



Aalto-yliopisto  
Kauppakorkeakoulu

# BALANCED SCORECARD & VALUE DRIVERS

Prof. Teemu Malmi

# AGENDA

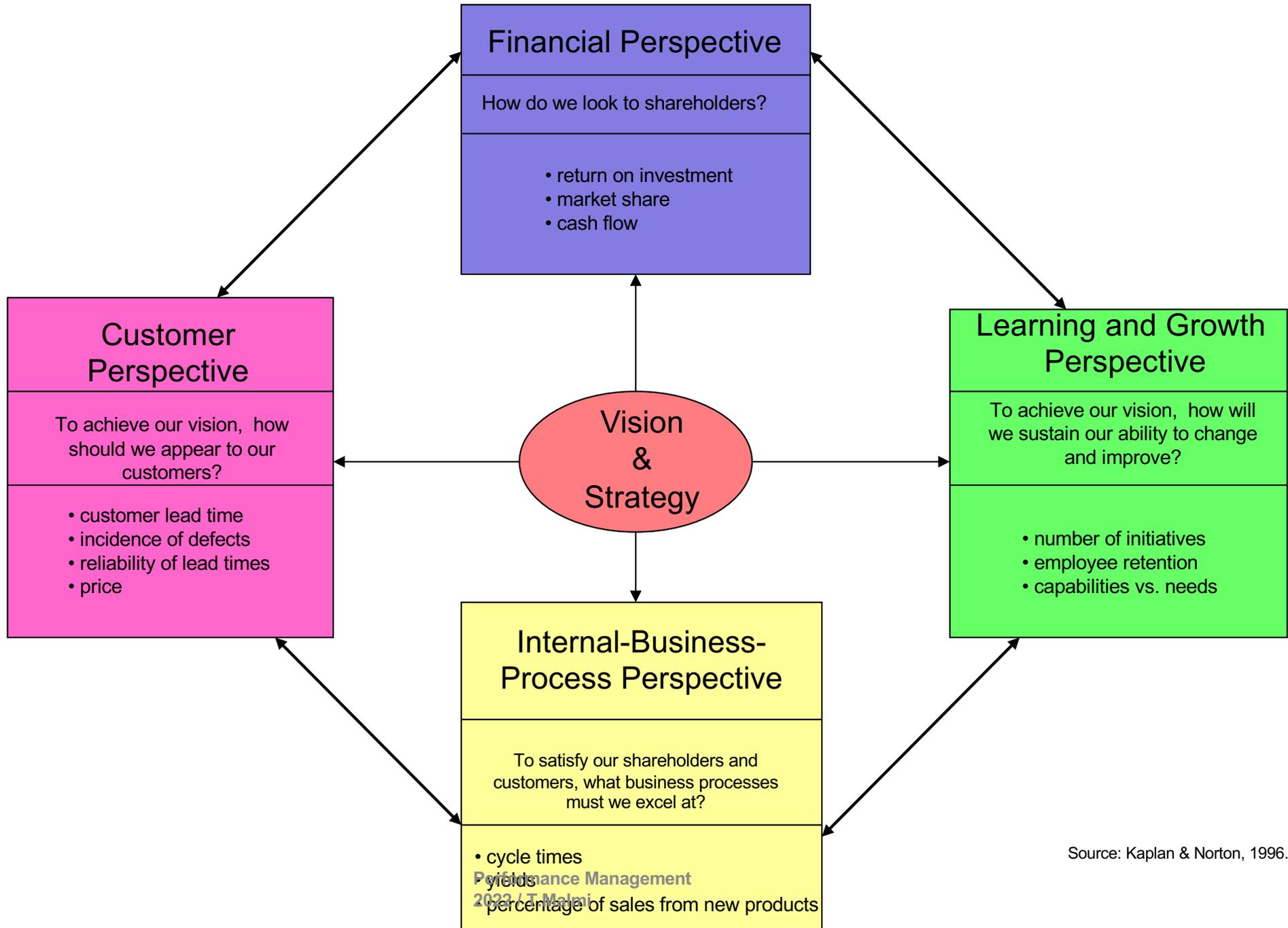
- What are the uses of measurement systems? - Different types of Scorecards
  - What are the design implications of different uses?
  - Strategy as a basis for performance management systems
  - How to derive measures from strategy – strategy maps
  - How to link measures in different levels of organizational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

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

- Number of measures?
- Nature of measures?

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# 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

Kauppalehti

Nro 3/2021 21. tammikuuta 15,90 €

# Fakta

**Teema:  
Strategia**

HUIPPUKONSULTIT  
KERTOVAT:  
**Näin syntyy  
voittaja-  
strategia**

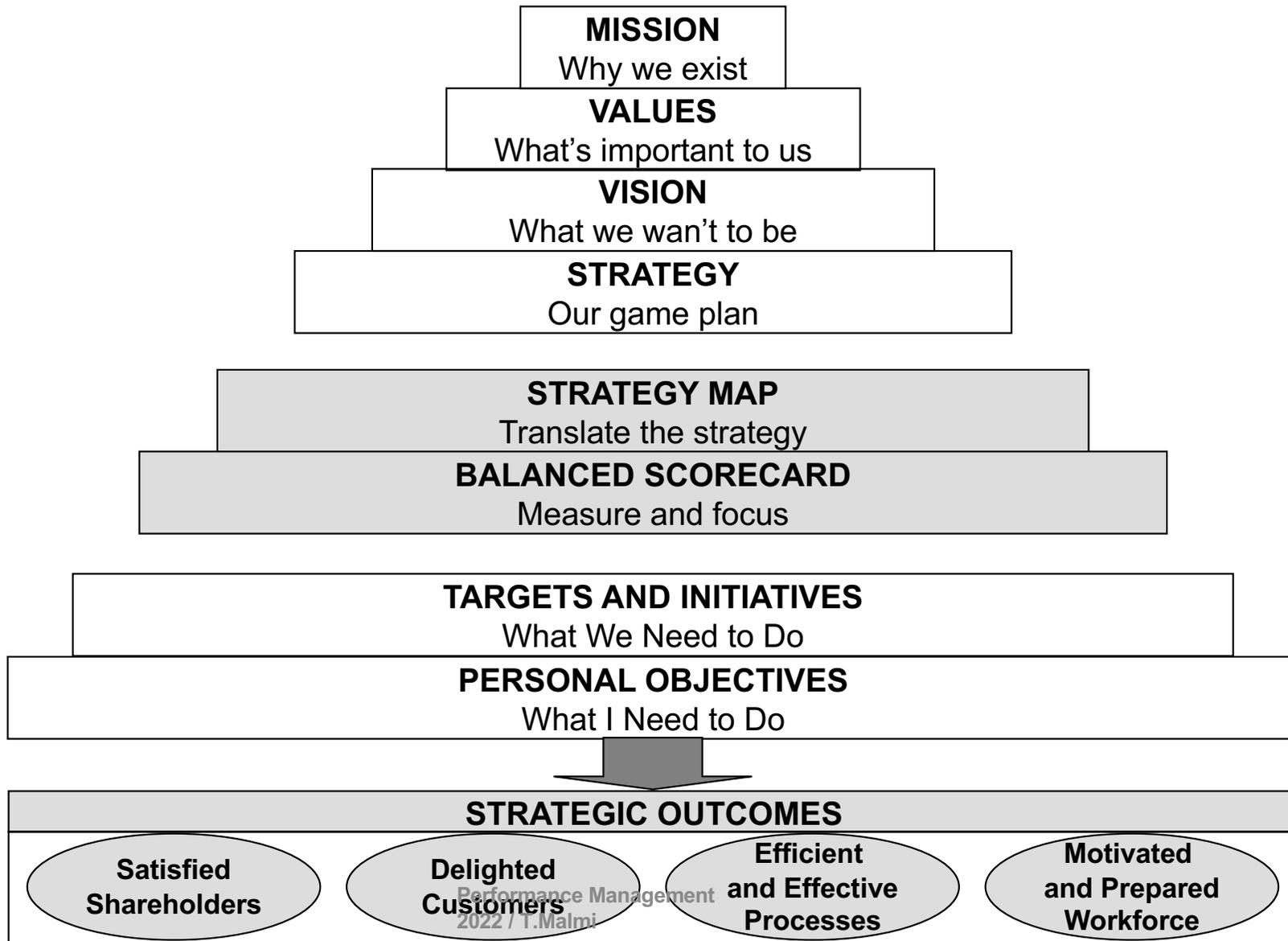
Työtä tehdään  
jatkossa  
missä vain

OVATKO POMOT  
PELKKÄ  
TURHA KULUERÄ?

**Finnairin  
strategiajohtaja  
Nicklas Ilebrand:**

"Valmistaudu  
kaikkiin  
skenaarioihin"





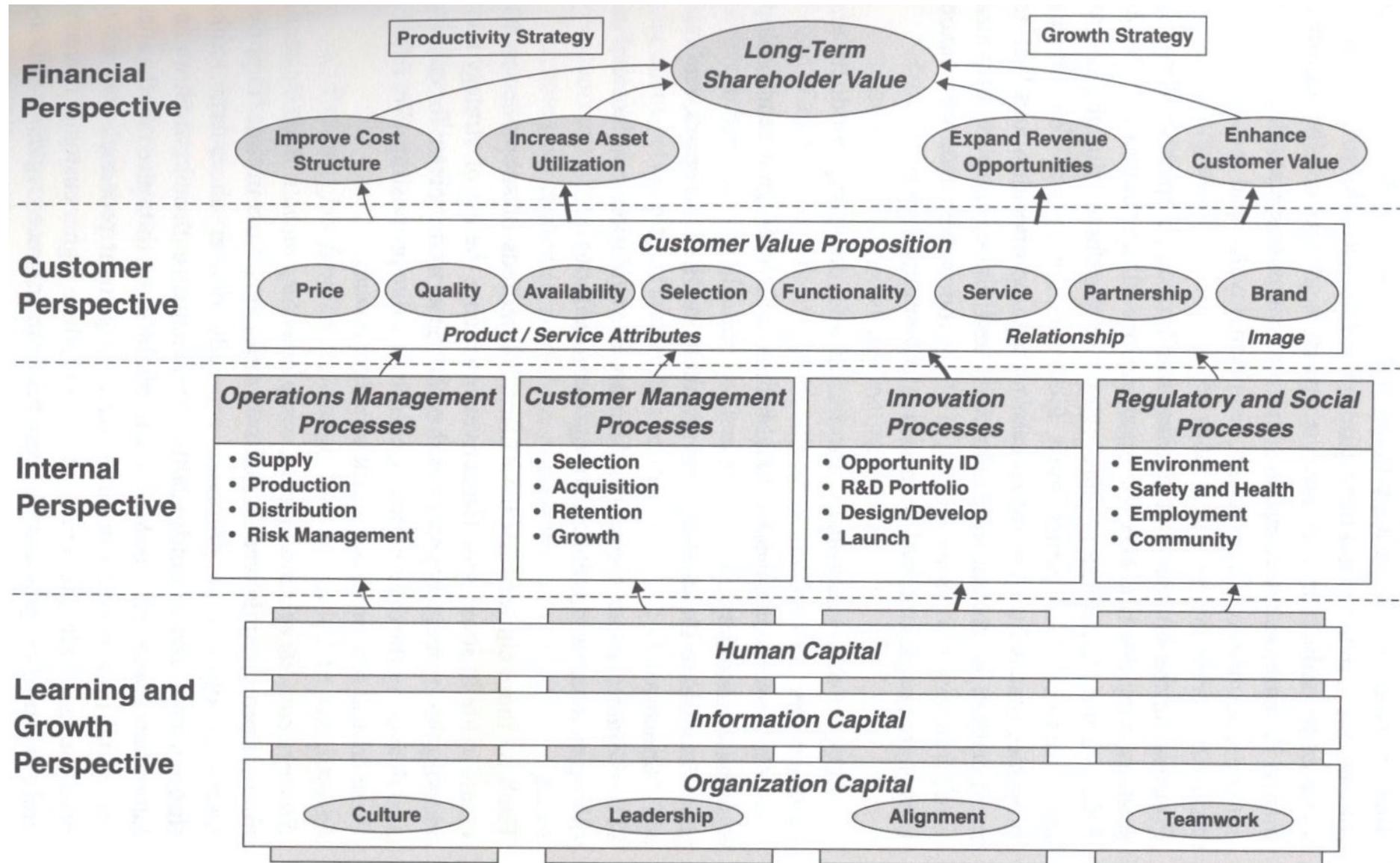
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# STRATEGY MAPS

- 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**

**ROCE**

**CUSTOMER**

**CUSTOMER  
LOYALTY**

**ON-TIME  
DELIVERY**

**INTERNAL/  
BUSINESS PROCESS**

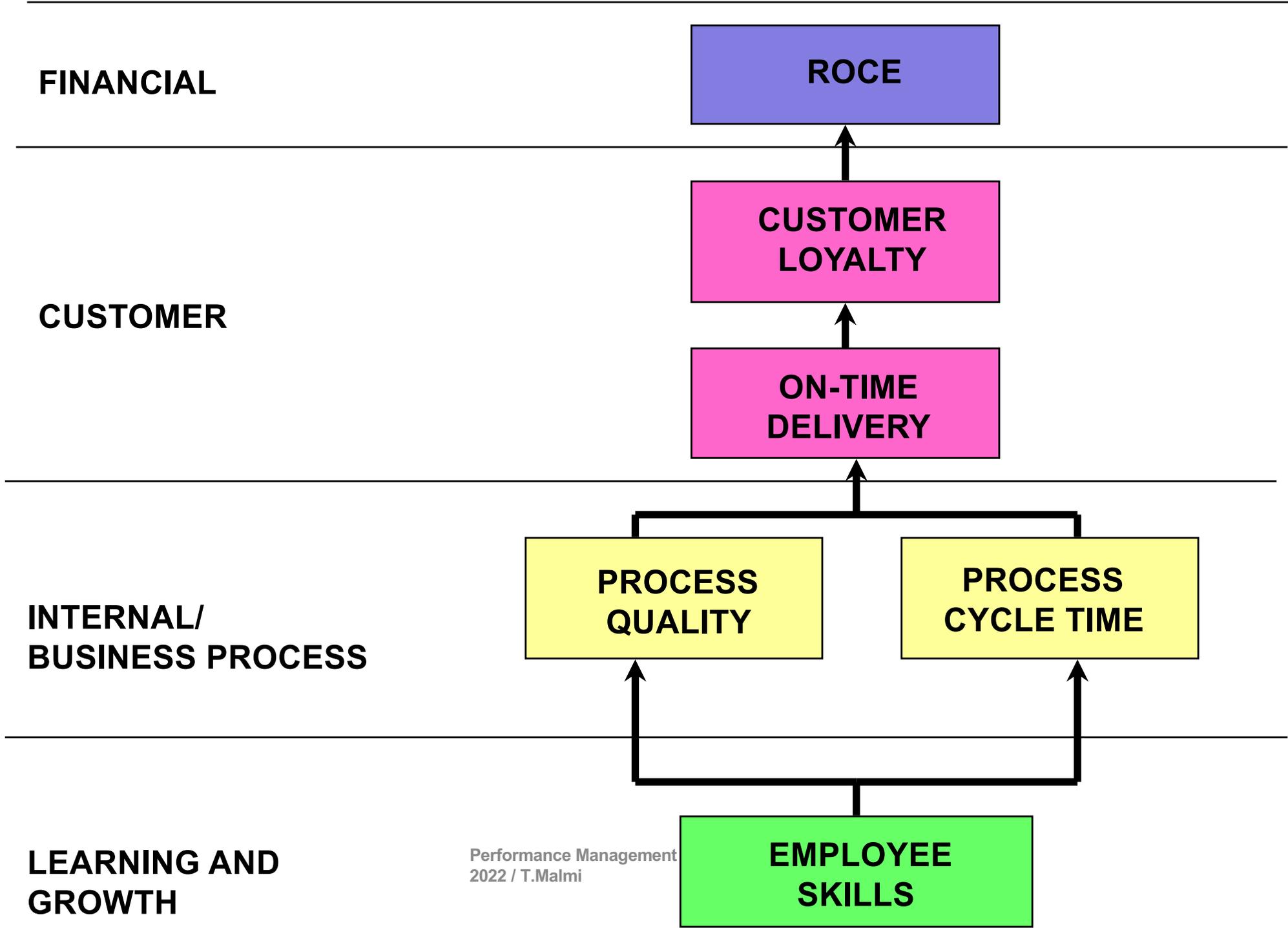
**PROCESS  
QUALITY**

**PROCESS  
CYCLE TIME**

**LEARNING AND  
GROWTH**

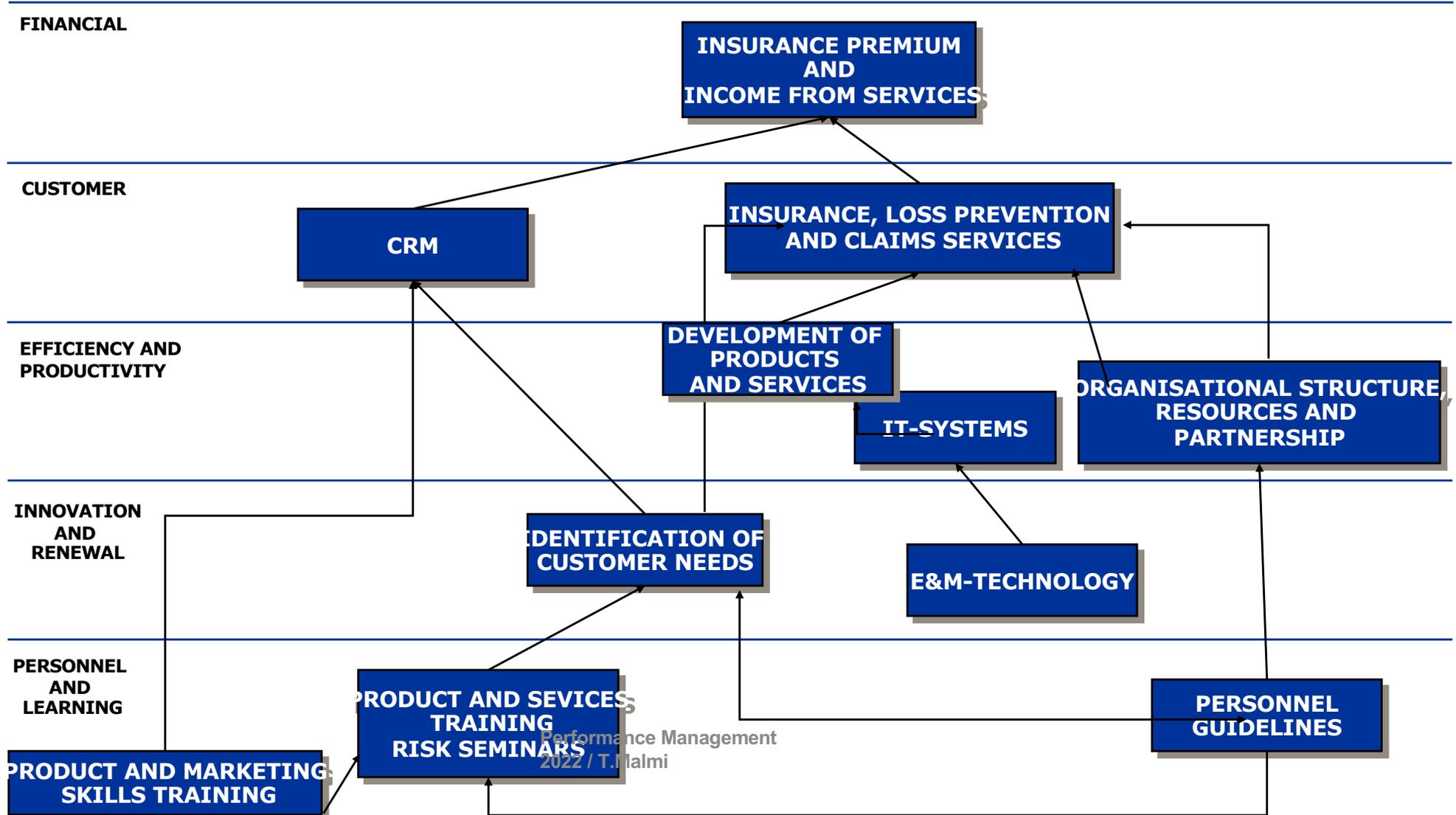
**EMPLOYEE  
SKILLS**

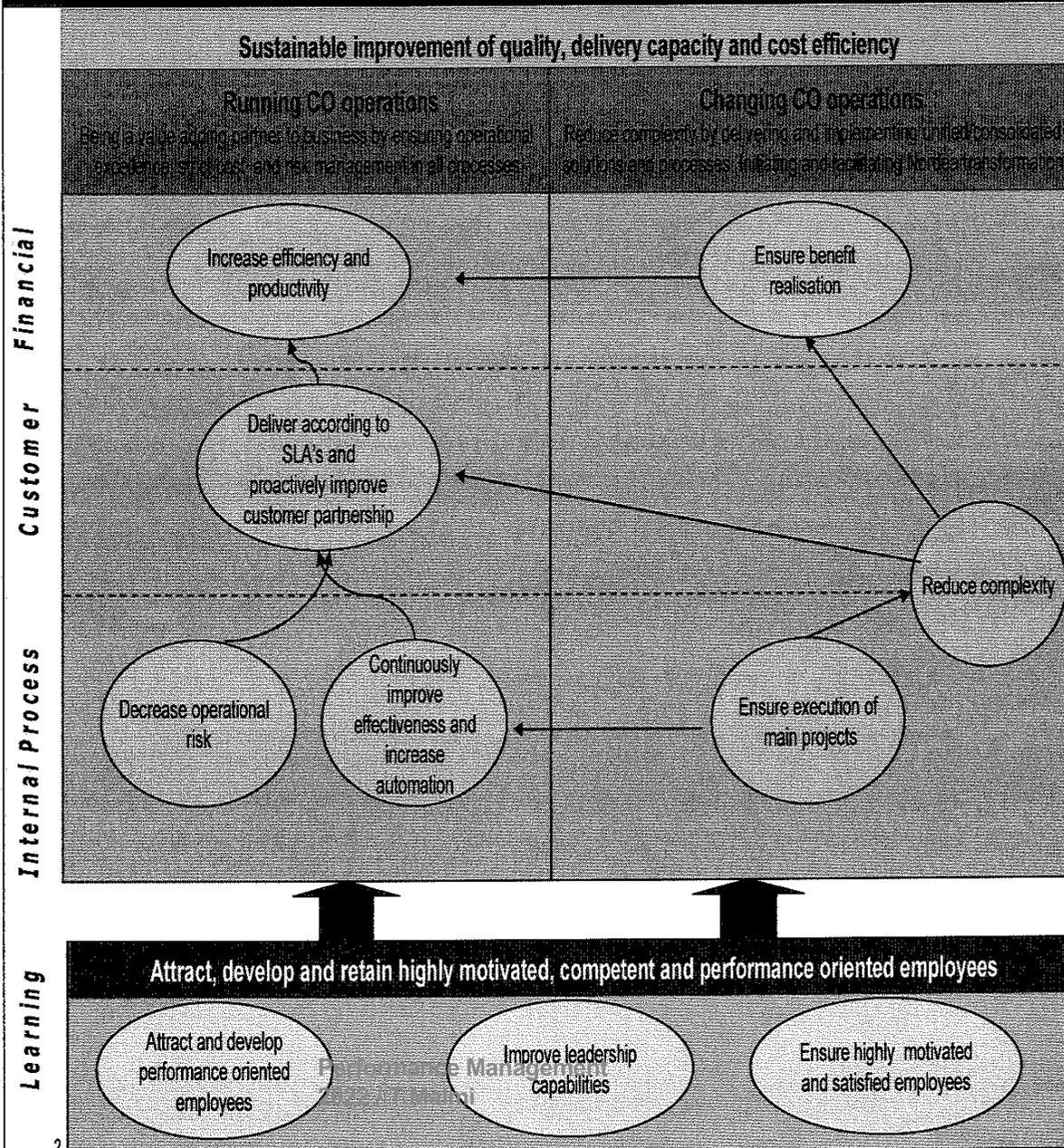
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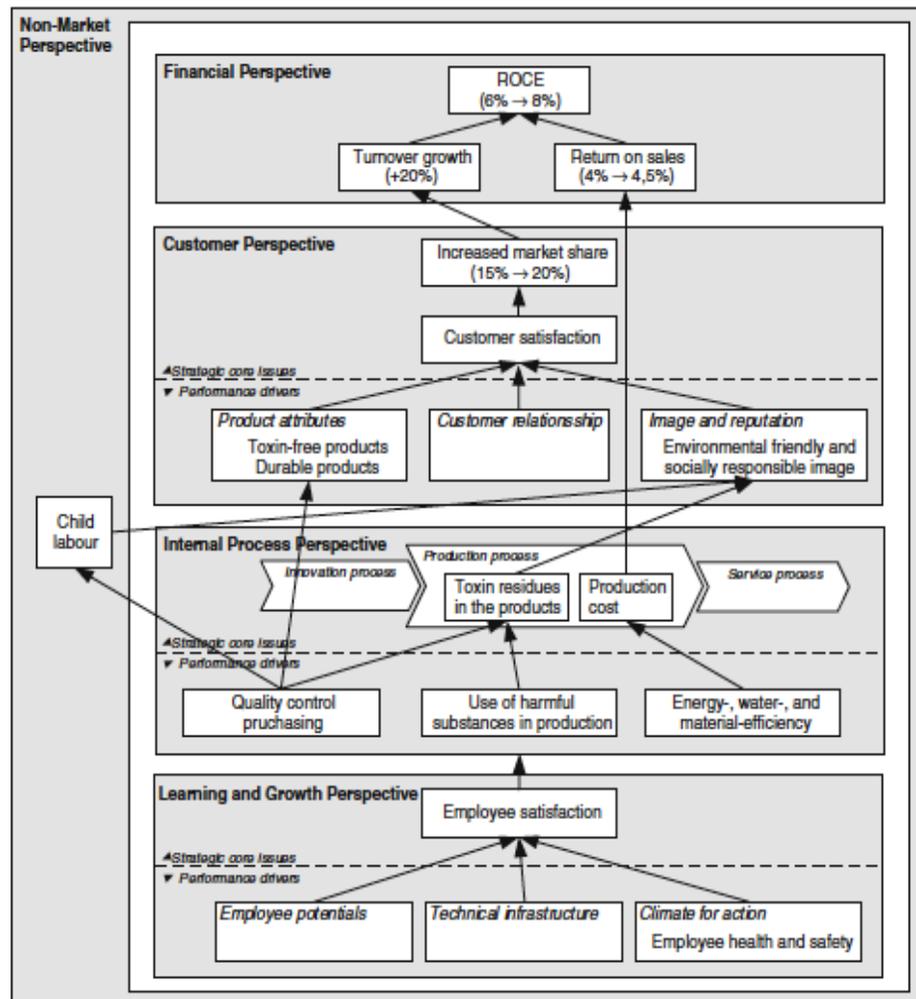


# STRATEGIC THEME: SOLUTIONS IN EVOLVING SURROUNDINGS

**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!

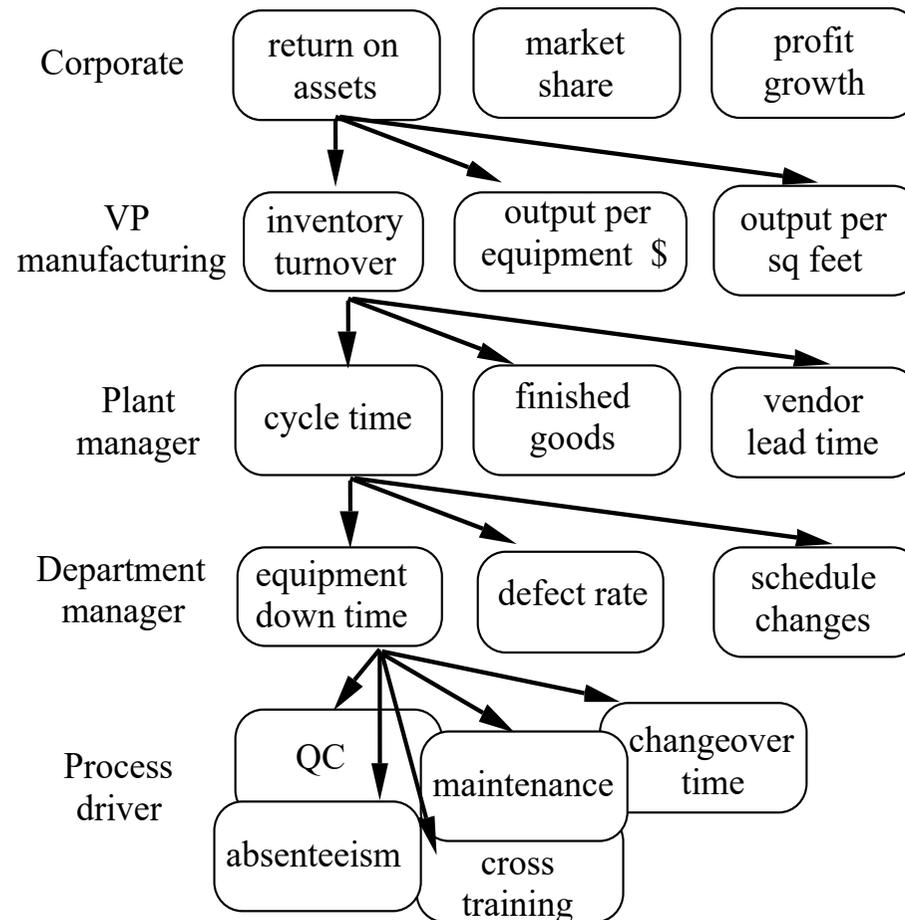
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# LINKING SCORECARDS

- 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

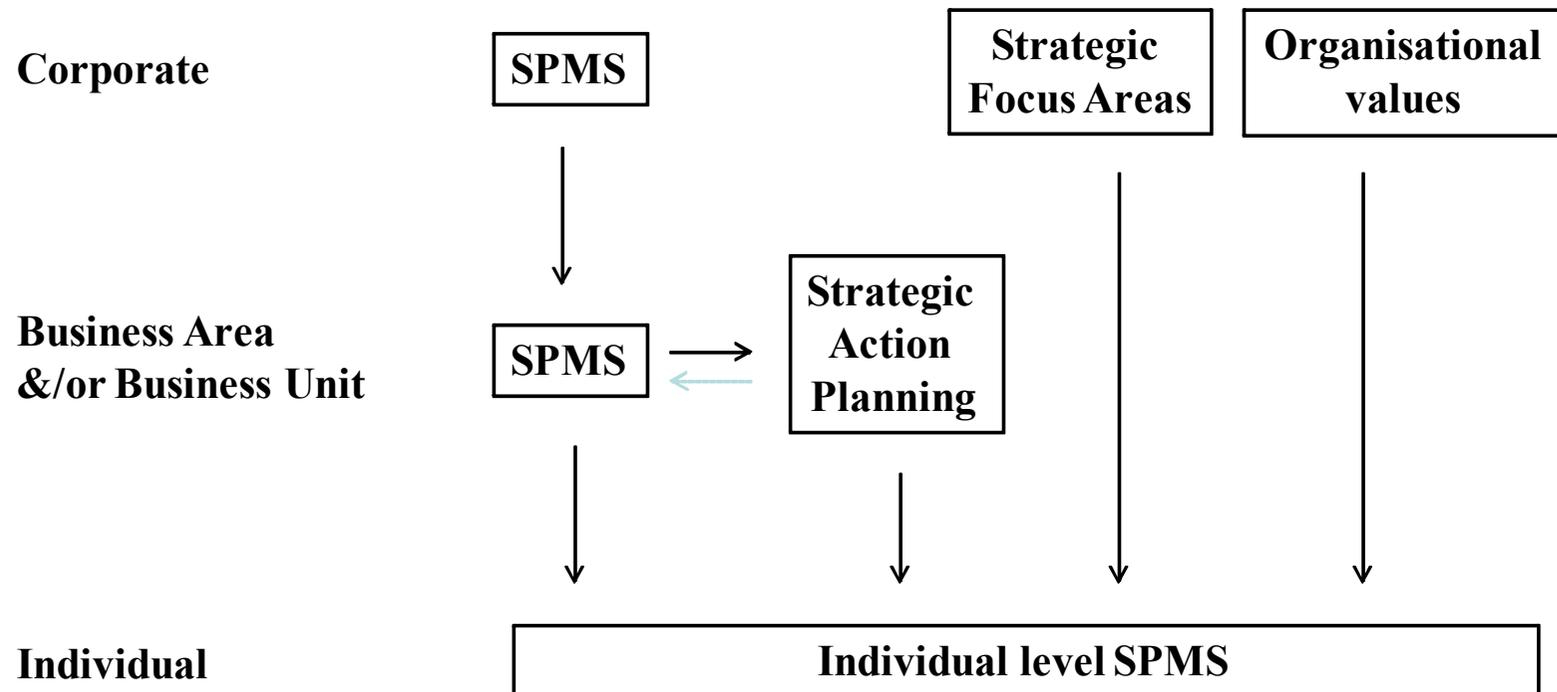


Source: Beischel & Smith, Linking the Shop Floor with the Top Floor, Management Accounting (IMA), October 1991

# 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

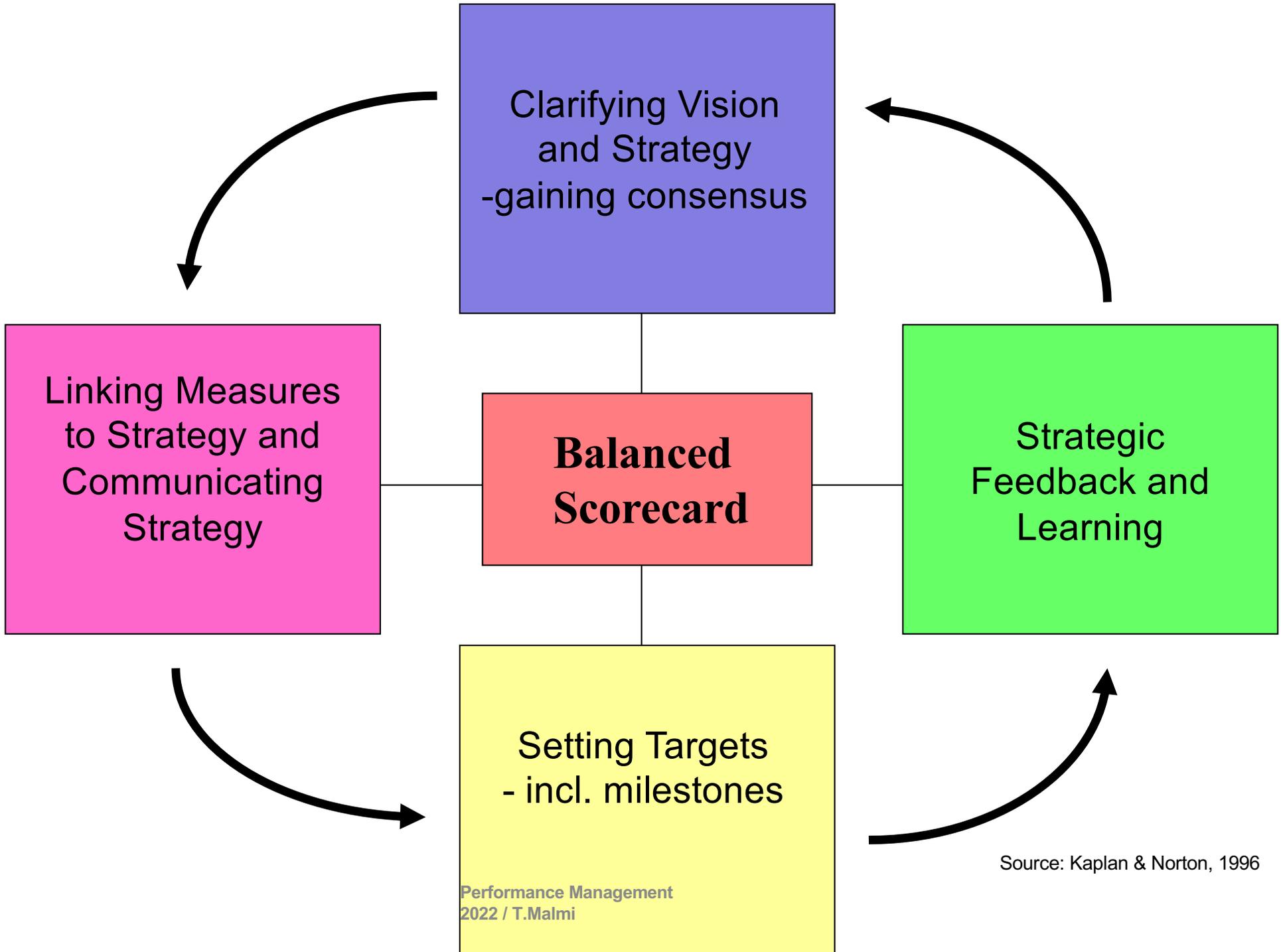


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# HOW TO LINK BSC INTO EXISTING MANAGEMENT SYSTEM

- 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

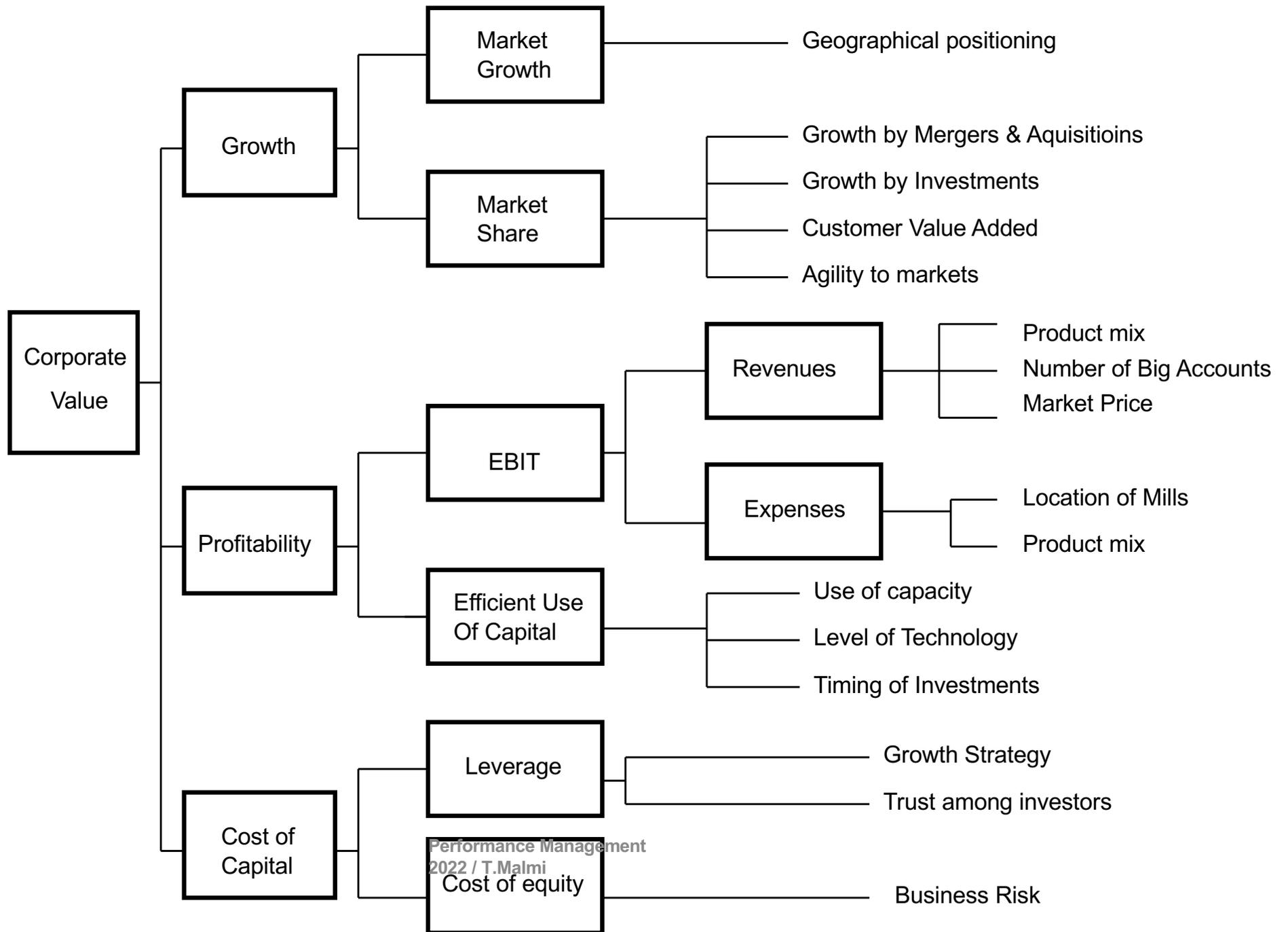
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EXAMPLE

**Macro Drivers**

**Micro Drivers**



**FINANCIAL**



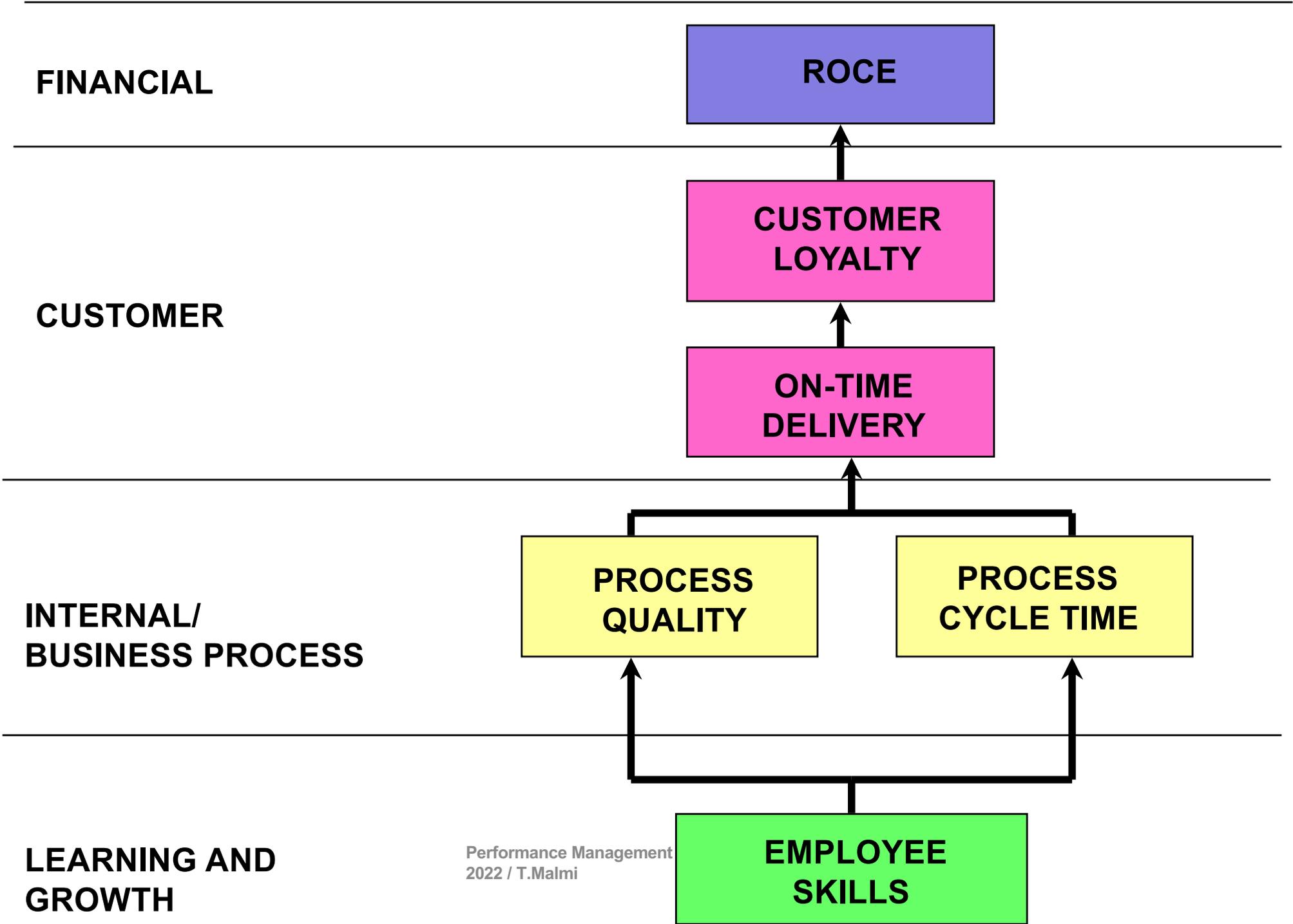
**CUSTOMER**



**INTERNAL/  
BUSINESS PROCESS**



**LEARNING AND  
GROWTH**



# 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
-