The balanced scorecard: comments on balanced scorecard commentaries

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Abstract

Purpose – The purpose of this paper is to provide the author's insights about five papers written in this volume about his published work on the balanced scorecard (BSC).

Design/methodology/approach – The author's comments are based on his personal writing, teaching, speaking about, and implementing the BSC during the past 20 years.

Findings – The author finds that academic commentary on the BSC often ignores its role in strategy execution.

Research limitations/implications – The commentary is unique to the author's personal experiences and may not be generalizable to other scholars who have not shared the same experiences.

Practical implications – The paper may help scholars better understand the role of the BSC for strategy formulation, communication and implementation. It may also aid them in teaching the BSC to students and executives.

Social implications – The paper discusses how the BSC can be used in public sector applications, as well as for companies that want to internalize environmental, social and community objectives in their strategies.

Originality/value – The paper reflects the personal views of the author; it is original to him.

Keywords Balanced scorecard, Performance management, Strategic management, Strategy map, Strategy execution

Paper type Viewpoint

Background and introduction

I am pleased and honored that the editor of the *Journal of Accounting & Organization Change* (*JAOC*) chose to recognize the 20th anniversary year of the publication of the first balanced scorecard (BSC) article in the *Harvard Business Review* (*HBR*) by Dave Norton and me (Kaplan and Norton, 1992). That article summarized a 1990 research project with 12 companies led by Norton and for which I served as an academic consultant. The project's goal was to explore new approaches for performance management in companies whose primary source of value came from intangible, not financial or physical assets. Since that article appeared, Norton and I published a couple dozen more articles in HBR and other management journals plus five books with Harvard Business School Press. While the original article's focus was on performance measurement, our work with early adopting companies between 1992 and 1995, caused us to realize that the BSC could become the foundation of an entirely new system for strategy management and execution.

Robert S. Kaplan's article is an invited commentary in response to the five commentaries published in this special issue "20th Anniversary of the balanced scorecard – commentaries" *Journal of Accounting & Organizational Change*, volume 8, issue 4 (2012).

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Strategy execution has been the focus of our work for the past 16 years, and indeed had already been featured in the second half of the original BSC book (Kaplan and Norton, 1996a) and a 1996 *HBR* article (Kaplan and Norton, 1996b).

Commentaries on the BSC in this journal

With the above background, I was surprised that four of the five commentaries in this volume of the *JAOC* addressed the original (1992) performance measurement aspect of our work and hardly at all the strategy execution focus of the past 16 years. As a consequence, the commentaries provide only a narrow perspective on the implications of the BSC for management theory and practice. Also, none of the authors (one small exception) described any personal experiences they had with actual enterprises, private or public, implementing the BSC. I addressed the distancing of academics from actual practice in my AAA Presidential Scholar address three years ago (Kaplan, 2011). The commentaries provide additional data points consistent with my observations of the 40 year trend for academics not to perform original research in the field.

Since the commentaries are so different from each other, I will discuss each of them separately.

Commentary by Salterio

Professor Salterio, as described well in his commentary, has been an academic leader in testing the behavioral aspects of the BSC. I disagreed, however, with his characterization of the BSC as a “significant teaching development in management accounting.” A teaching development or innovation occurs when a faculty member finds a clever way to help students understand quickly and well an important, but already established, management concept in the field’s common body of knowledge. If Norton and I thought that the BSC was a “teaching innovation,” we would have published our work in *Issues in Accounting Education* not the *Harvard Business Review* (which few educators read on a regular basis) or in trade books. We wanted to create an innovation in management theory and practice that, if successful and widely adopted in practice, would eventually be noticed by management accounting teachers who could then devise clever ways to expose their students to the concept.

Salterio’s observes that Norton and I “subconsciously” used psychology research in our initial BSC design by chunking information into four perspectives with 4-7 measures in each perspective. We were aware of the bounded rationality literature so it was not quite serendipitous that our personal observations, and work with the initial set of a dozen companies in the 1990 project, coincided with the findings from psychological research. I felt, however, that the research stream described by Salterio did go off on a side issue about common versus unique performance measures and the investigation of a “common measures” bias. If the behavioral scientists had started from strategy they would have seen that the common versus unique measure issue is contingent on corporate-level strategy. Companies that strive to deliver the identical value proposition in each of their decentralized units – such as retail bank branches, hotel chains, and fast food outlets – would use common measures in every single scorecard since their goal is to implement the same strategy in every unit. Conversely, highly-diversified companies, including private equity firms, may have no common measures other than in their financial perspective, since the strategy of each operating company would be completely different from each other. Thus, whether a corporation uses more common or more unique measures is not the manifestation of a psychological or perceptual bias; it reflects the degree of diversification among its operating units. I do not deny that psychological and organizational issues play an important role in implementing the BSC, but the literature Salterio described would have been much richer and influential had it integrated the strategic context in which divisional and business unit scorecards get designed.

Salterio describes a consulting assignment to help an organization's management team become familiar with BSC ideas. He started the workshop by having them describe existing performance measures. My recommendation would have been to start by asking them to describe mission and strategy and develop (with a clean slate) the measures they would use to describe their strategy. Then they could collect the existing measures and compare them to the metrics they had accumulated without an explicit expression of their strategy. Salterio's consulting day ended fine, as he described, with the organization having identified the handful of measures they would want for the BSC but not yet collected. He characterized this outcome as unexpected, but it can become more "expected" if you start such days with strategy and a clean slate of metrics, and then work back to what is currently available and what new metrics need to be developed and collected.

In his penultimate paragraph, Salterio expresses concern that the "rolling up the unit unique measures to corporate scorecards was going to be fraught with difficulty" and about the "information processing challenges associated with rolling up or rolling out scorecards." But my discussion of quite different corporate strategies indicates that how much unit scorecards "roll up" to corporate scorecards is completely contingent on the corporate strategy. Companies with identical scorecards in all their retail outlets have no problems rolling up unit metrics to corporate metrics. And highly-diversified corporations have no need or capability to roll up the non-financial metrics on their scorecards since each unit has its unique strategy. Most companies are in between these two extremes with some common corporate-level metrics in each unit's scorecard though with some to most of the unit metrics being unique to their strategy, region, and competition. The diversity of objectives and metrics across organizational units is hinted at briefly in our first book (Kenyon Stores example on pp. 244-5), developed further in *Strategy-Focused Organization* (Kaplan and Norton, 2001, Chapter 6, "Developing business unit synergy") and covered in depth in our fourth book, *Alignment*, especially Chapters 1-5 (Kaplan and Norton, 2006). It may be worth revisiting the research that Professor Salterio launched in 1999 to determine whether academics can create synergies between human information processing research and advances in corporate strategy research. I conclude by again expressing my appreciation to Professor Salterio for his diligent focus and research designs that did explore important information processing issues surrounding the use of multi-perspective and multi-dimensional performance measurement systems.

Commentary by Modell

Professor Modell's introduction describes the BSC approach very well and recognizes that its performance measurement aspects should be embedded within a strategy execution system. Modell then raises the issue of "power," apparently who gets to choose and approve the strategy. I do not consider this issue a problem for private sector enterprises since senior executives have the legitimate authority, with review by the corporate or nonprofit board, to make decisions about which strategy to adopt and follow. Some have expressed concern that the BSC as a "top-down" approach in which senior executives set the objectives in the strategy map and the measures on the associated BSC for those lower in the organizational hierarchy. But the strategy map and scorecard communicate the outcomes to be accomplished, allowing innovation at middle and lower levels of the organization to find new and different ways to achieve the targeted performance. In this way, the enterprise strategy map and scorecard provides clear objectives which, in turn, creates a higher degree of empowerment to lower levels of management and employees, encouraging them to do their jobs differently and better to drive overall organizational performance. In this perspective, strategy formulation and communication is top down while the actual implementation of strategy is definitely bottoms-up as it must be.

Perhaps, however, Modell is more concerned with a potential power shift between the shareholders, as represented by the CEO and the board (in Anglo-Saxon governance systems), and other stakeholders – employees, communities, suppliers, customers, and governments – of the firm. Several decades before the BSC came on the scene, the stakeholder approach had been introduced to counteract the unitary focus on corporate profit maximizing advocated by, say, Milton Friedman and Michael Jensen. The BSC does reflect several stakeholders explicitly in its structure, such as customers in the customer perspective and employees in the learning and growth perspective. But suppliers appear on the scorecard only when they create a source of differentiation in the strategy, and companies do have the option, but not the compulsion, to incorporate societal and regulatory objectives on their strategy maps, as we emphasized in our third book, *Strategy Maps* (Kaplan and Norton, 2004). Some have criticized the BSC's positioning of long-term shareholder value creation in the financial perspective as the primary performance accountability for companies. They would prefer a more "balanced" approach where shareholder performance is parallel to that for other constituents. Not surprisingly, I do prefer the shareholder value to the stakeholder value approach, for reasons described in a relatively recent article (Kaplan, 2009). But I have also written a case that describes how companies, wishing to follow a triple bottom line performance framework, encompassing economic, environmental, and social value creation, can adapt the strategy map/BSC framework for those goals (Kaplan, 2007).

My sense, however, is that Modell's larger concern is with potential shifts in power relationships among the multiple stakeholders in public sector enterprises, as the examples later in his article illustrate. This is a more complex situation. Who does have the authority and legitimacy to select the agency or department's strategy and associated performance metrics and accountability? Ideally, the senior management team of the public sector enterprise would propose the strategy and associated performance metrics or approval to the legislative and executive branches that provide funding, oversight, and legitimacy to that enterprise. This, however, is more honored in the breach than in practice, leading me to agree with and endorse Modell's recommendation to explore such "multi-level dynamics in greater detail."

Commentary by Nørreklit et al.

I have much less to say about the Nørreklit *et al.* commentary, primarily because I could not understand the theoretical framework they use. I found it curious that they describe the BSC as a "myth." when it has been successfully implemented by thousands of for-profit, nonprofit and public sector enterprises and has been regularly listed as among the top ten management tools used throughout the world (Rigby and Bilodeau, 2011). Perhaps, Nørreklit *et al.* believe that the BSC may be fine in practice but it does not work in theory.

I can shed some light on two attributions that the author team made about me personally. They were puzzled "that the BSC methodology has not been included in Kaplan's (2011) own call for relevant research." The omission was a deliberate decision I made to avoid using my personal experience as the foundation for a plea that academics become more engaged with practice innovations. I did not want the arguments I used in the Presidential Scholar speech at the 2010 AAA Conference or its subsequent publication to be trivialized into a self-referential, preachy "do what I did" message. My message was that enormous innovation opportunities had been available to financial accounting scholars, the modal group in the American Accounting Association and in the association's flagship journals, for the past 40 years. Moreover, the failure to engage with practice had led to missed opportunities to improve contemporary practice and standard-setting to the detriment of the profession and, more broadly, to society. Most in the audience understood that I was not asking scholars to do something different from what I had been practicing in my own professional activities.

The authors comment "[. . .] the Kaplan and Norton (2001a, 2001b) texts seem to have changed elements that do relate to these criticisms (Nørreklit, 2000)" and a few sentences later "[. . .] the authors seems to accept the point of view of Nørreklit (2000) [. . .]". Since neither Norton nor I were aware of this article, much less read it, Nørreklit (2000) could have had no influence on anything we wrote then or subsequently.

Commentary by Dechow

Professor Dechow provided an excellent summary of the BSC and I appreciated his commitment to teach the concept in his executive education programs. The limitations he experienced arose from teaching the BSC as only a performance measurement exercise and not as a management tool to describe, communicate and implement strategy. He did not indicate which Harvard Business School case he used in his class so I cannot comment on why he found it difficult to get them to focus on its strategic aspects.

In my own teaching of the subject to executives, I always use at least two sessions. The first case session introduces the concept and requires participants to develop or comment on the strategy map/BSC of a company whose strategy is described in the case. That focuses the class not on the BSC as an abstract measurement or management tool, but as one that must be derived from and be strongly linked to an individual company's strategy. Dechow observes that executives "often develop and present BSCs that [. . .] appeared more generic than specific." By developing a scorecard for a company whose strategy is described well in the case, the executives produce strategy maps and scorecards specific to the company, though sometimes a little coaching helps the process along. I emphasize a statement made in Kaplan and Norton (2001) that you should be able to reverse engineer a scorecard back to a strategy, something that cannot be done if only generic measures are used in the BSC. This also helps avoid the pathology of executives wanting what they can measure rather than measuring what they want, a phrase that I manage to interject in the case discussions.

Dechow also comments that students "only rarely work themselves from the learning and growth perspective via operations and customers to a finance perspective." Yet this is exactly the right approach to follow. As Lewis Carroll observed in *Alice in* Wonderland, without knowing the destination, any path will get you there. In any design project, such as for a building or for a BSC, you start with the destination and then work back to your first step. In a building, the architect designs the foundation last (as with the learning and growth perspective in the BSC) since the architect must know what the foundation will support before it can be designed. In my first BSC design session, I always start with the three to five year financial targets and then work back through customers and processes before reaching the learning and growth perspective, which is then customized to develop the human, information, and organizational capital that will drive improvement in the critical processes that deliver value to customers and shareholders. This approach works just fine with the executives; once they have gone through the logic once, they understand it and can replicate it for their business units.

The second BSC class features the experiences of an actual company implementing the BSC as a strategy management system. For many years, the Mobil USM&R case served this role; more recently, I have used the Volkswagen do Brasil case for this session. The two case sequence signals that effective implementation of the BSC requires both excellent measurement of a strategy as well as the use of the strategy map and BSC measures in a new strategy management system.

Recently, I have introduced a teaching innovation after the first BSC class by having participants develop a tentative strategy map and scorecard for their own organization. They then present and receive feedback on their tentative designs during a three hour interactive session with four to eight of their classmates, spending 20-25 minutes on each strategy map/BSC. I have done this design and interactive experience in more than 15 different executive programs and it is one of the most highly rated experiences in the course; many have written back to me that they took their preliminary design back to their companies and it became the basis of a full implementation of the concept in their organization. Thus, I remain persuaded that the BSC concept is not only teachable to executives; they can learn enough to become the teachers in their enterprises.

Commentary by Barnabè and Busco

I appreciate and approve Barnabè and Busco's advocacy of systems dynamics to develop a more comprehensive and quantitative model of the causal relationships and linkages in a company's strategy. As they document, this has been a direction that I have been advocating since our first book (Kaplan and Norton, 1996a). Norton and I served as advisers to the creation of a multi-period BSC classroom exercise (Ferneau, 1998) driven by an explicit systems dynamics model of a software/consulting company. The exercise required students to create scorecards for the company, make decisions, and then see their impact over more than a dozen periods.

In Kaplan and Norton (2001, p. 311), we described the benefits from analyzing data that would test and reveal hypothesized relationships among BSC variables:

> Such statistical analysis enables managers to estimate historical relationships among Balanced Scorecard measures and to establish the validity of the causal linkages in the strategy map. The next step is to use the causal relationships to forecast the future trajectory of the strategy.

We described how a Mexican insurance company was experimenting with just such a systems dynamics model, and referenced the MIT model (Sterman *et al.*, 1997) constructed for Analog Devices, one of the original case studies used to develop the BSC in 1990.

Unfortunately, as noted by Barnabè and Busco, these early efforts have not been pursued, with the exception of a case study of South Korean, LG Display (Campbell, 2010). Despite the recent interest in business analytics and the extraordinary quantities of data now available from corporate ERP systems, systems dynamics remains an untapped opportunity for research and practice.

Conclusion

In summary, I appreciate all the efforts by the authors to provide readers with their personal observations and experiences based on their reading of the papers and books that Norton and I have written over the past 20 years. We recognize that much academic work remains to be done to understand the practical and theoretical implications of the BSC innovation and hope that other academics will continue to participate in this research agenda.

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