



Aalto-yliopisto
Kauppakorkeakoulu

BALANCED SCORECARD

Prof. Teemu Malmi

AGENDA

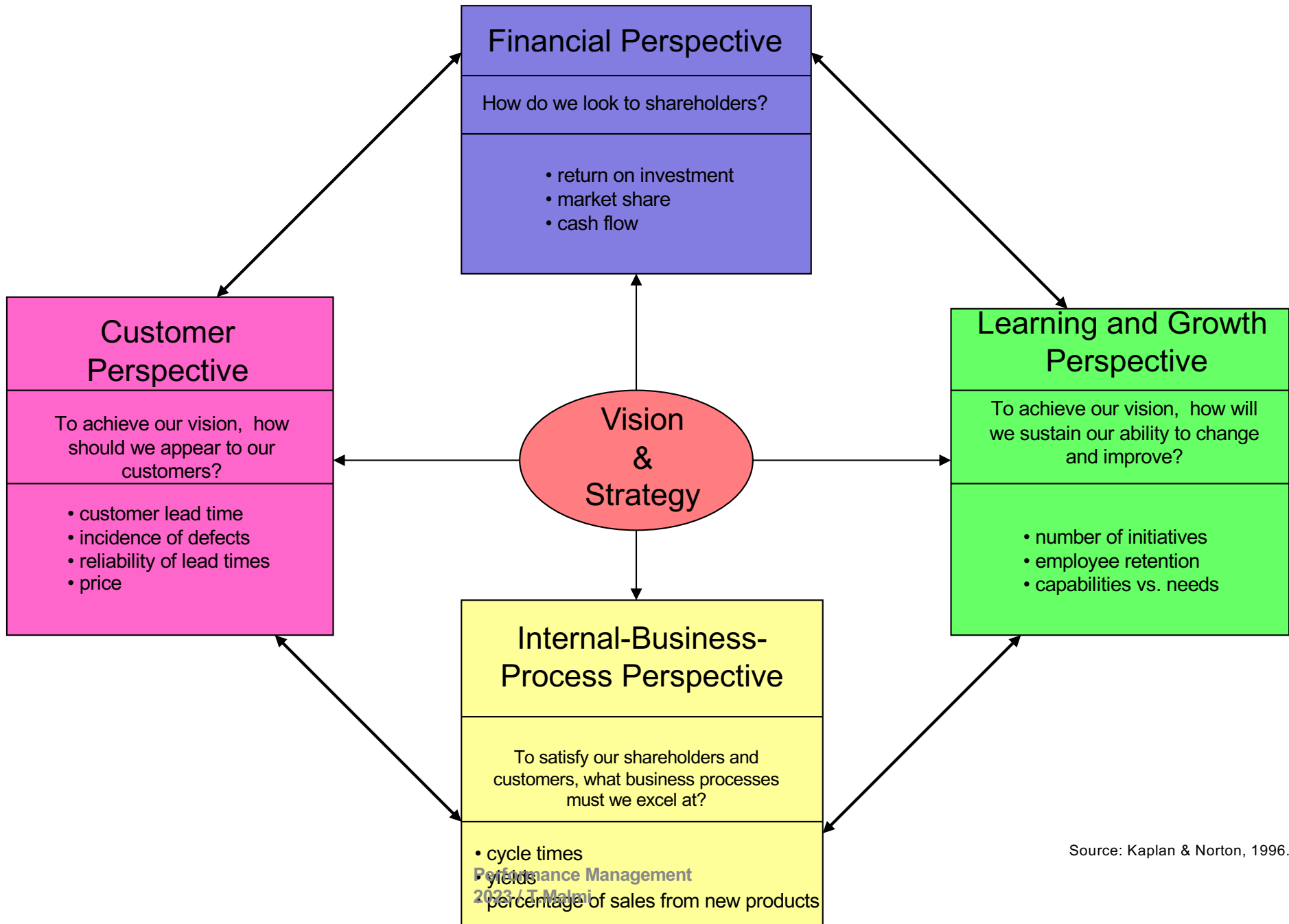
- What are the uses of measurement systems? - Different types of Scorecards
- What are the design implications of different uses?
- Strategy as a basis for performance management systems
- How to derive measures from strategy – strategy maps
- How to link measures in different levels of organizational hierarchy
- How to use scorecards as part of management system
- How value drivers link to BSC?

INTEGRATED PERFORMANCE MANAGEMENT FRAMEWORKS

- Balanced Scorecard
 - Performance Pyramid
 - Tableau du Bord
 - Etc.
-
- The idea is to build a performance management system based on vision and strategy in order to translate strategy into action

BSC DEVELOPMENT PATH

- First BSC: Analog Micro Devices 1988
- In 1990 development project involving 12 major US based corporations
- First Harvard Business Review article in 1992
- In 1996, BSC was introduced as a strategic management system
- In 2000 strategy maps to clarify strategy and to support measurement selection
- Bain global survey 2015: 38 % of (large) firms use BSC, average satisfaction 3,9 / 5
- Path from measurement tool to a part of management system; from measurement problems to the problem of implementing strategy, and to the clarification of strategy



Source: Kaplan & Norton, 1996.

THREE TYPES OF SCORECARDS

- Scorecards have been used for different purposes!
- Key Performance Indicator (KPI) Scorecards
 - Management must have a multitude of measures to evaluate current performance => If measures alert, corrective actions can be taken
- Strategy Scorecards
 - The aim is to guide organization to achieve (strategic) objectives and goals => Is based on the logic: what you measure is what you get
- Stakeholder Scorecards

AGENDA

- What are the uses of measurement systems? - Different types of Scorecards
- **What are the design implications of different uses?**
- Strategy as a basis for performance management systems
- How to derive measures from strategy – strategy maps
- How to link measures in different levels of organizational hierarchy
- How to use scorecards as part of management system
- How value drivers link to BSC?

WOULD THE CONTENT OF A SCORECARD BE THE SAME INDEPENDENT OF THE SELECTED APPROACH TO MEASUREMENT?

- Number of measures?
- Nature of measures?

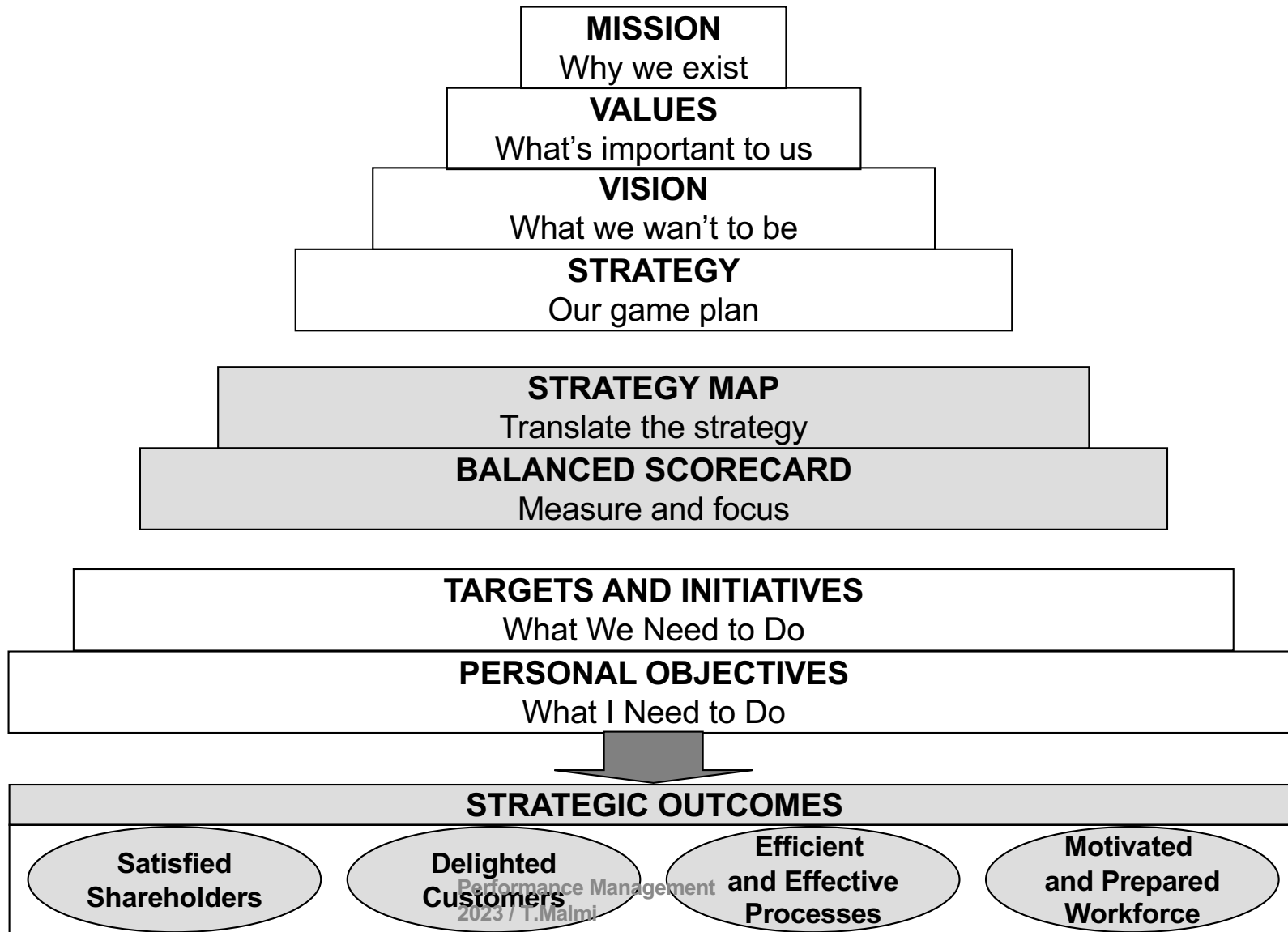
AGENDA

- What are the uses of measurement systems? - Different types of Scorecards
 - What are the design implications of different uses?
 - **Strategy as a basis for performance management systems**
 - How to derive measures from strategy – strategy maps
 - How to link measures in different levels of organizational hierarchy
 - How to use scorecards as part of management system
 - How value drivers link to BSC?
-

FEW WORDS ABOUT STRATEGY

- What is strategy?
- Corporate, business and functional strategies
- Strategy definitions in accounting research
- How do we create a good business strategy / where do good business strategies come from?
- Content of a good strategy statement:
 - Objective
 - Scope
 - Advantage
 - Value proposition
 - Internal organization





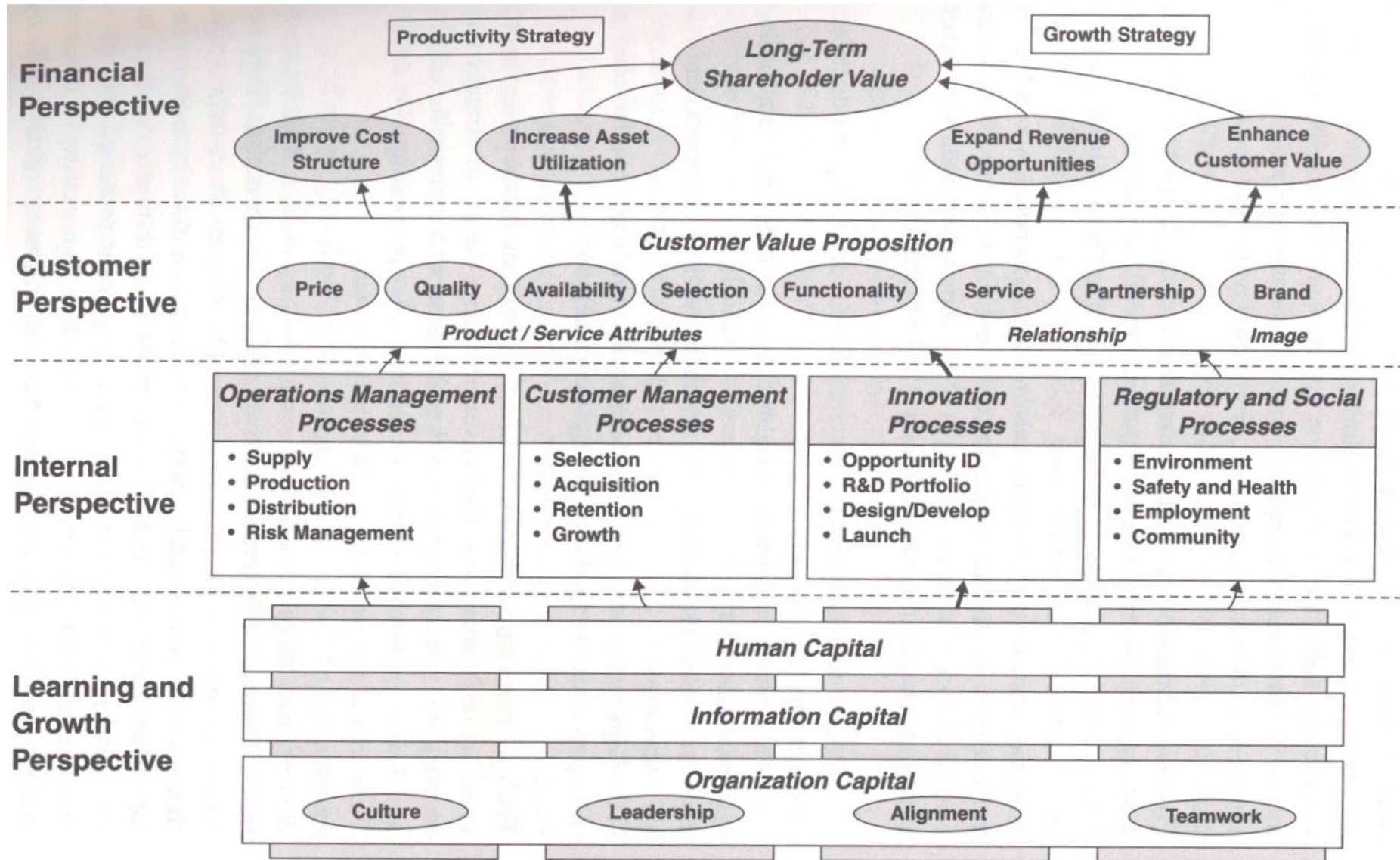
AGENDA

- What are the uses of measurement systems? - Different types of Scorecards
- What are the design implications of different uses?
- Strategy as a basis for performance management systems
- **How to derive measures from strategy – strategy maps**
- How to link measures in different levels of organizational hierarchy
- How to use scorecards as part of management system
- How value drivers link to BSC?

STRATEGY MAPS

- Strategy Maps were originally created to derive BSC measures
- There are many definitions and versions of strategy maps around
- Concepts of leading and lagging indicators
- It is a simplification, providing focus
- Similar logic can be applied in every level in an organization

Generic Strategy Map



HOW TO COME UP WITH A STRATEGY MAP

- Vision or strategic objectives provide starting point
- Strategic choices, emphasis, themes, value propositions and/or projects aimed for achieving strategic objectives provide next layer
- Business strategy, not all sub-strategies
- Use cause-and-effect logic, top-down
- Not by drawing arrows between measures ex post

CAUSE-AND-EFFECT RELATIONSHIPS

“A Strategy is a set of hypothesis about the cause and effect”

Kaplan & Norton, 1996

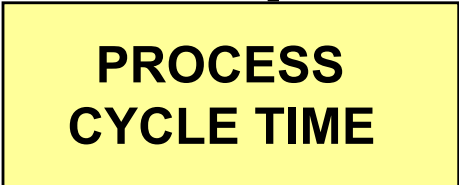
FINANCIAL



CUSTOMER



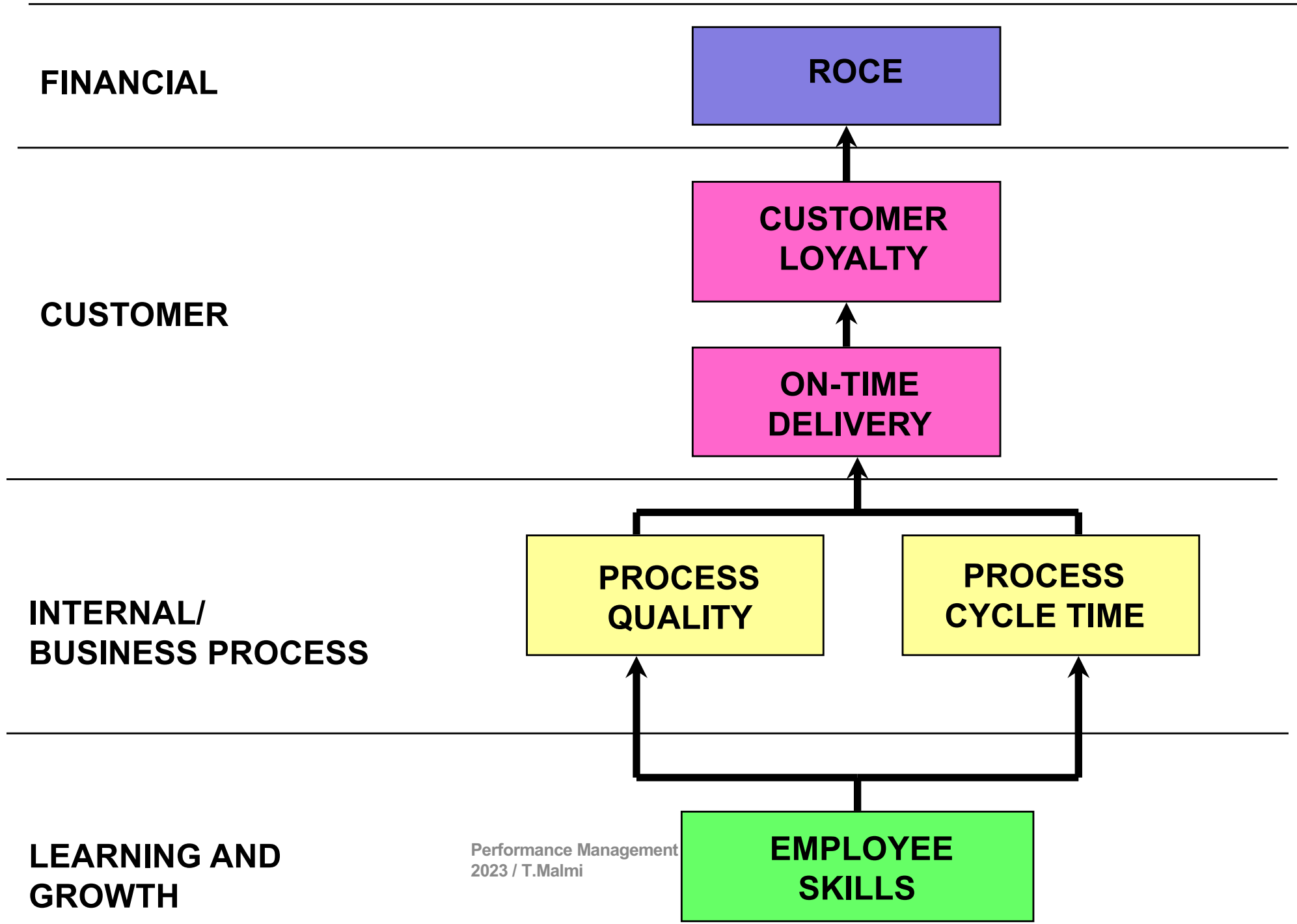
**INTERNAL/
BUSINESS PROCESS**



**LEARNING AND
GROWTH**

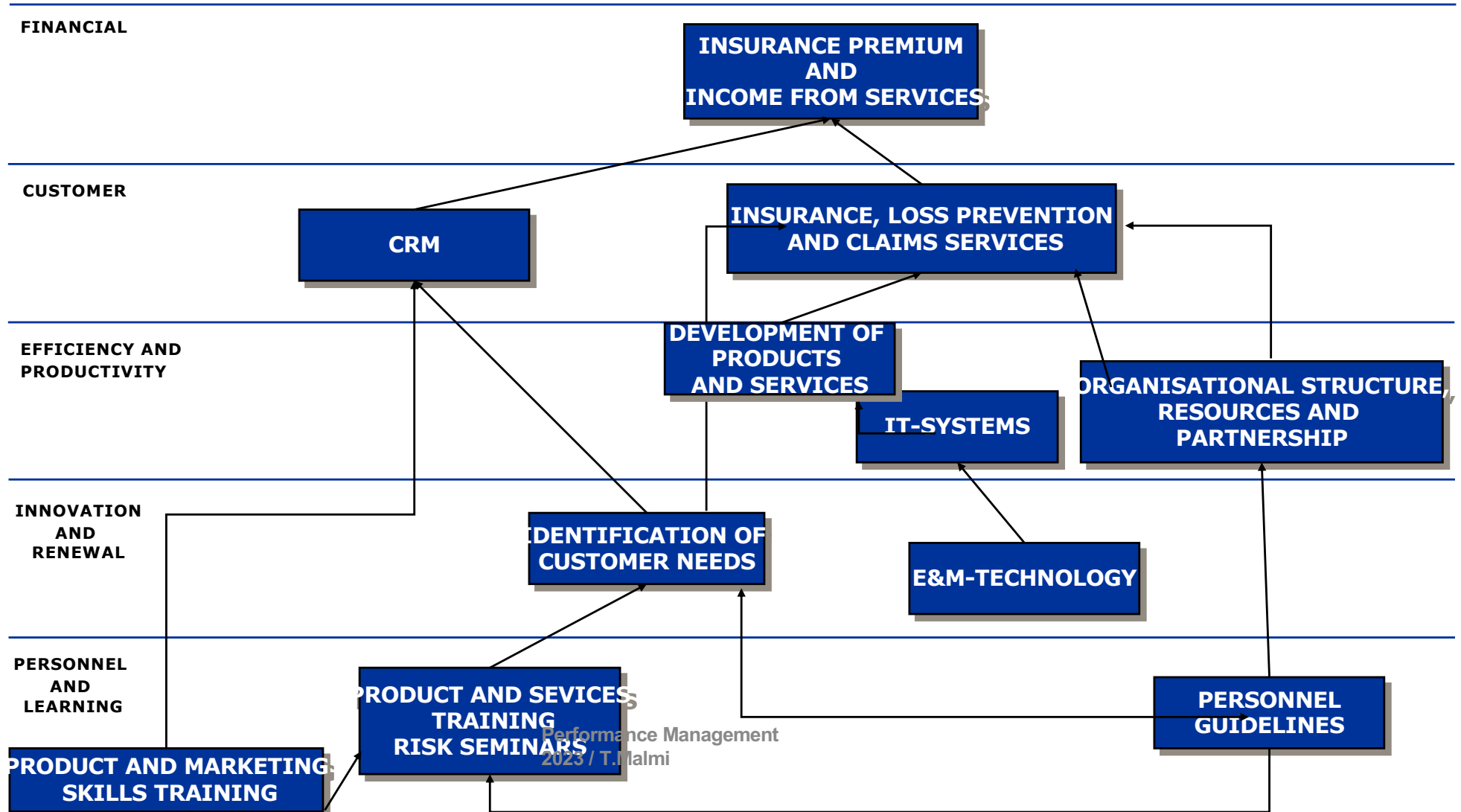


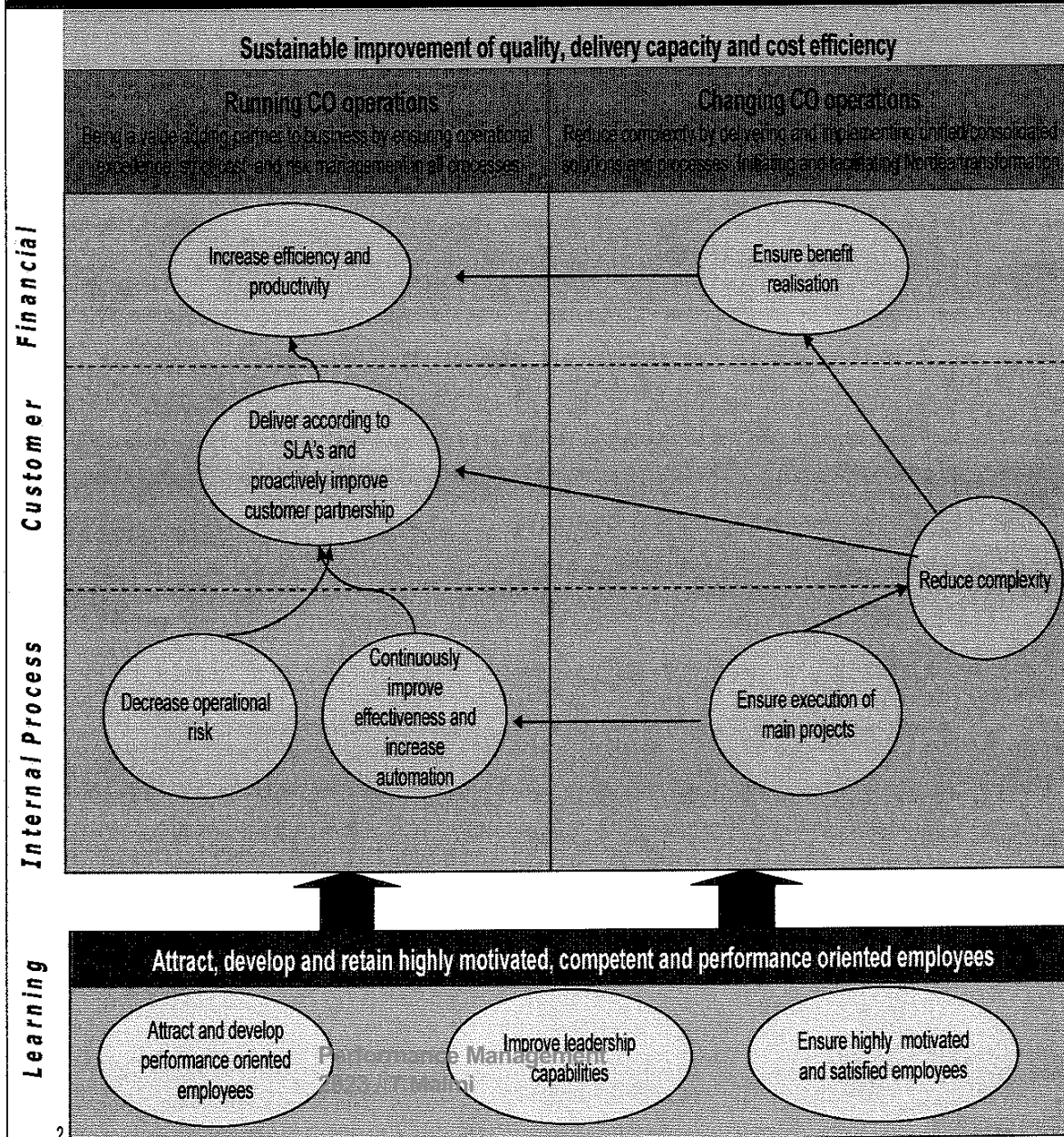
Performance Management
2023 / T.Malmi

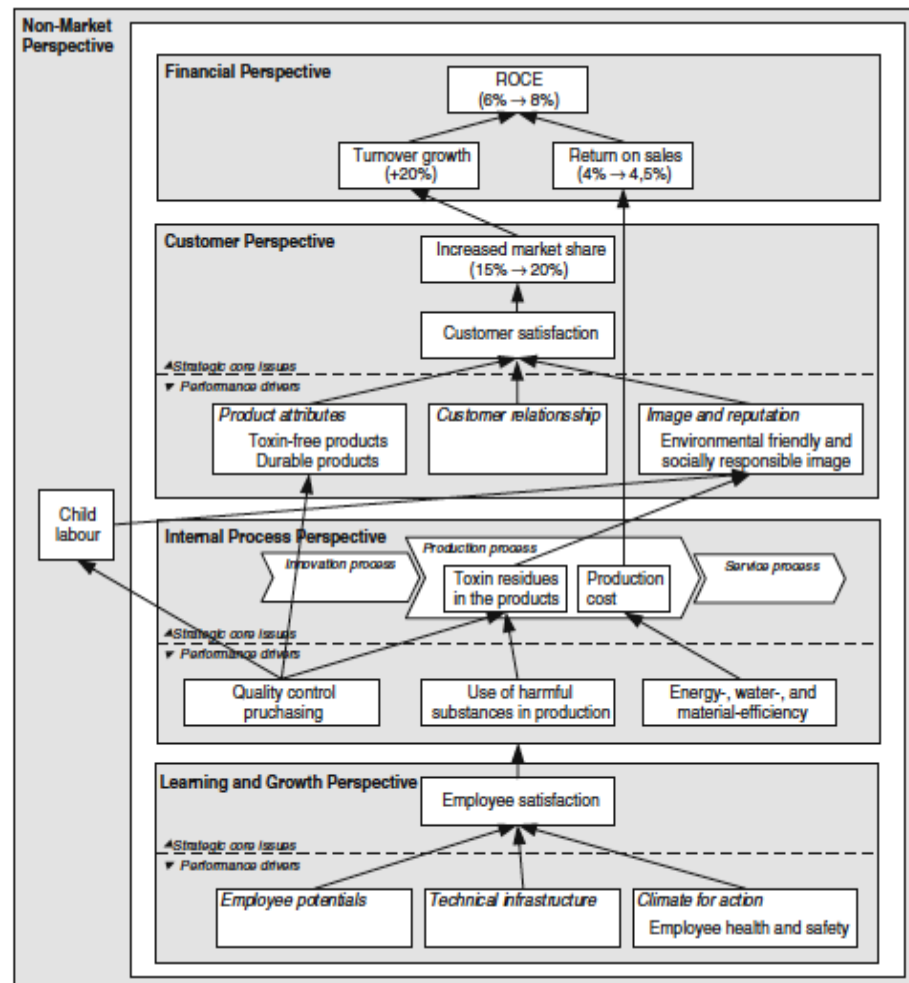


STRATEGIC THEME: SOLUTIONS IN EVOLVING SURROUNDINGS

ROE = 12%
=> combined ratio = 106







Source: Figge et al., 2002

HOW TO COME UP WITH A STRATEGY MAP

- Cause and effects need not to be verified facts – they are rather believes of management about how to compete successfully
- Strategy map is always a simplification of true cause and effect relationships
- Still necessary as it aids in determining focus!

MEASUREMENT

- Define measures for each box in a strategy map
- Strategy Scorecard should not contain everything which is important for you, it should contain issues that are crucial for you to achieve competitive advantage
- Strategy Scorecard doesn't prevent monitoring and measuring other important issues

EXERCISE

- You are concerned about your well-being in terms of physical health
- Set yourself a vision and corresponding outcome measures / lagging indicators!
- What shall you do to achieve your vision? In other words, what is your strategy? How could you measure that? Define some leading indicators for yourself!

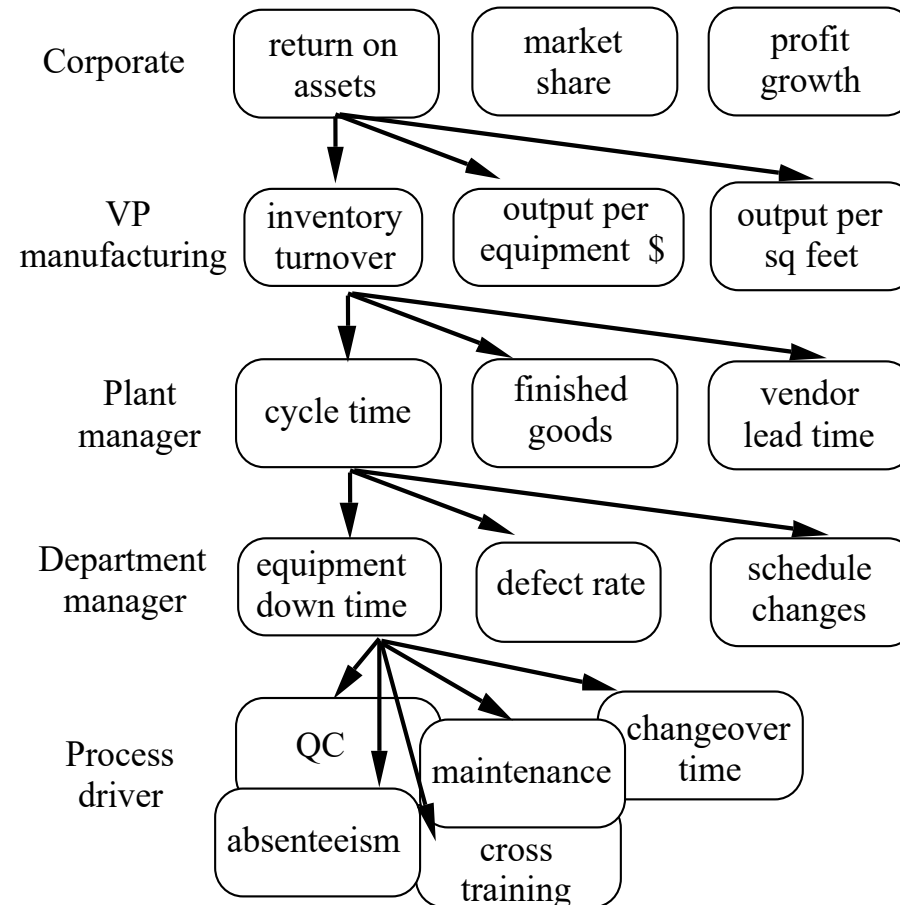
AGENDA

- What are the uses of measurement systems? - Different types of Scorecards
- What are the design implications of different uses?
- Strategy as a basis for performance management systems
- How to derive measures from strategy – strategy maps
- **How to link measures in different levels of organizational hierarchy**
- How to use scorecards as part of management system
- How value drivers link to BSC?

LINKING SCORECARDS

- Scorecards between levels may be linked directly or logically
- Direct linking means that measures at top level scorecard are summed up from the lower level scorecards
- Logical linking means that lower level identifies which measures at above level scorecard they can have an influence on
- Those measures serve as strategic objectives for the lower level
- Following cause-end effect reasoning the rest of the measures are identified

ONE POSSIBILITY FOR LOGICAL LINKING

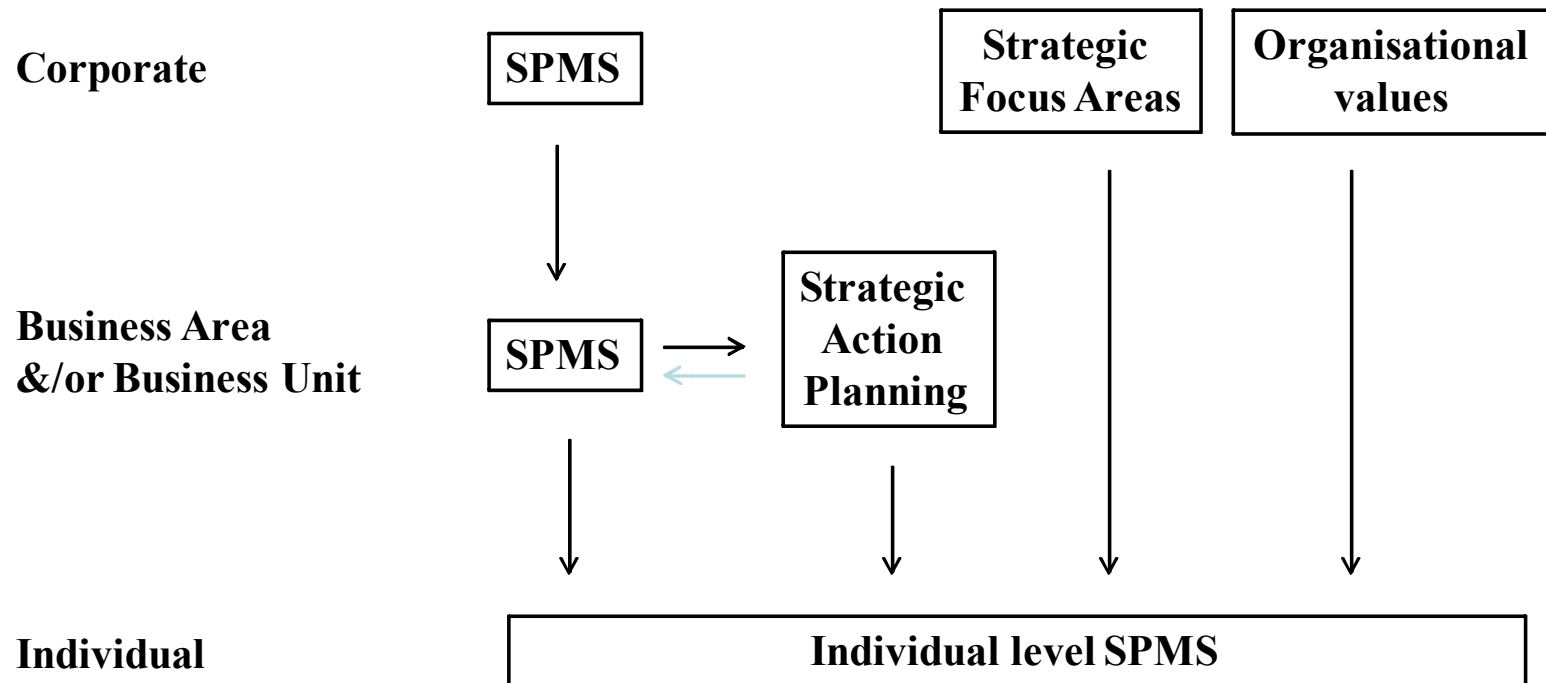


Source: Beischel & Smith, Linking the Shop Floor with the Top Floor, Management Accounting (IMA), October 1991

LINKING SCORECARDS

- Recall that BSC was originally a construct for SBU level
- If derived using logical linking, there is no need to stick with certain perspectives at all levels. This may save a lot of effort and money in measurement
- Measures close to action tend to be more often non-financial
- Note: Linking returns to a question of how accountability, authority, and autonomy are delegated within the organization

CASE NOKIA AROUND 2006

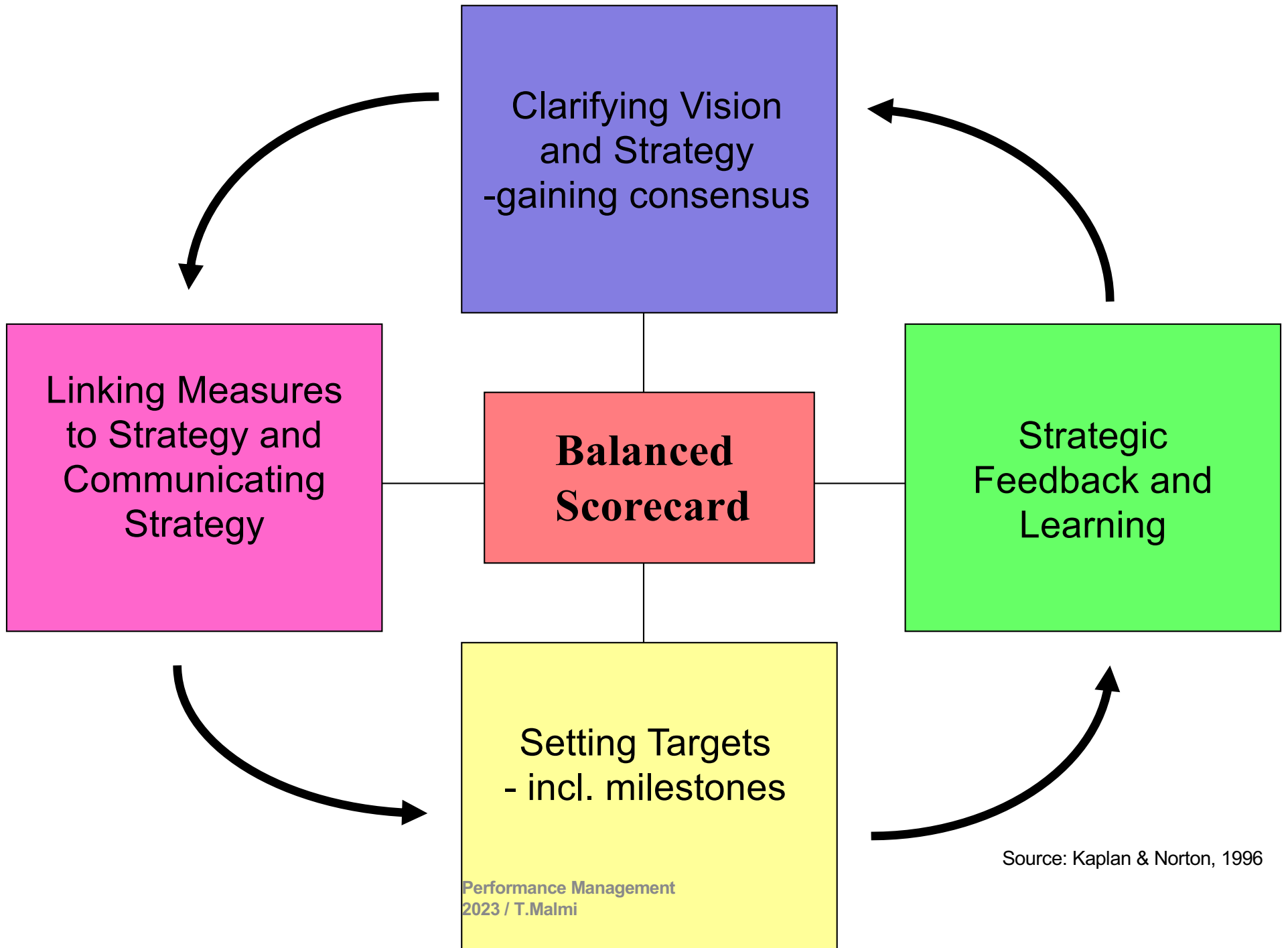


AGENDA

- What are the uses of measurement systems? - Different types of Scorecards
- What are the design implications of different uses?
- Strategy as a basis for performance management systems
- How to derive measures from strategy – strategy maps
- How to link measures in different levels of organizational hierarchy
- **How to use scorecards as part of management system**
- How value drivers link to BSC?

HOW TO LINK BSC INTO EXISTING MANAGEMENT SYSTEM

- If you were to design and implement a BSC for a company / organization you work for, what would be the key issues to consider in making sure BSC would also become and survive as part of the management system?

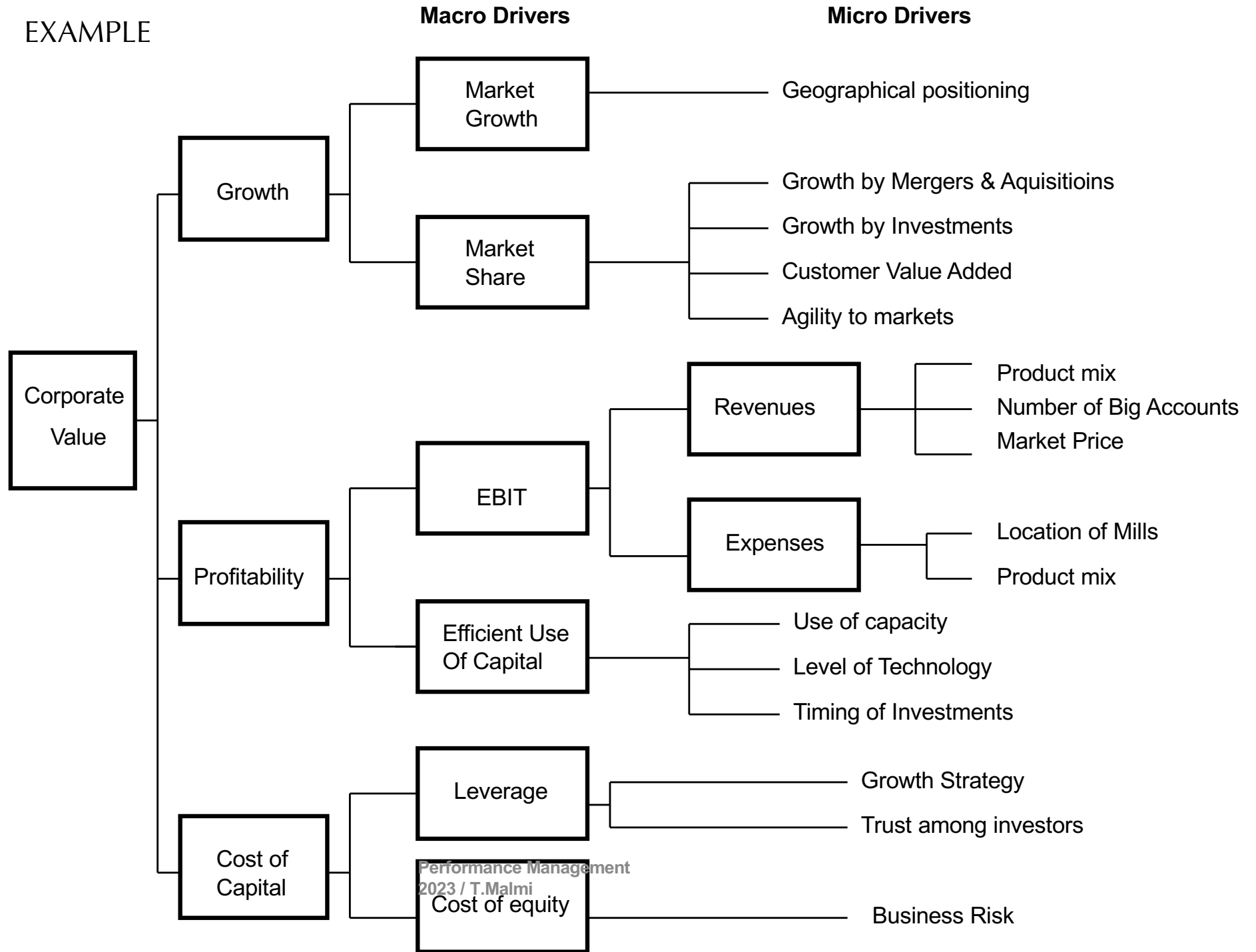


Source: Kaplan & Norton, 1996

AGENDA

- What are the uses of measurement systems? - Different types of Scorecards
- What are the design implications of different uses?
- Strategy as a basis for performance management systems
- How to derive measures from strategy – strategy maps
- How to link measures in different levels of organizational hierarchy
- How to use scorecards as part of management system
- How value drivers link to BSC?

EXAMPLE



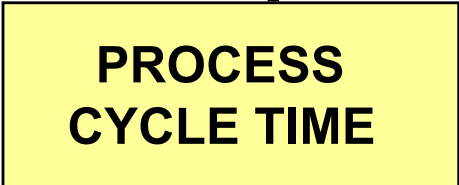
FINANCIAL



CUSTOMER



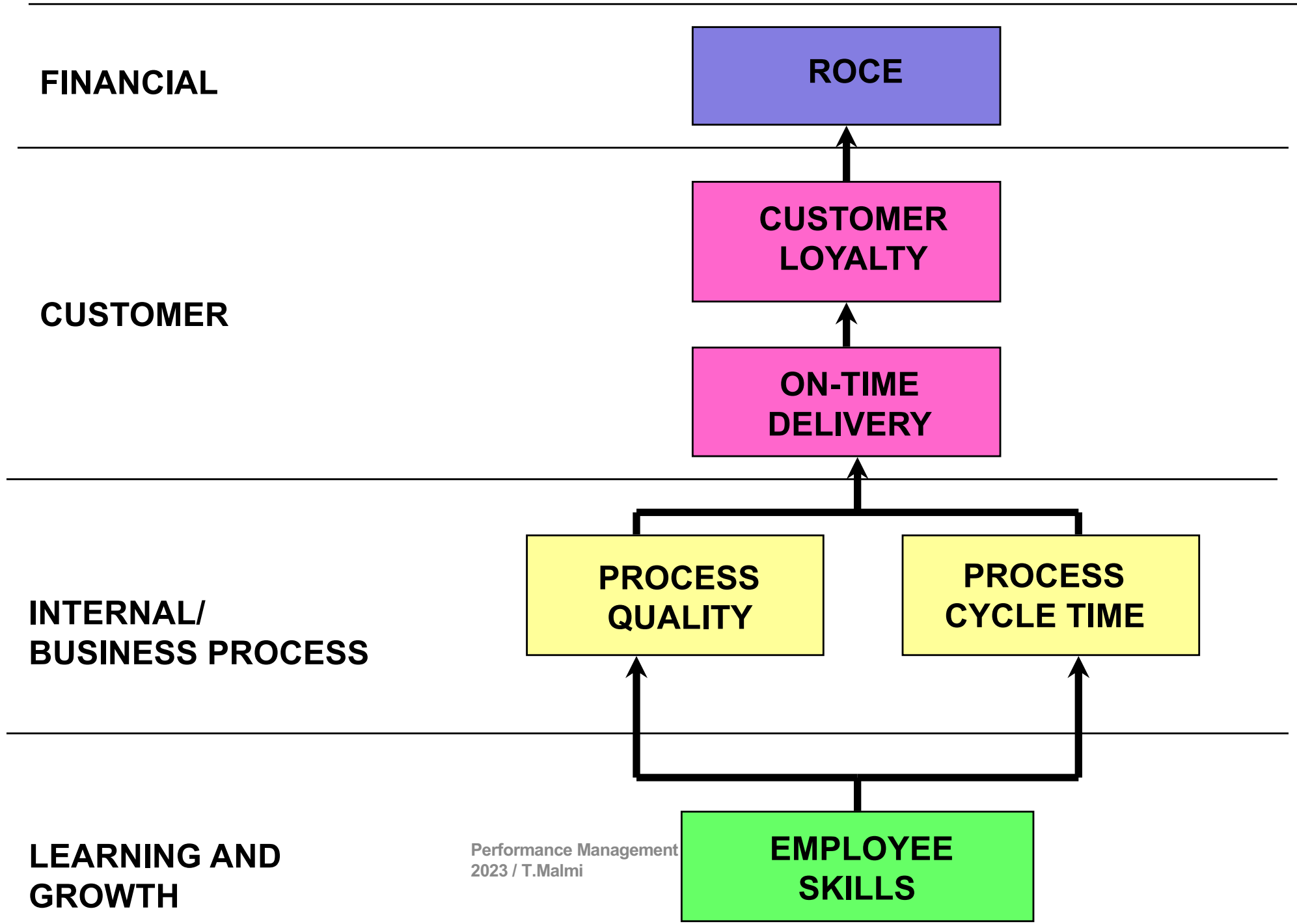
**INTERNAL/
BUSINESS PROCESS**



**LEARNING AND
GROWTH**



Performance Management
2023 / T.Malmi



SUMMARY

TRANSLATING STRATEGY INTO ACTION

- Clarifying strategy and gaining consensus
- Linking strategy and measures (leading indicators!)
- Targets for measures and accountability

- Communicating strategy
 - measures and strategy map will communicate what is important

- Identifying and executing projects, programs, mergers & acquisitions, investments, etc.

DESIGNING MANAGEMENT (CONTROL) SYSTEMS TO TRANSLATE STRATEGY INTO ACTION

- Management systems and performance management consist of many different components – management by objectives only part of the picture
 - Requires measurement of both outcomes (lagging indicators) and means to outcomes, i.e. strategies (leading indicators)
 - Strategy needs to be translated to measures in all levels of an organization – linking crucial
 - Right set of measures is not enough – targets should be set, people should be held accountable for achieving the targets
-