

Dr Andrew Jack
Business Excellence International Ltd
andrew@think-value.com
Tel +44(0)7921464431
Terry Pilcher, DMS, MCMI
BCS Management Services
BCSMgt@aol.com
Tel +44(0)1945474729

Creating value through the integration of continuous improvement models

What are performance metrics actually contributing?

Ensuring that there is the desired financial return from the resources employed by the organisation is at the heart of the Annual Report. Whilst this return has traditionally been measured in terms of the Balance Sheet and mainly financial metrics, approaches such as the various Excellence Models (Baldrige, EFQM), and the Balanced Scorecard type dashboards, have helped significantly to focus senior executives minds on the issue of the broader metrics that track and drive the planned financial returns.

With the introduction of Corporate Governance and Operating and Financial Review (OFR), and the realisation based on major multinational disasters that the intangible assets of the organisation can play a significant part in the overall value of the company (up to 70% in some estimates) company annual reports are changing in focus and content. The use of the word stakeholders shows a broadening understanding that overall valuation of the organisation is dependent on the wider context of how it interacts with its environment and not simply the balance sheet and capital returns.

However a recent report by the Hackett Group indicates that up to 80% of organisations using the Balanced Scorecard are failing to realise the desired value from the approach. More and more senior executives are expressing the view that they want performance management systems that actually work. Allied to this organisations often find it difficult to demonstrate which aspects of their continuous improvement programmes and change projects, all with initial sound intentions, are having a real impact on the bottom line annual results.

With billions of £'s spent annually on the growing field of enterprise performance management the authors introduce the concept of ValueMapping as a method to focus the minds of executives and employees alike on the value that is derived from measuring and reporting tangible and intangible assets.

Through field experience the authors present some cardinal principles that can help to create the value focused organisation and maximise the bottom line impact of continuous improvement and performance management.

Additionally the authors suggest that many Public and Voluntary Sector organisations have a natural advantage in terms of a broader understanding of stakeholders which leads to a wider appreciation of the intangible assets that drive performance. In line with the aims of the Excellence Models much can be learned from a sharing of best practice and approach between the private, public and voluntary sectors. To say, as some do, that the organisation is in the private sector and our needs are different from the “non-commercial” would be to shut the door on best practice that can significantly impact on the commercial understanding of intangible assets.

This paper aims to demonstrate the genuine strengths and areas for improvement in the structure and use of the Excellence Models, Scorecards and Strategy Maps. The authors present, through case studies, the benefits to be had from integrating current improvement and performance management models and approaches under an overarching value focused methodology and system that has significant application for both private and public sector organisations.

Creating a focus for your improvements and performance measures

One of the biggest problems that organisations face in integrating continuous improvement and/or scorecards with strategic planning is the variety of language employed and consistency of approach across the myriad business units, departments, projects and teams. As Table 1 shows there is a diverse range of words and phrases employed, often inconsistently, across business plans and management systems.

| Table 1: Commonly used words and phrases in organisational planning and improvement | | | | | |
|--|--------------------|-----------------------|----------------------------|--------------------------|---------------------|
| Vision Statements | Mission Statements | Values Statements | Strategic Aims | Strategic Objectives | Strategic Goals |
| Business Objectives | Goals | Tactics | Key Performance Indicators | Critical Success Factors | Business Drivers |
| Enablers | Results | Areas for Improvement | Strategy Maps | Tasks | Performance Drivers |

Is it any wonder that management and employees have problems making sense of how the different activities and assets represented by these various words and phrases combine to impact upon the desired outcomes? Military organisations are an example of how the adoption of common signals and commands leads to effective control and more responsive behaviour.

If the organisation is to not only understand and map, but also control and improve, how the assets and resources lead to desired returns and results there are two main options:

- 1) Employ a common language (which takes time to transform preferred styles and culture).

- 2) Find a way to link non standard approaches across the organisation and then standardise over time where and as appropriate.

In reality a combination of these two options will be required based on the circumstances of each part of the organisation. Just as the meadow seeds itself over time the improvement in strategic performance management will be a gradual process.

ValueMapping is a process that can tackle Options 1 and 2 above and can represent many of the phrases in Table 1 using only four descriptors creating a simplicity, consistency and clarity of structure across the strategic, business planning and improvement cycle.

The four building blocks of ValueMapping are described as follows:

1) Value Outcomes 2) Strategic Driver 3) Value Drivers 4) Actions

These four building blocks of a map translate across to the phrases in Table 1 as follows.

| ValueMapping (VM) Descriptor | Current Words and Phrases | Definition of VM Building Block |
|-------------------------------------|---|---|
| Value Outcome | Vision and Mission Statements can be clarified using outcomes. Strategic Aims are really outcomes. Results are outcomes. Some KPI's are outcomes. | The reason for the word value in front of outcome is to put focus on why this is an outcome i.e what usefulness or worth does it have for the organisation and/or its stakeholders. Some outcomes can after all have little or no value just as is the case with results. |
| Strategic Driver | These are often classed as Strategic Objectives. Some Business Objectives, Business Drivers, Enablers and KPI's are also Strategic and will be captured here. | All too often there is a gap between current Strategic Objectives and how they line to Strategic Aims and Vision. Strategic Drivers are those strategies that impact and map directly to desired Value Outcomes. Strategic Drivers create direction for the organisation in channelling resources and activities on the desired outcomes. They are much more flexible than the perspectives of Balanced Scorecard Strategy Maps. |
| Value Driver | Many of the Objectives and Critical Success Factors in Balanced Scorecard Strategy Maps are Value Drivers. Many Excellence Model Enablers are Value Drivers. Tactics are value drivers. Business drivers are value drivers. Projects and Initiatives are value drivers. KPI's can relate to value drivers. | A Value Driver always sits below its parent Strategic Driver in a Strategic ValueMap. It is possible for a secondary relationship to be formed with a value driver and another object within the Strategic ValueMap. A value driver is a focus for actions. |
| Action | Tasks are Actions. Projects and Initiatives can be | Actions are the lowest building black in the map and there are many more of |

| | | |
|--|---|--|
| | actions in a map. An action in one map could have tactical or strategic significance in another map. | them than there are strategic and value drivers. |
|--|---|--|

Of course many organisations will be resistant to change as it is easier for their people to keep using their own preferred language. However without a common structure and language the dynamic efficiency of the organisation, that often lies stifled due to beauracracy and lack of clarity and accountability, will be unattainable. The Balanced Scorecard has been an attempt to create this clarity of structure. The authors believe that one of the reasons that so many scorecard and dashboard initiatives fail to deliver is that the organisation finds it difficult to capture and truly integrate its existing plans, and more importantly terminology, with the four or five perspectives approach.

Case Study 1: Strengths and Areas for Improvement in the Balanced Scorecard/Strategy Mapping approach

The strength and adoption success of the Scorecard has been its simplicity of structure with four or so main perspectives. It has also avoided the issue of terminology employed within organisations by primarily sticking to one term, objectives. Its main appeal was initially the ability to represents measures within each perspective and then drill these down in a nested fashion to lower level scorecards. In principal it sounds easy but in practice has produced mixed results and perceptions within the organisation. All too often employees can be heard to say, “Yes, we have a scorecard that the management team use”.

More recently StrategyMaps have been developed using the scorecard perspectives. Whilst these are highly flexible within the single map they can lack structure and ability to relate to current planning and management terminology when the organisation attempts to link numerous StrategyMaps together.

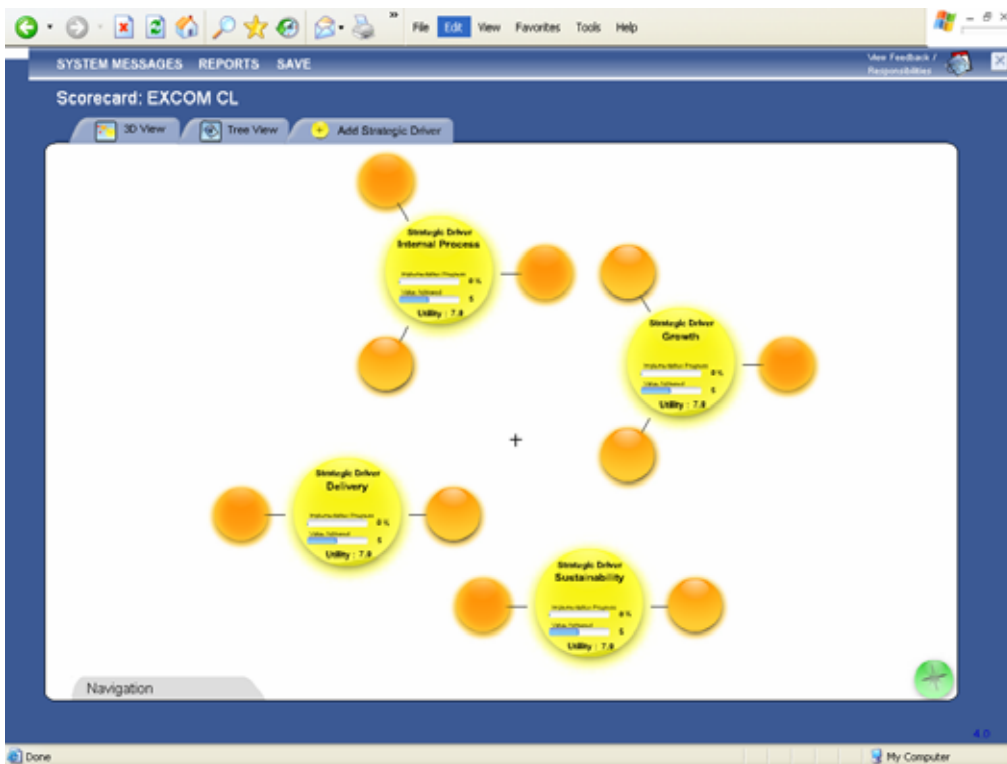
Various Areas for Improvement (AFI’s) that arise from scorecard use for consideration are:

- Scorecards being too inflexible once the initial structure is set. Need to be dynamic and proactive in meeting anticipated needs based on real time information.
- Scorecards focusing executives on the perspectives whilst loosing contact with business plans and corporate strategic plans and needs.
- A lack of differentiation between the usefulness or worth of the objectives within the Scorecard StrategyMap.
- A lack of understanding between what is truly strategic within the Scorecard Strategy Map and nested scorecards and what is more tactical and less directional for the business. Strategy can emerge from various areas of the organisation not simply at top Scorecard Strategy Map level.

- A lack of a method to effectively integrate Risk Factors and Future Risk within the Scorecard Strategy Map.

ValueMapping can be used to integrate scorecards and their StrategyMaps with Risk Management and Business Planning. In a multinational oil company their Balanced Scorecard was translated quickly into a Strategic ValueMap where their top level perspective was translated into Value Outcomes, each of the three other perspectives became Strategic Drivers with their clusters of perspective objectives represented as ValueDrivers.

Figure 1 represents a screen grab from the ValueMapper web tool that visually represents the Balanced Scorecard Strategic ValueMap.



Where the approach comes into its own is in the ability to represent in a highly flexible way the network of value relationships across the organisation. The objectives in the Balanced Scorecard Strategic ValueMap can be networked with other ValueMaps. This organisation had nine departmental business plans and an overall strategic plan. It is therefore possible to form relationships from the Corporate Strategic ValueMap to the Business Plan ValueMaps across to the objectives in the Balanced Scorecard perspectives.

Given that the organisation had committed significant resources to the Balanced Scorecard it is possible to drive this existing programme through capturing the scorecard in its current form. However, the scorecard structure can gradually evolve away from the

perspectives to be simply the Strategic Drivers and Value Drivers in the different business and corporate plans. Specific perspectives or “Corporate Themes” can then be analysed by categorising any object within a map with that respective perspective or more accurately theme. In this way the problem of integration is solved and fewer reporting structures are required to represent the performance management of the organisation. Significant cost savings can be made from streamlining and integrating enterprise performance management through ValueMapping.

The Strategic Driver and Value Driver levels in all maps can be rated using the Anticipated Value (ANV) concept. This enables the organisation to prioritise resources and activities on specific drivers in a map based upon the anticipated value that this tangible or intangible asset has. Linked to the ANV is the ability to make multiple judgements of the impact of Risk Factors and Future Risk associated with the asset. In this way the Strategic ValueMap becomes a forward driving process that encourages assessment of progress against ANV and creative change where it impacts most on desired future outcomes.

Case Study 2: Capturing Transformation and Business Improvement in Project and Strategic ValueMaps.

Self Assessment against an Excellence Model has been an effective way to facilitate the process of best practice improvement within organisations. Linking areas for improvement (AFI’s) to corporate strategy is one of the challenges that continuous improvement professionals face. Continuous improvement has been a focus and meritable aim for organisations at a time when there is also a growth in the performance measures that aim to track this improvement and its impact. ValueMapping is a process that can support any business improvement or transformation project and offer, through its use, solutions for some areas for improvement in the continuous improvement process itself.

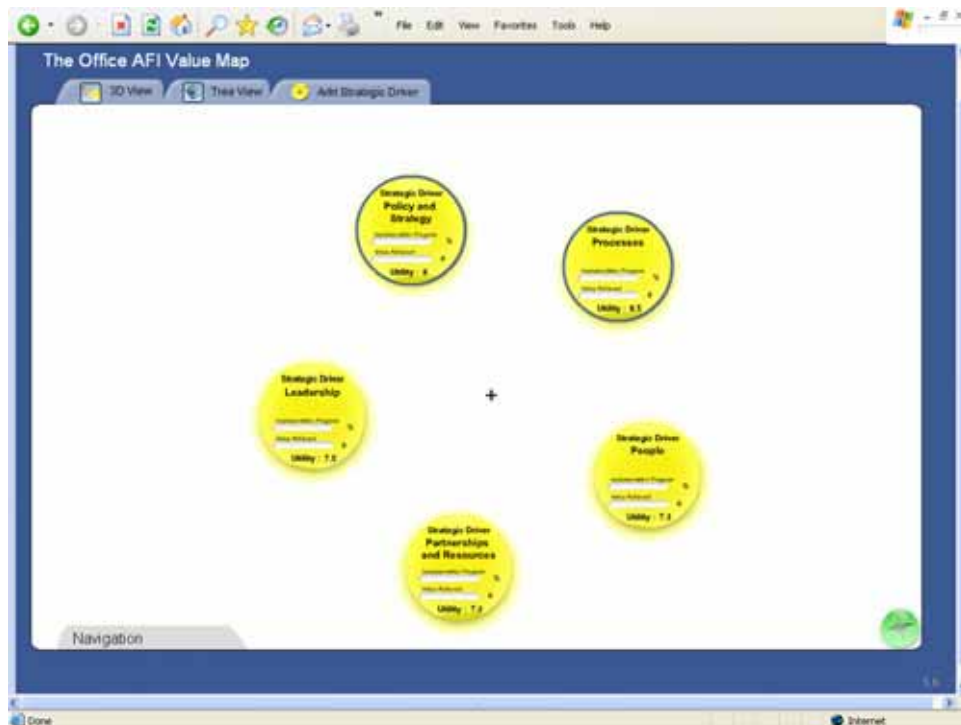
Various Areas for Improvement (AFI’s) that arise from the Continuous Improvement process are:

- If improvement is fragmented, and managed in silos across the organisation, there is the potential that the improvement takes place in discrete areas that have low impact on each other and weakens the overall resource focused on current high anticipated value (ANV) assets and activities.
- The need to ensure that AFI’s are acted upon and implemented. Lots of effort can go into creative improvement workshops with the outputs languishing in paper based reports.
- More effective assessment of the stakeholder needs and the needs of the organisation to help focus AFI’s where they really matter.

- The development of measures that track improvements and demonstrate their impact on lagging indicators of performance.
- The need to ensure that improvement is integrated with risk and business planning cycles.

The four building blocks of ValueMapping have been used to capture the AFI's emerging from an Excellence Model self assessment for organisation Y. The Results section of the EFQM Excellence Model were represented as top level Value Outcomes with the main criterion parts represented as Strategic Drivers. The themed areas for improvement were then translated into Value Drivers and the actual recommendations represented as Actions within the ValueMapper tool.

Figure 2 represents a screen grab from the AFI ValueMap



ValueMapping uses the concept of Value Relationships to understand the causal impact network that exists between activities and assets in the organisation. The AFI ValueMap can therefore be linked through value relationships to other maps in the organisation, whether they be other AFI ValueMaps, Corporate Strategy ValueMaps, Business Plan ValueMaps or Project ValueMaps.

Conclusions and Summary

There have been significant benefits to organisations from the use of the various Excellence Models and Balanced Scorecard Strategy Maps. However, all too often executives talk of systems that don't fully deliver their potential or engage enough people

to make the difference. One of the biggest reasons for this is perhaps the need to integrate performance management and business improvement more effectively with the wider strategic, business and project planning in the organisation.

ValueMapping is a concept and process that, through a four level structure, enables executives and their people to truly represent the network of value relationships at play within the organisation. Through its use the authors have been able to successfully capture both Balanced Scorecard and Excellence Model Improvement projects and integrate these within the wider needs and relationships of the organisation.

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