

Business Case for Management Scorecards.

Inspiratum Inc.

If you're not keeping score, you're just practicing.

Abstract: Inspiratum Inc. is a fictional company in the business of baby and infant monitoring devices. Inspiratum is privately owned by 3 partners and has had a uneven growth and success over the past years. The partners recognize that the business suffers from various pains that has prevented steady growth and has resulted in disappointing earnings, frustrated management teams and employees. In order to confront the situation, the partners have hired the services of a management consulting firm. The consulting firm made several recommendations and have re-defined Inspiratum's strategy and management practices.



One of the proposed change is the implementation of management scorecards as a business performance management framework.

This document is the high-level business case presented to Inspiratum's partners.

GEM-UP CONSULTING

117 Lakeshore Road East #403
Mississauga, ON
L5G 4T6

Phone: 905-486-0587
Fax: 905-486-0588
E-mail: info@gem-up.com
Web : www.gem-up.com

MS2C

**management
scorecards.com**

Business Case: Management Scorecards

1. Executive Summary

Inspiratum's partners are dedicated to growing the business in collaboration with their management team, employees and partners. A root-cause analysis was performed on the results of the past years and concluded in a need to change some of the management practices. In order to turn the organization around, 4 major pain points must be confronted at the management level.

Firstly, the strategic analysis activities are unstructured and result in incomplete and incorrect strategic plans. Also the lack of consistency makes the strategy unclear to the management team and does not foster team work.

Secondly, the strategy is not communicated strongly to all and not enforced regularly. This has side-effects on day-to-day tactical decisions that are not in-line with the strategy.

Thirdly, the objectives defined by the business strategy are not followed-up with regular monitoring and measurement. Objectives tend to be forgotten, operational activities tend to be conflicting with each others and no accountability is found.

Fourthly, the lack of performance framework prevents the management to take timely and efficient decisions. Also, by lack of overall directions and analysis, decisions tend to favor short-term profit, ignoring long-term implications on other aspects of the business and jeopardizing long term sustainability and performance.

Consequently, new management practices must be institutionalized, they will enable:

- Clarification and proper communication of the business strategy and its objectives
- The definition measure of Key Performance Indicators and their mapping to the business objectives
- The creation of a relevant project portfolio and its proper management
- The construction of an accountability framework

The recommend resolution is the implementation of a scorecard system that captures strategic goals, KPIs, initiatives and accountability is a single, easy to understand and manage solution. Scorecards make it easy to communicate the strategy and monitor the performance of the organization.

Ultimately, if implemented properly, the scorecard system will boost the performance of the organization in a sustainable manner.

This document details the rationale of such change and the expected benefits.

Business Case: Management Scorecards

2. Why the initiative

2.1 Value to the organization

The result of the audit performed demonstrated that Inspiratum's poor performance is essentially due to the lack of business planning and the lack of focus on priorities. The organization and its employees, while working very hard, have been working without a focused effort and toward too many conflicting objectives. The root-cause lays within the management practices that do not enforce well-defined strategies, quantification of results and clear ownership of each objective.

Also, the management team has been very focused on quarterly bottom line results but have been ignoring the long term importance of internal business processes, image of the organization on the market and people management. This lopsided situation provoked unbalanced decisions damaging seriously any hope of sustainable performance.

As a result, a business performance management framework must be deployed. The system must be supported by a process that will ensure constant strategic analysis (such as SWOT) and *balanced scorecard* techniques.

The value of such *business performance management* solution to the organization is described below, however the implementation of the system will essentially return better management, will reduce the cost of doing business and will boost the long-term performance of the organization.

2.2 Non-Financials benefits

The list of non-financial benefits would be very long, below is a summary :

- The measurement of Key Performance Indicators, other than financials, will ensure that long term performance is considered in day-to-day decisions. Elements such as client satisfaction, employee satisfaction and efficiency of internal business processes have major medium and long-term impact on the business. A balanced scorecard system will ensure that all dimensions of the business are considered facilitating greatly tomorrow's results.
- A scorecard system embeds strategy directions. The implementation of the scorecard system will ensure that an appropriate level of strategic analysis and planning will be performed regularly. This strategic work will take the form of SWOT analysis, Business planning or other simple tools. This will force the management team to reflect on their overall approach and refrain them from improvising or take emotional decisions. Also it will allow management to demonstrate true leadership and less micro-management.
- The scorecard system, because of its nature, will force the management team to prioritize projects and budgets based on strategic elements. This will prevent the organization from investing in initiatives, projects or any activities that are not in-line with the strategy. Value management and portfolio management will therefore come naturally into the decision making process.

Business Case: Management Scorecards

- The scorecard system will ease communication by providing a simple media by which objectives, quantifiable targets and projects are all established and communicated at once. The scorecard system can be cascaded to all level of management and staff such that master objectives and their derived operational and tactical objectives are all in-line. Also the scorecard system will break silos that exist between the various departments by aligning all of them on a single performance platform.
- By extension, the scorecard system will define the overall roles and responsibilities better in the organization. This will therefore enforce ownership of objectives and results, incenting individuals and team to perform against clear-cut objectives.

2.3 Financial benefits

The quantification of financial benefits has been estimated through the following methods:

- Analysis of past performance compared to market growth and performance/growth of direct competitors in the past 5 years.
- Review of past project portfolios

While the analysis and estimation is somewhat speculative (as it also depends on market conditions), the estimation is that the implementation of a scorecard system will provide the following upside (as compared to the expected status-quo, over the coming 5 years):

- +15% additional revenue growth per year
- +8% additional Return On Equity per year
- +35% additional EBIT per year

Only the cost savings associated to reducing the number of projects that are not in-line with business objectives would account for a major boost in EBIT.

2.4 Financial Costs

The setup (first few weeks) will require a few hours of manager's time plus training fees. Standard strategy work will simply be done using the new process (as a substitute therefore not incurring more costs)

Recurring cost will be in the shape of:

- Time spent monitoring the performance of the organization and refining the strategy
- Tools used to automate the process as much as possible

The IT costs of the scorecard solution is incidental as the proposed solution is based on an on-line software with minimal subscription costs. The total cost is driven by the time spent by managers and consultants to develop content (what strategy, what KPIs...) for the chosen solution.

Business Case: Management Scorecards

2.5 Risk Analysis

The implementation of the scorecard system may fail because of certain risks. Here are the risks and their mitigation strategies.

- If partners and managers do not show complete support and buy-in, employees may see the effort as just a temporary idea that will not survive the next crisis. It is important for the partners and senior managers to show full commitment to the scorecard system.
- It may be that managers are not experienced enough with scorecard systems and misuse them. Training and mentoring must be part of the implementation process.
- It maybe that some managers are content with the current situation and will see the scorecard as a threat or a useless change. Change management being difficult in any organization, it is important to plan for a strong change management effort around the scorecard implementation.
- By lack of experience, it maybe that the management tries to overdo the system and implement too many (or wrong) metrics. The management team must restrict themselves to very few easy metrics (taken from a knowledge base) at first and does not enter into a paralysis-analysis that would create disbelief in such system.

2.6 Accountability

Partners and board members must be accountable for the scorecard system implementation.

2.7 Organizational change impact

The implementation of the scorecard system will imply that management meetings are held to present the results and current measures. No other changes can be attributed directly to the scorecard system.

2.8 Impact of not doing the initiative

Not implementing the scorecard system will imply a status quo to the performance of the organization.

Business Case: Management Scorecards

3. Implementation Details

3.1 Selected approach

The selected approach will imply a standard scorecard deployment plan. This plan will include a standard scorecard implementation process starting with the development with a strategic foundation. The plan will be provided a week after project start.

3.2 Milestones

T0	= project start
T0 + 1 week	= detailed project plan
T0 + 2 weeks	= team is trained of scorecard principles
T0 + 4 weeks	= Strategy elements are confirmed
T0 + 6 weeks	= All metrics have been defined
T0 + 7 weeks	= Tool is in placed and strategy is communicated
T0 + 8 weeks	= First measures are collected

3.3 Critical Success Factors

The Critical Success Factors associated to the initiatives are:

- The organization turns-around and reach revenue objectives within 24 months
- Employees show great satisfaction and engagement
- Internal processes are efficient and automation benchmark reaches industry average
- Market share in the considered market segment increase by 40% over the next 3 years

3.4 Dependencies with other initiatives

The implementation of the scorecard system is independent of any other initiatives proposed at the exception of the overall strategic planning activities. However, all other projects, initiatives or corrections are only viable and useful if the management team operates within a structured performance framework and with an agreed-upon strategy.

3.5 Enterprise Architecture Compliance

The proposed solution (on-line solution) is in-line with Enterprise Architecture principles and has no possible impact on current infrastructure.

3.6 Key Risks

No key risks (uncertainties) have been identified at this point.

3.7 Communication plan

A communication plan notifying key stakeholders will be released as part of the project plan.