Executive Brief

Use Scorecards as part of BPM

Align Performance Improvement Initiatives with Corporate Goals

Operational Excellence as a Competitive Strategy

Six Sigma Qualtec

The Situation

During the economic boom, most major companies established performance improvement initiatives designed to drive better operating performance that translated into solid

business and financial results. With the downturn, many of these companies have eliminated, downsized or reoriented those programs. But as companies struggle in this new environment, they are finding these efforts must be maintained although they must meet the more rigorous examination for effectiveness that every corporate initiative faces today. To do so, companies must align activities to corporate objectives by tightly integrating business scorecards with the improvement project selection process. This white paper is intended to explain why – and how.

The key to the how is to continuously align process improvement efforts, in the form of projects, with your company's goals, objectives, and strategies. In fact, recent experience indicates that project selection in continuous improvement programs has shifted from managers and process owners to executives. Resources are valuable as the mantra has become to do more with less, and executives are getting tighter tabs on what they ask people to accomplish. To get approval, process improvement initiatives must be tightly tied to corporate strategy.

A complete integration of business scorecards and the project selection process provides significant advantages. Such integration can help you:

- Maximize ROI from your Six Sigma programs
- Maximize the impact of Six Sigma for your customers
- Maximize corporate visibility and acceptance of your Six Sigma program

Most importantly, integration enables you to fully leverage the rich store of knowledge you have accumulated from your performance improvement initiatives and put it to work for your competitive advantage.

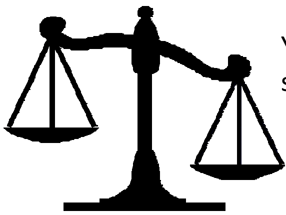
The Business Scorecard

A business scorecard, designed to translate an organization's mission and business strategies into performance measures and operating objectives, is the linchpin of an integrated approach to taking your Six Sigma program to the next level. Although the balanced scorecard (Figure 1) is the most familiar such scorecard, other kinds may serve just as well so long as they provide the following:

- Weighted performance measures against key focus areas
- A communication system designed to create a sense of urgency
- A focus on accountability in key areas
- A timely scoring system to drive response
- Acceptance of the scorecard throughout the organization
- A single scoring system for the entire organization
- Visible tools that can be monitored throughout the organization

Aligning Improvement with Objectives

The scorecard aligns the impact of improvement programs directly with an organization's objectives. Figure 1 shows a typical balanced scorecard representing four different perspectives, each with its own "voice" to which executive leadership must listen and respond. The financial perspective includes revenue and profit goals. Internal business processes are the voice of the business – the things that must be done well. Learning and growth encompasses the voice of the organization, the knowledge and skills employees must acquire to improve the business. And the actual customer is the one to whom you deliver your products or services.



You build a business scorecard by aligning business processes with these objectives. In the case of the Balanced Scorecard, for example, you would develop a set of appropriate objectives, measures, targets, and initiatives for each voice. The process of building such a scorecard is complex and the details won't be dealt with here. In general, however, the task is to:

- Determine goals
- Identify the critical success factors or objectives for fulfilling those goals
- Tie critical success factors to your objectives
- Determine the measures of success for those objectives
- Identify the key business processes that contribute to those measure of success
- Determine the key metrics for those key processes

The metrics for key processes should be leading indicators – measures of where things are going – not lagging indicators that show you only where you are now. In addition, both internal and external customers must be weighted within the scorecard to reflect their relative importance to achieving your corporate goals and objectives.

The Impact of Business Scorecards on Project Selection

Selecting the right improvement projects is crucial for maximizing the return on your improvement investments. Poor project selection leads to rework, lost time, lost ROI, and the disbanding of teams. Our research shows that as a result of poor project selection, more than 60% of improvement projects are not completed within a 7-month period from their start dates, and more than 25% of projects are never completed. Moreover, more than 40% of companies do not have a formal project selection process.

Poor project selection also means missed opportunity. Implementing projects that are not going to have a positive impact on an underperforming corporate strategy is time wasted that cannot be recovered. Once you have a business scorecard in place, you can effectively monitor the key performance indicators (KPIs) that your organization has determined provide a measure of success for each customer perspective. By looking at the impact of performance improvement initiatives on the key metrics identified in your scorecard, you have the ability to align project selection with your corporate strategy.

Even with a scorecard in place, however, project selection is not merely a matter of choosing the project that has the greatest impact on corporate objectives – not every project is affordable; resources are limited; and there are numerous other feasibility constraints. Nevertheless, a scorecard can have a profound impact on your selection by helping you determine the feasible projects that are best aligned with your objectives. By ensuring that there is alignment of all your performance improvement projects to corporate strategy you will naturally create greater impact for your Six Sigma program than competitors who do not focus on alignment.

Dynamically Re-weighting Criteria

To enhance a standard project selection matrix, it is necessary to dynamically adjust the weighting of success criteria as the performance of the corresponding KPI in the scorecard changes. As the strategy's success metric begins to slide, you must increase the weighting for the success criteria related to that strategy. For example, if the financial perspective is crucial to your strategy and such KPIs as expenses as a percentage of revenue, new product revenue, and revenue growth deteriorate, then the financial criteria would be given more weight. In the project selection process, you would then give more weight to improvement projects that affect those KPIs. By assigning greater weight to projects in your project pipeline that provide the greatest impact on an underperforming corporate strategy, you ensure that your program resources have the maximum impact on your corporate goals and objectives.

Taking the Future into Account

Once you dynamically change the weighting of success criteria as scorecard performance changes, you have a distinct capability. However, there is another equally important capability that can drive the project selection process to a higher level – the ability to determine the future impact on corporate scorecards of projects currently being implemented.

Consider a strategy that is currently trending unsatisfactorily on your scorecard. In a simple approach, the project selection process would increase the weighting of the relevant criteria and projects that are aligned with that strategy. However, the time taken to implement projects that will affect the strategy is generally measured in months. By the time the impact from projects in the project pipeline shows up in the relevant KPIs, the KPI may already be trending satisfactorily as a result of previously implemented projects. As a result, you waste your resources to boost a corporate strategy that was no longer in trouble. To mitigate that risk, you must get visibility into the future value of the KPIs to ensure that you don't expend precious resources fixing something that isn't broken.

The key is to select projects, reweight them as KPIs change and finally, to look forward to where your strategy and projects are taking you. In a perfect world, the result would be a near real-time, closed-loop feedback system for project selection that puts you far ahead of your competitors in the efficient and effective use of your resources.

Reporting Results to Executive Management

Once you are effectively selecting and implementing performance improvement projects that have maximum effect on corporate goals and objectives, you have a powerful mechanism for driving executive buyin for your program. Executive management uses the business scorecard to report the overall performance of the business as it pertains to the customer – the same scale against which you are measuring the performance of your improvement program. With projects aligned to critical success factors that management has determined are critical to the success of the organization, you remove any lingering skepticism about the value of these programs.

An additional benefit of aligning project selection to corporate scorecards comes from the simple fact that most executives are compensated on the performance of the corporate scorecard. Current continuous improvement efforts focus on financial benefits. However the missing measurement in most initiatives is the impact on corporate goals and objectives. If the benefits provided by your program can be reported in terms of impact against corporate goals and objectives, then executive management will be able to identify directly with the measures that contribute to their compensation.

Outpacing the Competition

With the abilities to extract greater value from performance improvement, to improve more quickly and more reliably, and to use resources more efficiently and effectively, your advantage over competitors who lack those abilities increases exponentially. No more anemic, redundant, or failed projects. No more ambiguity about the value of particular projects. And with the ability to identify the direct impact of improvement initiatives on corporate objectives, you forge a united, aligned organization that can respond nimbly and in concert to new challenges as the business and the competition evolve.

About Six Sigma Qualtec

Six Sigma Qualtec is a global provider of business performance consulting, training and technology solutions. SSQ has a wealth of experience helping senior management teams to successfully implement strategies. SSQ helps define and deploy sustainable business performance improvement initiatives – yielding greater customer loyalty, reduced risks, improved quality, quicker turn times and enhanced revenues.

To learn more, call (800) 247-9871, email info@ssqi.com or visit our website at www.ssqi.com.