LAGGED EFFECTS IN THE BALANCED SCORECARD – Case study

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ABSTRACT

Strategic change can be supported by management control instruments, such as risk-adjusted financial performance measures or the Balanced Scorecard (BSC). The BSC uses leading indicators to predict future performance improvements. However, their link will often exhibit a time lag that exceeds standard reporting periods in accounting. This case illustrates temporary trade-offs between current investment and future performance improvements. The case invites class discussion on how these temporary gaps should be assessed and communicated among managers.

Keywords: *Balanced Scorecard; Economic Value Added; code of conduct; ethics; teaching notes.*

1. INTRODUCTION

Redshank Senior Living (RSL) is a senior living facility. It is an investment center within the corporation Redshank SE, and the Vice President who runs RSL is allowed to make all major investment decisions for RSL. Redshank SE is also active in other service industries, such as hospitality and sports.

Senior citizens who live on the RSL premises pay daily fees for full residential board, which includes all meals and a private apartment. RSL offers every day and medical assistance to all of its residents, depending on their needs. Places at RSL are in high demand, so RSL operates at full capacity and has waiting lists for prospective residents.

2. VALUE-BASED MANAGEMENT (APPROX. 40 MINUTES)

Amy is the new head of accounting at RSL. She reports to RSL's Vice President as well as Redshank SE on the profitability of RSL on an ongoing basis. Redshank SE generally asks for the net income of RSL, as well as the Return on Investment (ROI).

Amy thinks it might be useful to get an alternative perspective on financial performance. For the next report, she wants to report Economic Value Added (EVA) in addition to the traditional financial measures. Amy compiles the following information for RSL:

Position	Value [EUR / %]
Revenues	12,000,000
Operating income	3,900,000
Total assets (t-1)	21,000,000
Current liabilities (t-1)	3,000,000
Total liabilities (t-1)	14,000,000
Common equity (book value) (t-1)	7,000,000
Common equity (market value) (t-1)	9,100,000
Cost of debt capital	8.0%
Cost of equity capital	30.0%
Tax rate	27.5%