

FOCUS: BUSINESS / STRATEGY

The Metrics WILL Drive Performance

Metrics, Measurements and Scorecards: It's Important to Get Them Right!

What you measure is what you get. The organization's measurement system strongly affects the behavior of managers and employees. The most fundamental reason to measure an activity is to improve it. Financial measures alone, like return-on-investment and earnings-per-share, can give misleading signals for continuous improvement and innovation - activities today's competitive environment demands. Getting the metrics right is one of those "easy NOT to do" things. It's not difficult, but does require some focused energy. The best news is that done well and embedded in the organization, it will pay major dividends.

Multiple Metrics are Needed to provide a Balanced Scorecard (BSC)

No single measure can provide a clear performance target or focus attention on the critical areas of the business. A balanced presentation of both financial and operational measures is needed.

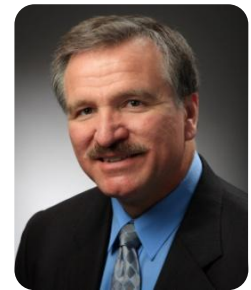
The Balanced Scorecard, made famous by Kaplan and Norton and further improved by Schieman & Lingle, links performance measures. They recommend (and Context agrees) to address six areas:

1. *Customers/Markets:* Are we meeting customer or marketplace expectations?
2. *Financial:* How do we look to shareholders?
3. *People:* Are we deploying our human resources effectively, including employees, partners and suppliers?
4. *Operations:* How efficiently are we running the enterprise?
5. *Adaptability:* Are we responsive and innovative in our approach to changing requirements both internally and externally?
6. *Environment:* Are we dealing with community, environmental and regulatory forces that define our playing field?

Bringing metrics for these areas together in a single management report is key. This allows companies to guard against sub-optimization. By forcing senior managers to consider all the important operational measures together, the balanced scorecard lets them see whether improvement in one area may have been achieved at the expense of another.

Why Do Organizations Need a Balanced Scorecard?

- Traditional performance measures are lagging (vs. leading) indicators
- Most companies do not link performance measures to strategy--or use them to guide the implementation of strategy
- There is often a lack of nonfinancial measures critical for success
- Strategy is too often not communicated across the organization, so process workers don't understand their role in supporting the strategy
- The budget often does not support the strategic plan



Context
Partner,
Mike Borel

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Measure Hard Results and the Soft Stuff Will Follow

Two-thirds of organizations report setting financial and operational goals, but less than half the organizations set goals for the "soft" issues relating to managing people, suppliers, customers and innovation. Despite the rhetoric about loving customers, empowerment and learning organizations, not many executives are putting measures where their mouths are.

What are key elements for implementation of a Good Balanced Scorecard of metrics?

1. Communicable strategic goals that are linked to individual objectives
 - Getting the message across to all
 - Linking strategic goals with business unit targets, individual performance objectives, rewards and recognition
 - Identifying Critical Success Factors for your strategic goals
 - Setting proper Scorecard performance measures to track your progress
 - Developing proper targets and verifying that they support your strategy
2. Integrate the strategic planning and budgeting processes
 - Developing budgets that balance short term financial performance with the drivers of growth opportunities
 - Implementing short-term operational initiatives for long-term strategic goals
 - Allocating resources consistent with long-term strategic priorities
3. Provide continuous feedback for strategic learning and opportunity to adjust for new threats and opportunities.

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Leading vs. Lagging Indicators

We are all used to "lagging" indicators – i.e. the ones we can measure after they've occurred – profit, market share, etc. They definitely have a place, but are not useful for proactively making adjustments in season. "Leading" indicators, on the other hand, are ones you can measure in real time and are directly related to achieving the key business objectives. They require some thoughtful processing to identify – there is not a handy list that are "known to be right" for your business.

Know What to Expect / Focus on Implementation

There are two key initiatives to adopting and implementing a balanced scorecard model:

1. Figuring out what to measure in the 6 key strategic areas:
 - *Customers/Markets*
 - *Financial*
 - *People*
 - *Operations*
 - *Adaptability*
 - *Environment*
2. Embedding the Balanced Scorecard metrics into the organization and organization processes:
 - Linking strategic measures to compensation
 - Tying strategic measures to the performance management system
 - Tracking and managing strategic performance measures

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Although this sounds easy, it is not. Simplicity is often deceptive. This involves some hard questions, but a Balanced Scorecard of metrics is more than a measurement system; it is a cornerstone of strategic management. With the Balanced Scorecard, you can now implement four new management processes that work to align short-term action to long-term strategy. Here's how:

1. Translating the Vision: Do your employees see your CEO's vision as clearly as he or she does? The Balanced Scorecard translates vague and lofty statements into practical measures easily understood by those who will execute that vision.
2. Communicating and linking: Are those who create the strategy and those who implement it on the same page? The Balanced Scorecard helps disseminate the strategy from top to bottom. You'll increase accountability, commitment, and motivation when everyone understands how what they do supports the organization.
3. Business planning: Do your budgets bear little relation to your strategic plan targets? The Balanced Scorecard helps you integrate your strategic planning and budgeting processes to ensure that budgets support strategies. It also helps you prioritize and focus various change initiatives, so you can concentrate on those processes most critical to your success.
4. Feedback and learning: What happens when conditions change and your strategy is no longer valid? The Balanced Scorecard enables you to monitor and reevaluate your strategy based on real outcomes. You'll know at any point whether or not your strategy is working (and the reasons for it) and be able to adjust it in response to changes in the business environment. End result? You'll get a clearer view of your future -- and a detailed road map for getting there!

Context Can Help

The old adage, "Measure twice, cut once" reminds us how critical it is to measure effectively to both avoid making costly mistakes, and make the most out of our goals. Context is ready to help your company deploy metrics that will best assure positive performance. For more information, contact mike.borel@contextnet.com.

References: William A. Schiemann & John H. Lingle; Robert S. Kaplan & David P. Norton; William L. Simon; Tony Hope & Jeremy Hope; Peter F. Drucker

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The Context Network provides business management and strategy consulting services to the world's leading agriculture, biotechnology and food companies and government agencies and institutions. Major areas of expertise include strategy, merger and acquisition support, valuation of new technologies, formation of alliances, and market research. The West Des Moines-based firm is composed of a core of professional consultants that is complemented by a network of hundreds of industry and subject-area experts.

