

Balance Your Scorecard with Six Sigma To Boost Performance

The balanced scorecard is a performance management system that translates strategy into execution. It is a dynamic management system that reinforces, implements and executes corporate strategy. As, articulated by Robert S. Kaplan and David P. Norton in their best-selling book, *The Balanced Scorecard* (Harvard Business School Press, 1996), this approach provides a framework for looking at value creation and organizational strategy from four different perspectives:

1. **Financial.** The strategy for growth, profitability and risk viewed from the perspective of the shareholder.
2. **Customer.** The strategy for creating value and differentiation from the perspective of the customer.
3. **Internal business processes.** The strategic priorities for various business processes that create customer and shareholder satisfaction.
4. **Learning and growth.** The priorities to create a climate that supports organizational change, innovation and growth.

With balanced scorecard, senior managers can measure how their business creates value for current and future customers. By not focusing exclusively on financial measures of performance, although they are still important, balanced scorecard can reveal and measure the drivers of long-term value and competitive performance.

However, balanced scorecard is more than just a measurement system as it enables organizations to clarify their vision and strategy and translate them into action. It provides feedback around both the internal business processes and external outcomes in order to continuously improve strategic performance and results. When fully deployed, it functions as a management system that transforms strategic planning from an academic exercise into the nerve center of an enterprise.

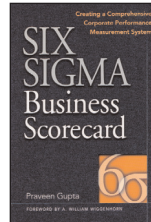
Six Sigma is a widely accepted approach to building process excellence by continually improving the performance of products and processes against customer requirements. It is a rigorous system that listens to customer and business requirements, measures performance

gaps, analyzes root causes and implements sustainable fixes with careful change management.

Combining the elements from both approaches into a business improvement system can provide the answers to four key questions that are asked by all managers:

- ♦ Are we meeting or exceeding customer requirements?
- ♦ Are we driving and supporting strategic execution?
- ♦ Are we focusing business improvement resources to the best effect?
- ♦ Are we fixing issues and resolving the causes of problems?

Praveen Gupta, author of *Six Sigma Business Scorecard* (McGraw-Hill, 2003) contends that linking balanced scorecard with Six Sigma gives organizations a means for fusing strategic intent together with operational deployment at the tactical level. "The balanced scorecard concept was developed about 10 or so years ago," says Gupta. "Since then, very few improvements have been made to its process. In addition, balanced scorecard has been developed as a strategic management system that has had difficulty in being 'operationlized.' Six Sigma is a more operational-driven methodology that focuses on execution more than on the strategy. Combining strategic intent through balanced scorecard and an execution methodology via Six Sigma would make sense and allow users to benefit from the strengths of both approaches."



Linking Balanced Scorecard and Six Sigma

Measuring internal business process performance, or process excellence, can be accomplished through executing an ongoing assessment of process capability and customer satisfaction with business performance. However, it is important to understand that process excellence has no regard for organizational boundaries or functions. Customers view organizations through their processes and not through their organizational structures.

The key inputs to process performance come from two sources:

- ♦ The organization's key processes (and changes introduced during the implementation of continual improvement projects).
- ♦ Ongoing feedback on performance obtained from customers.

Managing and improving the core operational processes of an organization is the key to process excellence or performance management. The concept of performance management is the nexus where balanced scorecard and Six Sigma can join to produce a formidable weapon that aligns strategic intent with tactical execution.

Gupta says that while the financial, customer, process and learning perspectives in balanced scorecard represent a big improvement over managing solely through the financial perspective alone, organizations may still need to consider whether these four perspectives meet their needs today.

"The four perspectives of balanced scorecard may need to be supplemented to accommodate changes in the business environment due to the information explosion which has occurred since the early days of balanced scorecard," says Gupta. "For example, the rate of improvement, innovation and executive accountability are new dimensions that could be added to balanced scorecard to complete a corporate performance measurement system."

Building a Strategic Corporate Scorecard

Performance management (see Figure 1, page 7) can be measured in an organization through a scorecard or dashboard. Such a scorecard shows the key organizational objectives and their metrics and status across the four perspectives of balanced scorecard. In the scorecard or dashboard, the colors of green, yellow and red illustrate how well the objectives are being realized.

Greens represent performance (meeting the objectives), while red signifies the need for immediate intervention to implement a correction. (See *SIX SIGMA FORUM* on page 7)

Six Sigma Forum

(Continued from page 6)

tive action. Yellow typically means that the process and its metric require watching and possible investigation to determine if problems are present should the trend continue.

Gupta stresses that having the right measurements is essential for ensuring alignment between strategy and tactics and monitoring the progress toward corporate goals and objectives. "Companies must launch Six Sigma initiatives to accelerate improvement in profitability and growth. However, there must be measurements to monitor the progress towards goals and the execution of strategies. Six Sigma business scorecard, which combines Six Sigma and balanced scorecard, is a great tool to launch a measurement system. Six Sigma business scorecard thrives on inspiration by leadership, improvement by managers and innovation by employees," says Gupta.

A corporate scorecard flows out from an organization's strategic themes. The role of senior management is to develop the strategic themes across each of the four perspectives contained in balanced scorecard. Once the strategic themes are identified, they in turn can be translated into goals and objectives and which can then be cascaded down through the organization as operational tactics. Six Sigma can have a key role to play in translating strategy into action for those objectives which have strong linkages to critical to quality (CTQ) factors.

Gupta says organizations must remember to link strategy to tactics, and a scorecard/dashboard that combines Six Sigma and balanced scorecard is an excellent way to do this. "Six Sigma has become corporate culture, DNA or the standard of excellence," says Gupta. "To launch a Six Sigma initiative, economic opportunities are identified to realize immediate

financial benefits. However, to launch a corporate-wide initiative, the leadership must establish corporate drivers monitored using a dashboard, a combination of Six Sigma and balanced scorecard. Interestingly, Six Sigma business scorecard, which is a hybrid of Six Sigma and balanced scorecard, has been developed to address these issues. This approach has received excellent reviews and is now being formalized as a process in its own right in collaboration with a leading business school."

Strategy Into Action

Effective performance management can be implemented by combining elements of balanced scorecard and Six Sigma approaches to:

- ♦ Break strategic themes down to vital objectives (balanced scorecard).
- ♦ Assign metrics/targets to vital objectives (balanced scorecard).
- ♦ Measure objectives against targets (balanced scorecard).
- ♦ Focus attention on variations in metrics against target (balanced scorecard).
- ♦ Connect metrics/targets to critical quality factors (Six Sigma).
- ♦ Address capability gaps with project/initiative improvement opportunities (Six Sigma).

With an effective performance management process in place, organizations will identify many improvement opportunities that arise from existing performance-capability gaps, customers or stakeholders. A project/initiative selection process can then be used to identify which improvement opportunities should be pursued.

The selection of specific projects/initiatives is implemented by combining elements of balanced scorecard and Six Sigma approaches to:

Vocabulary

Dashboard

According to iSixSigma, "A dashboard is a tool used for collecting and reporting information about vital customer requirements and/or your business' performance for key customers. Dashboards provide a quick summary of process and/or product performance."

(<http://www.isixsigma.com/dictionary/Dashboard-218.htm>)

- ♦ Focus attention on variations in metrics (actual versus target) within the performance management process (balanced scorecard).
- ♦ Prioritize project/initiative opportunities against objectives (balanced scorecard).
- ♦ Address capability gaps with improvement projects and initiatives (Six Sigma).
- ♦ Listen to the voice of the customer to highlight new opportunities (Six Sigma).

Once a project/initiative has been selected, a project-level scorecard or dashboard can be devised to measure its performance and ensure it remains aligned with strategic intent and business objectives. Alternatively, multiple projects/initiatives can be tracked on a suitably designed scorecard.

Executing the selected projects/initiatives and then monitoring them through the scorecard to "fix the reds," will deliver change to the core processes of the organization. Often root causes and solutions will not be immediately apparent, nor will fixes necessarily be effective without paying due attention to the change process itself. In fact, this is one of the most common reasons why organizations with effective strategies fail to execute when issues and complications arise.

"Balanced scorecard, which has become a philosophy of using financial and nonfinancial measurements, needs to be improvised to meet today's business needs and implemented accordingly. Simply having four perspectives appears to be a little primitive in today's business environment. Six Sigma nicely complements the four perspectives of balanced scorecard," states Gupta. ■

Figure 1: Performance Management

STRATEGIC BALANCED SCORECARD			
PERSPECTIVES	OBJECTIVES	METRICS	STATUS
FINANCIAL	Profitable Business Larger Deals	Margin +2 pts yr/yr 10 Deals > \$50m by Q4	RED YELLOW
CUSTOMER	Brand Value Seen as Partner	Survey Score > 0.8 by Q4 References up 100% yr/yr	GREEN RED
PROCESS	Sales Process Excellence Product Range Refreshed	Winrate > 80% by Q4 Launch window < 45 days	YELLOW GREEN
PEOPLE	Retain Talent Management Excellence	Attrition under 5% Survey Score > 80%	GREEN RED