



Scorecarding Goes Global

**COMPANIES AROUND THE WORLD ARE DERIVING BENEFITS FROM
PERFORMANCE MANAGEMENT TOOLS.**

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Although scorecarding systems have been around for quite some time, their popularity and use have increased considerably since Robert Kaplan and David Norton introduced the balanced scorecard in 1992. While perhaps initially viewed as a North American performance management tool, the balanced scorecard and other scorecarding systems are now used around the world.

Table 1: Survey Respondents Using Scorecard Systems By Region

Region	Use Scorecarding System	Total Responses	Percentage Using Scorecarding Systems
Africa (primarily South Africa)	13	19	68%
Asia (including the Middle East)	31	62	50%
Europe	53	137	39%
U.S. and Canada (“North America”)	74	135	55%
South and Central America (“South America”)	22	28	79%
Total	193	382*	51%

*Total responses include one response that did not indicate country of origin.

The increasingly global scope of scorecarding raises interesting questions and issues. Do the reasons organizations adopt scorecarding systems vary by region? Are companies looking for—and receiving—the same benefits? Is the effectiveness of these systems the same worldwide? While Kaplan and Norton say that they haven’t encountered any cultural barriers to implementing the scorecard, we know of no study that has validated this idea empirically. Cultural differences, while not a barrier, may significantly affect the reason these systems are employed and how they are designed and implemented. The increasingly global nature of business underscores the importance of understanding the impact of regional differences on performance management techniques, particularly scorecards. Here we explore the benefits of scorecarding systems and the perceived similarities and differences of these benefits to organizations around the world.

AN INTERNATIONAL STUDY

To explore issues such as those just mentioned, we are conducting an international online survey that is examining, among other things, the adoption and use of scorecarding systems. Available on the Web in eight languages, the survey is sponsored by the Institute of Management Accountants (IMA®) and other professional and consulting organizations from around the world (American Institute of Certified Public Accountants (AICPA), Balanced Scorecard Netherlands, CAM-I, Society of Management Accountants of Canada (CMA Canada), Chartered Institute of Management Accountants (CIMA), CompetitiveScotland.com, Deloitte Germany, Hyperion Solutions, Van der Leer, and Yacsa.com).

So far we have received 382 usable responses—from entire organizations or from subunits such as divisions or subsidiaries—from 44 countries. Of these, 193 respon-

dents have indicated that they use a scorecarding system. Although we asked survey respondents to use their own definition of a scorecarding system (we didn’t provide one), most agreed that such a system should include these attributes:

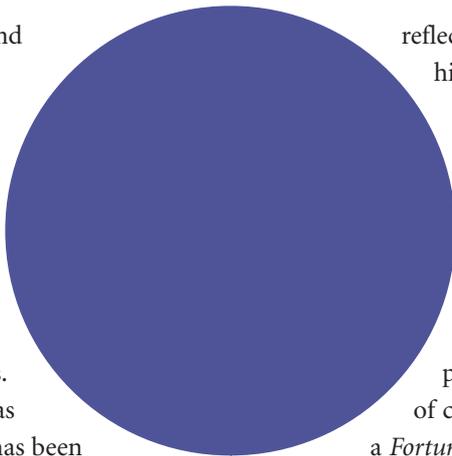
- ◆ Key performance indicator (KPI)/measure reports (84%),
- ◆ Actions and objectives that are supported by measures or KPIs (83%),
- ◆ Scorecards for different levels of the organization (74%),
- ◆ Many types of performance measures (74%),
- ◆ The ability to graph performance measures over time (73%),
- ◆ The ability to communicate vision and strategy to an organization’s employees (72%),
- ◆ Accountability for actions/initiatives (72%),
- ◆ Feedback on objectives, actions/initiatives, and performance measures (68%),
- ◆ Cause-and-effect maps linking strategic objectives to actions (67%), and
- ◆ The ability to link the reward system to the targets and results (67%).

In analyzing the preliminary survey responses, we classified respondents into the five groups shown in Table 1.

More than half the respondents use scorecarding systems, with the highest usage rate among South American respondents and the lowest rate among European respondents. While this finding is interesting, these regional variations may be due to differences in the methods our various sponsors used to solicit survey participation (including e-mail blasts, newsletters, and website solicitations), so the differences in usage rate by region need to be interpreted carefully.

We can, however, make a valid comparison between the percentage of North American organizations in this

survey that use scorecarding systems and the percentage using these systems as reported in our previous North American survey, which we conducted from 2002 to 2003. Many of the results were published in a series of seven articles in *CMA Management*, starting with the June/July 2003 issue. In our prior survey, 46% of the respondents used scorecarding systems. Now, two years later, this percentage has increased to 55%, which means there has been a significant increase in the use of scorecarding systems by North American organizations. This increase in usage is consistent with the prediction from our previous study.



reflect the different cultural and economic histories and conditions of these regions. For example, the historic high rate of inflation in many South American countries may contribute to the low ranking of budgeting as a cost management tool in that region.

Several respondents described the clear link between scorecarding and performance measurement. The director of corporate planning and performance of a *Fortune* 50 global telecommunications company credits their scorecarding system with providing a “consistent way of looking at performance trends between key business units and functional areas.” A business analyst at a \$24 billion financial services firm says that their scorecarding system ties in nicely with the performance measurement system: “Top-level managers [are] graded on results and have a vested interest in understanding the drivers of the metrics and influencing their outcome. This has resulted in significant cost savings and overall performance improvements.”

SCORECARDING’S VALUE

Scorecarding is one of many cost management tools and techniques available to management that provide information useful for making strategic and operational-control decisions. What is the perceived value of scorecard systems vs. tools such as strategic planning, budgeting, target costing, or economic profit? Are there regional differences in value?

We gave survey respondents a list of 21 cost management tools and asked them to give the value of each as a driver of vision achievement. The top-four-ranked tools on a worldwide basis were, in order of value, performance measurement, strategic planning, scorecarding, and budgeting. Table 2 gives the ranking of each of these tools by region.

Scorecarding systems are the top-ranked cost management tool in South America and are among the top-rated tools worldwide. (The top-ranked tool in Africa is strategic alliances.) The low rank of budgeting in South America as opposed to the rest of the world and the high rank of strategic alliances for the African respondents may

Scorecarding also enhances strategic planning. According to the vice president of strategic services at a top telecommunications company, “It is much easier to allocate human and capital resources and share these resources across the organization now that everyone actually sees how this positively impacts the organization as a whole.” At a Korean apparel manufacturer, “Employees began to talk about the business strategy.”

Many companies cite their scorecarding system as a key driver of cost control. At a U.K.-based automotive supplier, “Overall equipment efficiencies increased by 5%.” In many cases, scorecarding can enhance both cost control and strategic decision making. An Atlanta-based contract packaging company “increased productivity enough to allow us to pass on 10% cost reductions to our customers.”

Table 2: Ranking of Cost Management Tools By Region

COST MANAGEMENT TOOL	REGION				
	Africa	Asia/Pacific	Europe	North America	South America
Performance Measurement	3	1	2	1	3
Strategic Planning	2	4	1	2	2
Scorecarding	6	3	3 (tie)	3	1
Budgeting	5	2	3 (tie)	4	12

Table 3: Level of Agreement with the Statement That the Scorecarding System Has Yielded Significant Benefits to the Organization

	Africa	Asia/Pacific	Europe	North America	South America	All Respondents	Prior North American Survey
Strongly Agree/Agree	22%	28%	20%	42%	63%	35%	40%
Somewhat Agree	56%	27%	32%	21%	21%	27%	27%
Neither Agree nor Disagree	22%	27%	43%	27%	16%	30%	n/a*
Somewhat Disagree/Disagree/Strongly Disagree	0%	19%	5%	10%	0%	7%	33%

*Responses to most questions in the current survey were provided on a seven-point scale ranging from “strongly agree” to “strongly disagree.” Responses in our prior survey were provided on a five-point scale, with “neither agree nor disagree” and “somewhat disagree” not included.

SCORECARDING’S BENEFITS

As indicated in Table 2, scorecarding systems are perceived to be of significant value in most regions. Do the increased use and value of scorecarding systems mean that this is an effective performance management tool? Nearly two-thirds of our survey respondents that have scorecarding systems indicated that they agreed—at least to some extent—that their system had yielded significant benefits to their organization (see Table 3). This finding is very similar to the results of our prior survey, but a larger portion of the respondents now *strongly* agree with this statement.

Looking at regional differences, we see that South American organizations are the most likely to report benefits from their scorecarding systems, while European and Asia/Pacific companies are the least likely to report such benefits.

Among North American organizations there has been a slight decline in the percentage reporting significant benefits. One possible reason is that a greater percentage of these organizations are new to scorecarding and haven’t had time to realize benefits from these systems (37% of the North American respondents have been using their scorecarding system for one year or less, as compared to 22% in our original survey). Our data indicates a strong positive relationship between the length of time that an organization uses a scorecarding system and the likelihood of it realizing significant benefits from the system.

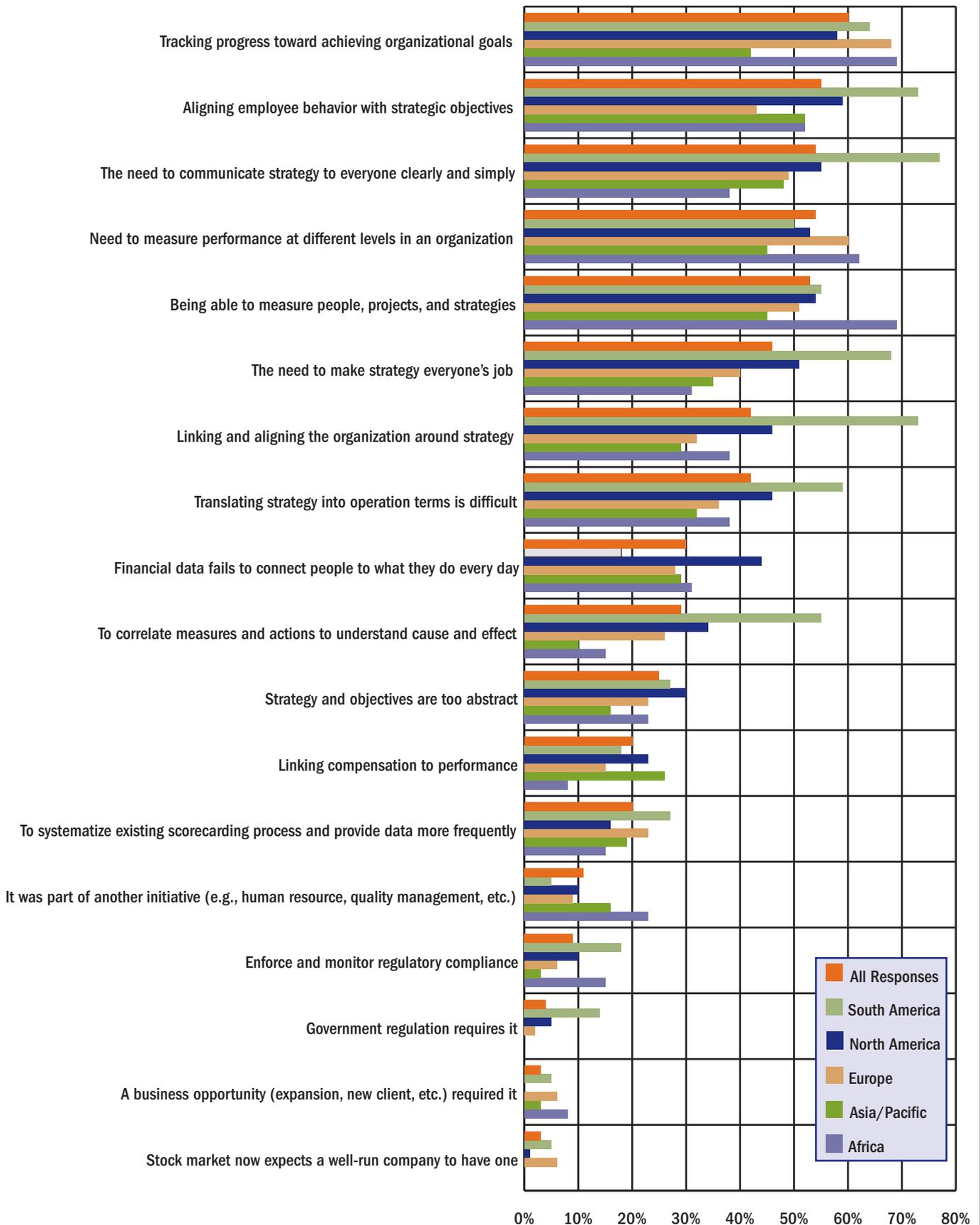
WHY IMPLEMENT A SCORECARDING SYSTEM?

The benefits of scorecarding systems are most often described in the literature as arising from their use as a strategic tool—focusing on the alignment of key management processes and systems to an organization’s strategy. But the results of our survey indicate that scorecarding

systems are being used for both tactical and strategic purposes. The five reasons cited most often for implementing a scorecard system—in order of frequency—are the need to track progress toward achieving organizational goals, the need to align employee behavior with an organization’s strategic objectives, the need to communicate strategy to everyone in a clear and simple manner, the need to measure performance at different levels in an organization, and the ability to measure people, projects, and strategies (see Figure 1). Thus the most frequently cited reason for implementing scorecarding systems could be considered tactical, depending on what the organizational goals are, while the next two most frequently cited reasons are strategic, followed by two more tactical reasons. Among North American organizations, the top three reasons remained the same as in our prior study (although in a different order of priority: tracking progress toward achievement of organizational goals, aligning employee behavior with strategic objectives, and the need to communicate strategy to everyone). Regardless of the area of the world in which an organization is located, it’s important that the company implement a scorecarding system for the right reasons. Prime among these is the use of scorecards to link employees’ actions to the strategic objectives of the organization. As reported in our North American study, organizations that fail to give explicit attention to these right reasons are less likely to achieve potential benefits from their scorecarding systems.

Regional variations in the importance of the reasons for implementation can be seen in Figure 1, and they confirm the importance of implementing scorecarding systems for the right reasons. For each region in our study, the top five reasons for implementing scorecarding systems were the same (although in a different order),

Figure 1: Reasons for Scorecarding System Implementation



except for companies in South America. There, linking and aligning the organization around strategy and the need to make strategy everyone's job made the "top five" list, but the two tactical reasons didn't. This difference very likely is the reason for the exceptionally large percentage of South American respondents who reported that they strongly agreed that their scorecarding system had delivered significant benefits to their organizations.

Several reasons given for implementing scorecarding systems are associated with the extent to which organizations report benefits from their scorecarding efforts. One of these is "aligning employee behavior with strategic objectives." The lower-than-average importance of this reason for implementation in European companies helps explain the below-average percentage of these organizations that strongly agree that benefits have been realized from their scorecarding system.

Organizations that cite "linking and aligning (and realigning) the organization around strategy" as a reason for implementing a scorecarding system are much more likely to strongly agree that their scorecarding system has generated significant benefits. The results previously cited are consistent with this idea: Asian and European organizations are least likely to cite this as a reason for scorecard system implementation and also least likely to report significant benefits from them.

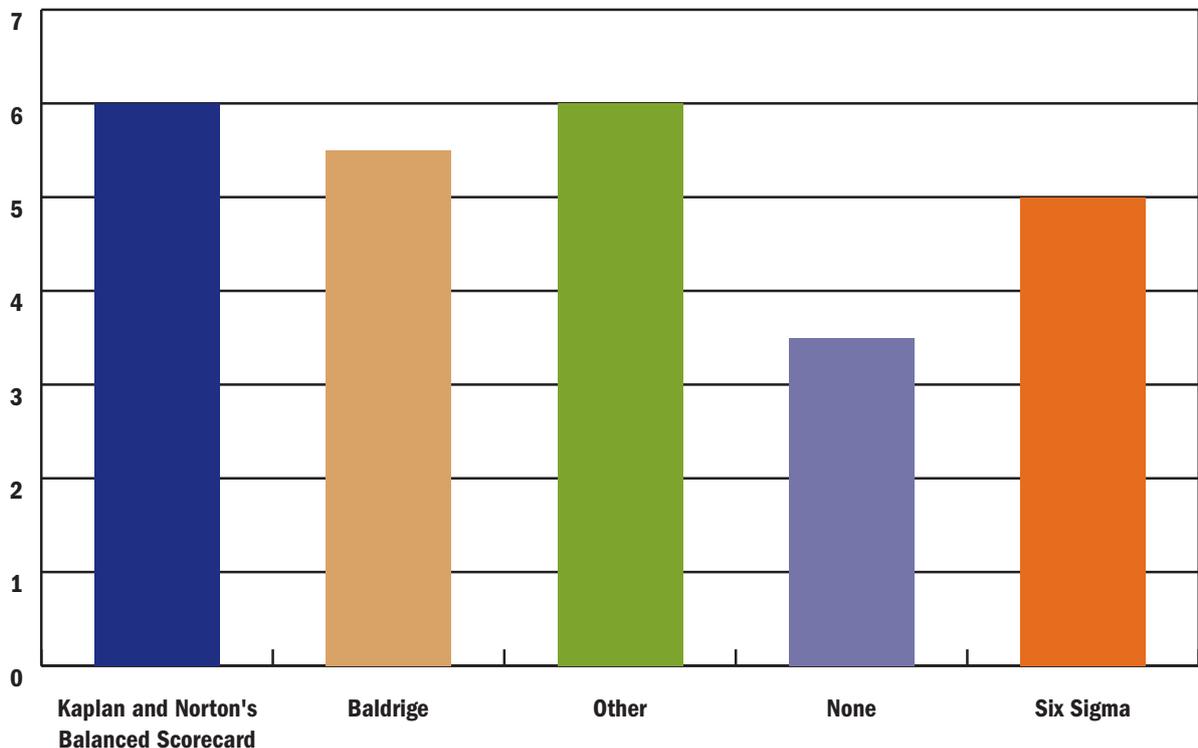
"Power distance" is a concept that deals with the relationship between supervisors and subordinates. In countries with high power distance, employees feel less comfortable approaching or contradicting their supervisors. The countries of the Far East are noted for the presence of greater power distance than many other areas of the world. This may contribute to our finding that Asian respondents are the least likely to cite the need to communicate strategy as a reason for implementing scorecarding systems.

TYPES OF BENEFITS

Organizations can achieve a variety of benefits from implementing a scorecarding system. Most often, the benefits achieved are "soft," but sometimes they are measurable. Benefits can include:

- ◆ Increased organizational alignment,
- ◆ Increased revenues,
- ◆ Decreased cost,
- ◆ Increased communication,
- ◆ The ability to measure performance,
- ◆ The ability to link performance to compensation,
- ◆ Understanding measure and strategy cause and effect,
- ◆ The ability to align employee behavior with strategy, and
- ◆ The ability to make strategic decisions faster with better data.

Figure 2: Average Benefits By Perspectives



Survey participants' most frequently reported benefit was the ability to measure performance (46%). This was followed by increased communication (45%) and increased organizational alignment (42%). Companies that strongly agree they have realized significant benefits from their scorecarding system most often cite increased organizational alignment (95%), increased communication (86%), and increased ability to measure performance (81%) as benefits achieved.

Compared to companies in other regions, South American organizations were more likely to report increased organizational alignment (82%), increased communication (77%), and understanding measure and strategy cause and effect (64%) as benefits from scorecarding. All of these are related to the strategic focus of an organization and help explain the greater benefits achieved by organizations from this region.

SCORECARD PERSPECTIVES

We can gain additional insight into the benefits derived from implementing scorecard systems by examining the perspectives a company uses as an organizing framework for its scorecard measures.

Overall, 62% of the survey respondents use the balanced scorecard framework (using financial, customer, internal process, and learning and growth perspectives), 7% use the Baldrige criteria (leadership, strategic planning, customer, information and analysis, human resource focus, process management, business results), 7% use their own framework, and 10% use some other framework (Six Sigma, economic profit, Accenture's Value Dynamics, or other). Did the framework chosen capture the focus of the organization's strategy and provide a balanced set of metrics? Overall the answer is "yes," according to our study results.

We asked survey respondents how much they agreed with the statement that they had achieved significant benefits from their scorecarding system. Then we computed their average response (where 7 represented "strongly agree" and 1 "strongly disagree") using each framework. As shown in Figure 2, the average level of agreement was fairly similar for each framework, with the possible exception of the Six Sigma criteria, whose average of 5.0 ("somewhat agree") was below that of the other frameworks. This finding indicates that what's important in designing a scorecarding system is that the

framework employed by an organization reflects its strategic business model and provides balance to its performance measures. The pursuit of improved quality isn't enough: The process improvements need to be linked to the organization's overall strategy.

CONSIDER THE DIFFERENCES

Scorecarding systems can be an important tool in managing an organization's performance. Preliminary analysis of our survey responses indicates that use of these systems is increasing and has become international in scope. There are many similarities across regions regarding various attributes of scorecarding systems, including their value and the benefits achieved. There are also substantial differences between regions for some of these factors, especially the reasons for implementing scorecarding systems. This is an important difference because the reason for implementation can affect the design and the implementation of these systems. Companies should consider these differences and their impact on implementation to help ensure that they achieve the full potential of their scorecarding systems. ■

Note: The online scorecarding study on which this article is based is open to participants worldwide. Interested readers are invited to participate by going to www.graziadio.pepperdine.edu/shaps.

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Scorecards are a topic at IMA's Annual Conference June 17-21. Visit www.imaconference.org for details.