

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

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## Overview

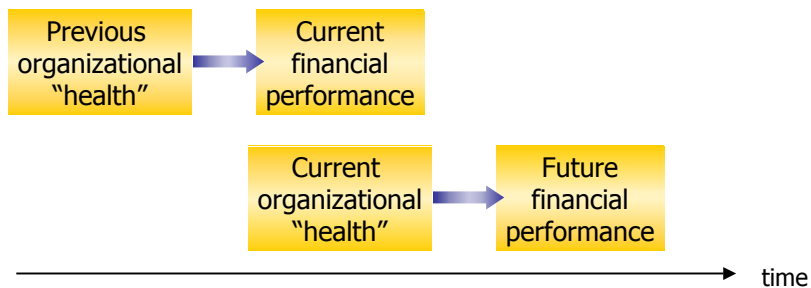
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- About the Balanced Scorecard
  - The concept – what and why?
  - The basic framework
  - Linking the Balanced Scorecard with strategy
  - A balanced scorecard “logic model” and layout
- The critical analysis
  - Good ideas: What the Balanced Scorecard does well
  - The Balanced Scorecard’s Achilles’ Heels
  - Taking the Balanced Scorecard to the next level
- Concluding comments

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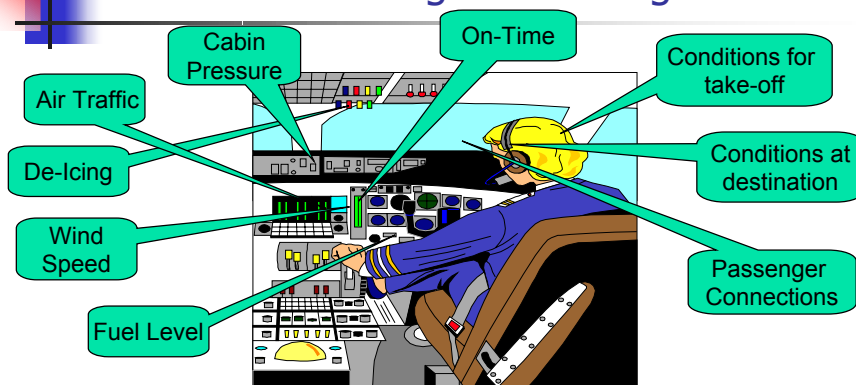
## The problem

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



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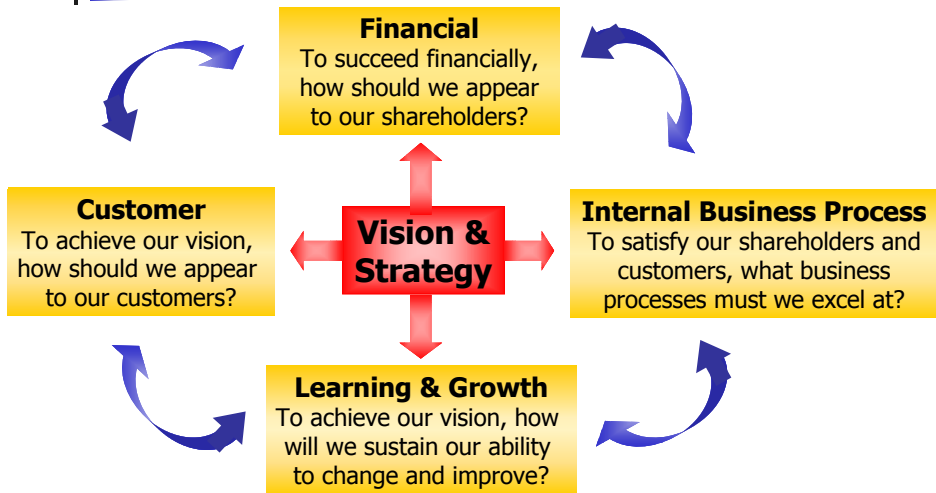
## The concept: A “dashboard” to guide strategic direction



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

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## The basic framework



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## 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

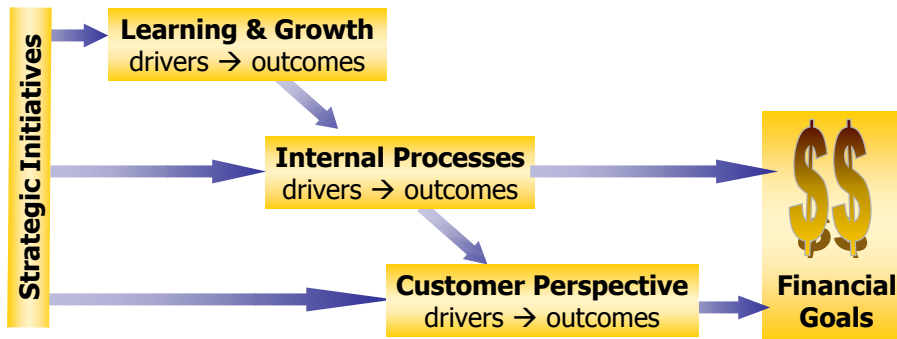
- employee satisfaction
- employee retention
- employee productivity



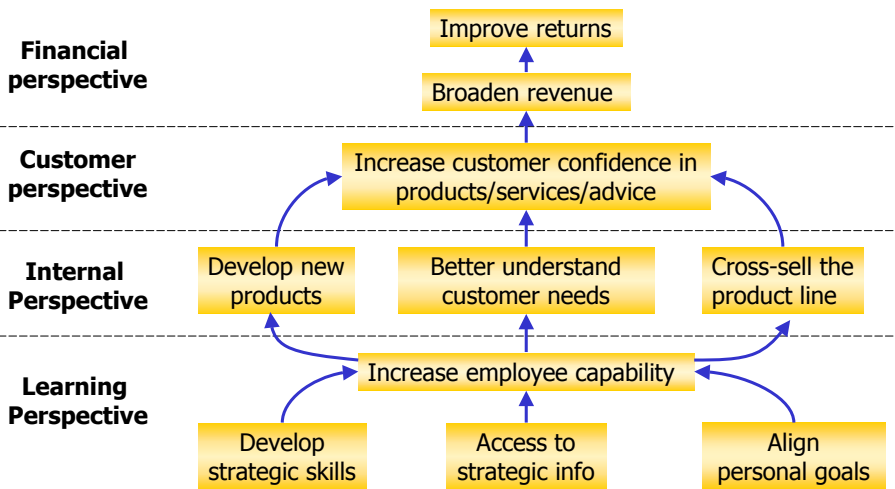
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## Linking the BSC to strategy

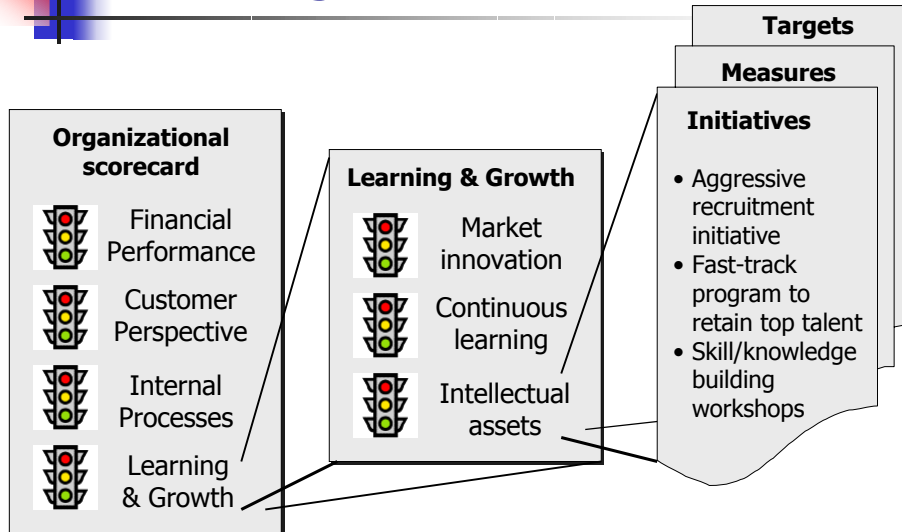
- Cause-and-effect relationships
- Performance drivers
- Linkage to financials



## Balanced scorecard "logic model"



## Cascading nested scorecards



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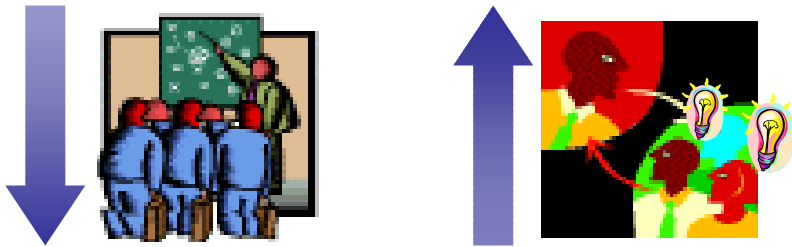
## Good ideas: What the BSC does well

- 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!!

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## 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



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## The BSC's Achilles' Heels

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



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## 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?



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## 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



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## Taking the BSC to the next level

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- 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

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## Concluding comment

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- 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

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