

## Keeping Score Stimulates Action

# Looking to Win

BY JOHN BERNARD

**A**s human beings we can't resist the natural inclination to try and figure out how to do better. And when we score, the adrenaline rushes through our veins and we feel good. The term "score" has become synonymous with accomplishment on all fronts of life, and it is no accident. Scoring is satisfying and as a result we are motivated to do our best to make it happen. We can't stop ourselves.

What gets measured gets done, it has been said.

Nothing could be truer and we all know it. Runners are motivated to improve their time. Baseball players are motivated to improve their statistics so they can command higher salaries. In close games, basketball players become extra motivated to out hustle and beat the competition. Drivers who watch their miles per gallon are motivated to drive more economically. Couples are motivated to stay within the budgets they establish. Salespeople will work hard to beat their sales quotas and earn bonuses.

It doesn't mean that we always succeed, but measuring motivates us to pay attention and do our best. Keeping score also gives us incentive to improve things, playing to another natural pull, the need to improve.

Mass Ingenuity companies understand that we all come to work wanting to be winners. Scoring at work is hugely motivating and obviously satisfying, in addition to being beneficial to the organization. Yet, TRYING

organizations do little to keep score and when they do, they often track things that people have no control over. People are motivated by measures, if they feel they can influence the actions that lead to the score. If you can't influence something, nothing you can do will make it better, or for that matter, worse. Influence simply means that by staying focused and hustling, you can achieve better results, or that you have sufficient influence over the processes that lead to the result, and you can actually improve those processes.

Few people in an organization have much direct influence over sales, although many help make sales possible indirectly. Yet, everyone has some level of influence over costs, because we use materials, photocopy things, rework products, call for more supplies, and in many other ways cause money to be spent. Costs can also be tracked by team, department and/or process, and each of these groups has influence over its costs, so they can be motivated by keeping score of them.

In team environments, keeping score becomes even more motivational, because the recognition we get from peers is frequent and enthusiastic. Research has shown that peer recognition is the most motivational of all sources of recognition, in large part because everyone wants to be appreciated by those around them. Keeping score within a team, assuming everyone can influence the scoring, is about as motivational as a DOING



organization wants, assuming it is measuring the right things.

Two kinds of measures are used to focus Mass Ingenuity organizations, because they set up the connection between the goals the business wants to achieve and the work everyone in the business does. Outcome measures show how the organization “did” working toward its goals, while process measures show how the organization is “doing” in the daily process of running the organization. The two measures have a fundamentally different character: with an outcome measure, by definition you cannot do anything about it once you get it (it is after the fact), but a process measure happens close enough to the action that those working the process can do something about it.

### Measuring Outcomes

When we complete something, we want to know how well we have done. That’s what outcome measures do. When you read in the paper a game score of your favorite basketball team versus its archrival, that is an outcome measure. By the time you get it, there is nothing anyone can do to change it. You can be angry, disappointed, thrilled, or neutral. Whatever. But the key thing about an outcome measure is that it’s a done deal. Every organization has outcome measures--the measures it uses to gauge its progress and answer the question: how did we do? These are the results that tell how well the game has been played.

Outcome measures usually cover a range of factors that matter to the organization. Most often they are measured at the end of something, often time--monthly, quarterly, or annually.

“How will we know in the end, in measurable terms, that we have been successful?” is the question that DOING companies ask as they engineer their outcome measures. Based on the key goals of an organization, the leaders determine which outcome measures are appropriate to defining success in the terms of the key goals. Outcome measures set up the definition of success, because they communicate

### The Scorecard Surprise

*Building out a robust scorecard can lead to some pretty interesting surprises. The process reveals the good, the bad, and the ugly, and for some managers it makes them nervous, because they don’t know what they’ll find. But seeing it IS understanding it, and if you don’t see it, then you can’t do anything about it. Information is the first step in getting real.*

*Some years back, I was building out a company scorecard and some troubling things began to become apparent. While margins in two of the four markets were holding even, margins in the other two had been dropping like a stone over an 18-month period, dragging overall margins well into the red. The nature of this business was that margins didn’t show up on the income statement until the services were delivered, so hardly anyone realized that this serious degradation was occurring. The impact was that it showed the company was at*

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*serious risk of moving out of profitable pricing and into losses within the next two to three years. No senior executive knew that.*

*Several members of the company’s management team asked me if the scorecards were “true,” expressing considerable concern at this new realization. How had the company not known this? Of course, someone knew it and probably assumed that others knew it as well, but once you put it on a scorecard and project it on the wall, EVERYONE knows it. The harsh reality, while unpleasant, was a call for action--exactly what scorecards are intended to do.*

*Without a well conceived set of outcome and process measures in place, surprises shouldn’t be a surprise, because we can’t see the problems coming. To manage effectively, you need to see what needs managing.*

--John Bernard

to the workforce, to Wall Street, to the owners, to the bank, and to others, what the organization is after and then ultimately how well it did in its pursuit.

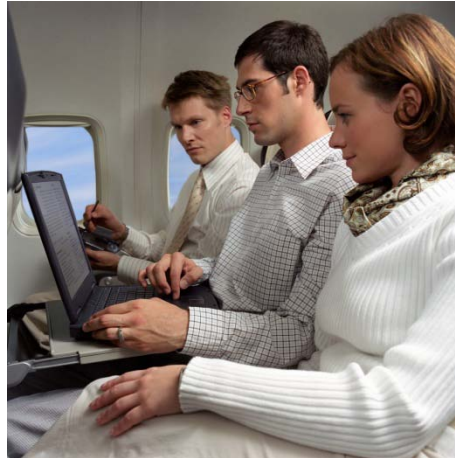
Typical key goals include such things as “financial strength,” which standing alone is pretty vague. But developing its outcome measures defines what financial strength means in the eyes of the organization. Financial strength could be defined in such outcome measure terms as net income, debt-to-equity ratio (how indebted the company is relative to its equity), days cash on hand (how safe it is in terms of cash), net book value per share (how much the assets of the company are worth per share of stock), and many other possible measures.

If a company had a key goal of “market,” it might define that with outcome measures of such things as market share and percent revenue from products less than 24 months old. If the key goal was “best workplace in our market,” it could measure such things as retention, percentage of offers for key jobs accepted, level of employee engagement, and percentage of employees who merit “exceeds expectations” on their annual review.

Outcome measures are powerful and critical, because they define the desired state—the place you want to be. They tell us what winning the game means in our organization’s own terms, and they set the stage for what the organization needs to focus on in its daily work, as translated into the organization through the process measures.

### Measuring Processes

Process measures exist for one primary reason—to cause intervention on the part of the people who work the process. That simply means that we monitor our processes through process measures, so that we know they are doing exactly what we expect them to do and if they are not,



we know it is time to step in and do something. Because process measures are designed to stimulate intervention, they must be gathered and reported to the people who run the process in as close to real time as possible.

Oddly enough, the most common measure talked about in most companies is “performance to budget.” Are you ahead, behind, or “on” budget? While managing expenses is a critical dimension of the work that managers do, the amount of money that has been spent reveals little useful information about how well work is being performed. If a process measure exists to stimulate intervention, most measures that gauge budget performance are closer to outcome measures. That’s because it takes so long to get the information that by the time we get it, nothing can be done to change it. This common measure, while an important dimension of management, is barely useful in making sure the processes of a business are delivering on what is expected.

The critical processes of the organization are the routine sets of activities that the organization must excel at to achieve its goals, and logically the organization needs measures that define how well these processes are performing. Of course, many organizations don’t know how well their most critical processes are performing, because many organizations can’t define their processes. We often know that we are falling short of what is expected, but where the problem originates is usually obscured by the old trap of department thinking.

Establishing process measures is the act of defining what an organization needs its processes to be capable of doing. Process measures exist where the action is, where the real value of the business is being created and managed. These measures define what performance is needed for the most critical and routine work of the

## Correlations in Snow

Winters in Newport, Vermont are, to say the least, bone-chilling cold. It was early in my consulting years, and I was teaching problem solving to a team at a hardwood plywood mill owned by Columbia Forest Products. Great people in every way. They really were trying to get their arms around what had caused a precipitous decline in the yield of the highest quality oak veneer from the logs.

Large oak logs were put into a lathe, each log was spun, a long blade pressed against the entire log's length, and thin sheets of veneer were "peeled" off onto a belt that sent them to the next process. Hardwood veneers that peel off in unbroken sheets are worth a premium, because they produce the highest quality finished look and thus command a premium price. Lower grades of hardwood veneer are created when pieces of the veneer are "stitched" together. The difference in visual appeal is quite noticeable.

The mill had seen a decline in the quality of the veneers and it was costing the company several million dollars a year in lost revenue, so a team was formed to find the cause. Problems create a great opportunity for people to learn about problem solving, because the incentive is clear. Most

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organizations have reams of data that is gathered but rarely examined. One of the lessons in the end of this project was that the operation needed to begin monitoring certain critical process measures to effectively monitor critical variables.

Step 3 of 7-Step Problem Solving involves data--the search for root cause by digging through data. I was working with the mill's smart young process engineer, analyzing data that the project team had recommended. We loaded all kinds of data into a spreadsheet and began looking for correlations, placing data set after data set side by side. Then, to our delight, we found the correlation that led us right to the problem. What we discovered was that at certain times of the day, yield was considerably worse than at other times. We also found that yield seemed to vary by month as well. The high correlation led us to ask why. And we found the reason after talking to a few people.

The oak logs were placed in a huge steam room to warm and moisten them (they peeled better) before being dropped onto a conveyor and moved about 70 feet to the lathe. During the cold and snow of winter, at shift change and during breaks and meals, the lathe would be stopped, the conveyor shut down, and the logs between the steam room and the lathe would sit exposed to the cold and snow. And as you might guess, the logs sitting outside would freeze back up. When we figured this out, it seemed so obvious, but what hid it was the reality that for most of the year it didn't matter because the temperature was below freezing.

The problem was simple to solve. The lathe was emptied out before shift changes, breaks, and meals, and yields shot back up just as we had thought. In winter a new procedure kicked in, and by moving breaks around, the conveyor operators returned a few minutes before the lathe operator did, so the lathe operator didn't lose production time waiting for the conveyor to fill back up. Net-net it was a solution that yielded a couple of million dollars a year.

As an organization builds out its scorecard, it develops data that can be correlated against other data, creating an opportunity to understand the relationship between processes, as well as the relationship between processes and outcomes. Understanding which process measures are predictive of outcomes gives management clarity about which variables are critical to manage.

...John Bernard

business, and they help the people who do the work when things are going as expected and when they are not.

### Ranges of Performance

Both processes and outcomes vary, and no organization is capable of producing completely predictable results 100% of the time. If this is the case, someone is cheating. The range within which any process and outcome can operate varies, and almost always depends on many variables--that's why it is not perfectly predictable.

No matter how tight a process is, it will experience some degree of variation. Variation needs to be monitored to make sure it is just the normal variation, not a sign that something has gone wrong. If something has gone wrong, it's time for action.

So measures gauge what is normal, what is not normal, what is required, and what is expected. When we establish measures, we go through a decision-making process for each measure, deciding what to classify as good, marginal, and unacceptable. Each level is its own call for action--or not.

Green is a range of performance that is acceptable, good, or what we expect. It says "keep going," because things are where we expect them to be. Like a green light, it says it's clear to keep moving as you are.

Yellow communicates caution, concern, or the beginning of problems. It says "watch out, check me, take note." Yellow says it is time to consider doing something to get back into green, if it isn't shouting it. We know that

once we enter into the yellow zone, it is time to be concerned.

Red means, as you might guess--stop. It indicates that what you are currently doing is not working. Red means there is no doubt about it--it is time to take corrective

action. No one enjoys being in red, and that's not such a bad thing, because it means that the organization is at risk of falling short of something it wants.

### Mass Ingenuity and the Use of Measures

We all grew up getting report cards, and for many of us the pressure of grades is not a good memory. Scorecards are not grades. Mass Ingenuity managers understand that scorecards provide information that is vital to effectively run the business. And so they want that information to be accurate.

When a measure is in red, it can NOT be a condemnation. Outcomes and processes in the "red" indicate that something needs attention and that attention is usually some sort of resource. If the organization wants to get back into the green, it must realize that the current process or processes are not capable of attaining the needed level of performance. If the process has a history of being capable, something has gone wrong with one of the variables. Either way, the skills of problem solving are needed to get back on course.

One of management's most important jobs is allocating resources, and a process in red is a perfect example of the need for resources. If we know what is causing the problem, we can get the resources to solve it. If a piece of equipment is in need of repair, we can fix it, if the work is being done by brand new employees, we can train them, or if a supplier is failing to deliver the necessary quality, we can apply resources to resolve that issue. ▲

	PERFORMANCE	ACTION
<b>GREEN</b>	Acceptable, Good, Expected	None. Full Speed Ahead
<b>YELLOW</b>	Marginal, Concerning, Cautionary	Understand Root Cause
<b>RED</b>	Unacceptable, Serious	Full Corrective Action



*John Bernard is Chairman and CEO of Mass Ingenuity based in Portland, Oregon. The company helps leaders transform business performance through the implementation of an integrated system of management that connects and enables every part of the organization to act in the NOW.*

Every Opportunity, Every Employee, Every Time<sup>SM</sup>

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