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*“Simply, improvement...”*



# Identifying Measurements with a Balanced Scorecard

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*“No matter how many times you weigh the pig, it won’t get fatter.” [Anon.]*

## What should I measure?

We are asked regularly to help Project Sponsors, Managers and teams with their approach to measurement of improvement and benefits. For some reason people seem to find it hard to decide what they need to measure. The basic principle for choosing measurements is:

 First, decide what you’re trying to achieve, then decide what you need to measure

The point is that measurements should track achievement against your objectives; it’s not simply about identifying things you could measure. It’s also worth remembering the following rules:

-  Don’t identify a list of possible measurements unless you have a way of gathering and recording the data
-  Don’t gather the data unless you are going to analyse them to understand what they tell you about current performance, trends and variations
-  Don’t analyse the data unless you plan to act on the analysis to improve performance

This article is not about how to design or use a Balanced Scorecard, but it discusses how the framework can be used as a basis for deciding what to measure, for example when you are setting up a project. The approach is equally applicable to problem solving, improvement and innovation projects. Furthermore, the principles can be really helpful when thinking through and identifying possible benefits that might result from a project.

## Balanced Measurement

The Balanced Scorecard is a framework for performance management and one element of that is the identification of performance indicators (measurements). The “classic” Balanced Scorecard has four perspectives in which an organisation might set its objectives...



Using the framework at an organisational level requires a balanced set of objectives and measurements across all four perspectives, comprising both leading and lagging indicators.

However, at a much simpler level, it can also be used to help identify what you might need to measure for any project. It can provide a helpful “starter for ten” checklist covering all the main areas for potential measurements. Let’s look at each measurement area...

## Financial Measures

These, unsurprisingly, boil down to two main areas for measurement:

-  Revenue
-  Cost

Every other financial measure is really just a different way of stratifying one of these, or is a calculation based on them. Some examples:

	Example measurements	Example stratification or calculation
Revenue	Sales (£)	- By Customer, Segment, Market, Risk-exposure type
	Sales Growth Rate (£ p.a.)	- By Product, Service
Cost	Fixed, Variable (£)	- By Cost type
	Direct, Indirect (£)	- Per Unit, or per transaction

Profit		- As % of Revenue
	ROI, ROCE	- Working Capital ratios (Debtors, Creditors, Stocks, WIP)
	Cash-to-cash Cycle Time	- Payback, Rate of Return

So, most projects with financial objectives would need to measure either revenue, cost or profit benefits.

## Customer Measures

These are measures of “Effectiveness” – assessing whether or not you are doing the right thing, compared with Financial measures which are more likely to focus on “Efficiency” – doing things right.

The generic measures here are:

-  Customer Satisfaction (with product, service and relationship; including Complaints)
-  Customer Acquisition/Retention/Attrition
-  Customer (Market) Share
-  Reputation/Brand/Image
-  Product/Service Performance (e.g. vs. specification)

While many of the Customer Satisfaction and Reputation measures will often be perception-based, the majority of the others will be objective.

## Process Measures

Given that we have already covered cost in the Financial checklist and product/service quality is covered under Customers, the main areas for measurement here are:

Measurement type	Examples
Volume	<ul style="list-style-type: none"> <li>- Input volume (e.g. Demand)</li> <li>- Output volume (e.g. Yield)</li> <li>- Capacity/Throughput</li> </ul>

Time	<ul style="list-style-type: none"> <li>- Processing time (e.g. per step)</li> <li>- Cycle-time (e.g. end-to-end)</li> <li>- Response Time (e.g. Mean Time to Repair)</li> </ul>
Quality	<ul style="list-style-type: none"> <li>- Accuracy/Error Rate/Right First Time/Re-work/Mean Time Between Failures/DPMO</li> <li>- Process Capability/Sigma Level</li> </ul>

## Learning and Growth Measures

These measures relate to an organisation's capability to innovate, learn, grow and develop. There are four main areas for potential measurement:

-  People (satisfaction, motivation, alignment and capability)
-  Knowledge and Information (availability, usage, accuracy, security)
-  Technology (availability, usage, reliability)
-  Innovation (quantity, value, rate)

Many of the People measures will be perception-based, but the majority of the rest are likely to be objective.

## Using the framework

The four perspectives of the Balanced Scorecard provide an ideal starting point to consider what you might need to measure if you want to track improvement and benefits resulting from your projects. There is obviously a danger of trying to measure too many things and it is important to recognise that there is a cost associated with measurement.

Our advice to Project Managers is to try to focus on one or two key objectives, each of which must have a clearly defined means of measurement. A project's objectives should be SMART (Specific, Measureable, Achievable, Relevant and Time-bound); using the Scorecard framework helps make them measureable. There may be a wide range of other potential benefits expected from a project and it is essential to be realistic about what these might be, how they can be measured and how they will be realised. The range of other benefits expected from a project may well cover all four of the Scorecard perspectives. In summary, the Balanced Scorecard provides a useful framework to help project teams to identify their objectives and measurements, plus develop a clear understanding of the range of expected benefits.

## Our track record

Our consultants have been helping organisations in the private and public sectors to manage and improve their performance for nearly two decades. We have supported organisations with performance management (including Balanced Scorecard), process management and project management.

We are not wedded to a particular methodology. We help clients identify their improvement goals and then develop an approach to achieve these; invariably ensuring their people develop the skills to make further improvements themselves.

Please contact us for more information about how we can help you to manage and improve your performance.

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