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The Balanced Scorecard: the illusion of maximization without constraints

Morten Jakobsen

Associate Professor of Management Accounting and Control
Aarhus University; School of Business and Social Sciences; Department of Economics and Business
Fuglesangs Allé 4, 8210 Aarhus V, Denmark; mja@asb.dk

Rainer Lueg

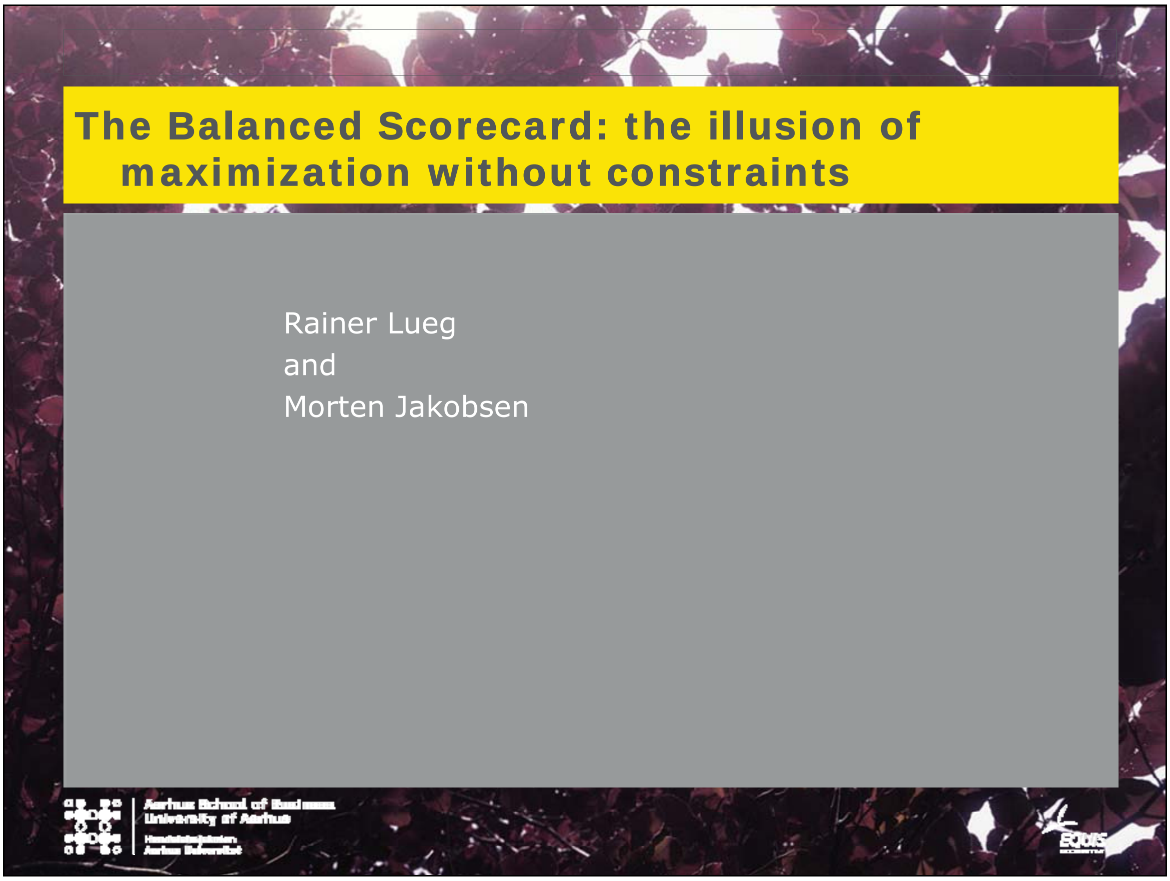
Associate Professor of Management Accounting and Control
Aarhus University; School of Business and Social Sciences; Department of Economics and Business
Fuglesangs Allé 4, 8210 Aarhus V, Denmark; rlueg@asb.dk

Abstract

The Balanced Scorecard (BSC) claims to maximize organizational performance through the management of different perspectives (e.g., financial, customers, internal processes, learning & growth). Most of the chosen measures are usually non-financial, as they are supposedly leading indicators of financial success. The developers of the BSC Kaplan and Norton see these perspectives as related, but not as linked to each other by accounting logic. Moreover, Kaplan and Norton recommend cascading the BSC across the organization by breaking up the BSC into sub-targets for each organizational unit.

Inevitably, this can lead to situations where actors in an organization focus on a subset of non-financial indicators. In their attempt to maximize these indicators, unit-egoism may lead to sub-optimal overall performance of the organization. This is because the link from non-financial indicators at lower levels of the organization to the overall financial goals have been disjoined. This problem, however, has been largely ignored in the BSC-literature. Therefore, this paper addresses the rationality and limits inherent in the usage of multiple performance measures. For this, we conduct an analytical study based on a literature review.

Keywords: Balanced Scorecard; non-financial measures; key performance indicators; sub-optimization; Value-based Management; accounting logic; decentralization.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Rainer Lueg
and
Morten Jakobsen


Agenda
▪ Background
▪ Objective and tentative research questions
▪ Method
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University of Aarhus

Background
Balanced Scorecard and Strategy maps

- "What you measure is what you get!" is the driving ideology of the Balanced Scorecard
- The claim raised is that via measuring relevant aspects within Innovation and learning, Internal business and Customer perspective you will excel in the financial perspective.
- Though the perspectives seem interrelated on all levels, the rhetoric and the selected case strategy maps in the recent development of the Balanced Scorecard indicate that the basic perspectives determine the financial perspective.

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Background
What gets the organisational attention

- Within each perspective we find performance measures – most of these are non-financial
- What characterises these performance measures is that people are expected to act in order to minimize or maximize the actual performance measure.
- Not to optimize as we know from economic rationality
- If this claim holds, and we actually gets what we measure, then the inherent optimization logic within accounting is lost when companies implement the Balanced Scorecard.

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Objective and tentative research questions

- Objective:
  - The paper intends to reveal the rationality inherent in the usage of multiple performance measures
- Tentative research questions:
  - Is there a difference in the rationality between one-dimensional performance indicators and profit as a multidimensional performance measure?
  - How do people act on one-dimensional performance indicators?

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Method

- Analytical study based on literature review

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