

PUTTING THE BALANCED SCORECARD TO THE TEST

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The Balanced Scorecard is one of the most widely used management performance tools in the world. Popularised by the Harvard professor Robert Kaplan and consultant David Norton, it is currently used by 60 percent of companies. The tool, which advocates a mix of financial and non-financial targets, is most common in the US, followed by Europe. But does it actually work? And what can firms do to make it more effective?

The UK's Advanced Institute of Management Research (AIM) is funding the most comprehensive study of the Balanced Scorecard ever undertaken. Led by Andy Neely, deputy director of AIM and Rachel Griffith, AIM Senior Fellow, the study, which is ongoing, is already yielding significant results.

Professor Neely studied the launch of a performance measurement system modelled on the Balanced Scorecard at the international building products firm, the Wolseley Group. In August 2002, the FTSE-100 group introduced the system in its UK Heavyside division – including its chain of Build Centers, which supply local builders and DIY enthusiasts. The aim was to improve performance by introducing a common measurement system.

As its name suggests, the Balanced Scorecard seeks to balance the traditional bias towards purely financial measures by including non-financial targets. At Wolseley, for example, 17 measures were selected. These included financial measures such as return on capital employed and sales growth, and non-financial measures such as customer satisfaction, and branch safety.

For the initiative to succeed, however, senior managers knew they had to convince people at the sharp end of the business. "We always had in mind that we were going to be delivering this to hard nosed branch managers," says Adrian Barden, UK managing director, during a recent interview with the Financial Times. "It had to be meaningful and easy to understand and measure otherwise they would rubbish it."

To communicate to the branches how they were doing on each measure, the company used a traffic light system. References to the Balanced Scorecard were dropped in favour of R2G (red to green). The system described efforts to move from performance that is unacceptable (red) or acceptable (amber) to excellent (green). Branches received their results every month.

So did the Balanced Scorecard work? To find out, Professors Neely and Griffith compared 156 build branches using R2G with a control group of 156 nearby plumbing branches that did not use the system.

Following the launch of R2G, the build branches showed a significant increase in sales and gross profits compared to the plumbing branches. Within the build division, however, some branches produced better financial results than others. They were the ones that also performed better on non-financial measures such as customer retention. This is an important finding. It lends support to those who argue that businesses that measure themselves on more than just financial performance actually perform better at the bottom line.

Build Centers get Green Light

According to Professor Neely, Wolseley has done better than most firms introducing a Balanced Scorecard system. "Its implementation is one of the most robust and effective that I have ever seen," he says. "There are important lessons for other firms wishing to introduce effective performance management systems."

The initial findings were explored through interviews with branch managers. Those interviews are ongoing but there are already yielding some important insights.

- The branch managers generally reacted well to the R2G scheme. But there are some notable exceptions. One branch manager commented "I ignored it completely – I have never taken a blind bit of notice of it."
- The majority express skepticism initially. This skepticism fades quickly in the first year, as branch managers start to receive the R2G reports.
- Branch managers express concerns about the complexity of the measures – especially the financial measures. Some branch managers express frustration with measures that they feel are out of their control – especially staff retention.

Professor Neely will be presenting the latest findings of the study at the Performance Management Association (PMA) conference from 26th-28th July.

He observes in an interview with FT: "There's a lot of rhetoric about the Balanced Scorecard, which suggests that if you implement a scorecard you'll move from number three to number one in your industry! Our research shows that it is much more complicated. There are a number of critical steps that companies need to get right if they are to benefit from this sort of measurement system."

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Notes for Editors

AIM Research is funded by the Economic and Social Research Council (ESRC) and the Engineering and Physical Sciences Research Council (EPSRC) and was launched in November 2002. AIM's mission is to improve understanding of management's contribution to organisational performance, and UK well-being. For more information on AIM visit www.aimresearch.org

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The Performance Measurement Association (PMA) is a global network for those interested in the theory and practice of performance measurement and management. It was launched at the 2nd international Performance Management Conference, PM 2000, Cambridge, UK. www.performanceportal.org