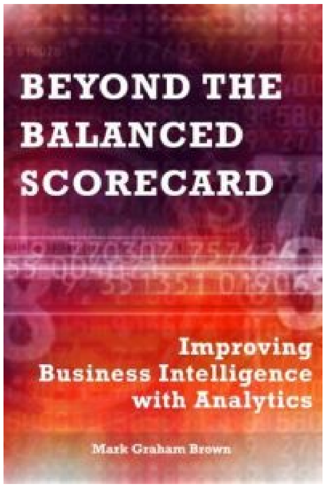

Book Beyond the Balanced Scorecard

Improving Business Intelligence with Analytics

Mark Graham Brown
Productivity Press, 2007
Listen now

- play
- pause

00:00
00:00

Recommendation

Many companies can improve their performance by sharpening strategic management tools called "balanced scorecards," says consultant Mark Graham Brown. He provides analytic refinements in his book and shows you how to build better scorecards. He explains why analytics, or multiple measures of specific operations, are superior to single-point indicators of process improvement. You need management tools that can help you assess the present and guide your way to a successful future. Brown shows you how to create multidimensional analytics that give you a deeper understanding of what you are measuring. He also shows you how to create analytics-based scorecards to manage customer relationships, staff, finance, operations and strategy. One chapter is about building an actionable scorecard that tracks external factors. Most scorecards ignore this area completely, even though external factors can have a huge impact on your company's success. *BooksInShort* recommends this book to professionals who want to adapt their scorecards to a more analytical approach.

Take-Aways

- Monitoring business metrics is useless unless the results become the basis for making improvements.
- Business metrics based on sound data and tied to company strategy are the foundation of managerial tools known as "balanced scorecards."
- Early balanced scorecards used only backward-looking measures and ignored external factors.
- An analytic is a set of metrics used to measure a specific business process.
- Adjust model scorecards to your organization and use measures that make sense for you.
- Use metrics that measure such factors as quality, productivity and schedule integrity.
- Also collect analytic data on the economy and other external factors.
- Analytics also are useful in developing customer relationships and employee skills.
- Select software that allows you to tailor your scorecard metrics to your business needs.
- Revise and improve your scorecard regularly.

Summary

Building Better Balanced Scorecards

The balanced scorecard approach to measuring organizational achievement is designed to create an applicable, useful package of various kinds of measurements, but the traits that constitute a good balanced scorecard are open to interpretation. Some companies that have used scorecards have benefited more than others. Balanced scorecards are most beneficial when they are properly tailored to a specific business, tied to its corporate goals, used organization-wide and designed to cover the concerns of multiple stakeholders, particularly employees and customers. Having a scorecard is only meaningful if you use it as the basis for making improvements. Measurements that fail to motivate are useless.

> "The scorecard...provides data on how well the organization does its day-to-day work."

Popularized in the 1990s, the first scorecards had many flaws. Almost all of their measurements tracked past events or lagging indicators. They did not measure ethical behavior, link with company strategy and or tie compensation to important nonfinancial measures. They measured the activities of customers and staff members crudely, and they ignored vital external factors. Over time, companies in Europe and the U.S. began sharing successful improvements to their scorecards. They dumped metrics that lacked reliable predictive power and adopted simplified scorecard designs. These newer measures that provided deeper analyses of organizational performance became known as "analytics."

The Power of Analytics

You wouldn't trust a doctor who measured your health by checking only your blood pressure. Neither should you base your assessment of your company's performance on a single metric. Select analytic measures that you can combine for a multidimensional view of your strategic performance factors. This will give you a more realistic view of your business and will help you manage it more effectively. Base your measurements on solid, regularly updated data. For example, you might monitor the performance of your IT help-desk staff by measuring the number of minutes they take to respond to calls, the percentage of problems they clear within a day and their customer-satisfaction scores. You don't want to base hard numeric decisions on soft guesswork or impressions, but using some qualitative data can deepen your understanding of quantitative measures.

> "People metrics, customer metrics and financial metrics are pretty much the same in most organizations, but the section of the scorecard that deals with operational metrics varies from organization to organization."

A good way to introduce analytics internally is combining multiple metrics of each business process with some single-point measures on your company's balanced scorecard. Since the final analysis does not have to show specifics about your data sources, analytics also can help you incorporate sensitive information without compromising confidentiality.

Building Analytics into Your Scorecard

Your business is not a simple realization of some business school model, so why use a standard template for your balanced scorecard? Don't follow a model or plug in a metric because someone else uses it. While it may make sense to use a standard model as you begin considering the use of a scorecard, avoid the temptation to squeeze your company into the model. Instead, tailor the scorecard to fit your business. Work with your team to identify and track the data that is most useful to your organization. As you define your analytics, think about the information that every manager needs to know:

- The organization's performance right now.
- How that performance is trending.
- The root cause for the current performance and for the trend.
- What those involved need to do to correct the situation or build on the good news.

> "A scorecard based around analytics simply provides a more complete assessment of performance than does one based around individual measures."

Design your scorecard to furnish pertinent information your company can use as a basis for taking action rather than amassing material that just gathers dust. First, delve down to figure out what information you really need. For example, you want to know how many customers find it easy or hard to do business with you, not just the number of customer complaints. You probably want to assess your financial results and evaluate the progress and long-term viability of capital projects. You may want to develop metrics that track the health of your brands.

> "A typical balanced scorecard today still includes mostly lagging metrics, and every measure is a single statistic designed to measure a complex dimension of performance."

Once you identify your metrics, you will realize that each factor makes a different contribution to your performance; they are not equal. You must assign weights to the various measurements to get the correct overall analytic value, and you almost certainly will have to tweak these weights over time. To make your metrics useful, you need to have the right software for the people who work with them. The software should show current performance and trends, and should have analytical capabilities that you and your managers can employ to consider various options and courses of action. Your software tools should include warning lights for each metric and should not impose technical limits on your scorecard architecture.

Using Analytics to Build Customer Loyalty

Many companies spend big bucks on customer relationship management (CRM) software and on consultants who implement it. They use it to automate customer account management and to collect and store customer data for sales purposes. Actually, you can accomplish most of the steps necessary without expensive CRM software, and no CRM system will work if your salespeople refuse to use it. Customer relationship building is an art, not a predictable formula, though you do need hard numbers to navigate to success. Your "customer relationship analytic" should have four categories of measurements:

- **"Input"** – Leads, proposals, bids and all new sales processes are measurement items.
- **"Process"** – Measure actions that, if done well, strengthen your customer relationships.
- **"Output"** – Monitor such countable things as orders processed, samples provided, bids submitted, phone calls placed by your sales team and customers visited.
- **"Outcome"** – Track gross margin, profitability, gross revenues, marketing costs, net income, and the effectiveness of supplier relations and other partnerships.

Analytics and External Factors

External factors often affect your business, so measure them on your scorecard. Regulations, risks, competitive threats and supplier changes that affect your company are worth watching. You probably already pay attention to some of this external data, but make sure your scope is broad enough. To make this information more useful and powerful, build analytics that help you track it and act on it. Having a metric for regulatory compliance can lower your costs by making compliance part of your routine.

> "A good balanced scorecard should include an analytic that quantifies the level of risk an organization faces."

When you add external data to a scorecard, you'll find that your company becomes more systematic in how it gathers intelligence and determines its reliability. Having a scorecard means that your managers and executives will have more information so their decisions will have more depth. These external risk factors are more likely to cause a big disruption at your company if you fail to track them, foresee adverse situations and adjust ahead of time.

Managing People Using Analytics

You have heard – and you may have even said – that your company's employees are its most valuable asset. To understand just how valuable they are, to be sure your employees are satisfied, to retain key staff and to assess employee performance, track these five employee measures:

- **"Employee satisfaction"** – Know how your company compares with other employers.
- **"Employee health and safety"** – Monitor accidents and absenteeism.
- **"Ethics and diversity"** – Ensure that employees act ethically and fairly.
- **"Employee competencies"** – Track employees' knowledge and their skill upgrades.
- **"Communication effectiveness"** – Measure the clarity of your messages.

Managing Operations Using Analytics

Managers tend to focus on operations because production activities bear the fruit of profit. Operations include very different kinds of activities. Carefully choose your metrics to support each type:

- **Projects** – Rather than holding periodic unproductive meetings, create an accessible project dashboard that shows progress on each project's budget goals, deliverables and schedule. Encourage relevant inputs and comments.
- **Resource productivity** – Payroll is probably your biggest expense, so you must know what your people produce and where. Monitor production-related tasks and time spent on administrative tasks. Weigh opportunities to upgrade your management's productivity by adopting Six Sigma or some other administrative achievement program.
- **Processes** – All processes have four inflection points: 1) the inputs they receive, 2) the work they do in transforming the inputs, 3) the outputs they deliver, and 4) their results as measured by the quality or desirability of their outputs.
- **Organizational excellence** – Capture the gap between actual and desired performance in the various key initiatives your company deems vital. Determine a threshold of excellence and set up the measurements you will use to track your progress.
- **Research and development** – Every company has to develop either goods or services. As you measure and track R&D costs and achievements, preserve employee creativity.

> "Running an organization will never become a science like engineering, but we will see a more scientific approach applied to measuring and managing business performance."

Whichever operational analytics you choose, limit yourself to no more than six, relate the analytics to your company's core mission and measure a spread of time frames (past, present and future).

Developing Strategy and Managing Finance Using Analytics

Balanced scorecards often combine strategy and finance, the two activities that yield the most single-point measures. Your metrics should show if your company is making progress toward the goals in its strategic plan. Some firms use scorecards to link metrics to goals. For example, if you want to double or triple sales in four years, sales would be a suitable metric for your scorecard's strategy section. The scorecard's financial section is vital because all your company's work ultimately distills down to a few all-important financial measures. However, you can use the rest of the scorecard to put the financials in context. Show trend data and predictions. Using your scorecard to measure the reliability of your past projects can help you improve them in the future.

Focus on Managing Instead of Merely Measuring

The reason to have a scorecard is to help your company maintain continuous progress. To make it useful, set your "red light" threshold to issue a warning when performance veers off, so you can correct the situation quickly. Some people are averse to seeing such warnings. They tend to set the red light threshold so high that by the time they get a warning, a disaster could be under way and impossible to stop. Don't set the alarm to go off after you have crashed your plane into the mountain. And, if you aren't going to do anything about some aggravating situation, simply admit it and don't go to the trouble of tracking it.

> "It is important for organizations to know how many of their employees get up each morning and dread coming to work and how many get up each morning looking forward to a new workday."

Your scorecard is a tool to help you manage your company's performance, so support it with a solid performance appraisal system. An appraisal system alone is usually insufficient. It doesn't substitute for a scorecard that inspires specific actions to improve specific operations. Just as you update the technologies your business uses, you must update and refine your management tools. Periodically reconsider what your scorecards provide and how to refine them to be even more helpful. Never be satisfied with crude metrics. Your decisions are important, so you should base them on the most sound, reliable information available. Using scorecards correctly will help you put that information to good use.

About the Author

Mark Graham Brown has spent decades helping companies, including *Fortune* 50 firms, improve their performance. He conducts workshops on measuring performance and is the author of two previous books, *Keeping Score* and *Winning Score*.