

Why not only Financial Indicators?

- Example 1: Company ABC
- Strategy: to increase Gross Profit
 - $\text{Gross Profit} = \text{Revenue} - \text{Cost of Goods Sold}$
 - Implementation strategy: reduce costs by producing lower quality services/product/...
- What will happen in your opinion?
 - Short term: higher Gross Profit
 - Long term: unhappy customers won't buy again, (huge) gross profit decline

- BSC innovation: introducing non-financial-indicators
- Previous approaches focused only on Financial Indicators.

- $\text{Gross Margin} = (\text{Revenue} - \text{Cost of Goods sold}) / \text{Revenue}$
- $\text{Gross Profit} = \text{Revenue} - \text{Cost of Goods sold}$

(Generally speaking) Choosing the right indicator matter!

- Company XYZ
 - Indicator: measuring Commercial Agents by annual **revenue**
 - Some agents started accepting orders for *highly-customized-products*
 - The agent annual revenue increased
 - The company profit declined
 - Highly-customized-products frequently have higher costs
 - ... sometimes bigger than revenues
 - Economy of scale for XYZ is important to lower costs
 - Costs for creating a new product should be covered by selling it several times
 - Change required. What will you do?

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 - Measuring Commercial Agents by **Gross Profit** = Revenue – Cost of Goods Sold

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The BSC non financial perspectives

- **Customer perspective.**

- Who are your customers?
- What do they want?

Questions are useful to better identify the perspective focus

- **Internal process perspective.**

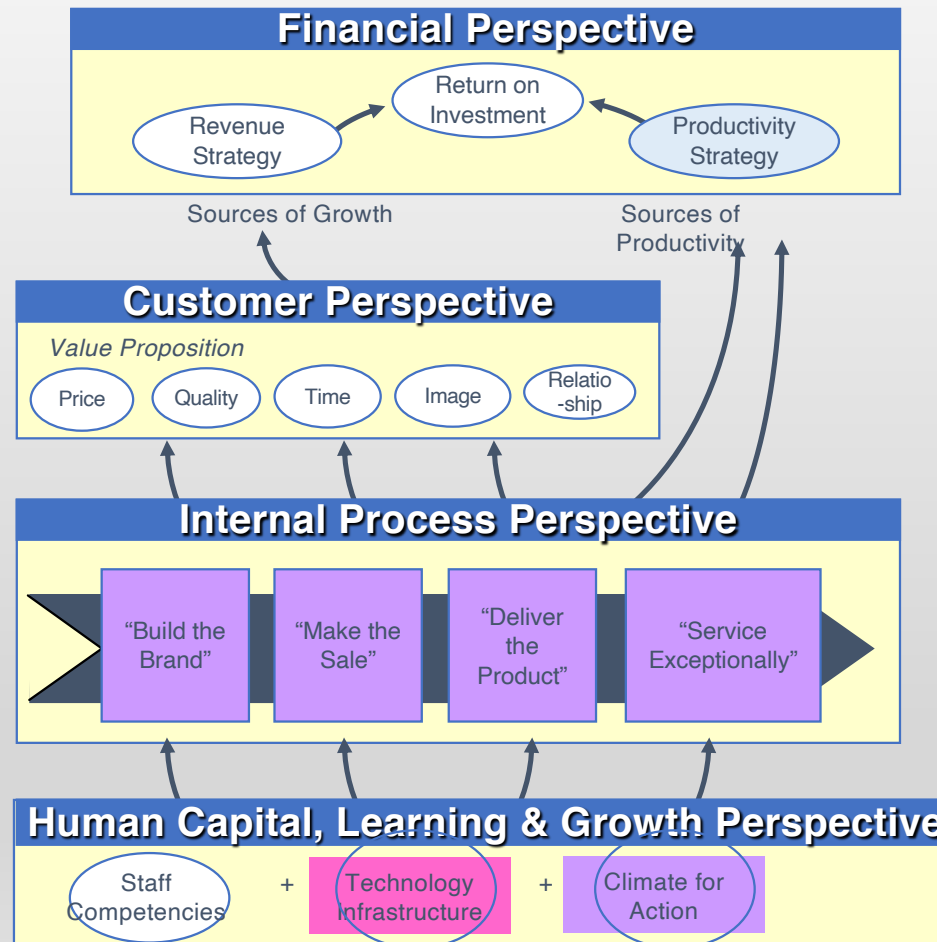
- How to design process to satisfy customer desires?
- What kind of input does the process need?
- And who supplies that?

- **Human Capital.**

- Do people have the required knowledge?
- Are people aligned and motivated with the company goals?

Perspectives	Cause & Effect Relationship
Financial/Profit and Growth	Make a profit ...
Customers	... by satisfying your customers needs ...
Internal (operational excellence)	... through being able to deliver value ...
Human Capital	... by having the necessary knowledge and tools available

Better Formalizing the BSC



1. The economic model and key levers driving financial performance
2. The value proposition of target customers
3. The value chain of core business processes
4. The critical enablers of performance improvement, change, and learning

Balanced Scorecard Summary

- **Improve** previous approaches based on **financial-only-indicators**
- Provide a generic framework to **translate** strategy into **operational terms**
- Provide a tool for **sharing the strategy** (among employee), and the processes and systems required for its implementation
- Draw a cause and effect roadmap to *stakeholder / shareholder / customer / employee* value

ORIGIN

- Concept developed by Robert Kaplan & David Norton
- Essentially a **Strategic Management System**
- Also a **Corporate Performance Management System**

For further Information

- If you'd like to have further information about the Balanced Scorecard
- R. S. Kaplan. Conceptual Foundations of the Balanced Scorecard.

<http://www.hbs.edu/faculty/Pages/download.aspx?name=10-074.pdf>

People involved

- Senior Management defines the long term strategy
 - Set goals (economic, market, ...)
- Middle Management
 - Monitor actual economic results w.r.t. target goals
 - Allocate resources to achieve goals
- Operational Management focuses on Production/Delivery activities

