

Using the Balanced Scorecard and Key Performance Indicators to Drive Your Business

By Preston Ingalls

“What gets measured gets done.”

While this adage is old and wise, it is not necessarily popular with the many construction companies I have seen. The question is why not? If we know it is difficult to manage something that cannot be measured, why do some companies continue to lag behind in applying a set of viable performance and costs indicators to manage their enterprise? How do business owners ensure the maximum return on their investment without a strong set of key performance indicators? It goes back to the three bodies of knowledge:

1. There are things we know we know.
2. There are things we know we don't know.
3. There are things we don't know we don't know.

I believe the dilemma is that measurements fall into the later body of knowledge. We just didn't know we didn't know it. But, we can know, and to use another old adage, “knowledge is power.”

To be successful, you need to have a set of measures to assess the effectiveness of your enterprise's efforts. How do we know how well we are applying labor, materials, and capital unless we measure them? The answer is we won't know. It is like driving a car without the instrumentation panel. Without the panel, we cannot make timely decisions regarding speed, fuel needs, temperature, and so forth. Our business has the same requirements—constant monitoring of progress.

Unfortunately, many measures only focus on the financial, and therefore, arrive too late to be able to affect future results. A successful set of metrics measures financials, customer efforts, internal processes, and personnel development. The **Balanced Scorecard**, developed by Harvard Professor Robert Kaplan, proposes an approach to achieving such a set of successful metrics.

Kaplan's Balanced Scorecard, developed in the early 1990s along with Dr. David Norton at the Harvard Business School, recognizes weaknesses and abstractions of previous management approaches. The Balanced Scorecard approach provides a clear and focused direction as to what companies should measure in order to “balance” the financial perspective.

The Balanced Scorecard is a management system—not just a measurement system—that enables organizations to develop and hone their vision and strategy in order to translate them into action. It aims to constantly monitor and refocus the efforts of the organization to improve strategic performance and results.

Goal	Initiative	KPI	Target	Owner
Develop marketing plan	<ul style="list-style-type: none"> Locate templates: Charlie Draft plan—Ralph, Idir, Dave, Linda, Teddy Validate plan w/stakeholders Finalize plan 	<ul style="list-style-type: none"> Plan in Place Process Guide in Place 	4/13/10	Charlie-O Bill T-S
Market and sell CHHS & Central Plant	<ul style="list-style-type: none"> Develop individual sales rep goals—Allen & Larry Educate candidate selection & target market—Mary & Allen 	<ul style="list-style-type: none"> Plan in Place Process Guide in Place # Units 	'10=380K '11=475K '12=650K '13=700K '14=750K	Tucker-O Jane-S
Increase Pennsylvania sales	<ul style="list-style-type: none"> Organize Team—Jerry, Idir, Wanda, Jane, Todd, Gary, Mike, Steve Develop plan Validate plan Execute plan Monitor effectiveness 	<ul style="list-style-type: none"> Gross Profit Above Existing Accts 	'10=500K '11=750K '12=900K '13=1000K '14=1200K	Wanda-O Todd-S
Increase EBITDA	2010 Master Strategy	EBITDA	'10=98,365,000 '11=9,960,000 '12=10,400,000	Gene-O

The Balanced Scorecard focuses on four perspectives. It also guides the development of metrics or key performance metrics (KPIs) to track the effectiveness of those perspectives.

Learning and Growth Perspective: This perspective includes employee training and development. The focus is on developing the human assets in the organization to improve the organization. Because technology, processes, and systems are changing constantly, the emphasis is on keeping employees current with those changes.

Internal Processes Perspective: This perspective refers to internal business processes. It monitors key systems and activities. This perspective allows the managers to know how well their business is running and whether its products and services conform to customer requirements.

Customer Perspective: Satisfied customers continue to buy our products and services. Do we know how we are meeting their expectations? After all, if customers are not satisfied, they will eventually find other suppliers or vendors that will meet their needs. A negative customer perspective is a leading indicator of future decline, even if the current financial picture looks good.

Financial Perspective: The financial perspective is a bi-product of how well the other perspectives are working. It is also a bi-

ABOUT the AUTHOR

Preston Ingalls, president/CEO of TBR Strategies, in Raleigh, North Carolina, has over 38 years of experience leading maintenance and reliability improvement efforts across 27 countries for Royal Dutch Shell, Occidental Petroleum, Hess, Key Energy, Bayer, Baxter Healthcare, Lockheed Martin, Mobil Chemical, Unilever, Monsanto, Aera Energy, Pillsbury, Corning, and Texas Instruments. For the last 10 years, he has consulted extensively with highway paving companies and has helped numerous companies develop strategic plans. He holds two undergraduate degrees in engineering, as well as a master's degree in Organizational Development.

product of our focus on generating and monitoring timely and accurate financials to drive the right decisions. This may include how well cash flow and profit margins are managed and how well revenue is generated.

The Balance Scorecard is often developed during a facilitator-led retreat held for an organization's leadership. A long-term vision is developed and refined, as well as a mission. A structured process is conducted to look at Strengths, Weaknesses, Opportunities, and Threats (SWOT). This is often done after an extensive examination of market conditions, customer feedback, competitor analysis, and industry projections. All this information is synthesized, combined, and then analyzed. From it, the Strategic Issues (key centers of attention) are identified. Goals are set to address these Strategic Issues and then KPIs are developed to measure the effectiveness of those goals.

It is key to remember that KPIs are set once the goals are established that need to be achieved. Once the metrics are set,

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then specific targets can be identified. Once the goals and KPIs are set, the initiatives are identified to make those goals happen.

The major challenge is to operationalize this strategy. This is done by assigning teams and individuals to execute the initiatives and having a Steering Council, which holds each person accountable for their activities and results. Weekly progress reports or Health

Checks are conducted to ensure items are on track. Without a focus, leadership drive, and constant monitoring, the results may not come. In addition to frequent monitoring, the strategy is formally reviewed and revised once a year. ■

Editor's Note: For further information, Kaplan has several books on the Balanced Scorecard including *The Balanced Scorecard: Translating Strategy into Action* and *The Strategy-Focused Organization: How Balanced Scorecard Companies Thrive in the New Business Environment*.

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