



# Grand Rapids Section 1001

Scorecards-

How do we know we are tracking  
The right things?

# How did it start

- Performance Measures
  - Sloan in the 1940's

- Balanced Scorecards

Developed in the early 1990's by  
Robert Kaplan and David Norton

# Balanced Scorecards

- Financial
- Customer
- Business Process
- Learning and Growth

# Balanced Scorecards

- Dash Boards or scorecards
- Stop light indicators on the health
- Tracking Frequencies
- Reporting Frequencies

Seminars

Workshops

Consultants

# Is it the real world?



© Scott Adams, Inc./Dist. by UFS, Inc.

# How did we get here?

- Who makes the decision on what to measure?
- How are the measures decided?
- Are they telling us what we want to know?

# Who makes the decision?

- Executive Direction
  - Upper Management
  - Middle Management
  
- Culture- How is the company Driven?

# Decision?

- Technology Driven
  - New products R&D
- Market Driven
  - Retain Customers New Customers
- Efficiency Driven
  - Reduce cost or Complexity

# Culture

Let's call it the personality of the Company

In the family called the company,  
who gets their way?

Engineering

Sales

Manufacturing

# The Start

- What we are familiar with
- What is easy to measure
- What is going to make us look good

Although these are not the right reasons, it is where most get their start.

# The issue

- No modes for improvement
- Employees that affect performance, may not see the correlation to the measure.
- What we have as measures do not relate to how the company performs.

# The issue

- “that’s the issue, the measures are all green, but we are loosing money.”
- “Profits are down for three months in a row”
- “We do not believe any of our measures, the numbers are not right”

# How does that Happen?

Two major reasons:

Lagging Indicators

The measures encourage the wrong activities

# Lagging Indicators

- Lagging indicators measure output of past activities. Most financial indicators are lagging indicators. It's like horse out of the barn, it already happened. We need to react and the results of our actions may not be seen for two or three reporting periods.

# Wrong Activities

## Purchased Price Variance

Negotiate based on price and “quantity breaks”

Excess inventory and carrying costs.

# Wrong Activities

## Machine Utilization

Run in excess of current requirements to maximize the measure.

Excess inventory, Wrong inventory.

# Wrong Activities

## Direct/Indirect labor ratio

Encourages inaccurate labor reporting to maintain “acceptable ratio”

Total costs not in control. Lack of integrity

# Ultimate Lagging Indicator

Profit

# Profit

- Byproduct of actions taken in the past, sometimes the distant past.
- Profit is the result of many actions. It does not indicate which activities are positive and which are draining the money.
- Disconnected from non financial factors.

# Don't get me wrong

- Most enterprises are in the business to make money. Provide a return to shareholders.
- If we use profits as our indicator, its like using the speedometer to tell us if we are driving in the right direction.

# Where do we go?

- These are trying times
- Companies are in the survival plan
- We need to watch the pennies?
- We don't know about what's the day after tomorrow!

# Leading Indicators

- Leading indicators either measure activity in it's current state or in the future state.
- Forecasting out what the future would look like.
- Powerful measures, sometimes are difficult to define.

# How do we identify

- Three Different ways to approach
  1. Identify all of your current measures
  2. Focus on your Vision
  3. Look forward strategically

# Identify your current Measures

- Go through all the areas of the organization and document what is being measured. Not just what is on the scorecard.
- “What gets measured gets done.”
- Organize by business process.

# Identify your current Measures

- I have used cross functional surveys in the past to identify how well a company measures themselves.

		(5) Strongly Agree	(3) Some what Agree	(2) Disagree (1) Strongly Disagree
<b>Part I: Overall Approach to Measurement</b>				
1	The metrics in our database are tightly linked to the key success factors that will allow us to differentiate ourselves from our competitors.			
2	Our database was built with a plan, rather than being something that just evolved over time.			
3	Our CEO or President looks at no more than 20 measures every month to evaluate the overall organization's performance.			
4	Measures of performance are mostly consistent across our business units/locations.			
5	We have well-balanced set of measures, with about equal amounts of measures/data in each of the following categories: Financial, Operational, Customer Satisfaction, Employee Satisfaction, Product/Service Quality, Supplier Performance, and Safety/Environmental.			

# Identify your current Measures

- Summarize the information and use a cross functional team to identify:
  - Leading or Lagging indicator
  - Association with other measures

# Identify your current Measures

- The association link can be an important one.
  - Lagging indicators may have more than one leading indicators associated with it.
  - Use an affinity diagram or a Fish Bone Diagram to graphically show the association.

# Identify your current Measures

- Through these activities
  - You identify all the measures that are current.
  - Which ones may be more important than your current indicators
  - Focus on the leading indicators for the improvements

# Identify your current Measures

## Potential Leading Indicators

### Inventory Turns

Although a financial calculation, keeps the company focused on material flow.

The impact is on Cash Flow

# Identify your current Measures

## Potential Leading Indicators

### On time delivery

Both to internal and external customers.

Company will focus and work for ways to eliminate waste, not needed activities.

# Identify your current Measures

## Potential Leading Indicators

### Product Margins

Sales minus cost. Understand that variation is waste. Work to reduce that variation.

# Focus on your Vision

What is the mission of the company

Who are we?

What are our core values?

What are our principles?

# Focus on your Vision

- If we use these ideals as our guide to running the company
  - We can identify what they look like
  - How they are measured
  - What is acceptable

# Focus on your Vision

Manufacturing Facility

Reporting Month

## People

Training Hours	Work related injuries
Turnover	Absenteeism

## Profits

	Scrap \$
Cost Improvement \$	PPM-Internal

## Product

Performance	
Productivity	Pull Ticket %

## Technology

Program Status	Systems-Internal
	Systems-External

## Customers

PPM-External	CCN
Delivery	

# Focus on your Vision

- Communicate to all the employees these measures.
- Show that the company believes in what it says.
- They can see how they effect the results.

# Look forward strategically

- Where does the company want to be?
  - Executives need to be looking 3-5 years out
  - What will the company look like at that time?
  - Use Indicators as the road map to get us there.

# Look forward strategically

- Using the SWOT Analysis:  
Strengths, Weaknesses, Opportunities, Threats

Identify what the key areas of each section would look like and how would we know if was happening.

What would be the measure, acceptable range?

# Look forward strategically

- These can be the leading indicators of the future.
- The actions taken can effect the future and can be adjusted with minimal impact to the daily operations.
- Forecasting

# Look forward strategically

- We want to be a supplier to Toyota
  - What does a supplier look like
    - How are they different to us
    - What do we need to change
    - What is our plan

# Culture- The drivers from earlier

- Technology Driven
  - New products R&D
- Market Driven
  - Retain Customers New Customers
- Efficiency Driven
  - Reduce cost or Complexity

# Culture- Technology

- New products R&D
  - How about tracking number of Patents applied for?
  - Tracking number of new products brought to market.

# Culture- Market Driven

- Retain Customers New Customers
  - Scheduled future appointments
  - Ask How is the Customer measuring us?
    - Align with major customer goals
    - Understand their metrics

# Culture- Efficiency Driven

- Reduce cost or Complexity
  - Ratio of jobs with 2 or less operations
  - Ratio of BOM's used in more than one product.

# Wrap UP

- What three things?
- Use the note sheet on the table
- Use it as a tickler for tomorrow

# Three Things

- May be the difference between a leading and lagging indicator
- The idea that Lagging indicators have leading indicators associated with them
- Using Quality tools in different ways to get results.

Thank you

What questions can  
I answer ???