Competitive Solutions Inc.

Guide to Business Scorecard Fundamentals

Building an Effective Scorecard Process

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"The advantage of PBL Scorecard over Excel spreadsheets is that it not only tracks business metrics, but it's also a one-stop manager of meeting agendas, minutes and monitoring team action register."

The Kroger Company

"The use of PBL in all of or meetings has increased the level of employee engagement throughout the organization. All employees are staying informed of the status of all metrics on their team's scorecard, as well as the Site's scorecard. Information is now routinely passed down, across, and up the organizational chain. PBL is certainly helping us change our culture, for the better, and we all know how difficult it is to change the culture of an organization."

BAE Systems

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Introduction

You may have heard some version of the standard performance measurement clichés: “what gets measured gets done”; “if you can’t recognize success, you can’t learn from it”; “if you can’t recognize failure, you can’t correct it”; but what escapes many of us is the easy path to identifying truly strategic measurements without falling back on things that are easier to measure such as input, project or operational process measurements.

Key Performance Indicators (KPIs) are commonly used to help organizations effectively manage and guide their progress. The concept of key performance indicators and a business scorecard is to align workers’ performance with the long-term strategic objectives of the organization. Like a compass, the key performance indicators help you determine if you are moving in the right direction.

This publication discusses the practical aspects of transparent corporate reporting, engaging the organization through repeatable and sustainable processes, creating a culture of ownership and accountability and establishing a communication rhythm that keeps staff information and connected to the business.

This publication also draws on the wealth of expertise and experience that Competitive Solutions, Inc. has gained from the many years of working with organizations across numerous vertical markets in both the corporate and government sectors.

As a result, we seek to illustrate what to consider when developing KPI’s, what good reporting of KPI’s looks like and how data is only one tool drive organizational performance. The practical examples included herein show how companies are bringing data to life and changing culture to achieve their chosen strategy.

"**EFFICIENCY** is doing THINGS RIGHT

EFFECTIVENESS is doing the RIGHT THINGS"

Peter Drucker

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Why Scorecards?

Educate, Facilitate and Motivate

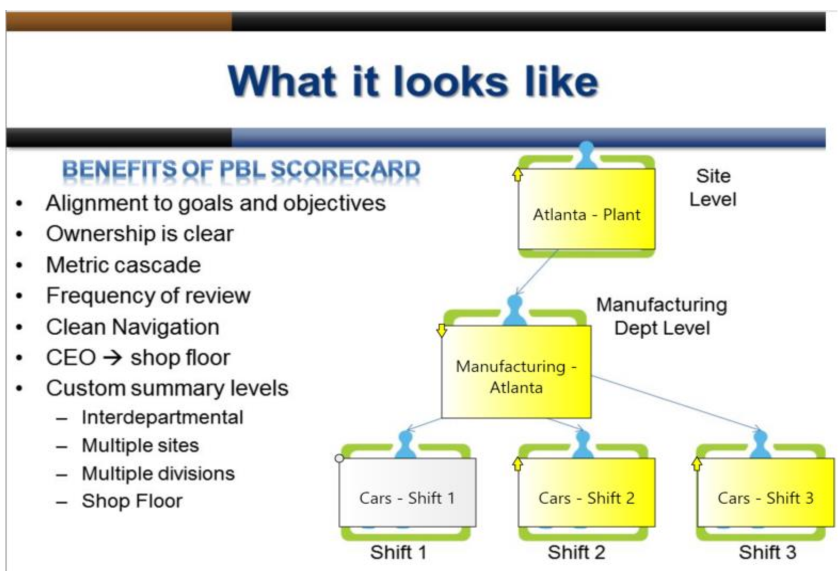
'95% of the typical workforce does not understand its organizational strategy[1]', which tells us that employees are not connected to the business. They have very little, if any knowledge, about the basics of business performance in their area or the overall organization. What this can lead to is employees not being able to understand if the business unit is winning or losing or how they contribute to the overall success of the organization.

Business Metrics or Key Performance Indicators (KPI's) give organizations the ability to make the critical and timely decisions needed to advance the business forward. A robust metric system links business scorecards with a structured communication process and accountability system. These systems are integrated to give an organization the opportunity to not only monitor how the business is performing, but lets the leaders take control to drive results. By linking to strategic objectives, a business scorecard system tactically deploys strategic initiatives throughout any organization!

World Class Organizations view business scorecards as a thermostat. They react to the temperature of the business by making the necessary adjustments through corrective action plans. The organizations adjust the temperature of the business by reacting immediately to performance indicators below target, instead of waiting for the number to change over time.

"Think of business as a ball game. If you want to know who won the game, look at the scoreboard. But, if you are the losing team and want to win the next game, you can't get better by watching the scoreboard. You have to focus on improving your batting, pitching, fielding and catching…"

- Gary Zeune



[1]Balance Scorecard Institute

Competitive Solutions, Inc. (CSI) believes that to develop and implement a successful business scorecard process, an organization needs to create, document and audit critical business systems that support this new culture. We have witnessed firsthand, organizations failing to view business scorecards as a key business process, which inhibits organizational growth and operating performance. While there is significant data available to help build data insights and substantial amounts of time and money can be spent creating employee engagement, until an organization embraces the view that scorecards are a key business process, promoted by senior organizational leaders and sustained with core business processes, this trend will continue.

Connecting people to the business is accomplished through the creation of business goals or KPI's that are tracked in a scorecard format. This system ensures a direct link between the overall company or facility goals and the department and functional objectives as they cascade throughout the organization. The business scorecard supports management through process by holding all employees accountable for attainment of team goals.

The scorecard can be used to **educate, facilitate and motivate** the organization.

Educate Employees
Many employees feel disconnected from the business. They do not know if their business unit is winning or losing the game. The scorecard, when properly used, educates the business unit on their performance as well as organizational performance. It also provides a common business language for the organization.

Facilitate Meetings
Many people go into a meeting with the lack of understanding what their role is or expected participation, expecting the meeting to be the same old thing, or using it as a break from the monotony of the day. The learned behavioral expectation in many organizations is that nothing will be accomplished and a waste of time. With the scorecard for the business unit visibly displayed, you set the tone for the meeting discussion. Clear agendas and roles then help focus the conversation on moving the business forward.

Motivate Continuous Improvement
Upon review of the scorecard, team members automatically turn to an action plan to record actions that individuals will take to correct performance not achieving target. With the action description clearly written, the action assigned to appropriate individual, and action owner agreeing to a target date for completion, team members walk out of a meeting understanding expectations and assuming responsibility. When all action plans are reviewed with the entire team, the team remains informed and educated.

Business Scorecards – Thermostat or Thermometer

Why establish a scorecard process?

Many organizations that we engage with utilize tools such as Excel to report data on a department or organizational level. The information is typically static, discussed by the area leader and takes considerable time and effort by the staff to prepare.

When organizations begin their journey of shaping data into metrics or KPI's, many take the shortcut to report information that is easy to get, shows a positive picture of performance or highlights tasks to accomplish. What they lose sight of or do not know how to develop is meaningful metrics that identify the true health of the business, are actionable by the person/team reporting the information and connected to the strategic goals of the organization.

The challenge here is how to develop effective scorecards that:

- Track business results
- Establish a common business language
- Drive accountability at all levels
- Establish priorities that link to strategic objectives
- Equip leaders with an integrated tool to make timely and informed decisions
- Increase employee engagement

Track business results

Helping your staff, management and organization understand the key performance measures is critical to transparency.

When determining which KPIs to report, you need to consider how they align to the business, does the KPI give you insight to performance, is the KPI a historical (lagging) indicator or a predictor (leading) of future performance and is the KPI in the sphere of influence for the person reporting the information.

In addition, determining the right number of KPIs to track can sometimes be difficult. As guidance, your scorecard should contain no more than eight to ten measures.

Establish a common business language	A common cause of confusion is having the same type of KPI defined and captured differently throughout the organization. As an example, if the goal is to report the number of recordable incidents. One team writes the KPI as # of Recordables, another team writes the KPI as % of Recordables and a third team writes the KPI as # of Incidents. The challenges that this approach takes are numerous.	• Does the metric mean the same thing? • How does the data roll-up to the next level • What are the leaders holding their people accountable to? Aligning your scorecards across the organization helps prevent the confusion, creates the constancy in what staff is accountable for and reduce the time required to create management roll-ups.
Drive accountability at all levels	The reporting of KPI information gives leaders insights in business performance. However, how and what the leader chooses to do with that information is as critical to the data itself. When creating your scorecard process, you need to determine the processes each KPI owner must follow when their metric is not meeting its target and make that	Information visible and transparent during team meetings. By linking corrective actions with metric performance in a visual format, leaders can quickly ascertain how the team is performing, what KPIs need focus and what activities are underway for those that are underperforming.
Establish priorities that link to strategic objectives	Three great statistics highlight the challenges that organizations face today when attempting to implement strategic KPIs driven down to the tactical level. • 90% of organizations fail to execute their strategies successfully[2] • 86% of executive teams spend less than one hour per month discussing strategy[2] • 70% of organizations do not link middle management incentives to strategy[2] Therefore, what does this tell us? While there is great intent when establishing strategic goals, the	Implementation of those goals throughout the organization (tactical level) fail more than they succeed. To help overcome this, communicate the strategic objectives and create a process whereby each scorecard follows a structured format that ties back to the strategic objectives. Some organizations may call these 'strategic pillars' or 'key focus areas', but having these key categories on each scorecard challenges the organization to consider how their work directly influences the overall organization and how their activities help drive better results.

[2]**Balance Scorecard Institute**

Equip leaders with an integrated tool to make real-time decisions

When it comes to improving your business, knowing is half the battle. Taking action is the other half.

Many leaders today use spreadsheets or business intelligence tools to manage business performance. While this may be great tools, we continually hear issues about data integrity, the time and effort required to maintain complex formulas, the lack of controls available in spreadsheets and these tools don't change accountability.

Leaders need a tool that allows them to visually see KPI performance, provide a quick-at-a-glance view so they can focus on areas of opportunity and finally a way to see what corrective actions are positively or negatively influencing results.

Leaders also need to understand when to measure the KPI performance. All too often, we see organizations measuring quarterly when data is available weekly or measuring weekly and holding monthly meetings. Synchronize your activities so data is reviewed and discussed in the frequency that allows for the greatest change during the year.

Increase employee engagement

As mentioned earlier in this document, a majority of staff today do not understand how their role connects to the team and/or organizational performance.

There are several key reasons why we hear this issue exists. Organizational strategy is not communicated effectively below the executive level, scorecards being used as 'report outs' by management and KPIs not accurately reflecting the work effort by the staff are the most common ones.

In order to address this issue and reconnect employees to the business, we believe there are several steps that need to occur.

1. Engage your staff when developing the metrics for their area of the business. By engaging employees in the beginning, they have the opportunity to contribute valuable insight and have their voice is heard.
2. When identifying the KPI owner, challenge each member of the team to take ownership of at least one KPI on the scorecard. With this approach, you transition from 'report out' by the leader to engagement by the employee as they become responsible and accountable for communicating performance.
3. Have the scorecards structured so KPIs are aligned and linked back to strategic goals. This helps the employee understand how their actions influence the key focus areas that are most important to the executive team.

Building your business scorecard

What makes a good metric?

As we engage with organizations to develop effective performance indicators, the same questions keep arising around KPIs. In this section, we answer each in turn.

What is ‘key’?

The starting point for choosing which performance indicators are key to a particular organization should be those that the senior leadership / executive team use to manage the business. With the understanding of the key focus areas of management, the organization can now develop KPIs that align with and help influence positive business results.

For example, if the senior leadership team focuses on customer satisfaction, each area of the business needs to consider KPIs that deliver against this goal. Whether it be internal or external customer satisfaction, every part of the organization has a customer. When this doesn’t happen, the organization becomes misaligned and employees confused on how they are contributing to organization success.

However, this should not preclude an area of the business from adding KPIs that are specific to their area of operation. It is critical that the blending of strategic and tactical performance indicators on the scorecard deliver a complete picture that employees can connect with and leaders can manage to.

As you work to develop your performance indicators ask these questions;

- Is the KPI pertinent?
- Is the KPI Objective?
- Is the KPI Forward Looking?
- Is the KPI Actionable?
- Is the KPI timely?
- Is the KPI affordable?
- Is the KPI credible?

How many KPIs?

Each organization is unique and the number of key performance measures can vary by level within the organization.

The executive team will tend to have fewer performance measures versus a specific area of the business, which may need to track additional measures. However, our experience suggests that between eight to ten measures are optimal and most likely the key business indicators for performance health.

What is right frequency to measure?	When determining the frequency of the measure, you need to consider: • How is the data captured today? - manual or electronic • At what frequency is the data is available? – are reports generated only once a month • How expensive is it to capture the data? – while there may be the desire to report weekly, the investment cost to capture the information at this frequency may be prohibitive • When do you meet to talk about the information? – capturing data weekly and meeting monthly loses the value of information	This is also a starting point. As you become more efficient, the frequency of the measure can change. The key here is to give yourself enough opportunity to adjust during the year, understand where your data is coming from and develop a process that synchronizes data capture with data discussion. The area to avoid is capturing data on an infrequent basis and not giving yourself the opportunity to make course corrections before the annual objective is missed.
How flexible should the targets be?	The targets you establish for your performance measures are goals to accomplish. With many organizations, these goals are established at the end of the prior year or beginning of the new year and remain in static throughout the fiscal year. One the drawbacks to this approach is helping your staff feel successful while working towards your annual objectives. If you have a performance measure that needs significant improvement,	one alternative is to establish interim goals 'glide paths' that the staff works towards. With these interim goals, employees can achieve short-term wins as you move along the improvement scale. These short-term wins translate to higher employee engagement, as there is a level of self-accomplishment. Targets are also targets. They should be re-evaluated on a regular basis as the business demands are fluid and you need to adjust accordingly.
How rigid is the choice of KPIs?	Your business is changing, your market demands are changing and the expectations on higher performance continue to increase. If you establish performance indicators and realign the information annually, you may have lost the opportunity to course correct and drive higher business results. We believe that quarterly evaluations of your	performance measures and goals is necessary to ensure that you are meeting these changing dynamics. As part of your review, evaluate if the performance indicator is still adding value, is it relevant based upon current business activities, can the goal be more aggressive to drive continuous improvement and is the assigned metric owner still able to influence performance.

How do you create accountability?

There are many great examples of key performance measures being reported in scorecards, executive dashboards and business intelligence formats.

This rich data helps leaders understand business performance and in some instances predict future outcomes. However, what many organizations fail to accomplish and what this approach is missing is what you are doing with the information when those targets are missed.

As part of any business scorecard process, the introduction of a corrective action process that is tied directly to the performance indicator and visible for all to see is critical. With a corrective action planning process that is linked and visible, you establish the behavioral expectations on how the KPI owner should operate when their performance indicator is underperforming.

What this allows leaders accomplish is focus on the areas of opportunity, engage the staff on what actions are being taken to move the indicator in the right direction and creates a foundation of expectations on how the business operates.

Summary

When discussing scorecards, many leaders make the mistake of only looking at the end-result. The failure to create the framework that reviews results, focuses on accountability, standardizes the conversation and continually adapts to the changing business landscape often results in an organization continuing to operate in a "blame" mode. Without these processes in place, you are at risk of the workforce viewing your initiative as a lack of true commitment to the culture that management is seeking to create.

Organizations that establish a business scorecard system that promotes and sustains the culture described below, see significant improvement to business results by focusing the organization, holding individuals accountable for performance and continually adjusting as the business dictates.

Benefits of Business Scorecards

1. A clear and concise source of business knowledge and focus
2. Creates a sense of urgency through attitude and action to support the business focus
3. Visible and auditable accountability systems essential in sustaining business acumen

We believe that the process by which you achieve and sustain a scorecard system builds the foundation for all future endeavors!

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Agrium Case Study

Agrium Inc. is a major retail supplier of agricultural products and services in North America, South America and Australia and a wholesale producer and marketer of all three major agricultural nutrients and a supplier of specialty fertilizers in North America.

Agrium was founded as Cominco Fertilizers, Limited (short for Consolidated Mining and Smelting Company Limited [2]) in 1931 and changed its name to Agrium, Incorporated in 1995. Agrium is headquartered in Calgary, Canada. **Crop Production Services, Inc.**, a subsidiary company, is based in Loveland, Colorado and is the location of Agrium's Retail Business Unit head office. The company is a part owner of Canpotex, which manages all potash exporting from Saskatchewan.

Agrium, operating through three segments; Retail, Wholesale and Advanced Technologies, is a multinational organization with over 10,000 employees, and has grown aggressively over the past decade with multiple mergers and acquisitions.

The Challenge

Inherent with rapid growth through acquisitions, is the challenge of bringing together diverse individual company cultures under one company banner. As a large organization with a long and rich history, Agrium is no exception. As they grew rapidly through mergers and acquisitions, they came to the realization for the need to define an Agrium-centric "how we do business" way of operating to supplant the incumbent local cultures at the various, newly acquired locations.

"We really struggled with alignment as an organization. There was a lot of confusion; people did not understand why we had certain priorities and how they fit in. Everyone had a very general idea of what was important, but we were not consistent in our execution." **TJ Heidrick, Manager of Manufacturing Special Projects**

To best understand their challenges, Agrium Wholesale enlisted CSI to conduct an assessment including interviews with members of the Executive Team, Plant Management, Operations, Maintenance, HR, Finance, Sales, and Marketing. Results showed random pockets of excellence, strengths in one location were liabilities in others, no sharing of best practices, no cross-functional collaboration, major difficulties in communication, and a general disconnect caused by too many conflicting messages and initiatives coming from senior leadership.

Core Areas in Need of Development:

1. **Communication.**
   a. Employees believe that communication with their managers has been lost, especially when managers travel more than 50% of the time.
   b. Many employees report an overuse and/or misuse of meetings.
   c. Employees struggle with information overload and knowing what is most important and relevant – email use being a major culprit.
2. **Business Focus.**
   a. Some metrics and scorecards are in use, however, there is a lack of consistent use and consistent application of the scorecards across departments, levels and locations; all appear to be utilized independently.
   b. Too many concurrent, conflicting initiatives, making prioritization difficult for employees.
   c. Employees are unable to see the big picture due to a shortsighted, reactionary culture.
3. **Decision Making.**
   a. Higher-level personnel tend to over-analyze and get caught up in the details, making it more difficult to come to a decision.
   b. Sometimes decisions are made at the wrong level, while other times too much second-guessing occurs, leading to micromanagement and lack of true empowerment for employees.
4. **Accountability.**
   a. Many tasks go incomplete because of varying approaches to decision-making.
   b. Too often accountability is based on feelings, rather than actionable, outcome based discussions.
5. **Culture and Behaviors.**
   a. Most managers are burdened with so many administrative duties that they are unable to be with their team and support their efforts in hitting goals, so they resort to firefighting (reactive) efforts.
   b. There are major differences from one site to the next with regard to empowerment and autonomy.
   c. Some people feel micromanaged, while others have total freedom to make decisions.

The Solution

Following a full analysis of assessment data and a debrief with Agrium senior leaders, CSI worked closely with the senior leadership team in the development and refinement of the Agrium PBL Process Implementation Plan. From this Plan came the roadmap for cultural change level-by-level with regard to how expectations will be set, how leadership will communicate, how performance will be monitored, and how everyone will adhere to minimum standards for engagement. Beginning with the Wholesale Manufacturing Senior Leadership Team, Agrium cascaded implementation of culture-shifting communication processes, accountability systems, behavioral expectation standards, and performance management solutions driven by business scorecards.

"Once we began operating with these new non-negotiable standards, we were no longer caught wondering if we were moving the business forward. We could see it in hard data – metrics, targets, and actions that everyone understands." **Trevor Williams, General Manager of Canadian Nitrogen Operations**

The Results

1. Commitment driven by non-negotiable processes and mentality
2. New terminology and follow through regarding taking action
3. Weekly scorecard reviews provide clearer focus
4. Quarterly metric and action trend reviews
5. Clearer definitions for what “success” looks like
6. Alignment from top to bottom
7. Increased communication of successes
8. Authentic, sincere approach to recognizing people who drive improvements

Measurable Improvements

1. Culture changing to one of more focus on bottom line business results and continuous improvement
2. Noticeable improvements in communication, both horizontally and vertically
3. Increase in prevention of safety issues
4. Business dashboards and scorecards provide ways to be open and honest about performance, then link to a process that drives accountability. This has led to better understanding of and focus on key business focus areas
5. Successes are being recognized and communicated creating a more positive work environment and reinforcing an Agrium-centric culture

“The ability to execute on our strategy is of critical importance to success and everyone’s contribution is extremely valuable. When we started this, we had some great people. We can now honestly say that we have a great team, supported by a great process across the leadership of the entire organization – and that is generating some really impressive results.”

Tom Diment, Vice President of Potash and Phosphate Operations

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