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An investigation of the effect of Balanced Scorecard implementation on financial performance

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Abstract

In this quasi-experimental study, we investigate whether bank branches implementing the Balanced Scorecard (BSC) outperform bank branches within the same banking organization on key financial measures. Although the BSC has gained popularity among managers as a performance measurement tool, little empirical evidence exists to substantiate claims that the BSC promotes superior financial performance when compared to a traditional performance measurement system. We find evidence of superior financial performance for branches implementing the BSC when compared to non-BSC implementing branches.

Keywords: Balanced Scorecard; Performance measurement systems; Field study; Quasi-experimental design

1. Introduction

The purpose of this paper is to investigate the effectiveness of the Balanced Scorecard (BSC) in improving financial performance. The BSC has gained increasing popularity as an effective management tool that aligns employee actions and goals with corporate strategy since first being introduced in 1992. We present an empirical analysis that investigates the impact of BSC on a banking institution's financial performance.

Beginning in the early 1980s, management accounting researchers described the increasing irrelevance of traditional control and performance measurement practices. Weaknesses included failure to link performance measurement to strategic initiatives of organizations, an emphasis on accounting for external reporting rather than on accounting reports useful for internal decision making, and a failure to account

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for advances in technology that change how manufacturing firms operate (Palmer, 1992; Spicer, 1992). The growing importance of service industries and increased global competition has further intensified the need for alternative control and performance measures.

The BSC arose out of the need to improve the planning, control, and performance measurement functions of management accounting. Because of the rise in popularity of the BSC, and benefits attributed to its usage, Atkinson et al. (1997) state the BSC is a significant development in management accounting that deserves intense research attention. They suggest using multiple research methods, including case studies, behavioral experiments, and archival approaches. Although much has been written extolling the benefits of the BSC, few studies exist that directly assess financial performance benefits associated with the BSC or claims the BSC is superior to other performance measurement systems. This study seeks to determine whether an improvement in financial performance occurred after implementing a BSC and whether the change in financial performance is significantly greater than performance observed in a similar setting where a traditional performance measurement system using only financial measures is employed.

To achieve and sustain improved financial performance are among the proposed benefits identified by BSC advocates, yet no study has established a strong causal link between BSC usage and improved financial performance. Using quasi-experimental field-based research methods consistent with Yin (1994) and Cook and Campbell (1979), we gain insights into the effectiveness of the BSC by comparing the performance of BSC implementers to the performance of BSC non-implementers.[1] The data set is unique because we have a designed experiment setting (experimental and control groups with pre- and post-test data) in the context of a field study. Our study contributes to current literature by directly examining an actual BSC program and its ability to improve financial performance in an organization.

A primary tenet of the BSC is that success must be achieved on key non-financial measures (NFMs) prior to realizing success on key financial measures. Employing the BSC method aids managers in identifying those key KFMs that are linked to success on selected financial measures. Previous studies seeking to establish linkages between specific NFMs and improved operational and financial performance have mixed results. This study differs from these prior studies in four fundamental ways. First, although earlier research examined relationships between NFMs and performance, few sought to establish an association between the implementation of a BSC performance measurement system that places more emphasis on a group of NFMs and improved financial performance. Second, many studies relied on survey and archival research methods to obtain information about performance measurement practices and organizational performance. This study utilizes a quasi-experimental approach to investigate the effects that a program focusing on NFMs has on organizational performance. Third, many studies relied on self-reported measures of organizational performance that asked respondents to rate a firm's performance as above or below industry averages. Other studies used company-wide financial performance measures rather than self-reported measurement assessments. This study benefits from the use of actual financial performance data for individual business units (BU) within the organization as a means to determine changes in financial performance—the objective identified by the scorecard designers as its dependent variable. Finally, most studies used cross-sectional analysis to compare performance and NFMs at a point in time. This study uses a longitudinal approach to determine if changes in financial performance are achieved with the implementation of a BSC program.

[1] Cook and Campbell (1979) define a quasi-experiments in field settings as "experiments that have treatments, outcome measures, and experimental units, but do not use random assignment to create the comparisons from which treatment-caused change is inferred".