The balanced scorecard is a strategic performance measurement system developed by Robert S. Kaplan and David P. Norton to help organizations achieve breakthrough results by embedding strategy at the heart of the organization. Developed 12 years ago, the concept was significantly different from any existing performance measurement system and generated considerable excitement. A variety of applications and variations of the balanced scorecard have emerged since its inception. It was received and used so enthusiastically and effectively that the Harvard Business Review labeled it in 1997 as one of the 75 most influential ideas of the 20th Century. (1) Early on, a navigation metaphor was used to illustrate the need for additional performance measures. Over time, the navigation metaphor expanded to include the process of strategic mapping and decisions about where to lead your company. This article outlines the evolution of the balanced scorecard.

**BALANCED SCORECARD: THE INCEPTION**

In 1990, the Nolan Norton Institute, the research arm of KPMG, sponsored a one-year, multi-company study on the future of performance measurement. David Norton, CEO of Nolan Norton, was the study leader, and Robert Kaplan served as an academic consultant. The 12 companies that formed the original study group believed that the exclusive reliance on financial performance metrics alone was causing their companies to do the wrong things. Many of the activities that create organizational value are not derived from the tangible, fixed assets of the firm. Intangible assets such as customer and supplier relationships, innovative product development, and intellectual capital are where most of the value lies. Decisions
based on traditional financial measures often fail to incorporate the importance of these real value drivers.

Severe cost-cutting programs can have a significant impact on short-term financial measures. This results in a positive outcome guided by financial metrics alone. Unfortunately, long-term value-creating functions such as market development, employee growth, and research and development are often the target of these cost reductions. A strict reliance on financial measures alone to guide organizations often results in negative outcomes.

Kaplan, Norton, and the 12 company representatives met every other month throughout 1990 to develop a new performance measurement model. They began by analyzing case studies involving innovative performance measurement systems. The ideas investigated included: shareholder value, productivity and quality measurements, new compensation plans, and a case study of Analog Devices's "corporate scorecard." (2)

The group settled on the scorecard as the most promising system and set out to refine the concept. The end result was the balanced scorecard (BSC). They recommended that companies use four common perspectives in their scorecard, supplementing these with a number of customized perspectives as needed. The four perspectives were: financial, customer, internal, and innovation and learning. Each perspective helped answer a basic performance question: How do we look to shareholders? How do customers see us? What must we excel at? Can we improve and create value?

The performance measurement scorecard struck a balance between leading and lagging indicators, short-and long-term objectives, and external and internal performance perspectives. It also forced management to concentrate on drivers of future performance and not just on past performance. These operational drivers and measures complemented the traditional financial measures, providing a more comprehensive picture of the company's performance.

Several of the companies built prototype balanced scorecards at pilot sites within their organizations and reported their findings to the group. An important finding was that the BSC "brings together, in a single management report, many of the seemingly disparate elements of a company's competitive agenda...." (3) A second
finding was that the BSC helped determine if improvement in one area was achieved to the detriment of another area. At the conclusion of the study in December 1990, the group documented the feasibility of the new performance measurement system.

Kaplan and Norton summarized the results from the study in their 1992 Harvard Business Review (HBR) article, "The Balanced Scorecard: Measures that Drive Performance." The article generated a considerable amount of excitement, and a new generation of performance measurement was thus born.

BALANCED SCORECARD: THE DEVELOPMENT

The evolution from strictly a performance measurement tool to a strategic performance management system can be followed through Kaplan and Norton's next three HBR articles and their first book. They revised and improved the BSC concept as they obtained more and more experience with it. Returning to the navigation metaphor, they showed a connection between the performance measures and the desired destination. Several organizations adopted the balanced scorecard soon after the first HBR article, enabling further refinement of the concept. The BSC system was used to communicate and change organizational strategies away from the historic, short-term, financial-only focus to a value-added, customer-intensive strategy. The first connection between performance metrics and strategy was forged. Kaplan and Norton's second balanced scorecard article stressed the importance of this connection: "By requiring managers to select a limited number of critical indicators within each of the four perspectives, the scorecard helps focus this strategic vision." (4) It helped to balance out conventional measures such as operating income with new goal-oriented measures such as new product development. In the article, however, Kaplan and Norton cautioned that the balanced scorecard "is not a template that can be applied to businesses in general or even industry-wide." (5) They stressed the need for the BSC to be customized to meet the needs of the different markets, strategies, and environments of each and every organization.

Kaplan and Norton published their third article, "Using the Balanced Scorecard as a Strategic Management System," in 1996. (6) Further work with senior executives of several organizations demonstrated that metrics spread across the four perspectives could effectively drive a single strategy. They believed attention
to all perspectives would improve future financial performance. The scorecard began to be used as the rallying framework for core managerial processes such as resource allocation, budgeting and planning, goal setting, and employee learning. Four new management processes were introduced to help managers link strategic objectives to actions: translating the vision, communication and linking, business planning, and feedback and learning. Use of the BSC with these processes clearly identified the evolution of the scorecard away from a simple performance measurement tool.

These processes operationalized the BSC approach. "Translating the vision" helps senior management come to a consensus on how to clarify the vision and strategy of the corporation. This enables "communicating and linking." Not only can managers communicate the long-term strategic goals in terms that everyone up and down the ladder can understand, but also they can communicate how the organization intends to achieve these goals. The "linking" action of the process brings together the performance measures with the rewards. "Business planning" involves setting targets and milestones and then aligning strategic initiatives with them. By doing so, companies can allocate resources that help them move towards their long-term strategies. The integration of business and financial plans occurs during this phase. With the final process, "feedback and learning," management can monitor their progress by evaluating their performance in regard to the balanced scorecard perspectives.

The use of the balanced scorecard as a strategic performance measurement system was summarized in Kaplan and Norton's first book on the subject, The Balanced Scorecard: Translating Strategy into Action, published in 1996. The book sold over 250,000 copies and was translated into 12 languages. In it, Kaplan and Norton explained, "The scorecard thus enables companies to modify strategies to reflect real-time learning." (7)

Kaplan and Norton focused on the changes in the new economy that reduce the critical importance of financial measures when predicting future success. Financial measures are lagging indicators. They provide information on past performance and give little insight into long-term success. Information-age companies, however, needed better guides that indicate future value through unique customer relationships, efficient internal processes, and through the
learning and growth of the organization. Leading indicators provide necessary information concerning the organization's current performance on key aspects that are likely to drive future performance. For instance, if product quality is a key indicator of sales and revenue, then ensuring continuous improvement in product quality is likely to drive sales and performance. Perspectives that focus on leading indicators, therefore, provide better insight into company performance than is possible from financial indicators alone. Together, this is like giving management access to the entire set of gauges in a cockpit.

In 2000, Kaplan and Norton wrote their fourth HBR article, "Having Trouble with Your Strategy? Then Map It." (8) The article specifically chronicled how strategy can be explicitly linked to the perspectives of the balanced scorecard. During their studies of adopters, Kaplan and Norton realized that the balanced scorecard was more than a stand-alone performance measurement tool. It was a complete framework for implementing and executing strategy. They realized that effective implementation of strategy throughout an organization required clear communication of key performance drivers at every level. These performance drivers are classified into the customer, internal, and learning and growth perspectives. In order to determine which metrics ultimately drive strategy, a series of cause-and-effect relationships must first be developed from strategic objectives. The illustration of all these relationships and linkages are what Kaplan and Norton call "Strategy Maps."

BALANCED SCORECARD: HERE


In the years since Kaplan and Norton unveiled the BSC, they studied more than 200 companies that implemented the balanced scorecard concept. They summarized their findings in The Strategy-Focused Organization. (9) The authors insist that all measures on the scorecard should have a strong cause-and-effect relationship that clearly defines the organizational strategy. In the customer perspective, the chosen measures should define who the target customers are and
what the value proposition is in serving them. For example, is the organization competing based on product attributes (quality or price), innovation (technical leadership), or customer relationship (customized service)? The customer proposition should become obvious by the perspective metrics being used. Some of these metrics include: customer satisfaction, customer loyalty, market share, customer acquisition rates, and annual sales per customer.

Each customer value proposition requires the efficient operation of different internal processes. The internal process perspective should include measures that track the progress of processes that are essential to achieving strategic objectives. In many cases, measures here will be lead indicators for the customer perspective measures. By focusing on internal measures based on strategy--instead of minor improvements in existing activities--entirely new processes might be identified and measured. Supply chain measurements, product development, manufacturing efficiencies, or product delivery measurements could all be the performance drivers in this perspective.

The learning and growth perspective is the foundation of employee skills and information systems that drive improvements and successes in the other perspectives. Measures in this perspective are often the most difficult to develop because they encompass an area that is perhaps the most intangible--intellectual ability. For this reason, it has often been ignored or left to the Human Resources department to manage. Kaplan and Norton suggest that the learning and growth perspective is just as, or perhaps more, important for strategic success than the other perspectives. Learning and growth performance measurements might include training hours, leadership development, employee satisfaction, lost time accidents, and employee productivity.

Financial measures remain an integral part of the balanced scorecard. The metrics chosen for this perspective are typically lagging indicators that report on past performance. Some indication of past performance is necessary to guide strategy and help in the future execution of strategy. The measures in this perspective are the counterweight of the nonfinancial leading performance drivers. Traditional financial measures, linked to the organization's strategy, are found here. They include: net income, revenue, return on net assets, return on equity, share price, and cash flow.
The probability of corporate success is enhanced by both thorough, careful strategy formulation and diligent implementation. Kaplan and Norton contend that successful execution of strategy is a rarity in today's organizations. Surveys of management consultants reported that 70%-90% of effectively formulated strategies were poorly executed. (10) Kaplan and Norton noticed that companies that used the balanced scorecard to align their business and service units, teams, and individuals around strategic goals were more effective at implementing new strategies and achieved positive returns within one or two years. These pioneering companies used the balanced scorecard as the focal point for all key management processes, from planning and budgeting to reporting and resource allocation. While adoption did not guarantee success, they were excited by the indication that the probability of success improved. Measurements derived from the vision and strategy of an organization became a crucial part of the balanced scorecard process.

Clearly the balanced scorecard is now also a communication vehicle. Leaders can indicate their beliefs concerning the cause-and-effect relationships between the performance drivers. At this point, the representation of the balanced scorecard shows linkages that were not evident in the initial diagrams of four separate cards. Strategic performance drivers are emphasized. Ultimately, this drives the achievement of strategic objectives and, assuming the strategy was chosen well, organizational success.

BALANCED SCORECARD: BACK TO THE FUTURE

The balanced scorecard has evolved from a performance measurement reporting tool to a complete strategic management system in 12 short years. Its use and popularity have grown so much that the Balanced Scorecard Collaborative was formed in 1999 to provide support, education, research, and training to the many companies interested in the process.

Current developments and questions bring to light some contradictory issues. One has to ask if the balanced scorecard has been overdeveloped, resulting in a loss of utility. It might not be possible to create a process that can address all strategic and performance measurement needs. At some point it may be necessary to return to the essential performance measurement questions that gave rise to the whole process, or has the balance scorecard found its niche in the
strategic management community? The following areas have become interesting new directions for balanced scorecard development.

Balanced Scorecard Software. Software manufacturers have begun to provide technology to support balance scorecard users. Software can now be customized and automated to collect, summarize, and display data as it pertains to the BSC measures. (11) This allows real-time intranet display of performance indicators. Color-coded warning alarms can show, at a glance, when measures are out of set ranges or targets. Management can respond to leading indicators with unprecedented alacrity. The software allows for customization of pages for departments, groups, or individuals to help keep track of the most important and/or relevant measures. The market has become increasingly competitive as more and more companies from large enterprise resource planning (ERP) vendors to small niche companies strive for a share of this emerging market.

External Reporting. The recent Enron and WorldCom scandals have made the public more aware of the ease with which the current traditional accounting formats can be manipulated. Managers can manipulate strict financial measures in the short term by taking actions that betray long-term strategic choices. The balanced scorecard may become an effective moderating variable that can indicate whether the financial results are in accordance with the strategic choices or by other means. Use of the balanced scorecard may be extended to external reporting for this reason. Skandia, a Swedish insurance company, publishes a supplement to their annual report that discusses the fiscal year in balanced scorecard terms. (12)

An example of this process is the importance investors may place on customer loyalty as a leading indicator of success. A company's commitment to improve and grow customer loyalty (a strategic objective) can be tracked by a measure on the BSC. This measure can then be used to determine if improved financial performance is due to improvement in this area or from other short-term, nonstrategic means.

The Budgeting Process. The balanced scorecard reflects managers' desire to move away from the command and control features that are so commonly embedded in traditional budgeting procedures. Many organizations consequently have a strategic planning group that focuses on developing long-range plans and
business planners who independently develop operating and capital plans. This independence results in over 60% of organizations not having a link between budgets and strategy. (13) The balanced scorecard has been proposed as a way to put strategy back into the center of the budgeting process. Companies such as Volvo Car Corporation and Swedish bank Svenska Handelsbanken have banished the traditional annual budget model altogether. (14)

Instead of banishing the budget entirely, Kaplan and Norton argue that budgeting should be viewed as two related processes. The operational budget consists primarily of nondiscretionary spending and expenses that are determined by the volume and mix of goods and services produced or delivered. The operational budget can be dynamic to allow for new opportunities and environmental changes. The second process, which they refer to as the strategic budget, involves spending on new initiatives and capabilities that enable future growth. In this way, discretionary spending is limited to initiatives that drive future performance and is linked to the organization’s strategy. Decisions on this spending is based on the balanced scorecard. Kaplan and Norton suggest that organizations need both of these processes, linked by the balanced scorecard, in order to manage both tactics and strategies.

Another approach is to use the balanced scorecard to develop budgets that use strategy at the center of the process. Paul Niven suggests a five-step budgeting process in which spending is geared toward achieving strategic objectives instead of a simple tweaking of last year's numbers. (15) First, organizations intensely publicize their intention to use the BSC to center the process. Next, if a high-level scorecard hasn’t been developed, it should be done. Step three involves cascading the BSC down through the organization, with each business unit scorecard focusing on the objectives and measures that drive high-level strategic initiatives. They should also include targets, initiatives, and the cost of the initiatives necessary to achieve success on the BSC metrics. Furthermore, typical budget line items and operations expenses should also be included. According to the process's proponents, this forces the organization to critically examine current operations and determine how expenses are linked to strategic initiatives. In step four, results from across the organization are compiled and analyzed to ensure balanced spending on initiatives that drive strategy. The last step involves intense dialogue among senior management and executives to finalize the new budget.
These budgeting developments suggest a desire to encourage everyone in the organization to be constantly aware of organizational strategy and the drivers of long-term performance. Game playing, politics, and the numbers shuffling that are inherent in traditional budget models are minimized. Instead, the organization is fully in tune with its strategy and is able to spend capital wisely on the drivers of long-term performance.

CONSTANTLY EVOLVING

The balanced scorecard has been adopted successfully in all types of organizations, including both large and small, manufacturing and service, public and private, growth and mature, and profit and nonprofit organizations. Initially, it was developed as a performance measurement tool to be used to capture the value-creating activities from an organization's intangible assets: innovative products and services, customer loyalty and relationships, and employee skills and motivation. Kaplan and Norton contend that these assets could not be adequately valued through traditional financial measurements alone. As they gained experience, they determined that the balanced scorecard had evolved into an effective tool to implement and direct strategies throughout an entire organization. By placing strategy at the heart of the performance measurement process, the BSC graduated to a strategic performance management system.

The balanced scorecard still continues to evolve and mature, illustrating the concept's flexibility. This should encourage all accountants to consider how to utilize the effective insights gained on the journey so far.

ENDNOTES


(5) Ibid.


Lynn Bible is an associate professor of accounting at Berry College in Mount Berry, Ga.

Stephen Kerr is an assistant professor at the University of Nevada, Reno in Reno, Nev.

Michael Zanini is a process engineer at Inco, Ltd, Ontario, Canada.
A balanced scorecard is a performance metric used to identify and improve various internal functions and their resulting external outcomes. The balanced scorecard can provide information about the company as a whole when viewing company objectives. An organization may use the balanced scorecard model to implement strategy mapping to see where value is added within an organization. A company also uses a balanced scorecard to develop strategic initiatives and strategic objectives. Characteristics of the Balanced Scorecard Model. Information is collected and analyzed from four aspects of a business: Learning and growth are analyzed through the investigation of training and knowledge resources. The Balanced Scorecard Links Performance Measures. How do customers see us? (customer perspective). What must we excel at? (internal perspective). Can we continue to improve and create value? (innovation and learning perspective). How do we look to shareholders? (financial perspective). ECI also asked its top ten customers to rank the company as a supplier overall. Depending on customers’ performance measures forces that company to view its performance through customers’ eyes. The internal measures for the balanced scorecard should stem from the business processes that have the greatest impact on customer satisfaction—factors that affect cycle time, quality, employee skills, and productivity, for example. Many performance measurement tools were used to analyze and report the performance and growth of any organization (Awadallah & Allam, 2015). These include the performance pyramid by Lynch and Cross, (1991), the Performance Measurement Questionnaire (PMQ) by Dixon (1990) and the performance prism by Neely and Adams, (2001). The balanced scorecard model is a management and measurement performance tool based on the four perspectives; finance, customers, internal business processes, and learning and growth was developed by Norton, 2007, Kala &Bagri, 2014). The Balanced Scorecard has been conceived as a key tool in administrative management processes, becoming significant contributions for business organizations.