WPAdvisory

Insights

Delivering at Speed Using Balanced Scorecards

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We are a small team of senior executives focused on helping middle market companies achieve performance goals and realize the maximum value from merger and acquisition activities on the buy and sell side. Our mission is to help you drive synergies, create value, and outperform.

Team

We are a team of executives who come from varied and diverse industries who have led our organizations through acquisitions, divestitures, and corporate transformation.

Size

Our boutique size gives you access to our leadership and the entire team. Our services are highly personalized and built on relationships.

Delivering at Speed Using Balanced Scorecards

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Companies driving change often equate success with how quickly they start their transformation projects. Too often they feel pressure from management, customers, and their industry to rush planning and launch prematurely. This adds risk to a process that's already inherently full of risks.

In truth, measuring success by speed is valid only in terms of the time it takes to finish a project. By committing to diligent pre-implementation work and designing thoughtful and balanced scorecards, companies will be better prepared to prioritize with certainty, execute with clarity, and deliver at speed throughout the transformation lifecycle.

So, what is a scorecard? A scorecard is a set of qualitative and quantitative measures that reflects the vision and goals of a change project. "Balanced" reflects the mix of financial, customer success, process, resource utilization, and team efficiency KPIs applied to transformation that support learning, course corrections, and more rapid execution. The balanced scorecard helps guide work successfully to milestones and serves as a periodic check of performance against desired outcomes. In our experience, there are three primary steps to bringing scorecards to life in a project:

A scorecard is a set of qualitative and quantitative measures that reflects the vision and goals of a change project.

1. Set Baseline and Performance Targets to frame balanced scorecards

2. Establish "outcome-based" balanced scorecards

3. Role model a transparent, accountable culture of learning and growth

Set Baseline and Performance Targets to Frame Balanced Scorecards

Do a deep dive into qualitative and quantitative aspects of company performance spanning the past 24 months. The deep dive should include assessing and documenting change management success rates for CAPEX and operating initiatives. Note key wins and misses, team/functional capabilities, implementation phases, and the pace of attaining goal metrics. This will help establish baselines for historical strengths and weaknesses in the organization.

Learning outcomes from the pre-implementation work will generate first-level qualitative scorecard metrics. Based on the findings, prioritize effort on those kinds of initiatives that have demonstrated success in driving strategy, operating objectives, and overall performance in the past.

> prioritize effort on those kinds of initiatives that have demonstrated success

Thoughtful selection and prioritization of initiatives will require stopping low-value projects and developing contingency plans for potential unintended consequences. But the cumulative effect of the work will lead to a holistic implementation plan that reflects organizational capacity and establishes improved levels of performance.

The few initiatives you've selected also will help define quantitative scorecard metrics.

Establish "Outcome-Based" Balanced Scorecards

Frequently, organizations develop scorecards that are too complex and span too many initiatives. An outcome-based balanced scorecard establishes cross-functional ownership of deliverables and more transparent coaching around fewer key metrics. A model that we have seen work successfully contains four outcomes/metrics for sustained growth:

- Brand Growth: Sales (channel/total), margin, conversion, consumer indices
- Operating Excellence: SG&A ratios, inventory turn, shortage, sales per FTE
- Talent Engagement: Climate surveys, turnover, mentorship, EBITDA per FTE
- Investment/Innovation: Incremental sales/margin, EBITDA, ROIC, COC returns

This model is illustrative to underscore the concept. The pre-implementation work phase will define the key outcomes and metrics that best support transformation and overall business objectives.

Here's an example:

A company struggling with stagnant earnings launched a process to stimulate earnings growth. Its balanced scorecard included the following:

- Brand Growth: Two qualitative measures, one that tracked customers' perception of the company's operating challenges, the other gauging consumer sentiment toward its core products; quantitative measures included sales and traffic growth and margin growth in key offerings
- Operating Excellence: Operating effectiveness assessments, sales per FTE growth and expense ratio improvement
- Talent Engagement: Employee climate surveys, "open book" leadership sessions to explore team ownership levels, turnover and promotion tracking to better align with organization goals

Applying these measures helped deliver 25-35% growth in annual earnings post-transformation.

Applying these measures helped deliver 25-35% growth in earnings

Role Model a Transparent, Accountable Culture

Establishing the clarity for sustained success requires transparent scorecard coaching using "open book" feedback loops to debrief execution gaps, explore root causes, and make timely course corrections. Leaders must be willing to be vulnerable, accountable, and trusting while avoiding "gotcha" behavior.

Approaches to coaching include:

- Focus on process change, talent fit and development, and scorecard metrics
- Have real-time conversations to encourage team ownership, leadership engagement and the solution orientation necessary to foster healthy, productive scorecard use, and competence with transformation practices
- Train trainers to help teams adapt to scorecards and how best to implement them

Return on Investment

Pre-implementation work can feel like a big investment in time. We've experienced, though, having scorecards and a plan can shorten delivery times by 20-30%.

By modeling this level of openness and timeliness, organizations can establish substantially more effective change leadership capabilities, practices to operate the business, and development priorities to take team performance to the next level.

As you look ahead to potential transformation or M&A initiatives, we encourage you to consider the advantages that the rigor and impact that a three-step, balanced scorecard process can have on creating the incremental value and true "speed to market" capabilities that you seek. ❖

About the Author

John serves on our Advisory Board and as a subject matter expert for transformation and integration engagements. His management consulting and industry experience spans three decades, leading 75+ projects for retail, consumer goods, and medical aesthetic clients.

Previously, John has served as portfolio company Chief Executive Officer for 3 private equity firms and as Chief Operating Officer at 3 publicly traded retailers. His industry credentials include: strategic growth, corporate restructuring, enterprise transformation, and merger and integration strategy / implementation.

During John's 10 years of consulting experience, his accomplishments reflect significant strategic positioning, operating initiatives, restructuring and enterprise-wide transformation work as a Managing Director / Principal at two Big 4 consulting firms.

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