

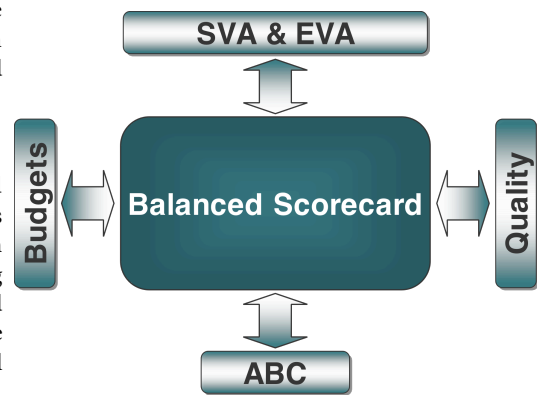
# FAQ Answer: Can you link Balanced Scorecard with other management tools?

## Can you link Balanced Scorecard with other management tools?

One of the strengths of the Balanced Scorecard is its ability to work well in conjunction with existing management processes and associated tools. Modern versions of Balanced Scorecard like 3rd Generation Balanced Scorecard (see the FAQ [“What is a Balanced Scorecard”](#)) are often used at the centre of a strategic management system as they provide an easy to use mechanism for the selection and co-ordination of other management tools being applied in the pursuit of strategic goals. When used in this way, the Balanced Scorecard has two roles: First, to inform and prioritise the selection of which other tools to use; Second, to report the outcome from the application of these tools when used to achieve strategic objectives. In this FAQ we look at how some of these common management tools can link with the Balanced Scorecard.

### SVA & EVA

Shareholder Value Analysis (SVA) and Economic Value Added (EVA) concepts became popular during the 1990's. Both concepts primarily describe ways of measuring performance in financial terms, but associated with each a range of tools has emerged to more effectively measure the drivers of financial performance improvement. Used as measures, both SVA and EVA have a natural place in the “Financial” perspective of a Balanced Scorecard adding a ‘formal’ structure to the measures chosen for this perspective. The remaining Balanced Scorecard perspectives are used to help the management team agree to and focus on those non-financial drivers most likely to increase SVA and EVA performance. Identifying what these Strategic Objectives should be and what to measure, will be partly informed by the established principles underlying both SVA and EVA. E.g. an objective to reduce manufacturing costs might benefit for the use of EVA to help management teams identify processes or locations that have greatest potential for cost improvements.



### Quality

The value of popular quality tools (such as Six Sigma, Malcolm Baldrige National Excellence Model, European Foundation for Quality Management (EFQM) Excellence Model, and ISO Standards) has often been called into question, since their introduction during the quality movement of the late 80s.

Too often, quality tools have been applied as operational quick-fix improvement initiatives, without justification of a strong business case rooted in the organisation's strategy. With no or weak links to strategic or corporate performance management systems, the initiatives are not seen as means to long-term ends focused on stakeholder value creation. Consequently, they eventually suffer from funding problems, training and remuneration issues and risk being discontinued before having made any significant impact on the organisation.

Using 3rd Generation Balanced Scorecard at the centre of a corporate performance management framework provides an opportunity to close this strategic/operational divide required for the successful implementation quality management tools:

- **Destination Statements** provide a holistic strategic context against which to identify the most important processes where quality initiatives are likely to reap the biggest benefits
- The identification of **Strategic Objectives** helps translate long-term goals of the Destination Statement into medium-term priorities to be reflected in operational plans.
- **Performance measures** are defined by strategic priorities, but based on local ownership and operational relevance.

- **Two-way communication** supports downward communication of changes in strategic direction, and upward communication of operational insights and learning
- For more information on this aspect of using Balanced Scorecard read the paper "[The Balanced Scorecard vs. the EFQM Business Excellence Model](#)" available from the 2GC Web Site.

## Activity Based Costing

Activity Based Costing (ABC) is a well-established Management Accounting approach used to allocate costs based on the identification of "value adding" activity within an organisation. Like Balanced Scorecard, ABC is closely associated with the work of Prof. Robert S. Kaplan of Harvard Business School, and so unsurprisingly Balanced Scorecard and ABC are highly compatible. A common way for the two to be linked is for a Balanced Scorecard to identify where there is a need for deeper understanding of costs within a business, and for ABC to be used to obtain this information.

## Budgets

While 90% of organisations say they have a strategic plan, many of these are still managed on the basis of budgets. As a consequence, short-term financial pressures and incremental planning implicitly determine the organisations' long-term strategy, undermining the achievement of stated strategic goals (only 33% of organisations think they are good at achieving their stated goals). The Balanced Scorecard provides a useful framework for redefining a budgeting process in a way that aligns budgeting goals with the strategic goals of the business. Some firms have suggested that the positive effect of using the two tools in combination is further enhanced by moving to "rolling budgets" allowing changes in strategy to be reflected in the budget on an ongoing basis, rather than via annual "step changes".

## More Information

The [Resources](#) section of the 2GC web site contains other 2GC FAQs relating to the Balanced Scorecard and modern 3rd Generation Balanced Scorecard and also recommendations for books and articles on the subject and links to useful web sites. For information on 2GC's services including our consultancy and training programmes, visit our services section of the web site or email [Services@2gc.co.uk](mailto:Services@2gc.co.uk)

## About 2GC

2GC is a research led consultancy expert in addressing the strategic and performance management issues faced by organisations in today's era of rapid change and intense competition. Central to much of 2GC's work is the application of 3rd Generation Balanced Scorecard, an approach to strategic implementation, strategy management and performance measurement.