SCORECARDING CONCEPTS: How to drive strategy and manage performance

A COGNOS WHITE PAPER

THE NEXT LEVEL OF PERFORMANCE™

This edition published November 2007

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Introduction

Scorecards are one of the key tools that can help executives manage strategy effectively and execute on objectives. Yet many scorecard projects fail or deliver less than desired results. Why? They are not set up efficiently or effectively.

While there is no one-size-fits-all approach, organizations can benefit from following some basic guidelines for scorecard development. This paper provides some of these concepts to help users ensure their projects succeed. A companion white paper, *Scorecarding best practices: Choosing metrics and setting targets for performance management*, takes you beyond the basics and into the realm of choosing metrics and setting targets.

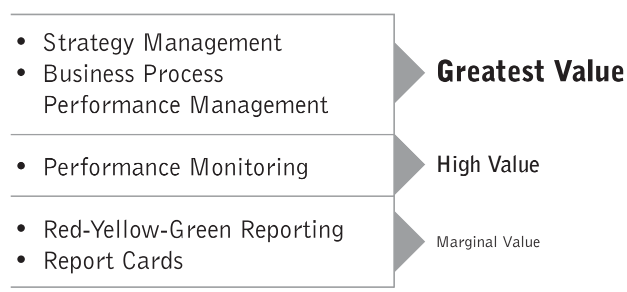
Types of scorecards

Executives are responsible for strategy and performance management. Scorecards can support this process. As such, they are considered executive tools in their own right, not just extensions of reporting and planning.

As well, not all scorecards are alike, and users should understand the different values each provides. There are five types:

- **Strategy management:** This type of scorecard is used to manage strategic objectives, not individual metrics. An indicator is used to highlight the performance of each objective.
- **Business process performance management:** In this case, key performance indicators (KPIs) are used to measure core business processes or customer value proposition(s). Less is more—the fewer the items, the more effectively they can be managed.
- **Performance monitoring:** A performance monitoring scorecard is used to track the larger number of metrics and respond if needed.
- **Red-yellow-green reporting (RYG):** RYG results when the scorecard environment becomes a repository for all the measures within an organization. Note, this is different than conditionally formatting reports and while conditionally formatted reports are highly recommended, using a scorecard to house all the measures and metrics of an organization is not a recommended practice. You are not going to set targets for all measures, and any attempt to do will result in poorly defined targets, misdirected efforts, and a watering down of communicating what is important to the organization. There is a time for a scorecard and a time for conditional reporting, knowing when to use each is a key to success.
- **Report cards:** These are reports similar to quarterly or annual reports. By definition they provide lagging indicators, which means they don't support proactive remediation. They explain what happened after the fact, and have a diminished value in driving strategy.

If you understand your goals and values and use an appropriate environment to manage them, you can set up your scorecard successfully. Mixing purposes causes confusion, and can delay projects. Worse yet, a poorly designed scorecard can result in a very low (and declining) adoption rate, which wastes corporate resources.



Metrics, KPIs, and strategic objectives

It is also important to understand how and when to measure the various elements of the organization. All information is not equal. To understand the distinctions, you should be aware of the different measurement elements:

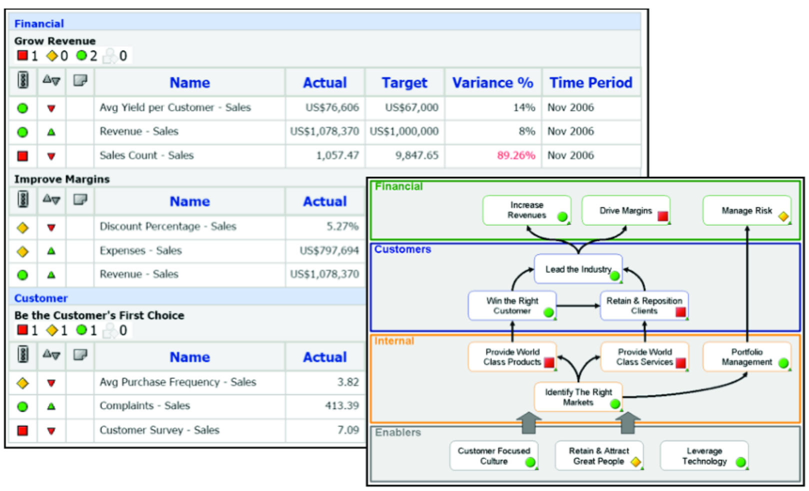
- **Data:** These are business numbers that have not been analyzed or tested Publishing them only adds clutter and minimizes understanding of the items that matter to the business.
- **Measure:** This is a numerical expression of a component of the business. Measures have been tested and provide meaning through a number of dimensions—such as product line, sales region, or time.
- **Metric:** This is a measure with a target. For example, metrics could represent the components of core business processes. Defining metrics requires time to set well thought-out targets.
- **KPI:** This is a high-level, strategic metric that defines productivity or efficiency. For example, items such as profit per employee, revenue per square foot, marketing influenced revenues (MIR), or average selling price help explain the business via ratio or percentage. You might not set specific targets for a KPI. But you are looking for improvement or an indication that something has changed. KPIs are also used to compare progress against the competition.
- **Strategic objective:** This is a description of what the organization has to do to achieve its overall mission. It is not a quantitative measure. Strategic objectives may change over time, but they should not evolve too much from year to year.

Scorecards, dashboards, and strategy maps: What is the difference?

Scorecards and dashboards are often used interchangeably. But there are differences. Knowing when to use each appropriately will provide the greatest chance of adoption and success.

A *scorecard* is a framework that uses visual elements to draw attention to various levels of performance—often using red, yellow, and green status indicators. To manage strategy effectively, scorecards should be heavily integrated into the management process. As a proven practice, scorecards should display KPIs and metrics at a monthly level to reinforce a regimented timeframe

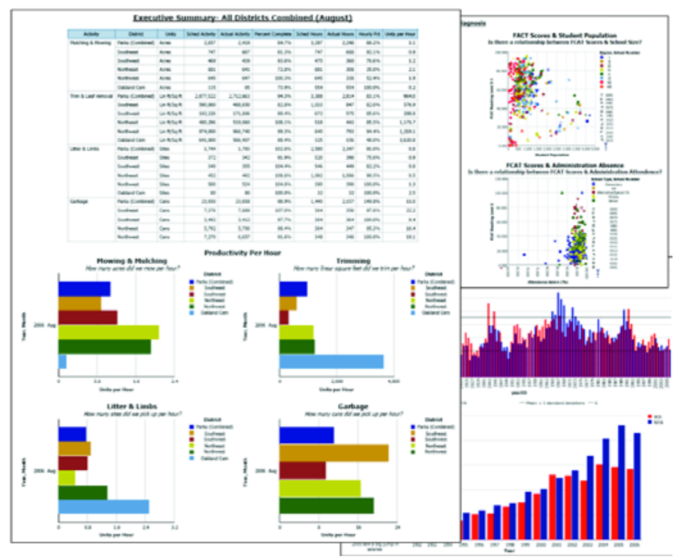
A *strategy map* is a casual diagram that shows how the strategic objectives impact each other and the corporate mission. It becomes a communication tool for the organization, so everyone can understand strategy and what they need to do to improve performance.



A balanced scorecard and strategy map

A dashboard typically displays operational or real-time data. KPIs and metrics are shown in various dimensions. This capability can often be provided within a single report. A dashboard can include red, yellow, and green conditional formatting to highlight problem areas—similar to a scorecard.

As an analogy, you can think of dashboards and scorecards in terms of driving a car. On the dashboard of your vehicle, you have a series of operational dials that provide tactical information. But this information doesn't help you determine how to get to your destination—these are strategic decisions and require a scorecard.



Dashboard reporting

Chasing the right metrics

If you don't understand the strategic importance of an objective, KPI, or metric, your natural reaction may be to look for just the "red" metrics. However, you want to avoid focusing on just these indicators: they may in fact have little impact on the organization. And you could miss out seeing that a marginal metric (yellow) is actually having a greater effect on the business.

One of the ways around this issue is to understand the weight of each objective. This way, the KPIs and metrics that support it are seen in the right context, and give a clearer picture of how that objective is performing relative to the business.

Different time dimensions, different information

A scorecard helps you manage work *on* the business on a monthly basis. While dashboards help you work *within* the business on a more daily basis.

With this in mind, it is important to build a platform that provides the correct information at the right time. Looking at a KPI or metric at a monthly level versus a metric at an operational level provides widely different levels of variance. It is this variance that you want to manage.

For example, reviewing inventory levels operationally provides a gauge of potential order shortages. While at a monthly level it provides information about supply chain and inventory management capabilities.

As another example, a call center dashboard will tell you that you may need to shift a resource to cover a desk for a day or two. While a related scorecard presents the same metric to support long-term decisions on allocating headcount resources.

What is your business focus?

Customers look for companies with different types of values: such as security, convenience, comfort, or luxury. These can be streamlined into three primary business areas:

- Product leadership
- Operational excellence
- Customer relationships

Research shows that companies that achieve breakthrough performance usually have a strong identity in one of these areas. They become good at the others over time.

One of the problems we commonly see is that strategic objectives are out of alignment with customer value. By understanding our primary business focus, we can better align our objectives to what consumers consider important. In turn, this provides the scorecard platform to communicate and align corporate resources in order to achieve execution on strategy.

Aligning core business processes and customer value

When choosing KPIs and metrics, you want to ensure they align with customer value in terms of your core business processes.

Consider a call center. What the customer wants is a prompt and helpful response. So you should be measuring the process in terms of two key indicators: time (response time) and quality (first call resolution). What you don’t want to measure are costs, calls per person, and so on. The customer doesn't care about these items—by including them, we muddy the water. These items could be included in an associated report, but they shouldn’t be managed in the same way as time and quality.

In a similar way, you don't want to include two similar types of metrics. Often, we try to measure both raw value and some representative percentage equally. But, if you consider the customer's perspective, you can usually identify which has the greater value in terms of strategy and performance. The other metric then becomes secondary information, perhaps documented in an associated report.

In this context, a scorecard not only provides a tool to help manage performance, it is also a communication vehicle. Returning to the call center example, if you measure response time and first call resolution, you are showing the organization what really matters to the business.

In this way, you enable the business to understand how each role impacts performance. In turn, you allow people to make decisions that will enhance value and make the process even more efficient or effective.

Other BI tools can help. Dashboards, cubes, and reports add color to objectives, and provide important analysis and diagnostics. But keep the scorecard focused on the few items that really matter to the organization. By maintaining a consistent, monthly system where the scorecard and management process are interdependent, you stand a greater chance of long-term success.

Summary

In closing, consider the following key points for managing strategy and performance via a scorecard. They will help lead your organization to the best possible results:

- Ensure design and implementation are led by the executive team.
- Ensure the scorecard is heavily integrated into the monthly management process—it should not be an occasional tool.
- Enlist someone such as a strategy officer to own the process.
- Use the scorecard to communicate strategy and the importance of each strategic objective.
- Tie incentive plans to achievement targets. It will improve the chances of people adhering to strategy execution.

About the Author

Michael Ensley leads the Cognos Strategy Management Practice and works with our marquee clients to develop their strategy and performance management systems. Michael has been using and designing scorecards for over 10 years.

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PRINTED IN CANADA
(11/07)