

**Research Executive Summaries Series**  
**A Practitioner's Guide to the Balanced Scorecard**

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By Allan Mackay

**A copy of the full Practitioner's Guide is available for download from the CIMA website: [www.cimaglobal.com](http://www.cimaglobal.com)**

The 'Practitioners Guide to the Balanced Scorecard' is based on the results of the CIMA funded research report: 'Shareholder and Stakeholder Approaches to Strategic Performance Measurement using the Balanced Scorecard', conducted by the International Institute of Banking and Financial Services (IIBFS) at Leeds University. It is intended to act as a guidebook to the balanced scorecard, and to describe its use in performance measurement. The guide is targeted at those involved in, or thinking of using a balanced scorecard, whether in a commercial, not-for-profit, or public sector organisation.

The research on which the Practitioner's Guide is founded was specifically designed to provide an insight for managers into the application of scorecard methodology, based on the experience of UK organisations. It focused on the important issue of stakeholder participation, and reports wider stakeholder participation in the scorecard process within the public sector. The organisations that provided the information on which the research report is based, took what might be considered an orthodox approach to strategy formulation, with top level managers planning the organisation's strategy, and marshalling the resources required to achieve it.

The guide provides comprehensive, yet concise, insights into both scorecard theory, and to the practicalities of implementation, for those considering developing and embedding a scorecard within their organisation.

Some major issues that should be considered in scorecard development and deployment are addressed, and the guide also notes some lower level, practical considerations based on reported scorecard experience.

Kaplan and Norton developed the Balanced Scorecard in the early 1990's, largely as a result of the growing awareness that:

- Organisations need a set of measures, beyond the short term financial measures.
- These should be compatible with their increasingly complex operating environments.

To assist in current performance management and to develop the capabilities they will need to prosper in the future.

The guide notes that the research project, conducted by Phil Aisthorpe, Professor Kevin Keasey, Dr. Helen Short, Robert Hudson, Kevin Littler and Jose Perez Vazquez, involved:

- A review of current literature.
- A telephone survey of 460 major UK organisations, comprising of both public and private sector operations.
- Administration of a postal questionnaire, to which 60 responses were received.
- Semi-structured interviews with 45 of these 60 respondents.
- A detailed investigation, on a case study basis, which was performed on ten major respondents.

### Introduction

The guide confirms the continuing popularity of the balanced scorecard as a performance measurement tool and also notes that, historically, the majority of organisations, particularly those in the private sector, have relied on financial and cost accounting measures to assess their performance.

The author demonstrates how, through flexibility of application, scorecard rationale can be successfully applied in public and not-for-profit sectors. This point is exemplified through the inclusion of public sector and not-for-profit based case studies (Merseytravel and English Nature).

The guide notes that changes in government emphasis, and increasingly dynamic commercial markets, have made organisations aware that they can no longer rely solely on financial measures to assess and inform their strategies. Thus, although financial measures continue to be of fundamental importance to organisations, there is growing awareness that to succeed in the contemporary business and political environment, organisations must generate and take account of a wider range of measures. Such measures should reflect the requirements of a broader 'stakeholder' group, including customers, shareholders, employers and communities.

The nature of the scorecard as a management framework is considered, and levels of scorecard utilisation in UK organisations are noted.

### History and Development

The guide commences with the history and development of the Balanced Scorecard, and its contextual setting relative to other common performance management and measurement systems. Brief summaries and explanations of the following are included:

- The Tableau de Bord.
- The performance prism.
- The EP<sup>2</sup>M (Effective Progress and Performance Measurement).
- The Malcolm Baldrige and EFQM models.

### The Balanced Scorecard Explained

The guide includes a useful introduction to the composition of Kaplan and Norton's generic scorecard. The implications of quadrant selection for public sector application are noted. Each component quadrant (learning and growth, internal business processes, financial and customer) is then examined in turn. Particular attention is paid to the plethora of operational measures used by commercial organisations in the development of the scorecard's financial quadrant. The author usefully draws attention to:

- The wide range of measures available.
- The rationale behind, and specific application of each.
- Associated limitations of such measures as drivers of shareholder value.

Similar consideration is given to other scorecard quadrants (customer, internal business processes and learning and growth), and related performance metrics, concluding with a brief introduction to hypothesised cause and effect linkages between the various quadrants.

### Scorecard Foundations

The scorecard's function as an operational embodiment of organisational strategy, through its derivation from organisational mission and purpose, is illustrated. The guide explains how, through stakeholder analysis, a strategy that encapsulates organisational vision and values, is formulated. It then further elucidates how, once strategy has been agreed, the strategic architecture, which represents the information road map of the organisation's progress towards its anticipated ambitions, is derived. The role and contribution of 'strategy objects' are also introduced, as well as a summary of the key steps along the path to strategic success. These are:

- Translating strategic vision into goals, objectives and measures.
- Identifying and adopting the course of action, resource allocations and necessary routes to achieving these objectives.
- Communicating this vision to all relevant stakeholders and building consensus.
- Monitoring and managing the implementation of these activities.

### Scorecard Implementation

Following guidance regarding the establishment of organisational strategy, and formulation of a corresponding balanced scorecard, the guide addresses the critical issue of scorecard implementation. A time-based checklist of appropriate steps is included, and starts, as is common with many high-level organisational change initiatives, with the securing of senior executive commitment. It then continues by expounding the value of appointing a scorecard champion and the emergence of a scorecard structure as well as the selection of appropriate quadrants. Attention is paid to the importance of cascading the high level organisational scorecard down through the organisation, while at the same time ensuring maintenance of its relevance to end-user employees who should understand both organisational strategy, and their role in it.

The report illustrates how a central or corporate scorecard template can be cascaded through different organisational levels and modified as the emphasis shifts from a strategic to an operational focus. Similarly, different scorecard templates may be appropriate for different divisions of the same organisation. There is therefore a need to strike a balance between scorecard templates that are highly tailored to meet the operational characteristics of particular divisions, and the need to create an overall sense of strategic alignment.

Organisations not only use different scorecards, but also adopt different approaches to scorecard integration, and the guide reports the different practices observed amongst various survey respondents. A pertinent observation outlines how the (non-identical) scorecards of 12 subsidiaries of a national catering company, all fed into a top-level scorecard, and goes on to explain the practical implications of rolling out the required integration – in this case via the establishment of best practice and implementation of benchmarking techniques.

Particular attention is drawn to one incidental benefit of scorecard development and implementation - its role as a catalyst for the open and forthright discussion necessary to build a strong consensus around organisational vision and strategic direction. It is suggested that structured interviews with key players provide an important opportunity for the communication that is a prerequisite for the development of a truly cohesive scorecard.

The identification of appropriate performance measures is of vital importance to successful scorecard operation, and insightful guidance regarding how such issues might best be addressed (e.g. by the production of several inter-linked scorecards concentrating on specific segments of the framework) is provided. Based on reported experience of the research participants, the use of structured interviews, including the same carefully selected questions to each individual, is advocated. This is so that the management team can begin to understand the key issues and the related relevant measures. By listening carefully at this early stage of the scorecard process, managers may 'detect undercurrents that can be resolved rather than surfacing with a negative impact at later stages in the scorecard process'.

Following a synthesis of interview results, it is anticipated that organisations will have generated around 20 – 25 performance measures. The guide then advocates the use of a senior management workshop as a forum for the agreement of four or five critical measures for each of the high level scorecard's selected quadrants. The result of this selection process is the first draft of the organisational balanced scorecard, of which the 'acid test' is that an impartial observer should be able to deduce organisational strategy from it. Once this first draft has been agreed, the next step is to devise an action plan for developing complementary scorecards for the organisation's composite elements.

In relation to scorecard development for public sector organisations, where government imposed Public Service Agreements (PSAs) may result in the production of hundreds of target measures, the guide notes the value of developing multiple different, but related, or inter-linked scorecards. Each of these scorecards concentrates on a specific segment of the overall framework. A summary of the most commonly used performance measures in UK scorecards (including profitability, revenue growth, return on investment/capital, market share, customer satisfaction, cost reduction, share price etc.) is included in the guide. However, unless organisations are prepared to expend resources to completely change their reporting structures, such measures must be within the organisation's current data collection capabilities.

Data collected from the original research project suggests that UK organisations understand the process of strategy mapping - linking the measures to the strategy. Nevertheless, the guide notes the potential value of preparing a graphic representation (including a description) of:

- The objectives and related measures.
- How such measures can be quantified and displayed.
- How the measures are linked both within each perspective, and to measures or objectives in other perspectives.

The guide explains that, in accordance with Kaplan and Norton's original presentation of the balanced scorecard framework, such representation (strategy mapping) can act as a powerful tool for:

- Explicating the cause and effect relationships.
- Ensuring that measures are aligned with the organisation's value stream.
- Ensuring that they are not conflicting.

The guide advocates the use of a second workshop for the purposes of building consensus as well as refining scorecard design. It is suggested that middle and junior level managers should be introduced to the process at this stage, and briefed well in advance of the meeting. The author notes the value of taking this opportunity to build commitment through ownership of the scorecard process, with the scorecard champion assuming a facilitative role.

Discussion at this level may become political, and so the champion needs to manage the debate carefully to ensure that selected scorecard measures reflect:

- Strategic priorities,
- Critical success factors; and
- The operations which will really make a difference to the achievement of organisational goals, or mission.

The benefit of prioritising and phasing the introduction of performance measures, in order to build confidence in the scorecard framework, and the concept of time-based strategic themes, are introduced.

From responses to the original research project, the value of pilot schemes emerged as a way of testing whether the scorecard concept was worthwhile. Following the second scorecard workshop, and where a successful pilot scheme had been in operation, the following should be considered:

- How reward and remuneration packages might be aligned with the measurement system; and
- How the proposed innovations and changes will be communicated to all members of the organisation.

#### **Communication, Action, Reporting & Feedback**

The scorecard can act as a useful instrument for communication both within the organisation, and with external stakeholders. A well thought out scorecard can build consensus and ensure that all stakeholders are aligned with strategy.

Despite Kaplan and Norton's emphasis on the alignment of the organisation to the strategy, respondents to the original research questionnaire worryingly revealed that few companies provided all information in the performance management system to internal stakeholders (employees). On average, less than 50% of information was available to all employees, whereas more than 50% was available to all managers. It appears that there are inherent difficulties in getting employees to change their behaviour or provide valuable feedback where information on their performance is withheld.

For respondent companies, communication appeared to be restricted to ensuring that employees fully understood their objectives and associated measures. None had a formal mechanism for capturing stakeholder input.

The guide highlights the reluctance of organisations to provide detailed information to external stakeholders, despite a demand for more disclosure (particularly regarding risk and competitive strategy) in both the public and private sectors.

Overall, a variation in the volume of effort and resources invested in the communication process was observed: some organisations reported little more than informal conversations between a select few employees, while others invested considerable resources and developed innovative approaches to communication. An example of an innovative process for communicating key messages of the performance management system is included in the report.

One of the key elements of the balanced scorecard as a complete strategy and performance management framework, lies in the double loop learning opportunity that it presents. Unless the scorecard becomes a 'living document', and unless users are confident to act on the sometimes unpalatable information provided by performance measurement systems, the facility inherent in the double loop learning mechanism, is wasted. It is advised that managers be careful to understand that having a measurement system does not always and consistently lead to good decision making.

The guide refers to the presentation of the scorecard as a material factor in its active acceptance. It is imperative to present scorecard information in a way which is meaningful to its users, and the guide lauds the use of visual aids, such as graphs and charts, and visual devices (such as the traffic light concept) reported by one survey respondent.

In conclusion, the guide notes the importance not only of continual validation of selected scorecard measures, but also of challenging the underlying assumptions of organisational strategy as reported outcomes are received.

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CIMA Technical Department, November 2004.

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### Case Studies

The guide includes a public sector-based case study to illustrate the scorecard process, from strategy formulation to implementation. The process begins with analysis of the implications of the government imposed 'best-value' focused strategy and related stakeholder analysis. It demonstrates how the organisation promoted ownership of targets and established the 'corporate' balanced scorecard.

In the organisation profiled, consideration of the wide range of stakeholders and performance targets was managed in the establishment of the scorecard architecture. Strategy mapping was used to identify the critical business issues (CBIs) - the highest priority issues that were to be addressed if the strategic vision was to be fulfilled.

The guide suggests that, at this stage, it is important to focus on what tangible results will be achieved and how such results will be demonstrated.

The case study details how each of the four quadrants selected by the Health Action Zone (stakeholder and financial, customers, processes and learning) are developed and applied.

The appendix to the guide provides some further detail into the research process on which it is founded, and includes two case studies. The first is taken from a not-for-profit organisation (English Nature), and the second from a public sector organisation (Merseytravel).

### Common Themes and Conclusions

Finally, the guide outlines some of the most common difficulties in scorecard implementation noted by survey respondents. Attention is drawn to the parts played by executive commitment and innovation fatigue in determining scorecard success.

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**The Chartered Institute  
of Management Accountants**

26 Chapter Street  
London SW1P 4NP

T +44 (0)20 7663 5441

F +44 (0)20 7663 5442

E [technical.services@cimaglobal.com](mailto:technical.services@cimaglobal.com)

[www.cimaglobal.com](http://www.cimaglobal.com)