Measuring Effectiveness - Building a Scorecard

“You cannot manage something that you cannot describe and if you cannot measure it, then you cannot improve it.” - Garry Meier.

Current accounting and financial methods simply do not serve as a benchmark for daily decision making for front-line staff or executives; which is why scorecards are needed. Moreover, 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 management 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

Management Scorecard Framework
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.

GETTING STARTED: CREATING YOUR SCORECARD
Creating the measures is as easy 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.

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

Answer: An aggressive plan should keep you busy but not so much that you cannot manage your practice.

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. Success comes from weekly measurable progress.

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

► Management 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.

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.

Grading Your Management
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.

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.

Grading Your HR
HR is a key value drive of your business. Not only as a people influencer but towards protecting the business and improving profitability.

We’ve heard it again and again: People are an organization’s most valuable asset.

That being the case, the HR function—as both advisers to line managers and providers of direct services—are critically important to an organization’s overall effectiveness.

The HR function’s role is so vastly complex that achieving full effectiveness is a serious challenge. The HR department is under constant pressure to deliver both transactional excellence and strategic people management to support business strategy. HR executives must play a critical role in business success by attracting, developing, and retaining world-class talent, while strictly controlling costs and managing headcounts.

Putting HR’s own house in order by defining and clarifying HR roles, structures, and processes, can therefore have a tremendous impact on overall business success.

The very best HR practitioners achieve this by viewing their role in terms of maximizing business performance through people. They focus on strategy execution, while striving to get it right at the basic, transactional level. They help keep the talent pipeline flowing in order to feed the business the very best human capital.
FIVE BIGGEST SCORECARD MISTAKES

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

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