Manipulating the Balanced Scorecard

By Natalia Mintchik and Jennifer Blaskovich, CPA

The Institute of Management Accountants (IMA®) Committee on Ethics and IMA Professor-in-Residence Raef Lawson, CMA, CPA, are proud to announce that Natalia Mintchik and Jennifer Blaskovich, CPA, have won the Best Case Award in the second annual Carl Menconi Case Writing Competition for their case, "Manipulating the Balanced Scorecard." The competition is named in memory of Carl Menconi, who held leadership positions in IMA for many years and served as chair of the IMA Committee on Ethics. The objective of the competition is to develop and distribute business ethics cases with specific application to management accounting and finance issues and that use IMA's *Statement of Ethical Professional Practice* as a reference or guidance tool. The winning case and teaching notes are available for use in a classroom or business setting.

Case Narrative: Manipulating the Balanced Scorecard

Mary Brown, CMA, CPA, is a 29-year-old senior accountant for IFS, a diversified global financial services holding company headquartered in New York City and operating in more than 100 countries. Mary began her career in public accounting after graduating from a well-known public university in the Southwest. After two years, family circumstances forced her to return to her hometown in rural Texas. She was fortunate to find a job at the local branch of IFS since similar positions are scarce in the area. Mary is responsible for budget monitoring and performance measurement in the branch and, as of now, is happy with her decision. She likes going to the same office each day, truly enjoys her colleagues, and is pleased to see how the results of her initial efforts are beginning to pay off.

Mary has advanced rapidly in her three years at IFS. She currently supervises a staff of three employees responsible for all of the managerial reporting for the branch. For more than two years, Mary's immediate boss had been Karl Jones. Karl, the senior financial branch officer, was an important mentor to Mary as she took her first steps in the IFS corporate environment. During the current reporting year, Karl was promoted to senior financial officer of a bigger branch in a different state, so Mary completed the last three months of the year under the direction of Michael Peterson. Like Karl, Michael was promoted to the position from a different branch. Now at the end of the financial year, it's time to summarize the annual performance of the branch and submit the final numbers to headquarters for performance assessment and the calculation of managerial bonuses.

Two years ago, IFS senior management changed the method used for performance evaluation, bonuses, and promotions. It had been using branch earnings as the only criterion but switched from that single-minded focus to a balanced scorecard. IFS senior management identified several important categories critical for the company's long-term success: quality, cost, risk management, social responsibility (attention to customers and employees, social partnerships, etc.), and innovation. IFS senior management developed a set of potential metrics, referred to as multiple quantitative indicators, that assessed branch performance on each of the identified categories. Management suggested that each branch choose applicable indicators from the provided list. These indicators are used to calculate metrics for each of the predefined categories and are later incorporated into a single balanced scorecard score using predefined weights.

One of the quantitative metrics that Mary's branch had always included in the calculation is based on a customer satisfaction survey conducted by the branch marketing department. The survey includes six questions. The first question asks about *the customer's overall satisfaction with IFS* on a five-point scale from one (not at all satisfied) to five (very satisfied). The next five questions address more specific areas:

- Satisfaction with the quality of tellers,
- Satisfaction with the quality of automated teller machines (ATMs),
- Satisfaction with the quality of employees who aren't tellers,
- Frequency of problem incidence, and
- Satisfaction with the quality of the resolution of the problems.

In the past, Karl only included the results from the first question in the calculation of the final balanced scorecard number. Customers' answers to the last five questions were used internally to identify areas for potential improvement. Such an approach doesn't contradict IFS policy, which explicitly requires incorporation of a single measurement of customer satisfaction in the final balanced scorecard performance number. But aside from requiring that the survey is used, the IFS policy doesn't dictate the exact methodology for gathering the measure.

This year Michael noticed that the average for responses to the last five questions (3.1) is significantly below the average for the first question (3.9). Michael insists that the final balanced scorecard should be calculated using 3.1 rather than 3.9 as the customer satisfaction measure. Sandra, the head of the marketing department, doesn't object. Mary, however, believes that the branch shouldn't change its reporting approach for several reasons:

1. Overall customer satisfaction is all that matters,
2. Lower scores on the subsequent questions are due to the customers recalling episodic problem cases, and
3. People tend to overemphasize the importance of nuisances when reminded about them.

Mary suspects that Michael has personal incentives to insist on such a change. Such an approach reduces the overall balanced scorecard number for the branch, which will result in lower annual bonuses for everyone, including Karl. Because Michael was recently transferred from a different branch, his bonus and performance evaluation won't be affected by the change. In addition, the lower scorecard number this year will improve Michael's chances to report a "higher than previous" score next year, enhancing his bonus for next year as well as future career opportunities.

Mary shared some of her concerns with Michael without mentioning his potential motivations. She suggested they consult Karl about such an important decision. Michael's strong and defensive reaction to the suggestion surprised Mary. In particular, he warned Mary that she overstepped her boundaries by questioning his professional judgment. Michael also pointed out that he is the person who has the ultimate responsibility for branch balanced scorecard reporting, has enough expertise in the area, and won't tolerate any "fabrications." Mary knows from past experience that Michael's supervisor, branch general manager Paul Parker, refuses to listen to people who don't follow the chain of command. She's also unsure if she should be the person who draws Karl's attention to the issue before the final numbers are reported to headquarters. Mary wants to preserve a good professional relationship with her new boss and doesn't plan to leave IFS in the near future.

Assume Mary knows you as a fellow IMA member bound by IMA's *Statement of Ethical Professional Practice* and asks for your advice. How would you suggest she proceed? ■

Teaching notes are available by contacting Jodi Ryan, manager of Student and Academic Relations, at jryan@imanet.org.

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