

Designing a Balanced Scorecard

by

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A balanced scorecard (from Kaplan and Norton, HBR):

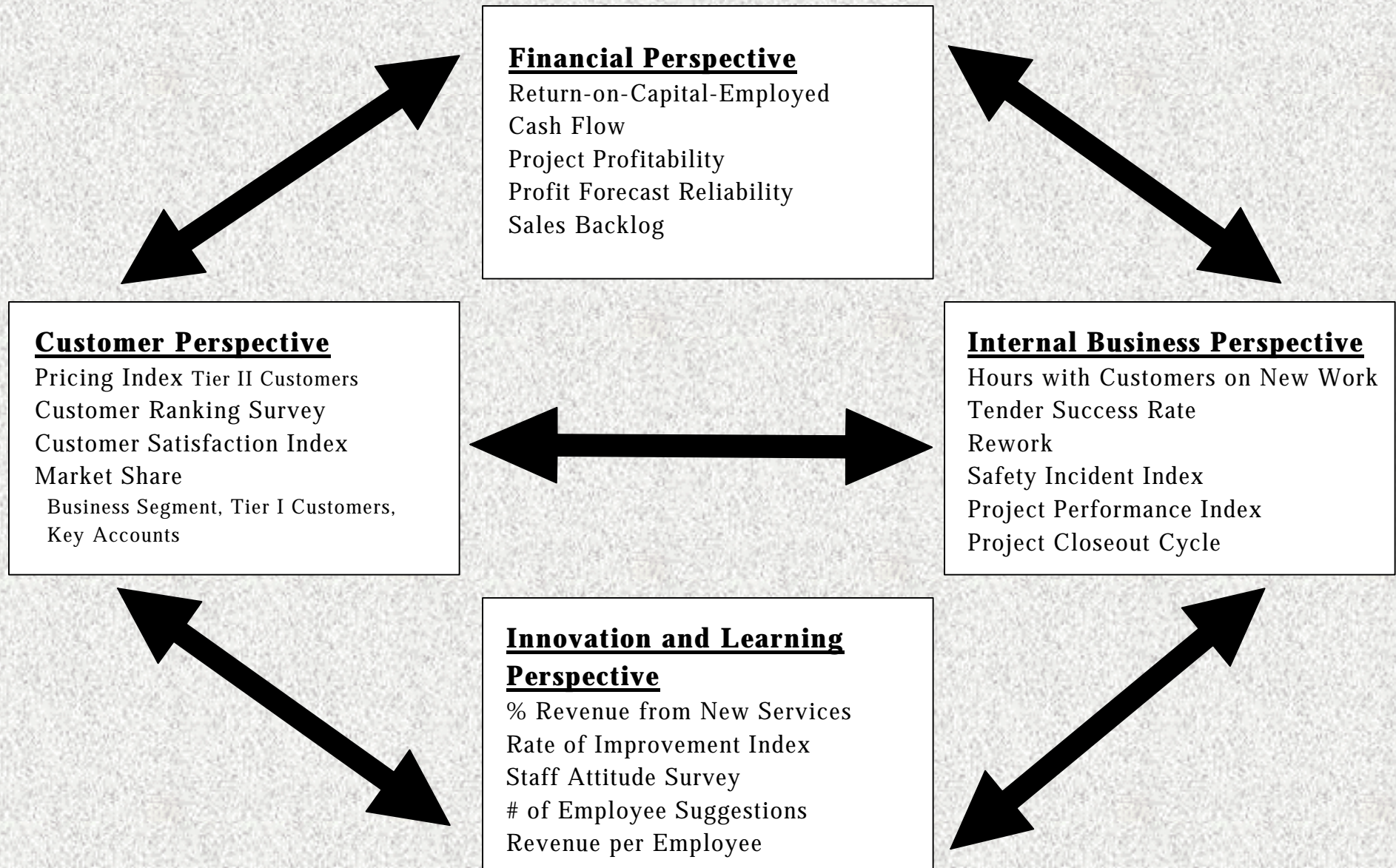
- ë Is a balanced presentation of both financial and operational measures
- ë Translates strategic objectives into a coherent set of performance measures
- ë Focuses organizations' efforts, defining and communicating priorities to managers, employers, investors, and even customers

Overview

A balanced scorecard requires a scorecard and balancing

- ⇒ To create the scorecard: Value-focused thinking
- ⇒ To balance the scorecard: Multiattribute utility theory

BS Perspective



BS Perspective

A balanced scorecard provides answers to four basic questions:

1. How do customers see us? (*customer perspective*)
2. What must we excel at? (*internal perspective*)
3. Can we continue to improve and create value? (*innovation and learning perspective*)
4. How do we look to shareholders? (*financial perspective*)

BS perspective...a balanced scorecard

- ë Brings together both financial and operational measures
- ë Guards against suboptimization
- ë Translates customer-based measures into measures of what to do internally to meet customer expectations
- ë Establishes goals, but assumes people adapt actions necessary to achieve them
- ë Reveals tradeoffs managers have already made and encourages them to achieve future goals without making tradeoffs among key success factors
- ë Ultimately leads to improved decision-making and problem-solving

DA Perspective

- Strategic decision analysis addresses the problem
- Focuses on strategic objectives
- Three cases: Seagate, BC Gas, me

DA Approach

Creating a “Balanced Scorecard” is a decision opportunity

- ë Begin with the objectives of a scorecard
- ë Create alternatives
 - with different objectives
 - with different measures for each objective

DA Approach

What Value-Focused Thinking Does

- Identifies objectives and measures
- Recognizes means-ends relationships
- Avoids double-counting
- Recognizes contributions measured now for different time periods
- Provides logic to build up user measures
- Provides logic for completeness (e.g. employee measures)
- Offers participation throughout organization and customers

DA Approach

What Multiattribute Utility Theory Does

- Provides logic to combine measures
- Includes single-attribute utility functions to rate achievement on measures
- Focuses on making necessary tradeoffs
- Appropriately weights different measures
- Helps define mission and vision

Summary

Decision Analysis (VFT and MAUT) provides

- a logic foundation for,
- procedures to implement, and
- models to use

a balanced scorecard approach.