"turning data into dollars"

Tom's Ten Data Tips – March 2008

## Dashboards and Scorecards

Dashboards and scorecards are where strategy, corporate performance management (CPM) and business intelligence (BI) come together. When implemented properly, they communicate how executing strategy should become manifest. They display results and progress, enabling management by objective. The metrics should translate an organization's strategy into observable outcomes, and allow performance to be confronted with goals. This is where the strategy rubber meets the road.

By incorporating not only financial and operational indicators, but including measures like repeat purchase rates, churn percentages, and customer satisfaction, scorecards amplify the voice of the customer *within* the corporation. A 2006 survey by IDC demonstrated that using benefits of BI was directly correlated to marketing performance and overall business results. This lines up with increasingly rational, fact-based decision making that successful companies are gravitating to (see also tip #1). Companies are only as good as the compounded decisions its people make. BI not only supplies a set of software tools, but also enables decision *processes* that allow management and marketers to act on customer and product data. When implemented well, dashboards and scorecards provide a custom user interface to steer the business.

## 1. Scorecards (& Dashboards) Enhance Accountability

Dashboard or scorecard solutions promote performance visibility. By providing insight (see also tip #5), they allow for optimization and alignment of corporate resource planning. Marketing processes are inherently difficult to measure and define. They are best treated and modeled as strategic investments in customer growth. In that very sense they have in common with R&D that it is difficult to link activities to ultimate results. This challenge is worsened by the fact that competition and conjunctural swings add to the variability of outcomes.

In light of these realities, senior management absolutely must get a grip on this large chunk of discretionary corporate spending. The fact that results are known to be structurally variable and hard to predict

makes the quest for valid measurement even more critical. On top of that, companies don't just operate to make a profit today, they must be constantly focused at ensuring sustainable profits in the future as well.

## 2. Scorecards Are Summaries, Dashboards Are Snapshots

Although the terms dashboards and scorecards are often used rather loosely, we find it useful to make a semantic distinction. Scorecards are a summary that is in some way rolled up across time. Scorecards also have a benchmark (sometimes implicitly) to be compared against. Dashboards, on the other hand, provide operational or tactical guidance, displaying raw facts about the current situation in (near) real time.

To use a car analogy: a dashboard is like the speedometer, a scorecard is like the board computer (for instance calculating mileage, etc.).

## 3. "Balanced Scorecard" Refers To Kaplan & Norton

The Balanced Scorecard methodology, devised and formulated by Kaplan & Norton in the 90's, translates a company's overall strategy into specific goals and activities that are then quantified. Although many use the term quite loosely, it is based on a well-described system with four pillars: financials, customers, innovation and internal processes.

It is explicitly recognized that in any organization there are conflicting needs: marketing wants to launch new products as quick as possible, R&D may want more time for development. Customer satisfaction is important, yet at the same time service expenses need to be controlled, etc. The Balanced Scorecard IP of Kaplan & Norton could easily fill an entire newsletter by itself.

## 4. Condensing Your Scorecards Is Hard Strategy Work

In order for a scorecard to be comprised of *truly* Key Performance Indicators (KPI's), they need to be limited in number. The number 7, although not sacrosanct, feels about right. Too many KPI's don't provide sufficient focus. It can also quickly lead to "analysis paralysis." It is a rare scorecard project that ends with five or less KPI's (although this *would* signify strategic focus).

Condensing all the wishes from throughout the business in a limited number of indicators requires that strategy is tied in with desired outputs and the corresponding activity required to generate these results. Next, to converge all requested metrics for the scorecard to a limited set of truly *Key* Performance Indicators implies the business understands its profit and growth drivers. To arrive at such a limited set of KPI's calls for a process of 'guided democracy' with explicit buy-in from a senior business sponsor. Many consultancies can *deliver* strategy, but few are around to *implement* it.

If operating the business is really very elaborate, and a culture of measurement is (already) in place, it can make sense to weave abundant metrics in cascading scorecards. But usually an abundance of supposedly important metrics points to a lack of strategic focus...

## 5. Scorecards *Must Have* Drill Down Functionality

The idea behind scorecards is that noteworthy fluctuations in performance become instantly visible. When change occurs, the underlying root cause needs to be made visible, too! By drilling down or through, explanations for change are surfaced. By disaggregating the numbers in the scorecard along critical dimensions, new insights emerge as well. This is where the scorecard *really* adds value. Multiple layers of aggregation can be displayed in cascading scorecards. Visualization can take the form of OLAP down drilling. All this serves to elucidate relationships with benchmarks, goals, or strategies.

Otherwise, any blip on the radar might send managers on a search frenzy, looking for an (underlying) explanation what caused this change. Conversely, lack of such drill down functionality (and fruitless searches in the past), will lead managers to 'learn to ignore' the scorecard, and hence not derive any significant value from it.

## 6. Stupid Incentives Lead To Stupid Behavior

We are all familiar with twisted (sales) targets. New sales are given precedence over retaining existing customers, for instance. When metrics and incentives are out of kilter with strategy, behavior will follow suit. What gets measured gets rewarded, and what gets rewarded gets done. Sales targets can only be effective insofar they are aligned with corporate strategy, which is obvious. But when it comes to translating a *generic* activity to *specific* targets, the water gets murky (see also tip #4).

This is where not merely buy-in, but also active support from front-line staff when developing appropriate targets is essential. Active involvement is *desirable* to garner the desired buy-in for easy and wide acceptance. Involvement is *necessary* to come up with valid measures that will help rather than derail execution of strategy. We are all familiar with call center agents being rewarded for number of calls, only to find them become snappy. When you monitor the number of calls handled in a call center, and reward employees for this, the "first time right" percentage may drop. Customers definitely want issues to be resolved at their first call. If the agents are too anxious to terminate calls as quickly as possible, these two objectives may conflict.

## 7. Scorecards Refer To A (Implicit) Benchmark

A fundamental difference between scorecards and dashboards is that a scorecard always refers to some benchmark, although this might well be implicit. A dashboard displays current, near real-time information about the state of operational affairs. This information can be highly volatile. In a scorecard time slices that might have been displayed in a dashboard get aggregated, and then it *does* make sense to compare the value to a benchmark.

For instance, the number of current calls (dashboard) taking place in a call center might be informative for the manager, but the average number of calls in the last hour (scorecard) is something he or she can hold a yardstick against.

## 8. Integrate Dashboards And Scorecards In Your Portal

The nature of the information conveyed in a dashboard or scorecard, requires it to be viewed on a repetitive basis. Dashboards even more frequently than scorecards.

It is most *convenient* if this information is part of a portal. However, there is another reason why integration within a portal is desirable. 'Interesting' trends may need to be related to other corporate information sources, and providing integration within a portal enables this best and easiest.

## 9. Better *Late* information Than *No* Information

Timely information is evidently of higher value than late information. However, it isn't always critical that data be updated instantaneously.

Considerations which indicators need to reflect near real-time information, and for which it is fine to report less recent information need to be driven by the realities of management intervention tools. (this distinction of course is displayed and easily accessible in the meta data J )

For example, deciding who should work overtime in a call center probably requires data no more than an hour old. Most of the time, however, the intervention cycle takes longer and although timeliness is still desirable, it is probably acceptable and certainly useful to have information that isn't perfectly up to date. Inability to access information in a timely manner can easily become an argument not to build the scorecard at all, and for the wrong reasons. Don't let this become a cop out *not* to implement. Sometimes this is just a manifestation of resistance against increased accountability.

## 10. Continuously Overhaul Your KPI's

The whole idea of business metrics is that they should drive the business forward, and provide the best possible implementation of corporate strategy. However, translating strategy into action is never 'done'.

There are three reasons why you need to overhaul or at least reconsider your business metrics on a regular basis:

- As business measures get used, operational practice will inevitably show how an existing metric might be improved or refined.
- Corporate strategy might be adjusted, or fine tuned in mid air, and the measures need to reflect that.
- As strategy is executed, it will exert an influence and impact on the market, creating a new "reality". This will require a wholesale rethinking of strategy and objectives, and the cycle continues...


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