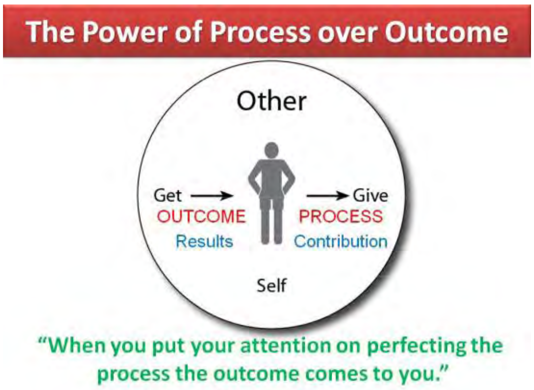
HUMANISING THE SCOREBOARD

In some people‟s minds the Care and Growth model suggests that “results don‟t matter”. This is absolutely not true. We are surely not playing the game devoid of any desire to win it!



The results, however, are a means not an end. They are a tool for perfecting the process on which the desired outcome depends. The results do this for us in two ways. Firstly they provide the context within which the contribution, necessary to deliver the desired results, can be clarified. Secondly the results serve to provide feedback on contribution made. As such, the results inform those making the contribution what they should be doing differently in the future, in order to realise a better result going forward.

Many organizations, however, do not capitalize on the results in this way. They produce scoreboards, initially, to align everyone in the organization to a set of goals. Thereafter they use the scoreboards, primarily, for evaluative purposes. They use the actual results achieved, in other words, as a means of assessing and rewarding past performance.

Those organizations, on the other hand, which have really benefitted from their scoreboards have understood and acted on the following five insights:

1. Scoreboards have limitations and can be misleading.
2. Scoreboards should primarily serve the needs of employees, especially those in the frontline of the business.
3. What you elect to measure is critically important because what you measure is what you get.
4. People will only be committed to achieving the results when they are co-designers of the results.
5. It is the „why‟ behind the score which is far more important than the score itself. This is because it is only when the „why‟ is understood that improved performance is enabled.

None of these insights are of course rocket science. In fact they are common sense. Taken together though, they ensure that the real purpose of the scoreboard is realized, namely to enable employee contribution.

SCOREBOARDS HAVE LIMITATIONS AND CAN BE MISLEADING

Scoreboards are limited by the fact that the actual scores on a scoreboard, the results achieved in a given timeframe, are by definition a measure of history. They are a combination of past contribution / what was done in the past and factors outside of peoples‟ control. What the actual scores don‟t tell is what is happening out there now, which will only evidence as a score on the scoreboard at some later date.

This was brought home to me when I walked into the office of a Section manager, an ambitious young MBA graduate. Every inch of the walls in his office were covered in graphs and diagrams. "Wow!" I said to him, "this is impressive, but why don't you just walk 200m down to the plant, if you want to get a grip on how things are going?"

Scores on a scoreboard can also be misleading as seen in the following example.

A Regional sales Manager, running an area where sales revenues were exceptionally good decided to visit one of his best customers. Her feedback on the technical support she received from his Company was lukewarm at best. She felt that there was considerable room for improvement in terms of responsiveness, technical expertise and frequency of customer visits.

It turned out that the Technical Representative in question was a keen surfer who spent more time on the ocean waves than with his customers. He had had little, if anything, to do with the customer's excellent sales performance.

For both these reasons a scoreboard can never be a substitute for „watching the game‟, for getting out there, seeing what is really going on, and therefore, what needs to be done to fix or improve it.

A useful analogy in this regard is coaching. The coach goes to the game on Saturday but his eyes are not on the scoreboard, as interested as he may be in the score. His attention is on the players, on how well they are playing the game and the effect that this is having on the score on the scoreboard. This is the vital information that the coach needs for the next week‟s practice session, when he does his real job of developing the team to play a better game on Saturday.

Good leaders are like good coaches. They spend considerable time, not in their office, but out in the field where the products are made, the service is delivered and potential customers are engaged.

They use the scoreboard, but only as a pointer for what they should go and look at or ask questions about. They do this because they know that the scoreboard never tells it all.

SCOREBOARDS SHOULD PRIMARILY SERVE THE NEEDS OF EMPLOYEES

Scoreboards should primarily serve the needs of employees. This is for the simple reason that the people who need to know the score, more than anyone else, are those who put the score on the scoreboard. The following story illustrates the point.

I was once invited to a cement factory where I was told that they had instilled an excellent performance management system. The first meeting I attended was a shift handover meeting at 05h30 in the factory. The meeting consisted of the operators reporting back the numbers from the night shift to management – volumes, efficiency, quality and the like. At 06h00 I witnessed a similar ritual but this time in the engineering workshops where again management took note of the metrics.

I was then ushered into the Operations Room and given a cup of tea while various members of management fed the numbers into their computers. The subsequent management meeting was a repeat of those earlier. It was essentially an exercise in gathering up the numbers.

At this point I requested a meeting with the Site Manager. His response, "I can't speak to you now, I have to get the figures through to Head Office before their 09h00 meetings!"

The image I was left with was that of a vacuum cleaner, sucking up the numbers rather than the dust from the floor. What, I wondered, did the people at Head Office actually DO with the information that hit their computer screens at precisely 09h00 each morning?

And this is not an isolated example. I know many managers who are stuck in their office feeding the insatiable information needs of those higher up in the hierarchy.

What "they" do with the information is often a mystery. It reminds me of the wonderful 1988 film "Pascali"s Island" in which Pascali, a spy for the Sultan, diligently sends weekly reports through to Constantinople for 20 years that nobody reads.

A recent experience I had in the United Kingdom could not have been more different. Management have invested considerable time and energy in installing an information system on each production line. Information pertaining to all the critical measures are there on the screen, in real time. What the system gives the operator is the means to make immediate changes to the process the instant he needs to do so.

The Shift Leader also has access to what is happening on each production line, as it is happening. This enables him to intervene on his shift where and when he can add the most value to those running the process.

Interestingly, the person who designed the system is a talented Industrial Engineer with a bent for information technology. In the true spirit of service he worked with the operators to really understand and deliver on their needs.
As for the Production Manager, it was a simple matter for him to collate the trends from the real time information on a weekly basis.

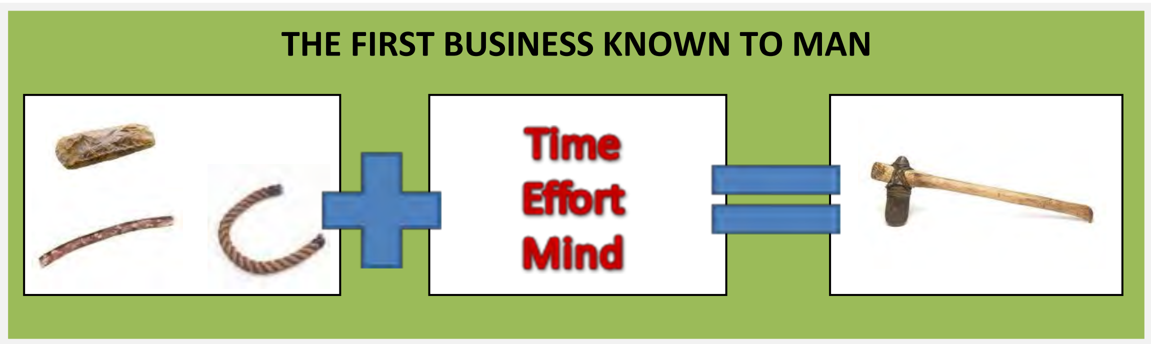
WHAT YOU ELECT TO MEASURE IS CRITICALLY IMPORTANT

It is true to say that how you score a game, most certainly, influences how the game is played. In rugby, for example, if the points awarded for a drop goal were twice those given for a try, the game as we know it would be very different.

The same is true of organizations, both at the level of the overall score and with respect to team / individual scoreboards. In all instances, what you measure has a significant impact on what you get.

- **<u>Measure of business performance</u>**

  The overall score which Schuitema advocates as the principle score for measuring the performance of an organization is that of the Value Added Statement (VAS). The VAS is one of the four approved accounting statements; the others being the Income Statement, the Balance Sheet and the Cash Flow Statement.
  The VAS (tongue in cheek) originated with the first business known to mankind.



A Neanderthal man found a stick, a stone and a piece of twine from which he furnished an axe – which he possibly then used to find himself a wife!

The difference between the stick, the stone, the piece of twine and the axe represents what the Neanderthal contributed. It denotes the value which he added to his raw materials; namely his time; his effort and his mind.

To take a slightly more modern example, a little old lady went to the market to buy a ball of wool. She knitted the wool into a jersey and sold it. She paid R100 for the wool and was paid R200 for the jersey. She, therefore, added R100 worth of value by her knitting.

The basic elements of the VAS, true of any business are therefore:

TURNOVER What the customer is prepared to pay based on the perceived value of the product / service.	**200**
OUTSIDE COSTS That which is paid to the external customers.	**100**
VALUE ADDED The difference between turnover and outside costs. The measure of wealth created.	**100**

Value Added is, in essence, a measure of what was given or contributed. As such, it puts into quantifiable terms what we believe to be the benevolent intent of any enterprise, namely, to make a contribution to a customer.

This is in sharp contrast to the conventional measure of business performance which is Gross Profit derived from the Company"s Income Statement or Profit and Loss Statement. Profit is a measure of what the Shareholders get.

To believe that this measure of success will motivate the employees in a business is at best naïve, at worst it renders them hostile to the business. And so it should, because it highlights the inherent inconsistency in calling on people to make an unconditional contribution to a customer, and then, to principally measure the performance of the business on the basis of the interests of the Shareholders.

The VAS, however, both measures wealth creation and how the wealth created was distributed among those who contributed to the value add. The percentages of value added which accrue to each contributor varies, but in a sustainable enterprise the distribution would be as shown below.

EMPLOYEES Salaries, Wages, Training and Benefits	**60%**
RESERVES Retained income and depreciation. Legally they belong to the Shareholders but are in all party‟s interests because they enable future trading.	**20%**
TAX For the provision of infrastructure which enables trade to happen.	**12%**
DIVIDEND The return of investment made by the Shareholders	**8%**

Noteworthy, in the first place, is the fact that what employees receive is not accounted for as a cost, but as a portion of value add. In most organizations, employees take the largest share of the value added, which is a just reflection of the fact that they are the biggest contributors to value add.
Secondly, the VAS places the interests of the Shareholder in perspective. It confirms the inappropriacy of measuring the success of the business on the basis of those who get the smallest part of the cake.

The problem with making the shareholder‟ interests prime is that it makes the Company „bottom line driven‟. It encourages a focus on cost reduction through, for example, employee retrenchments. In order to protect the Shareholder‟s interests, the interests of the other stakeholders are compromised.

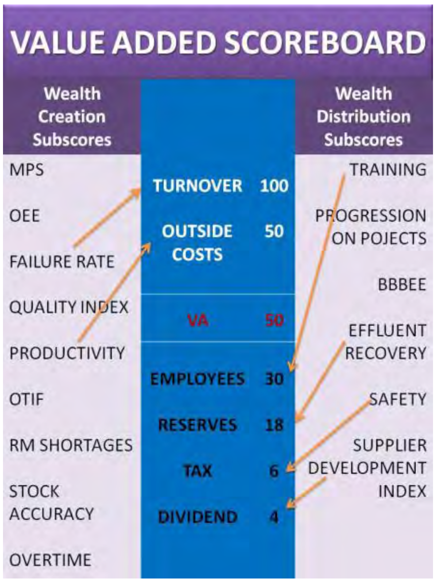
The VAS, on the other hand, makes a Company “top line driven‟. It creates a common purpose among all its stakeholders of adding more value by selling more, getting a better price or by reducing outside costs. A healthy value add, ensures a place in the sun for everybody, including the Shareholder.

Not in all cases, but in some companies that we have worked for, a consistent sharing of the Company‟s performance using the VAS, has led to increased maturity on behalf of it"s employees. It solicits contributory behavior because what is measured is just that, contribution.

In one instance, evidence that the Shareholder was not being paid a dividend, gave the union insight into why the business was under threat of a hostile takeover. The union played a key role in persuading the Competition Tribunal to rule against the purchase of the Company.
In another Company, employees showed concern for their disproportionate size of wealth created (85%). They provided valuable input to management and worked with them on ways to both increase revenue and reduce outside costs.

Most Companies, however, are seemingly reluctant to use the VAS as the primary measure of enterprise performance. If they do use the VAS, it is often as an addendum to the Balance Sheet and the Income Statement in the Company"s Annual Report.
There could be many reasons for this. Perhaps they see the VAS as too simple, even though it is constructed from the same figures as the Profit and Loss statement. Perhaps they are not comfortable sharing the wealth distribution part of the statement. This was certainly our experience with a client in India. Or perhaps, although their mantra to employees is that "we are all here to serve the customer", their true belief is that "we are here to maximize the return to the shareholder." Old habits die hard!

- **<u>Measure for teams and individuals</u>**

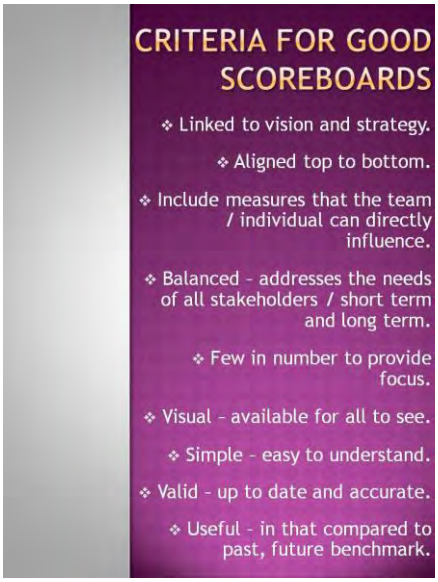


There are various methodologies for determining appropriate measures of key performance indicators for a team or individual scorecard. The Balance Scorecard methodology is one of these. The method we prefer is a simple one which uses as its spine the Company"s VAS.

The wealth creation sub scores pertain to the results which, if achieved, will positively impact on the value added of the Company. The wealth distribution sub scores, on the other hand, relate to the key variables that affect the sustainability of the organization.
The value of deriving sub scores in this manner is that they produce a clear line of sight or golden thread between contribution and ultimately the overall performance of the organization. It enables a scheduler of delivery vehicles, for example, to see quite clearly how a poor schedule impacts

on OTIF (on time in full delivery), which in turn increases delivery costs and ultimately could lead to a loss of customers and hence reduction in turnover.

A well designed scoreboard satisfies all of the criteria for good scoreboards as shown below.



Unfortunately though, many of the scoreboards that I have been shown contravene one or more of these criteria. Often, there are just too many measures. In an attempt to cover all the bases, the 20% of the results, which make 80% of the difference, get lost in the multitude of metrics.

Many of the measures are also too complex. They are derived using complicated formulae (TRIR or the Quality Threshold Model Index) which, when you probe a little, are not fully understood by those whose job it is to improve them.

Lastly, there is a tendency to contravene the rule „that which is measured is only what the team / individual can directly influence‟. It is clearly disempowering to hold people accountable for that which they can do nothing about.

The key weakness though, that I see in most scoreboards is the predominance of measures of output, to the detriment of input measures. Johan Southey, a frequent contributor to the Schuitema Blog (www.schuitema.co.za) recently posted an excellent piece on this issue which he entitled "Carbon Fibre, Sweat and Management Theory". He uses his weekend pastime of cycling to make his point.

Apparently, there is only one output of importance in cycling and that is average speed. The cyclist with the highest average speed wins the race. What determines average speed however is a combination of watts and cadence exerted by the cyclist‟s legs on the pedals. Serious cyclists track watts and cadence. Average speed is measured at less frequent intervals, purely to make decisions on whether or not to make changes to these determining inputs. Clearly, if what improves outcome is process, then what you need to measure is not only outcome but also process.

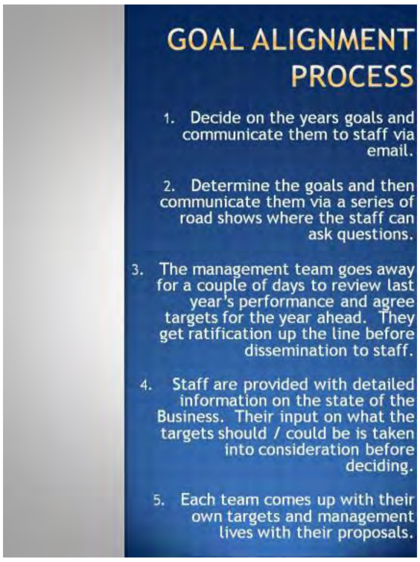
A client of ours did just that to effect a dramatic change improvement in safety performance. Traditionally they measured and reported on a „number of serious accidents‟, „fatalities‟ and „disabling and lost time injury rates‟. They kept these output measures but added others like „reduction on risk scores of specific tasks‟, „adherence to housekeeping standards‟ and „ time spent by management on the floor‟. This is where their primary attention was focused. This is what gave them their desired safety performance.

PEOPLE WILL ONLY BE COMMITTED TO ACHIEVING THE RESULTS WHEN THEY ARE CO DESIGNERS OF THE RESULTS

The design process itself is a further critical factor in the successful use of scoreboards. The early generation of Balanced Scoreboards, were often designed remotely by consultants. Managers did not trust, and so failed to engage with and use the measures. They simply viewed them as being created by people who lacked in depth knowledge of the organization and managerial responsibility for the results.

In a big retail bank, a central unit was set up tasked with the design of scoreboards for their Branch Banking network using a sophisticated linkage model. All Branches across the Country were measured on the same set of metrics and ranked according to a numerical total score. This provided management with a single ruler to compare Branch performance across all the Branches in the Business.
One Branch Manager complained bitterly to me of the imposed target that she had to meet for student loans. Her Branch, you see, was situated in an industrial area, kilometers away from the city‟s educational institutions.

Similarly, the management on a mine were severely demotivated by annual targets given to them by Head Office. Their failure to achieve the stretch targets that they had been given meant that they had not received a bonus in the last three years. The metal recovery rate, the key measure was, in their view, a function of over optimistic projections by geologists when the mine was initially started. Nevertheless, they continued to work against targets, which experience had shown, were well beyond their reach. No wonder they were lacking in motivation.

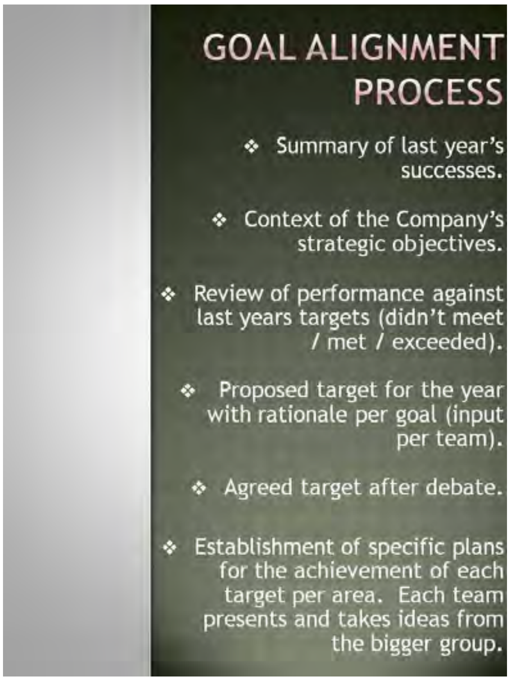


One could argue that the appropriate process for establishing a set of measurable goals for a defined period should be a function of employee maturity. The diagram (on the left) depicts some alternatives, in descending order of least to most empowering.

I think there is considerable merit in this argument. To shift from Options 1 or 2 to Options 4 or 5 in a single leap is hardly consistent with the spirit of the Care and Growth Model‟s 3rd Axiom; namely that "empowerment implies the incremental suspension of control."

Nevertheless, it is clear that the more those tasked with delivery of a set of results are co-designers of the results, the more likely they are to be committed to their achievement.

One of our clients instituted an annual planning or goal alignment process which followed the format shown below.



The process took some time and involved everyone in the management hierarchy. Thereafter, each team leader took a further day with their teams to finalise the plans for their section. Interestingly, the proposed and agreed targets were often not the same. In some instances, the information exchange led to a less than initially proposed target. In other instances, the often very heated debate, led to a target more challenging than initially proposed.
What impressed me most about the process, however, was the follow through in terms of specific plans for the achievement of each target. Targets are all well and good but without clarity on what has to happen to achieve them, they remain empty goals. Setting a new goal for a marathon time, for example, and yet following the same training programme as last time is an unlikely recipe for success.

THE 'WHY' BEHIND THE SCORE.

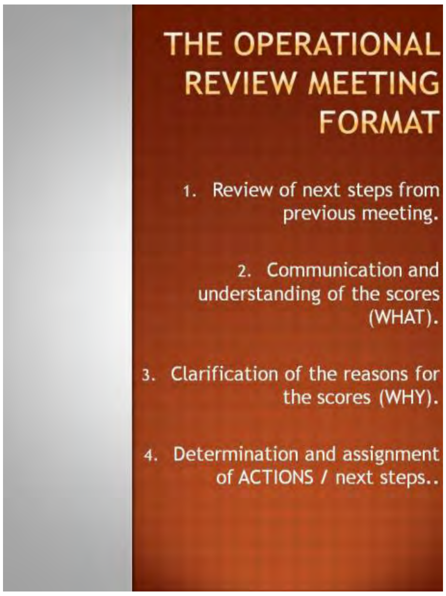
To make the spine of team / individual review process the scoreboard is absolutely correct. From my experience the critical step of establishing the „why" behind the scores, however, is often missing or poorly done in both team and individual review meetings.

- **<u>Operation Team Review Meetings</u>**
  An example which springs to mind is that of a food company in South Africa, whose products adorn the shelves of all major supermarkets in the country.

They have instituted a review process, which they call Invocoms, at both their mills and their bakeries. At every level the meeting follows a very structured format – a looking back (what results were achieved) and a looking forward (what results are needed going forward). Depending on level the meetings are daily, weekly or monthly.

At the start of the meeting the actual performance achieved since the last meeting is displayed and good / bad performance denoted by icons on the board (green or red smiley faces). The results required between now and the next meeting are also clarified and improvements which need to be made emphasized.
There are other agenda items but this is the essence of the meetings.

In Schuitema"s view effective operational meetings need to follow the following steps as shown below.



A report back on next steps from the previous meeting (REVIEW) must happen but should be sharp and to the point. Was the agreed action done by the person accountable for doing so – yes/no? Should the next step not have been done, and the person had the means and ability to do it, they should be held to account. The temptation to simply roll the action over for completion at the next meeting should be avoided, since this breeds a culture of non accountability and mediocrity in the organization.

Not every score should be reviewed at every meeting since the frequency of review should vary depending on the nature of the score. The focus should, in any case, be on the "outliers"; <u>both</u> the positive and negative exceptions. For each exception WHAT accounts for the score needs to be clear. For example, a poor FTR score was the result of two batches which were delayed for 48 hours in the Bulk plant.

The WHAT also needs to include the effect of the score on other scores on the scoreboard (e.g. the effect of a reject batch highlighted in the quality score on other scores like delivery and productivity). It also needs to include the impact that the score has on the value added statement (e.g. the effect of the reject batch on sales and outside costs). Time spent on the WHAT is not wasted. It provides an increasingly clear line of sight between contribution / what is done and its effect on wealth creation and organizational capability.

Clarification of the reasons for the scores (the WHY), however, should be the "meat" of the operational review meeting. This should be reflected in the amount of time dedicated to the WHY in the meeting. As a rule of thumb 20% of time should be spent on review of next steps and communication of the scores and 80% on understanding the why and agreeing future actions.

The members of the team who have exceptions in their area of responsibility (significant negative or positive scores) should deliver a diagnostic on the score at the meeting. The diagnostic (the WHY) should get behind the score (the WHAT) to ascertain what was done / not done which caused the exception. A further questioning of the WHY behind what was done / not done reveals the root cause(s) for the exception categorized as means, ability and accountability reasons. Failure to get to the „WHY" behind the score leads to remedial actions which deal with the symptom rather than the cause. As a consequence the exception comes back / the score repeats itself.

The agreed ACTIONS should then be focused on addressing the means, ability and accountability issues identified during the reflective past of the meeting. Each action needs to be assigned to a specific individual with an agreed completion date.

Finally, it is useful to add an additional agenda item (FOCUS REVIEW) at the end of specified operational meetings, which ensures that the team breaks out of its ongoing review cycle at appropriate intervals. While the routine operational review meeting provides the opportunity to review progress against the team"s objectives, the FOCUS REVIEW provides designated occasions during which the team can change its mind with regard to what its objectives should be.
The focus review discussion should lead to a determination of what is now important and therefore what the team needs to give attention to in the future. Thereafter, to agreement on which scores / measures on the scoreboard need to change to reflect the change in focus.

Both the scores on the left and the right of the VAS need to be reviewed asking the following:

- Are we focusing on improvements which if successful will enable us to increase sales, increase prices and reduce costs? (Wealth creation).

- Are we focusing on improvements which will build organizational capability and ensure that the legitimate expectations of all stakeholders are met (Wealth distribution).

Clearly, the outcome of the review will be unlikely to lead to a totally new set of measures. This is because many of the issues will continue to be important and to require attention on an ongoing basis. However, unless some new or different measures are determined the team will become frozen in time, out of touch with changes in their environment and stop growing.

- **Individual Review Meeting**

Similarly, in the individual review discussion, it is the WHY which often gets short changed, as the example below illustrates:

The review that I sat in on took place between a manager and a sales supervisor in an insurance company. An updated scoreboard sat on the table between the two parties. Sales revenue was good but the manager's concern, highlighted in red, was the policy lapse rate. Apparently policies were sold, payments made for a few months and then payments lapsed, which in effect rendered a percentage of recorded sales redundant. The manager made it clear that the current lapse rate was unacceptable and that something needed to be done urgently to address the problem. Before he shifted attention to another score I asked the following.

- *"WHY is the lapse rate so high?" – Because the sales people sign up clients, knowing that they can't afford the policy, in order to make their monthly targets.*
- *"If the Team Leader knows this WHY does she not intervene?" – Because she is too soft and doesn't want to confront her sales people.*
- *"So WHY don't you make holding her sales people who are doing this accountable an action which you will hold her accountable for at your next review?"*

"That's a good idea", he said.

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The outcome of any individual review discussion should be agreed actions which enable the subordinate‟s enhanced contribution, growth and accountability going forward. The WHAT has been achieved, both in terms of results and contribution, should have been established beforehand. 80% of the meeting should be on the „WHY‟ (means, ability, accountability issues) which sit behind the „WHAT‟ (results/contribution). The discussion will then deliver a set of actions which will address means deficiencies, enhance ability or, in the example above, cultivate accountability.

HOW A COMPANY HUMANISED THEIR SCOREBOARDS.

Over the years there is one Company that stands out for me as having successfully used the results as the means to the end of enhanced employee contribution. This Company had not performed well for several years. Their continued existence relied on the fact that they made a contribution to Group overheads and, despite efforts, no buyer for the Company had come forward with an acceptable offer.

The Company had also never shared business information with all employees on a regular basis, below the level of senior management. They decided that this was one of the things that needed to change if they were to engage employees‟ willing contribution to improve the state of the business.

The process began with the CEO sharing the finances of the business with all ±450 employees. He did this in small groups of 40-50 employees at a time and the format he used was the Value Added Statement.

Attendance at these sessions was voluntary and the first attempt realized minimal interest. The CEO returned to the locality and tried again next week. With each subsequent quarterly session attendance and participation increased as employees began to ask questions.

After several months Value Added Workshops were run for everyone in the business. These sessions served to explain to employees how wealth was created and distributed in their Company. The workshops were facilitated by senior managers, not by the training function.
As employees understanding of the numbers increased, employees began to contribute ideas for improving the state of the business. The lukewarm response of employees to the numbers at the outset was totally understandable. "They are telling us this so that we will accept low increases at year end or, worse still, to prepare us for retrenchments." Employees began to really trust the figures, and the management that shared them with them, only when the business broke even, then made a profit and the sharing of the numbers continued.

Scoreboards were put in place and operational review meetings instituted. I attended a meeting on the sales side of the business. The sales figures had been sent out 24 hours before the meeting to everyone who was attending. There was a brief period allowed at the start of the meeting for clarification of the figures. Thereafter each team member explained the reasons for exceptions in their area and asked colleagues for their ideas on how to improve the results in their area.
Not only was everyone in the meeting engaged throughout but there was a most useful exchange of learnings among participants. The focus of the meeting was on using the history reflected in the scoreboard to improve the way forward. The

outcome of the meeting was a definite sense of accountability with each member. For the leader of the team, the meeting served an additional function. It informed him as to the "watching the game" activities that he needed to carry out before the next meeting.

Getting operational review meetings to really serve the needs of those attending them takes practice. I knew that the Company had really been through the learning curve when I eavesdropped on a morning meeting in one of the plants. One of the operators presented the numbers on a flipchart. She pointed to the low production figure and announced "this is primarily due to absenteeism". She then addressed an individual in the group saying "and you are the key problem. Until you sort yourself out, this poor result will continue!" The man in question hid his face in shame.
Interestingly the foreman was not present at the meeting. When I asked him why he said "these are their results not mine. I pop in once or twice a week but as an observer, not to run the meeting."

There is indeed great power in the numbers. Whether the power in the numbers is realized, however, is a function of how the numbers are used. Only when the primary purpose of the numbers is to enable those, whom businesses depend on to produce the numbers, will the full potency of the numbers be achieved.