The Balanced Scorecard as a connection between strategic and operational management

A paper in the framework of the European Commission’s Lifelong Learning Programme Leonardo Da Vinci (ProMove)

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Foreword

Train and Strategy implementation:

Where am I?

Where do I go?

Why should I go (there)?

How do I know when I reach there?

When should I go or start going?

When should I arrive? (To fulfil the purpose of the journey)

Which way should I take? (The shortest? The cheapest? The quickest? or the one I master?)

Do I have the resources to afford the journey?

Who can help me to get there? (Help as contribution to my achievement)
Abstract

From the analysis of the last economic events the first remark that can be made is that today's organizations have got to fight to survive with a constantly changing environment more than ever. In one hand, the lack of resources and time for new reorientation characterizes today's economy. In other hand, globalisation seems to be an opportunity for a quick growth but also the feature that can make you rush to a shut-down. Besides the fact that there is no barriers for sellers and buyers means that the competition comes from all over the world. Manager do not dispose enough time for possible changes and modifications as they would like to. The lack of resources forces manager to just try their best option or alternative. Furthermore, the competition is more and more aggressive. Every day customers become more and more powerful. The information availability make every tactic easier to be copied so that it is not surprising to see competitors bringing to fruition what was supposed to give us some competitive advantage.

Organizations in today's highly competitive environment need new help or tools to enable them allocating more efficiently their precious resources across their day to day activities. They feel the need to align their business activities to the vision and goals of the organization. Managers are seeking for possibilities to follow the execution of activities by the staff within their control and to monitor the consequences arising from these actions. The people at the head of companies are nowadays looking for some kind of light to help them walking in this dark business environment where you have no sureness. They are looking for at least something to alert them early enough so that they can adjust their strategy execution before it is too late. No matter how long a company has been on the market, executing strategy effectively is crucial for its survival. Therefore organizations devote significant time, energy and human as well as financial resources to measure their performance in achieving their goals.

Managers today are acting in such a complex environment so that setting right objectives and following them appropriately is absolute vital to ensure the sustainability and development of their organizations. In this context Drs. Kaplan and Norton developed a management instrument named "Balanced Scorecard" in order to help managers implementing their strategies.

The Balanced Scorecard is then a strategic performance management framework that allows organizations to define their strategic priorities and then design indicators and measures to
monitor how well they are executing them. The Balanced Scorecard has emerged as a proven and effective tool for companies in their quest to capture, describe and translate intangible assets into real value for all of an organization's stakeholders and, in the process, to allow organizations to implement their differentiating strategies successfully\(^1\). The Balanced Scorecard enables management by exception, which is also highly efficient and cost effective because of the early warning when things are not going as planned. The demand of this methodology seems to have fulfilled the inherently need to balance objectives and measures and isolate cause-and-effect relationships in the work being done to attain a strategic purpose for the CEOs and the corporations they serve\(^2\). Since its appearance in early 1992, the Balanced Scorecard has been widely adopted as a new approach to management control and performance management both in business and non-profit-organizations.

\(^2\) Mohan Nair, "Essentials of Balanced Scorecard", John Wiley & Sons, 2004
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<table>
<thead>
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<th>Abbreviation</th>
<th>Full Form</th>
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<tbody>
<tr>
<td>BSC</td>
<td>Balanced Scorecard</td>
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<tr>
<td>CEO</td>
<td>Chief Executive Officer</td>
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<td>EIS</td>
<td>Executive Information System</td>
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<td>EPS</td>
<td>Earnings Per Share</td>
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<td>FCF</td>
<td>Free Cash Flow</td>
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<td>HR</td>
<td>Human Resource</td>
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<tr>
<td>KPI</td>
<td>Key Performance Indicator</td>
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<td>MBO</td>
<td>Management by Objectives</td>
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<td>ROA</td>
<td>Return On Assets</td>
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<td>ROE</td>
<td>Return On Equity</td>
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<td>ROI</td>
<td>Return On Investment</td>
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<tr>
<td>SWOT</td>
<td>Strengths, Weaknesses, Opportunities, Threats</td>
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<tr>
<td>ZAC</td>
<td>Zamil Air Conditioner</td>
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<tr>
<td>ZIIC</td>
<td>Zamil Industrial Investment Company</td>
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Introduction
"You have your strategy. But can you execute it?"

At sometimes, manager used to say: "This strategy is how we will create value" or "This strategy is how we will make money" or else "This strategy is how we will use our finite resources to achieve our goals". However, they never say how these statements are going to come true. It seems like having a strategy was already drinking the champagne of success. The "how-question", the efforts and the commitment that these goals called for was left apart. So most of the employee have never been prepared to put in a great deal of effort beyond what is normally expected to help the company to achieve these goals (Make the dream come true). Moreover, big was the frustration when at the end of the year the same managers had to gather employees to tell them that the organization has experienced its bigger lost ever.

Now we know that we are dealing with unpredictable and complex environment, that it is no longer possible to observe and predict enough to map out courses of actions that guarantee desired outcomes or to focus only on programmes and assumes that the money will somehow follow. Since we are aware of the difficulty to align results to predictions can we then expect some better outcome of our strategy thanks to the Balanced Scorecard? If yes, in that case what makes our strategy better off with the Balanced Scorecard? Does it then enable the vision and the strategy of the organization to be translated into operational objectives that drive both performance and behaviour?

The following work will present in the first chapter the idea behind the Balanced Scorecard, his vision and his mission which is to put aside the different barriers of implementing the strategy. After that we will be giving a proper definition of this quite recent tool of strategic management. The chapter two will deal with the development of a Balanced Scorecard and how to put it into practice. After bringing forward some arguments for this question we will show off how to build a Cause-and-Effect map (Strategy mapping) and how to cascade this down the company so that the strategy will be understood at all levels in the organization. This part ends up with the presentation of the four business perspectives that need to be balanced to give a picture of overall performance highlighting activities that need to be improved. At last we will show in the third chapter the strengths and the weaknesses of the tool through a SWOT-analysis. The first section of this chapter explains the reasons of the failure while using the Balanced Scorecard. The second part presents the strengths of the instrument such as the strategic resources allocation as well as the translation of the strategy into operatives objectives. Furthermore, the instrument enables a simultaneous satisfaction of
customers and stakeholders while improving the internal business processes and the communication within the organization. This ensure a lifelong subsistence to the company because consumers will still find their needs fulfilled through the products and shareholders will enjoy the profitability that resulted from sales due to consumers willing to pay for their purchase. We will recapitulate all the information gained in a conclusion where we will also give some advice to manager who might be tempted to develop a Balanced Scorecard just because it sounds good, without any commitment or preparation.
1 Balanced Scorecard: The Idea, his Origin, his Vision and his Mission

"Only 10% of organizations execute their strategies"³

According to Paul Niven only 10% of organizations execute properly their strategies. The reason for this breakdown is that most of the companies do not have a well articulated plan or sometimes they unexpectedly face some problems getting people remain engaged in the middle of the process as well as people resisting getting in the path. The Balanced Scorecard tries to deal with these problems by setting what is important for the organization, getting everybody committed to the goals of the company and on the same page about what the real outcome of that process is intended to be.

1.1 The management tool (Balanced Scorecard)

1.1.1 Definition

The Balanced Scorecard can be defined as a strategic performance management framework that allows organizations to define their strategic priorities and then design indicators and measures to monitor how well they are executing them. It's a performance measurement tool that added strategic non-financial performance measures to traditional financial metrics to give managers and executives a more "balanced" view of organizational performance⁴ and help them to align the organizations' activities to their strategy to achieve their goals.

Kaplan and Norton assert that the organizational performance of a company is viewed from four perspectives: financial, customer, internal business process, learning and growth as well⁵. These four perspectives provide the background for the Balanced Scorecard.

**Figure 1:** The four perspectives of a Balanced Scorecard

![Diagram of the four perspectives of a Balanced Scorecard]

**Source:** Adapted from Robert Kaplan and David Norton

### 1.1.2 The Starting Point

The concept of Balanced Scorecard was first proposed by Drs. Robert Kaplan and David Norton who published in early 1992 in the Harvard Business Review the result of the study "Measuring Performance in the Organization of the Future". This study was about developing a new performance measurement model. The study was sponsored by the Nolan Norton Institute, the research arm of KPMG and motivated by the belief that existing performance-measurement approaches, primarily relying on financial accounting measures, were becoming obsolete. The participants believed that reliance on summary financial-performance measures were hindering organizations' abilities to create future economic value. The study involved 12 companies within which a mid-sized semiconductor company called Analog Devices. This company was using a newly created "Corporate Scorecard" that contained, in addition to several traditional financial measures, performance measures relating to customer delivery times, quality and cycle times of manufacturing processes, and effectiveness of new product developments. Kaplan and Norton then developed that "Corporate Scorecard" and labelled it "Balanced Scorecard". The name reflected the balance provided between short- and long-term objectives, between financial and non-financial measures, between lagging and leading indicators also between external and internal performance perspectives.

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1.2 Vision and Mission

The vision behind the Balanced Scorecard was to meet the need to bring an outline to strategy and his execution as well as the need to bring together all the disparate analytic and measurement instruments in a corporation under one framework or conceptual umbrella. The idea behind all this is that companies should focus on a mixture of key measures - financial and non-financial, to guarantee short and long term success. In addition, these measures should be cascade down the organization to appropriate levels, so that they can be used as daily performance measures by operational managers and teams. Another big question was also to know how companies could make money whilst still keeping their customer happy? The answer to this question resides in the alignment of the internal processes with the customers' requirements. By focussing on the key attributes their customers valued and designing processes that delivered these attributes, companies found they could deliver both to their customers and their stakeholders at the same time. The Balanced Scorecard then assists organizations in overcoming the effective organizational performance measurement, the rise of intangible assets, and the challenge of implementing a strategy. The Balanced Scorecard is not a tactical or an operational measurement system but a strategic management system that innovative companies are using to manage their strategy over their long run by using the measurement focus of the scorecard to accomplish critical management processes such as:

- clarify and translate their vision and strategy;

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- communicate and link strategic objectives and measures;
- plan, set targets, and align strategic initiatives;
- enhance strategic feedback and learning;

1.2.1 Go beyond the limits of the financial measurement

The biggest key motivation behind developing the Balanced Scorecard was to reduce the focus placed on financial measures that represent a coherent articulation and summary of activities of the firm in prior periods. However, this detailed financial view has no predictive power for the future. The financial measures seem to be inadequate to be guiding and evaluating the journey that information age companies must make to create future value through investment in customers, suppliers, employees, processes, technology, and innovation. Kaplan and Norton said they wanted to supplement organizations with metrics about what that companies could do in short term to create future value; a general set of measurements that goes beyond the financial to capture the drive in a future value creation. It’s all about improvement in the operational management and sustainability of the long-term profitability focusing on action, implementation and individual capability. This model of performance management can be effective in that it articulates the relation between leading input process and lagging outcomes while focusing on the importance of managing these components to achieve the organization strategic priorities.

The Balanced Scorecard also retains traditional financial measures, but financial measures tell the story of past events, an adequate story for industrial age companies for which investments in long-term capabilities and customer relationships were not critical for success.

For example favourable results obtained through costs cutting in the short term cannot guarantee competitiveness in the long term, because suspension of advertising campaigns, reduction of service levels, lower quality of inputs for costs reasons and less staff end up with upset customers who are not willing to pay for their purchase.

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**Figure 3: Some financial measures**

<table>
<thead>
<tr>
<th>Financial Measures</th>
<th>Explanation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Earnings per Share (EPS)</td>
<td>Portion of company's profit allocated to each share of common stock. Mostly use to appreciate the company's profitability</td>
</tr>
<tr>
<td>Return On Assets (ROA)</td>
<td>Indicator informing about how profitable a company is relatively to its total assets. It tells how effective a business has been using its assets to create value.</td>
</tr>
<tr>
<td>Return On Investment (ROI)</td>
<td>This measures corporation's profitability by revealing how much profit a company generates with the money and other resources from investor.</td>
</tr>
<tr>
<td>Return On Equity (ROE)</td>
<td>This is a measurement of a corporation's profitability that reveals how much profit a company generates with the money raised from shareholders.</td>
</tr>
<tr>
<td>Free Cash Flow (FCF)</td>
<td>This represents the amount of money left over by a company after covering all its expenses. It is the cash that a company can generate after laying out money required to maintain or expand its asset base.</td>
</tr>
</tbody>
</table>

**Source:** Author

### 1.2.2 Break down the barriers to implementing strategy

Unfortunately, despite the challenge of creating a strategy, ultimately it is more important and valuable to demonstrate the ability to execute it. Why does strategy implementation still face huge difficulties although everyone agree that executing a good strategy cannot only help to stay alive in the business world but also boosts financial performances?

Robert Kaplan and David Norton believe to have found the answer and express it in four barriers that obstruct the implementation of any strategy.

- **The Vision Barrier**
  
  This occur when organizations cannot translate their vision and strategy into terms that can be understood and acted upon. The efforts are neither integrated nor cumulative since they are not linked coherently to an overall strategy.
Lacking consensus and clarity, different groups pursue different agendas. No more than 5% of the workforce in the company used to understand the organization's strategy. Furthermore, most of the companies are still organized for the industrial period, utilizing command, process and control orientations that are inadequate for today's environment.

The Balanced Scorecard is ideal to overcome this barrier by translating the strategy into objectives, targets and measures in each of the four perspectives. The process clarifies the strategic objectives and identifies the critical few drivers for strategic success. The translation (strategic) forces managers to determine and specify what have to be done, so they must define ambiguous terms such as "best class", "superior service" or "targeted customers" to make sentences like: "we want to be the best class"; "we want to offer a superior service"; "the under-20 group are our targeted customers" easy to understand. For example if "superior service" means 95% on time-delivery to customers then employees must focus their energies on making this target come true. By translating the strategy the organization creates a new language of measurement that everyone can speak to conduct all employees actions toward the achievement of the settled direction.

- **The People Barrier**

Most of the organizations fail to focus and align their workforce on the achievement of a mutually beneficial goal. For decades, people have been arguing whether or not incentive compensation plans really do lead to performance improvement. The truth is that an incentive of any kind tends to increase focus maybe just for a period. The big danger with this incentives plan is that managers try to concentrate on short-term initiatives in order to be awarded at the expense of long-term financial target. Some are even resent to the project or are afraid to lose authority. The other thing that comes at the expense of implementing a strategy is the culture. The culture of the organization as well as the different cultures of the employees.

Cascading means driving the BSC into every level of the firm and to give all employees the opportunity to demonstrate how their day-to-day activities contribute to the company's strategy. Some organization even took cascading to the individual level with employees developing personal Balanced Scorecards that define their personal or teams' contribution to the overall objectives. In fact, this approach has many benefits such as building an
awareness of the Balanced Scorecard, generating commitment to the Scorecard, increasing comprehension of organization's alignment to link all employees to the strategy, offering a clear line of sight from employee goals to organizational strategy, and building support for the goal-setting process.

- **The Resource Barrier**
  The first observation is that most companies have separate processes for budgeting and strategic planning. One group works to forge the strategy that will lead the firm into a bright future, while independently another group is crafting the operating and capital budgets for the coming year\(^\text{13}\). So it is not surprising that most of the time both are not linked. Furthermore, sometimes departments and business units just take last years' budget and add an arbitrary 5 or 10% on it. The consequence is that discretionary funding and capital allocations are often unrelated to strategic priorities or sometimes it causes a conflict atmosphere between the different subdivisions of the company.

Strategic resource allocation overcome easily the resource barrier. The human and financial resources necessary to achieve Scorecard targets should form the basis for the development of the annual budgeting process. When we create a BSC, we should not only think in terms of objectives, targets, and measures for each of our four perspectives, but we must consider the initiatives or action plans we will put in place to meet our Scorecard targets.

- **The Management Barrier**
  Many employees claim that management meetings are just boring and can be qualified as a waste of time. Most of this meetings are just mind-numbing charts and graphs, sleep-inducing commentaries, and zero debate or discussion. In conclusion those meetings do not help the workforce because they do not learn anything from them. Unfortunately, many management teams spend too much time discussing different variances and looking for ways to correct failures.

Overcoming this barrier means learning the strategy. Management meeting must be strategy-centred with a spirit of discovery and learning resulting in a Balanced Scorecard agenda. In this meeting all commentaries focused on failures should be replaced by a sincere desire to dig deeper comparable with an intellectual energy investment through questions and discussion.

1.3 Understanding the Terminology

Talking about the Balanced Scorecard can be confusing because several important concepts and ideas are embedded in the topic. We first need to make sure that those expressions are understood to facilitate the comprehension of the overall idea.

1.3.1 What is a strategy?

A strategy is a plan of actions to achieve a particular goal with the functions and attributes of setting direction, focusing effort and providing consistency. In the business context this means the direction and scope of an organization over the long-term, which achieve advantage for the organization through its configuration of resources within a challenging environment, to meet the needs of markets and to fulfil stakeholder expectations.

In summary we can say that the strategy fulfils the following functions:

- Sets direction for the organization;
- Focuses efforts of the workforce;
- Defines the organization (Business type and model)
- Provides consistency

Many organizations develop strategy in pieces - each for distinct departments. After that it is all cobbled together and called a strategy. Most of the time this strategy contain several contradictions or multiple repetitions that illustrate that some authors were unaware of what the other authors had already covered. The consequence of this situation is that each functional area within the organization will try to execute its

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**Figure 4:** The four barriers to strategic implementation

- **Personal MBO and Incentives**
  - Strategy not linked to departmental team and individual goals
  - Only 25% of managers have incentives linked to strategy

- **Strategy and Vision**
  - Vision and strategy not actionable
  - Only 5% of the workforce understands the strategy

- **Monthly Review / EIS**
  - Feedback that is tactical but not strategic
  - 85% of executive teams spend less than one hour per month discussing strategy

- **Financial Plan and Capital allocation**
  - Strategy not linked to resource allocation
  - 60% of organizations don't link budgets to strategy

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**Source:** R. Kaplan and D. Norton, The Balanced Scorecard, 1996.

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14 [http://tutor2u.net/business/strategy/what_is_strategy.htm](http://tutor2u.net/business/strategy/what_is_strategy.htm)
portion of the strategy at the possible expense of the global goal achievement. We have already said that an organization should focus on finding "the one thing" that should be achieved. The essence of the strategy is not just choosing what to do; it also requires choosing what not to do\(^{15}\).

1.3.2 Operational management

The operational management refers to the administration of business practices to create the highest level of efficiency possible within an organization. It is concerned with converting inputs (Materials, Labour) into outputs (Services, Goods) as efficiently as possible to maximize the profit of an organization. So the operational management involves overseeing, designing, controlling the process of production as well as redesigning business operations.

1.3.3 Performance management

Performance management involves all activities which organizations operate to align their resources, processes and employees to achieve their priorities. This is about activities which ensure that goals are consistently being met in an effective and efficient manner or that business processes, individual's skills and behaviour are continuously being improve.

1.3.4 Performance measurement

The performance measurement is basically a quantitative method to bring together figures (mostly financial) that could help managers understand, manage and improve what their organizations do or to tell them how well they are currently doing or if their customers are satisfied and if they are meeting the settled goals. Lord Kelvin position is that "When you can measure what you are speaking about and express it in numbers, you know something about it\(^{16}\). Meaning that be able to explain what you do by using elements of evaluation do not only demonstrate that you understand your undertaking but also that you can cope with it. Furthermore, "you cannot manage what you cannot measure" because there is no possibility for comparison that could lead to improvement.


\(^{16}\) Sir William Thompson, Lord Kelvin (1824-1907).
2 Balanced Scorecard (From performance measurement to performance achievement)

The Balanced Scorecard is a valuable tool for enabling employees to understand their company's ambitions. The dynamism that organizations need to be competitive in long run is related to this understanding meaning that the Balanced Scorecard should not be perceived as just a performance measurement project trying to bring together and analyse figures of the past and draw conclusions if we have done well or bad. The Balanced Scorecard is more about developing indicators to define what the company is all about, in which direction you are going and use it to align the behaviour of your employees to the goal.

2.1 Linking Balanced Scorecard Measures to Strategy

In order to get away from just measuring and reporting, the BSC must be seen as a way of communicating achievements and comparing them to commitments. Historically, companies placed great emphasis on financial indicators that measures whether they are successful today and in the past, but don’t adequately reflect future success. Although past trends might provide an foreboding of what to expect in the future but they do not reflect whether you are performing activities or making investments that ensure continued or expanded success. The results of today's activities are less important than the sustainability of the company. Making profit today is good but surviving in the business is better. Thus, those companies that can link their strategies and their measurement systems are far more able to create value in the long run just because they can communicate objectives, targets and responsibilities to the workforce and therefore execute properly their strategies.

2.1.1 Do I really need a BSC?

The Michigan Department of transportation described their motivation for using the BSC as follow: "The Balanced Scorecard was selected as a tool to identify the commonalities of strategy, expand our focus and understanding of customers needs, and align systems and structures to meet customer needs". What The Michigan Department of transportation is trying to do here is to give specific reasons for using the Balanced Scorecard. Before beginning to develop a scorecard the management has to clearly explain to all stakeholder why it has decided to invest the precious resources of the company in such an adventure. In the fact, thousands of organizations have been using a scorecard to generate focus, alignment and to execute their strategies. But the

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17 Interview with Nany Foltz, September 19, 2002.
questions still remain - Will it work for you? Do you really need it? Are you prepared for it?

Manager must have the conviction that the Balanced Scorecard is the best tool for their companies in order to be able to motivate employees. Times will come when people will be unsure and ask: "Why are we doing this?". At this point the project can only carry on if the manager can answer the question with accurate answers. The following exhibit provides a number of possible reasons for launching a Balanced Scorecard programme.

**Figure 5: Reasons to sustain a Balanced Scorecard Programme**

![Figure 5: Reasons to sustain a Balanced Scorecard Programme](image)

**Source:** Adapted from Balanced Scorecard for Government and Nonprofit agencies, Paul Niven; P.48.

### 2.1.2 How do we decide what to measure?

The business dictionary defines performance as the accomplishment of a given task measured against preset known standards of accuracy, completeness, and speed. But how do we know if we are actually performing well?

The "what-? and How-approaches?" will show us how to set objectives that are linked to the organizations' strategy and finally help us to decide what to measure to weigh up our performance. If the right objectives and measures are identified, successful implementation will likely take place. If not, investments and initiatives will be wasted. The "what- and How-approaches?" help organizations to turn their goals into objectives and then to create a "success map". Practically, it also helps them to follow
a logical sequence of questions, asking what they need to achieve essential objectives to the success of the organization.

- "What?": If a company wishes to increase its financial returns.
- "How?": It should find a way to reduce operating costs or raise its sales revenues.

The faculty to answer this question in a company depends on how good the organization can cope with the three other perspectives - Customer, Internal Process, and Learning and Growth. The following figure give us a brief summary.

**Figure 6: The What-and-How-Approach**

<table>
<thead>
<tr>
<th>What? (Increase return on capital employed)</th>
<th>Increase sales revenues</th>
<th>How?</th>
<th>Reduce operating costs</th>
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**Source:** Author

After deciding which solution (It can also be both) to choose, this solution becomes the new "What?" for the next level. This process is then repeated at the next level to cascade the objectives.

"If we want to achieve an increase in sales revenues how are we going to do that?"

"If we want to reduce the operating costs how are we going to do that?"

A strategy is a set of hypotheses about cause and effect. The measurement system should make the relationships among objectives and measures in the various perspectives explicit so that they can be managed and validated. Measures communicate value creation in ways that even the most charismatic CEO's speeches never could.
2.1.3 Types of measures
Kaplan and Norton mentioned in their book "Balanced Scorecard: Translating strategy into action" that companies should develop two types of measures. In one hand to monitor and to ensure that they are functioning as expected also to signal when corrective actions must be taken. In other hand to drive competitiveness so that the long run objectives can be met. These measures are the diagnostic measures and the strategic measures\textsuperscript{18}.

- **The Diagnostic Measures**: They are measures that monitor whether the business remains in control and can signal when unusual events are occurring that require immediate attention. For example if our body temperature or our blood pressure escalates too high then we know that we have a serious problem. Our body mobilizes in this situation all our energies to restore these parameters to their normal levels. But we don't devote enormous energy to optimizing our body temperature and blood pressure.

• **The Strategic Measures:** This are factors that are more decisive in determining whether the long-run objectives can be achieved. For example being able to control our body temperature will not be one of the strategic success factors that will determine whether we become a chief executive of a company or a famous football player. Although blood pressure and body temperature are absolutely important. Besides if they fall outside certain control limits, we have a signal about a major problem that we must attend to and solve but while such measurements are necessary, they are not sufficient for the achievement of our long-run goals.

Mohan Nair additionally introduced the idea of dividing the measures into four groups of purpose in order to define what needs to be monitored to meet a target\(^{19}\).

• **The Output Measures:** They are numeric output of an activity. One example is the number of sales or the number of bugs collected in a quality-testing evaluation.

• **The Input Measures:** A defined time or money allocated to any activity are example of input measures.

• **The Outcome Measures:** They ask if the desired result of an activity has been achieved. For example after meeting with a customer 100 times, has the customer finally purchase your product or the quantity you was expecting?

• **The Feedback Measures:** They help you gauge the quality of your output before an outcome appears.

Usually in a scorecard between 15 and 20 measures are used to describe performance relating to the success factors. They are compact description of something, expressed in numbers, words, or symbols. Often this description concerns the state of a goal, a target or a desired state. Measures facilitate communication about something by enforcing a prescribed format and providing quick overview. This may work as long as the sender and the receiver of the information share a common understanding of the measure, their context and their evaluation. For example they must have agreed on how much better is four compared to two on a highest scale of five. It is also important that the measures are adapted to the knowledge and frames of reference of the people who will use them for discussing activities that the scorecard describes because the success of the Balanced Scorecard depends more on their use than their precise design.

Following are the requirements for measures in a Balanced Scorecard\(^{20}\):


• **Relevant and logic**
  Measures must reflect the strategic aims of the activities that they portray.

• **Acceptable and practicable**
  Measures may be taken with valid and credible methods.

• **Available and accessible**
  May be brought to the attention of people who should take an interest and react.

• **Actionable**
  Must reflect actions that will be taken on the data basis.

• **Perceived as important**
  Must be incentives to take an interest in the scorecard and use them as a basis for action.

• **Useful for learning**
  Possibility of feedback, experience accumulation, refine the business logic and modify the scorecard over the time.

2.1.4 Cascading the Balanced Scorecard down the organization

We have already said that the idea behind the Balanced Scorecard was to help companies focusing on a mixture of key measures - financial and non-financial - that should be cascaded down all levels of the organization. Cascading the Balanced Scorecard allows employees to develop objectives and measures linked to overall organization's goals. Furthermore, cascading refers to the process of developing Balanced Scorecards at each and every level of the organization. These Scorecards align with your company's highest-level Scorecard by identifying the strategic objectives and measures that lower-level departments and groups (operational management) will use to track their progress in contributing to overall goals. Bill Jensen brought up two leading cause of work complexity. The first reason he mentioned is unclear goals and objectives and the second is the lack of alignment of goals. In the first instance employees do not have the right thing to do because their objectives are unclear (Absence of do it right commitment). In the second situation they cannot estimate the impact of their actions on the entire achievement of the objectives. The biggest matter enquires if anyone below the executive rank have a clear idea of the organization's overall goals. For example does the person who answer

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21 Paul R. Niven: Balanced Scorecard Step by Step, John Wiley & Sons, 2006, P.199,
the phone at the company reception desk knows how his day-to-day actions are contributing to the achievement of the companies' strategy?

All employee regardless of function or level need the opportunity to demonstrate how their specific actions are making a difference and helping the company fulfil its strategic objectives. In order to enable them doing that the strategy should not longer be that poorly understood discourse formulated by senior management. It should be specific objectives combine with measures employees need to achieve with the purpose to make meaningful contribution to organization's success.

**Figure 8:** Cascading the Objectives, Measures, and Targets

<table>
<thead>
<tr>
<th>Corporate</th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Strategic Theme</strong></td>
<td><strong>Objective</strong></td>
<td><strong>Measure</strong></td>
<td><strong>Target</strong></td>
</tr>
<tr>
<td>Achieve dominant position</td>
<td>Drive sales to 2 times market by 2005</td>
<td>Revenue</td>
<td>£20 Billion</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Sales</th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Strategic Theme</strong></td>
<td><strong>Objective</strong></td>
<td><strong>Measure</strong></td>
<td><strong>Target</strong></td>
</tr>
<tr>
<td>Achieve dominant position</td>
<td>Capture majority design wins</td>
<td>Design win opportunities</td>
<td>4 out of 5</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Marketing Communications</th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Strategic Theme</strong></td>
<td><strong>Objective</strong></td>
<td><strong>Measure</strong></td>
<td><strong>Target</strong></td>
</tr>
<tr>
<td>Achieve dominant position</td>
<td>Execute on quarterly direct mail campaign</td>
<td>Number of direct mailings mailed per quarter</td>
<td>100000</td>
</tr>
</tbody>
</table>

**Source:** Adapted from Oregon Progress Board.

**2.2 The Strategy mapping (Cause-and-effect Map)**

The Balanced Scorecard represents the business activity from four perspectives. This seek for a complete description of what one needs to have an overall view of the company. The cause-and-Effect Map is driven by the IF-THEN statement and help to create objectives for the four perspectives. Each of this perspectives is guided by a question referring to the main actors concerned with the perspective. In this example IF the organization promotes the IT infrastructure, reduces the delivery time and enhances the customer satisfaction, then it will increase stakeholder satisfaction
through more sales that end up with more profit. A properly constructed scorecard should tell the story of the business unit's strategy through a sequence of cause-and-effect relationship. Merely, every measure selected for a Balanced Scorecard should be an element of a chain of cause-and-effect relationships that communicates the meaning of the business unit's strategy to the organization.

**Figure 9:** Illustration of the Cause-and-Effect Idea.

![Cause-and-Effect Diagram](image)

**Source:** Author

The hierarchy for each individual company is determined by the Cause-and-Effect relationship between perspectives. In a for-profit organization, the hierarchy is usually simple to establish because the most important objectives is to make the stakeholder happy through more benefit. In a Non-profit organization it is a little bit different and their strategy map tougher to construct because the position of the financial division seems not to be obvious. One organization could put the Financial perspective on top because it aims to recruit more donors as possible to have enough funds to execute their activities. Another could put the financial perspective in the second position if it thinks that the ultimate goal is to satisfy customers under financial management, to be cost efficient to provide service at minimal fees at the most people.
This idea of cause-and-effect is very seductive but in the practice very little organization consistently build and verify causal models because it is very difficult or impossible to prove causal relation between two performance measures. For example let's do the hypothesis that employee training in the learning and growth perspective will result by a decrease of the number of manufacturing defects on the line. After the employee have attended their training the firm can notice that the change in the manufacturing defects is not at the level that was expected. Reasons for this could be machine failures, low supplier quality, computer malfunctions.

2.2.1 The financial (How do we look to our owners?)

The financial objectives operate as the focus for the objectives and measures in all other scorecard perspectives. It represents the long-term goal of a business organization, it is related to profitability. Any company's manager need to identify what the business needs to achieve to meet the requirements of his major stakeholders now and in the future. Even if it seems clear that owners are interested in return on their investments, it is always useful to ask them in a formal consultation what their requirements are at the moment. Assumptions about needs can be misleading. Examining the needs of stakeholders is an useful exercise because it brings to the surface some of contradictions and conflicts, it gives the possibility to be understood as well and open door for some compromises\(^2^3\). For most organizations the financial themes of increasing revenues, improving cost-reduction and productivity, enhancing


**Figure 10:** Linking the four perspectives.
asset utilization and reducing risk can provide the necessary linkages across all four scorecard perspectives. But this financial objectives also differ depending at which stage of business life cycle the organization is. At the Growth stage organizations usually operate with negative cash flow because they may have to commit considerable resources to develop and enhance new products and services; construct and expand production facilities; build operating capabilities; invest in systems, infrastructure, and distribution networks that will support global relationships, and develop customer relationships. So the purpose is to try emphasizing sales growth-in new markets as well as to new customers and from new products and services too. At the sustain stage most businesses still attract investments and reinvestments, but are required to earn excellent returns on investment. These businesses expect to grow their market share or at least maintain it. At the harvest stage companies try to maximize their cash flow. These business no longer warrant significant investment, only enough to maintain equipment and capabilities. After understanding what our owners requirements are then the next step is to look how to fulfil them without putting the all business in danger, in other words find out how to reconcile stakeholders' and customers' needs.

Kaplan said that the financial perspective tries to answer the following questions:

- What are the financial targets?
- What drives these targets?
- What kind of profit and revenue to achieve?
- What budget guides us? (In a non-profit organization)

**Figure 11:** The financial perspective.

<table>
<thead>
<tr>
<th>Measure</th>
<th>Return on Capital Employed (ROCE).</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Purpose</strong></td>
<td>To ensure adequate returns are being made from capital employed.</td>
</tr>
<tr>
<td><strong>Relates to</strong></td>
<td>The need for the business to make sufficient return for its investors.</td>
</tr>
<tr>
<td><strong>Targets</strong></td>
<td>Achieve a rate of return in percentage within a period of time.</td>
</tr>
<tr>
<td><strong>Formula</strong></td>
<td>( ROCE = \frac{Profit \ before \ tax \ and \ interest}{Net \ Capital \ employed} \times 100 )</td>
</tr>
<tr>
<td><strong>Frequency</strong></td>
<td>Measured monthly; reviewed quarterly</td>
</tr>
<tr>
<td><strong>Who measures?</strong></td>
<td>Finance department</td>
</tr>
<tr>
<td><strong>Who acts on data?</strong></td>
<td>Sales department, Operations department</td>
</tr>
<tr>
<td><strong>What do they do?</strong></td>
<td>Ensure optimum machine set up; review sales volumes and margins; manage stock levels</td>
</tr>
</tbody>
</table>

**Source:** Mike Bourne, Balanced Scorecard, 2007, P.74.
2.2.2 The Customer (How do we look to our customers?)

In this perspective companies identify the customer and market segments in which they have chosen to compete. Obviously, if business units are to achieve long-run superior financial performance, they must create and deliver products and services that are valued by customers. The customer perspective then addresses the question of how the firm is viewed by its customers and how well the firm is serving its targeted customers in order to meet its financial objectives. Further than aspiring to satisfy and delight customers in the customer perspective, business unit managers must translate their mission and strategy statements into specific market- and customer-based objectives because companies that try to be everything to everybody end up being nothing to anyone\(^\text{24}\). It refers to the preoccupation of which product through which characteristic should we bring to our market to answer our customers' wishes. This question can be answered regarding:

- the price: It does not matter if a business unit is following a low-cost or a differentiated strategy, customers will always be concerned with the price they pay for the product or service.
- the quality: Due to the improvement of the quality during the past 15 years, it may offer limited opportunities for competitive advantage.
- the availability of our products: Time has become a major competitive weapon in today's competition. Being able to respond rapidly and reliably to a customers' request is often the critical skill for obtaining and retaining valuable customers’ business.

This also include the image transmitted by the organization, eco-friendly, fair-trade or good relationship with employees.

This perspective normally include following measures: customer satisfaction, customer loyalty, market share, and customer acquisition. It also deals with following questions:

- Who are the customers?
- How do we delight them?
- What segments do we wish to address?
- What goals do we wish to achieve with partners?
- What are our goals for the distribution channel?

**Figure 12: The customer perspective**

<table>
<thead>
<tr>
<th>Measure</th>
<th>Customer happiness through complaints</th>
</tr>
</thead>
<tbody>
<tr>
<td>Purpose</td>
<td>To understand what upsets customers so service and products can be improved.</td>
</tr>
<tr>
<td>Relates to</td>
<td>Satisfying customers and retaining their business in the future.</td>
</tr>
<tr>
<td>Targets</td>
<td>Maintaining a customer complaint level under a percentage per annum.</td>
</tr>
</tbody>
</table>
| Formula | \[
\frac{\text{Number of customer complaints}}{\text{Number of orders despatched}} \times 100
\] |
| Frequency | Measured monthly. |
| Who measures? | Customer service department. |
| Source of data | Customer complaints system. |
| What do they do? | Analyse complaints by type, ensure relevant managers are informed of problems in their area and that those managers report back corrective action taken. Flag any major trends for discussion at quarterly management meeting. |

**Source:** Mike Bourne, Balanced Scorecard, 2007, P.75.

### 2.2.3 The Internal Business Process (What must we excel at?)

The Internal Business Process tackles the problematic of which processes are most critical for satisfying customers and then shareholders. This perspective identify the key processes the firm must excel at in order to create value in the future. To do so the organization must try to identify and develop internal new practice rather than just focusing their efforts on improving existing activities. For example because most of the companies rely on third party to serve effectively their customers, they will then need to create measures that will help them representing the critical elements of such a relationship. This perspective will then respectively find the process in which the organization must be the best at in order to win customers and what internal activities are needed to sustain competencies.

Fortunately, most organizations today have moved well beyond using variance analysis of financial results as their primary method for evaluation and control. They are supplementing financial measurements with measures of quality, yield throughput,
The operations process are important and organizations should identify the cost, quality, time, and performance characteristics that will enable it to deliver superior products and services to its targeted customers.

**Figure 13**: The internal process perspective (uPVC Windows Maker)

<table>
<thead>
<tr>
<th>Measure</th>
<th>First time yield</th>
</tr>
</thead>
<tbody>
<tr>
<td>Purpose</td>
<td>To measure the rate of improvement in production efficiency.</td>
</tr>
<tr>
<td>Relates to</td>
<td>The need to reduce waste, minimise rework and reduce costs.</td>
</tr>
<tr>
<td>Targets</td>
<td>Achieve a first time yield rate of X per cent.</td>
</tr>
</tbody>
</table>
| Formula       | \[
\frac{\text{Number of finished units at first attempt}}{\text{Number of units processed}} \times 100
\] |
| Frequency     | Measured monthly. |
| Who measures? | Production department |
| Who acts on data? | Production controller. |
| Source of data | Daily process record sheets. |
| What do they do? | Ensure causes for failure are analysed and corrective action taken and impact reviewed. |

**Source**: Mike Bourne, Balanced Scorecard, 2007, P.76.

2.2.4 The Learning and Growth (How do we learn and innovate?)

"The most important of all are "soft" assets such as skills, capabilities, expertise, cultures, loyalties and so on. These are the knowledge assets-intellectual capital-and they determine success or failures". The business environment is always changing, competition is tougher than ever before, employees want challenging and rewarding job aptitude as well as experience and technology is providing unprecedented opportunities to explode forward so that workers have to be in a continuous learning mode. If an organization want to succeed in the today's business world it must be prepared to face new realities and be ready to focus on using new ideas, new capabilities as weapon to deliver world-class performance. This perspective includes specially employee training and corporate cultural attitudes related to both individual and corporate self-improvement. In an organization, human resources are the only repository of knowledge that represents the

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26 11th Annual Worldwide Luminary Series; "Leading to Greatness", November 2, 2005.
main source of future value creation. Developing people, promoting strong communication, building good systems, and so on are things that companies of today must do to drive process success\textsuperscript{27}. The "human capital" seems to be the new enabler in the new economy, it is the cornerstone of innovation and growth. Companies need nowadays so many physical assets as intangible assets. The ability of a company to mobilize and exploit its tangible or invisible assets has become far more decisive than investing and managing physical, tangible assets\textsuperscript{28}. Because intangible assets enable an organization to\textsuperscript{29}:

- develop customer relationships that retain the loyalty of existing customers and enable new customer segments and market areas to be served effectively and efficiently;
- introduce innovative products and services desired by targeted customer segments;
- produce customized high-quality products and services at low cost and with short lead times;
- mobilize employee skills and motivation for continuous improvements in process capabilities, quality, and response times;
- deploy information technology, data bases; and systems.

**Figure 14:** Learning and growth perspective (In consultancy)

<table>
<thead>
<tr>
<th>Measure</th>
<th>Use of existing knowledge.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Purpose</td>
<td>To encourage consultants to use existing knowledge rather than always re-inventing it.</td>
</tr>
<tr>
<td>Relates to</td>
<td>Consultants' efficiency.</td>
</tr>
<tr>
<td>Targets</td>
<td>X per cent of client presentations incorporate existing knowledge</td>
</tr>
</tbody>
</table>
| Formula                  | \[
\frac{\text{Number of presentations using database material}}{\text{Number of client presentations}} \times 100
\] |
| Frequency                | Measured monthly. |
| Who measures?            | Knowledge department |
| Who acts on data?        | Sector Heads. |

<table>
<thead>
<tr>
<th>Source of data</th>
<th>Presentations' database.</th>
</tr>
</thead>
<tbody>
<tr>
<td>What do they do?</td>
<td>Identify teams who are not using existing knowledge and discuss reasons for not existing material.</td>
</tr>
</tbody>
</table>

**Source**: Mike Bourne, Balanced Scorecard, 2007, P.77.

### 2.3 The example of Zamil Air Conditioners (ZAC)

#### 2.3.1 The company

ZAC is a leading Saudi Arabian manufacturer of commercial and industrial air conditioning systems founded in 1974. ZAC supplies customers in 55 countries through a network of distributors, dealers and offices. ZAC is owned by Zamil Industrial Investment Company (ZIIC) within which ZAC is an autonomous organization reporting to ZIIC but responsible for its own strategy direction and choices.

In 1998 the strong established position of ZAC in the domestic Saudi Arabian market was threatened. The company responded by introducing a new organizational structure based Strategic Business Unit (SBU). But in 2001, the competition in the local market intensified. The directors then agreed that ZAC needed to think and manage more strategically at a corporate level as well as strengthen ZACs ability to manage the implementation of its strategy. In late 2001 ZAC developed a first ever corporate strategic plan. The key components of the strategy were:

- Improve product offering through quality, reliability measures and continuous improvement measures.
- Increase market share through partnering and strategic alliances.
- Reduce cost of operation through outsourcing and increased volume.
- Consolidate and strengthen brand equity through consolidation with massive re-positioning and communication efforts.

#### 2.3.2 The process to implementing the Balanced Scorecard

In 2002 ZAC awarded a contract for external support to 2GC to execute the project to introduce a system to help it manage the implementation of its strategy. 2GC duty was to help ZAC improve its ability to develop and implement strategic plans and beyond that:

- Validating the vision and strategy settled in 2001.

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• Facilitating a consensus within the senior management team concerning ZAC strategic priorities and actions needed to achieve them.

• Developing of a Balanced Scorecard for directors group that could be used to monitor progress made toward achievement of selected strategic goals, and inform top management of areas of interest or concern that arise, and

• Creating a "roadmap" outlining how the ZAC organization could align itself with newly adopted strategy.

The ZAC project was divided in two phases.

• **The first phase**

The aim of this phase was to develop consensus among the directors and senior managers of ZAC concerning its strategic goal, the actions needed to deliver these goals, and the design of the Balanced Scorecard that would sequent be used. This phase contains four elements:

  o A destination element or the textual description of the organization at some future date, assuming the current strategic goals adopted by the management team were successfully achieved.
  
  o A strategic linkage model or the set of short and medium term objectives organised in a cause and effect diagram known as a strategic linkage model.
  
  o Performance measure that should inform the management team whether or not the objectives was being achieved.
  
  o The management team chose the most important for the achievement of the agreed strategic goals.

• **The second phase**

This phase concerned the communication of the content of the consensus within ZAC, and the physical instantiation of the Balanced Scorecard as a working tool to be used by ZACs management. This includes three activities:

  o The consultant team worked to understand better the current position of ZAC, and the starting viewpoints of the various members of the management.

  o The management team met to build consensus around a common view of ZACs strategic priorities.

  o The management agrees during some working sessions on the remaining components of the ZAC Balanced Scorecard.
3 Strengths, Weaknesses, Opportunities and Threats analysis (SWOT)

This concerns the organizations' ability to achieve its mission and vision through the Balanced Scorecard.

3.1 Weaknesses and Threats

It has been claimed that more than 70% of Balanced Scorecard implementation fail or do not give the expected results. In this part we will try to find out the possible reasons for this massive failure and explain how bad things happen to good measures.

3.1.1 Why do BSC implementations fail?

Most of the time reasons to explain Balanced Scorecard failures are personal or system related. Here are some reasons listed by Mike und Pippa Bourne under system and human aspects:

- **System related reasons**
  - Unrealistic Targets or wrong measures.
  - Irrelevant measures picked.
  - The measures have already been used and got out of date.
  - The measures are not aligned with the goals or require too much effort to be collected.
  - Lack of IT support or it is inadequate.
  - Bad or no information system.
  - There is no performance review mechanism.

- **Human related reasons**
  - People do not understand the system or are recent to the project.
  - Lack of top management support or poor management.
  - Insufficient effort or incapacity of the personal.
  - Lack of communication, no coordination.
  - The shift of power caused by the Balanced Scorecard is resisted.

3.1.2 The eleven sins of the BSC

Mohan Nair has developed a series of what he consider as sins that organizations should overcome in order to implement successfully their Balanced Scorecard.

Let's present them gradually from the people-related sins to the technology-related sins.\(^{31}\)

- Irrelevant data

The first thing to notice is that nowadays organizations suffer from data obesity but at the same time they have a problem of knowledge starvation. There is someone, somewhere, somehow in the organization at any time who is collecting the meaningless data. Performance information that does not feed strategy is misdirected.

- Not making the BSC a critical part of the management process
  The only way to bring the BSC to success is to make it be part of the everyone's day-to-day functions in the organization. It should be system of constant report and review from the beginning to the end of the process. This demand considerable discipline but the team and the organization will gain significantly.

- Stopping the education of users and managers
  Lefauvre acknowledged that "If you think education is expensive, just try ignorance". Conceptual and technical training are essential in the value and use of BSC. So it is important that employees learn the basics about BSC, learn from other's mistakes and success through case studies, integrate data sources with an BSC system, optimize and design a BSC model, consolidate models, and design a business intelligence or executive information system

- Looking for the Aha! instead of "I knew it!"
  Most of the BSC process are not new realizations but reinforce the strategy implementation across the entire organization. Unfortunately, new methods applied onto organizations tend to create new insights that can destroy the operational consistency of an organization. In fact new ideas are not always favourable if they do not bring consistency of strategy reinforced into action.

- No Understanding and Support
  Strategy is in the hand of the management, while operational implementation is in the hands of the teams. The true custodians of strategy are the key managers and leaders in the organization and their attention to the BSC operational methods is essential for the continuity and institutionalization of the programme.

### 3.1.3 The problem with the Cause-and-Effect Relationship

One of the most important strong point of the Balanced Scorecard is the well-built causal interrelations between the different elements that are mapped using the core

strategy of an organization. The financial measures have been considered merely a reflection of past activities. Better after having a good look at the matter we report that the causal relationship is not time-wise connected\textsuperscript{33}. The definition of a cause and effect relationship is based on the fact that one activity precedes another in time, they are logically independent, and according to empirical observations it is possible to establish the causal connection between those two activities\textsuperscript{34}.

The second critic against the cause-and-effect relationship is that there is in the reality no relation. Let us look into the interrelation between the classical perspectives of \textit{learning and growth} $\rightarrow$ \textit{Process} $\rightarrow$ \textit{customer} $\rightarrow$ \textit{Finance} to see if one leads automatically to other. When an organization is trying to satisfy very loyal clients who possess abnormally high quality expectations and make very small purchases that generate no profit for the organization. Furthermore, it is also questionable whether the linkage exists between improvement in internal process and customer satisfaction. For this goal there are other management tools like Target Costing or Activity based Costing.

3.1.4 External environment and several interest groups are out of picture
At the difference from many other strategic management and strategy analysis methods such as Benchmarking, the Balanced Scorecard does not reflect on any important interest groups outward from shareholders and clients. Moreover no attention is paid to daily activities of competitors. If we don't take into account this rapidly changing external environment, then it is definitely dangerous and unwise. It can be argued that measurement of certain factors of external environment may be complicated, but some added value factors might definitely be beneficial.

3.1.5 Practical steps for a successful implementation
It's easy to point out the reasons for failure - However it is more useful to give tips on how to ensure success. Here below is a list of some suggested practical steps that need to be turned in a project to have expected results\textsuperscript{35}.

- STEP 1: Understand the company's strategy
  
  This intends to produce an enhanced strategic plan and to really understand where the business is going. In order to do that we should take the organization's vision and strategic plan as well as ask some questions to build a clear and agreed picture of the future state of the business. For example:

\textsuperscript{33} www.mattimar.ee
\textsuperscript{34} Hanne Norreklit: The balance on the balanced scorecard-- Management Accounting Research, Vol 11/1, 2000,65-89.
\textsuperscript{35} ICAEW, Finance and Management Faculty: Balanced Scorecard, Oct. 2011, SR34, P.10.
What would we be doing if the vision were real today?
What will it look like when it is finished?
What would be happening in the marketplace?
What would we be capable of internally?

The output of this process is an enhanced strategic plan that includes statements in response to the question above. This also enables a linkage to existing strategy because most of the companies already have an existing strategy and the Balanced Scorecard may be seen as a competing and conflicting tool if it does not recognise it.

- **Step 2:** Determine the measurement area and who is accountable
  The error most companies do is puffing up numbers and not recognising that different measures have different time cycles. Some are needed daily, some monthly and some annually. Also, not all measures will have certainty so think about how to deal with uncertainty. Usually the organization needs to proceed as follow:
  - Confirm the areas that will be measured based on the enhanced strategic plan.
  - Run workshop at executive level
  - Accountability matters - determine which executive will be personally accountable for what.
  - Establish which measures need to be monitored at executive level.
  - Link it to your HR processes for individual appraisal.

After doing this the organization end up whit ideas successfully communicated throughout the company, measures that are allocated to individual executives, and an approach to individual performance appraisal that is agreed with their HR professionals.

- **Step 3:** Establish how you will capture the data and record the measures.
  Scorecard are often prepared by accountants and accountants like proven, robust and well-defined measures. Unfortunately non-financial measures are often poorly defined, inconsistently applied and sometimes subjective. The clear message from the data gathered is that most performance management systems are not working to full potential and that the balance of measure and linkage to strategy are key areas to address. that is why the organization should:
  - identify from the KPI list source data requirements.
- define data attributes and match them versus requirements.
- have an initial view on data quality.
- develop the IT system to enable them to get the job done.
- develop the existing system as little as possible in the early stages.
- use risk and opportunity analysis to decide where to invest in IT for improved measurement.

The purpose is to find out what is to be produced from the systems that will gather the data for each measure, whether manual or enabled by technology.

**Step 4: Decide how you will report.**

Away from how the data are captures and how the measures are recorded most important is how they are reported to those who need them. This can be done as follow:

- Collect together the output of existing transactions and new simple data collection systems.
- This report should be short and summarize the key points on one page.
- Design overall pack - will need supporting pages.
- Design commentary and issue identification process.
- There are specialist software packages available for Balanced Scorecard reporting, but for more simple systems an excel spreadsheet will probably suffice.
- Train presenters in communication skills.

Through this process the organization can agree on a reporting cycle, schedule a time, place and agenda for every meeting at each level, and develop confident and skilled presenters. At this stage it is essential that business messages are identified from the data and new insights brought to the executive team.

**Step 5: Change the agenda of the executive and team meetings**

Each executive need to sets out what he/she will achieve under each measurement area and what he/she needs from the executive team in order to achieve this. Furthermore, from this list each team member in turn creates his/her contract - which should define what he/she actually needs from colleagues in order to succeed and what they will do in return.

This enables attendees to be trained on what the Balanced Scorecard is intended to do, and how to get the best from it. Also, to make agreements on
how meetings will be run so that the emphasis is on action and improvement, not just on reporting and information.

- **Step 6:** Review and improve it.

The huge benefit of the Balanced Scorecard over financial reporting is that the format of the Balanced Scorecard is not set. The power is in the debate rather than the measures. Build the organizations' skills by asking following:
  
  - What action do we need to improve this measure?
  - Is this measure the most appropriate to move us to our goals? and
  - Are we talking about the thing that matter?

Typically there will be an ongoing series of activities to improve data availability and quality. And of course, getting meaningful information, professionally presented and aligned to strategy will in itself generate change and so the measurement system itself will need to adapt to accommodate that change.

The implementation of the Balanced Scorecard is a big challenge that organizations can only overcome if they dedicate enough time for designing and developing the measures that will be used. Additionally, the top management support is crucial. If there is any doubt about this it is better to discuss them in advance and be sure that both parties will dance the same music. Before starting you should try to be aware of other initiatives going on in the organization and that take the executive time. But also think about the timing of your initiative - Is it a busy time of the year? For example nobody should wonder if the project fails because it has started when the company was working on the launch of a new product or when the executive is working on the annual report of the company.

After the initial euphoria of agreeing on the project and the measures then start the data's collection, the system set up and the measures report. The most usual situation is that those being measured try to embellish the data to make their managers happy or the managers themselves do not want to publicize the results of measurement.

"There are only three way of improving performance. Firstly, you can actually improve performance. Secondly, you can cheat the system so that it appears performance is improved. Finally, you can simply lie about the performance achieved." But improving performance is much harder to do than thinking about these two options.

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3.2 **Benefits of using a Balanced Scorecard**

Many organizations struggle with performance measurement and management. Organizations around the globe are taking notice and turning to the Balanced Scorecard because it has proven that it is a good tool in the battle to provide meaningful performance information. Small and medium-sized enterprises benefit from the concept as well as large corporations.

3.2.1 **The strategic resources allocation**

According to Frank C. Carlucci: "The budget has evolved from a management tool into an obstacle to management". The key question when starting a project is which and how much resources are there for achieving quantified objectives? Cascading Balanced Scorecards sets the stage for strategic resource allocation by setting priorities. The BSC provides companies with a stronger rationale for doing thing they should focus on. It is a disciplined way to translate an organization's strategic intent into actionable programmes, products and services. Moreover, a scorecard can be seen as a framework that helps managers when struggling with too many projects competing for too few resources.

**Figure 15:** Linking the Balanced Scorecard to Budgeting

3.2.2  Translating the strategy into operational objectives
Strategy, not financial controls, dictates the firm's direction, and the scorecard creates a powerful new language for employee change\(^{37}\). Most of the organization that have implemented the BSC said the first reason why they did it was to clarify their vision and strategy as well as translate it into operational objectives so that both will drive performance and behaviour of the workforce. They emphasize that if every employee had had the ability to articulate their strategy and was aware of how their own role contributes to the success of the company then they will be achieving in executing their plan. To achieve excellent overall performance both managers and employees need to know what is required, so breaking down strategic measures to lower levels of the organization is an essential step.

3.2.3  Balancing financial and non-financial aspects
Financial measures alone do not assess and measure the parts of the organization that create the future customer value that in turn delivers profit. A more holistic approach is needed that helps managers to examine the state of health of the entire body corporate. Manager try to find out how to motivate employees to help execute the organizations' strategy in order to be profitable and to add the organizations' value that could attract new investors or buyers. Good results can only be made when the organization consider its entire environment. Implementing the Balanced Scorecard help them achieving this goals through direction's setting that employees should follow, by focusing every effort to the same purpose and by providing consistency that results to be profitable.

The primary benefit of a Balanced Scorecard is the "balance" itself. Rather than focusing on financial performance manager learn to consider the full spectrum of business performance. Additionally to the financial measures they look at measure of customer experience, employee development and retention and process efficiency. So there is now more focus on intangibles, not just financials.

3.2.4  Giving simultaneously satisfaction to customers and stakeholders
By focussing on the key attributes their customers valued and designing processes that delivered these attributes, companies found they could deliver both to their customers and their financial stakeholders at the same time\(^{38}\). Investor most of the time only want to make benefit when they invest. The best way to accomplish this goal is to make more and more money (benefit) which means selling more. Having good relationship

\(^{38}\) Dr. Mike Bourne & Pippa Bourne: Balanced Scorecard, Holder Education, 2007.
with customers through satisfaction of their enquiries help organization increasing their sales. Furthermore, it also drives the cost down because acquiring new customers is always more expensive than keeping the current customer satisfy. Another use of the balance scorecard when it comes to management is to keep track of both long-term and short-term goals that were set. It basically provides a visual representation of where the firm is heading and also identifies the goals that are to be realized yet. This is one of the main reasons why it is an important management tool. Proving that the organization can survive through the time can also add value what is important for investor but at the same time increase the reliability of third part (business partners).

### 3.2.5 Improving the communication within the organization

The Balanced Scorecard methodology is designed specifically to enable managers to establish their strategy objectives across a holistic view of business based on an agreed view of future organization in the long-run, and identify relevant measures that allow them to control and monitor organizational performance against these objectives. The benefits arising from this methodology are to reaching consensus and articulation of a set of key strategic objectives aligned to corporate vision and encouraging dialogue within the organization about strategic goals and expectations. The Balanced Scorecard translates mission and strategy into objectives and measures, organized into four different perspectives and then provides a language, to communicate mission and strategy; it uses measurement to inform employees about the drivers of current and future success. This focus the whole organization on the few key things that need to be done to create breakthrough performance. The BSC end up developing better communication and listening skills within the workforce.

### Conclusion

"The best and safest thing is to keep balance in your life, acknowledge the great power around us and in us. If you can do that, and live that way, you are really a wise man." \(^{39}\)

Managers today are acting in such a complex environment that setting right objectives and following them appropriately is absolute vital to ensure the sustainability and development of their organizations. Financial measurement has enabled companies to achieve great success in the early-twentieth century when the trend to diversified enterprises created an intra-corporation demand for reporting and evaluation of business unit performance such as the

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rigorous financial reporting and controls of Harold Geneen at IT&T. However, an overemphasis on achieving and maintaining short-term financial results can cause companies to overinvest in short-term fixes and to under invest in long-term value creation, particularly in the intangible and intellectual assets that generate future growth.

We have tried along this paper to show how the Balanced Scorecard "balances" all aspects of organizations to create short-term success but also to guaranty long-term growth while helping companies setting and implementing their strategies. The Balanced Scorecard is an excellent tool to help an organization monitor the effectiveness of a strategy and make midterm course corrections between iterations of the strategic planning process. The Balanced Scorecard is not only a tool to focus all energy in the same direction for objectives meeting but also a bell that rings whenever the day to day activities are not leading to the followed goals. According to Mohan Nair: "The Balanced Scorecard is a framework designed by Professor Robert Kaplan and David Norton to solve challenges in balancing the multiple perspectives demanded of strategy with its execution". Most of the organization used to follow many objectives at the same time. They want to please shareholders, they need to keep and increase their market share and make their customers happy, they also want to provide the best work atmosphere any employee may wishes. Kaplan and Norton have gathered this aims under four perspectives - Financial, Customer, Internal process, and Learning and Growth. They also showed how these perspectives could be linked together to achieve an overall objective through alignment to a given strategy. In this case the Balanced Scorecard will then help manager to cascade their settled strategy down the organization so that all levels in the company will have the same understanding of what to do and how their own actions have an impact on the achievement of the objectives.

It has also been discussed in this paper that in order to follow the objectives accurately, it is very important to monitor the achievement of objectives by using as optimal and as strategy-focused measurement system as possible. The purpose of the application of Balanced Scorecard is to help managers agree on what to measure and then articulate the strategic destination and road map for their organization and monitor the activities required for their achievement. The Balanced Scorecard is then a strategic performance measurement framework that allows organizations to define their strategic priorities and then design indicators and measures to monitor how well they are executing them. Companies usually rely on financial measurement to conclude whether or not they are doing well in business.

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Although, financial measurement in certain extent give some indication on the health of the organization, but they cannot tell if the today's investments will be productive in the future. In this case the purpose of the Balanced Scorecard can shift from tracking performance of a process (performance measurement), to monitoring whether or not objectives have been set, and the extent to which the planned actions to achieve them are working (performance management). Moreover, Kaplan and Norton explain that individually no measurement can establish clear guidance for action. As the organizations' set-up is in most cases very complex and needs to follow several factors simultaneously, then it is necessary to pay attention to both financial and non-financial data. Strategy planning has always been understood as a focus on statements and objectives related to the existing resources to move an organization in the desired direction. While this is true why do many investments based on nice looking strategy realize no return? Some argue that the main reason could be the implementation of the given strategy, in other words the ability to translate the vision (strategy) into actions that can be executed to achieve the settled objectives. Here we talk about the capacity of the organization to link the strategic and the operational management. Some of the organization that have implemented the BSC said the first reason was to clarify their vision and strategy and translate it into operational objectives so that both will drive performance and behaviour of the workforce. Other said that the Balanced Scorecard has enabled them to reach consensus among the company, to articulate a set of key strategic objectives aligned to corporate vision and to encourage dialogue within the organization about strategic goals and expectations. However most of organizations admitted that the Balanced Scorecard has provided them with necessary elements to move from trying to correct failure to a new system in which their scorecard has become the starting point for reviewing, questioning, and learning about their strategy. Manager say it helps to say no and concentrate on priorities. So with the Balanced Scorecard the company end up assessing their organizational capacity, planning their capacity development, mapping and implementing their strategy, and at last measuring the results and benchmarking it with the concurrence.

However, according to Ralph F. Smith success with the Balanced Scorecard should not be taken as granted. He warms on the fact that a scorecard should not stymie other management tools.

- The BSC does not replace all other measurement systems.
- It is not a good thing or a bad thing to be on the BSC...It is just a thing.

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Measuring something with the BSC doesn't mean it can't be measured in other places.
Scorecard measures are not set in stone.
Each perspective does not need to have the same number of measures
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