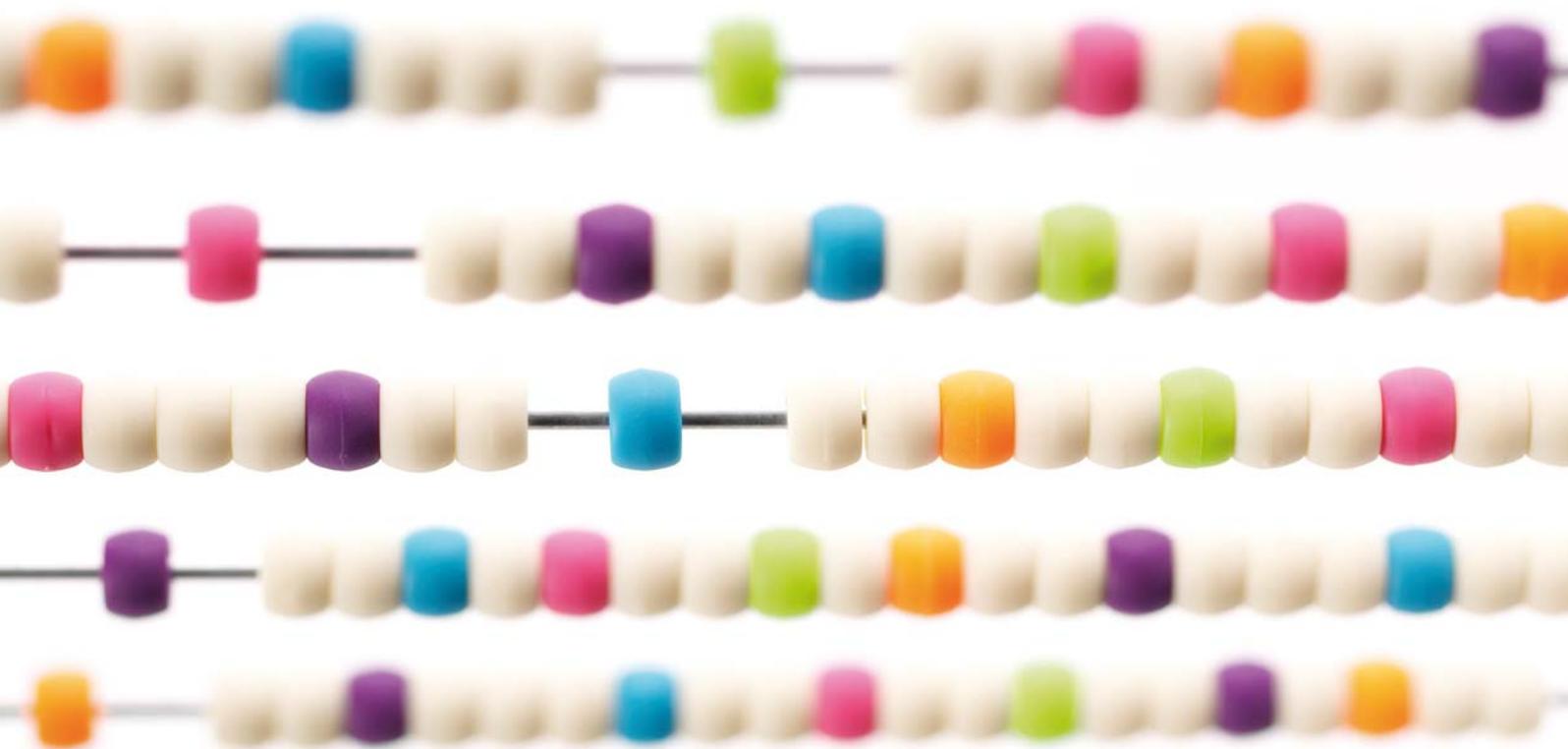


Balanced Scorecard

Topic Gateway Series No. 2



About Topic Gateways

Topic Gateways are intended as a refresher or introduction to topics of interest to CIMA members. They include a basic definition, a brief overview and a fuller explanation of practical application. Finally they signpost some further resources for detailed understanding and research.

Topic Gateways are available electronically to CIMA Members only in the CPD Centre on the CIMA website, along with a number of electronic resources.

About the Technical Information Service

CIMA supports its members and students with its Technical Information Service (TIS) for their work and CPD needs.

Our information specialists and accounting specialists work closely together to identify or create authoritative resources to help members resolve their work related information needs. Additionally, our accounting specialists can help CIMA members and students with the interpretation of guidance on financial reporting, financial management and performance management, as defined in the *CIMA Official Terminology* 2005 edition.

CIMA members and students should sign into My CIMA to access these services and resources.

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Definition and concept

'An approach to the provision of information to the management to assist with strategic policy formulation and achievement. It emphasises the need to provide the user with a set of information which addresses all relevant areas of performance in an objective and unbiased fashion. The information provided may include both financial and non-financial elements and cover areas such as profitability, customer satisfaction, internal efficiency and innovation.'

CIMA Official Terminology, 2005

Context

In the current syllabus, CIMA students will learn and may be examined on this topic in paper P6 Management Accounting Business Strategy. Study systems for these papers are available from CIMA Publishing.

Related concepts

Activity based management; the CIMA Strategic Scorecard™

Alternative concepts

The Performance Pyramid; the EFQM Model; Strategy Maps. All of these are discussed in the CIMA report *A practitioner's guide to the balanced scorecard* (PDF 268KB). Available from: www.cimaglobal.com/researchfullreports [Accessed 7 November 2008].

Overview and brief history

The basic idea of the Balanced Scorecard (BSC) is to focus the organisation on performance measures and implementing the current strategy. The BSC comprises measures from financial, customer, internal processes and learning and growth perspectives. The aim is to avoid focusing only on short term financial measures. The BSC enables managers to focus their efforts and to understand the links between the four key areas.

The BSC technique was developed by Kaplan and Norton (1992, 1996) to combine financial control measures with non-financial control measures. It is used for implementing the mission and objectives of an organisation's business strategy. The purpose of the BSC is to enable effective monitoring and control of the business.

Essentially, the BSC is a management system that enables an organisation to identify and clarify its vision and strategy, and translate them into action. It provides feedback around both the internal business processes and external outcomes to improve continuously strategic performance and results.

However, it does not focus on strategic issues from a transformational change perspective. These may be better covered by the framework offered by the *CIMA Strategic Scorecard™*.

Available from: www.cimaglobal.com/cimastrategicscorecard
 [Accessed on 7 November 2008.]

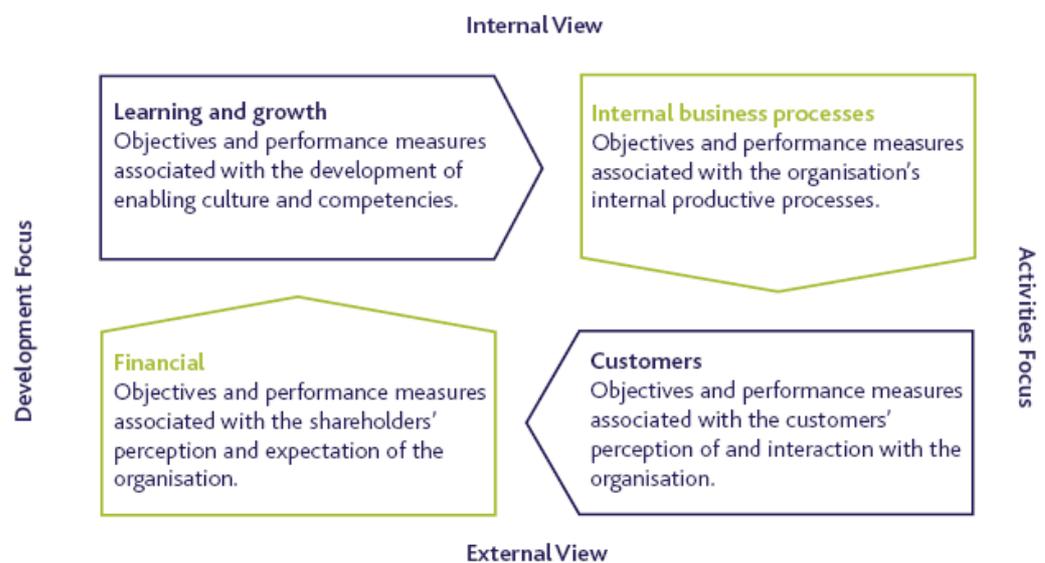
Balanced Scorecard quadrants

The Balanced Scorecard consists of four interrelated quadrants, each containing measures for a distinct perspective. These perspectives are:

- financial
- customer
- internal processes
- learning and growth.

These four perspectives are designed to cover the whole of the organisation’s activities, both internally and externally, current and future.

Figure 1. Balanced scorecard quadrants



Financial perspective

The financial perspective is a key factor of any performance measurement system because an organisation's financial performance is fundamental to its success. Measures reflecting financial performance include the number of debtors, creditors, cash flow, profitability and return on investment. The main problems with financial measures are as follows.

- They are based on past data. Financial measures show what has happened but they may not tell us what is currently happening. They are not necessarily a good indicator of future performance.
- They are short termist and do not focus on the organisation's long term financial strategy.

Customer perspective

These are measures that have a direct impact on customers. They could include time taken to process a phone call, the number of customer complaints, results of customer surveys or volume of repeat customers.

The customer and customer satisfaction have had a growing importance in business. Businesses recognise that if customers are not satisfied, they will find other suppliers to meet their needs.

Business process perspective

These are measures of key business processes, such as time taken in production, re-work costs or time to process an order.

These internal business focused measures allow the organisation to measure how well the business is operating and whether its products and services meet customer requirements.

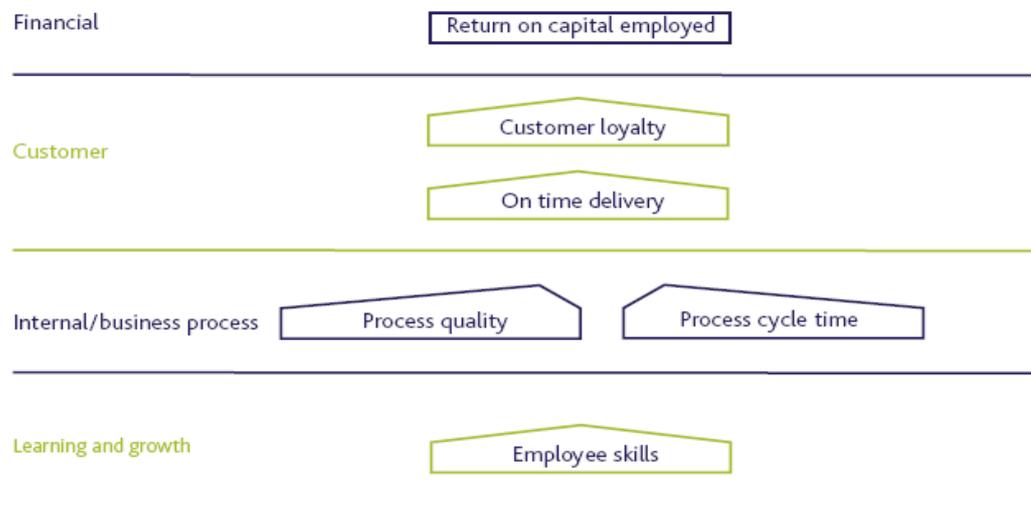
Learning and growth perspective

These are measures that highlight an organisation's development and learning ability. They might include the number of training days, the number of qualified staff or total hours spent on staff training.

This perspective includes staff training and attitudes to organisational culture related to both individual and corporate self-improvement. This quadrant recognises that in a knowledge worker organisation, people are the greatest resource. Kaplan and Norton focus upon the fact that 'learning' is more than 'training'.

The measures used in the BSC are mutually consistent and reinforcing. The BSC should be viewed as more than a collection of disparate financial and non-financial indicators. Instead it monitors a set of cause and effect relationships that lead to better financial returns. This is done by ensuring that a vertical vector runs through the four BSC perspectives, as demonstrated in Figure 2 below, based on Kaplan and Norton (1996, p.31).

Figure 2. Vertical vector relationships



Uses of the balanced scorecard

Kaplan and Norton found that companies are using the BSC to:

- clarify and update strategy
- communicate strategy throughout the company
- align unit and individual goals with strategy
- link strategic objectives to long term targets and annual budgets
- identify and align strategic initiatives
- conduct periodic performance reviews to learn about and improve strategy.

Steps in development of a BSC

The steps in the process of developing a BSC are to:

1. Identify the key outcomes critical to the success of the organisation.
2. Identify the processes that lead to these outcomes.
3. Develop key performance indicators for these processes.
4. Develop reliable data capture and measurement systems.
5. Develop a mechanism for reporting these to the relevant managers and staff.
6. Enact improvement programmes to ensure that performance improves.

Application

The BSC can be used in assisting the implementation of an organisation's strategy. The process of developing the measures will make managers more aware of how their work fits in with the strategy of the business. Managers should receive regular reports of their performance against the BSC measures relevant to their area of work. Strategic level management should receive regular information on the organisation's overall performance of BSC measures. This is to monitor whether the chosen strategy is being achieved and to take appropriate action when necessary. Outside stakeholders could also have access to BSC measures to help them form a fuller understanding of the organisation's objectives.

Benefits and drawbacks of BSC

Benefits

The main benefits of the BSC are outlined below.

- It avoids management reliance on short-term or incomplete financial measures. It ensures that senior management takes a balanced view about the organisation's performance.
- Using the BSC can assist in 'driving down' the corporate strategy to divisions and functions by forcing management to develop success measures related to corporate goals. Top level strategy and middle management level actions are clearly connected and appropriately focused.
- It can help stakeholders to evaluate the organisation if measures are communicated externally.

- The organisation's performance reporting system (and the organisation itself) is much more likely to focus on staying competitive in the long term and to realise value for its stakeholders.

Drawbacks

The main drawbacks are outlined below.

- The BSC does not lead to a single aggregate summary control. The popularity of measures such as Return on Investment (ROI) has been because they conveniently summarise 'how things are going'.
- Measures may give conflicting signals and confuse management. For example, if customer satisfaction and financial indicators are both falling, do management sacrifice one or the other?
- It involves substantial shifts in corporate culture to implement, such as the need to re-focus on the long term. The organisation must also be recognised as a set of processes rather than separate departments.
- The approach is not a quick fix. It takes considerable thought to develop an appropriate scorecard.

Case studies

CIMA Technical Guide - *Raising the standard of performance reporting in the NHS*. A guide to best practice in performance reporting to NHS boards.

Available from: www.cimaglobal.com/technicalguides

[Accessed on 7 October 2008].

There are some case studies relating to a variety of business sectors on the 2gc Active Management website. A whole section of the site is dedicated to the balanced scorecard and a number of relevant UK case studies are reviewed.

Available from: www.2gc.co.uk/resources-casestudies.asp

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Further Information

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CIMA Mastercourses

The balanced scorecard: principles, practicalities, progress and pitfalls. To book

via CIMA Mastercourses please go to www.cimamastercourses.com and click Find and key in the course code 'IMBS'.

Websites

The Balanced Scorecard Collaborative (BSCoI) was co-founded by Robert S. Kaplan and David P. Norton and it is very informative. It is now incorporated within the website of the Palladium group.

Available from: <http://digbig.com/4xtta>

[Accessed 7 November 2008]

The Balanced Scorecard Institute is an independent, non-profit source of information about applying the BSC to management in government and other non-profit organisations.

Available from: www.balancedscorecard.org

[Accessed 7 November 2008]

A Balanced Scorecard newsletter is available from Harvard Business Online. Available from: <http://digbig.com/4xtsy>

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The Balanced Scorecard User Group

Peer-to-peer support community dedicated to the Balanced Scorecard approach to strategic management.

Available from: www.scorecardsupport.com

[Accessed 7 November 2008]

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