

Balanced Scorecard

Ing.J.Skorkovský,CSc.

and various listed sources

Department of Corporate Economy

Balanced Scorecard and continuum of value I.

- Balanced Scorecard is a step in the continuum describing value and how the value is created



Mission – why we exist

Values – what is important to us



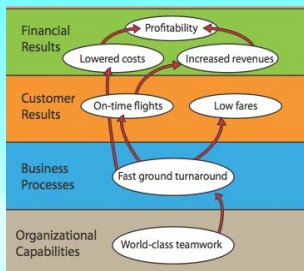
Vision – what we want to be

Strategy – our game plan



Strategy map – translate to strategy

Balanced scorecard – measure and focus



See next
show

Mission – explanation of the term

- **Mission:** what the company represents, what is the purpose of its existence, and what values it recognizes.

Examples:

- **Google:** "Our mission is to organize the world's information so that everyone can access and use it,, (and make as much money as possible – tutor's approach)"
- **McDonald's:** "We want to be the best in the world in fast service and provide customers with the best quality, service, cleanliness, and value.,, (and we don't mind that fast-food diets make people fat) – tutor's approach)"
- **Coca-Cola:** "Refresh the world in mind, body, and spirit. Arouse moments of optimism and happiness through our brands. Create value and create the difference.,,"

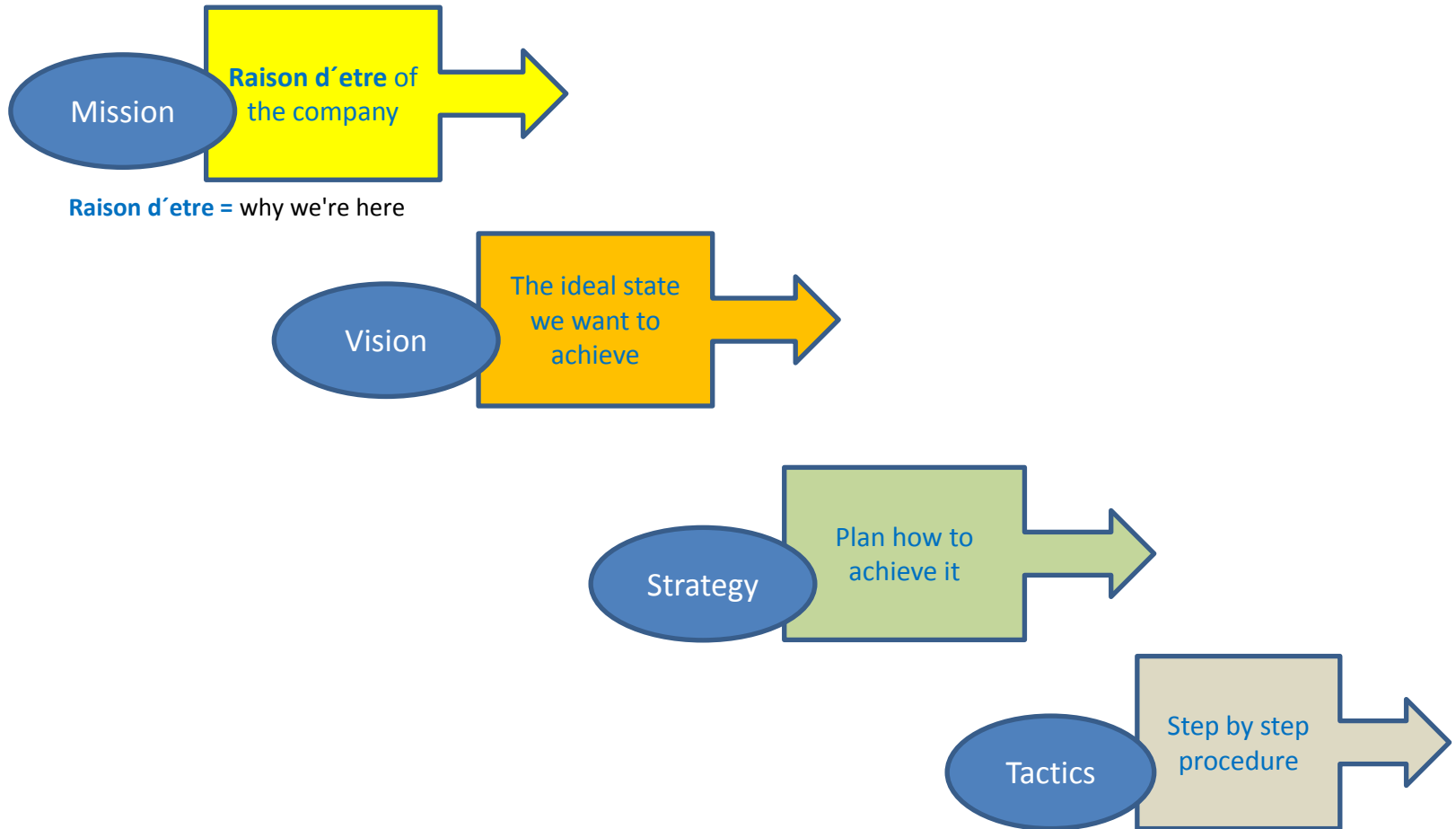
Visions

- **Vision:** what the company wants to become, what is its target state

Examples:

- **IKEA:** "Creating a better everyday life for as many people as possible."
- **Harvard University:** "Developing Leaders Who Will One Day Make a Global Difference"
- **SOS Children's Village:** "A loving home for every child."

Step by step...



Balanced Scorecard and continuum of value II

- Balanced Scorecard is a step in the continuum describing value and how the value is created



Budget model in ERP-setup

G/L Budgets

Type to filter (F3) | Name

| Name | Description | Budget Dimension 1 Code | Budget Dimension 2 Code | Budget Dimension ... | Budget Dimensio... | Bloc... |
|------|-------------|-------------------------|-------------------------|----------------------|--------------------|--------------------------|
| 2018 | 2018 budget | | | | | <input type="checkbox"/> |
| 2019 | 2019 budget | AREA | SALESCAMPAIGN | | | <input type="checkbox"/> |

Set Work Date

Set Work Date

Work Date: 24.1.2019

OK Cancel

General

Budget Name: 2019 | View by: Week

Show as Lines: G/L Account | Rounding Factor: None

Show as Columns: Period | Show Column Name:

Budget Matrix (Filtered)

Balance Find Filter Clear Filter

| Code | Name | Budgeted Amount | 4.2019 | 5.2019 | 6.2019 |
|-------------|------------------------------|-----------------|--------|--------|--------|
| 6610 | Sales, Other Job Expenses | | | | |
| 6620 | Job Sales | | | | |
| 6695 | Total Sales of Jobs | | | | |
| 6710 | Consulting Fees - Dom. | 380,00 | 100,00 | 200,00 | 80,00 |
| 6810 | Fees and Charges Rec. - Dom. | | | | |

Total budgeted amount = 380 = 100 + 200 + 80

Budget model in ERP – Sales of Consulting services

| Lines | | | | | | | | |
|--------------------------------|------|------------------------|---------------|----------|-------------------|----------------------|-----------------------|-----------------|
| Sales Line (invoice) 24.1.2019 | | | | | | | | |
| Type | No. | Description | Location Code | Quantity | Unit of Measur... | Unit Price Excl. VAT | Line Amount Excl. VAT | Line Discount % |
| G/L Account | 6710 | Consulting Fees - Dom. | BLUE | 10 | HOUR | 40,00 | 400,00 | |

| Lines | | | | | | | | |
|--------------------------------|------|------------------------|---------------|----------|-------------------|----------------------|-----------------------|-----------------|
| Sales Line (invoice) 31.1.2019 | | | | | | | | |
| Type | No. | Description | Location Code | Quantity | Unit of Measur... | Unit Price Excl. VAT | Line Amount Excl. VAT | Line Discount % |
| G/L Account | 6710 | Consulting Fees - Dom. | | 12 | HOUR | 40,00 | 480,00 | |

| Lines | | | | | | | | |
|-------------------------------|------|------------------------|---------------|----------|-------------------|----------------------|-----------------------|-----------------|
| Sales Line (invoice) 7.2.2019 | | | | | | | | |
| Type | No. | Description | Location Code | Quantity | Unit of Measur... | Unit Price Excl. VAT | Line Amount Excl. VAT | Line Discount % |
| G/L Account | 6710 | Consulting Fees - Dom. | | 4 | HOUR | 15,00 | 60,00 | |

Genera Ledger Entries

| Posti... Date | Document Type | Document No. | G/L Acco... | Description | Gen. Posti... | Gen. Bus. Posting ... | Gen. Prod... | Amount | Bal. Accou... | Bal. Accou... | Entry No. |
|---------------|---------------|--------------|-------------|--------------|---------------|-----------------------|--------------|---------|---------------|---------------|-----------|
| 24.1.2019 | Invoice | 103037 | 6710 | Invoice 1004 | Sale | NATIONAL | SERVI... | -400,00 | G/L Account | | 2852 |
| 31.1.2019 | Invoice | 103038 | 6710 | Invoice 1005 | Sale | NATIONAL | SERVI... | -480,00 | G/L Account | | 2855 |
| 7.2.2019 | Invoice | 103039 | 6710 | Invoice 1006 | Sale | NATIONAL | SERVI... | -60,00 | G/L Account | | 2858 |

$$400+480+60=940$$

Budget- Planned-Actual results (from BC)

Options

Closing Entries: View as:

View by:

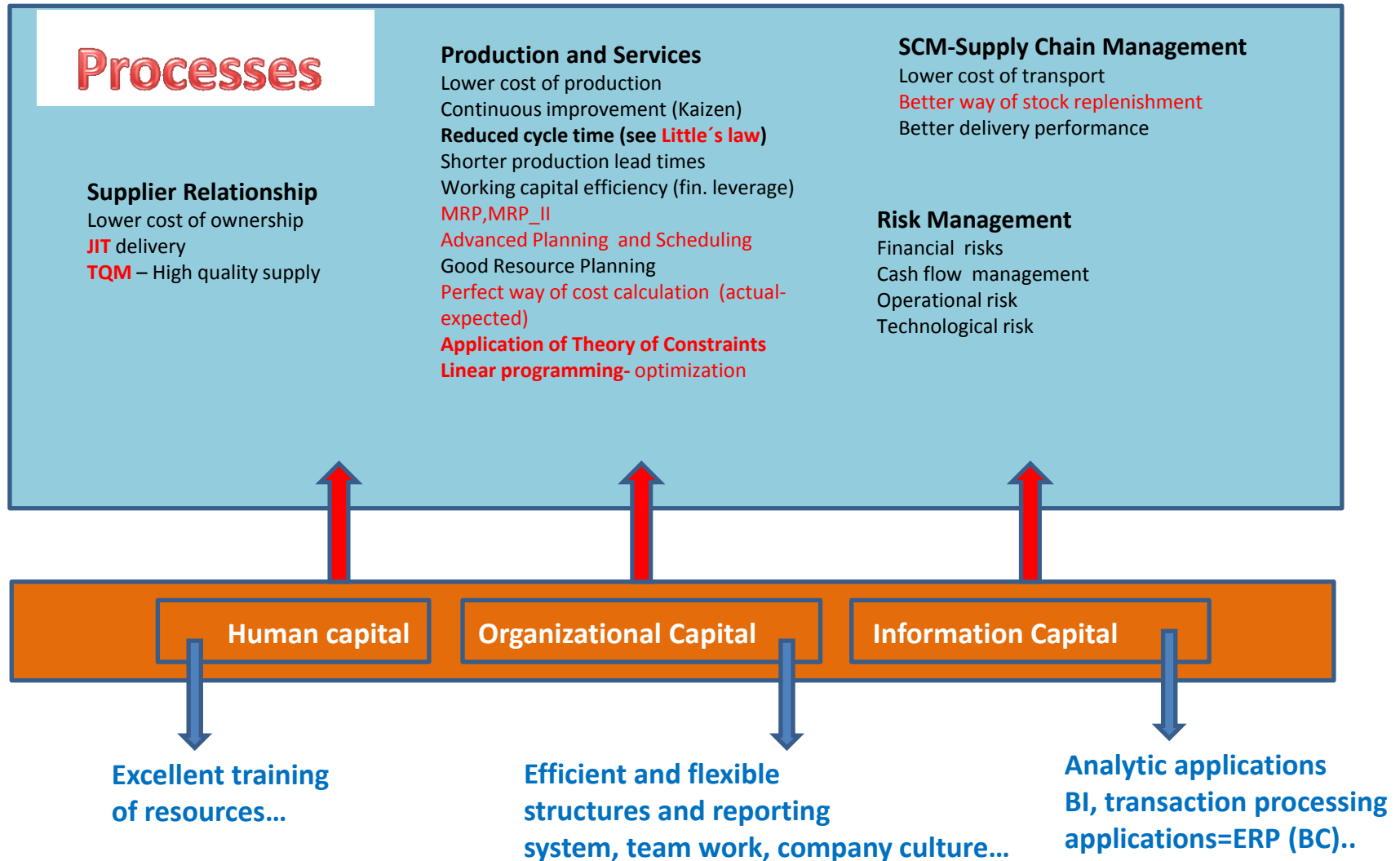
| No. | Name | Income/Bal... | Debit Amount | Credit Amount | Budgeted Debit Amount | Budgeted Credit Amount | Balance/Budget (%) |
|------|------------------------|----------------|--------------|---------------|-----------------------|------------------------|--------------------|
| 6710 | Consulting Fees - Dom. | Income Stat... | | 940,00 | 380,00 | | -247,4 |

Area definitions

- BSC developed by Robert Kaplan and David Norton
- BSC examines a firm's performance in four critical areas

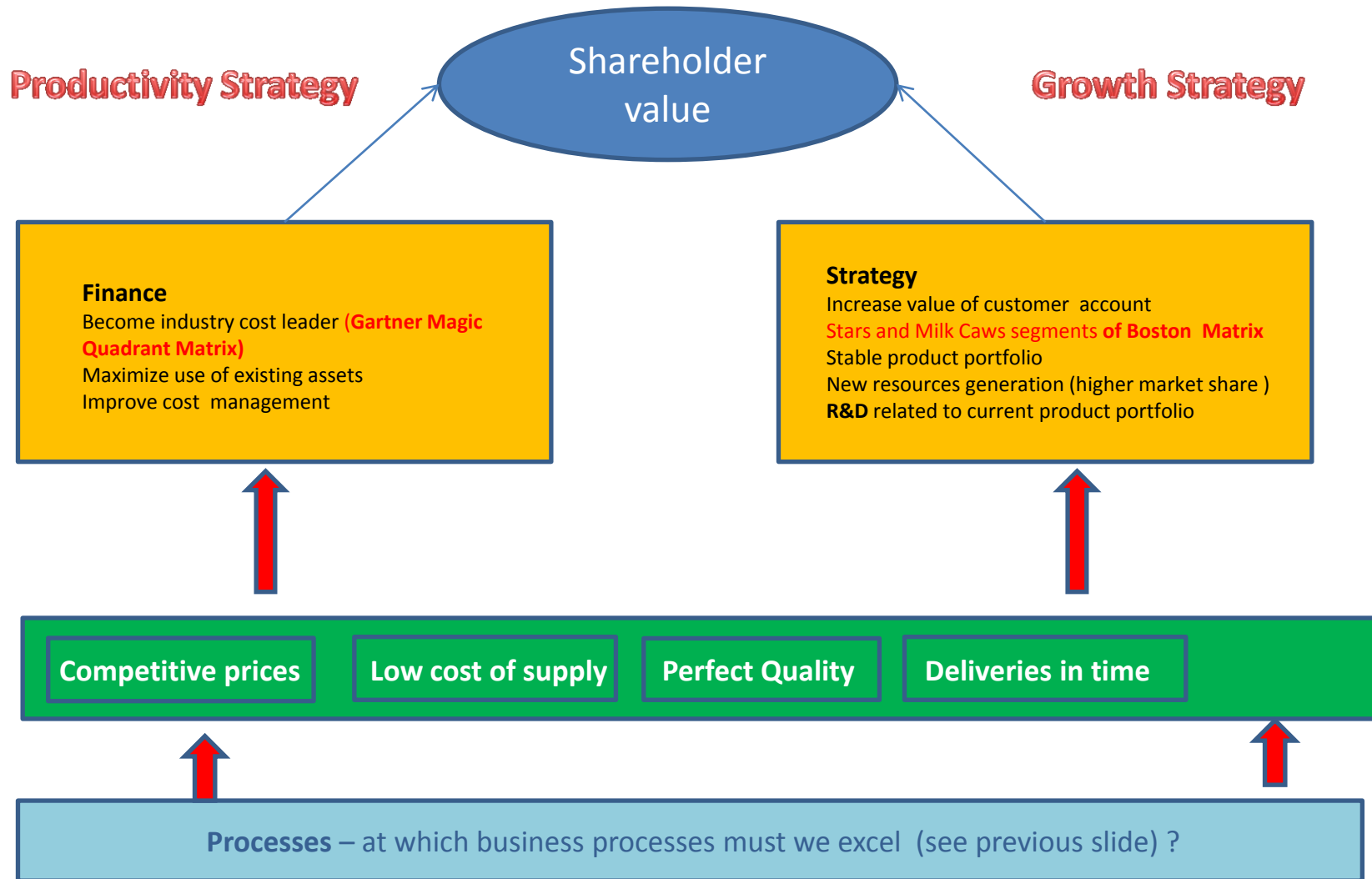


Basic strategy map (two lower BSC levels)



Resource : Operation Management, Quality and Competitiveness in Global Environment, Russel & Taylor (not the red ones)

Basic strategy map (two upper BSC levels)



Some explanation of benchmarks I (home study- one of many examples)

- KPI-Key Performance Indicators

- As businesses evolve, leaders need to understand how they're performing across specific periods.
- Many businesses use key performance indicators (KPIs) to quantify metrics and standardize performance reviews.
- The first step to implementing this process is to understand KPIs and how they can be defined for various business segments.

- Example from financial area :

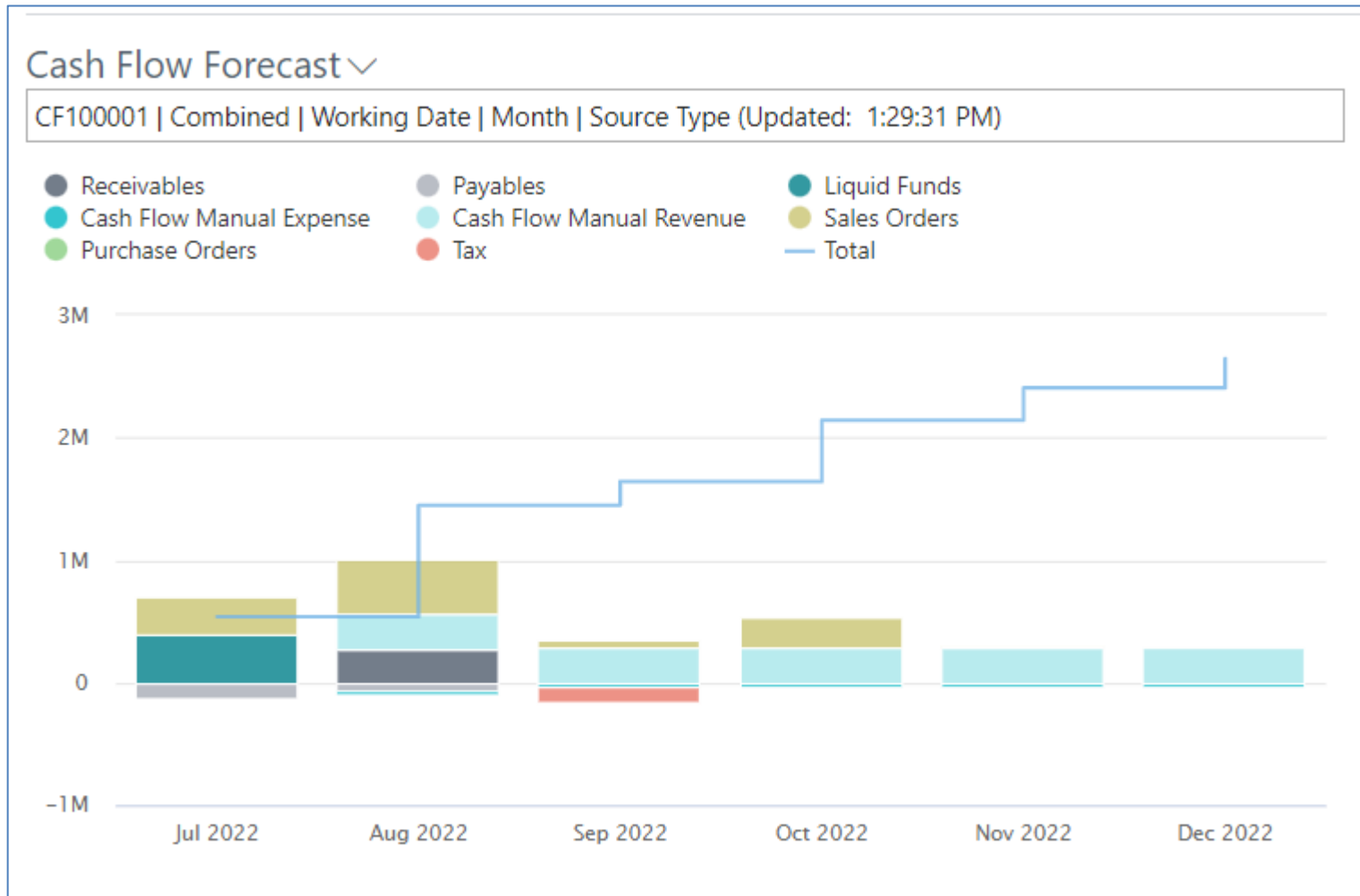
- **Working Capital Requirement** : WCR measures the **financial resources required to cover the lag between outgoing and incoming payments** and shows the amount of financial resources needed by a company to ensure its production cycle and its repayments of both debts and upcoming operational expenses.
- **Net working capital requirement = Inventory + Accounts Receivable – Accounts Payable** Parameters related to cash flow

Explanation : A WCR having value less than 1 signals that outgoing funds needed for operations exceeds incoming sources from business activities. Conversely, and WCR between 1.5 and 2 is a sign that the company does not need to dip into its long-term resources to satisfy short-term requirements.

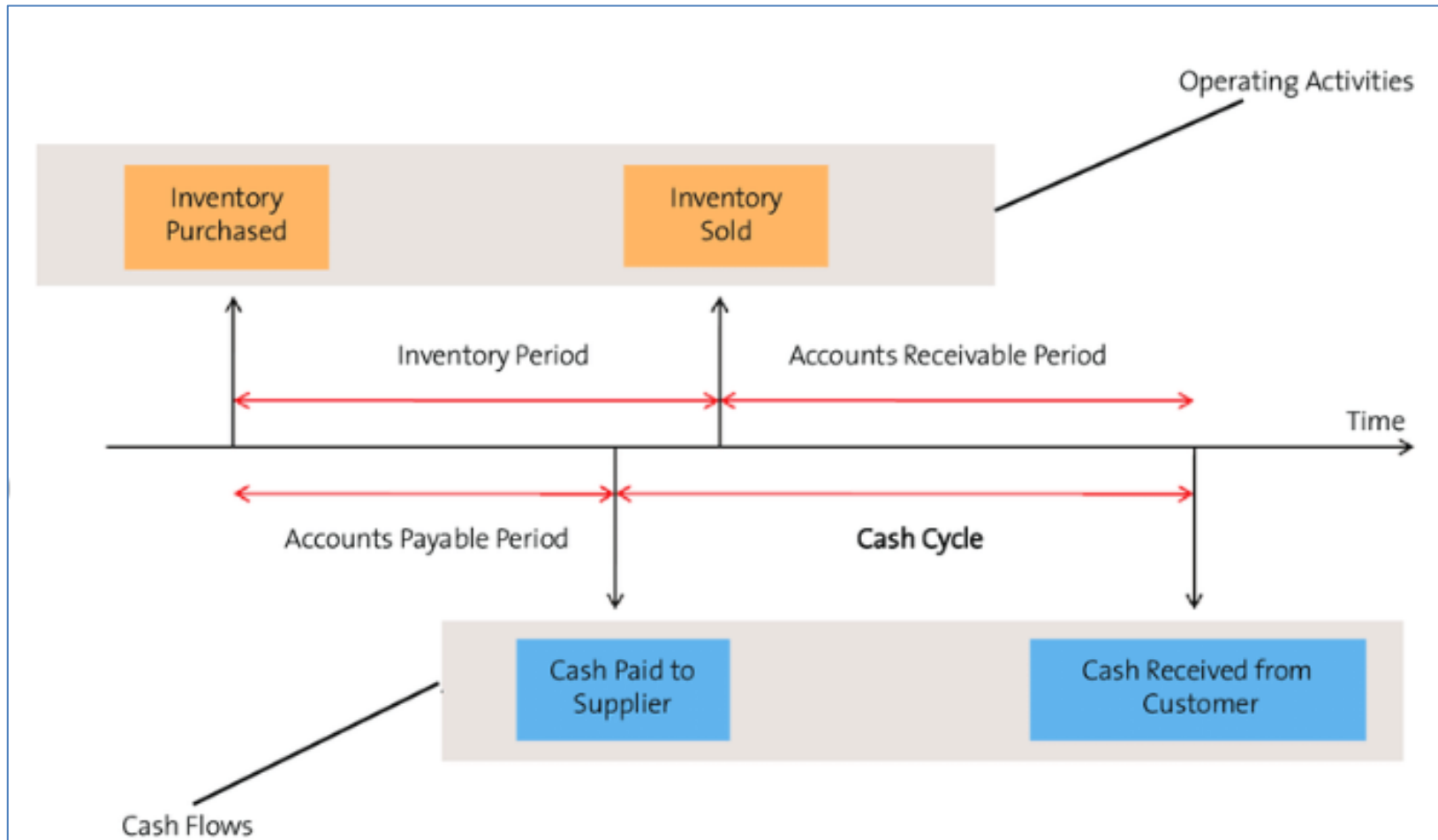


**Prediction is extremely difficult,
especially in the future.**

Cash flow

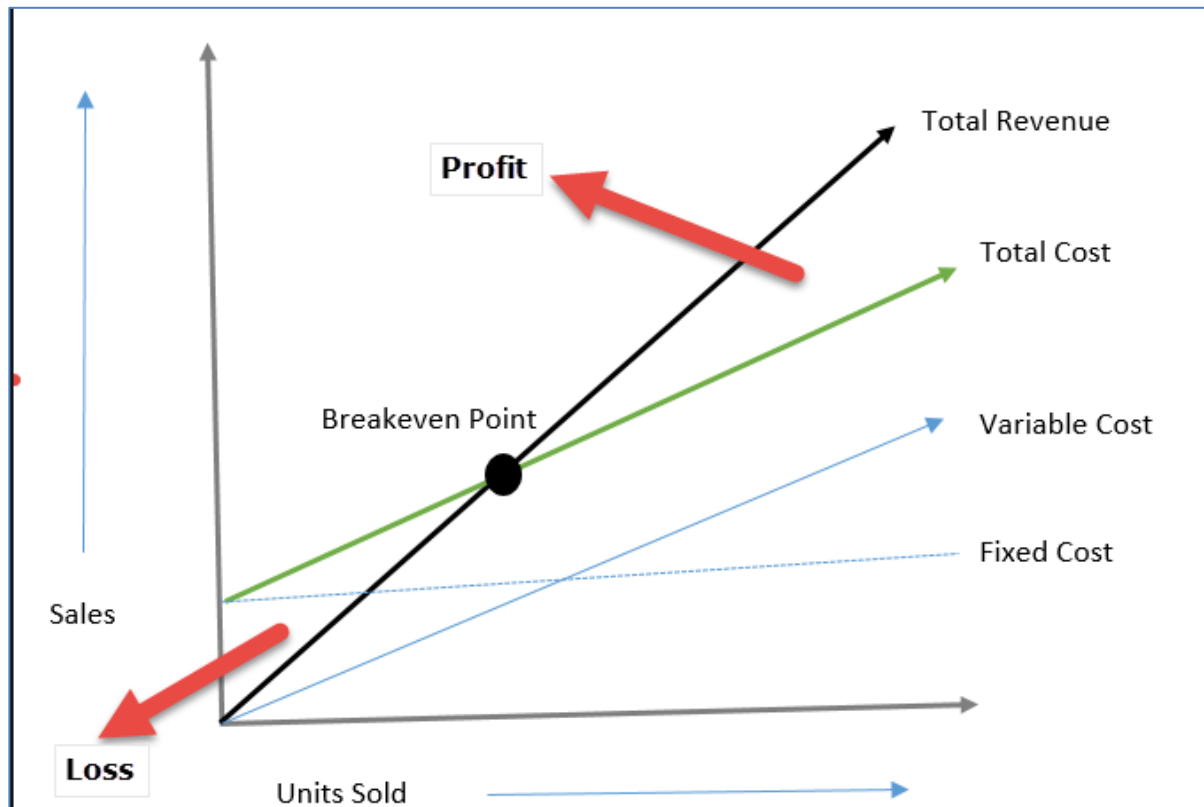


Cash cycle (Cash-to-Cash)



Explanation of benchmarks II (home study)

- KPI-Break Even Point



$$Q = F / (P - VC) , \text{ where } F = \text{Fixed costs}, P = \text{Unit Cost}, VC = \text{Variable cost}$$

Balanced Scorcard worksheet

| Dimension | | Objectives | Key Performance Indicator | Goal for 2008 | KPI Results to Date | Score | Mean Performance |
|------------------------|---------------------------|-----------------------------------------|-----------------------------------|---------------|---------------------|-------|------------------|
| Finances | Productivity | Become industry cost leader | % reduction in cost per unit | 20% | 10% | 50% | 65% |
| | Growth | Increase market share | Market share | 50% | 40% | 80% | |
| Customers | Quality | Zero defects | % good quality first pass | 100% | 80% | 80% | (50+80)/2 87% |
| | Timeliness | On-time delivery | % of on-time deliveries | 95% | 90% | 95% | |
| Processes | Suppliers | Integrate into production | % orders delivered to assembly | 50% | 40% | 80% | 73% |
| | | Reduce inspections | % suppliers ISO 9000 certified | 90% | 60% | 67% | |
| | Products | Reduce time to produce | Cycle time | 10 mins. | 12 mins. | 83% | 52% |
| | | Improve quality | # warranty claims | 200 | 1000 | 20% | |
| | Distribution | Reduce transportation costs | % FTL shipments | 75% | 30% | 40% | 40% |
| | Post-sales Service | Improve response to customer inquiries | % queries satisfied on first pass | 90% | 60% | 67% | 67% |
| | Risk | Reduce Inventory obsolescence | Inventory turnover | 12 | 6 | 50% | 50% |
| | | Reduce customer backlog | % order backlogged | 10% | 20% | 50% | |
| Learning & Growing | Human capital | Develop quality improvement skills | # of six sigma Black Belts | 25 | 2 | 8% | 35% |
| | | | % trained in SPC | 80% | 50% | 63% | |
| | Information capital | Provide technology to improve processes | % customers who can track orders | 100% | 60% | 60% | 61% |
| | | | % suppliers who use EDI | 80% | 50% | 63% | |
| Organizational capital | Create innovative culture | # of employee suggestions | 100 | 60 | 60% | 55% | |
| | | % of products new this year | 20% | 10% | 50% | | |

Explanations : FTL=full truck load, LTL= less than truck load , SPC=statistical process control, EDI=electronic data interchange, Cycle time=time/unit=(e.g.7 min/1 customer request)

Some time units for measuring (home study- examples of partially used time parameters)

- **Will be presented later in sections such as :**
 - **Little's law** ($WIP = \text{Throughput} * LT$) – will be presented later in this course
 - **Theory of Constraint** (throughput time)
- **Takt Time (TT)** – rhythm in which we have to produce to satisfy customer demand (demand is for instance 240 toaster ovens and we can produce these in 480 minutes $\rightarrow TT = 480/240 = 2$ ovens/minute)
- **Lead Time (LT)** – Number of minutes, hours, or days that must be allowed for the completion of an operation or process, or must elapse before a desired action takes place – see next slide

ERP outputs and BSC

Customer - Summary Aging
CRONUS International Ltd.

12. Ceven 2015
Page 1

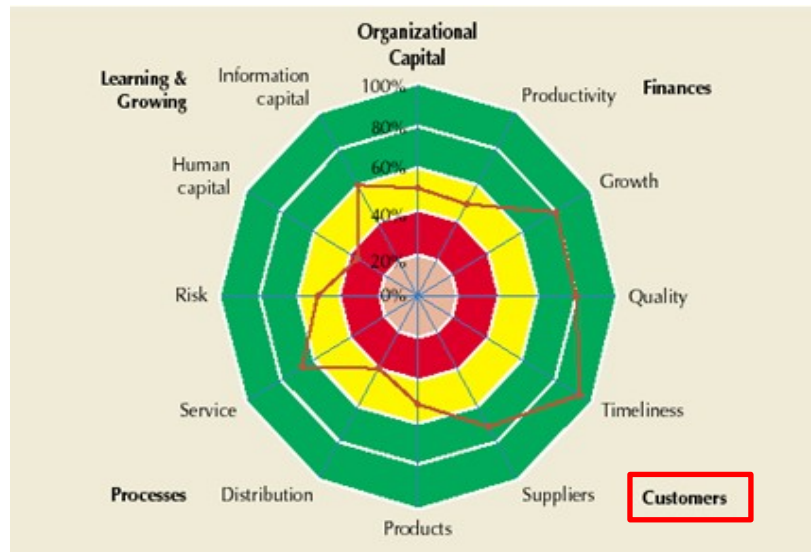
Customer: No.: 10000.50000

Report generated from
ERP Business Central

Balance Due

| No. | Name | ...before | 03.12.12 02.01.13 | 03.01.13 02.02.13 | 03.02.13 02.03.13 | after... | Balance |
|--------------------|----------------------------|-------------------|----------------------|----------------------|----------------------|-------------------|-------------------|
| 10000 | The Cannon Group PLC | 48 860,55 | 0,00 | 0,00 | 0,00 | 286 056,12 | 334 916,67 |
| 20000 | Selangorian Ltd. | -3 467,38 | 0,00 | 0,00 | 0,00 | 0,00 | -3 467,38 |
| 30000 | John Haddock Insurance Co. | 340 865,40 | 0,00 | 0,00 | 0,00 | 0,00 | 340 865,40 |
| 40000 | Deerfield Graphics Company | 1 328,88 | 0,00 | 0,00 | 0,00 | 0,00 | 1 328,88 |
| 50000 | Gullford Water Department | 666,75 | 0,00 | 0,00 | 0,00 | 0,00 | 666,75 |
| Total (LCY) | | 388 254,20 | 0,00 | 0,00 | 0,00 | 286 056,12 | 674 310,32 |

FINANCIAL WAY OF REPORTING



BSC WAY OF REPORTING (RADAR CHART)

Based on KPI estimation in % out analysed company is excellent, but on the other hand, collecting money, credit limit and overdue management is falling behind

ERP forms related to customer aging report

10000 The Cannon Group PLC - Customer Card

General Communication Invoicing Payments Shipping Foreign Trade

No. 10000 Search Name THE CANNON GR...

Name The Cannon Group PLC Balance (LCY) 334 916,67

Address 192 Market Square Credit Limit (LCY) 10 000,00

Address 2.

Post Code/City B27 4KT Birmingham Salesperson Code PS


Country/Region Code GB Responsibility Center BIRMINGHAM

Phone No. Service Zone Code M

Primary Contact No. Blocked

Contact. Mr. Andy Teal Last Date Modified 02.03.15

Check Credit Limit

 This customer has an **overdue balance** and the customer's **credit limit** has been exceeded. Do you still want to record the amount?

No. 10000

Name The Cannon Group PLC

Balance (LCY) 334 916,67

Outstanding Amt. (LCY) 157 876,00

Shipped/Ret. Rcd. Not.. 525,50

Current Amount (LCY) 0,00

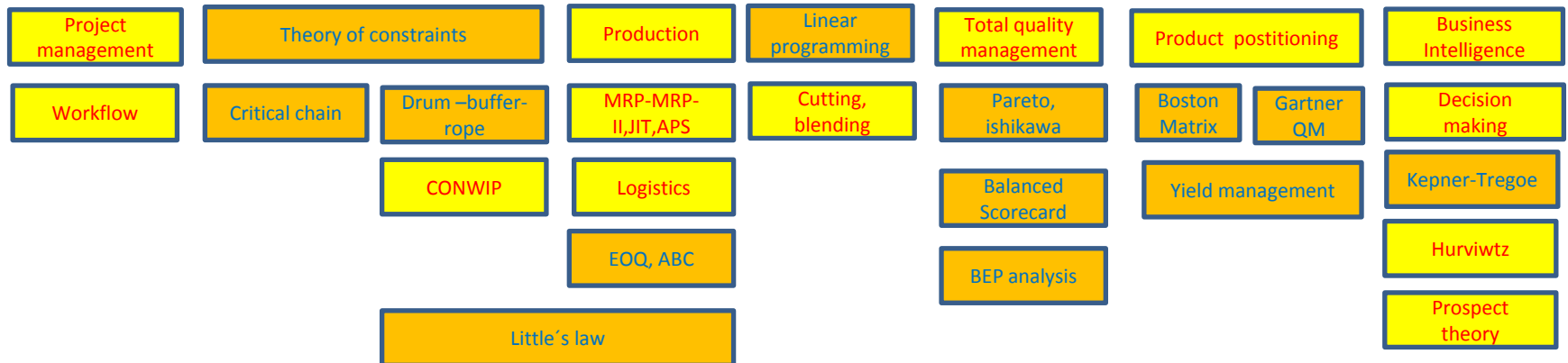
Total Amount (LCY) 493 318,17

Credit Limit (LCY) 10 000,00

Overdue Amounts (LCY)
as of 10.12.14 48 704,17

Yes No Customer Help

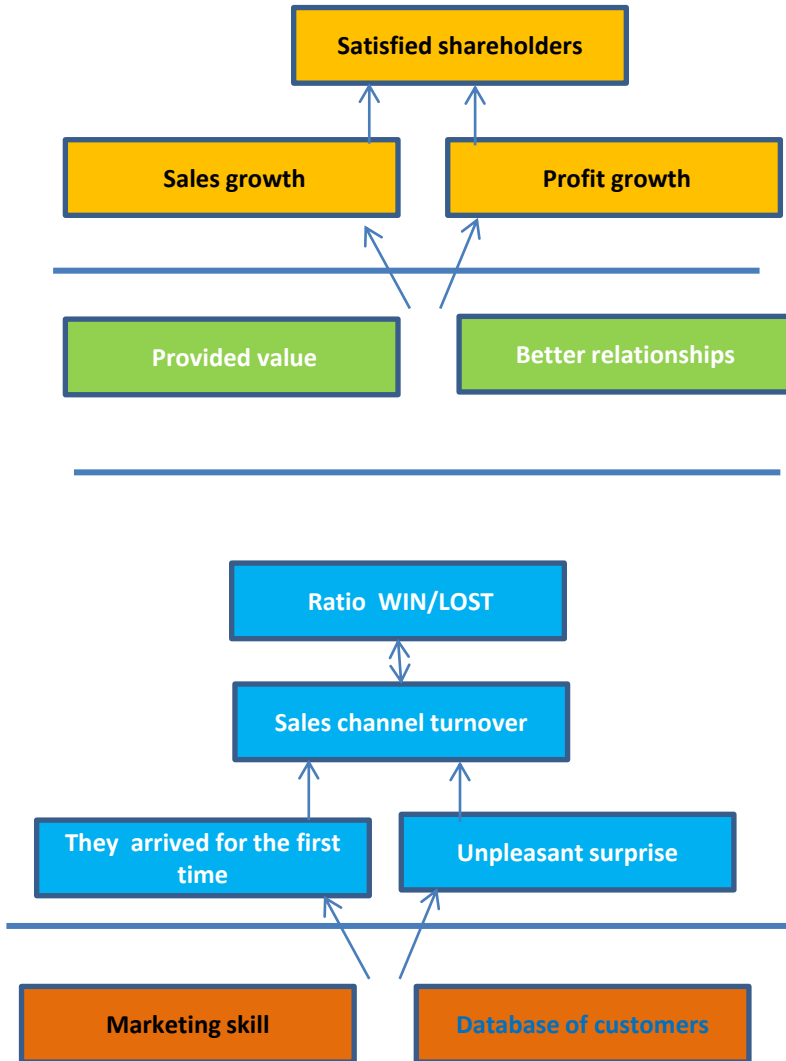
BSC and OM (Processes discussed practically in Business Central are not listed here)



Methods related to AOPR course

Strategic initiatives

(two lower BSC layers have defined way : Goal-Measurement-Intent-Action Program



| Goal | Measurement | Intent | Action program |
|--------------------------------|----------------------------------------------|-------------------------------------|-------------------------------|
| To keep our existing customers | Ratio WIN/LOST | | Action sales |
| To enlarge market share | Number of new customers | by 100 % - 2 years (increase) | Support of image |
| | Quantity of problems | by 50 % - 2 years (decrease) | Program of targeted marketing |
| Marketing skills | % of skills % customers with correct data | In one year 100% In 2 years 80 % | Training New SW |

Used tool (one page approach)

The least important process from the evaluators' point of view

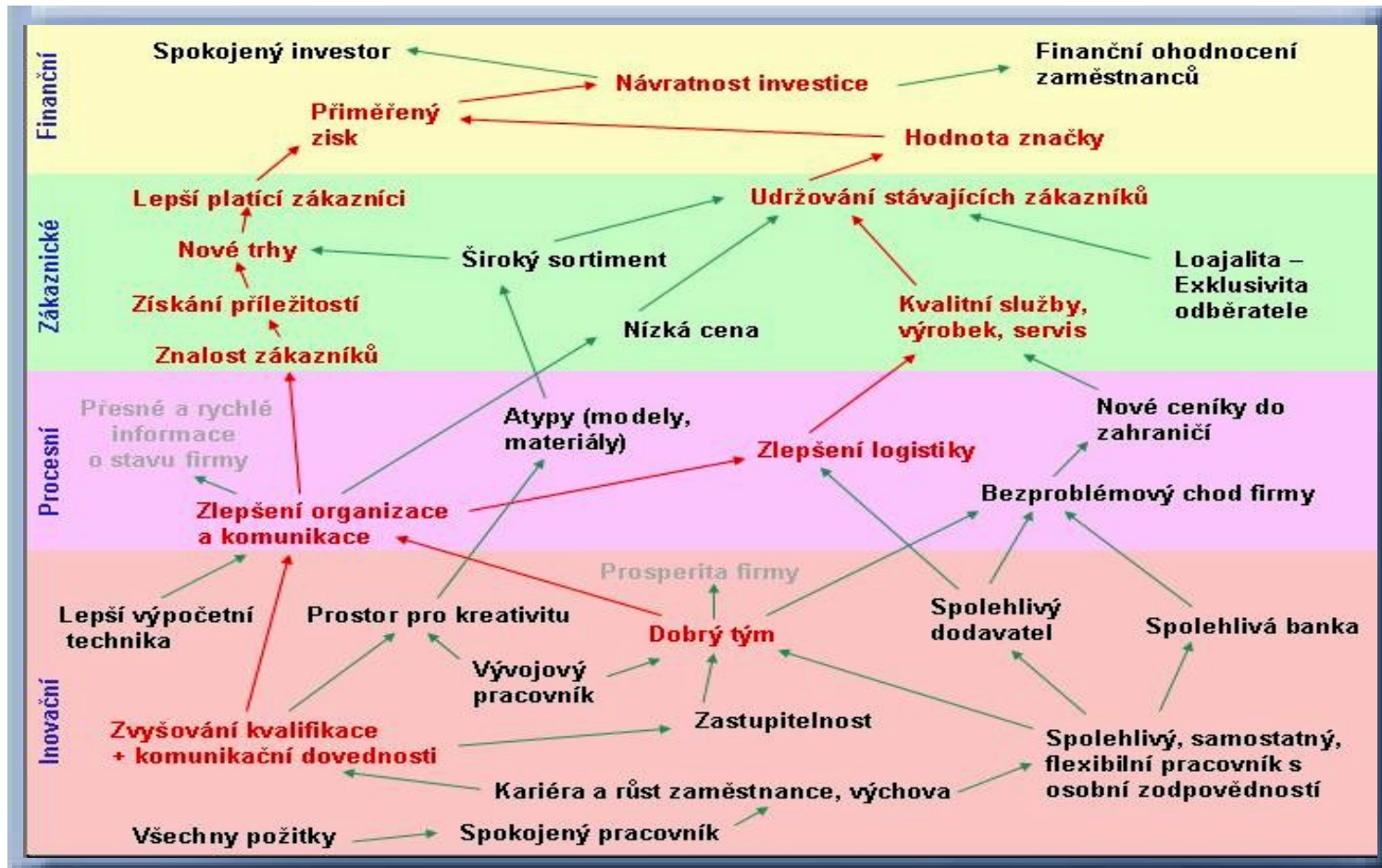
| | Metrics | | | | | | | |
|----------------------|---------|--------------|----------|-------------|----------------------|----------------------|---------------|-------------|
| Process | Margin | Market share | Branding | Top quality | Optimized setup time | Delivery performance | Selling price | |
| Selling | 2 | 1 | 4 | 0 | 2 | 2 | 6 | |
| Inventory Management | 0 | 1 | 2 | 3 | 1 | 4 | 2 | |
| Quality management | 2 | 3 | 4 | 8 | 1 | 3 | 2 | |
| HR sector | 0 | 1 | 2 | 1 | 0 | 2 | 2 | 1+2+1+2+2=8 |
| Transport | 0 | 2 | 3 | 2 | 0 | 2 | 0 | |
| Production | 1 | 1 | 1 | 9 | 8 | 3 | 2 | |

The numbers are chosen randomly. They represent the number of evaluators that connect the process and a measure of the performance of that process. The activities (processes) with the smallest number of points are not important for the achievement of the objectives and can be suppressed.

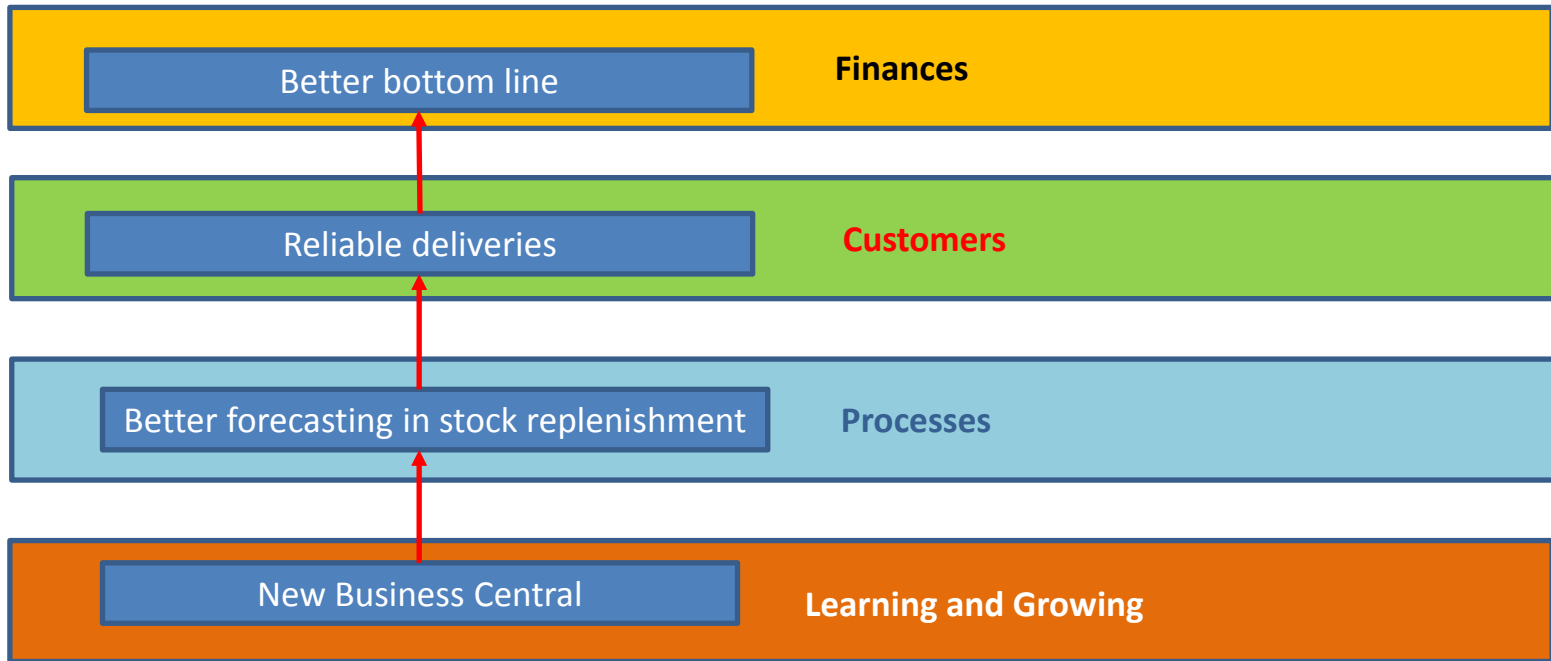
Výsledný graf po aplikaci JSS (transpozice FRT->BSC vrstev)



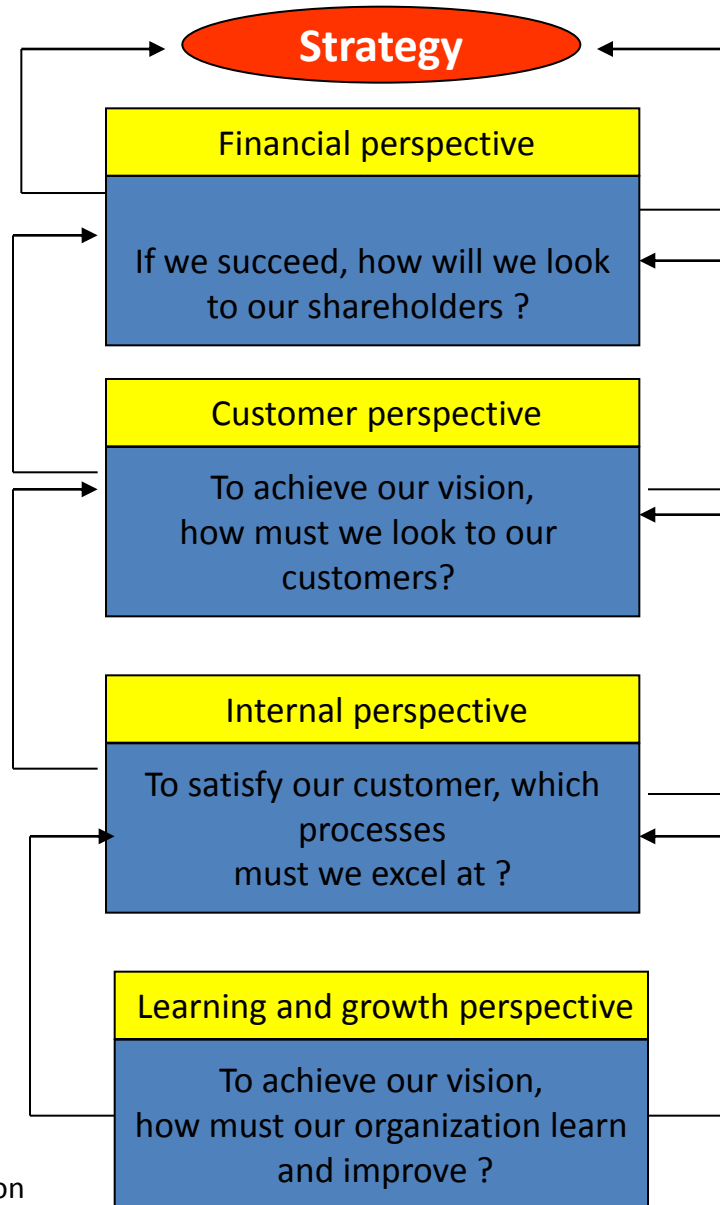
Czech courses only



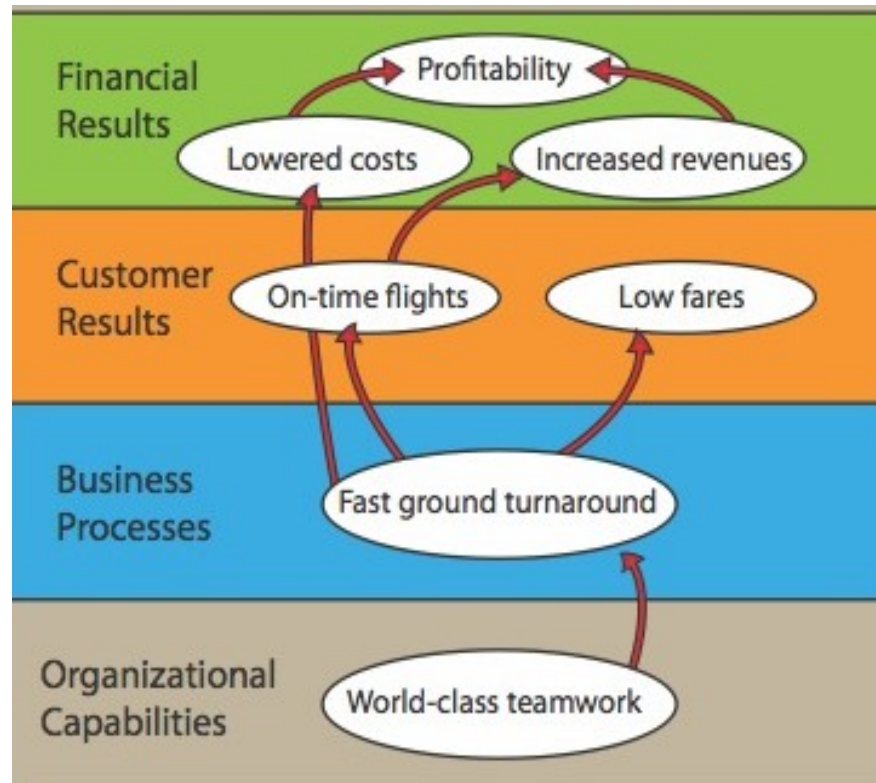
BSC and Future Reality Tree relationship



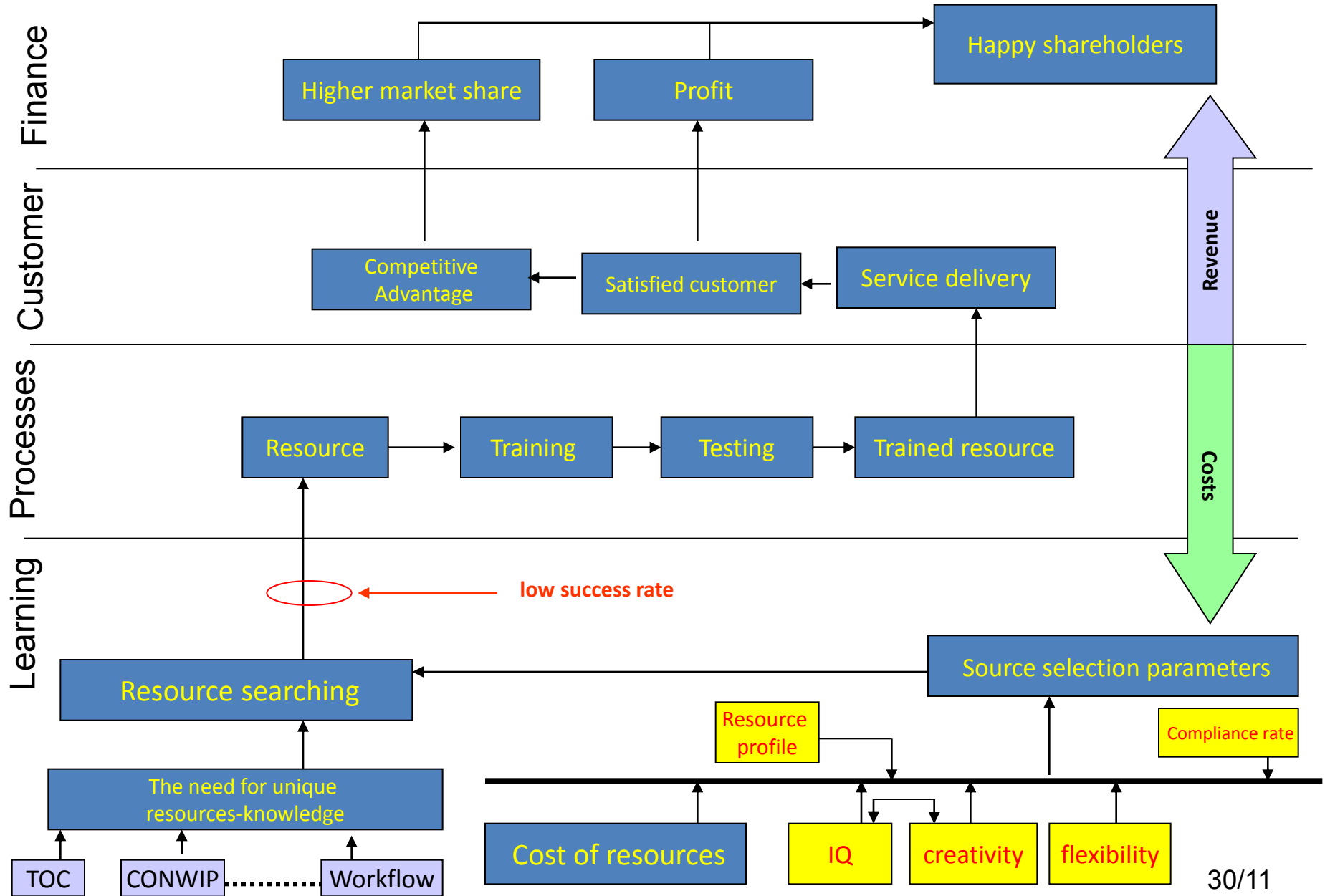
Strategy Map-The Simple Model of Value Creation



Strategy map - example



Strategic map (BSC)



Test 1

- **What is the main goal of a company?**
 - A) Obtain the highest profit
 - B) Find solutions that will be in the best interests of stakeholders
 - C) Produce as many products as possible
 - D) A and C
 - E) None of the above

Test 2

- **Which of the following is Operations Management Technology not concerned with?**
 - A) Product & Service Technology
 - B) Process Technology
 - C) Globalization technology
 - D) Information Technology
 - E) All of the above

Test 3

- **Which of the following would be considered an input when converting inputs into outputs during the transformation process?**
- A) Land
 - B) Capital
 - C) Raw Materials
 - D) Facilities
 - E) All of the above

Test 4

- **Which of the following is not a key element of supply chain management ?**

A) Purchasing

B) Suppliers

C) Location

D) Logistics

E) Managers decision