focusing on a limited number of strategic issues, few organizations add a fifth perspective, human resources, to Balanced Scorecard. It helps the organizations focus on performance drivers that originate from human capital. Firestone (2006) discussed the highly visible challenges to Balanced Scorecard such as disappointment among employees, lack of concentration, inadequate measurement modeling and imperfect assessment research. Challenges to Balanced Scorecard underlined by various researchers are discussed below. Table 3.1 summarizes the challenges to Balanced Scorecard.

3.3.1 Dissatisfaction, Perceived Failure and Lack of Impact

Reviewers of the Balanced Scorecard implementations have been reporting dissatisfaction, perceived failure or lack of impact. Lewy and Dumee (1998)
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mentioned results of Lewy's survey work on Dutch companies which showed a management dissatisfaction rate of 70 percent. Hendricks et al. (2004) studied 42 Canadian firms that adopted Balanced Scorecard but failed to find sufficient longitudinal data to draw firm conclusions about post-intervention performance. According to The Hackett Group's 2004 Finance Book of Numbers research, nearly two-thirds of typical companies have a Balanced Scorecard in place or in development. But only 17 percent of these developed Balanced Scorecards that rely on a mix of financial and operational metrics, indicating the complexity of implementing the Balanced Scorecard in a large number of organizations (Answerthink, 2004).

3.3.2 Lack of Concreteness in Strategic Targets

It has been recognized that the strategic vision formed as part of the scorecarding process was vague for people to understand strategic goals. In order to validate previous work done in developing objectives for strategy maps, some scorecard practitioners responded to this subject by encompassing stakeholders construct destination statements, much more concrete specifications of an organization's strategic vision (Cobbold & Lawrie, 2002; Lawrie & Cobbold, 2004). An even smaller amount started to have stakeholders construct destination statements prior to constructing strategy maps, modifying the Balanced Scorecard framework and deciding on indicators as measures of objectives. Destinations statements turned out to be the solution to the problem of lack on concreteness in strategic targets, but this measure has yet to be completely adopted in Balanced Scorecard practice.

3.3.3 Conceptual Incompleteness

Since the early days of the Balanced Scorecard there have been questions about the adequacy of the framework. Kaplan and Norton (1996) answered these queries by stating that the original four perspectives do not represent a "straight jacket" that must be imposed. Niven (2003a, b) recommended examples of frequent reviews of the frameworks in specific areas covered in his books. Cobbold (2004) underlined that public sector managers were found happy to reduce the four perspectives framework to a two perspective: 'activity' and 'outcome' framework. Presently the four perspective framework is used as a starting point in the Balanced Scorecard
design process. The Balanced Scorecard’s four perspectives framework suggests an orientation to thinking about the sorts of indicators that might be added in the Scorecard. If the framework is unrepresentative, it may bias one’s thinking even when destination statements are used to structure modeling and selection of objectives (Firestone, 2006).

3.3.4 Weakness in Measurement Modeling

One of the major issues in the Balanced Scorecard literature has always been regarding the constraints to be placed on the quantity of indicators used in Balanced Scorecard systems. Kaplan and Norton (1992a, 1996c) emphasized the idea that relatively few indicators should be used in the initial management of the matter. Firestone (1996) and Schneiderman (1999) laid stress on significance of controlling the number of indicators and argued that too many indicators in Balanced Scorecard are the major cause for failure in Balanced Scorecard interventions. The limitation in the number of indicators is an effort to address the problem of focus in Balanced Scorecard. It is associated to the idea that such systems ought to present a simple dashboard that executives can utilize to drive the organization. The Balanced Scorecard practitioners are found to be committed to the idea that the dashboard they build for executives must be as economical as possible in the number of indicators it includes.

3.3.5 Impact Modeling and Evaluation Research Weaknesses

The Balanced Scorecard is still in its early stages of use in impact modeling to predict and measure the Balanced Scorecard interventions and change in strategies and policies on organizational performance (Ittner & Larcker, 1998; Malina & Selto, 2001; Salterio & Webb, 2003; Hendrick et al., 2004). To solve the concern, Cavaleri and Sterman (1997) focused around the use of system dynamics and statistical analysis. Designing system dynamics in advance is promoted in order to perform impact evaluation. Sloper et al. (1999) developed a dynamic feedback framework for public sector performance management specifying how system dynamics and the Balanced Scorecard can be combined. Wolstenholme (1998) specified three ways in which systems dynamics could be used to develop Balanced Scorecard systems. It can be used to model relationships between components of a strategic vision in
strategy maps. It can also be used to develop dynamic relationships in sub-models. Lastly, it can be used to model specific but still high-level relationships dealing with trade-offs among performance measures.

### Table 3.1: Summary of Challenges to Balanced Scorecard

<table>
<thead>
<tr>
<th>Authors</th>
<th>Challenges to Balanced Scorecard</th>
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<tr>
<td>Fernandez et al. (2005), Johanson et al. (2006)</td>
<td>Neglected small and medium-sized firms</td>
</tr>
<tr>
<td>Meyer (2002)</td>
<td>Unreliable performance measures to predict future economic value</td>
</tr>
<tr>
<td>Firestone (1996, 2006), Schneiderman (1999)</td>
<td>Large number of indicators</td>
</tr>
</tbody>
</table>

*Prepared by Researcher*
3.4 RESEARCH ON BALANCED SCORECARD IN VARIOUS SECTORS

3.4.1 Balanced Scorecard in Information Technology Sector

In recent years, Balanced Scorecard has been applied to information technology. Wright et al. (1999) and Huang Hu (2004) examined the integration of information technology or web services with Balanced Scorecard. Wright et al. (1999) suggested that a Balanced Scorecard theory is a consistent performance management tool for the use of information technology, internet and electronic service. Information Technology Balanced Scorecard has become popular with its concepts widely supported and dispersed by international consultant groups such as Gartner Group, Renaissance Systems and Nolan Norton Institute (Grembergen et al., 2003). Ibanez (1998) discussed the development of Information Technology Balanced Scorecard for software producing business units. Bensberg (2003) develops a controlling instrument for data warehouse systems based on the Balanced Scorecard approach. On the basis of the technological aspects of data warehouse systems, the Balanced Scorecard perspectives are developed and populated with relevant objectives and measures for data warehouse success. These perspectives are integrated into a consistent data warehouse scorecard which provides a holistic approach to drive the performance of data warehouse systems. Rickards (2007) reported a medium-sized firm that developed strategic and operational Balanced Scorecards as well as benchmark development for e-commerce. Body et al. (2008) also addressed the issue of e-government services delivery performance using the concept of the Balanced Scorecard approach. The study provided a research model dedicated to the combined Balanced Scorecard and e-government service delivery performance. It allowed Internet and information systems experts to inform government agencies, veteran service and benefit providers about the impact of internet network use on e-government service delivery performance.

3.4.2 Balanced Scorecard in Health Care Sector

The health care industry faces considerable strategic challenges and strong pressure to be more responsive to customers' demands by improving quality and efficiency (Chow et al., 1998; Kocaktläh & Austill, 2007; Lorden et al., 2008). This situation entails additional demands on a hospital's information-processing capabilities.
(Chow et al., 1998) because traditional performance measurement and management control systems lack abilities to meet multiple strategic objectives (Zinn et al., 2006; Lorden et al., 2008). As a result, various studies demonstrated the adoption of the Balanced Scorecard by a broad range of health care organizations (Gordon, 1998; Wolfersteig & Dunham, 1998; Oliveira, 2001; Griffith et al., 2002; Inamdar et al., 2002; Auger & Roy, 2004; Huang et al., 2004; Huang & Chang, 2004; ten Asbroek et al., 2004; Pieper, 2005; Chan, 2006; Fottler et al., 2006; Yang & Tung, 2006; Lorden et al., 2008). Baker and Pink (1995) proposed a strategy for adapting the Balanced Scorecard to healthcare organizations (Pink et al., 2001; Zelman et al., 2009). Kocakülâh and Austill (2007) highlighted the various reasons for healthcare organizations to adopt Balanced Scorecard. They also highlighted various issues faced by health care industry such as cost containment, performance management, effectiveness and potential changes. The authors suggested that Balanced Scorecards are particularly applicable to hospitals, clinics and health care companies. To achieve the ultimate Balanced Scorecard in a healthcare organization, Bloomquist and Yeager (2008) proposed certain lessons: 'be flexible', 'be consistent', 'be clear', 'be open', 'be thorough', 'be efficient', 'be inclusive' and 'be systematic'.

Groene et al. (2009) expressed a generic approach to strategy development, illustrated the use of the Balanced Scorecard as a tool to assist strategy implementation in the acute care setting and demonstrated how to breakdown strategic goals into measurable elements, using the example of one of the core health promotion strategy: improving patient involvement. The study confirmed that Balanced Scorecard is a useful tool to guide strategy development and implementation in healthcare. Goodman et al. (2001) provided examples of the focus and metrics that a healthcare organization might use in conjunction with each of the four perspectives. A causal-loop diagram provided a holistic view of the system and helped reduce the split between different views of opposition and supporters in National Health Service Performance ratings system in the United Kingdom. They recognized Balanced Scorecard as one of the useful strategic tools that link various performance management activities of the organizations (Patel et al., 2008). In Swedish healthcare context, Balanced Scorecard has proven to be useful in broadening performance management beyond purely financial issues (Aidemark.
According to Devitt et al. (2005), one Canadian hospital’s strategic management system includes a corporate Balanced Scorecard that is cascaded to the departmental level. This Scorecard has successfully supported performance improvement, as each indicator on the Balanced Scorecard includes data trending and analysis, a plan for performance improvement and accountability for the indicator. Lesneski (2005) developed a performance measurement system for local public health agencies in the Florida department of health using Balanced Scorecard approach. The aim was to develop and pilot a performance measurement that successfully translated the mission of local public health agency into measures that can help practitioners of public health manage improvement in organizational performance and community health outcomes.

It is hard for hospitals to adapt to new strategic objectives due to reasons explained by Groene et al. (2009). First, common pitfall of strategy implementation is to believe that strategy once drafted and approved, unfolds independently to organizational units. This failure to integrate strategy into organizations’ policies can be observed while evaluating the effect of hospitals’ mission statements (Bart, 1999; Williams, 2005; Desmidt, 2007; Smythe, 2006). Secondly, strategic decisions may be taken by management solely on the basis of routine performance and financial data. This is a concern that has been observed for private sector oriented organizations such as Health Maintenance Organizations operating in the US health care industry and European countries (Brinkmann et al., 2003). For mid and long-term planning of hospital services, however, additional information in relation to patients, clients, staff, core processes and innovation potentials are gradually gaining importance (McKee et al., 2002). Thirdly, new strategic themes developed by management are often not shared, understood and equally supported by all staff members (Groene et al., 2009). As a consequence of these limitations, existing planning and practice are not satisfactorily transformed by executing management’s strategic positioning.

3.4.3 Balanced Scorecard in Education Sector

Replacing customer with student and academic interpretation of the other three perspectives organize the Balanced Scorecard for universities. The majority of
colleges and universities have a mission or a vision statement that sets out in broad terms the goals of institution. Within the context of these objectives, the institution must decide the target (Dorweiler & Yakhou, 2005). Studies reveal that colleges and universities use Balanced Scorecard to develop frameworks for measuring institutional effectiveness on the macro-level (Ruben, 1999; Karathanos & Karathanos, 2005). Balanced Scorecard provides university administrators with a measurement system that is not only linked to mission and strategy, but also a learning model that maintains continuous improvement and environmental responsiveness. A questionnaire survey involving 140 secondary schools, in Sarawak, Malaysia, a non-profit public sector, was carried out by Lee (2006) in which school administrators, teachers and students participated. It suggested that in order to make organizations healthy, a wide range of indicators need to be incorporated in the performance management framework to measure financial and non-financial aspects as well as the lag and lead measures. Beard (2009) presented results of successful implementation of Balanced Scorecard at the Kenneth W. Monfort College of Business at Northern Colorado, a 2004 Malcolm Baldrige National Quality Award recipient and at the University of Wisconsin-Stout, the first university to receive the award in 2001. An adapted form of the Balanced Scorecard is a component of the Malcolm Baldrige National Quality Award (2003).

3.4.4 Balanced Scorecard in Hospitality Sector

The use of Balanced Scorecard in hotels stimulates its use within the hotel sector (Brander-Brown & McDonnell, 1995). The description of the Balanced Scorecard in Hilton Hotels by Huckstein and Duboff (1999) and Denton and White (2000) contributed to very few publications on the practical aspects of the Balanced Scorecard. Huckstein and Duboff (1999) used a case study in order to examine the exercise of the Balanced Scorecard approach delivering consistent value for its stakeholders. The findings of the study were communicated in a simple and effective manner using green, yellow and red rubrics. Denton and White (2000) also used a case study approach to highlight how the use of Balanced Scorecard as a strategic control tool in the United States hotel sector (Cobbold & Lawrie, 2002). The implemented Balanced Scorecard was a conscious step for management to address the potential difficulties before it affects the bottom line. Phillips (2007) adopted a
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longitudinal approach over a period of three years and aimed to expand understanding about the theoretical and practical aspects of the Balanced Scorecard as a strategic control tool. He studied the implementation of the approach in a major UK hotel company. It also explored if there were any performance differences among those hotel units that were at different stages of Balanced Scorecard implementation.

3.4.5 Balanced Scorecard in Government Organizations

Since the early 1980s the public sector has undergone radical reforms that laid emphasis on a for-profit sector style of management for organizational effectiveness and economic efficiency (Hood, 1995; Guthrie & English, 1997; Bevir et al., 2003).

This need for modernization motivated government administrators to implement modern management tools (Alexander, 2000; Ramia & Carney, 2003; Chang, 2006; Irwin, 2002; Lawrie & Cobbold, 2004). Anecdotes indicate a growing evidence of application of Balanced Scorecard, particularly in the government sector (Atkinson & McCrindell, 1997; Silk, 1998; Olve et al., 1999; Kloot & Martin, 2000; Griffiths, 2003) where performance measurement and management has been a subject of concern among officers (Foltin, 1999; Poister & Streib, 1999).

Kaplan and Norton declare the Balanced Scorecard to be a strategic performance management system rather than merely a performance measurement system (Kaplan & Norton, 1992a, 1993, 1996d). The Balanced Scorecard offers a co-ordinated approach to ensure an authority’s declared strategic priorities and goals are visibly linked to corporate, service and business plans which are ultimately linked to continuous performance improvement (Wisniewski & Ólafsson, 2004). Balanced Scorecard effectively integrates performance management systems with mainstream budgetary and management processes, which local government fails to perform (Palmer, 1993).

Inamdar et al. (2002) interviewed nine managers from non-profit hospitals which were in an early stage of implementing Balanced Scorecard framework. It reported a measurable performance improvement in competitive marketing positions, financial results and customer satisfaction. The cause-and-effect reasoning of the Balanced Scorecard often helped to identify gaps in existing strategies (Inamdar et al., 2002). The Scorecard development process forced these hospitals to clarify and gain
consensus on the strategy. Moreover, it increased the credibility of management with the board members and facilitated learning and improvement. Woods and Grubnic (2008) aimed at demonstrating the theoretical linkages between the Comprehensive Performance Assessment of local government and the Balanced Scorecard. The researchers also used a case study of performance management within a well-managed province board and showed how these linkages provide evidence of the positive effects of the Balanced Scorecard upon council performance.

In the United Kingdom, the Balanced Scorecard in public sector appears to offer considerable potential to local authorities by contributing to improved performance measurement and enhanced performance. The Balanced Scorecard gained the attention of several local authorities in Iceland where the government bodies aimed to enhance efficiency and effectiveness of the services offered. These include by far the largest municipality with over 110,000 people, Reykjavik, and numerous other smaller municipalities. Reykjavik has worked regarding the implementation of the Balanced Scorecard since 2000 and it was seen as a logical extension of the management by objectives initiative that started in 1996 (Wisniewski & Ólafsson, 2004). Most municipal governments in United States of America and Canada have developed measures to evaluate organization’s financial condition, customer satisfaction, operating efficiency, innovation and employee performance (Chan, 2004). There are many single-case descriptions which report a useful implementation of Balanced Scorecard in the non-profit world. The Mayo Clinic, the Special Olympics, Duke Children’s Hospital, New Profit Inc. or United Way of Southeastern New England are few such American examples (Kaplan & Norton, 1996a; Curtright et al., 2000; Kaplan, 2001; Meliones, 2002).

Kasperskaya (2008) narrated the experience of two Spanish city councils which embarked on new performance measurement projects using Balanced Scorecard framework. Modell (2009) experimented with total quality management and Balanced Scorecard in the context of Swedish central government, specifically in a central government agency- the Swedish National Board of Student Aid. This study was a part of a larger research program examining the influence of recent central government reforms on the development of performance management and control
practices of central government agencies (Modell et al., 2007; Modell & Grönlund, 2007).

3.5 BALANCED SCORECARD: INDIAN SCENARIO

The liberalization and globalization of the Indian economy in 1991 brought substantial changes in the level of competition, production environment and cost structure of firms and led to rapid development of advanced technologies (Venkata Ratnam, 1998; Joshi, 2001; Bhatnagar et al., 2004). In order to ensure the survival and maintain the competitive advantage in highly changing business environment, corporate India was under pressure to adopt contemporary management techniques including Balanced Scorecard (Joshi, 2001; Turner et al., 2005). The history of Balanced Scorecard in India is short and so far there have been limited studies on Balanced Scorecard in India with mixed experiences (Batra, 2006). Recognizing the strategic relevance and importance of Balanced Scorecard, increasing number of organizations in India has been using the Balanced Scorecard framework as a measurement and management technique (Gupta et al., 2004).

Anand et al. (2005) found the adoption rate of Balanced Scorecard in India to be 45.28 percent. Anderson and Lanen (1999) carried out a study on accounting practices of 14 Indian firms and notified that information on customer expectations and satisfaction, competitor’s performance and internal information on process variations such as quality measures, on-time delivery, unit product cost and product quality failure, has assumed greater significance for strategy formulation in the post-reform India. The organizational performance models of the Indian firms not only cover added external perspectives but are also include traditional measures for increasing productivity.

Joshi (2001) conducted a survey of 60 large and medium-sized Indian manufacturing organizations. The outcomes declared that out of 53 respondent firms, 24 adopted Balanced Scorecard as a performance management tool. There was extensive utilization of financial measures such as return on investment, variance analysis and budgetary control in performance evaluation. Bhagwat and Sharma (2007) developed a Balanced Scorecard for supply chain management that
measured and assessed day-to-day business operations from the four perspectives of Balanced Scorecard. It was a result of extensive review of literature on supply chain management performance measures (Chan et al., 2003), supported by three case studies, each illustrating ways in which Balanced Scorecard was developed and applied in small and medium sized enterprises in India.

The Commercial Vehicle Business Unit (CVBU) of Tata Motors, the first Indian company to implement the Balanced Scorecard in India, was inducted in the Balanced Scorecard Hall of Fame offered by the Balanced Scorecard Collaborative, Inc. The implementation of the Balanced Scorecard in CVBU of Tata Motors focused on defining, cascading and communicating strategies across the organization. The Scorecard incorporated safety, quality, delivery, cost and morale (SQDCM) and also volume, market share, customer satisfaction, dealer satisfaction and receivables (VMCDR) (Khanka, 2012).

The implementation of Balanced Scorecard framework at Infosys Technologies, one of the world’s top information technology companies, facilitated communication across the entire organization, enhanced the understanding of vision, mission and strategy along with integration of the vision, mission and strategy to the goals and objectives of individuals and departments. It also acted as an effective basis for resource allocation with focus on both managing current performance as well as long-term value (Singh & Kumar, 2007).

Godrej-GE Appliances Limited, Mumbai, a consumer appliances manufacturing company had many management initiatives for quality and cost savings. To integrate these management initiatives, the organization implemented Balanced Scorecard framework in 1998. Also, Goodlass Nerolac Paints Limited, a leading paint company in India, adopted the concept of Balanced Scorecard for organizing its business strategy and managing enterprise performance. The framework was communicated across the organization which developed into a business review and enterprise performance management framework. The experience of adopting the Balanced Scorecard at Philips Electronics showed that all units resulted in six common indicators- profitable revenue growth, customer delight, employee satisfaction, drive to operational excellence, organizational development and...
information technology supports (Singh & Kumar, 2007). Bhatnagar et al. (2004) described effective implementation of Balanced Scorecard performance management system at *ITC Maurya Sheraton and Towers*, New Delhi. Few other renowned companies in India that have adopted the Balanced Scorecard are *Tata Consultancy Services, Castrol India* and *Taj Group* (Singh & Kumar, 2007).

### 3.6 BALANCED SCORECARD: GLOBAL SCENARIO

Various studies reported that up to 60 percent companies in the *United States of America* have experimented with the Balanced Scorecard (Silk, 1998). A survey of management techniques and tools found Balanced Scorecard framework to be one of the most popular management tools, with about 44 percent of organizations in North America utilizing it (Rigby, 2001). In the Dutch media statements such as having “a fad-like impression” (DuMee, 1996, p. 21), qualifying the Balanced Scorecard as “a real trend” (Koning & Conijn, 1997, p. 36), being “a true hype” (Hers, 1998, p. 19) and “a self-respecting organization apparently can no longer do without the Balanced Scorecard” (Van den Heuvel & Broekman, 1998, p. 23), advocate that the Balanced Scorecard is an important administrative innovation that has become widely spread and introduced many changes in a variety of organizations in the *Netherlands* during the late 1990s (Braam et al., 2007).

Speckbacher et al. (2003) surveyed 174 senior management executives from German-speaking countries, namely, *Austria, Switzerland* and *Germany*. It was found that 26 percent of the firms used the Balanced Scorecard at the business-unit level or use its incomplete version. The cause-and-effect chains were found in the Balanced Scorecard of 50 percent of the user firms. Also, more than two-third of the Balanced Scorecard user firms linked their compensation to the Balanced Scorecard.

Over the years, hospitals in *Canada* have been under pressure to reduce costs and improve the quality of patient care. In response, in 1995, the Canadian Institute for Health Information developed a hospital Scorecard to be used in evaluating performance of hospitals of Ontario (Parkinson et al., 2007). A survey undertaken in *New Zealand* reported that more than 60% of the New Zealand stock exchange’s top 40 companies employ Balanced Scorecard at the organizational or division levels (Blundell et al., 2003). The survey also showed that non-financial performance
measures continued to lag financial measures in perceived importance among surveyed companies.

In Australia, the adoption rate of the Balanced Scorecard is found to be 88 percent (Chenhall & Smith, 1998). McCunn (1998) reported nearly thirty percent of Australia’s top 1000 companies use Balanced Scorecard. Relatively high number of firms use the traditional four perspectives, 20 percent of firms use three and 11 percent use only two (Brown et al., 2008). Brown et al. (2008) also discussed the high prevalence of non-traditional perspectives with 71 percent of firms using something else other than the traditional four perspectives. About half the firms surveyed had either an environment or a community perspective in their Balanced Scorecard.

Ismail (2007) aimed at examining performance evaluation measures across private sector companies in Egypt. The outcome indicated that the Egyptian companies depend on performance evaluation measures for planning, control and decision-making purposes. The Balanced Scorecard had extensive utilization in Egyptian companies but the level of use of multi-dimensional indicators was significantly low. This highlighted a significant gap, which may be narrowed by escalating management awareness regarding the role of performance evaluation measures.

Hwang and Rau (2007) described the utilization of Balanced Scorecard by a large rubber company in Taiwan. Besides the four perspectives, the organization added a technical perspective. This investigation offered, specifically rubber companies, a direction and suggestions for the development and future implementation of the Balanced Scorecard. Xiong et al. (2008) examined the results of a survey in China and asserted that most Chinese firms use non-financial performance measures to maintain a competitive advantage.

3.7 RESEARCH ON BALANCED SCORECARD AND CORPORATE REALITIES

3.7.1 Balanced Scorecard and Strategy

Balanced Scorecard framework has proved to be successful in explaining and managing an organization’s strategy. A Balanced Scorecard addresses well-known issues related to strategy implementation; communication (Alexander, 1985; Beer &
Eisenstat, 2000) explanation of priorities and enhanced coordination across functions, businesses and boundaries (Beer & Eisenstat, 2000) and middle management issues (Giles, 1991; Bungay & Goold, 1991). The link between performance measures and organizational strategy is a characteristic unique to Balanced Scorecard framework (Kaplan & Norton, 1992a, 1996a). The strategy link communicates to managers the firm’s strategy and objectives (Kaplan & Norton, 1996a, 2008a). Although the necessary link between the effective performance management systems and strategy is well established (Butler et al., 1997; Kaplan & Norton, 1996a), there are still relatively few studies focusing on the potential role of the Scorecard in the process of strategy implementation.

Groene et al. (2009) aimed at illustrating the use of Balanced Scorecard as a tool to facilitate strategy implementation and demonstrate how to break down strategic goals into measurable elements. Atkinson (2006) presented a range of literature to understand factors that affect successful strategy implementation and bridge the boundaries between strategy implementation literature and performance management implementation and control. Bloomquist and Yeager (2008) agreed that when Balanced Scorecard is linked to a performance management system, it enables the organization to align business activities with strategy, while impacting the performance of staff. Lawson et al. (2006) discussed the six principles of Kaplan and Norton to use a strategy-focused Scorecard system: building an executive leadership team to mobilize change, translating strategy into operational terms, linking and aligning the organization around its strategy, making strategy every one’s job, linking strategy and budgeting and finally, turning strategy into a continuous process. Benefits of a strategy-focused Scorecard include increased communication, enhanced ability to measure performance, better organization alignment, increased revenues and decreased costs.

Kaplan and Norton (2008b) described an integrated process for linking strategy and operations, a process Harvard’s editors refer to as the ‘unified field theory of management’. Kaplan and Norton’s new process for linking strategy with operations consists of a six-stage doubleloop cycle of activities in the areas of strategy management and operations management. Kaplan and Norton (2008b) assured that the integration of six activities: developing the strategy, translating the strategy,
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aligning the organization, planning operations, monitoring and learning and testing and adapting, can lead to masterful strategy execution and can produce what is referred to as an ‘execution premium’—performance results obtained through the solid execution of strategy.

Studies in organizations which implemented Balanced Scorecard revealed contrasting differences in their perceptions of performance measurement systems under the Balanced Scorecard versus other performance measurements. Findings reported that other performance measurement systems served a narrow purpose and failed to manage organization’s strategy achieve its aims. Also, they failed to inform about the complex interrelationships of strategies across various levels of the organization by ignoring cause-and-effect linkages. Whereas, the Balanced Scorecard and its four perspectives focused on making the organizations realize the cause-and-effect logic. It also linked strategy with resource allocation and supported greater accountability (Inamdar et al., 2002). In a research conducted by Palladium in 2006, it was found that out of organizations which did not possess a systematic performance management process to link strategy with operations, only 27 percent performed as well as, or better than, the average of their industry peer group. On the contrary, among organizations which applied process for linking strategy to operations, 70 percent declared to perform as well as, or better than, their industry peers. Pateman (2008) identified this as a large gap between winners and losers.

3.7.2 Balanced Scorecard and Culture

Kaplan and Norton (2001a) notified that one of the roles of a corporate Balanced Scorecard is to articulate the, “... values, beliefs, and ideas that reflect the corporate identity and must be shared by all strategic business units ...” (p. 169). Kaplan and Norton argue that Balanced Scorecard enables tangible and intangible assets to be linked through the cause-and-effect model, to enhance organizational value (Kaplan & Norton, 2001a). Kaplan and Norton (2001a) describe that the ‘learning and growth’ dimension of Balanced Scorecard deals with the cultural shifts necessary to achieve strategic objectives. Kaplan and Norton (2004a) continue to inform that the ‘learning and growth’ objective appearing most commonly in Balanced Scorecard is “shaping the culture” (p. 60). Smith (1998) and Kaplan and Norton (2001a) assert
that if the nature of the organization would change then its culture would change too. This would suggest that the researchers perceive a role for a ‘culture measure’ in corporate level scorecards. This further indicates that strategy changes often need changes in culture to accomplish those strategies. Brown (2000) argued that in order to develop a Balanced Scorecard, it is necessary to embed organizational values in it. He attributes the identification of organizational values to the total quality movement and articulates a link to the Baldrige Award. Whirlpool, the appliance manufacturer, has implemented a Balanced Scorecard framework as an approach to create a performance culture within its European subsidiaries (Mooraj et al., 1999).

3.7.3 Balanced Scorecard and Human Resources

Anonymous (2008) responded the questions related to Balanced Scorecards. unclaimed wages and information data. By linking clearly defined department objectives and performance to strategic business goals, the Human Resource Balanced Scorecard allows human resource staff to focus on activities in support of company goals. There has been emphasis on Personal Balanced Scorecard which focuses on the changing individual behavior to drive organizational effectiveness and enhance performance, innovation, employee satisfaction and motivation. The Personal Balanced Scorecard encompasses the personal mission, vision, key roles, critical success factors, objectives, performance measures, targets and improvement actions, divided along four perspectives: internal, external, knowledge and learning and financial. This assists the employees to reflect upon their personal habits, skills and behavior and can arrange the employees in the direction of personal well-being and success in society (Rampersad, 2006).

In a study conducted by Burney and Swanson (2010) at Institute of Management Accountants, the results demonstrated higher levels of job satisfaction when managers reported stronger strategy links. A better understanding of organizational strategy enables managers to make decisions that are consistent with the goals of a firm (Malina et al., 2007). Forrett and Sullivan (2002) examined three major shifts in individual career patterns and suggested a fresh approach for managing employment. The researchers described how to build one’s social capital through networking. Result also showed that networking helps improve the likelihood of finding new
jobs and is linked to increase in compensation, promotions and career satisfaction. The study recommended and provided suggestions for examining and improving one’s network holistically through a Balanced Scorecard approach. Bergendahl & Dagås (1997) confirmed that the Balanced Scorecard provides feedback to the workers on their efforts towards the organization, informing them regarding their roles played in the achievement of business objectives. Turner (2006) recognized the useful application of Balanced Scorecard to career and family equilibrium. To adapt Kaplan and Norton’s framework to family goals, the traditional core areas of measurement—financial, customer, internal-business-process and learning and growth, are substituted with personal core areas of measurement—financial stability, family culture and values and career success.

### 3.7.4 Balanced Scorecard and Organizational Performance & Effectiveness

After about a decade of being presented in the literature, one of the most compelling questions remains whether the implementation of Balanced Scorecard actually enhances company profitability. It has been suggested that companies adopting performance measurement system would improve their corporate performance and profitability by identifying the causal relationships between actions and performance (Buhaovac & Slapničar, 2007). There is some evidence that non-financial performance measures are positively associated with performance (Abernethy & Lillis, 1995; Ittner & Larcker, 1995, 1997; Chenhall, 1997; Perera et al., 1997; Ittner et al., 2003; Kaynak, 2003; Said et al., 2003; Davis & Albright, 2004). Thompson and Mathys (2008) advocated the use of an aligned Balanced Scorecard as a means to enhance the Scorecard approach and improve leadership effectiveness.

Balanced Scorecard facilitates organization decide the factors essential for the success of a business (Summerfield & Kingsnorth, 2009). The relationship between non-financial and financial measures should be one of cause and effect. Non-financial measures impact finances through several stages. For instance, the right staff and technology that engage in strategically important activities satisfy customers and obtain new business (Olve et al., 1999). Empirical studies found that non-financial measures such as customer satisfaction are positively related to financial indicators such as stock prices and revenues (Anderson et al., 1994; Amir
& Lev, 1996; Ittner & Larcker, 1998; Banker et al., 2000). The customer-centric framework relates customer satisfaction to purchase or repurchase intentions and thereby to a firm’s future sales levels (Kreps, 1990). Further, customer satisfaction is described as evolving over time, based on consumer’s experience with the product for which quality and reliability of the product is maintained through internal-business-processes (Anderson et al., 1994).

Hoque and James (2000) surveyed 66 Australian manufacturing firms and recognized that Balanced Scorecard usage is significantly correlated with higher organizational performance. They measured organizational performance by return on investment, margin on sales, capacity utilization, customer satisfaction and product quality. Davis and Albright (2004) compared financial performances of two sets of banking branches of the same institution before and after one set has implemented a Balanced Scorecard. The financial performances of the branches that implemented the Balanced Scorecard system improved while the financial performance of the control set of branches did not change. The Ontario Physical and Health Education Association (OPHEA), Canada, is one volunteer sector organization that has successfully implemented Balanced Scorecard to ensure that its staff was sufficiently trained and its business processes were effective (Markham, 2003). Narrett (2008) enlightened how Balanced Scorecard Strategic Management System helped PSE&G, America’s largest combined electric and natural gas company, set new levels of excellence in reliability, safety, innovation and overall performance. As a result, the company reduced customer complaints by 40 percent, achieved successful operations, got people throughout the organization focused on activities to produce improved outcomes and transformed PSE&G’s culture into one that emphasize excellence, accountability and continuous advancement.

3.7.5 Balanced Scorecard and Change

As organizations around the world transform themselves for competition that is based on information, their ability to exploit intangible assets has become far more critical than their capacity to invest in and manage physical assets. Several years ago, in recognition to this change, Kaplan and Norton (1992a) introduced a concept called Balanced Scorecard, which is suggested as an invaluable tool in transforming
organizations. The Balanced Scorecard is a customer-based planning and process improvement system, with its primary focus on driving an organization’s change process by identifying and evaluating relevant performance measures. Studies on Balanced Scorecard focused on many firms have found that the Balanced Scorecard a useful tool for focusing and sustaining their continuous improvement efforts (Kershaw & Kershaw, 2001; Brewer, 2002; Gumbus & Lyron, 2002). Jayashree and Hussain (2011) proposed a holistic conceptual framework for identifying, formulating, deploying, measuring, aligning and tracking strategic changes in organizations using Balanced Scorecard.

Bhatnagar et al. (2004) explored the use of Strategic Human Resource Management through the implementation of a Balanced Scorecard approach as a tool for innovative performance management. Denton (2005) reports that 76% of companies believe that corporate culture is highly important and should be measured but only 37% are doing so. In order to be effective, all performance management systems require a provision to manage culture. Such provisions should monitor changes in the culture and the ways that interactions, both internal and external to the organization, are affected by those changes (Halachmi, 2005). Rigby and Bilodeau (2007) assert that corporate culture directly impacts the success of management tools used to aide companies in process improvement and decision making. Kaplan and Norton (2001a) further emphasize that using the Balanced Scorecard will result in changes in organizational culture to one focused on the corporate strategy (Smith, 1998; Kaplan & Norton, 2001a).

Kaplan and Norton (2001a) described AT&T Canada, Inc., which was later known as United Communication, Inc., where a new Chief Executive Officer revived the company back from the verge of bankruptcy setting stage for turnaround Balanced Scorecard strategic management system. In the mid 1990s, prior to introduction of the Balanced Scorecard, the company underwent huge losses and ranked at the bottom in surveys of employees satisfaction. By 1998, the company was able to generate positive cash flow, revenue per employee increased more than 35% in three years and the organization was ranked in the top 10 in a survey of employee satisfaction carried out in 1998 at 500 North American companies. Similarly, Ashton (1998) examined National Westminster Bank and its utilization of Balanced...
Scorecard to improve quality and service. It also aimed at changing the corporate culture from its traditional command and control structure. Balanced Scorecard helped to overcome the traditional bias in banking towards financial reporting by introducing a system that can account for factors such as learning and innovation.

Pienaar and Penzhorn (2000) discussed the implementation of the Balanced Scorecard model for facilitating transformation at an academic library, the Academic Information Service, University of Pretoria, South Africa, which involved major structural changes. It offered a wide range of innovations and improvements in performance contributing to the development and continuance of long-term competitive benefit. Souissi and Itoh (2006) explored the utilization of Balanced Scorecard in a high-tech Japanese company as a tool for a change program. The researchers also highlighted challenges to link the attainment of the strategic objectives across all the dimensions of Balanced Scorecard to employee compensation. The organization was under immense pressure to promote the NTT Comware brand as a world leader in advanced technology. In addition, the organization also aimed to increase its customer base through the excellent quality of its products. At the beginning, the Balanced Scorecard was perceived as a performance measurement system and a tool to organize the change program. Subsequently, top management transformed it into a means to communicate the strategic objectives across all the organization’s units.

3.8 RESEARCH GAP

The extensive review of literature indicated that various researchers and practitioners discussed the ideas of change management and Balanced Scorecard. Organizations competing in the fast-changing business environment constantly explore for a robust strategy to survive the new global economic order, achieving improved performance continuously. Many studies acknowledged the relationship between change interventions and organizational effectiveness. Balanced Scorecard has been linked to many management concepts especially organization dashboards, total quality management and six sigma implementations (Kirby & Hughes, 1997; Niven, 2005). There is a considerable body of literature linking the Balanced
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Scorecard to organizational culture (Kaplan & Norton, 2001a; Bititci et al., 2004; Kaplan & Norton, 2004a; Halachmi, 2005; Hammer, 2007; Rigby & Bildeau, 2007). The need for using integrated and strategic performance management tools such as the Balanced Scorecard to measure, evaluate and manage the change process has lately been found in writings by a few researchers (Hayes, 2007; Grieves, 2010). Researchers acknowledge that transformations require the realignment of the vision, mission, strategy and culture at a systemic level (Jayashree & Hussain, 2011).

Although, very few studies have recognized the relationship between change management and Balanced Scorecard in limited areas, no research has yet studied this relationship empirically. Surprisingly, little academic research has focused on outcomes of the Balanced Scorecard usage on performance of organizations (Ittner & Larcker, 1998). There is a lack of studies on change management and Balanced Scorecard based on reliable and valid research instrument. To the best of the knowledge of the researcher, there has been no study in India and abroad which compared the use of Balanced Scorecard in various sectors. Studies with empirical testing of the relationship between change management and Balanced Scorecard framework are missing. Moreover, the researcher did not come across any study in India and abroad that observed the impact of change management and Balanced Scorecard on organizational effectiveness.

The present study shows how the utilization of Balanced Scorecard differs in public and private sector including manufacturing and service industry. This research studies the relationship between change management and Balanced Scorecard empirically. Further, it examines the impact of different varieties of changes on organizational change as a whole including the effect of the four perspectives of Balanced Scorecard on Balanced Scorecard framework. A demonstration of the impact of change management and Balanced Scorecard on organizational effectiveness is achieved through this work including testing or the empirical impact of Balanced Scorecard on organizational change.