

THE MANAGEMENT OF THE PROJECT BALANCED BUSINESS SCORECARD IN A COMMERCIAL BANK (CEC BANK SA)

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ABSTRACT

The balanced business scorecard is a widely-used management framework for optimal measurement of organizational performance. Explains that the scorecard originated in an attempt to address the problem of systems apparently not working. However, the problem proved to be less the information systems than the broader organizational systems, specifically business performance measurement. Discusses the fundamental points to cover in implementation of the scorecard. Presents the rules developed as a means of bringing the framework closer to practical application.

KEYWORDS: *strategy, project, Balanced Business Scorecard, perspectives*

Introduction

The Balanced Scorecard is a widely adopted performance management framework first described in the early 1990s. More recently it has been proposed as the basis for a 'strategic management system'.

This paper describes its evolution, recognising three distinct generations of Balanced Scorecard design. The paper relates the empirically driven developments in Balanced Scorecard thinking with literature concerning strategic management within organisations. It concludes that developments to date have been worthwhile, highlights potential areas for further refinement, and sets out some possible topics for future research into the field.

The Balanced Scorecard and its development

The Balanced Scorecard was first introduced in the early 1990s through the work of Robert Kaplan and David Norton of the Harvard Business School. Since then, the concept has become well known and its various forms widely adopted across the world (Rigby, 2001).

By combining financial measures and non-financial measures in a single report, the Balanced Scorecard aims to provide managers with richer and more relevant information about activities they are managing than is provided by financial measures alone. To aid clarity and utility, Kaplan and Norton proposed that the number of measures on a Balanced Scorecard should also be constrained in number, and clustered into four groups (Kaplan and Norton, 1992, 1993). Beyond this, the original definition of Balanced Scorecard was sparse. But from the outset it was clear that the selection of measures, both in terms of filtering (organisations typically had access to many more measures than were needed to populate the Balanced Scorecard) and clustering (deciding which measures should appear in which perspectives) would be a key activity. Kaplan and Norton proposed that measure selection should focus on information relevant to the implementation of strategic plans, and that simple attitudinal questions be used to help determine the appropriate allocation of measures to perspectives (Kaplan and Norton, 1992).

In essence the Balanced Scorecard has remained unchanged since these early papers, having at its core a limited number of measures clustered into groups, and an underlying strategic focus. But modern Balanced Scorecard designs also have a number of features that clearly differentiate them from earlier examples. This paper describes these changes as an evolution through three distinct 'generations' of Balanced Scorecard design.

1st Generation Balanced Scorecard

Balanced Scorecard was initially described as a simple, "4 box" approach to performance measurement (Kaplan and Norton, 1992). In addition to financial measures, managers were encouraged to look at measures drawn from three other "perspectives" of the business: Learning and Growth; Internal Business Process; and Customer, chosen to represent the major stakeholders in a business (Mooraj et al, 1999).

Definition of what comprised a Balanced Scorecard was sparse and focused on the high level structure of the device. Simple 'causality' between the four perspectives was illustrated but not used for specific purpose. Kaplan and Norton's original paper's focus was on the selection and reporting of a limited number of measures in each of the four perspectives (Kaplan and Norton, 1992). The paper suggested use of attitudinal questions relating to the vision and goals of the organisation to help in the selection of measures to be used, and also encouraged the consideration of 'typical' areas of interest in this process. Kaplan and Norton's original work makes no specific observations concerning how the Balanced Scorecard might improve the performance of organisations; the implication is that the provision of accessible relevant measurement data itself will trigger improved organisational performance.

However, they do imply that the source of these improvements is changes in behaviour: "It establishes goals but assumes that people will adopt whatever behaviours and take whatever actions are necessary to arrive at those goals". In the light of this, the basis for selecting the goals represented by the Balanced Scorecard is of some importance. But in their first paper Kaplan and Norton say little about how a Balanced Scorecard could be developed in practice beyond a general assertion that design involved "putting vision and strategy at the centre of the measurement system" (1992). Later writing includes increasing amounts of proscription about development methods, concluding with a lengthy description of one such process in their first book on the subject published in 1996.

Practical Experiences with 1st Generation Balanced Scorecards

The authors' professional experience suggests that 1st Generation Balanced Scorecards are still being developed, and that they probably still form the large majority of Balanced Scorecard designs introduced into organisations. This is reflected in the literature, where books and articles that use more advanced representations of Balanced Scorecard are only recently appearing (Olive et al, 1999, Kaplan and Norton, 2000, Niven, 2002). But despite its huge popularity as a concept, and apparently widespread adoption, relatively few detailed case studies concerning Balanced Scorecard implementation experiences appear to exist in the academic literature. Those few that do focus primarily on the architecture of the Balanced Scorecard design (e.g. Butler et al, 1997), and associated organisational experiences (e.g. Ahn, 2001). Commercial / practitioner writing on Balanced Scorecard is more extensive (e.g. Schneiderman, 1999), but often more partisan (e.g. Lingle et al 1996). But in general the literature endorses the utility of the approach (Epstein et al, 1997) but notes weaknesses in the initial design proposition, and recommends improvements (e.g. Eagleson et al, 2000, Kennerley et al, 2000).

2nd Generation Balanced Scorecard

The practical difficulties associated with the design of 1st Generation Balanced Scorecards are significant, in part because the definition of a Balanced Scorecard was initially vague, allowing for considerable interpretation. Two significant areas of concern were filtering (the process of choosing specific measures to report), and clustering (deciding how to group measures into 'perspectives').

Discussions relating to clustering continue to be rehearsed in the literature (e.g. Butler et al, 1997, Kennerley et al, 2000), but discussions relating to filtering are less common, and usually appear as part of descriptions of methods of Balanced Scorecard design (e.g. Kaplan and Norton, 1996, Olve et al, 1999).

Perhaps the most significant early change translated the attitudinal approach to measure selection proposed initially by Kaplan and Norton (e.g. "To succeed financially, how should we appear to our shareholders?") into a process that yielded a few appropriate key measures of performance in each perspective. A solution was the introduction of the concept of 'strategic objectives' (Kaplan and Norton, 1993). Initially these were represented as short sentences attached to the four perspectives, and were used to capture the essence of the organisation's strategy material to each of the areas: measures were then selected that reflected achievement of these strategic objectives. Although subtle, this approach to measure selection quite different from that initially proposed, since strategic objectives were developed directly from strategy statements based on a corporate vision or a strategic plan.

Another key development concerned causality. Causality between the perspectives had been introduced in early '1st Generation' Balanced Scorecard thinking. '2nd Generation' Balanced Scorecard saw the idea of causality developed further. Instead of simply highlighting causal links between perspectives, internal documents from one consulting firm's work in 1993 shows an early attempt to indicate linkages between the measures themselves¹. This improvement was also proposed later by others (Newing, 1995). Measure based linkages provided a richer model of causality than before, but presented conceptual problems – for example, the use of measures encouraged attempts to 'prove' the causality between measures using various forms of analysis (indeed this is still the case – e.g. Brewer, 2002).

Collectively the changes in design described here represent a materially different definition of what comprises a Balanced Scorecard compared to Kaplan and Norton's original work - we will refer to Balanced Scorecards that incorporate these developments as '2nd Generation Balanced Scorecards'.

The impact of these changes were characterised by Kaplan and Norton in 1996 as enabling the Balanced Scorecard to evolve from "an improved measurement system to a core management system" (Kaplan and Norton 1996). Maintaining the focus that Balanced Scorecard was intended to support the management of strategic implementation, Kaplan and Norton further described the use of this development of the Balanced Scorecard as the central element of "a strategic management system".

One consequence of this change in emphasis was to increase the pressure on the design process to accurately reflect the organisation's strategic goals. Over time the idea of strategic linkage became an increasingly important element of Balanced Scorecard design methodology, and in the mid 1990's Balanced Scorecard documentation began to show graphically linkages between the strategic objectives themselves (rather than the measures) with causality linking across the perspectives toward key objectives relating to financial performance.

As objectives began to appear in graphical representations of linkages, so they began to require short titles (to fit onto diagrams). To compensate the idea of 'objective descriptions' associated with strategic objectives emerged. These descriptions, which were simply longer paragraphs describing in more detail the 'meaning' of the objective, are symptomatic of a significant increase in the volume of purely design related documentation associated with the design of Balanced Scorecards – objectives began to be assigned to owners, measures to objectives. Early software reporting systems began to enhance these elements of design information by linking it with measurement data, and using email and diary systems to enable speedy diagnosis and interventions in response to data observed: the ability to store and work with these characteristics are now central to leading 'Balanced Scorecard' software systems (e.g. Marr and Neely, 2001).

The representation of causality between strategic objectives – known initially as the 'Strategic Linkage Model' – is now considered to be an important part of any Balanced Scorecard design (Kaplan and Norton, 2000). The design elements that make up the 2nd Generation Balanced Scorecard now represent 'mainstream' thinking on Balanced Scorecard design – as evidenced by considerable consistency of definition across a range of practitioner and academic texts (Olve et al, 1999; Niven, 2002).

Increasing adoption of the 'explicit' causality present in the strategic linkage model has diminished the value of 'lead' and 'lag' measures – as the predictive nature of 'lead' measures is now more clearly (and less ambiguously) documented in the design of the Balanced Scorecard.

Practical Experiences with 2nd Generation Balanced Scorecards

There are still areas that prove difficult to deal with during the development process for both management teams and consultants charged with developing 2nd Generation Balanced Scorecard.

The first of these areas concerns the development of the Strategic Linkage Model. Management teams find the necessary selection of priority elements within their collective vision and strategic goals difficult. While there is usually some type of common reference point in the form of visions or plans, often this is either poorly defined, lacking continuity or something that the management team didn't fully agree on. Working to choose objectives simply flushed these issues to the forefront of management attention, and triggered useful debate, but the activity of actually selecting priority objectives itself is not one that has been found to support open discussion about the collective alignment of strategic goals. Another difficult area is target setting. While measure selection is easier, thanks to Strategic Objectives and the Strategic Linkage Model, for similar reasons to those note above, organisations often lack a common reference point relating from which targets can be extrapolated. Finally, the Strategic Linkage Model documentation, although clear to those familiar with construct, has proven less helpful when used for broadcast communication of strategy – it lacks sufficient supportive information to be usefully stand alone as a communication concerning an organisation's strategic plans.

3rd Generation Balanced Scorecard

The 3rd Generation Balanced Scorecard model is based on a refinement of 2nd Generation design characteristics and mechanisms to give better functionality and more strategic relevance. The origin of the developments stem from the issues relating to target setting and the validation of strategic objective selection outlined above. These triggered the development in the late 1990's of a further design element – the 'Destination Statement' – initially at the end of the design process to 'check' the objectives, measures and targets

chosen. The first Destination Statements were created as a final consensus estimate of the consequences at a particular future date (e.g. 'in three years time') of implementing the strategic objectives previously selected for the strategic linkage model. By agreeing in this statement 'how much' of key things would have been achieved by this time (e.g. headcount, revenues, customer satisfaction, quality levels etc.) the hope was it would subsequently be easier (for example) to check for (or set) a consistent set of annual targets.

It was quickly found that management teams were able to discuss, create, and relate to the 'Destination Statement' much easily and without reference to the selected objectives. Consequently the design process was 'reversed', with the creation of the 'Destination Statement' being the first design activity, rather than a final one. Further it was found that by working from Destination Statements, the selection of strategic objectives, and articulation of hypotheses of causality was also much easier, and consensus could be achieved within a management team more quickly. We will refer to Balanced Scorecards that incorporate Destination Statements as '3rd Generation Balanced Scorecards'.

Key components of a 3rd Generation Balanced Scorecard are:

Destination statement: In order to make rational decisions about organisational activity and not least set targets for those activities, an enterprise should develop a clear idea about what the organisation is trying to achieve (Senge 1990, Kotter 1995). A destination statement describes, ideally in some detail, what the organisation is likely to look like at an agreed future date (Olve et al, 1999; Shulver et al, 2000). In many cases this exercise builds on existing plans and documents – but it is rare in practice to find a pre-existing document that offers the necessary clarity and certainty to fully serve this purpose within an enterprise.

Strategic Objectives: The destination statement offers a clear and shared picture of an organisation at some point in the future, but it does not provide a suitable focus for management attention between now and then. What needs to be done and achieved in the medium term for the organisation to "reach" its destination on time is agreed upon in the form of objectives or priorities. By representing the selected objectives on a "strategic linkage model", the design team is encouraged to apply "systems thinking" (Senge 1990; Senge et al. 1999) to identify cause-and-effect relationships between the selected objectives i.e. what do we need to do to achieve the results we expect. This approach also helps ensure the objectives chosen are mutually supportive and represent the combined thinking of the team's high-level perception of the business model.

Strategic Linkage Model and Perspectives: The chosen strategic objectives are spread across four zones or 'perspectives'. The lower two perspectives contain objectives relating to the most important activities in terms of business processes, cycle time, productivity etc. (Internal Processes) and what needs to happen for these processes to be sustained and further developed in terms of people, product and process development (Learning & Growth). The two top perspectives house objectives relating to the desired results of the activities undertaken i.e. how we wish external stakeholders (e.g. the general public, partner agencies and organisations to perceive us (External Relations) and how this will ultimately translate into financial results and economic value. (Financial)

Measures and Initiatives: Once objectives have been agreed measures can be identified and constructed with the intention to support management's ability to monitor the organisation's progress towards achievement of its goals (Olve et al, 1999). Initiatives are special projects with a finite start and end date and are mapped to strategic objectives to give an indication of the projects or actions needed in order to realise the objectives (Niven, 2002).

Conclusions

During the 10 years since the advent of Balanced Scorecard many changes have been made to the physical design, utility and the design processes used to create the tool within organisations. This evolution of Balanced Scorecard, at least in terms of these three parameters, can be largely attributed to empirical evidence driven primarily by observed weaknesses in the design process rather than in the architecture of the original idea. The need to have a design process that made measure selection more relevant and part of the collective view of the management team drove the major changes that can be seen in two subsequent generations of Balanced Scorecard from the original concept.

However, while empirical developments were the mainstay of the evolution of Balanced Scorecard, certain aspects of the evolution rationale can be paralleled to pre-existing academic philosophies relating to organisational management and strategic thinking.

The alignment between developments in Balanced Scorecard principles and the theoretical aspects of control and management process are a positive indication that the more modern ideas about Balanced Scorecard design processes and structure are indeed 'better' than the original concept described by Kaplan and Norton, in so far as they are more likely to have a beneficial consequence for the organisation adopting the tool. However while more recent Balanced Scorecard designs are substantial improvements on original ideas, there is still room for improvement. Potential areas for further refinement and possible topics for future research into the field are as follows: A refinement in the understanding of the links between types of management behaviour and the information needed to facilitate better management interventions. The separation of management and strategic control is central to this development and is an area that is well documented; however, there is a need to expand the literature relating to appropriate mechanisms to influence management behaviours more effectively.

An examination into the ways of reconciling performance reporting with performance management. It is often the case that an organisation's performance management system's data need to have complete 'coverage' of the business, for example metrics on health and safety, operations, finance, human resources, markets etc. (Eagleson et al, 2000. Kennerley et al, 2000). However, in the practical environment this can reduce the relevance to the local unit developing the metrics and diminish ownership of the management system.

An examination of the most appropriate ways to translate advances in measurement concepts (e.g. Intellectual Capital, EVA etc.) efficiently into the design processes adopted for BSC, without diminishing 'ownership' of the design work done by managers unfamiliar with the new concepts. EVA and Intellectual Capital are both appear to offer ways to 'improve' measurement information. However, if the management team themselves are not comfortable working with them, they won't design them into their Balanced Scorecard. But if a consultant 'designs it in', although potentially beneficial, if the management team does not understand them it will probably not own or act upon them. In this scenario the interaction of the Balanced Scorecard with other management concepts and its possible improvement is dependant on the skills and education of the management team.

Developing an understanding of the benefits of Balanced Scorecard and if possible attaching capital values to pre and post case scenarios. A key criterion for the adoption of the Balanced Scorecard within organisations is the ability to demonstrate value in its adoption.

While many loose attempts to define benefits exist there is a scarcity of concrete examples of benefit to public and private organisation.

The Business Imperative

In today's world of rapid change and unforgiving competition, a myriad of leadership challenges face the business executive:

- ◆ The increasing need for speed
- ◆ The need for alignment across the organization
- ◆ The need to focus on action and results
- ◆ The need for better ways to measure the health and success of the organization
- ◆ The need to attract and retain the right staff in an increasingly competitive environment

Strategy is of critical importance in today's business environment of rapid change and unforgiving competition. Many organizations devote extensive resources to developing a winning strategy, then wonder why they aren't winning. Organizations fail to realize the benefits of a good strategy for a variety of reasons:

- ◆ Failure to implement the strategy -- They develop an excellent plan, then it sits on the shelf.
- ◆ Failure to communicate the strategy -- Senior management understands the strategy, but the line personnel who interact with customers on a daily basis have no idea what their role is in implementing the strategy and contributing to corporate goals.
- ◆ Failure to translate the strategy into actionable initiatives -- Managers treat strategy development as an annoying interruption that takes time away from doing business. They fail to devote the time and effort necessary to translate the high level strategy into tactical initiatives that drive change on an operational level.

Translating Strategy Into Results

The balanced scorecard provides a framework for translating strategy into action into results. Its benefits include the following:

- ◆ Alignment - The balanced scorecard provides a mechanism for aligning the various activities, processes, and groups throughout the organization with the strategic goals and objectives.
- ◆ Communication - The balanced scorecard and the decisions and actions that it drives become a mutually reinforcing, highly visible way to communicate the strategy throughout the enterprise.
- ◆ Accountability - The balanced scorecard links individual performance to corporate strategy and provides a constructive mechanism for holding people accountable for results.
- ◆ Individual contributions - As managers and individuals throughout the organization come to understand the strategy and how their performance contributes to success, they are able to exploit circumstances and make independent decisions that contribute to the strategy in ways never anticipated by the drafters of the strategy.
- ◆ Transformation - As people work together to achieve common objectives, the balanced scorecard provides leverage and becomes a multiplier. As performance is

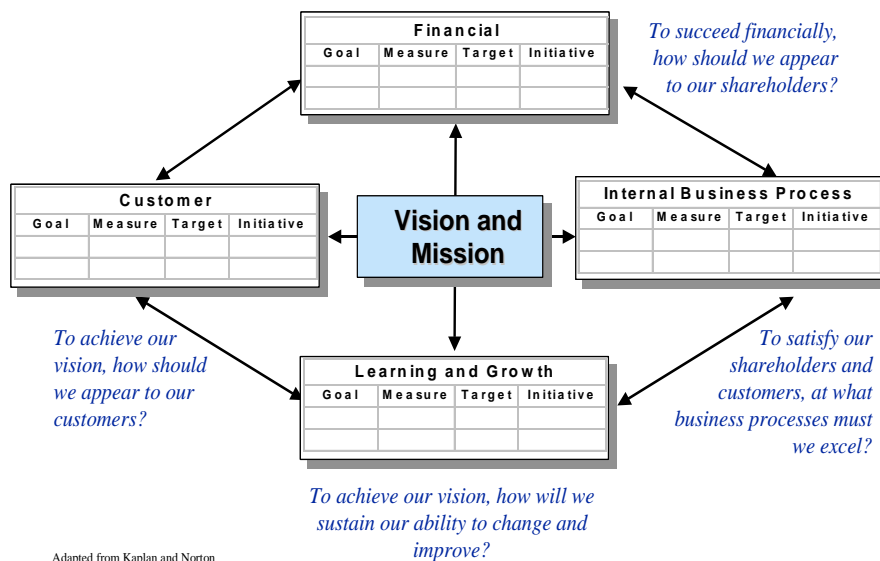
reported throughout the organization, the feedback process becomes a mechanism to transfer knowledge and to refine and modify the strategy based on facts and insights of people throughout the enterprise. Strategy development becomes an ongoing, dynamic process that can evolve readily in response to changing circumstances, new ideas, etc.

What Is the Balanced Scorecard?

The balanced scorecard is a performance management framework that links strategy with day-to-day operations. It provides a holistic view of the enterprise based on the business objectives. The balanced scorecard consists of a set of performance measures that give a comprehensive view of the company based on four perspectives:

- ◆ Financial perspective, including traditional financial measures such as revenue growth, return on investment or return on assets, market share, and earnings per share,
- ◆ Customer perspective, with measures of importance to customers such as timeliness, quality, performance, cost, and service,
- ◆ Internal business process perspective, with measures of the critical internal activities and processes that the organization uses to meet its customers' expectations, and
- ◆ Learning and growth perspective, which measures the organization's ability to adapt and innovate for the future; this could include time to market for new product development, workforce training and development, and process improvement.

These perspectives provide a multi-dimensional balance between internal and external perspectives, leading versus lagging indicators, objective versus subjective measures, current versus future needs, etc. Tradeoffs become explicit business decisions based on strategy.



Adapted from Kaplan and Norton

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