



## **WHITE PAPER**

# **The Balanced ScoreCard: Focusing The Entire Company on Your Strategic Priorities**

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## **Introduction**

This paper provides a basic understanding of what a Balanced ScoreCard is, and describes the process of creating one. **Part I: Key Concepts** clarifies how a ScoreCard is based in a mix of strategic and operational goals, what is meant by a “balanced set” of metrics, the role of the Dashboard and Drill-Down slides, and the results one can expect from using a ScoreCard.

**Part II: Development Process** covers how metrics are chosen, how visuals are created, how the infrastructure is built, how ScoreCard data is provided, and how the ScoreCard is kept up to date. Also covered are the roles of an outside consultant, and an overview of system architecture.

## **I. KEY CONCEPTS**

### **What is a Balanced ScoreCard?**

**A. An Executive “Cockpit”:** Balanced ScoreCards are company-wide performance measurement systems that focus a company on carefully chosen strategic themes. In the midst of “crisis of the week” issues (e.g., upset customers, upcoming business opportunities), it’s difficult for an executive team to sustain any company-wide focus, be it pursuing a particular market or developing a sustainable competitive advantage. ScoreCards, built on key Strategic Themes, keep execs and their companies focused on strategic goals and top priority operational results, month after month.

The ScoreCard contains frequently updated metrics, with leading indicators which allow the executive team to see data early enough in the quarter to spot any risks to company profitability and do something about them in a timely manner. Rather than each Executive having sole access to his/her own data, ScoreCards provide a **shared window** into all corners of the business. No longer do you have Ops and Engineering with no data on customers and markets, or Marketing and Sales wondering what’s going on in Development, Manufacturing, and Support.

**B. A Tool for Company Focus:** ScoreCards are also tremendously powerful tools for keeping the entire company focused on critical strategic and operational issues. The ScoreCard works against “flavor of the month” dynamics that distract the entire company from core business objectives. ScoreCards can be used in company meetings (e.g., middle management meetings, employee “all hands” meetings, Ops Reviews) to keep the spotlight on key issues, to celebrate progress, and to urge further effort in areas critical to company success.

Think about it for a minute: At the core of the ScoreCard is a Dashboard, containing the strategic “must do’s,” the key operational goals, and any critical problem areas the company faces. Each Dashboard metric links to a Drill-Down slide, focusing everyone on where we’ve been, where we are now, and where we’re headed, relative to our goals. Shared widely, ScoreCards align everyone on key goals on a regular basis, creating organizational focus.

## B. Strategic Themes

While some companies build ScoreCards totally on Key Performance Indicators (KPI's), a more powerful approach is to blend KPI's with Strategic Themes. Strategic themes, defined by execs, describe the company they think they can become over the next 2-5 years. Once defined, each theme is examined separately and, in a 12-18 month timeframe, four questions are asked:

1. What financial results/growth do you think you can achieve?
2. What do you want to accomplish in your markets and with your customers?
3. What internal processes most need improvement if you are to achieve these goals?
4. How do you hire, equip and train your people to help you get there?

Answers to these questions are expressed in the form of performance measures (e.g., "Grow Product Line B revenues by 30%", or "Improve On-Time Shipments to 99%"). ScoreCards built on these strategic themes become **the tool** through which executives focus themselves and their company on their strategic priorities. For a clear example of how Strategic Themes drive the choice of Dashboard metrics, see the demo at [www.scorecardpartners.com](http://www.scorecardpartners.com).

## C. "Balanced" Set of Metrics

ScoreCards include a carefully chosen set of measures, or "metrics", that track the key drivers of company profitability in real-time. Built on your strategic themes and operations goals, the ScoreCard is unique to your business. Metrics are balanced across the following areas:

1. **Financial:** Revenues, Margins, Cash Flow, Budgets, Headcount Growth, and Revenue per Employee
2. **Market/Customer:** New Customers, Repeat Business, Customer Penetration, Customer Satisfaction, Market Share
3. **Process Excellence:** Development Timelines, Product Quality, Order Speed and Accuracy, On-Time Delivery, Support Efficiency and Effectiveness
4. **People Productivity:** Hiring Effectiveness, Retention/Attrition, Development of Key Competencies and IT Tools, Morale, Line/Staff Ratios

In addition to the above, "Balance" has other shades of meaning, including:

**A Balance of Leading vs. Lagging Indicators:** Revenues, margins, and market share are lagging indicators – once they're reported, it's too late to do anything about them. Your ScoreCard should contain a healthy selection of leading indicators that give you early warning about where you're lagging indicators will be 2, 3 or 6 months from now. Compare:

### Lagging

- Revenues
- Margins
- Support Costs
- New Customers

### Leading

- Orders, Forecasts
- % Revenue From Recent (Higher Margin) Releases
- Defect Densities in First Customer Shipments
- New Customer Visits, Demos, Proposals

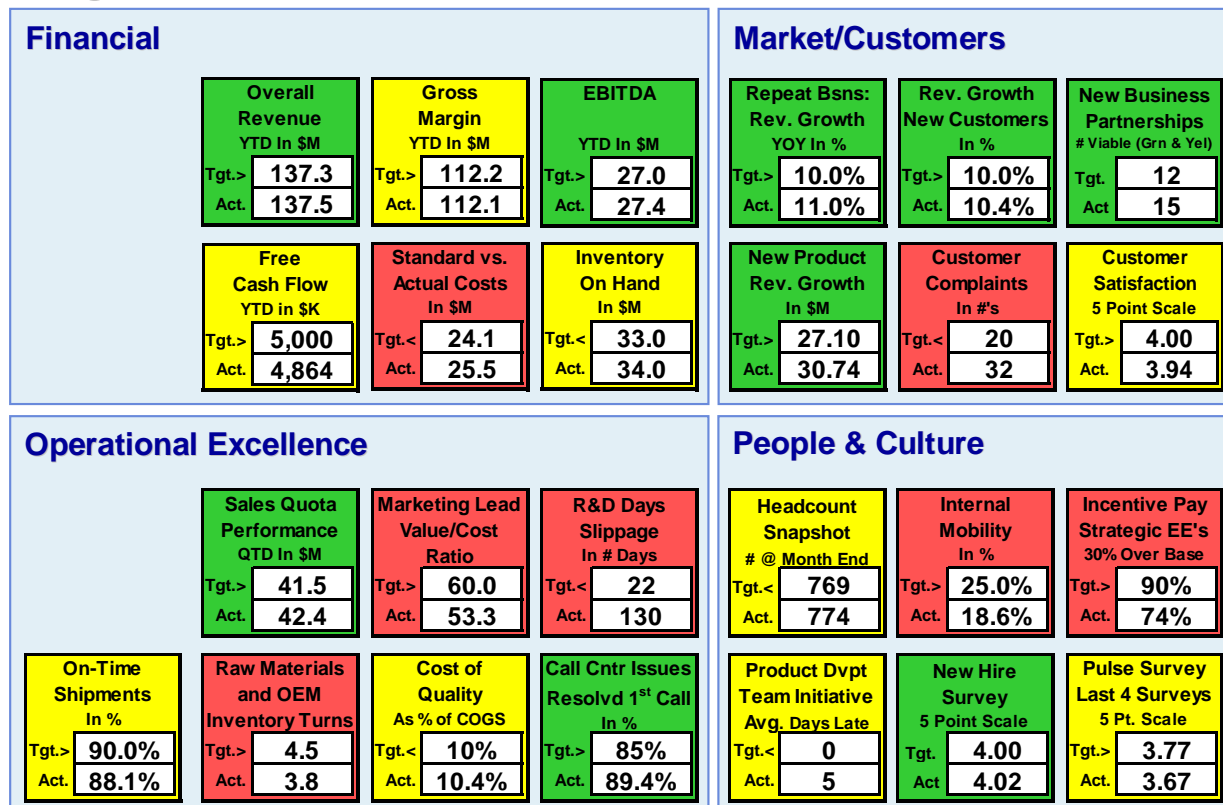
ScoreCard Partners leads a creative search in your company for indicators that tell you where you're headed in pivotal performance areas. You need both leading and lagging metrics in your ScoreCard – you need to balance the two.

**A Balance Of 3 Types of Metrics:** Strategic metrics track critical “must do’s,” over the next 12-18 months, arising out of your strategic themes. Do you want to be #1 in product reliability? Or lead a market segment? If so, strategic metrics track these goals. Operational metrics track key drivers of profitability, including revenues, margins, headcount growth, on-time delivery, product quality, and other “business basics”. Problem-Oriented metrics address critical challenges facing your company (e.g., problems collecting receivables, or controlling costs) – you may need a metric that keeps progress on fixing these problems visible. Operational metrics remain on the ScoreCard year after year. Strategic metrics change over time. Problem-Oriented metrics fall off the ScoreCard as problems are fixed, making room for emerging problems.

## D. The Dashboard

Once strategic themes are operationalized into metrics (usually about 15-24 metrics), targets are set for each metric, and a two-part system is created. Part One is the Dashboard, which shows at a glance where the company is, and isn’t, on track with it’s objectives. It is usually divided into four quadrants, or “perspectives”, and there may be 4-8 metrics in each quadrant. Metrics update weekly or monthly, focusing the organization on current performance. Here’s an example:

# BayMed Balanced ScoreCard



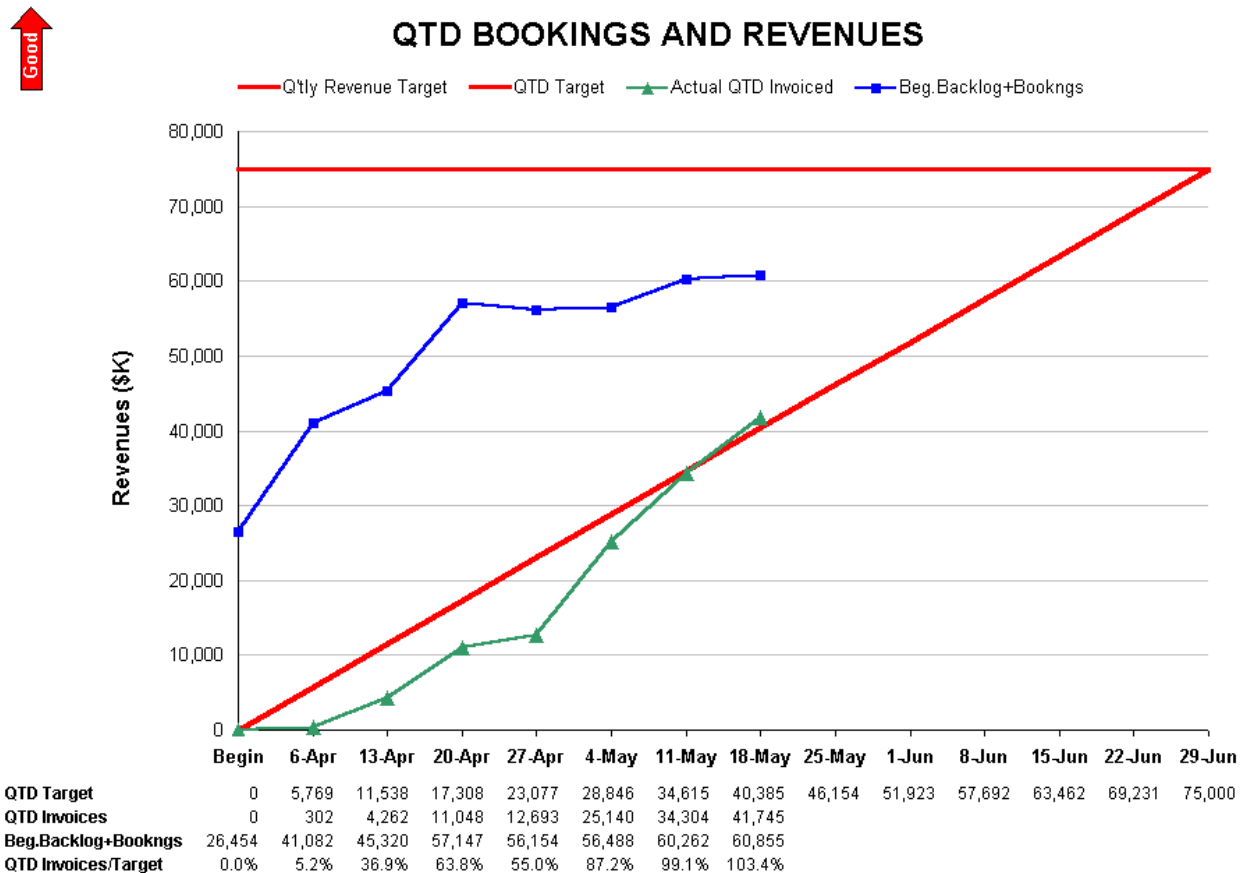
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**Red, Yellow, Green:** Each metric has a target. If the target is met, the metric is green. If not, it’s red. And if it’s close, it’s yellow. Using this color scheme, your eye sees immediately where the company is doing well, and where things need attention. (If you’re reading a black and white copy of this paper, see the full color demo at [www.scorecardpartners.com](http://www.scorecardpartners.com)).

## E. Drill Down Slides

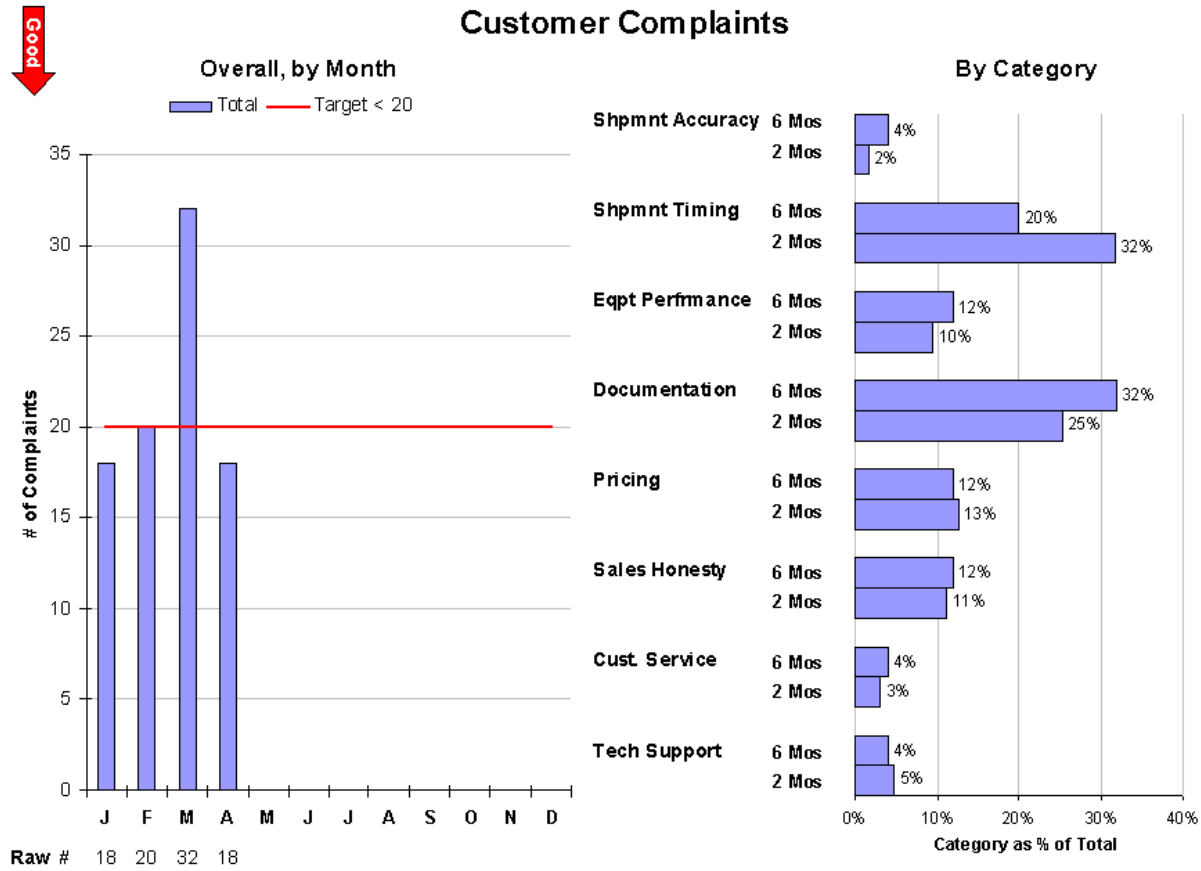
The second part of the ScoreCard is a set of Drill-Down Slides. Each metric on the Dashboard links to a well-designed drill-down slide, which shows the history (previous months, previous quarters, same quarter last year), current performance, and projected future performance, relative to a goal. Drill down slides contain a visual chart which tells you in an instant where you've been, are, and where you're headed.

In addition to the visual graphic, there is usually a table on the drill down slide, providing "actionable data", i.e., data which gives you relevant background information that can guide executive team decisions. The design of well-crafted, visually informative slides is a key feature of a powerful ScoreCard, and is an area where an experienced outside consultant can be of considerable value. Here is the first of two sample drill downs:



**Comments:** The horizontal red line shows a quarterly target of \$75M. The diagonal line shows a weekly progression toward that target. The blue line shows orders for products QTD. The green line shows shipments and invoices. We see (green line) that while shipments started the quarter behind, they've caught up. We also see a disturbing message in the blue line: Orders have flattened out. Here you see a leading indicator (orders) combined with a lagging indicator (shipments), giving us advance information that we may not meet our numbers this quarter. Notice as well the table at the bottom of the chart, providing executives with the data behind the slide – data essential to informed decision-making.

The design of each drill-down is done by the consultant in conjunction with one or several executives, and is a key part of the ScoreCard development process (see below). Sometimes data are presented in one primary graphic, as above. Other times, several aspects of performance are put on the same slide, to present a full picture of both business outcomes and their causes, as in this drill-down:



This Drill-Down tracks both the number and types of Customer Complaints. On the left, executives can see that, with the exception of March, complaints stayed within their overall target. On the right, we see that complaints about On-Time Shipments have increased, and complaints regarding Documentation dropped a bit.

Think for a moment: for each of the 15-24 Dashboard metrics, there is a corresponding Drill-Down. The Dashboard gives you an overview of company-wide performance. The set of 15-24 Drill-Downs gives you a detailed picture of past, present, and (sometimes) projected performance, relative to your goals. Drill-Downs also give related data that help executives decide how to improve performance.

## **F. Results – Does a ScoreCard Really Help?**

ScoreCard Partners has many examples where, a few months after ScoreCard implementation, performance improved (It's amazing what happens when you measure performance!):

- In one company, average age of receivables dropped from 128 to 59 days, resulting in a \$20M improvement in cash flow
- In another, on-time shipments went from 85% to 99% within 6 weeks

**From Worst to First:** Some companies want help with specific problem areas:

- One region (of 33 nationwide) ranked dead last in performance. With team measures, cycle times improved by 30% and revenues by 45% (a \$30M improvement with no increase in resources). They went from worst to first in the nation in 18 months
- In another company, a badly splintered, 22-person manufacturing management team developed shared goals and measures and reduced backlogged orders by over 50%

ScoreCards are powerful communications tools that do achieve results. That's why you want them tied to your strategic themes.

## **II. The ScoreCard Development Process**

ScoreCard Partners helps organizations build their first Balanced ScoreCard or improve already existing performance measurement systems. We provide workshops that help executives, and the company as a whole, understand the purpose and design of effective ScoreCards. We work closely with you to define a balanced set of strategic, operational and problem-oriented metrics that track key business drivers. We design powerful visuals for each metric that convey a clear, instantly comprehensible message about performance. We build your ScoreCard for you, including an integrated set of data entry files and charts. And we train data providers and a ScoreCard Owner, leaving you capable of updating your ScoreCard in the future (unless you want us to update your ScoreCard for you, which we're glad to do).

We can help in any of the following areas.

- A. Choosing the Right Metrics
- B. Designing Powerful Visuals that Communicate
- C. Building the ScoreCard System
- D. Assessments and Tune-Ups

### **A. Choosing the Right Metrics**

To begin the process of choosing your metrics, we start with an introductory workshop to educate your Executive Team regarding the purpose and design of effective ScoreCards. We then interview executives and study internal documents (strategic plans, next year priorities) to identify strategic themes, key business drivers, and problems that are impeding success. We explore financials, market and sales performance, internal processes that are key to your competitive edge, and any people productivity issues that are mission critical.

We look for leading indicators and propose a balanced set of strategic, operational, and problem-oriented metrics for your ScoreCard at an executive team meeting, facilitating the discussion to ensure that execs concur on the choice of ScoreCard metrics. Having a skilled, and neutral, facilitator at this point is a key reason for hiring a consultant.

We complete this process in 4-6 weeks, delivering you complete documentation on your Dashboard metrics, including definitions for each metric, data sources, goals, metric owners, data providers, and update frequency.

## **B. Designing Powerful Visuals that Communicate**

Having chosen the right metrics, perhaps the most valuable part of the ScoreCard process is the creation of a set of powerful visuals that convey an instantly comprehensible message regarding past, current and projected performance.

In creating your visuals, we explore:

- How much history, and what trends, to show
- How to break out component data
- How to best convey the key message visually
- What “actionable data” to include in each slide, so that, if performance is below expectations, the right data is there to guide meaningful executive team discussions.

We create a draft set of visuals, reviewing them with the exec team for their concurrence, to ensure that they communicate what you need.

## **C. Building the ScoreCard System**

After helping you choose a balanced set of metrics and design your visuals, we build your ScoreCard, including data entry files, Dashboard and drill-down charts, in about 6 weeks. These files are quite sophisticated Excel files, containing formulae that sort, analyze and plot the data into the agreed upon visuals. Our speed in building them is one of several key reasons for hiring a consultant.

These data files are electronically linked to the ScoreCard, allowing for automatic updating of all ScoreCard charts. We build the complete set of ScoreCard files and test it once it's installed on a shared server, owned by you. We train data providers in their data entry tasks. We also train an internal ScoreCard Owner in all aspects of how the ScoreCard is built (including file structures, linkages, and ScoreCard design), leaving your organization capable of updating your ScoreCard in the future.

Note that no new software is required (no expense, no learning curves, no IT burden). Data can be manually entered, or data outputs from your existing systems (SAP, Oracle, Crystal, etc.) can be linked to the data entry tables of your ScoreCard (see System Description, below).

## D. Assessments and Tune-Ups – Updating Your ScoreCard

As companies who already have one discover, ScoreCards are never “complete” – they evolve over time, along with your evolving strategic themes, changes in the marketplace, and the evolution of a variety of processes and competencies in your company. We offer assessments of existing ScoreCards, and quarterly, semi-annual, or annual “tune-ups” to ensure that your ScoreCard stays current in the following ways:

- Current with any changes in your strategy and markets
- Current with any new operational issues or customer demands that arise
- Current with new internal competencies (new processes, new databases) in your company
- Adapted for better visuals, or more complete “actionable data”, as the need arises

## E. Why Hire a Consultant?

**Experience and Objectivity:** Identifying a balanced set of metrics that track key performance indicators and strategic themes, and that utilize leading and lagging indicators, takes experience. A seasoned outsider, with no vested interests in making his department look good, gives you a depth and objectivity you won’t find in-house.

**Speed:** We take 6 weeks to define strategic themes and metrics, 6 weeks more to build the ScoreCard and populate the files with data. Internally, your people are busy, IT’s plate is full, and it takes many companies over a year to complete. We manage the project, ensuring that files are built and data entered in a timely way.

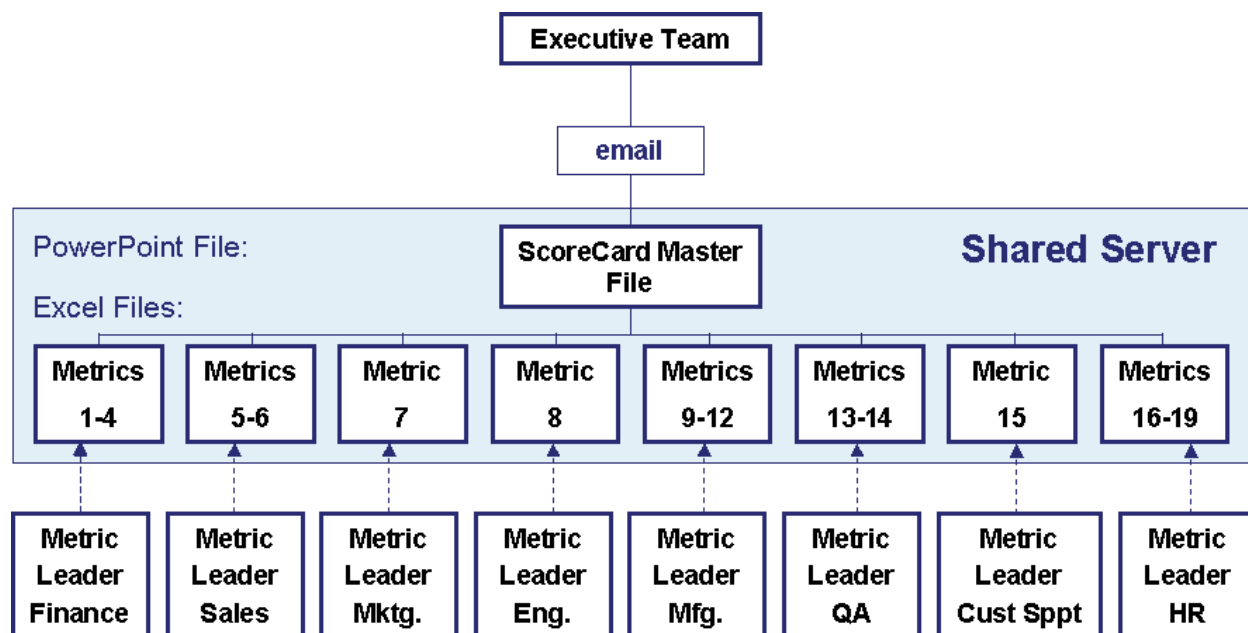
**Consistency:** Building a ScoreCard internally often means farming out pieces to various departments. Excel skills vary greatly by department, resulting in uneven look and feel, files that don’t integrate, and slow implementation. We build a set of files that link smoothly and use consistent formats, color schemes, etc.

**Cost:** We have templates (for Dashboards, data input, visuals) that you’d be developing from scratch. Add the costs of an internal team learning Excel and meeting to coordinate designs and timelines and you’ll see the value of using someone who’s done it before.

## F. System Description

ScoreCard Partners’ ScoreCards are built using standard Excel and PowerPoint software. The advantages of using these two software tools are:

- No need to purchase new software or pay expensive per-user license fees
- No new burden on your IT department
- Anyone who has Excel and PowerPoint can access the ScoreCard (you control access with a user password)
- No new software learning curve for people accessing the ScoreCard
- Excel and PowerPoint are some of the most powerful tools available for analyzing data and creating informative visuals – far more powerful than many much-more-expensive ScoreCard products. Here’s a visual map of how the ScoreCard file system works:



Underlying the ScoreCard is a set of Excel and PowerPoint files. Metric Leaders enter their data into Excel files located on a shared server, accessible from anywhere on the globe. The ScoreCard, a PowerPoint file, updates automatically via links to these Excel Files, and the ScoreCard is accessible to the people you authorize.

### III. ScoreCard Partners

ScoreCard Partners is a management and organizational development consulting company which designs, builds, and coaches companies in the use of Balanced ScoreCards. Based in the San Francisco Bay Area, we:

- ❑ Help executives understand the purpose and choose the right metrics for their ScoreCard
- ❑ Design the visuals, determine appropriate data sources, and build your ScoreCard for you, usually in less than 90 days
- ❑ Build all data entry files and train data providers
- ❑ Train internal personnel in how to update/modify your ScoreCard once it's built, or, if you choose, we're on call to update your ScoreCard on an annual or as needed basis

Michael Selby, President of ScoreCard Partners, is a senior management and organizational development consultant with 30 years experience, including 8 years with Hewlett-Packard as Organizational Development Manager and Internal Planning Consultant. Michael has worked in scores of Silicon Valley / Bay Area premier corporations – from start-ups to multi-billion dollar companies, facilitating executive team meetings and retreats, designing and implementing Balanced ScoreCards, coaching executives, improving product development processes, and improving cross-functional and cross-geographical teamwork. He has worked extensively in both private and public sector organizations, and is a frequent presenter in Bay Area professional associations on issues of teamwork and organizational measurement. For a full electronic demo of a Balanced ScoreCard, visit us on the web at [www.scorecardpartners.com](http://www.scorecardpartners.com). You can also email to: [mselecty@scorecardpartners.com](mailto:mselecty@scorecardpartners.com), or call us at 415-446-5531.