

Boston lyric opera case for management control essay sample

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The Balanced Scorecard is a strategic management tool that combines four performance perspectives, acquiring a broad based picture of performance (Kaplan/Norton, 1992).

traditional financial metrics (return on investment)

customer-based metrics

internal-operations metrics

growth and learning metrics

The concept of Strategy Maps emerged to supplement the BSC (Kaplan/Norton, 2004), establishing strategies that are translated into quantifiable metrics in the BSC.

THE CAUSE AND EFFECT RELATIONSHIP

The BSC represents the 'cause-and-effect' relationship between an organisations long term strategic objectives and quantifiable KPI's (Key Performance Indicators) (Kaplan/Norton, 2006). It is often difficult to focus on many different measures, taken separately. Metrics drawn from a cohesive strategy however work in tandem. Companies should concentrate on the internal and learning & growth perspectives, these actions will translate into enhanced performance in customer and financial outcome measures due to the " cause-and-effect relationship" (Kaplan/Norton, 2004).

FIGURE 1 (KAPLAN & NORTON, 2006)

LITTERATURE REVIEW

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CRITICISM

The BSC is one of the most successful performance control mechanisms, in 1998 it was used by approximately 600 of the Fortune 1000 companies in the US and Europe (Linna/Seal, 2009). However its effectiveness and appropriateness is often questioned. Often employees see the implementation of BSC programmes as time-consuming and ineffective. The scorecard is often “ unbalanced” giving too much weight to financial factors (Linna/Seal, 2009).

MODIFIED BALANCED SCORECARDS

As a result of criticism, many organisations add a fifth perspective to the BSC. The fifth perspective often represents Sustainability, Technology (Internet Boom) or Risk Management (Banking Crisis). Reuters America for example introduced a BSC within a six month period, involving a fifth perspective for technology. Advancements in technology were essential to decreasing their delivery times. (Donato, R.)

The Public Sector Scorecard, PSS (Moullin, 2009) has seven perspectives; Innovation & Learning; Leadership; People, Partnerships and resources (Capabilities or inputs); Operational excellence (Process perspective); Service users and stakeholders; strategic and financial (Outcome perspectives).

FIGURE 2 (MOULLIN, 2009)

BOSTON LYRIC OPERA CASE STUDY

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The BLO is a non-profit organization run like a business by Janice Del Sesto. Given the bad economic history of operas in Boston, the general director and the two boards try to differentiate their organization by at least achieving a balanced budget. They felt the need to adopt a more formal strategic planning system that would fit the organization growth: the Balance Scorecard. The issue was to adapt this new management tool to a non-profit organization.

The Boston Lyric Opera's three key strategies are as follows:

Develop loyal and generous donations to assure the future of the opera

Increase its notoriety through quality programmes

Reach out to the Boston-area community and fuel art appreciation

After the boards decided the strategy, each department was asked to establish its own BSC. This engendered a feeling of involvement and control for both employees and the board, which is key to the success of a non-profit organisation. The BSC enabled the organization to control and measure for the first time the impact of its programmes. It clarified day to day work objectives. As a result, the performance has improved.

LIMITATIONS (FIRST DRAFT, ONLY BULLET POINTS FOR THE MOMENT)

Heavy process, even more for a non-profit organization that just want to achieve a balanced budget. Need to evaluate every year and adjust.

Scepticism of some on the board (used to only treat financial measures, restricted action “ it clarified also what not to do”, non-profit “ losing its soul” becoming more like a business not really performing arts anymore...)

Less room for initiatives? Mind of the staff formatted towards upon-agreed goals?

CRITICISM OF THE BALANCE SCORECARD

Accounting practices raise a lot of issues. The BSC is supposed to solve most of them: abstraction, shortsightedness, monetary orientation, oversimplification and lack of focus on intangible factors (Johanson _et al. _, 2006). But things are not always perfect. According to a KPMG report cited by McCunn in 1998 (McCunn, 1998), more than 70% of scorecard implementations fail. The implementation of a balanced scorecard in a company needs certain “ enablers” that companies often lack. Described by Chan (2004), these are for example: top managers’ commitment, training and education, clarity of vision.

Additionally to the criticism of the way the BSC is used, we also found critical opinions about the tool itself and its usefulness today.

TOP-DOWN IMPLEMENTATION

The implementation of the BSC demands collaboration and mobilization of all employees. One might think, that at the beginning employees might be reluctant to adopt such a rigidly structured model, because it might be seen as a tool serving only top management. More generally, Mouritsen and

Johanson believe, that intelligibility, empowerment and meaningfulness are the enablers of individual competence and cannot be commanded, nor forced, through a top-down process (Mouritsen/Johanson, 2005)

MANAGERS RESPONSIBILITY IN THE IMPLEMENTATION

Managers carry a heavy responsibility in the implementation of the BSC. However, is it right to suppose, that they always will fully exploit the information found in the performance measures? Those measures are sometimes common to the whole company, sometimes specific to one business unit. Judgment and decision-making research suggests, that faced with both common and unique measures, decision makers will apply more efforts to comply with the common goals (Slovic and MacPhillamy, 1974). Therefore, in organizations, managers will under use or even ignore the unique measures designed for their specific unit (Chavan, 2007). Finally, the problem of misinterpretation of the metrics by a unit manager can also lead to wrong decisions.

THE BSC FAILS TO CAPTURE COMPLEXITY

The BSC implementation assumes the existence of a relationship between a company's general success and the chosen performance indicators. But in some companies the relevant factors are not necessarily measurable. And the BSC focuses on the easily measurable factors. Hansson argues, that the BSC indicators are too restricted, because they fail to capture drivers and processes underlying firms' output such as feeling, values, beliefs, relationships, fears and dreams (Hansson, 1998). The BSC will, therefore, be

inapplicable for companies that do not respect a causal effect between outputs and easily measurable factors.

ADAPTABILITY

Kaplan and Norton conceptualized the BSC to serve large companies, but neglected SMEs (Kaplan/Norton, 1992). As those two types of organizations have very different structures, with SMEs focusing on more day-to-day objectives, we might question the adaptability of the BSC to small organizations.

Johnsen (2001) adds the idea that the BSC, if implemented as described in the original text, may lead in public organizations to a dysfunctional central planning system. For those reasons, the BSC needs to be seen as a flexible management control tool.

TIME FACTOR

Nörreklit (2000) observes, that the BSC is a flawed system, because it lacks time-lag dimension. The BSC measures different activities without considering the time scale. Objectives and indicators of very different time frames are put at the same level, resulting in an inconsistent analysis.

COST AND EFFICIENCY

The creation and implementation of a BSC is time and money consuming. Aiming at long term balanced objectives for the company, it should have a

long-term return on investment. But it might in some case be an excessive and over expansive tool, for small companies for example.

CONCLUSION

The BSC needs to be seen as a flexible tool that has to be adapted to the different situations in order to be fully efficient. A first way of improving it could be its combination with other management control and planning systems.

RECOMMENDATIONS

EXTRA PERSPECTIVES

Based on the limitations cited above a number of alterations can be made to improve the Balanced Scorecard. Flexibility is one of the key advantages of the BSC. It can and should be adapted to organizations, which use it. Extra perspectives should be added to the BSC where appropriate, Kaplan and Norton in fact intended the number of perspectives be discretionary “depending on industry circumstances” (Kaplan/Norton, 1996). A fifth element is recommended when addressing a specific strategic imperative such as “people development” (Maltz et al., 2003). A fifth perspective is also often added for “sustainability” (Epstein/Wisner, 2001) helping managers meet specific carbon emissions and other environmental targets- increasingly important in today’s world.

CAUSE-AND-EFFECT RELATIONSHIP

The absence of deficiency of causal links between certain BSC metrics is a weakness when compared to detailed cause and effect chains in the MBNQA and EFQM models. This can however be addressed by studies empirically testing links causal links among performance metrics (Ittner/Larcker, 2003). Department store Sears for example analysed the links between three ‘ performance domains’ (Rucci, Kim & Quinn, 1998):

employee relations metrics,

customer satisfaction metrics,

shareholder return metrics.

Ultimately they found that a relatively small number of KPI’s were driving performance.

This kind of study should be affected on all BSC’s in order to identify performance drivers.

ACTIVITY BASED COSTING, ABC-BSC

Activity Based Costing is another management accounting mechanism that can dramatically improve performance when used in tandem with the BSC. In vertically integrated organizations ABC creates single profit centres tracing profit from production right through to customer. Single profit centres mean that production can be better timed and stock managed, reducing working capital needs. This helps to meet internal process KPIs on a firm’s BSC.

Internal efficiencies drive financial perspective KPIs. Finnforest UK combined

ABC with the BSC to achieve a \$40m turnaround within one year (Wolman, 2000).

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