MONITOR. MANAGE. PERFORM.

SCORECARDING WITH COGNOS 8 BUSINESS INTELLIGENCE

THE NEXT LEVEL OF PERFORMANCE™

This edition published September 2005

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INTRODUCTION

Companies juggle a variety of priorities: driving innovation, launching products, improving quality, creating value for customers, developing new markets, managing human capital, and ultimately, increasing shareholder value.

These priorities make up the basic elements of any company's strategy. Executives and managers must determine the value each one creates for their particular situation, their relative importance, and the interaction among the processes that drive them. Once these have been determined, executives can integrate these elements into a strategic plan and communicate the plan throughout the rest of the organization.

Employee in all types of organizations need to rely on the strategy to guide their decisions and focus their energies on the areas of highest priority.

Historically, companies have relied on financial metrics to support these decisions. But this approach is proving increasingly ineffective. Financial metrics only reveal the effect of decisions made in the past. In a complex and challenging economy, companies need forward-looking, or "leading" metrics that are tied to the company's value drivers. Leading metrics (for example, customer satisfaction) based on cause-and-effect relationships can alert companies to problems before they adversely affect the bottom line. For example: declining customer satisfaction can point to an eventual drop in overall revenue or a loss of market share.

Further, companies need to integrate these metrics into a performance management environment that can be deployed across the entire organization. In the example above, many departments have a role to play in managing customer satisfaction. Employees in each need to know their roles and responsibilities and where they fit into the overall plan.

Until now, this has been easier said than done. One of the biggest challenges companies face has been consolidating performance data from disparate sources into a coherent system that people can trust. Companies usually rely on a raft of performance data drawn from many different systems: ERP, CRM, spreadsheets, flat data files, data marts, presentation software, legacy data, and other sources. Each system 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 inefficiencies, and blurs accountability. Metrics based on this data are often incomplete, conflicting, or limited to a particular department or function. Sometimes they are all three. A common problem among managers is spending 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 resolving 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 their 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 when problems arise. Managers have no way of monitoring their department's performance relative to the 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 on gut feel and best guesses.

THREE COMMON BUSINESS PAINS

Lack of Alignment

Companies risk wasting resources and efforts when they lack a commonly shared and understood strategy. In the absence of commonly shared source of metrics, managers may measure performance in areas not related to the corporate strategy or not 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," for example, Balanced Scorecard creators Kaplan and Norton describe 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]

Focusing on What's Important

Misaligned tactics often lead to an inability to focus. Without a commonly shared understanding of corporate goals, every priority becomes a top priority. This spreads human and financial resources too thin. Managers can also become distracted by opportunities that are easy to capitalize on but do little to support higher-level strategic goals. Individual employees are 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 driving corporate performance. But not every employee knows if or when they are responsible for resolving a performance problem. Many problems persist or go unaddressed simply because no one person, team, or department has been specifically tasked with resolving them. Also, many problems span departments and functions. To resolve them, people in each department need to understand how their decisions affect outcomes in other departments. Yet few employees can easily look beyond their respective silos.

Many companies implement a scorecard system to resolve these issues.

[1] Using the Balanced Scorecard as a Strategic Management System, Kaplan and Norton, Harvard Business Review, January-February 1996.

WHAT IS SCORECARDING?

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

A scorecard is a list of key performance indicators (KPIs), or metrics, that present current performance data for a business process or strategic goal against target values. Most metrics feature a corresponding color scheme and trend arrow that indicates whether that performance is on-, above-, or below-target and whether performance is trending up or down. Most scorecards, such as those used in Balanced Scorecard implementations, use a mix of financial and non-financial information, leading and lagging (financial) indicators, and corresponding strategy maps.

The Balanced Scorecard made its first appearance in the Harvard Business Review in 1992. In their seminal article,[2] Drs. Robert Kaplan and David Norton asserted that a company's financial metrics reflected the effects of only a small proportion of the decisions made within that company, and that its 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 against it would 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 must we focus on to meet shareholder expectations?
- Customer: How should we deliver value to customers in key market segments?
- Internal: At which operational processes must we excel to satisfy shareholders and targeted customers?
- Learning and Growth: How will we sustain our ability to change and improve?

Scorecards help companies translate strategy into specific, measurable objectives that can be consistently

[2] Harvard Business Review. The Balanced Scorecard: Measures that Drive Performance, January-February 1992.

defined, applied, understood, and communicated to everyone. The Balanced Scorecard illustrates a company's key value drivers and shows how they interact to create value and competitive advantage. This is done through a strategy map. A strategy map is a visual tool that enables companies to illustrate the cause-and-effect relationships between strategic goals and the processes that companies use to achieve them, and the intangible assets that they need to leverage effectively.

The Balanced Scorecard proved immensely successful, helping some companies move from last to first in their industry. Many companies rely exclusively on the Balanced Scorecard, or a modified Balanced Scorecard, to manage their performance. Companies also use the Balanced Scorecard in conjunction with other methodologies such as Six Sigma, Total Quality Management (TQM), Activity-Based Costing (ABC), and Economic Value Added (EVA).

Scorecarding Applications

Companies have tried to support their scorecarding initiatives with a mix of purchased and homegrown software applications. Many purchased or proprietary scorecarding solutions are hard-wired to ERP systems and require extensive coding to change. This makes them more of a burden than a benefit when a company needs to change priorities in response to changing market conditions and monitor its performance against new benchmarks. Home-grown applications rarely deliver the functionality or analysis required to resolve performance issues. They consist primarily of static HTML pages and usually offer only limited analytical capabilities. They may show that performance is off-track, but they don't provide any insight into why this might be.

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

Cognos 8 Scorecarding is software that lets you create, manage, and present your company's critical metrics. It lets you create a consistent and reliable source of metrics for individual employees, managers, and executives. And it links individual decisions, tactics, and accountability to corporate goals and strategy.

You can use Cognos 8 Scorecarding to manage the full scope of your business processes: from discrete projects at the tactical level to corporate-wide performance management strategies. You can deploy it to a few users, or across business units, operating subsidiaries, and geographic regions. And you can use it to manage performance in a range of other methodologies such as Six Sigma, Total Quality Management (TQM), Activity-Based Costing (ABC), and Economic Value Added (EVA).

The Cognos 8 Scorecarding helps business users quickly find answers to common questions, regardless of the management methodology in use. For example:

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

Cognos Scorecarding is a browser-based, zero-footprint application. This provides benefits to end-users and to IT. There are no plug-ins or additional downloads to install, and IT can configure and deploy it easily across an enterprise without needing to devote large numbers of resources to maintain it.

Part of a Complete Business Intelligence Solution

Cognos 8 Scorecarding is a core capability within Cognos 8 Business Intelligence, the only BI solution to provide complete BI capabilities for all users, from a single product, and on a single architecture. As part of a single product, Cognos 8 Scorecarding provides direct access to reports, analysis, and alerts that help business users go beyond their metrics to analyze and understand the factors that drive performance.

Many scorecarding initiatives fail because of a lack of adoption among middle management. Connecting scorecards to a BI environment can increase adoption within this key audience because it provides managers with relevant tactical information they need to translate strategy into action.

In Gartner's presentation, "The Five 'Fatal Flaws' of BI," analysts Bill Hostmann and Frank Buytendijk note: "Practice shows that if the balanced scorecard somehow provides basic drill-down capabilities, use on the middle-management level takes off. It is the drill-down for performance indicators into relevant breakouts that provides a more-tactical view … Not only does the balanced scorecard benefit from being integrated into a broader BI strategy, BI benefits greatly from the balanced scorecard methodology as well."[3]

[3] Frank Buytendijk and Bill Hostmann, "The Five 'Fatal Flaws' of BI," Gartner BI Summit 2005.

Ensuring Alignment

Reliable and Consistent Information

You can use Cognos scorecarding to create the single and trusted source of performance data that your 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 everyone is working with the same definitions and to the same targets.

Understand Key Relationships

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

Build Metrics and Scorecards Easily

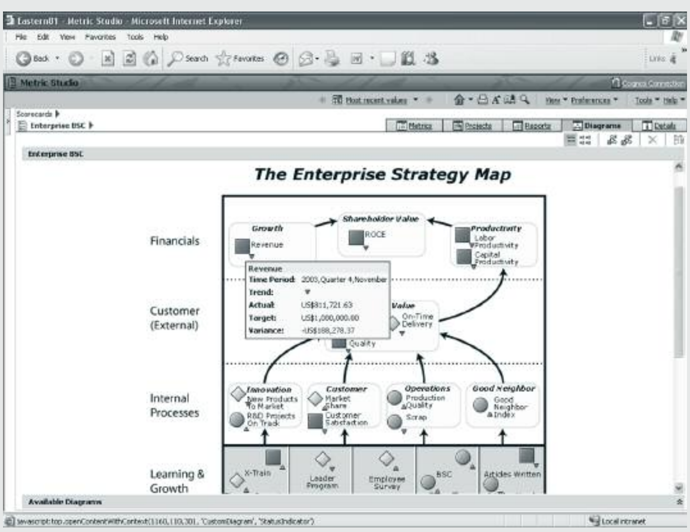
Metrics can integrate a range of cross-functional data. Administrators can build metrics using data from any source, including OLAP and dimensionally aware relational data, ERP and CRM systems, spreadsheets, flat files, legacy and mainframe data, and user-entered values. Intuitive wizards guide administrators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

Increase Focus on Key Issues

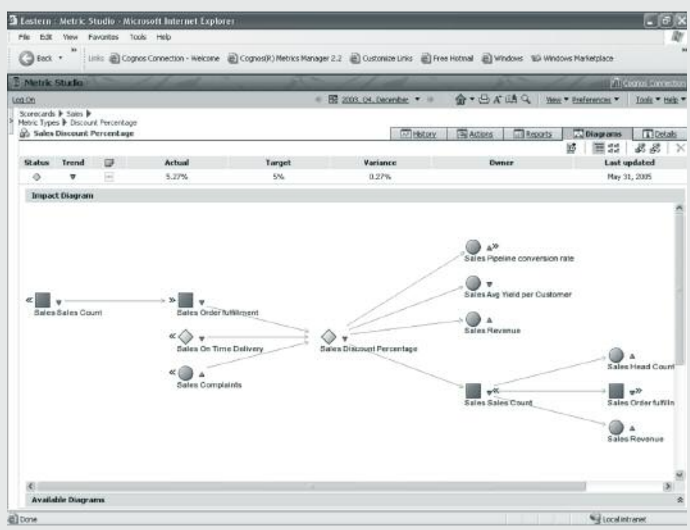
Flexible Viewing Options

Cognos scorecarding lets users organize and view their scorecards in different ways to ensure they focus their 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.



Strategy Map with associated metrics



Cause-and-effect diagram

Immediate awareness of issues

Users can choose to be notified when a metric changes status. Alerts can be automatically delivered through email or to a user's PDA. People can see at a glance which metrics need their immediate attention. They can quickly see which key areas are performing well and which ones are not so they can focus their time and energy where it matters most. If performance falls below a threshold, people can be alerted and take immediate action. They can access related business intelligence sources and reports to analyze the underlying causes, and collaborate with others to find a solution.

Ensure Ownership and Accountability

Metric Ownership

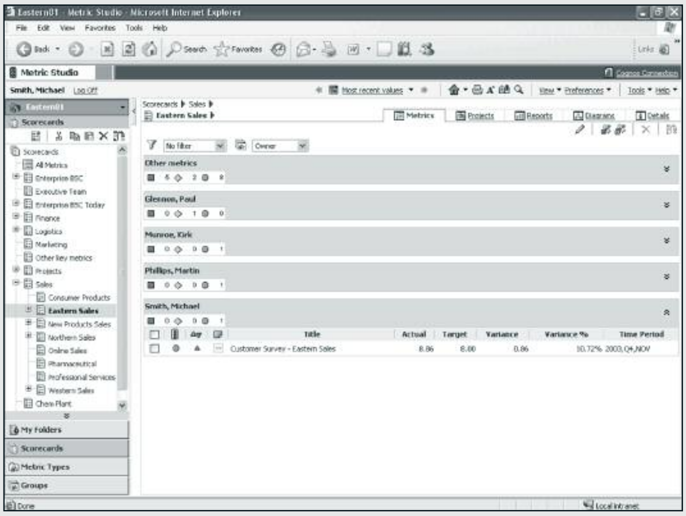
Every metric within Cognos 8 Scorecarding has an identified primary owner to ensure that performance issues are not overlooked.

Manage corrective actions

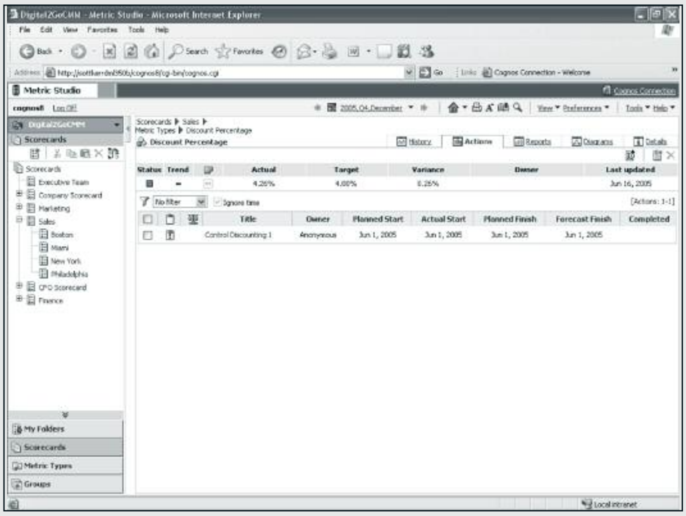
Embedded initiative tracking and collaboration capabilities help users manage actions or projects they undertake when a metric turns red or begins a downward trend.

Embedded business intelligence capabilities

Users can access BI reports, analysis, dashboards, and other content from within the scorecarding environment to analyze and understand the factors that affect their performance. Users can also access MS Word documents, Web sites, and other information without needing to leave the scorecarding application.



Metrics grouped by owner



Initiative tracking

SCORECARDING AND CORPORATE PERFORMANCE MANAGEMENT

In 2001, Cognos articulated a vision of enabling and engaging everyone in an organization with managing the organization's performance in a systemic way: corporate performance management (CPM). Since then, Cognos has been expanding its standards-based technologies built for ease of integration and a partner ecosystem to offer a complete CPM system. Scorecarding is a gateway to CPM.

Cognos, major customers, and other thought leaders recognized that CPM was not business intelligence; it was not planning; it was not financial consolidation or reporting. Just as CRM had to bridge sales, marketing, and customer service, corporate performance management had to embrace these processes and technologies. Today, these thought leaders generally agree that from a technology perspective, CPM means an integration and automation of three key capabilities:

- Scorecarding
- Business intelligence (or decision support), including financial reporting and consolidation
- Planning.

These technology areas are key to CPM's value in letting organizations answer the essential business questions: *How are we doing? Why?* and, *What should we be doing?*

Scorecarding, business intelligence, financial consolidation, and planning technologies answer these questions. And just as the questions are connected, the fabric of information fueling the answers must connect as well. The answers must be based on a common understanding of metrics, data dimensions, data definitions, and views of the organization.

The real value of CPM is found in the seamless way it enables decision-makers to move among these fundamental questions. The single, integrated technology platform is vital; so important in fact, that the practical definition of CPM became the integration and automation of scorecarding, business intelligence, and planning.

Many companies from the Global 3500 and major public sector organizations have embraced the vision of CPM. In its "CPM Benchmark Study," the Aberdeen Group discovered that more than 70 percent of companies that had adopted some sort of CPM program generated high-impact improvements in key performance metrics. These results were consistent across industry segments and company size.

Together with partners and thought leaders, Cognos is complementing its solid, integrated technology foundation for CPM with a whole-product approach. This approach comprises:

- Technology—through an integrated platform.
- Solutions—covering departmental, industry, and enterprise-wide performance management needs.
- Best practices—planning, reporting, and metrics templates developed through the Cognos Innovation Center for Performance Management.
- Partner ecosystem—building performance management solutions on the Cognos platform.

ABOUT COGNOS

Cognos is the world leader in business intelligence and enterprise planning software. Our solutions for corporate performance management let organizations drive performance with planning, budgeting and consolidation, monitor it with alerts and scorecarding, and understand it with business intelligence reporting and analysis. Cognos is the only vendor to support all of these key management activities in a complete, integrated solution. Founded in 1969, Cognos now serves more than 23,000 customers in over 135 countries.

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PRINTED IN CANADA (09/05)