

CHAPTER III
THE BALANCED SCORECARD APPROACH

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CHAPTER III

THE BALANCED SCORECARD APPROACH

3.1 Introduction

Chapter two has demonstrated the importance of integrating financial and non-financial performance measurements. It was also pointed out that this research will adopt the balanced scorecard approach (**BSC**) for combining financial and non-financial performance measures for ensuring an effective approach to management control (Hoque and James, 2000). Kaplan and Norton (1992) assert that the BSC approach provides an integrated set of financial and non-financial performance measures. These measures allow managers to examine their organisations from different perspectives. It includes both financial measures that report the results of past actions, as well as operational measures such as customer satisfaction, internal processes and innovation, which act as indicators for future financial performance.

In recent years, the BSC has attracted considerable interest in practice as well as theory. A great deal of literature has been published on the BSC approach and several surveys indicate that this approach is widely used in companies in the United States and throughout Europe. However, the BSC lends itself to various interpretations because it can be and is used in different ways. Finally, many issues relating to the assumptions of the BSC have been raised by several researchers.

This chapter aims to discuss the assumptions of the BSC approach and to review related literature. Section 3.2 starts with the BSC model. Sections 3.3 and 3.4 continue with the main assumptions of this approach. Section 3.5 reviews the BSC theoretical and empirical research. This is followed by section 3.7, which evaluates the BSC approach and its assumptions. Section 3.8 summarises the benefits and limitations of this approach. An overview of the BSC approach is presented in section 3.9.

3.2. The BSC model

In response to the need to incorporate key non-financial performance measures and integrate financial and non-financial measures, Kaplan and Norton (1992) devised the BSC as a set of performance measures to provide managers with a comprehensive view of the organisation, and a reliable feedback for management control purposes and performance evaluation. This approach consists of two types of performance

measures. The first is financial measures to describe the past actions. The second is non-financial measures on customer satisfaction, internal business processes, and innovation and improvement activities as drivers of future financial performance.

Kaplan and Norton (1996c) indicated that the measures of this approach represent a balance between external measures for shareholders and customers, and internal measures for critical business processes, innovation and learning and growth. These measures are balanced between the outcome measures (i.e. the results from past efforts) and the measures that drive future performance. In their writings, Kaplan and Norton (2001a; 2001b; 2001c) stressed that the BSC aims to provide answers to the following questions:

1. How do customers see us? (Customer perspective);
2. What must we excel at? (Internal business process/operational perspective);
3. Can we continue to improve and create value? (Learning & growth/innovation perspective);
4. How do we look to shareholders? (Financial perspective)

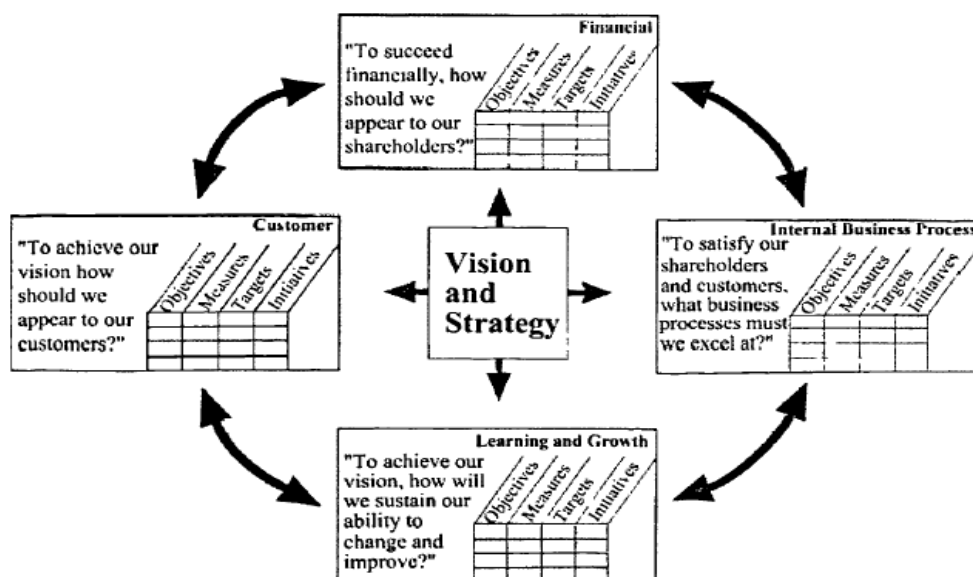
Customer perspective: The measures relating to this perspective require managers to translate their general mission statement on customer and market segments into specific measures that reflect the factors that really matter to the customers. Managers should develop performance measures in order to create satisfied and loyal customers in the targeted segments. Customer's concerns relate to time, quality, service and cost. Therefore, the customer perspective includes different core objectives and measures that relate to the organisation's strategy. Examples include goals and measures relating to increasing market share, customer retention, and customer satisfaction.

Internal Business Process perspective: The measures within this perspective are related to the critical internal processes for which the organisation must excel to implement strategy. The identified processes should stem from the requirements needed to achieve the organisation's customer perspective. Kaplan and Norton identified several generic internal processes, such as operation and post-service sales processes, and stress the need to develop appropriate performance measures relating to these processes such as measures related to time, quality and cost.

Learning and Growth perspective: These types of measures are concerned with building continuous improvement in relation to products and processes, and to also create long-term growth. Kaplan and Norton stress that organisations can improve and innovate to achieve the objectives of the scorecard through the ability to launch new products, improve operating efficiencies and create more value for customers.

Financial perspective: Measures within this perspective are based on financial metrics such as return on investment, and residual income. Kaplan and Norton argued that by incorporating non-financial performance measures in the scorecard, improved financial measures should follow. Moreover, this perspective provides feedback as to whether improved performance in the non-financial perspectives is translated into monetary terms in the financial perspective box.

Chart 3.1 the Balanced ScoreCard



Source: Kaplan and Norton (1996c)

Chart 3.1 illustrates each of the perspectives, in which managers identify aspects which affect performance. For each aspect, they identify objectives, measures, targets and then they identify initiatives to create improvements. Thus, organisations should articulate the major goals for each of the four perspectives, and then translate these goals into specific performance measures (Kaplan and Norton, 1992). This can be achieved by putting the scorecard in the middle in order to evaluate strategy in the light of performance measures.

In this context, Kaplan and Norton (1992) state that: The scorecard brings together in a single report many of the disparate elements of the company's competitive agenda, e.g. becoming customer oriented, shortening response time, improving quality, emphasizing team-work, reducing new product launch time and managing for the long term. The main characteristics of the BSC approach according to Kaplan and Norton (1996a) are:

- ✓ The approach is connected to the organisation's information system;
- ✓ It reports a series of indicators providing a complete view of the organisation's performance;
- ✓ It groups the indicators into four perspectives; each one reflects a distinct measure on the organisation's performance; and
- ✓ The performance measures in the scorecard must be chosen on the basis of their link with vision and strategy of the organisation.

Based on the aforementioned characteristics, the BSC approach consists of the following levels of information [Kaplan and Norton (1996a)]. The first level describes corporate objectives, measures and targets and the second level translates corporate targets into business unit's targets. In the third level, organisations ask teams and individuals to articulate which of their own objectives would be consistent with organisational objectives, and what are the initiatives they would take to achieve their objectives.

The BSC can be applied in different businesses under several situations. Examples include different competitive environments and market situations. According to the experiences of Kaplan and Norton (1996c), however, the BSC is most successful when it used to drive the process of change. Kaplan and Norton (1992; 1993) noted that many organisations combined operational and financial performance measures for their activities, and these measures are bottom-up and derived from ad hoc processes. They argue that the appropriate set of the scorecard's measures should be derived from an organisation's strategic objectives. In this context, they recommended several steps to help managers to design a balanced performance measurement system. These steps are presented in Table 3.1.

Table 3.1
Designing a balanced scorecard

Designing a balanced scorecard	
<ol style="list-style-type: none"> 1. Preparation: Identify the business unit for which a top-level balanced scorecard is appropriate. 2. Interviews-first round: Process facilitator interviews all the <i>firm's</i> senior managers and asks them to identify the company's strategic objectives and possible performance measures for the scorecard. 3. Executive workshop-first round: Senior management group debate the proposed mission and strategy statements until they reach a consensus. The process facilitator then asks the senior managers to answer the following questions: "If I succeed with my vision and strategy, how will my performance differ for shareholders; for customers; for internal business processes; for my ability to innovate, grow and improve?" 4. Interviews-second round: Process facilitator summarises the output from the first executive workshop and discusses it with each senior manager. The facilitator also seeks opinions about issues involved in implementation. 5. Executive workshop-second round: Larger workshop at which the senior managers and their direct reports debate the mission and strategy statements. "The participants, working in groups, comment on the proposed measures, link the various change programmes under way to the measures, and start to develop an implementation plan". Stretch targets are also formulated for each measure. 6. Executive workshop-third round: "The senior executive team meets to come to a final consensus on the vision, objectives, and measurements developed in the two workshops; to develop stretch targets for each measure on the scorecard; and to identify preliminary action programmes to achieve the targets. The team must agree on an implementation programme, including communication of the scorecard to employees, integrating the scorecard into a management philosophy, and developing an information system to support the scorecard". 7. Implementation: New implementation team formulates detailed implementation plan. This covers issues such as: how the measures can be linked to databases and information systems; how the scorecard can be communicated throughout the organisation; and how a second level set of metrics will be developed. 8. Periodic reviews: Each quarter or month, a book of information on the balanced scorecard measures is prepared for both top management review and discussion with managers of decentralised divisions and departments. The balanced scorecard metrics are revisited annually as part of the strategic planning, goal setting, and resource allocation processes. 	

Source: Kaplan and Norton (1993)

3.2.1 Developing a Balanced Scorecard

Kaplan and Norton (1996) identified four steps in implementing a Balanced Scorecard. These are:

- 1) Clarifying and translating the vision and strategy,
- 2) Communicating and linking,
- 3) Planning and target setting, and
- 4) Strategic feedback and learning.

The first step, clarifying and translating the vision and strategy, is generally accomplished by a team of upper management, although Kaplan and Norton indicate that this can be successfully accomplished by a single senior executive. The purpose of this phase is to develop an understanding of the firm's mission and strategy for obtaining its goals. Since mission statements are often vague, management must translate the mission into specific objectives and then develop a strategy that will use the firm's strengths to meet the objectives. In doing so, management should develop a set of measures that captures this strategy. This will become the organisation's Balanced Scorecard.

After the firm's Balanced Scorecard has been developed, each strategic business unit determines measures for its own scorecard as part of the communicating and linking step. Unit managers consider only organisational objectives and strategy and focus on the most important ones. Care should be taken, however, not to reduce lower-level data into meaningless ratios (Lipe and Salterio, 2000).

Rohm (2002) has argued that organisations should use a six-step framework to build a Balanced Scorecard, with an additional three steps required to implement the scorecard throughout the organisation. At the end of the first six steps, the high-level corporate scorecard is developed and it forms the basis for subsequent scorecard development.

It can take two to four months to build a scorecard system, although completion in six weeks is possible. The drivers of "shorter rather than longer" of this are: senior leadership support and continuous commitment, currency of existing assessment information, size of the organisation, and availability of scorecard team members, willingness to change and embrace new ideas, the relative seniority of the manager(s) involved and facilitation support (Rohm, 2002).

There are a number of important implications which managements in all forms of organisations should consider with regard to the Balanced Scorecard. First, that the scorecard emphasises vision, strategy, competitive demands and the need to keep organisations both looking and moving forward – rather than the more traditional focus on control. Indeed, it has been demonstrated that the Balanced Scorecard appears to be most successful when it is used to drive the process of change (Rohm, 2002).

A second implication is that a properly designed scorecard should help management to understand the many important inter-relationships within their organisations, which more traditional measures generally mask or even ignore. Moreover, the measures incorporated in a scorecard should provide a balance between external and internal measures and thereby reveal the potential trade-offs between them (Rohm, 2002).

Third, to be fully effective the development and implementation of a Balanced Scorecard requires involvement of a range of senior managers and not just the organisation's financial executives. Indeed, it has been noted that the Balanced Scorecard indicates a need for the traditional role of the financial controller to change so that it "links" involvement in strategic corporate development with the maintenance of budgets, short term performance measurements and historical records (Rohm, 2002).

At least three different definitions of the stages of the evolution of the Balanced Scorecard exist in literature (Lawrie and Cobbold, 2004). All authors agree that the first generation balanced scorecard combines financial and nonfinancial indicators with the four perspectives (financial, customer, internal business process and learning and growth).

Lawrie and Cobbold (2004) argue that the second generation Balanced Scorecard emphasised the cause-and-effect relationships between measures and strategic objectives. It became a strategic management tool, usually utilising a strategy map to illustrate the linkage between measures and strategies. In contrast there is a view in the literature that the key contribution of the second-generation balanced scorecard was the formal linkage of strategic management with performance management. Chart 3.2 gives a summary of these processes and their linkages.

Chart 3.2

Key Performance Indicators

According to each perspective of the Balanced Scorecard, a number of Key Performance Indicators (KPI's) can be used such as:

Financial

- Cash flow
- Return on Investment
- Financial Result
- Return on capital employed
- Return on equity

Customer

- Delivery Performance to Customer – by Date
- Delivery Performance to Customer – by Quality
- Customer satisfaction rate
- Customer Loyalty
- Customer retention

Internal Business Processes

- Number of Activities
- Opportunity Success Rate
- Accident Ratios
- Overall Equipment Effectiveness

Learning & Growth

- Investment Rate
- Illness Rate
- Internal Promotions percentage
- Employee Turnover
- Gender/Racial Ratios

Source: Rohm. (2004)

According to Lawrie and Cobbald (2004), the third generation balanced scorecard is about developing strategic control systems by incorporating destination statements and optionally two perspective strategic linkage models. It used “activity” and “outcome” perspectives instead of the four traditional perspectives. Speckbacher et al. (2003) suggested that the third generation balanced scorecard was the second

generation containing action plans/targets and linked to incentives. A third view is that the concept of the strategy-focused organisation reflected the third-generation application of the Balanced Scorecard.

3.3 Strategic management system assumption

Management accounting has developed measurement systems to reflect strategy to be used. Therefore, performance measures are designed to help personnel keep track on whether they are moving in the chosen direction or not (Neely and Adams, 2001). The connection between performance measures, organisational objectives and strategy is very important and challenging (Kloot and Martin, 2000). By implementing the BSC, organisations will move beyond the vision for the scorecard to discover its value as a cornerstone of a new strategic management system (Kaplan and Norton, 1996a). In this context, Kaplan and Norton (1996b) state that:

The BSC provides a framework for managing the implementation of strategy while also allowing the strategy itself to evolve in response to changes in company's competitive market and technological environments.

Kaplan and Norton's experiences of innovative companies implementing the BSC indicated that they were using it, not only to clarify and communicate strategy, but also to manage strategy. They concluded that this approach has evolved from an improved performance measurement system to a core strategic management system. Kaplan and Norton (2001a) argued that the early BSC adopters all used the scorecard to support major strategic and organisational change, and many organisations' management control systems are designed around the financial performance measures, which have little relation to the organisation's progress in achieving long-term strategic objectives. Therefore, they indicated that by implementing the BSC, organisations can introduce the following management processes that aim to link long-term strategic objectives with short-term activities:

Clarifying and translating the vision: This process helps managers in building a consensus around the organisation's vision and strategy. Developing a mission statement is a major responsibility of any senior management team, and this statement must be expressed as an integrated set of goals and measures to managers in order to translate the vision to day-to-day actions.

Communicating and linking: In this process managers have to communicate the strategy and link it to departmental and individual objectives and this process can be achieved by aligning employees with overall strategy. Communicating and linking strategy needs the following activities:

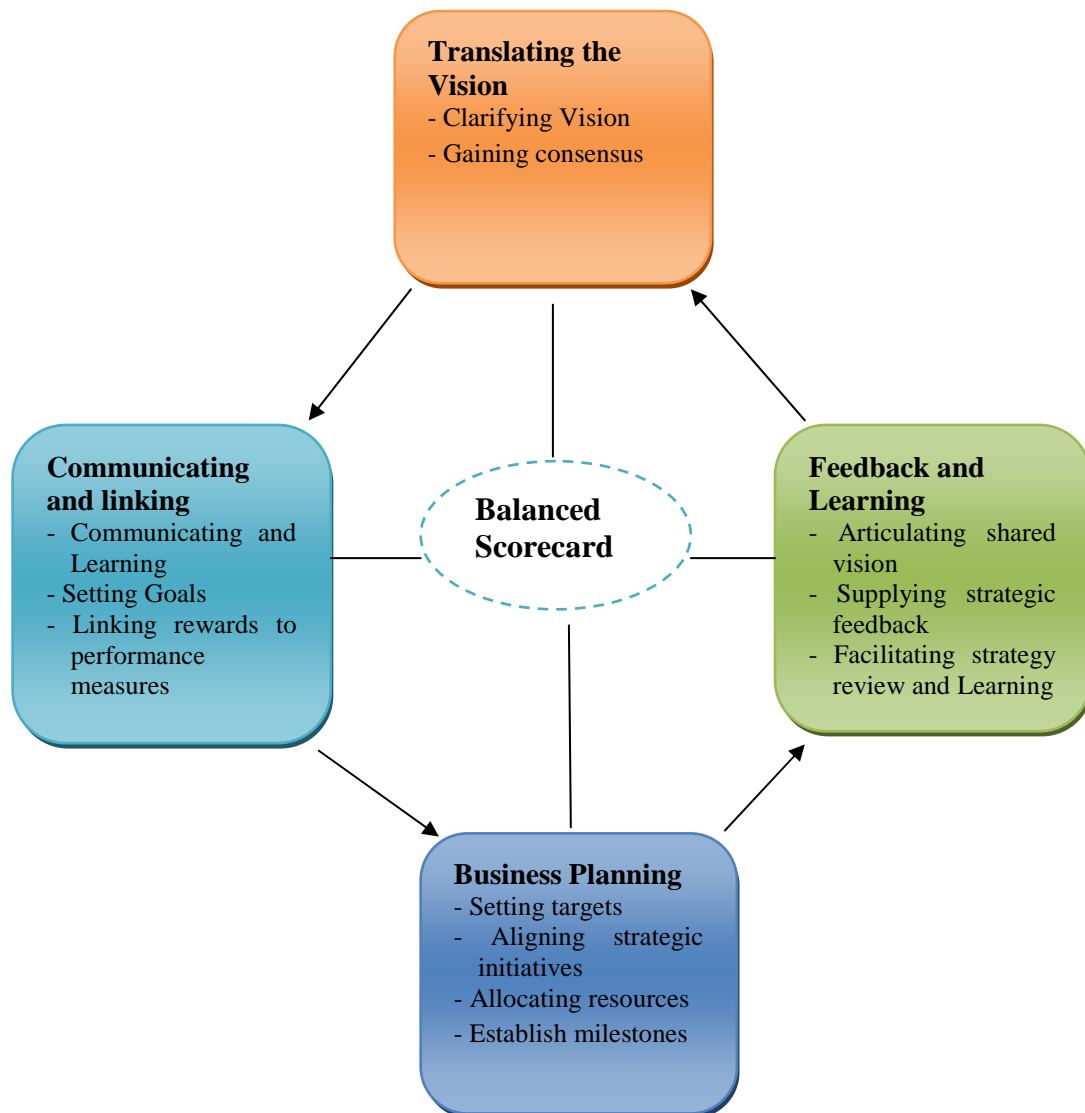
- ✓ Communicating to and educating the employees who have to execute the strategy and linking this activity can inform managers that long-term strategies are in place.
- ✓ Specifying the organisation's strategic objectives and measures that must be translated into measures for the operating units and individuals.
- ✓ Linking rewards to scorecard measures in order to play a major role in the determination of incentive compensation plans.

Business planning: Many organisations are implementing programmes of change. These changes result in diversity with several initiatives, which might affect achieving goals. Therefore, the BSC set of goals and measures will help managers to undertake and co-ordinate only the initiatives that move the organisation towards long-term strategic objectives.

Feedback and learning: This process provides organisations with feedback and review processes about whether the departments or employees have met their budgeted financial targets.

Kaplan and Norton (1996a) highlighted that new management processes will separately and collectively contribute to the linkage between long-term strategic objectives and short term actions. They also argued that the BSC approach is not primarily an evaluation method, but a strategic planning and communication device to provide guidance to divisional managers and to describe links among lagging and leading measures of financial and nonfinancial performance. Kaplan and Norton (1996b) added that this approach is not just a strategic measurement system but also a strategic control system that may be used to clarify and gain general agreement about the strategy; Aligning divisional and personal objectives to strategy; Linking strategic objectives to long-term targets and budgets; Identifying and aligning strategic initiatives and obtaining feedback to learn about improving strategy.

Chart 3.3
Managing strategy



Source: Kaplan and Norton (1996a)

In the same vein, Amaratunga et al. (2001) argued that the BSC approach is a strategic management system because it is efficient, effective and provides service to customers and employees. They also identified that a good BSC should tell the story of the organizational strategy by concentrating on the following criteria:

1. Cause-and-effect relationships;
2. Performance drivers which represent a mix of lead and lag indicators;
3. Linking organisational objectives to financial indicators.

To explore how companies were currently managing the four components of a strategic management system studies were carried out. More than one hundred managers supported the idea that the BSC approach is a strategic management system. In the same context, Hepworth (1998) argued that a successful implementation of this approach is based on its ability to communicate and align business strategy between the four perspectives. Kaplan and Norton stress that the BSC differs from other performance measurement systems in the way it describes strategy. Thus, a properly constructed BSC should describe the business unit's strategy, and this strategy is a set of hypotheses about cause-and-effect chains.

3.4 The cause-and-effect assumption

In their later writings, Kaplan and Norton (1996a; 1996b; 1997) assume that the scorecard is based on cause-and-effect relationships, in which the measures of organisational learning and growth are the drivers of the internal business processes. The measures of these processes are in turn the drivers of measures of customer perspective, while these measures are the drivers of the financial perspective. They assume the following causal relationship, which can be seen in chart 3.4.

Chart 3.4: Assume the causal relationship

Measures of organizational learning and growth



Measures of internal business process



Measures of customer perspective



Financial measures

Source: Kaplan and Norton (1996)

The assumption that there is a cause-and-effect relationship is necessary because it allows the measurements in non-financial perspectives to be used to predict future financial performance. Kaplan and Norton (1996b) indicate that the chain of cause-and-effect relationships encompasses all four perspectives of the BSC, such as return on common equity which may be an outcome of measure in the financial perspective.

The driver of this measure could be an expansion of sales from existing customers. So, customers' loyalty could be a preference from on-time delivery. Thus, the improved on-time delivery is expected to lead to higher customer loyalty which in turn leads to higher financial performance. The on-time delivery is part of the internal business process perspective and to achieve it, the business need to achieve short cycle time in operating processes and the short cycle time can be achieved by training the employees and this goal is part of the learning and growth perspective.

In order to clarify the cause-and-effect relationships, Kaplan and Norton (2000) introduced the strategic map concept. This concept provides a visual representation of a company's objectives, and the crucial relationships among them that drive organisational performance. Strategy maps show the cause-and-effect links by which specific improvements create desired outcomes. It also shows how an organisation converts its initiatives and resources into tangible outcomes (Kaplan and Norton, 2001a).

The above description indicates that the BSC approach has evolved since its launch in 1992 as a new framework for measuring organisation performance. It was proposed to overcome the limitations of traditional performance measures. This approach was refined to show how it could move beyond a performance measurement system to become a framework for strategic management system.

3.5 Applications of the Balanced Scorecard approach

The Balanced Scorecard (BSC) approach has attracted much attention of management accounting researchers as a method of integrating financial and non-financial performance measures (Malmi, 2001). Since its introduction in the early 1990, the BSC has attracted a great deal of interest as a new management accounting technique. This is evidenced by the large number of publications in management journals, seminars, and workshops that have been devoted to it. Many researchers to

date have focused on the different aspects of the BSC, and this has provoked a considerable amount of argument and debate with researchers describing the BSC as a broad scope mechanism of financial and nonfinancial information. However, the focus of this section is on the most relevant theoretical and empirical studies which have been undertaken.

Chenhall and Langfield (1998b) conducted a research study which focused on investigating the extent to which Australian manufacturing companies adopted both recently developed management accounting practices and traditional practices. The sample comprised of 78 organisations, divisions, and companies. The findings of the study which were related to performance measurements showed that there were high adoption rates for using traditional financial performance measures such as budgets and returns on investment. The results of this study raised several issues : The lower benefits associated with new management accounting techniques raises the question of the conditions necessary to implement these techniques, and, examining the factors that influence the adoption of new management accounting techniques.

Frigo and Krumwiede (1999) carried out a survey to examine the levels of implementation BSC. The respondents comprised 55% manufacturing companies and 45% non-manufacturing companies. The findings of the study showed that 19% of the respondents reported that their companies are already BSC users and 18% of the respondents indicated that their companies had recently begun the implementation process. Although, 16% reported that their companies plan to use it in the future, 14% are still considering implementing the BSC, and only 2% reported rejecting or abandoning BSC.

They also asked the respondents to rate the perspectives of their BSC. The financial perspective received the highest ratings, while customer, internal business processes and innovation showed lower ratings than the financial perspective. Likewise, employee, supplier, information systems capability and environmental perspectives were rated less than Kaplan and Norton's four perspectives. Finally, the researchers found weak linkages between the financial and non-financial perspectives for the non-BSC users whereas the BSC users reported considerably higher linkages between the perspectives.

Oliveras and Amat (2002) based on the assumptions lying behind the cause-and-effect of the perspectives of the BSC, conducted an empirical survey on 254

companies in Spain, to investigate. The results of the study showed that there was a possible cause-effect relation between the drivers of profitable company growth. The improvement in the internal business process perspective might have an impact on the satisfaction of customers, which could improve customer's loyalty towards a growth in sales. Thus, more committed employees can stimulate a constant improvement in the internal business processes.

Finally, the findings of this study provide evidence regarding the possible cause-and-effect relationships between the BSC perspectives. However, they concluded that the BSC approach is a successful performance measurement system, and it is employed in different types of organisations in Spain including non-profit organisations.

The integration process of financial and non-financial performance measures, and the extent to which the large and medium size companies in Italy use different approaches of performance measurement systems were studied. The sample of the study consisted of 39 industrial companies from the same industry. The researchers' analysis was based on whether or not companies were using non-financial measures based on the BSC perspectives, (Giannetti et al, 2002)

Giannetti et al. (2002) in their analysis showed that the non-financial performance measures were generally used in management accounting systems in an integrated way with financial performance measures. However, only one company explicitly declared the implementation of the BSC approach, while the remainder of the sample used an approach which included all the perspectives of the BSC without declaring that they used this approach.

Furthermore, the researchers explained their results by indicating that universities and consulting firms did not introduce the BSC approach correctly in Italy, and the companies in the sample though aware of this approach, that implementing the BSC may imply changes in their organisations.

The myriad ways in which the BSC approach was used in the Netherlands were collection of data through the print media associated with the BSC, interviews with management intellectuals, practitioners and the theoretical and empirical sources associated with the usage of the BSC approach. The study revealed that since its launch in 1992, the BSC has enjoyed considerable attention in the literature from practitioners and academics in the Netherlands. The study did not, however, support

the notion of the actual use of this approach. Therefore, the researchers suggested the necessity to conduct more empirical studies to assess the usage of the BSC in Netherlands, (Braam et al, 2002)

Guenther and Gruening (2002) conducted a cross-sectional study to investigate the performance measurement systems for 181 companies in Germany. The study looked at the use of performance measures and the development and establishment of these measures. Specifically, the researchers concentrated on how widely performance measurement systems are used and what kind of performance measurement frameworks the companies are implementing. Moreover, the study looked at the type of performance measures and their relationship with the strategy used and incentive schemes.

As a result, the BSC was the dominating framework used in the sample, and most of the companies used a self-developed performance measurement system that modified the original BSC approach. However, the performance measurement systems have to be adjusted to the strategy, and incentive plans based on performance measurement frameworks should incorporate both financial and non-financial measures.

Nielsen and Sorensen (2003) undertook a study to investigate the motives, diffusion and utilisation of the BSC approach in 53 Danish medium-sized and large manufacturing companies. The study aimed at investigating the extent to which the BSC practices were used following Kaplan and Norton's perspectives. They discovered that Denmark was still in the initial phase of implementing this approach and that the level of knowledge of the BSC was about 82%, whereas only 17% gave priority to this approach. The study confirmed that the most critical factor for a successful BSC was the translation of strategy to operational terms. The use of non-financial measures should be in balance with financial measures. 80% of the sample confirmed the need for balanced performance measures.

Epstein and Manzoni (1998) conducted a comparison study between the tableaux de bord and the balanced scorecard and indicated that the balanced scorecard was a better approach as the "Tableaux De Bord" measures were gathered inside the organisation rather than externally.

They also highlighted that organisations can expect to encounter difficulties in implementing the BSC approach, whereas, top management may not articulate a clear

view of their strategy. Also, developing this approach can create a workload for many people in the organisation and this may lead to resistance against this workload. Furthermore, they suggested that organisations must pay more attention about linking the BSC to compensations. Finally, they emphasised that the BSC represents a good approach to both theory and practice.

Bourguignon et al (2004) investigated the ideological assumptions of the two approaches to explain the differences and the extent to which the ideological assumptions are consistent with the local ideologies of American and French society. The paper concluded that the main differences between the two approaches may be explained in terms of ideological assumptions, which means that the two approaches are consistent with the local ideologies in the countries of origin.

They are also similarities and differences between the two approaches (Table 3.2). The table shows the main differences between the two approaches related to the strategic model, and the underlying assumptions applicable to each approach. In contrast, the similarities concentrated on the importance of both approaches to the management of strategic decisions and the emphasis placed on using non-financial measures.

Table 3.2

Differences and similarities between the balanced scorecard and the tableaux de bord

	Balanced scorecard	Tableaux de bord
Differences	Uses Michael Porter's strategic model	Does not explicitly rely on specific strategic model
	Assumes cause-and-effect relations between	Does not assume any systematic link between measures
	A hierarchical top-down process from top	The deployment depends on the interaction and management to lower levels negotiation between the various levels
	Encourages linking rewards to performance	Does has no emphasis on linking rewards to measures performance measures
	A fashionable method without a tradition	Depends on a tradition for using, changing and developing concept
Similarities	Both approaches link top management strategic decisions to the actions of employees. Both approaches use non-financial performance measurements for anticipation and control.	

Source: Bourguignon et al. (2004)

Otley (1999) advocated a framework for the operation of management control system that focuses on the measurement of organisational performance. He also examined three major systems of organisational control (budgeting, economic value added, and balanced scorecard) from different perspectives (i.e. objectives, strategies, targets, rewards and feedback). The results of this study are summarised in Table 3.3.

Table 3.3
Comparison of the three control techniques

Question	Budgetary control	EVA	BSC
Objectives	Financial objectives: ✓ Profit ✓ Cash flow ✓ ROCE	Single financial objective	Multiple objectives based on strategy
Strategies/ plans	Means/end relationships no formally considered although budget is based on a plan of action	Delegated to responsible managers, may be considered when setting targets	Implicit in selecting some performance measures; no formal procedures suggested
Targets	Best estimates for financial planning; literature on target-setting gives some guidelines for control	Some guidance is given with respect to inheritance effect	Not considered, despite being central to balance
Rewards	Not addressed, despite many rewards now being made contingent on budget achievement	Appropriate incentive schemes a central part of the methodology	Not addressed
Feedback	Short-term feedback of budget variances, incremental budgeting from year to year	Some discussion of longer-term impact	Reporting of performance assumed, but no explicit guidance given

Source: Otley (1999)

Otley (1999) analysed the BSC approach in terms of advantages and disadvantages. To summarise, he concluded that this approach is a stakeholder approach and is enhanced by the incorporation of other perspectives. He also pointed out that little guidance is given in the literature about the linkages between the four

perspectives and the reward system and that further studies should contribute to this issue. In addition, more concentration should be given to setting targets in the BSC. Finally, Otley (1999) indicated that no single control technique has been developed to meet the five issues outlined in Table 3.3 and that the BSC should be used by organisations simultaneously with other control systems.

Wongrassamee et al. (2003) has addressed the similarities and differences between the EFQM excellence model and the BSC and based the research on the key sets of issues expressed by Otley (1999). The analysis of both models with five central areas of management control systems has shown that neither of them gives a clear answer to Otley's questions, but it does not mean that both models are insufficient. Further, both models are quite similar. The only difference between the two models is that the key objectives in the EFQM are assigned based on the principles of total quality management, whereas the key objectives in the BSC are based on business strategy.

Norreklit (2000) investigated the extent to which there is a cause-and-effect relationship among the four perspectives of the BSC. She also investigated whether the BSC can link strategy to performance metrics by analysing the assumptions and relationships of the BSC. The research used an analytical tool to answer the research questions and the theory of science to investigate the cause-and-effect relationships.

Norreklit (2000) argued that the four perspectives are interdependent, and there is a time lag between cause-and-effect relationships, and the time dimension is not part of the scorecard. The analysis showed that the causality claimed between perspectives was problematic and made invalid assumptions, and there is a logical relationship between the four perspectives rather than a causal one. Moreover, the research investigated the BSC approach as a strategic control tool.

The analysis showed that this approach was not a valid strategic management tool because it had a problem of ensuring organisational and environmental issues to be incorporated. Based on the findings of this study, Norreklit (2000) suggested several issues to reduce the problems of this approach: Instead of causality, it may be useful to establish coherence between measures. Further, theoretical consideration and advanced analysis about the relationships between the four perspectives and coherence analysis at the level of strategy formulation is also needed.

Malmi (2001) conducted another noticeable piece of work about the assumptions of the BSC. He studied how the BSC approach was applied in Finland, and why companies adopted this approach, and whether this approach was used as an improved performance measurement system or as a strategic management system. For the purposes of the study, semi-structured interviews in 17 companies in Finland were employed. The study revealed that 15 companies used the four perspectives of the BSC and 2 companies added a fifth perspective which was an employee perspective. Noticeably, the interviews revealed that the measures used in companies were derived from business strategy. The number of measures in the BSC varied between four and twenty five among the sample interviewed.

Within his paper, Malmi (2001) identified that there are several reasons for implementing this approach in Finland. He identified that: Several companies used this approach to translate strategy into action and that Quality programmes required implementing the BSC approach. Several companies implemented the BSC as a new management fashion and to also Inadequacies in traditional performance measures.

The BSC approach was applied in two different ways. Most organisations set targets for BSC measures and held managers accountable for achieving these measures. Other companies did not set targets for the measures, but used the scorecard as an information system. For most companies, it appears that BSC was developed independently of the budget process. More specifically, control by budgets has changed control by BSC in two companies. Finally, the researcher suggested the following criteria to identify the usage of the BSC:

- 1) The measurement system should reflect strategy. Which should not depend on how organisations define their strategies.
- 2) The measurement system should use the perspectives of the BSC irrespective of whether they are the original four or more or less.
- 3) The use of cause-effect relationships between the perspectives, (Malmi, 2001).

Speckbacher et al. (2003) developed a new theoretical framework to analyse the spread, implementation and benefits of the following various types of balanced scorecards:

- ✓ A type one BSC is a specific multidimensional framework for strategic performance measurement that combines financial and non-financial strategic measures.
- ✓ A type two BSC is a type one BSC that additionally describes strategy by using cause and- effect relationships.
- ✓ A type three BSC is a type two BSC that also implements strategy by defining objectives, action plans, results and connecting incentives with BSC.

The researchers conducted a survey on 201 companies in the German-speaking countries (Germany, Austria, and Switzerland) to investigate the systematic application of the BSC. The results of the study based on 174 responding companies showed that 45 companies 26% have implemented the BSC. Half of them are type one BSC, 21% are type two and the remaining 29% qualify as type three organisations. Moreover, 26% of the sample had a very preliminary BSC in use. In particular, a third of BSC users have no learning and growth perspective, and nearly one-fifth of the companies have established additional perspectives such as supplier and environment perspectives.

Interestingly, more than two thirds of the users linked their reward system to the BSC, which suggests that many firms do not see cause-and-effect relationships as a prerequisite for a BSC-based reward system. Less than 7% of all firms have fully developed type three BSC's in use.

Additionally, Speckbacher et al. (2003) found that 55% of the companies implemented the BSC at the corporate level, 98% at the business unit level, 23% at the plant level, 23% at the department level, 10% at the team level and only 3% at the employee level. They also found that larger organizations are more likely to use the BSC, but organisation size did not discriminate between the types of BSC used. Finally, the analysis of the relationship between the types and the companies' perceived benefits and satisfaction showed that companies implementing a type three BSC were more satisfied with their BSC than those implementing type one or type two of the BSC.

A case study in multiple divisions of a large international manufacturing company to investigate the effectiveness of the BSC as a strategy, communication and management control device was conducted. Data were collected from BSC designers,

administrators and managers employing semi-structured interviews. The findings of the study revealed that the BSC provides an opportunity to develop, communicate and implement strategy. They also found evidence of an indirect relationship between balanced scorecard's management control function and improved performance on BSC measures. Moreover, divisional managers responded positively to its measures by reorganizing resources and activities. Managers in the sample believed in the BSC when its elements are measured effectively and aligned with strategy; It plays a major role in change; its perspectives are linked causally; and it provides a guide for modifications and improvements, (Malina and Selto, 2001).

Furthermore, Malina and Selto (2001) identified that there are different factors which may affect perceptions of the BSC that cause a conflict and tension between organisations and distributors.

These factors are:

- (1) when measures are inaccurate or subjective,
- (2) when the BSC is not participative, and
- (3) when benchmarks are inappropriate but used for evaluation.

The relationship between the BSC measures and management evaluation by examining the effect of the BSC is a set of common and unique indicators on top management evaluations of the unit's performance. Moreover, the BSC is costly to develop, therefore, the researchers suggested that the benefits gained from adopting this approach depend on the extent to which it improves managers' decisions. They also examined how managers deal with both performance measures common to multiple divisions and unique performance measures for particular divisions, (Lipe and Salterio, 2000)

The sample of the study consisted of two divisions of a clothing company implementing the BSC. The divisions sold to different markets and had different business strategies. The results of the study suggest that common performance measures will have more effect on managers' decisions about division's performance than the unique performance measures. Consequently, the organisations will not expect benefits from adopting this approach.

Lipe and Salterio (2002) in their 2000 study extended investigating whether evaluations using the BSC will differ from evaluations based upon the same measures without using the scorecard. The results revealed that when multiple performance measures within a BSC approach show consistent performance, managers' evaluation judgments are reliably different from evaluations made using the same performance measures without the BSC approach. These judgement differences disappeared when the measures indicating strong performance were distributed throughout the four perspectives of the BSC approach.

Consequently, Lipe and Salterio's results suggest that managers may pay insufficient attention to leading and non-financial measures. This defeats the purpose of implementing the balanced scorecard, which is to expand the set of measures that managers use in decision making. If the unique measures on the scorecard do not affect manager's decisions, firms will not reap the expected benefits of balanced scorecard adoption.

The relationship between BSC usage and organisation size, product life-cycle and strength of market share was studied. The study also explored the contingent relationship between organisational performance and the match between BSC usage and the three contextual factors. A questionnaire survey of 66 Australian manufacturing companies was employed. The researchers did not identify the strategic linkages of the BSC. Instead they concentrated on a company's tendency to use quantitative performance measures. The following are the hypotheses of the study:

- ✓ BSC usage is positively associated with large organisations, and companies with products at the growth stage, and companies with strong market position.
- ✓ The effect of BSC reliance on organisational performance will be more beneficial for large organisations than small organisations.
- ✓ The effect of BSC reliance on organisational performance will be more beneficial for organisations with products for the growth stage than the maturity stage.
- ✓ The effect of BSC reliance on organisational performance will be more beneficial for organisations with strong market position than weak, (Hoque and James, 2000).

The study concluded that there was a significant association between size and BSC. Another association was found between a product's life-cycle and the usage of the BSC, but there was no support for the association between strong market position and the BSC. Finally, BSC usage was associated with increased organisational performance, but this relationship did not depend on the fit between the three contextual factors.

The extent to which the quality of the information system, corporate environmental integration, product innovation and product quality influence the financial and non-financial performance measures in terms of the BSC usage was taken up. A random sample of 119 functional managers from Australian manufacturing companies was extracted out of which total of 77 functional managers responded. The results of the study suggested that the quality of information system, corporate environmental integration, product innovation and product quality influence the use of the perspectives of the BSC approach, (Dunk, (2003).

To explore the determinants of BSC adoption, Braam and Nijssen (2004a) conducted a mail survey of 38 industrial companies to study the contextual factors (i.e. size, top management involvement, centralisation, formalisation, power of financial department, interdepartmental communications, innovation strategy, and prior adoption of similar innovation) that might influence a company's decision to adopt the BSC. The results showed that top management involvement, the power of the financial department, level of accounting tools and size were positively related with the level of adoption of the BSC.

Furthermore, the results showed that the relationship between top management involvement and level of adoption were positively moderated by the level of centralisation, and the relationship between the power of financial department and the level of adoption negatively moderated by formalisation. Conversely, innovation strategy, interdepartmental communication, centralisation and formalisation had no influence on the adoption of the BSC.

The Financial Executives International Research Foundation (FEI) commissioned a study to identify characteristics of companies that could benefit from employing the balanced scorecard, as well as to investigate scorecard practices that provide a competitive advantage. The study had four core objectives: to present

factors that affect the satisfaction of chief financial officers with their performance measures; to identify characteristics of balanced scorecard users and non-users; to describe successful balanced scorecard user practices and contrast them with practices of non-users; and to examine the practices of four leading firms in the development of their balanced scorecard (Moriarty, 2001).

The research team obtained 173 responses, which formed the basis for the analysis. Respondent companies had average assets of \$6 billion, average annual sales of \$3.7 billion, average annual net income of \$200 million and 23,340 employees. The research team organised the results into three groups: satisfaction with performance measures; characteristics of balanced scorecard; and balanced scorecard impact on organisational practices (Moriarty, 2001).

The most interesting results emanate from the section on satisfaction with performance measures. Of those respondents using the balanced scorecard, 55 per cent were satisfied, while 12 per cent were not. This stands in contrast to users of all performance measurement systems: the research discovered that only 29 per cent of all respondents were satisfied with their current measurement system (Moriarty, 2001).

Banker et al. (2004) conducted a time series study on data from over fifty firms in the local exchange carrier industry to investigate the relationship and tradeoffs between four performance measures representing the perspectives of the BSC. The study was based on the following arguments:

- (1) If managerial actions to improve a performance measure do not imply a decline in financial performance, managers do not need to trade off one measure for the other. They refer to such measures as contemporaneously congruent, and
- (2) If a non-financial measure is contemporaneously congruent with the financial measure, then there is motivational distortion induced by a managerial reward system based on financial measures.

However, if a measure is not contemporaneously congruent with financial performance, then i) it is crucial to include such a measure or the incentives induced by financial performance which will lead to under-investment ii) an effort to improve financial measures. The results showed that the two non-financial measures from the

internal business process and innovation perspectives did not require any trade off with the ROA from the financial perspective. Thus, a non-financial measure from the customer perspective required tradeoffs with ROA, and it was essential to include a percentage of this non-financial measure in addition to ROA in performance measurement and evaluation system to motivate managers.

Bank branches too are implementing the BSC. The purpose of the study was to examine the effectiveness of the BSC in improving financial performance. The final number of branches after excluding several branches due to branch profile was nine. The results showed that four branches implemented the BSC and the remaining five are non-BSC branches. The results provided evidence that branches implementing BSC have achieved improvements in financial performance when compared to non-BSC implementing branches, (Davis and Albright, 2004).

Atkinson (2006) researched the role of the balanced scorecard in strategy implementation and concluded that the BSC could address the key problems associated with strategy implementation including communication, the role of middle managers and integration with existing control systems.

3.6 Applications of the BSC in Hotel Industry

A diverse range of research documenting the application of the balanced scorecard in differing industrial and public service contexts, for example health, education, banking, retailing and local government, has been reported yet the BSC has been scarcely applied within the hospitality industry.

Brander-Brown and McDonnell (1995) focused their research on one property in the south of England and identified that a scorecard for an individual hotel would be likely to vary from a scorecard for a group of hotels. The research also concluded that the measures would need to be continually reviewed in order to retain their relevance and that components might need to be prioritised.

The experiences of Hilton franchisee White Lodging Services in implementing the BSC are recorded. They discovered that the balanced scorecard was a generally useful tool, in that it brought together previously disparate measures of performance into a coherent model. The research pointed to the implementation of the balanced scorecard as having been successful in reinforcing a coherent business culture, which is seen as vital in a business with so many separate operating units and with volatility

in its personnel. Other benefits identified included encouraging managers to focus on both short-term and long-term measures, rewarding teamwork and allowing best practices and strategic information to be shared, (Huckestein and Duboff, 1999).

Denton and White (2000) conducted research in conjunction with White Lodging Services Corporation. This hotel company comprises Marriott franchises and began to develop its balanced scorecard in 1997 in order to monitor performance at the property and corporate level and thus to ensure that owners' long-term objectives were being satisfied. White Lodging Services developed their scorecard with the following characteristics:

- ✓ Tracking of financial performance;
- ✓ Tracking non-financial measures that are important for long-term growth and value creation;
- ✓ Communicating owners' objectives for growth, profitability, and physical maintenance;
- ✓ Simple to monitor; and
- ✓ Easy for operating managers to understand and accept.

The organisation decided to use initially a single measure for each of the four perspectives so that managers could concentrate their efforts on the single most important variable. The management team also agreed that the scorecard could be modified to incorporate multiple measurements at a later date if appropriate (Denton and White, 2000).

During the first two years of the balanced scorecard rubric, White Lodging Services recorded performance improvements in several areas. In addition to a number of quantitative improvements in revenue and profitability, managers and owners achieved a greater level of alignment of objectives than before. Property managers have a higher level of understanding of owners' long-term expectations than previously, and owners have received valuable feedback regarding the resources and processes needed to enable managers to achieve those objectives (Denton and White, 2000).

Property managers also observed that by tying up performance measurement to the scorecard objectives, the focus on non-financial measurements extended

beyond property managers to corporate executives and owners. This corporate-wide alignment of objectives enables property managers to recommend and pursue long-term investments. In this way, the scorecard creates infrastructure that permits long-term goals and ownership objectives (Denton and White, 2000).

Atkinson and Brander-Brown (2001) in a study of UK hotels reported that such hotels predominantly focus on financial performance dimensions and also on the short-term, with little strategic use of the information. Two explanations for such a short-term financial orientation were offered:

1. Increasing corporate ownership of hotels leads investors to set demanding financial targets whilst paying little attention to the processes driving the results; and
2. Many senior managers promoted from operational roles consequently tend to focus on “real-time operational control rather than future-orientated strategic intent”.

Harris and Mongiello (2001) examined the range of performance measurement concepts available to managers and identified the key indicators that hotel managers find useful in managing their businesses, acknowledging the value of the balanced scorecard.

Doran et al. (2002) studied San Diego hoteliers and identified both the perceived benefits and the potential pitfalls of implementing the balanced scorecard. Whilst noting the reported successes of Hilton and White Lodging Services, they suggested that such success may owe a great deal to both an organisation’s unique circumstances and that the BSC approach should be modified to take into account individual circumstances.

Evans (2005) surveyed hotels in Northeast England in order to assess the usefulness of the BSC and concluded that a wide variety of measures were being used and that many hoteliers were using measures from all four of the category groupings identified in the BSC framework. The research also concluded that the strategy literature relating to travel and tourism and the hospitality sectors is somewhat weak but a limited literature applying the balanced scorecard in a hospitality context has developed.

Phillips (2006) studied the implementation of the BSC in a major UK hotel company over a three year period. The company successfully implemented the balanced scorecard using employee satisfaction, customer satisfaction, financial attainment against budget and strategic financial performance as its perspectives. He discovered that the balanced scorecard operates from the corporate level down to the hotel department level with senior management wishing to align the organizational objectives.

Benchmarking among the hotel units takes place monthly and a three colour coding scheme is used to help employees assimilate and quickly interpret performance. Hotel managers aspire to operate green lights which means meeting or beating targets. A yellow light shows being better than last year but below target. The best practice is quickly identified and interventions are used to turn around underperforming 'red light' units, which have been unsuccessful in implementing their balanced scorecard.

Min et al. (2008) developed a BSC for measuring the comparative efficiency of Korean luxury hotels. The study also set the benchmark of performance standards for Korean luxury hotels through primary research on six hotel chains. The research utilised Data Envelopment Analysis (DEA) to develop performance measures for hotels under the balanced scorecard framework and concluded that the proposed DEA could be modified or extended to similar settings in other hotels or other countries.

Min et al. (2008) concluded that the proposed DEA model not only helps hotel managements establish detailed business strategies in prioritising the use of limited resources, but also helps them evaluate the effects of investment on the revenue growth and profitability of hotels. The proposed DEA model also allows hotels to continue to improve their financial health and enhance their competitiveness as the model assists managements in identifying areas of weakness.

Eaglen et al. (2000b) used McDonald's Restaurants as a case study by exploring the training provision in two clusters of establishments. The restaurants were selected against the company's own internal monitoring criteria to be better than average or worse than average trainers. The research used a balanced scorecard approach and concluded that restaurants with a better training approach recorded higher levels of both customer and employee satisfaction. The restaurants also had

lower levels of staff turnover and a more flexible workforce with training shown to positively impact on employee productivity.

The design and implementation of performance management systems in the UK brewing industry by Malone used Bass Taverns as a case study and identified a number of characteristics associated with the design and implementation of a performance measurement system. Malone concluded that performance measurement systems should be viewed as a management control tool that should support corporate objectives and that the systems should be well communicated and understood throughout the organisation. He also concluded that for performance measures to be of any value, the company must firstly identify a range of standards in order to measure and evaluate current performance. The research also identified that the design and implementation of performance measurement systems had a number of reasons for failure, which must all be identified and understood by any company adopting a performance measurement system. (Malone,1995).

He further advocated the balanced scorecard as a means to overcome many of the issues associated with the development and implementation of a performance measurement system as it provides a complete and balanced picture of the business issues that determine long-term success. His research into the role of performance measurement systems within Bass Taverns concluded that (Malone, 1995):

1. Financial performance measures were predominantly used for wet and dry operations in contrast to the performance measurement revolution, which advocated the need for a fine balance between financial and non-financial performance measures.
2. Performance measurement systems should be derived from an organisation's business strategy. Individual business units that use no strategy have no guidance on the overall business aims of the company and can therefore ultimately set performance measurement systems that are working towards individual goals rather than company specific goals.
3. Corporate and non-corporate personnel use differing financial and operational performance measures. This could suggest that personnel are working towards different goals, which could be personal rather than company specific.

4. The Regional Business Managers all agreed that certain systems could be transposed from the wet side to the dry side of the business and that a standardised approach would ensure that all of its pubs were striving towards the same goals.
5. None of the licensees questioned were using a BSC but 71% of the Regional Business Managers claimed to be using it. This also suggests that the two levels of personnel could be working towards separate business goals.

It is clear that the volume of research conducted on the BSC within the hospitality context is very limited. Nevertheless, several hospitality organisations have begun to use the BSC of late.

3.7 Evaluating the BSC approach

Empirical studies on the BSC approach have raised a number of issues that require a further discussion. These issues are divided into the following sub-sections:

- ✓ The popularity of the BSC.
- ✓ The BSC as a strategic management tool.
- ✓ The BSC as a cause-and-effect model.
- ✓ The number of BSC perspectives and measures.
- ✓ The BSC models.

3.7.1 The popularity of the BSC

The BSC is a new development in management accounting, which has attracted considerable interest among companies and researchers through the increasing rate of adoption and through the large number of publications. In this vein, McCunn (1998) argued that the BSC has academic respectability and has generated a large body of literature. In addition, Kaplan and Norton's textbook *'The Balanced Scorecard'* has been awarded a prize by the American Accounting Association for the best theoretical contribution.

The BSC is applicable in all types of organisations including non-profit organisations and the public sector. In this context, Radnor and Lovell (2003) outlined some grounds for supporting the usage of this approach in the local public sector in UK. They also asserted that the BSC approach offers significant benefits in terms of

achieving government targets for enhanced transparency, clarity and accountability, (Kaplan and Norton, 2001a).

Attempting to address the increasing attention that has been given to BSC approach, several studies investigated the implementation of this approach. For example, a survey conducted in USA estimates that 60% of the fortune 1000 firms have experimented with the BSC (Silk, 1998). In the same vein, Littlewood (1999) presented evidence from Hackett Benchmarking Solutions (i.e. a US management consultancy) that 50% of 1,400 global businesses apply some kind of BSC.

This is consistent with evidence from the Institute of Management Accountants' Cost Management Group, which found that 40% of the surveyed firms reported that they plan to implement the BSC within the next two years.

The BSC approach is on the move and has entered companies around Europe (Wenisch, 2003). In this context, Pere (1999) indicated that this approach is widely used in different companies in Finland. Of the respondents, 31% indicated that they have this system and 30% were implementing this approach. According to a study of major Swedish companies, 27% have already implemented the BSC.

A comparative European study conducted by Gehrke and Horvath (2002) showed that companies in Germany, the United Kingdom, Italy and France are familiar with the BSC (i.e. 98%, 83%, 72% and 41% of the responding companies, respectively). Moreover, the study revealed that approximately 20% of the companies in Germany, the United Kingdom and Italy aimed to implement the BSC. Dr. David Norton asserts that 50% of organisations in the UK and US use the balanced scorecard.

As for the usage of value-based measures at the divisional level in UK organisations, one of the study findings showed the increasing popularity of the BSC with 24% usage rate in all sectors and a usage rate of 21% in the manufacturing sector (Francis and Minchington. 2000).

A report by Business Intelligence showed that in the UK, 57% of the businesses are reported to use the BSC, and 56% of non-users are discussing implementing this approach (Anonymous, 2001). Boume et al. (2002) examined the success and failure of using performance measurement systems in 10 manufacturing businesses. The results showed that 8 businesses implemented the BSC at the top

level. In a similar vein, Lawson et al. (2003a) indicated that firms can implement the BSC at the corporate level first and then roll out scorecards to other areas.

Of particular interest is the increasing emphasis in developing the BSC through automation and software applications. Its influence has been further extended by information technology which supports its methodology and operation (Marr, 2001). In this context, the BSC has attracted considerable attention through the automation of this technique. Moreover, several software companies such as Gentia Software mc, Peoplesoft mc, and CorVu Corporation have developed programmes to assist in linking strategies to the BSC performance measurements.

Martinsons et al. (1999) opine that the evaluation methods that rely on financial performance measures are not suitable for the information technology applications. Therefore, they proposed the application of the BSC to measure and evaluate information technology application projects. As a result, the researchers are convinced that the BSC can be useful to information system managers as well as general managers. In addition, several researchers have emphasised the importance of this approach in many areas. In this context, Protti (2002) found that using the BSC allows managers to investigate the impact of information technology applications on the factors that are important to the National Health Services as a whole. Moreover, Wachtel et al. (1999) highlight that implementing the BSC in clinical services enables organisations to translate their missions into specific strategic objectives.

Even though, support seems to indicate that the BSC is widely used in companies, only limited systematic research has been conducted on the BSC applications. One reason is that most previous studies suffer from methodological shortcomings like a low response rates or unreliable estimates (Speckbacher et al., 2003). Moreover, in both theory and practice, quite different opinions exist on the characteristics of the balanced scorecard concept.

3.7.2 The BSC as a strategic management tool

Many researchers in management accounting agree with the notion that the BSC approach is a strategic management tool. This is because it helps senior managers to communicate their vision for change, while empowering business divisions and employees to devise new ways of completing the daily activities while accomplishing the company's strategic objectives (Ritter, 2003). In addition, Malmi

(2001) argued that one condition for a performance measurement system to be a BSC is that it should reflect business strategy. In this context, Otley (1999) states that: A major strength of the balanced scorecard approach is the emphasis it places on linking performance measures with business unit strategy.

Academic research confirms the role of this approach in strategy implementation and communication. In this context, Veen-Dirks and Wijn (2002) indicate that the choice of BSC perspectives depends on the strategy chosen, and the scorecard has been developed not to serve strategy formulation but to implement it, because the role of the BSC in strategy formulation is bounded. Empirically, the report *Transforming Strategic Performance through the BSC* surveyed 200 companies in over 20 countries, these companies were found to have implemented a BSC as a framework for transforming strategy and vision into operational measures (Anonymous, 2001). In addition, an Institute of Management Accountants survey on performance shows that the scorecard is an effective strategy communication and clarification tool. The benefits from using the BSC as a strategic management tool are:

- ✓ Making organisational strategies updated and highly visible.
- ✓ Promoting the active formulation and implementation of organisational strategies.
- ✓ Improving communication within the organisation.
- ✓ Aligning annual or short-term operating plans with long-term strategies.
- ✓ Aligning performance evaluation measurement and long-term strategies.
- ✓ Improving alignment among divisional or individual goals and the organisation's objectives and strategies, (Bailey et al, 1999).

Conversely, few criticisms have been raised against the classification of this approach as a strategic management tool. For instance, Butler et al. (1997) indicated that this approach is too general, and may ignore corporate strategy and mission. Norreklit (2000) suggested that the BSC is not a valid strategic management tool. These results from the gap between the strategy expressed in the actions and the strategy planned.

Sandstrom and Toivanen (2002) indicated that this approach has gained considerable popularity between organizations and researchers. Thus, they suggest the

need to further examine its role with a strategy. Indeed, it can be concluded from the literature review that one of the main assumptions to consider a performance measurement system is a BSC in that the measures should be derived from business strategy by using a sequential cause-and-effect logic to link financial and nonfinancial performance measures.

3.7.3 The BSC as a cause-and-effect model

Researchers (e.g. Martinsons et al. 1999; McCunn, 1998) agree with the notion that the BSC is based on cause-and-effect relationships. As indicated by Martinsons et al. (1999), a business strategy is a set of assumptions about cause-and-effect relationships, and that these relationships can involve several or all four perspectives in the BSC. In this vein, McCunn (1998) states that: The innovation in this relationship is that the four perspectives of the BSC support the business model. If we have good people doing the right things then the customer will be happy and profits, high.

The data reported in a case study of a Fortune 500 company indicates managers believe the cause-and-effect relations included in their scorecard have led to improved efficiency and profitability (Salterio and Webb, 2003). Chang et al. (2002) argued that there is some preliminary evidence on the existence of the cause-and-effect relationships within the Performance Assessment Framework (PAF) of the National Health Service in the UK.

In contrast, many researchers disagree with the assumption that the BSC approach is based on cause-and-effect relationships because this assumption is ambiguous and needs further elaboration (Otley, 1999; Norreklit, 2000).

In several empirical studies conducted on the relationship between non-financial performance measures and future financial performance it has produced mixed results. In addition, Kaplan and Norton (1996c) are theoretically unclear about the causal relationship, arguing both for a logical and causal relationship. Malina and Selto (2001) emphasised that there has been no rigorous, statistical test of the claim that the BSC is, in fact, a causal model. In the same context, Kasperskaya and Oliveras (2003) argued that the causality assumption has been criticised for not being properly justified and tested empirically. Norreklit (2003) argued that there is no cause-and-effect relationship between some of the areas of measurements in the BSC.

She also highlighted that there is considerable co variation between customer loyalty and financial performance.

Malmi (2001) argued that performance measurement systems without cause-and-effect logic may also qualify as BSC approach. Empirically, Olve et al. (1999) found that some Swedish companies which have implemented an approach similar to Kaplan and Norton do not place emphasis on the causal relationship between the four perspectives. Ittner and et al. (2003) found that 76.9% of companies claiming to use a BSC make little use of the causal relationship of leading and lagging indicators. Based on the above argument and considering the discussion so far, it can be concluded that the assumptions underlying the BSC and the nature of the relationships between non-financial and financial indicators give a broad avenue for further research.

3.6.4 The number of BSC perspectives and measures

There is no specific theory that the number of perspectives is necessary and sufficient. In this context, they state that: We have yet to see companies using fewer than these four perspectives, but, depending on industry circumstances and a business unit's strategy, one or more additional perspectives may be needed, (Kaplan and Norton, 1996c)

This argument has been supported by DeBusk et al. (2003), who indicated that the number of perspectives in a performance measurement system should depend on strategies, competitive threats, and economic conditions. However, Olve et al. (1999) proposed that the number of perspectives in the BSC is also situational. Researchers have extended the four perspectives of the BSC by adding additional perspectives focused on employees, partners and suppliers and the environment.

In the same context, Olve et al. (1999) and DeBusk et al. (2003) have suggested that the environmental perspective could be another area of focus in the BSC. Moreover, Neely et al. (1995) indicate that the BSC has ignored the competitor perspective. Kaplan and Norton (1997), however, indicate that the employee perspective is certainly incorporated within the learning and growth perspective and the supplier perspective is incorporated within the internal business process perspective.

In another context, Kaplan and Norton (1992) indicate that each perspective of the BSC consists of a number of performance measures (i.e. between 16 to 20

measures). Based on a firm's strategy, the scorecard typically contains a diverse set of 16 to 28 performance measures organised into four perspectives (Salterio and Webb, 2003). In the same context, Olve et al. (1999) found that 15-20 measures are customarily used at the corporate and business unit levels.

Organisations that apply the BSC should recognise the relevant measures for their use based on the objectives and strategies they wish to attain. However, these performance measures are not necessarily comprehensive but should represent the critical success factors for the organizations, (Chow et al, 1997).

The using of a thorough set of performance measures in the BSC may be distracting and confusing, particularly in calculating these measures, and also in dealing with the output of these measures. On the contrary, other researchers have argued that using these performance measures would not result in information overload, (Sandstrom and Toivanen, 2002)

Lipe and Salterio (2000) did not find evidence of information overload from multiple performance measures in their experimental study of the BSC. In the same context, Leauby and Wentzel (2002) argued that organisations cannot face problems in dealing with the performance measures of the BSC and some organisations have used 70 to 80 measures in their BSC.

As a result, Kaplan and Norton (1996c) suggest that organisations should develop and use financial and non-financial measures in each of the four perspectives that cope with an organisation's goals and should stem from business strategy. Kaplan and Norton (2001a) suggest a breakdown for number of measures in each perspective and their relative weight (see Table 3.5).

Based on the above argument and considering the discussion so far, it can be concluded the number of perspectives and performance measures used in the balanced scorecards are situational and depend on business strategy.

Table 3.5

Suggested number of measures in each Balanced Scorecard perspective

Perspective	Number of measures	Weight
Financial	5	22%
Customer	5	22%
Internal Business Processes	8 to 10	34%
Learning and Growth	5	22%

Source: Kaplan and Norton (2001a)

3.7.5 BSC models

Each organisation is unique and so follows its own path for building a BSC. In their book, Kaplan and Norton (2001a) indicate that there are other scorecard types frequently used in practice, and the assumptions and philosophies that govern many of these scorecards are quite different from the original BSC. Thus, the following are the types of scorecards that have been identified by Kaplan and Norton:

- ✓ Stakeholder scorecards: This type of scorecards identifies different components of the organisation such as shareholders, customers, employees and other components. The stakeholder scorecard does not describe the strategy of an organisation on which to build a management system, but it has been used effectively in practice.
- ✓ Key performance indicator scorecards: This type of scorecards is implemented frequently in organisations that have been adopting total quality management (Kaplan and Norton, 2001a).

In practice, many organisations stress that they have a BSC because they have a mix of financial and non-financial performance measures. Other organisations have worked with the original BSC but experiences vary (Roest, 1997). In this context, Olve et al. (1999) indicate that scorecards have been used in different ways, however, a large number of companies have developed their own design and name for the model and sometimes use only part of it, but all have common features. Norreklit (2003) indicates that several performance measurement systems have been labelled BSC, although they do not have the assumptions of the Kaplan and Norton scorecard.

There are two possible options to choose the indicators and perspectives; the first one refers to BSC as a model for control, and the second one uses the BSC as a

model for making decisions or implementing properly the strategy of the company. Thus, the BSC can be used as a control tool focusing on key performance indicators, or as a strategic tool to integrate performance indicators to achieve an organisation's strategy, (Marcela et al, 2003)

Speckbacher et al. (2003) have found in their empirical studies that organisations implement the BSC in different ways. Therefore, the empirical research has to consider that the balanced scorecards' spread, content, implementation and applications are likely to vary depending on the type of BSC used. Thus, it can be concluded that there is a need to conduct more empirical studies to investigate how, and to what extent organisations are implementing the BSC approach.

3.8 Benefits and limitations of the BSC approach

The review concerning the BSC approach suggests that there are many benefits attributed to the use of this approach. These are summarised as follows:

- ✓ The BSC approach collects in a single report many of the seemingly disparate components of an organisation's competitive agenda. Therefore, this approach satisfies several managerial needs (e.g. directing managers' actions towards the achievement of the long term objectives).
- ✓ The approach provides a comprehensive framework for translating an organisation's strategic goals into a coherent set of performance measures by developing the major goals for the four perspectives and then translates these goals into specific performance measures.
- ✓ The BSC approach helps managers to consider all the important operational measures together. The scorecard lets managers see whether improvements in one area may have been at the expense of another.
- ✓ The approach improves communications within the organisation through an updated organisational strategy which is highly visible and by promoting the active formulation and implementation of business strategies.

In addition, several empirical studies have examined the benefits from using the BSC. For example, Rigby (2001) shows that the BSC has utilisation rate of 44%. Moreover, Towers Pen-in a consulting firm carried out a survey on the implementation of the BSC approach in 60 firms. The results showed that 64%

reported that the satisfaction from this approach was higher than the satisfaction gained from other performance measurement systems. According to Gartner Group, more than 40% of Fortune 500 businesses use the BSC to increase company performance. Lawson et al. (2003a) surveyed over 150 organisations, and the results showed that almost two-thirds of the respondents agreed that significant benefits had been realised from using the BSC approach.

Conversely, academics are more cautious to conclude in favour of the model's effectiveness (Kasperskaya and Oliveras, 2003). For example, some of them claim that 70% of balanced scorecard implementations fail, while Anonymous (2001) reported that over half of the companies who claimed not to have adopted scorecards had never considered it and a further 40% that had examined the BSC had decided against implementation.

The reason for not using it was the use of alternative approaches. However, the BSC has also attracted frequent criticisms and most of these are related to its assumptions. These are summarised as follows:

- ✓ Kaplan and Norton's BSC concentrates on four perspectives. However, several organisations may be affected by the environment and competitors. Thus, several researchers (e.g. Neely et al., 1995; Otley, 2001) have advocated using more perspectives such as supplier and environmental perspectives. Kaplan and Norton analysis revealed that organisations implement this approach in order to face the intensive global competition. In contrast, the level of competition may differ between organisations. Therefore, the adoption of the BSC is likely to vary between organisations.
- ✓ This approach neglects setting performance targets for the perspectives. Otley (1999) suggested that incorporating performance targets should be considered when implementing this approach.
- ✓ The cause-and-effect assumption has been introduced in a simplistic way, and the drivers that may cause the effects on performance are varied. Therefore, this assumption requires a trade-off among the drivers and the relationship between non-financial and financial measures which needs further investigation.

3.9 An overview of the BSC approach

Clearly, the Balanced Scorecard (BSC) is a well-designed performance measurement system that integrates and complements traditional financial performance measures with nonfinancial performance measures that relate to customers, employees and other dimensions of performance to achieve organisational objectives. In viewing an organisation from different perspectives, the BSC is intended to link short-term operational control to the long-term vision and strategy of the organisation.

Thus, the BSC is a complement, not a replacement, for an organisation's other performance and control systems (Simons, 2000). The main strength of the BSC consists in finding an appropriate balance between:

- (a) Tangible and intangible drivers of performance
- (b) Short and long-term goals and
- (c) Internal and external perspectives of the company, (Marcela et al, 2003).

This approach has attracted much attention in the management accounting. The literature reveals that this approach has been implemented in different countries. Different aspects of this approach are also identified. They include integrating financial and nonfinancial performance measures of the four perspectives, the underlying assumptions of the scorecard and a critical examination of these assumptions. In addition, this approach has attracted a considerable amount of debate from researchers particularly determining the sort of measures to be adopted. In this context, Chenhall (2003) states that: It is not clear how BSC should be measured. It seems likely that the content and implementation of BSC vary widely between organizations.

In general, it should be noted that much of the research to date has focused on different aspects of the use of financial and non-financial performance measures on the one hand, and a critical analysis of the assumptions of the BSC approach on the other hand. However, in the face of increasing interest to the BSC, this research aims to investigate the extent of usage of BSC and how organisations view the concept in terms of contents and assumptions.

Finally, research adopting a contingency framework has been widely used in management accounting and management control system research. Closely related to the theory perspective is the use of measurement techniques such as the Balanced Scorecard.

The management accounting literature also suggests that many variables may influence different aspects of the BSC. Thus, this research adopts a theoretical framework to investigate the relationship between the contingent variables and the extent of Balanced Scorecard usage.