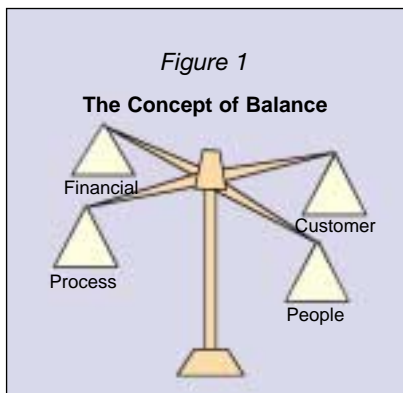


Improving Performance using the Balanced Scorecard Approach

Ketan Varia, MIOM, Consultant, Kinetik Solutions

Government driven 'top down' targets, continue to attract criticism from people at the 'coal face', particularly in the education and health fields. The announcement of over-stated results recently in the private sector (eg. oil reserves), shows that 'target' setting is rife, with spectacular consequences following, when reality hits. Is there an alternative to business performance improvement from the 'head office' target driven approach to a process that actually drives improvement?



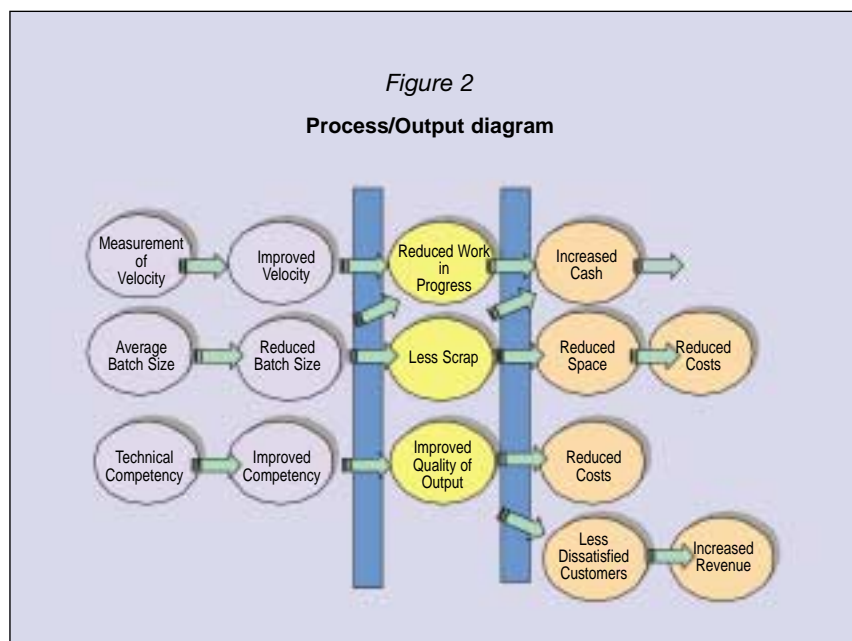
During the early part of the 20th century performance focus was primarily result driven and this did not matter as huge growth and demand dictated financial results, not the effectiveness of the underlying process. However, with maturity of manufacturing and commodity markets, internal processes and organisational culture it became a significant lever to financial outcomes. The concept of the Balanced Scorecard was first introduced by Kaplan in 1992 in which the premise was that a business should not only measure

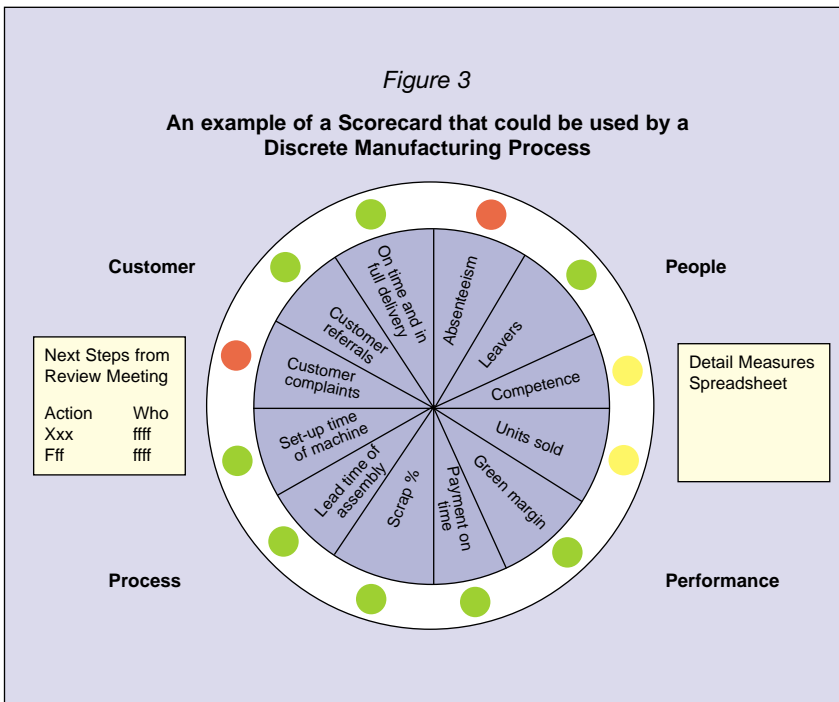
its financial output but also other areas of performance - process, customer and people. Furthermore it should give these areas the same focus as financial performance and Kaplan showed that these measures are interdependent and without a balance on all areas, world class sustainable performance cannot be created. Thus the Balanced Scorecard concept is a unique way of measuring performance – a visual, sustainable and accountable process, managed locally - yet with a direct impact on the bottom line. This approach is different from traditional target setting which often focus on pure output rather than on improving and sustaining the underlying process.

In the example below, Figure 2, a process/output diagram for a discrete manufacturing company, measurement and improvement of

velocity (ratio of value add time to lead time) results in increased cash, and reduced costs as subsequent output results. A process/output diagram of this nature helps business units understand the underlying drivers to performance improvement and will form the basis of creating scorecards.

Scorecards themselves can be created for a look and feel that suits the business. The most important things are that they should be visual and straightforward to understand. I like to think that the scorecard should pass the '2 minute test' (and a casual observer should be able to pick up the key message from the scorecard in this time). A typical scorecard is illustrated in Figure 3 overleaf, and as can be seen the areas of attention - complaints in 'customers' and absenteeism in





'people'- vividly stand out, with the process area all in Green. Attached to the scorecard would be actions from meetings and detailed history of measures giving further information as required.

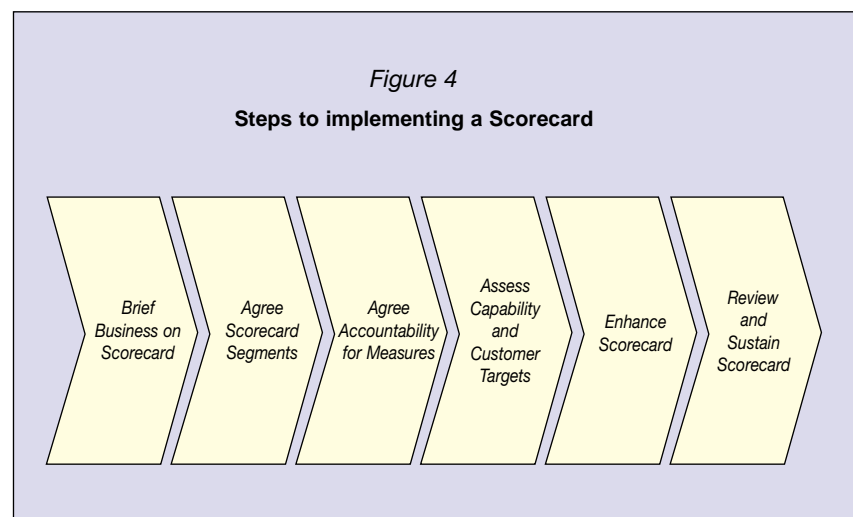
The period that a scorecard is refreshed is very dependent on the business unit processes, and in my experience a monthly update is one that works well in almost all organisations, although a greater frequency could be applicable to intensive service industries. The scorecard should be located strategically for each business unit (the foyer for example) and I have seen the potential opportunities this generates for interesting discussion during customer, supplier and head office visits.

One interesting aspect of local scorecards is that these scorecards created in different divisions of a business can be linked to a head office 'scorecard'. A scorecard for the head office will of course look much different to one that exists at the 'coal face' - however the head office scorecard should have a direct process/output link to local scorecards. This integrated approach can help the head office to review the effect of improvement on business outcomes and strategies. A huge benefit of this approach (have you ever noticed how much time and

effort and paper is wasted on this in almost all companies) is that irrelevant measures are eliminated freeing management across all units and the head office to focus on what really matters to the business.

So far I have explained the concept of the scorecard which on the face of it seems relatively straightforward to execute, however the implementation of the scorecard (see Figure 4) can often be more challenging than the execution of the scorecard itself. It is important that the implementation approach should be focused around a team of people who are involved in the day-to-day processes and measures, that need control and improvement.

It is this cross-functional team that brainstorm and debate the balanced measures, take ownership and agree their own considered targets. 'Targets' should be based on the capability of the process and also the voice of the customer – and more importantly measurement of these values triggers process improvement not 'blame'. There is a clear distinction to arbitrary calculated targets (which happens frequently in all sectors of industry) to one that relates to the local execution and is defined by the 'local' customer. Hence this way of target setting reduces the risk of sub-optimisation (where focus on meeting an arbitrary set target at the detriment of another measure created sub-optimisation of the whole process). At the outset the business managers must understand the concept of the scorecard, as without their 'buy in' and sponsorship, sustainability is not possible. A useful way of doing this is to give the unit manager the overall 'accountability' for implementation together with the support framework to 'make it happen'. Indeed thorough consideration needs to be made to what Key Performance Measures (KPM) already exist - as to whether they are relevant, who collects data, and the use of measures. There maybe some valuable nuggets of good process measures, and one must not 'throw the baby out with the bath water', for this will result in loss of credibility. Indeed some output driven measures may need to continue to exist due to legal or



regulatory requirements. At a recent client meeting the measurement of defects was measured against the overall percentage of scrap and was set by corporate 'standards'. No consideration was given as to what the customer's view was of the process, what was acceptable yield for each stock keeping unit, or the actual capability of the existing process or machinery. The consequences were that local management played a 'numbers game' hiding the true scrap and underlying problems via extra inspection, and clever massaging of numbers. The amount of overall waste these 'games' generated is still frighteningly visible in many companies.

Enhancing the scorecard occurs during a 'town meeting' with key stakeholders (consider inviting customer and suppliers of the processes!), where the work done to date is presented. The stakeholders present will be asked to take full accountability of agreeing measures, targets, accountability and improvement. The measures agreed so far go through validation and debate – this is critical, as people who are close to the process – not a 'performance manager', will carry out execution of measurement. The three measures of process capability, customer target and customer tolerances are the key indicators to assess the state of a Balance Scorecard segment. Based on the results the scorecard is shown as Red, Green or Amber. A Red status is when customer tolerances are breached. An Amber status should be when the measurements meets customer requirements but is statistically 'out of control', thus the chances of future defects is high. An example of Amber status issues include recent rail crashes, where the underlying processes were on Amber and shown to be out of control... waiting for failure to occur - which did happen. A Green status is when the process is in statistical control and within customer tolerances.

Reviewing and sustaining the scorecard should take place in regular management team reviews, involving the relevant people. The

focus of attention should be on Red and Amber measures only, and 'action teams' should be set up to look at the underlying causes of the issues using problem solving tools (such as process mapping, root cause analysis etc) in a facilitated framework. These can often yield surprising results and I have found that issues can be just with the way measurements are being carried out, where a small difference in process methods between workers can create widely different results – and it is therefore important that senior management support exists for this activity, as quick fixes never prove sustainable. Sometimes due to lack of history it can take time to monitor the trends and create targets for showing the segment. It is not important to have all the measurement segments in place before launching the scorecard – in fact if 50% of measures are available the scorecard should be launched, and the rest can follow in due course.

A client I recently worked with spent a full day (at which less than 20% of the agenda was covered) on reviewing Performance; 'classic paralysis by analysis' with the 'blame culture' which resulted. Following the implementation of the scorecard, the meeting went to a 2-hour monthly meeting focussing only on Red and Amber status measures, and an emphasis on improvement teams to tackle underlying problems and report back on results. This freed up huge management time, empowered people and gave confidence to senior managers that a process existed for improvement.

I am often asked by clients what would happen once their teams have resolved all the issues and all scorecard segments are at Green? Well if all improvements come into fruition and all measurements are showing at Green, then there are several options. Perhaps some measures that are stable and underlying processes that are sustainable, can be replaced with others on the scorecard. It is also possible to reduce variability for specific activities to further reduce costs from the business however, it is more likely that customer

requirements will become more exacting or that innovation of needs will throw up further challenges for improvement in the longer journey of the balanced scorecard.

The Balanced Scorecard approach is relevant and is a practical way of measuring and sustaining business performance. However it does need management involvement, patience and facilitation to succeed. Companies as diverse as food retailers (Tesco) to engineering and maintenance contractors eg. Network Rail have successfully implemented their own versions of such scorecards and if implemented correctly can free up management time, 'paralysis by analysis' and empower people who have the ability to make improvements. SO overall this approach, like the approaches of Lean, Agility, ERP and so forth should be used with discrimination, BUT it is certainly not the answer to all challenges faced in the business world.

"...Most pernicious of all, targets are based on the illusion that the centre can drive change... The opposite is true. Improvements in...services will generally come from individuals and teams finding better ways to work" ...The Economist (editorial) April 2001

About the author

Ketan Varia, MIOM is an Independent consultant specialising in process improvement and & previously worked for Ernst & Young Management Consulting. He runs a one day tailored workshop on the Balanced Scorecard.