

eKNOWtion

A Parallax View – Volume 2, 2004

Share the Wealth

Extend your Balanced Scorecard Across the Supply Chain

There is more than enough evidence that Balanced Scorecard delivers the results it promised. In fact, there is even a Balanced Scorecard Hall of Fame, which includes some of the world's leading companies, highlighting the best practices they have used to create a sound performance management philosophy through the use of the Balanced Scorecard (BSC). This distinguished membership list includes names like Mobil, AT&T, Cigna, Siemens, Wells Fargo, and UPS.

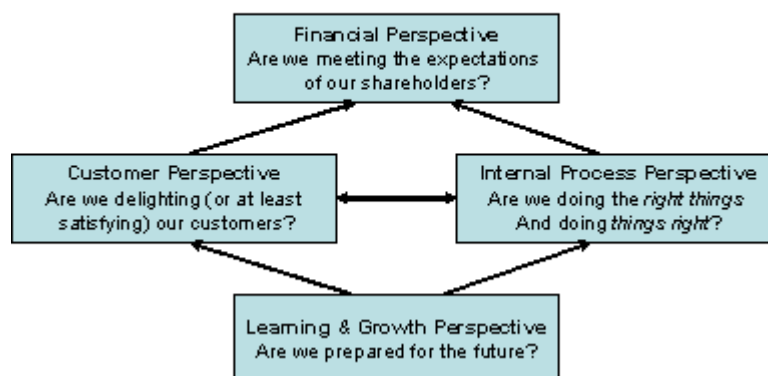
Companies worldwide continue to adopt the BSC approach because it is indeed one of the few methodologies that is not only sound from a theoretical perspective, but meets the criteria of practitioners – it delivers results. The hard work designing and implementing scorecards is typically repaid in financial performance, customer satisfaction, operational efficiency and employee growth. These rewards correspond directly with the perspectives a company commits itself to in implementing the BSC.

So where did it all start and where is it heading?

The roots of the BSC run deep. In 1993, Robert S. Kaplan of the Harvard School of Business and consultant David Norton developed the Balanced Scorecard, an evolution of the concepts included in the *Tableau de Bord*, which emerged in France at the turn of the 20th century.

The Balanced Scorecard is an approach to performance measurement that combines traditional financial measures with non-financial measures. This approach provides managers with richer and more relevant information about the activities they are managing, increasing the likelihood of organizational objectives being achieved.

Figure 1: The Balanced Scorecard
Adapted from Kaplan and Norton



Kaplan and Norton defined the BSC as a multi-dimensional framework for describing, implementing and managing strategy at all levels of an enterprise by linking objectives, initiatives and measures to an organization's strategy. The scorecard provides an *enterprise* view of an organization's overall performance by integrating financial measures with other key performance indicators around customer perspectives and internal business processes, and around organizational growth, learning and innovation. The BSC is not a static list of measures, but rather a framework for implementing and

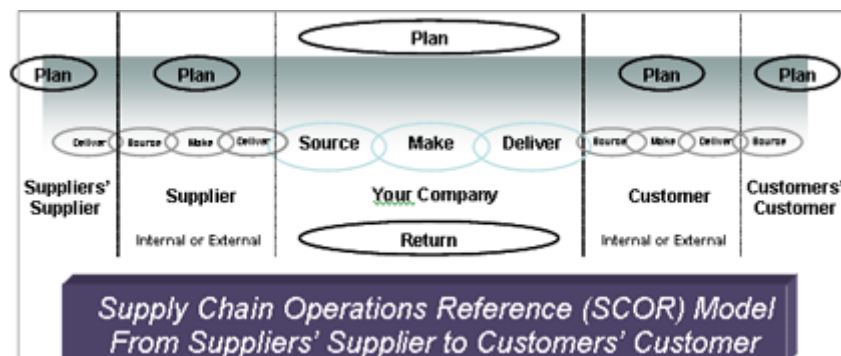
aligning complex programs of change, and indeed, for managing strategy-focused organizations. As BSC co-author, David Norton described in his Balanced Scorecard Report article (Jan-Feb 2002), “A recent review of our Balanced Scorecard Hall of Fame organizations revealed some striking commonalities. Every one of them happened to be introducing a new strategy at the time they were introducing the Balanced Scorecard.” In summary, a scorecard is to be used to facilitate the translation of strategy into action.

How far can Balanced Scorecard be extended? As the methodology gained momentum, the good work went global. Support came from every direction as demonstrated by companies like Ericsson, Ricoh and Xerox. Success in single sites inspired many to adopt BSC globally in part because the initiative begins to address fundamental issues like understanding and applying corporate strategy. Relating high-level statements to basic business issues in their respective countries and finding a common language to communicate across the organization was an added incentive for global pioneers. BSC has also found a home in government and not-for-profit organizations. So where does it go next? Well that might just be up to you.

The potential of a Multi-Enterprise approach

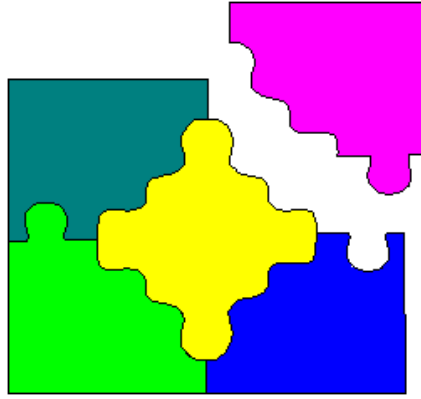
While many companies are now recognizing the value of employing a BSC within their own organization, it is now important to consider the potential of utilizing the BSC approach across multiple companies: a *Multi-enterprise approach*. BSC can be extended to enable the performance of a collection of constituents in a value chain.

Will this multi-enterprise BSC approach help to demonstrate the effectiveness and efficiency of enterprise partners? We think, yes! Albeit, the current examples of such are rare, the building blocks are certainly there. Perhaps the best application of a multi-enterprise BSC approach might be across the supply chain, as this is typically viewed as extending from suppliers' supplier to customers' customer.



If your ability to compete is contingent on the strength of your supply chain (which is the case for most companies irrespective of industry), there is no better place to take this winning methodology. Consider the possibilities. What if every member of your supply chain could agree on common targets linked to a common strategy and used the results achieved to drive change back through the key supply chain participants?

We already know that identifying, capturing and communicating measures across a single enterprise and linking these back to the company strategy is not a trivial task. Managers must be able to regularly measure the performance of their individual businesses. Clearly this is far more complex across a multi-enterprise supply chain and may not be feasible unilaterally with all of your partners. The first step requires careful selection of long term and strategically critical partners. So, what is required to make this initiative successful? We offer five key considerations to complete the puzzle:



Common Language

Company specific measurement jargon can sound as foreign to your business partner as a far away language. Standards are often the common denominator required here. For instance, if a Multi-enterprise BSC is being used to measure supply chain performance –consider the use of the Supply Chain Operations Reference (SCOR) model – the de-facto, industry-agnostic, common language for the process modelling and measures used for the supply chain. Adopting a common language like SCOR will eliminate the “lost in translation” syndrome.

Rationalized Measures

To manage business performance effectively, a company must recognize which measures are unique to certain functions and which are common across groups, departments, business units and the supply chain. The goal is to find a limited number of straightforward measures for the supply chain that are tied to the common strategy. If the Supply Chain must compete on certain performance attributes - select attributes which are the most important for beating the competition. Carrying out cause and effect exercises should help identify the most meaningful measures. Again, SCOR might assist in this instance by examining the Performance Attributes which the supply chain is attempting to achieve and the Level 1 Metrics that are tied to that particular attribute.

Figure 3: SCOR Level 1 Metrics

Performance Attribute	Performance Attribute Definition	Level 1 Metric
Supply Chain Delivery Reliability	The performance of the supply chain in delivering: the correct product, to the correct place, at the correct time, in the correct condition and packaging, in the correct quantity, with the correct documentation, to the correct customer.	Delivery Performance
		Fill Rates
Supply Chain Responsiveness	The velocity at which a supply chain provides products to the customer.	Perfect Order Fulfillment
Supply Chain Flexibility	The agility of a supply chain in responding to marketplace changes to gain or maintain competitive advantage.	Order Fulfillment Lead Times
		Supply Chain Response Time
Supply Chain Costs	The costs associated with operating the supply chain.	Production Flexibility
		Cost of Goods Sold
		Total Supply Chain Management Costs
		Value-Added Productivity
Supply Chain Asset Management Efficiency	The effectiveness of an organization in managing assets to support demand satisfaction. This includes the management of all assets: fixed and working capital.	Warranty / Returns Processing Costs
		Cash-to-Cash Cycle Time
		Inventory Days of Supply
		Asset Turns

Supply Chain Targets

This is not much different than the work that many companies regularly take on under the heading of business reviews. The partners you have selected for this initiative would have given up on one-sided targets years ago and might be practicing gain sharing up and down their supply chains today. These targets should strive for balance in both the effort and benefit for all parties. Without common multi-enterprise target values, the utility of a BSC is massively reduced.

One way to assist in setting targets is to perform benchmarking only this time – you must benchmark on the full multi-enterprise supply chain and not simply organization to organization. It is often the effectiveness of the collaboration of the supply chain constituents which offers the greatest reward. We can compare this scenario to individual departments within an organization selecting measures and setting targets with little regard to other departments upon which they rely or rely upon them. The effect may be improvement towards a target – optimizing within the department. But, in the end these efforts may deliver enterprise-wide - a worse result. This potential myopic view applies and expands as we consider the multi-enterprise BSC. Take caution to set the right targets giving full consideration to other organizations up-stream and down-stream.

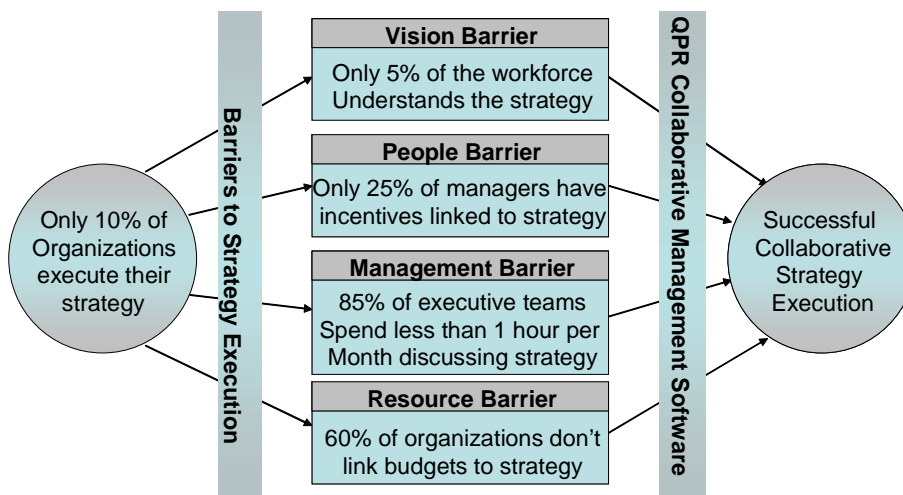
Data Management

In any performance management situation, data plays a critical part. During the 2001 IDC/Balanced Scorecard Collaborative Survey, “Complex data sourcing remained the single biggest challenge to automating the Balanced Scorecard (32% of respondents). In a multi-enterprise BSC, gaining access to this data is fundamental. BSC tools which are web-enabled and have import/export capability will help cross the chasm. The same tool resolves the corresponding data challenge, presenting information in a way that maximizes an understanding of the individual businesses as well as the supply chain. Such BSC tools will also aid in the issue of communicating with clarity to internal and external audiences.

Transparency

Effective enterprise-wide BSCs must allow for the participants to effortlessly move from big-picture analyses to organization-level details to facilitate proactive decision-making. Multi-enterprise BSC gains must optimize performance at every level of the enterprise. The enterprise will accomplish better decision making through consistent and visual business performance management. In order to manage the complexities involved - a high-performance, web-enabled software enabler may need to be considered. Collaboration software vendor, QPR suggests that a tool must empower collaborative management within and across organizations and should combine Performance and Process Management in order to overcome some of the more typical barriers.

Figure 4: Collaborative Software Enablement



In summary, building on the successful deployment of the BSC for a single-enterprise gives us the foundation to extend this methodology across supply chains for a multi-enterprise application. Sharing the wealth is an investment in your future. Keeping the above five considerations in mind should help ensure your success. And remember the words of Kaplan and Norton:

"If you can't measure it, you can't manage it."

About the authors

Douglas Kent, Director and CEO for eKNOWtion, provides clients a unique combination of advice from his 20+ years as a practitioner, consultant and educator. A frequent author and lecturer, Douglas also teaches Operations, Logistics and Supply Chain Management at the International University of Monaco and is a Certified SCOR trainer

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