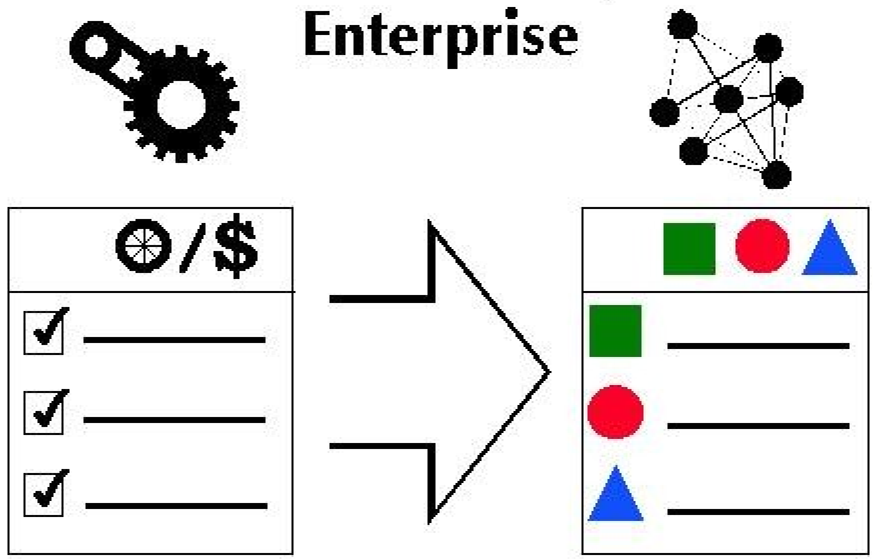
A Scorecard for New Economy Enterprise



Steve Montague, June 1998

Silicon Valley marketing specialist Regis McKenna has noted that the key values in the new economy relate to concepts like access, integration, and networks. McKenna's point is that, in the new economy of heightened pace, complexity and choice, companies must increasingly view their offerings as services which address the needs of customers through value-adding networks. By definition, this means that managers should reduce their emphasis on internal value 'chains' which tend to focus on internal business processes and costs. They need to increasingly look outside of their organizations to their suppliers, distributors, customers and other stakeholders for their keys to success. (See Real Time: Preparing for the Age of the Never Satisfied Customer .)

McKenna's arguments make sense. They are echoed by analysts like Brown, Drucker and others. The problem is that this kind of 'outside-in' thinking requires a significant shift in management focus. Management focus is guided by measures, and current-day measures are predominantly oriented toward internal process. In McKenna's words, they are throwbacks to Taylorism - the time and motion mentality which went along with early days of the industrial assembly line.

What are the measures we are talking about here? Time for a quick overview of current business measurement practice.

Two of the most popular corporate measurement approaches are Economic Value Added (EVA) and Kaplan and Norton's Balanced Scorecard.

Economic Value Added is calculated by deducting a charge for capital employed from net operating profits after tax. The approach focuses on cash flow and assets rather than accounting profit, and has therefore been seen as an improvement over return on capital employed (ROCE) and earnings per share since these can be subject to significant manipulation. The problem is that EVA still uses financial accounting data - these numbers relate to the *past* performance. They do not tell us anything about market strength, core competencies or product-customer impacts - let alone the strength of a firm's delivery network.

The second of the recent measurement system movements recognizes the limitations of the single-focused EVA approach. Robert Kaplan and David Norton, in their book Translating Strategy into Action: The Balanced Scorecard, note that, whereas a focus on financial measures might have sufficed during the industrial era, the new era of the knowledge economy with its intangible assets, cross functions, high customer segmentation, rapid innovation, and knowledge intensity requires a more balanced view. The approach offers measures relating to customers, learning and business processes - to complement the traditional financial perspective.

Kaplan and Norton note that their balanced scorecard's measurement focus has been used to accomplish critical management functions across organizational levels such as:

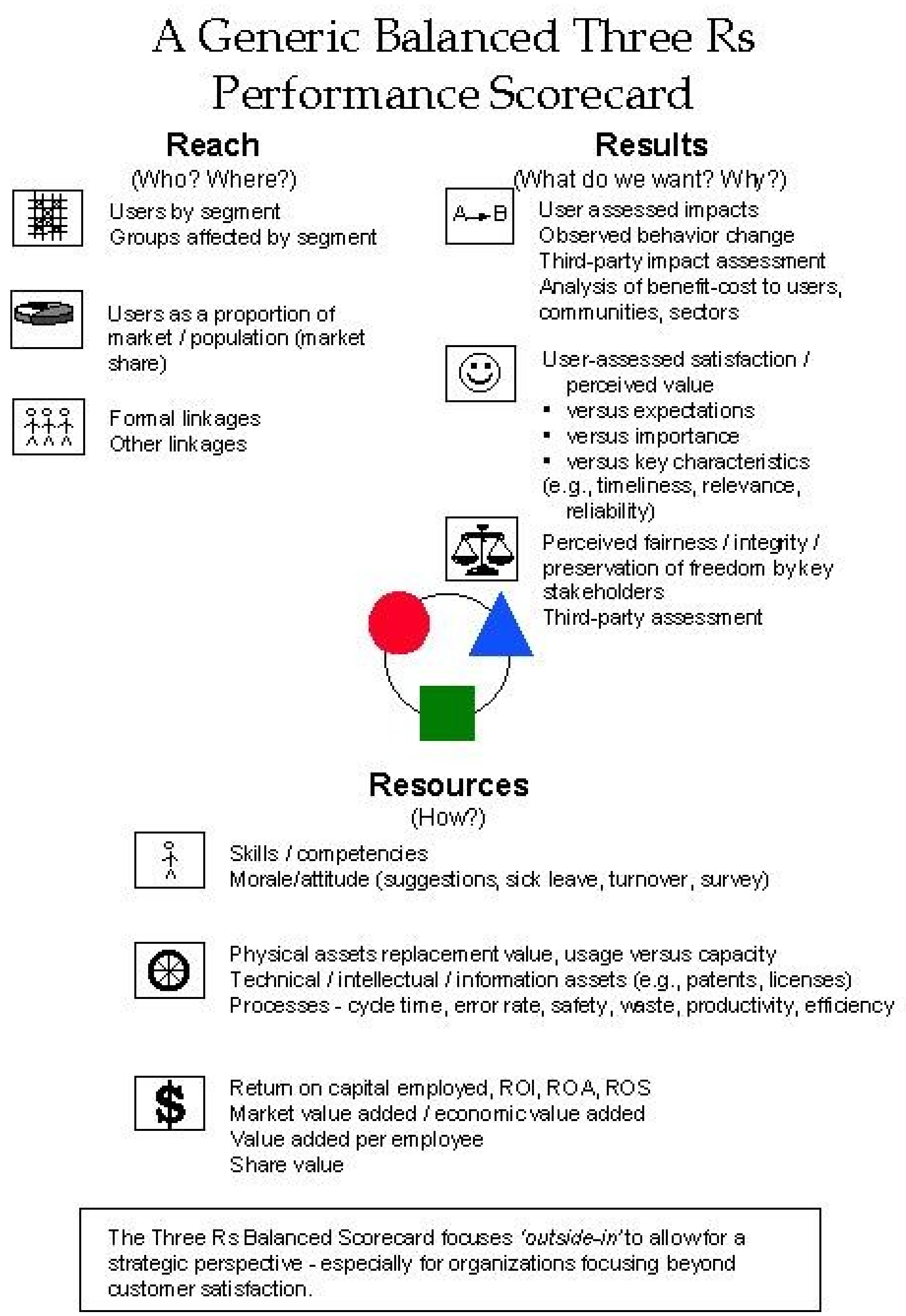
- clarifying vision and strategy;
- communicating and linking strategic objectives and measures;
- planning, target setting, and aligning strategic initiatives; and,
- enhancing strategic feedback and learning.

These objectives are laudable. The problem is that the balanced scorecard still tends to emphasize financial and internal process measures. The main four measurement categories include financial perspective, internal process perspective, learning and growth (employee) perspective and (finally) customer perspective. Note that three out of four of the 'perspectives' really relate to internal resources. Thus a group can 'ace' three quarters of its measurement goals and still not be delivering what customers need.

As per McKenna, new economy enterprises need a balanced scorecard that truly focuses from the 'outside-in'. They need a scorecard that explicitly recognizes the growth of business networks and the deeper impacts of its offerings to user groups.

The Three Rs of Performance approach starts with the balanced scorecard categories, clustering financial, internal process and employee perspectives under the same R - RESOURCES - recognizing that these are all perspectives within the direct control of management. The approach then proceeds to build on customer perspective by also recognizing suppliers, distributors and other stakeholders under a more global category called REACH. Once 'reached', the Three Rs analysis encourages an examination of the impacts of offerings by including client satisfaction, usage and repurchase behavior, value to users in achieving their goals, and broader marketplace impacts under the category of RESULTS.

The Three Rs approach thus focuses from the outside in and emphasizes an enterprise's network, or community outside the organization, as a critical part of the performance picture. In addition to the traditional process, financial, human resources and customer satisfaction measures, the Three Rs scorecard includes lists of 'co-delivery agents' (i.e., suppliers, distributors and other groups which have an effect on delivery success). A generic Three Rs scorecard is contained in the Exhibit below.



Source: Steve Montague, The Three Rs of Performance: Core concepts for planning, measurement, and management, Performance Management Network Inc., 1997, p 115.

An additional advantage of the Three Rs scorecard is the way that is allows for the ready analysis of performance tradeoffs. For example, a company might seek to expand its reach by growing its distribution network, expanding its regional presence or other 'reach-widening' moves. When it does so the Three Rs balanced scorecard would allow for management to monitor its financial, process and human resource measures, as well as client results, to ensure that there weren't undue tradeoffs in efficiency/productivity or client service quality. Indeed, all new proposals can be 'scenarioed' against a Three Rs scorecard with regard to their effects on each component of performance.

Experience has shown that public enterprises can benefit from the application of a Three Rs scorecard in areas in which conventional analytical tools fall short. This is due to the public sectors' usually keen interest in the reach of its programming, as well as the deeper analysis of results required to make sense of public enterprise impacts. (For example, you need to go beyond customer satisfaction when analyzing the impact of a regulatory program.) As Aileen Shaw, a Director of Canadian Space Agency, recently noted the framework's strategic value:

> *The value of the approach lies as much in the discipline involved in analyzing the relationship among outcomes (WHAT and WHY), specific activities (HOW), and WHO we are trying to reach over a broad time frame as in the final product - the overall performance framework. An understanding of the relationships between and among the elements allows a better focus on achieving the mission and objectives of the organization.*

The perfect scorecard for enterprise performance has yet to be achieved. Some might argue that the point is moot. There can be no perfect scorecard in general - only those that are more or less useful in supporting management decisions.

With this in mind, it would appear that scorecards that can focus attention ***toward*** the new economy keys and ***away*** from industrial era processes will be the most useful in providing insights for an enterprise's future.