

## Balanced Scorecard and the Provisdom Decision Platform

*“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.” Drs. Kaplan and Norton, originators of Balanced Scorecard*

Balanced Scorecard is a strategic planning and management system that aims “to align business activities to the vision and strategy of the organization, improve internal and external communications, and monitor organization performance against strategic goals.”<sup>1</sup> It is a framework that combines strategic, non-financial performance measures with traditional financial metrics to give managers and executives a more 'balanced' view of organizational performance. A scorecard covers four perspectives: financial, customer, business process, and learning and growth. For each perspective, the company chooses metrics and strategic goals<sup>2</sup>.

A danger with implementing Balanced Scorecard in a publicly-traded corporation is that a decision maker may make a significant decision with the objective to reach pre-defined Balanced Scorecard performance measures and strategic goals. However, since the ultimate goal of any publicly-traded corporation is long-term shareholder value, every decision should be made with the objective to maximize shareholder value.

The Provisdom Decision Platform is software that links metrics from Balanced Scorecard, and all other relevant decision information, to the shareholder value of choices. The software helps decision makers choose the most relevant uncertainties for the particular situation at hand, whether those uncertainties are performance measures, financial metrics, or uncertainties not usually found in the corporation's scorecard, like competitor actions, the price of oil, or customer demand. Instead of looking only at past data and current metric values, the software looks at the future, accounting for the uncertainty in the future values of relevant metrics. The software analyzes up to billions of future possibilities and displays them to the user in transparent detail. It then weighs each of these possibilities with varying discount rates and probabilities for consistent and rigorous calculation of shareholder value.

Balanced Scorecard is widely used, which has led to “over a hundred Balanced Scorecard and/or performance management automation development companies,” according to the Balanced Scorecard Institute. The major enterprise software vendors (e.g., Oracle, SAP, and IBM) all offer some variant of Balanced Scorecard automation<sup>3</sup>. Unlike these software tools, which focus on providing structure to the Balanced Scorecard process, the Provisdom Decision Platform enables decision makers to create

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<sup>1</sup> <http://www.balancedscorecard.org/BSCResources/AbouttheBalancedScorecard/tabid/55/Default.aspx>

<sup>2</sup> The KPI Library (<http://kpilibrary.com/>), for example, boasts nearly 1000 KPIs in 16 major categories.

<sup>3</sup> Details can be found at the Balanced Scorecard Institute website (<http://www.balancedscorecard.org>).

strategies that maximize shareholder value, whether their corporation is using Balanced Scorecard or not.

When used with the Balanced Scorecard, the Provisdom Decision Platform increases the value that Balanced Scorecard brings to a corporation and even has the ability to accurately quantify that value. Using the Provisdom Decision Platform over time will lead to the discovery of the most relevant metrics for decision making. This knowledge will improve the chosen Balanced Scorecard metrics, and ultimately the value of the entire Balanced Scorecard process.