

Performance effects of using the Balanced Scorecard: a note on the Dutch experience

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This article aims to contribute to understanding how to use the Balanced Scorecard (BSC) effectively. The BSC lends itself to various interpretations. This article explores how the way in which the BSC is used affects performance. Empirical evidence from Dutch firms suggests BSC use will not automatically improve company performance, but that the manner of its use matters: BSC use that complements corporate strategy positively influences company performance, while BSC use that is not related to the strategy may decrease it. We discuss the findings and offer managers guidance for optimal use of the BSC.

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Introduction

The Balanced Scorecard (BSC) is a strategic management system that aims to clarify strategy and to translate it into action.¹ It is widely used by organizations as a tool to assess and manage their companies' organizational performance. In their publications regarding the BSC, Kaplan and Norton have emphasized the need for companies to align their BSC with their strategy in order to reach maximum benefits. They illustrate and support their ideas with 'case-type' examples. However, surprisingly little research has been done to examine Kaplan and Norton's performance claim and its generalizability using larger samples.² The danger is that managers' expectations may be raised too much, leading to potential disappointment.³ As an 'ideational' innovation, i.e. novel ideas that lack a material component,⁴ the BSC lends itself to various interpretations. Under the same label, the BSC can be and is used in different ways involving

many different functional areas and indicators. Different ways of implementing and using the BSC may have different effects on company performance.⁵ As the Exhibit shows, usage of the BSC will not *automatically* improve company performance. The case of the financial institution illustrates that BSC interpretation and implementation are not straightforward. The company made three attempts to implement and use the BSC, and each time it was interpreted and used differently. The first two implementations were disappointing, but the third and final attempt was successful. As one respondent commented, *'The BSC is a good concept but at the same time the instrument's actual guidelines are vague, maybe too vague. You need some experience to get it right. Finally, after three implementations we figured out the process and what was most critical about the instrument for us.'* This case suggests that 'use matters', i.e. the way the BSC is interpreted and used is key for successful BSC application. This raises the question of how a company should implement and use the BSC to increase organizational performance (see [Exhibit](#)).

Exhibit.

Organizational impact of BSC implementation and use in a financial institution

A large financial institution in the Netherlands decided to implement the BSC to increase organizational control. During the period 1996–2001 they made three attempts, all accompanied by management consultancies. The first two failed but the third implementation appears to have been successful. The following description illustrates that the way the BSC is interpreted and used matters. The way the BSC is used to complement corporate strategy and the way the BSC is operationalized to support comprehensive performance measurement appear key factors for successful implementation.

In 1996, the board of directors of the financial institution took the initiative for introducing and developing a scorecard on corporate level. The aim was to develop a coherent set of performance indicators linked to the firm's strategy. With a moderator present, members of the board and the department heads participated in multiple sessions discussing several aspects of the new instrument. However, a very generally formulated mission statement made it difficult to come up with concrete strategic and operational indicators. Moreover it left room for conflicting interpretations based on different norms and values that arose. The board forced decisions and went ahead with top-down implementation. However, the ambiguity in strategic objectives and subsequent interpretations, combined with disagreement about performance indicators and targets, prevented scorecard success. People felt threatened further hindering the instrument's success. Finally the project was abandoned. A merger and subsequent changes in the board of directors paved the way for a new attempt.

In 1998 the second BSC implementation was initialized by the accounting department business controller, who wanted to integrate the diverse accounting systems used by different departments. The same management consultancy as in the first attempt supported the implementation process. Top management support was present but no one from the board was really involved in the project. The effort thus was bottom up rather than top down. Probably as a consequence, the emphasis was on measurement system integration and improved reporting formats without taking the firm's strategy as a starting point. To force a uniform scorecard structure, the controller decided to buy a stand-alone software package, a decision taken by mutual agreement within his own department. However this approach, which could be characterized as overly technically-oriented, did not involve the departments enough. As a result a 'software based' BSC was implemented, but most of the measurements proved of limited use. When the software turned out not to be user-friendly and incapable of being linked to the main information system, departmental resistance to the BSC-system grew. Finally, the project was abandoned and considered as sunk cost.

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