A Critical Examination of the Balanced Scorecard (and related evaluation models)

Presentation given at the American Evaluation Association conference, Washington DC, November 2002

E. Jane Davidson
The Evaluation Center, Western Michigan University
http://homepages.wmich.edu/~jdavidso

Overview

- About the Balanced Scorecard
  - The concept – what and why?
  - The basic framework
  - Linking the Balanced Scorecard with strategy
  - A balanced scorecard “logic model” and layout

- The critical analysis
  - Good ideas: What the Balanced Scorecard does well
  - The Balanced Scorecard’s Achilles’ Heels
  - Taking the Balanced Scorecard to the next level

- Concluding comments
The problem

- Business performance had mostly been gauged using financial/accounting measures
- Financial performance is a “lag indicator” of organizational health

The concept:
A “dashboard” to guide strategic direction

- Managers, like pilots, need instrumentation about many aspects of their environment and performance to monitor the journey towards a successful future
The basic framework

**Vision & Strategy**

**Financial**
To succeed financially, how should we appear to our shareholders?

**Customer**
To achieve our vision, how should we appear to our customers?

**Internal Business Process**
To satisfy our shareholders and customers, what business processes must we excel at?

**Learning & Growth**
To achieve our vision, how will we sustain our ability to change and improve?

Core outcome measures

**Financial Perspective**
- revenue growth and mix
- cost reduction/productivity improvement
- asset utilization/investment strategy

**Customer Perspective**
- market share
- customer acquisition
- customer satisfaction
- customer profitability

**Internal Business Process Perspective**
- innovations
- operations
- after sales service

**Learning & Growth Perspective**
- employee satisfaction
- employee retention
- employee productivity
Linking the BSC to strategy

- Cause-and-effect relationships
- Performance drivers
- Linkage to financials

Balanced scorecard “logic model”

- **Financial perspective**
  - Improve returns
  - Broaden revenue

- **Customer perspective**
  - Increase customer confidence in products/services/advice

- **Internal Perspective**
  - Develop new products
  - Better understand customer needs
  - Cross-sell the product line

- **Learning Perspective**
  - Increase employee capability
  - Develop strategic skills
  - Access to strategic info
  - Align personal goals
Cascading nested scorecards

Organizational scorecard
- Financial Performance
- Customer Perspective
- Internal Processes
- Learning & Growth

Learning & Growth
- Market innovation
- Continuous learning
- Intellectual assets

Targets

Measures

Initiatives
- Aggressive recruitment initiative
- Fast-track program to retain top talent
- Skill/knowledge building workshops

Good ideas: What the BSC does well

- Link to strategy/overall purpose
- Concept of goal alignment
- Integrates evaluation with management
- Coverage of organizational performance aspects
- A “big picture” snapshot (plus access to details)
- Adapts nicely between for-profit & non-profit
- A nice blend of
  - “common to all” aspects (helps with benchmarking) and
  - elements that are tailored to the organization (helps with relevance)
- Marketing!!
The BSC’s Achilles’ Heels

- Excessive centralization & rigidity
  - Top-down works best when expertise is at the top
  - Bottom-up/flexible works best for knowledge work

- High level of (heavily quantitative) detail → substantial set-up costs (time & money)
- Low system agility → difficult to keep pace with turbulent business environment
**BSC’s Achilles’ Heels**

- Deals with meeting shareholder & customers’ needs, but ignores employees’ needs
- Testing strategic cause-and-effect assumptions = run some correlations?!
- Weak on unintended outcomes—lack of an open-ended element
- Any room here for emergent strategy?

**Taking the BSC to the next level**

- Don’t reinvent the wheel—dig into the lessons learned from related approaches
  - Management By Objectives (MBO)/goal-based evaluation
  - Multi-level needs assessment/organizational diagnosis
  - Theory-based evaluation/linkage research
  - Return On Investment (ROI)/utility analysis
Taking the BSC to the next level

- Add the employee’s perspective
  - They represent most organizations’ greatest source of value
- Don’t go into (quantitative) detail on *everything* → increase flexibility/agility
  - Keep some things at “big picture” level
  - Build in qualitative/mixed method rating systems
- Leave some aspects of performance open
  - Allow creativity, innovation, and serendipity

Concluding comment

- If a group of accountants can come up with something this useful … imagine what a multidisciplinary group of well-trained evaluators could do!
- Just as we have a lot to offer the Balanced Scorecard, so too does it have some lessons for us