Chapter-2

A Conceptual framework of Balance Scorecard Approach

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Chapter-2 A Conceptual framework of Balance Scorecard Approach

2.1 Introduction

The previous chapter dealt with the conceptual framework of the Human Resource Management. Various aspects of the Human Resource Management were discussed in detail including concepts, approaches, functions and other issues. After going through Human Resource Management, it is required to discuss the Balance Scorecard approach of Human Resource Management. The detailed study of the Balance Scorecard has been discussed in this chapter.

A balanced scorecard measures performance across multiple areas of an organization, all linked directly to the organization's strategy and vision. Rather than focus solely on a single factor such as financial earnings, a balanced scorecard considers an organization's performance in multiple key strategic and operating areas. The linkage of strategy to the organization's operating activities is key to the balanced scorecard system. (Kaplan and Norton, 1996)

The Balanced Scorecard tool is an attempt to deal with these types of issues. It was originally designed as a tool for measuring performance that developed into a new strategic management control system, which helped implement the company's strategy. The aim of the Balanced Scorecard is basically to translate the strategy into action. It supplements traditional financial measures with criteria that measure performance from three additional perspectives - those of customers, internal business processes, and learning and growth. It is also used as a system for communication, information and learning. It therefore enables companies to track financial results while simultaneously monitoring progress in building the capabilities and acquiring the intangible assets they will need for future growth. The Balanced Scorecard is not a replacement for financial measures; it is their complement (Kaplan & Norton, 1996). Given that companies' survival depends on their ability to innovate, they need to have knowledge in
order to learn, adjust and make changes. As the Japanese management expert Nonaka (1991) says; “In a world where the only certainty is uncertainty, the one sure source of lasting competitive advantage is knowledge”. Thereby, a Balanced Scorecard where ideas from the knowledge management theories are taken into consideration could provide an even better way to manage those hard to reach resources that the organisation possesses, but often has inadequate tools for managing. Today, every business is a knowledge business, and almost every worker is a knowledge worker (Drucker, 1991). Given the rapid changes and advances in most fields, skills and techniques learned more than a decade ago are inadequate to compete in today’s market. In the face of these challenges, the major defense for many organisations is to manage knowledge on a broad basis. That is to educate, build an internal knowledge base, pool and deploy the knowledge they have, invest in the development of new and proprietary knowledge, and put their knowledge to use as effectively as possible (Wiig, 1995). The Balanced Scorecard – a clearly defined management tool - combined with the knowledge of management ideas could be just the right way to do it.

Accordingly,

2.2 Evolution of Balance Scorecard

The Balanced Scorecard is an approach to measurement. The evolution of the Balanced Scorecard idea began with the injunction that managers ought to measure more than financial results, and proposed a matrix with four types of measures: financial, internal (process), innovation and learning, and customer. Initial work focused on how managers might identify the best measures in each of the four areas and how they might communicate them with subordinates.

Throughout the history of contemporary management theories starting from the ones that were introduced by the intrusion of the mass production in the beginning of the 20th century and until today, all the gurus of management have been trying to find uniform solutions on more efficient allocation and use of very limited resources available to businesses. Those paths in seeking the Holy Grail
of operational efficiency have brought up several new management theories. (Debuske & Crabtree, 2006)

In the dawn of the century, Frederick W. Taylor (1911) established the very concepts of resource allocation in his Principles of Scientific Management. In 1920’s it went around assembly line and motion studies as the first experience from systematic mass production had given theorists quite a lot of materials to be analyzed from the point of view of using traditional blue-collar employees more efficiently. (Taylor, Frank, Gilbrecht and Ford, 1920). In the 1930’s, the main topic was motivation of employees, as it turned out that human nature does not enable to work long hours on a repetitive tasks without frustration level getting so high enough to diminish productivity. In the 1940-ies and 1950’s, the first statistical and linear methods were introduced in trying to measure logistics of the operations management and its implications to overall company success in financial-analysis side. In the beginning of 1980’s, partly because of introduction of electronic data processing equipment and quick development of computers, the whole array of management techniques were initiated. The particular reasons for the vast development of the new theories were catalyzed mainly by ever growing competition generated through more systematic use of computers, and of course also by rapid growth of the importance of human capital.

Today’s companies are in the midst of a revolutionary transformation. Industrial age competition is shifting to information age competition. During the industrial age, roughly from 1850 to about 1975, companies succeeded by how well they could capture the benefits from economies of scale and scope. (Chandler, 1990) Technology mattered, but, ultimately, success accrued to companies that could embed the new technology into physical assets that offered efficient, mass production of standard products. During the industrial age, the financial control systems were developed in major companies to facilitate and monitor efficient allocations of financial and physical capital. (Chandler, 1977). A summary financial measure such as return-on-capital-employed (ROCE) could both direct a company’s internal capital to its most productive use and monitor the efficiency
by which operating divisions used financial and physical capital to create value for shareholders.

Prior to 1980s many academics and consultants became concerned that too much emphasis was being put on financial and accounting measures of performance. Management accounting systems had been perfected to produce detailed cost breakdowns and extensive variance reports. It was realized that these systems were not useful for managing a business under the circumstances resulted out of the emergence of global competitive environment during 1980s. Product quality, delivery schedules, reliability, after-sales service, customer satisfaction became key competitive variables. But none of these were measured by the traditional performance measurement systems.

During 1980s much greater emphasis was given to incorporating non-financial performance measures as mentioned above, into the management reporting system as they provided feedback on variables that are required to compete successfully in a global economic environment. But a proliferation of performance measures emerged and has resulted in confusion when some of the measured conflicted with each other.

The need to link financial and non-financial measures of performance and identifying key performance measures led to the emergence of “Balanced Score Card” approach developed by Norton and Kaplan (1992) in the U.S. The Balanced score card is defined as “an approach to the provision of information to management to assist strategic policy formulation and achievement. It emphasized the need to provide the user with a set of information, which addresses all relevant areas of performance in an objective and unbiased fashion”.

2.3 Concept of Balance Scorecard

The balanced scorecard methodology, an outgrowth of prior measurement and management methodologies like total quality management (TQM), has existed for decades, but it was formalized in the early 1990s by Robert Kaplan and David
Norton. (Kaplan, 1998) Kaplan and Norton (1996) not only gave it a formal name but also put structure around the way organisations can measure how well they are functioning and how to predict future performance. Basically, it's a way to map and translate complex business information into something that's understandable to everyone. The methodology starts with targets defined by the organisation, followed by scorecard measures. These usually include both corporate targets and business unit targets, which are then honed into individual measures and targets. It's a very flexible approach, designed to be adapted to any organisation's needs. And virtually anything can be measured.

Robert S. Kaplan and David P. Norton (1992) introduced the balanced scorecard to the private sector as a methodology for measuring an organization's performance beyond profit margins and dividend yields.

They realized that executives rely on more than financial indicators when making decisions, and they concluded that a wider range of performance measures was needed to capture the financial and operational performance of an organization. They also observed that performance measurement systems often are designed to measure specific employee tasks with workload indicators, which can create an environment of behavior control rather than creative thinking. The balanced scorecard, which measures four dimensions of an organization financial, internal business, innovation and learning, and customer, is designed to promote a culture that emphasizes strategy development for maximizing the efficiency and the effectiveness of service delivery. Although originally designed for the private sector, the balanced scorecard soon found its way into local government. By 1998 at least twenty-three municipal governments had adopted the balanced scorecard because performance in the public sector always has been a multidimensional concept (Kathy and Kidwell, 2000).

However, organizational barriers to this management tool have tended to make it an option only for large local governments. These barriers include inadequate management sponsorship, organizational resistance to change, lack of employee skills, and difficulty in measuring service effectiveness (Ittner, 1998).
In 1996, when Charlotte became the first municipality in the United States to adopt the balanced scorecard, city officials realized that they had to modify the management tool in order to make it fit the public sector (Niven, 2003).

An overall modification was to align the balanced scorecard with the city's vision and strategic themes, ensuring that objectives and measures selected for each of the four dimensions would provide feedback on the overall direction of the organization. The city also had to modify the four dimensions of the balanced scorecard. (Charlotte, 2007)

To address the customer dimension, the private sector can rely primarily on proxy measures that are calculated from sales data. Although proxy or administrative measures often are used in the public sector, some local governments use citizen surveys to assess service quality directly (Kelly, 2005).

Charlotte (2007) changed this dimension to “Serve the customer,” reflecting the city government’s proactive organizational culture. It identified a blend of administrative and customer-satisfaction indicators to measure six objectives in this dimension: “Reduce crime,” “Increase the perception of public safety,” “Strengthen neighborhoods,” “Provide transportation choices,” “Safeguard the environment,” and “Promote economic opportunity.” An example of an administrative indicator is average on-time performance for the transit system, which supports the objective of providing transportation choices. An example of a customer-satisfaction indicator is the percentage of citizens who report feeling safe in neighborhoods, which supports the objective of increasing the perception of public safety. The internal business dimension did not require major modification. Kaplan and Norton (1996) envisioned that organizations would turn to their performance measurement systems to select or develop measures for this dimension, which focuses on the efficiency and the effectiveness of processes and procedures. Charlotte merely renamed this dimension “Run the business.” It relies primarily on effectiveness measures to support three objectives: “Develop collaborative solutions,” “Enhance customer service,” and “Improve technology efficiencies.” For example, the measure of percentage of
911 calls answered within thirty seconds was selected as part of the objective of enhancing customer service.

Kaplan and Norton (1996) proposed measures like sales growth, operating income, and market share for measuring the financial dimension of the organization. Because organizations in the public sector are not profit driven, Charlotte broadened this perspective to "Manage resources" and identified four objectives: "Maintain its AAA bond rating," "Deliver competitive services," "Expand its tax base and revenues," and "Invest in infrastructure." It then selected performance measures to track progress toward achieving each objective. For example, the city’s street-resurfacing cycle as calculated by annual funding is used to measure the objective of investing in infrastructure.

Finally, Charlotte (2007) needed to make substantial modifications in the innovation and-learning dimension. Kaplan and Norton designed this dimension primarily to capture product development.

The public sector is more involved in providing labor-intensive services than privatization in developing products, and this requires a different philosophical approach to measuring innovation and learning. Charlotte renamed the dimension “Develop employees” and selected three objectives “Achieve a positive employee climate,” “Recruit and retain a skilled, diverse workforce,” and “Promote learning and growth.” A key performance measure for tracking recruitment and retention is the rate of voluntary turnover.

Charlotte’s (2007) successful experience with modifying, adopting, and implementing the balanced scorecard suggests that certain management tools designed for the private sector can be used in the public sector. But as with any management tool, local governments must be prepared to make further modifications to the balanced scorecard during the adoption process in order to align it with their individual needs. Also, local governments with experience in performance measurement are better candidates for the balanced scorecard, because they are more experienced at responding to the complexity of tracking
performance within four dimensions that are not mutually exclusive. In other words, understanding what the different types of measures are, what service aspects they capture, and how they can be used to make decisions helps officials place the measures in the appropriate dimension. Organizations need a champion of the balanced scorecard to enhance the likelihood of success. The city manager of Charlotte embraced that role, believing that the management tool would aid in meeting the city's needs for better performance and greater accountability.

However, Charlotte (2007) did not adopt the new management tool simply as another way to measure and report performance. It embraced the tool within the larger framework of new public management, which was partially being driven by the reinventing government movement of the early 1990s. The mayor and the council strongly supported this change in organizational philosophy, which included cost reduction, innovation, and reduction of hierarchy.

The balanced scorecard is a strategic planning and management system that is used extensively in business and industry, government, and nonprofit organizations worldwide to align business activities to the vision and strategy of the organization, improve internal and external communications, and monitor organization performance against strategic goals. It was originated by Robert Kaplan (1996) and David Norton as a performance measurement framework that added strategic non-financial performance measures to traditional financial metrics to give managers and executives a more 'balanced' view of organizational performance. While the phrase balanced scorecard was coined in the early 1990s, the roots of this type of approach are deep, and include the pioneering work of General Electric on performance measurement reporting in the 1950's and the work of French process engineers (who created the Tableau de Bord - literally, a "dashboard" of performance measures) in the early part of the 20th century. (Itami, 1996)
The Balanced Scorecard has evolved from its early use as a simple performance measurement framework to a full strategic planning and management system. The "new" balanced scorecard transforms an organization's strategic plan from an attractive but passive document into the "marching orders" for the organization on a daily basis. It provides a framework that not only provides performance measurements, but helps planners identify what should be done and measured. It enables executives to truly execute their strategies. (Viswesvaran & Schmidt, 1996)

This new approach to strategic management was first detailed in a series of articles and books by Drs. Kaplan and Norton. Recognizing some of the weaknesses and vagueness of previous management approaches, the balanced scorecard approach provides a clear prescription as to what companies should measure in order to "balance" the financial perspective. The balanced scorecard is a management system (not only a measurement system) that enables organizations to clarify their vision and strategy and translate them into action. It provides feedback around both the internal business processes and external outcomes in order to continuously improve strategic performance and results. When fully deployed, the balanced scorecard transforms strategic planning from an academic exercise into the nerve center of an enterprise. (Otley, 1999)

"The balanced scorecard retains traditional financial measures. But financial measures tell the story of past events, an adequate story for industrial age companies for which investments in long-term capabilities and customer relationships were not critical for success. These financial measures are inadequate, however, for guiding and evaluating the journey that information age companies must make to create future value through investment in customers, suppliers, employees, processes, technology, and innovation." (Kaplan and Norton, 1996)

2.4 Features of a Good Balance Scorecard

A Good Balance Scorecard possesses the following essential feature:
• It tells the story of a company's strategy, articulating a sequence of cause and effect relationships.
• It helps to communicate the strategy to all members of the organization by translating the strategy into coherent and linked set of understandable and measurable operation targets.
• A balanced score card emphasizes non-financial measures as a part of program to achieve future financial performance.
• The balanced score card limits the number of measures identifying only the most critical areas. The purpose is to focus manager's attention on measures that most affect the implementation of strategy.
• The balanced score card highlights less than optimal trade offs that managers may make when they fail to consider operational and financial measures together.

2.5 Key Elements of Balance Scorecard Success

Balanced Scorecard initiatives have a mixed track record. However, when we study organizations that have had success, we notice several recurring themes. These provide six lessons for success for all balanced scorecard practitioners.

• Understand that the balanced scorecard is part of a bigger process that starts with strategy. The balanced scorecard framework forms one (key) component in an integrated business performance management process that revolves around business strategy. This process is really a system where the balanced scorecard plays a critical role in translating business strategy into measurable action. With this in mind, successful BSC organizations define a solid business strategy prior to BSC development. While this may appear obvious to BSC practitioners, many "war stories" exist about organizations that threw themselves into a measurement initiative without spending time on strategy first. Generally, the result of these initiatives is sub-optimization with results that may or may not support business strategy achievement. When cascaded from strategy, the BSC framework provides an important connection between
strategic business performance and individual employee performance. In addition, the BSC helps close the feedback loop in the business-performance management system by providing a means for the business to: monitor and actively manage progress towards the achievement of business strategy, further explore and understand the cause and effect relationships within the business, and manage/change business strategy dynamically based on internal insights or shifts in the external operating environment. (Kaplan, and Norton, 1995)

- Visible and genuine senior leadership involvement is critical to the success of any BSC initiative. That is, you must secure hands-on executive participation in the balanced scorecard development, implementation and management. Commitment at the top is so important that successful BSC organizations treat it as a "show stopper"- focusing on resolving support issues before moving forward. The issue of gaining leadership support is the most frequent concern faced by new balanced scorecard practitioners. Most BSC journeys don't begin with executive support from the start - very frequently, the push for a balanced scorecard initiative begins at a grass roots level. The key to "selling" the BSC to executives is to take an individualized approach. That is, first look for the burning platform or key business improvement opportunity that could be addressed by the successful application of a business performance management approach like the balanced scorecard. Then, complete your BSC research (note: there is information out there that can help support your situation!) and build a balanced scorecard business case that clearly demonstrates the benefits required to solve your organization's critical business issue. Keep at it until the executives in your organization get the message. (Hides, Irani, Polychronakis and Shar, 2000)

- A balanced scorecard vision or philosophy is simply a clear statement that describes what your BSC will look like, how it will operate, how it will be built, and how the organization will use it. When created early in the balanced scorecard development process, your BSC vision provides a valuable touchstone going forward providing focus and facilitating quick consensus
when critical balanced scorecard decisions are required. (Hendricks, Menor and Wiedman, 2004)

- Maximize balanced scorecard utilization by fully deploying it at all levels of the organization. Successful BSC organizations make their balanced scorecard widely available so that everyone can "make strategy their job." Fully deploying a balanced scorecard across an organization helps develop strategic awareness amongst employees. This is important because successful strategy implementation requires the active contribution of every employee as they make decisions in their day to day work - decisions that can either contribute to or take away from the business strategy. Many business leaders voice concern about sharing their business strategy so broadly across the organization. Worries include the disclosure of critical strategic information to competitors. While these are valid concerns, successful BSC organizations know that the benefits of a broad deployment philosophy and in building employee satisfaction and loyalty levels far outweigh the risk of serious information leaks. (Pandey, 2005)

- To support BSC implementation and its ongoing use, successful BSC organizations view communication and education on their business strategy and the balanced scorecard as an important internal marketing campaign. As a result, few of these organizations use only a single mode of communication to do the job. In fact, they use almost every type of communication method available, from general communication modes (e.g. large group meetings and mass distribution e-mails) to those that are very personalized with customized messages (e.g. face to face discussions) to ensure communication success. (Pineno, 2007)

- Successful BSC organizations deepen alignment by mirroring their balanced scorecard framework and categories in as many business activities as possible: reward and recognition programs, individual goal plan formats, incentive compensation plan formats, strategic plan categories and format, and almost anything else they can think of! They maximize alignment with the balanced scorecard until it becomes so integral to the business that it is
2.6 The four perspectives of Balance Scorecard

The Balanced Scorecard, according to Kaplan and Norton (1996), consists of four perspectives. These are the financial perspective, the Customer perspective, the Internal Business Process perspective, and the Learning and Growth perspective. These four perspectives provide the framework for the scorecard, and measure the performance of a company during the past, present and the future. What is done today, in order to prepare for tomorrow, might not yield financial results until the future? This repositions the focus of a company from traditional short-term operation control, to more progressive long-term control.

There is no "law" in the Balanced Scorecard that states that a company should use all the perspectives described below or that it cannot add an extra perspective. On the contrary, companies implementing a Balanced Scorecard should consider adapting it to their environment and internal business processes. Kaplan & Norton (1997) also recognise that there is sometimes a need for changes in the Balanced Scorecard perspectives, but they say that companies should consider changes in the scorecard perspectives carefully. They claim that there is a risk of wanting to put focus on too many things, and thereby to lose the focus on the things that set the basis for competitive advantage.

To achieve "balance" within the scorecard, the four perspectives need to be mutually dependent in order for the effects of different actions not to counteract with each other. The purpose of the concept is, as mentioned, to put the company's vision and strategy into action, as well as to outline business strategy in four different respects, corresponding to the four perspectives (Kaplan & Norton, 1996):
2.6.1 Financial Perspective

From all the measurement perspectives of a Balanced Scorecard, the financial perspective needs to be introduced the least as the main financial measurement systems have been analysed during the past years very thoroughly.

The particular financial performance measures for any Balanced Scorecard should define long-run financial objectives for the organisation. While most of the organisations would emphasise profitability objectives, other possibilities may also be considered. Businesses with many products in the early stage of their life cycle can stress rapid growth objectives, and mature businesses may emphasise maximising cash flow.
Norton and Kaplan (1992) recommended simplifying the financial perspective measurement selection pool to identify first the organisation's stage, which would mainly be one of the three:

- **"Rapid growth" organisations** - are at the early stages of their life cycle. They may have to make considerable investments to develop and enhance new products and services, to construct and expand production facilities, to build operating capabilities, to invest in systems, infra-structure, and distribution networks that will support relationships, and to nurture and develop customer relationships.

- **"Sustain" organisations** – organisations that still attract investment and reinvestment, but are required to earn excellent returns on their invested capital. These businesses are expected to maintain their existing market share and perhaps grow it somewhat. Investment projects will be more directed to relieving bottlenecks, expanding capacity, and enhancing continuous improvement.

- **"Harvest" organisations** - have reached a mature phase of their life cycle, where the company wants to harvest the investments made in the earlier two stages. These businesses no longer warrant significant investment – only enough to maintain equipment and capabilities, not to expand or build new capabilities. Any investment project will have to have very short and definite payback periods. The main goal is to maximise cash flow back to the organisation.

The financial objectives for businesses in each of these three stages are quite different. Financial objectives in the growth stage will emphasise sales growth; sales in new markets and to new customers; sales from new products and services; maintaining adequate spending levels for product and process development, systems, employee capabilities; and establishment of new marketing, sales, and distribution channels. Financial objectives in the sustain
stage will emphasise traditional financial measurements, such as return on capital employed, operating income, and gross margin.

Investment projects for businesses in the sustain category will be evaluated by standard, discounted cash flow, capital budgeting analyses. Some companies will employ newer financial metrics, such as economic value added and shareholder value. These metrics all represent the classic financial objective—earn excellent returns on the capital provided to the business.

The financial objectives for the harvest businesses will stress cash flow. Any investments must have immediate and certain cash paybacks. The goal is not to maximise return on investment, which may encourage managers to seek additional investment funds based on future return projections. Virtually no spending will be done for research or development or on expanding capabilities, because of the short time remaining in the economic life of business units in their "harvest" phase.

2.6.2 Customer Perspective

In the customer perspective of the Balanced Scorecard, managers identify the customer and market segments in which the business unit will compete and the measures of the business unit's performance in these targeted segments.

The customer perspective typically includes several generic measures of the successful outcomes from a well-formulated and implemented strategy. The generic outcome measures include customer satisfaction, customer retention, new customer acquisition, customer profitability, and market and account share in targeted segments. While these measures may appear to be generic across all types of organisations, they should be customised to the targeted customer groups from whom the business unit expects its greatest growth and profitability to be derived.
2.6.2.1 Market and Account Share

Market share, especially for targeted customer segments, reveals how well a company is penetrating a desired market. For example, a company may temporarily be meeting sales growth objectives by retaining customers in non-targeted segments, but not increasing its share in targeted segments. The measure of market share with targeted customers would balance a pure financial signal (sales) to indicate whether an intended strategy is yielding expected results.

When companies have targeted particular customers or market segments, they can also use a second market-share type measure: the account share of those customers' business (some refer to this as the share of the "customers' wallet"). The overall market share measure based on business with these companies could be affected by the total amount of business these companies are offering in a given period. That is, the share of business with these targeted customers could be decreasing because these customers are offering less business to all their suppliers. Companies can measure-customer by customer or segment by segment-how much of the customers' and market segments' business they are receiving. Such a measure provides a strong focus to the company when trying to dominate its targeted customers' purchases of products or services in categories that it offers.

2.6.2.2 Customer Retention

Clearly, a desirable way for maintaining or increasing market share in targeted customer segments is to retain existing customers in those segments. Research on the service profit chain has demonstrated the importance of customer retention. Companies that can readily identify all of their customers-for example, industrial companies, distributors and wholesalers, newspaper and magazine publishers, computer on-line service companies, banks, credit card companies, and long-distance telephone suppliers-can readily measure customer retention from period to period. Beyond just retaining customers, many companies will
wish to measure customer loyalty by the percentage growth of business with existing customers.

2.6.2.3 Customer Acquisition

Companies seeking to grow their business will generally have an objective to increase their customer base in targeted segments. The customer acquisition measure tracks, in absolute or relative terms, the rate at which a business unit attracts or wins new customers or business. Customer acquisition could be measured by either the number of new customers or the total sales to new customers in these segments. Companies such as those in the credit and charge card business, magazine subscriptions, cellular telephone service, cable television, and banking and other financial services solicit new customers through broad, often expensive, marketing efforts. These companies could examine the number of customer responses to solicitations and the conversion rate-number of actual new customers divided by number of prospective inquiries. They could measure solicitation cost per new customer acquired, and the ratio of new customer revenues per sales call or per dollar of solicitation expense.

2.6.2.4 Customer Satisfaction

Both customer retention and customer acquisition are driven from meeting customers' needs. Customer satisfaction measures provide feedback on how well the company is doing. The importance of customer satisfaction probably cannot be over-emphasised. Recent research has indicated that just scoring adequately on customer satisfaction is not sufficient for achieving high degrees of loyalty, retention, and profitability. Only when customers rate their buying experience as completely or extremely satisfying can the company count on their repeat purchasing behaviour. (Porter, 1992)

2.6.2.5 Customer Profitability

Succeeding in the core customer measures of share, retention, acquisition, and satisfaction, however, does not guarantee that the company has profitable
customers. Obviously, one way to have extremely satisfied customers (and angry competitors) is to sell products and services at very low prices. Since customer satisfaction and high market share are themselves only a means to achieving higher financial returns, companies will probably wish to measure not just the extent of business they do with customers, but the profitability of this business, particularly in targeted customer segments. Activity-based cost (ABC) systems permit companies to measure individual and aggregate customer profitability. Companies should want more than satisfied and happy customers; they should want profitable customers. A financial measure, such as customer profitability, can help keep customer-focused organisations from becoming customer-obsessed.

The customer profitability measure may reveal that certain targeted customers are unprofitable. This is particularly likely to occur for newly acquired customers, where the considerable sales effort to acquire a new customer has yet to be offset from the margins earned by selling products and services to the customer. In these cases, lifetime profitability becomes the basis for deciding whether to retain or discourage currently unprofitable customers.

Newly acquired customers can still be valued, even if currently unprofitable, because of their growth potential. But unprofitable customers who have been with the company for many years will likely require explicit action to cope with their incurred losses. (Joseph, 1993)

2.6.2.6 Beyond the Core: Measuring Customer Value Propositions

Customers' value propositions represent the attributes that supplying companies provide, through their products and services, to create loyalty and satisfaction in targeted customer segments. The value proposition is the key concept for understanding the drivers of the core measurements of satisfaction, acquisition, retention, and market and account share. For example, customers could value short lead times and on-time delivery. They could value a constant stream of innovative products and services. Or they could value a supplier able to
anticipate their needs and capable of developing new products and approaches to satisfy those emerging needs.

While value propositions vary across industries, and across different market segments within industries, Kaplan and Norton (1996) have observed a common set of attributes that organises the value propositions in all of the industries where we have constructed scorecards. These attributes are organised into three categories.

- **Product/Service Attributes**
- **Customer Relationship**
- **Image and Reputation**

Product and service attributes encompass the functionality of the product/service, its price, and its quality. The image and reputation dimension enables a company to pro-actively define itself for its customers. The customer relationship dimension includes the delivery of the product/service to the customer, including the response and delivery time dimension, and how the customer feels about the experience of purchasing from the company.

In summary, the customer perspective enables business unit managers to articulate their unique customer and market-based strategy that will deliver superior future financial returns.

### 2.6.3 Internal Business Process Perspective

In the internal business process perspective, executives identify the critical internal processes in which the organisation must excel. The critical internal business processes enable the business unit to deliver on the value propositions of customers in targeted market segments, and satisfy shareholder expectations of excellent financial returns. The measures should be focused on the internal processes that will have the greatest impact on customer satisfaction and achieving the organisation’s financial objectives.
The internal business process perspective reveals two fundamental differences between traditional and the Balanced Scorecard approaches to performance measurement. Traditional approaches attempt to monitor and improve existing business processes. They may go beyond just financial measures of performance by incorporating quality and time-based metrics. But they still focus on improving existing processes. The Balanced Scorecard approach, however, will usually identify entirely new processes at which the organisation must excel to meet customer and financial objectives. The internal business process objectives highlight the processes most critical for the organisation’s strategy to succeed.

The second departure of the Balanced Scorecard approach is to incorporate innovation processes into the internal business process perspective. Traditional performance measurement systems focus on the processes of delivering today's products and services to today's customers. They attempt to control and improve existing operations - the short wave of value creation. But the drivers of long-term financial success may require the organisation to create entirely new products and services that will meet the emerging needs of current and future customers. The innovation process the long-wave of value creations, for many companies, a more powerful driver of future financial performance than the short-term operating cycle. But managers do not have to choose between these two vital internal processes. The internal business process perspective of the Balanced Scorecard incorporates objectives and measures for both the long-wave innovation cycle as well as the short-wave operations cycle.

**2.6.4 Learning and Growth Perspective**

The fourth Balanced Scorecard perspective, Learning and growth, identifies the infrastructure that the organisation must build to create long-term growth and improvement. The customer and internal business process perspectives identify the factors most critical for current and future success. Businesses are unlikely to be able to meet their long-term targets for customers and internal processes using today's technologies and capabilities. Also, intense global competition
requires that companies continually improve their capabilities for delivering value to customers and shareholders.

Organisational learning and growth come from three principal sources: people, systems, and organisational procedures. The financial, customer, and internal business process objectives on the Balanced Scorecard will typically reveal large gaps between existing capabilities of people, systems, and procedures and what will be required to achieve targets for breakthrough performance. To close these gaps, businesses will have to invest in re-skilling employees, enhancing information technology and systems, and aligning organisational procedures and routines. These objectives are articulated in the learning and growth perspective of the Balanced Scorecard. As in the customer perspective, employee-based measures include a mixture of generic outcome measures—employee satisfaction, employee retention, employee training, and employee skills—along with specific drivers of these generic measures, such as detailed indexes of specific skills required for the new competitive environment. Information systems capabilities can be measured by real-time availability of accurate customer and internal process information to front-line employees. Organisational procedures can examine alignment of employee incentives with overall organisational success factors, and measured rates of improvement in critical customer-based and internal processes.

2.7 Benefits of Balance Scorecard

The discussion of whether a company should use a Balanced Scorecard or a more traditional financial control system will probably continue for a long time. All systems have their benefits and disadvantages, and for the Balanced Scorecard, Ross (1999) has tried to summarise some of the scorecard’s characteristics compared to financial control systems.
Figure 2.2 A comparison of FCS and BSC

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<th>Financial</th>
<th>BSC</th>
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<tbody>
<tr>
<td>Reliability</td>
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<td>Medium</td>
</tr>
<tr>
<td>Ease of use</td>
<td>High</td>
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</tr>
<tr>
<td>Comprehensiveness</td>
<td>Low</td>
<td>High</td>
</tr>
<tr>
<td>Time and effort required to develop</td>
<td>Low</td>
<td>High</td>
</tr>
<tr>
<td>Comparability</td>
<td>Medium</td>
<td>Low</td>
</tr>
</tbody>
</table>

Source: Roos, 1999

Major benefits include increased structure and shared objectives; these often lead to greater financial return. It allows organisations to become more functional and enabled. For specific programs, a balanced scorecard can raise the profile of key projects, which can help with funding and internal support. It's also possible to use the strategic map that a balanced scorecard approach creates to help guide programs toward success. In addition to measuring the performance of an organization, business units or departments within an organization can also use a balanced scorecard framework to link strategy to key operating activities and performance. (Keeping & Levy, 2000).

- It’s particularly useful for developing performance measures for departments that have unique mission and strategic objectives like internal audit. (Libby, Salterio & Webb, 2004).
- Communicating strategic messages. The Balanced Scorecard clarifies organisational goals, that is, what the organisation as a whole is expected to accomplish, and measures the degree of success in attaining these goals (Bergendahl & Dagås, 1997; Olve, 1997).
- Long-term planning and control is a desirable element for most companies, and it is provided for in the Balanced Scorecard, since the scorecard enables long-term planning by establishing several future oriented, progressive key measures (Bergendahl & Dagås, 1997; Olve, 1997; Sundin, 1998).
• The ability to focus on non-financial measures, for example measures related to customers and processes, generates positive results even in a financial perspective. Increased understanding of such “soft” measures is essential in order not to neglect customers. Emphasis on other perspectives indirectly should result in an increase in corporate profitability (Bergendahl & Dagås, 1997; Olve, 1997).

• The Scorecard approach has a breadth that enables every single worker to identify with one of its components. Moreover, each worker is provided with feedback on the contribution he or she makes to the organisation, which clarifies how the individual helps the overall business reach the defined corporate objectives (Westin & Wetter, 1998; Lindvall, 1997; Bergendahl & Dagås, 1997).

• External awareness. By adding a customer and a learning & growth perspective, the company shows increased awareness of external influences and is better suited to react to its environment (Björklund, 1998).

• A balanced scorecard can assist an internal audit department in proactively responding to typical stakeholder question like as how does internal audit measure performance? (Lipe & Salterio, 2002)

• It helps companies focus on what has to be done in order to create a breakthrough performance.

• It acts as an integrating device for a variety of corporate programmes.

• It Makes strategy operational by translating it into performance measures and targets. (Otley, 1999).

• It helps break down corporate level measures so that local managers and employees can see what they need to do well if they want to improve organisational effectiveness. (Banker, Chang, & Pizzini, 2004)

• It provides a comprehensive view that overturns the traditional idea of the organisation as a collection of isolated, independent functions and departments.
A balanced-scorecard framework can be an effective tool to link an internal audit department’s strategies to its performance management system.

A balanced scorecard can be useful in responding to questions from key stakeholders, such as senior management and the audit committee, regarding how the department measures performance and adds value to the organization, and in demonstrating alignment of the internal audit department’s objectives to the organization’s key strategies. (Hopwood, 1972)

A balanced scorecard can assist in focusing department staff on performance improvement/quality assurance activities and can also be used for benchmarking an internal department to other internal audit departments. The strategies and key operating activities selected for a balanced scorecard should be specific to the needs or opportunities identified for the internal audit department. (Ittner, Larcker & Meyer, 2003)

The Balanced Scorecard tool also puts a focus on the importance of enhancing the employee- and information-system capabilities as well as increasing the employee motivation. This is truly close to the aim with knowledge management work. In the Balanced Scorecard these aspects are usually measured in the learning and growth perspective. (Malina, & Sello, 2001)

A system of corporate appraisal which looks at financial and non-financial elements from a variety of perspectives.

An approach to the provision of information to management to assist strategic policy formation and achievement.

It provides the user with a set of information which addresses all relevant areas of performance in an objective and unbiased fashion.

A set of measures that gives top managers a fast but comprehensive view of the business.
2.8 Criticism of Balance Scorecard

No model can suit all companies and satisfy all critics, so the Balanced Scorecard has also been criticised and questioned. Since implementing a Balanced Scorecard is a tough, time-consuming process and also presents some of the most common pitfalls to the scorecard’s success.

One aspect where the Balanced Scorecard receives critique is the way the measures in the scorecard are determined centrally. This is especially evident with the non-financial measures. A company uses non-financial measures to a certain degree before implementing a Balanced Scorecard, but these measures are mainly active on a local level. They have been developed locally over a long period of time and are also used and followed-up on the local level, where they have relevance. They might even be specific for a set of employees and managers – the ones that have developed the measures. With a Balanced Scorecard, the top management decides on a set of non-financial goals on a company level that risks being forced on the employees in the organisation (Mouritsen, 1996). The old goals were set in a local context and relevant there, while the new goals are set in a strategic context and thereby risk losing their relevance on the work-floor. The employees will have limited influence over the new goals that are set and thereby risk being alienated.

Another critique, very relevant to this thesis, is the problem to accrue and explain the non-financial goals. The financial goals used in traditional accounting and management control have been developed over several hundred years. Today, we have methods, like the Du-Pont system, of how to explain the meaning of different financial goals and how they are linked to each other. For example, a return on total assets can be broken down into profit margin and total asset turnover. However, the non-financial goals do not have these kinds of reciprocal links. Kaplan & Norton claim that the non-financial goals are essential to company strategy and that they should eventually be linked to the financial goals. The attention the Balanced Scorecard model has received indicates that many companies support this idea, but there are still unsolved questions of how to link these nonfinancial goals to each other and to financial performance. There is no
possibility to test the non-financial measures in a situation where we hold everything else constant. For example, what happens when employee or customer satisfaction rises? Will profitability increase as a result? Will the company increase their turnover? Will our internal processes be more efficient? They might, but it is very hard to prove (Mouritsen, 1996). Hence, the lack of established connections between non-financial goals is one of the reasons why skeptics doubt the Balanced Scorecard. There are also some threats to the success of the Balanced Scorecard, or at least issues that must be considered and dealt with so that it does not provide future problems for companies implementing the Balanced Scorecard.

• Declining worker participation: If the personnel in an organisation is not prepared for, and informed about the process of change, extensive resistance toward the project can develop (Strebel, 1996).

• The lingering dominance of the Financial Perspective. The danger in focusing too much on financial factors is that this can restrict focus linked planning discussions, and that short-term financial considerations can create a gap between strategy development and implementation. (Sundin, 1998; Westin & Wetter, 1998).

• Too many measures – the risk of losing clarity. Defining an overdose of measures in the scorecard can make follow-up too complicated. In that case, clarity can be lost (Sundin, 1998).

• Keeping the scorecard alive. Continuous maintenance of the Balanced Scorecard is essential. The risks of failure increase dramatically if the measures of the scorecard are considered “fixed”, or are not constantly reviewed. (Kaplan & Norton; 1996, Westin & Wetter, 1998)

• The time aspect. Change takes time. Even if the creation of the Balanced Scorecard might just take a few months, it often takes several years before the whole process is established throughout the organisation. Therefore, it is important for the management to be patient, and continue to work hard with the implementation (Lindvall, 1997).
2.9 Balanced Scorecard’s Four Strategic Processes

The Balanced Scorecard links the company’s vision and strategy to a number of measures, which together function as a framework for strategic measurement. Thereby, companies that use the scorecard do not have to rely on short-term financial measures as the sole indicators of the company’s performance. Instead they have the opportunity to introduce four new management processes that contribute to linking long-term strategic objectives with short-term actions (Kaplan & Norton, 1996a).

Figure 2.3 Balanced Scorecard’s Four Strategic Processes

![Balanced Scorecard's Four Strategic Processes Diagram]

Source: Kaplan & Norton, 1996

2.9.1 Translating the Vision

This first process helps managers build a consensus around the organisation’s vision and strategy. The difficulty of this process largely depends on how the strategy has been developed. It is easier to translate a vision and strategy if it is shared among the employees in the company. The executives developing the strategy need input from people throughout the organisation to be able to develop a competitive strategy. They need information from the experts within the company to help them take the right decisions. For example, the workers on the front line are the ones that really understand what customers want, and who can execute strategies in a way that will please the customer (Birchard, 1996).
2.9.2 Communicating and Linking

The second process is very vital. It aims at communicating the strategy and objectives throughout the organisation and linking the strategy and objectives to the departmental and individual goals. This helps the employees to focus their efforts on a common goal and work in the same direction. Properly done, this should also increase flexibility in the organisation, since the Balanced Scorecard helps employees to understand the company’s core competencies and its values. The Balanced Scorecard therefore gives managers a way of ensuring that all levels of the organisation understand the long-term strategy and that both departmental and individual goals are aligned with it (Kaplan & Norton, 1996b). However, unless a company ties the balanced set of measures to the compensation system, it will not be able to use the scorecard as the central organising framework for its management systems (Kaplan & Norton, 1996).

2.9.3 Business Planning

The third process is the process where the company should integrate its business plans with its financial plans. It includes aligning departmental business plans to the company strategy. The Balanced Scorecard aims not at reducing the creative initiatives from different departments but tries to set balanced measures as the basis for allocating resources and setting priorities, so that the organisation and its subparts can co-ordinate and undertake the initiatives that move them toward their long-term strategic objectives.

2.9.4 Feedback and Learning

According to Kaplan & Norton (1996a), the fourth process gives the companies the capacity for strategic learning. The basis for this is that the company applying the Balanced Scorecard can monitor the results from the four perspectives and evaluate the strategy in the light of recent performance. Thus, the scorecard enables the company to reflect over their situation and thereby provide opportunity to adapt or change strategies to fit the current situation. In other words, the organisation needs the capacity for double loop learning. This is the
kind of learning that occurs when managers question their assumptions and reflect on whether the basic values and ideas under which they were operating are still consistent with current evidence, observations and experience (Kaplan & Norton 1996, Interpreting Argyris, 1982)

2.10 Steps in Implementation of Balance Scorecard

One of the possible ways to go through all the steps of construction of successfully operating Balanced Scorecard might be shortly described as seen on Figure 3 - Creating a Balanced Scorecard.

- First, members of the organisation would have to identify a vision. Everybody in the organisation has to agree upon one single goal where the organisation has to be heading.
- Then organisation's management has to recognise the strategies that will tell how to reach the vision.
- Then the perspectives have to be identified. In some businesses, not necessarily all four are relevant. In some areas, additional perspectives need to be measured.
- Financial perspective (how do we look to our shareholders?)
- Customer's perspective (how do we look to our customers?)
- Internal business process perspective (what processes do we have to be good at?)
- Learning and growth perspective (how will we sustain our ability to improve and change?)
- Then critical success factors for all the perspectives have to be found out. Example: for customers we have to deliver on time, financially we have to be cost-efficient, on the development side we have to produce X amount of new ideas every week etc.
- After the critical success factors are in place, they have to be measured some how, therefore all the measurement systems have to be figured out.
• The next step is to go through appraisal of the established draft Balanced Scorecard to identify whether it would start measuring the right things and assist the management to steer the organisation to the right direction. It might be advisable to establish a test field to simulate how the Balanced Scorecard would start to respond to the actions taken.

• Based on the preparatory work the detailed action plans should be created and proper reporting systems have to be established to start operation of the Balanced Scorecard.

• Finally, it has to be remembered that the Balanced Scorecard is not a "finished product". It has to be amended, improved and changed whenever there is a need for the organisation to change something in its vision or strategic goals.

It has been explained how to manage the construction of the Balanced Scorecard step-by-step. It has to be borne in mind that the actual set-up of a particular Balanced Scorecard may vary from organisation to organisation because of very close linkages to particular establishment's main functions, vision and strategy. For public non-profit organisations, for instance, it would be necessary to replace financial part of the section of Balanced Scorecard with employee empowerment perspective. Some other organisations may need to add additional features to their Balanced Scorecard.
Figure 2.4 Steps in Implementation of Balance Scorecard

1. Identify Vision
   - Define vision for the organisation/entity

2. Identify Strategies
   - Which strategies shall we follow?
   - Which areas shall we focus on?

3. Identify Perspectives
   - In which perspectives do we have to be good at?

4. Identify Critical Success Factors of the Perspectives
   - What do we have to do well to manage in the framework of those perspectives?

5. Identify Measures
   - What should we measure at each of those perspectives?

6. Evaluate
   - How do we evaluate our scorecard?

7. Create Action Plans
   - Which actions should we undertake to reach our targets?

8. Follow up and Manage
   - How do we follow up, update and maintain our scorecard?

Source: Balanced Scorecard Institute, 1998-2009
2.10 Establishing Strategy by Building up a Balanced Scorecard

Balance Scorecard relates with the making strategy to implement. It involves the number of steps to follow. These steps are as follows:

2.11.1 Clarifying and Translating the Vision and Strategy

As each organisation is unique and so follows its own path for building a Balanced Scorecard. From the management point of view it is also not particularly foreseen – it might be set up using the standard project management techniques (preparation-interviews-workshops-implementation-reviews) or be managed by a special unit that is coordinating the overall implementation. The first task in building up the Balanced Scorecard is clarifying and translating company’s vision and strategic goals.

The overall purpose of the strategic management is to find a single priority long-term goal which would serve as a basis in resource allocation and organisational development. According to the Balanced Scorecard methodology, the first item that the senior executives of a particular company should consider is the financial goal. The executive team may decide whether to head for revenues or market growth, profitability or cash flow generation.

The ABC of the strategic management suggests that there should be a structure to strategy development that managers should follow. One systemised possibility of strategic management tools is the acronym MOST (Mission, Objectives, Strategy and Tactics). First, strategists should choose a mission – a long-term purpose for the organisation. Then they should define short- and mid-term objectives that will move the organisation on a path towards the mission. A strategy can then be developed to achieve the objectives using short-term operating decisions, in other words – tactics, to implement the strategy.

But the process of developing a winning strategy is much more messy, experimental, and iterative than those simple models foresee. For example, to build up a Balanced Scorecard’s customer-perspective, a company’s top
executives may agree upon providing superior service to its customers. As such, the vision is quite straightforward and easy to understand for everybody. In formulating the customer objective to the Balanced Scorecard, however, it might become clear, that each executive has a totally different understanding on A) what a superior service is, and B) who are the specific clients that it is going to be targeted at. The executives may thereafter decide who the most desirable customer segment to the company is and which area of services it might be offered.

After the organisation has established its financial and customer objectives, it then identifies the strategic objectives and measures for its internal business processes area. This must be done in close co-operation with middle-level or operations managers to ensure that the processes are in line with current possibilities of resource allocation.

The final link to be envisaged is learning and growth perspective, which reveals the rationale for investments in training employees, in information technology and systems that deal with research and development. (Libby, Salterio, & Webb, 2004).

2.11.2 Communicating and Linking Strategic Objectives and Measures

The next task is to inform all levels of the organisation about the initiative of establishing the Balanced Scorecard. The communication serves three-fold goal. It forwards information to all employees about the critical objectives that must be accomplished if an organisation’s strategy is to succeed. Second, the employees need to analyse what changes need to be made in current management of the customer relations, internal business processes, and knowledge management. For example, a strategic initiative to reduce product delivery might be translated into a Balanced Scorecard objective to reduce set-up times at a specific machine, or to a goal for rapid transfer of orders from one process to next, or fully entering into just-in-time concept. In this way, local improvement efforts become aligned with overall organisational success factors. Thirdly, it encourages
dialogue back from business unit to executive teams, not just about the sole implementation of the strategy but about the continuous future strategy development.

At the final stage of the communication and linkage process, everybody in the organisation should understand the business unit’s long-term goals, as well as the strategy for achieving these goals.

The main aim of the communication and linking initiative is to let the middle management define their internal business processes. For example: to satisfy the goal of increasing the market share by 20 per cent we need to bring x new products to the market with a targeted marketing campaign. The second aim is to let middle management establish its learning and growth objectives. For example: to increase the market share, we have to train our sales people and increase productivity by establishing a Research and Development department.

Throughout communicating and linking phase, it is worth paying attention also to the question on how to link salary bonus system or other motivation systems to the achievement of goals. It might be recommended that the Balanced Scorecard could be used as a single basis for bonus system. For example, sixty per cent of bonuses of middle management might be based on financial measures (such as profit, return on investment) and the rest of the bonuses might be based on customer satisfaction, partner satisfaction or productivity or turnover of its subordinates.

Individuals at business unit level should have formulated local actions that contribute to achieving overall company’s objectives.

All the organisational efforts and initiatives should be aligned to the needed change processes, as the ideal corporate strategy should be set up bearing in mind the principle that every decision has to support the achievement of strategic objectives. All other decisions are either wrong or irrelevant. (Marr, & Neely, 2003)
2.11.3 Planning, Setting Targets and Aligning Strategic Initiatives

The third management task to do is to drive organisational change. The executive team should establish targets for the Balanced Scorecard measures that will transform the company. The targets should represent a discontinuity in the performance of business units. In other words, the goals to be set have to be so-called BHAG-s (big, hairy, audacious goal). One might dream of making his brand more popular than Coke, another aspires to create the most lucrative Web site in cyberspace. To achieve such ambitions financial or customer or trademark objectives, managers must identify stretch targets for their customer, internal-business-process, and learning and growth objectives. These targets can come from several sources. It is possible to use benchmarking, brainstorming etc.

Once targets are established, managers can align their strategic quality, response time and re-engineering initiatives for achieving the breakthrough objectives. Thus, the Balanced Scorecard provides the front-end justification, as well as focus and integration for continuous improvement, re-engineering, and transformation programmes. (Banker, Chang, and Pizzini, 2004)

To distinct from simple slogans of business re-engineering and other management fads, it has to be kept in mind that all those initiatives have to be analysed and identified whether they are critical to company's strategic success. It is a way of continuous series of cause-and-effect work embodied with the Balanced Scorecard; those capabilities eventually have to become translated into the overall strategy. Company may have to tackle with a series of serious constraints in doing so.

Many organisations may encounter usual problems that they have established vision and strategic objectives but to fulfill them they are unable to find particular methods. By using Balanced Scorecard in close connection with budgetary process, it can be assured that all the tasks that are necessary to achieve objectives will also receive the necessary funding.
Chapter-2 A Conceptual framework of Balance Scorecard Approach

The Balanced Scorecard also enables a fundamental change in letting the organisation to integrate its strategic planning with its annual budgeting process. At the time when a business establishes 3-5 year stretch targets for the strategic measures, managers may also forecast milestones for each measure during the next fiscal year.

The second possibility is to monthly analyse all the operations and their accordance to fulfillment of strategies and responding funding.

Overall, the initiative should achieve that:

- Long-term outcomes are quantified;
- Mechanisms for fulfillment those outcomes are identified and possess the necessary financing and
- Short-term milestones have been set for the financial and non-financial measures of the Balanced Scorecard.

It might be advisable to analyse the possibilities of using various catalytic mechanisms to drive performance of the company. (DeBusk, Brown, and Killough, 2003),

2.11.4 Enhancing Strategic Feedback and Learning

The last management process embeds the Balanced Scorecard in a strategic learning framework. This process might be considered the most innovative and most important aspect of the entire Balanced Scorecard management process. This provides the capability for organisational learning at all levels. Managers in organisations today do not have a procedure to receive feedback about their strategy and to test the hypotheses on which the strategy is based. The Balanced Scorecard enables them to monitor and adjust the implementation of their strategy, and, if necessary, to make fundamental changes in the strategy itself. (Kaplan and Norton, 1992)
One of the main distinctive qualities of the Balanced Scorecard is to give constant response about achievement of strategic and short-term objectives. Some ten years ago, it was customary to do strategic decisions about once in three months. As today's business environment is so rapidly changing, it is necessary to take strategic decisions in fact, every day to safeguard the flexibility to changes in the market.

First, it makes possible to rephrase so-called shared vision, where the opinions of all the levels of the organisation could be taken account in defining strategic goals and methods on achieving those.

Second, it gives continuous strategic response to the managing team. By foreseeing short-term milestones, it might be necessary to amend long-term strategy’s timeline and contents, as the latter may be either too optimistic or too pessimistic. (Crilley and Sharp, 2006)

Third, it speeds up the process of finding the cause-and-effect relationships between different Balanced Scorecard components. For example: working morale may have a very strong impact on client satisfaction, which could be unknown for the senior management. This in turn may lead to discovery of new cause-and-effect relationships. For example: between client satisfaction rate and the speediness of submitting invoices. Finding all kinds of correlations definitely helps to clarify and improve the content of strategic goals and tactical steps.

To be more specific, the goal of the process is to establish an ongoing and continuous improvement cycle, the first step is the clarification of a shared vision that the entire organisation wants to achieve. The use of measurement as a language helps translate complex and frequently nebulous concepts into a more precise form that can gain consensus among senior executives. The communication and alignment process, the second process in the Figure 2, mobilises all individuals into actions directed at attaining organisational objectives. The emphasis on cause and effect in constructing a scorecard introduces dynamic systems thinking. It enables individuals in various parts of an
organisation to understand how the pieces fit together, how their role influences others and, eventually, the entire organisation. The planning, target setting, and strategic initiative process – the third process in the Figure 2 – defines specific, quantitative performance goals for the organisation across a balanced set of outcomes and performance drivers. A comparison of the desired performance goals with current levels establishes the performance gap that strategic initiatives can be designed to close. Thus the Balanced Scorecard not only measures, but also even fosters change. The first three critical management processes are vital for implementing a strategy, but they alone would not be adequate in the real world. (Henderson, Young and Mittl, 2001)

Thus, the learning and growth initiative has to be carried out in order to ensure continuous improvement. That kind of continuous improvement may remind also Deming’s so-called Plan-Do-Check-Act cycle. Figure 2.5 – Depicts the Possible Steps to go around the Balanced Scorecard:
Figure 2.5 Possible Steps to Go Around the Balanced Scorecard

1.Clarifying and Translating the Vision and Strategy
   - Clarifying the vision
   - Gaining consensus

2. Communication and Linking
   - Communicating and educating
   - Setting goals
   - Linking rewards to performance measures

3. Planning and Target Setting
   - Setting targets
   - Aligning strategic initiatives
   - Allocating resources
   - Establishing milestones

4. Strategic feedback and learning
   - Articulating the shared vision
   - Supplying strategic feedback
   - Facilitating strategy review and learning

2.11 Testing the Balanced Scorecard

Introducing the balance Scorecard Approach involves a systematic preparation right from introduction to its implementation. Finally the result obtained can also be tested in the following ways:

2.12.1 Analysing Outcomes and Performance Drivers

All Balanced Scorecards use certain generic measures. These generic, or core outcome, measures reflect the common goals of many strategies, as well as similar structures across industries and companies. The generic measures include profitability, market share, customer satisfaction, customer retention, and employee skills. The drivers of performance are the ones that tend to be unique for a particular business unit. The performance drivers reflect the uniqueness of the business unit's strategy: the drivers of profitability, the market segments in which the unit chooses to compete, the value propositions delivered to customers in the targeted market segments, and the particular internal processes and learning and growth capabilities that enable the financial and customer objectives to be achieved.

A good Balanced Scorecard should have a mix of core outcome measures and performance drivers. Outcome measures without performance drivers do not communicate how the outcomes are to be achieved. They also do not provide an early indication about whether the strategy is being implemented successfully.

Conversely, performance drivers (such as cycle times and part-per million defect rates) without outcome measures may enable the business unit to achieve short-term operational improvements, but will fail to reveal whether the operational improvements have been translated into expanded business with existing and new customers—and, eventually, into enhanced financial performance. A good Balanced Scorecard should have an appropriate mix of core outcome measures and the performance drivers of these outcomes. (Frederickson, Peffer, and Pratt, 1999),
2.12.2 Analysing Cause and Effect

A strategy is a set of hypotheses about cause and effect. Cause and effect relationships can be expressed by a sequence of if-then statements. For example, the organisation can establish a link between improved sales training of employees to higher profits through the following sequence of hypotheses. If organisation increases employee training about products, then they will become more knowledgeable about the full range of products they can sell. If employees are more knowledgeable about products, then their sales effectiveness will improve. If their sales effectiveness improves, then the average margins of the products they sell will increase.

A properly constructed Scorecard should tell the story of the business unit's strategy. The measurement system should make the relationships (hypotheses) among objectives (and measures) in the various perspectives explicit so that they can be managed and validated. (Lipe, and Salterio, 2000).

The chain of cause and effect should pervade all four perspectives of a Balanced Scorecard. For example, return on capital employed (ROCE) may be an outcome measure in the financial perspective. The driver of this financial measure could be repeat and expanded sales from existing customers, the result of a high degree of loyalty among existing customers. So, customer loyalty gets put on the Scorecard (in the Customer perspective) because it is expected to have a strong influence on ROCE. How will the organisation achieve customer loyalty? Analysis of customer preferences may reveal that on-time delivery (OTD) of orders is highly valued by customers. Thus, improved OTD is expected to lead to higher customer loyalty which, in turn, is expected to lead to higher financial performance. So both customer loyalty and OTD are incorporated into the customer perspective of the Scorecard.

The process continues by asking what internal processes must the company excel at to achieve exceptional on-time-delivery. To achieve improved OTD, the business may need to achieve short cycle times in operating processes and high-
quality internal processes, both factors that could be Scorecard measures in the internal perspective. And how do organisations improve the quality and reduce the cycle times of their internal processes? By training and improving the skills of their operating employees, an objective that would be a candidate for the learning and growth perspective.

In a very similar vein, recent work in the service profit chain has emphasised the causal relationships among employee satisfaction, customer satisfaction, customer loyalty, market share, and, eventually, financial performance.

2.12.3 Establishing Action Plan for Balance Scorecard

To implement the Balance Scorecard, an action plan is required. Making action plan is not a simple and single thing. In order to get the fruitful results by the use of Balance Scorecard, a systematic plan is required. (Balser, & Stern, 1999)

2.13 Common Problems in Balance Scorecard Implementation

This section will cover the common pitfalls when implementing and working with the BSC. The common pitfalls are divided into design failures, process failures, Technological pitfalls and end up with the Major disadvantages of standard spreadsheet documents.

2.13.1 Design failures

The design failures are defined as the failures made on the actual design of the Balanced Scorecard (Kaplan & Norton, 2001):

- Too few, too many measures - Failure to obtain a balance between the outcomes they are trying to achieve and the performance drivers of those outcomes.

- Incorrect drivers of the desired organizational outcomes. However, even if these pitfalls are common, Kaplan and Norton (2001) argue that organizations that work intensively with their strategy do not often fall into these kinds of pitfalls.
2.13.2 Process failures

The most common causes of implementation failures are poorly organizational processes and not design failures. Thus more attention has been paid to them, and these causes of implementation failures include the following (Kaplan & Norton, 2001):

- Lack of senior management commitment - Delegation of the BSC-work to a middle-management team. Strategy is about doing the right things (senior management task) and not about doing things right (middle management task).
- Too few individuals involved - When a single senior executive builds the BSC by himself and does not involve the rest of the top management team.
- Keeping the scorecard on the top - The opposite error of not involving the senior executives, is only involving the top management team. The goal is to have everyone in the organization understand the strategy and contribute to implementing it.
- Too long a development process, treating the BSC as a onetime event - A too long development process is often the result of striving to produce a perfect BSC, straight away. The most successful implementation of the balance scorecard starts with some measurements missing while the management activities based their agenda on the BSC.
- Treating the balanced score card as a System Project rather than a management project - System project: Implementing an IS and dedicating all attention to the IS instead of designing an real scorecard based on the company strategy, management project, which in turn leads to a higher degree of system usage once the management project is completed. This is something that is common when external consultants are in charge of the BSC implementation.
- Hiring Inexperienced Consultants - One of the biggest problems when implementing the BSC is inexperienced consultants.
• Introducing the balance scorecard only for compensation - To skip the strategy translation part of the scorecard process and introduce only new non-financial measures to their existing incentive compensation plan. (Kaplan, & Norton, 1993)

2.13.3 Technological Problems

Keith and Manzio (2007) argue that the greatest obstacle to successfully implementing the BSC is not the methodology, but the technology platform that supports the process. The authors have identified two major technological pitfalls (Keith & Manzione, 2007):

• Low-tech applications – The usage of desktop applications such as spreadsheet applications are not standardized within or across business units resulting in a multiple use of unsynchronized documents. This leads to different performance management processes within business units with complicated and time consuming forms and templates to fill out.

• Robust but inflexible applications – Common in “off the shelf” platforms where the system is highly scalable but with limited customization abilities. The organization becomes forced to live with the systems default terminology which can be foreign and confusing if it does not fit the organizational context. If the terminology cannot be linked to the strategic reporting system the BSC loses its original meaning of strategy diffusion.

2.14 Conclusions

From the possible research resources from Internet and major international business journals, it was possible to identify that throughout the world has the Balanced Scorecard received very warm welcome among numerous very prestigious companies. To mention just a fraction of them: Chase Manhattan, Hewlett-Packard, IBM, FMC Corporation, Mobil, Shell, Sears, Texaco. The number is constantly growing every day. (Kaplan, Robert and Norton, David, 1996)
The Balanced Scorecard is definitely a useful tool to renew an organisation’s mission and strategic objectives. Multilevel analysis of organisational strategy helps to identify possible shortcomings and flaws of existing objectives.

Second, the Balanced Scorecard has proven its usefulness also as a two-way communications tool that enables to pass information more easily to all the members of an organisation, as every member’s task in formulating the core business information is certainly much higher than in the case of centralised strategic management systems. At the same time, the Balanced Scorecard simplifies the analysis of monthly performance review and compares the results of the review with strategic objectives.

Third, it turns the activities of an organisation much more efficient as its every member is more aware and committed to the strategy. In the end, it avoids performing many tasks that are not in line with objectives and members start to diminish less important assignments that do not contribute to goals.

As one of negative impacts of the Balanced Scorecard it may be noted slowing down of some strategic planning processes, because discussions on so many levels of management undoubtedly takes some time. The second problem is increasing time constraints, because some increase in bureaucracy and increase in reporting.