Balanced Scorecard: A New Tool for Performance Evaluation

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Abstract
Performance measurement system has changed a lot in comparison to the past. The measurement results are real just when the comparisons apply between similar items. In traditional performance measurement approach, the most important goals of evaluation is performance measurement while modern approach has focused on evaluated growth and development capacity. Modern evaluation system results in satisfaction improvement, efficiency improvement, and finally improvement in effectiveness of organizational activities. Balanced Scorecard provides quick and comprehensive examinations for top managers. Nowadays, just the organizations can be considered as a leader of their industry which can use the resources better and quicker than their adversaries and by using new methods increase their competitive advantages. In this way, BSC as a new tool in management hands can provide a better competitive situation by better assessment of organizational performance. In this paper we review how BSC emerged and developed during the years.

Keywords: Balanced Scorecard, Performance Evaluation, Competitive advantages, cause and effect relationship.

1. Introduction
Performance measurement system has changed a lot in comparison to the past. The measurement results are real just when the comparisons apply between similar items.
In traditional performance measurement approach, the most important goals of evaluation is performance measurement while modern approach has focused on evaluated growth and development capacity (Niknazar, 2009). Peter Drucker in 1954 argued that one potential solution was to introduce “balanced” sets of measures. “Market standings, innovation, productivity, physical and financial resources, profitability, manager performance and development, worker performance and attitude, and public responsibility” are appropriate performance and attitude, and public responsibility” are appropriate performance criteria (Neely, 2005).
Modern evaluation system results in satisfaction improvement, efficiency improvement, and finally improvement in effectiveness of organizational activities (Norton, 1999).

2. Balanced Scorecard
At the end of 1980, numerous articles were published in European and American managerial journals criticizing the efficiency of corporate performance evaluations methods. In 1978, the researches of American accountant management society showed that 60% of total 260 financial managers and 64 executive managers of USA firms were dissatisfied by their performance measurement systems. Kaplan and Norton in a research with 12 companies identified BSC approach and opened new doors to evaluate organizational performance by this managerial innovation (Kaplan and Norton, 2009, 14). They stated in their articles that firms in order to evaluate their performance should not only lend on financial aspects but also should consider their performance from customer, processes, and learning and growth view. The first generation of BSC was a set of metrics which could prepare an integrated view of business for the management. Balanced Scorecard was containing financial metrics- results of past activities-and operational metrics such as customer, internal processes, and learning and growth metrics (operational metrics which motive financial performance in future) (Kaplan and Norton, 1992).
2.1 Importance of cause-and-effect relationship in Balanced Scorecard

A well-designed balanced scorecard should be able to describe your strategies through the objectives and measures you have chosen (Niven, 2007). According to Kaplan and Norton, successful companies to assess their performance not only use financial measures but also assess their organization based on their other three perspectives, i.e. customer, internal processes, and learning and growth. Companies in each of these four perspectives determine their goals and objectives for evaluating success in each perspective, measures and targets; and identify quantitative goals for all of these measures for the period considered. Then the executive actions and initiatives to achieve these objectives and programs are planning and implementing (Kaplan and Norton, 2008). This process is shown in figure 2-4.

![Figure 1: Balanced Scorecard design and establishment process](Kaplan and Norton, Execution, 2009, 50.)

These measures should link together in a chain of cause-and-effect relationships from the performance drivers in the learning and growth perspective all the way through to improved financial performance as reflected in the financial perspective (Niven, 2007).

![Figure 2: Balanced Scorecard Model](Kaplan and Norton, 1992)
Cause-and-effect relationship can be stated as a sequence of if-then phrases (Kaplan, 2009). Therefore, in order to achieve financial outputs (in financial perspective), we should make value for our costumers (in costumer perspective) and it never happens only if we can transcend in our operational processes and adopt them with our costumers’ needs (internal processes perspective) and it doesn’t happen if we don’t prepare an appropriate space for staffs and try to improve creativity, learning, and growth in our organization (Kaplan and Norton, 2001).

2-2 Balanced Scorecard evolution: from performance management system to integrated management systems

2-2-1 A review on first generation of BSC

Kaplan and Norton stated in their first article that in order to have an integrated organization performance assessment, the performance should be noticed from four aspects; These four perspectives answer to four key questions:

- How should we be in customer view?
- In which internal processes we should transcend?
- Can we stand in continuous improvement and value creativity?
- How should we be in our shareholders’ view?

The first generation of BSC consists of above perspectives in addition to goal and metric in each perspective. These four perspectives in their first generation are explaining as follows:

Customer perspective:
The mission statement of most companies focuses on customers. “Change into the best company in creating value for customers”. BSC causes that managers translate their mission statement in four necessary for customers in four categories: time, quality, performance and service delivery, and price. Firms in order to apply BSC should express their goals based on time, quality, performance and service deliver and then translate them into specific metrics. Managers need to focus on those key internal operations which make them capable in order to meet customers’ needs. Companies identify their internal processes metrics of their BSC usually after identifying financial and customer perspectives goals and metrics. Internal processes metrics should be selected based on the business processes which have the most effect on customer satisfaction. Companies should decide in which processes they want to be at top and define each metric related to these items.

Learning and growths perspective:
After the metrics and goals related to internal processes and customer perspectives identified, it is possible to understand that there is a gap between current organizational infrastructures and optimized level in order to achieve the goals. Metrics based on customer and internal processes are important to identify very important parameters for organization competitive success. However, universal close competition makes companies consider a continuous improvement in their products and processes and capable enough to identify new products. The company capability in innovation, improvement, and learning directly affects the company value. In other words, companies just by their capabilities in providing new products, creating value for their customers and continuous improvement of operational efficiency can enter new markets and increase their profit and income.

Financial perspective:
Metrics of financial perspective identify that whether the strategy and its execution plays a role in company profitability improvement or not. Financial goals are usually being defined in relation with profitability, growth and shareholders’ value. Companies should define their financial perspective goals in a framework of sustainability, success, and economic boom. Boom is measuring by cash flow, success by seasonal sell growth, sections operational income, and economic boom by market share and ROI improvements. Kaplan and Norton (1992 and 1993) didn’t directly point to cause-and-effect relationship and just mentioned the relationship among four BSC perspectives.

2-2-2 BSC Second Generation

Although the main goal of BSC first generation was to make a balance between financial numbers and future value creator derivers in organization performance evaluation, however, Kaplan and Norton didn’t give a distinct and clear definition of “what is a balanced scorecard?” and just explained how to apply it and talked about BSC in relation to other organizational factors. Figure 2-7 shows the BSC model.
In 1996 Robert Kaplan and David Norton in the book “BSC: Strategy translation form word to action” suggested the cause-and-effect relationship between performance deriver metrics (lead indicators) and lag indicators. They also explained that metrics should be a set of lead and lag indicators.

In general, in second generation three key improvements created in balanced scorecard:

1. Choosing metrics based on clear strategic goals.
2. To identify cause-and-effect relationship among strategic goals that results in designing in a strategic communicational model or in a strategic map.
3. Creating four new managerial processes which by using them, BSC transformed from a performance evaluation system to a strategic management system.

2-2-3 Third Generation of BSC

There were still some weaknesses in the second generation BSC concepts and identification. Although Kaplan and Norton could not overcome the weaknesses of metrics selection, however, there were still some other problems.

In 2nd generation strategic communicational model used to provide a cause- and-effect relationship which was starting from “learning and growth” and by passing “internal processes” and “customer” perspectives finally was ending to “financial perspective.

Many experts such as Kennerley, Neely, (2002) all argued that these cause-and-effect relationship is unsuitable for many organizations and necessarily do not link to macro goals and vision of the organization. Because BSC method does not have any monitoring and control on competitors and technological development; therefore, cannot be considered as a strategic control model. Mac Adam and Maisel (1992) reviewed BSC based on TQM framework and explained that TQM as a strategic management are the main organization strategy factors which should be evaluated and measured.

Therefore, balanced scorecard is only a tool to evaluate and measure organization strategies and not a decision-making and strategy selection tool.

Kaplan and Norton added new metrics to the second generation of BSC in order to increase strategic communication and created the third generation of BSC based on these changes. In the late 1990, two other metrics, strategic destination and strategic themes were added to BSC. In addition cause- and-effect relationship model in last level equipped with a more accurate tool which named strategy map.

2-2-4 Forth generation of balanced scorecard

Robert Kaplan in an interview in 2008 published in HBR36, answered to the question “what are the most important factors to execute strategies?” He stated that first of all leadership is very important and without effective leadership no strategy can execute successfully and after that linking the strategy to operations is necessary. Both strategy and operation are important but their performance in comparison to each other is quite different.

Conclusion

In a research Kaplan and Norton found out that 54% of companies under the research were using a formal process of strategy execution management. 70% of these firms have obtained a better performance in comparison to the similar firms group. Using a formal system to execute the strategy makes the probability of success, two or three times higher.

In comparison to the time there is no system and it is because of a linkage between organization strategies to operational programs.

In 2008 Kaplan and Norton published the results of their research in HBR. In this article they identified management systems which cause to integration of strategy compiling tools and operations management such as mission statement, vision, strategy compiling methodology, dynamic budgeting and resource allocation, quality methodology and process improvement, learning organization and statistical and economical analysis tools (Kaplan and Norton, 2009).
References