

# Using Corporate Scorecards

## Regaining Competitive Advantage from Performance Improvement Initiatives



# Using Corporate Scorecards to Regain Competitive Advantage from Performance Improvement Initiatives

## An Executive Briefing



## The Six Sigma Context

Most major companies now routinely and regularly undertake performance improvement initiatives using Six Sigma or other powerful methodologies designed to translate better performance into solid business and financial results. As a result, such programs no longer confer the competitive advantages they once did. They have become, in effect, simply a requirement for staying in the game. To regain competitive advantage from improvement programs, companies must tie them to corporate objectives by tightly integrating business scorecards with the improvement project selection process, the project tracking system, and project reporting systems. This white paper is intended to explain why – and how.

Effective implementation of a Six Sigma program is in and of itself a difficult challenge. Nevertheless, the bar has risen even higher in today's environment where the ubiquity of Six Sigma initiatives has produced competitive parity. To outpace competitors, your company must not simply have a Six Sigma program but a better Six Sigma program. How? By continuously aligning your process improvement efforts with your company's goals, objectives, and strategies. In fact, recent experience indicates that project selection in Six Sigma programs has shifted from managers and process owners to executives, which indicates an increasing recognition that process improvement initiatives should be tightly tied to corporate strategy.

A complete integration of business scorecards, the project selection process, and the project tracking and reporting systems 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

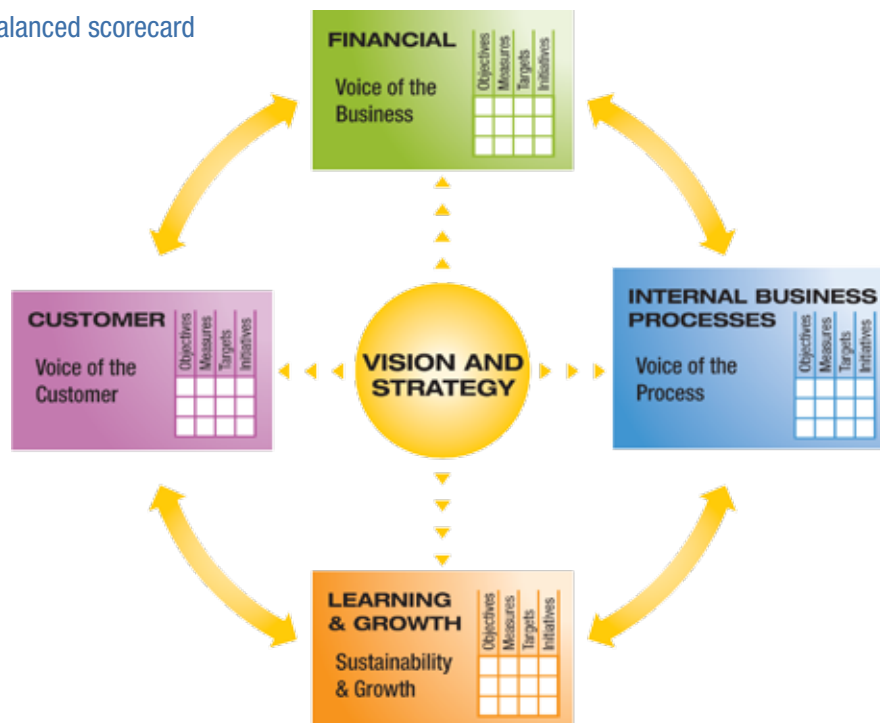
A business scorecard, designed to translate an organization’s mission and business strategies into performance measures and operating objectives, is the linchpin of an integrated approach to taking your Six Sigma program to the next level. Although the balanced scorecard (Figure 1) is the most familiar 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 “Customers”

The scorecard aligns the impact of improvement programs directly to the needs of “customers,” defined as both internal and external entities and stakeholders. Figure 1 shows a typical balanced scorecard representing four different “customer” groups, each with its own needs – its own “voice” to which executive leadership must listen and respond. Financial customers might include shareholders, capital investment groups, or anyone with a financial stake in the company. Internal business processes are the voice of the business – the things that must be done well. Learning and growth encompasses the voice of the employee, the knowledge and skills employees must have to change and improve. And the actual customer is the one to whom you deliver your products or services.

Figure 1: A typical balanced scorecard



## Aligning Improvement with “Customers” (cont.)

You build a business scorecard by aligning business processes with customer needs. In the case of the Balanced Scorecard, for example, you would develop a set of appropriate objectives, measures, targets, and initiatives for each customer group. 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 customers' needs and values
- Identify the critical success factors for fulfilling those needs
- 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 under performing 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 – ideally with a technology solution that can make the changes automatically. As the strategy's success metric begins to slide, the solution will 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 under performing 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 implement a technology solution that allows your project selection process to dynamically change the weighting of success criteria as scorecard performance changes, you have a distinct advantage over competitors that lack such 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. But there is a critical flaw in such a system. 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. With judicious use of technology that includes not only a project selection engine that automatically changes weightings as KPIs change but also a project tracking capability, you can implement a fully integrated system that ensures that your resources are always impacting the most critical corporate strategy. Such a system should enable you to:

- ❑ Link your projects to the scorecard KPIs within your project tracking system to ensure that the impact of a project is reflected in the scorecard KPIs at the time of the project's implementation
- ❑ Roll forward your business scorecard to look into the future and determine what the scorecard KPIs will look like after the impact of existing projects currently being implemented has been applied
- ❑ Feed those forward-looking KPIs back into your project selection matrix and automatically adjust your criteria weighting based on future performance to ensure you are not beginning a project that will have no beneficial impact in the future on the KPI that is in trouble today

**The Result:** 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 buy-in 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 Six Sigma thinking focuses on the financial benefits of Six Sigma. However the missing measurement in most Six Sigma deployments is the impact that Six Sigma has on corporate goals and objectives. If the benefits provided by your Six Sigma 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 ability 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 that ability 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.

## A Technology Solution

SixNet Intelligence, from Six Sigma Qualtec, provides state-of-the-art project tracking software that helps enable companies to integrate their business scorecards with the project selection process and project reporting systems. With SixNet you can comprehensively track Six Sigma projects and other performance improvement projects against your business scorecard, dynamically and automatically change the weighting of critical factors, and continuously improve the Six Sigma capabilities of your organization.

Most importantly, because SixNet is designed to link Six Sigma and other performance improvement programs to your business scorecards and strategic initiatives, it can bridge the gap between Six Sigma practitioners and leadership, helping win the kind of executive commitment required for success. SixNet is the only deployment management and project management tool that integrates within its reporting portal critical business intelligence – the broad range of information from decision-support, query and reporting, online analytical processing, statistical analysis, data mining, forecasting, and similar applications – thus enabling direct integration to executive objectives and measures. You can report benefits in the same terms in which leadership is measuring performance of the company. Further, capabilities within SixNet allow you to dynamically link these activities and truly integrate performance improvement as the driving change-agent for achieving corporate strategy.

## A Technology Solution (cont.)

Because reports and dashboards can be easily created, executives can instantaneously understand the impact that performance improvement efforts are having on core business processes. SixNet integrates business intelligence within its reporting portal giving executives the instantaneous knowledge of the impact performance improvement efforts are having on their core business processes. Using these built-in features you can report your program results in any format – in real time – and thereby capture the attention of the leadership team. Moreover, the tight integration of business scorecards with deployment management and project tracking enables management to drill down into the project details that are influencing critical success metrics identified on the business scorecard.

\* \* \* \* \*

## 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](mailto:info@ssqi.com) or visit our website at [www.ssqi.com](http://www.ssqi.com)



## Six Sigma Qualtec

Six Sigma Qualtec is a premier provider of performance improvement training, consulting and technology solutions that drive measurable financial results. Six Sigma Qualtec methodology is an integrated deployment of training and tools for achieving breakthrough performance including dramatically reduced cycle times, defects and costs. This approach has significantly improved productivity, efficiency and customer satisfaction with clients worldwide.

## Our Mission

Enterprise performance improvement centers on your ability to accurately identify and deliver the products and services your customer values most. Your ability to deliver customer value is dependent upon the skillful integration of leadership and human capital with finely tuned business processes. Six Sigma Qualtec helps you build the capabilities to deliver what your customer needs and values most.

## Train with the Experts

Six Sigma Qualtec's proven training methods have helped hundreds of companies, in the Financial Services, HealthCare, Manufacturing, and Utility Industries to develop the internal knowledge and skills they need to maintain a competitive advantage through sustained performance improvement.

Six Sigma Qualtec  
821 Alexander Road  
Suite 130  
Princeton, NJ 08540 • USA

toll free (800) 247-9871  
phone (609) 925-9458  
fax (609) 419-9855  
email [info@ssqi.com](mailto:info@ssqi.com)  
website [www.ssqi.com](http://www.ssqi.com)

Six Sigma Qualtec  
1295 W. Washington Street  
Suite 208  
Tempe, AZ 85281 • USA

toll free (800) 247-9871  
phone (480) 586-2600  
fax (480) 586-2586  
email [info@ssqi.com](mailto:info@ssqi.com)  
website [www.ssqi.com](http://www.ssqi.com)

Six Sigma Qualtec  
P.O. Box 2959  
Kenilworth  
CV8 1XR  
United Kingdom

tel +44 (0) 1926 859555  
fax +44 (0) 8701 400023  
email [info@ssqi.co.uk](mailto:info@ssqi.co.uk)  
website [www.ssqi.co.uk](http://www.ssqi.co.uk)