Chapter 1

Goals, Scores, and the Balanced Scorecard

In This Chapter

- Defining Balanced Scorecard and the issues surrounding it
- Forming the four legs of a Balanced Scorecard
- Incorporating dashboards to get continuous feedback for success

An old saying goes something like this: If you're not keeping score, you're just practicing. If you ask us, truer words were never spoken — especially in today's topsy-turvy business world. To make (and keep) your business a success, you need to not only keep score, but also predict your score in advance by setting goals and then achieving them on a consistent basis. And we're not talking about easy-to-achieve goals and scores. No! We're talking about goals that stretch your imagination and push your creativity and ingenuity to the limits — as well as the creativity and ingenuity of your employees.

Can you imagine what the people working at NASA in the 1960s thought when they were asked to build a rocket and space capsule that would transport Americans to the moon — in less than ten years? We can imagine them wondering exactly how in the heck they would pull it off, but never doubting that they would. NASA put a massive stretch goal before them, and they achieved it. Balanced Scorecard Strategy is the tool that will allow your company to set and achieve stretch goals.

In this chapter, we give you an initial peek at Balanced Scorecard, preview its four legs, and offer a glimpse of how you can ensure that your company's scorecard stays balanced.

Getting Familiar with Balanced Scorecard

What's a Balanced Scorecard? Glad you asked, because in this section you'll get your first glimpse at what a Balanced Scorecard is and how it works. You'll see that scorecards aren't rocket science, but they do require some good business structure, analysis, and planning in order to get it right.

Just what is Balanced Scorecard, anyway?

To better understand what a Balanced Scorecard is, maybe you should first learn where it came from and why. The Balanced Scorecard was first developed in the early 1990s by two guys at the Harvard Business School: Robert Kaplan and David Norton. The key problem that Kaplan and Norton identified in today's business was that many companies had the tendency to manage their businesses based solely upon financial measures. While that may have worked well in the past, the pace of business in today's world requires better and more comprehensive measures. Though financial measures are necessary, they can only report what has happened in the past — where your business has been — and they are not able to report where it is headed: It's like trying to drive your car by looking in the rear view mirror.

In order to provide a management system that was better at dealing with today's pace of business and to provide business managers with the information they need so that they can make better decisions, Kaplan and Norton developed the Balanced Scorecard. Note that we said that the Balanced Scorecard is a *management system* — not a *measurement system*. Yes, measurement is a key aspect of the Balanced Scorecard, but it is much more than just measurement: it is a means to setting and achieving the strategic goals and objectives for your organization.

So, what is the Balanced Scorecard? In short, it's a management system that enables your organization to set, track and achieve its key business strategies and objectives. Once the business strategies are developed, they are deployed and tracked through what we call the Four Legs of the Balanced Scorecard. These four legs are made up of four distinct business perspectives: The Customer Leg, the Financial Leg, the Internal Business Process Leg, and the Knowledge, Education, and Growth Leg.

Leaning on the four legs of the scorecard

Your Balanced Scorecard Strategy relies upon four different yet integrated perspectives: The Customer Leg, the Financial Leg, the Internal Business

Process Leg, and the Knowledge, Education, and Growth Leg. These four legs of the Balanced Scorecard are necessary for today's business executives and managers to be able to plan, implement and achieve their business strategies. The four legs will make the difference between whether your business succeeds or fails. The following list takes a closer look at the four legs:

- **Customer scorecard:** Measures your customers' satisfaction and their performance requirements — for your organization and what it delivers, whether it be products or services.
- **Financial scorecard:** Tracks your financial requirements and performance.
- **Internal Business Process scorecard:** Measures your critical-to-customer process requirements and measures.
- **Knowledge, Education, and Growth scorecard:** Focuses on how you train and educate your employees, gain and capture your knowledge, and how you use it to maintain a competitive edge within your markets.

Achieving Organizational Balance

When reflecting on the many companies we've worked with (and we've worked with a lot!), we notice that many organizations tend to be unbalanced — that is, they focus only on two legs of the Balanced Scorecard: their financial measures (see Part III) and their internal business process performance (see Part IV). As a result, they miss the mark in measuring and tracking other critical parts of their businesses — things like their customers (see Part II) and their internal knowledge and growth (see Part V).

These four elements, or *legs,* have to be measured, analyzed, and improved together — continuously — in order for your business to thrive. If you ignore any one of these four legs, it will be like you're sitting on a four-legged stool with a broken leg. You'll eventually lose your balance and fall flat on your face. And, last time we checked, lying flat on your face is no way to run a business!

REMEMBER

You not only have to measure these critical four legs, but also set strategies, goals, objectives, and tactics to make them happen. And while you're at it, you have to make sure that your strategies and tactics are congruent. They have to work together and create a single thread, tying them together in ways that make sense. This isn't an optional exercise; it's essential. The future of your business depends on it.

Following a total balanced-scorecard approach gives your business the balance needed to ensure that these critical areas get the attention they deserve. Organizational balance isn't all that difficult to understand, but achieving it . . . well, that's a different story. (And we don't have enough pages in this chapter to tell *that* particular story!) Balance takes effort and persistence and can be achieved in any business, in any country, at any time. The old saying "It won't work in this place — we're different from all those other guys out there" just doesn't wash. If you think that way, your competition will thank you — all the way to the bank!

Analyzing Your Customers: Critical Leg

Each of the four legs have equal importance in your Balanced Scorecard (after all, if they didn't have equal importance, they wouldn't be balanced), but your customers are your reason for being, your *raison d'etre.* Without them, you'd have to close your business's doors and go home to stare at the television all day long. Yet, as important as they are to you, customers often get lost in the swirl of the many everyday tasks you accomplish in your business. You may lose sight of who you do all this stuff for: your customers. Many companies don't have a clue about what the customer really wants — including those who make the product, fulfill the service, and have the greatest impact upon the customer.

Ask yourself this question: "Does every person in my company know what our customers want and how their work affects the customers?" Go ahead, go out into your workplace and ask your employees this question. What answers do you get? Something generic, like "Yeah, um . . . we need to deliver quality, I guess." Or something specific and measurable, like "I have to make sure that I get this part between 0.10 and 0.12 millimeters." Do you see the difference? If not, your customers certainly do, as do your competitors.

You have to know what your customers want from you — what they demand in terms of quality, cost, and delivery – and you have to know what they will be wanting from you in the future. To do this, you first need to find out who your customers are — in and out of your organization — and who they will become. For more on analyzing your customers for this leg of the scorecard, see Chapter 5.

Knowing who you sell to

Identifying customers seems like a pretty basic task that all companies should have mastered, right? Here's a news flash: Many don't do it. Tracking sales and identifying existing markets aren't very difficult duties, but many companies don't continually track these elements. Situations change. Customers change. Markets change. And woe be unto those companies that miss those changes, for they'll soon find themselves in a downward spiral to bankruptcy. They'll wake up one day and wonder what happened.

Cracking the whip on nearsighted business practices

Perhaps you've heard the lament about the poor old buggy whip manufacturers that operated around100 years ago, when some character named Henry Ford was driving around Detroit, Michigan in his new fangled "automobile." Ford ended up putting most of the buggy whip manufacturers out of business. Instead of remaining stuck in the past — hanging onto old products and old markets — those buggy whip manufacturers should've looked toward the future and stayed focused on their real expertise: making things out of leather. Had they followed that path, they may have redirected their production into leather seats and padding for Ford's automobiles. Long story short, the whip manufacturers may have not only survived, but also thrived in the new era. Unfortunately, they insisted on making buggy whips — a going-out-of-business plan in a fast-changing market.

REMEMBER

In today's globally competitive business environment, where the customer has a multitude of choices, it's imperative that you know who your customers truly are. It doesn't matter if you're a senior executive, a middle manager, or on the front lines making products or delivering services. If you don't know who your customers are, how can you ever satisfy them? (Hint: You can't!) For more on how to identify your customers and how they fit into the scorecard, check out Chapters 5 and 6.

Focusing on future customers

While taking a look at your existing customer base (see the previous section), you also need to be keeping your eyes on the future. Ask the following questions pertaining to your business and industry:

- Where are your markets heading?
- What new trends are emerging in your industry?
- What's the state of technology, and how will it impact your customers and your business?
- Can you identify ways to leverage what you currently do and move into other markets to get additional customers?

The bottom line: You need to look at what your company really does and don't limit yourself to a particular market, industry, or customer base. Look outside your sandbox, understand what's at the core of your business, and look for other markets and customers to sell to. To take a look into your company's crystal ball, head to Chapter 6.

Considering your internal customers

You have more customers out there than you may think, and you need to identify and account for them all. For instance, executives often don't realize that they have customers within their own companies. As an executive, mid-level manager, or front-line supervisor, each employee who reports to you is your customer. Now there's a shift in thinking, huh? Your job is to provide your employees with the tools they need to satisfy their internal and external customers. Specifically, they need knowledge, skills, authority, equipment, budget, and so on — tools that allow them to do their jobs right the first time.

REMEMBER

Your employees have internal customers, too. Your business operations often are a combination of processes, requiring many different operations and people to get work done. If an employee does his job and hands off his work to another employee so that she can do her job, isn't she his internal customer? Shouldn't their company measure what the internal customer wants and needs and how well the internal supplier satisfies them? Shouldn't the first employee know what his internal customer wants from him so that they can do their jobs with the least amount of hassle? Shouldn't the work provided to fellow employees be fit for use, just like you want your products to be fit for the end users — the people who pay for what you do and pay your bills? The answer to all these questions is a resounding "Yes!"

A key part of the Balanced Scorecard Strategy is getting in touch with *all* your customers, including those within your company. Know what your customers need so that you can keep the end users satisfied and motivate them to buy your products and services time after time.

Following the Money: Foundation Leg

Businesspeople track their money like their lives depend on it . . . and they do. Managing the money is foundational to any successful business. Knowing where you get your money from — how much you bring in — and where you plan to invest it, is essential. The problem with many companies is that they focus too much on the financial leg and not enough, if at all, on the other three legs of the Balanced Scorecard.

When you start to look at your financial leg, it's always best to start at the strategic level. Here are some questions you can ask of your business at the strategic level. These questions will help you to focus on your long term financial goals and objectives for your organization and will allow you to set the operational and tactical measures for your Balanced Scorecard Strategy:

- What are your financial strategies?
- Do you plan to invest and grow your business? If so, in what products/services and in what markets?
- Are you in the more mature stages of your products/services lives? Are you milking them for all the cash they can deliver?
- Are your products/services in decline, causing you to sweat the future because you don't know what's next on the horizon and you're wondering if you'll still be in business this time next year?

These are basic financial questions in the business world, and you better know the answers to them. The financial leg of the scorecard will give you the help you need to track the right financial measures. For more on the financial leg of the scorecard, head to Part III.

For some reason, many businesspeople consider financial workers to be a necessary evil. They'd like to keep these number crunchers in a closet with a sign on the door that says "Enter only in case of extreme emergency." Don't hesitate to open lines of communication with your financial people. If you want a head start on this leg of the scorecard, learn their language and find out what gets them excited. For example, figure out how to translate your need to invest in new equipment into their language — like discussing improved cash flow and return on investment. You'll find that financial advisors are real easy to talk to.

Measuring your financial health

Market shares, costs of goods sold, financial ratios — such as the price-to-earnings (or PE) ratio — cash flows, return on investment and assets, internal rates of return — it's enough to boggle the mind (or at least give it a good workout)! These are just a few of the common measures that can show up in financial scorecards. An operational manager must understand them all and know how they affect business.

Your senior executives and financial people decide what financial measures your company chooses to focus on. The required measures differ from company to company. Heck, they can even differ between different organizations within a company. Regardless of the measures that you use, you need to understand how to measure your financial health and tie it to your Balanced Scorecard strategies, plans, and tactics.

When you cut through all the different measures, though, you're left with some pretty basic stuff:

- Earnings
- Profits
- Cash flow

All the possible financial measures can be tied back in some way to these three simple measures. How you account for them is up to your bean counters and accountants. Maximizing them is your job. Do you want to grow your company's revenues? Sure you do. But how can you do it? That usually relies upon increased sales and market share — selling to new customers and forging boldly into new markets. What you do in your business depends on where you want to be 5, 10, 20 years from now and the expected market conditions when you get there.

Working in isolation: Departmental benefit and company downfall

A material control manager for a company that builds airframes was losing around $60,000 every month in rivets (the things that hold the aircraft together) because employees would drop them and they'd fall to the floor. After they hit the floor, the rivets couldn't be used until they were swept up and gathered and sent to an inspection area, where people would inspect and bag them to be put back into the system for use. The manager wanted to get a handle on this system, but the approach he took wasn't optimal.

The company stocked and distributed the rivets by providing bins throughout the plant so that workers could get them without going very far. They could walk a few feet to the rivet bins, grab a bunch, and quickly go back to work. When you consider that there were over a million rivets per airframe, this system made a lot of sense. So, what did the material control manager do? He set up a system that got rid of all the rivet supply locations by creating two rivet locations that limited the number of rivets any one worker could obtain at one time.

With the new system, the workers had to walk miles every day to get their rivets. Along the way, they took coffee breaks and spoke with friends they ran into. They wasted time in huge amounts, but the company labeled the material control manager a hero because losses went down significantly. But what about the costs to the other operations? Assembly and manufacturing costs went through the roof because the proper amount of work wasn't getting done. The system put schedules in jeopardy, and the end result was millions of dollars in losses — all so the material control manager could control his department's costs. By any measure, the material control manager made a bad decision and hurt his company and its customers more than he helped.

Don't Lean too heavily on customers

A company in India was shipping kits to a major customer. In order to appear responsive, the company would ship kits immediately to the customer whenever they became available. The company wanted to score high on customer-satisfaction and process-shipping-performance indicators. Some of the kits had several dozen parts or assemblies, so the department transported partial kits whenever it could, sometimes several times a day. This system continued for some time, even though the company noticed rising costs, because the managers thought they were supporting the customer's needs. In fact, the system was causing major havoc — not only with the company's shipping process, but also with the customer's receiving process. The customer had to rent out additional space just to manage the partial kits and all the parts and sub-assemblies that it received but couldn't put into final assembly.

A Lean workshop identified the problem and determined that the company should just ship complete kits. The company used a Kanban (called a *pull system,* based on customer demand) rather than a *push* approach to the customer. The customer could now apply the kits to its final process immediately when needed.

Common mistakes made in finance

One of the most common mistakes in the business world is that leaders focus too much on short-term returns on investment and on quick fixes. The drive to maximize shareholder value and acquire quick, easy money makes for some interesting decisions for sure. And when we say interesting, we mean destructive. These decisions tend to foster short-term thinking and dissuade companies from making long-term investments that would improve the health of the companies. Improvements in equipment, people, and processes are ignored.

At the operational and tactical levels, the most common mistake is managers focusing on their own performance metrics without wondering whether achieving operational goals could hurt the overall performance of the organization. We call this mistake *sub-optimization.* One reason for this behavior is the desire to pit business units against each other to "motivate everyone to improve performance."

You need to be mindful of the impact that achieving individual goals has on the overall goals of your company. For instance, always ask how goals link directly to the goals of the business, measuring profitability, on-time delivery, and quality of the products and services you deliver to the customer.

On a related note, here's another common operational mistake: Depending on a department manager to make decisions instead of requiring the input of all the key department or functional managers. In some companies, the operations manager will decide to ship or not to ship based on operational goals, neglecting factors such as quality, expediting costs, or customer capability to handle the product.

Tracking Your Internal Business Processes: Value-Creation Leg

Many companies track some of their internal business processes, but they often ignore many of the things they should be measuring and tracking — especially all the non-core processes within their businesses (those things that you have to do in your business that don't add value to your product or service): paperwork, databases, purchasing, quality departments, warehousing, distribution, and even management. The support processes just seem to keep doing what they do, with no one really paying attention to how well they function. In many cases, business processes are ripe for improvement and can offer up some tremendous returns when companies start digging into them.

That's what the internal business process leg of the Balanced Scorecard is for. In the following sections, we take a look at how your internal business process create value and how you can install effective measures to monitor and improve your processes. We will also discuss the need for looking into the future and anticipating change and the top five problems that managers have in tracking their processes.

Assessing the current state of your business

In order to reap the benefits of process improvement, you first have to know where your company is right now. You have to assess your current performance so that you can determine where problems lie and what you must deal with now. You should measure the time it takes to get things done and how your quality levels compare to what your customers demand.

And for many businesses that look inward, what they find is poor quality. Poor quality costs money — often big piles of money. Studies show that poor quality often costs companies more than 25 to 30 percent of their revenues. However, you can recoup much of that revenue by paying attention to where the losses are generated and fixing the problems. Specifically, you can examine your internal costs, external costs, appraisal costs — the list goes on and on.

If you improve your quality, through methods such as Six Sigma or Lean Manufacturing, you'll reduce your costs and the time it takes to move products through your operations and to get them to the customers. After realizing that much of your processing doesn't do anything but cost you time and money, you can focus on the things that create value to the customer. You can develop and deliver systems and processes that provide maximum value to the customer, with high levels of quality, while maximizing your profit margins and increasing your customer base.

TIP

For much more on quality improvement, check out *Quality Control For Dummies,* by Larry Webber and Michael Wallace (Wiley).

Installing effective measures for tracking processes

When it comes to tracking your processes, you need to install some effective measures so that you'll know how you're doing in two key areas: time and quality. You need to measure time because time is money – the longer it takes you to deliver your goods and services to your customers, the greater the costs. You need to measure quality because if you don't, your business won't be along for very long. Every business has some measures of quality, but many of the measures commonly used are too late in the game to be of any help in getting to the meat of cost reduction and quality improvement: they tend to be reactive, rather than proactive. When you get down to the nitty-gritty of your business at the tactical levels scorecards, you want to get to the measures that allow you to be proactive..

Some common measures of time that most businesses use are as follows:

- **Lead times:** The amount of time between the placing of an order and the receipt of the goods ordered by the customer .
- **Cycle times:** The total time from the beginning to the end of your production/service process, as defined by you and your customers. Cycle time includes *process time,* during which you work on a unit to bring it closer to an output, and *delay time,* during which a unit of work must sit idle until you're ready to take the next action. In a nutshell, cycle time is the total elapsed time it takes you to move a unit of work from the beginning to the end of a physical process.
- **TAKT time:** "Takt" is a German word for an orchestra conductor's baton. Takt Time refers to the rate — or beat — at which your processes must be able to operate at in order to meet customer demands for your products or services: It's the output requirement from your processes to meet your customer demand.

Some common measures for quality used by most businesses are as follows:

- Defects per unit produced (a preferred measure to use because, unlike tracking defective units which may have multiple defects for any defective unit, defects per unit tracks the individual defects by type, thus allowing for better analysis and improvement)
- How many defective parts per million
- Defects per million opportunities
- Scrap and rework costs
- Warranty and sales returns

You'll undoubtedly have several of your own measures as well, depending on your business, your industry, and the customers you serve.

Anticipating your business's future state

Knowing the current state of your business is only part of tracking your business processes; you also have to look at where your customers, markets, and industry are headed. What's happening on the technology front? Which of your suppliers' actions may have an impact on your business in the future? Understanding the impact of the future is the job of any business executive, manager, or supervisor, so you have to stay plugged into the available information sources. Here are some sources that provide glimpses of the future:

- Business journals and magazines
- Industry journals
- Seminars and workshops
- Conventions and trade shows

The key to anticipating your future is fully understanding where you are today and what's going on around you (see the previous sections). You have to continually move your focus from the horizon to the microscopic details of your business and back to the horizon again. While you're at it, keep your eyes and ears open for any new technological developments coming down the road. Sometimes, breakthrough technologies will travel far above the posted speed limit; if you're not careful, they may run you right off the road.

The top five process-tracking problems

After looking at the problems that can and will occur while you're tracking your process performance (remember, if something can go wrong, it will), we've identified five that tend to be the most predominant. No matter where we go in the world for business, we run into these measuring issues:

1. **Not involving the process workers in the measurement of their processes and work.** You shouldn't rely solely on automated data-gathering systems, staff, and quality departments to own and measure process data.
2. **Not analyzing the process data for statistical control.** You should use simple process performance-analysis tools, such as line/bar charts and control charts.
3. **Having micro-process tunnel vision.** Don't focus solely on the microscopic details of the processes; look also at the overall systems and how the processes work together within those systems. Very often, changes made in processes to improve their performance can actually hurt the performance of the business as a whole. You have to make the right process improvements for the sake of the business, not the sake of the individual processes.
4. **Getting the wrong data.** A big problem is measuring the wrong processes, such as those that don't relate to customer needs and wants. A good example of this is a company who spent a lot of time and money to measure and improve the finish on the product they sold to another company. Unknown to the supplier was the fact that the first thing the customer did with the product was that they roughed up the finish on the part so that they could use it in the assembly of their products.
5. **Not getting real-time data.** You need to measure often enough to get real-time information on your process performance.

If you eliminate these five key problem areas in tracking your process data, you'll put your company ahead of many others in the world that don't get it right. Congratulations! You've made a giant step forward.

Managing Company-wide Knowledge, Education, and Growth: Learning Leg

Managing your knowledge, education and growth is a vital, yet often ignored, aspect of any business. We've all hear the stories of organizations that were severely hurt by the retirement or attrition of a key individual that had tons of knowledge about the business and – oops - that knowledge went out the door with them. It has become such a critical issue that whole new systems designed solely for the purpose of knowledge management have been created.

Unfortunately, many companies just don't do a good job — or any job at all, for that matter — of managing the knowledge, education, and growth of their business. This is, without a doubt, the most neglected and ignored leg of the Balanced Scorecard. And companies wonder why they have an employee-turnover rate of 300 percent or more along with massive quality and cost issues! They are amazed when a competitor introduces a new feature or technology. In these organizations, it always seems that the employees are to blame in the eyes of management. In fact, nothing could be further from the truth.

The ones to blame for being blind-sided by the competition, the high turnover, poor quality, and cost issues are the managers who hire and lead their people. They're responsible for training the employees and making sure they have the necessary tools to do their jobs right. They are the ones responsible for keeping their eyes and ears open for new developments in their industries and markets. The time has come to take a look into the mirror. If your organization is having troubles because your people don't seem to know what to do, when to do it, and how to do it, or you always seem to be behind the eight-ball when it comes to your competition, it's a pretty good indication that you haven't been paying close attention to this leg of the Balanced Scorecard. By paying attention to this leg of your Balanced Scorecard Strategy, you will prevent these issues from occurring in the first place – and that's why you use the Balanced Scorecard!.

In the following sections, we cover the importance of taking care of your employees and their development, measurement for your knowledge, education and growth scorecards, and keeping this leg of your Balanced Scorecard on track.

Understanding the importance of taking care of your own

You need your employees not only for the work they do in your business, but also for their ideas and creativity. For your company to be successful, your workers need to be highly trained and skilled in the following areas:

- In the tasks they perform
- In measuring their processes
- In communicating
- In team-based problem solving
- In getting along with others

WARNING!

Plenty of competitors have this truth already figured out — that you must take care of your own to be successful — and they're ready to use this knowledge to their advantage.

For all the talk you hear about how companies value their employees, we still deal with many companies that ignore the development of their workers. It all starts in the very beginning, when they hire new employees. Many people get jobs because managers like them, not because they have the necessary skills for the jobs. On the other hand, a new hire may have the necessary skills, but he or she doesn't quite fit in with the culture of the organization. For many reasons, companies try to hammer round pegs into square holes. The result? A lot of headaches for everyone involved.

Allow us to be honest here: The days of workers leaving their brains at the door and just doing the work as management instructs are long over. And thank goodness for that! Can you afford to ignore this vital leg of the Balanced Scorecard? We don't think you can. But what do *you* think?

Measuring knowledge, education, and growth

Measuring the knowledge, education, and growth in your company is very different from the measures of the other three legs of the Balanced Scorecard. With the other legs, you focus on achieving excellence in performance. With this leg, though, you focus on excellence in capability, in terms of where you're going and how you'll get there.

To measure the knowledge, education, and growth aspect of your Balanced Scorecard, you need to follow these steps:

1. **Evaluate the core competencies your organization relies on to provide your products and services.**
2. **Examine your workforce to see what you have currently with respect to these core competencies.** What are your strengths, and where do you need to increase competency and capability?
3. **Determine where you have gaps between Steps 1 and 2.** When you understand what you need, you can compare the needs to your employees' current job skills and knowledge — skills and knowledge that you need not only to get work done, but also for your company's future capabilities.
4. **Choose an appropriate strategy to close the gaps.** You can count on one of the following:
   - Employee development (training, for example)
   - Talent and capability acquisition (buy a company with the specific competence you need)
   - Recruiting (hire subject-matter experts)

5. **Plan and execute your strategy.** Make sure you adjust accordingly along the way, because your work here ties into the other three legs of the Balanced Scorecard.

REMEMBER

Appropriate, accurate, and timely measurement here makes the difference between whether your organization leads or follows in a market. For instance, we have seen recently where two hotels competed in a highly tourist-based market. The one hotel chain focused on fundamental services, and trained its workforce on precision, courtesy, and the rules of the hotel. The other, while still focusing on courtesy, trained its workforce on what is going on around the city, where to go for good food, entertainment, shopping or sightseeing. The second hotel chain had done a bit of market analysis, and determined most of the clients were from out of town, and wanted to get out and see the town. So, while the first hotel excelled in service and room amenities, the second hotel surpassed the first by a rate of two to one in their fill rates, because their employees were well versed in finding out what the client really wanted, and then helping the client get it.

It also determines how you measure progress and how fast you can detect and correct for any deviations from the expected scorecard performance objectives. Be sure you examine the following areas of your company:

- A good place to start is to look at what your company makes — the products and services it provides. To whom do you provide? In what markets? To what degree? Owning 85 percent of a market requires a different approach — perhaps expansion to other markets — than if you own only 5 percent (in which case you may look to expand your market share). Also, understanding the types of products you provide in your markets can suggest other applications, expansions, and opportunities.
- You need to know the geography of your market share. For example, you may own 15 percent of the global market, which may consist of 90 percent of the Central European market for your product. In this case, you need to think about how your group will need to approach the other 85 percent in ways that are different, given the different geographic and cultural aspects of these prospective clients.

TIP

Some companies design and use a simple matrix with employee names in the vertical column (Y-axis) and required job skills in the horizontal row (X-axis). They populate the matrix so that they can determine basic worker capabilities and the work their employees can perform, as well as gaps that need additional knowledge, skills, and capabilities — acquired through planning and executing employee development plans.

Staying on the right course in the fourth leg of the scorecard

Due to the pace of business (fast — *very* fast), you need a plan for measuring growth, education, and knowledge, and you need to monitor your progress against it. To stay on the right course takes effort and constant vigilance. As employees come and go due to internal transition, promotions, and attrition, the front-line managers must have the tools necessary to assess and develop employees. The real nuts and bolts of this leg of the scorecard are in the hands of the immediate supervision, whether they be process workers, supervisors, or managers.

REMEMBER

All guys and gals who have employees reporting to them should have a knowledge, education, and growth dashboard that examines current needs and how they're met, as well as future needs and how the managers should be developing their people to meet those needs.

Using Dashboards to Apply Balanced Scorecards to Your Business

One of the most effective ways to ensure that your business is on course on all four legs of the Balanced Scorecard is through the use of dashboards. *Dashboards* provide you with critical, current information about the operation of your business, just as your car's dashboard gives you critical, current information about your car. Business dashboards allow you to keep track of how things are operating and let you know what needs attention — either through immediate action on your part (your engine light comes on, so you turn your engine off) or through action in the near future (your gas-tank icon lights up, so you need to put gas in before you run out). See Figure 1-1 to see how dashboards fit into the Balanced Scorecard.

People see and use all kinds of dashboards in their daily lives; here are a few examples:

- In aircraft cockpits, allowing pilots to make course or altitude corrections to stay on their planned flight parameters.
- In air-traffic-control centers, which use radar tracking systems both as a tool to manage the multitude of aircraft coming and going and as a

dashboard to provide continuous status reports of where each aircraft is and its respective heading and altitude.

- On your television, in the form of stock-market reports that flash across the screen to tell you what the value of a stock is at any given moment.

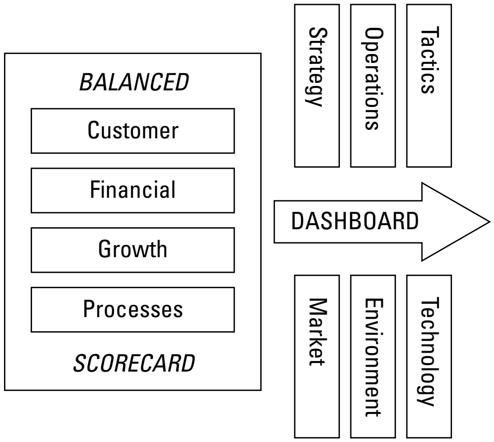

Figure 1-1: How dashboards fit in with Balanced Scorecard.

In business, dashboards provide the same intelligence but in different ways, depending on the information and how you'll use it. Companies use dashboards as a way to manage their daily, weekly, and monthly activities according to the guidelines and key process inputs established in their Balanced Scorecards and business-performance expectations. Here are a few business dashboard examples:

- A water treatment company may set up a dashboard to monitor liters per minute of water treated and the quality and flow parameters, tying directly to the company's revenue stream for the amount of water treated per minute.
- A hotel may set up a dashboard to examine occupancy on a daily basis and issues that come up. For instance, the hotel could focus on turnover, theft, and other operational issues that tie into the bottom line.
- An automotive manufacturer can establish dashboards at different levels so that it can see activity by the minute on the assembly line while tracking and adjusting sales rates daily. The dashboards allow the company to still manage development of new products to condensed cycle times, with better integration and time to market.

TIP

When applying dashboards across a Balanced Scorecard's four legs, don't take the easy way out and try to get one, all inclusive dashboard that tries to capture everything on one page. Your business is far too complex for that. Developing dashboards that go across process and systems and that link among the strategic, operational and tactical levels take some thought, careful preparation, and lot of planning, measurement and diligence. You probably won't get them perfect the first time you try them. They will need to be adjusted and refined. As your business changes, so must your dashboards.

The really cool thing about dashboards is that after you create them, your job of monitoring your business, knowing where your problems are, and taking appropriate action in a timely manner will become much easier. And what you'll really come to appreciate is that dashboards will keep those "We're here to help you!" staff and management types from breathing down your neck. Now that's something worth shouting about!

The following sections dig a bit deeper into the topic of dashboards.

Market, environmental, and technology considerations for your dashboards

As you plan for, develop, and implement your Balanced Scorecard Strategy and related dashboards, you need to consider many factors that that will affect what you focus on and measure. Here they are:

- **Market:** You need to look at your particular market performance characteristics, including new-product-introduction cycle times and any quality and delivery issues (long lead times, for example). You should tailor your dashboard to support your business-specific market needs to give you a competitive advantage. Be sure to include aspects that would give you a clear advantage in the marketplace, and use these aspects to drive your decisions.
- **Environmental impact:** Look not only at your local region, but also across the broader environmental arena in which customers use your products and services. This includes the business environment and its implications regarding Sarbanes-Oxley and other legislative edicts issued in recent years (in the United States), as well as any regulatory constraints specific to your business. You can design your dashboard to monitor and manage your risks in these areas; early-detection and -correction systems can help you avoid potentially damaging and costly mistakes in your operation.

- **Technology:** The final consideration focuses on technology specific to your industry and your products and services, and actually integrates with the other two considerations. Your dashboard needs to reflect the technology associated with your business — not only to provide real-time updated intelligence, but also to enable you to stay competitive by providing technology intelligence as early as possible and where it may impact your business most.

  For example, when new products in the cellphone business boasted of Bluetooth capability over traditional wired headsets, companies raced to incorporate this technology into their latest models. The fastest gained dramatic advantage in the market, albeit only temporarily. But these companies were able to set the standard by which everyone else had to strive to.

  REMEMBER

  Your dashboard must be able to indicate technology shifts and enablers in all four legs of the scorecard — especially in the customer and process areas because providing a poorly supported new capability is worse than not having it at all.

Reviewing strategy, operational, and tactical scorecards and dashboards

Okay. Let's take a minute or two to review the scorecards and dashboards among the three levels: the strategic, operational and tactical levels. The strategic level scorecard is developed by senior executives and it's the driving force for all of the other scorecards, dashboards and their measures. It's the "big elephant" in the room. At the strategic level, you will develop your strategy map and then use that map to determine the measures and tactics that you will use for tracking your strategies and tactics at the strategic (executive) level, the operational (mid-management) level, and at the tactical (front line) level.

REMEMBER

The key consideration when looking at your strategic, operational, and tactical scorecards/dashboards is linkage — or what we call "stringing the single thread." *Linkage* is achieved by ensuring that your measures at the strategic, operational and tactical levels are tied together and supportive of one another, as well as being linked across the four legs of the Balanced Scorecard. These scorecards/dashboards have to be well-integrated or they won't do the job you want them to do.

The things you do and measure at the tactical level, such as defects or errors per day, have to support and achieve the things you have on your operational dashboards, such as the quarterly departmental goal of reducing overall defects by 25 percent; the operational scorecards/dashboards must achieve the things you need at the strategic level, such as reduce the costs of a particular product or service line by 75 percent within three years. Also, you have to know how much the tactical and operational measures will contribute to achieving your strategic goals and objectives — by how much and when.

The following list presents a process called Catchball that will help you accomplish the linkage you need among the strategic, operational and tactical levels and across your organizational functions.:

- **Strategic Leadership Team**

  Objectives:

  - Define strategic goals, objectives, and metrics for the four legs of the scorecard (often defined by competitive and best practices benchmark studies).
  - Deploy goals, objectives, and metrics throughout the strategic leadership team.
  - Identify the actions and steps necessary to achieve the goals, objectives, and metrics.
  - Pass down to the operational level.

- **Operational Level Team**

  Objectives:

  - Determine if the strategic-level passdown is achievable. If not, resolve the issues and pass back up to strategic level team to get concurrence and consensus. If so, set operational-level goals, objectives, and metrics.
  - Deploy goals, objectives, and metrics to the operational team.
  - Identify the actions and steps necessary to achieve goals, objectives, and metrics.
  - Pass down to the tactical level.

- **Tactical Level Team**

  Objectives:

  - Determine if the operational-level passdown is achievable. If not, resolve the issues and pass back up to operational level to get concurrence and consensus. If so, set tactical-level goals, objectives, and metrics,
  - Deploy goals, objectives, and metrics to the tactical team.
  - Identify the actions and steps necessary to achieve goals, objectives, and metrics.
  - Make it happen!