# Scorecard Best Practices

*"If you cannot measure it, then you cannot improve it." - a wise man.*

Building a scorecard will enable your organization to improve accountability, real-time decision making, and empower employees. According to the consulting firm Bain & Co. half of all major enterprises use scorecards; don't you think it's time your organization did too?

A scorecard:

- ✓ Demonstrates contribution to results
- ✓ Provides a system for self-motivation
- ✓ Rewards high performance
- ✓ Improves management of strategic assets
- ✓ Forecasts gaps and bottlenecks
- ✓ Aligns employees with the strategic plan and financial objectives of the business

## Five Biggest Scorecard Mistakes

1. Not Insisting that Managers Manage.
2. Being Preoccupied with Only Technology.
3. Focusing on Administrative Not Business Goals.
4. Overreliance on Consistency Versus Prioritizing Change.
5. Underestimating the Workforce Impact on Profitability of (a 5% workforce productivity initiative goes straight to your EBITDA!!)

## Wondering what to measure?

The first step is to measure internal performance over time. Step two is to go online for industry benchmark's and then set target goals. Step three is to evaluate your measures against a select group of competitors and/or substitutes.

*Question:* **I have a solid plan, now how do I manage it?**

*Answer:* An aggressive plan should keep you busy but not so much that you cannot spend time strategically and be responsive to changes and employee/customer/supplier needs.

First, set up performance metrics that are tied to daily, weekly, and monthly ratios.

Second, every week at a fixed day and time, meet with your team to review. Success comes from weekly measurable progress.

Lastly, celebrate milestones, reward both behaviors and results and implement a CIP (continuous improvement process).



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## Getting Started: Creating your Scorecard

Key questions to ask before getting started:

a) What is needed to minimize business and IT related risks?
b) Identify and quantify business, system, and IT related strengths and weaknesses
c) Is there an opportunity for cost savings? (Determine current IT systems ROI and opportunity costs)
d) Where can IT add a competitive advantage?
e) What should be on the roadmap to ensure IT strategy is exactly aligned to the business strategy for the next 3-5 years?
f) What areas of expertise do we have gaps?

### *Creating the Measures is as Simple as 1, 2, 3.*

*Step One:* Gather your team and create metrics that fall into the following categories:

- ☑ Cost
- ☑ Efficiency
- ☑ Performance
- ☑ Productivity
- ☑ Quality
- ☑ Quantity
- ☑ Satisfaction
- ☑ Time
- ☑ Utility

Identify as many measures for each that you can – each of the categories above should have at least two measures. Then, prioritize and rank the top 8 – 12 measures for your organization and each department/function.

If the team has a hard time creating the right measures have them answer these questions before developing the measures:

a. What is your strategy? *You probably know your financial goals and may have even identified areas for operational improvement; but what are your revenue and retention strategies? And most importantly, what is your workforce strategy?*[1]
b. Define "HPW" (High Performance Work)
c. Define efficiency (KPI's, measurement and metrics)
d. Define impact (goals and objectives)
e. Define change needed to hit performance targets

[1] 85% of a service corporation's value is based on intangible assets.

*Step Two:* Next, create a one page goals and work plan for each role with operating metrics that support business objectives.

*Step Three:* Stay on message! Create a regular communications and reporting system and discuss openly gaps and bottlenecks.

**Key Success Factors** (*A few important notes of clarification*):

- Scorecard measures are NOT financial measures.
- Approach adopted from Harvard's Balanced Scorecard approach, but adapted for small and mid-market businesses.
- Measure results and activities, but with emphasis on results.
- At least 51% of the measures should be customer-centric (i.e. the customer would like to receive the metric on a regular basis).
- Certain activities and results should be bonused like revenue and retention. Your compensation and bonuses should NOT be directly tied to your Scorecard measures. Scorecard measures are for daily, weekly, and monthly performance reviews. Compensation and bonuses should be directed at quarterly and annual results.
- The only measures needed for customer satisfaction for most small businesses are: a) DSO's – i.e. on-time versus late payments, and b) whether your customer is willing to be a reference.
- Ratios work better than individual numbers.
- Leading indicators are more meaningful than lagging indicators although you need both.

## Grading Your IT

The benefits of an effective IT metrics program include better alignment with the needs of the business and improved competitiveness.

Enterprises that use performance metrics achieve much higher levels of competitive advantage. In addition, using metrics in the context of an IT performance scorecard can help IT leaders:

- ✓ Defend funding for IT initiatives and budget increases.
- ✓ Improve corporate governance or compliance initiatives (e.g. ITIL, COBIT, Sarbanes-Oxley).
- ✓ Internal operational efficiency and resource optimization.
- ✓ Lower IT costs leading to greater profits.
- ✓ Improved reliability of IT infrastructure and service delivery.
- ✓ Greater user satisfaction, productivity, and retention, means lower costs and better value to customers.
- ✓ Risk reduction and mitigation through IT governance initiatives.
- ✓ Greater customer satisfaction from external facing systems.

For the majority of enterprises, no more than a dozen or less high level metrics should be transparent and posted.



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- Use "red/yellow/green" reporting. In general, management really only cares about what is red or yellow. For these items, provide more granular metrics that identify root causes. Report on items that are green as well, but only at a high level. If it's green, no one will really care; it's business as usual.

There are varied measures that are important to each department, differing strategies and people drivers, and multiple perspectives on target setting and additional layers of intended audiences.

### IT Scorecard Example

| Measurement | Typical Small Business Finding | Serenity Benchmark |
|---|---|---|
| # of Tickets Per Week Per Employee | 1.25 | 0.2 |
| Downtime | 18 interruptions per user per month | 95% uptime |
| Mean Time to Respond | 7 hours | <1 hour |
| Mean Time to Resolution | unsure | 6 hours |
| Availability | 8 to 6 Mon - Fri | 24/7 on call |
| IT Ticketing System | No | Yes |
| IT Performance Reporting | No | Yes – Targeted Towards Specific Improvements |
| Regular IT Communications | No | Yes – “Push and Pull” |
| Training | Ad-hoc, event-oriented and reactive | 10 hours for new employees over first 30 days on average across systems and tools |
| IT Cost Per PC per year | $1,253 | $593 |

If the employees are effective and efficient (i.e., sufficiently trained and motivated), then the business will perform. Efficient operations run by effective employees should generate higher quality output, which will attract and keep satisfied customers. Repeat customers contribute marginally more to the firm's bottom line than do new customers who must be highly pursued.

**About Serenity Systems**

Serenity Systems improves business performance of enterprises with ERP systems. Through Serenity's Certification (developed from Microsoft's Infrastructure Optimization model) business goals are supported by the IT infrastructure and ERP system while management is provided with peace-of-mind via our user, network, and systems support with performance visualizations.

Founded in 2002, Serenity Systems has provided nearly a hundred enterprises with high-impact business-centric technology solutions in support of their business goals. For more information, contact Mark Leary at 713-647-7272 or reach us at: http://www.serenitysystems.com/contact.htm