What are the main benefits of a Balanced Scorecard?

What is it used for?

The benefits of a Balanced Scorecard are dependent on the uses for which it is intended and it will only be useful if it is correctly applied. There are many organisations using Balanced Scorecard, in many different formats. However, there are 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. We summarise below the prospective benefits of well-designed and implemented Balanced Scorecards of each type. We then go on to look at evidence for these benefits under the headings:

- Survey results;
- 2GC Client feedback.

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 of Balanced Scorecard 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.

In practice organisations can be overwhelmed by measures – in part due to the ability to measure everything provided by technology and in part due to the inability of management teams to reach consensus about what is important. Thus organisations often use too many measures of things that are less important – but miss collecting information that informs on key process developments.

The Balanced Scorecards designed using 2GC’s 3rd generation approach offer a holistic but more focused view of performance measurement by ensuring that users are involved in the design process. By requiring managers to identify a concise set of process measures across Balanced Scorecard perspectives they are challenged to find ways of reflecting - via measures - customer satisfaction and the impact of innovation and improvement activities in addition to more typical financial and operational measures.
Additional benefits arising from using Balanced Scorecard for operational control purposes include:

- Increased understanding, awareness and alignment on operations across the whole management team arising from the discussions during the design process;
- The impact of initiatives to improve one area of performance is monitored across the wider process;
- The explicit mapping of causal links between objectives, which in turn helps add meaning and relevance to measures and facilitate target setting;
- A single concise management report that describes operational performance across perspectives.

Operations Managers sometimes take the view that what they need to manage in terms of performance is transparently observable, and they question the need for a structured approach to performance management system design. However, what is clear to one manager can sometimes be unclear to the person they have to manage! Time and time again we see problems in performance management, that stem from the lack of a rationale for measure selection. 3rd Generation Balanced Scorecard addresses this lack directly.

**Balanced Scorecard used for Strategic Management**

Three questions are at the heart of strategic management issues:

- What results are we trying to achieve?
- What activities need to happen to achieve these results?
- Are we completing activities and achieving the results targeted?

The purpose of this application of Balanced Scorecard is to help managers agree and then articulate the 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 2GC’s proprietary 3rd Generation design methodology. This enables 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). The approach also helps to identify relevant measures that allow managers to control and monitor organisational performance against these objectives. The power of 3rd Generation Balanced Scorecard as a communication device has been described as a primary benefit of their Balanced Scorecard by Philips Medical Systems.
Other benefits arising from using a Balanced Scorecard for strategic management purposes include:

- Reaching consensus and articulation of a holistic set of key strategic objectives aligned to corporate vision;
- An explanation of the cause and effect linkages between objectives and to the financial or other key outcome requirements of the organisation – this also identifies areas where ‘trade-offs’ between objectives are required (e.g. reduce costs versus increase marketing investment);
- A shared understanding of activities planned to deliver the strategic objectives;
- A common language to articulate and communicate strategic objectives, plans and targets within an organisation and link these to team and individual objectives.

We now turn to the evidence for such 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. 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.

Naturally this does not prove any causal correlation, but the results are very encouraging.

**Client Feedback – Tangible and Intangible benefits**

Here are some quotes from our clients after the design of a Strategic level Balanced Scorecard.

- “The organisation is now taking a long-term view – short-term objectives are also clearer”.
- “The accountable leadership team has developed and owns a vision for the strategy”
- “Better planning process than before”
- “Made us more strategic”
- “The company interests are now primary (less local thinking)”.
- “We have a clear corporate direction”
- “There is now more focus on intangibles, not just financials”.
More Information...

The Resources section of the 2GC website contains a wealth of useful information on Performance Management in general and the Balanced Scorecard in particular. In addition to answers to other Balanced Scorecard FAQs, the Resources section contains longer papers on a variety of topics, case studies and various short presentations, all of which can be downloaded without charge. The website also has recommendations for books and articles on the subject and links to useful websites. For information on 2GC’s professional services including consultancy and training programmes, visit the Services section of the website or email info@2GC.eu.

About 2GC Active Management

Established in 1999, 2GC is a specialist strategy implementation consultancy and thought leader in the Performance Management field. With offices and partners spanning the globe, we have a diverse range of clients in the commercial, public and NGO sectors both in the UK and worldwide.

2GC is dedicated to bringing the sharpest focus to its clients’ strategic and operational activity. To achieve this we work on the alignment of strategy, operations, teams and individuals, helping organisations to design and implement tailored performance management systems.

2GC’s methods are proven and reliable. They enable leaders to control the broad spectrum of strategic and operational issues their organisations face every day. Our consulting processes achieved the prestigious ISO 9001 accreditation in 2012.