SupplyVelocity®

Performance Scorecards: The Foundation for Lean Six Sigma

Mitch Millstein, CFPIM, C.P.M., CQM, CQE
Supply Velocity, Inc.
mitch@supplyvelocity.com
(314) 406-4962

February 2010

Abstract
Most companies begin using Lean Six Sigma to improve their performance. However, they forget the first and most critical aspect of implementing Lean Six Sigma… measuring their performance. This white-paper will discuss how to launch Lean Six Sigma by first creating a company-wide Performance Scorecard System and how to use the Scorecard to make continuous improvement part of the culture of your organization.

Background
To demonstrate how to create a Performance Scorecard System, we will use a case study of a hospital human resource department.

This hospital decided to embrace Lean as a key tool for improving patient care, timeliness and reducing cost. They began their Lean journey by focusing on one patient care department (Primary Care) and one administrative department (Human Resources).

We will outline the path the human resource department took to create their Performance Scorecard. Prior to the creation of their Scorecard, human resource associates worked without any quantifiable indication of how they were doing. Feedback from their internal customers was generally about what a bad job they were doing. But without specific measures, they were operating "in the dark."

We will show how they transformed themselves and used their Performance Scorecard to guide their Lean Implementation and improve every-day department business.

The HR Performance Scorecard
In hospitals, one of the key performance issues is recruiting and retaining nurses. There is a national nurse shortage. The Human Resource Department was not meeting it's goals in recruiting timeliness.

The first step of a Lean implementation is to make sure you are linking the project to improving measureable performance. Lean should not be done to "make the workplace better", "improve customer satisfaction" or any other number of un-measured slogans. Therefore, the first step is to make sure the area you are streamlining has a working Performance Scorecard.

The Purpose Statement
Before determining the performance measures on your scorecard, you need to make sure that everyone is clear on the organization's purpose. This is sometimes called the Mission Statement. It is the reason everyone comes to work, besides the paycheck.

SupplyVelocity®

This human resource department came up with the very elegant statement:

"Assure an Effective Workforce"

Measures of Success
Once the purpose is clear, you can measure whether you are achieving that purpose. "Few measures in the hands of the many" is better than "Many measures in the hands of the few." Therefore, this human resource department selected only five measures.

These measures are balanced and represent how the human resources department assures that the hospital has an effective workforce.

Purpose: Assure an effective workforce

Measure of Success Description
% of vacancies that are filled within 90 days
Achieve % retention rate for employees that were new hires in the previous 36 months
% of supervisors that have completed 20 hours of supervisory training
% of disciplinary and adverse actions issued within 3 weeks of the infraction
% of employees who obtain at least 16 hours of non-mandatory training in the FY

Weighting the Scorecard

The next step is to prioritize these measures. This creates further focus for department employees. Not only have they created a few key measures, but they've prioritized them from most to least important.

Purpose: Assure an effective workforce

Measure of Success Description	Weighting
% of vacancies that are filled within 90 days	35%
Achieve % retention rate for employees that were new hires in the previous 36 months	30%
% of supervisors that have completed 20 hours of supervisory training	20%
% of disciplinary and adverse actions issued within 3 weeks of the infraction	10%
% of employees who obtain at least 16 hours of non-mandatory training in the FY	5%

Setting the Performance Levels

The last step to creating the Scorecard is to determine the performance levels. This is done with a color system:

- Green (at or above) = Great Performance
- Yellow (between green and red) = Expected Performance
- Red (at or below) = Unacceptable Performance

Purpose: Assure an effective workforce

Measure of Success Description	0% Below	100% Expected	200% Exceed	Weighting
% of vacancies that are filled within 90 days	70	80	90	35%
Achieve % retention rate for employees that were new hires in the previous 36 months	75	80	85	30%
% of supervisors that have completed 20 hours of supervisory training	85	90	95	20%
% of disciplinary and adverse actions issued within 3 weeks of the infraction	85	90	95	10%
% of employees who obtain at least 16 hours of non-mandatory training in the FY	65	75	85	5%

The Scorecard Action Plan

Perhaps the most important part of the Performance Measurement System is the Action Plan. This is a list of projects that are happening in the department. This action plan has action item owners and expected completion dates. You should limit the number of action items/projects to 5 or fewer. The fewer actions the department is working on at one time, the more likely they are to get them done. Below is the human resource department's Action Item List. Note how all action items are linked to specific performance measures.

By having an action item list, you will make the scorecard more than a communication tool. It will tell associates in the department how they are doing, but more importantly, what the department is doing to improve performance.

It is also a tool that the HR Director used to communicate with the Hospital Executives. She would sit down with the Executive Team to make sure they knew what she was doing and also to ensure they weren't giving her department tasks to complete that was not going to improve the department and hospital performance. Executives have a way of asking their subordinates to do things for them, without thinking through if it is a "nice-to-do" or "critical-to-performance."

Human Resource Department – Performance Action Item List

Performance Measure	#	ACTION ITEM	ACTION ITEM OWNER	START DATE	TARGET DATE
Vacancies Disciplines	1	5S Visual Organization of HR Offices	Lynn	Oct-07	Oct-08
Vacancies Retention	2	Nurse Recruiting Project	Lynn		when goal is met
Retention	3	Nurse Salary Survey	Arlene		Jun-08
Vacancies	4	Lean the Recruiting Process	Lynn	Mar-08	Mar-09
Vacancies Disciplines Training	5	Adding 3 new HR Staff	Lynn	Feb-08	May-08

When one action item is complete, they can add another, so at all times they are usually working on five projects. To handle more ideas we made a list of projects-in-waiting that the human resource department will tackle when they finish current projects.

Using the Performance Scorecard

The Performance Scorecard must be put into action. To make the system effective, the human resource department reviews the scorecard with all employees each month at a 15 minute performance review meeting. This meeting is quick and effective. It reviews actual performance and an update on action items. It gives the human resource team a performance update and status of action items. No one is in the dark!

The Performance Scorecard and Executive Management

A very important part of making the Performance Scorecard effective, is to get buy-in from Executives. At this hospital we needed their agreement that these measures and goals were correct. Most importantly, we needed their promise not to add new projects to the human resource department without making sure that the current list was getting closed-out.

This ensures that new projects will directly improve their key performance measures. It is hard to limit action items in most organizations. Without visibility Executives and Managers tend to add action items without making sure they are completing what they started. However, if implemented correctly the Performance Scorecard System creates focus, both for the employees of the department and for the top management.