Three Steps to Successful Measures

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Strategic measures are the key to taking the scorecard from the theoretical to the practical. Developing them may seem straightforward, but can prove to be one of the biggest challenges of implementing a Balanced Scorecard. In fact, a flawed development process is a leading cause of failed BSC implementations. Developing successful measures requires a solid understanding of the business, of what drives outcomes, and of how different areas interact. These tried-and-true guidelines will help get your BSC program on track.

Developing effective BSC measures requires a systematic approach—something many organizations fail to implement. Rather than crafting a set of measures that aligns with their strategy, some organizations merely assemble lists of existing measures. Such measures are often less than ideal. Usually developed ad hoc, they may simply represent the easy things to track, or else may only track low-level, operational activities. The upshot: they've never been vetted for their relevance to strategic outcomes.

Another common problem is many organizations' almost exclusive focus on financial measures, which, as has been definitively shown, does not yield a full picture of what drives performance. In short, most organizations' existing measures do not provide them the information they need to make informed strategic decisions.

Through a straightforward, three-step process, your organization can easily overcome these pitfalls. For each strategic objective, your BSC development team must: (1) identify the critical success factors that drive the objective; (2) develop potential measures for each of those critical success factors; and (3) select appropriate measures from the list of "potentials."

To begin with, be sure to enlist the aid of subject matter experts (SMEs)—people responsible for specific functions who are closely involved in day-to-day operations. As consultants to your team, they can offer the technical expertise necessary to ensure your measures provide the information you need to support strategic decision making. To develop customer measures, appoint sales and customer service managers as SMEs; for measures related to product delivery, recruit an SME from the logistics department. Make sure your SMEs maintain their big-picture focus and don't get mired in the details of operational processes. The point of BSC measures, after all, is to show leaders what's important, not to detail everything that's going on.

Step 1: Identify Critical Success Factors

Determining your critical success factors (CSFs) helps you to see where you must focus measure development. Collectively, these measures describe what must be accomplished to successfully achieve a strategic objective. For example, for an objective "Reduce industrial accidents" your CSFs might include:

- Educating the workforce on the proper use of safety equipment

- Providing appropriate protective equipment to employees

- Periodically inspecting for compliance with safety rules

- Monitoring incident reports to identify potential hazards that could cause a serious accident

Some potential CSFs appear to be essential, but on closer examination are not. For example, another possible CSF for the objective noted above would be "Reducing lost-time accidents" (those that result in worker absence). Certainly, this factor would seem an important part of reducing total accidents. Yet, consider how the organization might respond to such a measure. There could be pressure to avoid classifying accidents as "lost-time accidents" to avoid damaging reported performance. The result? Numbers that apparently show improved performance when, in fact, the only thing that has changed is how accidents are classified.

When developing CSFs, consider the behaviors that they motivate. Use them to drive high-performance behaviors, not those that meet some arbitrary goal without producing the required performance.

Step 2: Develop Potential Measures for Critical Success Factors

Now, use your CSFs to define a set of potential measures. For each CSF, develop one or more measures that track performance. The key is to select those that provide clear assessments of how well your organization is accomplishing its CSFs—thus achieving your overall strategic objective. Consider the CSFs and measures of two example companies in *Figure 1*.

Beware of two common mistakes. First, do not dismiss a potential measure simply because your organization doesn't currently collect data for it. Limiting your measures to ones already in use could result in missed opportunities to improve the information available for strategic decision making. Determine your information needs first—then decide how to collect the data to support them.

And don't lose sight of the big picture. Too many organizations get tangled in the details of processes, thinking they need to measure each step. Ask yourself: "What if we don't know X? Can we still infer how well the process is working from other potential measures?" Answering these questions will help you pare down your list to only the essential sources of strategically relevant data.

Step 3: Develop the Balanced Scorecard Measures

Now you're ready to choose one or more measures that best track progress toward each strategic objective. The goal isn't to monitor every action that could affect the outcome, but rather to identify those that primarily influence a successful outcome.

What if your team members disagree about the impact of each potential measure on overall performance results? Try studying past performance data (if available) for each potential measure, and use it to quantitatively assess how the measures affect overall performance. While this approach will take time, it has several advantages. First, fact-based decision making is certainly preferable to relying on opinion or gut instinct. In addition, this approach will ensure that the correct opinion, rather than the most vociferous one, prevails. It also allows you to identify adverse performance in time to take corrective action and prevent a negative outcome. Remember: measures do not replace analysis as a way to determine the causes of performance; instead, they identify where to focus attention for such analysis—and where to seek corrective action.

In some cases, opinions may vary about what information will best support your strategic objectives. If there are no clear reasons to choose one measure over another, try tracking both. Once enough data has been collected, assess how well each one supports decision making. Then, eliminate one—or keep them both, if they each provide important information.

With this goal in mind, the equipment overhauler noted in *Figure 1* could thus select the following measures out of its list of "potentials":

- "Rework costs": This measure would encompass the measure "unusable material discarded," since "increased rework" would generally indicate the replacement of parts already repaired, resulting in those parts being discarded as unusable.

- "Production line throughput": Optimized throughput results in the consistent flow of material through the production line, which

Figure 1. Sample CSFs and Associated Measures

Company	CSFs	Measures
Electrical equipment overhauler *Strategic objective:* Reduce repair costs	Reduce amount of material discarded as unusable Reduce rework required Maintain line efficiency	Cost of material discarded as unusable Rework costs Production line throughput Work in progress
Pizza company *Strategic objective:* Provide outstanding delivery experience	Prompt delivery Orders taken correctly	Time from order to delivery Customer complaints about wrong items delivered Orders redelivered to correct errors

indicates that half-completed pieces of equipment are not held up awaiting the next step in the production process. Since "work in progress" measures the total amount of equipment being built, the production line throughput measure automatically ensures that there isn't an excessive amount of work in progress.

Our pizza delivery company should opt for one measure: "customer complaints about wrong items delivered." This measure indicates whether customers are getting what they ordered, and also provides direct feedback concerning problems in the delivery or order-taking processes. While the potential measure "time from order to delivery" might be a good measure, it could also motivate the wrong behavior. Drivers might speed to meet delivery time targets, thereby endangering themselves and others. Selecting the right measure requires analyzing customer desires and setting targets that meet those desires without encouraging unsafe behavior.

Through careful review, BSC teams can minimize the number of measures, thereby focusing on the critical few while ensuring all performance drivers are taken into consideration. Be sure to:

- *Collect historical data* about a measure (if available) to determine how it would help you to assess performance and drive decision making. Eliminate measures that do not provide insight into overall performance.

- *Assess each measure for its exclusivity.* Does it provide unique information that reveals what is driving performance, or can you get the same information from other measures? Eliminate redundant measures from the list.

- *Decide whether the measure is appropriate for reporting to executives.* The goal of the BSC development team is to identify only those measures that need to be brought to leaders' attention. Other measures are best left to lower levels of the organization.

By using these guidelines, you can whittle your potential measures down to a manageable few that provide strategic—as opposed to operational—information about performance. The right data will help your organization make informed, strategy-focused decisions. ∎

Next: *Using Indexes as Measures*

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