Balance Your Balanced Scorecard

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A balanced scorecard is a management decision tool. It is intended to be a framework for linking strategy with operational performance measures. In practice, it is an integrated report, usually showing diverse areas of performance an organization most values. This is a departure from traditional performance measurement tools such as financial reports, sales reports, production reports and customer survey reports. Each of those reports focuses on performance along a single dimension. This is akin to the blind man understanding the attributes of an elephant in terms of the trunk or tail he is holding.

The term "balance" suggests that objectives and measures along different dimensions, assembled together on one sheet or screen, offer a multi-dimensional and qualitatively better view of organizational success. As popularized by Kaplan and Norton, the right measures address performance regarding the management of finances, processes, customers and employee development. A well-designed scorecard should not exceed twenty measures, all connected to strategic objectives. It helps management (if not line employees) make good, fast decisions on what to improve or celebrate. The purpose is to understand what the whole elephant looks like so you can put food where its mouth is.

From the customer's perspective, balanced scorecards are rarely balanced.

Sounds like Common Sense 101. So what is wrong with this picture? In theory, nothing. In practice, many organizations are still not seeing the whole elephant. Like most organizational change models, evolutionary improvement has certainly occurred. But it remains incomplete. For example, managing customers (via our positioning, image, crisis handling and so on) is not synonymous with satisfying them. Scorecards today often focus entirely on subjects of internal interest. The customers' interest areas continue to be inadequately integrated into the grand scheme.

The popularity of scorecards reflects a general growth of interest in performance measurement and improvement tools. This is a positive trend. The better integrated our measures are, the more holistic our improvement efforts tend to be. Let's look at how we can enhance the use of measures for the benefit of both customers and the enterprise. First, examine the three cases on measurement practices to avoid.

Case 1: Customers First?

Leaders of a Fortune 100 company had frequently stated, "Customers are our first priority." They had created a scorecard intended to focus everyone on 27 objectives and performance measures organized under four critical categories, including "customer/consumer". Senior management was surprised to discover (with outside help) that only three (3) of the 27 objectives had anything to do with customers or their priorities. How could customers really be priority number one? How balanced was the scorecard? The use of scorecards, sometimes called dashboards when the focus is strictly on the measures rather than the objectives, is growing. But here is an important principle: **Studying the dashboard without also looking out the windshield can cause accidents.**

Case 2: Measured Confusion

Senior management wanted to establish an improvement initiative. They had written a strategic plan. It identified key barriers to success and over 30 activities due by specific dates. Employee morale and customer satisfaction were identified as key areas to improve.

An outside consultant was asked to review the plan. He noted that there were few stated outcomes or numerical improvement objectives related to the top priorities. The CEO responded that she was confident their new training program and other activities would lead to good results. And anyway, since outcomes are not directly controllable, she saw no reason to commit to specific measures of improvement. She decided that only measuring internal processes would be sufficient.

Eighteen months later, the training programs and other scheduled activities were completed. Improvement in employee morale and customer satisfaction remained elusive.

Case 3: Same Old Tired Excuses

It is becoming increasingly common to see organizations conduct customer satisfaction surveys by phone or form.

One of the highest priorities business travelers have is a good night's sleep. Yet virtually no hotels include any questions about this on their surveys. They may ask about the quality of the restaurant's meals, the promptness of the check-in and check-out processes and the helpfulness of front desk staff. But nothing about sleep.

When asked about this disconnect, management of one hotel explained that their survey was designed by a "self-directed" team. The questions asked were ones the team wanted to have answers for. No customers were on the team nor involved in prioritizing the topics or designing the instrument. Its intent was to enable employee recognition. A laudable purpose, but employee satisfaction should not be confused with customer satisfaction.

Balance What Is Valued

A truly balanced scorecard, in terms of both organization and customer priorities, is possible to create. To do so requires that categories of measures reflect the key values of both parties. The graphic below (Figure 1) shows three topics valued by both producers and customers.

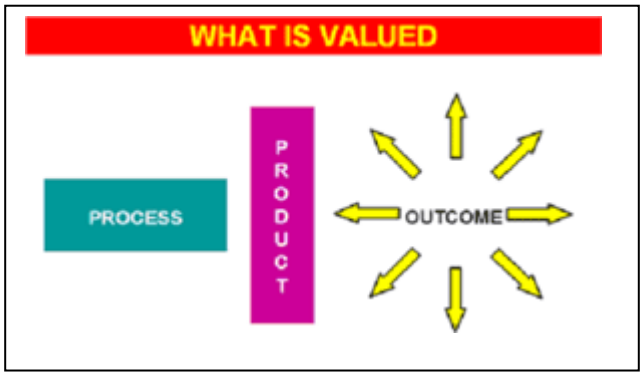

Figure 1

Balanced scorecards can sometimes suffer from the "ready, fire, aim" syndrome. This means we set about identifying *how* to measure performance before we have articulated either *what* or *why* to measure at all.

A good scorecard will include measures covering all three topics in Figure 1. Outcomes refer to results the organization wants to achieve. Customers also have outcomes they hope to obtain by working with the organization. Outcomes address why the organization exists.

Products are the deliverables created by the organization. They are what customers receive. Products include more than just manufactured items. They can also be information products (reports, invoices, designs, courses), service products (answers, appendectomies, repairs) and entertainment products (movies, games, rides). A balanced scorecard will include broad measures of product attributes such as quality, ease-of-use and reliability.

Scorecard measures of process performance emphasize activity or how work is done. These may include cycle time, productivity and backlog. Process measures usually focus on operations. Outcomes are closer to strategic intent. Balancing these two areas is an art. Start by answering these two questions: (1) Why measure? (2) What should be measured?

Why Measure?

There are at least three reasons why organizations should, and often do, measure their performance:

1. ***To align mission, strategy, values and behavior***. Cases 1 (only three of 27 measures focused on customers) and 3 (hotel survey omits question on sleep) above show signs of misalignment in these four areas. These organizations are not alone.

Consider the popular exhortation to young athletes: "It's not whether you win or lose that's important; it's how you play the game." Really? What does the final score reflect: winning or sportsmanship? One hockey game will cure you of any illusions in this area.

If the mission is to win and the strategy includes disabling the competitor, violent behavior may be more valued than chivalrous conduct. Ever wonder what would happen if we gave medals and points for sportsmanship? Similarly, when we say customer satisfaction is a high priority, our measures should promote relevant behavior.

2. ***To improve the right things***. Compared with enterprise improvement efforts of just 10 years ago, today's most advanced organization has experience with (and may currently have in place) numerous initiatives. The names of such efforts include teamwork, cycle-time reduction, problem-solving, reengineering, customer service and Six Sigma. Consider which of three broad areas these efforts address: process, product or outcome. Process deals with <u>how</u> work is done, product with <u>what</u> is delivered and outcome refers to results obtained; <u>why</u> we do what we do.

Consider Case 2, the healthcare organization that labored for months to create its first strategic plan. The plan contained very few desired outcomes and even fewer numerical improvement objectives. But the strategic plan did focus on activities, or how work would be done. All manner of process improvement was going on, with attendant performance measures.

One example was the goal, "All phones will be answered by the third ring." Many customers had complained they couldn't get timely answers to calls. It was a no-brainer to

create nice little wall charts in each department showing the average number of rings occurring before the phone was picked up. This is a typical process measure. Sure enough, as soon as the measurement began, the number of rings declined. Self-congratulations and special recognition events occurred.

But the customer complaints remained unchanged. Investigation revealed that the phone was picked up and the customer promptly put on hold. Management had confused answering phones with answering customers. They had succeeded in improving process without affecting outcome. Here is another key principle: **Activity not tied to measured outcomes creates the illusion of improvement.**

3. ***To numerically define the meaning of "success".*** The facts in Case 1 can be expanded upon. There were measures in place on:

- meeting production schedules (but none on timeliness of deliveries),
- market growth (but not customer retention) and
- product quality in terms of defects (but not ease of use).

The measures chosen were effective in objectively defining success in terms of organizational priorities. Unfortunately, the customers' definitions of success--such as ease-of-use and timeliness--were not so well measured. One of the reasons given for this situation is that measuring customer perceptions is too difficult, if not impossible. As Henry Ford said, "If you think you can or think you can't, either way you're right." Not knowing how to measure something should not drive what we should try to measure. Everything can be measured, even if the precision of doing so is currently limited.

Figure 2

Figure 3

Getting consensus on the abstract virtues of measurement is one thing. Getting folks to jump up and down at the prospect of measuring their performance is another matter. Let's face it, a lot of people view a request to do new measurement the way they would an invitation to have a root canal. Some common fears are addressed in Figure 2.

Although we have developed a technique which actually increases the desire to measure, it goes beyond the scope of this article to describe. (See chapter 4, Creating a Customer-Centered Culture: Leadership is Quality, Innovation and Speed.) Suffice it to say that a few key attributes of measures people actually like are listed in Figure 3.

What Should Be Measured?

Once we clearly articulate our purposes for measuring performance, there are eight (8) areas to consider. In Case 3, hotel management appeared confused about why they were measuring customer satisfaction. Employee recognition (or development) was the real reason. The customers' most important priorities were not measured. Management was focusing on areas 5-6, but omitting areas 1-2, in Figure 4 below.

Unlike many technical measurement challenges, satisfaction is broad and amorphous. This can easily make the task feel a lot like corralling cats. We can make the job much more approachable by dividing the three categories identified in Figure 1 into eight (8) unique areas for measurement, as shown in Figure 4. These eight areas also make up a kind of checklist of the topics the organization's improvement initiatives should address.

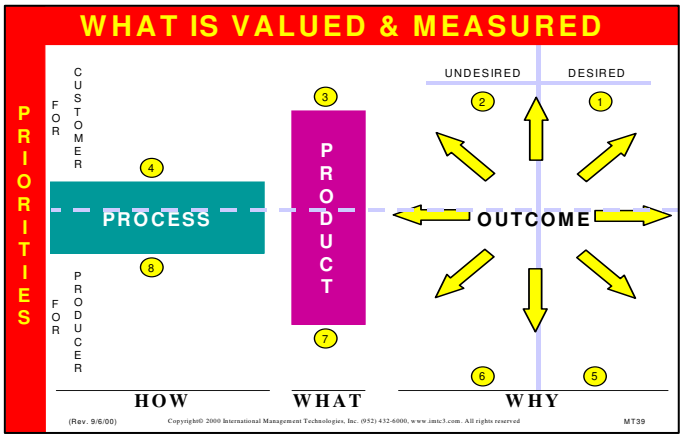

Figure 4

A truly balanced scorecard aligns strategic objectives with customer priorities. It starts by developing measures related to customer values. These are shown in items 1-4 above the horizontal dotted line in Figure 4 and expanded on in Figure 5.

8 AREAS TO MEASURE

1. *Customer desired outcomes:* These are their ultimate hopes: joy, security, personal time, belonging, health, etc. How well (and quickly) they get those results reveals our effectiveness. Health is an outcome that is a high customer priority. It should be measured. It is interesting to note that we often measure undesired outcomes like mortality (death) and morbidity (new ailments contracted by exposure to the health system). It is then easy to view the absence of those conditions as success. But are people healthy if they don't die or get sicker?

If we don't know what results customers want to achieve by working with us, our long-term viability is merely chance. Articulate and prioritize which outcomes should be measured before proceeding.

2. *Undesired outcomes customers want to avoid or eliminate:* death, taxes, discomfort, wasted time, frustration and a host of unwanted conditions. If customer surveys uncover anything about outcomes, it is usually about the unwanted outcomes they experience.

3. *Product and service attributes customers want:* ease-of-use, accessibility, low cost of ownership, durability and usefulness. Product refers to any deliverable we can make plural with an "s." The variety of products we provide and the characteristics of those products demonstrate our creativity and uniqueness. A good product is one that can be easily used by a customer to predictably create their desired outcome.

It can be argued that the most important products an organization provides to its customers are not widgets. Answers are products which are very important to customers. Do we measure the accuracy, timeliness, availability, relevance and completeness of the answers we provide? If proactive answers are differentiators (as Amazon.com has demonstrated), we should probably be measuring them at least as well as we do our widgets. The aggregate dollar cost to produce answers by an organization is staggering, yet rarely measured. Those costs almost never show up on balanced scorecards. Be the first on your block to change this practice.

4. *Process characteristics customers want:* timely arrival of product requested, no wait or cue time, ease of acquisition. How well do we measure process performance in terms customers care about? This would include their time and cost (both expense and lost opportunity) to acquire the product and make it function easily and effectively.

5. *Producer desired outcomes:* Leadership, profit, market share, dominance, growth.

6. *Undesired outcomes producers want to avoid or eliminate:* waste, high turnover, financial loss, customer defection.

7. *Product attributes producers want:* easy to build, low cost to produce, no warranty costs, easy to distribute.

8. *Process characteristics producers want:* process consistency, low variation, high productivity, comfortable lead times. It is important to distinguish our activity from the customer's. Measuring our production processes can guide us to improved efficiency. Our cycle time, unit cost, defect rate and waste can decline because we decided to measure them.

Figure 5

Our observation is that most so-called balanced scorecards primarily emphasize the below-the-line topics, areas 5-8 in Figure 4. This was the situation in Case 1. Worse than that, as Case 2 illustrates, producer-valued process/activity measures (such as progress toward milestones) often get more attention than any kind of outcome measure. The good news is this: If this represents the practice of your competitors, you now have a potential advantage. Start measuring the right things before they do. The Baldrige Criteria and the ISO 9000:2000 standards are both pushing in this direction, **without describing how to get there**.

What we measure reveals our true values and priorities, not what we merely say is important. This 8-part balanced scorecard is just one tool needed to support a customer-centered culture. The Missouri Department of Revenue, winner of the Missouri 2000 State Quality Award, is the most recent organization to use the Customer-Centered Culture® approach to achieve stunning results and national recognition. A version of their balanced scorecard on the Individual Income Tax Booklet/Form product is shown in Figure 6.

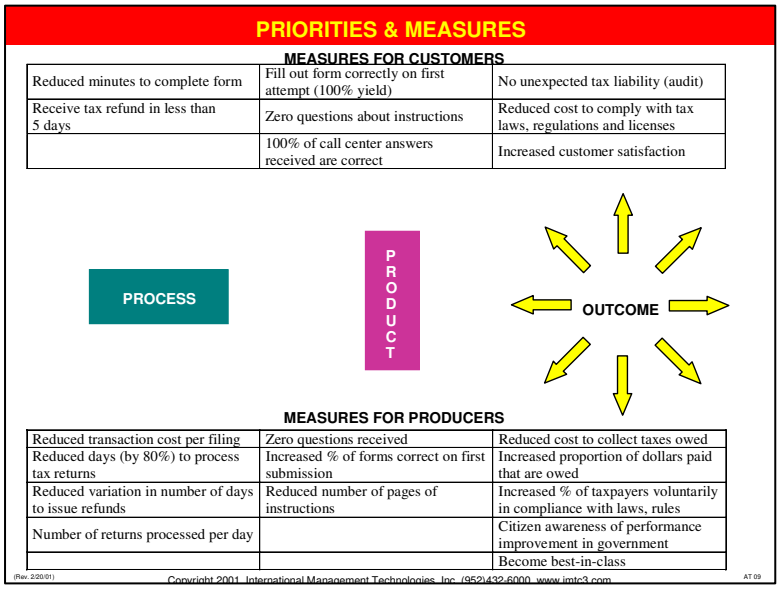

Figure 6

These performance measures contributed to Missouri reducing tax refund time from 45 days in 1998 to 4.5 days in 2000. Without automation. Over $2 million in savings were obtained in that same period.

This kind of balanced scorecard has also been used by Lawrence Livermore National Laboratory, winner of the 1998 California State Quality Award. Both of these organizations won their respective awards within three (3) years of starting their improvement initiative. If they can, you can too. Start with the self-assessment questions in Figure 7. Good luck.

10 QUESTIONS TO ANSWER FOR A BALANCED SCORECARD

The following 10 questions can establish a strong strategic context with links to both customers and daily work, understandable by anyone. Use these to assess the customer focus of your own organization's scorecard.

1. What outcomes are to be achieved by the scorecard?
2. According to the eight categories of measures, how balanced is your scorecard?
3. Have you identified which of the organization's products and services are most critical in carrying out its mission? If so, what are the 10 most vital?
4. What specific numerical objectives and due dates have been established for improving both customers' and the enterprise's priority outcomes, products and services? Are they being met?
5. Which of the eight categories of measures gets the most attention, has the highest priority of management?
6. What is currently given higher organizational priority than customer satisfaction?
7. What method is used to uncover customers' priority expectations?
8. What formal processes ensure customers get outcomes and products they want?
9. What are the rewards for measured success? What are the consequences for failure?
10. What return-on-investment is expected from your scoreboard initiative?

Figure 7

References:

Creating a Customer-Centered Culture: Leadership in Quality, Innovation and Speed, by Robin L. Lawton - ASQ Press, Milwaukee, WI 1993

The Balanced Scorecard: Translating Strategy into Action, by Robert S. Kaplan and David P. Norton - Harvard Business School Press, Boston, MA September, 1996

"Developing the Balanced Scorecard" report by Best Practices, LLC - Chapel Hill, NC May, 1998

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"Are Your Surveys Only Suitable for Wrapping Fish" article by Ken Miller Quality Progress - Milwaukee, WI, December, 1998

MORE QUESTIONS TO PROVOKE THOUGHT, GAIN INSIGHT

"Balance Your Balanced Scorecard"

Using Figure 4 as reference, answer and discuss the following questions.
(Common answers shown in parenthesis)

1. **Which of these topics get the most attention from your current improvement initiative(s)?**

   (Process)

2. **Which aspect of process, area 4 or 8? See Figure 4.**

   (Area 8)

3. **Which of the 8 areas does the customer care about <u>most</u>?**

   (Area 1, the outcomes they hope to obtain)

4. **How many of those outcomes are described in our strategic or business plan?**

   (None) (If yes, what is the numerical goal that, if reached, will satisfy the customer's <u>known</u> criteria for success?)

5. **What formal method do we have to uncover customer desired outcomes?**

   (None. Or it is minimal, informal and inconsistent across people, functions and customers)

6. **What are the most important metrics we have for customer priorities 1-4?**

   (Few or none that would reflect something of direct priority to customers)

7. **Is it possible that our measures and improvement goals are focused almost entirely on areas 5-8?**

   (Yes)

8. **How important is it that we address areas 1-4?**

   (Critical to long term viability and competitiveness)

9. **Who in our organization will explore how we can change this situation and propose a course of action?**

   (Best candidate is someone who has both clout and passion.)

10. **Where should we start?**

    (Read references in article and contact International Management Technologies, Inc. at 941-907-0666 or **www.imtC3.com**)