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Balanced Scorecard and Its Iterations

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Abstract: *Balanced scorecard (BSC) was first coined by Kaplan and Norton in 1992 and has gained wider acceptance globally and resulting itself in numerous iterations over the last 20 years. It seems to be one of the most influential concepts in the field of performance management and measurement. The key problem that Kaplan and Norton identified in the business of the day was that many companies tended to manage their businesses based solely on financial measures. While that may have worked well in the past, the pace of business in today's world requires more comprehensive measures. Though financial measures are necessary, they can only report what has happened in the past — where a business has been, but not where it is headed. It's like driving a car by looking in the rearview mirror. Balanced Scorecard application differs based on the size and nature of business it operates and highlights the versatility of BSC. It is found that since its inception to till date the same old concept was gaining acceptance. Though many updations are made but the base of BSC was not avoided. Here the author would like to present the iterations of balanced scorecard.*
Keywords: *Balanced Scorecard, Strategy, Performance*

I. Introduction

When Robert Kaplan & Norton introduced the concept it was tested by many companies in US to find whether it is a perfect match for the organizational problems. Initially it is used as performance measurement tool and later on as performance management tool and now as strategic management tool. But up to 1990s among four perspectives of BSC financial performance was given high priority in measuring performance by neglecting the other measures. After industrial era management realized that considering finance alone will lead to vague results and focus was shifted to others factors like internal business process, customer & learning & growth perspective(intangible measures). When comes to implementation companies adapt BSC as per their requirements where the measures under each perspective differs based on the nature of the business they follow. Later on executing and organizing the strategy has become critical for organizations to become a high performance organization. The balanced scorecard has withstood the test of time as the leading process for strategy execution. However, developing and implementing a balanced scorecard is not a simple matter. It requires a comprehensive understanding and full engagement of the organization. Balanced Scorecard methodology is not a "**one size fits all**" approach; it must be skillfully adapted to fit the organization. The power of the Balanced Scorecard is the alignment of all resources, processes and people to the strategy. This is accomplished through the use of a comprehensive set of measurements that fall within a set of balanced perspectives of the organization – Financial, Customer, Process and Learning/Growth.

Management concepts are prescriptions or recipes on how to organize certain organizational activities, i.e. business processes or reporting systems, in order to reach an organization's long-term goals. The BSC is an example of a management concept which can be interpreted, enacted and implemented in various ways. This concept was coined by Dr. Kaplan and Norton in the year 1992. At that time, it was a new approach to strategic management. They recognized some of the weaknesses and vagueness of previous management approaches. The balanced scorecard approach provides a clear description as to what companies should measure in order to 'balance' their financial perspectives. Nowadays many large companies use a performance measurement system like the BSC. Companies that start with a performance measurement system face difficulties with the implementation.

Source: Robert S.Kaplan & David P Nortan

II. Versatility of Balanced Scorecard

If you ask most of the companies of how they would measure company performance, they might give you a hilarious look and say, "**How much money the company makes, of course! Isn't that obvious**?" To a certain extent, they are right. Profitability, gross revenues, return on capital, etc. are the critical, "bottom line" kind of results that companies must deliver to survive. Unfortunately, if senior management focuses only on the financial health of the organization, several adverse penalties arise. One of these is that financial measures are "**lagging indicators**" of success. This means that how high or low these numbers go depends on a wide variety of events that may have happened months or years before which may have no immediate control on the present. Being in a plane falling from the sky is a bad time to realize that you should have done routine maintenance, and oh, by the way, filled it with gasoline!

Managers have long understood that to really measure the performance of an organization, financial measurements, such as operating profit or return on investment, are not sufficient. To get a broader picture of the performance, non-financial measurements have to be added as well. The selection of measures also affects the behavior of the managers. **(Kaplan and Norton, 1992)** The selected measures must be relevant to the strategy of the company. Financial measures have the problem that they report on the past but do not give advice on what to do next. **(Kaplan and Norton, 1993).**

First Generation Balanced Scorecard

Balanced Scorecard was initially described as a simple, “4 box” approach to performance measurement (Kaplan and Norton, 1992). In addition to financial measures, managers were encouraged to look at measures drawn from three other perspectives of the business: Learning and Growth; Internal Business Process; and Customer, chosen to represent the major stakeholders in a business (Mooraj et al, 1999). Definition of what comprised a Balanced Scorecard was sparse and focused on the high level structure of the device. Simple ‘causality’ between the four perspectives was illustrated but not used for specific purpose. Kaplan and Norton’s original paper’s focus was on the selection and reporting of a limited number of measures in each of the four perspectives (Kaplan and Norton, 1992). It aims to solve the issue of control and “getting a grip on the organization”. It often creates a simple collection of measures in perspectives. Such first generation scorecards are useful for operational measures, but are poor at describing the strategy and change. They are rarely balanced. They often contain very static measures, as opposed to ones that are designed to drive performance. They are useful, as an operational tool. Bob Kaplan refers to these as “operational scorecards” Frankly, as every set of measures gets called “a scorecard”, some are not even worth of the accolade “first generation”. Here there is no clarity that which measure under which perspective (**clustering**) 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). Later writing includes increasing amounts of proscription about development methods, concluding with a lengthy description of one such process in their first book on the subject published in 1996.

Second Generation Balanced Scorecard

The most successful BSC implementations came from organizations who used the scorecard to support major strategic and organizational changes which prompted Kaplan and Norton to admit that the additional perspectives would not necessarily guide organizations towards doing (and measuring) the right things. The answer was simple: the right things that would lead the organization to prosperity are included in the strategy.

"Measure the strategy!" therefore meant that the balanced scorecard had to be derived from the organization's vision and strategy (Kaplan & Norton, 2000). The BSC became a core management system and a valuable tool In a new, improved design method strategic objectives were plotted on a strategy map, a type of strategic linkage model. The interdependence of objectives was illustrated. Measures were identified to assess the extent to which these objectives were reached. Not only were these measures better contextualized but they also measured what was considered to be strategically important and were therefore easier to work with. The strategy map translated the strategy in actionable terms and with the BSC became a key element of the strategy focused organization

Third Generation Balanced Scorecard

At the start of the 21st century the Balanced Scorecard had a prime place in the management repertoire. For some it was a management tool with a strong performance management component while others viewed it as a performance management framework that aims to improve the effectiveness of strategic management. This phase produced the Destination Statement and a simplification of the strategy map which lead to improved functionality and more relevance Third generation thinking is about systematic, methodical implementation of strategy. At the completion of a strategy map and scorecard the question invariably is asked what the organization or unit will look like once strategic success has been achieved as a way to ensure that it is well constructed. It was realized that if such a destination statement would be created at the beginning of the design process it would be easier to select objectives to realize this end-state. A destination statement is a clearly articulated and quantifiable short description of the organization/unit at a defined point in the future (3-5 years) assuming the current strategy has been successfully implemented – what the future will look like, not how to get there. The destination statement can also be sub-divided into categories similar to the perspectives. In this model the four perspectives are replaced by an **outcome** perspective which groups the financial and customer perspectives together and an **activity** perspective to combine internal business processes with learning and growth. Norton & Kaplan's developments of their earlier versions which, though not generally recognized, emphasize the, articulation of strategy through the strategy map, the alignment of the organization.

Time to move on

Today we are finding clients come from a different place. Recognizing they manage amidst uncertainty and risk, they want agility and responsiveness and the ability to learn as they execute their strategy. They realize that control and measures are inadequate, it is about treating people as human beings, focusing on behaviors, not simply measures and targets. They need to empower people to make decisions locally, have conversations with customers in a human voice and that the most successful executives are managing with both left and right brains. They need ways to capture and manage their new models of business and new ways of thinking about strategy more appropriate to the second decade of the 21st century.

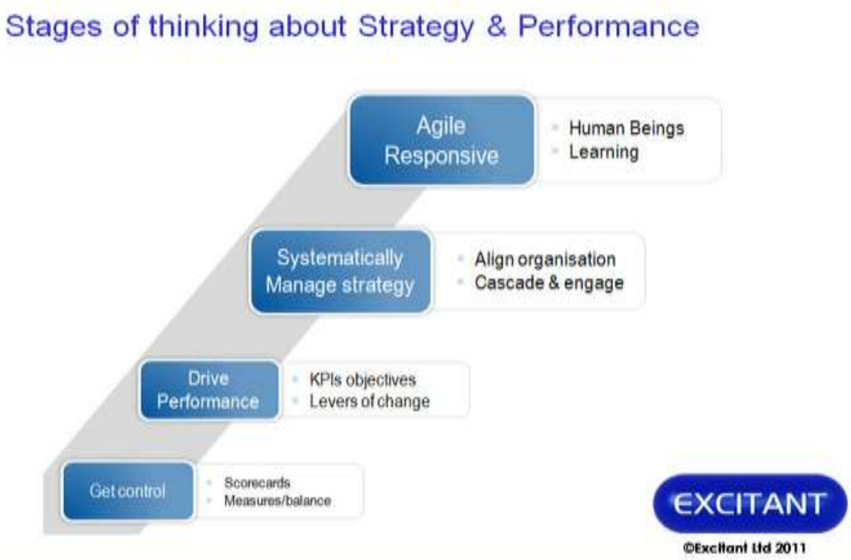
Fourth Generation Balanced Scorecard

Authors have been designing and implementing balanced scorecards since 1996. From these experiences they have developed a number of enhancements that build upon these earlier approaches. Enhancements that executives find intuitive and sensible. This has relied on re-thinking, turning upside down, some of the common practices and assumptions in performance management. Focus is on behaviors, not on measures and targets. Strategy is continuous & focus should be on learning, not simply control. Together, these techniques can be encapsulated in the Fourth Generation Balanced Scorecard approach.

1st, 2nd, 3rd & 4th Generation Scorecard Iterations

1st Generation	2nd Generation	3rd Generation	4th Generation
Aims to solve the issue of control and of "getting a grip on the organization	Focuses on what drives performance	Systematic and methodical implementation of the strategy	Recognize that management involves uncertainty and risk; they emphasize agility and responsiveness and the ability to learn when executing the strategy
Little about how this measure selection activity could be done, beyond general assertions about the design philosophy, e.g. "putting vision and strategy at the centre of the measurement system"	Filter (i.e. choose a few specific measures to report), and cluster (i.e. decide how to group measures into "perspectives").	New features intended to give better functionality and more strategic relevance	Top management needs to empower people to make decisions
Mixture of financial and non-financial.	The attitudinal approach to measure selection proposed initially by Kaplan and Norton (e.g. "To succeed financially, how should we appear to our	Validation of strategic objective selection and target setting	Organizational Value perspective

	shareholders?") was quickly recognized by Kaplan and Norton as weak, and quickly replaced by the concept of "strategic objectives" (Kaplan and Norton, 1993):		
The design challenges presented by first-generation balanced scorecard design are severe	Direct mapping between each of the several "strategic objectives" attached to each perspective and one or more performance measures.	Integrative process helped identify inconsistencies in the profile of objectives chosen	Incorporates the organization's values as a driver of performance and change
Limited number of measures (max 25).	Second key innovation concerned with causality	Multiple balanced scorecards within complex organizations and therefore many more measures.	Address both the discipline and culture of performance
Clustered in 4 groups relating to the 4 perspectives: financial, customers, internal processes, learning and growth.	More or other groups are used. Perspectives redefined.	Perspectives regrouped as Outcomes (financial + customers) and Activities (internal processes + learning and growth).	Encourage judgment and evidence
Measures are chosen to relate to what's important to measure for the organization: difficult to choose most appropriate from many possibilities.	Measures are chosen to relate to specific strategic objectives, the design aim being to identify about 20-25 strategic objectives each with one or more measures and assigned to one of four perspectives. Clustering regarded as more important than filtering.	A destination statement describing the organization after successfully implementing the strategy is developed up front. It guides the selection of objectives and measures.	The organization relooks at learning, governance, values and performance culture
Some attempt is made to represent causality	The major causal relationships between strategic objectives are visually documented by laying out the results in a strategy map, a framework for describing strategy.	The strategic linkage model, a simplified version of the strategy map is introduced. Strategic objectives are segmented into two perspectives, activities and outcomes. Linkages indicate hypothesized causal relations between strategic objectives.	Opens up opportunities for leadership and management, to deliver results
Measures should be chosen in a way that gains the active endorsement of the senior managers of the organization.		The "imagining" exercise presupposes the active participation of management.	
Solve the issue of control and "getting a grip on the organization"			



III. Conclusion

Each company must decide which customers to target and what internal business processes are crucial to attract and retain those customers. Different companies, having different strategies, will target different customers with different kinds of products and services. Let us take the automobile industry as an example. **BMW** stresses engineering and handling; Volvo stress on safety; Jaguar, luxury detailing; and Toyota, reliability. Because of these differences in emphasis, a one-size-fits-all approach to performance measurement won't work even within this one industry. Performance measures must be tailored to the specific strategy of each company. One of the strengths of the Balanced Scorecard is its ability to work in a wide range of setting. It allows for tailored approaches based on the strengths, weaknesses, opportunities and threats of an organization. During the dozen years since the advent of balanced scorecard, changes have been made to the definition of what constitutes a balanced scorecard. These changes have enabled related changes to be made to the design processes used to create the device within organizations.

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