

## **Balanced Scorecard financial measurement of organizational performance: A review**

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**Abstract:** *This paper reviewed some existing literature on balanced scorecard (BSC) as a performance tool for evaluating business organizations holistically. It makes use of four perspectives namely financial, customer, internal business process, learning and growth. Secondary sources of data were used in the review. Business managers are tasked with the responsibility of ensuring smooth operations of business activities tailored towards achieving organizational goals. The review result showed that a lot of benefits have been identified by those that adopted the model despite some limitations. The paper recommended for awareness and adoption of the model to achieve organizational goals.*

**Keywords:** *Balanced scorecard, financial measurement, organizational performance.*

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### **I. Introduction**

Achieving profitability in businesses has always been a necessary requirement for continuity, growth and expansion. Managers of organizations are tasked with the responsibilities of ensuring success of operations within their areas of control all the time, to attain this, it demands making strategic plans by the managers and using appropriate performance measurement techniques to enable them achieve their goals all the time. Organizations have their mission and vision and use different strategies in ensuring the achievement of this mission in such a way that will be appropriate to both the management as well as the customers of such organization. Managers make use of only financial perspective to measure performance in the past but that seems not to be adequate enough and hence the development of a tool called the balanced scorecard which incorporated both the financial and non financial measures of performance, because the non-financial criteria are as important as financial criteria in measurement systems and when both measures are integrated in the system, they lead to superior results (Kairu, Wafula, Okaka, Odera & Akerele, 2013).

The balanced scorecard was developed by Kaplan and Norton (1992) as a performance measurement framework that added strategic non-financial Performance measures to the traditional financial metrics to give managers and executives a more clear and holistic view of organizational performance. It has evolved from its early use as a simple performance measurement framework to a full strategic planning and management system. The balanced scorecard was devised as a result of the need to incorporate non financial variables to measure performance of an organization. The balanced scorecard transforms an organization's strategic plan from an attractive but passive document into the marching orders for the organization on a daily basis. It provides a framework that not only provides performance measurements but helps planners identify what should be done, measured and executed Kaplan and Norton (1996a). Alao (2013) also viewed balanced scorecard as a 'system by which an organization assesses key performance measures from perspectives of performance in the financial, customer, internal business processes, learning and growth'. These are means by which each member of staff performing key functions are expected to measure their performances on the job especially their contribution to organization goals of increasing organization's wealth and profitability. The application of the balanced scorecard involves strategizing in the use of available resources such as human manpower, finances and other resources to attain set goals. A very pertinent link to maximizing organization wealth is profitability. Profit making is essential because it is the measure of performance on production of goods or services and it is the means by which the future of the firm is assured and operational improvements are believed to cause improved financial results and increased shareholders wealth in the long-run.

Companies around the world have been making use of the financial metrics to measure their performance but this seems to be inadequate. In the past, performance measurement revolved around the use of purely accounting or financial data to gauge the performance of firms. With the emergence of the information age, in the last decades of the twentieth century, the use of only financial data as the basis for measuring performance has been observed to be inadequate to manage corporate performance of organizations in the face of global economic integration, which is characterized by integrated supply and demand chains (Muhammad 2010). Financial data have been criticized as being micro-oriented and have inherent lagging characteristic because financial data are compiled from only the financial perspective and use already known events. Therefore, financial data are said to possess very limited predictive ability and considered to be inadequate to

position organizations to perform effectively and efficiently and enable them to respond to customer and environmental complexities in the information age (Kaplan and Norton 1992).

The main thrust of this paper is to assess the strength and weakness of this tool in measuring organizational performance. Organizations are looking for a tool that will evaluate their business that will give them credibility and gain confidence of investors and shareholders.

## **II. Conceptual framework and related Literature**

### **The concept of balanced scorecard**

According to Kaplan and Norton (1992), the balanced scorecard is a strategic management technique for communicating and evaluating the achievement of the mission and strategy of the organization. Atarere and Oroka (n.d) were of the view that the balance score card provides a representation of the organization's shared vision. The use of measurements as a language helps translate complex and frequently nebulous concepts into a more "precise" form that promotes consensus among senior executives. The balance score card communicates a holistic model that links individual efforts and accomplishments to business unit objectives while Drury (2008) is of the view that the balance scorecard philosophy creates a strategic focus by translating an organization's visions and strategies into operational objectives and performance measures for the discernable perspectives. BSC tends to reflect the necessity of a balance between the traditional financial perspective and other non-financial elements such as customers, internal business processes and innovations/improvement. It translates the organization's mission and strategy into a comprehensive set of performance measures to provide the necessary framework for a strategic measurement and management system that enables companies to track short term financial results while simultaneously monitoring their progress in developing the capabilities and acquiring the intangible assets that generate growth for future financial performance.

From the above, it can be deduced that balanced scorecard is one of the important measurement techniques because of its ability to incorporate both financial and non financial variables in measuring organizational performance.

The balanced scorecard is divided into four different perspectives which include financial, customer, internal business processes and learning and growth perspectives.

### **Financial perspective**

The financial perspective seeks to answer the question: to succeed financially, how should we appear to our shareholders? According to Al-Najjar & Kalaf (2012) Financial measures convey the economic consequences for the actions already taken by the organization, and focus on the profitability related measures on which the shareholders verify the profitability of their investment. Therefore, under this perspective managers are required to generate measures that answer the question: To succeed financially, how should organizations appear to shareholders? Kaplan and Norton acknowledged the need for traditional financial data. The accurate and timely financial data are necessary for the efficient and smooth direction of the organization. The provision of the right and timely financial data to the right person in the organization helps much in the process of making the right decision in the right moment. Under this perspective the most common performance measures incorporated are: Return on Investment (ROI), Cash Flow, Net Operating Income, Revenue Growth. The financial perspective looks at how the investors or the shareholders see the firm in terms of dividend payout ratio, improvement on the cost structure, profit after tax, return on capital employed (ROCE) and growth in the sales volume Etim & Agara (2011). Wood & Sangster (2002) also viewed this perspective of the balanced score card that accounting has long been associated with and includes the use of such measures as return on capital employed, earnings per share and other financial ratios. Examples of such measures are: Return on capital employed, return on net assets, reduction of administrative expenses, reduction in bad debts, reduction in debtor days, and reduction in gearing. Kaplan and Norton do not disregard the traditional need for financial data. Timely and accurate funding data will always be a priority, and managers will do whatever necessary to provide it. In fact, often there is more than enough handling and processing of financial data. With the implementation of a corporate database, it is hoped that more of the processing can be centralized and automated. But the point is that the current emphasis on financial perspective leads to the unbalanced situation with regard to other perspectives. There is perhaps a need to include additional financial-related data, such as risk assessment and cost-benefit data in this category Kaplan and Norton (1996). In the word of Atarere & Oroka (n.d), this perspective specifies the financial performance objective anticipated from pursuing the organizational strategy. It also deals with the economic consequences of the outcomes expected from achieving the objectives specified from the other three perspectives. According to Kaplan & Norton (1992) the three core financial themes that can drive the business strategy are:

- i. Revenue Growth: A revenue growth deals with every action/activity that can increase the revenue base of an organization (Koutsoyiannis, 1979). This theme focuses on how to increase the number of new products, develop new customer and how to change to a more profitable product (or service) mix.

- ii. Cost Reduction: this theme focuses on how to reduce product/service cost per unit and how to reduce selling/general administration cost.
- iii. Asset Utilization: this theme measures financial performance such as: Return on investment and Economic value added.

A critical appraisal of the financial perspective revealed, therefore, that the focus is on minimizing cost and maximizing revenue inflow. All steps/ activities geared in this direction are therefore arrived at holding cost constant or reducing it while improving inflow of income.

### **Customer perspective**

According to Kairu et.al (2013) this perspective captures the ability of the organization to provide quality goods and services, the effectiveness of their delivery, and overall customer service and satisfaction. This will result from price, quality, availability, selection, functionality, service, partnerships and brand value propositions, which will lead to increased customer acquisition and retention (Gekonge, 2005). The BSC demands that managers translate their general mission statement on customer service into specific measures that reflect the factors that really matter to customers (Kaplan & Norton, 1992). Customers' concerns tend to fall into four categories: time, quality, performance and service, and cost. Satisfied customers buy a product again, talk favorably to others about the product, pay less attention to competing brands and advertising, and buy other products from the company (Kotler & Armstrong, 2004). Recent management philosophy has shown an increasing realization of the importance of customer focus and customer satisfaction in any business (Chabrow, 2002; Holloway, 2002; Needleman, 2003). According to Horngren et.al (2012), this perspective helps managers evaluate the question, How do customers see organizations? Customer satisfaction is a top priority for long-term company success. If customers are not happy, they will not come back. Therefore, customer satisfaction is critical to achieving the company's financial goals outlined in the financial perspective of the balanced scorecard. Customers are typically concerned with four specific product or service attributes: (i) the product's price, (ii) the product's quality, (iii) the service quality at the time of sale, and (iv) the product's delivery time (the shorter the better). Since each of these attributes is critical to making the customer happy, most companies have specific objectives for each of these attributes. Businesses commonly use customer perspective key performance indicators (KPIs), such as customersatisfaction ratings, to assess how they are performing on these attributes. No doubt you have filled out a customer satisfaction survey. Because customer satisfaction is crucial, customer satisfaction ratings often determine the extent to which bonuses are granted to restaurant managers. For example, if customer satisfaction ratings are greater than average, the KPI will be positive. If customer satisfaction ratings are lower than average, management will want to devise measures to improve customer satisfaction. Other typical customer perspective KPIs includes percentage of market share, increase in the number of customers, number of repeatcustomers, and rate of on-time deliveries. According to the balanced scorecard institute, recent management philosophy has shown an increasing realization of the importance of customer focus and customer satisfaction in any business. These are leading indicators: if customers are not satisfied, they will eventually find other suppliers that will meet their needs. Poor performance from this perspective is thus a leading indicator of future decline, even though the current financial picture may look good. In developing metrics for satisfaction, customers should be analyzed in terms of kinds of customers and the kinds of processes for which we are providing a product or service to those customer groups. In the words of Al-Najjar & Kalaf (2012), this perspective provides a view on how customers perceive the organization. The customer perspective should be considered the central element of any business strategy that provide the unique mix of products, price, relationship, and image that the company offers to its customers. In this perspective the organization should demonstrate how it differentiates itself from the competitors by retaining, attracting, and sustaining relationships with its targeted customers. Therefore, managers are required to generate measures to answer the following question: "To achieve our vision, how should we appear to our customers?" Typical measures used under this perspective are: customer satisfaction, customer complaints, customer lost/won and sales from new product. Atarere&Oroka (n.d), viewedthat this perspective is focused primarily on the customer and market segment in which the business will compete. It further underpins the revenue element for the financial perspective objective as this will be realized from patronage of customers. Therefore, the achievement of the customer objective should ensure that the target revenue will be generated. The core objectives of this perspective are:

- i. Increasing the Market Share: - The theme is focused on all activities that the organization can employ to improve its share of the market. This may be through advertisement, sales, promotions, low-prize of products and services.
- ii. Increasing Customer Retention: - the focus of this theme is to ensure that old customers continue to patronize the organization. Strategic measures that can be taken include; improving customer-organizational relationship, responding to customers' complaints/suggestions, offering after-sale services to customers.

- iii. Increasing Customer Acquisition: - the focus here is to increase total sales to new customers. Strategic measures to be taken include giving out free samples to new market segments, penetration of new market segments, and introduction of new products and/or improving on existing old products.
- iv. Increasing Customer Satisfaction: - The focus here is on customer-survey satisfaction ratings. Strategic measures that can be taken include administering of questionnaires to customers, monitoring number of repeated patronage by old customers, etc.

Wood & Sangster (2002), suggest that you must identify the customer and market segments in which the organization operates. Measurements should then be made of factors such as customer satisfaction, retention, acquisition, customer profitability and market share. It answers the question, how does the organization appear to its customers? Possible measures are: Customer satisfaction, customer retention, increasing customer base, reduction in delivery times, and reduction in rate of goods returned by customers.

A review of this perspective showed that a customer of an organization is a king and should be served and handle with care, he/she is the engine wire of an organization because no firm will survive without a loyal customer. It is important to satisfy customers as these could lead to market share expansion because the satisfied customers will serve as advertisers of an organization's product and in the same way customers can decrease market share when feel dissatisfied.

### **The internal business process**

The perspective, according to Gekonge (2005) as quoted by Kairu et.al (2013), 'internal processes perspective focuses on the internal business results that lead to financial success and satisfied customers'. To meet the organizational objectives and customers' expectations, organizations must identify the key business processes at which they must excel. These key business processes are monitored to ensure that outcomes will always be satisfactory. The internal processes perspective reports on the efficiency of internal processes and procedures. The premise behind this perspective is that customer-based measures are important, but they must be translated into measures of what the organization must do internally to meet its customers' expectations (Kaplan & Norton, 1992). Al-Najjar & Kalaf (2012) were of the view that internal business processes provide the organization with the means by which performance expectations may be accomplished. This perspective refers to the internal business processes of the organization and, therefore, managers are required to provide measures that answer the following question: "To satisfy our customers and shareholders, what business processes must we excel at?" The central theme of this perspective is the results of the internal business processes which lead to financial success and satisfied customers. Typically the measures of this perspective are based on producing goods and services in the most efficient and effective methods. Commonly used measures for this perspective are: cost of quality, cost of non-conformance, process innovation, time saving. Wood & Sangster (2002) identified possible measures such as Reduction in quality control rejection rate, reduced production lead times, and increased level of production capacity utilization. Etim & Agara (2011) identified the measures under this perspective to include, defect rate, response to customers' complaints, quality of after sales service, internal process bureaucracy, process completion time, quality and skill of staff and their level of motivation. Atarere & Oroka (n.d) suggested that managers are required to identify the critical internal processes in which the organization must excel in implementing its strategies. Critical processes should be identified, that are required to achieve the organization's customer and financial objectives. Kaplan & Norton (1992) also identified three process value-chains on who to apply the internal process perspectives. These are:

- i. Innovation Process:-here, the managers research the needs of customers and then create the product or service that best meet those needs.
- ii. Operations Process: -This process represents the short wave of value creation. It is concerned with producing and delivering existing products and services to customers.
- iii. Post-Sales Service Process: -It represents the final item in the process value chain for the operations process perspective. It focuses on how responsive the organization is to the customer after the product or service has been delivered. After sale services include warrantee and repair activities, treatment of defect and returns, administration of customer payments and resolution of customer problems/complaints.

In planning any internal processes, it is good to look at the strengths and weaknesses of the organization which are internal and take advantages of opportunities as well as facing the identified threats to overcome them. Success of an organization will depend on its strength, weakness, opportunities and threats facing its ability to strategies itself at any time. The existing literatures failed to incorporate the SWOT analysis as means of internal business processes that could lead to success of every organization.

### **The learning and growth perspective**

This perspective looks at how an employee of an organization learns and grows in his/her career to improve the performance of the organization. According to Kairu et al. (2013) 'the learning and growth perspective examines the ability of employees (skills, talents, knowledge and training), the quality of information systems (systems, databases and networks) and the effects of organizational alignment (culture, leadership, alignment and teamwork), in supporting the accomplishment of organizational objectives'. Processes will only succeed if adequately skilled and motivated employees, supplied with accurate and timely information and led by effective leadership, are driving them. They will lead to production and delivery of quality products and services; and eventually successful financial performance (Gekonge, 2005).

Under this perspective managers must identify measures to answer the following question: To achieve our vision, how will we sustain our ability to change and improve? Actually, this perspective is related to the employees of the organization, and it measures the extent to which the organization exerts efforts to provide its employees with opportunities to grow and learn in their domain. Kaplan and Norton acknowledged that the learning and growth measures are the most difficult to select; therefore they suggest the following measures as examples: employee empowerment, employee motivation, employee capabilities, and information systems capabilities (Al-Najjar & Kalaf 2012). Atarere & Oroka (n.d) go further to explain the learning and growth perspective as below; this perspective ensures that an organization will continue to have loyal and satisfied customers in the future and to continue to make excellent use of its resources. The organization and its employees must therefore keep learning and developing. Hence, capabilities that an organization needs to create long term growth and improvement should be encouraged. Kaplan & Norton (1992) identified two major enabling factors for this perspective to be actualized which are:

- i. **Increasing Employee's Capabilities:-** The focus is to ensure that every employee is able to deliver a service that would put the company in the best advantageous position. Strategic measures that can be taken to achieve this include: constant training of staff to master existing ways of doing the job as well as adopting new ways and making staff attend internal and external workshops and seminars on new trends relating to the job and industry.
- ii. **Increase Motivation, Empowerment and Alignment:-** The focus here is to take individual goals into consideration when formulating organizational goals to bring these in alignment. Strategic measures that can be taken include: training existing staff to acquire new knowledge of the job rather than replace them with new staff and welcoming individual suggestions on ways to improve existing products/processes or developing newer and better ones.

According to Etim & Agara (2011), Learning and growth consider the flexibility of a firm and its adaptability to change in the business environment, how fast new technology is deployed to counteract change in business environment, total firm capabilities and innovativeness. According to Kaplan & Norton (1992), a company's innovative ability, learning and improvement skills tied directly to the company's value and growth. Wood & Sangster (2002) further look at this perspective as the one which identifies the human relations, technological and general systems infrastructure that the organization must develop if it is to achieve long-term growth and organizational improvement. Appropriate measures would include those relating to the level of relevant employee skills, how up to date the organization's IT systems and programs are, and the ability of the organization's system architecture to provide the information in an efficient, timely and cost effective way. One of the key aspects in this perspective is appropriate and timely development of people and systems and development of measures to monitor and confirm that this is being done. It answers the question, how will the organization continue to change and improve? They suggest these examples of possible measures: Increase level of spending per head on employee training, reduced employee absenteeism rate, reduced staff turnover rate, increased range of products, increased proportion of new product sales as a proportion of total sales, greater reporting flexibility in the information system, increase in the range of information available on demand from the information system.

The ability of an organization to have competent employees is an indication of success but these employees need to continue to learn in order to meet up with the quick changing environment of business activities across the globe. The above literatures could not mention the importance of employee welfare in their discussion and employees will not think of growing themselves for the benefit of the organization if their compensation is not commensurate with their effort. It is therefore good to improve staff welfare for maximum growth of the organization.

### **Strength of Balance scorecard**

There are many benefits derivable from the adoption of balanced scorecard as a performance measurement technique by organizations. However, the adoption and implementation especially in Nigeria is taking a slow shape. According to Al-Matarneh (2011) 'the balanced-score-card approach aims to provide

management with a set of measures which combine to give a “comprehensive but quick” view of the businesses. Indeed, it is suggested that the score-card particularly meets the information needs of managers by combining in a single performance-measurement report the “...many disparate elements of a company’s competitive agenda...” while “preventing” sub optimization by managers, as they must consider all of their organization’s significant performance measures together. The BSC enables the companies to develop a more comprehensive view of their operations and to better match all operating and investment activities to long- and short term strategic objectives. The BSC approach provides a clear prescription as to what companies should measure in order to “balance” the implications in all the functional areas, arising out of the strategic intent. Etim & Agara (2011), states that balanced scorecard as a strategic management system that considers both tangible- financial indices and the intangible-non-financial indices, BSC has been said to be capable of enforcing the achievement of corporate strategies especially as there are causal relationship between the performance of the organization and the effective management of the dynamics of the four perspectives (Kaplan and Norton, 2006). 2GC (2008) showed that the implementation of BSC would result in improved operational performance, increased profit, improved communication among staff, improved long and short term planning process, and better management of intangibles including capabilities and human capital. Also, adoption of BSC influences the allocation of resources, the reward for performance, support innovation and position the organization competitively to function effectively and efficiently in a competitive environment. BSC is said also to help managers to understand the numerous interrelationships and causal effects of internal and external factors that affect the firm in order to manage their operations much more optimally (Huang, 2009). The model is also capable of linking the measures to the reward system of organizations, thereby assisting in promoting hard work among staff (Kaplan and Norton, 1996a). Further, Behery (2005), Woodley (2006) and Wongkaew (2007) in their individual case studies on the translation of Balanced Scorecard in organizations observe that BSC, if well implemented, is a potent model capable of enhancing the performance of the company and does also have the capabilities of adaptation in different cultural settings.

Wood & Sangster (2002) identify the following number of benefits for organizations that adopted the balanced scorecard:

- i. It provides the organization with a strategic management system that:- Clarifies and encourages consensus about organizational vision and strategy; communicates strategy, objectives, drives and measures of performance, facilitates the linking of strategic objectives to budget, facilitates strategic reviews, especially periodic but also ad hoc, facilitates the identification and promotion of new strategic initiatives, facilitates fine-tuning and amendments of strategy in the light of performance. In effect, the balanced scorecard provides management with a tool to focus strategy and move the organization in a co-ordinated and transparent manner towards the achievement of its objectives.
- ii. It helps people understand how they can contribute to the strategic success of the organization. By making it clear what items are important indicators of success, people become aware of what actually leads to the organization achieving its objectives. They then know which aspects of their work are vital and know that to focus upon them will be beneficial to the organization. Previously, they would have had to choose to focus upon one or more of a range of alternative activities, many of which may have made no worthwhile contribution to the achievement of the organizational goals.
- iii. It guides the transformation of the organization’s vision and strategy into a set of performance measures. The chain of development of the balanced scorecard is quite straight forward. First, the organization’s mission must be established, then its strategy to pursue its mission, then the objectives that will underpin its strategy, and then output measures must be defined so that performance can be assessed and the performance measures (or drivers) established so that it can be seen whether the organization is moving in the right direction. By creating and providing such a framework to management, the balanced scorecard approach supports the organization’s move towards a greater and more consistent performance that is in line with the organization’s objectives and strategy.

In the word of ProSatis A.S (2010) Recognizing some of the weaknesses and vagueness of previous management approaches, the balanced scorecard approach provides a clear prescription as to what companies should measure in order to 'balance' the financial perspective. Traditional performance measurement, focusing on external accounting data, is obsolete and something more is needed to provide the information age enterprises with efficient planning tools. Among the long row of benefits of applying Balanced Scorecard, these are the most significant: Strategic initiatives that follow "best practices" methodologies cascade through the entire organization, Increased Creativity and Unexpected Ideas. The Balanced Scorecard helps align key performance measures with strategy at all levels of an organization. The Balanced Scorecard provides management with a comprehensive picture of business operations, the methodology facilitates communication and understanding of business goals and strategies at all levels of an organization, Maximized Cooperation - Team members are focused on helping one another succeed. Usable Results - Transforms strategy into action

and desired behaviors. The Balanced Scorecard concept provides strategic feedback and learning, a cross organizational team, more open channels of communications, Enthusiastic People, initiatives are continually measured and evaluated against industry standards. The Balanced Scorecard helps reduce the vast amount of information the company IT systems process into essentials, Unique Competitive Advantage, Reduced Time-frames, Improved Decisions and Better Solutions and Improved Processes. Many organizations have difficulty establishing mechanisms that translate strategic vision into concrete goals and actions. Then, every single business, public service, project, or simply any kind of prolonged group effort, will benefit from the power of the Balanced Scorecard.

To best capture the competitive and strategic value of their information storehouses, top-level managers must abandon the belief that the traditional business intelligence offers adequate enterprise analysis. Rather, it is vital for managers to expand their analysis perspective to include business performance management capabilities. Enterprise Business Performance Management is the process of measuring and analyzing key performance indicators in order to manage internal business processes. Such strategic management yields efficiency improvements so that organizations are empowered to achieve both their strategic and tactical objectives. Today's enterprise can scarcely afford not to meet this challenge. Strategic learning and linking of measures are key points. It delivers information to managers for guiding their decisions, but these are self-assessments, not customer requirements or compliance data. This methodology offers senior managers, operational managers, consultants and business academics a comprehensive view of business strategy. Reflections on the relations between the balanced scorecard and other areas such as Total Quality Management (TQM), information systems and intellectual capital and knowledge management will give a more complete understanding of new forms of control. Related areas of interest include performance measures, management control, business strategy, strategy development, strategic planning and implementation, and quality management. The Balanced Scorecard provides an effective way of communicating priorities to all levels of organization, and then all employees can see and understand how their work is related to the business and its success as a whole. Using the balanced scorecard to handle strategies can lead to fundamentally different project management in several respects. The methodology builds on some key concepts of previous management ideas such as double-loop learning and Deming's TQM, including customer-defined quality, continuous improvement, employee empowerment, and measurement-based management and feedback. The Balanced Scorecard management system is not just another project - it is a continuous cyclical management process, it has neither beginning nor end. Its task is not directly concerned about the mission of the organization, but rather with internal processes (diagnostic measures) and external outcomes (strategic measures). The system's control is based on performance metrics that are tracked continuously over time to look for trends, best and worst practices, and areas for improvement. The concept of the Balanced Scorecard supports strategic planning and implementation by federating the actions of all parts of an organization around a common understanding of its goals, and by facilitating the assessment and upgrade of strategy. When fully deployed, the Balanced Scorecard transforms strategic planning from an academic exercise into the nerve center of an enterprise.

#### **Prerequisites for successful application and successes recorded**

Al-Matarneh (2011) noted that the balanced scorecard must provide the following basic set of requirements for success of applying.

- i. Clear definition of the objectives of the strategy: because the determination of strategic goals is the core of using (BSC).
- ii. The success of the use of (BSC) as a measure of strategic management system depends on the (BSC) approaches by integrating the four Perspectives of the Balanced Scorecard.
- iii. It must respond to environmental changes and pressure on companies such as the intensity of competition and focus on the client, and the phenomenon of industrial integration.

Since the appearance of the balanced scorecard (BSC) in 1992, it has gained widespread acceptance as a nuanced tool for performance measurement and strategic management in the for-profit sector. The balanced scorecard model was developed as a means for addressing both the strategy development process and continuing monitoring strategy achievement and performance measurement. It does this by dividing measures into four different, inter-related perspectives: Financial, Customer, Internal Business Processes and Innovation and Learning. Applying measures on these four perspectives moves the evaluation away from being a control element towards a tool for putting strategy into action (Kaplan and Norton, 2001). By integrating objectives, measures, targets and initiatives of each of the four perspectives to support the overall vision and strategy, the BSC demonstrates its value as a strategic management instrument that goes beyond mere financial indicators by emphasizing the importance of non-financial perspectives such as customer satisfaction, internal business processes and learning and growth. By selecting appropriate performance drivers and outcome measures to fit

the theory of business in a chain of cause and effect relationships, the organization will have a better idea of how to achieve its potential competitive advantage.

The implementation process of the BSC can be described as a series of four steps:

- i. Translating the vision and gaining consensus;
- ii. Communicating the objectives, setting goals and linking strategies;
- iii. Setting targets, allocating resources and establishing milestones;
- iv. Providing feedback and learning.

According to Yee-Chin 2004 as quoted by Leif Skiftenes Flak and Willy Dertz (n.d), the BSC can assist municipal managers in accomplishing the same strategic planning and control functions as is the case for for-profit managers:

- i. Clarify and gain consensus about strategy;
- ii. Communicate strategy throughout the organization;
- iii. Align departmental and personal goals to the strategy;
- iv. Link strategic objectives to long-term targets and annual budgets;
- v. Identify and align strategic initiatives;
- vi. Perform periodic and systematic strategic reviews;
- vii. Obtain feedback to learn and improve strategy.

As a consequence of a number of positive experiences from implementing the BSC in for-profit sector, some non-profit organizations have reported to have made similar attempts to gain value from the BSC Leif and Willy (n.d). As a response to this, Kaplan and Norton (2001) revised the BSC to include performance perspectives specifically targeted at the needs of non-profit organizations. A recent survey covering US and Canadian municipalities, show that about 40 % of the managers were fairly well acquainted with the BSC but only about 8 % had actually implemented it in their organizations (Yee-Chin, 2004). The most frequently cited factors, necessary for implementation success, include:

- i. Top management commitment and leadership buy-in;
- ii. Departmental, middle manager and employee participation and buy-in;
- iii. Culture of performance excellence;
- iv. Training and education;
- v. Keeping it relatively simple, easy to use and understand;
- vi. Clarity of vision, strategy and outcome;
- vii. Link of the BSC to incentives;
- viii. Resources to implement the system.

Support from senior management and the importance of a clearly defined organizational strategy was reported to be especially important.

Business organizations that have adopted balanced scorecard in performance measurement have experienced significant growth and changes in their businesses. According to Crabtree & Debusk (2008) BSC proponents believe that its implementation reinforces the organization's strategy and aligns resources with strategic objectives. Management's strategic intent is communicated through the organization via the BSC, thus helping to align resources with strategies. Having the organization's resources coordinated and working towards common strategic objectives aids in the achievement of operational improvements. These operational improvements are believed to cause improved financial results and increased shareholders wealth in the long-run.

### **Weakness of balanced scorecard**

Salem (2012) opined that although the successful emergency of BSC and its wide world in many organizations. As other measurement systems, the BSC has attracted criticism from a variety. Most of these criticisms came from the academic community. This section will explain the most important critical points of the BSC.

- i. The causality relationships between the areas of measurement in the BSC are unidirectional and too simplistic. Some scholars note that there is no cause-and-effect relationship between some of the suggested areas of measurements in the BSC has depended on the relationship between customer loyalty and financial performance as example of these limitations. The discussion has showed that the lack of cause-and-effect relationship is crucial because invalid assumptions in a feed-forward control system will cause individual companies to anticipate performance indicators, which are actually faulty.
- ii. The BSC neglects the time dimension. This critical point of the BSC starts from the assumption that the linkage between different points of time must be understood. In this point of view, BSC does not explain

the role of time in its cause-and-effect relationships. BSC does not incorporate the time dimension in the cause-and-effect relationships, and it also does not separate cause-and-effect relationships in time.

- iii. The lack of the validation; the reliance of BSC on few measures makes a critical point of BSC. The advantage of checking just a few number measures became disadvantage when not the right numbers are selected for the BSC. This critical point of view depends on that BSC lacks the mechanism for maintaining the relevance of defined measures. This leads to reduce the validation of BSC and the possibility to miss some critical measures. BSC has a good coverage of the dimensions of the performance, but it provides no mechanism for maintaining the relevance of defined measures.
- iv. The lack of the integration between top-levels and operational levels' measures. BSC fails to identify performance measurements as two-ways process. One of the critical points of BSC is its lack of the integration between the top and operational levels which may leads to strategic problematic. This critical point refers to the ability of low levels to understand the implantation of BSC. Furthermore, the absence of the integration limits the use of BSC from the higher levels only. As a result, the strategic plans of the organization may fail because of the weakness of the coherence and the integration between the organization's levels.
- v. An internally focus. One of the criticisms of BSC is that its framework encourages the focus on internal aspects. The BSC is incapable to answer the questions related to the competitors' movements. Additionally, the BSC does not evaluate the significant changes in external conditions. The management should assess how the external changes affect the implementation of BSC and that it does not consider the extended value chain in which employee and supplier contributions are highlighted. There are some stakeholders who are not incorporated in the BSC such as suppliers and public authorities, which may be important to some firms.
- vi. An ineffective to corporate sustainability. The traditional BSC-concept is not effective enough to contribute to corporate sustainability.

In spite of the wide usage of the balanced scorecard, it has recently been deemed inadequate in various circumstances. There are five important limitations to the original balanced scorecard model:

- i. It fails to adequately highlight the contributions that employees and suppliers make to help the company achieve its objectives.
- ii. It does not identify the role of the community in defining the environment within which the company works.
- iii. It does not identify performance measures to assess stakeholders' contribution.
- iv. It fails to account for the importance of "motivated employees", which is particularly critical in the service sector.
- v. The distinction between means and ends is not well defined.

### **III. Discussion and Results**

The scorecard is viewed in four different perspectives which include financial, customer, internal process and learning and growth. Kairu et al (2013) concluded that the BSC can give firms and organizations managers the advantages they need to evaluate themselves accurately and, as a result, place themselves in a better position to compete. The main goal of businesses is to achieve their overall performance and make a profit. This goal can be achieved when managers adopted the balanced scorecard as performance measurement tool. Despite the limitations identified by some researchers, balanced scorecard is good if adopted by organizations as it incorporated both the financial and non financial variables in measuring performance at any given time. Organizations are advised to adopt the balanced scorecard model as a performance measurement tool as it has a maximum benefits.

The result of the review showed that the Balance scorecard is alien to some companies who are yet to employ this model that evaluates organizations holistically. Companies that have adopted this model in performance measurement have started to enjoy its benefits.

The review recommended for tool awareness should be launched to companies yet to adopt this model.

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