A CASE STUDY OF BALANCED SCORECARD IMPLEMENTATION: THE HIDDEN PROBLEMS

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Abstract

The Balanced Scorecard (BSC) has attracted considerable interest among organizations seeking to improve the implementation of their strategy. Some researchers argue that the BSC has its theoretical roots in the MBO. Both techniques seek to provide organizations with a basis for aligning the activities of the organization with their objectives. The difference between the BSC and MBO is that the BSC offers more systematic tools to link an organization’s strategic objectives with its activities. However, some researchers are beginning to raise questions about BSC’s effectiveness and some of its limitation. Basing their argument on the failure of MBO programs, they argue that the BSC may also encounter similar problems. This paper presents the findings of a study on BSC implementation in a Malaysian telecommunication company. The finding provides some support for the concerns raised about the problems and limitation of the BSC.

INTRODUCTION

The Balanced Scorecard (BSC) has emerged as a method for strategy implementation. According to one estimate, 60 percent of Fortune 500 companies have implemented or are experimenting with the BSC (Malona and Selto, 2002). Anecdotal evidence seems to suggest that an increasing number of organizations are attempting to implement it in Malaysia. The increased interest was partly due to Kaplan’s one-day seminar on the BSC held in Kuala Lumpur in mid 2002.

Some has argued that the BSC has its theoretical origins from Management By Objective (MBO). Both are techniques for orienting the activities of organizations towards their objectives. Both also put an emphasis on integrating this orientation towards objectives into the performance appraisal process. The difference is in the tools used. The BSC includes the use of the strategy map to depict the strategy of the organization.

At the core of the BSC is idea that the strategy of an organization should develop a strategy that is balanced. This balance is achieved by balancing between financial and non-financial issues, and short-term and long-term goals (Hepworth, 1998). To balance between the financial and non-financial issues, the BSC propose that organizations develop four perspectives i.e. the financial, customer, internal process and learning and growth perspectives (Dinesh & Palmer, 1998; McAdam & O’Neill, 1999). To balance
between short-term and long-term goals, the BSC requires that organizations develop lead and laggard measures that provide short-term and long-term objectives that are interrelated with one another. In essence, the BSC helps organizations develop a comprehensive framework that translates vision and strategy into a coherent set of performance measure and objectives (Kaplan & Norton, 1996).

A key concept in the BSC is the understanding that a strategy need to present the causal model of a business (Kaplan & Norton, 1996). To do this, the causal relationship between the four perspectives of the BSC is graphically presented in a strategy map (Kaplan & Norton, 2001). The relationship depicted in the strategy map then becomes the basis for the developing the scorecard. The scorecard spells out the short-term and long-term objectives.

A number of researchers have expressed concerns about the limitation of the BSC (Dinesh & Palmer, 1999; Van Tassel, 1995). They base their assessment by looking back at the problems encountered in MBO programs. The initial interest in the MBO when it was first introduced was replaced with disillusionment. The failure rate of MBO programs was high (Van Tassel, 1995). A key source identified as the cause failure in MBO programs is the lack of human relations norms in the adopting organizations (Dinesh & Palmer, 1999). What this basically means is that for techniques such as MBO to be successful, a norm encouraging high participation needs to be present. The absence of such a norm typically leads to a very top-down and arbitrary process of goal setting. As a result there is a lack of buy-in to the program and commitment to the goals. These researchers have expressed the concern that the BSC will also face the same problems.

This paper describes a study conducted to examine the implementation of the BSC at a Malaysian organization. It will seek to explore the issues encountered by the organization as they implemented the BSC.

THE STUDY

Study Site

The study was conducted at the training center of a Malaysian telecommunication company. A condition that was set by the organization is that the researchers do not reveal the identity of the organization and the managers involved. As such, the name of the company and the managers involved is disguised in this paper.

Initial data collection was through interviews and examination of documents related to the BSC initiative. To get an overall view of the BSC initiative, the first phase of the interview was conducted with two senior managers from the Corporate Planning Unit who were responsible for running the BSC initiative.

Background

The BSC initiative was started at the group level of Malaysian Telco (MT) in 1995. The main focus then was to develop key performance indicators. The main target for this program was for MT’s first and second tier management. This included the group CEO
and the group’s management committee. The latter consisted of all key senior vice presidents heading the various functional areas.

The initiative was kicked off with the help of consultants from Arthur Andersen. They worked mainly with the CEO and the management committee. Their role was to conduct training on the BSC method and help the group develop its key performance indicators. An intranet-based system called Navigator was acquired from a vendor to enable online tracking of performance. This system was supposed to be used to capture and track the key performance indicators. By mid 1997 the key performance indicators as well as elements for MT’s four BSC perspectives and key performance indicators were developed. A few divisions also were selected to be involved in this pilot initiative. However, the whole BSC initiative was put on hold when the Asian currency crisis struck in July 1997.

**BSC at MTETC**

One of the units chosen to be involved in the initial BSC initiative was MT Education and Training Center (MTETC). The BSC initiative took off in April 2000. The then General Manager, Mr. Ahmad, instructed two of his managers to start the initiative. MTETC is an outfit operating under the responsibility of the Senior Vice President for HRM. It was then operating basically as a cost center. At the time the BSC initiative was started at MTETC there was a debate whether it should continue to operate as a cost center or become a profit center. Mr. Ahmad sought to reexamine MTETC’s direction. Any shift in MTETC’s status would require a reexamination of its key performance indicators. It was felt that the BSC can help MTETC to realign its orientation.

The BSC initiative was also seen as important in carrying the directive from the parent company that all divisions and subsidiaries develop a performance-oriented culture. However, as at the group level, the BSC initiative at MTETC was also put on hold in 1997. In the case of MTETC it was because of a change in the General Manager position. The new General Manager, Mr. Kamal, did not share his predecessor’s interest in the BSC initiative.

By 2001 a new person, Mr. Yunus, was appointed to head MTETC and was given the title of CEO. Because of his marketing background, Mr. Yunus, took a more market oriented approach in running MTETC. He was committed towards making MTETC a profit center. He was confident MTETC can generate more business and revenue instead of just serving as a training center to fulfill MTETC’s internal training needs. The BSC initiative was resuscitated in May 2001. The initiative was seen as important in tracking and monitoring performance as MTETC realign itself to become a profit center.

MTETC’s strategy by the year 2002 revolves around a number of key goals that constituted its business model. The main elements are:

a. Develop MTETC into a financially self-sustaining entity.

b. Build a bigger cake by offering more and new products and services.
c. Seek a better cash:service ratio. In the past MTETCs’ activities were rendered as services to other MT’s divisions and subsidiaries. Only 10 percent of its activities generated cash income. The new goal for MTETC was to improve this 10:90 ratio to 30:70.

d. Develop core businesses and position its products to support the above goals. They key services provided by MTETC are training, education and consultancy. These are to be strengthened and more expansion will be done in targeting external (non-MT) customers. This specifically entails offering educational programs for school leavers and training for MT’s vendors.

MTETC’s corporate planners presented its BSC initiative to its management committee meeting in mid 2002. As part of the process of cascading MTETC’S goals, each manager was called to discuss with the CEO their key performance indicators and a performance contract was made between him/her and the CEO. A modification to the original BSC four perspectives was made to suit MTETC’s and MT’s requirement. The four perspectives used are the shareholder value perspective, customer perspective, operations perspective and organizational learning perspective. The shareholder’s perspective is basically focused on financial issues. The rationale in calling it the shareholder perspective was that MTETC needed to generate financial returns that meet shareholders’ expectation. The main focus of the customer perspective was to ensure quality in delivering existing programs. The operations perspective and organizational learning perspectives were basically the same as the internal process and learning and growth perspectives in the standard BSC template.

The MTETC BSC team worked closely with the Corporate Strategic Planning department at the group level. Among other things, the Navigator system was modified to make it more effective. As the BSC initiative was rolled out, MTETC had to deal with a number of issues. Given its history of being a cost center, units within MTETC never developed the discipline and information system to keep track of their expenses and income. Whereas the consolidated expense and income data was available at the MTETC level, there were problems in trying to allocate cost and income to individual units. This is particularly the case in inter-unit activities since a proper transfer pricing formula was not developed. At times, the data available at the units and the MTETC’s finance department did not match. This sometimes happen because of the failure by a unit to invoice other units that used its service. This lead to controversies when deciding on the operating income of individual units. Likewise, it also became a sticky issue when trying to link individual performance with outcome since there were problems attributing outcomes to individuals.

The team leading the BSC initiative at MTETC admitted that their main focus in rolling out the program was to develop the key performance indicators. And this was mainly focused on financial issues. The main reason the BSC program took this course was because the team found it necessary to orientate MTETC’s managers towards being accountable for bottom-line measures. Because of its earlier history of being a cost center managers at MTETC never were held accountable for these profitability measures. Among other things, MTETC was planning to conduct training on using the Navigator
system for its managers to enable better performance tracking. The team admitted that developing non-financial measures was more difficult and posed unique challenges to its BSC program. The relaunched BSC initiative is targeting to cascade its goals and strategy to what is termed by MTETC as its tier 3 level. Tier 1 refers to the CEO, tier 2 his immediate report and tier 3 are those executives reporting to tier 2 managers. The BSC team expects the BSC initiative to stabilize and be fully functioning by 2003.

**Interview with managers**

The authors conducted seven interviews with tier 2 managers between July and October, 2002. The purpose of the interview was to examine their views on the BSC initiative that was being rolled out. It wanted to specifically examine the involvement and commitment of these managers. This was important for the BSC initiative at MTETC since these managers were the ones heading the main functional units. At the time the interviews were conducted the BSC targets had not been cascaded to tier 3 managers.

A number of observations could be made on the feedback obtained from the interviews. First, there was a consensus that the BSC initiative was perceived as something good. However, when the interviewers sought their views on specific aspects of the BSC initiative, it became apparent that most of the managers did not have a clear idea on what the BSC was about. In fact, three of them basically asked the interviewers to explain to them about the BSC method. Only two of the managers had a good understanding of the BSC. The rest basically understood it as a mechanism to develop key performance indicators.

Second, it also became evident from the interview that the 6 of the 7 managers basically saw the initiative as another of those fads that MTETC tries from time to time without ever really being serious about seeing it successfully implemented. One of the managers had worked in corporate communications in another subsidiary. She remarked that MT has this habit of launching all kinds of new management initiatives but never went beyond the launching ceremony. To her, the BSC initiative is another such management initiative. When asked about the level of enthusiasm showed by managers towards the BSC initiative, another manager remarked that they were basically “neutral”. He also explained that there were too many management techniques being introduced and they were all being done in a fragmented manner. As a result, many take a “wait and see” attitude. Even though they had their reservations, they did not oppose it and neither did they enthusiastically get on board the initiative.

Third, the feedback from the interview also showed that the BSC initiative was seen as a rather arbitrary and top-down process. Managers were given a set of targets to achieve and there was little discussion about it. An earlier interview with the senior managers heading the BSC initiative also found the same attitude. When asked how other managers responded to the announcement on the launching of the BSC initiative, one of the managers simply replied, “We didn’t ask them”. This is contrary to the approach advocated by Kaplan and Norton who see the target setting process as an iterative process aimed at refining the targets, get buy-in and develop consensus (Kaplan & Norton, 1996).
Fourth, a common concern expressed by managers was the misalignment between the performance appraisal system that was under the jurisdiction of the group HRM function and the BSC performance measures that was under the jurisdiction of MTETC’s Corporate Planning Unit. The performance appraisal put in place by the HRM department assesses performance by appraising the behaviors related to a set of competencies. Performance outcome is not included in the appraisal. Employees recognize that ultimately their bonus and salary increment depends on the how they do on the performance appraisal and thus tend to focus on fitting in with the appraisal criteria. The lack of linkage between the performance appraisal system and the BSC initiative resulted in a situation where most lower level employees do not feel accountable to the performance measures included in the BSC. This was especially the case for lower level managers (Tier 3) since at the point this study was conducted the performance measures had not been cascaded into personal targets for them. Thus, the expected effect of making the employees more profit oriented and accountable to specific target was not achieved.

One of the managers interviewed pointed out that his unit is a cost center. In spite of the attempt to use the BSC to develop performance targets that is linked to the strategy, the target that was assigned to him was basically to comply with the budget within a 5 percent variance. There was no attempt to chart out the causal relationship between his unit’s activities and MTETC’s goals.

Another manager raised concerns about accountability. She mentioned that occasionally she’s been instructed to run programs and spend from the funds allocated to her. Yet the beneficiaries of these programs were those from other departments. Her unit itself did not generate any revenue from these programs. As a manager responsible for profitability, this affects her adversely.

**DISCUSSION**

The data gathered from this study provides some evidence to support the concerns raised earlier about the implementation of the BSC. Where the BSC is used in a rather arbitrary and top-down manner, there was skepticism and perhaps even passive resistance to the initiative. Those involved simply avoided getting too involved. This is partly because of a lack of buy-in and commitment and a lack of understanding of the initiative itself. Kaplan and Norton (1996) put a lot of emphasis on rolling out the BSC through an iterative process that engenders participation and commitment of those who are going to be affected by it. This iterative process is a key element of the BSC method. The use of BSC tools that fail to be integrated with the necessary processes, in this case getting the involvement of the managers, is likely to lead to failure. The lack of participation in the MTETC BSC initiative was very much indicative of this situation.

One thing that was observed from the study of BSC related documents at MTETC was the absence of a strategy map of its strategy. Thus, the causal model of MTETC’s strategy was not clearly articulated. Even though the goal of making MTETC a profit center was clear to all the managers interviewed, there was no consensus on how MTETC was planning to achieve it.
It was also evident from the data collected that measuring the performance measures was difficult without a proper information system in place. In the case of MTETC, the various units often serve each other and the absence of a transfer pricing formula created confusion in measuring performance. This created some feeling of inequity among the managers interviewed.

One of the things that was observed from this study are signs of organizational hypochondria. Randell (1999) defines organizational hypochondria as the habit of simply jumping into adopting the management fad of the day without really assessing the needs of the organization. There appears to a perception among some of the managers interviewed that MTC and MTETC is suffering from this problem. This has lead to cynicism and initiative fatigue among the managers interviewed (Wanous, Reichers & Austin, 2000; Glover, Friedman & Jones, 2002). The managers simply got tired of having to try new management techniques. This was especially the case when they are excluded in the decision to adopt the BSC.

CONCLUSION

Management techniques, including the BSC, are not a panacea for all organizational ills. Ultimately, managers need to understand the limitation of each technique and seek to complement it with other tools. The finding of this study shows that the implementation of the BSC has far reaching consequences for many aspects of organizational activities that is not usually appreciated. For example, the setting and monitoring of performance targets would only be possible when the information system and the accounting system are able to capture and allocate the necessary financial measures.

Managers need to also adapt their organization’s internal conditions to enable it to implement the BSC. Among other things, they need to develop norms that encourage participation among those affected by the initiative. The BSC itself is not magic and will be less effective if implemented in a barren context i.e. contexts that does not have the requisite norms (Szulanski, 1996).

References


management, **Balanced Scorecard Report**, 1-16.


