

The myth of 'balanced' scorecards

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DR. JOHN GATTORNA ER TALER PÅ PLANLÆGNING 2011

DILF har været så heldige at få John Gattorna til København for at tale på den årlige planlægningskonference. Konferencen afholdes onsdag den 2. november 2011 i København, og vil byde på spændende virksomhedscases med bud på, hvorledes planlægningsopgaven kan optimeres. Dagen efter konferencen er der desuden en enestående mulighed for at deltage på en workshop med John Gattorna.

John Gattorna har brugt sit liv på at arbejde med forsyningskæder som bl.a. forsker, rådgiver, underviser og forfatter. Undervejs har han skrevet flere bøger om emnet, heriblandt bogen: "Dynamic Supply Chains: Delivering value through people" som bliver anmeldt i næste nummer af DILForientering.

Many companies use balanced scorecards for measuring aspects of performance. But according to the author of this article, there are many weaknesses tied to the use of balanced scorecards. He argues that companies need to leave the one-size-fits-all approach to performance measurement and suggests an alternative based the company's type of supply chain.

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BY DR. JOHN GATTORNA, CONSULTANT AND AUTHOR

There is nothing wrong with measuring aspects of your organization's performance, because after all we know from bitter experience that 'people do what's inspected, not what's expected!' But how far do you go in collecting data and analyzing the myriad of pivotal points in an organization?

There is certainly no shortage of material on this point, and in the vanguard is the work of Kaplan and Norton (1992)¹. Their early work in particular was very comprehensive, perhaps too comprehensive. Why do I say that? Because on many occasions I have witnessed company executives bogged down in the detail, slavishly collecting data according to a long checklist, but little evidence that this data, once collected, was fully analyzed and used in appropriate ways to increase performance. The hype may say otherwise, but this is the reality. Search your own conscience on this point.

To be fair, the Kaplan and Norton 'balanced scorecard' incorporated both internal and external perspectives, and sought to cover off both financial and non-financial measures, but it brought with it many critical weaknesses both in concept and operational use. Not the

least being the difficulty of using it as a comparative tool between business units, or the lack of a mechanism to aggregate measures for management across several business units in a conglomerate. In many ways it was a good idea that was primarily useful in translating 'an organization's strategic objectives into a coherent set of performance measures'², no more, no less.

More recent work by the same authors has attempted to overcome some of these weaknesses³, but the fatal flaw is that they continue to treat the subject of performance measurement as an inanimate process rather than what it actually is: one of several levers potentially available to shape internal culture in the enterprise, which in turn shapes and drives visible behavior.

Shifting the focus

We need to look at this issue of performance measurement and management in an entirely different way, and the first clue as to how this might be done comes with the realization that enterprises are really an aggregation of supply chains (or pathways) running through them, from source(s) of raw materials, components, packaging, and sub-assemblies, along a myriad of links to nodes in the network

where value-creating activities are performed, and on downstream to customers and ultimately end-users/consumers. Along these pathways information and finances are exchanged and important relationships, human relationships, are formed and managed. It is these human relationships that power supply chains, and therefore the business overall. Technology and infrastructure are simply the enablers, albeit essential ingredients to success.

In my research and fieldwork as described in 'Living Supply Chains' I identified four (4) generic types of supply chain that were almost always present in some combination or another, irrespective of the product/service category involved. Of course, there are exceptions, but I am describing an '80 percent' fit. These four (4) generic supply chains are in multiple alignment with their respective customer segments, each of which presents with a different 'dominant buying behavior'. And the key point is that each of these distinctly different supply chains requires distinctly different performance measures to monitor performance as depicted in figure 1. We will now consider each of these four supply chain types in more detail. The point is that we should select and use only a few key performance indi-

PERFORMANCE MEASURES FOR THE FOUR GENERIC SUPPLY CHAINS

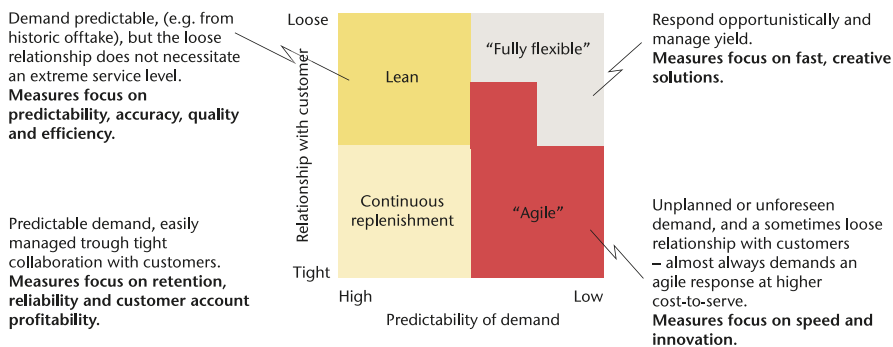


Figure 1. Source: Adapted from figure 2.3 in Gattorna, *Living Supply Chains*, 2006

caters (KPIs) with each type of supply chain, and the emphasis will necessarily be different in each case. Gone are the general measures that can't be traced back and connected to specific facets of performance.

Continuous replenishment supply chains, where relationships matter most

Here we are measuring such factors as: length of customer relationships; the degree of information being shared both ways; the percentage that we as a supplier represent of a particular customer's spend in a particular product category. The focus is clearly on service reliability; and retention of the relationship over the long-term. Nothing less is acceptable, and yet how often do we see these valuable customers ignored and eventually lost forever, because they never come back once they leave no matter how much effort we pour into the cause, albeit belatedly.

But to engage customers of the collaborative type in this way we need to create a 'relationship' sub-culture inside the business, which goes well beyond the process approach of most commentators on the subject of performance measurement and management.

Lean supply chains, where the focus is efficiency and lowest cost-to-serve

In this type of supply chain we are bent on delivering a low-cost predictable service to customers who otherwise don't care for extras. In terms of measures, those that come to the fore are forecast accuracy, delivery-in-full-on-time (DI-FOT); cost per unit; and selected productivity ratios. Nothing else matters much.

So inside our organization we need to encourage a 'cost-controlling' sub-culture that puts conformance to policy right up there in lights. This is not a place for mavericks.

Agile supply chains, where quick response is paramount

The emphasis in the type of supply chain moves from reliability to time sensitivity. How long does it take us to respond to the customer's request, albeit we did not know it was coming! This is the world of unpredictability, and it requires wholly different capabilities to survive and thrive in. We measure time to respond and we measure the capacity of the supply chain at vital points along the pathway to our customers. It is more a case of optimizing our resources than maximizing utilization, because to service customers in this mode means by definition that we need to design in redundancy, and that costs money, which customers must be prepared to pay for at some point. The corresponding sub-culture is 'aggressively customer-focused' and bent on speed. This is not a place for long drawn out processes or consensus seeking. This is a place for action.

Fully flexible supply chains, where nothing is impossible

This type of supply chain is designed to respond to the unplanable event, and is therefore hard on resource usage. We are not bothered about cost, or utilization, or even relationships in this type of supply chain – only getting an acceptable result for the customer, fast, very fast. We see elements of this type in emergency or humanitarian operations; in break-down situations; and in military operations.

The sub-culture inside the organization is very much 'can-do', and everything and anyone who can assist in getting the desired result is sucked into the effort. There are little or no concerns about cost because a 'no-fix' means even greater cost. Creativity and innovation are key characteristics in this type of supply chain.

Being 'biased' rather than 'balanced' is the key

So that's where the preference for a 'biased' approach comes from – simply by recognizing that particular buying behaviours exhibited by customers at the end of supply chains requires differential treatment, sometimes radically different, to other situations. The one-size-fits-all philosophy is dead, and with it goes all the general approaches to performance measurement and management. We must know and understand our marketplace, and reverse engineer the appropriate selection of KPIs back from there. And to ensure they are executed we need to have in place an organization design, processes, and other factors that shape the equivalent sub-culture, otherwise people will simply do what they prefer to do, rather than what we want them to, and as a consequence the 'mis-alignment' between our strategies on paper and actions on the ground will become ever wider. /

References

- ¹ R.S. Kaplan and D.P. Norton, "The Balanced Scorecard: Measures That Drive Performance", *Harvard Business Review* (January-February 1992): pps. 71-79.
- ² Linda Nuthall, Supply chain performance measures and systems, Chapter 2.11, p. 255, in *Handbook of Supply Chain Management*, John Gattorna (ed.), Gower Publishing, Aldershot, UK, 2003.
- ³ Robert S. Kaplan and David P. Norton, *Alignment: Using the Balanced Scorecard to Create Corporate Synergies*, Harvard Business School Press, Boston, 2006.
- ⁴ John Gattorna, *Living Supply Chains*, FT Prentice Hall, London, 2006.

