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Article in *International Journal of System Dynamics Applications* · January 2016

DOI: 10.4018/IJSDA.2016010103

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Holistic Approach for Balanced Scorecard as Managerial Decision Making Tool

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ABSTRACT

Recent times have seen the supply side of management knowledge be it consultants, management gurus, business schools and popular press invent and diffuse countless managerial tools at a rapid-fire rate. One such tool is the Balanced Scorecard (BSC) that has been glorified and hyped as a great innovation of nineties. Through exhaustive literature and grounded theory approach, this paper examines some theoretical and methodological issues of BSC to develop a holistic perspective when adopting BSC as a managerial tool. The main purpose hereto is not to question BSC but rather to create a more holistic and down to earth picture of the tool in the minds of actual and potential users especially when adopting it as managerial tool in dynamic decision making. In the process some of the debatable aspects of BSC, contrary to the mainstream BSC literature which enthusiastically consecrates the tool stand visible.

KEYWORDS

Approach, Balanced Scorecard, Decision Making, Holistic, Literature, Managerial, Performance Measurement, Theory, Tool

BACKGROUND

Considerable number of macro and micro level factors, like globalization, liberalization, localization policies force organizations to adapt and change their past practices to continue in competitive environments. Conversely, this environmental uncertainty may stimulate organizational players and hold them back from selection of managerial tools congruent with their goals to a large extent (Baporikar, 2014). This may lead to two dangerous situations. Firstly, organizations may consume their resources through selection and implementation of inappropriate managerial devices. On the other hand, the resources which organizations currently possess and need, are often restricted and even organizations have to frequently determine and follow some strategies such as co-optation, acquisition, joint venture and merger (Pfeffer and Nowak, 1976; Pfeffer, 1972) to capture these scant resources. Therefore, organizational resources are important in as much as they should not be wasted. Another

DOI: 10.4018/IJSDA.2016010103

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danger is that bad news coming from industries regarding the implementation of a specific technique may affect perceptions in a negative way and curtail the value adding characteristics of a practice in the minds of the potential users. Here the purpose is to give information about both the advantages and theoretical limitations of BSC. This paper examines some theoretical and methodological issues of BSC to develop a holistic perspective when adopting BSC as a managerial tool for dynamic decision making. However, the primary focus is on the controversial opinions of BSC since the advantages of BSC have already been emphasized extensively by many writers (e.g., Epstein and Manzoni, 1998). In addition, since theory and research foster each other, shallow research will engender weak or incorrect theory building. Hence, there is a succinct discussion on the methodological weaknesses of BSC literature. With this aim, in the first part of the study the BSC concept will be clarified as far as possible, then some theoretical and methodological limitations of BSC will be discussed.

LITERATURE REVIEW

Literally, “Performance Measurement (PM)” is the process of quantifying past action (Amaratunga et al., 2001: 179, cited from Neely, 1998). In particular, the importance of PM seems to be greatly enhanced in the presence of increasing competition. Although many organizations, consultants and academics have felt dissatisfaction with existing “Performance Measurement Systems (PMS)” since the 1950s (Eccles, 1991) because of the over-emphasis on financial measures and lack of attention particularly on the gap between the strategy expressed in the activities planned and the strategy expressed in the pattern of actions actually undertaken (Norreklit, 2000; Ittner et al. 2003), there were no serious efforts to develop more robust PMS until the beginning of the 1990s. Then, in order to overcome these two inter-related problems, some authors introduced new PMS into the literature such as “Dynamic Multi-dimensional Performance Model (Maltz et al., 2003)”, “Holistic Scorecard (Sureshchandar and Leisten, 2005)” and “Systemic Scorecard (Leibold et al., 2002)”. In addition, some writers were favour of bringing some rooted PM systems back to the agenda, such as French Tableau de Bord (Bessire and Baker, 2005; Epstein and Manzoni, 1998). The intensive criticism of traditional PMS which are overwhelmingly constructed on financial measures, and claims regarding benefits of non-financial measures usage seem to be the hallmarks of these new generation PMS.

The BSC, when first introduced by Kaplan and Norton in the 1990s generated a great deal of interest as one of the latest and major innovations in management (Bessire and Baker, 2005; Norreklit, 2003). Some articles even discussed in different contexts as to whether BSC was a new “management fashion-fad (Abrahamson, 1996 and 1996)” or a “rationalized myth (Modell, 2004)” sweeping through organizations all around the world (e.g., Eryılmaz, 2008 in Turkey; Braam et al., 2007 in Netherlands; Ax and Bjornenak, 2005 in Sweden and Malmi, 2001 in Finland). There may be various reasons behind this pervasion of the technique such as encouragement of quality programs and awards (Malmi, 2001), aggressive marketing of the tool, its intrinsic value to businesses and a number of case studies documenting early successful adoption (Evans, 2005).

According to proponents of BSC, it is a strategic management system which aims to improve organizational performance through providing the ‘balance between short-and long-term objectives, financial and non-financial measures, lagging and leading indicators and external and internal performance perspectives’ (Hepworth, 1998: 560). When BSC was originally introduced to management literature by Kaplan and Norton (1992) through an article published in Harvard Business Review, it was represented as a tool for performance control. Then, the device was metamorphosed into a comprehensive strategic management system in 1996 by its inventors (Evans, 2005; Anderson et al., 2004; Lawrie and Cobbold, 2004; Speckbacher et al., 2003; Hannula et al, 1999; Dinesh and Palmer, 1998; Hepworth, 1998; Kippenberger, 1996). On the other hand, it is fair to contend that the main focus of BSC is still on control activities (Amaratunga et al., 2001; McAdam and O’Neill, 1999) rather than planning and implementation of strategies.

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