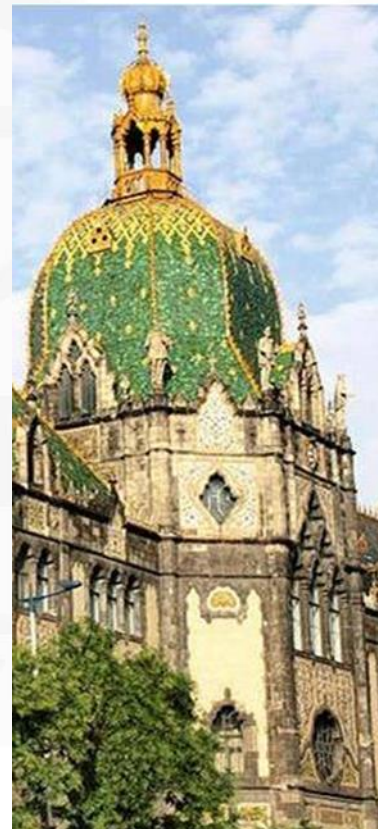


Enterprise Architecture – II

Tutorial 1. Using balanced scorecards for
Business architecture development

Master track

2015/2016

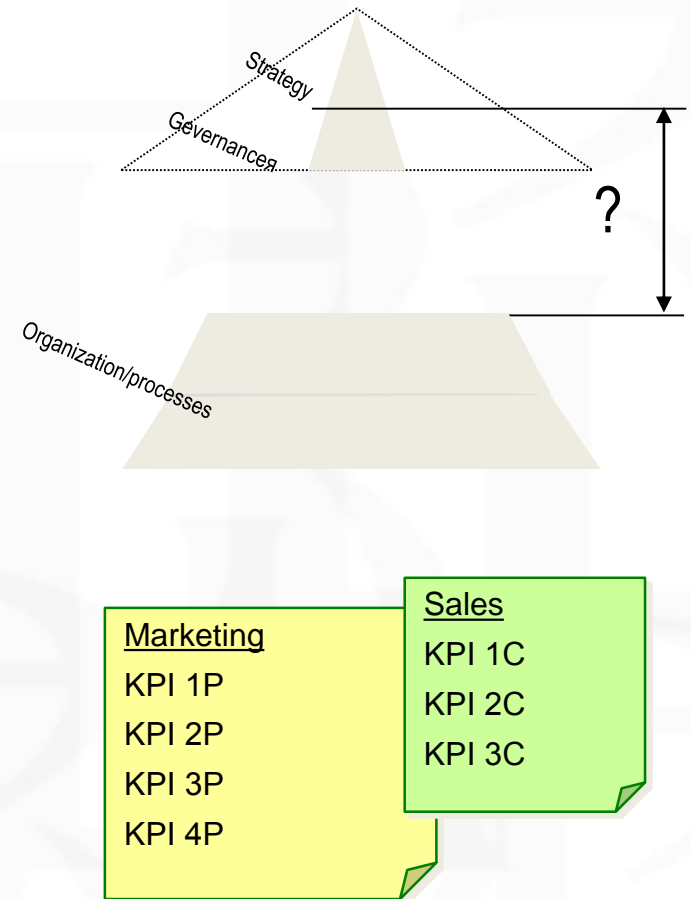


Learning objectives

- Introduction to Balance scorecard methodology
- Development of strategic map
 - mission decomposition
 - finding interrelationships between targets
 - defining metrics
 - developing processes
- Solving practical case

Problems in strategic management

- Lack of conceptual and technological linkage between strategy and the managerial actions
- Often enterprise strategies are not formalized: Ideas or high level objectives do not meet employee's concerns
- Business controlling contains only financial aspects
- Each business unit has its own KPIs (Key Performance Indicators), which are not balanced with other business units and are not oriented towards enterprise strategy



Innovation of the Balanced scorecard (Kaplan & Norton)

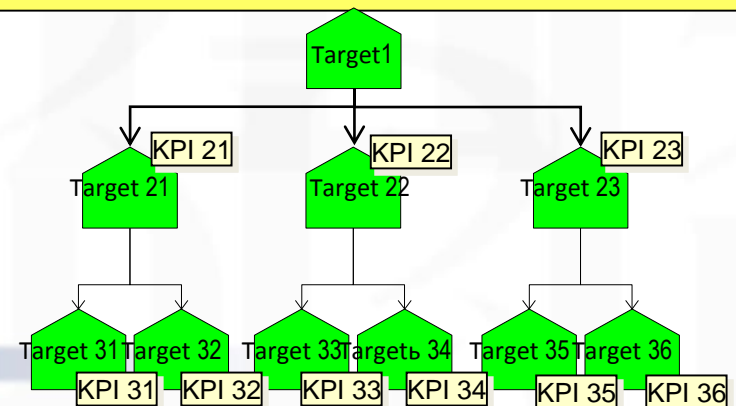
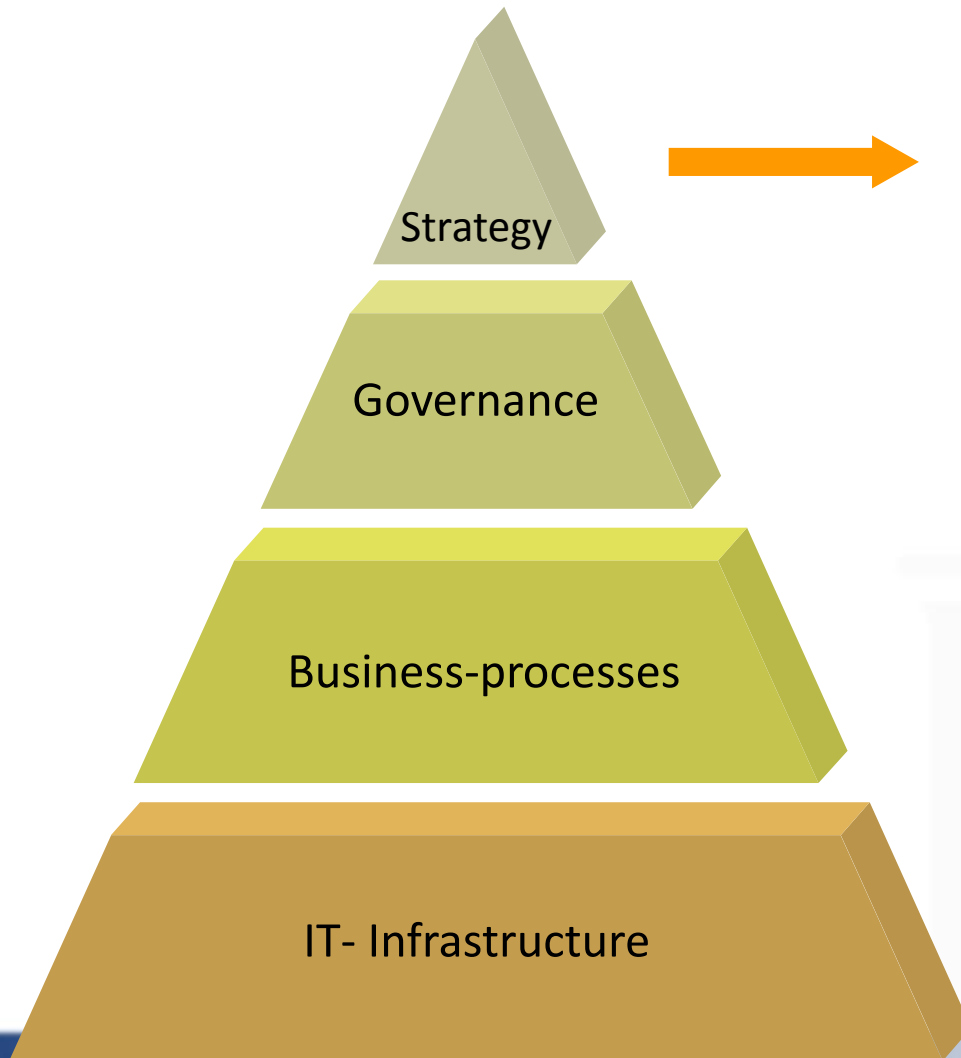


"The balanced scorecard retains traditional financial measures. But financial measures tell the story of past events, an adequate story for industrial age companies for which investments in long-term capabilities and customer relationships were not critical for success. These financial measures are inadequate, however, for guiding and evaluating the journey that information age companies must make to create future value through investment in customers, suppliers, employees, processes, technology, and innovation."

Robert S. Kaplan and David P. Norton, "Using the Balanced Scorecard as a Strategic Management System," Harvard Business Review (January-February 1996): 76

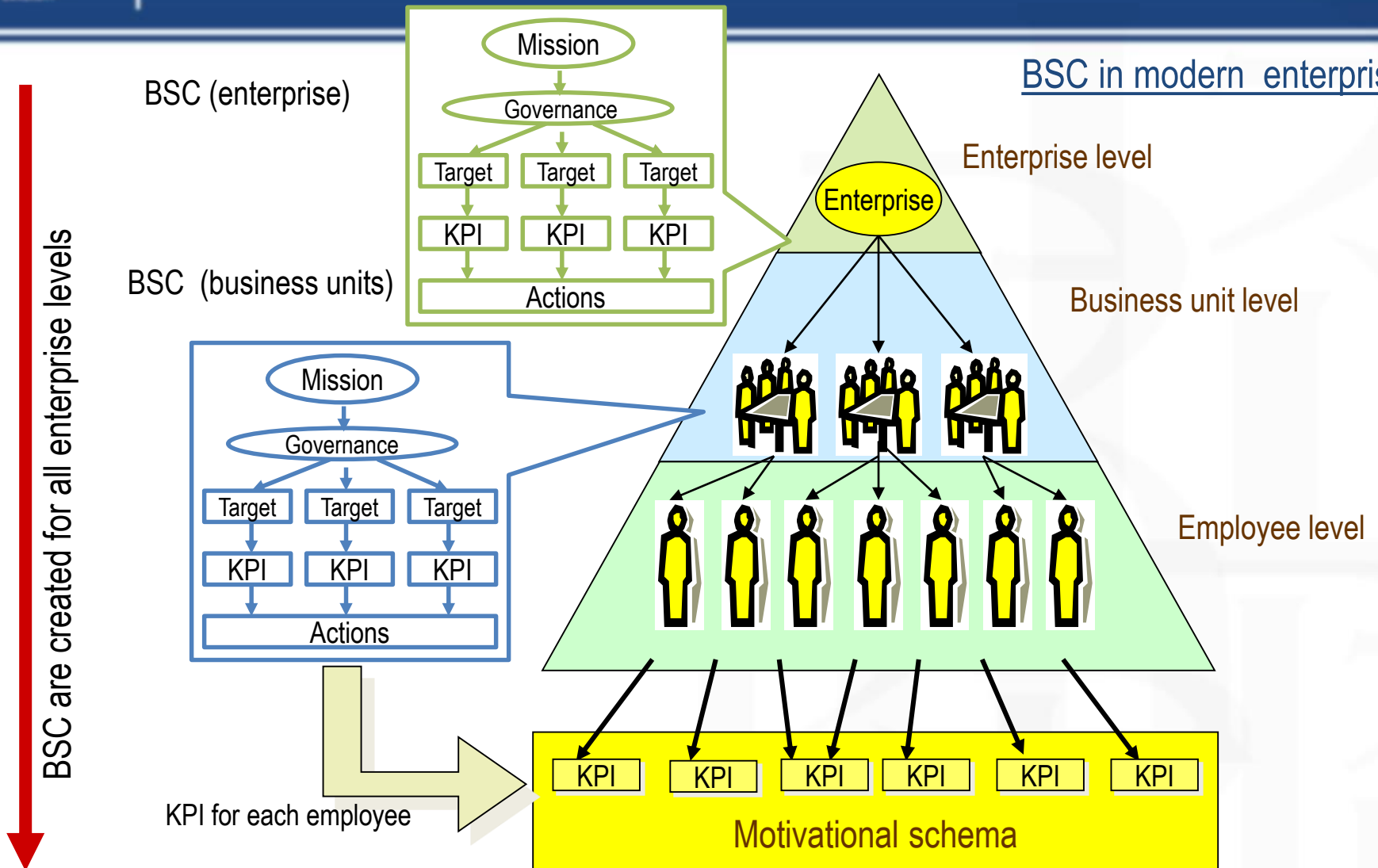
The Balanced Scorecard (BSC) is a model that shows HOW enterprise strategy can use non-material assets in the value added chain (VAC).

Functions of enterprise strategic governance



Creation of Balance Scorecard tree

BSC in modern enterprise



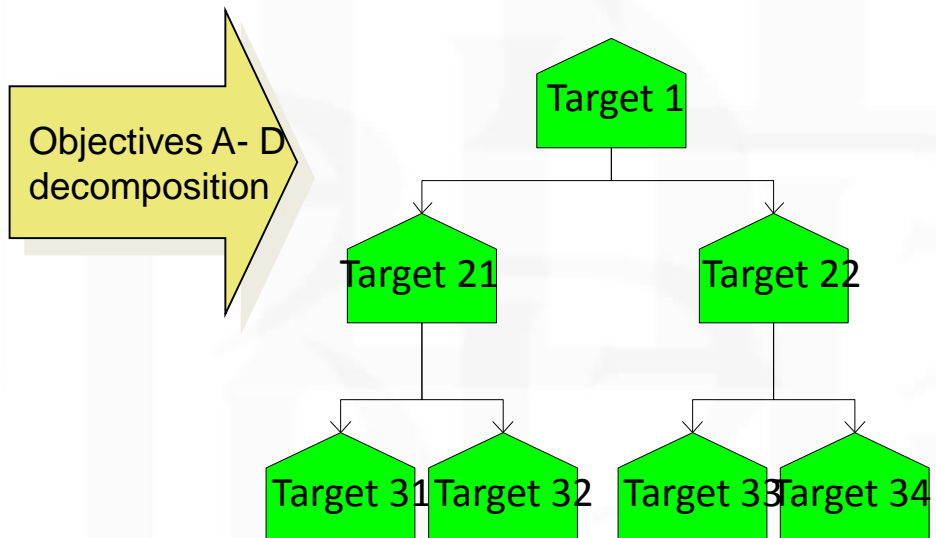


Vision – shows what company wants to be (e.g. world without poverty)

Mission – defines fundamental purpose of an enterprise (what it does?)

Objective is achieved when all its targets are accomplished.

The aim is to create a network of interconnected targets, aimed on realization of enterprise's mission



Top technology-based company mission statements



Amazon's vision is to be earth's most *customer centric* company; to build a place where people *can come to find and discover anything* they might *want* to buy *online*.



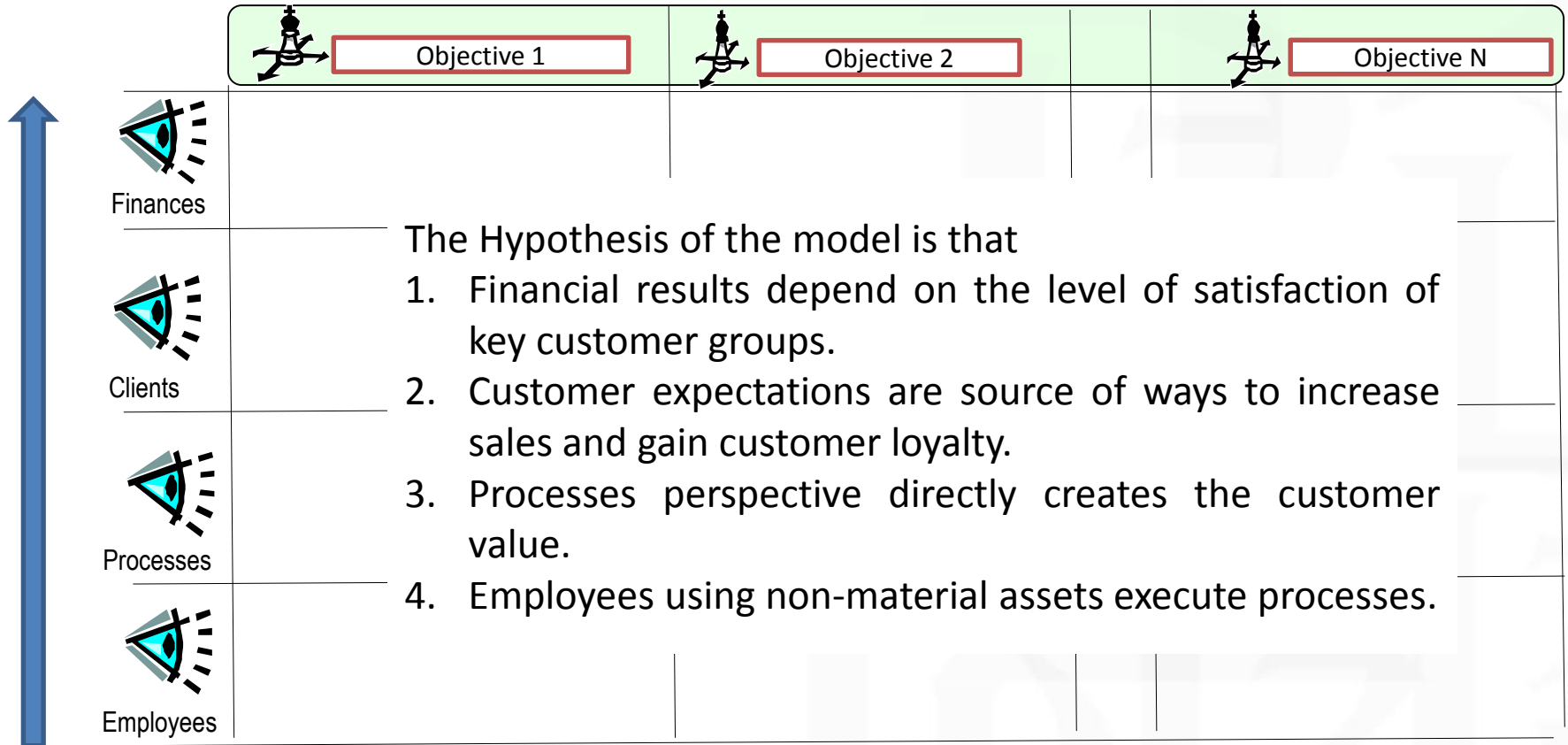
Apple is committed to bringing the *best personal computing experience* to *students, educators, creative professionals* and consumers *around the world* through its *innovative hardware, software* and *Internet* offerings.



Dell's mission is to be the most successful computer company in the world at delivering *the best customer experience* in markets we serve.

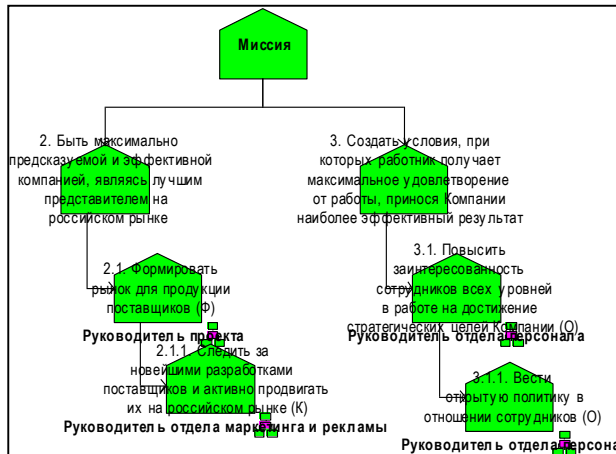


Facebook's mission is to give people the power to share and make the world more open and connected.

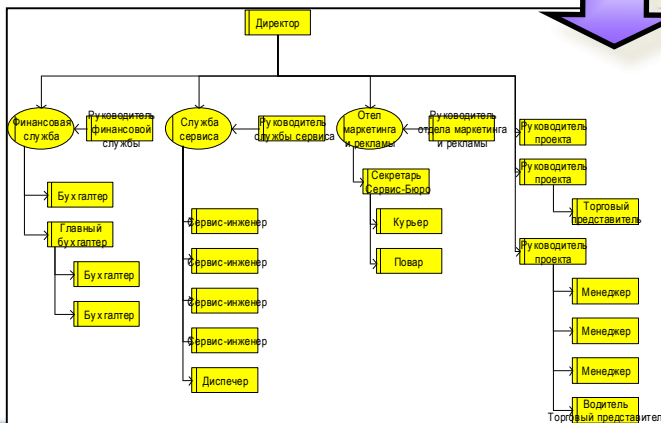


Development of BSC strategic map

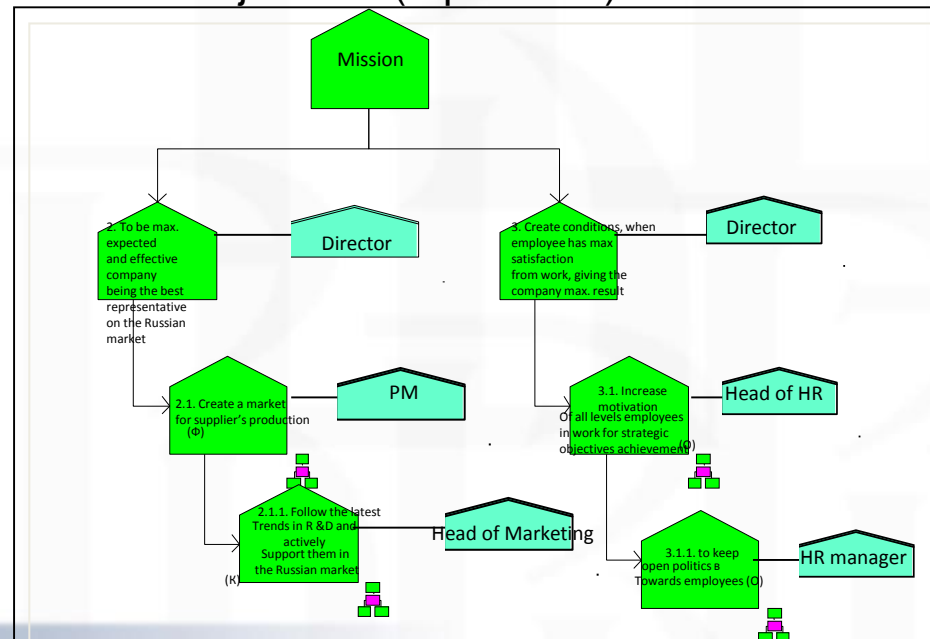
Target hierarchy

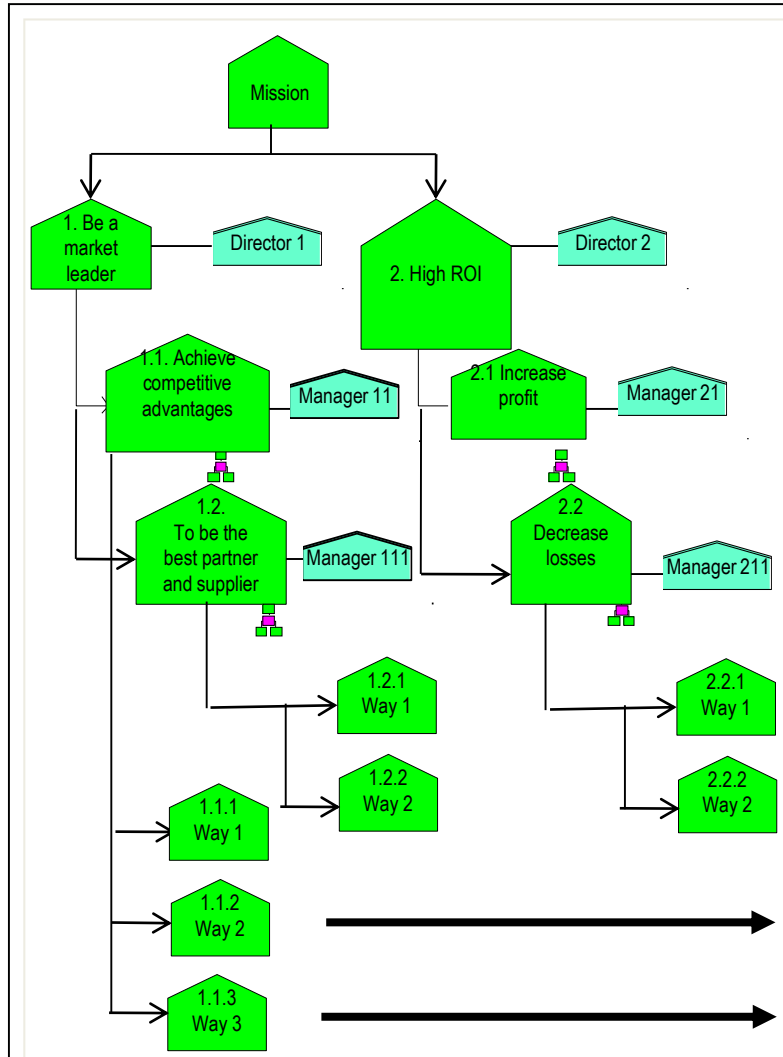


Organizational chart



1. Enterprise mission has to be decomposed on N objectives, which are decomposed further on targets/KPIs
2. Strategic objectives are put on vertical columns
3. Targets are put on 4 perspectives (finances, clients, business processes, personal)
4. Detection of logical relationships between targets
5. Defining KPIs, Processes and responsible persons for achievement of objectives (+ priorities)



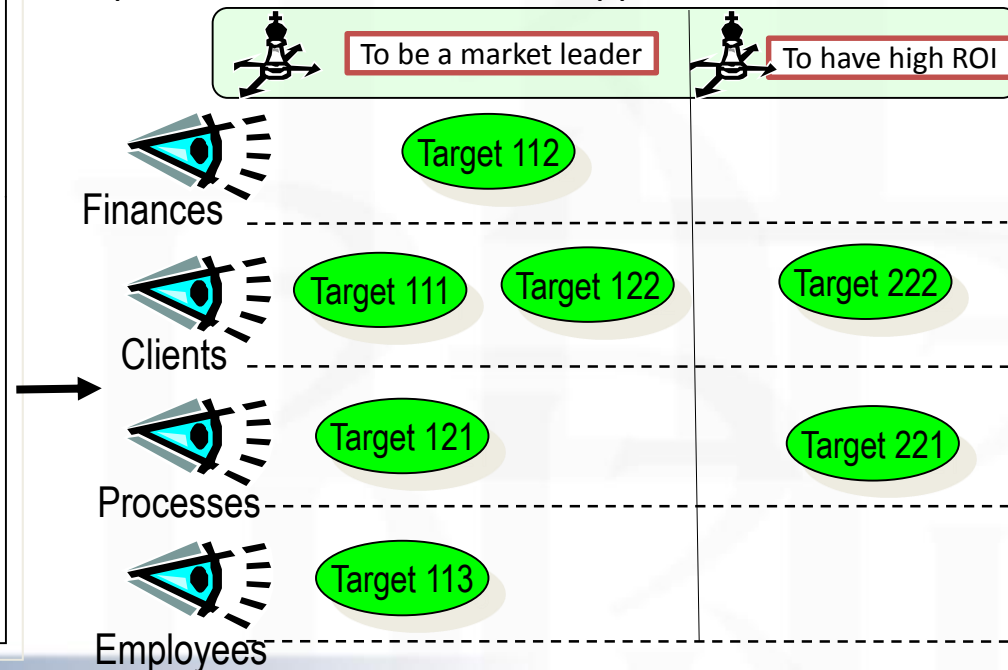


Financial perspective should include increase of Enterprise Value (EV) in a long-term (market expansion) and short-term (profitability) periods

Client perspective defines the target customer demands

Processes perspective define how the strategy should be realized.

Personal – Human capital, informational capital and corporate culture needed to support the VAC



Finances



Clients



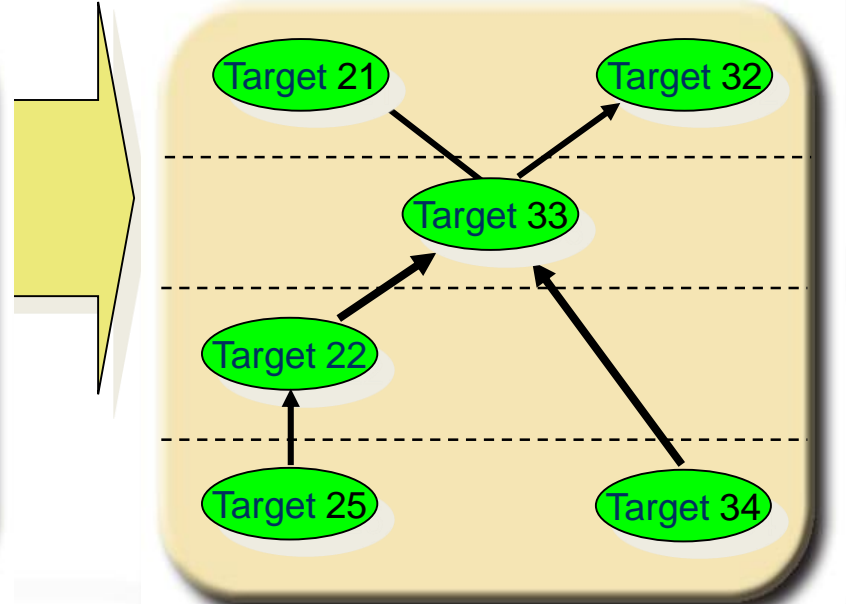
Processes



Employees



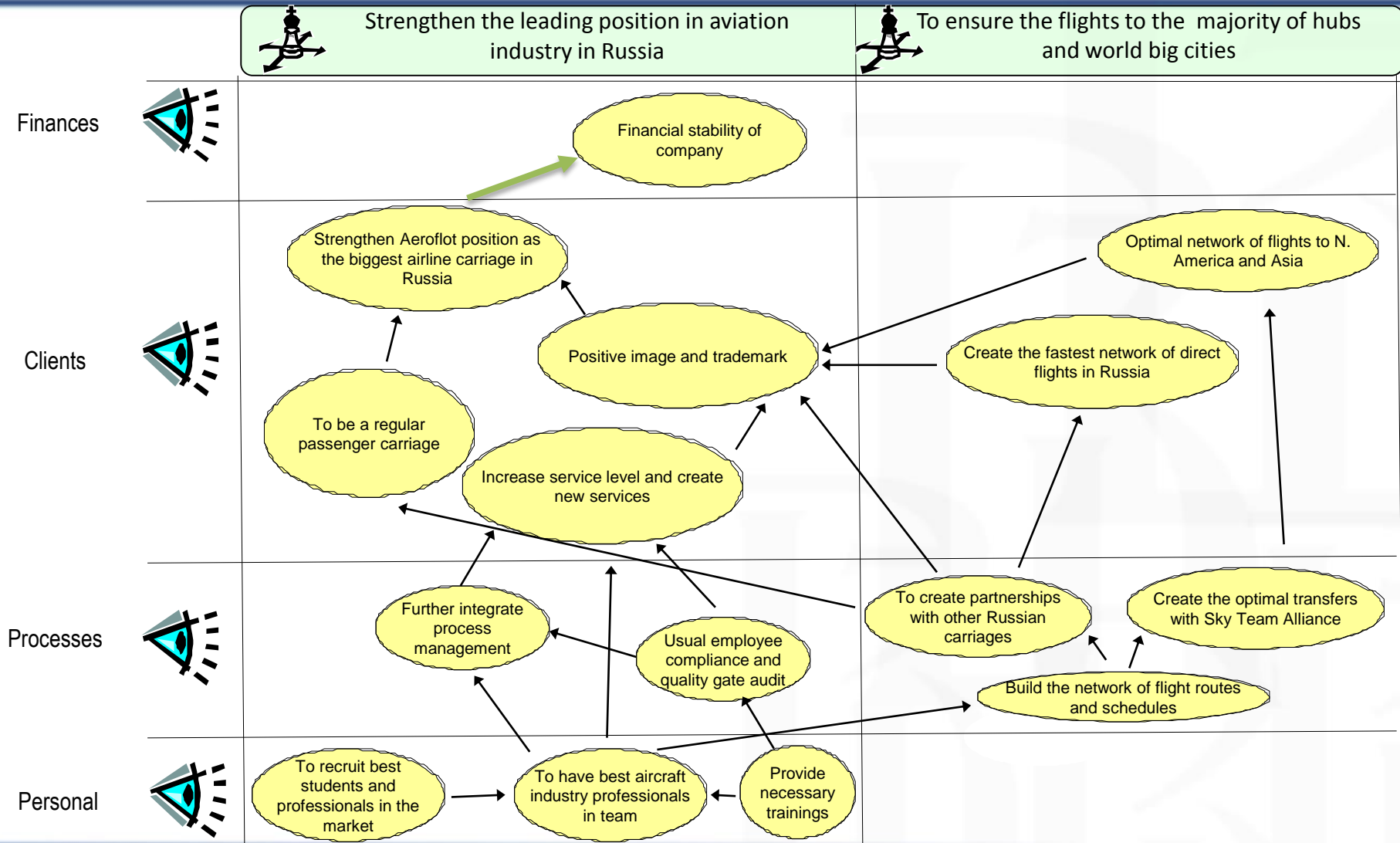
Strategic map without
cause-effect connections
between targets



Strategic map with cause-
effect connections between
targets

Balancing targets is a source for creating value for a focused and coherent strategy. This architecture of “causes and effects” binds components is a structure of BSC revealing the indirect value creation. If targets are not supported by others or not supporting other targets, they should be either reformulated or deleted

Example :AEROFLOT



Key Performance Indicators (KPIs) reflect the qualitative intermediate parameters

Development source:

Enterprise strategy and business-model (key business-processes and organizational chart)

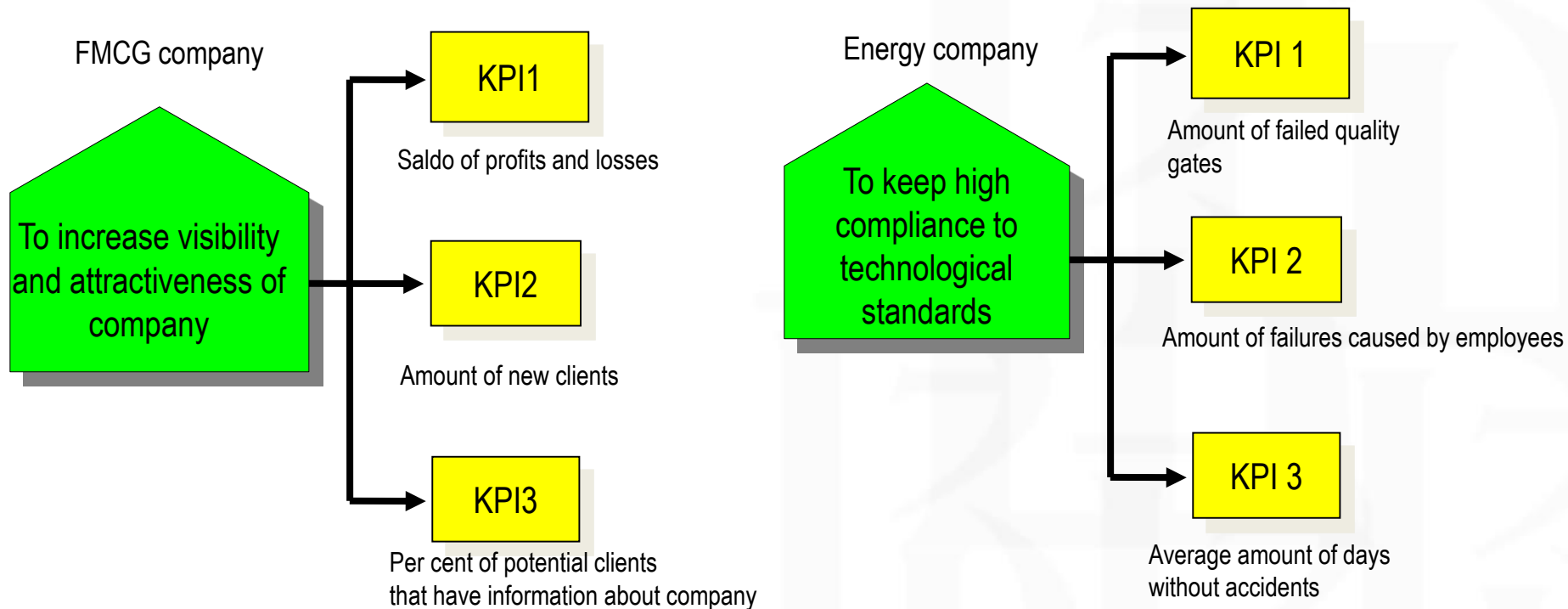
Approaches:

1. KPIs development according to the enterprise maturity level and peculiarities of enterprise governance
2. KPIs development using industry benchmarks (top enterprises from the industry)



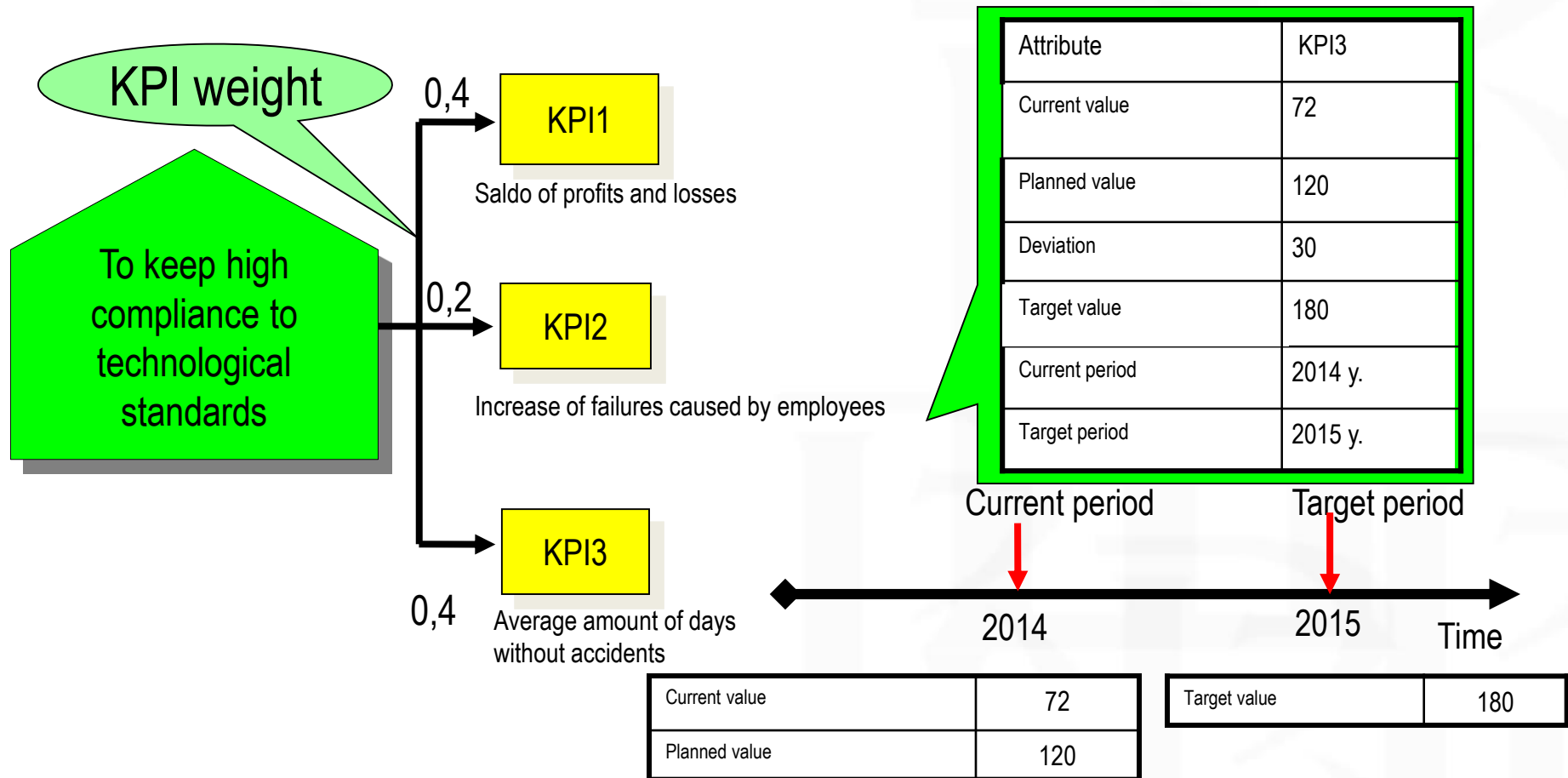
Defining High level KPI

- KPI allow estimate the degree of target achievement
- KPI should be defined for ALL targets
- If its hard to define KPI for a target one should divide target and define KPI for parts

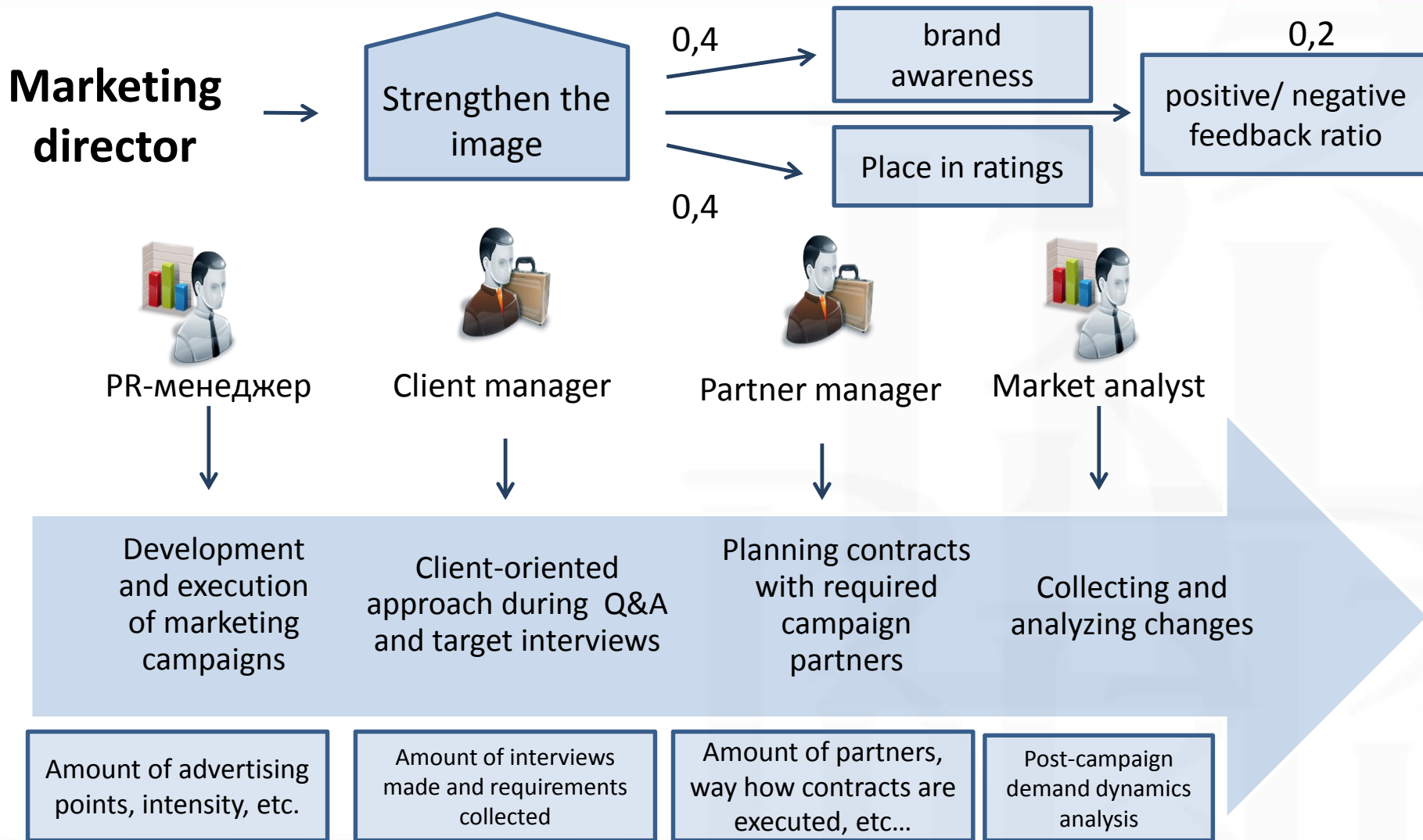


Weights and values of KPI

- KPI weight { 0 ;1} – reflects the importance of reaching this indicator concerning **objective achievement**. Summarizing all weights of KPI for **one objective** should equal 1



Step 5. One or several processes



Task (all together)

1. Decompose mission of your startup or well-known enterprise on 2-3 strategic objectives and create targets hierarchy
2. Analyze interconnections of targets using 4 viewpoints (finances, clients, processes, personal)
3. For each of the targets define corresponding metrics (KPIs) with weights in a table form. Summarizing all weights of KPIs for one objective should equal 1!
4. Reveal the **1-2 main** processes that realize your targets
5. For each metric define a point of measurement in process
6. For each process step define the functional implementer (department of employee)
7. For each process define the methodology of metrics tracking. Who would be responsible for that?
8. **Develop therefore enterprise strategic priorities, 1-2 business processes and finally organizational chart for the company . How it will look like ?**