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Two decades of the balanced scorecard: A review of developments

Abstract: Having recently celebrated its 20th birthday since its inception in 1992, the Balanced Scorecard has come a long way from its humble beginnings as a simple performance measurement tool. Over this period it has undergone a number of developments regarding its design and implementation. Kaplan & Norton, the originators of the balanced scorecard, have continued to build on their initial work, while stimulating numerous academics and practitioners to comment and adapt on their original findings. The scorecard has now grown into an effective management tool that directs strategy throughout many organisations globally.
Keywords: balanced scorecard, performance management, implementing strategy.
JEL codes: L10, L21, L26, M41.

Introduction

The balanced scorecard has captured the imagination of many executives and senior managers and has been introduced as a performance measurement tool and mechanism to implement strategy in many companies globally. This paper sets out to track the developments in the balanced scorecard over the two decades of its existence. Section 1 considers the inception of the scorecard and Section 2 tracks the developments over the two decades. Section 3 examines the modern context, the so-called third generation phase and Section 4 presents a case study from 2GC which details the third generation balanced scorecard. The conclusion highlights the contribution of the balanced scorecard to the implementation of strategy in modern organisations.

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1. Inception

The Balanced Scorecard (BSC) is a strategic performance measurement system devised after a yearlong multi-company research project by Kaplan & Norton (K&N). They, like many other academics at the time, realised that traditional financial performance measures, which worked well in the industrial era, were out of touch with what companies were trying to achieve today [Kaplan & Norton 1992]. It was no longer tangible assets that create organisational value but intangible assets. They also noted that today's managers realised the impact that measures have on performance but few actually grasped the impact measurement could have on strategy [Kaplan & Norton 1993]. Furthermore they stressed that no single measure could provide a clear performance target, hence managers require a balanced presentation of financial and operational measures [Kaplan & Norton 1992].

The result of this was a scorecard (Figure 1) that combined four different perspectives to link overall performance. The BSC supplemented financial measures, which display the results of actions already taken, with operational

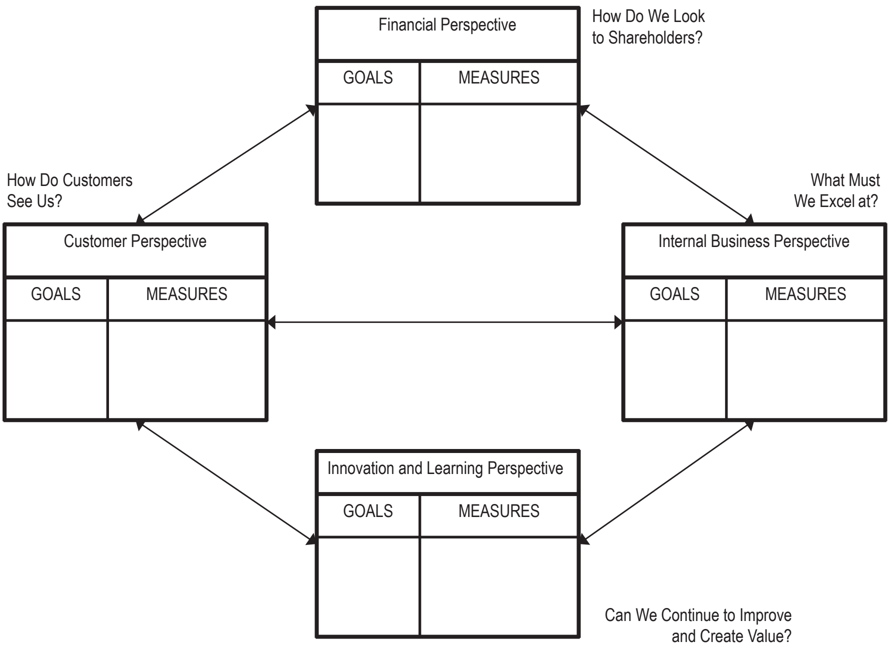

Figure 1. The Balanced Scorecard
Source: Adapted from: [Kaplan & Norton 1992]

measures such as customer satisfaction, internal processes and innovations. Each perspective helped answer a basic performance question: Can we continue to improve and create value? What must we excel at? How do customers see us? How do we look to Shareholders? [Kaplan & Norton 1992].

In 1993 K&N used Rockwater, a worldwide leader in underwater engineering and construction to illustrate the BSC in use. Each box contained a small number of measures that related to that perspective. In the case of Rockwater they had 20 measures with no more than 6 in each box. As you can see there are some attempts to provide connections between strategy and the measurements (Figure 2), however it is widely recognised that these links were weak and forged [Lawrie & Cobbold 2004].

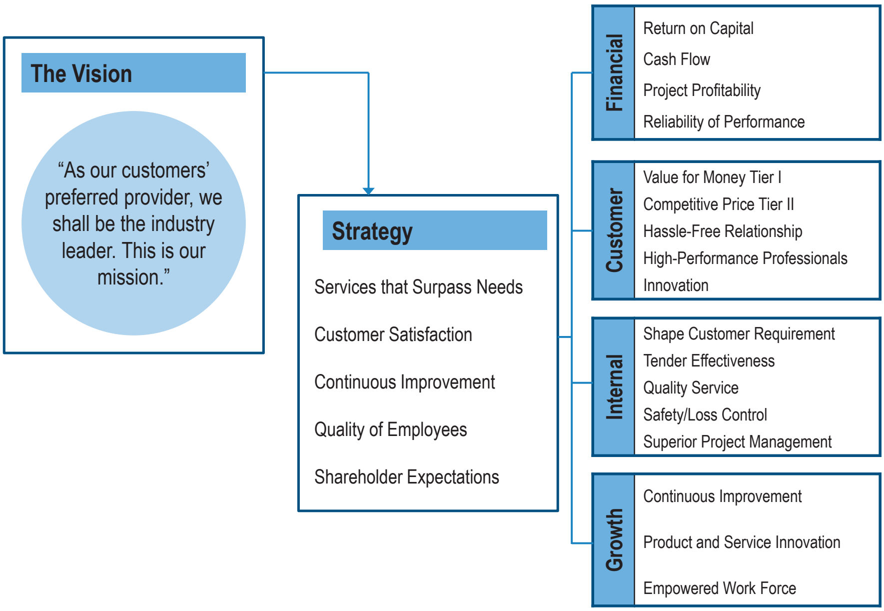

Figure 2. Rockwater's Strategic Objectives
Source: Adapted from: [Kaplan & Norton 1993]

2. Development

The original concept, although widely received, was not without flaws [Letza 1996]. The underlying notion of the BSC involved placing 4–5 measures into four boxes as a performance measurement tool. The method used to select these measures (filtering) and which measures should appear in which perspective (clustering) was initially vague [Lawrie & Cobbald 2004]. This was apparent with Rexam Custom Europe (RCE) as they encountered problems limiting the 35 measures first proposed when implementing the scorecard [Letza 1996].

Furthermore, despite stating that vision and strategy were at the centre of the BSC [Kaplan & Norton 1992], there was little connection offered between how simply placing measures in a box actually linked to an overall strategy. As a result the design was usually segregated into four perspectives, whereby a group of people would focus on financial measures; a group of people would focus on customer measures etc. This led to inconsistent measures and targets [Lawrie 2011]. However, these issues started to be addressed with further publications by K&N in 1996 and 2000.

K&N started to revise and improve the BSC as they obtained more experience with it, [Bible, Kerr & Zanini 2006]. The 1996 article acted to reduce some of the ambiguity surrounding implementation. It introduced four management processes that contributed to linking long term strategic objectives with short term actions [Kaplan & Norton 1996]. The first process, 'translating the vision', helped managers build consensus and clarify the organisations vision and strategy. This enabled 'communicating and linking' where managers could communicate long term strategic goals throughout the organisation. The 'linking' aspect helps to align employees' individual performance with the strategy. 'Business planning' involves milestone and target setting and aligning strategic incentives with these targets. Finally 'feedback and learning' allowed managers to monitor and evaluate performance in regard to balanced scorecard perspectives.

The four aspects combined to move the BSC away from a strictly high-level management tool. The introduction of goal setting and targets coupled with personalised scorecards (Figure 3) for employees provided a sense of togetherness, aligning personal targets to overall strategic objectives. In a single snapshot employees' were able to see the organisations strategy and how their individual measures contributed to these corporate goals.

K&N's fourth article released in 2000 focused on how strategy could be explicitly linked to the perspectives by way of mapping. The strategy map embeds different items of organisation BSC into a cause-and-effect chain connecting desired outcome with drivers of those results [Kaplan & Norton 2000]. While the 4 perspectives remain there is greater causality between them as shown in Figure 4. The three 'leading' indicators that provide information on current performance are driving the lagging indicator of financial perspective. This

The Personal Scoreboard

Corporate Objectives

- Double our corporate value in seven years
- Increase our earnings by an average of 20% per year
- Achieve and internal rate of return 2% above the cost of capital
- Increase both production and research by 20% in the next decade

Corporate Targets					Scorecard Measures	Business Unit Targets					Team/Individual Objectives and Initiatives
1995	1996	1997	1998	1999		1995	1996	1997	1998	1999	1.
					Financial						
100	120	160	180	250	Earnings (in millions of dollars)						
100	450	200	210	225	Net Cash Flow						
100	85	80	75	70	Overhead & operating expenses						2.
					Operating						
100	75	73	70	64	Production costs per barrel						
100	97	93	90	82	Development costs per barrel						
100	105	108	108	110	Total annual production						3.
Team/Individual Measures						Targets					
1.											
2.											
3.											4.
4.											
5.											
Name:											5.
Location:											

Figure 3. The Personal Scorecard
Source: Adapted from: [Kaplan & Norton 1996]

represented a significant change from 4 boxes each with their own measures with little or no relationship between them.

This scorecard is not only an improvement in terms of implementation it's also visually more astute. The mapping allows logical links to be drawn. For example employee training affects customer satisfaction which increases customer loyalty which in turn impacts financial results. However, even with these enhancements it became increasingly hard to set targets for the measures chosen [Kaplan & Norton 2010].

Despite these developments it can be argued the BSC has remained rather rigid in terms of design. As K&N [1993] stated "each organisation is unique and so follows its own path for building a balanced scorecard". Letza [1996] also commented that each organisation has a unique culture which must be taken into consideration before embarking on the design of the BSC. Therefore, it seems rather illogical that such a fixed design was illustrated in the early years of the BSC.

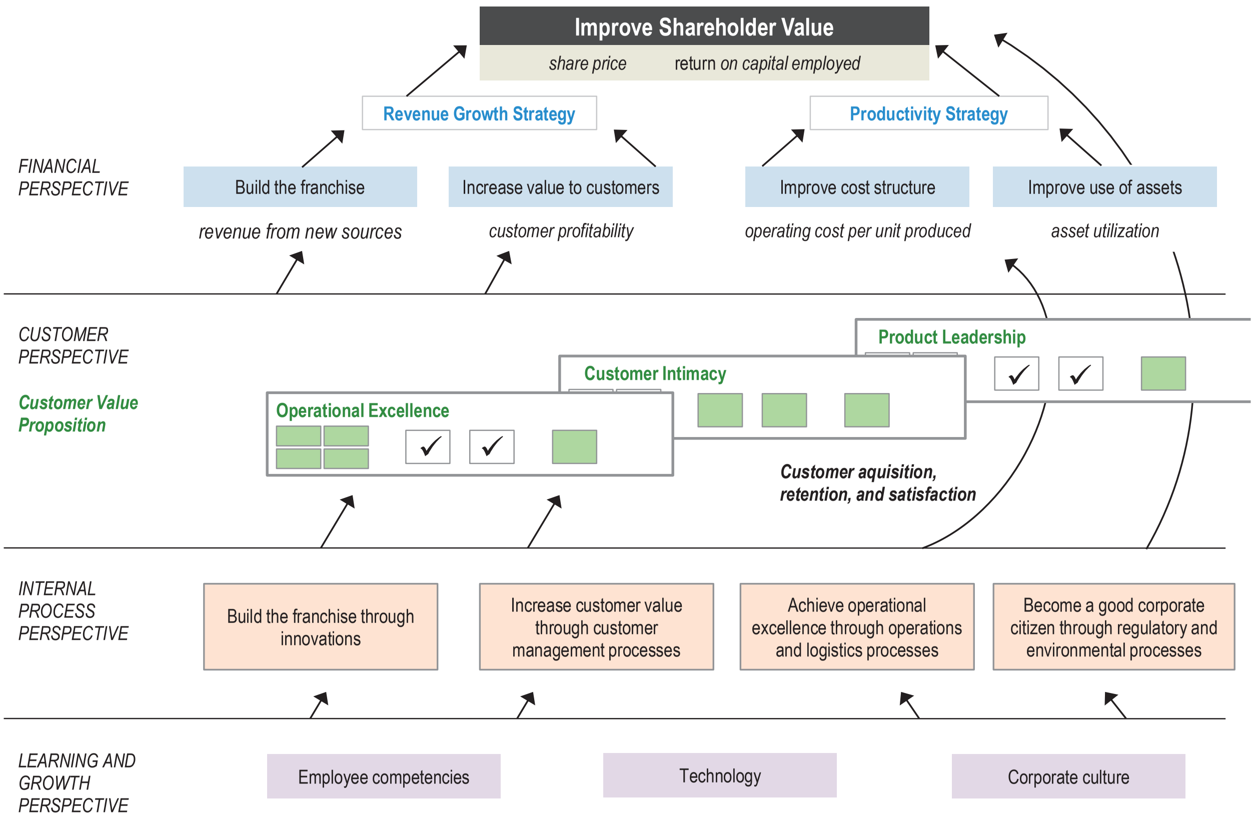

Figure 4. The Balanced Scorecard Strategy Map

Source: Adapted from: [Kaplan & Norton 2000]

For the most part, four perspectives continued to be used, albeit with greater flexibility and slight variations in name. For example 'Internal Business' later became 'Internal Process' perspective. Furthermore, the original finance perspective question posed by Kaplan and Norton [1992] 'How do we look to Shareholders?' was significantly flawed as the BSC starting being used in public sector organisations.

Letza's [1996] study into three companies in Europe produced some variations in design. An example of this can be seen with RCE. A precision coater and converter of flexible materials for customer special orders; their strategy was aimed at growing the business organically by 20% each year through continuous improvement and extraordinary growth. As a result they only used three perspectives of shareholder, extraordinary growth and continuous improvement that formed a triangular scorecard (Figure 5). The model showed sales growth and process improvement, the forward looking/ leading measures, driving financial performance, the backward looking / lagging measures [Letza 1996].

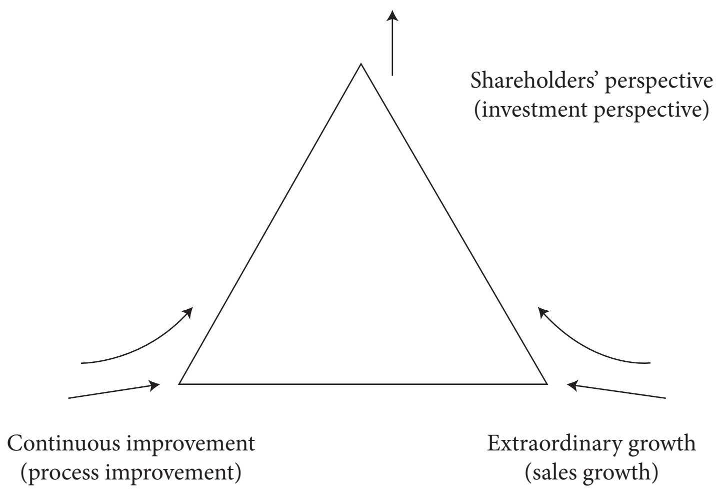

Figure 5. Rexam Balanced Scorecard
Source: [Letza 1996]

These developments see the transition away from a simple stand-alone performance measurement tool to a rallying framework for core managerial processes [Bible, Kern & Zanini 2006], encompassing the whole organisation. They addressed the early implementation issues the BSC faced while providing greater flexibility in terms of design.

3. Modernization

Lawrie and Cobbold [2004] split the development of the BSC into three generations. First generation scorecards are those that occur between its foundations in 1992 and precede the follow up publications by K&N. Second generation scorecards include these later K&N articles and books that act to address the weaknesses of implementation and causality. Third generation scorecards are a refinement of second-generation design with new features intended to give better functionality and strategic relevance. This development comes as a result of the BSC move into non-profit and public sector organisation in the early 2000's. Non-profit organisation without shareholders rendered the financial perspective useless.

One key enhancement relates to a further design element; the 'destination statement'. Destination statements were usually created at the end of the design process by challenging managers to imagine the impact the strategic objectives, chosen earlier in the design process, would have on the organisation. This process helped identify inconsistencies in the profile of objectives chosen [Lawrie & Cobbold 2004].This concept was by no means a new one. The development simply involved making the destination statement the focal point of the BSC not an afterthought.

A second development was a move away from the rigid four perspectives labels. As previously stated the validity of these perspectives can be questioned when dealing with non-profit and public sector organisations. Lawrie and Cobbold [2004] concluded that careful choice of category heading during the design of the destination statement can be equally effective in selecting non-financial measures. A simple choice of 'activity' and 'outcome' objectives linked with simple causality removes debate about missing perspectives. The only issues now were whether the right activities are represented and whether the correct outcomes from these activities are shown. The activity perspective replaced the 'learning & growth' and 'internal process' perspectives and outcome perspective replaced the 'financial' and 'customer' perspectives.

Despite these developments, the fundamental principles remained. Combinations of non-financial and financial measures play a huge part in driving strategy.

4. Modern case study

2GC is a consultancy firm specialising in strategic performance measurement issues faced by modern day organisations. A large part of their work involves the design and implementation of the third generation balanced scorecard. Their website provides a theoretical case study that segregates the BSC into three parts.

The destination statement (Figure 6) is a concise yet detailed description of what the organisation is set to achieve in the future. This period is typically 3 -5 years. Once completed it provides documentation that is used to effectively communicate strategy throughout the organisation (2GC 2009).

The strategic linkage model (Figure 7) has similarities to K&N strategy maps, with the lines illustrating the connections between the perspectives. The model is used to establish short to medium term activities that lead to short to medium term outcomes (2GC 2009).

The measures and targets (Figure 8) is used to track the objectives previously set out in the strategic linkage model (2GC 2009). This has a number of similarities to the personal BSC illustrated previously.

BSC Software

The rise of the BSC has coincided with immense technological enhancements. Which have gone hand-in-hand with the developments in the scorecard over the past two decades. Software can now be customized and automated to summarise, collect and display data that relates to the BSC [Bible, Kerr & Zanini 2006]. For example IBM Cognos Business Intelligence software contains a Scorecard analytics that provides access to balanced scorecard reports, analysis and alerts for all employees [IBM 2013].The wait to see the affect leading indicators had on financial performance is removed, allowing management to respond instantly.

Where now?

Future Direction of the BSC

Currently organisations implement type 1 scorecards as a strategic performance tool, but there are in fact 4 types as shown in figure 9 [Lawrie 2010]. They all contain measures and outcomes, but vary in terms of design and

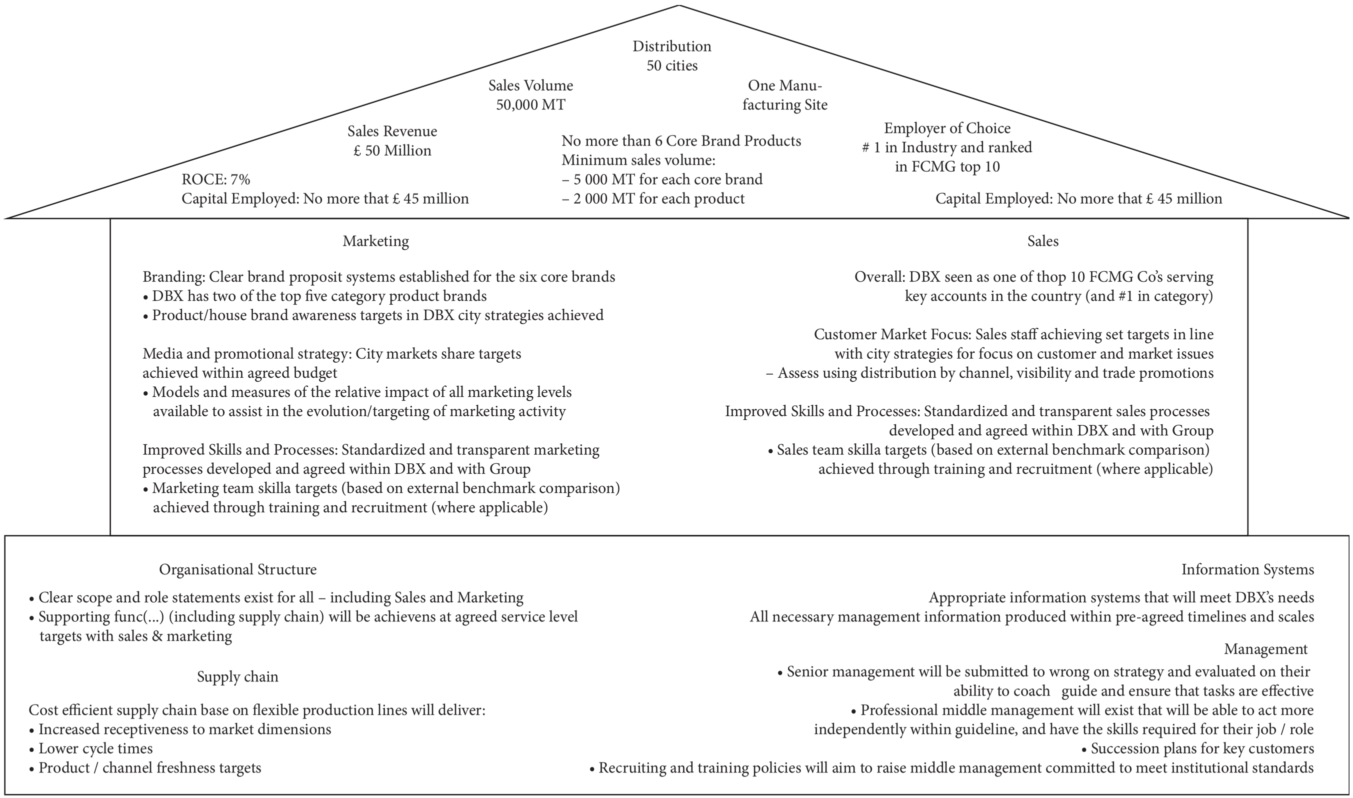

Figure 6. Destination statement
Source: Adapted from: [2GC Active Management 2009]

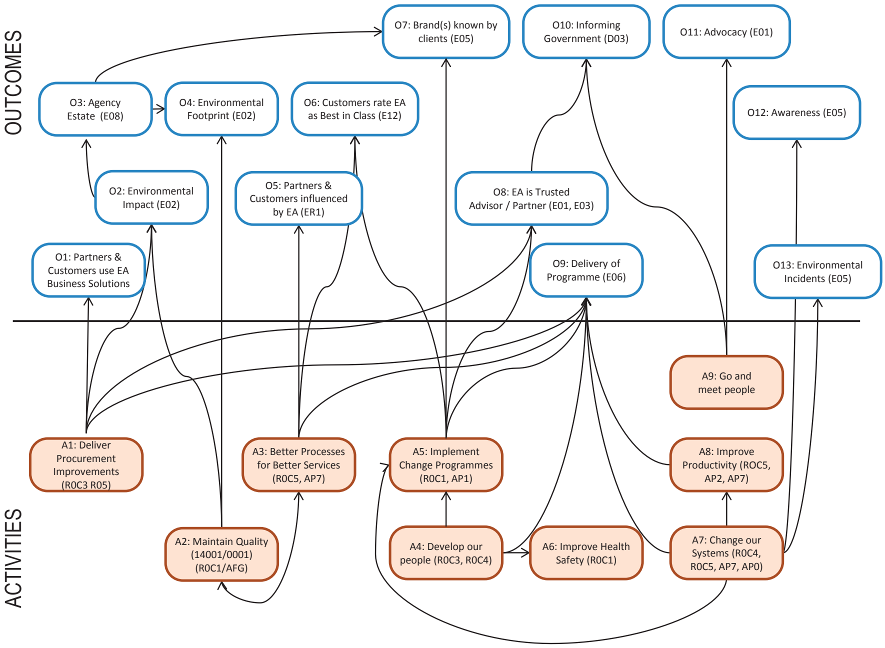

Figure 7. Strategic Linkage Model
Source: [2GC Active Management 2009]

Objective	Status	Measure	Value	Target	Performance comments for objective	Objective Owner
Competetive cost of capital via capital structure		F1.1	-30p	150p	Dividend expected kept at 28p for whole year, but share prices still around 1.000 pence leading to low P/E compared with sector and results from previous years	NG
		F1.2	8	18		
Cash & asset management		F2.1	200	186	Increasing cash inflow from divisions A and D but levels of investments in B, C and E makes the group cash negative for at least another 12 months	NG
		F2.2	-6	4		
Outperform capital markets		F3.1	1.550	1442	Division E still far behind budgets. C positive but below budget. A on budget (flat budgets). L4L sales positive in D driven by brands. C index 120 on L4L.	NG
		F3.2	652	466		
		F3.3	93%	90%		
Succesful deal doing		F4.1	17	24	No major M&A targets in sight yet. Pipelone cover -50% due to aggressive growth targets combined with severe scarcity of targets. Profit mix and growth market numbers not available yet.	NG
		F4.2	257	600		
Sales & profit growth from existing businesses		F5.1	7.65%	7.44%	Cost on average 10% > category 1 competitors. On level with category 2 competitors.	NG
Shareholders support and book strategies		Ash 1.1	65%	74	More shareholders vary about our future earnings potential due to drop in TSR and general negative press. All is down to next big announcement indicating new thrust and direction	ES
		Ash 1.2	8	7		

Figure 8. Balanced Scorecard Measures and Targets
Source: Adapted from: [2GC Active Management 2009]

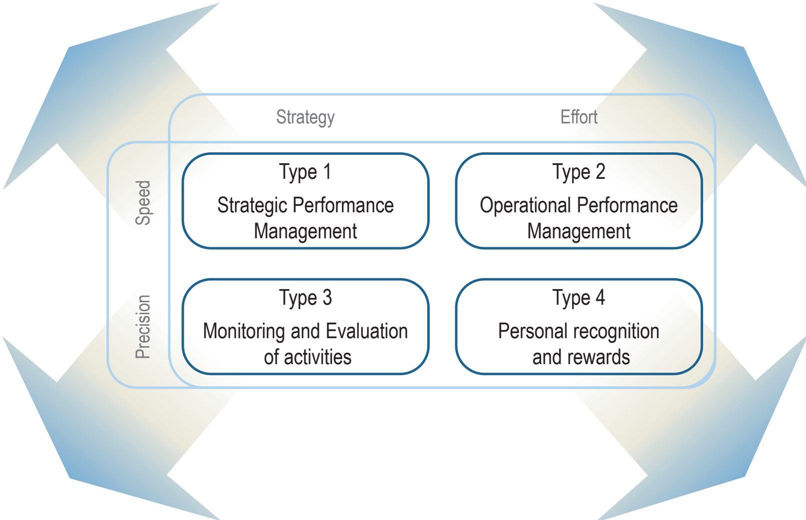

Figure 9. Future direction of the balanced scorecard
Source: Adapted from: [2GC Active Management 2011]

implementation. This will result in increasing divergence and specialisation between each type in the years to come.

Conclusions

Since its origin in 1992 the Balanced Scorecard (BSC) has been so widely received that the *Harvard Business Review* labelled it as one of the most influential management ideas of the 20th century. Furthermore K&N's first book 'Translating Strategy into Action' sold in excess of 250,000 copies and was translated into 12 languages [Bible, Kerr & Zanini 2006].

The vast changing dynamics of modern organisations along with the move into the public sector has proved to be a major challenge for the BSC over the last two decades. However, in keeping with the robust nature of the interest the balanced scorecard has evolved and adapted to keep pace with the changes and is today as popular with senior managers in all types of organisations as it was two decades ago Many early implementation of scorecards failed due to the initial weaknesses in the design and lack of knowledge and understanding of the process of implementation. The innovations to address these issues, have transformed the BSC into what it is today; an effective 'strategic management' tool used to implement strategy throughout many organisations globally.

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