Corporate Performance Scorecard

BY PRAVEEN GUPTA

Reviewing the list of the 50 largest corporations, I've found that less than 10 percent have been operating profitably in recent months. Most of the corporations have some operational measurements, and many have financial measurements. Executives view their companies through the lens of financial performance. This is fine if the financial streams pass unobstructed through the lens. However, financial streams can easily become crowded with so many variables that the direct relationship between revenue and profitability becomes hidden. This renders CEOs helpless as they try to understand the evaporation of their profitability.

Let's look at profitability as a function of cost and revenue. Everyone, including CEOs, understands this relationship well. When a business starts, the entrepreneur has an idea, launches the business, sells his idea, delivers the service or product and makes money for the business.

As a business grows, hires more people and takes on more building space, the list of expenses increases dramatically. This complicates the equation, adding components that contribute to, or diminish, profitability. And, it makes the CEO's task of measuring financial performance more challenging. The CEO must depend on his business-process measurements to make the components of profitability visible. However, the diversity of a company's management team, and conflicting priorities due to inconsistency in the performance of business processes, can cause a CEO to lose sight of profitability.

Typically, corporate financial-performance measurements become available at the end of a regular cycle—monthly or quarterly, or perhaps less frequently. This causes the business to operate while the CEO waits for the accounting team to provide the corporate financial report. Once the report is issued, its results are outdated, leaving the leader limited options to act on due to this delayed feedback.

Better: Real-Time Reporting

A better approach to operating a company would be based on real-time performance reports, allowing management to act in a timely manner. This requires managers to understand their businesses as collections of business processes instead of just a place to make money. In order to make money from a business, each process must be managed

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profitably. The corporate profit then will be the sum total of profits from all of its processes, including processes for managing quality, scrap and on-time delivery.

Due to increased competition, shrinking margins, growing product complexity and changing market conditions, the initial set of business measurements does not necessarily translate to acceptable profitability measurement. A new set of measurements must be created that allows the leader to easily monitor business performance and therefore measure profitability. Such a set of measurements, which must include tangible and intangible processes representing use of hard and soft assets, is called the Six Sigma Business Scorecard.

The Six Sigma Business Scorecard combines the Six Sigma methodology with the business-scorecard method for achieving financial objectives. The Six Sigma Business Scorecard helps managers maximize profitability and growth, accelerate improvement, foster leadership accountability and encourage employee involvement. It builds on proven methodologies and offers a new method for measuring corporate performance. Six Sigma Business Scorecard measurements are listed in the table.

Filling in the blanks that have been left open by the other measurement systems or methodologies, the Six Sigma Business Scorecard integrates with a Business Performance Index (BPIn), a measure of corporate wellness. Currently, there is no method that enables an organization to determine its overall performance level. The Six Sigma Business Scorecard methodology highlights the responsibilities for corporate performance and establishes a formula for determining the sigma level of an organization.

Identify Measurements and Accelerate Improvements

The Six Sigma Business Scorecard aims to:

• Identify measurements that relate key process measures to a company's profitability, making the opportunities so visible that they are difficult to ignore;

• Accelerate the improvement in business performance. Optimizing the profitability, cost and revenue variables is a primary purpose of the Six Sigma Business Scorecard.

The salient features of the Six Sigma Scorecard include:

• Provide a new model for defining a corporate sigma level;

• Align with the business organizational structure;

• Maintain visibility of costs, revenues and profitability; and

• Include leadership accountability and rate of improvement.

The Six Sigma Business Scorecard is a great model for establishing a common target in terms of corporate defects per unit (DPU), defects per million opportunities (DPMO) and Sigma. In absence of such a target, corporate leaders can't focus and will suffer from ineffective implementation of Six Sigma. The Business Performance Index (BPIn) provides a one-number measure of corporate performance in terms of Sigma that can be used as a benchmark for driving future improvements. The benefits of the Six Sigma Business Scorecard include the following:

• Provides a target for performance improvement;

• Enables a business to drive dramatic improvement;

• Promotes the intellectual participation of all employees;

• Forces continual changes in an organization; and

• Reduces costs and improves profits.

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Green- and Black-Belt Training Programs

Quality Technology Co. has partnered with the Precision Metalforming Association to offer Six Sigma Green and Black Belt training programs at QTC headquarters in Schaumburg, IL. Green-Belt training runs for five days, September 8-12; the 10-day Black-Belt training program runs August 18-22 and September 29-October 3.

For more information, call Erin Lynch at PMA: 216/901-8800 ext. 161.

Six Sigma Business Scorecard Measurements

Categories	Objectives	Sample measurements
Leadership and Profitability (LNP)	Lead company to wellness and profitability	Communication, Inspiration, Profitability
Management and Improvement (MAI)	Drive dramatic improvements	Goal setting, Rate of improvement, Planning for improvement
Employees and Innovation (EAI)	Involve employees intellectually	Recommendations per employee
Purchasing and Supplier Management (PSM)	Reduce cost of goods or services	Total spend/sales, Suppliers defect rate (sigma), Cost of goods/service sold
Operational Execution (OPE)	Achieve performance excellence	Operational cycle time, Process defect rate (cp, cpk), Customer defects/total, Sigma level
Sales and Distribution (SND)	Manage customer relationships and generate revenue	New business ($)/total sales ($), Profit margins (%)
Service and Growth (SAG)	Gain competitive advantage and grow	Customer satisfaction, Repeat business ($)/total sales ($), New product or services introductions