


The Balanced Scorecard vs. the EFQM Business Excellence Model

2GC Working Paper

Henrik Andersen, Gavin Lawrie and Michael Shulver

June 2000

© 2003 2GC Ltd. All rights reserved.

This document is protected under copyright by 2GC Ltd. The following terms and conditions apply to its use: Photocopying - single photocopies may be made for personal use as allowed by national copyright laws. Permission from 2GC and payment of a fee is required for all other photocopying, including multiple or systematic copying, copying for advertising or promotional purposes, resale, and all forms of document delivery; Derivative Works - Permission from 2GC is required for all derivative works, including compilations and translations; Electronic Storage or Usage - Permission from 2GC is required to store or use electronically any material contained in this document. Except as outlined above, no part of this document may be reproduced, stored in a retrieval system or transmitted in any form or by any means, electronic, mechanical, photocopying, recording or otherwise, without prior written permission of 2GC Limited.



2GC Limited
Albany House, Market Street
Maidenhead, Berkshire
SL6 8BE UK

+44 (0) 1628 421506
www.2gc.co.uk info@2gc.co.uk

2GC Working Paper

Introduction

The Balanced Scorecard (BSC) and the EFQM's Business Excellence Model (BEM) are tools that use measures of an organisation's performance to drive organisational improvement – generally by highlighting current shortfalls in performance to management teams. Both have been widely adopted in recent years, address broadly similar issues, and benefit from the support of powerful advocates in the form of current users, consultants, and software suppliers.

Tables 1 and 2 highlight key features of the two approaches. BSC and BEM are often presented as broadly similar “alternatives” – Figure 1 shows one of several published examples showing how to visually “map” the components of the BEM onto a typical BSC design. But in this working paper we show that the two approaches come from very different backgrounds, and are designed and used using different processes.

2GC Active Management is a specialist consultancy firm that works to develop and improve the strategic management skills of management teams. Our practical experience has been that, compared to the Business Excellence Model, the Balanced Scorecard forms a much better basis for the development of a tool for the strategic management of an organisation. In this working paper, written as part of our ongoing research into how organisations deal with issues of strategic control, we have looked for independent evidence to support our experiential observations. The paper concludes that such evidence does exist – both in the academic and practitioner communities. These conclusions are supported by the related observation that many active users of the Business Excellence Model have chosen to adopt in parallel Balanced Scorecard as a tool for strategic management activity.

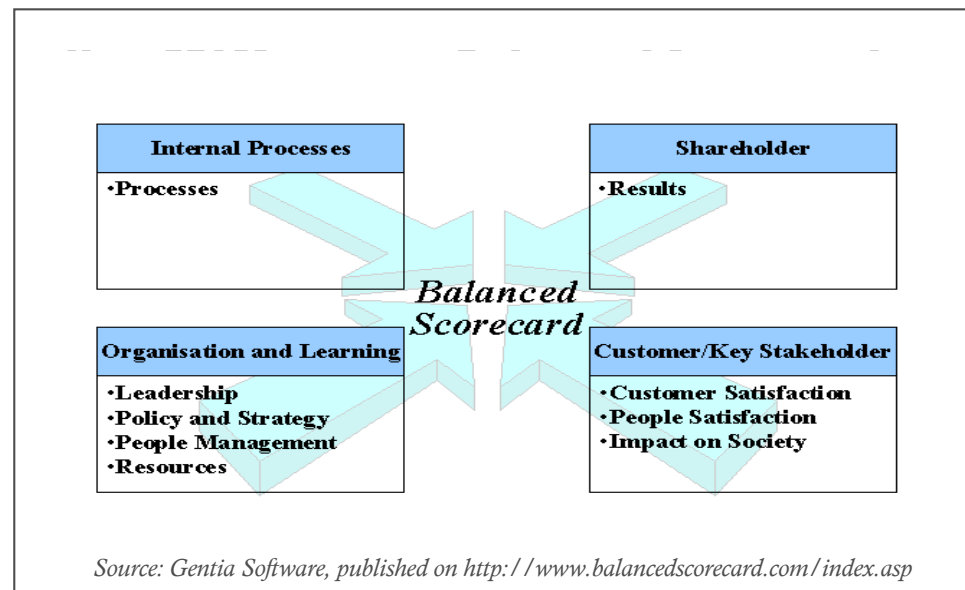


Figure 1 – How EFQM maps to the Balanced Scorecard

Comparing BSC and BEM

Efforts to show a cosmetic similarity in presentation (such as that shown in Figure 1) conceal fundamental differences in how the two approaches work, and the types of applications for which each is best suited. These differences are highlighted in Tables 1 & 2, which compare the two approaches across several categories.

In this paper we have summarised our investigation by focusing on differences in how the measures reported by each tool are selected (the design process), and how the tool can be subsequently integrated into the management processes of an organisation (the management process).

The EFQM Business Excellence Model	
What is it?	A framework designed to assist organisations achieve business excellence through continuous improvement in the management and deployment of processes to engender wider use of best practice activities. It enables the calculation of scores against a number of criteria that can be used for either internal or external “benchmark” comparisons. It is hoped that the results of these relative comparisons will lead to increased focus on improving key process performance, and so generate “business excellence”.
Typical Applications	Driving continuous improvements in processes within an organisation Providing information on external “benchmark” levels of performance of key processes Provision of “best practice” checklists for use within Business Planning and Review activities
Typical Outputs (Documents)	Assessment of the quality of the organisations processes relative to prior years and to competitors / benchmark organisations Identified areas of poor or low performance against prior years and competitors
Key Success Factors	Sponsorship and commitment of entire management team Introduction of “embedded” management processes to use outputs to drive continuous improvement
Origins	The “Business Excellence Model” was originated by the European Foundation for Quality Management (EFQM) which aims to “assist management in adopting and applying the principles of Total Quality Management and to improve the Competitiveness of European industry”. The Foundation has also instigated the “European Quality Award”: the criteria developed to evaluate performance in the Excellence Model are similar to those used to evaluate contestants for the “Quality Award”.
How does it work?	<p>The Model assumes that excellence requires of an organisation:</p> <ul style="list-style-type: none"> • <i>Results Orientation;</i> • <i>Customer Focus;</i> • <i>Leadership and Constancy of Purpose;</i> • <i>Management by Processes and Facts;</i> • <i>People Development and Involvement;</i> • <i>Partnership Development;</i> • <i>Public Responsibility</i> <p>The model considers relative performance by an organisation in the areas of enabling activities and observed results. It does this using five “enabling” criteria (Leadership; People; Policy & Strategy; Partnerships & Resources; Processes) and four “results” criteria (Performance; Customers; People; Society). Current performance is evaluated as a score across the nine criteria by checking the organisation’s alignment against a total of 32 standard statements (e.g.: “Processes are systematically designed and managed”). Scores are attached to the answers to these questions either on the basis of internal “Self Assessment” or with the assistance of outside assessors. Scoring uses a universal scoring and weighting system that treats all types of organisations alike (no adjustments are made for size or industry). The scoring system has been designed to allow an organisation to benchmark its score against those other firms, or against scores from prior assessments. Also a weighted “total” of these scores is usually calculated. Wider introduction of quality management systems by an organisation tends to improve scores – but in general the Excellence Model does not itself provide information on how low scores can be improved.</p> <p>Results are generally produced in “report” format and circulated, usually on an annual basis.</p>
Best practice design methods	Data driven Self-Assessment against standard criteria, looking at current and recent performance. Assessment Process typically not operated by whole management team Opportunities for improvement are identified against poor performance relative to standard criteria

Implementation Issues	<p>The Self-Assessment process needs to be applied rigorously in order to be effective. EFQM recommends a graduated approach starting with the use of simple questionnaires and progressing through detailed questionnaires to workshops as the organisation becomes more familiar with the approach. The use of external assessors is often in connection with an actual or simulated European Quality Award application process.</p> <p>The relative complexity of the criteria statement scoring system, and the need for comparability between implementations (to allow benchmarking) requires the process to be conducted by suitably trained and experienced personnel (“assessors”). This encourages the use of a Self-Assessment process run by “project teams” rather than managers themselves, and legitimises the use of external consultants (with access to benchmarking data, for example). This leads to a relatively “low impact” assessment process, but one that is often done external to the management team.</p>
Example Users	BT plc, TNT Express (UK) Ltd., TXU Europe (Eastern Electricity), Lloyds TSB Group

Table 1: The EFQM Business Excellence Model - origin and key characteristics

The Balanced Scorecard	
What is it?	The Balanced Scorecard is a framework that expresses an organisation’s strategy as a set of measurable goals from the perspectives of owners/investors, other external stakeholders, and the organisation itself. If these goals and associated measures, and targets are well chosen, the Balanced Scorecard will help managers focus on the actions required to achieve them, so helping the organisation achieve its overall strategic goals and realise its strategic visions.
Typical Applications	<p>Focusing management agenda on achieving strategic goals</p> <p>Supporting two way communication of strategic priorities and organisational performance</p> <p>The prioritisation of investment and activity behind strategic goals</p> <p>The alignment of goals and rewards behind common strategy across an organisation</p> <p>Supporting continuous learning about strategic “cause and effect” relationships affecting an organisation</p>
Typical Outputs (Documents)	<p>A clearly articulated statement of vision and strategy</p> <p>A set of measurable strategic objectives spread over four “perspectives”: each measure with agreed targets</p> <p>A set of priority “initiatives” linked to the strategic objectives and measures</p>
Key Success Factors	<p>Sponsorship and commitment of entire management team</p> <p>Introduction of “embedded” management processes to use, refresh and renew the Balanced Scorecard over time</p>
Origins	The Balanced Scorecard first appeared in the results of a multi-company research study called “Measuring Performance in the Organisation of the Future” in 1990. Sponsored by major US corporations, the study was initiated as a reaction to the growing dissatisfaction with traditional financial measures as the sole or main measure for corporate performance. The study identified the need for an improved management control system based on an understanding of actual performance against key strategic goals – which the authors called “The Balanced Scorecard”

How does it work?	<p>The Balanced Scorecard builds on key concepts of management activity concerning:</p> <p>Causality – <i>the belief that managers can identify things to do that will lead to key outcomes being achieved</i></p> <p>Learning – <i>the belief that given appropriate feedback, managers will identify ways to improve performance</i></p> <p>Team Working – <i>the belief that most organisations rely on management activity performed by teams as well as individuals (e.g. “The Board”)</i></p> <p>Communication – <i>the belief that clear communication of goals, priorities and expectations are necessary to achieve high levels of performance within an organisation</i></p> <p>Although many variations exist, most Balanced Scorecards are built on a core idea that manager’s need information on a reduced set of measures selected across four distinct “perspectives” of performance.</p> <p>Measurement information is usually collected at least quarterly, circulated in the form of paper or electronic reports, and these reports are used to inform regular meetings of the management team.</p> <p>Generally Balanced Scorecard information is not directly useful for cross industry comparisons or other Benchmarking activities.</p>
Best practice design methods	<p>Forward looking workshop based design process involving management team, building on existing management plans, but looking for a “step change” in performance</p> <p>Creation of a set of strategic objectives that are “unique” to the organisation</p>
Implementation Issues	<p>The major challenges in Balanced Scorecard design are the selection of measures – an activity that is often undertaken using specialist external support – and the introduction of new ways of working that actually make use of the information generated by the Balanced Scorecard – usually attempted as an “in-house” exercise.</p> <p>Advanced users extend the Balanced Scorecard within an organisation through “cascading” – the creation of a pyramid of linked smaller Balanced Scorecards that “feed into” the Balanced Scorecard for the whole organisation – and the modification of related business processes (e.g. budgeting and planning) to include reference to the organisation’s Balanced Scorecard.</p> <p>As an organisation’s strategic goals change so also should its Balanced Scorecard – typically Balanced Scorecard designs are reviewed every two years.</p>
Example Users	<p>BT plc, BBC, Nationwide Building Society, United Biscuits plc, Marriott Hotels, The Post Office, Thames Water, Nycomed Amersham plc, Kelda Group, CGU, Avon Rubber, Compass Group</p>

Table 2: The Balanced Scorecard – origin and key characteristics

The Design Process

Both tools are characterised by their design processes. Simply put, both processes are designed to allow a management team to identify a limited number of performance measurements that together inform the team about the performance of the organisation for which they are responsible. But significant differences in the ideas about organisational performance that underpin the two approaches have led to significantly different design processes.

The Balanced Scorecard

The best Balanced Scorecard development processes are genuinely abstractive: they aim to create BSC designs that represent clearly and concisely the specific strategic goals selected by an organisation, and document explicitly what activity, in the management team’s view, is required of the organisation for the goals to be achieved. In so doing, good BSC designs also describe the management team’s assumptions concerning “causality” – how and why a set of enabling activities will drive the achievement of strategic results.

This type of design process is required because the Balanced Scorecard itself is not prescriptive about what areas of strategic performance need to be monitored by a management team: Kaplan & Norton’s original ideas about the Balanced Scorecard (1992) simply suggested that, whatever the strategic goals adopted by an organisation, significant benefits arise if progress towards them is monitored across

several measurement dimensions (rather than just through financial measures).

“Since the Balanced Scorecard model is based on a shared comprehensive vision [of the organisation’s strategic goals], it is essential to ascertain at an early stage whether a jointly-held vision in fact exists.”

“It is not enough for someone to put together a collection of measures in a single scorecard. The discussion concerning the scorecard is what determines whether it will have any effect.”

Nils-Göran Olve – Adjunct Professor of Management,
Linköping University

The start of a Balanced Scorecard design process usually begins with some activity to identify the key areas of strategic performance that need to be monitored by the management team – the best design processes use this activity to identify the priority areas of performance required to deliver the unique strategic goals selected by the management team.

This identification of priority areas of strategic performance is usually based around activity to develop initially a strategic “vision” for the organisation, followed by activities to identify the key actions required of the organisation to achieve the vision. This work is most effective when it is accomplished with the participation of the full management team, as this warrants that articulation and identification of goals and actions are based on the combined experience and knowledge of the whole team¹ and their collective view on causality - how and why a set of enabling activities will drive the achievement of strategic results. Involving the whole management team in the design process also ensures consensus, ownership and a common understanding of the goals.

“Most of the insights important for strategy formulation reside in the heads of the operating managers. And although operating managers often are not the best strategists, excluding them from strategy development means excluding their insights as well.”

Marcus Alexander & Andrew Campbell – Directors
Ashridge Strategic Management Centre

It is becoming increasingly common also for the design process to validate the selection of strategic objectives by “mapping” them to the four performance perspectives suggested by Kaplan and Norton in their original work, and linking where appropriate objectives that are “causally linked”.

“Kaplan & Norton’s four boxes are presented as an organizing framework rather than a constraining straightjacket. Nothing prevents companies from adding one or two additional boxes, although part of the power of the Balanced Scorecard comes from its conciseness and the clarity of its presentation; it is thus probably better to try to keep the number of boxes rather small”

Prof. Marc. J. Epstein and Asst. Prof Jean F. Manzoni
European Institute of Business Administration (INSEAD), Paris

The structure of the Balanced Scorecard designs arising from the application of this process is shown in Figure 2.

¹ The best design processes differ from the process proposed by Kaplan & Norton (1996). Kaplan and Norton advocate that the initial activity to identify strategic objectives is based on the input of only a small part of the management team.

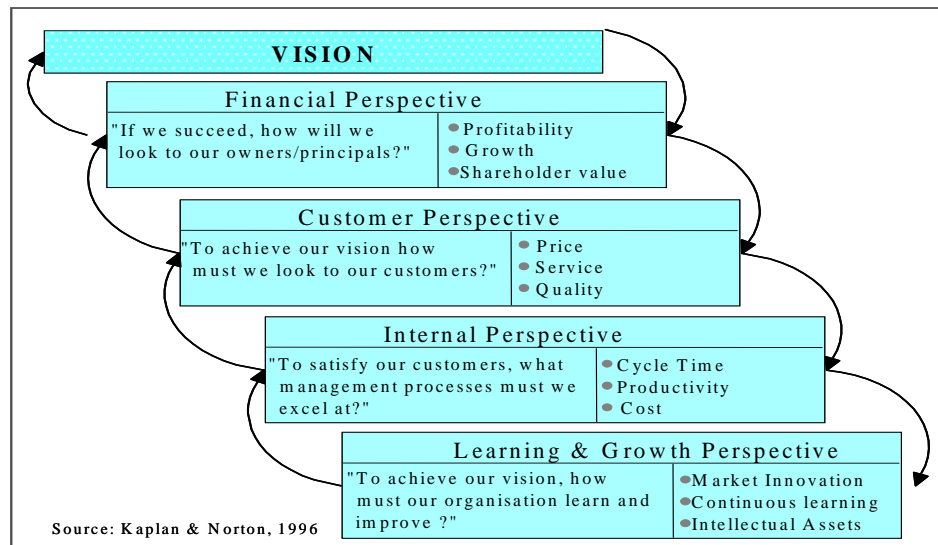


Figure 2 – The four perspectives of the Balanced Scorecard linked to a strategic vision

Business Excellence Model

The roots of the BEM are in the Quality Management world, where standardisation and documentation are of characteristic importance. The design of the BEM is closely defined, and relatively static– based on generic strategic priorities arrived at using what has been called “plausible logic” (John Seddon, 1998).

Although the EFQM states that the BEM is of equal utility across a wide range of industries (from service sector organisations through to public sector bodies) research evidence suggests that it has been most widely adopted within manufacturing industries (e.g. Ölje, Roy & Wetter, 1999). Regardless of where it is applied, it is stipulated by the EFQM and others that the areas of strategic performance that should be monitored by management teams are the same. The relative importance attributed to each of these areas varies according to standard “weights” that are periodically updated by EFQM. The nine strategic areas, and the generic causal links between them are shown graphically in Figure 3.



Figure 3 - "The ® EFQM Excellence Model" – EFQM website: <http://www.efqm.org/welco.htm>

Evaluating the organisation’s processes and performance against a uniform and predetermined set of strategic priorities not only makes the design process easier, but more importantly for the BEM enables the standardised “benchmarking” of results between different organisations, even if they are active in different markets or industries.

Even though the BEM design requires compliance with standard design rules, the EFQM makes it clear, that a number of alternative design approaches exist depending on an organisation’s prior knowledge of the methodology as well as its commitment to the process and level of resource

allocation.

“There is no single right way to perform Self-Assessment... The primary factors that determine the right approach for your organisation are its current culture and the desired outcomes from the Self-Assessment”

EFQM, “Assessing for Excellence: A practical guide” (1999)

EFQM describes five generic design approaches – listed here from the “simplest” (i.e. lowest required resource commitment) to the most complex:

- **The questionnaire approach** – Self-Assessment using standard questions designed to get the organisation started thinking in terms of process improvement. Questionnaires can also be used to facilitate group discussions about improvement opportunities and to inform management workshops.
- **The matrix chart approach** – Self-Assessment using a matrix chart containing a series of statements of achievement representing each of the nine strategically important areas of the model and each assigned a number of points. An organisation’s management team normally designs the matrix based on a group discussion forcing that management team to “articulate their collective vision, and the steps to achieving it in all nine Criteria areas [of the BEM]”.
- **The workshop approach** – Self-Assessment resulting from a “scoring workshop”. After a (self-study) training sequence, and collection of relevant data, the Management group score an organisation’s performance against the 32 sub-criteria, agree initiatives to undertake that will improve the scores in the following year, and agree some kind of ongoing review process to track the execution of the initiatives. The EFQM recommends that two fully trained assessors – one internal and one external assessor - facilitate workshops.
- **The pro-forma approach** – External Assessment supported by consultants: key individuals or groups of people fill in a pre-printed page for each of the 32 sub-criteria. Trained assessors or colleagues from different departments could review the results produce lists of strengths and weaknesses that feed into the development of the BEM “scores” for the organisation.
- **The quality award simulation approach** – External Assessment driven by a simulation of an application for the EFQM European Quality Award. A specially trained internal report writing team drives the process, with the report being assessed and scored either by external assessors. This approach involves a great deal of delegation: EFQM itself thinks the main risks associated with this approach being: less involvement of the management team and the “potential for creative writing, covering up real issues”.

EFQM recommend the first two approaches to beginners as a point of entry in learning about the model and about the potential for change by gradually using the model “in a more rigorous manner”. All of the approaches suggested by EFQM build toward applications for the EFQM’s European Quality Award – even if this award is never actually applied for:

“People seem to understand that applying for a quality award is not the main goal of Self-Assessment. It is much more important to systematically determine a company’s strengths and areas for improvement”

EFQM, “Assessing for Excellence: A practical guide” (1999)

Central to the BEM however is the consistent focus on the structure of model itself (and so the strategic priorities it describes). Indeed in some documentation associated with the model, strict adherence to the design principals of the model appear to be more important than adjusting the model to fully reflect the unique strategic priorities of the organisation using it. e.g.:

“It may be necessary to simplify some of the language used in the EFQM Model or to perhaps include organisation specific examples in the areas to address. This can be done while still retaining the integrity of the EFQM Model and the concepts that underpins it.”

EFQM, “Assessing for Excellence: A practical guide” (1999)

Adoption of generic strategic priorities built around process improvement, particularly when coupled with Benchmark comparisons can be value-adding for many organisations at an operational level. But this focus on standardised “best practice” is generally considered by leading strategic thinkers to be an unreliable route to strategic success (e.g. Porter (1999), Seddon (1998), Russell (1999)).

“...best practice competition creates a self-fulfilling prophecy. Rivals do the same things; offer the same products and the same services. Advantages then cannot be sustained”

Prof. Michael E. Porter - Professor of Business Administration
Harvard Business School

Design Process: Discussion

The key criterion for differentiation between the two processes concerns the extent to which – in the final system design – they attempt to reflect the specific strategic goals of the organisation for which they are being developed.

The BSC assesses performance of selected activities believed to be core contributors to the achievement of specific strategic goals of an organisation. As a result, the best BSC design processes start with the articulation of a shared strategic vision specific to the organisation, and work backwards to define the priority strategic activities and outcomes that need to occur to achieve success.

By contrast, the BEM assesses performance against a standard set of activities against generic “best practice” standards. EFQM’s description of BEM supports the logic and importance of associating the findings produced with an organisation’s strategy to produce prioritised areas for improvement.

BEM encourages organisations to starting the process of selecting strategic priorities to be monitored by a management by evaluating the performance of current processes against previous results (Russell, 1999), and to identify priorities for actions to improve performance based on changes to these current processes.

“The very structure of the model can have the effect of reinforcing this [audit approach and focus on the current], as organisations work from left to right, concentrating on the enablers...”

Steve Russell Lloyds Register Quality Assurance Ltd., Training Services Hiramford

But, importantly, even EFQM recognise that activity outside the scope of the BEM design process will be required to effectively identify the right set of strategic priorities for an organisation to track over time:

“... the process of Self-Assessment does not, of itself, improve the organisation... a key step in the process is to identify the “vital few” [areas of improvement relating to the organisation’s strategy]...”

EFQM, “Assessing for Excellence: A practical guide” (1999)

Design Process: Conclusions

The BSC design process is necessarily more complex than that required for the BEM (as it has additionally to describe and reflect the organisation’s own strategic goals). Further, since the strategic priorities of organisations vary even within industries, the resulting BSC measures selected by the design process can only weakly support “benchmark” comparisons: but they are for the same reason much more likely (compared to the BEM) to provide directly relevant information on an organisation’s strategic performance.

The Management Process

“A lot of companies will get their strategy and build a scorecard. But all you have done is create a picture of the future. Unless it is tied into the management system, nothing will happen.”

David Norton – Co-creator of the Balanced Scorecard concept.

Ultimately, the benefits sought from activities to develop management tools of all descriptions are expressed solely through changes in the work done and decisions made by people working within the organisation. This working paper is focused on comparing the BSC and BEM as tools for the strategic management of an organisation. The key to success in this respect must be the extent to which each tool can be used to drive changes in behaviour within an organisation that are “aligned with” the strategy.

In general, the BEM is not considered to be good at this:

“The EQA model [EFQM BEM] does not formulate strategy, nor does it properly evaluate strategy, rather it evaluates the process of forming strategy...The model is an audit tool of what is already happening: it does not indicate best or preferred practice in and organisational context.”

Rodney McAdam and Edel O’Neill - Ulster Business School, University of Ulster

“Self-Assessment by comparison to the Business Excellence Model is an unreliable method for starting change”

John Seddon – Occupational Psychologist and author e.g. “The Case Against ISO 9000”(1997)

By contrast, in this area the BSC gets much more favourable reviews:

“The fundamental difference lies in that the Balanced Scorecard is designed to communicate and assess strategic performance whereas the Excellence Model [EFQM BEM] and Self-Assessment process focus on encouraging the adoption of good management practice across the operations, processes and activities of the organisation.”

Gaelle Lamotte - Renaissance Worldwide and Geoff Carter - EFQM

“...when only using the EFQM in connection with yearly Self-Assessments our managers are losing the perspective between aims and means. We want to introduce the Balanced Scorecard in order to close this gap and secure management focus on aims and means on a continuous basis”

Mr. E. Igesund, Financial Advisor, Regional Hospital of Tromsø, Norway.

We think the BSC approach is viewed more positively in this respect because BSC designs by necessity must explain uniquely for each organisation its managers’ plans to drive improved performance. Because of this, budgets, strategic plans, incentives and rewards can all be linked meaningfully to a BSC design with a high degree of confidence that the results of each linked activity will be aligned toward the achievement of an organisation’s strategic goals. Further, there are many examples of BSC designs being successfully “cascaded” across complex organisations, with co-ordination of their application being supported by changes in standard management processes.

BEM appears to be less able to form the basis of a management system since BEM designs tend highlight the efficiency of execution by an organisation of generic processes (e.g. new product development, training etc.). Such improvements are in themselves useful, but not necessarily relevant to an organisation’s strategic goals and priorities. This weakness, introduced by the “generic” design required to enable benchmark comparisons, makes BEM less useful as the basis of an organisation specific management tool – unless the organisation’s strategic goals are (coincidentally) aligned with the generic strategic goals embedded in the standard BEM design.

“Operational improvement involves incorporating practices that would be good for any company -doing the same thing as rivals but doing it better. Strategy is the pursuit of a unique way of competing, not because it is the universally best way of competing but because it allows a company to uniquely tailor the activities in its value chain”

Prof. Michael E. Porter - Professor of Business Administration
Harvard Business School

Consequently, organisations use the BEM mainly as a diagnostic tool and have looked for alternative or supplementary systems to link its findings to strategy and business planning.

One approach has been to develop and extend the BEM (for example, as illustrated by Russell’s “outside in” approach). Others have turned to other tools, including the Balanced Scorecard in order to obtain an effective strategic management system.

Using the BSC and BEM in Combination

“EFQM needs Scorecards to: align with the vision, mission and strategy; keep good promises “alive and kicking”; [and] for continuous [management] attention & communication”.

Paul Gemoets, EMEA Customer Satisfaction & Quality Program Manager,
Oracle Corporation

At a recent conference organised by the EFQM, a large UK energy utility described how they are using the two models in combination (see Figure 4 below).

The BEM is being used at two levels:

1. **A passive level** - As a template or checklist for structuring the values, vision and strategy of the organisation based on the 9 criteria of the model
2. **An active level** – providing a yearly “health check” on the company’s performance management and business planning systems identifying potential areas for change to be incorporated into the management and planning systems.

The BSC is used to support two-way communication of strategy and strategic results between the Group Management and the individual businesses. The BSC is used to set the strategic agenda for the monthly management meetings, ensuring management focus on core strategic priorities. Insights from the use of BSC feed back into the business plan and indirectly feed back into the strategy formation process.

Figure 4 also shows how this process works at the utility. In essence, the BSC forms the strategy implementation tool and point of strategic reference necessary to evaluate and prioritise the strategic importance of the change initiatives identified by the findings of the BEM and the BEM is used to evaluate how well the organisation is using the BSC – an efficient approach to both evaluate and improve e.g. Criterion 2 (Strategy and Policy implementation) and Criterion 5 (process development in relation to stakeholder interests) of the BEM.

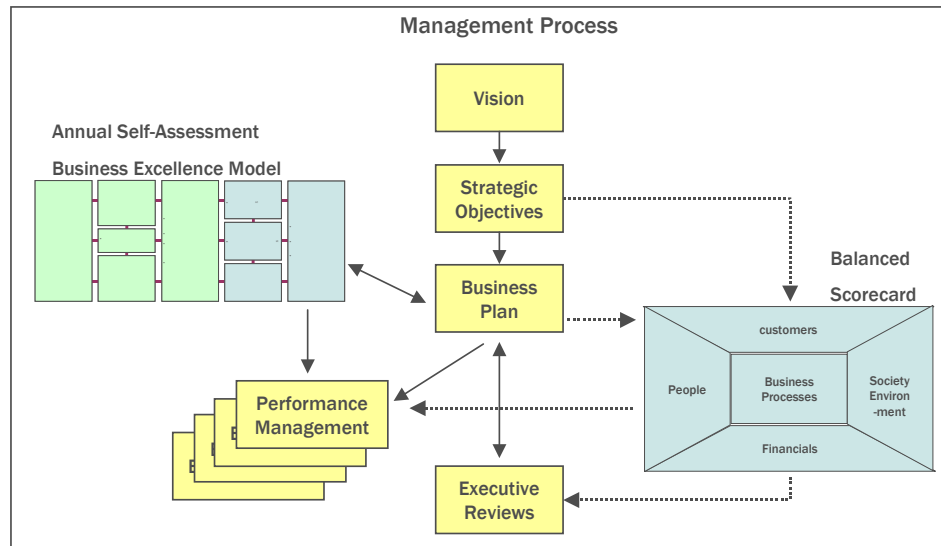


Figure 4 - Business Excellence Assessment & the Scorecard, Presentation to “EFQM Common Interest Day”, 9th December 2000, by John Welch and Peter Revel – Eastern Group

Similar observations about the potential to link BSC and BEM are made by others – e.g.

“[The] key benefits of a scorecard approach are:

- *[that it] builds on the BEM approach;*
- *clarity of strategy;*
- *links strategy to activity;*
- *clear accountabilities for objectives and resources;*
- *performance measures are linked to operational targets at appropriate levels;*
- *action orientated management;*
- *high involvement of stakeholders in policy formation;*
- *focus and discipline; [and]*
- *a balanced picture”*

Alison Painter, Policy Review Manager
Cheshire County Council

By reviewing the wide range of writings published that relate to the relative benefits of the two approaches, we have constructed the following diagnostic table that helps to identify the circumstances when each model might be more applicable. As these circumstances are, by observation, different and not mutually exclusive, this also shows how an organisation might usefully combine the two tools.

PURPOSE	CHOICE OF MODEL
To perform regular “Health checks” of all business processes identifying strengths and weaknesses	The EFQM Excellence Model
To initiate and drive a continuous process improvement programme	The EFQM Excellence Model
To enable external benchmarking of company processes	The EFQM Excellence Model
To develop a “checklist” indicating “Good practice” used for business planning and evaluation	The EFQM Excellence Model
To improve understanding of cause and effect aimed at informed and improved management decisions and actions	The Balanced Scorecard
To align operational activities with strategic priorities, based on vision/mission statement	The Balanced Scorecard
To Prioritise strategic initiatives	The Balanced Scorecard
To facilitate two-way communication of strategy and strategic issues across large organisations	The Balanced Scorecard
To focus management agenda more on future strategic issues than on historic financial issues	The Balanced Scorecard

Table 3 - Choosing the most appropriate tool for the task at hand

Conclusions

In spite of sharing a number of apparent similarities, the Balanced Scorecard (BSC) and the EFQM Business Excellence Model (BEM) are based on fundamentally different concepts about how best to improve the performance of an organisation.

The BSC favours a clear focus on the specific strategies adopted by an organisation, providing a robust tool onto which other management processes can be built – at the expense of a more complex design processes: the BSC is based on a dynamic and individual abstraction rooted in explicit cause and effect relationships.

The BEM is based on a static design derived using “plausible logic” and contains a standard set of strategic objectives applied to all organisations using BEM equally – and only implicit representations of the “generic” cause and effect relationships that link the strategic objectives together. But the use of this standard model facilitates the use of a much simpler design process, and the “benchmark” comparison of BEM outputs between the entire universe of organisations using the tool.

Both models seem to have strengths and weaknesses depending on the purpose for which they are being used. This working paper has considered specifically their utility in connection with strategic performance management, and has observed fundamental differences that create a considerable disparity between the models.

While the design of the BSC supports its usage as a strategic management tool, the BEM’s original design as a diagnostic tool raises serious doubts about its effectiveness as a strategic management tool. Some proposals have been made concerning ways to adapt BEM to be more useful in this respect (e.g. in a paper “From outside in or inside out?” by Steve Russell): but even these cannot get around the fundamental shortfall of the BEM – its lack of explicit strategic relevance to the organisation using it. Current the BSC is clearly the better and more appropriate tool.

Sources of additional information:

About the Balanced Scorecard

There is relatively little useful information on Balanced Scorecard on the world-wide-web. The original article, **“Putting the Balanced Scorecard to Work”** by Kaplan & Norton (*Harvard Business Review*, Sept. – Oct. 1992) is now showing its age but is still worth reading. Two better, and more recent publications that summarise how thinking on the idea has developed, and give practical insights gained from recent case studies are: **“The balanced scorecard: Not just another fad”** by Hanson, J and Towle, G., *Credit Union Executive Journal*, Jan/Feb 2000, Issue 1, pp. 12 – 16, and **“Performance Drivers – A practical guide to using the Balanced Scorecard”** by Ölve, N., Roy, J. and Wetter, M. *John Wiley and Sons*, 1999.

About the Business Excellence Model

The EFQM web site: <http://www.efqm.org> contains a wealth of documentation about the Business Excellence Model, including lists of training and consulting organisations that specialise in supporting its development. Two recent articles are also worth reading: **“Are the Balanced Scorecard and the EFQM Excellence Model mutually exclusive or do they work together to bring added value to a company?”** by Lamotte, G. and Carter, G. *EFQM*, 1999, and **“Taking a critical perspective to the European Business Excellence Model using a balanced scorecard approach: a case study in the service sector”** by McAdam, R. and O’Neil E. in *Managing Service Quality*, Vol. 9, No. 3, pp. 191 – 197 (1999).

References

BalancedScorecard.com website: <http://www.balancedscorecard.com/index.asp> N.B. Since this paper was written, the web site www.balancedscorecard.com has changed ownership and no longer provides access to this document. Copies of the document referred to can be obtained directly from 2GC at the address provided at the end of this paper.

Campbell, A.; Alexander, M. (1997) **“What's wrong with strategy?”**, *Harvard Business Review*, Volume 75, Issue 6, Nov/Dec, pp. 42-50

EFQM website: <http://www.efqm.org/welco.htm>

EFQM, (1999). **“Assessing for Excellence: A Practical Guide for Self-Assessment”**, *EFQM Brussels Representative Office, Brussels*

Epstein, M. J. and Manzoni, J. F. (1997). **“The Balanced Scorecard & Tableau de Bord: A Global Perspective on Translating Strategy into Action”**, *INSEAD Working Paper 97/63/AC/SM*

Hodgetts, R.M., **“A conversation with Michael E. Porter: A significant extension toward operational improvement and positioning”**, *Organizational Dynamics*; Volume 28, Issue 1; Summer 1999; pp. 24-33

Kaplan, R. and Norton, D. (1996). **“The Balanced Scorecard: Translating strategy into action”**, *Harvard Business School Press, Boston*

Kaplan, R. and Norton, D. (1992). **“Putting the Balanced Scorecard to Work”**, *Harvard Business Review*, Sept. – Oct.

Lamotte, G. and Carter, G. (1999). **“Are the Renaissance Balanced Scorecard and the EFQM Excellence Model mutually exclusive or do they work together to bring added value to a company?”**, *Final Draft, Pre publication version, Released exclusively for the EFQM Common Interest Day; December 9*

McAdam, R. and O’Neil E. (1999). **“Taking a critical perspective to the European Business Excellence Model using a balanced scorecard approach: a case study in the service sector”**, *Managing Service Quality*, Vol. 9, No. 3, pp. 191 – 197

Porter, L; Oakland, J. and Gadd, K. (1998). **“Unlocking business performance with self assessment”**,

Management Accounting, Volume 76, Issue 8, pp. 35 – 37

Russell, S. (1999). **“Business Excellence: From outside in or inside out?”**, *Total Quality Management, Volume 10, Issue 4/5, pp. 697 – 703*

Seddon, J. (1999). **“The business excellence model: Will it deliver?”**, *Management Services, Volume 43, Issue 10, start page 8*

Additional reading on related theory & processes

Argyris, C. (1977). **“Double Loop Learning in Organizations”**, *Harvard Business Review, 55 (5), pp 115 – 125*

Argyris, C. (1991). **“Teaching Smart People How to Learn”**, *Harvard Business Review, May – June, pp 99 – 109*

Barsky, N.P and Bremser W.G. (1999) **“Performance Measurement, Budgeting and Strategic Implementation in the Multinational Enterprise”**, *Managerial Finance, Vol. 25, No. 2, pp. 3 – 16*

Burke, W.W. and Litwin, G. A. (1992). **“A Causal Model of Organisational Performance and Change”**, *Journal of Management, 18 #*

Huckestein, D. and Duboff, R. **“Hilton Hotels”**, *Cornell Hotel and Restaurant Administration Quarterly, August 99, Vol. 40, Issue 4, 1999, pp. 28 – 383*

Lingle, J.H; Schiemann, W.A. (1996) **“From balanced scorecard to strategic gauges: Is measurement worth it?”**, *Management Review, Volume 85, Issue 3; Mar, p. 56*

Mintzberg, H. (1990). **“The Design School: Reconsidering the Basic Premises of Strategic Management”**, *Strategic Management Journal, Vol. 11, pp. 171 – 195*

Mintzberg, H. (1994). **“The rise and fall of strategic planning”**, *Prentice Hall, Hemel Hempstead*

Picken, J. C. and Dess, G. G. (1997). **“Out of (Strategic) Control”**, *American Management Association, Organisational Dynamics, Volume 26, number 1, pp 35 – 48*

Senge, P. (1990). **“The Fifth Discipline”**, Doubleday Currency, New York,

Simons, R. (1995). **“Levers of Control: How Managers Use Innovative Control Systems”**, *Harvard Business School Press, Boston*

Simons, R. L., (1992). **“The Strategy of Control”**, *CA Magazine; Volume 125, Issue 3; Mar; p. 44*

Tushman, M.L. and P. Anderson (1986). **“Technological Discontinuities and Organizational Environments”**, *Administrative Science Quarterly, Vol. 31, pp. 439-465*

About 2GC

2GC is a research led consultancy expert in addressing the strategic control and performance management issues faced by organisations in today's era of rapid change and intense competition. Central to much of 2GC's work is the application of the widely acknowledged 3rd Generation Balanced Scorecard approach to strategic implementation, strategy management and performance measurement.

2GC Active Management
Albany House
Market Street
Maidenhead, Berkshire
SL6 8BE, UK

tel +44 (0) 1628 421506
fax +44 (0) 1628 421 507
email: Info@2GC.co.uk
web site: <http://www.2gc.co.uk/>