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The Balanced Scorecard: a Necessary Good or an Unnecessary Evil?

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The Balanced Scorecard has emerged in recent years as what can perhaps best be described as a strategic control tool. Although surrounded by much publicity in both professional and academic circles, few organisations are yet in a position to quantify its benefits, therefore investing time and money for unquantifiable results. The question posed in this article is whether or not the Balanced Scorecard is a necessary good, an unnecessary evil …or perhaps, a necessary evil …for such organisations.

Through a discussion of current literature on the topic and various examples, the article demonstrates that the Balanced Scorecard is a 'necessary good' for today's organisations. It is a tool which adds value by providing both relevant and balanced information in a concise way for managers, creating an environment which is conducive to learning organisations and eliminating the need for managers to 'choose' which type of control system to use at any given time. However, the article also draws attention to the fact that the entire Balanced Scorecard implementation process relies on both formal and informal processes, and that there are written and unwritten rules which must be considered for the process to be implemented successfully.

The Balanced Scorecard: a Necessary Good or an Unnecessary Evil?

The Balanced Scorecard has emerged in recent years as what can perhaps best be described as a strategic control tool. Its high-profile in management seminars and academic debates has placed the Balanced Scorecard alongside approaches such as Activity Based Costing/Management and Total Quality Management in terms of industry and literary attention. The propaganda surrounding the Balanced Scorecard provides evidence that it is the key for driving performance in organisations; that it transforms strategic management paradigms by placing the emphasis on the enablers instead of on the results; and that it is the cockpit which provides all relevant strategic information. According to Kaplan and Norton (1996b), 'The Balanced Scorecard provides managers with the instrumentation they need to navigate to future competitive success'. They claim that it '…addresses a serious deficiency in traditional management systems: their inability to link a company's long-term strategy with its short-term actions'; Roger Bosworth, Senior Manager, Business planning and performance at NatWest UK says that 'Building the Scorecard is when you start to get your hands on those measures and drivers that are at the heart of a solid performance management system'. With statements such as these, it is no wonder that many organisations are falling over themselves to implement such a system. Using the Balanced Scorecard 'bible' (the original publication by Kaplan and Norton) as a reference, supported by internal or external consultants, organisations are changing their management system to conform with the Balanced Scorecard ethos.

Few organisations are yet, or will ever be, in a position to conduct a cost–benefit analysis for the Balanced Scorecard and therefore invest substantial amounts of time and money for unquantifiable results. In terms of the literature, the only scent of criticism comes from Atkinson *et al.* (1997) for whom the Balanced Scorecard does not cohere with their stakeholder approach to performance measurement. Perceiving the Balanced Scorecard as a performance measurement system, they argue that the key to such a system is that it 'focuses on one output of strategic planning: senior management's choice of the nature and scope of the contracts that it negotiates …with its stakeholders' and that the 'performance measurement system is the tool the company uses to monitor those contractual relationships'. They criticise the Balanced Scorecard as failing to:

- ❖ highlight employee and supplier's contributions (that it doesn't consider the extended value chain, which is an essential element of today's networked organisations);
- ❖ identify the role of the community in defining the environment within which the company works;
- ❖ identify performance measurement as a two-way process (that it focuses primarily on top–down performance measurement).

If we accept the definition of the Balanced Scorecard as a strategic control system, then another of its key critics is Simons (1990) who condemns researchers who promote 'strategic control systems', arguing that they '…do not understand fully the means by which strategic control has been achieved.' He states that '…strategic control can be achieved by using familiar systems in special ways that recognize how strategies are formulated and implemented in organizations'. He continues… 'In this sense, managers do use controls strategically, but without resorting to specialized strategic control techniques. The result of this process is an unobtrusive, yet effective, control of strategy.'

What then of the Balanced Scorecard? Is it a necessary good for today's organisations, an unnecessary evil …or perhaps, a necessary evil…? This article will attempt to answer these questions by investigating the role of the Balanced Scorecard within an organisation, including its fit with existing management control systems. The Balanced Scorecard will be deemed to be 'good' if it adds value to the organisation, and will be considered 'necessary' if it proves to be essential to management.

An Introduction to the Balanced Scorecard

The Balanced Scorecard was first identified and implemented by Kaplan and Norton as a performance management tool, following a one-year multi-company study in 1990. Its aim is to present management with a concise summary of the key success factors of a business, and to facilitate the alignment of business operations with the overall strategy. It '…provides a medium to translate the vision into a clear set of objectives. These objectives are then further translated into a system of performance measurements that effectively communicate a powerful, forward-looking, strategic focus to the entire organization' (Kaplan and Norton, 1989).

Relevant and Balanced Information

One of the primary motivations in developing the Balanced Scorecard was that top management were being overwhelmed with data and were spending too much time analysing these rather than on making decisions. A further intention was to overcome the bias of existing management information towards financial measures. The Balanced Scorecard paradigm is that the financial results are obtained by successful implementation of strategic initiatives in the key business perspectives — as opposed to being their driving force.

Four Perspectives

The original Balanced Scorecard design identified four perspectives which are *the financial* perspective; *the customer* perspective; *the internal-business-process* perspective; and *the learning and growth* perspective. The perspectives represent three of the major stakeholders of the business (shareholders, customers and employees), thereby ensuring that a holistic view of the organisation is used for strategic reflection and implementation. The importance with each of these perspectives (no matter how many are chosen to be necessary) is that the perspectives themselves and the measures chosen are consistent with the corporate strategy. Figure 1 shows how the Balanced Scorecard provides a framework, through these four perspectives, for translating strategy into operational themes and thereby facilitating the role of management.

The *financial perspective* represents the long-term objectives of the company. The measures chosen will represent the relevant stage in the product or service life-cycle and are summarised by Kaplan and Norton (1996a) as rapid growth, sustain and harvest. Financial objectives for the growth stage will be largely based on sales volumes, existing and new customer relationships and process development. The sustain stage on the other hand will be represented by measures analysing return on investment such as return on capital employed, discounted cash flow and perhaps economic value added. Finally, the harvest stage will be based on cash flow analysis with measures such as payback periods and revenue volume.

The *customer perspective* consists of measures relating to the most desired (i.e. the most profitable) customer groups. It will include several standard measures such as customer satisfaction and customer retention though in each case these should be tailored to meet the organisational requirements. Market share, customer value and customer profitability are other key measures that enable an organisation to create a clear vision of the customers whom it should target together with an identification of their needs and expectations from the company.

The *internal-business process perspective* focuses on the internal processes required in order for the company to excel at providing the value expected by the customers both productively and efficiently. These can

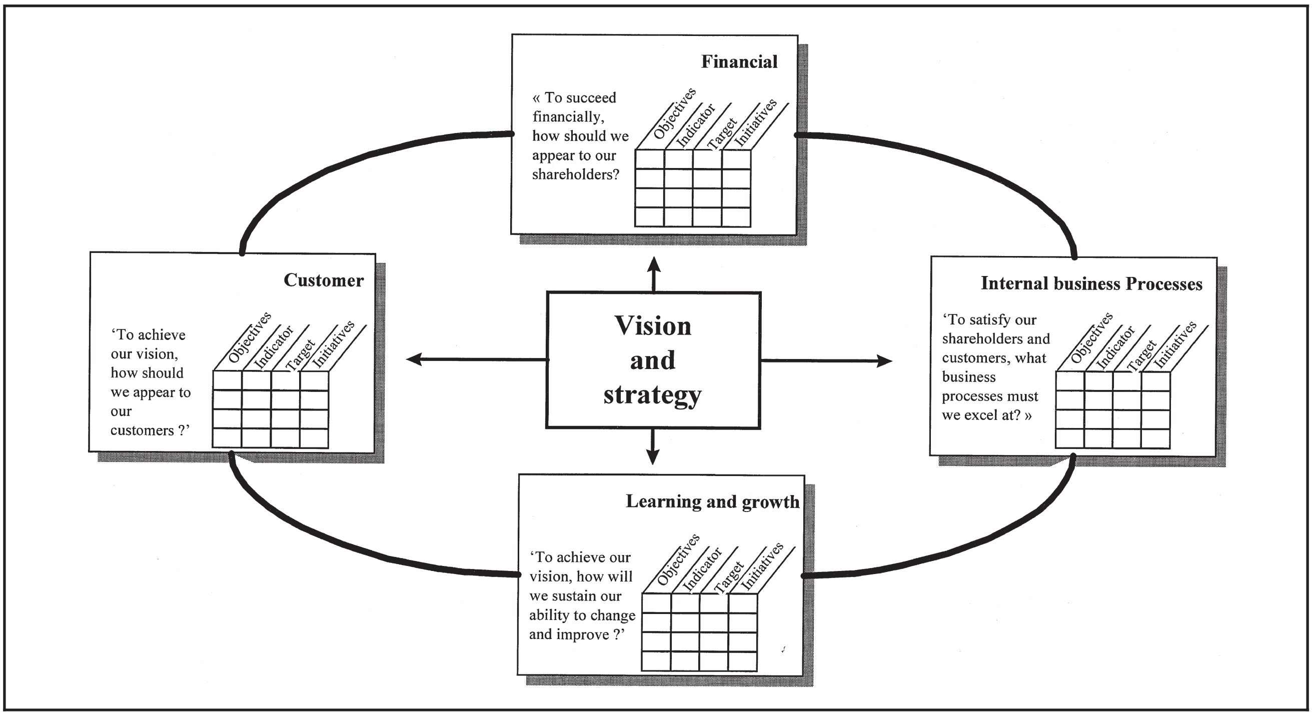

Figure 1 The Balanced Scorecard Framework [Kaplan and Norton (1996a, p. 197]

include both short-term and long-term objectives as well as incorporating innovative process development in order to stimulate improvement. The internal-business perspective is particularly effective during a period of change as it focuses activity on the key processes required in order to implement the change programme efficiently.

The *learning and growth perspective* focuses on internal skills and capabilities, in order to align them to the strategic goals of the organisation. The Balanced Scorecard process will often identify gaps between the required and existing skills and capabilities. Using it to identify strategic initiatives and related measures, these gaps can then be addressed and closed by initiatives such as staff training and development.

Cause-and-Effect Relationships

Identifiable cause-and-effect relationships are an important aspect of the Balanced Scorecard when choosing the appropriate indicators. It enables the translation of a financial aim, such as increasing revenue by x%, into operational factors which will lead to that increased revenue. Therefore, by evaluating the relevant factors in each segment of the Balanced Scorecard which may have an impact on a financial aim, the appropriate measures can be identified and the alignment of actions to the strategic goals is facilitated. Figure 2 demonstrates how the financial aim of increasing return on capital employed was translated at Tetra Pak into operational factors for each of the Balanced Scorecard segments. It clearly demonstrates the hypothesised cause-and-effect links which can be tested using the Balanced Scorecard measurement process. The diagram also shows the emphasis

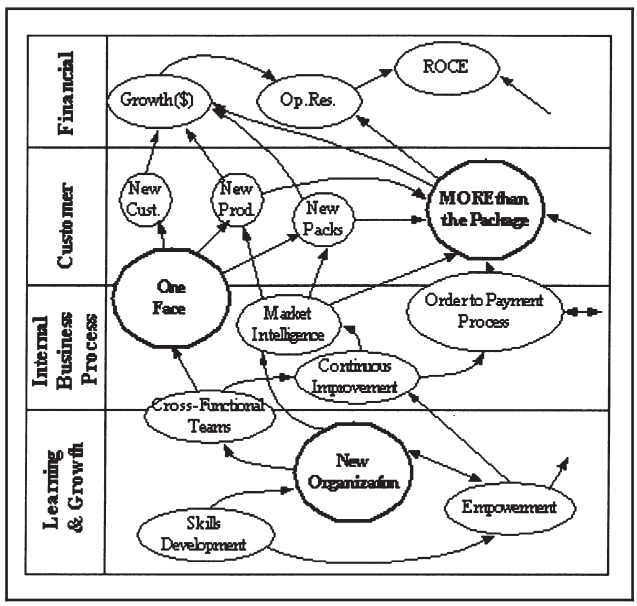

Figure 2 An Example of Cause-and-Effect Links within Tetra Pak

on growth as a means of obtaining the increased ROCE (Return On Capital Employed).

The Role of the Balanced Scorecard

Since its introduction as a performance measurement tool in 1991, an increasing number of roles have been identified for the Balanced Scorecard. These range from providing the critical information to be used in a strategic reflection process, to being a key part of the management system of the organisation whereby

360° feedback can be obtained on both the strategic objectives and the indicators being used to measure its attainment. This more comprehensive role can be seen in Figure 3 which demonstrates the role of the Balanced Scorecard as the 'king pin' of a management system.

Although the Balanced Scorecard will have a role to play in each of the four sections of the management system, often one or two of the sections will dominate. This will depend on the motivation for developing the Balanced Scorecard and on its stage of implementation. For example, in Europe, many organisations are implementing the Balanced Scorecard with an emphasis on planning rather than on control. They use the BSC as a tool for encouraging all managers to think strategically about the organisation and its future. As such, emphasis is placed on the strategic feedback and learning, and on the communications sections of the management system. Examples of companies which have developed one particular function of the Balanced Scorecard include Whirlpool, British Airways World Cargo and Tetra Pak. Whirlpool, the domestic appliance manufacturer, has implemented its Balanced Scorecard as a means of creating a performance culture within its European subsidiaries. British Airways World Cargo implemented their Balanced Business Scorecard as a means of accompanying and measuring the achievement of change and improvements during a major transformation process. As can be seen from the insert, Tetra Pak uses this new management system as a way of supporting strategic implementation in its local companies in order to gain enhanced feedback from all areas of the business.

Although a very similar Balanced Scorecard implementation process is pursued by many organisations, it produces different measures and different Balanced Scorecard roles according to the company dynamics and competitive position. This can be demonstrated by some of the case studies developed by Kaplan and Norton (Mobil USM&R, Cigna property and assurances and Skandia insurance), all of whom had the same external influences for implementation, yet all of whom convey different advantages of the Balanced Scorecard. For example, within Mobil, the ability to communicate the strategy to all members of the organisation and to obtain valuable feedback and ideas from employees nearest the customers was expressed as one of the key benefits obtained from the process. Within Cigna, a fundamental advantage came from the ability to link the Balanced Scorecard measures for each employee to an internal share price. This dramatically improved productivity as it meant that each individual reconsidered his/her role within the organisation, and concentrated on areas in which he/she could add value to the business. The motivation for this came from the fact that each employee owned internal shares and could win or lose according to overall company performance, as perceived internally. Finally, with the Skandia case study, we witnessed the first attempt at using the Balanced Scorecard as a tool for external communications. Although this was perhaps not the major advantage for Skandia, it demonstrates that the Balanced Scorecard has communication potential as a holistic system, which encompasses all stakeholders of the business.

The above discussion and examples tend to suggest that the Balanced Scorecard does indeed improve on current systems in a variety of ways. It provides relevant and balanced information in a concise way for managers, thereby reducing the time for 'digestion' of information and increasing the time for decision-

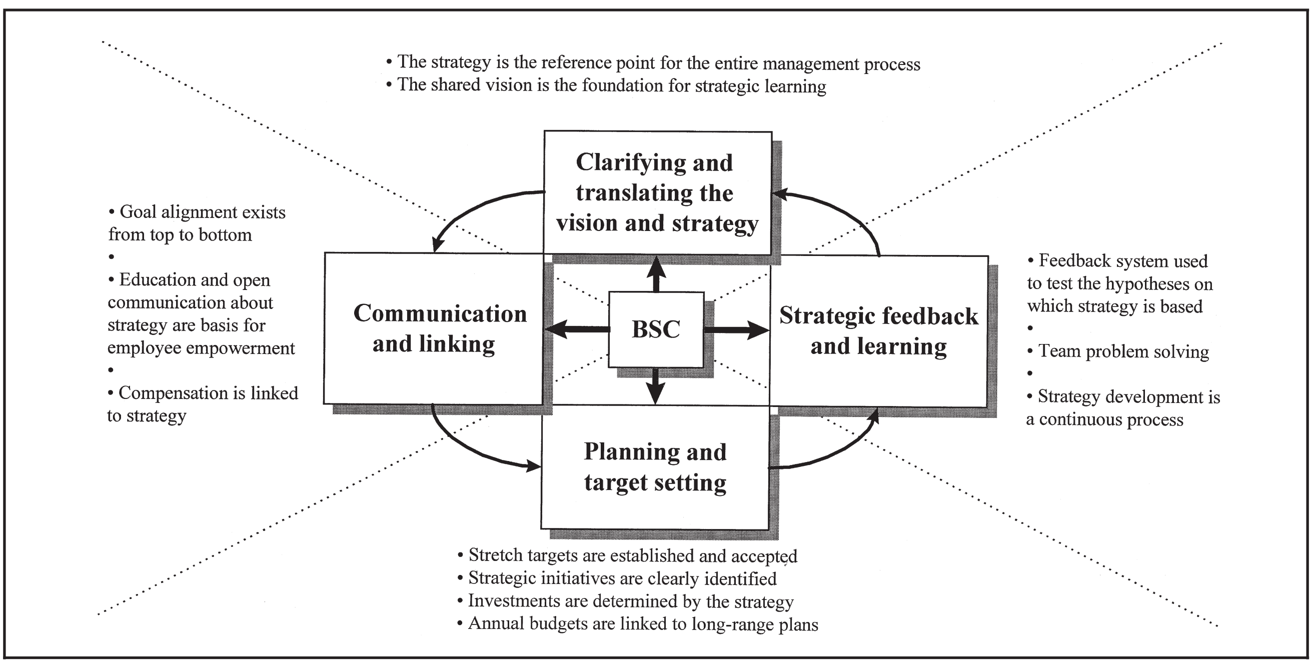

Figure 3 A Management System for Strategic Implementation [Kaplan and Norton (1996a, p. 197]

making. It also creates an environment which is conducive to learning organisations through the testing of hypotheses regarding cause-and-effect relationships and by laying the groundwork for a 360° feedback process. Given the demands of today's competitive environment, these aspects enable us to conclude that the Balanced Scorecard is a 'good' system for management. However, many systems have been proposed in the past which aimed at adding value to management. Whilst some of them may have been desirable to have, not all of them could be described as being 'necessary'. The question remains therefore, is the Balanced Scorecard 'necessary'?

The Balanced Scorecard and Strategy

In Simons' criticism of strategic control systems, he relies on the definitions put forward by Schendel and Hofer (1979) who state that strategic control 'focuses on whether (1) the strategy is being implemented as planned, and (2) the results produced by the strategy are those intended' and by Lorange *et al*. (1986) who define a strategic control system as: '…a system to support managers in assessing the relevance of an organization's strategy to its progress in the accomplishment of its goals and, where discrepancies exist, to support areas needing attention.' As Simons points out, these definitions lead to a perception of strategic control systems as a process for keeping strategies on track and essentially parallel strategy formation with planning and strategy implementation with control. There is therefore a lack of the unplanned, no room for spontaneous reflection, and no place for the management of the unintended strategy (a function of culture, efforts to correct what was seen as misguided in the first place and miscommunications) which, according to Mintzberg, makes up a substantial part of the emergent strategy of an organisation.

Simons goes on to discuss the array of formal control systems available to management. He describes these as 'diagnostic control systems' (which periodically and systematically measure progress against plans, therefore concentrating on yesterday's strategies), 'interactive control systems' (which are those requiring regular management attention and discussion within the organisation, therefore focusing on the formation of tomorrow's strategies) and 'boundary control systems' (which are designed to communicate the boundaries of permissible activity to all employees in the organisation). Simons argues that top management will place the emphasis on the particular type of system that '…addresses the critical uncertainties that top managers perceive could threaten the achievement of their vision for the future', suggesting that only one of these systems will be the focus of management attention at any one time. He also stresses that the traditional view of planning and control and their relations with strategy formation and implementation should be inverted, as demonstrated in Figure 4.

Simons' discussion is essentially one arguing for the competencies of management to decide on which formal control system to place the emphasis on at any one time. However, there seems no logical reason why the managers should be forced to make this choice. It seems plausible that control systems could be developed which encompass diagnostic, interactive and boundary elements. After all, as perfectly demonstrated by Simons, each has its place within the organisation. In fact, if we bring the spotlight back on to the Balanced Scorecard, we can see that it does indeed combine elements of all three of the Simons' systems.

The Balanced Scorecard contains elements of a *boundary control system* in that it evolves from the vision, mission and strategic goals of the organisation. Its four perspective framework depicts limits in the organisation as it encourages employees to focus their attention on the key aspects of the business. If we refer back to the role of 'communication of strategy' inherent in many Balanced Scorecard implementation processes, we recognise it is a tool which could be used for the definition and dispersion of the core values of the organisation. Using the Balanced Scorecard in this way ensures that employees are aware of the mission of the organisation, of its major strategic goals and, more importantly, of the role that they have to play in their achievement. This perhaps facilitates the adherence to the core values outlined, as long as they are well understood by the employees. An example of the use of the Balanced Scorecard as such a system is demonstrated in the Tetra Pak example (see Figure 7).

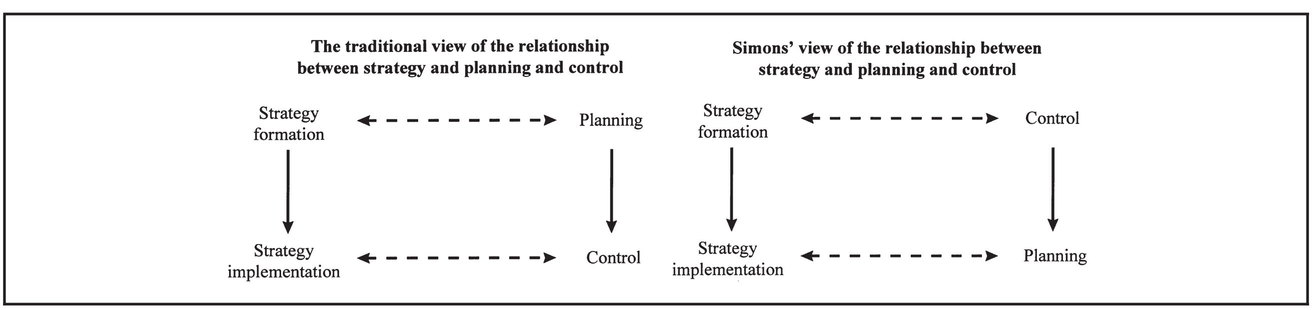

Figure 4 A Comparison of the Traditional View of the Relationship Between Strategy and Planning and Control with that of Simons'

The Balanced Scorecard also contains elements of an *interactive control system* in that it reinforces the learning organisation theory by providing the possibility to test cause-and-effect relationship hypotheses, by forcing managers to look transversally at their organisation, and by providing a focus for 360° feedback. Depending on the competitive environment of the company, a strategic goal will be outlined and its achievement measured. This does not mean however, that all actions from then on in are passive, and consist purely of historical data. It is possible, or perhaps essential, to include proactive objectives on the Balanced Scorecard, which will advance the company towards its strategic goals and which, more often than not, will require a great deal of interaction. An example would be an organisation which wanted to be closer to its customer either in moving from a functional to process organisation or wanted to create cross-functional teams attached to specific customers. Without a great deal of interaction and top-management involvement, such an initiative would not be possible.

Finally, the Balanced Scorecard contains elements of a *diagnostic control system*. Its inclusion of lag indicators which measure the progress towards the achievement of objectives fits neatly into Simons' definition. However, as has been shown, these diagnostic measures are merely one part of a whole. This is demonstrated in the insert which explains how Tetra Pak benefits from the Balanced Scorecard as a boundary, interactive and diagnostic control system. The relationship between the three systems for a typical Balanced Scorecard is shown in Figure 5.

It seems plausible therefore that the Balanced Scorecard is a strategic control system which offers managers the possibility to combine all types of control systems and that, as such, it adds value to management. It allows the measurement of the performance of the current strategy, whilst enabling time and energy to be spent on the formation of tomorrow's strategies. This eliminates the need for managers to 'choose' which control system to use at any given time, thereby maximising the productivity of a holistic information base instead of using only partial information. It would therefore seem logical to argue that the Balanced Scorecard is a 'necessary' tool for today's managers. However, many seemingly 'necessary' and 'good' systems have fallen by the wayside due to their conflict with current systems. It is therefore important to spend a moment investigating the potential conflicts between the Balanced Scorecard and other existing systems.

The Balanced Scorecard and Existing Management Control Systems

Within an organisation, there exists a multitude of management control systems, both formal and informal. Every one of these systems influences behaviour, be it voluntarily or involuntarily. It is essential therefore that there is a coherence between the systems, and that employees receive a consistent message throughout the organisation and through time. The majority of traditional systems, such as planning and costing systems, aim at fulfilling one particular purpose — in this case resource planning and improved knowledge of costs. They appear to be standalone systems and, unfortunately, are often treated as such by management. In implementing such systems, management address one particular issue and are not always concerned with its cohesion

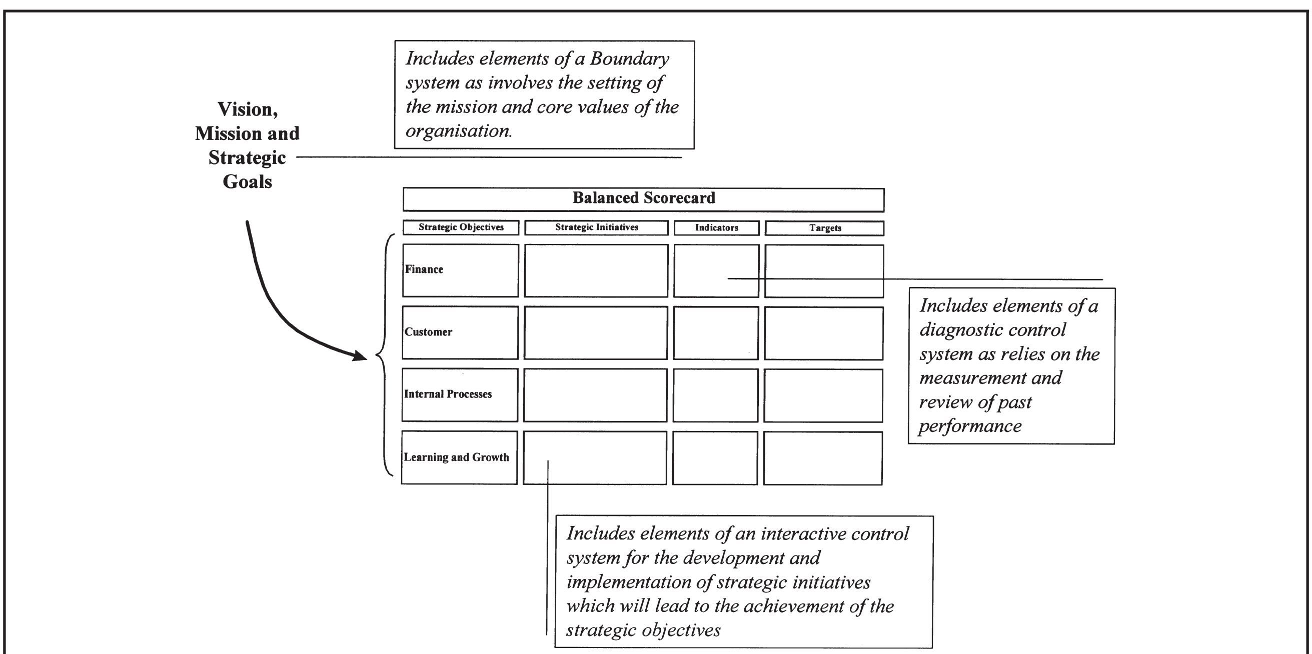

Figure 5 The Balanced Scorecard Comprises Boundary, Interactive and Diagnostic Elements of Control

with the strategic goals of the organisation. Effectively, they are healing a wound, without any conscious recognition of the importance of that wound when viewed as part of a whole. Perhaps more importantly, in many cases, it is their remuneration structure which encourages them to do so.

For example, a production manager who is remunerated for the profits of his unit may implement Activity Based Costing as a means to obtain more pertinent cost information with a view to reducing costs. On the other hand, the headquarters have identified a shortage of resources and wish all energy to be spent on the development of new products. It seems logical that whilst the manager is being remunerated according to his financial performance, he will forgo the requirements of headquarters and will continue to improve his own situation. By identifying a balanced set of financial and non-financial measures which are linked to the strategic goals of the organisation, it is possible to prevent such conflicts and to ensure that managers are being encouraged to conduct business in a manner which is rewarding to both him/herself and the organisation. Also, the implicit contract which is established in the identification of goals and performance measures ensures that goal congruence is achieved which in itself facilitates the task of management control systems.

Not only does the Balanced Scorecard provide a measurement framework which improves alignments of actions to the strategic goals of an organisation, but it also provides a platform for identifying priorities. During the identification of strategic initiatives which need to be implemented in order to achieve the various objectives, managers often find themselves inundated with ideas. By continually referring to the strategic goals which have been outlined, they are able to set priorities and to oversee the implementation of other projects, such as Activity Based Costing. This means that they have the complete picture and are able to identify the importance of each initiative with this in mind.

Although the Balanced Scorecard is designed to become a key part of the management system of an organisation, it is rarely introduced as such from the beginning. Although many managers will state from the outset that the Balanced Scorecard will become the king-pin for all strategic and performance measurement systems, they will often run it parallel with current systems at least in the beginning in order to insure themselves against initial teething problems. Also, achieving a complete Balanced Scorecard is a time-consuming process and often the benefits of implementing an incomplete pilot outweigh the advantages of waiting for the completion of the Balanced Scorecard before introducing it within the organisation.

The adoption of the Balanced Scorecard will have a direct impact on the other management control systems of the organisation and vice versa. In order to gain the necessary buy-in from employees, it is important to demonstrate that the Balanced Scorecard is not merely a supplement to current systems which simply adds work, and not value, to the organisation. Therefore, it is essential to identify the advantages of the Balanced Scorecard from the beginning, to communicate them to the organisation and, more importantly, to ensure that they are achieved. For example, it is not sufficient to state that the Balanced Scorecard will replace current monthly reports if, for an indefinite period, the two reports are produced together.

Often, the Balanced Scorecard will require the collection of new data which, in turn, will require new collection systems and often new responsibilities. As has been proved time and time again within organisations, there is a tendency to resist change. Therefore, in order to ensure a smooth transition to the Balanced Scorecard process, a communications exercise is essential in order to explain the process, to clarify rumours, and to use the informal systems to the advantage of the process as opposed to its disadvantage. This exercise will need to be tailored to the organisation, which means that it should be tailored to the various cultures that it hosts.

The Balanced Scorecard and Culture

The Balanced Scorecard will be affected by three major types of culture — national culture, occupational culture and, perhaps most importantly, the culture of the organisation. *National culture* affects the Balanced Scorecard primarily in terms of the approach towards financial performance. For example, organisations in the United States consider it to be their duty, and their overriding goal, to maximise shareholder wealth (i.e. to optimise the return on investment ratio). On the other hand, European organisations have long been concerned with a stakeholder approach whereby all those with an input in the organisation are rewarded. These different cultural paradigms will have an influence not only on the development of the Balanced Scorecard, but also on its acceptance. It is certainly apparent that many European organisations are hesitant about it as they consider that they have been using balanced perspectives for years. Indeed, in France, the *tableau de bord* is a relatively old management control system which provides a mass of quantitative information. It could be argued therefore that the Balanced Scorecard adds different value in each of these cases. For the US organisations, it forces them to look beyond the short term financial results to the strategic health of the organisation. For the Europeans, on the other hand, it helps them to reduce the wealth of indicators currently 'produced' in order to obtain a more pertinent selection of strategically important indicators.

National culture is also of relevance when it comes to defining performance indicators within international organisations. A prime example can be found in the customer perspective of the Balanced Scorecard and in the commonly used 'customer satisfaction index' indicator. It seems evident that a customer satisfaction index in Japan (where satisfaction is based largely on intangibles, such as long-term relationships) should be constructed differently to one in the United States (where satisfaction relies on tangible aspects such as reducing lead time). Such aspects would therefore have an impact on the creation of the Balanced Scorecard for an international organisation.

In terms of *occupational culture*, the Balanced Scorecard will be affected by traditions. It has been noted by many researchers in the field of organisational behaviour that certain occupations have their own defined culture which consists largely of unstated, informal rules. A Balanced Scorecard which attempts to use formal indicators to change behaviour and go against these traditions is likely to be unsuccessful and therefore such cultures must be considered when designing the Balanced Scorecard.

Finally, *organisational culture* has the potential to have a large impact on the Balanced Scorecard, be it positive or negative. It is generally considered that national and occupational cultures override an organisational culture, as is implied by Pugh (1993) when he says that 'On organizational grounds, resistance to change can be understood when it is realized that, from a behavioural point of view, organizations are coalitions of interest groups in tension'. However, Collins and Porras (1994), in their book entitled '*Built to Last*' imply that a strong organisational culture can in fact override any national or occupational differences, enveloping its employees in a 'cult-like' environment. Indeed, they pay homage to some of the worlds most successful companies who have developed 'cult' cultures, by devoting an entire chapter to them.

The organisational structure put in place to implement the strategy also affects the role of the Balanced Scorecard. A decentralised organisation which relies on trust and autonomous decision-making for its success would employ the Balanced Scorecard in an entirely different way than a centralised organisation which relies on a top–down process of instructions and implementation throughout its hierarchy. Implementing a Balanced Scorecard which contradicts the management ethos of the organisation would create confusion throughout and would put in jeopardy the other formal and informal systems. The implementation of the Balanced Scorecard should therefore correspond not only to the formal strategic approach of the organisation, but also to the various informal cultures to which it is host.

The Balanced Scorecard and the Missing Elements

Recognition of the informal elements of management control systems is important if a new system is to be successful. Chapello (1996) demonstrates the extent of the informal systems in place through her identification of six major axes to be considered for management control. The elements which are highlighted in Figure 6 are those which are predominantly informal and over which the managers have little control …perhaps giving justification to Dermer and Lucas (1996) who in 1986 wrote an article entitled 'The illusion of managerial control'. In their article, they suggest that a large part of the results of an organisation are due to elements outside of management control.

However, it is important to add that what cannot be

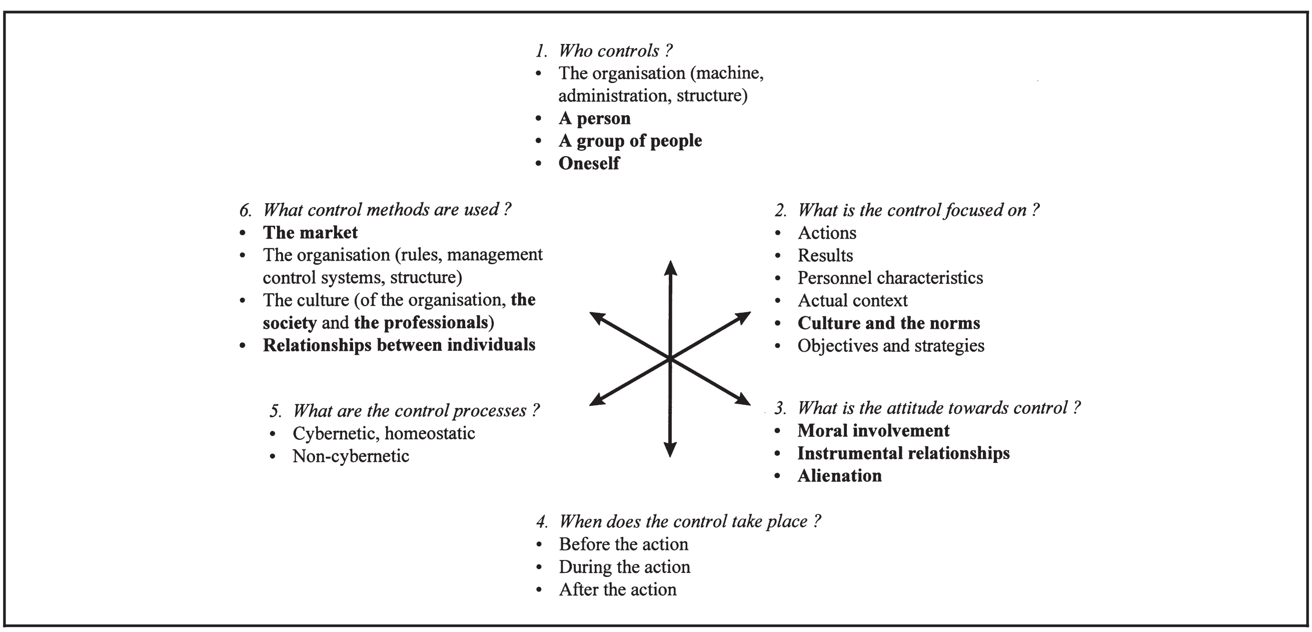

Figure 6 The Six Dimensions of Analysis of Means of Organisational Control

measured is still relevant. It is essential to build into a Balanced Scorecard the potential for highlighting unforeseen events which may have changed the competitive environment of the company. Changes occur and must be taken on board if an organisation is to remain alert and proactive.

Conclusion

The above discussion demonstrates that the Balanced Scorecard is a 'necessary good' for today's organisations. It adds value by providing both relevant and balanced information in a concise way for managers. It creates an environment which is conducive to learning organisations within which hypotheses regarding cause-and-effect relationships can be tested and the groundwork for a 360° feedback process is laid. It also eliminates the need for managers to 'choose' which control system to use at any given time by incorporating aspects of boundary, interactive and diagnostic control systems. This enables management to maximise the use of a concise, holistic information base.

However, the entire Balanced Scorecard implementation process relies on both formal and informal processes, whether this be in relation to the strategic approach of the organisation and its corresponding structure, to the cultural aspects of the organisation, or indeed to the management control systems currently in place. In all of these areas, there are written and unwritten rules and these must be considered in order for any new process to be implemented successfully. Given that each organisation has its own combination of formal and informal, it is not surprising that each has a unique Balanced Scorecard and a unique priority for its implementation.

The key issue still to be addressed by research in the field of the Balanced Scorecard is that of cost–benefit. It would be of interest, both to companies who have made the move to the Balanced Scorecard and to those who are considering it, to know exactly how much value is added. However, given that many of the advantages are of an intangible nature, it would be difficult to quantify them in a robust manner and to obtain satisfactory scientific evidence of the true value of the Balanced Scorecard. Perhaps managers will have to be content with case studies and articles which attempt to outline some of its advantages and disadvantages.

A Balanced Scorecard At Tetra Pak

Tetra Pak develops, manufactures and markets systems for the processing, packaging and distribution of liquid food. Tetra Pak produces packaging material at 57 plants and has 72 marketing offices around the world. Every day more than 200 million Tetra Pak packages are distributed in over 160 countries. Tetra Pak sales amounted, in 1998, to 11 billion CHF and 18,200 people were employed (more on www.tetrapak.com). Tetra Pak contributes — together with its customers and suppliers — to the safe, efficient and environmentally sound production and distribution of liquid foods to the consumers of the world.

Tetra Pak Core Values

- Freedom with Accountability
- Partnership with Customers, Suppliers and Colleagues
- Long-term Perspective
- Innovation and Creativity
- Commitment & Fun

Over the last 10 years, Tetra Pak has delivered a profitable financial performance as a result of its ambitious and forceful expansion in all possible countries. Nevertheless, the Group Management was still not satisfied with certain other aspects of the business. In practice, Tetra Pak management always relied on a very complete financial reporting package with very few non-financial figures notably in the organisational and external aspects. In fact, Tetra Pak has always been, and will most probably remain, a very 'decentralised' company giving a large range of autonomy to an array of small to large companies led by a robust local management. The glue that ties each operation to each other is a set of Corporate Core Values lead by a remarkable 'Freedom with Accountability' value. By spreading out such Corporate Core Values, Tetra Pak is bringing together some of the characteristics of a boundary control system which should lead to specific, key behaviours. On the other hand, establishing the yearly detailed Budget and following-up against actual performance throughout the year is the main control system that has accompanied Tetra Pak over the years. If this is combined with a few thought-provoking company presentations, the description of a typical diagnostic control system becomes apparent at Tetra Pak.

By launching a Balanced Scorecard initiative, the intent was to provide the market operations with a different way of thinking in order to follow more thoroughly the implementation of their generally well elaborated strategy. However, the Balanced Scorecard is not only about bringing a new reporting system. The reasoning behind it is that anticipating the critical success factors of such a strategy and their critical measurements is key to defining the unique path to short and long term prosperity in each market operation and service company. In fact, acting in mature markets such as Western Europe or North America or, on the contrary, in developing markets in Asia or Eastern Europe, where the way of doing business is different, stresses the importance of the distinct strategy and set of measurements in each area. For instance, in North America, the key success factors would relate more to the highly competitive price environment associated with high expectation on customer satisfaction. In China, critical success factors would be related to managing the high growth rate of the market and getting the organisation to perform adequately under increasing demand. Another important element of this initiative is the trend to link the employee's individual objectives and incentives to a Balanced Scorecard.

An additional advantage of deploying Balanced Scorecards is the alignment of measurements that help nurture knowledge sharing between operations and define the base for benchmarking from a continuous improvement standpoint. For instance, measuring customer satisfaction in a comparable manner should lead to superior and homogeneous products and services to Tetra Pak world-wide customers.

Also, sharing the Balanced Scorecard results and not the reporting formality, which is only directed as a control mechanism for management, helps employees to understand the priorities and objectives of their particular operations. Therefore, it was of the utmost importance to develop a comprehensive follow-up information system easily accessible by many, in this specific case, using a web-based application deployed in the Tetra Pak Intranet.

Moreover, a Balanced Scorecard will not, on its own, bring about improvements in long-term competitiveness and profitability. In fact, it is setting ambitious long-term targets — or stretch targets — accompanied by a comprehensive list of initiatives for each measure, which have proven to be the key drivers to better overall performance. Also 'setting the mind' of the employees to longer-term objectives will prop up the Balanced Scorecard as an instrument to help foster change. Ultimately, a Balanced Scorecard implementation should provide managers with useful information to allow a better decision-making process. (Figure 7) summarises the dynamic of the Balanced Scorecard at Tetra Pak and its function as a decision-making enabler. Note the feedback and learning phase that closes the loop and the close integration with the Budget exercise as resources are needed to perform the list of initiatives. In practice, if resources cannot be allocated it could be that the entire strategy or targets must be revisited. In conclusion, a Balanced Scorecard should be well integrated in the decision-making process of a company but not be additional indicators of the daily operational work. Its integration within the reporting sys-

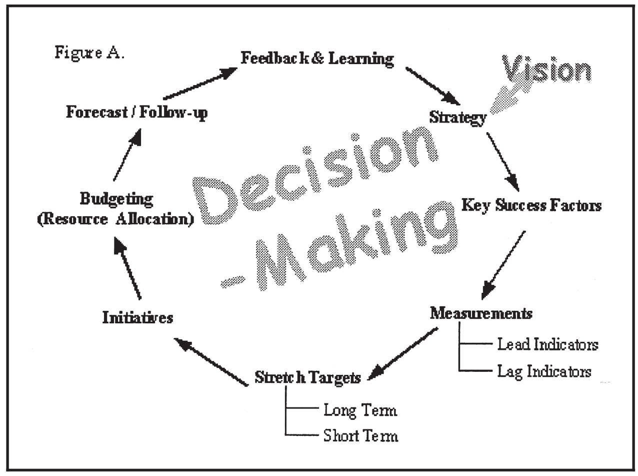

Figure 7 Balanced Scorecard at Tetra Pak

tem is seen as important but should not be the objective. In reality, a Balanced Scorecard will help the management to better communicate the strategy, to benchmark with other operations, to prioritise and to motivate the teams to common and longer-term goals. These last elements would therefore justify the investment of time in deploying and perfecting the Balanced Scorecard. Strong leadership and management skills are also essential for coping with the natural resistance that one would expect to find in any change agenda.

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