Insights from research
How to individualise your balanced scorecard

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Summary
Purpose – The paper aims to explain how the balanced scorecard concept can be improved through customising the normal four perspectives.

Design/methodology/approach – An analysis of existing methods for developing a balanced scorecard reveals that the goals identified by using the approaches may not correspond to the company’s mission and values. Against this background, fundamental multi-criteria decision-making principles are applied to design a method which helps to overcome this weakness.

Findings – Since the core idea is to derive the perspectives directly from the mission statements of a company, the method described here helps to develop an individualized balanced scorecard. A case study illustrates how the method works in practice.

Practical implications – The paper has practical relevance for the effectiveness and credibility of the balanced scorecard inside a company, particularly as it is gaining additional importance due to the fact that the concept is increasingly being used for external reporting.

Originality/value – Pointing out how an important methodical shortcoming of the balanced scorecard concept can be eliminated, the paper is especially of interest for practitioners.

Keywords Balanced scorecard, Mission achievement, Strategic management, Customization, Business improvement

Paper type Research paper

Introduction

Although empirically determined implementation ratios for the use of the balanced scorecard (BSC) vary within a quite wide range (Neely et al., 2004), the concept can be considered as an established management tool. Therefore, it is important to discuss substantial weaknesses of the BSC (Dinesh and Palmer, 1998; Lipe and Salterio, 2000; Nørreklit, 2000). The shortcoming addressed in this paper concerns the claim that the BSC helps companies identify their crucial strategic goals. However, empirical findings reveal that the identified goals may not correspond to a company’s mission and values.

This undermines the effectiveness of the BSC in particular and the acceptance of a company’s performance management actions in general. Moreover, the subject is gaining additional importance due to the fact that the BSC has, in recent times, been increasingly associated with external reporting (Küting et al., 2001; Niven, 2002). From both the internal and external perspective, discrepancies between the BSC goals and the mission statements of a company could at least result in a loss of corporate credibility. With this in mind, two questions are addressed:

1. To what extent does the BSC fulfil its claim to help identify a company’s crucial strategic goals?

And, concerning this claim:

2. How can the BSC be methodically improved, leading to an individual set of crucial strategic goals?
It is assumed that the BSC concept is already known. Under this premise, the status quo of deriving a BSC will be discussed first, comparing an ideal case and a normal case. It is shown that the normal case can easily lead to discrepancies between the mission statements of a company and its BSC. In order to overcome this problem, it will be shown how the BSC can be improved by using the distinction between fundamental goals and instrumental goals.

**The ideal case: from a company’s mission to its BSC**

The BSC is often depicted as a tool whose first step deals with translating strategic statements into measurable strategic goals. However, this ignores the fact that Kaplan and Norton principally involve the normative (management) level in their considerations. They point out that mission and strategy are the basis for developing a BSC:

> The Balanced Scorecard should translate a business unit’s *mission and strategy* [emphasis added] into tangible objectives and measures (Kaplan and Norton, 1996, p. 10).

Under this aspect, Figure 1 outlines how a company-specific BSC should be derived ideally.

A BSC can be represented as a hierarchy of strategic goals to be derived from certain perspectives. Kaplan and Norton propose a financial perspective and a customer perspective as external viewpoints as well as a (business) process perspective and a learning and growth perspective as internal viewpoints. These four “standard perspectives” have two particular characteristics: on the one hand they are the basis for the desired balance between financial and non-financial strategic goals; on the other hand, they are connected by a causal relationship, describing a system of strategic goals which are linked together via cause-and-effect assumptions.

Kaplan and Norton consider their standard perspectives a framework, which has proved successful in practice. However, they admit that this framework is subject to meet the individual strategy needs of the company. Certain perspectives may have to be eliminated, adjusted, or supplemented (Kaplan and Norton, 1996). Therefore, there are principally no barriers to the idea of deriving an individualized BSC via the breaking down of normative (mission) statements and strategic statements (see again Figure 1). In practice, however, a company’s mission is frequently not taken into consideration when developing a BSC. This can be attributed to the fact that Kaplan and Norton do not methodically support the consideration of the normative level. The following citation is symptomatic of this:

> The Scorecard process starts with the senior executive management team working together to translate its business unit’s *strategy* [emphasis added] into specific strategic objectives (Kaplan and Norton, 1996, p. 10).

**The normal case: the standard perspectives as an anchoring point**

As a simplified approach to develop a BSC, the disregarding of a company’s mission is only acceptable if the strategy corresponds in every detail with the mission. In particular, there are three implicit assumptions which – if not fulfilled – can result in discrepancies between mission and the BSC:

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**Figure 1** The ideal case: deriving a BSC from a company’s mission

![Diagram](chart.png)
1. The official mission corresponds with the real mission. This may not be the case if the explicitly formulated mission has the main purpose to create a popular company image.

2. Mission and strategy are congruent. Even if congruency did previously exist, over time unnoticed unilateral changes can cause discrepancies between mission and strategy.

3. The strategy is described in all its details. If not, it is hardly feasible for the standard perspectives to be adequately adapted to the company’s specific requirements on the basis of the strategy alone.

In practice, these premises will not always – perhaps even only rarely – be fulfilled. Consequently, companies with BSC experience admit to facing problems when it comes to the derivation of their BSC perspectives (Zimmermann and Jöhnk, 2000). These problems increase the danger that the standard perspectives are used as an anchoring point for deriving a BSC. Reflecting on their experiences, Weber and Schäffer (1998) even fear that the standard perspectives reach the status of a general norm. In other words: deriving the BSC not on the basis of the mission but from the standard perspectives may become the normal case. And indeed, Speckbacher et al. (2003) found evidence for this when they recently analysed the implementation of BSCs in German-speaking countries: only 17 per cent of the examined 42 companies said they employ other then the standard perspectives.

Against this background, it is not surprising that BSCs are published that show no thoroughly conclusive connection with the respective company missions. For example, the normative mission statement of Deutsche Lufthansa AG regarding its standpoint towards environmental protection leave no doubt that this is an important corporate goal (see left-hand side of Figure 2). A look at the published BSC of Deutsche Lufthansa AG reveals however: the ambitious normative demands concerning the environment are given no consideration at the strategic BSC concept level (see right-hand side of Figure 2).

Core idea of an approach to develop an individualized BSC

This example demonstrates the need to harmonize strategic (BSC) goals and normative (mission) goals. In the past, this has been realized indirectly by combining the BSC concept with other approaches that possess a stronger connection to the normative level. In this respect, the stakeholder concept (Atkinson et al., 1997) and the concept of strategic success factors (Veen-Dirks and Wijn, 2002) can be mentioned. However, both approaches have considerable weaknesses: The stakeholder concept may neglect such BSC perspectives (for instance, an innovation perspective) which are not directly related to a stakeholder group; in addition, it provides no help with regard to the question which identified stakeholder groups should be represented by perspectives. A similar selection

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**Figure 2** Environmental guideline (extract) and BSC goals of Deutsche Lufthansa AG

[Diagram of Deutsche Lufthansa AG: Mission Statement and BSC]

**Deutsche Lufthansa AG:**
Mission Statement and BSC

- Environmental protection is a high priority corporate goal
- Protecting the environment is an expression of corporate responsibility ...

[Deutsche Lufthansa AG (2000), S. 3]

- Profitability
- DCF yield
- Sales growth
- Customer loyalty
- Quality image
- Global presence
- Employee engagement
- Management qualities
- Service culture

[Kingenberg (2000), S. 84]
problem is inherent with approaches involving success factors; also it is questionable as to whether the necessary significant change to the BSC concept will be accepted in practice.

Against this background, an alternative approach is outlined below. It is based on the idea that BSC perspectives should be directly derived from a company's mission. Two well-known theoretic concepts are linked together here: firstly, the distinction (mentioned above) between the normative and strategic (management) level with the differentiation between fundamental (higher-level) and, secondly, instrumental (lower-level) goals (Keeney, 1992). The core idea of this approach is illustrated by Figure 3.

The normative level is responsible for the company's mission; the strategic level is responsible for the company's strategy (see left-hand arrows in Figure 3). Both mission and strategy illustrate aspired conditions. Consequently, they may be interpreted as two goal categories – as mission goals and strategic goals – linked together in a hierarchical relationship.

This relationship can be examined from the point of view of multi-criteria decision making. In this field of decision theory, a common notion exists about certain requirements to be met by goals, here expressed by the middle arrows in Figure 3. Thus, it should be possible to assign each strategy goal – as a lower-level goal – to a certain mission goal – as a higher-level goal. Conversely, each mission goal should be made explicit by at least one strategy goal. Moreover, higher-level goals (hence, mission goals) should especially satisfy the requirement for fundamentality: a goal can be deemed fundamental if it is targeted for its own sake. Goals, which only serve to improve other fundamental goals, are called instrumental. This is typical for lower-level goals (hence, strategy goals); their main purpose is to meet the requirement for measurability (Winterfeldt and Edwards, 1986).

With these requirements in mind, the normative goals can be used as a basis for deducing the BSC perspectives, whereas the strategic goals can be used as a basis for deducing the BSC goals (see right-hand arrows in Figure 3). A corresponding perspective and goal deduction method is depicted in Figure 4.

In step 1 of the perspective and goal deduction method, the normative statements of a company's mission are analysed in order to derive fundamental mission goals. Assigning the statements different weights can support this. The weighted fundamental goals build the basis for step 2: A preliminary structure of BSC perspectives is then derived, according to the following principles:

- The standard perspectives serve as a guideline for developing a company-specific perspective structure.
- Each fundamental goal should be represented by a perspective. For this purpose, the standard perspectives may have to be adjusted or supplemented.
Taking into consideration that the number of BSC goals should be limited to about 25, six perspectives should be regarded as the upper limit.

If necessary, several fundamental goals with lower weights may be combined together into one perspective.

The structure of the derived perspectives should be in line with both the different weight levels of the fundamental goals and the expected cause-and-effect relations.

With an eye on the mission goals, step 3 starts with the identification of the relevant strategy components (there is, e.g. an innovation strategy, a marketing strategy, . . . ). Then, the relative importance of these components and their incorporation into a BSC hierarchy is determined by, for example, analysing the nature of the respective actions authorized. The purpose of step 4 is to compare the results of step 2 and step 3. Discrepancies are to be eliminated, usually by adapting the strategy components to the deducted perspective structure. Step 5 then deals with the derivation of measurable strategic goals and their assignment to the perspectives.

Experience with the approach

The approach outlined above was put to the test by a supplier in the pharmaceutical industry. The company – referred to here as Pharma AG – began to develop a BSC in mid September 2001. This pilot project was observed up to the end of March 2002, when authorisation was granted for implementing project results. Particular attention was paid to ascertaining the congruency of the BSC with the company mission.

Starting from a strategic point of view, the project team of Pharma AG identified four strategic fields of action, which were regarded as crucial to the company. These fields of action led the team to focusing on the standard perspectives (see right-hand side of Figure 5). From an outside viewpoint, however, this decision seemed questionable, since no aligning at all took place with the company mission. That is why it was suggested that the strategy-related results should be compared with the normative statements of Pharma AG (see left-hand side of Figure 5).

It became clear that the standard perspectives did not accommodate all of the mission statements adequately. For example, the normative goals regarding environmental aspects and job security – which were part of the statement regarding society – were not given enough consideration. This led to several project meetings with prolonged discussions.
about what steps were to be taken. In the end, a thorough reworking of the originally favored perspective structure was undertaken.

This reworking process followed the perspective and goal deduction method. The BSC perspectives were directly derived from the mission goals, leading to the following adjustments of the standard perspectives (see Figure 6). As a result:

- The standard perspectives were reformulated. For example, a perspective related to human resources replaced the learning and growth perspective.
- An additional perspective “environmental protection/safety” was introduced. The above-mentioned contents of the statement regarding society are reflected therein.
- An independent process perspective was altered. In its place, aspects of product and process development were combined in a perspective “production/internal processes”. Thereby, the number of perspectives was limited to five.

**Figure 5** Comparison of Pharma AG’s initial BSC structure and its mission statements

**Figure 6** Pharma AG’s revised BSC structure
The result of the reworking process produced an individualized BSC depicted in Figure 6. Its perspective structure now fully reflects the mission of Pharma AG. Figure 6 also shows that the perspectives are now understood as (normative) goals. For example, the goal behind the human resource perspective reads “Improve skills of the employees”.

Concluding remarks

The case study of Pharma AG shows that the proposed methodical improvement of the BSC development is a promising approach towards the creation of an individualized BSC. Meanwhile, the pilot project of Pharma AG proved successful. This led to the decision to implement the BSC in the entire entrepreneurial group, using the perspective and goal deduction method.

However, the presented approach doesn’t have a “guarantee of success”. The extremely important role of the company’s mission not only requires a high level commitment of the upper management; but also there are problems to be solved if the published mission does not correspond with the true maxims of a company, especially if the latter are reflected by the strategy.

From this initial case study, it became apparent that the approach needs to be elaborated into a more detailed procedure. This procedure may, for example, help to ensure that the discussions on the various possibilities of adapting the standard perspectives do not “get out of hand” – as happened in the case study. More research is needed to examine both the desired properties and possible problems of such a procedure.

The possible discrepancy between the normative goals of a company and its BSC is only one of the numerous shortcomings of the BSC concept (for a detailed overview, see Ahn, 2003). Against this background, alternative concepts (Neely et al., 2002) are worth consideration. A promising field of further research seems to be the direct comparison of the competing concepts with regard to both their practical suitability and their scientific foundation.

References


