



How do you score?

There has been much talk lately of businesses needing to measure their performance, tracking both financial and non-financial results. After all, what you can measure, you can manage.

The problem for many smaller businesses is choosing the appropriate measures, and making use of the information provided. You do not want to spend a lot of time collecting data which will not be contributing to your business success.

Many business owners start by focusing on financial measurements. They monitor turnover and profit. This is all very commendable, but it is measuring what has happened in the past, not focusing on the future. Also, in some cases financial performance has to be sacrificed in order to develop the business. If you are solely measuring financial performance you are only seeing part of the picture.

A good measurement system will concentrate on the important things that need to happen, for the business to fulfil its potential. If you have a strong vision for your business, you will be able to identify the goals that must be achieved to realise that vision. You then need to decide what performance measures you need to monitor in order to achieve the goals.

For example, if a business wants to double its turnover within a three year period, it may decide to focus on the following courses of action:

- Encourage customers to purchase more often
- Television advertising

In order to measure progress they will need to monitor the frequency of transactions with customers, and the number of new customers obtained from the television advertising.

The Balanced Scorecard approach to performance measurement is based on the work of Kaplan and Norton in the early 1990s. Their basic technique has been refined over time, and organisations have adapted it to meet their own needs. Put simply they identified four important perspectives of any business:

- Finance
- External customer
- Internal processes
- Innovation and learning (growth)

These four perspectives represent the balanced view of any organisation, and if you create measures under each of these headings no important areas will be missed. The specific measures will be different in each organisation, and will be based on the overall business strategy.

The owners of smaller businesses often find themselves responsible for every part of the organisation. There is often a tendency to concentrate on certain functions at different times of the year. For instance, at the financial year-end the owner's time may well be spent predominantly on financial matters, at another time they may be focusing on marketing issues. Regularly reviewing the scorecard will help them to ensure that no part of the business is neglected.

It is important that everyone in the organisation understands that the reason for measuring performance is to improve the business, not to create a blame culture. If people feel that performance measures are going to be used to apportion blame to individuals, they may well manipulate the measures.

You also need to consider what behaviour the measurement will encourage and whether or not this is desirable. For example, you may decide to measure the time taken to pack orders. This on its own will not contribute to the business success, if as a result of the staff focusing on speed, a large number of incorrect orders are dispatched.

Example of the Balanced Scorecard approach

A business selling surgical instruments may decide to monitor the following measures:

<p>Financial <i>Objective:</i> Achieve profitable growth <i>Measures:</i> Increase in sales Increase in gross profit percentage Average order value</p>	<p>External customer <i>Objective:</i> Gain a reputation for providing a high level of customer service. <i>Measures:</i> Time taken between receipt of order and dispatch of goods Number of customer complaints Number of visits to high value customers</p>
<p>Internal processes <i>Objective:</i> Reduce the amount of stock held whilst still being able to meet customer requirements. <i>Measures:</i> % of total stock held for more than six months Number of delays in meeting orders</p>	<p>Innovation and learning <i>Objective:</i> Keep abreast of new developments and products. <i>Measures:</i> Days spent per employee at trade fairs and conferences. Number of requests for new products from customers Number of suggestions from employees for new products</p>

This may seem a bit daunting. But it is worth implementing as performance measures are the best way to keep focused on your goals. Start small. Identify a few key measures. Explain to your team why you want to measure these things. Share the results with them, discuss what can be done to improve performance, implement change, and keep on measuring. You will all know what is expected of you and be able to see the

progress you are making. As time passes you will need to add new measures and/or refine old ones to help you meet your strategic goals.

Don't forget that what gets measured gets done.

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