IBM

Moderator: Tim O'Bryan
November 19, 2009
12:35 p.m. CT

Operator: Good day, and welcome to today's Web conference.

During today's event, all participant lines have been muted to prevent background noise.

If you require technical support at any time, please press star, then zero, on your touchtone phone, and someone will assist you.

This event is being recorded.

There will be a question-and-answer session after the formal comments. You may submit questions electronically throughout today's presentation using the question-and-answer feature on the Web.

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We will gather your questions throughout the presentation and address them as time permits during the Q&A session.

Again, today's session is being recorded. We will pause for a moment to initialize the recording. Please stand by.

We would like to welcome everyone to today's Web event titled "IBM Cognos Innovation Center for Performance Management Webcast Series."

At this time, it is my pleasure to turn the floor over to Mr. Tim O'Bryan. Mr. O'Bryan, you may go ahead.

Tim O'Bryan: Thank you very much. And welcome, everyone, to the inaugural best practices in action Webcast series, featuring strategy management best practices, led by the Hackett Group.

Our speakers today will be Brent Windsor, product marketing manager from IBM in the Cognos segment, as well as Tom Willman, enterprise performance management advisory practice leader for the Hackett Group.

Before I hand the mike over to my colleague, Brent Windsor, I wanted to briefly tell you all a little about the IBM Cognos Innovation Center for Performance Management, which is sponsoring this Webcast.

The IBM Cognos Innovation Center for Performance Management is a membership-based group which consists of IBM customers in the Cognos segment from all around the world. Currently, we have over 6,000 members, which are a part of this community.

We also have a part of our community which includes third party thought leaders from across all spectrums of performance management and business intelligence. And that includes planning, budgeting and forecasting, strategy management and scorecarding, some (inaudible) analytics and optimization, reporting and analysis. Yes, all of those practices, we have subject matter experts who participate in our community through presenting in our live and Web-related events, as well as writing thought leadership that we make exclusively available to our community.

There are many benefits to becoming a member of the Innovation Center, one of which is that you get access to the IBM Cognos Performance Blueprints.

These blueprints are (pre-build) data process and policy models that are packaged solutions based on an existing business practice like workforce planning. They're also across industry lines, as well.

For example, in retail we have store operations planning blueprints, and many others. And I encourage you all after this Webcast to go out to our Web site at ibm.com/cognos/innovation-center, to find out more about other blueprints that the Innovation Center provides.

We also host the customer advisory board meetings. We also do user groups, as well, and have an online community, and have a Facebook group as well as a Twitter group, and a LinkedIn group. All of this, I will make sure in our follow-up communications coming out of this Webcast, that you all get more information on and can learn how to not only become a member of the Innovation Center, but also get access to the other deliverables that the Innovation Center provides.

Some of the benefits of being in the Innovation Center include getting access to our monthly newsletter and calendar of events. I mentioned the exclusive thought leadership and online community. There's other Webcasts that we do on a monthly basis. One just for our membership is the IBM Cognos Performance Blueprints in Action Webcast the first Tuesday of every month at 11 a.m. Eastern. We feature a different performance blueprint in that Webcast.

We also deliver a few other Webcasts. So, the first Tuesday of every month I mentioned the "IBM Cognos Performance Blueprints in Action Webcast," Tuesday at 11 a.m. Eastern.

The second Tuesday, you're all a part of this one. The Best Practice in Action Webcast series features a different best practice in the financial performance management suite.

The third Tuesday of every month we make available to all our customers is something we call "Financial Performance Insider." And we feature a different solution, a different product within our Financial Performance Management Suite.

And then that last Tuesday, we have something called "B.I. Strategies," which is another Webcast focused on a best practice within the business intelligence or reporting and analysis practice.

We have other live events that we deliver, some of which you can see here on "Rolling Forecast Strategy Management Scorecarding," "Smart Expense Planning and the Management Experience." And as I said, I'll make sure you're all updated on each one of those workshops and Webcasts coming out of this event in a follow-up communication.

So, just real quickly before I pass the mike over to my colleague, Brent Windsor, I just thought we could take a quick poll from everyone, to just get a sense of what products you're all using today. You might be using one of these, or a few of these. Or perhaps, maybe you're not using an IBM Cognos solution today.

But if you could just take a second and fill this out, that'd be fantastic. And then we can get started.

OK. Great. That's great. Thanks everyone for responding to that.

OK. Thank you, everyone.

And now, without further ado, it's my pleasure to introduce my colleague, Brent Windsor, product marketing manager for IBM – Brent.

Brent Windsor: Thanks, Tim. And welcome, everyone, today. As Tim mentioned, my name is Brent Windsor. I'm a product marketing manager here at IBM Cognos. And I represent strategy management and scorecarding solutions.

So, what I'm going to do right now, I'm going to take a few minutes to talk about IBM Cognos software and how it helps drive business performance. And then I'll pass it over to Tom.

So, how does Cognos help with improving the performance of an organization?

As you know, there are many different factors that affect performance. But one factor stands out as the most critical and the most fluid. So, that critical factor is the decision-making that happens at every level, in every function, in every region of your organization.

So, every one of these decisions is based on the information people have on hand. That information is created from data that is produced and stored throughout the organization. So, when that data is grouped, categorized and designed into information that business users can access, better decisions result.

So, the discipline of performance management is about asking and answering three vital questions, often in rapid succession. And these questions play out across all departments in any enterprise.

Measuring and monitoring performance helps answer the question of how an organization is performing at any given time. So, here, scorecards and dashboards are used to provide different types of information to answer that "how are we doing" question.

Planning helps answer the question of what an organization should be doing in the future. And reporting and analysis helps answer the question of why an organization is performing a certain way, providing those diagnostic details underlying business performance.

Essential to performance management and to the business user themselves, are the universal capabilities of the IBM Cognos Performance Management System. Now, these capabilities deliver targeted information to decision-makers whenever and wherever they need it, but the level of information interaction they need to perform their tasks.

These capabilities enable people across the organization to view and interact with the information they need to actually impact performance, regardless of where the individual (fit), at any level or any function in the organization.

So, they enable decision-makers to set a forward view of the business and allocate resources with planning, budgeting and forecasting. They can measure and monitor those plans against actuals with scorecards and dashboards. And they can see the impact of factors on product lines, customer segments and operations with reporting (and) analysis.

So, with all these capabilities, query reporting (in the office), scorecards, dashboards and planning, the business has a full range of capabilities they need for decision-making in one complete performance management system, and the result of full and complete ability to address the business user demands for greater usability, accessibility and control.

IBM Cognos 8 BI scorecarding is a core capability within the IBM Cognos 8 BI platform. And it automates the strategy management process helping organizations link strategy to execution.

For those organizations that just need basic performance monitoring, Cognos 8 BI scorecarding satisfies the need for metric visualization and consistent metric calculation. It allows you to create a metric in a consistent manner. And because it's deeply connected to an integrated B.I. infrastructure, you can monitor those metrics in a Cognos 8 BI report, a dashboard that will update automatically when the data supporting the metrics changes.

For those organizations that need to create scorecards to manage performance across teams in a consistent way, Cognos 8 BI scorecarding allows you to track performance against departmental, team or franchise objectives. Every metric is assigned an owner, has a target, and that creates accountability and focus.

Metrics can be linked to B.I. reports and analysis to show those underlying details as to why a metric is performing a certain way.

From a strategy management perspective, IBM Cognos 8 BI scorecarding achieves all of what we've talked about, and also allows an organization to communicate strategy across the organization through scorecards and strategy maps, ensuring that strategy is linked to operations whereby all departments are defining projects and activities that support the strategy.

So, if you're an organization, and you're trying to implement a balanced scorecard, IBM Cognos 8 BI scorecarding provides a full range of capabilities for you to automate that process.

So, with that, I'm going to pass it over to Tom Willman. And Tom's got a great presentation to share with everybody on best practices in strategy management.

Tom Willman: Great. Thank you, Brent. And thanks to Tim in the Innovation Center for giving us the opportunity to participate in the "Best Practices in Action" Webinar series.

Again, my name's Tom Willman. I'm the global practice leader of the Hackett Group's Enterprise Performance Management Advisory Program.

I'm very excited about the opportunity to share some of the work that we've done in helping companies really improve the alignment between strategy and execution through the effective use of balanced scorecards.

But before we dive in, let me start with a quick overview of the agenda.

First, for those of you who may not be familiar with the Hackett Group, I'd like to take a couple of minutes to introduce you to who we are as a firm, and provide some context around how we approach and analyze what we define as world class performance.

Then we'll talk about integrating, planning and performance management processes, and how organizations link their strategic plans with their operating plans and annual budgets, and how forecasting and performance reporting are used to manage and monitor how they're executing against those plans. And this is absolutely a critical part to aligning strategy with execution.

Then we'll talk specifically about the balanced scorecard and its role in the organization. And it's not just a measurement tool, but really is a strategy management tool.

And then, lastly, I'll take you through a brief case study of an organization called Statoil Hydro that's been particularly successful in utilizing the balanced scorecard framework at all levels of the organization.

We've also published a research perspective on this case study. And that will be available for you to download from the Innovation Center's Web site.

So, let's start with a brief overview of the Hackett Group. We are a global strategic advisory firm focused on helping and really empowering our clients to improve performance across their general and administrative processes – finance, IT, procurement and HR.

And while our heritage is in benchmarking, most people that have heard of Hackett typically associate us with benchmarking. We also have an extensive transformation consulting capability, both across G&A and within working capital management. We have functional and process level membership advisory programs and technology implementation services.

However, the foundation of everything that we do, regardless of what service line you're talking to, are the metrics, the practices and the insights that come from our robust and global benchmark database. We've conducted over 4,000 benchmarks with over 2,700 organizations globally to-date.

And what makes Hackett unique is that, in conducting these benchmarks, we apply a common process taxonomy with very clear process definitions that all of the organizations that participate in our benchmark studies must adhere to when they collect data around things like staffing and costs and volumes, which really gives us great confidence that we've collected data consistently from all participating organizations, which can support valid apples-to-apples comparisons across different industries, different business models and different organization structures.

Now, I also want to talk to you a little bit about what we mean when we talk about world class performance. World class is often a term that gets used somewhat loosely, and many perceive it to be synonymous with low cost. But that's not how we view world class.

We define world class to mean when an organization has struck an appropriate balance between the efficiency or the cost of the finance function with the effectiveness of the value delivered by the finance function. And a world class finance organization is one that's achieved top quartile performance in both of those dimensions.

So, you'll see some comparisons between world class organizations and what we call the peer group, which is really the median level of performance for those companies that aren't world class.

But in addition to the performance comparisons, which – you know, those are helpful in understanding what's possible, the magnitude of potential improvement opportunities. What we want to highlight – and what we hope you'll take away from here – are really the insights into what are world class organizations doing differently from the peer group that enables them to achieve superior performance.

Now, this next slide, just wanted to give you a sense for the types of companies that we work with and that make up our benchmarking database. We've worked with 97 percent of the Dow Jones Industrials, 73 percent of the Fortune 100. This really shows you some of the more recognizable companies that we work with.

But it's important to note that we do work with companies of all sizes – anywhere from $100 million in annual revenue to well over $100 billion – across all industries and in both the public and private sectors, which allows us to make comparisons between companies of different sizes, different levels of complexity, and different levels of growth and maturity.

I want to spend just a minute on the methodology that we use to identify world class performers. We use what's called our Value Grid methodology to do this, to identify those organizations that have achieved top quartile performance in both efficiency and effectiveness. And there's over 250 combined metrics that go into this formula, but just wanted to provide you an overview of what's included in that.

While we might gravitate towards metrics that highlight opportunities to reduce costs – those tend to be more tangible, more eye-catching – you'll notice that costs is just one of the metrics that we look at in efficiency. We also look at things like staffing and span of control, cycle time and productivity metrics, and technology leverage in terms of automating transactions, distributing more reports.

On the effectiveness side, we look at things like quality, which would include error and rework rates in the transactional processes, as well as plan and forecast accuracy in the FP&A world. We look at access to information and how well an organization is leveraging self-service, to really move finance away from being a concierge, and enabling business leaders to access and interact directly with the information they need to make key decisions.

We look at the role that finance plays in strategic decision-making processes and the alignment with the business in terms of the information and decision support that they're bringing to the table. And working capital is clearly a component of this, as well, as free cash flow for us is one of the key determinants of shareholder value.

And the reason for sharing this with you is just to underscore, when I provide comparisons to world class performers, I want you to understand that it's not an opinion, but an empirically based formulaic approach to identifying those organizations that are doing very well.

So, now let's talk about world class performance. And one of the first questions that we often get is, does being world class matter? And it's our view that it is absolutely critical in competing in today's marketplace. Organizations that are able to reduce the complexity and costs associated with delivering G&A services and improve the service levels that they provide by driving process excellence, G&A can become a strategic enabler to the business, as opposed to just an overhead cost.

And, you know, if we start looking at world class performance from a cost perspective, you can see at the bottom there's significant cost gaps between world class and their peers across all functions – anywhere from six percent in the IT organizations to 47 percent when we look at finance, world class finance organizations relative to their peers.

And I'll share a little bit more about how finance drives that cost performance in just a minute.

But the real story with world class performance is on the effectiveness side. And again, we can see this across all of the functions.

If we start with finance, when we look at organizations with what I'll call world class enterprise performance management capabilities – this would include your planning, budgeting, forecasting, your management reporting – and we look at how those organizations performed in the equity markets relative to an industry peer group, we found that they delivered 2.4 times the industry relative return.

And so, it's very clear to us that the importance of a planning process, or the EPM processes, shouldn't just be measured from an efficiency perspective alone.

Now, I would go so far to say that there's a direct causality here. But certainly, you would expect that organizations with reliable and responsive and accurate planning and forecasting processes, that allowed them to course-correct and calibrate supply chains to shifting market conditions, would outperform those that don't.

Similarly, in IT organizations that have world class IT business value management processes that clearly align their IT investments with specific business needs and requirements, would outperform their peers – as do HR organizations with world class talent management capabilities.

When we talk about talent management, we're talking about things like strategic workforce planning, or aligning the skills and competencies of the work force with the changing needs of the business; work force development, so learning development strategies; and organizational effectiveness.

And world class procurement organizations deliver a return on investment of three times the peer group when you look at the annual spend savings that they deliver, divided by the annual cost to operate.

And that's really the story of procurement. Even if you flip that cost gap to say that world class procurement organizations spend 25 percent more than their peers to operate the function, they would still deliver greater benefit to the organization in the form of spend savings.

So, let's drill into finance for a minute. And again, you know, we continue to see that they're driving superior value at far lower cost. As we said on the slide before, world class finance operates with 47 percent less cost as a percent of revenue, and 52 percent fewer staff per billion dollars of revenue than their peer group.

On the efficiency side, they generate and distribute 64 percent fewer management reports per billion dollars of revenue. They source 30 percent more of that reporting from a central data repository, or single source of truth, and can complete their budgets in 25 percent fewer days than their peers.

On the effectiveness side, they generate 43 percent fewer billing and payment errors. And I think we can all appreciate how disruptive that can be, not just in terms of the cost and time associated with the rework, but the cash flow or the working capital impact that can have, as well.

They have 12 percent lower day sales outstanding, generate cash flow forecasts that are 58 percent more accurate. And they're almost 90 percent more likely to have a documented strategic plan in place for the finance organization.

Now, virtually every organization you talk to has a strategic plan for their enterprise overall. But this means that the finance organization has a documented plan for what services they offer, how and from where they want to (deliver services), and what investments they need to make to achieve those plans. And again, this is also critical in being able to manage and monitor progress against that strategy and clearly link strategy with execution.

So, when we talked to organizations that have achieved world class performance, there's a number of common themes that emerge – that continue to emerge. Regardless of size or industry, world class performers invest in initiatives to eliminate and simplify what they do, standardize how they do it, both in terms of process and organization, they leverage technology to automate what they do, and improve their alignment with the businesses that they support.

And this slide is just meant to show a few examples of how world class organizations have done this.

So, again, from a simplification and elimination perspective, they've dramatically reduced the number of management reports per billion dollars of revenue that finance must generate and distribute. So, they've done a much better job of rationalizing the reporting that they do, eliminating a lot of the redundancy that we see in most organizations, and really focus the attention of management on the most critical aspects of their business.

From a standardization perspective, they rationalize their secondary finance applications portfolios – so, planning and reporting tools, consolidation tools, other enabling applications – and driven enterprise standards for those.

From a technology leverage perspective, they've opened up access to management reporting to a far greater percentage of their operations managers, which give those users of management reporting information – or the real decision-makers – the ability to directly access and interact with the data. But they need to make decisions, and they're not so reliant on finance to crank out reports that, you know, they have to wait for.

And from a business alignment perspective, the financial analysts in world class finance organizations are better equipped, both in terms of their business acumen and experience, and the financial skills to truly operate as a business partner with their internal customers in delivering high-quality decision support.

So, now we can move into strategy management and how world class finance organizations have linked their strategy with execution. And it really starts with ensuring that their planning and performance management processes are fully integrated from the top to the bottom.

So, world class finance organizations have integrated all of these processes into what I'll call integrated control loops, that provide continuous feedback on how the organization is performing against targets and objectives established during the planning process.

And we start with the long-term strategic plan, where the business and functional leaders are defining the vision and the strategy for the organization. Typically, this process has a five-year horizon – some organizations longer or shorter than that – but most organizations, it's a five-year horizon.

And it includes both qualitative components, so defining product and service portfolios, exploring geographic reach, M&A opportunities, but also quantitative targets such as, where do we want to be from a market share or a market position perspective, what are our high-level revenue and margin targets, cash flow targets, things like that. And a critical output of that process are clear, high-level targets and objectives that each major business and the enterprise as a whole must deliver on.

Then the targets and objectives from that strategic plan are then used and pushed down for the mid-term operating, or what I'll call business planning process, where the businesses are then translating the strategies and the objectives into initiatives that'll have more of a medium-term impact on performance – so, one to three years. In most organizations, this is a three-year horizon.

And then, a critical output of that process are the financial and operational targets for each year in that planning horizon, that can then be used to inform the annual budgeting process.

So, the financial targets for year one in the mid-term operating plan in essence become the targets for the annual budgeting process at the business unit level.

And the budget targets are then cascaded down into the organization. And budgets are built to demonstrate how resources will be deployed and what actions are going to be taken in that one-year period, to support the initiatives outlined in the operating or business plan, and ultimately deliver on those targets for the year.

So, through such a tight and focused cascade, if you have a country manager out in the field, they know that the targets that have been set for the budgeting process are directly linked to those that support the longer term strategic goals of the organization.

And then, the other EPM processes, such as the forecasting and management reporting, are then focused on highlighting how well the organization is performing against those targets, identifying any gaps in performance, and highlighting the actions that are necessary to close any of those gaps.

And so, this integrated approach ensures that the businesses are ultimately executing on plans that have a direct and visible linkage to the strategic goals of the enterprise. So, that's absolutely critical in this strategy management process.

Now, how does this contrast with what we see in most organizations?

In most organizations that I talk to, although they may say they have a top-down target-setting process in place and a very clear linkage with the strategic objectives of the organization, the reality is that most still operate with primarily a bottoms-up approach to planning.

This leads to a lot of non-value-added activity, sandbagging, gamesmanship – whatever you want to call it – where the businesses are holding back, because they know management's going to ask for more. And management asks for more, because they know businesses are holding back.

So, you get into this, what seems like a never ending cycle where the annual budgeting process consumes five or six months of the organization's time, and you end up with a budget that's outdated or irrelevant by the time it's approved. And the budget's typically based on historical performance, as opposed to really being a reflection of strategy.

Whereas, in a world class environment, there's a much stronger tops-down approach, where the targets are driven by strategy, and, importantly, are non-negotiable, which leads to a much shorter budget cycle and a budget that's still valid when it's approved.

Now, the reality is – and I'll share another metric with you – there are opportunities for improvement, even in the world class organizations, when it comes to fully integrating their planning and performance management processes. While world class finance organizations are twice as likely to have fully integrated processes, the reality is, only 45 percent report that they've actually gotten to that state. So, there's still – there's still some runway there for even the world class organizations to improve that integration and linkage between strategy and execution.

So, now let's talk about a tool that we've all heard about for a long time, but when implemented correctly is an extremely effective tool in managing strategy and execution, and that's the balanced scorecard. And I'll start off with a performance metric before we dive into the details of the balanced scorecard.

When we look at world class finance organizations, 85 percent report that they utilize a balanced scorecard, or a similar process, that combines financial and operational metrics to measure and manage performance versus only 53 percent for the peer group.

And I will say that there are some key best practices that go with the utilization of a scorecard program – things like strong executive leadership on decision support priorities, a focus on key business drivers, common data standards and sources, and the integration in the planning processes that we talked about earlier, that impact whether a scorecard program is successful or not.

So, the existence of a scorecard program, in and of itself, doesn't necessarily drive success. And we'll explore what's needed for it to be successful over the coming slides.

But I'd like to pause for a moment and do a quick polling question. I'd just like to get some perspective from the participants around to what degree you've implemented a balanced scorecard or similar program. So, (Erica), if you could open that up, I would appreciate it.

And your options, your response options, are: none, so we haven't implemented a scorecard program; currently being developed or in early stages of utilization; balanced scorecard reports are generated, but we really have some work to do and some refinements that need to be made; or we have a mature scorecard program in place that clearly incorporates both financial and non-financial measures.

Just another second, and then, (Erica), if you could post those results, I would appreciate it.

Operator: All right. I'm going to go ahead and close the poll.

And your results.

Tom Willman: OK. And so, we've got a tie between either we haven't started implementing the balanced scorecard, or we're very early in the development process.

Very few of you actually said you have a mature balanced scorecard program in place. So, I'm actually glad that you're here, because I think there's a lot of good takeaways that you can take from here.

So, let's talk about the balanced scorecard concept and framework. And the first thing that we have to get organizations past is the belief that the balanced scorecard is purely a measurement system. In fact, the most common question that we get (when we) talk about scorecarding is, what are the best metrics to include in a balanced scorecard?

And that question, in and of itself, reflects a fundamental misunderstanding of both the role and the structure of the balanced scorecard, which, if we don't clear that up and get past that question, it really eliminates the possibility of really securing the full benefits from a balanced scorecard implementation.

If we look back at the early adopters of Kaplan and Norton's balanced scorecard, who are widely acknowledged as the founders of this concept, those who had achieved dramatic performance breakthroughs said that the key to their success in using financial and non-financial measures was not the measures themselves, but really the anchoring of those measurements to a set of strategic objectives in the strategy map.

So, I just wanted to highlight a couple of important quotes that I think really reinforce what a balanced scorecard program's intended to be.

So, first, the balanced scorecard is a strategy management and implementation system that comprises a strategy map and an accompanying scorecard of strategic measures, targets and initiatives. And the balanced scorecard system is not a measurement system. It is a strategic management system, of which strategic measurement is but one component, and plays a supporting role to strategic objectives.

So, again, absolutely about managing strategy. And measurement is a component of that, but not the most important component.

So, let's talk about some of the steps to create a balanced scorecard.

And the first step is to develop a strategy map. The strategy map is designed to describe the key objectives, that if we deliver those successfully, will mean that we've successfully implemented our strategy. And I've included a high-level example here of two potential strategies for a financial services firm – one focused on revenue growth, the other focused on improving productivity.

(Inaudible) growth strategy defined as broadening the sources of revenue from our current customer base presents the following objectives across four perspectives.

So, from a financial perspective, we need to improve our financial returns. From our customer perspective, we need to broaden our revenue mix by increasing customer confidence in our financial advice. From an internal process perspective, we need to better understand our customer segments. We need to develop new products and to improve our ability to cross-sell these products.

And then, from a learning and growth perspective, we need to increase employee productivity by further developing the strategic skills that we need, providing better access to information and aligning personal goals with those of the company.

And you can contrast that with the productivity strategy, which is defined as improving operating efficiency by shifting our customers to more cost-effective channels of distribution.

And that has the following objectives: financial's the same, so improve our financial returns; from a customer perspective, increase our customer satisfaction through superior execution; our internal process objectives have changed (inaudible) shift customers to an appropriate channel, minimize our process breakdowns and provide rapid customer service responses; and our learning and growth objectives are similar to the revenue growth strategy.

So, you can see that these aren't plug-and-play templates. You really do need to spend time thinking about what is your organization's strategy? What are those key objectives that we need to deliver upon to ensure that we implement that successfully?

And this is really the most important task of any balanced scorecard project. Unfortunately, it's the one that gets skipped over the most. But if you can get this right, it becomes much easier to identify meaningful measures and targets and initiatives, since the end goal is clear.

You can do this at an enterprise level. Or where organizations haven't, or don't have that support, or haven't started something at the enterprise level, you could absolutely start this at a functional level, or for a shared service organization.

One point of caution in developing the map is, it is important to limit the number of – limit the number of objectives to the critical few. When you've got too many objectives and too complicated a strategy map, the scorecard can become a little bit overwhelming to manage, and the program will eventually die.

But that makes it critical that senior leadership participate in the development of this strategy map, to ensure that that focus on those, you know, really critical objectives that will drive step change improvements and performance are the ones that ultimately get selected.

Now, once the strategy map and the key objectives are agreed to, it's time to identify the measures and the targets and the initiatives for each of the four perspectives that I described on the previous page. And, you know, you can incorporate other perspectives. You'll see from the Statoil study, they've actually added to this.

But from a financial perspective, are we creating value for our shareholders? From a customer perspective, you know, how is the company performing from the perspective of those who purchase our products or services? From an internal process perspective, how are we managing our internal business processes? Are those processes meeting customer expectations? It could be things like throughput, order fulfillment, customer retention, et cetera.

And then, from a learning and growth perspective, are we improving our ability to innovate, improve and learn? And are we investing in our people?

But just as objectives should be kept to the critical few, the same really holds true for measures. You know, given what I said earlier, that there's no right answer to the question of what are the best metrics to include, I'll give you some guiding principles around how to define and determine what metrics make sense.

First, where possible, you should include both leading or driver-type indicators, as well as lagging or outcome measures in the scorecard.

To take a simple example, profit would be a lagging or an outcome measure of past performance. It clearly tells us what happened, but doesn't necessarily provide us information on what's likely to happen in the future.

A leading measure, on the other hand, will tell us what's happening today that's going to impact performance tomorrow. So, if we think about the strategy map that we talked about on the last slide, one of the objectives in the customer perspective was to develop new products. And the new product pipeline provides a powerful leading indicator of future revenue growth.

Another example, customer satisfaction, can be both a leading and a lagging indicator. It tells us how satisfied a customer was with the product or service already received, but it also gives us an early view, or an early signal, regarding future levels of customer loyalty and repeat business.

But it is important to incorporate both types of measures into your scorecard.

It's important to avoid repackaging current measures. I've seen many organizations that'll try to reuse what they already measure, because there's a process or a system already in place to collect that information. But you really need to test whether that measure truly reflects progress against an objective that you defined in your strategy map and that you're trying to achieve.

All measures should be actionable and quantifiable, such that targets can be established for what you want the performance to look like in the future. So, as you're defining metrics, you really need to determine, is there something quantifiable that goes with this measure. And if there's not, you might want to rethink using that measure.

Now, from a targets perspective, again, it's important to establish a target for what future performance should look like. Clearly, they should be challenging, but achievable. So, you want to have some stretch targets, but they absolutely need to be achievable. So, you need to understand your current capabilities in terms of process, system and organization when you set those targets.

And they should be time-bound, as well. So, instead of saying, you know, I want to increase market share by five percent, you need to put some time parameters around that, so you can really hold people accountable for achieving that target.

And the final component of the scorecard are the strategic initiatives. And these are really the action programs that you have to launch to drive performance towards the targets that you set, and ultimately deliver on those strategic objectives.

As you're evaluating and prioritizing initiatives, you should evaluate those against alignment with the strategic objectives, you know, rationalize initiatives to eliminate any redundancy, and make sure you've resourced those appropriately to ensure that they can actually be delivered.

So, when we view it sequentially, the balanced scorecard program includes the strategy map, which describes our strategy, describes the critical objectives that are going to create value, and then the scorecard itself that identifies the measures and the targets for each objective in the map, the strategy map, and the strategic initiatives that are required to deliver the performance outcomes you desire.

And that's really where – that's where the real work of strategy implementation comes into play.

Now, some of the challenges that we've identified with our clients, I'll start with design and development. For developing and designing a successful scorecard program. You know, first being achieving a shared understanding of the strategy and the strategic priorities.

So, it's important that you have senior leadership participation in that to really drive that understanding.

Clarity of purpose of the scorecard in the wider performance management framework.

You know, the scorecard is a strategy management tool. It's not a process management tool. So, it doesn't replace a lot of the day-to-day operating reports management needs.

And then, as I said before, a tendency to focus on the measures, and not the strategy map and the initiatives needed to implement that strategy.

Now, when it comes to successful implementation over the longer term, you know, some of the key challenges that we've seen are a lack of standards and metric definitions, and disparate information sources. So, one of the important things that you need to do when talking about the measures is agreeing upfront the definitions, and how those are going to be calculated, as well as where the information's going to come from, so there's not a lot of debate about how those metrics are calculated, where the data came from. The discussion is truly about performance and what can be done to improve.

Poor quality of analysis and insight to support the scorecard. So, the scorecard's not just about the numbers. There absolutely has to be commentary provided around the numbers to put – to really tell the story.

And then, a poor or nonexistent processes in place to update the strategy map and the associated scorecards in light of changing business conditions. So, it can't be just a static scorecard that, you know, we produce quarter after quarter, year after year. We really need a process in place to evaluate that over time, to ensure it's, you know, relevant in the future.

A couple of key elements that I wanted to highlight, or key success factors, if you will, in successfully developing this type of program.

Absolutely, strong executive leadership is critical – in advocating the scorecard program, but also reinforcing that this will be used as a fundamental management tool that will review in management meetings and management reviews.

I'm working with a global consumer products company that had got a new CFO about two years ago. And one of the first changes that she made is that they went to a scorecard program, developed scorecards at the enterprise level, at the business unit level, drove those down to product category and, ultimately, brand level.

And, you know, one of the first changes that she made is, when we come into a management meeting, we are going to review the scorecard. Don't bring me the reams of paper that you're used to bringing into management meetings. We are going to focus on the scorecard. And if you throw – if you come in with anything else, the management meeting's over.

So, that executive sponsorship's critical.

Training and communication on the purpose and the importance of the scorecard and transparency into what's included in those scorecards is important, to help the broader employee base understand why we're doing this.

On the next page, you know, we've already talked about avoiding plug-and-play templates. You know, the scorecard process really needs to be based on your organization's situation and strategy. Very important to review metrics, measures periodically to ensure that they're still relevant.

From an incentive perspective – we haven't talked about incentives yet, but linking key scorecard metrics to personal performance and rewards ensures that, you know, there's a laser focus on achieving those objectives by the individuals that are held accountable.

From a technology enablement perspective, having a capability in place to enable automatic capture and reporting of the metrics to minimize the effort of collecting data is critical. I would say that it's not necessary right away. I see many organizations that defer moving to a scorecard program, because they don't have all of the automated technology.

I would say, while technology's important to sustain the effort, I think, you know, it's important to get started.

So, the example of the consumer products company. You know, they've developed these scorecards. They don't have a tool yet for (inaudible). So, they are doing some manual work to create those scorecards. But they found tremendous benefit in being able to hone in on the critical performance drivers of the organization. And while they'll absolutely fill in and develop the technology that they need to deliver those more efficiently, they are very happy that they've started the (inaudible).

So, let me close. Before I get to the case study, a couple of how-to slides.

This is just a high-level overview of a typical pilot balanced scorecard project. And we've talked a lot about these activities already. But from a high-level step perspective, you know, you need to define and validate the strategy that comes through interviews with key executives, workshops to design strategy maps. As part of that strategy mapping exercise, you know, identifying those reliable measures and establishing the targets, and creating those initiatives that are required to meet the targets that you've set out.

And again, this could be done at an enterprise level. It could be done at a functional level. It could even be done at a department level, if that's your area of responsibility.

And then, when it comes to creating the scorecard itself and what that will look like visually, you need to first define your metrics dictionary. So, how are we defining metrics? How are we calculating metrics? Where are we getting our data from? Testing those metrics against current measurements and historical performance. And then designing what that will look like to an executive. So, incorporating both the graphical and the commentary information that you need to make this an effective communication tool.

And then, really operationalizing the balanced scorecard is where you roll it out to the organization. You evaluate end state delivery tools. And then, over time, you know, this is a process that will evolve. But refining the measures, the delivery process and the links to incentive compensation as you go forward.

So, what can be done now?

So, if your organization – and, you know, we saw responses to the polling question that, you know, participants are kind of all over the board there in terms of their stage of development. If you don't have a balanced scorecard program today, consider establishing one, either for your business, your functional area or your department, that can serve as a pilot or a platform to build upon for the rest of the organization.

I'm actually working with two clients right now. One is the head of a financial shared service organization. The other is a lead financial officer for their organization's support services. And we're working on developing a pilot that they hope, you know, will take root in other parts of the organization.

If you've got something currently in design, or are implementing a balanced scorecard, it's important to take a look at some of those key elements of success that we talked about, and making sure that those are incorporated into your organization's plans, such as: making sure that you have those strategy maps in place and can link the metrics to those strategy maps; incorporating both leading and lagging indicators, so you don't just have outcome measures in your balanced scorecard, you have some of those driver-based or leading indicators as well.

And then, make sure you do have common definitions for your metrics, your calculations and sources of data. Because, again, as soon as things start getting reported that – and you haven't done that, you're going to end up in an overwhelming amount of debate of the numbers themselves, rather than what they mean.

And then, if you do have (an ensured) program in place, make sure that you have a process in place to review measures on an ongoing basis, ensure that they're still relevant, ensure that they're still aligned with the strategy map, and ensure that the balanced scorecard continues to be incorporated into the management review process, because once that stops happening, once that doesn't become a focus of the management review process, the program's eventually going to die out.

And I think, you know, clearly, it provides that link between strategy and execution, provides that mechanism for managing strategy that's often missing in organizations.

And, Tim, I know we're five minutes from the top of the hour. I did have a few slides on the Statoil case study. But again, the full case study will be available for you to be able to download. I would encourage you to do that.

Statoil is a company that's been inducted into the Balanced Scorecard Collaboratives Hall of Fame. They've driven scorecards from the enterprise level, down through all of their functional areas, down through their global shared services organization and down to the department level.

But, Tim, I did want to save some time for questions. So, I thought maybe, you know, the participants could read through the slides or download the document after the Webcast, if that would be appropriate.

Tim O'Bryan: Sure. Yes, I think that should be fine.

Tom Willman: OK.

Tim O'Bryan: As Tom mentioned, you'll get access to that case study, and have specifics from that case study. So, yes, Tom, maybe we could use the remaining minutes for some Q&A …

Tom Willman: OK.

Tim O'Bryan: … if everybody's OK with that.

Tom Willman: That's fine.

Tim O'Bryan: So, I have a few questions from the audience, some of which are around the practice and process of strategy management scorecarding. And a few others are about the IBM Cognos solutions.

So, just looking at these questions, here's a relatively quick question to answer here.

And, Brent, this is for you.

Have any IBM Cognos customers been inducted into the Balanced Scorecard Hall of Fame? And maybe it makes sense, Brent, to just mention what it is, the Balanced Scorecard Hall of Fame?

Brent Windsor: Yes. So, you know, most people are – and as Tom outlined what a balanced scorecard is. And Doctors Kaplan and Norton developed that in the early '90s. Around that, a business was set up called the Balanced Scorecard Collaborative, which has since been – the name has changed to Palladium. And they have a Balanced Scorecard Hall of Fame.

So, organizations that get inducted into that have – they've implemented a balanced scorecard, and they have to adhere to very strict guidelines and performance measures and outcomes to get inducted into the Balanced Scorecard Hall of Fame.

So, once someone has been inducted and shown that they have implemented a successful balanced scorecard and driven strong business performance through it.

And to answer your question, Tim, yes. There have been a number of Cognos customers that have been inducted into the Balanced Scorecard Hall of Fame. In 2007, an organization by the name of Muller, Inc., were inducted into the Balanced Scorecard Hall of Fame.

In 2008, New Brunswick Power, a utility on the east coast of Canada, over $1 billion in revenue per year, they were inducted in 2008.

And also, it should be noted that Cognos, prior to the IBM takeover, we had been inducted into the Balanced Scorecard Hall of Fame for our implementation of a balanced scorecard internally. And we were the only software company, independent software company at the time, that had been included in the Balanced Scorecard Hall of Fame.

Tim O'Bryan: Great, great. Another question.

Does the scorecard have to start as part of a company-wide strategy management initiative, or … ?

Tom, maybe you could answer that question.

Tom Willman: Sure. And I would say the answer to that is, not necessarily. Clearly, there's benefit to developing and implementing a scorecard program that can be applied enterprise-wide. But we see many examples of organizations that will start at the functional level, or start at the shared services level, where, you know, there's very clear parameters around what those organizations are to deliver and what they need to do to be successful.

So, whether you're a chief financial officer, whether you're in charge of human resources, whether you're responsible for a transactional shared service center, this concept – you absolutely can start developing your own balanced scorecard program that, hopefully, in doing something like that, can be, you know, a model for the rest of the organization to build upon.

Tim O'Bryan: OK. And Tom, too, elaborate on that.

You talked earlier about organizations becoming world class organizations. And you talked about the size of finance actually decreasing as a percentage of revenue, IT cost per end user going down, HR cost per employee going down, and procurement cost as a percentage of spend going down and becoming a world class organization.

You would think it might be the other way around.

And you talked a lot about better business alignment, elimination, simplification and standardization, and leveraging technology better. All of that makes sense.

But for everyone on the call, how do you begin that journey from becoming world class from peer group? And is it a one-size-fits-all, beginning to end process? Or does it really depend on a number of different factors? And if so, what would you say those are?

Tom Willman: Sure, sure. No. And the answer is, there's no one-size-fits-all approach.

I think every organization has a different starting point, and, you know, because of that different starting point will have opportunities in different areas.

I think the first – the first step (inaudible) to any organization is to start by establishing a base line. And that means, you know, benchmarking your performance against where you are to companies of similar complexity, similar size, to really hone in on where your biggest opportunities are.

And some organizations that haven't invested in shared services, invested in common ERP systems, they may have a tremendous opportunity in the transactional areas that will provide them kind of the biggest bang for the buck, initially. Where others that have done that may not have invested as much in developing their planning and performance management capabilities. So, that might be where they start.

But, by and large, every organization that we've talked to that's achieved world class, in some form or fashion, those common themes are a part of their transformation program – elimination and simplification, standardization, automation and alignment with the business.

Tim O'Bryan: OK. Great. And as a note for everyone, anyone interested in benchmarking their organization against world class, please reach out to us. We are at IBM Cognos partnering with Hackett and an initiative around this particular benchmarking study.

So, please reach out to myself, Tim O'Bryan, in the Innovation Center, and I can help arrange this. My e-mail, very quickly, is tim.obryan@us.ibm.com. And I'll put my contact information in the follow-up communication from this event.

One – thanks for that, Tom.

Tom Willman: Sure.

Tim O'Bryan: One last question. It's really two questions I'll turn into one for Brent.

The questions are, does IBM support the balanced scorecard methodology and any others? And can your metric targets – two separate questions – but then, can your metric targets in an IBM Cognos 8 BI scorecard be taken from IBM Cognos TM1?

Brent Windsor: Yes, Tim. So, to answer the first one about supporting the balanced scorecard methodology, IBM Cognos 8 scorecarding is really framework agnostic. So, depending on the management methodology you have in place, you can create a scorecard and define metrics to support that methodology.

So, we do support the balanced scorecard. As I mentioned, we have a number of scorecard – sorry – customers in the Balanced Scorecard Hall of Fame.

Other customers of ours will use Six Sigma as a management framework. So, these customers would use an application to leverage the Six Sigma algorithm, or do the calculations for Six Sigma, and then they would display the results in the Cognos 8 scorecard.

So, the answer to that is "yes."

And then, to answer the second question about taking your metric targets from TM1 and incorporating them into IBM Cognos 8 BI scorecarding, the answer to that question is "yes."

So, if an organization develops their plan in TM1, they set their targets, so they want to leverage those targets in a scorecard, they can do that within Cognos 8 BI.

Tim O'Bryan: Great. And I think that's all the time we have for today. We went a few minutes over. I hope that's OK with everyone.

We really appreciate your time and appreciate you coming to this inaugural "Best Practices in Action" Webcast brought to you by the IBM Cognos Innovation Center for Performance Management.

I want to thank our two presenters today, Brent Windsor, product marketing manager for IBM; and Tom Willman, enterprise performance management advisory director at the Hackett Group.

Thanks, everyone, for your time, and we look forward to seeing you on future Webcasts from the Innovation Center for Performance Management.

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