

Balanced Scorecard development over the last 26 years

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Abstract: Robert Kaplan and David Norton introduced the Balanced Scorecard in their 1992 Harvard Business Review article. 26 years since that article. This anniversary has inspired me to review the development of the balanced scorecard, to highlight its generations and to outline some ideas for its future. To this end, the contribution of the research to the field is the review of Balanced Scorecard development over the last 26 years.

Keywords: Balanced Scorecard, generations, performance measurement.

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I. Introduction

Early in 1990, companies mainly rely on financial measures to assess their business performance (Kangari, Farid et al. 1992). This is mostly due to their long history of usage, broad accessibility, the simplicity of application and the quantitative characteristics (Mbugua, Harris et al. 1999). The debate continues on the wisdom of keeping financial measures and operational measures separated and whether it is better to use only financial measures or a combination of both types (Sinclair and Zairi 2000). For instance, Kaplan (1992) argued that managers should not have to choose between financial and operational measures. Moreover, there was not a single indicator can provide a well-defined performance goal or focus attention on the serious areas of the business. Managers want a balanced presentation of both financial and operational measures. McNair, Lynch et al. (1990) argued that the decision to use financial or non-financial performance measures is essential because disagreement creates tension within organizations. Lingle and Schiemann (1996) added that companies which apply a balanced set of performance measurements, as the basis for management, do better than those who do not.

The obvious problems related to the design and the application of a joint system of financial and non-financial measures stress the necessity for a consistent, integrated system inside an organization, derived from causal relationships between the two types of measures. Hence, Kaplan (1992) introduced the BSC as a performance measurement tool combines both financial and non-financial measures.

The core of the BSC is the measures linking of the four areas in a causal chain that passes through all four perspectives. Thus, Kaplan and Norton (1996) emphasized that non-financial strategic objectives should not comprise of an arbitrary group of measures; instead, they should involve a balanced demonstration of financial and non-financial measures. They argued that many managers believe they are using a BSC when they supplement traditional financial measures with non-financial measures about customers, processes, and employees. However, the best Balanced Scorecards are more than unplanned pools of financial and non-financial measures. A scorecard should comprehend outcome measures and the performance drivers of those outcomes, linked together in cause and effect relationships (Kaplan and Norton 1996).

The BSC has attracted much consideration from both practitioners and scholars. Therefore, it is worth asking if it is a valid model for gaining the results promised. The invalid assumptions in a feed-forward control system will cause anticipation of performance measures, which are defective, resulting in dysfunctional organizational behaviour and sub-optimal performance (De Haas and Kleingeld 1999).

II. Balanced Scorecard (BSC) development

The BSC developed by Kaplan and Norton was introduced in the Harvard Business Review in 1992. Followed by a chain of articles in the same publication, becoming the most cited papers in the field of performance measurement (Neely, Gregory et al. 2005). As the authors define it, the Balanced Scorecard

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“translates an organization’s mission and strategy into a comprehensive set of performance measures that provides the framework for a strategic measurement and management system” (Kaplan and Norton 1996).

The key to success with the BSC is the appropriateness and quality of the measures proposed. Lipe and Salterio (2000) argued that this enormous set of measures is designed to capture an organization's desired business strategy and to include drivers of performance in all areas essential to it.

The BSC is a suitable tool for supervising and guiding employees; it is used as an information-gathering tool and can be used as the basis for necessary discussions between employees and management. Also, it is an aid for communicating strategy, which creates awareness of the strategy and influences employees' behaviour in a positive way (Kaplan and Norton 1996).

BSC generations

In its roots, BSC is an integrated performance measurement system (IPMS) that is a system of logically interrelated performance measures covering all critical success factors (CSFs) that are essential in linking strategy to operations. IPMS is built to make it possible for the firm to identify the cause-and-effect relationships in the business and continue to improve its overall performance. In general, IPMS is made up of three layers. The first layer is called the ‘business model’, which describes the causal network between the CSFs and the strategic objectives. This model shows how the firm can utilize the cause-and-effect relationships to carry out the strategy. The second layer includes the performance dimensions (perspectives) of the CSFs that are essential. The third layer consists of the measures for these dimensions. The concept of IPMS is essential in understanding the development of the BSC concept over time (Abdel-Kader, M., S. Moufty, et al. 2011).

1. BSC first generation

Due to financial performance measurement criticisms, Kaplan (1992) introduces original BSC design in his primary form which contains four boxes pertain to performance measurement. BSC added to financial measures three other perspectives: internal business process, customer, learning and growth.

Lawrie and Cobbold (2004) argued that the practical problems associated with the design of first-generation BSCs are crucial, in part because the definition of a BSC was initially unclear. However, also the difficulties originated from the issues presented by the design questions posed by BSC first-generation—particularly the need to filter (i.e. choose a few specific measures to report), and cluster (i.e. decide how to group measures into “perspectives”). Therefore, Kaplan and Norton quickly introduce the concept of “strategic objectives” (Norton and Kaplan 1993). The innovation was to propose that there should be a direct mapping between each of the several “strategic objectives” attached to each perspective and one or more performance measures. Although, this additional step in the measure selection process transforms the design process from that initially proposed, since it helped mainly with the filtering issue. The strategic objective itself provided a justification for the choice of one measure over another in each perspective. Therefore, the BSC need to be developed, so the second generation appeared.

2. BSC second generation

In this generation, Kaplan and Norton (1996) provide how to connect BSC with company vision and how to manage company strategy through four essential stages: translate company vision, the connection which is intended to connect the vision established to various departments, business planning, which achieve company vision, and the last stage is the feedback through comparing the actual performance with the planned performance. This generation Kaplan and Norton enabled BSC to evolve from “an improved measurement system to a core management system” (Kaplan and Norton 1996).

The changes in design described here represent a considerably different definition of what contains a BSC compared to that described above as a BSC first-generation. Particularly, there were two key developments to the definition given earlier:

- Measures are selected to relate to specific strategic objectives, the design goal being to identify around 20-25 strategic objectives each associated with one or more measures and assigned to one of four perspectives (Kaplan and Norton 2000).
- An attempt is made to visually document the main causal relationships between strategic objectives, setting the results in a “strategic linkage model” or “strategy map” diagram (Kaplan and Norton 2000).

Marr and Neely (2001) discussed that in this generation early software reporting systems began to improve these elements of design information by connecting it with measurement data, and using email and diary systems to allow speedy diagnosis and interventions in response to data observed: the ability to store and work with these characteristics are now dominant to lead “balanced scorecard” software systems.

The limitations of the BSC as a strategic management tool are as follow:

- The difficulty in selecting priority elements within their collective vision and strategic goals.
- The strategic linkage model documentation did not help so much to spread the communication of strategy.

These difficulties for the BSC was the base for the BSC third-generation.

3. BSC third-generation

The primary developments over a BSC second-generation are:

- Destination statement. A description, ideally containing quantitative detail, of what the organization is expected to look like at an agreed future date (Lawrie and Cobbold 2004). The destination statement is subdivided into descriptive categories that serve a similar purpose (but may have different labels) to the “perspectives” in first- and second-generation BSCs.
- Strategic linkage model with “activity” and “outcome” perspectives. A simplification of a second-generation BSC strategic linkage model – with a single “outcome” perspective replacing the financial and customer perspectives, and a single “activity” perspective replacing the learning and growth and internal business process perspectives (Lawrie and Cobbold 2004; Ray, Barney et al. 2004).

4. BSC fourth generation

The fourth generation of BSC starts with a model of learning about the strategy as it is implemented. They explicitly address how an organization learns, rather than just control and management. Learning is fundamental to BSC thinking. They speed up the process of organizational learning from its strategy. Avoiding large plans, the organization is more amenable to change and more able to respond when changes are needed. This enables learning about the strategy and studying its effects on performance. 'The Business Compass' is a methodology designed by Allan Rodrigues to support the '4th Generation Balanced Scorecard'. He has taken the scorecard concept to its fourth generational change, by linking the scorecard to the value of the company and using it as a value advisory service and as a measure of the impact of the firm strategies on the community and the environment (Bhardwaj, P., Lakhani Y. 2011).

This generation uses the 'The Business Compass'. It links the four scorecard perspectives (1st generation BSCs), Strategy Mapping (2nd generation BSCs), Destinations Statements (3rd generation BSCs) to the current and future share value of the company (4th Generation BSCs). The business compass also measures the impact of the vision and mission on the environment and the community at large. The following table 1.1 comprises the BSC generations

Table 1.1 BSC generations

BSC generations					
Generations	The First generation: BSC as a tool performance measurement tool	The second generation; BSC as a strategic management tool	The third generation		The fourth generation:
			Strategic Communication	Office of Strategy Management (OSM)	Value Creation
<u>Developer</u>	Kaplan, & Norton, 1992	Kaplan, & Norton, 1996	Lawrie, Cobbold, 2004	Kaplan, & Norton, 2008	Allan Rodrigues, 2007
<u>Objective</u>	Filtering and clustering measures into four perspectives	Mapping the strategic objectives and showing causality.	Selecting priority objectives and alignment of strategic goals.	Integrates BSC with management tools in a comprehensive and closed-loop system	Speed up the process of organizational learning from its strategy. Linking the scorecard to the value of the company, and using it as a value advisory service and as a measure of the impact of the firm strategies on the community and the environment
<u>Components</u>	Four perspectives: financial, customer, internal business, learning and growth	Strategic objectives Strategy map	Destination statement Strategic linkage model	Six-stage closed-loop management system Office of Strategy Management (OSM)	Business Compass

From the above outline of the BSC development, the BSC's original idea of the four perspectives continues to diffuse; however, Kaplan and Norton and other authors have made many significant changes and developments to the design, application and processes used. *Bremser and Barsky (2004)* stated that the automation, including advanced analytics and decision support, support for deployment of the system throughout the organization, communication and feedback, and information sharing and knowledge. *Manville (2007)* argued that effective IT systems are a prerequisite for BSC model implementation for the smooth flow of information among various departments and immediate information access for all employees at different management levels. Moreover, to achieve integration and connectivity among all sectors in the organization to enhance increasing the effectiveness of measurement, evaluation systems, results of performance indicators, feedback reports, and other essential BSC key elements.

BSC needs to be developed practically with the same level of the development of its intellectual concepts to match the nature of business needs. Thus, BSC needs to get benefit from the available advanced data analytics to support the decision- making process with meaningful and appropriate data through a series of activities such as analyzing and interpreting data from past actions to affect the future performance in a complex environment.

III. Conclusion

The current study adds to the knowledge by reviewing the Balanced Scorecard development over the last 26 years. This review could be a rubset starting point for any researcher in the Balanced Scorecard area.

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