

# The Balanced Scorecard vs. the EFQM Business Excellence Model – which is the better strategic management tool

Presented to BetterManagement.com  
Balanced Scorecard Authority web seminar  
February 2001

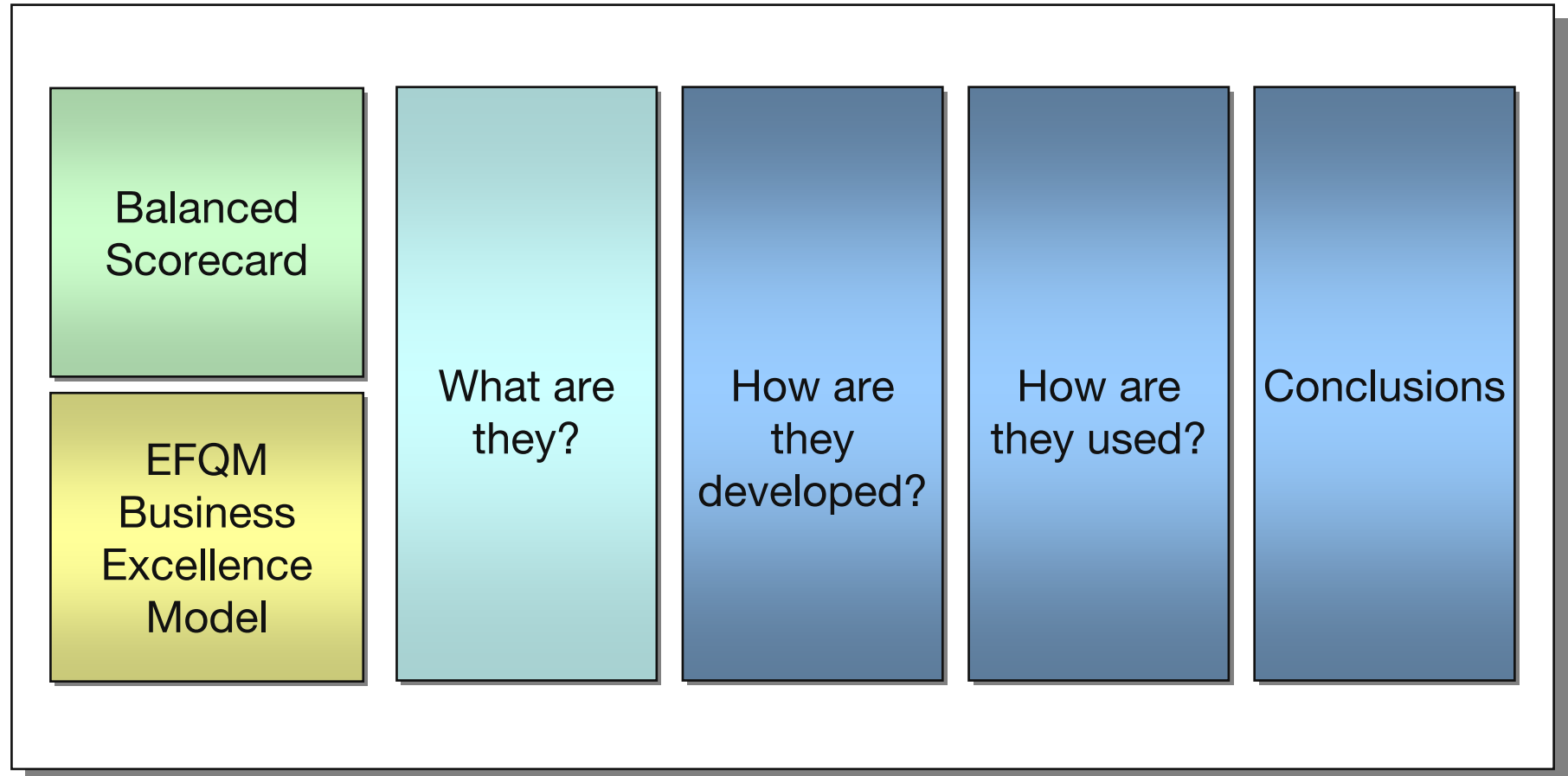
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# Structure of presentation



# What is the Balanced Scorecard (BSC)?

## What is it

- The Balanced Scorecard is a Strategic communication & performance measurement tool.
- It is designed to help management teams articulate and communicate their strategy in the form of strategic objectives and measures and that way express more clearly the strategic priorities of the investors/ stakeholders and the organisation itself.

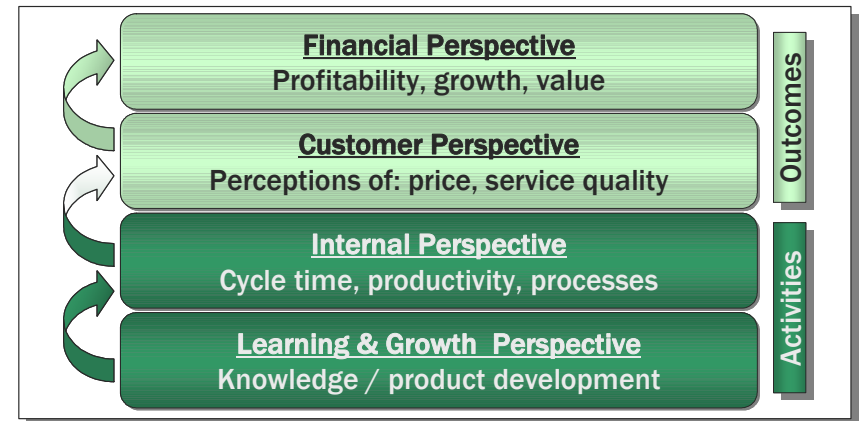
## Origins

- It originates from a US Multi-company research project in the early 1990's, led by two
- Americans Robert Kaplan and David Norton. They later published the research results in a series of academic articles defining what they called the Balanced Scorecard.

The research was commissioned by a group of large US corporations, who's management teams had grown increasingly dissatisfied with having to rely mainly on financial indicators as key measures for managing the performance of their organisations – They felt there had to be better ways to decide what to do in the future, rather than just making extrapolations based on past financial performance.

## Underlying Philosophy

- The Balanced Scorecard is based on key management concepts such as; learning from your actions and the effects they have; team working and clear communication of goals and priorities.



# What is the EFQM Business Excellence Model (BEM)?

## What is it

- The Business Excellence Model is a best practice & continuous improvement tool designed to help organisations recognise current strengths and weaknesses in the way they manage and conduct their activity, identifying areas in need of improvement.

## Origins

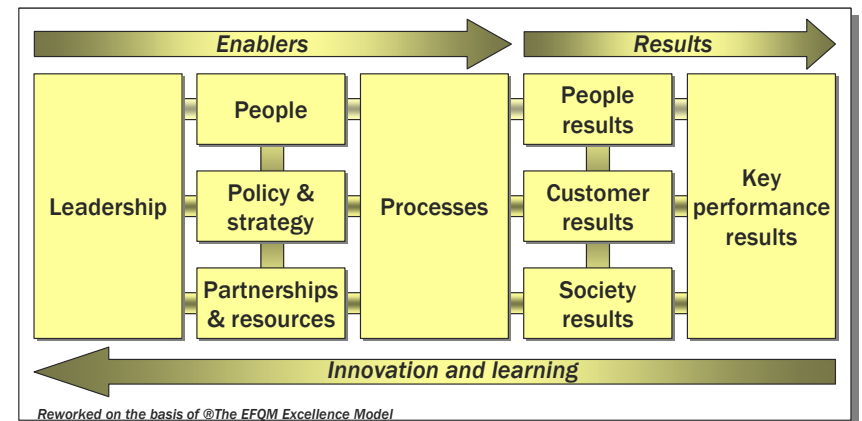
- It springs from the Total Quality Management movement of the 70's and 80's. The version of the Business Excellence Model shown here is the EFQM Model, which was developed by the European Foundation for Quality Management in the late 80's.

## Underlying Philosophy

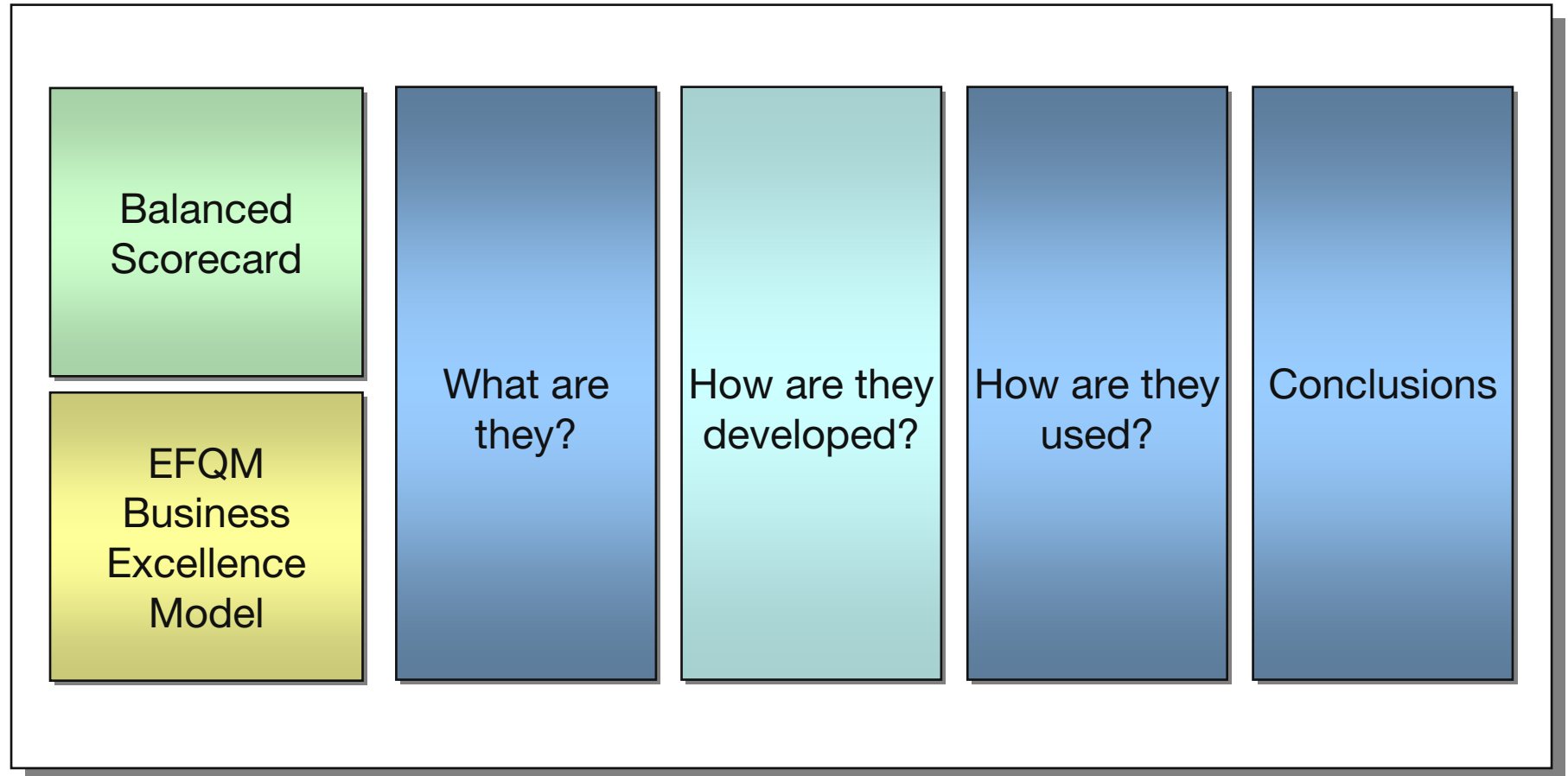
- The Business Excellence Model is based on the view that organisations can achieve business excellence through continuous improvement by focusing on relative performance in the models so-called enabling criteria and results criteria.

## Two Models Contrasted

- The Balanced Scorecard is mainly about the WHAT in managing an organisation – What are we going to do and what results do we expect from those actions.
- The BEM however, is about the HOW – How is the organisation managed and operated in general



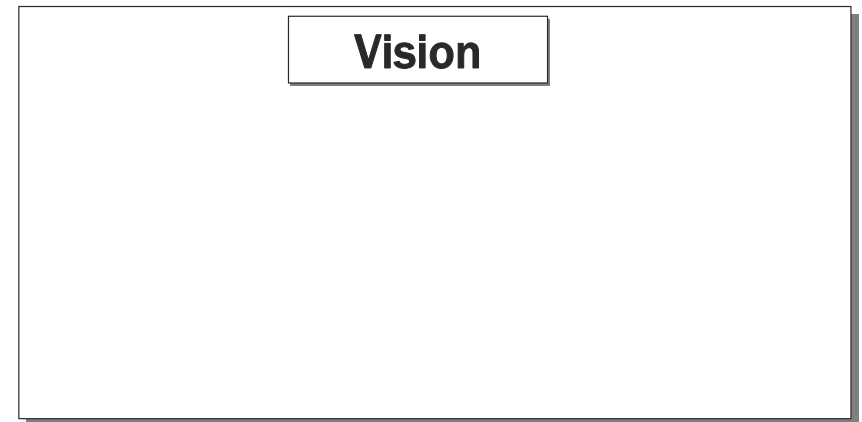
# How are the BSC and the BEM developed?



# How do you develop a Balanced Scorecard?

Designing a Balanced Scorecard should be a team effort involving future users - this secures ownership and understanding. It will also ensure that the Scorecard is based on the insights of those users.

A good Balanced Scorecard should be based on the organisation's 'jointly-held' vision. The starting point of any Scorecard design should therefore be the articulation of a vision through the creation of a 'Destination Statement' – a document expressing in some detail, what the organisation or business unit is expected to look like a few years ahead.



# How do you develop a Balanced Scorecard?

Having agreed on where to go (the Destination Statement), the next step is time to agree on how to get there.

This is normally done by identifying key strategic activities & outcomes or strategic objectives, covering all aspects of the organisation.

In order to make sure you do cover all aspects of the organisation to express a holistic strategy, the original Balanced Scorecard design proposed splitting an organisation into four different perspectives:

- Financial perspective
- Customer or external relations perspective
- Internal perspective
- Learning & growth perspective

The idea is quite simply to clarify what are the most important activities and what do we expect to achieve by performing them.



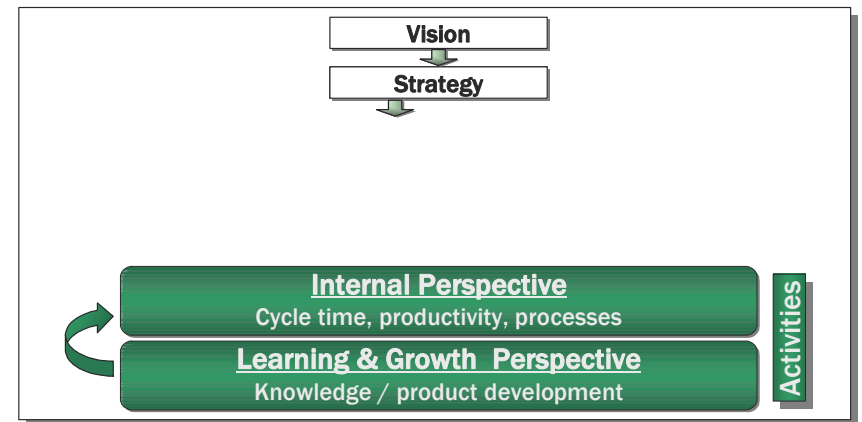
# How do you develop a Balanced Scorecard?

When identifying strategic objectives you often start with the most important activities necessary to undertake in order to get to the Destination.

- Strategic objectives of this kind would typically be in the form of statements about important business processes, cycle time, productivity etc. under the Internal perspective

But in order to sustain and support these activities you would normally require activities to continuously develop people, products and processes

- Strategic objectives for these activities are normally placed in the Learning & Growth perspective





# How do you develop a Balanced Scorecard?

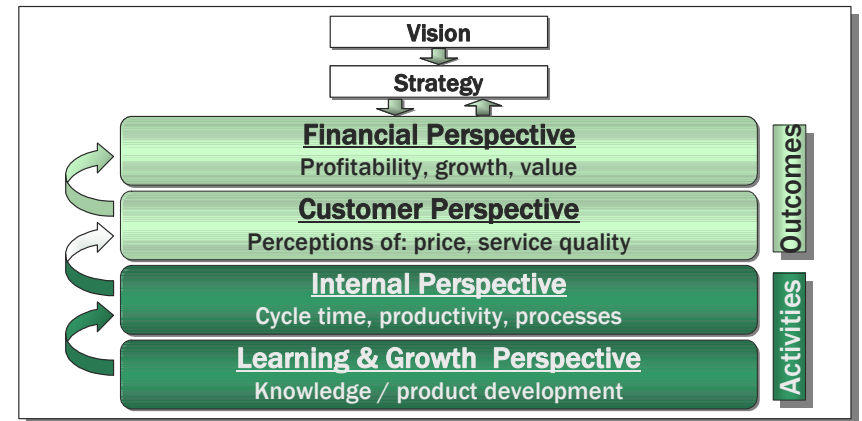
Performing any type of activity is usually done with the intention to create a particular outcome or result.

- Strategic objectives concerning results in terms of perceptions of the organisation, its price, service, attitude etc. held by external relations like customers, potential partners and suppliers are developed under the Customer Perspective also called external relations perspective

Most organisations are ultimately measured on the basis of their ability to generate financial value or in the case of not-for-profit-organisations on their ability to maximise the output of a limited budget.

- You would therefore need to have strategic objectives defining the profitability, value generation or economic growth targets expected to be derived from the activities you perform and the external relations who's expectations you satisfy

So this exercise is really all about expressing the management team's theory about which activities drive which outcomes across the four business 'perspectives'. And the framework simply helps you identify the most important strategic objectives creating the necessary focus for things to get done, but in the form of a coherent strategy spanning the whole spectre of the business.



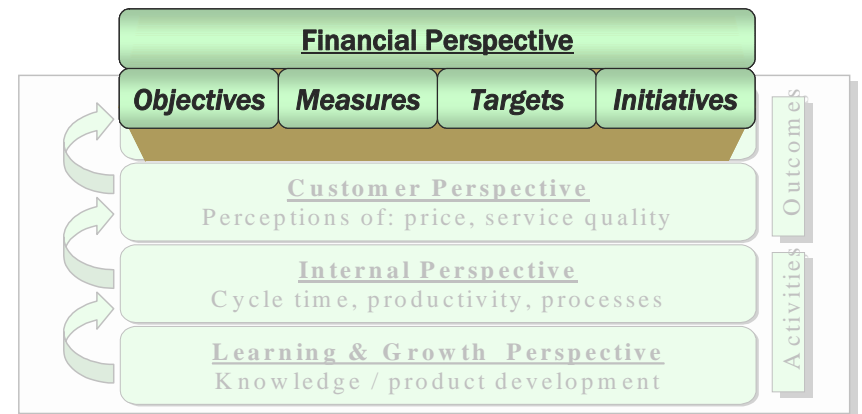
# How do you develop a Balanced Scorecard?

When you have identified the most important objectives it is time to develop measures and set targets for what you expect to have achieved by when.

- Measures should simply assist the management team in tracking progress in achieving their strategic objectives against the targets set.
- They become your warning lights if you are not on target allowing you to take early corrective action.

You may also need to undertake additional activities in the form of projects or initiatives in order to support the achievement of your objective, and these are usually defined in connection with the objectives they support.

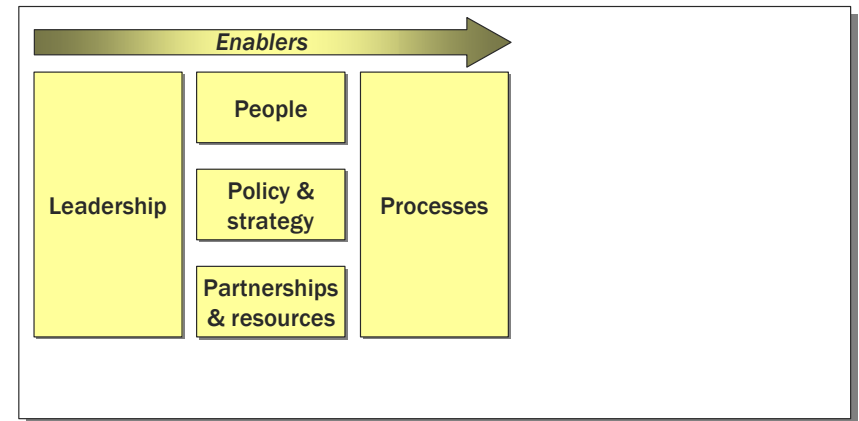
So in summary the Balanced Scorecard design is all about: teamwork, cause-and-effect relationships, prioritisation, and measurability.



# How do you develop the Business Excellence Model?

Where the Balanced Scorecard is based on the organisations vision and strategy, the Business Excellence Model is based on a set of generic strategic priorities – “Plausible logic” as it has been called - expressed through the five enabling activities:

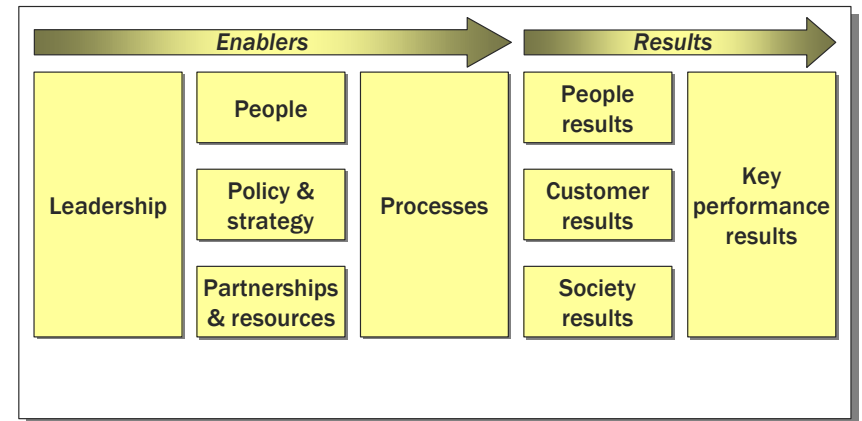
- Leadership
- People
- Policy & Strategy
- Partnerships & Resources
- Processes



# How do you develop the Business Excellence Model?

The outcome of these activities is then reflected in the four results criteria:

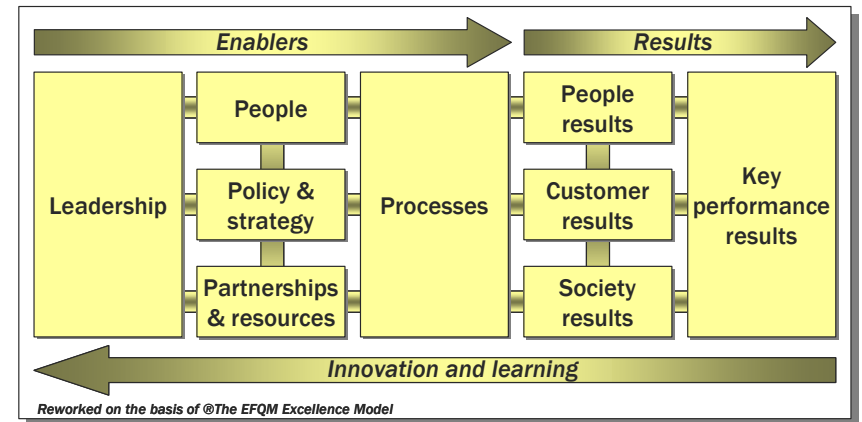
- Key performance
- Customer
- People
- Society



# How do you develop the Business Excellence Model?

Where the Balanced Scorecard is meant to express a management team's explicit perception of cause-and-effect between individual strategic objectives, the Business Excellence Model does this implicitly in the form of the general linkage between the broadly defined groups of enablers and results.

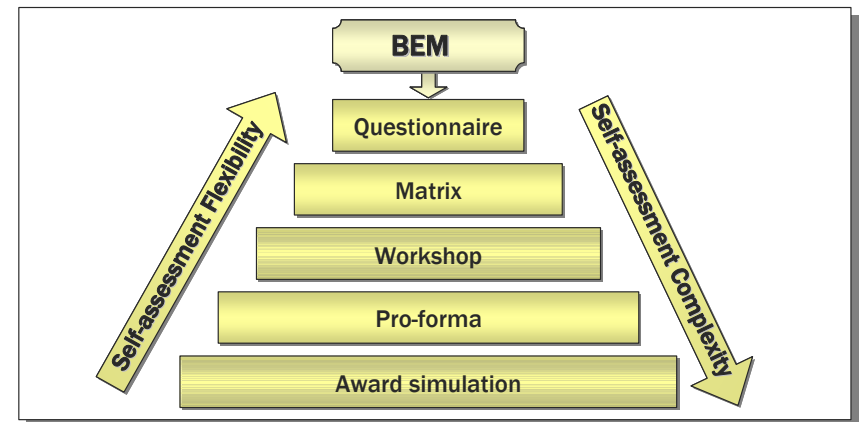
But these rather stringent and generic design features are obviously necessary in order to enable benchmarking in between different organisations and different business units. Something which the Balanced Scorecard isn't designed for.



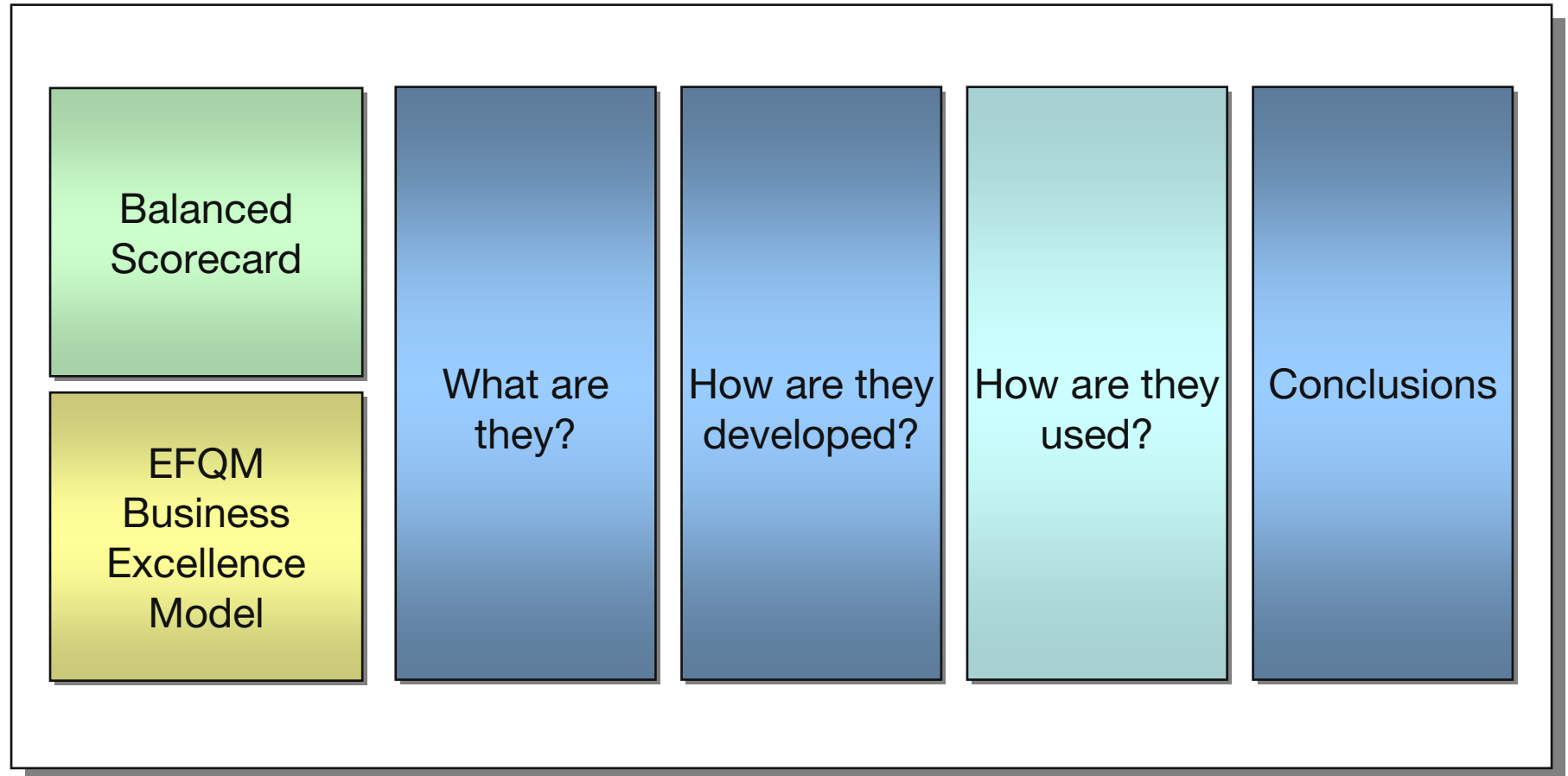
# How do you develop the Business Excellence Model?

While the EFQM excellence model's fundamental design is closely defined and prescribed, there is more flexibility built into the way self-assessment can be conducted, ranging from a questionnaire approach through to the quality award simulation approach (Matrix chart approach, workshop approach).

But when it comes to the more complex self-assessment designs, like pro-forma and award simulation where a higher degree of benchmarking is involved, the design needs to follow stricter guidelines for any internal or external comparison of results to make sense.



# How are the BSC and the BEM used?

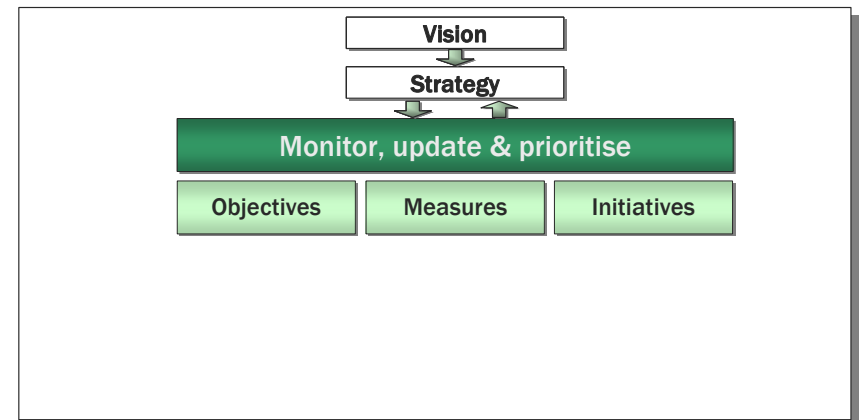


# How do you use the Balanced Scorecard?

Through regular monitoring, updating and prioritisation, management attention can remain focused on execution of what is always the top priority activities and outcomes of the organisation – and by regularly reviewing the Scorecards' measurement results you get to know how far you have come in doing what you set out to do – have we met our targets, why not? What are we going to do about it – what activities need to change?

This is how the Scorecard helps create structured learning about activities and outcomes enabling us to make better decisions based on facts and ultimately this learning experience can feed back into developing the strategy on an ongoing basis.

As mentioned previously, your Scorecard can also help you evaluate and prioritise major projects and initiatives against the strategic priorities of the organisation. By doing so, you can create an overview of all major strategic initiatives, their importance and regularly monitor progress in their implementation.



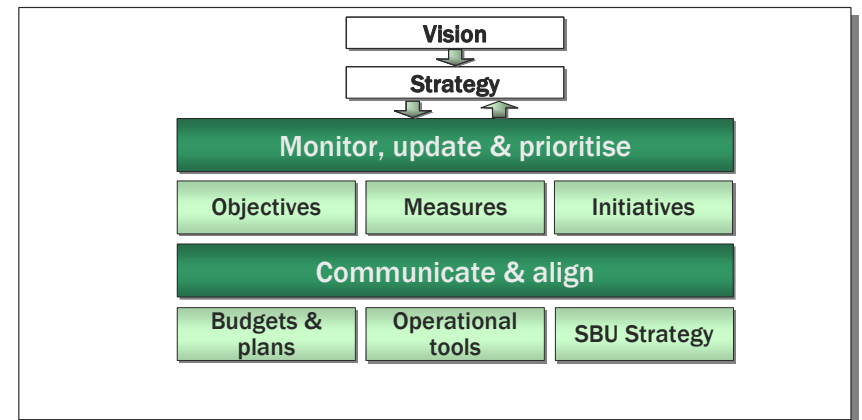


# How do you use the Balanced Scorecard?

Balanced Scorecards supports alignment of budgets, strategic plans, incentives and rewards. For instance, if you use your Balanced Scorecards to inform the development of your budgets, experience shows that you reduce the risk of falling into the trap of letting the long-term strategy be decided by short-term financial pressures.

Balanced Scorecards also prove a useful framework for communicating corporate strategy and a framework for agreeing what each part of the organisation will and can do to help deliver on the overall corporate goals. – it becomes a contract tool between hierarchical levels of management teams where the objectives of one organisational level form the vision for the next level of the organisation on the basis of which they will build there own scorecards.

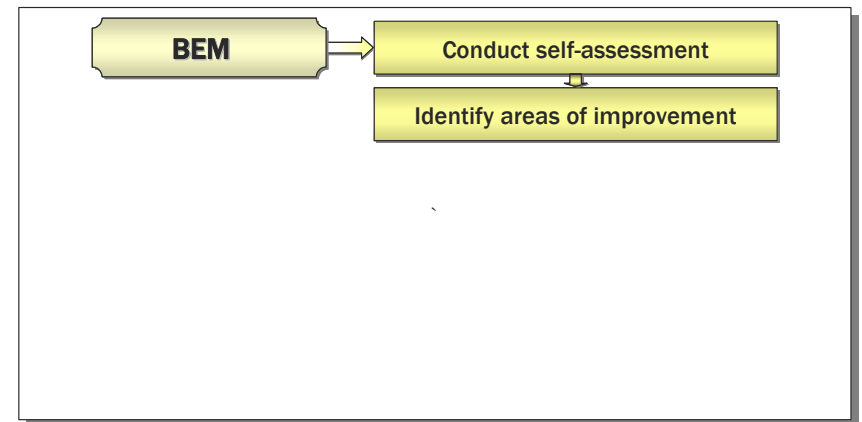
So just to sum up how you use the Balanced Scorecard: it helps you monitor, update and prioritise, while creating structured learning and it helps you communicate and align strategy through out the organisation.



# How do you use the Business Excellence Model

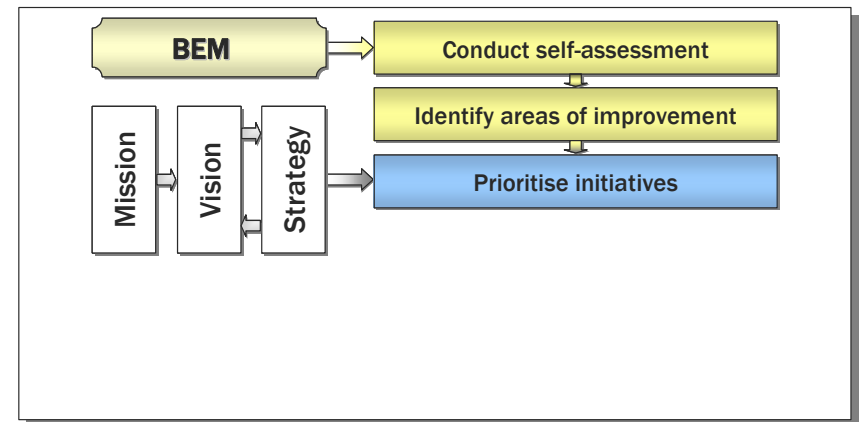
The Business Excellence Model helps focus management attention on strengths and weaknesses of current activities and processes by forming a point of reference for the self-assessment exercises.

As a result you will generate an often long list of areas in need of improvement, but normally you cannot do everything at once and you might not want to improve in all areas either.



# How do you use the Business Excellence Model

You therefore need to prioritise the list of improvement initiatives. However, the initiatives have been generated on the basis of a generic strategy in the form of the Business Excellence Model, but you need to base your prioritisation on the vision and strategy of your organisation making sure that it is adjusted to the current position of the organisation and the relevant pressures from its external environment.

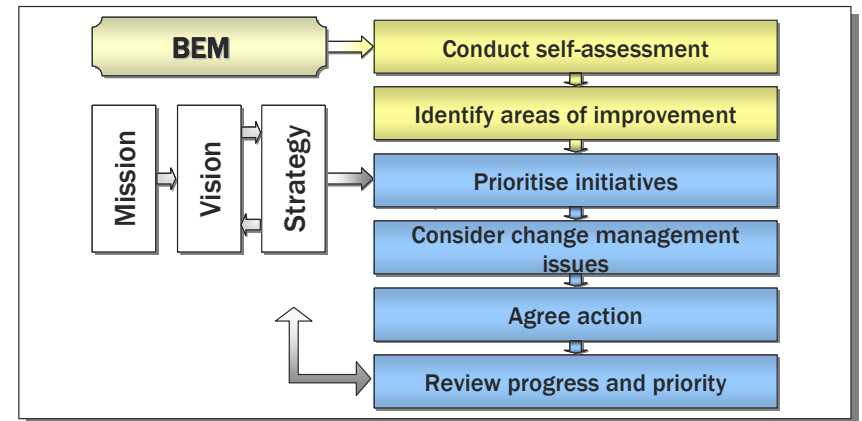


# How do you use the Business Excellence Model

After having considered the underlying change management issues of the proposed initiatives, action plans must be agreed including assignment of responsibility, allocation of resources and calculation of realistic deadlines for implementation.

And once the initiatives are on their way you need to monitor progress and regularly re-evaluate the priority

In the long run and as the organisation gets more familiar with using self-assessment it is important to integrate the model and its associated processes – the blue boxes on the right – with the regular performance management approach of the organisation. Making it an integrated part of the organisations performance management system, is more likely to increase continuity and thereby long-term success of the tool.

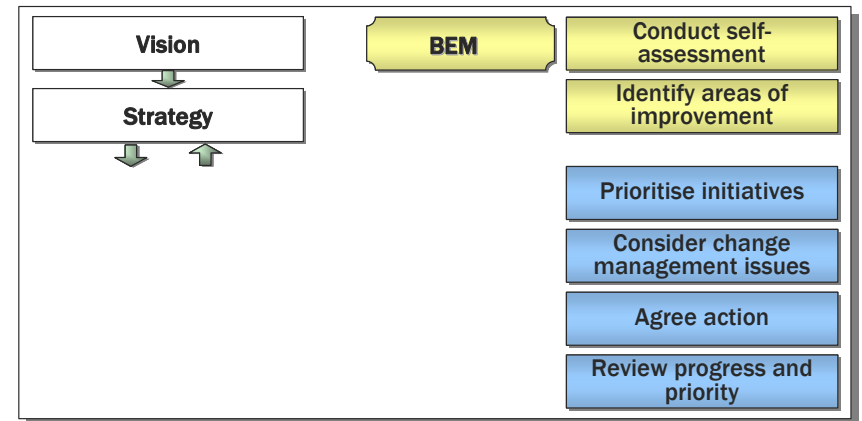


# How do you use the two tools in combination?

Much of the EFQM literature and training is helpful in suggesting ways to link the prioritised change initiatives into the strategy and business planning. So you may ask yourself, why do I need any extra tools? The answer is that since these processes are not part of the Excellence Model itself, they do require the use of supplementary systems anyway.

And when you think about it, they do really form the crucial part of achieving business excellence, because at the end of the day it will be the effectiveness of those systems that determine how successful you are in using the findings of your self-assessment to create real change.

But when looking at how the Balanced Scorecard is used, this is exactly the type of processes the Balanced Scorecard is designed to support – an integrated and fully aligned management system, governed by the long-term goals of the organisation

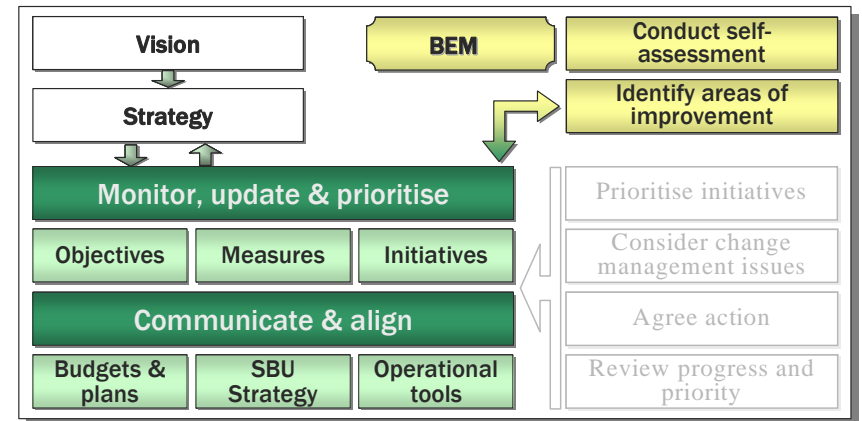


# How do you use the two tools in combination?

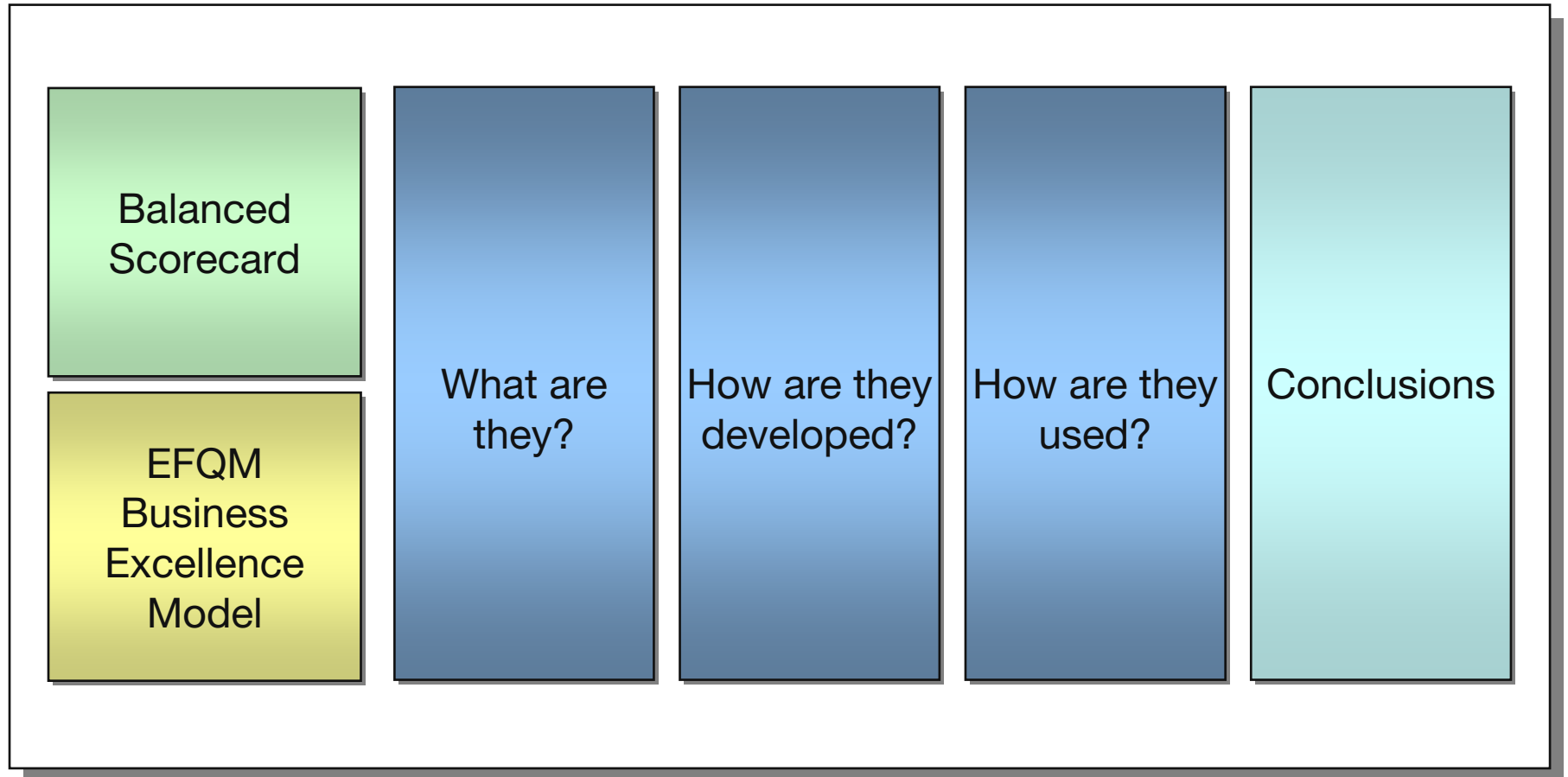
This is why many companies use both tools in combination

- The Balanced Scorecard is useful in identifying which are the strategically most important processes, where the use of resources on self-assessment is best spent.
- The results of self-assessment can feed straight back into an integrated evaluation process covering all the organisation's initiatives and linked directly to the vision of the organisation.

So the reason for applying tools like the Balanced Scorecard, when already using the Business Excellence Model is simply to make sure that all the good work of self-assessment doesn't get lost in pressures of day-to-day operations.



# Conclusions



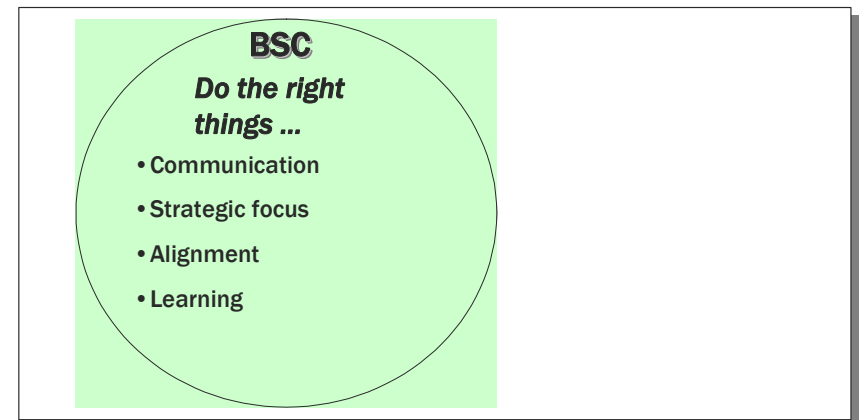
# Conclusions - appropriate tool for the appropriate task

The Balanced Scorecard is about:

- Two-way Communication of strategy
- Securing Strategic focus
- Strategic alignment throughout even large organisations and through everything you do
- Structure learning about cause-and-effect relationships – does my actions achieve the results I expect?

The Balanced Scorecard can therefore be said to be about - doing the right things . .

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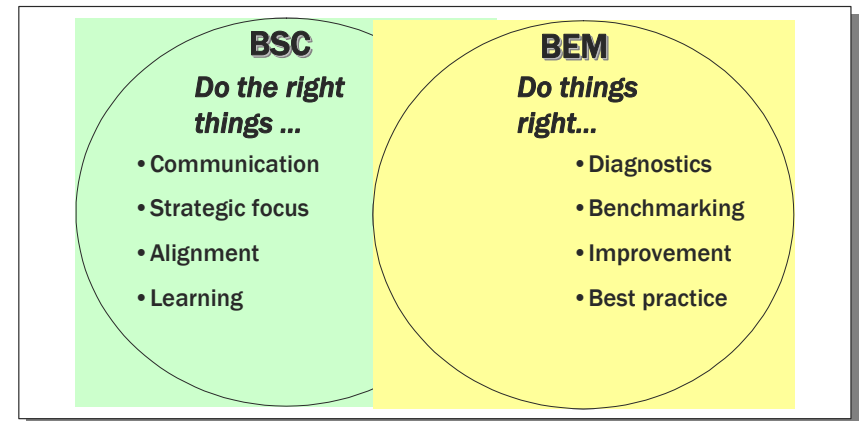


# Conclusions - appropriate tool for the appropriate task

While the BEM is:

- A Diagnostic tool applied as a regular health check to your activities and processes
- Designed to enable benchmarking of the results – something the Balanced Scorecard is not good for
- To secure ongoing improvement and the implementation of Best practice

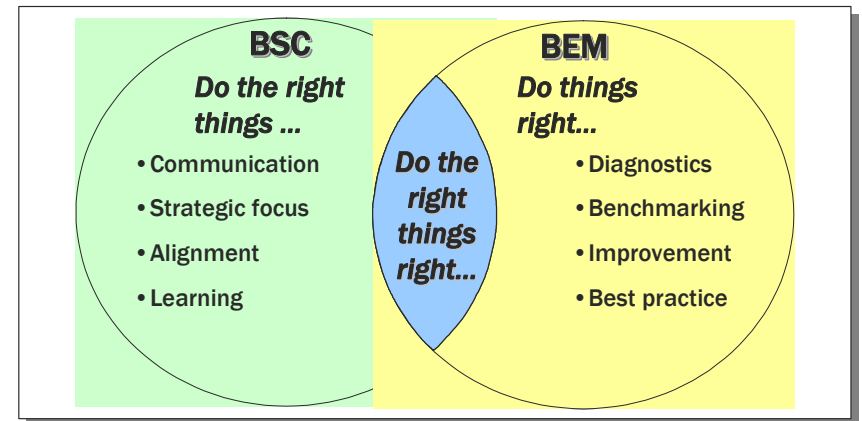
As such the Business Excellence Model is about doing things right . . .



# Conclusions - appropriate tool for the appropriate task

Use the two tools together and it will help you cover the middle ground . . .

- Doing the right things right

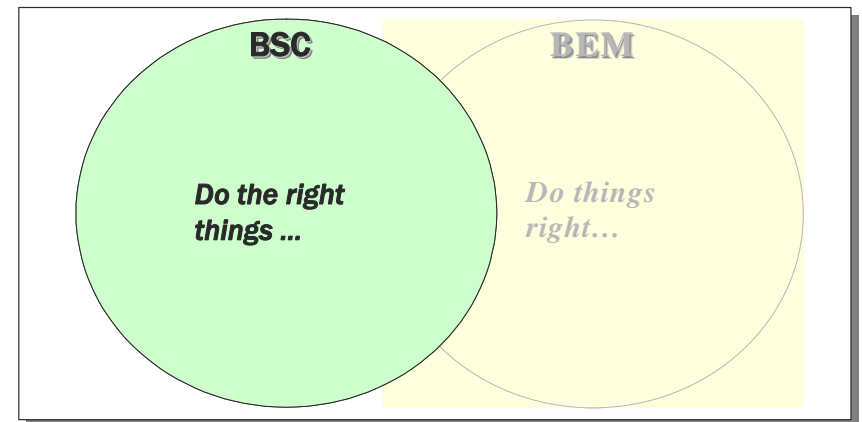


# Conclusions – Which is the better strategic management tool?

Both models have great strengths and also some weaknesses depending on the purpose they are used for, however:

The design of the Balanced Scorecard and the underlying logic of its usage make it a potentially more powerful strategic management tool than the Business Excellence Model.

This is not to say that the Balanced Scorecard is a better tool in general, simply that it was designed to support doing the right things – the essence of strategic management – whereas the Business Excellence Model was designed as a diagnostic tool, helping you do things right, by doing them better.



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