

Performance measurement from the inside out

Balanced scorecards reduce tension from conflicting goals

By **CLAUDE SOLNIK**

Increasingly companies are focusing on looking inward, examining intricate details of their own performance through what's known as balanced scorecards.

In this approach, small and larger companies from manufacturers to hospitals develop a wide range of measurements and targets.

"A balanced scorecard is key to operations," said John Mucci, former vice president of operations at Festo, a supplier of pneumatic and electric automation technology with U.S. corporate offices in Hauppauge. "It brings structure to the company and gives you a set of key performance indicators to monitor."

In order to create a scorecard, companies typically break into teams in which each person develops strategic objectives. They next present proposals along with rationales which are then evaluated. The objectives and other information are integrated using a spreadsheet software program.

Lastly, companies in detail describe the objectives and required activities and how they will be measured.

Although scorecards include different types of data, they all provide executives with information they need to do their job. For that reason, some describe it as a dashboard

with key indicators visible at a glance to "drive the business."

"A dashboard in your car tells you how fast you're going, how hot your engine is," said Joe Kuehn, a partner at KPMG's Melville office. "A dashboard for a business or a scorecard identifies the key metrics and how you're performing."

Ellen Cooperperson, president of Corporate Performance Consultants in Hauppauge, said her firm helps companies create and manage these scorecards.

"It's a flexible document," Cooperperson said. "This is a way of measuring performance all along the way with indicators letting us know whether we're on or off target."

Creating a scorecard begins with executives working together to set targets, different from having workers set goals in isolation.

"Prior to the balanced scorecard, there used to be management by objective," Cooperperson said. "People in different departments developed goals and objectives in silos."

She said a scorecard is created by "removing walls between goals" and integrating all goals within an organization "so everybody moves in the same direction."

"A lot of the conflicts in organizations would come up [from conflicting goals]," Cooperperson said. "There would be different allocations of resources for different purposes."

In a more isolated approach, quality control supervisors might focus on actions that slow production, while others focus on speeding it up. By coordinating goals, companies

ensure individual departments don't try to succeed at others' expense.

Kuehn said scorecards are key in balancing quality and quantity in industries that define quality in very different ways.

"Whether it's an assembly line or a hospital, you can't sacrifice quality for volume," Kuehn said. "You have to find balance."

Although all data in scorecards can be accessed by top executives, firms using balanced scorecards create smaller versions tailored to each executive. "There's only one version of the truth," Kuehn said. "But it's summarized at different levels for the needs of the user."

While the data in a scorecard varies, it can include a wide spectrum of metrics including financial, operating and quality, measuring data from sales to customer service and inventory.

Scorecards might include customer satisfaction measured through surveys, complaints and average duration of customer relationships. Firms also might look at productivity, cost reduction, cash on hand and debt. They also might include cost per transaction, on time delivery and inventory turnover.

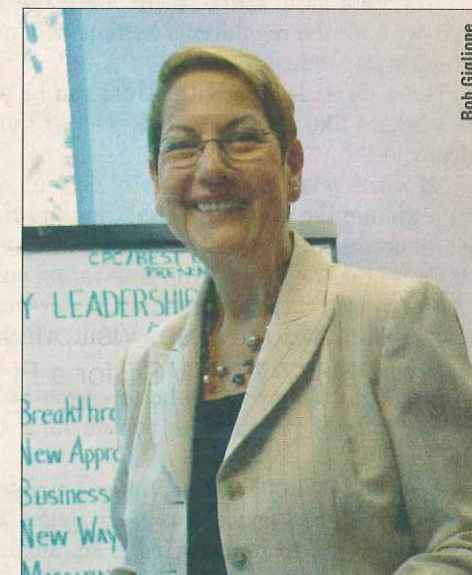
Different industries also may target different metrics. Hospitals might look at occupancy. Public companies might look at earnings per share.

Executives also need accurate and timely information, which means systems and controls need to be in place. Bad or outdated data can be worse than none at all.

"Getting bits of information two and three months down the road is useless," Kuehn said. "The problems typically are not having the technology or process in place to produce the information in a timely fashion."

Although balanced scorecards have been a long-standing management tool, technology makes it easier for firms of all sizes to use them.

Software is available that pulls in data, letting companies see where they stand compared to targets.



Bob Gigione

Consultant Ellen Cooperperson said balanced scorecards are an improvement on management by objectives.