



Managing Your Business by the Numbers

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How many times do business owners make a decision in companies, then second guess that decision? Worse yet, their decision is second guessed by their superiors, their staff or outsiders?

There's a way to avoid this scenario – Manage your business by the numbers. While business decisions are not solely based on quantitative data, there's a management tool called The

Balanced Scorecard that can provide valuable input to decision making, and support the decisions that are made.

Over the years many management tools and philosophies have been developed which are sold as the new “nirvana”, the be all and end all of business decision making. Many provide value to business decision makers, but none answer all of the questions. That's because no single tool or philosophy can answer each and every question, nor address each and every situation.

Of the many decision making tools, [The Balanced Scorecard](#) is one of the best known and most widely accepted. It's one every executive should be familiar with, and evaluate the value for your business.

In 1996, Robert S. Kaplan and David P. Norton copyrighted and published The Balanced Scorecard (BSC), which has become a landmark development, more than just a measurement system. It's a management system that channels energy, abilities, and specific knowledge held by people throughout the organization toward achieving long-term strategic goals.

BSC has been implemented by the largest of companies, from CIGNA Property & Casualty Insurance Company to Mobil Oil Company to Sears, Roebuck, and Company because it emphasizes those financial and nonfinancial measures that must be part of the information system for employees at all levels of the organization. Front-line employees need to understand the drivers of long-term financial success.

The objectives and the measure of the Balanced Scorecard may appear at first glance to be simply a collection of financial and nonfinancial performance measure. However, closer examination shows that they are derived from a top-down process driven by the mission and strategy of the business unit. The BSC should translate a business unit's mission and strategy into tangible objectives and measures. When implemented correctly, BSC takes often ill-defined business strategy and reduces it to a level of specific measurements which demonstrate to all their particular and expected contribution to the organizations ultimate achievement.

The key to implementing The Balanced Scorecard approach is first to take the business enterprises strategic plan in conjunction with the operational realities and key drivers, then synthesize this information down into the key metrics which drive the business.

As Kaplan and Norton suggest, BSC will become the hub between Clarifying and Translating the Vision and Strategy, Communicating and Linking the organizational direction and focus, Planning and Target Setting, and providing the Strategic Feedback and Learning, all focused upon achieving Strategic Alignment from top to bottom. This is accomplished identifying and then establishing a limited number of key measures, which are identified as either Strategic Measures versus Diagnostic Measures of old.

Most companies today have 16 to 25 key measures that they track as part of their ongoing operations. They can't though fathom how no more than two dozen measures can be sufficient for measuring their operations. These are in truth Diagnostic Measures.

Diagnostic Measures are simply those that “monitor whether the business remains in control and can signal when unusual events are occurring that require immediate attention”; Strategic

Measures are those that “define a strategy designed for competitive excellence.

1. How is The Balanced Scorecard methodology implemented? That's definitely the right question. Implementation is the key to the entire process as there are very specific



tasks necessary to effectively transform any business enterprise into one which can maximize what BSC provides. First, a business enterprise must define the Measurement Architecture, by selecting the appropriate organizational unit and identifying the Strategic Business Unit (SBU) and Corporate linkages.

2. Second, consensus must be built around the strategic objectives through extensive interviewing of the key stakeholders, along with a synthesis session to ensure that there is consistent output of the business objectives in the BSC approach.

3. Next, measures must then be “selected and designed” in the following three categories: Core Financial Measures, Core Customer Measures and Core Learning and Growth Measures. A series of executive workshops should be conducted to refine the process and gain buy-in from the key constituencies, while the implementation plan is developed, refined and implemented.

If this sounds like a good bit of work, it is. An average of 16 weeks is required to roll-out a typical scorecard project.

At the end of this timeframe, an organizational shift will have taken place as the key alignments will be in effect from top to bottom within the enterprise, where all decisions are made in linkage with the overall business strategies. Decisions will be made based upon the right numbers, and the second guessing of business decisions will have become a thing of the past.