

CHAPTER THREE: PERSPECTIVES SURROUNDING THE BALANCED SCORECARD (BSC) MODEL

The significance is that if factors used in a strategic management system, such as a BSC, are invalid, managers can focus upon the wrong things and this, in turn, can potentially be damaging to companies.

(Flamholtz, 2003:16).

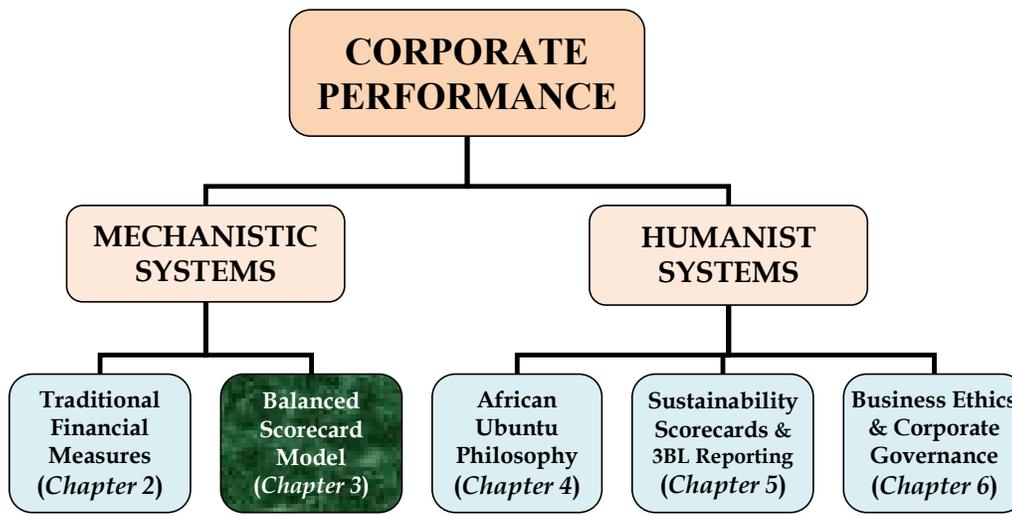
3.1 INTRODUCTION

The Balanced Scorecard model was developed by Kaplan and Norton (1992) to address the problems and limitations of relying solely on financial measures. The model integrates financial and non-financial measures to combat the historical (lagging) nature of most accounting measurement systems, along with their potential for manipulation by senior executives, misdirection and short-termism (Norreklit, Jacobsen & Mitchell, 2008:65). The Balanced Scorecard model was designed to combat over-reliance on purely financial measurement systems in assessing corporate performance.

While it retains the financial perspective, the Balanced Scorecard model also incorporates three more perspectives: the customer, internal business processes, and innovation (learning and growth) perspectives (Kaplan & Norton, 1992, 1996a, 1996b, 1996c). In their later publications, Kaplan and Norton (2001a, 2001b, 2004a, 2004b, 2004c, 2005, 2006, 2008a, 2008b, 2008c) have maintained the same four perspectives in the Balanced Scorecard model. The model has achieved worldwide recognition and acceptance as both a performance measurement framework and a corporate planning tool (Atkinson, 2006; Basu, Little & Millard, 2009; Bigliardi & Bottani, 2010; Bourguignon *et al.*, 2004:107; Chan, 2009; Davis & Albright, 2004; Niven, 2006:xi-xii; Norreklit, 2000:65; Papenhausen & Einstein, 2006).

This chapter reviews literature on perspectives surrounding the Balanced Scorecard model. As outlined in Section 2.2 on performance measurement systems, the Balanced Scorecard model falls under the mechanistic measurement systems of corporate performance. This is highlighted in Figure 6, below.

Figure 6: Corporate performance and the Balanced Scorecard model



Source: Own observation

The analysis includes assumptions governing the conceptualisation and use of the Balanced Scorecard model, the significance and importance of using the Balanced Scorecard model, and finally the current challenges and limitations that constrain the use of the Balanced Scorecard model.

3.2 BACKGROUND ON THE BALANCED SCORECARD

The Balanced Scorecard was developed as an answer to broader concerns about the use of both financial and non-financial measures in performance measurement systems. It has been argued that focusing only on financial measures lead companies to focus on the short-term and potentially leave them

ill-prepared for future competitive engagement (Kaplan & Norton, 1992:71; 1996b:21; Mackay, 2005:10).

The Balanced Scorecard approach was developed out of frustration with the traditional use of short-term oriented measurement systems by various organisations. Such financial measurement systems depend exclusively on lagging indicators to report on the outcomes of the past actions of an organisation (Kaplan & Norton 1992:71-72; 1996b:75). These authors argue that the best approach to corporate performance and future sustainability is for organisations to retain financial measures to summarise the results of the actions that they have previously taken and to balance these financial measures with non-financial measures representing performance drivers, the leading indicators for future financial performance (Kaplan & Norton, 1992:71-75). The Balanced Scorecard model was founded on the premise that it is useful to balance financial and non-financial measures.

At that time, it was believed that knowledge-based assets – primarily employees and information technology – were becoming increasingly important for organisational competitive success (Drucker, 1992; Kaplan & Norton 1996b). Nevertheless organisations' primary measurement systems remained the financial accounting systems, which treated investments in employee capabilities, databases, information systems, customer relationships, product quality, responsive processes, and innovative products and services as expenses that accrued to the period in which they were incurred. Financial reporting systems fail to provide a sufficient foundation for measuring and managing the value created by enhancing the capabilities of an organisation's intangible assets.

Kaplan and Norton (2001a:88-90) note that organisational executives and employees tend to pay more attention to what they measure, and that people cannot manage well what they are not measuring. Consequently, when executives' attention and efforts are overly focused on influencing short-term

financial measures, it follows that they would not pay sufficient attention to investing in and managing the intangible assets that provide the foundation for future financial success. Without an improved performance measurement system, business executives will not develop and mobilise their intangible assets effectively, and will consequently forfeit major opportunities for future value creation in their organisations.

3.3 ASSUMPTIONS OF THE BALANCED SCORECARD MODEL

A number of assumptions govern the conceptualisation of the Balanced Scorecard model. Users of the Balanced Scorecard model as a strategic planning and performance measurement framework should recognise these foundational assumptions. The following section discusses the assumptions of the Balanced Scorecard model.

3.3.1 Assumption 1: The Balanced Scorecard model complements financial measures

Just like the Michael Porter's five competitive forces model, which advocates the creation and enhancement of competitive advantage by organisations (Porter, 2004; Porter, 2008:78-93), the Balanced Scorecard model supplements financial measures with leading indicators. The model was developed to assist executive managers in focusing their activities on the four critical perspectives that represent a quick but comprehensive view of the entire business system (Kaplan & Norton 1992:71). The Balanced Scorecard model complements traditional financial measures with operational measures that look at customer satisfaction, internal business processes, and the organisation's innovation and improvement activities.

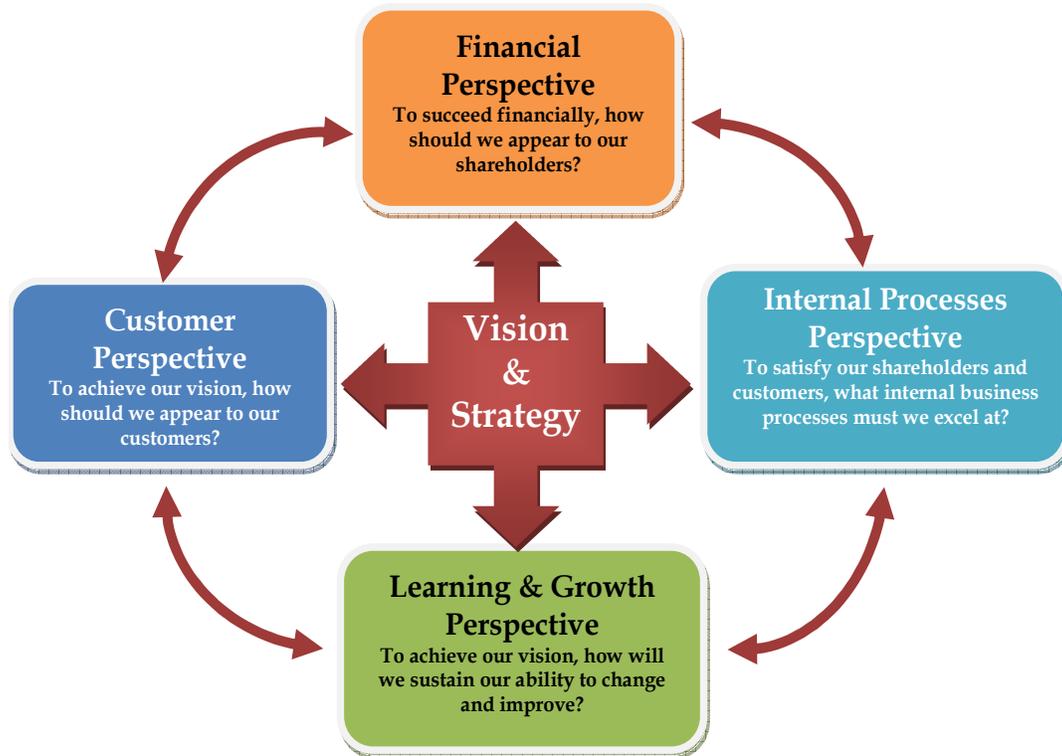
However, Chavan (2009:393-406) adds that the Balanced Scorecard would be balanced in another more meaningful dimension. There should be a balance of goals and accountability and not just a balance of measures of essential areas of

the business such as the financial, customer, internal business processes and innovation dimensions, as stipulated in the Balanced Scorecard model.

3.3.2 Assumption 2: The Balanced Scorecard model is conceptualised on four business perspectives

The Balanced Scorecard model allows managers to look at an organisation by focusing on four perspectives that are linked to the corporate vision and strategy for better performance. The Balanced Scorecard model is shown in Figure 7, below.

Figure 7: The Balanced Scorecard model, showing its four perspectives



Source: Adapted from Kaplan and Norton (1996b:9)

In giving information to senior executives from the four different perspectives, the Balanced Scorecard minimises information overload by limiting the number of

measures used (Kaplan & Norton 1992:72-73). A description of each perspective represented in the conceptual framework of the Balanced Scorecard model is given below:

a) Financial perspective

The Balanced Scorecard model retains the financial perspective, because financial measures are valuable in summarising the readily measurable economic consequences of actions already taken. Financial measures are an integral part of the Balanced Scorecard model. The financial measures chosen are typically lagging, in that they report past performance. Financial performance measures indicate whether a company's strategy, including its implementation and execution, is contributing to an improvement in the bottom line.

Financial perspectives typically relate to the profitability measures, for example, in terms of operating income and return on investment. Basically, financial strategies are simple: companies can make more money by selling more and/or by spending less (Drucker, 1985; 2007; Kaplan & Norton, 1992). Any new venture by the business, such as customer intimacy, six sigma quality, knowledge management, disruptive technology, just-in-time systems, total quality management (TQM), supply chain management (SCM), and customer relationship management (CRM) systems can create more value for the company, but only if it leads to selling more of the existing and potential products or services and/or spending less on cost structures.

Executive managers can improve an organisation's financial performance through two sources of revenue: growth and productivity (Kaplan & Norton, 1996a). Similarly, organisations can generate profitable revenue growth by deepening relationships with their existing customers. This enables them to

sell more of their existing product or service, or additional products and services.

The past performance measures are necessary guides to organisational strategic direction, as lagging indicators also help to determine the execution of future strategy (Zanini, 2003). Financial performance measures can reveal whether the organisation's vision, strategy, implementation and execution have contributed to bottom-line improvement. The financial perspective shows the results of the strategic choices made in the other perspectives.

If they make fundamental improvements in their operations, organisations can achieve better overall corporate performance, which in turn translates into long-term financial stability. Such stability is realised through improvements in efficiency and productivity. Kaplan and Norton (1992:71) argue that the financial figures should ultimately take care of themselves.

This scenario would also be true with public institutions. Financial considerations for public organisations would be measured in terms of how effectively and efficiently they meet the aims of their organisations (Chang, 2007:101-117; Mackay, 2005:13) and those of their constituencies. Financial performance is the result of operational actions; and financial success is the logical consequence of doing the fundamentals well. Financial measures send operational signals about the overall corporate performance of an organisation.

b) Customer perspective

The source of existence of any organisation, whether it is private or public, is the need to serve a certain group of consumers, also referred to as customers. A company's first task is to create and keep a customer (Drucker, 2007:31-32). Thus, corporate executives are always reminded

that in any organisational setting, the customer is the king or queen and thus decides any future business (Kotler & Keller, 2006; Smith & Wright, 2004; Zhang, Dixit & Friedmann, 2010).

In the Balanced Scorecard model, Kaplan and Norton (1996a) acknowledge the above scenario by including the customer perspective as one of the key perspectives. As discussed under the financial perspective, a revenue growth strategy requires a specific value proposition in the customer perspective that describes how the organisation will create differentiated and sustainable value to satisfy targeted customer segments.

In the customer perspective, managers need to identify the targeted customer segments in which the organisation or a particular business unit competes and must recognise suitable measures of the business unit's performance for customers in these targeted segments. Once the organisation understands who its targeted customers are, it is able to identify the objectives and measures for the value proposition it intends to offer (Kaplan & Norton, 1992:73-74).

The value proposition defines a company's strategy in respect of the customer by describing the unique mix of product, price, service, relationship and image that the company offers that targeted group of customers. The value proposition should thus communicate what an organisation expects to do for its targeted customers and can do better or differently than its competition in the same market.

Organisational learning with regard to service improvement and customer satisfaction should consider the interplay between the way data are gathered via customer feedback mechanisms and the way strategy is implemented, particularly at a local branch or business unit level (Caemmerer & Wilson, 2010:288-311).

The customer perspective typically includes several common measures of the successful outcomes from well-formulated and implemented corporate strategies that include customer satisfaction, customer retention, customer acquisition, customer profitability, market share and account share. Customer care and satisfaction are increasingly considered a baseline standard of corporate performance and are a possible standard of excellence for any organisation. It is logical that corporations with a bigger share of satisfied and loyal customers profit from increasing repurchase rates (Mihelis *et al.*, 2001), increasing their cross-buying potential, higher price willingness and positive recommendation behaviour, and reducing the tendency for customers to switch.

Customer measures as leading indicators have been found to drive future financial performance. There is a positive association between customer satisfaction measures and the subsequent accounting and financial performance of an organisation (Iltner & Lackner, 1998:32-33). Customer satisfaction measures are thus leading indicators of customer purchase behaviour, accounting and financial performance and the current market value of a company.

Aggregate market studies also indicate that higher customer satisfaction leads to better financial results, as companies are able to sell more products and services, both now and in future (Andreassen, 1994; Hallowell, 1996; Zhang *et al.*, 2010). On this understanding, organisations protect and promote all activities that deal with customers, because customers are the major stakeholders that shape the strategic direction of all organisations, including organisations in the public sector. In the public sector set-up, the customers are usually the citizens of a country.

Modern customers look for products and services that go beyond satisfying the customer and delight them as well (Cheraghi, Dadashzadeh, Venkitachalam, 2010:62-72). In the case of the public sector, generally,

citizens want the provision of better services from government in the form of health facilities, education systems, developmental infrastructure, including roads and communication systems, and other utilities such as potable water and electricity. Citizens also require security and safety provisions, and protection of their rights and needs in the form of legislation from government. Just like the natural citizens, organisations (both public and private) form an integral part of the national citizenry as corporate citizens. Organisations in the process also enjoy such provisions from government.

The Balanced Scorecard model requires managers to translate their general mission statement on customer service into specific measures that reflect the factors that really matter to customers. The combination of performance and service measures how a company's products or services contribute to creating value for its customers. Companies should articulate goals relating to time, quality, performance and service and then translate these goals into specific measures (Kaplan & Norton 1992:73-74; 2001:91-93). Generally, customers' concerns tend to fall into four categories consisting of the time of deliveries, quality of products, performance and services, and cost of products.

The literature review above demonstrates that the customer perspective is a key perspective in the Balanced Scorecard model, as it captures the ability of an organisation to provide quality goods and services in the most effective and efficient manner in terms of production, delivery and overall customer service and satisfaction elements. Many organisations today have a mission and business core values that are focused on the customer perspectives as well. Measuring the performance of an organisation from its customers' perspective would be a priority for any top management. The conceptual framework of this study also takes cognisance of the significance of a customer perspective in adding to the overall success of an organisation and assessing that success.

c) **Internal business processes perspective**

The internal business processes perspective is primarily an analysis of an organisation's internal processes in terms of how efficiently or effectively operations are conducted. Internal business processes are the mechanisms through which performance expectations are achieved (Kaplan & Norton 1992:74-75; 2001a:93-94). This perspective focuses on the internal business results that lead to financial success and satisfied customer expectations, such as cycle time, quality, employee skills and productivity. Therefore, managers need to focus on all those critical internal operations that enable them to satisfy customer needs. They need to monitor key processes to ensure that outcomes are always satisfactory.

An organisation should manage its internal processes and its development of human, information and organisational capital to deliver the differentiating value proposition of its strategy. Excellent performance in these areas drives strategy (Sim & Koh, 2001). Internal processes accomplish two vital components of an organisation's strategy, as they produce and deliver the value proposition for customers, and improve processes and reduce costs for the productivity component in the financial perspective.

The development of a customer performance measurement system that combines quantitative benchmarking techniques with qualitative analysis in order to produce strategic objectives can simultaneously enhance business process improvement (Tucker & Pitt, 2009:407-422). If they are well reengineered, business processes can add value to products and services and ultimately to the organisation, even in the global marketplace (Porter, 2008:78-93).

To attain leadership in the local and global market, companies should decide on the processes and core competencies that they must excel at and specify measures for each of these. Companies must use their resources

effectively and efficiently if they want to compete in the increasingly competitive globalised economy (Kazan, Ozer & Certin, 2006:23-24). The internal factors, including the business processes, must be improved for better operations, cost savings and profitability. Any increase in the quality and the flexibility of business processes increases profitability. This implies that it may be easier for larger corporations than small-and-medium enterprises to improve their financial performance, because large corporations have more resources to re-engineer their internal business processes than would be the case with small-and-medium enterprises.

d) Innovation perspective

The fourth perspective of the Balanced Scorecard model, the innovation perspective, focuses on the way organisations can create value out of the intangible assets that take the form of human capital, which refers to the availability of skills, talent and know-how within an organisation (Kaplan & Norton, 1992:75-77; 2001a:94). The innovation perspective enables an organisation to align its human resources and information technology with the strategic requirements of its internal business processes and customer relationships.

In the context of the Balanced Scorecard model and in terms of its interconnectedness with other perspectives through strategy maps, the innovation perspective forms the foundation of any corporate strategy (Kaplan & Norton, 2001b:94). The innovation perspective initiates the value creation of an organisation, as it promotes and enhances internal business processes aimed at ensuring customer satisfaction, which in turn generate better revenues and ultimately lead to financial profitability. The progression of the Balanced Scorecard model perspectives is reflected in the strategy map set out in Figure 9 on p. 94.

Drucker (2002a:95-96) describes innovation as “the means by which an entrepreneur either creates new wealth producing resources or endows existing resources with enhanced potential for creating wealth”. Innovation involves knowing rather than doing. Thus the innovation perspective addresses issues such as the ability of employees, the quality of information systems, and the effects of organisational alignment in supporting the accomplishment of organisational goals.

Several studies indicate that an emphasis on human capital development and measures enhances overall corporate performance (Flamholtz, 2005:88-90; Gates & Langevin, 2010:111-132). It has also been demonstrated that an emphasis on learning and innovation with well-planned integration during the implementation stage of strategies enhances the use of performance measurement systems (Brudan, 2010). Innovation can be promoted by knowledge management strategies such as offering to let staff implement their own ideas (Lorenz & Lundvall, 2010:77-97). However, innovation-based activities can only drive corporate performance and competitiveness when such activities occur concomitantly with actual changes in the market positions and offerings of organisations (Liao & Rice, 2010).

In modern business set-ups, the impact of the vision, mission, values and culture of an organisation occupies a great deal of organisational attention. The concept of an organisation is moving away from the mechanistic creations that flourished in the bureaucratic environment that characterised the industrial revolution (Wheatley, 2000). To be strategically competitive, organisations now have to be fluid, with organic structures; they must be boundaryless and seamless. More specifically, organisations must be learning institutions that acknowledge that people exhibit self-organising capacities. In his article “They’re not employees, they’re people”, Drucker (2002b:71) observes the rapidly changing trends that are altering the way

organisations manage their talent. He advises organisations to pay more attention to the human talent or risk losing their competitive edge.

Other studies have also revealed that there is a positive correlation between intangibles and the tangible financial performance of an organisation (Moeller, 2009:224-245). Such a correlation is mainly influenced by strategic relevance and participation within the framework of organisational intangible assets. Intangible resources (Kong, 2008:721-731) include human capital (the availability of skills, talent and know-how required to support the corporate strategy), information capital (the availability of information systems, networks, and infrastructure required), and organisational capital (the organisation's ability to mobilise and sustain the process of change required to execute the corporate strategy).

Customer-based and internal business process measures identify the parameters that an organisation considers most important for its competitive success. Targets for business success have to keep on changing. Intense competition, especially in the global market, requires organisations to make continual improvements to their existing products and processes. Organisations should also have the ability to introduce entirely new processes with expansion capabilities (Porter, 2008:78-93). Thus, organisations that want to survive must continually be able to take on challenging tasks and undertake innovations that will enable them to develop new products and services to meet ever-changing customer tastes.

In the current climate of rapid technological change, it is important for employees to be in a continuous learning mode. Enduring, superior performance requires flexibility and innovation. Organisations have to develop and retain a capable and committed workforce (Becker, Huselid & Ulrich, 2001), because organisations need the different skills and knowledge of suitable and dedicated staff for them to manage resources efficiently and effectively. It is difficult for a company to compete based only on such

factors as their product, prices, place (distribution) and promotion strategies, if these can easily be replicated by the competition.

The focus on human capital development means that an organisation can always be a step ahead of its competition. However, despite the rhetoric that emphasises human skills as a valued intangible asset of an organisation and that it is prevalent in line managers (Prowse & Prowse, 2010:66), the critical delivery of human resource management and how they are used and contribute to improving performance has been difficult to evaluate.

Still more, what is particularly significant is that there is a lack of empirical literature on the contribution of human resources management to corporate performance (Prowse & Prowse, 2010:66-77). This problem is compounded by the difficulty of finding suitable measures for this contribution and the limitations of the measures used in most published research and studies. Most scholars and practitioners in this field still over-emphasise measures that reflect relationships between financial performance and productivity.

The preceding discussion has focused on the literature on the assumptions of the four perspectives of the Balanced Scorecard model. The model attempts to include some critical areas of business in the form of innovation, internal business processes, customer, and financial perspectives. However, the relatively simplistic conceptualisation of the Balanced Scorecard model can be misleading in some ways, as business systems are often very complex, as reflected in the conceptual framework of this study (Figure 1, on p. 7). There could be other, more critical perspectives that the model should be based upon.

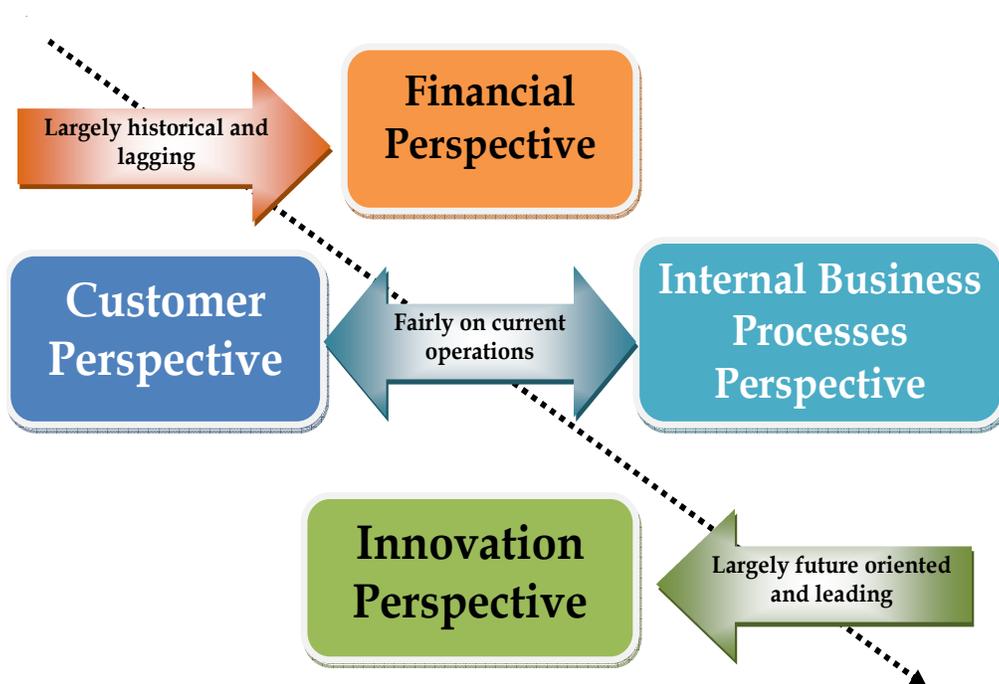
3.3.3 Assumption 3: The Balanced Scorecard model's perspectives are linked to time horizons

The four perspectives of the Balanced Scorecard model are designed to drive both the operational and the strategic activities of the organisation through the

use of leading and lagging indicators. The financial perspective tends to concentrate on past performance, and is therefore historical and lagging. By contrast, the innovation perspective tends to dwell on promoting organisational ability to sustain the organisation in future endeavours. Hence, the innovation perspective is leading (Olve, Roy & Watter, 1999).

Finally, the customer and internal business processes perspectives tend to focus on fairly current operations (Olve *et al.*, 1999). For instance, the customer perspective examines how best a customer’s expectations should be met or exceeded in order to satisfy or delight the customer. The internal business perspective focuses on current business processes and practices to ensure that efficient and effective systems are in place to produce products and services that add value and meet customers’ expectations. The time horizons of the Balanced Scorecard model perspectives are summarised in Figure 8, below.

Figure 8: Time horizons for the Balanced Scorecard model’s perspectives



Source: Adapted from Olve *et al.* (1999:6)

3.3.4 Assumption 4: The Balanced Scorecard model suggests cause-and-effect relationships within perspectives

The Balanced Scorecard aligns corporate vision and strategy with organisational performance through the interconnectedness of different layers of perspectives. The corporate vision forms the foundation of the formulation of an organisation's mission, core values, goals and objectives. Kaplan and Norton (2001a:89-92; 2004b:11-12) argue that, for objectives to be effective, they should be linked in cause-and-effect relationships.

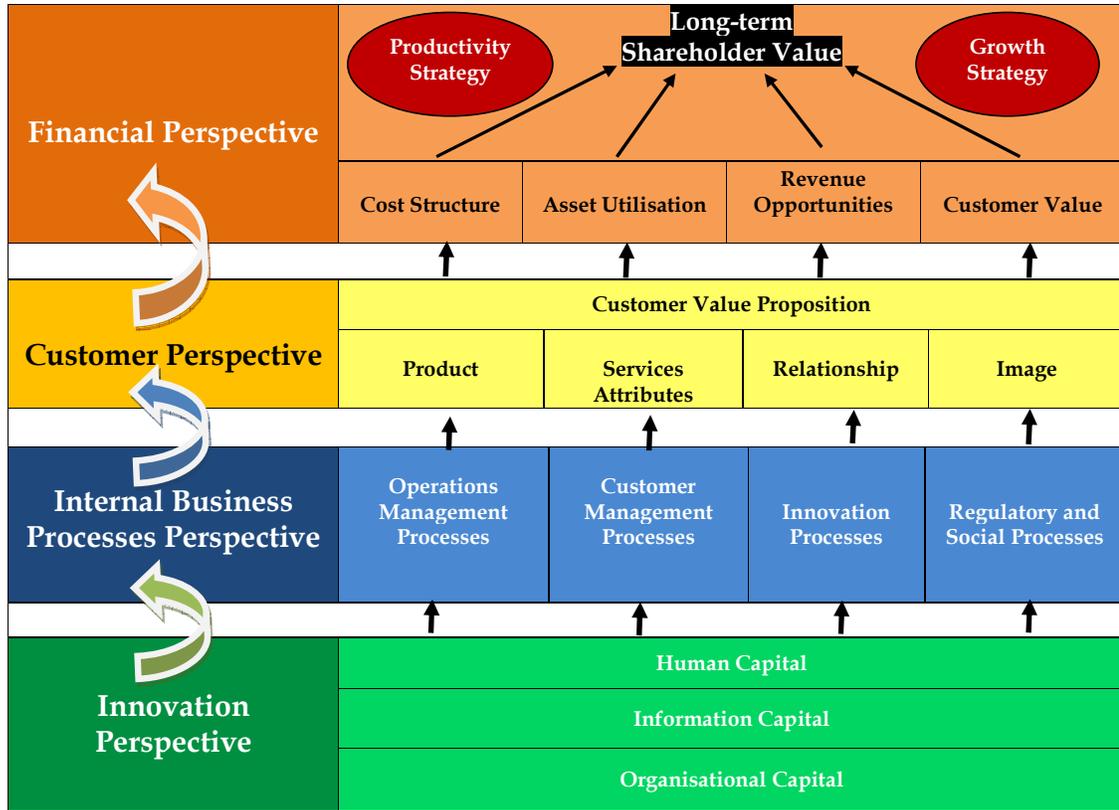
As they list objectives in the four perspectives, executives should draw arrows to link the objectives. Senior management should start, in articulating their strategy, by looking at how improving employee capabilities and skills in certain job positions, coupled with the new information technology, would enable a critical internal business process to improve as well (Kaplan & Norton 2001a:89-94). It follows that the improvement of internal business processes would cascade down to enhance the value proposition delivered to targeted customers, leading to increased customer satisfaction and retention, and growth in customers' businesses where customers are not the final consumers. By implication, the improved customer base would ultimately lead to increased revenues and ultimately significantly higher shareholder value.

The explicit cause-and-effect relationships among the objectives in the four Balanced Scorecard model perspectives translate into a strategy map, as shown in Figure 9, overleaf. The strategy map enhances the link between the cause-and-effect and corporate objectives. The strategy map provides the visual framework for integrating the organisation's objectives in the four perspectives of the Balanced Scorecard model (Kaplan & Norton, 2004b:10-14).

The strategy map illustrates the cause-and-effect relationships that link an organisation's desired outcomes in the customer/client and financial perspectives to outstanding performance in critical internal business processes – operations management, customer management, innovation, and regulatory and social

processes (Kaplan & Norton, 2004b:10-14; Kaplan, Norton & Rugelsjoen, 2010:116). These critical processes create and deliver the organisation’s value proposition to targeted customers and also promote the organisation’s productivity objectives in the financial perspective.

Figure 9: The strategy map represents how an organisation creates value



Source: Adapted from Kaplan and Norton (2004b:11)

The strategy map also brings together the strategic objectives of organisations to illustrate causal linkages within their relationships. Within the business application, strategy maps and the Balanced Scorecard approaches have been proven to be effective tools of business communication and strategic management in aligning and integrating the strategic goals of various levels within an organisation (Chan, 2009:349-363; Paladino, 2007b:38; Wu & Liu, 2010:27-47).

The strategy map allows senior executives and managers to see how attaining corporate objectives at the departmental or employee level assists an organisation to achieve better internal business processes, customer satisfaction and ultimately its financial objectives. A strategy map identifies the specific capabilities in the organisation's intangible assets such as human capital, information capital and organisation capital that are required to deliver exceptional performance in the critical internal processes (Chan, 2009).

The above analysis indicates that the strategy map is a critical component in the design of performance measurement systems based on the Balanced Scorecard model. The strategy map has turned out to be as important an innovation as the original Balanced Scorecard model itself. The visual representation of an organisation's strategy is both natural and powerful, as one sees the progression of the interrelationships of perspectives towards meeting organisational objectives.

The strategy map acts as an instrument in understanding the relationship of perspectives better, as one can easily study the map critically. A strategy map gives a clear direction and shows the linkages between all the critical elements in each corporate perspective of the Balanced Scorecard model. However, the authenticity of the cause-and-effect relationship on perspectives has not yet been statistically validated, as will be discussed more fully below, under the limitations of the Balanced Scorecard model (see Section 3.5.7 below).

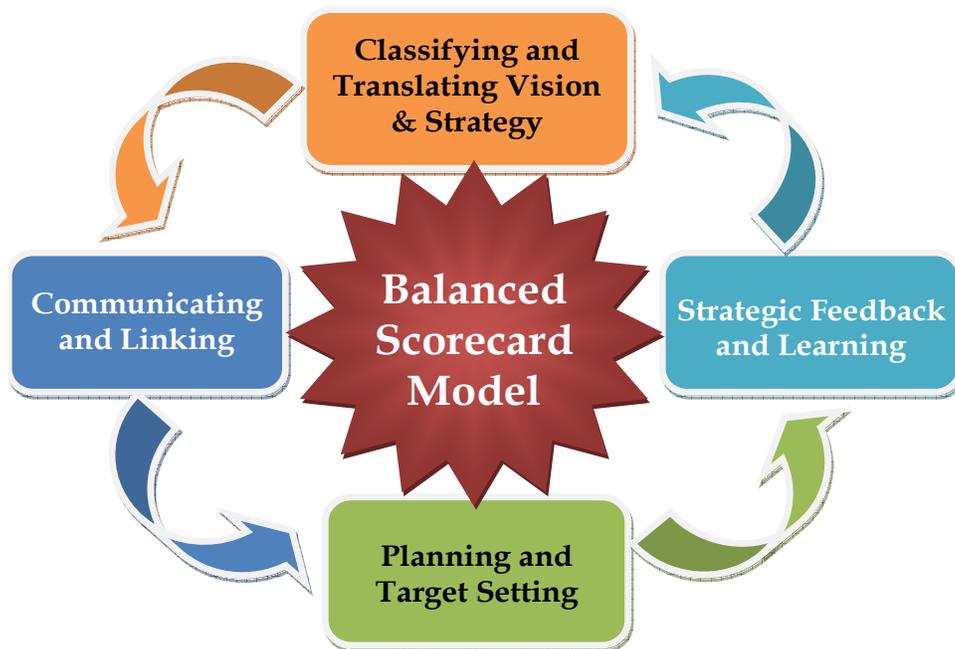
3.3.5 Assumption 5: The Balanced Scorecard model can be used as a strategic management tool

In viewing an organisation according to four perspectives, the Balanced Scorecard model is intended to link short-term operational control to the long-term vision and strategy of an organisation (Kaplan & Norton 1996b:75-78). The

Balanced Scorecard model allows managers to look at corporate performance by focusing on the four inter-related perspectives.

The Balanced Scorecard model is therefore used as a strategic planning and performance measurement tool. There are four activities that enable the successful implementation of the Balanced Scorecard model as a strategic management tool, namely, first, classifying and translating corporate vision and strategy; second, communicating and linking corporate strategies; third, planning and setting targets; and, fourth, strategic feedback and learning systems (Kaplan & Norton, 1996b:77). A template for successful implementation of the Balanced Scorecard model as a strategic management tool is shown in Figure 10. The four activities that are linked to the Balanced Scorecard model form a continuous loop of various organisational activities.

Figure 10: The Balanced Scorecard model as a strategic framework for action



Source: Adapted from Kaplan and Norton (1996b:77)

Within corporate planning, strategy is linked to the Balanced Scorecard model. The organisation's vision is translated into executable plans when managers build consensus around the organisation's vision and strategy. The Balanced Scorecard model provides a valuable tool to enable employees to understand the organisation's status, in order to achieve the dynamism it needs for a sustainable competitive advantage (Brewer, 2002:44-52).

It has been observed that an emphasis on corporate culture in the form of vision and mission statements have a direct impact on the financial results of organisations (Flamholtz, 2001:272-273). Such statements can also enhance job satisfaction, and can add to employees' commitment and intrinsic motivation, which are extremely important factors for productivity and customer-related contacts that lead to a positive association between the organisation's vision, mission and strategies on the one hand, and corporate performance on the other (Bart, Bontis & Taggar, 2001; Litschka, Markom & Schunder, 2006; Otley 1999:380-381).

There should be proper communication and linkage of activities within an organisation. In this process, managers communicate the corporate strategy from the top to the lower levels of the organisational structure and link it to functional and individual employee objectives. The cascading down process allows corporate strategy to be aligned at different levels of the organisation (Kaplan & Norton 1996b:76; Paladino, 2007b:38-39). Within the cascading framework, organisations should aspire to build their ability to communicate all issues regarding corporate planning and performance measurement (Shackleton, 2007). The purpose of corporate communication is to assist with this process, by providing communication support to the rest of the organisation. The effectiveness of communication may be measured by incorporating communication into the performance measurement system of an organisation.

Another process involves business planning, where organisations integrate their business and financial plans. The planning process is accomplished through

target setting, the alignment of strategic initiatives, the allocation of resources and establishment of business and functional milestones (Kaplan & Norton 1996b:77). These strategic plans would ultimately be translated or executed into actions using the internal business processes of an organisation.

Finally, there should be a feedback and learning process which gives managers strategic learning capabilities. The feedback control system provides mechanisms of reviewing whether or not plans have been met at the corporate, functional or individual employee levels (Drury & McWatters, 1998:32-33; Kaplan & Norton 1996b:77). Organisations need effective feedback control systems within the performance measurement system (Archer & Otley, 1991; Flamholtz *et al.*, 1985; Otley, 1994, 1999, 2001, 2003). Within the feedback control systems, actual results are compared with budgets and plans by feeding the divergence from the budgets and plans back into the organisational systems for corrective action by management.

The above literature review demonstrates that the Balanced Scorecard model can make tremendous contributions towards the effective planning and measurement of performance through effective control systems. However, the manner in which the Balanced Scorecard model is implemented within the strategic management framework is also relevant.

3.3.6 Assumption 6: The Balanced Scorecard model works in a top-down, hierarchical manner

The corporate vision and mission and value statements are usually formulated by senior executives. Corporate vision, mission and value statements are then cascaded down the organisational structure to lower levels, to the departmental and finally individual employee levels (Paladino, 2007b:33-41). The Balanced Scorecard model demands an understanding, commitment and support from the very top of the organisation down. This implies that if all the people involved do not accept accountability for the achievement of the balanced measures and goals set by senior executives, there can be no Balanced Scorecard system.

The people in an organisation are the key to the success of the Balanced Scorecard system. So, for example, it was by using a people-based approach that Unilever successfully implemented its strategies (Smith, 2009:31). The restriction of strategic options proved to be popular with the company's top executives, thereby creating a sense of common purpose, whilst allowing local interpretation after cascading such strategic choices to lower levels. Similarly, the disciplined execution processes deployed the strategy down through every leadership team, ultimately connecting with the work-plans of all employees. The successful execution of the strategy led directly to the improvement of sales growth, productivity, margins and cultural cohesion.

The above literature review shows that the Balanced Scorecard model represents the major activities that an organisation has to focus on for it to maximise profitability for its shareholders. The criteria that help to determine the corporate performance represent strategy maps in the form of cause-and-effect relationships, which is still problematic. Thus, the implementation of the Balanced Scorecard model would require a lot of research by organisations to establish the specific arrangement of perspectives and the cause-and-effect issues as discussed above. Every measure selected for the Balanced Scorecard model should be part of a chain of cause-and-effect relationships that represent the corporate strategy. The validity of the assumptions surrounding the Balanced Scorecard model would be assessed based on the significance and practical contributions of the model to industry.

3.4 SIGNIFICANCE OF THE BALANCED SCORECARD APPROACH

Since the model was launched, it has been received with great enthusiasm amongst the captains of industry. Ever since, the Balanced Scorecard model has changed the way corporate performance measurement has been conducted and how organisations are managed. Since its inception, the Balanced Scorecard model has been regarded as one of the most influential developments in performance measurement in the twentieth century (Bourguignon *et al.*,

2004:107; Niven, 2008:ix-xii). The most significant applications of the Balanced Scorecard model are discussed below.

3.4.1 The Balanced Scorecard model is used as a strategic management tool

As already outlined above, all types of organisation, including both small and large organisations, manufacturing and service companies, public and private entities, and growing and mature entities, have adopted this powerful management tool. Successful organisations have used the Balanced Scorecard model as a focal point for all key management processes, from planning and budgeting to resource allocation, and the reporting systems of corporate performance (Punniyamoorthy & Murali, 2008:420-443).

The Balanced Scorecard model serves as a way to communicate the organisational vision, mission, strategies and goals to all stakeholders. It also helps to create a focus on critical issues relating to the balance between the short and long run, and on the appropriate strategic direction for everyone's efforts within the organisation (Olve *et al.*, 1999). The integrated Balanced Scorecard model allows senior executives to understand relations amongst various strategic objectives better, to communicate the association between employees' actions and the selected strategic goals and to allocate resources and set priorities based on the initiatives' contributions to long-term strategic objectives (Kaplan & Norton 1996a).

Although the Balanced Scorecard model provides a template for organisations to measure their corporate performance, many organisations have used scorecards in different ways, as it is not supposed to be used as a "straitjacket" model (Kaplan & Norton 1996a). The model has become a very useful tool for organisations which have perceived a need for the parallel use of different kinds of measure of operations in terms of the planning and controlling processes.

The Balanced Scorecard model integrates operational non-financial perspectives that are consistent with the cross-functional activities of organisational systems. Such systems include continuous improvement systems such as total quality management, just-in-time, customer relationship management, supply chain management, evolution of powers and decentralised decision-making systems. Team building management systems and improved corporate efficiency, effectiveness and competitiveness would also fall into this category. Because there are many organisational activities and they are complex, it is necessary to prioritise them when setting and using the Balanced Scorecard model.

3.4.2 The Balanced Scorecard model is used as a means of setting organisational priorities

The Balanced Scorecard model is used as a model that guides organisations to achieve breakthroughs by prioritising elements of the organisation's vision and strategy before other activities (Bloomquist & Yeager, 2008:24-26). From the top down to the front-line, each employee is able to see how his or her work contributes to the achievement of the organisation's goals and objectives. The model helps managers in setting priorities by identifying, rationalising and aligning initiatives. Senior management can focus its attention on more strategic issues, while frontline employees are sensitised to the value of their operational work and how it relates to the organisation's strategic objectives.

As a matter of setting strategic priorities, just-in-time companies, for example, are more consistent in choosing benchmarking performance measures that are aligned with organisational strategy (Meybodi, 2009:88). The successful implementation of just-in-time principles requires a thorough understanding of organisational strategy and the deployment of that strategy into consistent sub-strategies and action plans. The model is also ideal for organisations that participate actively in R&D activities (Bigliardi & Dormio, 2010:278-289).

The Balanced Scorecard model has also been proven to be a useful technique in the modern business environment, where strategic risks are dynamic, and which

can best be understood by analysing the relationships between causal factors behind risks and their origins (Dasgupta, 2010:100-106). Usually, causal factors originate from social and technological drivers that affect and shape society. Such factors continuously change and may be highly unpredictable; hence, risk and uncertainty are involved.

In addition, the Balanced Scorecard model-based management systems can help organisations to switch their alliance management focus from contributions and operations to strategy and strategic commitment (Kaplan *et al.*, 2010:114-120). In a downturn, managers are often tempted to eliminate the slack and inefficiencies accumulated during any recent growth period. The Balanced Scorecard model directs senior managers in identifying the strategic nature of expenditures which should be protected to build capabilities for the future, as opposed to excesses of the past that can be eliminated without endangering the future (Kaplan & Norton, 2008c:28). Unless a downturn is so significant as to threaten the future of the organisation and its existence, executive managers focus on rooting out only operational slack and inefficiency, rather than modifying or sacrificing strategic initiatives that are achieved through the strategic expenditures that build capabilities for long-term competitive advantage.

Choosing the right performance measure is critical to the process of enabling management to learn about the management principles they need to implement in order to become strategy-focused. The measure should be meaningful to both the executives and all other employees. Such measures should not be selected just because they are already being used in the organisation or because they could drive local continuous improvements (Bloomquist & Yeager, 2008:24-28; Kaplan & Norton, 2008b:62-77). Performance measures should focus on what is most important for the organisation in terms of its strategy. Performance-based measurement is a powerful motivator, as managers and other employees strive to perform well on whatever measures are selected, particularly if the measures are tied to an incentive compensation plan.

3.4.3 The Balanced Scorecard model is used as a motivational tool

The Balanced Scorecard can be a motivational tool towards the realignment of different stakeholders of an organisation (Otley, 1999; Zanini, 2003). For instance, if the balanced set of performance measures has effectively been tied to financial incentives for employees, the long-term performance that hinges on the organisation's vision and strategy could improve significantly.

In many cases, there is a misalignment of the chief executive officer's (CEO's) compensation and organisational success, due to the use of options as a long-term performance incentive, for example. This misalignment can potentially be avoided when the CEO's bonus is based on a balanced set of measures and not solely on stock prices (Fitzgerald & Collins, 2006:40-47).

Without well-balanced measures, both middle and senior management can travel blindly on the set organisational roadmap. Studies on human behaviour indicate that compensation plans based on the Balanced Scorecard motivate personnel extrinsically if meaningful rewards are linked to performance measures that they can influence (Decoene & Bruggeman, 2006:429-448). If companies are to survive and prosper in this information age, they must use measurement and management systems derived from their own vision, strategies and capabilities.

Unfortunately, many organisations espouse strategies regarding customer relationships, core competencies and organisational capabilities while motivating and measuring performance only with financial measures (Kaplan & Norton, 2008b). A balanced set of corporate performance measures is needed to address the challenges of the modern information age, which has more non-financial variables than financial ones. Thus, there is a need to employ a more holistic approach to corporate planning and performance measurement systems than purely financial systems allow.

3.4.4 The Balanced Scorecard adopts a holistic approach

Although the Balanced Scorecard model's perspectives and measures retain the financial focus on past performance, this focus is placed within a new integrated framework with selective (non-financial) measures that are derived from the organisation's vision and strategy. The Balanced Scorecard model puts vision and strategy at the centre of management processes and systems. The measures are selected in accordance with their impact and significance as drivers of future corporate performance.

In a more holistic way, the Balanced Scorecard model summarises an organisation's vision and strategy, and measures its performance on the basis of its four perspectives. When the corporate systems are fully deployed, the Balanced Scorecard model seeks to ensure that the drivers of long-term performance breakthroughs are identified and properly aligned (Kaplan & Norton, 2008c:28). Practically, this implies that ultimately an organisation's vision, mission and strategy are linked with action in order to realise positive tangible operational outcomes.

The Balanced Scorecard model is conceptualised on the premise that the model should be used by organisations as a strategic management framework that measures corporate performance from all important perspectives. As a short-term approach such as that associated with traditional accounting principles can be counterproductive, the Balanced Scorecard model emphasises the inclusion of non-financial measures for future financial gains. A study by Wu and Hung (2007:771-791) confirms that inclusion of the Balanced Scorecard model's four perspectives promises positive organisational benefits.

Furthermore, performance measurement must be based on a balanced combination of financial as well as non-financial (intangible) indicators (Boerner, 2006:35-42). Where such vital information is not reported, managers, investors and financial analysts run the risk of dealing with incomplete data, and may end

up making unsound investment decisions. The framework is balanced, in that both financial and non-financial measures are incorporated. Non-financial measures, such as customer satisfaction, customer retention, employee turnover, the number of new products developed and product quality all belong on the scorecard.

In summary, the above literature review shows that the Balanced Scorecard model reflects a holistic balance between short-term and long-term objectives, between financial and non-financial measures, between lagging and leading indicators, and between external and internal perspectives. However, other critical elements of corporate performance such as society and the natural environment are still ignored within the framework of the Balanced Scorecard model. Especially in an African context, where the community or society is paramount, one can justifiably question the adequacy of the supposedly “holistic” Balanced Scorecard model within an African environment.

3.4.5 The Balanced Scorecard model is the basis for the budgeting and budgetary process

With the emphasis on aligning corporate performance with vision and strategy, an organisation can use the Balanced Scorecard model as a central means of perfecting the budgeting process. For example, through the use of the Balanced Scorecard model, Niven (2008) sets a prerequisite for the budgeting processes where costs and revenues budgeted should be influenced by that desire by business executive to meet corporate vision and strategy successfully throughout the organisational, business unit, or departmental levels.

The effects of sub-optimality or the pursuit of self-interest can be discouraged through the use of the Balanced Scorecard model. The model creates an early warning system that alerts managers before an organisation begins to feel the harsh impact of declining operating margins (Pieper, 2005). Such early warnings enable senior managers to strategise and reorganise themselves before more serious problems arise in an organisation. With the forward-looking approach,

senior managers can turn around organisations by responding to early warnings from the Balanced Scorecard model.

In taking a holistic approach, the Balanced Scorecard model identifies a set of measures that prevents managers from adopting sub-optimal strategies by ignoring relevant and critical performance dimensions or even improving one business perspective at the expense of other areas that are critical for business sustainability (Ittner, Larcker & Randall, 2003: 716). Furthermore, Bible *et al.* (2006:18-23) argue that if every employee is aware of the organisational vision, strategy and corporate performance drivers, the potentially damaging effects of game playing, politics, and number-shuffling are minimised.

The Balanced Scorecard model has a depoliticising effect on the budgeting process, because employees can understand organisational strategic objectives that are shared with other employees. The model thus facilitates teamwork and team building. The model makes it possible for an organisation and its departments to focus on fulfilling the vision and mission of the organisation by creating links between the objectives, initiatives and measures and an organisation's strategy (Sorenson & Sullivan, 2005:54-60). Through strategy evaluation, where plans are compared with actual performance, the Balanced Scorecard model can act as a catalyst for continuous process improvement.

The above discussion suggests that is necessary for the Balanced Scorecard model to be applied to an organisation as a whole or in part, focusing on the continuous improvement efforts that should pervade the organisation. During the budgetary process, the Balanced Scorecard model can direct managers to see that there is a direct link between departmental activities, as the actions of one department affects the results of the other departments, or indeed of the entire organisation, through their inevitable interconnectedness of activities. A good budgeting process can also be accomplished with an external orientation, where managers realise their interconnectedness with external stakeholders, including

the shareholders, customers, suppliers and even competitors who may need or provide information on corporate performance for their various purposes.

3.4.6 The Balanced Scorecard model forms a foundation for sound external financial reporting systems

The clear definition of vision and strategy plays an important role in shaping the strategic direction of an organisation. The Balanced Scorecard model has evolved from being a purely performance measurement-based reporting system to become more inclusive, and thus to become a complete strategic management system (Bible *et al.*, 2006). With this development, the model can be used in external financial reporting systems as well.

The Balanced Scorecard model can be used to communicate the alignment of annual reports and organisational strategies. By employing this approach, financial statement manipulation and window-dressing can be significantly reduced. Companies in Scandinavian countries such as Sweden have already begun to incorporate the additional perspective from the Balanced Scorecard model in their annual reports as supplements to the financial statements (Bible *et al.*, 2006:18-23).

3.4.7 The Balanced Scorecard model provides a means of organisational communication

Apart from providing a snapshot of corporate performance that is easy to understand, the Balanced Scorecard model can enhance communication with key stakeholders of the organisation, ranging from customers to employees. Atkinson (2006:1441-1460) observes that the Balanced Scorecard model, subject to the adoption of suitable processes, can address key problems associated with strategy implementation, including communication, the role of middle managers and integration of existing control systems. Strategy maps and the Balanced Scorecard model provide unique and innovative tools, as they are effective communication and strategic management tools that enable managers

to align and integrate the strategic goals of various levels of an organisation (Chan, 2009:349-363; Kaplan *et al.*, 2010:116).

The Balanced Scorecard model also enables senior managers to align all their organisational resources – executive teams, business units support groups, information technology, and employee recruiting and training – to focus intensively on implementing their strategies (Kaplan & Norton, 2008c:28). Kaplan and Norton (2008b) further describe how successful adopters of the Balanced Scorecard model have followed five management principles to become strategy-focused organisations, namely the translation of strategy to operational terms, the alignment of the organisation to the strategy, making the strategy everyone's everyday job, making the strategy a continual process, and finally the mobilisation of change through executive leadership.

The literature on the significance of the Balanced Scorecard model reveals that the model has contributed considerably to the corporate world, especially in terms of planning and performance measurement systems. However, the Balanced Scorecard model faces some ideological challenges, for example, within an African framework, or in France, where the *tableau de bord* is the primary planning and measurement tool, as opposed to the Balanced Scorecard model (Bourguignon *et al.*, 2004). The Balanced Scorecard model also has serious application limitations, which are reviewed in the next section.

3.5 LIMITATIONS OF THE BALANCED SCORECARD

In general, the Balanced Scorecard model's limitations hinge on the model's conceptualisation and assumptions. Such limitations dilute the usefulness of the Balanced Scorecard model for organisations in different industries and from different part of the world. The limitations of the Balanced Scorecard model are discussed below.

3.5.1 The Balanced Scorecard model is overly simplified

An organisation represents a culmination of different systems from inside and outside an organisation. The external and internal systems from different interested parties are interconnected in a highly complex manner, as summarised in the conceptual framework of this study (Figure 1, on p. 7). A highly simplified model such as the Balanced Scorecard model cannot represent the complex interrelationships between an organisation and the multitude of activities which the internal and external stakeholders engage in. Norreklit *et al.* (2008:66) caution that the kind of oversimplification found in the model requires the model to be accompanied by a “healthy warning” of some kind, so that users will be aware of that fact when adopting the Balanced Scorecard model.

The Balanced Scorecard model is supposed to be more than just a measurement system, as it is a strategic management tool as well (Norreklit *et al.*, 2008:66). Management systems, especially at a strategic level, involve complex business decisions to run the organisation effectively. Most of those strategic management decisions are *ad hoc* in nature and need highly specialised decision-making systems. Further, the analogy of using the Balanced Scorecard model like a cockpit (dashboard) can encourage managers to manage organisational activities by remote control. Executive managers can detach themselves from the business operations for which they are responsible.

3.5.2 The Balanced Scorecard model has conceptual limitations as a strategic management tool

The Balanced Scorecard model is not used as a universal model. For the Balanced Scorecard model to be applied as an effective strategic management tool, the scorecards should be rooted in the management practice of every individual organisation (Norreklit, 2000:65-88). Its lack of universal applicability makes the model useless in other societies. For example, the model is still not accepted in France because of its conceptual shortcomings. The Balanced Scorecard model does not suit the French way of doing business (Bourguignon

et al., 2004:108). The mechanical top-down deployment of the approach disregards the incremental and collective construction of business strategy in France. Another ideological mismatch arises from the fact that, unlike in the USA, in France there is no long tradition of performance-based remuneration systems such as that propagated in the Balanced Scorecard model.

Furthermore, the Balanced Scorecard model is rigid and mechanistic, because it is premised on a top-down approach: strategies developed at a senior level cascade down to the lower levels of the organisation. The Balanced Scorecard model fails to recognise that a performance measurement system can be a two-way process (Hudson, Smart & Bourne, 2001:1096-1115; Mooraj, Oyon & Hostettler, 1999:507-514). Consequently, the model lacks conceptual integration of top-level strategic scorecards with operational level measures.

For big organisations with divisionalised systems, the Balanced Scorecard model might not be conclusive in promoting strategic interfacing between central and local units at the division or branch levels. The model could fail to link local operations and with the long-term objectives of an organisation (Ittner, Larcker & Meyer, 1997; Lipe & Salterio, 2000; Neely & Micheli, 2005). This happens when the Balanced Scorecard model is used rather either as an management information system or based on the concept of management by objective (MBO) which does not consider the serious interface between corporate performance measures and organisational strategies (Malmi, 2001).

Although Kaplan and Norton (2004a) contend that the Balanced Scorecard model should be used just as a template and that its application should be adapted to individual organisational needs, the researcher has observed that no clear provision has been made for how variants of the Balanced Scorecard model perspectives should be inter-connected in cause-and-effect type of relationships. Indeed, the implementation procedure of the Balanced Scorecard does not always have this feature. In many cases, it may be difficult for an organisation to implement the Balanced Scorecard model effectively, as its four

perspectives may be completely different from the organisational strategic framework in terms of management's preferences. Lack of universality thus makes the application of the Balanced Scorecard model problematic, especially in areas where the socio-cultural ideologies differ from those that originally underpinned the model.

3.5.3 Strategy execution using the Balanced Scorecard model is still problematic

The strategy execution of the Balanced Scorecard model still poses challenges for many organisations. Many executive managers are still not aware of the different approaches possible in dealing with strategic and operational activities (Kaplan & Norton, 2008a:4-22; Weil, 2007:1). Nevertheless, organisational alignment is the greatest and the most frequent cause of the success or failure of the Balanced Scorecard model (Wery & Wako, 2004:153-157). Often, senior managers are so consumed with functional operations, performance management, budgets, and business processes that they have little time for thinking about the impact of strategic change on the organisation, and about implementation issues. The fact remains that the very same people who keep operations going are the ones who need to change the course of action on corporate activities.

Another challenge in the implementation of the Balanced Scorecard model is that most managers are still inclined to use traditional financial measures such as gross revenue, gross profit, cost reduction and net profit (Chia *et al.*, 2009:605-620). This implies that there is more to using the Balanced Scorecard model conceptualisation than just implementing the model. The Balanced Scorecard model may require changes in the culture within the organisation and a transformation of internal business processes and practices for it to be successful.

However, there is generally an unwillingness among managers to embark on major organisational changes that require a paradigm shift in respect of existing

performance measurement systems and its operations (Hinton & Barnes, 2009:329-345). This is particularly prevalent where organisational operations become more risky when there are abrupt changes. For example, the risky scenario is true for e-business or any information technological environment, which are environments that are very dynamic and unpredictable most of the time. In such cases, senior executives tend to opt for an *ad hoc* and/or incremental change rather than a radical paradigm shift.

In any case, Chavan (2009:393-406) advises that there should be undoubted and pervasive commitment and support from the top senior executives down to the bottom operators for the Balanced Scorecard model to be successfully implemented. As culture changes and develops within the organisation, there is greater acceptance of the approach as members of the organisation become mature in using the Balanced Scorecard model and can then make it even more balanced in future. Different organisations have different settings, as they target different markets and customers, people provide different products and services and should therefore end up with different Balanced Scorecard model systems which they deem relevant and valid for their operations.

3.5.4 The validity of the four perspectives of the Balanced Scorecard model has not been proven

The Balanced Scorecard model is conceptualised on the notion that it should operate successfully under the four perspectives as identified by Kaplan and Norton (1992). On average, organisations that use the Balanced Scorecard model exhibit few differences in their emphasis on non-financial performance measures (Ittner *et al.*, 2003:717). Hence, such organisations make little use of the causal business model on leading and lagging indicators which the advocates of the Balanced Scorecard model claim to be foundational to the scorecard in the model.

While the choice of the four perspectives may have an intuitive appeal, the basic challenge to the Balanced Scorecard model's application is that the founders

have not provided any empirical support for the selection of the four perspectives (Flamholtz, 2003:15). The choice of the four perspectives lacks scientific validation for acceptability by business practitioners and academic scholars. Nobody knows whether these are the only perspectives or the right perspectives to be used when assessing corporate performance, or whether there are other more critical organisational perspectives to focus attention on. Assuming that the selected perspectives are invalid, it follows that a management focus on corporate planning and performance measurement systems could also be invalid, leading to minimal corporate performance or even corporate failure.

3.5.5 The Balanced Scorecard model has registered high failure rates

Although the Balanced Scorecard framework has been widely accepted in the business community, the proper method of implementing the framework still remains a big challenge (Kaplan & Norton, 2008a:4; Leung, Lam & Cao, 2006:683). A KPMG management consultant estimates the overall failure rate at 70% (DeBusk & Crabtree; 2006:44-48). Although the Balanced Scorecard model could be regarded as a valuable tool to assess corporate performance, it is also a fact that it is very risky to rely on it because of its high failure rate. Therefore, business executives who want to implement the Balanced Scorecard model should be cautious of the measures that are deployed in the model.

The linking of the Balanced Scorecard measures to compensation schemes, for example, has proved to be very problematic and risky. It is very difficult to determine the relative weights of the various performance measures on the scorecard (Iltner *et al.*, 2003:738). Although the Balanced Scorecard approach is associated with higher measurement systems satisfaction, the model exhibits almost no association with the economic performance of a practising organisation; which raises questions about its cost-effectiveness in the long term.

3.5.6 The Balanced Scorecard model and its long-term cost-effectiveness are in question

The issue of high failure rates raises concerns about the long-term cost-effectiveness of the Balanced Scorecard model. There has been little research into the effectiveness of the Balanced Scorecard model. However, Bourne, Franco and Wilkes (2003:15-21) indicate that there are three key factors that would enable organisations to have success in using the Balanced Scorecard model during the implementation phase: the model must have top management commitment; all the people in the organisation should have the sense that it is worth the effort; and there should be good facilitation regarding the model concepts and applications. In addition, they found other three distinctive elements between success and failure of the Balanced Scorecard model implementation, namely corporate vision, organisational structure, and organisational culture.

As discussed above, most executives in highly risky businesses are unwilling to deploy the Balanced Scorecard model and embark on major changes within their companies (Hinton & Barnes, 2009:329-345) on the strength of it. For example, whilst there is evidence of a common concern to link e-business performance to organisational objectives through the Balanced Scorecard model, it is acknowledged that the installation of a new and sophisticated performance measurement system to accommodate the requirements of e-business is potentially highly costly, time-consuming and disruptive. Thus, senior managers should always question its assumptions and the long-term cost effectiveness of the Balanced Scorecard model before implementing it.

3.5.7 Assumptions about the unidirectional linearity of the Balanced Scorecard model perspectives may be erroneous

The Balanced Scorecard model's assumption that perspectives have a linear cause-and-effect relationship may not be true in real world situations. For instance, the relation between customer satisfaction and future financial performance could be non-linear, with little or no effect at high satisfaction levels

(Ittner & Larcker, 2001:370). In other cases, there are mixed relationships between the perspectives, where some are positive, others negative or even insignificant, depending on the industry concerned and the underlying questions asked about the customer satisfaction.

An empirical study has revealed low ratings in the relationship of corporate performance and the use of the Balanced Scorecard measurement system – Ittner and Larcker (2001:371) found that the implementation of a Balanced Scorecard compensation plan in one of the retail banks in the USA brought about no significant change in the managers' understanding of corporate strategic goals. Hence the cause-and-effect relationships proclaimed by the Balanced Scorecard model were non-existent in this scenario.

The relationships between perspectives could also complicate the weighting of the perspectives themselves, as they cannot be ranked equally. The importance of any one of the four perspectives cannot be determined without knowing the effects of the relationships between the perspectives (Leung *et al.*, 2006:683). Thus, proper weightings for each perspective should be determined to avoid a situation in which an individual manager is inappropriately rewarded or penalised.

Although the Balanced Scorecard model makes qualitative objectives such as product quality, customer satisfaction, personnel motivation and involvement into quantitative ones as a basis of reward systems, subjectivity still remains a serious challenge when senior managers are attaching appropriate assessment ratings to such objectives (Ittner & Larcker, 2001:349-410). In their study, Ittner and Larcker (2001) observed that the Balanced Scorecard model brought about subjectivity in performance measurement systems, as senior executives became biased towards individual assessments. Because of its inapplicability, the Balanced Scorecard system was consequently abandoned.

The existence of such causal relationships is assumed to be unidirectional where the innovation perspective leads into internal business processes, customer

perspectives, and ultimately the financial perspectives in that order (Kaplan & Norton, 2001b). Instead of the assumption of unidirectionality, in the real world, causal relationships are interdependent, and bidirectional or multi-directional, where the outcome of one perspective is affected by several factors from different perspectives (Akkermans & Van Oorschot, 2005:933; Norreklit, 2000:68; Norreklit *et al.*, 2008:65-66). Each perspective has leading and lagging indicators that yield to two directional cause-and-effect chains. Hence the leading and lagging indicators would apply both horizontally within the perspectives and vertically between the perspectives.

There should be a proper distinction between the performance indicators and the performance drivers. However, these measures fail to reveal the operational improvements that are translated into expanded business and eventually into financial measures (Leung *et al.*, 2006:684). Thus, a lack of cause-and-effect relationships is crucial, because invalid assumptions in feed-forward control systems would force organisations to anticipate performance indicators that are actually faulty. Consequently, dysfunctional organisational behaviour and sub-optimisation would be experienced, as observed by De Haas and Kleingeld (1999:244).

The analysis above shows that problems surrounding the cause-and-effect relationships between the perspectives of the Balanced Scorecard model have not yet been resolved. Thus, organisations that want to implement the model would need to do a lot of research to fully understand the causal relationships between the four perspectives. Causal relationships studies would include looking at the directional elements of perspectives, as well as time lags between the cause and the effect of the perspectives.

3.5.8 There are no time lags between the cause-and-effect relationships of Balanced Scorecard model perspectives

As a strategic management tool, the Balanced Scorecard model takes into consideration the importance of linking processes and outcome measures in a

cause-and-effect relationship manner for strategic management purposes. Such a causal relationship requires a time lag between the cause and the effect of perspectives. The model is problematic in that the time lag dimension is not explicit in the Balanced Scorecard model (Norreklit, 2000:71-72; Norreklit *et al.*, 2008:66-67). Consequently, the process outcomes and measures are reported within the same time framework. This presupposes that the cause and effect are mutually exclusive and that the cause and effect events take place at the same time. It is then very difficult for senior and middle managers to observe whether progress made in one perspective has contributed to improved outcomes in the target perspectives.

There are time delays in the interrelationships of the causes and effects. For example, the introduction of more efficient internal business processes may yield more customer satisfaction within a period of only two months, but some innovations may take several years to have any effect on the overall corporate financial results (Kunc, 2008:761-778; Norreklit *et al.*, 2008:66-68).

Furthermore, the Balanced Scorecard model is supposed to provide managers with real-time information for tactical and strategic decision-making processes. However, the Balanced Scorecard fails to distinguish between common causes and specialised variability, which can lead to too much “fire fighting” within an organisation (Breyfogle, 2008:39-40). Usually, scorecards use a single index of factors that are supposed to be tracked separately. Conversely, there could be too many measures obscuring the true and meaningful status of corporate performance, thus frustrating the main objective of the model, which is maximising profitability.

3.5.9 The maximisation of shareholders’ wealth is overgeneralised in the Balanced Scorecard model

The Balanced Scorecard model is hypothesised on the basis of causal relationships using the rationale that an organisation has one primary long-term objective, for instance, that of maximising shareholders’ wealth in a profit-

motivated organisation. Profit-maximisation objectives may not be applicable to public and non-governmental organisations. Organisations, especially those in the public sector, may have to deliver multiple objectives.

Within such a complex organisational setup, it may be difficult to incorporate clear causal relationships between multiple objectives and process indicators within a simplified Balanced Scorecard model. Meaningful performance measures are tracked over time using multiple levels throughout the organisation.

3.5.10 The Balanced Scorecard model focuses on an individual organisation and ignores modern collaborative commerce

There have always been challenges regarding the practicality of the Balanced Scorecard model within organisations. The Balanced Scorecard model dwells on the performance on an individual organisation, rather than a wider collaborative arrangement of companies (Voelpel *et al.*, 2006:51). In challenging recent environmental developments, modern organisations are technologically linking together to attain more synergies through networking. Good examples of such modern collaborative management systems would be supply chain management systems and customer relationship management systems. The Balanced Scorecard model is therefore not in line with modern enterprise systems.

Due to globalisation and technology, organisations work collaboratively for sustainable competitive advantage (Busi & Bititci, 2006:7-25; Drury & McWatters, 1998:36; Porter, 2008:78-93). For there to be organisational success, industries and individual organisations have to cope with today's increasingly competitive marketplace; and organisations inevitably have to become more collaborative to survive. Such collaborative and distinctive efforts are even being pursued by competitors, where they form cartels or where competitors merge their internal business processes.

The above observation points to the necessity and value of networking with business partners for long-term survival. A business partnership also implies instituting good internal businesses that foster excellent relationships with external stakeholders. The fundamental premise of this argument is that organisations must form a collaborative network that genuinely represents and boost the whole, using all organisational resources, both tangible and intangible. For example, to retain consumers, there must be deliberately customer-oriented systems that satisfy consumers. Unfortunately, the Balanced Scorecard model is not capable of accommodating trans-organisational arrangements.

3.5.11 Over-emphasis on the four perspectives of the Balanced Scorecard model

The Balanced Scorecard model puts too much emphasis on the four key perspectives. It looks at shareholders, customers and employees, but leaves out other critical stakeholders, such as suppliers, government, competitors, the community, and the natural environment. This approach can be viewed as potentially problematic if proper coordination is not accomplished during the Balanced Scorecard model planning and implementation phases (Otley, 1999:363-382). The focus on the four perspectives poses the risk that if the unrelated demands of each of the individual key groups are included, the resulting Balanced Scorecard model can resemble a series of four independent and uncoordinated lists of performance measures (Bourguignon *et al.*, 2004:118; Gering & Mntambo, 2002).

Furthermore, by specifying the four perspectives to be used in assessing corporate performance, it is implied that these are the factors which could be considered to be critical for organisational performance (Flamholtz, 2003:15; Voelpel *et al.*, 2006:50). The Balanced Scorecard model leaves no room for more perspectives and cross-perspectives that might have a simultaneous impact on corporate performance. Neely *et al.* (1995:106) contend that the Balanced Scorecard model is unable to address one of the fundamental questions for corporate managers: *What are the competitors doing?* In a competitive business

environment, a focus on competitor analysis would be regarded as critical to any organisation's survival.

The predetermined categorisation of the four perspectives on the Balanced Scorecard model may, however, prevent the model from becoming organisation-adapted. Different organisations have quite different needs, market areas, people, products and services and stakeholders (Chavan, 2009:393-406). The above observation implies that each organisation should have its own different perspectives on the Balanced Scorecards model. By putting too much emphasis on the four perspectives, the Balanced Scorecard model may ignore other more relevant immeasurable attributes, such as organisational culture, which are key factors in the future competitiveness of the organisation concerned (Duren, 2010:162-168; Flamholtz, 2001:273; 2003:15; 2005:90).

3.5.12 The Balanced Scorecard model does not employ a multi-stakeholder-centred approach

The literature review reveals that the Balanced Scorecard model does not conform with the stakeholder-centred approach to performance management (Atkinson, Waterhouse & Wells, 1997:25-37, Voelpel *et al.*, 2006:51). The model is primarily based on the understanding that an organisation has one long-term objective, that of maximizing shareholders' wealth in a profit-motivated organisation. Other critical stakeholders, such as the government, which contributes towards the private sector development, are completely ignored in the Balanced Scorecard model discussion.

The Balanced Scorecard model fails to explicitly recognise other critical stakeholders, especially within an African context. Stakeholders' interests of employee values, local community, suppliers are sacrificed to satisfy only the shareholders. With the exception of a customer focus, the model is purely capitalist as it puts more emphasis on shareholders (owners of financial capital) than on the other stakeholders (Kennerley & Neely, 2002b; Smith, 2005). The Balanced Scorecard model lacks a multi-stakeholder approach, as it is not

comprehensive enough regarding the other key stakeholders, such as the community and the natural environment.

Debates about the natural environment are becoming a commonplace in modern organisational settings (Martin, 2007:36-37; Rossouw, 2010b:20-22). The Balanced Scorecard model does not capture a true environmental perspective and ignores the links between the environment and organisational operations. Consequently, many organisations do not take appropriate actions to quantify the associated risks of environmental considerations. Worse still, environmental and societal disclosures are still absent from companies' annual reports. However, in South Africa, the King III Report on governance has made environmental and social reporting mandatory (Institute of Directors in Southern Africa, 2009:109)

3.5.13 The Balanced Scorecard model de-emphasises the significance of socio-cultural frameworks for organisational survival

The de-emphasis of socio-cultural perspectives is a serious flaw in the Balanced Scorecard model (Voelpel *et al.*, 2006:51-52). For example, within an African context, socio-cultural linkages are considered a key factor for the success of any organisation based in Africa (Karsten & Illa, 2005; Khoza, 1994; Mangaliso, 2001; Mbigi & Maree, 2005). In African society and management systems, the Ubuntu philosophy is a pervasive spirit of caring and sharing and the community is paramount. People's cultural beliefs and values are a crucial factor in the economic endeavours of organisations (Ntibagirirwa, 2009:297-311).

As has already been pointed out, the Balanced Scorecard model is capitalist, as it focuses only on the maximisation of shareholders' value through high profitability rather than the fulfilment of the socio-cultural values as enshrined in the African Ubuntu socio-cultural systems. The Ubuntu philosophy demands that success should not be aggressively achieved at the expense of others as the purpose of existence is for communal harmony and well-being (Tutu, 2004:27). In its current form, the Balanced Scorecard model is therefore not consistent with the socio-cultural values of an African framework.

The above analysis of the significance and limitations of the Balanced Scorecard model is summarised in Table 3, below.

Table 3: Significance and limitations of the Balanced Scorecard model

Significance of the Balanced Scorecard model	
1.	The Balanced Scorecard model is used as a strategic management tool
2.	The Balanced Scorecard model is used as a means of setting organisational priorities
3.	The Balanced Scorecard model is used as a motivational tool
4.	The Balanced Scorecard adopts a holistic approach
5.	The Balanced Scorecard model is the basis for the budgeting and budgetary process
6.	The Balanced Scorecard model forms a foundation for sound external financial reporting systems
7.	The Balanced Scorecard model provides a means of organisational communication system
Limitations of the Balanced Scorecard model	
1.	The Balanced Scorecard model is oversimplified - it does not represent the complexity of organisational systems
2.	The Balanced Scorecard model has conceptual limitation as a strategic management tool
3.	Strategy execution using the Balanced Scorecard model is still problematic
4.	The validity of the four perspectives of the Balanced Scorecard model has not been proven
5.	The Balanced Scorecard model has registered high failure rates
6.	The Balanced Scorecard model and its long-term cost-effectiveness are in question
7.	Assumptions about the unidirectional linearity of the Balanced Scorecard model perspectives may be erroneous
8.	There are no time lags on the cause-and-effect relationships of Balanced Scorecard model perspectives
9.	The maximisation of shareholders' wealth is overgeneralised in the Balanced Scorecard model
10.	The Balanced Scorecard model focuses on individual organisation and ignores the modern collaborative commerce
11.	Over-emphasis of only the four perspectives of the Balanced Scorecard model
12.	Balanced Scorecard model does not employ a multi-stakeholder-centred approach
13.	The Balanced Scorecard model de-emphasises the significance of socio-cultural frameworks towards organisational survival

Source: Own observation

The above literature review indicates that the limitations on the use of the Balanced Scorecard model far outweigh the model's usefulness at present (see Table 3). Most of the cited limitations of the Balanced Scorecard model are the result of the model's assumptions and conceptualisation. The main problem of the Balanced Scorecard model is its rationale of focusing on providing a systematic tool, combining financial and non-financial performance indicators in one coherent performance measurement system. In a mechanistic way, the measures are constructed according to a predefined strategy, and the company's processes are aligned towards this strategy.

Overall, the Balanced Scorecard model is based on the perception of a corporation as a profitability machine, which needs to be optimised to reach maximum efficiency through measuring and controlling for mostly company-owned processes. The Balanced Scorecard model fails to include critical stakeholders such as suppliers, government, competitors, the local community, and the natural environment. Exclusion of these stakeholders from the model's perspectives is not consistent with the modern thinking of a stakeholder-centred approach to management.

Most conspicuous in the Balanced Scorecard model is the omission of the socio-cultural elements as one dimension affecting corporate performance, especially within an African context. The socio-cultural dimension is critical, as discussed in the literature review above (summary) and also more detailed in Chapter Four (next chapter). The conceptual framework of this study takes cognisance of relationships and cultural elements as critical ingredients of the success of organisations in Africa.

3.6 CONCLUSION

This chapter has reviewed literature on issues surrounding the measurement of performance using scorecards, in particular Kaplan and Norton's Balanced Scorecard model. The Balanced Scorecard model eliminates over-reliance on

the use of financial measures when assessing corporate performance. While retaining a financial perspective, the Balanced Scorecard incorporates three more perspectives: the customer, internal business processes, and innovation perspectives.

The Balanced Scorecard is founded on several conceptual assumptions that include the prescription of the four perspectives, the aim of increasing shareholders' wealth through profit maximisation, the desirability of aligning the organisational vision with strategy through top-down hierarchical arrangements and the beliefs in a cause-and-effect relationship between the perspectives. Successful implementation of the Balanced Scorecard model entails the proper translation of vision and strategy into action.

The chapter has also reviewed literature on the significance of using the Balanced Scorecard model, especially in organisations. The usefulness of the Balanced Scorecard model to an organisation lies in its holistic approach towards corporate performance measurement, the motivation it provides to employees, its being a basis for budgeting and budgetary control systems, as well as for sound external financial reporting systems, and its providing a means of organisational communication.

The Balanced Scorecard model may not be a recipe for success everywhere. Some major challenges and limitations are associated with the Balanced Scorecard model's conceptualisation and assumptions. The limitations of the model include its oversimplification and conceptual limitations as a strategic management tool, the fact that its four perspectives have not been proven to be valid, that the model is associated with high implementation failure rates, its questionable long-term cost effectiveness, its cause-and-effect relationship problems, and its failure to recognise modern collaborative commerce practices.

Furthermore, the Balanced Scorecard model overemphasises the four perspectives. It still implies more of a shareholder than a stakeholder approach,

as only shareholders, employees and customers are considered. Other critical stakeholders, such as suppliers, government, competitors, the community and ecological systems are not included. The Balanced Scorecard model de-emphasises the socio-cultural frameworks that have a direct impact on corporate performance, especially in the African environment.

The next chapter reviews relevant literature on scorecards within the context of the African Ubuntu philosophy, which is all-pervasive in Africa and governs African society. It looks at the underlying principles of this philosophy and its possible applications within a business context.