Scorecarding Concepts

Putting Scorecards to Work

parson consulting™

TABLE OF CONTENTS

PUTTING SCORECARDS TO WORK: SIX CONCEPTS THAT LEAD TO BETTER PERFORMANCE MANAGEMENT

Scorecards are credited as critical tools that guide executives through strategic decisions and performance management, offer insight into where efforts are best concentrated, and ultimately help to bring objectives into focus. They are more than mere reporting and planning instruments – they are empowering resources that support business optimization. But scorecards too often fall short of their potential due to misalignment with strategic goals. Projects can fail through the common tendency to let technology lead the way -- without a full understanding of what to measure, how to measure it and how the scorecard will be reviewed.

Every scorecarding initiative is different and must be approached with unique parameters in mind. However, there are elements that most projects have in common; forward thinking leaders can gain better control over their organization by taking six steps that lead to the tangible benefits of scorecarding.

1. DEFINE YOUR BUSINESS NEEDS

The most common strategic stumbling block is the tendency to overlook how corporate strategy aligns with customer value -- making this a constant priority is a first step towards effective management and scorecarding. From a customer perspective, value generally falls within the four pillars of security, convenience, comfort or luxury. On the business side, these can be streamlined into product leadership, operational excellence, and customer intimacy.

Companies that achieve breakthrough performance identify strongly with one of these areas and gradually gain traction with the others over time.

BUSINESS FOCUS		
Operational Excellence	**Customer Intimacy**	**Product Leadership**
Wal-Mart	Amazon	Google
Southwest Airlines	Marriott	Cognos
Dell*	Dell*	Apple

Dell provides an interesting example as their focus changed over time. Initially they emphasized customer intimacy by providing custom built computers for each individual. But as they began to dominate the market, they realized a competitive advantage was in Operational Excellence. Their business model switched to a myopic focus on reducing the inventory carrying costs, and the outcome was an ability to switch inventory from a cost center to a profit center.

It is easy to keep the customer and business personalities on separate sides of the fence, with separate benchmarks and separately managed initiatives. But by understanding where your customers fall in these areas and aligning business objectives with their needs, you can drive performance and increase profitability.

The scorecard platform is based on this alignment, providing a method to communicate across your organization and coordinate resources in order to keep execution continuously in line with strategy.

The metrics you use in scorecarding will follow the same mindset, remaining consistent and with customer value in terms of your core business processes. That means focusing on measurements that are relevant to the customer and keeping the scorecard simple.

Consider a call center. Customers are looking for prompt and helpful responses, so the two key indicators that best reflect the center's success are time (response time) and quality (first call resolution). All other measurements are superfluous to the customer's experience, including items such as costs and calls per person. These could be included in an associated report, but as time and quality satisfy the customer, they remain the top metrics to watch.

In the spirit of keeping scorecards lean, you should also avoid similar types of measurements. For example, measuring both raw value and a representative percentage of the same value may give interesting information at a glance. But from the customer's perspective, all that matters is how long it took the call center to respond; the other metric becomes secondary information, and can be documented in an associated report.

2. KEEP TIME IN MIND: SCORECARDS VS. DASHBOARDS

The terms scorecard and dashboard are often used interchangeably, but the two provide very different sets of information. Understanding how and when to leverage these tools will be a critical step in staying true to your objectives.

A scorecard is a strategy tool that offers periodic measurements of performance through a framework of visual elements. Status indicators (often color-coded) paint a picture of various levels of execution across an enterprise, displaying KPIs and metrics on a monthly basis. To manage strategy effectively, scorecards should be heavily integrated into the long-term management process.

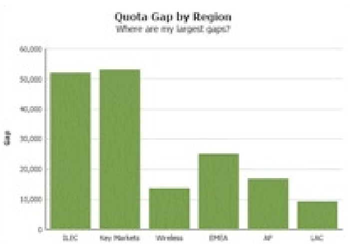
High Level Annual Goals					
	Name	Actual	Target	Variance %	Time Period
	Revenues to Plan (YTD)	95.4%	100.0%	4.6%	Jun 2008
	Expenses - COGS (% Rev YTD)	53.1%	50.0%	6.2%	Jun 2008
	Expenses - SG&A (% Rev YTD)	20.9%	23.3%	10.3%	Jun 2008
	Profit Margin (% Rev YTD)	12.4%	14.0%	11.4%	Jun 2008
Real Values					

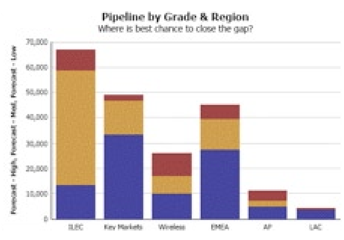
Key Performance Indicators					
	Name	Actual	Target	Variance %	Time Period
	Revenue per Square Foot	US$168.00	US$200.00	16.00%	Jun 2008
	Profit per Square Foot	US$30.00	US$40.00	25.00%	Jun 2008
	Gross Margin ROI	US$24.00	US$35.00	31.43%	Jun 2008
	Overhead Expense Ratio				Jun 2008
	Inventory Turns				Jun 2008
	Consumer Confidence Index	62.3	65.9	5.5%	Apr 2008

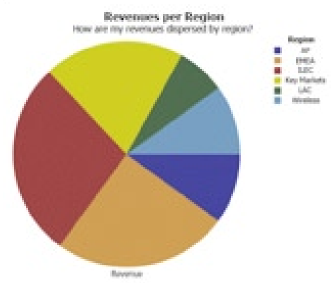
A dashboard, on the other hand, provides real-time data with KPIs and metrics displayed in various dimensions. This can often be presented within a single report that might resemble a scorecard – yet its purpose is dramatically different. Just as on a car's dashboard, this tool offers tactical information (akin to speed, RPMs, distance traveled) that checks your current state but does not help you determine how to reach your destination.

Regional Analysis

Revenue	Q1			Q2			Q3			Q4			Gap	Forecast - High	Forecast - Med	Forecast - Low	Margin
	Revenue	Target	Achievement	Revenue	Target	Achievement	Revenue	Target	Achievement	Revenue	Target	Achievement					
ILEC	117,600	118,000	99.7%	123,300	122,000	101.0%	140,000	142,050	98.6%	140,000	187,000	74.9%	52,004	13,500	45,500	8,000	32.4%
Key Markets	84,000	90,000	93.3%	88,000	87,000	101.1%	100,000	100,000	100.0%	100,000	146,000	68.5%	53,140	33,500	13,500	2,000	33.4%
Wireless	40,000	42,500	98.8%	44,000	45,900	95.9%	50,000	50,000	100.0%	50,000	60,500	82.6%	13,760	10,000	7,000	9,000	33.2%
EMEA	105,000	105,000	100.0%	110,000	112,000	98.2%	125,000	125,250	99.8%	125,000	142,500	87.7%	25,200	27,500	12,000	5,500	34.2%
AP	42,000	42,700	98.4%	44,000	44,100	99.8%	50,000	48,500	103.1%	50,000	61,500	81.3%	16,960	5,000	2,500	3,500	31.7%
LAC	29,400	29,000	101.4%	30,000	30,300	101.7%	35,000	31,300	111.8%	35,000	43,000	81.4%	9,148	3,000		500	33.4%
Total	420,000	427,200		440,000	441,300		500,000	497,100		500,000	640,500		170,212	93,300	80,500	28,500	
Average			98.6%			99.6%			102.2%			79.4%					33.1%







Returning to our call center example, a dashboard at that operation may reveal that resources should be shifted to cover a desk during an unexpected spike in call volume. The scorecard, meanwhile, will use a similar metric to support long-term decisions on headcount at the center

3. IDENTIFY THE RIGHT SCORECARD FOR YOUR BUSINESS

There are a range of scorecard variations that suit different needs and values. Alternatively, selecting a scorecard design that does not fully mesh with your strategy can create a confused environment, delay projects, and result in a very low (and declining) adoption rate.

As in every business application, selecting the right tool is imperative to getting on track quickly:

- Strategy management: Measures and supports the pursuit of strategic objectives and annual goals as opposed to individual metrics. KPIs call out performance issues or progress towards business goals and completing strategic initiatives, which helps provide executive oversight on projects that are critical to success.

- Business process performance management: Uses KPIs to measure core business processes or customer value propositions, which should be aligned.

- Performance monitoring: Tracks the larger number of metrics and guides appropriate responses.

- Red-yellow-green reporting (RYG): Acts as a repository for all of an organization's measurements. Overly inclusive scorecarding reflects the practice of setting targets for all measures – an overwhelming task that results in poorly defined benchmarks, misdirected efforts, and miscommunication of critical information. Due to its complexity and lack of discipline around the number of metrics, this style of scorecard is not highly recommended.

- Report cards: Provide lagging indicators, similar to quarterly or annual reports. As report cards explain what happened after the fact, they offer little value in driving strategy.

4. DISTINGUISH BETWEEN STRATEGIC OBJECTIVES, ANNUAL GOALS, AND MEASUREMENTS

At its core, scorecarding is about accurate, timely measurement that guides strategic decisions. Understanding the measurements used to convey your situation allows you to quickly communicate and act based on the information you receive.

- Strategic objectives are not quantitative measurements, but descriptions of what the organization must accomplish to achieve its overall mission. Strategic objectives should evolve slowly if at all, with little change from year to year.

- Annual goals are the high level goals of the organization. These include revenue, margins, COGS and SGA cost containment, new product launch, etc.

- KPIs are high-level, strategic metrics that define 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.

- Metrics are measures with associated targets. For example, metrics could represent the components of core business processes that contribute to improved performance, such as days in inventory. Defining metrics requires time to set well thought-out targets.
- Measures are numerical expressions of business components. Measures have been tested and provide clarity around dimensions such as product line, sales region, time to market, etc.
- Data are numbers that have not been analyzed or tested. Data should not be communicated as raw information; it lends itself to misinterpretation, creates confusion, and minimizes understanding of the business picture.

5. INTEGRATE WITH A MANAGEMENT PROCESS

For a scorecard to be successful, it needs to support and be tightly integrated with a management process. All too often, scorecards are technology extensions with little thought committed to how they will be used. One simple approach is to review the information at monthly management meetings, which provides an opportunity to review numbers, discuss performance, and assign tasks. The scorecard should underpin this meeting.

In fact, management meetings frequently end with assignments to conduct more research into a given area. The scorecard can raise the stakes by facilitating more proactive management, as participants can better understand and agree upon items for discussion in a format everyone expects. If there is consensus prior to the meeting, people can prepare the right information to educate the executive team on issues and recommendations.

In terms of meeting preparation, the analyst needs to prepare the following items for each of the KPIs:

- *Analysis:* understanding what happened and why.
- *Risks:* identifying the risk to the organization or annual goals if the performance of a specific KPI or project continues in its current trend.
- *Budgetary Impact:* funds that have been used and funds that are still available. This pushes the team to understand the scope of the budget, thus providing a better foundation for discussion around the recommendations.
- *Environmental Scan:* what is happening in the market? The goal is to train the team to look at external factors and not just default back to an internal analysis.

- *Competitive Position:* what are competitors doing, and how are they likely to behave?

- *Recommendations:* what should we be doing about the situation based upon the above research?

6.CHASE EFFICIENCY AND EFFECTIVENESS, NOT THE RED METRICS

One of the most common misinterpretations of scorecards is the natural tendency to scan and attack the "red" metrics. In reality, though, these hot spots may have little impact on the company. And while the organization rallies to move out of the red zone, marginal metrics (yellow) or KPIs that are performing but on a downward trend may in fact be having a greater negative effect.

Each objective must be weighted to reflect its importance within the context of your strategic objectives. This provides perspective on the KPIs and metrics, giving a clear idea of how the business is performing relative to its goals.

With these six concepts at the forefront of a scorecard initiative, the right parameters will be in place to establish a successful program. The result will help manage performance and act as a communications aid that allows you to support your case for action with hard facts. This will in turn enable the enterprise to grasp the importance of each metric to the customer and to overall business objectives. Decisions will be made in alignment with strategy and the overall process will be more efficient and effective.

There is room for additional Business Intelligence tools that provide important diagnostic information, such as dashboards and reports. But with the scorecard focused on mission-critical elements that are intertwined with the management process and leadership that follows a monthly regimen of strategic analysis, companies can actively chart, follow and achieve their long-term success.

ABOUT PARSON CONSULTING

Parson is the largest management consulting firm in the world focused solely on Performance Management. Today, fast-growth companies and divisions of Fortune 1000 companies around the world are running faster, smarter and more effectively with Parson's help. As a member of the MCG family of companies, Parson is truly a global consultancy that draws on deep experience internally, and from their MCG affiliate partners to deliver guidance for performance management that goes far beyond technology. Their award winning consulting and delivery solutions include, management consulting, performance management, finance optimization, planning and budgeting, information management, business intelligence, and management reporting.

www.parsonconsultingna.com

LOS ANGELES

1 Technology Drive
Suite I-821
Irvine, CA 92618
Phone: (949) 609-0123
Fax: (949) 609-0128

LONDON

10 Fleet Place
London EC4M 7RB, UK
Tel: +44 (0) 20 7710 5000
Fax: +44 (0) 20 7710 5201

CHICAGO

333 West Wacker Drive
Suite 1010
Chicago, IL 60606
Tel +1 312 541 4690
Fax +1 312 332 7078

DALLAS

5050 Quorum Drive
Suite 420
Dallas, TX 75254
Tel: +1 972 774 0070
Fax: +1 972 774 0080

NEW YORK

70 East 55th Street
5th Floor
New York, NY 10022
Tel +1 212 521 0200
Fax +1 212 521 0201