

# FAQ: What are the main benefits of a Balanced Scorecard?

## What is it used for?

The benefits that can be obtained from a Balanced Scorecard depend on what it is used for, how well it is designed, and how it is applied. There are many organisations using Balanced Scorecard, in many different formats, however, in this FAQ we focus on two distinctly different applications: **operational control** and **strategic management**. The two applications require substantially different design and development processes, and provide different benefits to a management team.

There have been many attempts to quantify the benefits of the implementation of a Balanced Scorecard but there is little empirical evidence - in part because collecting such evidence is hard. We summarise the prospective benefits of well-designed and implemented Balanced Scorecards of each type,.

## Balanced Scorecard used for Operational Control

Operational control involves asking the following questions:

- What process do we want to monitor?
- What aspects of the process do we want to measure?
- What is considered best practice?

The purpose of this application is to help managers monitor and control the delivery of a pre-defined set of activities – often with a view toward achieving "best practice" performance levels.

Balanced Scorecards help prevent organisations "drowning" in measures. Technology makes it easy to measure 'everything', demanding that management teams actively choose what to measure - which in turn demands that the teams reach consensus about what is important. Choosing is hard, and when this doesn't happen organisations end up with too many measures, and crucially they lack the ability to separate out information that informs on key activities from things that are less important.

The Balanced Scorecard framework offers a holistic but more focused view of performance measurement that, as implemented by 2GC, ensures that users are involved in the design process. By helping management teams identify a concise set of operationally focused measures across Balanced Scorecard perspectives, the framework makes it easier to highlight the key information needed - typically reflecting customer satisfaction and the impact of innovation and improvement activities in addition to more typical financial and operational measures.

The benefits arising from using Balanced Scorecard for operational control purposes include:

- Increased understanding, awareness and alignment about operations across the whole management team arising from the discussions during the design process;
- Wider and more effective monitoring of performance improvement initiatives;
- Improved understanding of the links between measures improves understanding and makes target setting easier;
- A single concise management report describes operational performance across perspectives.

## Balanced Scorecard used for Strategic Management

Four questions are at the heart of strategic management issues:

- What strategic outcomes are we trying to achieve?
- What activities need to happen right now to achieve them?
- Are these activities being done?
- Are we achieving results targeted?

The purpose of this application of Balanced Scorecard is to help managers agree and then articulate the strategic destination and road map for their organisation, and monitor the activities required for their achievement. The purpose of the Balanced Scorecard therefore shifts from tracking performance of a process, to monitoring whether or not objectives have been set, and the extent to which the planned actions to achieve them are working. Management teams using this type of Balanced Scorecard primarily use it to support decision making about the "interventions" needed by them to ensure that their strategic goals are successfully achieved.

The basis of strategic Balanced Scorecard development by 2GC is our proprietary **3rd Generation**

**Balanced Scorecard** methodology. This approach is designed specifically to enable managers to establish their strategic objectives across a holistic view of the business based on an agreed view of the future organisation in the medium-term (4-5 years' time normally), and to identify relevant measures that allow them to control and monitor organisational performance against these objectives. However, the crucial additional benefit in the case of strategic management is that having created the Balanced Scorecard it also offers the means to articulate and communicate strategic requirements to the wider organisation – this is mentioned as a primary strength of their Balanced Scorecard by Philips Medical Systems.

The benefits arising from using a Balanced Scorecard for strategic management purposes include:

- Reaching consensus and articulation of a set of key strategic objectives aligned to corporate vision;
- Clarity concerning of the links between implementation activities and the strategic objectives of the organisation – this also identify areas where "trade-offs" between objectives are required (e.g. reduce costs versus increase marketing investment);
- Encouraging dialogue within the organisation about strategic goals and expectations.

## What evidence is there for benefits?

### Survey Results

One of the indirect indications of value for any management tool is the extent of its use in modern organisations – this is measured by Bain and Co in their annual survey and the Balanced Scorecard performs well in this regard with a consistent rating in the top ten of business tools and over 60% usage level.

More direct information is indicated in a survey conducted with the US Institute of Management Accountants' members in 2006, the results of which included:

- 88% of members from organisations regularly using the Balanced Scorecard reported improvements in operating performance; and
- 66% stated that they also achieved increase in profits.

### Client Feedback – Tangible and Intangible benefits

Here are some comments made by 2GC clients about their strategic Balanced Scorecard.

- “The organisation is now taking a long-term view – short-term objectives are also clearer”.
- “We’ve developed better communication and listening skills and our teamwork is improved”.
- “There is now more focus on intangibles, not just financials”.
- “There is more interaction between managers in a cross-functional capacity”

### Academic Comment

There is not much written on benefits - collecting such information is hard. But three reports worth noting are:

- When measures indicating strong performance are distributed throughout the four scorecard categories, managers make better decisions than when the same data is presented without a supporting framework (Lipe et al, 2002 - “Using a balanced scorecard to implement sustainability”)
- Managers like working for organisations with good performance management systems in place (Malina and Selto, 2002 – “The processes of organisation and management”)
- Firms using good Corporate Performance Management systems have stronger internal strategic alignment than other firms (Gates 1999 - “Aligning strategic performance measures with results”)

## More Information

Other 2GC FAQs relating to the Balanced Scorecard describe factors that should be considered when developing and using a Balanced Scorecard (e.g. FAQ - How to create a Balanced Scorecard) in the Resources section of the 2GC web site. This also contains recommendations for books and articles on the subject and links to other useful performance management web sites.

For information on 2GC's services including our consultancy, audit and review, and training programmes, visit the 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 innovative design that increases the likelihood of successful long-term use of the Balanced Scorecard.

