

KEMI-TORNIO UNIVERSITY OF APPLIED  
SCIENCES

Constructing Balanced Scorecard and Strategy Map

Case: J & J Lakkapää Oy

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Bachelor's thesis of the Degree Programme in Business Management

Bachelor of Business Administration

TORNIO 2012

## ABSTRACT

Faruque, Muhammad Omar 2012. Constructing Balanced Scorecard and Strategy Map. Case: J & J Lakkapää Oy. Kemi-Tornio University of Applied Sciences. Business and Culture. Page 59. Appendices 3.

The objectives of this research is to construct a Balanced Scorecard, a performance measurement system, and design a strategy map, an innovation of Balanced Scorecard, for J & J Lakkapää Oy. J & J Lakkapää Oy is a private limited company working in the field of full service hardware and farm store business.

In this single case study, both the qualitative and quantitative research methods are utilized. The main data collection tools consist of semi-structured interviews, self-administered questionnaires, and company documents. Two interviews were conducted for collecting background information. In addition, the company's financial statements for the previous 4 years were analyzed to understand their recent financial performance. Furthermore, two questionnaires, consisting of 20 questions in each, were sent to the marketing manager; firstly, to assess the need for Balanced Scorecard and strategy map, and secondly, to collect the background information. The theoretical framework revolves around the concepts of balanced scorecard, strategy map, as well as the precursor of Balanced Scorecard: mission, values, vision, and strategy. The sources of information include books and other printed material, as well as internet articles related to the topic.

Finally, a Balanced Scorecard was constructed as well as a strategy map was designed on the basis of the analysis of collected data, and brief suggestions were provided to implement them. The constructed Balanced Scorecard and strategy map will assist the case company as a communication tool, measurement system, as well as a strategic management system. It is suggested that further research be carried out to develop detailed implementation plan of Balanced Scorecard and strategy map.

Key Words: Balanced Scorecard, Strategy map, Key performance indicators.

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## LIST OF ABBREVIATIONS

ACPC: Average Cost per Customers

ARPC: Average Revenue per Customers

ARPBC: Average Revenue per Business Customers

ARPPC: Average Revenue per Private Customers

BSC: Balanced Scorecard

EBIT: Earnings before Interest, Taxes, Depreciation and Amortization

EVA: Economic Value Added

R & D: Research and Development

ROCE: Return on Capital Employed

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## 1 INTRODUCTION

In this chapter, general background information and a framework of the whole research is provided to allow the readers to understand and evaluate the importance as well as the relevance of this research. This chapter begins with the motivation and background of this research and is followed by the discussion of the research objective and questions. In addition, an illustration of the structure of this thesis is provided at the end of this chapter. In the further text, I will use BSC instead of Balanced Scorecard, and Lakkapää instead of J & J Lakkapää Oy.

### 1.1 Motivation and background

The BSC can be described as a set of quantifiable measures selected carefully which are derived from an organization's strategy. The selected measures for the scorecard are used as a communication tool for leaders as well as performance drivers by which corporations achieve their mission and strategic objectives. (Niven 2006, 13.) Today, organizations use BSC as a tool for implement their strategy into action. According to Niven (2006, 13), the BSC is a communication tool, measurement system, as well as strategic management system. BSC has already been proved as a foundation for effective management practices. According to Harvard Business Review, BSC is one of the 75 most influential business ideas of the twentieth century (Niven 2006, 16). According to Kaplan (2004), it is estimated that 60 percent of the Fortune 1000 has a Balanced Scorecard in place.

However, after number of years of its invention, some limitations were found out of the first version of BSC or the first generation of BSC. According to Akkermans and Oorschot (2002, 4), these limitations include: unidirectional causality too simplistic, do not separate cause and effect in time and so on. Nørreklit (2000) argues that the relationship between the areas of measurement in the BSC is more one of interdependence, or bi-directional causality instead of a causal relationship. Hudson, Smart, and Bourne (2001) maintain that BSC has a lack of integration between the top level, strategic scorecard, and operational-level measures.

In 2001 Kaplan and Norton introduced the concept of “strategy map” by which they provided a solution to overcome the limitations of BSC. Strategy map is a technique of drawing the cause and effect relationship among all perspectives and their contributing parts (Nair 2004, 26). “Great deals of benefits were provided by strategy map: discovering objectives or KPIs; using causal-effect relationship to set targets; creating alignment around strategy; visual monitoring of strategic performance. As strategy map were praised and adopted by many organizations, a question turned out for managers is how to effectively use this new approach to design an appropriate “strategy map” for the organization.” (Zhao & Chen 2008, 3.)

According to the CEO of Lakkapää, Mr. Jukka Lakkapää, the company’s vision is to become market leader in Finland and Sweden within next 10 years and it has well established strategies to achieve its vision. Currently, Lakkapää has a collection of objectives, performance measures, and initiatives. However, these objectives, measures, as well as initiatives are not summarized in a form of communication tool to internal and external stakeholders. In addition, Lakkapää’s objectives are not organized in a form of causal effect relationship which indicates there might be a gap between their strategy and operation. Therefore, there is a scope of constructing a BSC which will work as an effective measurement system as well as a communication tool to internal and external stakeholders of Lakkapää. There is also scope for mapping its strategies to enable Lakkapää to establish a linkage between its strategies and practices. In this research, Lakkapää will be provided with a complete set of BSC based on four perspectives, i.e. financial, customer, internal business process, learning and growth. In addition, a strategy map will be provided as well as suggestions will be provided for implementing BSC and strategy map.

Lakkapää used to operate its activities as a part of Kesko Group. In 2010, Lakkapää divested of Kesko and became an independent hardware and farm store. Before their divestiture, Kesko used to conduct an important part of Lakkapää’s strategic management issues and most of their customer issues. As a result, Lakkapää is not experienced enough in these fields. Because of the reasons given above, it would be beneficial for Lakkapää to implement BSC as an integrated management system. Despite the fact that there is ample research into BSC conducted previously, this topic is still valuable in terms of research.

## 1.2 Research objective and questions

The objective of this research is to develop a performance measurement system for Lakkapää by constructing a BSC and designing a strategy map. BSC, considered as an effective performance measurement system, will help the case company to measure their performance from different perspectives. Strategy map, an innovation of BSC, will help the management of the case company to formulate their strategies and communicate those strategies to all level employees.

To construct a BSC and design a strategy map first of all, I built up a clear understanding about company's strategy, mission, values, and vision from the CEO and marketing manager of the company. Then I analyzed its current performance from the perspectives of financial, customer, internal as well as learning and growth. Finally, I constructed a BSC and designed a strategy map by taking into consideration its objectives, measures, as well as initiatives.

In accordance with the objective of this research, the following research questions have been developed:

### 1. How can a performance measurement system be constructed for Lakkapää?

Performance measurement system refers to the process of measuring the overall performance of an organization and evaluating whether the final outcomes are in line with the objectives and initiatives set in advance. In order to find answers to the first research question, the following sub-questions are answered:

#### a) How is Lakkapää performing in terms of financial, customer, internal, as well as learning and growth perspectives?

Before constructing a BSC and designing a strategy map, it is necessary to know the current situation of an organization. Lakkapää's current performance evaluation is done by analyzing the data collected informing of the perspectives of financial, customer, internal as well as learning and growth.

#### b) How can Lakkapää construct a BSC to improve its performance measurement?

A business can be visualized by numbers of objectives and measures identified in the BSC. In order to construct a BSC, it is necessary to identify the objectives, measures, and initiatives in terms of financial, customer, internal-business-process, as well as learning and growth perspectives. In addition, these objectives and measures should maintain a linkage with the company's mission, values, vision and strategy.

c) How can Lakkapää design a strategy map to integrate its strategy and practices?

It is necessary to follow some specific steps and to obey some specific principles for designing an appropriate strategy map for an organization. It is a technique of drawing the intricate relationships of cause and effect between the objectives and perspectives. The result of the data analysis and the objectives or key performance indicators set out in the BSC can work as a well established foundation for designing a strategy map.

2. How should Lakkapää consider the factors influence the implementation of BSC and strategy map?

The final question aims to demonstrate a collection of critical issues which Lakkapää needs to concentrate for making sure that BSC and strategy map work.

### 1.3 Structure of work

This thesis is divided into eight chapters. Chapter 1 begins with the discussion of background information which gives a brief view of the research to the readers. The main focus of chapter 2 is to introduce specific research method used in this research. The reasons behind employing specific research method are also explained. In addition, this chapter encompasses a deeper insight into detailed research process, research techniques used, data collection and analysis process, as well as the limitations of this research. Chapter 3 provides a description on the theories of BSC and strategy map. A brief history of invention of BSC as well as the process to formulate a proper strategy map is presented in this chapter. Furthermore, mission, values, vision, as well as strategy are defined.

Chapter 4 begins with the introduction to the case company and is followed by the analysis of data collected from the case company in terms of four perspectives of BSC. Based on the

data analysis and knowledge gathered through literature review, a BSC is developed in chapter 5. Chapter 6 starts with visualizing cause and effect relationship of objectives or key performance indicators and is concluded by formulating a strategy map. In chapter 7 suggestions are given to implement BSC and strategy map. Finally, the conclusion and recommendations for further research are drawn in chapter 8.

## 2 RESEARCH METHODOLOGY

In this chapter, firstly research process is described which is followed by research method. Furthermore, research techniques as well as data collection and analysis process is also described in here. Finally, limitations of doing this research are illustrated briefly at the end of this chapter.

### 2.1 Research process

The research process started with a preliminary analysis of the literature as well as a group interview and discussion with the CEO along with the marketing manager of the case company. For preliminary analysis of literature, I had to go through topic related sources, such as relevant books, articles etc. A general profile and situation of the company were depicted in the interview session from where a clear idea was got about company's past, present and future. Furthermore a discussion was taken place with the case company where my research topic was briefly described to the CEO and marketing manager.

After the primary discussion took place, a questionnaire consisting of twenty questions was sent to the marketing manager of the case company to assess the need for a BSC. Based on the answers of the questions, further decisions were taken. For acquiring in depth knowledge related to research topic and for document analysis, I had to go through relevant literature review. To collect background information, a questionnaire consisting of 20 questions was sent to the financial manager of the company. In addition, a semi-structured interview was conducted with the marketing manager of the case company to get an in depth understanding about company's mission, values, vision as well as strategies. In that interview session, notes were taken, as well as a tape recorder was used to record our interview. Furthermore, relevant company documents such as financial statements, prospectus, etc. were analyzed to assess company's recent performance. My thesis supervisor was working as an intermediary throughout the research process via whom I was maintaining contact with the case company.

Based on knowledge gained through theoretical analysis and the qualitative and quantitative data got from the company, a BSC was constructed and a strategy map was

designed. Furthermore, suggestions were provided for implementation of the BSC as well as the strategy map.

## 2.2 Research method: single case study

The research method followed in this work was a single case study. Two research techniques, interviews and data analysis were used within the case study method in this research. In addition, literature review was done to identify theoretical background knowledge necessary to interpret the research findings and to reflect on them.

The definition of case study is often confusing. According to Berg (2009, 317), a case study is a research method which involves gathering information about a particular person, social setting, event or group in a systematic way to permit the researcher to effectively understand how the subject operates or functions. Bogdan and Biklen (2003, 54) illustrates, case study is a detailed examination of one setting or a single subject, a single depository of documents, or one particular event. Bryman (2007, 39) mentioned that case study is not a research method but a research design because; a research design represents a structure that guides the execution of a research method.

A case study emphasizes on using multiple sources of evidence, triangulation is converged with the methodology. It is not only a data collection tactic or a design feature, but also an all-encompassing research method covering the logic of design, techniques for data collection and specific data analysis approaches. Case study can be either single or a multiple case study. Both qualitative and quantitative data can be collected and analyzed in case study. The ability to cover a wide variety of evidence is considered as the strength of a case study. (Yin 2009, 10-21.)

Case study is a widely used research methodology which is usually associated with the interpretivistic research paradigm and is used to explore phenomena in natural environment using various methods for gaining in-depth knowledge (Collins & Hussey 2009, 74-82). The main aspect of case study is the intense focus on object, individual, group, organization, culture, incident, or situation (Ghauri & Grönhaug 2005, 115). Since case

studies are generally retrospective, sufficient amount of information is required to explain, characterize or construct the unique event that occurred in the past (Scapens 2001, 107).

The aim of this research is to construct a performance measurement for Lakkapää. To do this, it is necessary to evaluate its current performance from different perspectives (financial, customers, learning and innovation and so on) which is quite complicated. This research can be applied by a comprehensive research design with different research methods. The best way to conduct a case study is to combine different methods, such as archive searching, interviews, questionnaires and observation (Eisenhardt 1989, 534 cited in Collis & Hussey 2009, 83). Yin (2009, 19) classified case study research into single and multiple case studies. Single case study deals with only one case, and multiple case studies deal with multiple cases. This research deals with only a single case company; therefore it's a single case study.

According to above justification, case study is the most suitable research method for this thesis. Since this research is aiming at utilizing qualitative research method as well as quantitative research method, choosing single case study methodology seems most suitable.

### 2.3 Research Techniques

The most important research technique used in this thesis work is interview. According to Yin (2009, 106), interview, an essential source of case study information, is a guided conversation rather than a structured query. To get the best result from an interview, it should be well planned and contained well constructed questions. During an interview session, it is very essential to do let the interviewee do most the talking. There were two interviews conducted, first one was a group interview which was an in-depth interview in nature, and second one was a focused interview in nature. "One type of case study interview is an in-depth interview. You can ask key respondents about the facts of a matter as well as their opinions about events. A second type of case study interview is a focused interview (Merton, Fiske, & Kendall, 1990), in which a person is interviewed for a short period of time- an hour for example. In such cases, the interviews may still remain open-ended and assume conversational manner, but you are more likely to be following a certain

set of questions derived from the case study protocol.” (Yin 2009, 107.) In the interview sessions, focus was on gathering required information as well as getting a guideline for the interpretations of collected data.

Document analysis is another research technique which was used in this research. Documentation is characterized as a strong source of evidence because it can be reviewed repeatedly as well as contains exact names, references, and details of evidence. In addition, documentation has a broad coverage for a long span of time. (Yin 2009, 102.) Lakkapää's brochures as well as annual reports were mainly used for document analysis.

#### 2.4 Data collection and analysis

In this research work, emphasis was given on collecting both qualitative as well as quantitative data. Data collection and analysis processes were gone through following way:

First of all, a questionnaire consisted of twenty questions was sent to the marketing manager of Lakkapää to assess the need for a BSC and strategy map. A collection of managerial and financial information was gathered through this questionnaire.

Secondly, two interviews were conducted with the CEO and Marketing Manager of Lakkapää. The aim of these interviews was collecting necessary qualitative data as well as a small amount of quantitative data. A tape recorder was used to record the interviews. In addition to recording, notes were taken while interviewing since there are many factors in the situation which not possible to be noticed from tape.

Thirdly, a collection of company documents, such as company's annual reports, brochures, and so on, were used as another important source of financial, managerial, as well as customer related data.

Finally, e-mails were exchanged on a regular basis to collect other necessary information. Since my thesis supervisor had direct contact with company personnel, e-mails were sent to company personnel via my thesis supervisor.

The data collected through questionnaire and interviews were thoroughly studied and analyzed. When interpreting data from company documents, it was tried to make sure that correct interpretation was made.

## 2.5 Limitation

Due to its multiple strengths, case study is a widely used research method. However, there may be several downsides of using case study as research method. Alan Bryman (2007, 63) pointed out that the findings of a single case study may not be applied more generally to other cases.

Lack of rigor has been one of the greatest disdain of the case study research method. The case study investigators do not generally follow the systematic procedures. In addition, they often allow ambiguous evidence as well as biased views which can influence the direction of the outcome of the research. Sometimes people get confused when they go for applying the teaching of case study research. Because of the above facts, one should follow systematic procedures when conducting a case study research. Another concern with case studies is that they provide very little basis for scientific generalization. It is very common to hear a question about case study is “How can you generalize from a single case?” The answer is very simple. Case studies can be generalized in terms of theoretical propositions, but not in terms of population or universe. After all, the goal is to do generalizing theories instead of to do particularizing analysis. (Yin 2009, 14-15.)

A common complaint against case studies is that they consume too much time and result in huge unreadable documents. This complaint may be appropriate for the case studies conducted in the past, but this is not necessarily the way they will be conducted in the future. (Yin 2009, 15.)

Collecting information and translating them into Finnish was a great challenge. The company website and annual reports were two main sources of information in this research and the language used in both of these sources was Finnish. Therefore, I needed to translate

them into English with the help of my thesis supervisor Dr. Esa Jauhola. This could result in losing some information. Short of a timeframe can be a limitation for any kind of research method, therefore; the thesis in question was not also out of this limitation. There is always a possibility of collecting false or biased information due to the fact that sometimes company staffs provide biased information to make the company look better. However, by keeping in mind above limitations, I tried my best to keep the outcome of the research as fair as possible.

### 3 THEORETICAL FRAMEWORKS

The aim of this chapter is to discuss on the issue of BSC and strategy map. At the beginning of this chapter, definitions of BSC are provided as well as perceptions of BSC are discussed. Mission, vision, values, and strategy, generally known as precursors of BSC, are then discussed in here followed by a description of strategy map which is known as an innovation of BSC. This literature review is mainly focused on providing a theoretical background on which the research analysis will be framed.

#### 3.1 The Balanced Scorecard

In this section a general historical note of developing BSC is described to enable readers to know the importance of its invention. In addition, the definition of BSC is provided which is followed by a discussion of four different perspectives of BSC.

##### 3.1.1 General Historical Note

The traditional method of performance measurement has been financial. If one consider today's business reality, it will be very easy to find out number of deficiencies of financial based measurement system, such as sacrificing long-term thinking, tending to reinforce functional silos, driving by review mirror etc. In the 21<sup>st</sup> century, when firms are holding most of their assets in intangible form then financial based performance measurement system cannot work as an effective management tool. Furthermore, these measures are totally irrelevant for many levels of an organization. For creating an effective performance management system, it is required to balance the historical accuracy of financial numbers with the drivers of future performance, while simultaneously harnessing the power of intangible assets and assisting organizations in implementing their differentiating activities (Niven 2006, 12).

The BSC is the tool which can be proved as an effective management tool because of its focus on both the financial and non-financial measures. The BSC was developed by Robert S. Kaplan and David P. Norton. Because of the shortcoming of traditional management system, Kaplan and Norton led a research project involving 12 companies in the year 1990

for exploring a new performance measurement method. The companies under analysis, along with Kaplan and Norton, discussed a number of possible alternatives but settled on the idea of a scorecard featuring performance measures capturing activities from throughout the organization. Kaplan and Norton named the new tool the balanced scorecard and first publicized it in the articles “The Balanced Scorecard-Measures That Drive Performance” in the journal “Harvard Business Review” in 1992. Later in 1996 Kaplan and Norton summarized their concept in their book ‘The Balanced Scorecard’. Since its introduction, this theory has been widely adopted by organizations and got significant result. (Niven 2006, 12.)

### 3.1.2 Definition

There are several analyses and discussions available for reviewing literature for the definition of the BSC. There is not any clear definition of BSC found suitable for my research. One of the significant reasons behind this is that BSC is such a system which cannot be described by a simple definition. Niven (2006, 13) describes BSC as a communication tool, measurement system as well as strategic management system. According to Blocher (2008, 38), “The balanced scorecard (BSC), a performance report based on a board set of both financial and non-financial measures, is a crucial part of the firm’s effort to better understand and to implement its strategy.”

Even Kaplan and Norton did not give any clear definition of balanced Scorecard. Instead of providing any clear definition, their focuses were on describing the attributes of Balanced Scorecard and how it could be used. Kaplan and Norton (1996, 10) illustrates, “The Balanced Scorecard should translate a business unit’s mission and strategy into tangible objectives and measures. The Balanced Scorecard is more than a tactical or an operational measurement system. Innovative companies are using the scorecard as a strategic management system, to manage their strategy over their long run.”

A common language is used in BSC for all levels of organization and a common set of principles is used to manage daily operation as well as to implement company’s strategy. BSC provides a balance between a number of opposing forces, such as internal and external

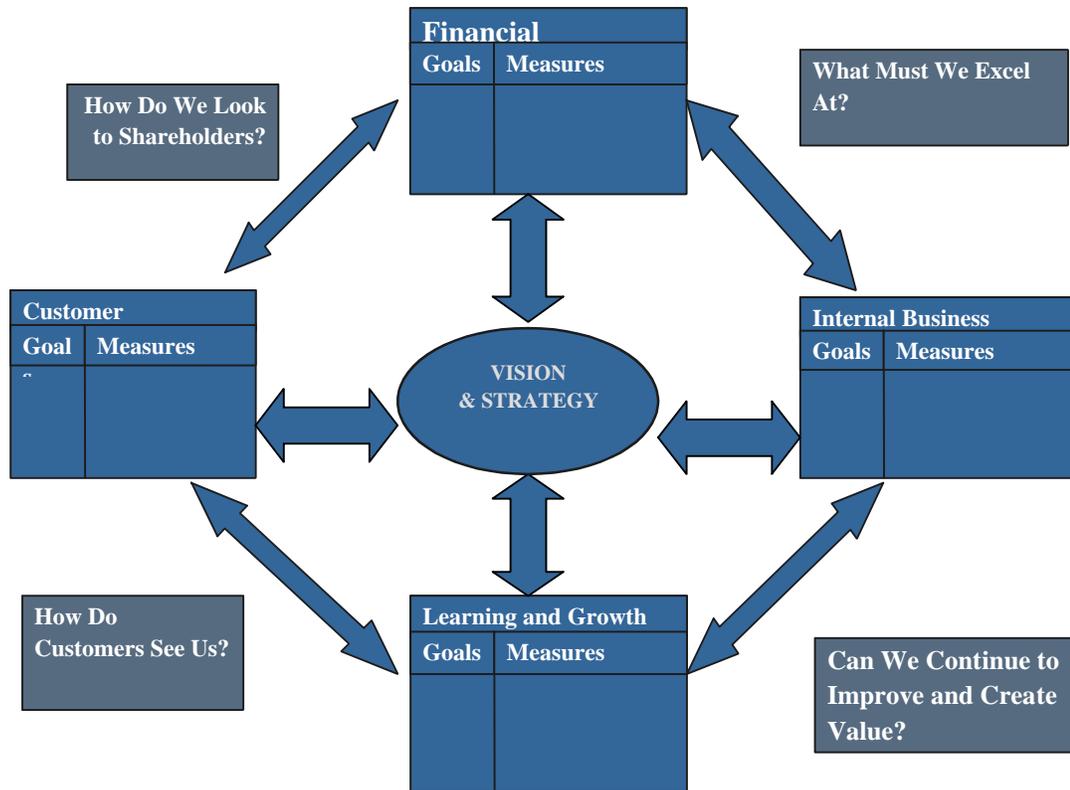
influences, leading and lagging indicators and measures, financial and nonfinancial goals, as well as finance priorities and operations, and so on. (Nair 2004, 13-14.)

### 3.1.3 Perspectives of BSC

The word “perspective” comes from the Latin word “perspectus”, which means to look through or see clearly. The general aim to do with a BSC is to examine the strategy, making it clearer through the lens of different viewpoints which is perfectly matched with the meaning of perspective. (Niven 2006, 13.) For effective execution of any strategy, a balanced scorecard should consist of four perspectives: (1) the financial perspective; (2) the customer perspective; (3) the internal process perspective; and (4) the learning and innovation perspectives.

The objectives and measures of the financial perspective indicate whether a company’s strategy, implementation, execution are contributing to bottom-line improvement (Kaplan & Norton 1996, 25). Typical financial objectives include profitability, asset utilization, rapid sales growth, as well as revenue growth and typically used financial measures are return on capital employed (ROCE), total assets/employee, inventory turnover ratio, credit rating, economic value added (EVA).

Financial perspective reminds us about following matters: “The main goal of business is wealth creation, as measured by a series of financial targets achieved. The purpose of financial targets is to galvanize the operating units to manage performance and gain competencies for future success. It is one of many other perspectives but the one that funds the mission and purpose of the organization. It is a lagging indicator of performance because it records success after that fact.” (Nair 2004, 22.)



**Figure 1 :** Four Perspectives of Balanced Scorecard (Kaplan and Norton, 1992)

As can be seen from Figure 1, BSC translates vision and strategy of an organization. Financial perspective reflects shareholders' expectation and customer perspective reflects customers' expectation from an organization. Internal business perspective focuses on matters which an organization must excel to meet shareholders and customers demand. Learning and growth perspective focuses on matters related to create and improve value.

In the customer perspective, the customer and market segmentation is done by managers. In addition managers identify the measures of the business unit's performance in these targeted segments. The customer perspective helps business unit managers to deliver superior future financial returns by articulating the customer and market-based strategy. (Kaplan & Norton 1996, 26.)

Choosing target customers or an appropriate value proposition is usually a challenging task. According to strategy guru Michael Porter, this lack of focus will prevent an organization from differentiating itself from competitors. Treacy and Wiersema (cited in Niven 2006,

14) articulated three “disciplines” in *The Discipline of Market Leaders*: (1) Operational excellence; (2) Product leadership; (3) Customer intimacy. Many organizations choose one of these three disciplines for selecting their value proposition. Low price, convenience, and often “no frills” are main focus to those organizations that choose operational excellence discipline. Organizations pursuing product leadership discipline focus on innovating constantly as well as striving to offer simply the best product in the market. Organizations pursuing customer intimacy discipline do whatever it takes to provide solutions for unique customer’s needs. (Niven 2006, 14-15.)

Before setting objectives and measures for this perspective, organization should answer the following critical questions: Who are our target customers? Who do we compete against to gain the customers? What value do our customers perceive? What do our customers demand from us? (Nair 2004, 22.) Providing high value solutions, creating loyalty, minimizing stock outs, eliminating service error, are typical objectives included in this perspective. Commonly used customer measures are annual sales per customer, sales volume, price relative to competition, return rates.

In the Internal-Business-process perspective, executives identify the background works or key processes, driven by objectives and goals, in which the organization must excel to achieve customer and financial objectives. These processes enable the business unit to fulfil our value propositions which will enable to attract and retain customers in targeted market segments. Furthermore, these processes enable the business unit to deliver excellent financial returns which will eventually satisfy shareholder expectations. (Kaplan & Norton 1996, 26.)

This perspective incorporates objectives and measures for operation management, customer management, regulatory and social, as well as long term innovation cycle. Typical objectives of the internal business process perspective include manufacturing, product development, post sale service, as well as delivery. On-time delivery, defect percentage, breakeven time, and average lead time may be represented as measures in this perspective.

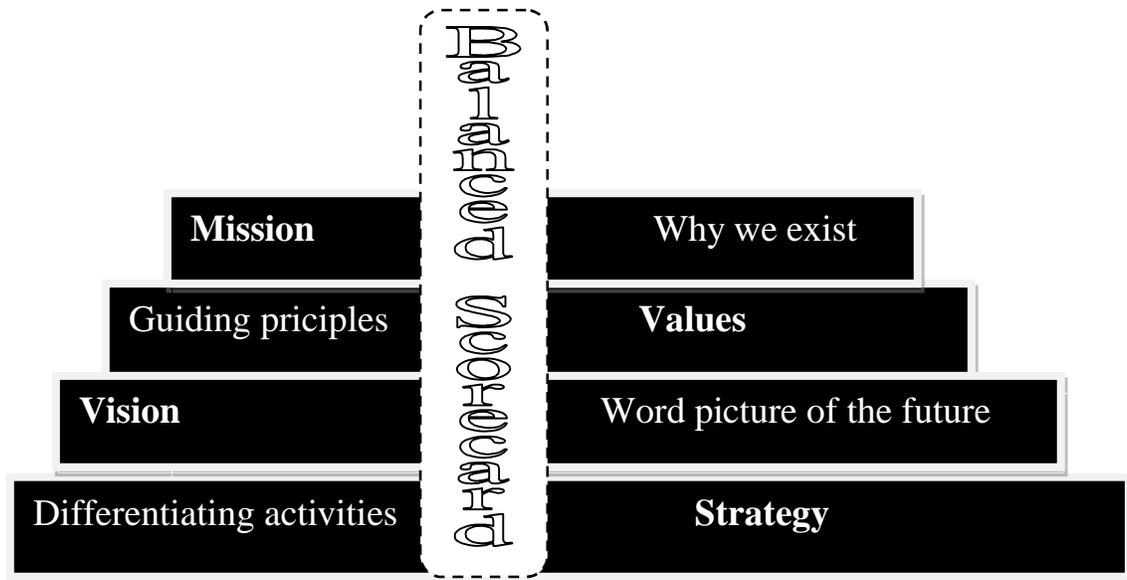
Learning and growth perspective works as foundation for all other perspectives and enables

to attain long-term growth and improvement. The objectives and measures developed in this perspective work as enablers of rest of the objectives and measures of the balanced scorecard. The objectives and measures designed in learning and growth perspective will help an organization to close the gap between current organizational infrastructure and the environment required to maintain organization's success (Niven 2006, 16).

Enhancing information technology, aligning people with strategy (re-skilling, training, recruitment, retention and succession planning), as well as aligning organizational procedures and routines with strategy may be represented as objectives in this perspective. Typical learning and growth perspectives measures include training hours, employee productivity, diversity rates, and ethics violation.

### 3.2 Precursor to BSC: Mission, Vision, Values, and strategy

There are some components or raw materials need to construct a solid and sustainable BSC that will stand up to the volatile weather of the business environment. Mission, vision, values and strategy works as components of an effective Balanced Scorecard. Without mission, vision, values and strategy, organization will be lack of guiding principles. The description of mission, vision, values, and strategy are as follows:



**Figure 2:** The Balanced Scorecard Translates Mission, Values, Vision, and Strategy (Niven 2006, 72)

As can be seen from figure 2, mission defines the reasons behind an organization's existence. An organization is guided by its values. Strategies are combination of different activities which an organization selects to achieve its vision.

Mission defines the core purpose of an organization- why it exists. Strategies and goals may be achieved over time, but it's never possible to fulfil mission. Missions are pursued constantly by organizations, but never quite reached. Mission can be considered as compass, which helps to guide an organization. The balanced scorecard translates mission, values, vision, and strategy into performance objectives and measures. The mission is where organizations begin to translate their efforts. A well developed mission statement galvanize everyone toward an exciting future, and without involvement in the process, commitment will be difficult if not impossible to acquire. (Niven 2006, 73-76.)

An effective mission statement should be written in plain language so that all readers can understand it very easily. Mission statement should inspire great change within organization as stimulate positive growth. While strategies and plans are changed over time, the mission statement should be written for a long time, such as 100 year or more. A mission that reaches to people on a visceral level and works as a source of motivation to serve the organization's purpose considered as a compelling and effective one. (Niven 2006, 73-74.)

Values are timeless guiding principles of an organization. The deeply held beliefs of a corporation are represented by its values and the daily behaviours of employees demonstrate a corporation's values. There is no existence of any universal set of right or wrong values. Each organization determines its values comprising its essence and holding importance to those within it. Organizations should have a small number of core values reflecting their very essence because, a large number of values may confuse to practice. Values within an organization are expected to remain the same over time, providing an enduring source of strength and wisdom, even though they hinder an organization's ongoing success for some time. Sometimes, values within an organization may not be proving as ethical and acceptable in the larger social context; but, it does not indicate to change the values every few years for suiting the current competitive landscape. To be embraced and lived, the values must be nurtured constantly. (Niven 2006, 77-80.)

“Values are focused on how the organization will perform to the mission. Values guide the entire process of objective setting, goal acquisition, and strategy deployment. From a BSC perspective, values drive the way in which all activities surround the exercise, for example, how the team obtains information, how the team communicates, what is important in the perspectives, how to view learning and growth.” (Nair 2004, 71-75.)

To ensure that everyone in organization is moving toward the same direction, the objectives and measures selected in the balanced scorecard must be consistent with the organization’s values. If an organization value innovation, for example, but, it does not have any performance measure tracking innovation or development, then perhaps value innovation is not truly a guiding principle of its operations. On the other hand, if all lower-level scorecards contain measures relating to customer service but this value is not captured on the higher level corporate scorecard, then perhaps the organization missed a core value that is important to all of its employees. (Niven 2006, 81.)

Based on the mission and values, corporation creates their vision statement that defines where they want to go in the future. It provides a word picture of what the corporation intends ultimately to become- which may be 5, 10, or 20 years in the future. Vision statement should not be abstract; it should contain a concrete picture of the desired state as well as provide the basis for formulating strategies and objectives. A vision is considered as simply a wishful thinking, not link to anything enduring, without a mission. The desired scope of business activities, how the organization will be viewed by its stakeholders, areas of leadership or distinctive competence, as well as strongly held values are included as typical elements in vision statement. (Niven 2006, 82-83.)

A skilfully created vision statement describes what an organization is attempting to accomplish as well as inspire all employees to join in meeting the challenges that lie ahead. To be effective, a vision statement should be concise, appeals to all stakeholders, consistent to mission and values, verifiable, feasible, as well as inspirational. It is a challenging task to make vision into reality and a balanced scorecard can assist to meet this challenge. (Niven 2006, 84-88.) Vision statement works as a selling document and a communication tool. Vision statement should be significantly motivating reflects the dream of its stakeholders (Nair 2004, 73).

Strategy has different meaning to different people and organizations. Some think strategy is a high-level plan that management devises to lead the organization into the future. To some people it's a pattern of consistency of action over time. Others think it rests on the specific and detailed actions someone takes to achieve his/her desired future. (Niven 2006, 89.) According to Porter (1996), strategy is about positioning in target market, being different and distinctive in the markets, delivering a unique value to customers, as well as combining (unique) activities that defines the corporate identity. Kaplan and Norton (2001) illustrate, "The formulation of strategy is an art. The description of strategy, however, should not be an art. If we can describe strategy in a more disciplined way, we increase the likelihood of successful implementation. With a balanced Scorecard that tells the story of the strategy, we now have a reliable foundation."

Many people do mistake by considering that strategy means operational excellence or doing different activities, but actually strategy is all about doing activities differently. Know yourself, know your enemies, and know your customers are considered as the three key elements of strategy. Strategy will be considered as nothing more than a word, if there is no capability and uniqueness in business design. (Nair 2004, 66-74.)

### 3.3 Strategy Map: An Innovation of Balanced Scorecard

Strategy map is a one page graphical representation of what an organization must do well in each of the four perspectives in order to execute their strategy successfully. Strategy map helps to define causal pathways weaving through the four perspectives that will lead an organization to implement their strategy. Strategy map does not include any measurement. Only objectives are included in a strategy map. Objectives are succinct statements describing what an organization must do well in each of the four perspectives in order to implement their game plan. (Niven 2006, 18.)

The concept of "Strategy Map" was developed by Robert S. Kaplan and David P. Norton. Since its introduction in 2001, it has gained immense popularity in the corporate world. Strategy map has become as an important innovation as the original Balanced Scorecard itself (Kaplan & Norton 2004, Xiii).

### 3.3.1 Principles of Strategy Map

According to Kaplan and Norton (2004, 11-13), strategy map should be based on five principles. These principles are discussed by Kaplan and Norton (204, 11-13) as follows:

Strategy balances contradictory forces. Sometimes short-term goals and long-term goals become conflicting. Management generally has a tendency of sacrificing long-term investments for achieving short-term goals. With the help of strategy, it has become easy to balance between short-term financial objectives such as, cost reduction, and the long-term objectives such as, profitable revenue growth.

Strategy is based on a differentiated customer value proposition. Sustainable value can be created by satisfying customers. Every organization should have a target customer audience and its strategy should be focused on differentiating itself from its competitors to attract and retain its targeted audience.

Value is created through internal business processes. An organization need to follow numbers of processes to deliver a differentiating value proposition, as well as enhancing productivity. Operations management is responsible for producing and delivering products and services to customers and customer management is responsible for establishing and leveraging relationships with customers. Innovation process, by which new products, services, and relationships are developed. Regulatory and social process, by which regulatory and societal expectations are met, and stronger communities are built.

Strategy consists of simultaneous, complementary themes or clusters of internal processes. Every cluster of internal processes delivers benefit at different points in time. For example, it takes a long period of time to get benefit from an enhanced customer relationship as well as enhanced regulatory and social processes. On the other hand, it takes a very short period of time to get improvement in operational processes by reducing cost or enhancing quality. Strategies should be balanced by incorporating one strategic theme with each of the four clusters.

Strategic alignment determines the value of intangible assets. The three components of intangible assets are human capital, information capital and organizational capital. Human

capital refers to people working in an organization. Organization gets benefit from available skills, talent, as well as know-how of its employees and these are considered as intangible assets. Information capital consists of information systems as well as knowledge applications and infrastructure. Organizational capital consists of culture; leadership; alignment and teamwork.

### 3.3.2 Steps of Developing Strategy Map

It is a crucial stage for an organization to develop a well structured strategy map. Numbers of research have been conducted to find solution for the problem how to design an effective strategy map. According to Paul R. Niven (2006, 101-138), an organization can adopt following steps for building an effective strategy map:

Choosing perspectives is considered as the first step of developing strategy map. Generally, most organizations consider four perspectives to build strategy map as well as balanced scorecard. This is not an obligatory rule to always consider four perspectives. Even Kaplan and Norton (1996) suggested considering these four perspectives as a template, not as a strait jacket. Organizations should consider the perspectives that allow them to capture the key stakeholders and describe how organizations will ultimately serve each stakeholder as well as successfully implement their strategy.

After choosing suitable perspectives, it is necessary to gather and review background information. Annual reports, mission statements, vision statements, values, project plans, performance reports, organizational histories, as well as trade journals and news articles could be considered as some of the useful sources for gathering background information. It is necessary to confirm gathered information through a one-to-one interview process with the members of executive team.

The third and most important step of building a strategy map is to develop objectives for each perspective. Like a football ground without any goal post, the strategy map is incomplete without a set of objectives. Organizations should choose objectives those are directly translated from their distinctive strategy and are matched with approved budget, and assigned set of measure. In addition, numbers of objectives should be around 20 to 30.

It is necessary to craft two or three sentence narratives for each objective which is known as objective statement. It should be done soon after selecting objectives for a strategy map which helps others to get a clear understanding about the meaning of each objective. A well written objective statement clarify why it is important, outline how it links in corporation's chain of cause and effect, as well as how it will be accomplished.

A well planned strategy mapping workshop spark group thinking and ensure the achievement of objectives selected for strategy map. This kind of workshop normally begins with a session of brainstorming objectives for the financial perspective, followed respectively by customer, internal process, and finally employee learning and growth. During the workshop, it is very important to keep people engaged. A draft strategy map form should be distributed to the teams soon after completing the workshop for a further review and refinement.

Customizing is considered as the finishing touch or the final step of developing a strategy map. Strategy map should be customized according to the unique organizational strategy, culture, values, as well as eccentricities.

#### 4 CASE STUDY: J & J LAKKÄPÄÄ OY

At the beginning of this chapter, the case company, J & J Lakkapää Oy, is introduced. Following the introduction of the case company, performance analysis for the last four years is done to conduct an analysis in terms of financial, customer, internal process, as well as learning and growth perspectives.

##### 4.1 Introduction to J & J Lakkapää Oy

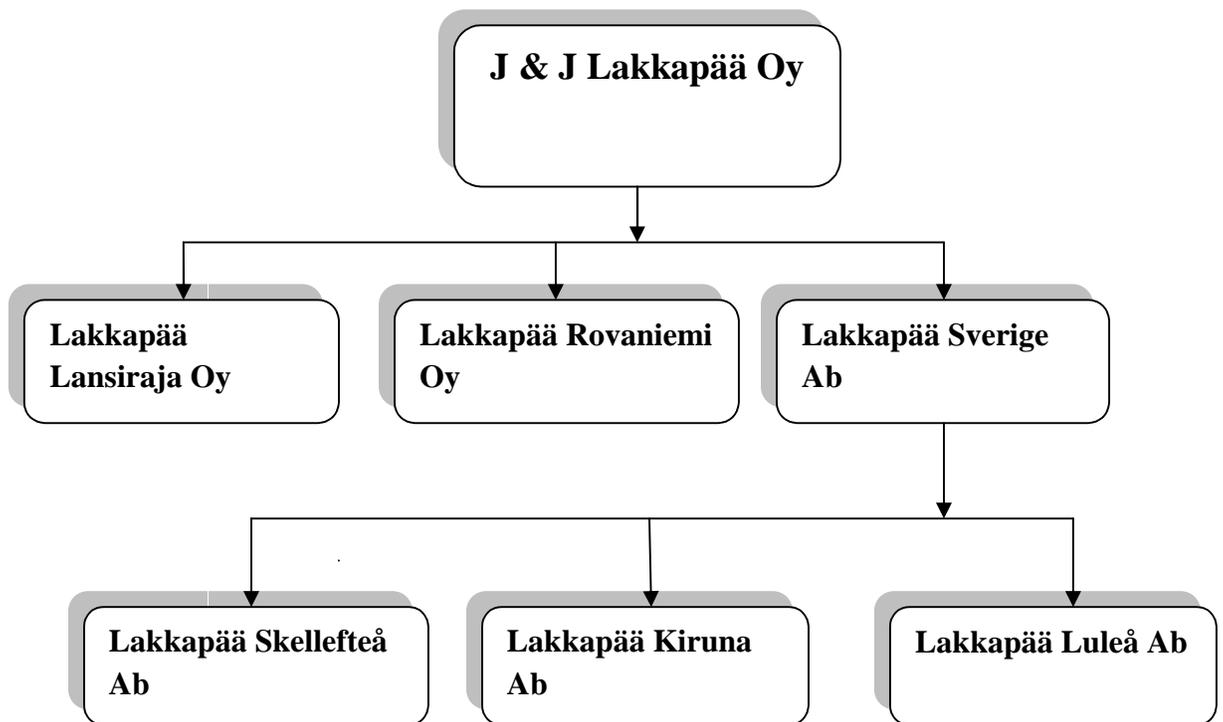
J & J Lakkapää Oy is a private limited company working in the field of a full service hardware and farm store. It has products, services, and network for home decorator, professional builder, and farmers in northern Finland and Sweden regarding the special needs in north. Currently, Lakkapää has its sales outlets in Tornio (Finland), Ylitornio (Finland), Rovaniemi (Finland), Oulu (Finland), Luleå (Sweden), Kiruna (Sweden), and Skellefteå (Sweden). The head office of Lakkapää is situated in Tornio.

J & J Lakkapää Oy is the dream project of Esa and Ulla Lakkapää. They established this business in 1964 in their home village Juoksenki (Ylitornio). At the beginning, it was a general store carrying the name of K-Valinta Esa Lakkapää. From that time, it had maintained co-operation with Kesko and this co-operation lasted for 45 years. In 2010, Lakkapää had decided to detach from Kesko and started business as an independent hardware and farm store. From 1984 Lakkapää started to expand its business by establishing a hardware store in Ylitornio. Basically, this was the first foot step from where their journey began as a real hardware store. From that time three siblings- Juha, Jukka, and Jaana Lakkapää started to play a significant role in the company. However, Jaana Lakkapää left the business and went her own way.

In 1996 Esa's sons Juha and Jukka Lakkapää took over the company. The responsibilities were split between them as follows: Jukka Lakkapää took over the control of hardware department, and Juha Lakkapää took over the control of agriculture department. The year of 2001 was one of the most significant years of Lakkapää's history, as it was internationalized for the first time by opening a subsidiary J & J Lakkapää AB in Luleå (Sweden). In the same year it established its business unit K-Rauta Tornio. Its agriculture department has been considered being the most important department of Lakkapää since its

opening in Tornio. This department escalated its operation in 2001 by opening its unit in Rovaniemi.

Mr. Jukka Lakkapää is the current CEO of this corporation, which is employing more than 230 employees. Lakkapää has started to grow very rapidly from 2010, as it opened two stores in that year and two in the next year. Its vision is to become the market leader in Finland and Sweden within next 10 years for which it has a policy to open one shop in each year and 10 more new shops within next 10 years. This year, Lakkapää is going to open a shop in Piteå and next year in Jällivaara. Organization chart of Lakkapää is as follows:



**Figure 3:** Lakkapää's organizational chart

## 4.2 Current performance analysis

Lakkapää's current performance analysis based on four different perspectives is as follows:

### 4.2.1 Financial Perspective

Lakkapää's net sales and other operating revenue has been fluctuating for the last four years. Although Lakkapää's total operating revenue has reduced by almost 17 % in 2008-09, it recovered dramatically by increasing its operating revenue almost 48% in the next year and the flow continued till last year. Lakkapää's operating revenue for the last four years is presented in following table.

**Table 1:** Operating Revenue of Lakkapää

Financial year	2011	2009-10	2008-09	2007-08
Net sales	92 197 198.43	86 977 771.44	58 801 519.85	70 541 631.44
Other operating income	2 722 829.08	243 868.88	169 133.12	149 290.76
Total	94 920 027.51	87 221 640.32	58 970 652.97	70 690 922.2
Growth in %	8.83%	47.91%	-16.58%	

Lakkapää's EBIT reduced drastically in 2008-09, it managed to recover slightly in the next year. Last year, Lakkapää experienced a dramatic increase in its EBIT. Lakkapää's EBIT (Earnings before interest and tax) for the last four years is presented in following table.

**Table 2:** EBIT of Lakkapää

Financial Year	2011	2009-10	2008-09	2007-08
EBIT	1 006 304.11	541 538.07	515 540.40	1 338 478.63
Growth in %	85.58%	5.04%	-61.48%	

Free cash flow is a very important financial measure for any organization. It shows a company's ability to pay its security holders. From the table presented below, it can be seen that Lakkapää has positive cash flow over the last four years. Last year, Lakkapää experienced a dramatic increase in its free cash flow figure.

**Table 3:** Free cash flow of Lakkapää

Financial Year	2011	2009-10	2008-09	2007-08
EBIT*(1-tax rate)	744 665.04	400 738.17	381 500	990 474.19
(+)Depreciation and amortization	517 252.56	549 025.19	250 452	226 061.91
(+)Change in working capital	15 253 360.2	6 058 662.35	5 860 356	3 692 147.15
(-)Capital expenditure	727 717.61	218 858.83	-----	-----
Free cash flow	15 787 560.19	6 789 567	6 492 308	4 908 683.25

Lakkapää's average revenue per customers has been increasing over the last four years. Its average revenue per business customers is much higher comparing to its average revenue per private customers. (Koivisto 2012.)

ROCE (Return on Capital Employed) is a ratio which shows the profitability of a company's capital investments. Last year, Lakkapää's ROCE was higher than the previous year though the trend was opposite over the previous three years. Lakkapää's ROCE for the last four years are presented in following table.

**Table 4:** ROCE of Lakkapää

Financial Year	2010-11	2009-10	2008-09	2007-08
Net profit before tax	1 006 304.11	541 538.07	540 112.23	1 327 874.93
Capital employed	25 831 134.55	20 529 469	8 352 882.02	6 271 806.01
ROCE	3.9%	2.6%	6.5%	21.17%

#### 4.2.2 Customer Perspective

Lakkapää's total number of customers has been increasing over the last couple years, though most of these customers are private customers. Lakkapää's private customers are contributing to earn almost 65% of its total revenue. It assumes that, this increasing trend of number of customers will go higher in near future. (Koivisto 2012.)

It can be assumed from the customers' feedbacks of Lakkapää that, its customers have been very satisfied with the products and after sales service they offered. It is the customer care service in the shop about which Lakkapää's customers complain very often. Although this complaint rate is decreasing day by day, still it is considered as a great weakness for Lakkapää. (Koivisto 2012.)

After becoming an independent company, Lakkapää has managed to attract a great numbers of new customers. At the same time, it has managed to keep its old or regular customers. Over the last 4 years, lakkapää has experienced a dramatic increase of its number private customers but a moderate increase of its business customers. Statistics shows that, Lakkapää has been getting 60,000 (approximately) private customers per month for the last couple of months which is quite high compare to the numbers in the same time of last year. (Koivisto 2012.)

Lakkapää has a wide range of products which is considered as one of its strengths. Its centralized purchase department has been introducing cost-effective new products on a regular interval which is contributing to increase the ratio of its new products to total offerings.

#### 4.2.3 Internal perspective

Although personnel expense of Lakkapää decreased in 2008-09, since the year it has become independent the personnel expense increased dramatically which continued till last year. To keep up the pace of its business, Lakkapää needed to recruit a great numbers of new employees which contributed to the increase of its personnel expenses. Lakkapää's expense on personnel for the last four years is presented in following table.

**Table 5:** Expense on personnel of Lakkapää

Financial year	2011	2009-10	2008-09	2007-08
Personnel expense	8 440 289.97	6 459 471.82	3 811 452.33	4 642 409.42
Growth in %	30.67%	70%	-17.9%	

A great portion Lakkapää's other operating expenses are its marketing expense as well as R & D expense. The table in below shows that, Lakkapää's marketing expenses as well as R & D expense are fluctuating over the last four years.

**Table 6:** Marketing expenses, R & D expenses of Lakkapää

Financial year	2011	2009-10	2008-09	2007-08
Other operating expense	6 932 212.05	7 093 248.99	4 443 006.54	4 746 774.15
Growth in %	-2.3%	59.65%	-6.4%	

Lakkapää's total numbers of sales sites have increased steadily. The table in below shows Lakkapää's total numbers of sales sites (stores) over the last four years.

**Table 7:** Number of sales sites of Lakkapää

Financial year	2010-11	2009-10	2008-09	2007-08
Number of stores	7	5	4	4

Lakkapää is very much concerned about maintaining its social interaction. Lakkapää has been sponsoring one local volleyball team. For selecting local marketing team, Lakkapää always give priority to recruit local people. Lakkapää always engage local logistics company for its logistics support.

Lakkapää has a very effective and efficient logistics team which it considers as one of its strengths. Lakkapää provides every day delivery service to its neighbouring customers. It has extensively regular route all around the northern Finland and Sweden. Its effective and efficient logistics teams have been contributing to decrease its average lead time or delivery time.

#### 4.2.4 Learning and Growth perspective

The rapid increase of Lakkapää's total customer numbers and the moderate increase of its total operating expense prove that, its average operating expense has been decreasing slightly over the last 2 years.

Since Lakkapää has become an independent company, it has been concentrating on its employee training and re-skilling. Specially, in last two financial years its investment for training purpose has increased rapidly. Poor customer care service is the most weak point for Lakkapää. To improve its customer care service Lakkapää is planning to increase its investment in employee training and re-skilling. (Koivisto 2012.)

Lakkapää's employee satisfaction rate is quite high which enabled to keep its employee turnover rate very low. In addition, it has recruited a great number of new workforces in recent years and at the same time managed to retain its experienced workforces.

Lakkapää had put its effort to build up a unique corporate culture since its beginning. Its corporate culture has grown harmoniously over the years with the economy, society and environment.

## 5 CONSTRUCTING BSC

This chapter begins with a BSC analysis and is followed by BSC construction according to the perspectives of financial, customers, internal business process, as well as learning and growth.

### 5.1 BSC analysis

In this section, BSC analysis is done with a brief description of Lakkapää's objectives, measures, as well as initiatives.

#### 5.1.1 Financial Perspective

Lakkapää's objectives, measures, as well as initiatives from financial perspective of BSC are illustrated below in a list form.

1. Revenue growth: As Lakkapää's vision, to be a market leader within next 10 years, it needs to increase sales figure by approximately 10% each year. Lakkapää can attain this target by introducing cost-effective products and services, managing resources effectively, and completing successfully all the initiatives taken in other perspectives.
2. Cost control: To run the business successfully, Lakkapää is very concerned to control its cost. Lakkapää can control its cost by introducing cost effective products, incensing financial control, as well as effective management. It can measure cost control by calculating ACPC (Average Cost per Customers).
3. Increase in ARPC: It can be noted that, Lakkapää's ARPC among business customers is much higher than the private customers. In addition, approximately 35% of total revenue is coming from business customers (Lakkapää, 2011). Therefore, to increase the number of business customers is the most effective way to increase an overall ARPC.

### 5.1.2 Customer Perspective

Lakkapää's objectives, measures, as well as initiatives from customer perspective of BSC are illustrated below in a list form.

1. Maintenance of old customers and obtainment of new customers: Lakkapää has been experiencing a sharp rise in customer numbers in recent years. Comparing to the number of private customers, the numbers of business customers are very few. Currently, Lakkapää is sponsoring a volleyball team and using local newspaper, TV, as well as the internet for branding and advertising purposes (Lakkapää 2011). These efforts are contributing to obtain new customers. Lakkapää should devote itself to introducing bonus card system, exploring new market as well as enhancing its marketing campaign to maintain old customers and obtain new customers.

2. Introduction of new products: Lakkapää does not have its own production plant. Approximately 60% of its products are coming from Finnish supplier, 35 % (approx.) are from Swedish suppliers and the rests are coming from Spain, Portugal and other countries. Although some of its products are obsolete in Sweden, customers are quite satisfied with existing products. (Lakkapää 2011.) In order to increase revenue and attract more customers, it is advisable for Lakkapää to introduce new cost effective products in a regular interval. Besides maintaining good relationship with existing suppliers, it is recommendable for Lakkapää to search new suppliers to introduce new products.

3. Maintenance of low price: According to Mr. Lakkapää (2011), Lakkapää has promised to its customers to keep lower price comparing to its competitors. To keep low price it needs to strengthen the purchase department as well as control other costs.

4. Improvement of service quality: High service quality contributes to attract customers as well as to build a good corporate image. Lakkapää has very effective and efficient supply chain management and the customer satisfaction rate is already high. However, it is advisable for Lakkapää to concentrate on finding a space for improvement of its customer care service in shops and further improvement of other service quality.

### 5.1.3 Internal Perspective

Lakkapää's objectives, measures, as well as initiatives from internal perspective of BSC are illustrated below in a list form.

1. Sales sites expansion: To become market leader in Sweden and Finland, Lakkapää has planned to open 10 more shops within next few years. It has a well-established policy to open at least one shop per year till 2016. Its current focus is on northern part of Finland and Sweden. Furthermore, it has planned to expand business toward southern part later. (Lakkapää 2011.)

2. Personnel productivity improvement: Similarly to any other business enterprise, personnel are the base for Lakkapää. By improving personnel productivity Lakkapää can improve its effectiveness, cost-efficiency and goal-orientation. In addition, it can reduce its lead time as well as provide better service to its customers. Therefore, by introducing a BSC application as well as rewards facilities, Lakkapää can boost up its personnel's productivity.

3. Maintenance of social interaction: Lakkapää has been performing its social responsibility by sponsoring a local volley ball team, recruiting local people for marketing team, and engaging local logistics companies for logistics support. It is advisable for Lakkapää to maintain its current social interactions as well as increase them to improve its social image as well as increase revenue.

4. Maintenance of strong customer relationship: In order to retain customers, it is very important to maintain strong relationship with customers. Lakkapää has established two clubs to maintain regular contacts with customers. The club for builder customers is called 'Team Lakkapää' and the club for company customers is called 'Team Lakkapää Pro'. Lakkapää is maintaining a strong customer relationship by keeping regular contacts with customers, keeping up-to-date customer database, taking action according to customers' feedback as well as providing customer oriented products and services.

#### 5.1.4 Learning and growth

Lakkapää's objectives, measures, as well as initiatives from learning and growth perspective of BSC are illustrated below in a list form.

1. Maintenance of good corporate culture: Good corporate culture contributes to stimulating personnel productivity and works as a foundation for operational success of an enterprise. Lakkapää's employees report that they experience a very work friendly environment and are accountable for their own work. In addition, they meet on a regular basis to discuss current improvements and in every face to face meeting marketing as well as finance personnel contribute in the discussions (Lakkapää, 2011). It is advisable for Lakkapää to maintain its existing corporate culture.
2. Strengthen human resources: Lakkapää has a strong and disciplined logistic team. The only problem is the customer service in the shop about which Lakkapää gets complaints very often. It can further strengthen its human resources by arranging staff training, developing management and leadership skills, as well as focusing increasingly on employee retention programs.

## 5.2 Balanced Scorecard for Lakkapää

In this section a BSC is constructed for Lakkapää with suitable objectives measures and initiatives. The BSC for Lakkapää is presented in following table.

**Table 8:** Balanced scorecard for Lakkapää

	Objectives	Measures	Initiatives
Financial Perspective	<ul style="list-style-type: none"> <li>• Revenue growth</li> <li>• Cost control</li> <li>• Increase in ARPC</li> </ul>	<ul style="list-style-type: none"> <li>• Revenue</li> <li>• EBIT</li> <li>• Free cash flow</li> <li>• ROCE</li> <li>• ARPC</li> </ul>	<ul style="list-style-type: none"> <li>• Financial control</li> <li>• Introducing cost-effective products</li> <li>• Effective management</li> </ul>
Customer Perspective	<ul style="list-style-type: none"> <li>• Maintenance and obtainment of customers</li> <li>• Introduction of new products</li> <li>• Maintenance of low price</li> <li>• Improvement of service quality</li> </ul>	<ul style="list-style-type: none"> <li>• Number of customers</li> <li>• New products to total offerings</li> <li>• Market survey</li> <li>• Customer feedback and complaints</li> </ul>	<ul style="list-style-type: none"> <li>• Introduce bonus card system</li> <li>• Marketing</li> <li>• Search new suppliers</li> <li>• Maintain good relationship with existing suppliers</li> <li>• Quality control management</li> </ul>
Internal Perspective	<ul style="list-style-type: none"> <li>• Sales sites expansion</li> <li>• Personnel productivity improvement</li> <li>• Maintenance of social interaction</li> <li>• Maintenance of strong customer relationship</li> </ul>	<ul style="list-style-type: none"> <li>• Number of sales sites</li> <li>• Average lead time</li> <li>• Personnel expense per customers</li> <li>• Social interaction</li> <li>• Customer feedback</li> </ul>	<ul style="list-style-type: none"> <li>• Business expansion plan</li> <li>• Regular contacts with customers</li> <li>• Introduce BSC application system</li> <li>• Up-to-date customer database</li> </ul>

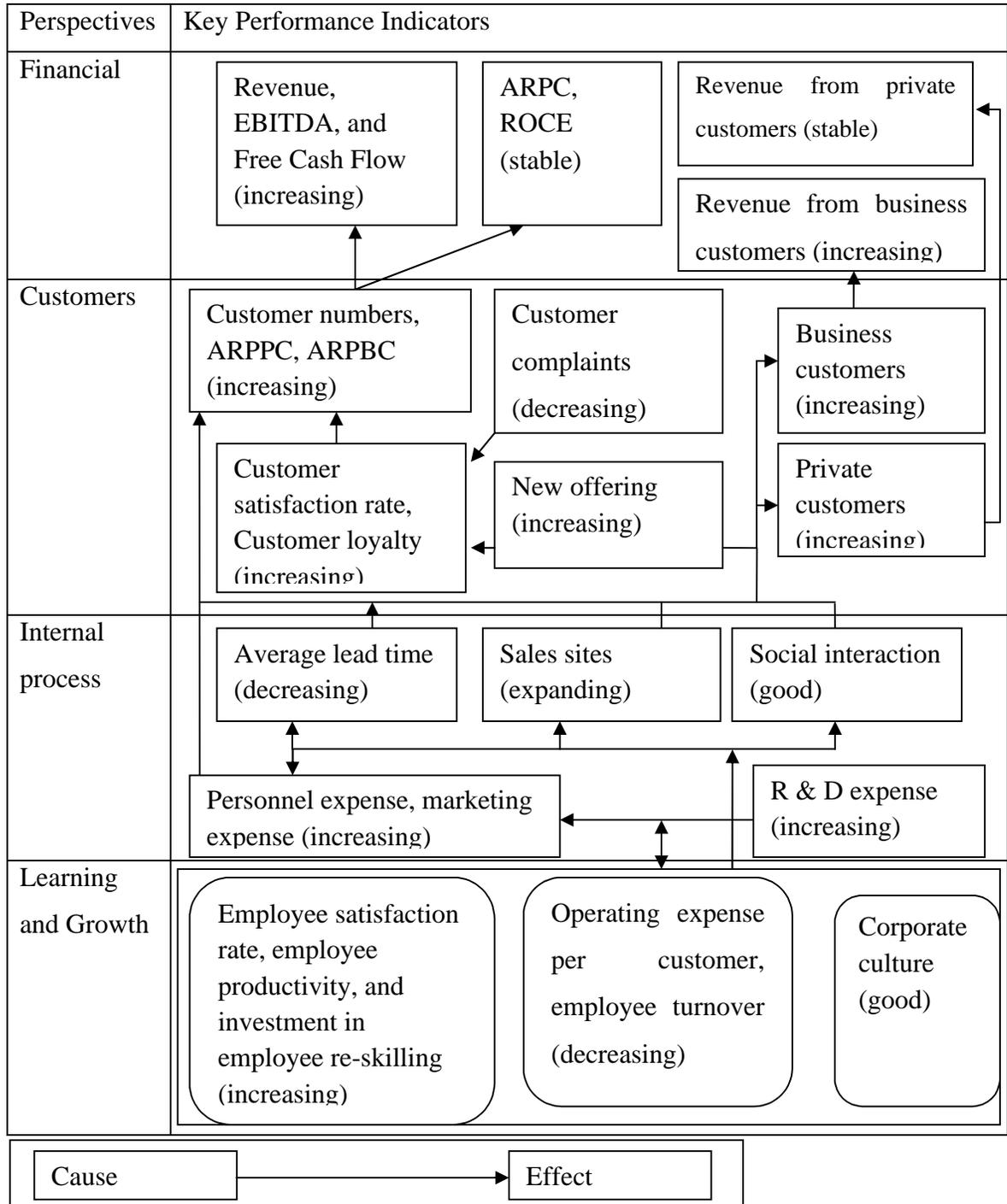
Learning & growth Perspectives	<ul style="list-style-type: none"> <li>• Strengthen human resource</li> <li>• Maintenance of good corporate culture</li> </ul>	<ul style="list-style-type: none"> <li>• Investment in employee alignment</li> <li>• Employee satisfaction rate</li> </ul>	<ul style="list-style-type: none"> <li>• Employee retention program</li> <li>• Arranging training program</li> </ul>
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## 6 DESIGNING STRATEGY MAP

This chapter begins with visualizing causal effect relationship among the factors of Lakkapää's existing strategies and is followed by the strategy map designed for Lakkapää.

### 6.1 Visualizing causal effect relationship

Based on the analysis in previous chapter, the causal effect relationship between the objectives or KPIs is visualized in following figure.

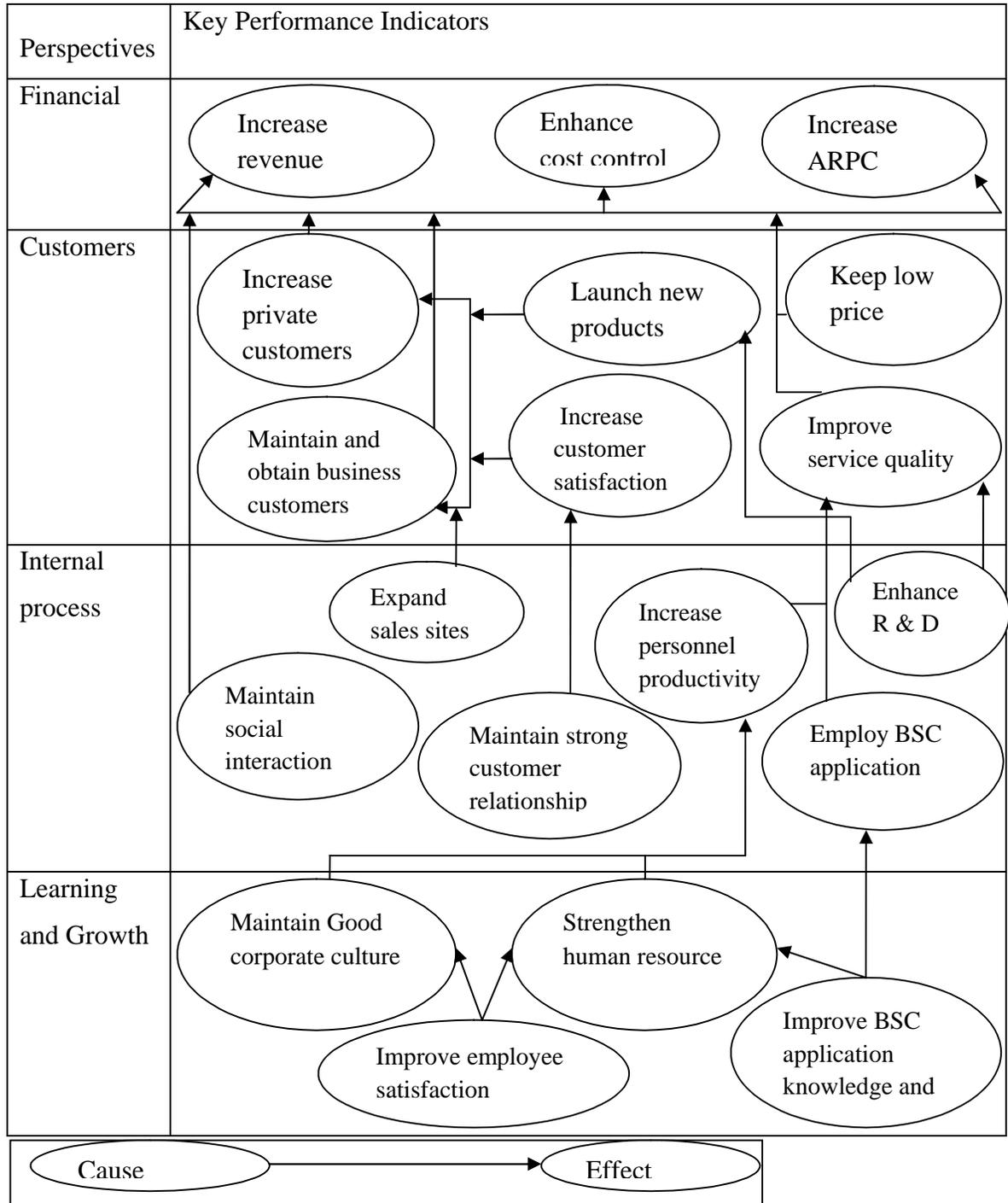


**Figure 4:** Cause-effect relationship of different Key performance indicators.

In Figure 4 the causal effect factors for designing a strategy map are visualized according to different perspectives. Causal effect relationship among those indicators is shown by the arrow sign.

6.2 Strategy map

Based on the causal effect relationship between the objectives or KPIs visualized in previous subchapter, the strategy map for Lakkapää is designed in below.



**Figure 5:** Strategy Map

In figure 5, the key performance indicators of Lakkapää according to different perspectives are presented. Linkages among these indicators are shown by arrow sign.

## 7 SUGGESTIONS FOR IMPLEMENTING BSC

To implement BSC, first of all an organization needs to understand its competencies as well as its readiness to change. If an organization does not have any idea about its own strengths and weaknesses, it cannot implement BSC successfully. I strongly believe that the management of Lakkapää has a clear understanding of its capabilities. To get the best result from BSC, it is advisable for Lakkapää to concentrate on the following matters:

### a) Management support

Top management support is one the most essential factors behind the success of a BSC system. Most BSC projects fail just because of lack of the management support. Before implementing BSC system, Lakkapää should ensure that their upper management have full support behind it. Niven (2006, 305) points out that executive support and sponsorship works as a common thread that connects the entire process of implementing BSC and without this support, all the efforts are most likely doomed.

### b) Education about BSC and strategy map

Some organizations make a mistake by not providing any education or any in depth training to the users of the BSC system. Some other organizations make a mistake in that they perceive BSC as a controlling system rather than as a communication, informing, and learning system. The reality is that BSC is a transformational solution for a business which cannot be implemented without having in depth understanding of it. Companies cannot get the best of it by jumping into it. To get the best from BSC, my suggestion to Lakkapää would be considering BSC as a way of life and providing education and in-depth training to the users of BSC. It would be also a recommendable decision for Lakkapää to allow enough time to its employees before implementing BSC for making sure that they have a clear understanding of it.

In addition to educating about BSC and strategy map, it requires a proper know how about the road map of implementing BSC. Lakkapää should do mapping in advance about how it is going to utilize its people, internal processes, and technology in different phases of implementing BSC.

### c) Using technology

Technology has become an enabler for organizations to implement BSC smoothly. There are mainly three technological frameworks of BSC in the market i.e. enterprise performance management (EPM) system which is integrated into accounting or legacy systems, business intelligence system or analytic application which is stand alone but integrated into enterprise resource planning (ERP) system, and in-house custom-built BSC system or internally developed application which is designed and developed by an organization internally. Lakkapää can choose one within these three systems according to their requirements. Before choosing any system, Lakkapää should make sure that their system consists of the following subsystems: infrastructure subsystems, data collection and input subsystems, modelling and analysis subsystem, deployment subsystem, reporting subsystem, as well as predictive and planning subsystem. (Nair 2004, 193-194.)

d) Cascading the scorecard

Lakkapää should cascade the BSC from the top level management to bottom to achieve the best result offered by this system. Cascading builds awareness across an organization about its strategies, objectives, and measures which it needs to accomplish to achieve the goals in the future. Cascading aligns an organization to its main objectives and builds a team agreement on attaining ultimate goals and strategy. Furthermore, cascading helps to build an organization action-oriented by sure that, what gets measured gets done. (Nair 2004, 193-194.)

## 8 CONCLUSION AND RECOMMENDATION FOR FUTURE RESEARCH

This chapter concludes the research process carried out under the title constructing Balanced Scorecard and Strategy Map for J & J Lakkapää Oy. Furthermore, recommendation for future research is also provided in here.

### 8.1 Conclusion

The objective of this research was to help Lakkapää by constructing a performance measurement system. To do this, I explored the theories of BSC as well as strategy map to find answers to the research questions. Furthermore, mission, values, vision, as well as strategy were defined. From the company documentation collected and the interviews conducted I gained a clear understanding of Lakkapää's capacities or competencies, mission, vision, as well as strategies. Based on this understanding, a BSC was constructed for Lakkapää with suitable objectives, measures, and targets.

After constructing the BSC, I started to formulate a strategy map for Lakkapää with keeping in mind the principles and steps of designing a strategy map. In this stage, causal effect relationship among the key performance indicators was discovered and a strategy map was formulated based on the financial, customers, internal, as well as learning and growth perspectives. Discovering causal effect relationship was a challenging task for me. Sometimes it was challenging to identify which performance indicator was driving another. Furthermore, choosing the most suitable performance indicators for the case company is another challenging task. However, to solve these problems, I widely relied on the information received from Lakkapää as well as the knowledge gained through literature review. In addition, I kept in mind the business field and the recent performance trend of Lakkapää.

### 8.2 Recommendation for future research

Through this research process, a BSC and a strategy map were constructed. Furthermore, a number of practical suggestions were proposed for successful implementation of BSC and strategy map. Further research of an implementation plan is necessary for executing the

implementation process. In that case, action research method would be very effective. Since Lakkapää's management has proper understanding of its competencies, it is suggested to involve department managers in that research. In addition, Lakkapää can apply a SWOT analysis to get a detailed scenario about its current situation. I hope my thesis will work as a benchmark and inspiration to further researchers.

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## APPENDICES

Questionnaire 1

Appendix 1(3)

## ASSESSING THE NEED FOR A BALANCED SCORECARD AND STRATEGY MAP:

To assess the need for a Balanced Scorecard read each statement and determine how much you agree with what is stated. The more you agree, the higher the score you assign. For example, if you fully agree, assign a score of 5 points.

1. Our organization has invested in improvement initiatives for quality management, but we have not seen a corresponding increase in financial or customer results.  
**1 2 3 4 5**
2. If we did not produce our current performance reports for a month nobody would notice.  
**1 2 3 4 5**
3. We create significant value from intangible assets such as employee knowledge and innovation, customer relationships, and a strong culture.  
**1 2 3 4 5**
4. We have a strategy (or have had strategies in the past) but have a hard time implementing them successfully.  
**1 2 3 4 5**
5. We rarely review our performance measures and make suggestions for new and innovative indicators.  
**1 2 3 4 5**
6. Our senior management team spends the majority of its time together discussing variances from plan and other operational issues.  
**1 2 3 4 5**
7. Budgeting at our organization is very political and based largely on historical trends.  
**1 2 3 4 5**
8. Our employees do not have a solid understanding of our mission, vision, and strategy.  
**1 2 3 4 5**

9. Our employees do not know how their day-to-day actions contribute to the organization's success. **1 2 3 4 5**
10. Nobody owns the performance measurement process at our organization. **1 2 3 4 5**
11. We have numerous initiatives taking place at our organization, and it's possible that not all are truly strategic in nature. **1 2 3 4 5**
12. There is little accountability in our organization for the things we agree as a group to do. **1 2 3 4 5**
13. People tend to stay within their "silos," and as a result, we have little collaboration among departments. **1 2 3 4 5**
14. Our employees have difficulty accessing the critical information they need to serve customers. **1 2 3 4 5**
15. Priorities at our organization are often dictated by current necessity or "firefighting." **1 2 3 4 5**
16. The environment in which we operate is changing, and in order to succeed we too must change. **1 2 3 4 5**
17. We face increased pressure from stakeholders to demonstrate results. **1 2 3 4 5**
18. We do not have clearly defined performance targets for both financial and nonfinancial indicators. **1 2 3 4 5**
19. We cannot clearly articulate our strategy in a one-page document or "map." **1 2 3 4 5**
20. We sometimes make decisions that are beneficial in the short term but may harm long-term value creation. **1 2 3 4 5**

(Source: Niven 2006, 34-35.)

## BACKGROUND INFORMATION QUESTIONNAIRE:

**Financial Perspective:**

1. Revenue from private customers:

2010 - 11	2009 – 10	2008 – 09	2007 – 08

2. Revenue from business customers:

2010 - 11	2009 – 10	2008 – 09	2007 – 08

**Customers Perspective:**

1. Number of total customers:

2010 - 11	2009 – 10	2008 – 09	2007 – 08

2. Number of new customers:

2010 - 11	2009 – 10	2008 – 09	2007 – 08

3. Customers feedback (satisfaction rate):

2010 - 11	2009 – 10	2008 – 09	2007 – 08

4. Total number of invoice or contracts:

2010 - 11	2009 – 10	2008 – 09	2007 – 08

5. Number of customer complaints:

2010 - 11	2009 – 10	2008 – 09	2007 – 08

**Internal business-process perspective:**

1. On-time delivery rate (in %):

2010 - 11	2009 – 10	2008 – 09	2007 – 08

2. Average lead time:

2010 - 11	2009 – 10	2008 – 09	2007 – 08

3. Marketing expenses:

2010 - 11	2009 – 10	2008 – 09	2007 – 08

4. Research and Development expenses:

2010 - 11	2009 – 10	2008 – 09	2007 – 08

5. Total number of items:

2010 - 11	2009 – 10	2008 – 09	2007 – 08

6. Number of new items introduced:

2010 - 11	2009 – 10	2008 – 09	2007 – 08

**Learning and growth perspective:**

1. Number of personnel:

2010 – 11	2009 – 10	2008 – 09	2007 – 08

2. Number of other employees:

2010 - 11	2009 - 10	2008 - 09	2007 - 08

## 3. Number of newly recruited employees:

2010 - 11	2009 - 10	2008 - 09	2007 - 08

## 4. Number of employee turnover (retired, resigned, and so on):

2010 - 11	2009 - 10	2008 - 09	2007 - 08

## 5. Expenses for employee training and re-skilling:

2010 - 11	2009 - 10	2008 - 09	2007 - 08

## 6. Employee satisfaction rate:

2010 - 11	2009 - 10	2008 - 09	2007 - 08

## 7. Total number of hours worked by employees:

2010 - 11	2009 - 10	2008 - 09	2007 - 08

## FINAL INTERVIEW QUESTIONS:

Appendix 3(3)

**Question no. 1.** What does make your organization unique?

**Question no. 2.** Why do you feel you exist as an organization (mission statement)?

**Question no. 3.** What core values do you hold?

**Question no. 4.** Where do you see your company in 5, 10, or 20 years of time (vision)?

**Question no. 5.** What must you do to reach the desired future (strategy)?

Or,

What strategies are you pursuing to achieve success?

**Question no. 6.** How will you achieve the strategies you just mentioned?

**Question no. 7.** What data or measures do you currently use to gauge success of the organization?

**Question no. 8.** Do you have targets for the measures? If so, what are they?

**Question no. 9.** What is your value proposition in serving your target customers?  
(Operational excellence/ product leadership/ customer intimacy)

**Question no. 10.** How does your company perform its social responsibility?

(Source: Niven 2006, 109-110.)