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The Balanced Scorecard at Futura Industries

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THE BALANCED SCORECARD AT FUTURA INDUSTRIES

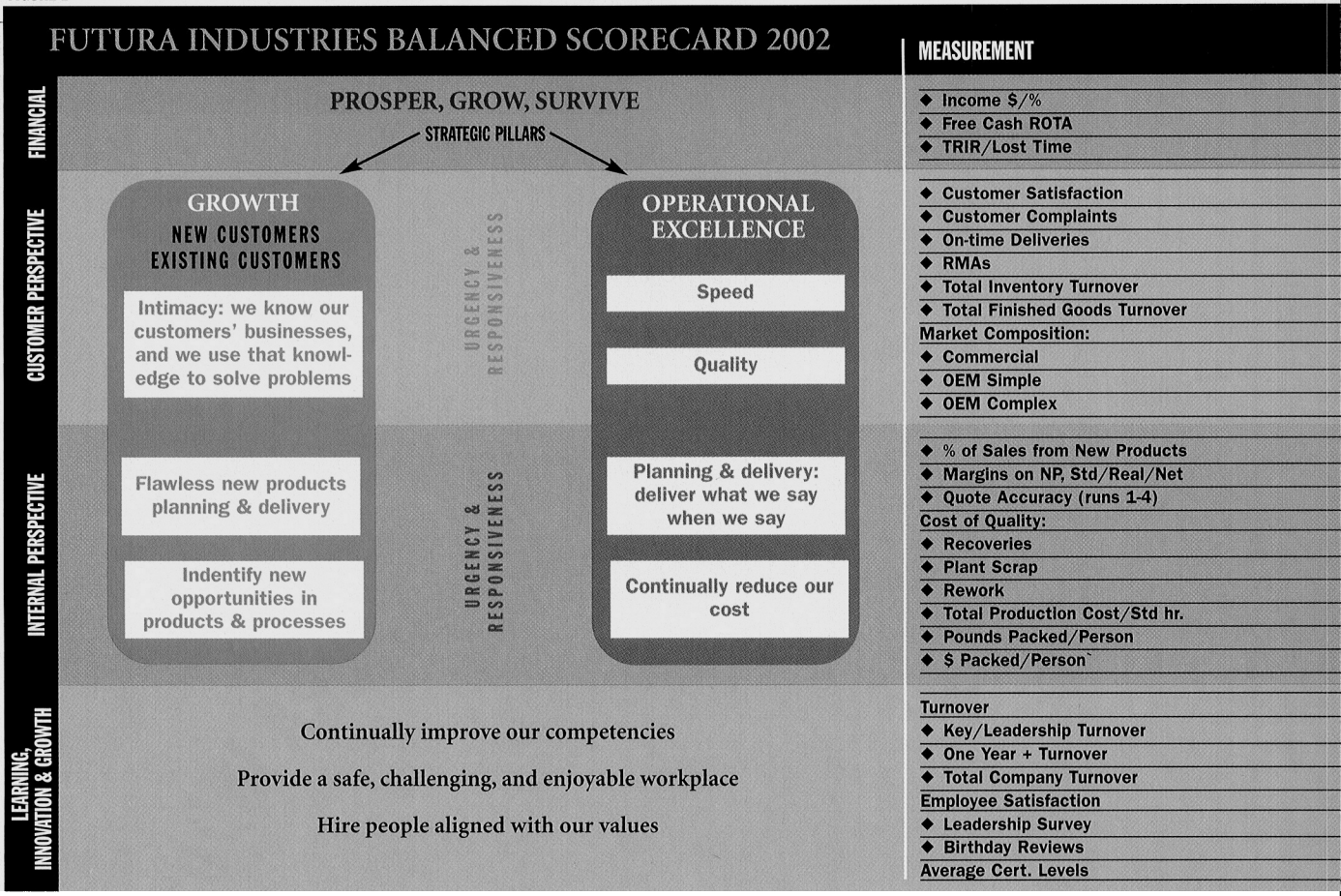
Relentless commitment to employees results in company success.

BY ANDRA GUMBUS AND SUSAN D. JOHNSON

Many companies use the balanced scorecard (BSC) to focus on the financial aspects or the operational metrics required by ISO quality certification. But that isn't all one unique company uses the BSC for. At Futura Industries, President Susan Johnson built the enterprise's success over the past three years on the BSC's foundational level—the learning, innovation, and growth dimension. This dimension provides the building blocks that generate success in the remaining three quadrants: customer service, financial, and internal operations. And the results have followed: a 50% increase in revenue without adding personnel from 1996 to 1999.

This Clearfield, Utah-based organization is all about putting people first. So much so that the company of 300 ranks in the top 10 Family Friendly Employers in Utah for the third year in a row and was named the state's top private employer for 2001 by *Utah Business Magazine*. Here's a look at how they've implemented the four quadrants of the BSC using the learning, innovation, and growth dimension as their foundation.

FIGURE 1



WHY BSC AT FUTURA?

Futura is an international company with more than 50 years' experience in aluminum extruding, finishing, fabrication, machining, and design. It serves a high-end niche in a variety of markets such as OEM, floor covering trims, electronics, transportation, shower door, marine store fixture, and retail. According to Johnson, the company had all the financial metrics, lots of customer measures, and even earned ISO accreditation three years ago, so they had internal processes focused on quality. "But it is our employees that differentiate us from all other extrusion companies," she says. "We need great people, not just great machines." Johnson believes the learning, innovation, and growth quadrant is the most important dimension in the balanced scorecard because people who are respected, trusted, and challenged to grow are the foundation of Futura. That's why they turned to this part of the balanced scorecard.

With a mission of "Extraordinary Value Through Extrusions," Futura expects every individual to contribute to the company's success as well as to the customer's success. The BSC helps the company fulfill its mission by aligning company strategy to tactics and measures. It provides company leadership with a one-page tool to capture data to guide the business and serves as the visual repre-

sentation of its strategies and execution metrics. See Figure 1 for a sample of Futura's 2002 scorecard.

PUTTING PEOPLE FIRST

Two competitive weapons put Futura ahead in a saturated marketplace—hiring and retaining the best people and devotion to the customer. Based on her philosophy of putting the employee first, Johnson was hired as president in 1995 to run Futura, and, in partnership with Tami Olsen, former vice president of human resources, built a company culture that allows employees to thrive. To create this environment, the company sets goals to continually improve employee competencies; provide a safe, challenging, and enjoyable workplace; and to hire people aligned with company values.

The balanced scorecard's learning, innovation, and growth dimension is the cornerstone to Futura's ability to attract and retain key talent in the local marketplace. In order to focus on recruitment and retention, Futura measures turnover, which the company has decreased by 33% since 1998, and in an industry with norms of over 50%, Futura has a rate of 10.7% turnover YTD.

Johnson attributes the improvement to many work-life initiatives aimed at a corporate culture based on performance and employee commitment. She says, "We

TARGET	ACTUAL-YTD
\$147K/1.9% 2Q; \$600K/2.0% yr	85K/1.7%; 251K/2.0%
4.38%	11.55%
0/0 (# of emp)	10/6
85%	86.4%
<30 per month, (360)yr	37.8 avg/189 ytd
95%	80% mo/83% ytd
<.25	.10% mo/.13 ytd
15	7.2
25	12.2
2nd Qtr	Avg
41.2%	43.3%
12.8%	14.0%
46%	42.6%
13%	18.4% ytd
21%/10%/8%	19.4%/14%/11.1% ytd
+20% on first runs	6% ytd
80%	80.12% yr
2%	2.56% yr
.4%	.32% yr
<\$34.00 hr	\$34.03 ytd
>5,000 lbs	5,237 lbs
>\$13,500	\$13,822
<5%	0%
<7%	2.2% ytd 5.3% trend
<20%	6.2% ytd 14.9% trend
Avg 4.2 + (scale 1-5)	3.9
Avg 3.2 + (scale 1-4)	3.27
80% Advancement	—

believe in a healthy, well-balanced workplace that treats the employee as an individual, a family member, and a member of the community.” Programs to ensure the workplace is well balanced include surveys such as “Employee Friendly Initiatives at Futura,” Birthday Review, Leadership Survey, certification and a Training Matrix, and an Annual Performance and Personal Development Review.

SURVEYS ARE KEY

To create a well-balanced workplace, Futura goes straight to its employees to find out how it can become an even better employer. Each year employees complete the “Employee Friendly Initiatives at Futura” survey that lists more than 60 benefits and asks what’s important to them. Examples include the standard medical benefits as well as dependent and spouse scholarships, flex-time options, paid time off for volunteer activities, sports team memberships, discounts to local businesses, and English and Spanish as a second language offered on-site. A few of the other benefits, which are considered “kindness and consideration benefits,” include short-term loans, savings bonds for births and adoptions, help with computer purchases, health screenings, contests, and school supplies for employees’ children.

Birthday Review

The Birthday Review takes place during the month of the employee’s birthday and consists of an HR representative interviewing the employee on work climate, communication, and achievement. On a scale of 1 to 4, the target is 3.2 for employee satisfaction, and YTD they’ve achieved a 3.26.

Based on the work of Gallop Corporation, the questions cover how happy employees are with their job, what makes it difficult to do their job, if they have the support to be successful, who makes up their support network, where they get information about the company, and how to improve communications. Employees are asked if they see themselves employed at Futura in five years, if they are comfortable with their teammates, and if they have confidence in the company’s leadership. The HR representative gains a wealth of information about the employee’s work-life issues—both positive and negative.

As if this weren’t enough, the employee also completes a written survey on work-life satisfaction with questions such as:

- ◆ Do you have materials and equipment to do the job?
- ◆ Have you received recognition in the last seven days?
- ◆ Does someone encourage your development?
- ◆ Do you have an opportunity to do what you do best every day?

To guarantee that surveys are acted upon, a follow-up form describes the action recommended and what was done so employees know the company takes their thoughts seriously.

Leadership Survey

Next, the annual Leadership Survey asks employees how their manager can improve leadership and management skills in order to increase their effectiveness and contribute to two-way communication between manager and employee.

For example, the survey asks whether the manager:

- ◆ Provides opportunities to understand the big picture,
- ◆ Shows courtesy and respect for people,
- ◆ Keeps the team productive in periods of constant change,
- ◆ Takes initiative to get things done, and
- ◆ Avoids backbiting and gossip.

Certification and Training Matrix

Another metric in the learning, innovation, and growth dimension is average certification levels—a job wage-skill classification employees attain by additional training and

job skills. Factors such as corporate citizenship, inter-departmental collegiality, and cultural maturity are monitored—with a goal of 80% of employees moving to the next level during their performance review. The certification level provides not only a guide to compensation, but it's also a vehicle for employees to monitor their future career progression with the company. The cross-training that results from gaining certification enabled Futura to avoid layoffs in a tough economy because the company had the flexibility needed to distribute staff based on certification and training.

Certification levels are based on a specific departmental Training Matrix that delineates time frames and formal training requirements, essentially a career road map. The Training Matrix enables a new employee to clearly see how to advance at Futura, and a training checklist with minimum requirements marks employees' progress in skill development and training as they gain seniority with the company.

The Training Matrix is tied to the performance appraisal and compensation processes as well as a Cultural Maturity Profile that helps the team leader along with employees evaluate how well they're doing on the things that are culturally essential to success at Futura. Employee scores on the Cultural Maturity Profile are factored into the certification levels to advance the employee on the career ladder.

The team leader evaluates the employee on proficiency in the following key areas of corporate culture:

- ◆ Adapt to company culture,
- ◆ Communication,
- ◆ Capability,
- ◆ Adaptability,
- ◆ Confidence,
- ◆ Integration into the team,
- ◆ Sense of urgency to the important,
- ◆ Productivity,
- ◆ Participation on auxiliary work teams,
- ◆ Safety,
- ◆ Cost reduction capabilities and involvement, and
- ◆ Leadership.

Each dimension is broken down into behavioral-based performance anchors that are evaluated from low to high proficiency. The team leader also includes supporting comments and growth opportunities in each dimension.

Annual Performance and Personal Development Review

The formal appraisal, the Annual Performance and Personal Development Review, recognizes accomplishments

and capabilities, identifies areas for improvement, and provides a fair and objective evaluation to expectations. The team leader and employee sit down together and complete the Annual Performance and Personal Development Review Form that summarizes the following information:

- ◆ Performance reviews.
- ◆ Skills certification and cultural maturity score.
- ◆ “Significant objectives achieved during the review period” documents the employee's goals, specific accomplishments, their strengths, and challenges.
- ◆ “Significant objectives for the future” asks the employee what they intend to accomplish in the next performance cycle, what strategies they will employ to accomplish the goals, and what resources or support they need in order to be successful.
- ◆ “Personal development plan” asks the employee how their personal and professional life can be enriched, with a focus on goals, strategies, and resource needs.
- ◆ 180-degree feedback asks three critical questions about the team leader:
 1. As your leader, what am I doing to help you in your role?
 2. What am I doing that impedes your progress?
 3. What do you need most from me?

CUSTOMER SERVICE

Johnson's management staff determined the key to providing good customer service lies in hiring people aligned with company values and retaining people who deliver outstanding customer service. At Futura, key customer service attributes include urgency and responsiveness, speed, and quality. The customer service dimension has four key measures: customer satisfaction, customer complaints, on-time delivery, and return materials rate.

To measure customer satisfaction, the company calls 10 randomly selected customers each month and asks a series of questions about their relationship with Futura. (To determine what questions to ask, a consultant visited 50 customers to find out what was most important to their satisfaction.) The results are so important to the company that Johnson conducts her monthly management meeting around them.

Questions focus on quality, on-time delivery, and fair value of product and services. Here are some samples:

1. Does Futura provide reliable on-time delivery?
2. Is Futura responsive to problems and needs?
3. Is Futura easy to do business with?
4. How well does Futura provide technical support?

5. How do you rank the quality of products and services?
6. Do you feel you are getting fair value for what you are paying?
7. Are you aware of the website, and how does it rate?

Customers use a Likert scale of 1-10, but they also write qualitative comments for each question. The goal is 8.5, and the overall satisfaction score exceeded the goal at 8.64. The final question on the survey asks the customer, "Do you have any problems right now that I can take care of for you?" Futura's commitment to the customer and the timely resolution of customer issues is epitomized by the willingness to immediately resolve any concerns the customer voices.

FINANCIAL

The financial group at Futura invented a tool to improve the costing information on each customer. According to CFO Eric Sailsbery, "We needed a mechanism to analyze gross margins as well as operating expenses related to each customer. We developed the tool in Excel and had our IS mimic its functionality in a program. It analyzes costs per item per customer so we can compare profitability between customers." Sailsbery uses the "Cool Tool," as it is called, in monthly reporting meetings to communicate the financial state of the company and compare customers based on profitability that in turn drives company behavior.

Each customer and each part are analyzed monthly by comparing standard costs per item to actual costs per item. Actual costs vary based on the production time, materials, and overhead costs of production. These actual costs are calculated along with other expenses such as freight, warehousing, sales and marketing costs, rebates, cost of cash, die expense, and total other costs. These costs are then allocated back to customers, and the resulting net margin reflects the actual operating income level on a customer-to-customer basis.

Sailsbery and his staff focus on the worst 50 customers each month to determine why margins are low and the reasons for prohibitive customer costs. "We use this information to improve our internal processes and to work with our customers to reduce our combined costs," he notes. On the flip side, the high-volume customers are targeted for ways the company can gain additional profitability.

The sales force also uses the Cool Tool daily to manage net gross margin levels—not just sales—and to analyze each customer by item, order, and time period. Production managers work with sales as well to make the order

profitable. It's easy to access and manipulate. No wonder Futura named it the Cool Tool.

INTERNAL OPERATIONS

The measures in the internal perspective address these four goals:

1. Plan and deliver flawless new products;
2. Plan and deliver in order to deliver what we say, when we say;
3. Identify new opportunities in products and processes;
4. Reduce our cost continually.

Sample measurements are:

- ◆ Percent of sales from new products;
- ◆ Cost of quality: recoveries, plant scrap, rework;
- ◆ Total production cost per standard hour;
- ◆ Pounds packed per person;
- ◆ Dollars packed per person.

Johnson says the most important metric on the BSC is safety, which drives ultimate productivity and profitability. Numbers tracked for Total Recorded Incidents Report (TRIR) per 200,000 employee hours are 7.5 in an industry that averages 13. This safety number is continuously improved by a new job analysis process introduced to capture data on critical motions used on the job. A physical therapist conducted the motion study by monitoring employees in each major job category to baseline the movements required by the job. Futura may use this study for employment physicals to predict the ability to succeed on the job and for an annual "fitness to work" and continued "fitness for duty" measure. The goal is to reduce the number of insurance claims and continue the focus on safety at Futura.

FLEX THE BSC

The learning, innovation, and growth dimension of the balanced scorecard is an area that many companies don't emphasize as they evolve their scorecards. Yet it has worked for Futura. The key is to monitor the balanced scorecard, and, as required employee skills change, priorities change, so the BSC must have the flexibility to change as well. ■

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