Novelty Journals

ISSN 2394-7322

International Journal of Novel Research in Marketing Management and Economics
Vol. 3, Issue 1, pp: (42-48), Month: January-April 2016, Available at: www.noveltyjournals.com

THE BALANCED SCORECARD: A KEY TO PERFORMANCE IMPROVEMENT?

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Abstract: **Performance improvement is the center of attraction for academics and practitioners. The question is how can organizations use the balanced score card to achieve balanced performance improvement? The balanced scorecard was introduced around the 90s by Kaplan and Norton. The aim of this review is to find out how the balanced scorecard influences performance improvement in both profit making and nonprofit making organizations. It also seeks to consider how the model is relevant to organizations, business sector and the competitive environment within which organizations operate. The review seeks to identify whether balanced scorecard is relevant and influential to performance improvement in organizations, the business sector and the competitive environment, within which such organizations operate. The theoretical underpinning of the balanced scorecard is outlined. A consideration of the relevance and link of the balanced scorecard with strategy is made. The review draws attention to the main areas of debate on issues of performance improvement. The current research directions on the balanced scorecard and performance improvement in general are discussed.**

Keywords: **balanced scorecard, Performance improvement, nonprofit making organizations, business sector.**

1. INTRODUCTION

Nowadays companies and organizations find themselves having to compete in globalized and turbulent markets (Neely et al, 2002 cited in Cocca & Alberti, 2010). A necessary condition to achieve high performance standards is being able to effectively measure and monitor company’s performance (Cocca & Alberti, 2010)

The concept of performance measurement and improvement dates back to the origin of the human race but however came to prominence as a result of the coming into being of both profit and nonprofit making organizations. Agrarian societies used to measure their performance by looking at the number of hectares they have ploughed or cultivated a day and set new targets to achieve. According to Kaplan and Norton (1992) the traditional performance measurement was mostly geared towards financial measures like return on investment (ROI), earning per share and net profit rate. Weaknesses of such measures were that they lacked balance and were short term. Later on new tools such as dashboard, six sigma and total quality management were introduced to measure non-financial performance. This created a gap between the two forms of measurement which was closed by Kaplan and Norton who introduced the Balanced Scorecard in 1992. The introduction of the balanced scorecard created a balance between the financial and non-financial measures.

It is against the above background that this review looks at how organizations can use the balanced scorecard to achieve balanced performance. This model of performance improvement will be discussed and its relevance and suitability for use by organizations explained and critically evaluated. The critical success factors and relevance of the method or model to strategy and marketing will be discussed.

The main areas of debate, current research directions, and discussions on balanced performance will be identified and reviewed. A summary of the findings will be done.

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2. THEORETICAL UNDERPINNINGS

In the quest for quality different scholars contribute varied and similar methods or models towards the growth, renewal and development of performance measurement and improvement. According to Oakland (2003) since the early 1980s, most of the world has been in a 'quality revolution' mainly to serve the needs of the customer. He argues that competitive pressures on companies and government demands on the public sector have driven the need to find more effective and efficient approaches to managing businesses and nonprofit making organizations.

The balanced scorecard was originated in the early 1990s by Kaplan and Norton as a performance measurement framework that added strategic nonfinancial performance measures to traditional financial metrics to give managers and executives a more balanced view of organizational performance (Kaplan and Norton, 1992).

The balanced scorecard translates the vision and strategy of an organization or business unit into objectives and performance measures in four different areas of financial, customer, internal business processes and learning and growth perspectives. The financial perspective identifies how the organization wishes to be viewed by its shareholders. The customer perspective determines how the organization wishes to be viewed by its customers. The internal business process perspective describes the business processes at which the organization has to be particularly outstanding in order to satisfy its shareholders and customers. The learning and growth perspective considers the capacity of an organization to learn, adapt and grow as the basis of its success (Kaplan and Norton, 1996).

The above description leads to the identification of the main process indicators that the company, department or organization wants to control and which will be part of the balanced scorecard. The organizational learning and growth perspective analyses the changes and improvements which the company needs to realize if it is to make its vision come true. Kaplan and Norton (1996) suggest the following causal relationships of perspectives. The measures of organizational learning and growth are the drivers of the measures internal business processes. The measures of these processes are in turn drivers of measures of customer perspective, while these measures are drivers of the financial measures.

3. CRITICAL EVALUATION

The Balanced Scorecard can be seen as a management system that bridges the gap between strategic objectives set at the senior level within an organization, and their operational execution. Vision and strategy are translated into objectives and measures, providing a framework to communicate this vision and strategy to employees, and thereby channeling the energies, the abilities, and the specific knowledge of people throughout the organization towards achieving long term goals. Kaplan and Norton (1996) are of the view that the long term profitability of an organization is dependent upon a large number of non-financial measures such as research and development, innovation, customer satisfaction, training etc. They laid more emphasis on leading instead of lagging measures.

Traditional performance measures based on cost accounting information provide little to support organizational excellence because they do not map process performance and improvements seen by the customer as pointed out by Oakland (2001). They are past oriented, i.e. they measure how the organization performed. They do not give a future outlook of an organization and they assume performance can only be measured in monetary value. Each one of the above stakeholder need to be satisfied in order to attain continuous organizational improvement. Balanced Scorecard is not simply a performance measure, in addition to measuring performance it acts as a management system and a planning system.

A fundamental feature of the Balanced Scorecard is that it requires that each measure should relate to the corporate strategies and to each other in a cause and effect relationship as suggested by Ishikawa (1986). The individual measures at each instance would be unique depending on corporate goals and strategies (Barua et al., 1996; Kaplan and Norton, 1996; Lezta, 1996). This shows that identifying the corporate goals and strategies in relation to the core perspectives is the critical preliminary step in a Balanced Scorecard approach. The Balanced Scorecard is applied in Private and Public sectors from two different viewpoints. In a Private sector, the main emphasis is on financial indicators for managing the organization. In the Public sector however, entities must respond mainly to legislative acts and are responsible to higher Government authorities. The most common difference between a Private sector Balanced Scorecard and a Public sector Balanced scorecard lies in the purpose of utilizing the Balanced Scorecard. Public sector focuses on cost reduction and customer satisfaction, while Private sector is mainly focused on revenue generation and profitability. For example Balanced Scorecard for a government department has financial indicators which are aimed at financial management and cost reduction, not making profit. Having a Balanced Scorecard similar to a private organization would benefit such an organisation by enabling it to compete on same grounds with its competitors who are mainly private institutions.

Kaplan and Norton are of the opinion that the Balanced Scorecard has its greatest impact when deployed to drive organizational change. In a rapidly changing environment, innovative organizations are increasingly using the Balanced Scorecard to identify and communicate key factors that drive future values (Kaplan and Norton, 1996) giving better indication of where an organization is going. According to Kaplan and Norton (1996) companies must be competitive by using measurement and management systems derived from their strategies and capabilities. Balanced Scorecard helps bridge the gap between strategic objectives set at senior level within the organization and their operational execution. This is accomplished by translating vision and strategy into objectives and measures, providing a framework to communicate this vision and strategy to employees and thereby channeling the energies, the abilities and the specific knowledge of people throughout the organization towards achieving long term goals. The scorecard takes the company's vision, translates each key statement into measurable steps and then presents information so that the critical success factors can be evaluated and compared (Campbell, 1997).

Kaplan and Norton original Balanced Scorecard which is referred to as 1st Generation Balanced Scorecard, does not show how the Balanced Scorecard might improve the performance of organizations; it implies that the provision of measurement data itself will trigger improved organizational performance. However, they do imply that the source of these improvements is changes in behavior, i.e. Balanced Scorecard establishes goals but assumes that people will adopt whatever behaviours and take whatever actions are necessary to arrive at those goals. In their first paper Kaplan and Norton say little about how a Balanced Scorecard could be developed in practice beyond a general assertion that design involved putting vision and strategy at the centre of the measurement system (1992).

Cobbold and Lawrie (2003) pointed out that the practical difficulties associated with design of 1st Generation Balanced Scorecard was initially vague, allowing for the considerable interpretation. Filtering and clustering were two significant areas of concern. Filtering refers to the process of choosing specific measures to report whilst clustering means deciding how to group measures into perspectives. Butler et al (1997) explained that discussions relating to clustering continue to be rehearsed in literature but discussions relating to filtering are less common, and usually appear as part of descriptions of methods of Balanced Scorecard design as argued by Kaplan and Norton (1996). Leadership should drive the implementation of a Balanced Scorecard by bottom up approach so that staff members own the measures. In most organisations, for example, objective owners are management team and most of initiative holders are ordinary employees. This gives employees clarification as to how they input in the performance of the organization. If there are too many low level employees as objective owners, there might be a problem of buy in from top management because strategic decisions are made at top level.

As organizations and authors refine Balanced Scorecard, they initiated what Cobbold and Lawrie (2002) referred to as 3rd Generation Balanced Scorecard model. The idea was to refine 2nd Generation design characteristics and mechanisms to give better functionality and more strategic relevance. These triggered the development of destination statements, initially at the end of the design process to check the objectives, measures and targets chosen. Strategic objectives are developed through the application of systems thinking as stated by Cobbold and Lawrie (2002). Cause and effect relationship between strategic objectives should be identified through use of systems thinking. The strategic objectives should be represented on a strategic linkage model. Examples of applications of 3rd Generation Balanced Scorecard are emerging as outlined by Guidoum (2002), Shulver at al (2000), Anderson at al (2002). These experiences prove that 3rd Generation approach to Balanced Scorecard design and development does appear to have material benefits to organizations resulting from improved functionality as a strategic management tool.

It is advisable for organizations to understand the core roots of a Balanced Scorecard and choose what works for them. A Balanced Scorecard should not be taken from a consultant or anyone and implemented without aligning it to an organization. Balanced Scorecard is not a panacea to poor performance. Since organizations are becoming more complex and competition is becoming high and international; there might be other reasons for poor performance besides what is covered by Balanced Scorecard. Globalization calls for a proper study of customer's culture before stepping into a foreign market. Different Balanced Scorecard might be required for the same company with different customers. The good thing about a Balanced Scorecard is that it can be used simultaneously with other models such as Total Quality Management.

4. BENEFITS OF BALANCED SCORECARD

The balanced scorecard is not just a strategic measurement system but also a control system which may be used to:

- Clarify and gain consensus about strategy.
- Align departmental and personal goals/objectives to strategy.
- Link strategic objectives to long term targets and annual budgets.
- Identify and align strategic initiatives, and
- Obtain feedback to learn about and improve strategy (Kaplan and Norton, 1996).

The traditional financial system cannot convey the importance of intangibles such as people, processes, and innovation to senior executives and to frontline employees but the balanced scorecard can.

5. CHALLENGES TO BALANCED SCORECARD IMPLEMENTATION

One of the challenges to the successful implementation of the balanced scorecard is that when the balanced scorecard is implemented and some members of staff especially those who are of lower ranks are not involved this inhibits their understanding of the strategy of the organization. According to Chavan (2009) the purpose of the balanced scorecard is to guide, control and channels the entire organization towards realizing a shared conception of the future.

The vision and strategy of the organization should be clearly communicated to all employees so that they can own them. If performance development plans are imposed on employees they will resist them and view performance management tools as punishment.

In his study Chavan (2009) explores how managers' cognitive limitations may prevent an organization from fully benefiting from the balanced scorecards information. He examines observable characteristics of the balanced scorecard that may limit managers' ability to fully exploit the information found in a diverse set of performance measures. The question of leadership in the implementation of the balanced scorecard is very interesting and important since its success is largely dependent on the understanding, commitment and support from the very top of the business down. This is an area which needs further research because the manager or leader of any given organization is critical to its success.

6. CURRENT RESEARCH DIRECTIONS

The world is becoming more competitive day by day, therefore scholars, academics and performance improvement specialists continue to look for new ways to improve performance and gain competitive advantage.

Chavan (2009) posits that the balanced scorecard will evolve as culture changes and develops to accept new approaches and members of the organization mature within the new culture. He opines that the organization will find new things to measure, new goals in different areas, to make the balanced scorecard even more balanced and effective in supporting a living, growing and viable organization. Valmohammadi and Servati (2011) agree to the assumption that if the environment of an organization changes the measurement system must react to these changes and evolve too. This is another interesting area of research. It is also recommended that to increase the effectiveness of the balanced scorecard implementation, systems dynamics (SD) be used when designing strategy maps of organizations. It is argued that SD modeling can help companies to assess the dynamic complexity of their process and to evaluate simulation scenarios that may lead to improved business performance.

The pace of change and development continues at an ever increasing rate. The Balanced Scorecard which was initially proposed as a general measurement system, has rapidly evolved into a strategic management system for implementing a company's strategic vision (Kaplan 1994). Using the scorecard as the central, organizing framework for the strategic management process implies the use of four successive management steps:

*Clarifying and Translating vision and strategies- the vision is clarified and how it is to be implemented. This link to the competitive position of the organization to the operational of its processes is necessary to translate strategy into action (Booth 1996). Consensus is gained.

*Communicating and linking –this signal to all employees the critical objectives that must be achieved if the organization's strategy is to succeed. Communication and education to all employees. The scorecard can be used as a basis for setting personal goals and linking these goals to personal rewards (Booth 1996).

*Planning and target setting- targets can be set, quantifying long term outcomes to be achieved, aligning strategic initiatives, allocation of resources and establishing milestones.

*Strategic feedback and learning- articulation of shared vision and the most innovative and most important aspect of the entire scorecard management process, supplying strategic feedback and facilitating strategy review and learning.

As in the words of Campbell (1997) it appears that the Balanced Scorecard is an idea whose time has come. The Balanced Scorecard is used as a communicating, informing and learning, not controlling system (Kaplan and Norton 1996) and can therefore be aligned to fit in any organization. According to Niven (2005) traditional performance measures has got a number of problems including:

*They relied on financial measures which are mostly short term measures. It was evident from the fact that 2/3 of the fortune 500 companies in 1954 were either found nowher or if some were found there, they were not in that prosperous form.

*Financial measures were lagging measures.

*Slow response to change. In 1999, it was found that 75% failures of the CEOs came not because of poor strategy but because of poor strategy implementation.

Non financial measures such as customer satisfaction, number of complaints etc had to be adopted into performance measurement. Niven (2005) argued that though non financial measures are of greator value to organizations they have their short comings such as:

*There are quite a large number of non financial measures and it is difficult to select some of them.

*Non financial measures might be misleading.

*It is difficult to translate non financial measures into financial outcomes

Niven (2005) stated the experience of Horizon Fitness. The CEO there was worried about the strategy implementation. The author and the CEO developed Balanced Scorecard for the Horizon Fitness. It was so effective that the sales revenue reached $85 million in the third year of Balanced Scorecard implementation from $6.6 million in the first year of its operation. Barkey (2000) said that a recent survey showed that 88% of the organization felt that the Balanced Scorecard had improved the performance of the employees. Balanced Scorecard was considered motivating, measuring and rewarding people and then innovating the strategies. Will Kaydos (2004) explained that each old system was to be replaced with a new system. The sanme was the case with performance measurement where Balanced Scorecard is very popular those days. Finally the author stated that the Balanced Scorecard was the best performance measurement system but its success ids dependent upon its proper implementation. Deming is considered to be the founder of modern performance based management who laid emphasis on quality, innovation and employee empowerment. The Deming cycle emphasized upon the detection of causes of defect at various stages of production. Rhom (2004) said that a Balanced Scorecard was equally applicable to public sector organizations only after having certain modifications. This change may be in the form of an additional perspective.

A consideration of relationship between Balanced Scorecard application in large organizations and issues relating to intra-unit communications. Balanced Scorecard when cascaded through an organization can be used as a successful strategic contracting, and strategy communication tool (Shulver et al, 2000) however, its precise utility needs further exploration.

A study conducted by Bigliardi and Dormio (2010) reveals that the balanced scorecard is still little known and adopted, especially in small and medium enterprises. The balanced scorecard is however recognized as a useful tool to measure research and development (R&D) performance. Further research can be carried out to find out why the balanced scorecard is not popular amongst small and medium enterprises. Is it because it is too expensive for them?

7. CONCLUSION

The balanced scorecard was developed to overcome the defects brought about by the use of traditional performance measures by organizations. It gives managers a balance of information from all its perspectives and it also minimizes the possibility of information overload by limiting the number of measures included.

Research indicate that the balanced scorecard is one of the best methods that were discovered since organizations can use it to improve quality, satisfy customers, improve revenue and get feedback for future improvement or growth.

The balanced scorecard is not only a performance tool, but a strategic management tool and a communication tool which always gives managers feedback on areas that need attention.

The comprehensive nature of the balanced scorecard is demonstrated by its four interlinking perspectives or quadrants.

A balanced scorecard properly deployed to manage an organization can result in the following critical accomplishments according to Amaratanga et al (2002).

- Alignment of strategy with key performance objectives at all levels of the organization.
- More effective measurement and management of business performance against the plan.
- Strategic feedback and an organization wide communication platform.

The trends above indicates that Balanced Scorecard is surely one of the good systems that were formulated. Its flexibility allows organizations to use them to improve quality, satisfy customers, improve revenue etc. All the four perspectives are improved therefore covering all aspects of an organization. Besides being a performance tool Balanced Scorecard is a strategic management tool, a communication tool, an alarm which signals areas which need special attention. Though the implementation of Balanced Scorecard sound logical and holy on paper, it is not always the case in practice. This therefore calls for further research on how organizations can develop a Balanced Scorecard which suit their structures and culture. Strategic communication need to be explored more to identify precisely how it can be made effective through the use of a Balanced Scorecard.

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