

University of Texas at Austin

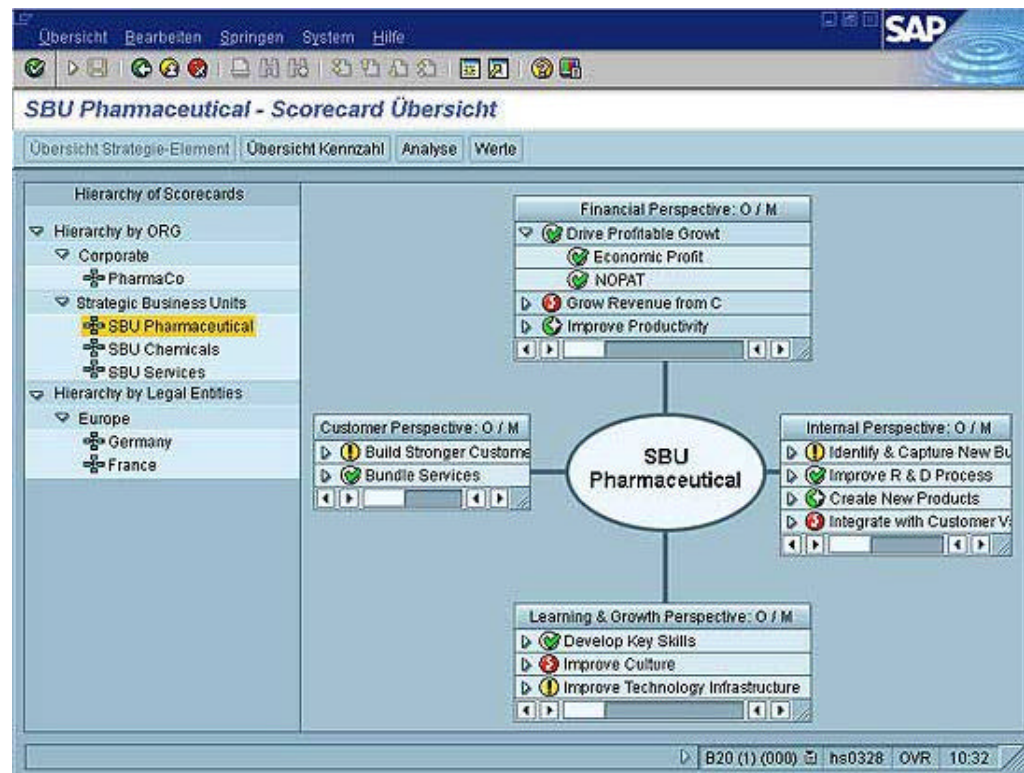
Management Science and Information Systems Department

The Theory Behind the Balanced Scorecard: Contributions from the Decision and Systems Sciences

by

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The Balanced Scorecard has been implemented in over half of the Fortune 1000 companies.



Session Theme

Strengthening “best practices”
with the decision and systems sciences:
The case of the balanced scorecard (BSC)

The Basic Concept of the BSC

- The BSC measures performance from four perspectives
 - Financial
 - Customer
 - Internal Business Processes
 - Learning and Growth
- The BSC “balances”
 - External measures for shareholders and customers with internal measures for critical business processes and innovation
 - Lagging and leading performance measures
 - Objective (quantifiable outcomes) measures and subjective (judgmental) measures

Current “Best Practice” Application

Current “best practice” uses gut intuition to structure

- What is (should be) important to the client
- How these measures are related
- How the firm’s actions affect key resources, over time

Many companies are not aware of the theories that seem clearly related to these issues.

Underlying Fundamentals of BSC

The BSC requires understanding:

- Overall firm goals
- Leading and lagging performance indicators
- Causal linkages
- Systemic relationships of the firm's goals, resources, and actions

This is a great application for decision and systems science tools.

Related Decision and System Science Tools

Overall firm goals

- Multiple criteria decision making

Leading and lagging performance indicators

- Means-ends analysis

Causal linkages

- Methods for determining cause and effect

Systemic relationships

- System dynamics

The Rest of the Session

- Using value-focused thinking and multi-attribute utility to select and measure performance elements
- Capturing causal relationships and dependencies with influence diagrams
- Integrating dynamic modeling into the strategic planning process: a case study