The Business Balanced Scorecard and Key Performance Indicators

The principles and approach to build
Some relevant quotes

- “Business performance measurement is as necessary as the scorecard of sports”
- “What gets measured, gets done”
- “What gets measured gets noticed”
The Business Balanced Scorecard is a framework for describing, implementing and managing strategy at all levels by linking objectives, initiatives and measures to the organisation’s strategy.
What is a balanced scorecard?

- The business balanced scorecard is one of several tools for performance measurement and management.
- The emphasis is on balance across multiple dimensions of performance; ensuring that good performance in one area is not offset by poor performance elsewhere.

The strategy drives the choice of performance measures. A failure to meet targets could be because the strategy is wrong.

*Robert S. Kaplan and David P. Norton have developed what is considered to be the standard Balanced Scorecard template*

Balance your key business objectives...

The diagram illustrates an example of a client’s organizational objectives. In the balanced scorecard development process, the organizational objectives should provide a balance across the four dimensions of performance.

**Financial Perspective**
1. Improve Shareholder Value
2. Drive rapid revenue growth
3. Manage operating costs and profitability
4. Achieve profitability
5. Effectively utilize assets
6. Manage risk

**Customer Perspective**
1. Rapidly penetrate market segments
2. Sustain significant customer growth
3. Retain customers
4. Achieve high customer satisfaction
5. Provide extremely positive customer on-line experience
6. Related to Product, customer & Image

**Innovation & Learning Perspective**
1. Sustain employee satisfaction
2. Maintain employee productivity
3. Retain employees
4. Innovate operationally
5. Measure training quantities
6. Measure training effectiveness
7. Measure and evaluate innovations

**Vision and Strategy**
Key Performance Indicators are the indicators which measure the performance of the Critical Success factors, on the road to achieving the strategic goals.
Example of a strategy map

For each of the boxes one or more Key Performance Indicators need to be defined.
The structure and the KPI’s form the basis for the reporting

Monthly reports:

1. Dashboard cockpit + Analysis (Annex: dashboardsheets)
2. Financials + Specials

Quarterly reports:

XXX-specific information

YYY-specific information

Management notes / Management summary

Complementing information

1. Dashboard report
2. Complementing information

performance engineers
Reporting is done per KPI
And in one presentation the total overview for the company

Drill downs per area, department and per KPI are possible
Co-Constructing the KPI tree

- Pick a top level objective and get a relevant multi-disciplinary group together (different departments, different companies).
  - This creates collective insight, mutual understanding and ownership.
- Work form the highest level to next levels down and determine the Critical Success Factors.
  - Ensure that you are explicitly addressing all relevant business processes and map them parallel to each other. Prevent a mix up.
  - Don’t just jot down the answers, always ask why they feel it is a CSF, test this and challenge based on your knowledge.
- Determine per Critical Success Factor the appropriate (set of) Key Performance Indicators.
- Go down in levels till you touch on the process control parameters which should managed with Standard Operating Procedures and Out of Control Action Plans.
- Repeat this for all the top level objectives and ensure addressing all 4 dimensions of the Business Balanced Scorecard.
Example

- Top level objective is Delivery Reliability. Relevant KPI’s could be Confirmed Line Item Performance, Requested Line Item Performance.
  - CSF’s for this top level objective are: the performance of Planning, Production, Stock Management and Logistics
  - For Production a relevant KPI is Production Plan Attainment
    - CSF’s for Production Plan Attainment are:
      - The performance of the equipment, availability of raw material, availability of operators.
      - KPI’s for these CSF’s are the next level down KPI’s.
        - Etc.

- Such a KPI-tree will be a combination of technical (business process related) indicators and organisational indicators (people, skills, etc) and eventually also money related.
Some remarks

- Make sure that it is a genuine KPI-tree:
  - Not too many KPI’s at top level, but sufficient to enable top management to “control” the business.
- Focus on the real Critical Success Factors.
- Ideally you have done process maps for the relevant business processes prior to starting this workshop (and have the maps on the wall during the session).
- The interrelations between the KPI’s of the four dimensions of the Business Balanced Scorecard must be well understood!!
- Work with a large brown paper and large size “Post-Its” and clearly indicate the levels on the paper:
  - The whole group can maintain overview this way.
  - Wait with drawing lines on the brown paper till you are sure that this is it.
- If you want to turn a KPI in to a real KPI (in line with its formal definition) then you need to determine the current level and agree the target level. This is a separate activity outside the work session described above. But must be done.
Next steps

• Next steps would be around using the KPI tree to understand and drive performance:
  • Roles & Responsibilities in the organisation need to be clear
  • Across the organisation the Responsibilities, Accountabilities need to be defined as well as who to Report to and who to Inform: A “RACI” needs to be created.
  • This allows KPI’s to be connected to Roles in the organisation.

• To really manage the performance by using the KPI-tree an Organisation Management System needs to be designed:
  • Meeting structure with Terms of References.
  • Reporting structure that fits the meeting structure and connects KPI’s to meetings.
  • Some KPI’s need to be managed on shift/day frequency; others on weekly/monthly/quarterly frequency
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