Monitor. Manage. Perform.

Scorecarding with IBM Cognos Business Intelligence

Contents

2 Overview

3 Three common business pains

4 What is scorecarding?

5 Scorecard software

5 Managing performance with Cognos Business Intelligence

5 Part of a powerful business intelligence solution

6 How scorecards solve business pains

8 Conclusion

8 About IBM Business Analytics

Abstract

Scorecards help you define, monitor and manage your company's critical metrics. By translating tactics and strategies into specific, measurable objectives, scorecards help you link corporate strategy to operations and ensure that your company's goals are consistently defined, understood and communicated. IBM Cognos® Business Intelligence includes scorecard capabilities that can pull data from diverse sources and let you present your metrics in a consistent manner across the enterprise—from discrete tactical projects to company-wide initiatives.

Overview

All companies juggle a variety of competing priorities: developing new markets, launching new products, improving quality, serving customers, managing human resources, driving innovation and ultimately, increasing shareholder value. These priorities, in one form or another, make up the basic elements of almost any company's strategy. Executives and managers determine the value that each of these priorities delivers for the particular situation, their relative importance, and the interactions among the processes that drive them. Once these have been determined, executives can integrate these priorities into a strategic plan and communicate that plan to employees throughout the organization.

Historically, companies have relied primarily on financial metrics to set priorities and guide decision-making. But this approach is proving increasingly ineffective. Financial metrics reveal only the effect of decisions made in the past. In a complex and challenging economy, companies need to pay more attention to forward-looking or "leading" metrics that are tied to the company's value drivers. Companies need to integrate leading metrics into a performance management environment that can be deployed across the entire organization. Leading metrics, such as customer satisfaction, are based on cause-and-effect relationships. They can alert companies to problems before they adversely affect the bottom line.

For example, declining customer satisfaction can point to an eventual drop in sales and a loss of market share. Many departments' activities affect customer satisfaction and employees in each department need to know their roles and responsibilities and where they fit into the overall customer satisfaction strategy. Until now, this has been easier said than done. One of the biggest challenges companies face has been in consolidating performance information from disparate data sources into a coherent system that people can trust. Each data source—ERP, CRM, spreadsheets, flat files, data marts and others—provides important information about a particular aspect of the company's performance. But each collects, defines, and displays the information in a different way.

Disparate data creates confusion and inefficiency, and diffuses accountability. Metrics based on this data are often incomplete, conflicting, or limited to a particular department or function. A common problem among managers working with this data is that they spend more time discussing the validity of the data than using it to manage performance. Metrics may show that a problem exists, but not who is responsible for solving it. In addition, managers may interpret metrics differently from what executives intend. As a result, their teams may focus on objectives that conflict with overall strategic goals. Without commonly understood definitions and a consistently defined view of performance, executives have difficulty understanding how the company is performing overall, whether the company is going in the right direction, and who is responsible for taking corrective action. Managers have no way of monitoring their departments' performance relative to the overall strategy, and risk misallocating resources. Employees have little opportunity to collaborate for effective decision-making. So despite an abundance of performance data, companies still make many key decisions based only on gut feel and best guesses.

Three common business pains

Experts identify three common challenges for companies operating in today's ultra-competitive business environment.

Lack of alignment

When they lack a commonly shared and understood strategy, companies risk wasting resources and effort. In the absence of commonly shared metrics, managers may measure performance in areas not related to the corporate strategy or aligned in the correct way.

This usually leads to managers suggesting different priorities or providing conflicting solutions to performance problems. In "Using the Balanced Scorecard as a Strategic Management System," Balanced Scorecard creators Drs. Robert Kaplan and David Norton described how the 25 executives at a then-recently merged bank agreed "to provide superior service to targeted customers," only to find out later that each executive had a different definition of "superior service" and a different image of "targeted customers."[1]

Disagreement on what is important

Without a shared understanding of corporate goals, there is no clarity as to what is or is not a priority. Human and financial resources can be spread too thin and managers can be distracted by those opportunities that are easiest to capitalize on (the proverbial "low-hanging fruit"). But the managers may do little to pursue higher-level strategic goals and individual employees may be caught between competing or conflicting initiatives, lacking both the context and information they need to decide where to focus.

Lack of accountability and ownership

Every employee knows they are responsible for some part of driving corporate performance. But not every employee knows when or if they are responsible for solving a specific performance problem. Many problems persist or go unaddressed simply because no one person, team, or department has been specifically assigned to solve them. Also, many problems span departments and functions. So people in each department need to understand how their decisions affect other departments. Yet few employees have the means to look beyond their respective silos.

A scorecarding system can help address all three of these business pains.

What is scorecarding?

Scorecarding is an approach to monitoring, measuring, and managing performance at a tactical or strategic level for an organization, a team, or an individual employee. At the tactical level, employees and managers use scorecards to monitor performance against quantifiable targets for discrete, specific projects. At the strategic level, scorecards can be a valuable tool in a corporate-wide performance management system that executives use to map out the overall corporate strategy and communicate it throughout the organization.

A scorecard typically consists of a list of key performance indicators (KPIs) or metrics that present performance data for a business process or strategic goal. Most scorecards include a variety of graphical elements and feature a color scheme and trend arrows that indicate whether performance is on or off target and whether it is trending up or down. Most scorecards, such as those used in Balanced Scorecard implementations, use a mix of financial and non-financial information, including leading and lagging (financial) indicators, and corresponding strategy maps.

The Balanced Scorecard first appeared in the Harvard Business Review in 1992. In their seminal article, *The Balanced Scorecard: Measures that Drive Performance*, Kaplan and Norton asserted that a company's financial metrics reflected the effects of only a small proportion of the decisions made within a company.[2] They said that a company's true value could be more accurately evaluated and increased by identifying the value created by the interplay of people, processes, and other intangible assets such as customer relationships, employee skills, and brand. These dynamics would be aligned with the overall strategy and progress could best be measured with metrics grouped into four interconnected perspectives: financial, customer, internal processes, and learning and growth.

These perspectives help companies answer fundamental questions about their business performance. For example:

- Financial. What should we focus on to meet shareholder expectations?
- Customer. How can we deliver more value to customers in key market segments?
- Internal processes. At which operational processes must we excel to satisfy shareholders and targeted customers?
- Learning and growth. How can we sustain our ability to change and improve?

Scorecards enable companies to translate strategy into specific, measurable objectives that can be consistently defined, understood, and communicated. The Balanced Scorecard defines a company's key value drivers and shows how these drivers interact to create value and build competitive advantage. One component of the Balanced Scorecard is the strategy map, a visual tool that shows the cause-and-effect relationships between strategic goals, the processes that companies use to achieve these goals and the tangible and intangible assets required to achieve the goals. The Balanced Scorecard has proved immensely successful, helping some companies move from last to first in their industry in a short period of time. Many companies rely on the Balanced Scorecard, or a modified version of it, to manage their performance. Companies also use the Balanced Scorecard with methods such as Six Sigma, Total Quality Management (TQM), Activity-Based Costing (ABC) and Economic Value Added (EVA).

Scorecard software

Some companies have tried to support their scorecarding initiatives with a mix of purchased and homegrown applications. Many of these solutions are connected to ERP systems in a manner that requires extensive coding to modify. This can make them more of a burden than a benefit when the company changes its priorities and benchmarks in response to changing market conditions. Home-grown applications consist primarily of static HTML pages and usually offer only limited analytical capabilities. They rarely deliver the functionality required to adequately address performance issues. They may show that performance is off track, but rarely provide any insight as to why this might be the case.

Companies need a scorecarding application that can be delivered to every employee so they can monitor their own performance. Companies also need an application that provides the necessary analytic capabilities that will enable managers to understand why performance is on or off track.

Managing performance with Cognos Business Intelligence

Cognos Business Intelligence software provides scorecard capabilities that enable you to create, manage and present your company's critical metrics. Users throughout your organization can understand the dynamic cause-and-effect relationships of the key processes behind those metrics. Cognos Business Intelligence drives accountability with a consistent and reliable source of metrics for individual employees, managers and executives. Most importantly, it links individual decisions and tactics to corporate goals and strategy.

You can use Cognos Business Intelligence to manage the full scope of business processes: from projects at the tactical level to corporate-wide strategies. It can be deployed to a few users or distributed over business units, operating subsidiaries and geographic regions. And it can be used to manage performance along Six Sigma, TQM, ABC and EVA. The scorecard capabilities of Cognos Business Intelligence help business users quickly find answers to common questions, regardless of the management methodology they use. For example:

- How have we performed against this metric in the past?
- Who is involved in solving this problem? Have corrective actions been taken?
- What are the factors driving performance?
- What other processes or metrics are affected?
- What are the details behind this metric? How is it calculated?

Part of a powerful business intelligence solution

Scorecarding is a core capability of Cognos Business Intelligence, which provides a full range BI capabilities for all users, from a single product, on a single architecture. The scorecard capability of Cognos Business Intelligence can directly access BI reports, analysis, and alerts that help business users go beyond their metrics to analyze and understand the factors that drive performance. It is designed to provide managers with the relevant tactical information they need to translate strategy into action.

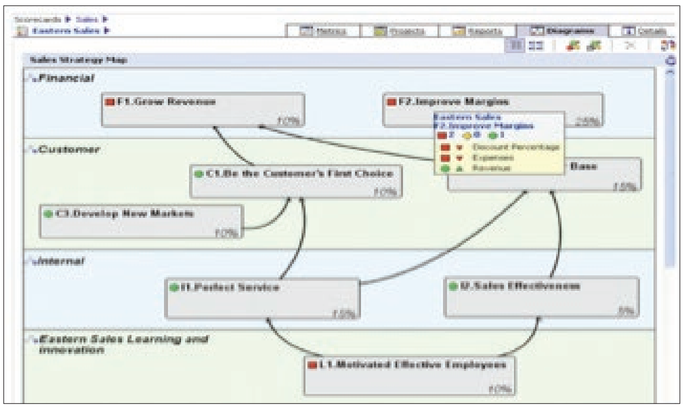

Figure 1: Strategy map with associated metrics

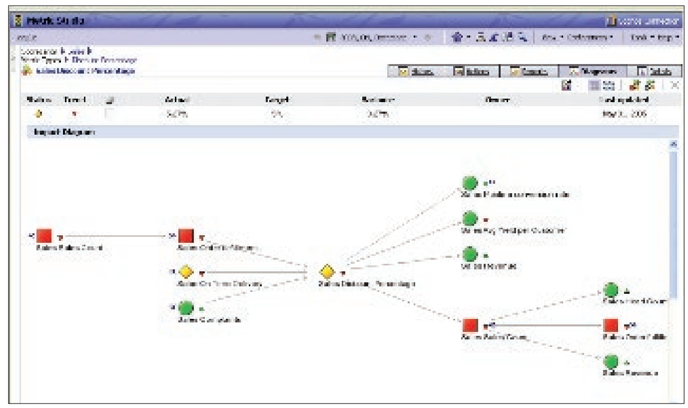

Figure 2: Cause-and-effect diagram

How scorecards solve business pains

You can use scorecards to create the single and trusted source of performance data that business users need to monitor their performance against targets. Administrators can create a metric, process diagram, or scorecard once and use it across the organization to ensure that everyone is sharing the same definitions and working toward the same targets.

Understand key relationships

Strategy maps and impact analysis diagrams help users understand the cause-and-effect relationships of key processes and metrics. Administrators can create these directly within the application using intuitive wizards and design tools.

Build metrics and scorecards

Metrics can integrate a range of cross-functional data from any source, including OLAP and dimensionally aware relational data, ERP and CRM systems, spreadsheets, flat files, legacy and mainframe data, and user-entered values. Intuitive wizards guide administrators through the metrics and scorecard design process.

Flexible viewing options

Cognos Scorecarding lets users organize and view their scorecards in different ways to focus attention on key issues. Users can group metrics and scorecards:

- by status to quickly identify problem areas.
- by owner to understand accountability.
- by strategy map to see how processes and metrics support corporate strategy.

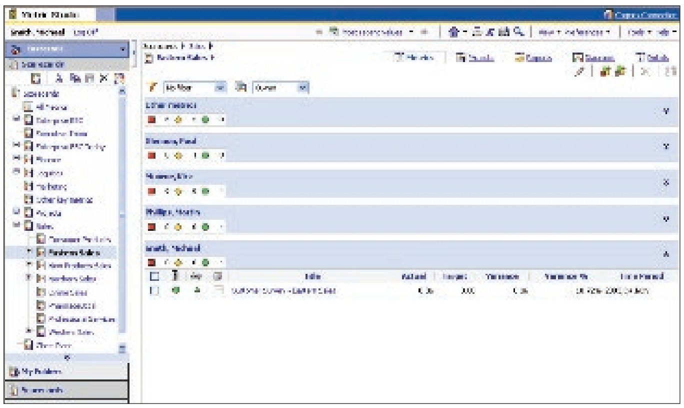

Figure 3: Metrics grouped by owner

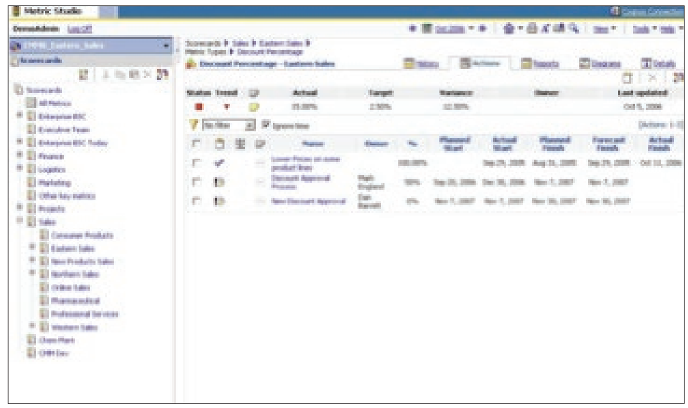

Figure 4: Initiative tracking

Immediate awareness of issues

Users can choose to be notified any time the status of a metric changes. Alerts can be automatically delivered through email or to a user's mobile device, allowing the user to see at a glance which metrics need immediate attention. If performance falls below a designated threshold, users can be alerted and take immediate action. They can also access related business intelligence sources and reports to analyze the underlying causes, and collaborate with others to find a solution.

Metric ownership

Every scorecard metric in Cognos Business Intelligence has an identified primary owner to ensure that performance issues are not overlooked.

Manage corrective actions

Embedded initiative tracking and collaboration capabilities help users manage actions or projects they undertake when a metric turns red or begins a downward trend.

Embedded business intelligence capabilities

Users can access BI reports, analysis, dashboards, and other content from the scorecarding environment to analyze the factors that affect performance. Users can also access Microsoft Word documents, websites, and other information without leaving the scorecarding application.

Conclusion

Good decisions are the building blocks of great business performance. And the scorecard capabilities of Cognos Business Intelligence help organizations of all sizes, in all industries make smarter decisions. Scorecards link strategy to operations and provide business units, departments and individuals with a common understanding of metrics and actionable information about basic, day-to-day business performance:

Cognos Business Intelligence is built on a proven technology platform, designed to upgrade seamlessly and scale for the broadest of deployments. It is part of a performance management system that connects forecasts, plans, targets and actuals with underlying operational data. And in today's challenging economy, scorecards can be an invaluable tool to help guide you from the leading indicators of your daily business to a leadership position in your industry.

About IBM Business Analytics

IBM Business Analytics software delivers data-driven insights that help organizations work smarter and outperform their peers. This comprehensive portfolio includes solutions for business intelligence, predictive analytics and decision management, performance management and risk management.

Business Analytics solutions enable companies to identify and visualize trends and patterns in such areas as customer analytics that can have a profound effect on business performance. They can compare scenarios; anticipate potential threats and opportunities; better plan, budget and forecast resources; balance risks against expected returns and work to meet regulatory requirements. By making analytics widely available, organizations can align tactical and strategic decision making to achieve business goals. For more information, see **ibm.com**/business-analytics.

Request a call

To request a call or to ask a question, go to **ibm.com**/business-analytics/contactus. An IBM representative will respond to your inquiry within two business days.

IBM Corporation
Software Group
Route 100
Somers, NY 10589

Produced in the United States of America
March 2014

1 Robert Kaplan, David Norton, *Using the Balanced Scorecard as a Strategic Management System*, Harvard Business Review, January-February 1996

2 Robert Kaplan, David Norton, *The Balanced Scorecard: Measures that Drive Performance*, Harvard Business Review, January-February 1992

YTW03142-CAEN-03