Abstract

This paper critically evaluates the arguments and evidence that the Balanced Scorecard (BSC) is something more than a “management fashion”. The balanced scorecard is a management tool devised to advance business productivity. Introduced by Kaplan and Norton in 1992, it contains setting measurable objectives relating to customers, financials, internal processes, and learning and growth. As these four perspectives are found to have cause-and-effect relationships, improvement in one area incurs a positive effect on the rest, as well as contributing to the attainment of the overall corporate vision. The BSC has proved valuable with large organisations and has been extensively used within divergent industry sectors. However, there is only limited systematic, researched-based evidence on BSC applications. Various researchers have different findings on its applications. This paper provides a conclusion that the benefits of the BSC outweigh its inherent limitations. Thus, the BSC may be considered as something more than a “management fashion”.

The launch of various management innovations has made a prodigious impact on divergent entities worldwide. Consequently, the Balanced Scorecard (BSC) is the most progressive prevailing technique that has emerged as a highly regarded management tool observed to address the weaknesses of traditional performance measurement systems, thereby witnessing rapid global adoption. However, initial promises were only partly accomplished and its implementation did not create much value as expected. Henceforth, the BSC has been argued to conceptualise the idea of management fashions.

To begin with, the BSC is a strategic management and control tool which aims to translate the organization’s vision and strategy into specific measurable objectives. These objectives are measured using four perspectives consisting of financial, customer, learning and growth, and internal business processes (Kaplan and Norton, 1992). Financial Perspective covers organizational growth, profitability, and risk objectives allowing managers to track financial success and shareholder value. Customer Perspective covers objectives being customer satisfaction and market share in order to reach the established financial aims. Internal Business Process Perspective sets strategic priorities for business processes that create customer and
shareholder satisfaction. Finally, Learning and Growth Perspective establishes the infrastructure in which the organisation must build to create long-term growth and improvement (Behery, 2005). The success of BSC is stipulated by the linkages between these perspectives such that it entitles managers to translate quality improvements into higher revenues and lower spending (Kaplan and Norton, 2001).

The BSC concept has been extensively adopted in all types of organisations. Its use and popularity has grown so much and has been proved successful over the years. Recent surveys indicate that approximately 60% of large US companies now use the BSC, suggesting that it resembles a typical management fashion (Braam et al., 2002; Qu and Cooper, 2007). This emulates the changes in technology, and is implemented in response to new global competitive environment. It helps managers to delineate critical success factors needed for company survival such as identifying superior and inferior links within an organization, then taking corrective actions to ease the situation. The BSC therefore grants a strategic measurement and management system (Hepworth, 1998; Kaplan and Norton, 2001).

According to Mooraj et al., (2009), some companies allege that BSCs translate strategy into action signifying that BSC is positively correlated with value creation. Kaplan and Norton (1996) pinpoint that by unfolding the value drivers for exceptional long-term financial performance, the BSC highlights critical value-creation activities. Also, the BSC integrates financial measures of past performance (lagging) with non-financial measures of future performance (leading). A good BSC encloses a mix of lag and lead indicators embodied in the perspectives linked together in cause-and-effect relationships, inducing a feed-forward control system (Norreklit, 2000 cited in de Haas and Kleingeld 1999). Financial measures tend to disclose the current company condition leading only to short-term success. By including lead indicators, the BSC assists managers to conquer the problem of short-termism which in turn results in enhanced financial performance. However, some non-financial measures are also lagging indicating the limited application of BSC. Kaplan and Norton (1996) cite BSC application on National Insurance Company which affirmed that the identification of strategic priorities, outcomes and performance drivers generated re-engineered business processes which is expected to embed favourably on discrete future outcomes.

Kaplan & Norton (1996) suggested the possibility of deriving measures in a particular organization, following an “assumed” cause-and-effect relationship. They
insist that the BSC accentuates cause-and-effect linkages of strategies that provide managers a basis to administer the drivers of expected outcomes. This is a fundamental assumption as it assents non-financial measurements to be used in forecasting future financial performance. For instance, R&D activities will often be dependent on results such as revenue and profit. Financial outcomes are assumed to follow from customer loyalty, which is assumed to be influenced by on-time deliveries whose quality and speed are influenced by people’s skills (Bukh and Malmi, 2005). Bukh and Malmi, (2005) cited in Kasurinen, (2002) caters a research-based evidence on the successful implementation of BSC through creating strategy maps and using measures rooted from the assumed relationships.

Associating long-term strategic planning, short-term action and budget planning ascertain the auspicious nature of BSC. The BSC becomes a pioneer tool for feedback and learning necessary to improve business processes on a continuous basis, and has performed as a bridge between long-term targets and yearly budgets. Upon the improvement of organizational performance, it becomes straightforward to compare businesses with other diverse businesses that bid competition. If objectives are linked to rewards, employee motivation to achieve further targets will increase but simultaneously productivity might drop if held responsible for uncontrollable factors. The BSC, whose format and content arise to suit innumerable management needs, ameliorates internal and external communications, and creates progress through an enhanced information system by close monitoring. Essentially, organizations that have used the BSC gather that most of their customers remain loyal to them. The BSC also guards against sub-optimization as it lets managers see whether improvement in one area may be achieved at the expense of another (Kaplan and Norton, 1992). For instance, Apple has introduced measures that shifted its emphasis toward customers, and uses the BSC to plan long-term performance by promoting a language of measurable outputs. Advanced Micro Devices also reveal that the BSC is most successful when used to drive the process of change (Kaplan and Norton, 1993).

The recognition of BSC dwells in its flexibility and adaptability that accounts its responsiveness to control and intervention by powerful groups, and its completion consents its core ideas to be compliant to client needs. Research has depicted that organizations using the BSC tend to disclose better improved performance through a better strategic planning system that concerns strategy map application. This confers
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conspicuous communication on the relationships of measures allowing managers to meet demands. Davis and Albright (2004) investigated the effectiveness of BSC and affirmed that its proper usage led to financial performance improvement. The findings indicate that companies which used the BSC outperformed non-BSC users on a common financial measure. Besides this, findings by Dumond (1994) denote that the performance measurement system determines an individual’s decision-making which is influenced by their ability to obtain information about external events. Moreover, Forza and Salvador, (2001) infer a positive effect on the employee’s satisfaction and understanding of the company’s strategy as a result of using the BSC. The framework directly adjoins information flows with performances making it possible to prioritise actions aimed at augmenting organisational communication, in-alignment with the company’s objectives.

There are other factors that could virtually explain BSC’s popularity. The publications examining the “causal relationship between measures” and the “link between strategy and measures” are significant. Andersson and Seiving (2008) contend that its rapid growth could be elucidated by bandwagon effects, such that the booming adoption necessitated managers to implement BSC based on opaque grounds. Hence, Qu and Cooper (2007) propose that the power of texts and the role of media have elevated the recognition and prominence of the BSC. This is because its authors are “reputable professors from prestigious business schools”, and the support from executives of successful firms involved in the studies spawned massive credibility, thus incorporating it as a standard practice within abounding firms (Kaplan and Norton, 1996). Further, some companies adopted the BSC to promote other agenda while others articulated motives referring to traditional budgeting abandonment as budgeting asserts financial performance over the pursuit of strategy, whereas organisations are able to align budgeting to strategy using the BSC (Brudan, 2005; Malmi, 2001).

Additionally, the BSC’s popularity is inferred to associate management fashions (Abrahamson, 1991). This concept emphasizes new management approaches that emerge swiftly and are adopted with immense ardour. Once it has served its purpose and other problems outpace managerial needs, its usage might potentially be withdrawn (Benders and van Veen, 2001). Various management techniques have been shown to mimic “fashions” such as Total Quality Management (TQM) and Business Process Re-engineering (BPR). Both were quality improvements that had gone from being the most embraced management trend to a fad. Some have argued
that TQM’s contributions to business practices such as enhancing quality control shaped its popularity. However, setbacks provoked a salient decline in interest that has driven conventional behaviours resulting in slight improvements, hence was expeditiously abandoned (Miller et al., 2004).

Benders and van Veen (2001) reveal that ‘wearing out through use’ exhibit an obtrusive role in the downturn of BPR and the pervasive adoption insinuates the problems for which the concept was contemplated as a solution disappears. Thereupon, the need for the concept vanishes. The BSC is seen to follow the footsteps of TQM and BPR but whose techniques lack a sense of integration. The BSC can serve as the “focal point for defining and communicating priorities” to company stakeholders, thus replaces previous management systems (Kaplan and Norton, 1993). For instance, TQM neglects employee satisfaction. Hence, BSC adoption would in turn increase this aspect and correspondingly entity performance. Cooper et al., (2010) connote that BSC promoters have ratified a strategy of continuous change to curtail the danger that the BSC would become a fad.

On the other hand, not everyone agrees with Kaplan and Norton’s framework. The findings of Andersson and Seiving (2008) bespeak that the BSC exposes indications of fashions. A linear regression conducted on their study illustrates a negative trend which signifies a decreasing attitude towards BSC, and empirical evidence further specifies that only 30-50% of Dutch companies intend to implement BSC in the future. Other dubious management intellectuals expect the BSC to be a transient concept that will be replaced by another which will better fit the needs of companies (Braam et al., 2002).

“We have only limited systematic research-based evidence on BSC applications” (Malmi, 2001). It was assumed that its approach, design and method were the causes of most failed implementations. Brudan (2005) cited a research conducted by Claude Levy which reported a 70% failure rate of BSC implementation. Studies by Ittner et al., (2003) assessed the impact of implementation on the company’s financial performance in terms of Return on Assets. The results registered a negative relationship as firms that have adopted the BSC reported non-reliance on causal business models.
In addition, the absence of decision-making aids for companies condones critical issues and explicates that BSC plainly has primitive guidelines with no options and substitutes at times of unpredicted failures. Various cause-and-effect chains cause over-complexities and difficulties in defining measures. Hence, unclear and ambiguous strategic objectives in deploying the concept give insufficient guidance to define performance indicators (Braam et al., 2002 cited in Hers, 1998). This results in ineffective communication and control within an organisation implying that the concept is not well-understood by everyone such that non-alignment of employees’ goals with the company’s goals is likely to produce poor outcomes including impoverished motivation and conflicts. Malina and Selto (2001) explored the effectiveness of BSC whose results foreshadowed an indirect relationship between management control function and improved performance. Data propound that the BSC is an impotent device for controlling corporate strategy as disputes between management levels develop.

The selection of BSC perspectives and their interrelationships are arbitrary. Laitinen (1996) claims that measures in practical applications appear loosely connected to each other, precarious of which factors should be developed to assure success financially and in the market place. The four BSC perspectives have to be translated into characteristic needs of individual companies. Atkinson et al., (1997) criticizes it by not abiding to the stakeholder approach, and the non-financial variables are mistakenly classified as the prime drivers of future stakeholder satisfaction. It neglects paramount issues including suppliers not being deliberately considered, and financial goals losing emphasis when ‘competing’ with supplementary perspectives (Heinz, 2001).

Cause-and-effect relationships predicated to exist in strategy maps do not really exist, according to Norreklit (2003). There is no quantitative interrelationship between non-financial and expected financial results such that the attainment of non-financial goals cannot certify absolute business success. There was no attempt by Kaplan and Norton to prove this claim of causality (Norreklit, 2000). However, some organizations are tempted to make this linkage quantifiable. Loyal customers are indentured to supply good profits for an organization but these customers might eventually become expensive to the company, therefore perturbing financial stability (Norreklit, 2003). Norreklit (2000) conjectures that increased customer loyalty is not invariably the root of long-term financial performance; and that there would be no
need for a BSC if performance measures were emphatically correlated since all would contain inherently equivalent information (Bukh and Malmi, 2005 cited in Meyer, 2002). Subsequent to assumed cause-and-effect relationships, there prevail intricacies in linking measures to strategy and to each other. In interviews with Finnish firms, most interviewees declared that the alleged link between strategy and measures which are based on a cause-and-effect reasoning appeared weak in most companies; and oftentimes scorecards allegorize KPI indicators (Malmi, 2001; Bukh and Malmi, 2005).

Norreklit (2003) ponders that the lavish interest towards BSC is predominantly due to promotional rhetoric rather than its materiality as innovative and practical theory. Thinking about improved systems and linking them to strategy is not scrutinized as new in the academic realm. Braam et al., (2002) purport that the BSC supersedes out-dated reports, and then accustoms them to the new system. In this sense, the concept is premeditated as an augmentation to subsisting planning and control systems. Furthermore, critical success factors are almost repudiated, such as culture, management style, commitment, communication and training. Butler et al., (1997) admonish that the BSC may not correspond to organizational culture and jargon; and suspect that it may overlook corporate missions. It has been also reprimanded on its simplicity as it prompts comprehensive and complex organizational changes but its ability to conform these is challenged (Braam et al., 2002). A more dynamic environment incurs difficulties in maintaining the BSC. Since the business nature may change over time, the BSC needs to be adjusted subsequently in order to survive. However, this is a time-consuming process and would cost extravagantly in terms of training and hiring of consultants required in the process.

Following Kaplan & Norton’s (1993) research, to see through the business unit’s competitive strategy, a BSC should have 20-25 measures. However, the weight given on the perspectives may not be applicable to all organizations as it may vary between different industries and divisions causing more complications. Based on a study performed by Rompho (2011), the nature of SME businesses is more frequently responsive to market changes than large organisations operating in a more stable market, thus making it impossible to track cause-and-effect linkages between measures.
The contemporary empirical literature yields deficient information on how the BSC creates value. For instance, it does not signal whether value is created by strategic or operational use. This proclaims inadequate understanding on the way the BSC stimulates organisational performance (Mooraj et al., 2009). For example, BSC application on an insurance firm upholds that the BSC was anticipated almost only as a “technical tool” which did not proceed in compelling changes in strategy and actions (Braam et al., 2002 cited in Van Hooft & Kerstens, 2000).

Studies done by Neely et al., (2004) found no substantial performance improvement in companies. It recurs that the implementation had a positive impact on sales and profit; but when comparing performance with its sister company, these findings can be impugned. A study by Hoque and James (2000) adduces a positive relationship between the non-financial measures and the company’s performance. However, this study fails to verify the claim of causal-relationship as it only relates to non-financial measures indicating failure to pick-up strategic linkages of a real BSC.

Conclusively, the BSC is a mechanism that devises a balance between the components of organization's objectives and vision, assesses organisational performance, and can be used as a management strategy. It has achieved tremendous popularity due to its beneficial nature but critics argue that the BSC adopts a management fashion concept. It peaks and starts to decline, primarily due to implementation problems, and incomplete evidences to construe its effectiveness. Notwithstanding this, the BSC is an eloquent management development that merits heightened research attention. Andersson and Seiving (2008) demand that their evidences comprise no waning side of bell-shaped popularity pattern to define a management fashion and there is a prevalent rapport that the positive contribution of the BSC outweighs the shortcomings captured. Hence potentially, the BSC may be considered as something more than a “management fashion”.

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