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Balanced Scorecard: Great Management Tool or Illusion of Success?

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ABSTRACT: The Balanced Scorecard (BSC) is a strategic management tool that combines financial and non-financial performance measures to help companies achieve long-term goals. This study aims to assess the effectiveness of BSC in improving company performance. Using qualitative methods, the author reviews literature studies that both support and criticize its implementation. The results indicate that while BSC has been shown to help companies develop strategies and enhance performance in various industries, its implementation is also criticized. Some studies reveal a disconnect between formulated and implemented strategies and question the long-term validity of BSC. Factors such as uncertainty in the business environment, inappropriate design, and lack of management commitment are often cited as causes of failure in BSC implementation. The author concludes that while BSC can be an effective tool in performance measurement, its success relies heavily on the company's ability to tailor its use to its internal needs and conditions.

KEYWORDS: Balanced scorecard, management accounting, firm performance
JEL Codes : M40, M49, L25

1. INTRODUCTION

The main goal of a company is generally to achieve good performance, sustainable growth, and create value for stakeholders. Kaplan & Norton (1996) introduced the concept of BSC through an article in the Harvard Business Review, a strategic management tool combining various perspectives, including finance, customers, internal business processes, and innovation and development. Olszańska & Prokopiuk (2021) explained that BSC is a simple, logical, and systematic instrument for measuring, monitoring, and evaluating performance. This aligns with Abu-Allan's (2024) research, which reveals that BSC can integrate two metrics, namely financial and non-financial, consisting of customers, internal business processes, and learning and growth.

The implementation of BSC can balance important strategic objectives to achieve long-term performance, expand the scope of strategic planning, build cause-and-effect relationships, and measure strategic objectives that are difficult to quantify (Mulyadi, 2001). Thus, BSC has several advantages, such as being balanced, comprehensive, coherent, and measurable. This advantage is proven in the Sri Lankan telecommunications company “Telinotec”. In this company, BSC has been integrated into the company's managerial activities and has improved the company's commitment and performance effectiveness (Thananchayan & Gooneratne, 2018). Kaplan & Norton (2008) consistently developed BSC from a performance measurement system into a more holistic strategic management tool. They emphasize that the implementation of the balanced scorecard allows companies to measure, manage, and execute strategies more effectively and ensure alignment with long-term vision.

However, other research reveals that the BSC has been around for 20 years but has yet to prove its validity, resulting in several companies implementing it experiencing failures and serious consequences (Asiaei & Bontis, 2019). This critique highlights that the cause-and-effect relationship between the four perspectives in BSC sounds logical but lacks empirical evidence to support the idea (Nørreklit et al., 2018). The failure of BSC is explained by Basuony (2014), who mentions that small and medium enterprises face difficulties implementing BSC because it requires significant funds. Environmental uncertainties lead to strategic changes, thereby disrupting its effectiveness.

With the research gap explained above, the author wants to delve deeper into the balanced scorecard to determine whether this method becomes a great performance measurement tool or merely an illusion of success for the company. Using qualitative methods, the author elaborates on applying the balanced scorecard from both positive and negative perspectives to address the author's concerns about the balanced scorecard method and provide relevant conclusions.

LITERATURE REVIEW

Contingency Theory

The contingency theory is one of the most influential theories in management control system research (Bouamama et al., 2021). This theory explains that all management practices depend on certain factors with various variations (Alphun et al., 2023). The contingency theory in BSC arises from the assumption that no universally applicable accounting system can work the same for all companies, so if the accounting system in one company is suitable, it may not necessarily be applicable in another company (Oghuvwu & Omoye, 2016). A company is dynamically formed by contingency factors that will guide the company towards optimal performance (Abu-Allan, 2024).

Stakeholder Theory

The stakeholder theory offers a multidimensional approach to measuring company performance by considering various influencing factors, namely groups or individuals with interests inside and outside the company (Kaplan, 2009). Generally, this theory identifies five main groups of stakeholders for the company: shareholders, customers, and the community, who determine external expectations of the company's performance. At the same time, suppliers and employees play a role in planning, designing, implementing, and providing services to the company's customers (Moores et al., 2023).

By combining stakeholder theory and the balanced scorecard, companies can create a balanced management system that not only focuses on financial profits but also considers the impact on all stakeholder groups (Marzuki et al., 2020). This reinforces the argument by Conaty & Robbins (2021) that successful company performance results from a balance between finance, customer satisfaction, efficient internal processes, and continuous innovation, creating value for stakeholders.

Balanced Scorecard

BSC is a strategic management tool aimed at integrating performance to visualize the company's achievements, including performance metrics, targets, and objectives, thereby reflecting the company's long-term strategy (Oghuvwu & Omoye, 2016). BSC is based on using financial and other performance indicators to create a perspective that combines financial and non-financial aspects and can measure performance and create business value (Alsharari et al., 2019). Kaplan & Norton (1998) stated that the BSC presents four perspectives with different focuses and indicators to measure company performance, allowing managers to choose metrics from the financial perspective, customer perspective, internal business perspective, and innovation and development perspective.

In addition, the BSC can encourage companies not to focus on the end result but rather to pay attention to the processes that support the achievement of that result (Bohm et al., 2021). With this approach, the company can create a balance between short-term and long-term goals and ensure that each business unit contributes to the overall achievement of the goals (Al-Hosaini et al., 2023). Ratnaningrum et al. (2020) explain that the BSC is capable of helping the company understand the dynamic business environment, thus not only becoming a performance measurement tool but also an effective communication and learning tool throughout the organization.

Company Performance

Fuadah et al (2022) explained that company performance refers to the results achieved by the company from various aspects to determine the level of achievement of the company's goals and provide value to stakeholders. Charles & Ochieng (2023) defined corporate performance as the ability of a company to maximize opportunities for profit and achieve competitive advantage. This paper analyzes the performance of companies that adopt the balanced scorecard from a subjective perspective. Tawse & Tabesh (2023) mentions that subjective methods are very effective in identifying the impact of the balanced scorecard to achieve the company's strategic goals. By viewing the impact of the balanced scorecard through a subjective lens, the author can identify qualitative factors that are often overlooked, such as organizational culture, management commitment, and employee engagement.

Previous Research

The author began writing this paper by collecting various articles indexed in Scopus and Google Scholar that have the topic of BSC. After the articles had been gathered, the author specifically analyzed the articles to discuss the success factors of BSC, criticisms, weaknesses, and success criteria. Based on this understanding, the author can formulate a comprehensive conclusion from previous research results. The table below presents the previous studies selected by the author.

Table 1. Previous Research related to the relationship between BSC and Company Performance.

Authors	Findings
Bshayreh et al (2024), (Weshah, 2024), Oner et al (2024), Kumar et al (2024), Abu-Allan (2024), Tawse & Tabesh (2023), Al-Hosaini et al (2023), Alphun et al (2023), Lee et al (2023), Fatima & Elbanna (2023), Moores et al (2023), Hügle & Grek (2023), Sibarani (2023), Gargallo & Sáez (2023), Abdalla et al (2022), Akinbowale et al (2022), (Fabac, 2022), Vărzaru (2022), Jeong et al (2022), Quesado et al (2022), Taufik et al (2021), Olszańska & Prokopiuk (2021), Bohm et al (2021), Bouamama et al (2021), Oliveira et al (2021), Shah et al (2021), Ratnaningrum et al (2020), Marzuki et al (2020), Zawawi & Hoque (2020), Yanine et al (2020), Tuan (2020), Martunis et al (2020), Fatima & Elbanna (2020), Osunsanwo & Dada (2020), Dias & Tenera (2020), Asiaei & Bontis (2019), Alsharari et al (2019), Thananchayan & Gooneratne (2018), Hasan et al (2017), Oghuvwu & Omoye (2016), Nikolaou & Tsalis (2013), Gumbus & Lyons (2002).	(+)
Damayanti et al (2023), Tawse & Tabesh (2023), Nasution & Rossieta (2023), Amer et al (2022), Camilleri (2021), Hamza & Smail (2019), Oghuvwu & Omoye (2016), Awadallah & Allam (2015), Albertsen & Lueg (2014), Basuony (2014), Rompho (2011), Kaufmann & Becker (2006), Pandey (2005), Shadbolt et al (2003), Nørreklit, et al (2000).	(-)
(+) positive effect, (-) negative effect	

METHOD

This research uses a qualitative method by collecting and analyzing data from literature studies and articles that discuss the benefits, advantages, and disadvantages of BSC implementation on company performance in various sectors and industries. The collected data will be used to address the author's concern, whether BSC becomes a great performance measurement tool or merely an illusion of success for the company so that the author can obtain a comprehensive conclusion. The 76 articles are obtained to analysist. The number of articles are classified by source of journal can be seen in the following table;

Table 2 The articles sources

The Journal Sources	Number article
Scopus - Q1	20
Scopus - Q2	13
Scopus - Q3	7
Scopus - Q4	3
ESCI (Web of Sciences)	3
DOAJ	3
ScienceDirect	2
Harvard Business Review	2
Proceeding	6
EBSCO	3
CrossRef	1
SCilit	3
Copernicus	2
Google Scholar	3
Sinta 2	1
Sinta 3	2
Sinta 4	1

DISCUSSION

Balanced Scorecard: Great Management Tools?

From the analysis of 75 previous research articles that explain various benefits, advantages, and disadvantages in the implementation of BSC on company performance. The benefits include financial savings for the company, reduced production costs, improved product quality, and better overall company performance (Taufik et al., 2021). Furthermore, Amer et al. (2022) concluded that the implementation of BSC is capable of increasing customer satisfaction and providing evidence to managers in policy-making. This allows for a comprehensive assessment of strategy effectiveness, enabling more precise decision-making. BSC is also effective in visualizing company goals by transferring vision and strategy that encompass both financial and non-financial performance comprehensively (Benková et al., 2020).

BSC has been empirically proven to lead companies towards better performance by providing various significant benefits. Its flexibility is relevantly used in various industries, ranging from manufacturing to small and medium enterprises. In the manufacturing industry, research by Shah et al. (2021) shows that the implementation of BSC successfully improved the company's performance significantly. In the healthcare sector, Lee et al. (2023) found that BSC enhances broad flexibility and is capable of adapting to needs. Meanwhile, Fatima & Elbanna (2023) revealed that the application of BSC in the hospitality sector helps management formulate appropriate strategic decisions during the COVID-19 pandemic.

Not only that, the research by Bshayreh et al. (2024) emphasizes that BSC can align the company's objectives across various business units because it is capable of measuring performance holistically. This flexibility is also reflected in government agencies where BSC enhances accountability and transparency (Marzuki et al., 2020). In the banking sector, BSC is capable of addressing modern threats by reducing cases of cyber fraud (Akinbowale et al., 2022). Even in small and medium enterprises, BSC not only promotes sustainability but also stimulates innovation and growth (Yanine et al., 2020). With its broad flexibility, BSC can be tailored to various industries, providing comprehensive and relevant solutions for dynamic business environments.

In the era of digital transformation, BSC can be integrated with modern analytical tools and big data technology. Oner et al. (2024) had highlight the advantages of facing a dynamic business environment and subjective measurement, stating that BSC is very effective in the context of digital transformation. Fabac (2022) emphasizes that BSC not only helps in projecting financial results but also accelerates the development of the company's sustainability goals. Hügle & Grek (2023) explained that the integration of BSC with technology presents new challenges but encourages rapid adjustments and offers clarity of performance across various perspectives. In line with that, Weshah (2024) concluded that the implementation of BSC strengthens essential business decision-making in facing the rapid changes brought about by digitalization.

BSC can guarantee the consistency of the company's strategy and its execution at different organizational levels. The business makes sure that the developed plan stays in line with both immediate and long-term objectives. Vărzaru's (2022) stated that BSC ability to measure performance holistically can support strategies that help the business achieve its strategic goals. This instrument gives the company's strategy a clear logic and a consistent long-term approach (Dias & Tenera, 2020). Accordingly, the study by Olszańska & Prokopiuk (2021) demonstrates that the application of BSC can improve the competitiveness of the business by integrating planning and assisting management in converting the company's goals and objectives into strategy and measurements.

A more thorough study on this topic was conducted by Martunis et al. (2020). They found that the balanced scorecard produced results that were presumed to be managed by establishing a strategic equilibrium in the study. This helps businesses better manage the risks that could arise from environmental degradation (Sibarani, 2023). Furthermore, businesses with a strong business culture will adhere to BSC's principles in order to create productive work environments for their companies (Quesado et al., 2022). Oliveira et al. (2021) stated that the effectiveness of BSC is also achieved by monitoring and analysis based on the goals so that managers may assess the correction. For instance, research by Gumbus & Lyons (2002) demonstrates how Royal Philips NV's implementation of BSC can significantly increase flexibility and innovation by identifying critical success factors in each business unit that is monitored through employee performance indicators, resulting in an efficient approach to developing the company's goals and operations comprehensively. The example above illustrates how BSC not only helps to improve productivity but also ensures that business strategies can be implemented in a way that is both successful and efficient. BSC can help improve strategic consistency with a focus on responsiveness to changes in the business environment and customer needs (Zawawi & Hoque, 2020).

Balanced Scorecard: Illusion of Success?

Although there have been many successes with BSC output, there are articles that criticize this method as an instrument for measuring company performance. Shadbolt et al. (2003) criticize the balanced scorecard as a management process, not a measurement process. In line with previous criticisms, Nasution & Rossieta (2023) claim that BSC is too difficult to implement due to the complexity of understanding the method, which will have adverse implications for the company. If the company does not invest in employees and other financial indicators, this can threaten the company's competitiveness and increase the risk of company failure (Awadallah & Allam, 2015). Common failures include lack of commitment, lack of support, insufficient understanding of concepts and strategies, environmental uncertainty, and lack of evaluation (Kaufmann & Becker, 2006).

In the dynamic business environment's uncertainty, companies tend to adjust their strategies. However, quoting the statement from Oghuvwu & Omoye (2016), frequent changes in strategy will reduce the benefits of using BSC. Moreover, the addition and revision of performance metrics repeatedly will contradict the principle of stability in BSC, causing confusion among employees and managers (Damayanti et al., 2023). Another criticism comes from Rompho (2011), who found that the failure of the balanced scorecard occurred because management included all key performance indicators in each perspective without filtering them, resulting in the company not gaining any benefits.

The success of BSC does not always correlate with its implementation because it focuses too much on planning without control evaluation, making its relevance still unproven. (Albertsen & Lueg, 2014). Furthermore, management needs to be cautious in presenting this method due to the variability in thinking between designers and users (Hamza & Smail, 2019). BSC also does not always provide effective solutions due to its dependence on stakeholder support, which can lead to conflicts of interest (Camilleri, 2021). In practice, BSC is not always relevant and effective in all organizations, and there is a gap between theory and real-world practice (Gooneratne & Hoque, 2021). In addition, Benková et al. (2020) describe the main issues often faced by companies, namely that BSC is too expensive and companies struggle to implement it.

Tawse & Tabesh (2023) stated that the impact of BSC on company performance is inconsistent and difficult to interpret. Additionally, Nasution & Rossieta (2023) argued that BSC has various factors causing its implementation failure, which are grouped into three factors consisting of:

a) Transition Failure. Various companies often experience failures in implementing BSC due to changes in leadership and the company's executives refusing to adopt the model.
b) Failure of BSC Design. Some businesses fail because they do not build a BSC that functions well; the company only adopts a few measurements for each perspective of BSC and uses different approaches in each department, resulting in departments not having the same goals, which ultimately hinders the strategic success of BSC.
c) Process Failure. The most common failure of companies to implement BSC consists of a lack of commitment from senior management, too few individuals involved, the development of BSC taking too long, and paying inexperienced consultants.

In addition, BSC often faces various gaps when applied to information systems. Matthies & Coners (2021) state that the implementation of BSC in information systems still requires alignment to function optimally. The misalignment of this strategy can lead to negative consequences, such as undesirable outcomes, and result in suboptimal funding, requiring costly corrections (Ayoup et al., 2015). Kaplan & Norton (2001) emphasized that one of the failures in implementing BSC lies in the lack of commitment from senior management. Anuforo et al. (2018) stated that if one aspect fails, it will impact the overall implementation of BSC, such as an unclear vision, mission, and strategy, as well as a lack of employee involvement. However, Dimitropoulos et al. (2017) mention that employees play a key role in the success of BSC because they are directly involved in all the measured perspectives.

The cause-and-effect relationship is an integral part that cannot be separated from the implementation of BSC; management actions towards a certain perspective will affect other perspectives. Unfortunately, the concept of causal relationships between perspectives in the balanced scorecard is not well explained and remains ambiguous (Elbanna et al., 2021). Speckbacher et al. (2003) explained that 57% of companies implementing BSC exclude the learning and growth perspective due to its difficulty in measurement. The findings will reduce the company's potential to grow and innovate and may limit the long-term effectiveness of BSC. In line with that, Perlman (2013) explains that the importance of a learning and growth perspective will support other perspectives, especially in achieving positive long-term outcomes.

Various studies criticize the implementation of BSC in the small and medium enterprise sector, revealing several issues, one of which is the article by Mustapha & Sorooshian (2019) that highlights the failure of BSC implementation because this tool is designed for large companies with complex management structures. So, a simple and flexible alternative for small and medium enterprises is the key performance indicators approach that fits their business needs. Another problem arises because BSC is too focused on direct and programmed effects, neglecting crucial trade-offs in business. (Hristov & Chirico, 2016). General Electric is a real example of the management's misapplication of BSC, which only pursues short-term goals without considering long-term impacts. Management focuses on the financial perspective and immediate results through BSC. This will hinder and encourage companies to consider BSC as a useless tool (Saleheen et al., 2021). Such an unbalanced implementation not only hinders the company's growth but also leads to a long-term decline in competitiveness. Excessive focus will also lead the company to make suboptimal decisions because it is too tied to existing metrics (Gupta & Chopra, 2018).

5. CONCLUSION

BSC is not a great management tool but rather a tool that can help in achieving strategic goals. This statement is supported by research findings from Hasan et al. (2017) that BSC has been used by around 70% of companies in Western countries and has widespread and holistic application in almost all sectors. The banking, hospitality, and government sectors have reaped the benefits of BSC (Sibarani, 2023). With its flexible implementation, companies can save costs, enhance product quality, and improve performance systems (Taufik et al., 2021). Additionally, quoting the article by Amer et al. (2022), BSC also helps companies formulate more consistent strategies and ensures that the company's vision and mission can be translated into actual actions across various business units.

In the era of digital transformation, BSC remains relevant because it can be integrated with modern technologies such as analytics and big data, which help companies face changes in the business environment Oner et al. (2024). This integration provides a comprehensive solution for measuring performance from various perspectives Hügle & Grek (2023), and management can make more accurate decisions based on the data obtained (Weshah, 2024). So that the company always benefits from the implementation of BSC, it is essential to ensure proper planning and strategy implementation (Dias & Tenera, 2020). Lee et al. (2023) stated that the highly flexible application makes BSC applicable internationally across various sectors and industries. Furthermore, the company must pay attention to every metric measured so that the results obtained are not misleading (Sibarani, 2023). Thus, Bshayreh et al. (2024) argue that the BSC perspective can be considered an appropriate tool for solving various problems.

On the other hand, BSC can be an illusion of success if essential aspects such as strategy, management commitment, and employee engagement are not well integrated into its implementation. Moreover, the causal relationship in the implementation of BSC requires a deep understanding to avoid excessive dependence on a single metric, which would limit long-term flexibility and innovation. The alignment between strategy and objectives is the key to the success of BSC (Alphun et al., 2023). Management commitment can ensure the necessary resources, as stated by Bohm et al. (2021), and employee engagement can enhance accountability (Fabac, 2022). Abu-Allan (2024) revealed that companies need to consider contingency factors such as environmental uncertainty, company performance, and excessive focus on a single metric. Companies must also pay attention to human and financial resources in the use of BSC (Benková et al., 2020) so that the implementation of BSC does not give the impression of temporary success without producing substantial long-term impact (Fatima & Elbanna, 2023).

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