Rapid scorecarding for financial services

FIVE SIMPLE STEPS TO BUILDING AN EFFECTIVE SCORECARD

AN IBM® COMPANY

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Introduction

"Financial services providers in general, and banks in particular, will increasingly be driven by their stakeholders to produce and manage from a single, transparent and auditable enterprise version of the truth. Persistent failure in the past by management to reconcile the various views of the truth (and constantly seek new ones) has resulted in dangerous blind spots — but banks should not accept this as their inevitable fate. They can do something different to surmount this problem and get to something that will as be as useful as a single view of the truth: a truth "scorecard."[1]

~Gartner, Inc.

Financial services companies juggle a variety of priorities: launching new products and services, creating value for customers, developing new markets, managing risk, retaining employees, and ultimately, increasing shareholder value. 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, they can integrate these elements into a strategic plan and communicate the plan throughout the rest of the organization. This is the core value of scorecards.

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.

While finding these metrics is one thing, bringing the data together to support them can pose a real challenge to many organizations. 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.

With scorecarding with IBM Cognos 8 BI organizations can consolidate performance data from disparate sources into a coherent system that people can trust. They can create their own truth scorecards that help them firmly pinpoint opportunities and roadblocks in key functional areas. Common financial services implementations include:

- **Profitability scorecards** that help companies focus on maximizing channel, customer, and product profitability. These scorecards are helping organizations gain insight into the most profitable customers, increase revenue from new business and cross-sell, and reduce high delinquency rates, defaults, and losses.
- **Risk scorecards** that provide clear visibility across credit, operational, and market risk.
- **Enterprise scorecards** that promote better alignment across and within finance, the retail network, marketing, HR, customer service, back office operations, IT, executive management, and other departments.

[1] Use Scorecards for Effective Risk Management, Gartner, Inc, R. De Lotto, 29 June 2007

Scorecarding 101

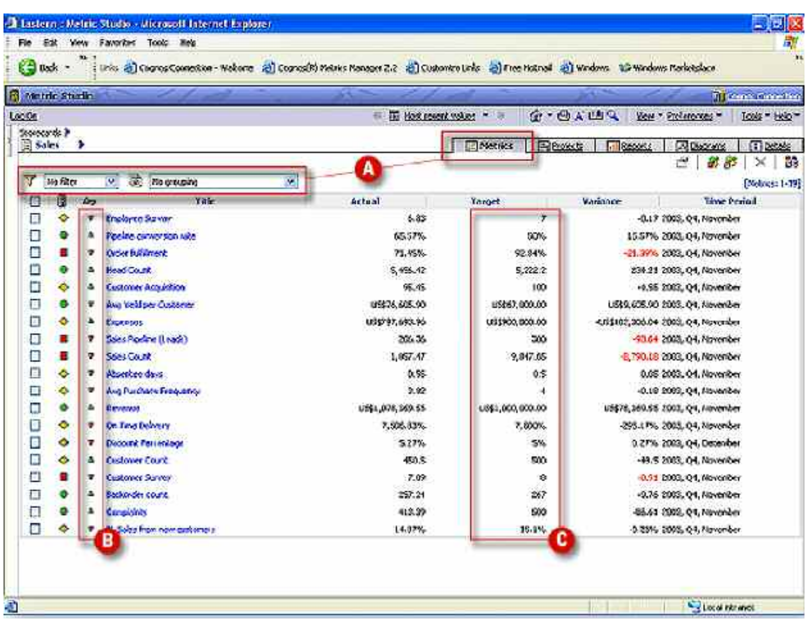
"Business managers need to respond to new and changing business challenges, such as fraud occurrence, compliance error, higher risk transaction, marketing campaigns from competitors, or others. However, in order to maximize opportunities and minimize threats, the management level must be able to identify, monitor and analyze main 'pain points' of the business process. Such activities require constant monitoring of sales, operational and financial performance."[2]

~Business Intelligence in Retail Banking (Review Report), Datamonitor

Scorecarding is a proven approach for monitoring, measuring, and managing 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.



Scorecarding with IBM Cognos 8 BI 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?"

Scorecarding with IBM Cognos 8 BI allows you to link decisions made by individual employees to corporate strategies and goals. It provides users at every level of the business with access to balanced scorecard reports, analysis, and alerts, helping them understand their metrics and the factors that drive their performance. It can scale easily from tracking a few individuals to specific operating subsidiaries, and from discrete geographic regions to the entire enterprise. It can manage performance in other methodologies like Six Sigma and Total Quality Management. And while many balanced scorecard initiatives suffer from lack of adoption by middle managers, IBM Cognos 8 BI scorecards provide the kind of drill-down capability and relevant tactical information that middle managers find highly useful – improving the chances for enterprise-wide success.

[2] Datamonitor, Business Intelligence in Retail Banking (Review Report), Jaroslaw Knapik, Analyst,: December 2007

The Five Simple Steps to Building an Effective Scorecard

"If you cannot draw your strategy map on a napkin, it is too complicated."

~Brett Knowles, President, pm2

Performance Management & Measurement (pm2) is an independent performance-measurement consulting firm founded by Brett Knowles. Brett has been working in this area for over 15 years and is a former VP of The Balanced Scorecard Collaborative. Brett's experience includes the initial research work on the Balanced Scorecard and his team has built over 2,000 scorecards for private and public sector organizations from around the world (www.pm2.ca). The following few pages presents pm2's five simple steps to a fast, effective scorecard.

Setting up a Balanced Scorecard appears to be a great intellectual quest. What a wonderful challenge for a team – to figure out the critical aspects of your organization and how to measure them. The problem is this: no matter how many people you put on that team, you will have access to only a tiny portion of your organization's wisdom; therefore, more often than not, you will miss the critical aspects of your organization's success.

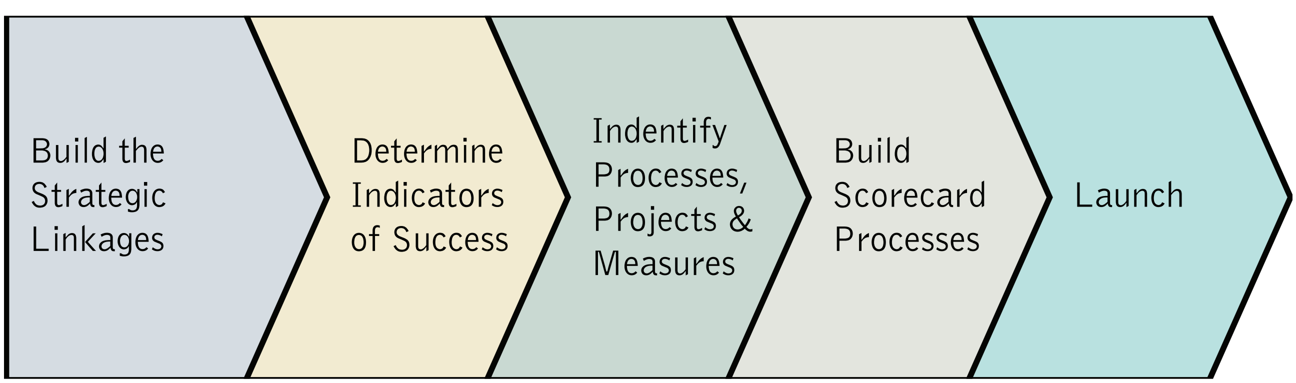
We have discovered that a trick to creating a great scorecard is to "rough it in" first, just like building a house. Use the team to create the framework for a great scorecard, like the framing of a house, and then quickly release it to the organization with the request for them to provide the details around the roughed-in scorecard.

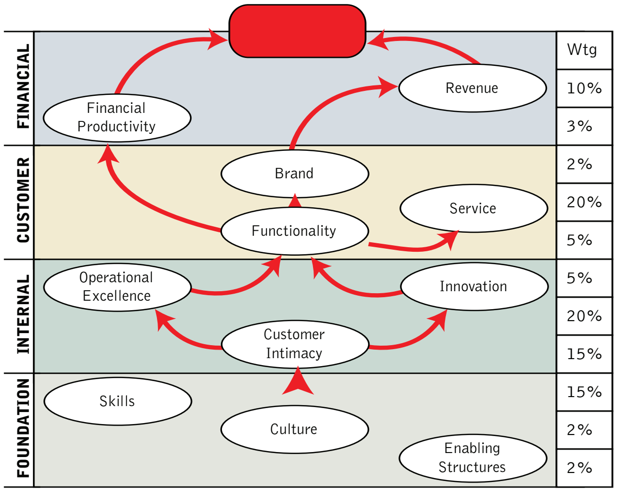
In the house metaphor, the scorecard team members are just the framers – putting up the wood frame of the structure. The organization's job is to put in the plumbing, electricity, walls, paint, wallpaper, and so on. How do you do this "scorecard-framing" work?

There are five distinctly different tasks that provide the breadth of understanding required for a scorecard and performance measurement process. The trick, like framing a house, is to build the whole structure's framework quickly in order to make it self-supporting. If you pause too long between any of the steps, the entire program fails, as the organization begins to "tweak" elements of the scorecard before the overall structure is built and understood.

Step 1: Build the Strategic Linkages

Step 1 calls for capturing the *existing* strategy and documenting it in a new way, called a strategy map. The strategy map is the "secret sauce" that is a requirement for all great scorecards.





Drs Kaplan and Norton, authors of *The Balanced Scorecard* and *The Strategy-Focused Organization* and other bestsellers, frequently quote a Fortune magazine article revealing that 90 percent of strategies fail – not because they are weak, but merely because they are not executed! Given such a high failure rate, the most important gain for your organization will come through the execution of your existing strategy – not through devising a better strategy.

Do not allow your scorecard project to get sidetracked into another "strategic planning" activity. Take whatever strategy your organization is actually using and capture that. (After using the scorecard for six months, you will have enough information to have an informed strategic planning discussion.)

A strategy map describes what the organization needs to do to be successful. In building a simple map showing the relative importance of strategic objectives, the senior team is able to create alignment across their areas and an overall game plan, without committing to specific actions, performance levels, or ownership. The strategy map becomes a risk-free tool to engage the leadership team in agreements about the way forward. As the organization learns and needs to refine its strategy or direction, the strategy map becomes the tool to capture and communicate those changes.

Building the strategy map is work for the senior team within the area being scorecarded. The measurement team may or may not be invited to sit through the session.

Step 2: Determine Indicators of Success

Good scorecards start off with indicators – not measures. What is an indicator? Think of "miles per gallon". It is an indicator of the car's performance, but does not try to diagnose specifically what might be wrong. Low mileage might be caused by poor engine performance, soft tires, or bad driving technique.

Many of our clients use employee absenteeism as an indicator of employee satisfaction. It is not precisely accurate, but many organizations have discovered that unhappy employees tend to take more sick days. Periodically they will check the indicator with a more rigorous analysis – say an employee survey – to ensure it is still a good proxy.

By using indicators, not measures, a number of benefits can be realized:

- **Better breadth of scorecard coverage with fewer indicators:** Because the indicator covers a wide range of possible causes, a single indicator provides wide coverage (for example, absenteeism might be caused by poor management, organization changes, or reduced rewards).
- **Ability to start using the scorecard right away:** There are always indicators available in the organization that can be immediately used in the scorecard. It is important to select indicators after you have built the strategy map. An organization would not adjust its strategy just because there were no obvious measures. Make sure that you do not confuse the two concepts.

Step 3: Identify Processes, Projects, and Measures

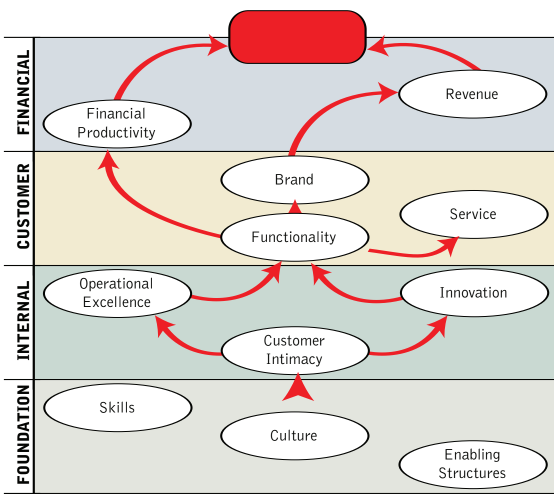
The promise of the scorecard is the translation of strategy into action. An important deliverable from any scorecard process must be the linkage between strategy and what we do – the processes and projects we work on from day to day.

During the third step, the scorecard team should produce a short list of core processes, identify which ones are critical to each Strategic Objective on the strategy map, and then rank the processes' ability to support that objective. This will allow the organization to identify the strategic impact of each process. Processes that have a high weighting but provide poor support are performance risks for the organization.

Likewise, all significant projects should also be ranked based on their impact in improving the performance around each Strategic Objective. Ideally, projects will provide support around the identified weak processes; if not, the organization has a misalignment between the projects and strategic need.

It is not unusual to find that 40 percent to 60 percent of existing projects do not link to any Strategic Objectives. Those projects should be stopped right away, so as not to divert resources from the things that will help execute the strategy.

By the end of Step 3 the team will have a rough-cut risk-analysis illustrating the "execution gap" – the gap between what the strategy calls for and the capabilities of existing processes and projects. In this illustrative chart, the team can clearly show the risk profile by Strategic Objective. Typically, we invite the senior team in to review the findings from Steps 2 and 3 (indicators, Strategic Objective risk profile, projects recommended for suspension).



	PROCESSES										
Wtg	A	B	C	D	E	F	G	H	I	J	Σ
10%											33
3%											35
2%											39
20%											63
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5%											40
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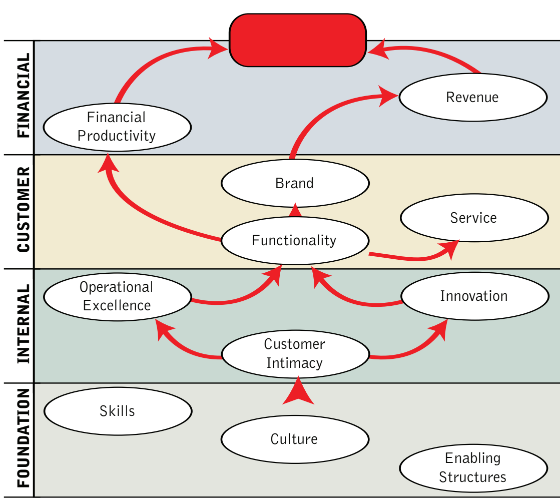

PROJECTS					
1	2	3	4	5	6

Step 4: Build Scorecard Processes

In order to receive all the benefits that scorecarding offers, management needs to learn some new techniques. The scorecard needs to (slowly) become integrated with other existing processes, such as accountabilities and financial planning, and some efforts need to be made in shifting the organization's mindset to a performance-based culture.

Processes need to be designed for the monthly gathering of data and objective owner commentaries. Step 4 calls for designing where the data is to come from, who writes the commentary, when it is due, and how it is published. On the management process side, as Drs Kaplan and Norton describe in *The Strategy-Focused Organization*, you will need to begin making "strategy a continuous process" and making "strategy everyone's job."

Central to this is the addition of a new type of quarterly management meeting – a Strategic Management Process – in which the strategy map and weighting are reviewed to ensure that they are constantly tracking the best way forward for the organization.

Based on the work done in Step 3, the organization can begin linking the strategy down to the team or individual level by assigning accountability for each supporting process and project, which in turn is linked to each Strategic Objective.

Step 5: Launch

It is important to get the scorecard into the hands of the organization as soon as possible. Launching the scorecard has three components: developing a presentation to be given to the entire organization (repeatedly), getting management to openly support the scorecard, and getting agreement on the next steps.

Want an Even Faster Route?

Cognos has entered into an alliance with Performance Management & Measurement (pm2) to develop a hands-on method of helping organizations align their strategy with execution.

Seasoned Cognos consultants, market-leading software, and an intensive program delivered by pm2, combine to offer your management team a complete scorecard experience. Together, we can help ensure your organization takes the right first steps toward a performance management culture.

The Rapid Scorecard Service delivers:

- A strategy map and scorecard.
- A fully functioning scorecarding application populated with your key metrics.
- A detailed go-forward plan.
- Skills transfer to your project manager.

For more information please call 1-800-426-4667

The End Result

"With Cognos we have a simple and quick environment which can handle all our needs. We've increased our reliability and reduced the time spent on certain operations from 66 to 3 hours. In the long term, this means we'll save masses of time and money thanks to this solution."

George Janson, Business Intelligence Coordinator, Controller Division, Folksam Insurance

Scorecarding with IBM Cognos 8 BI enables organizations to manage the business through a network of metrics, thresholds, histories, and accountabilities. Consumers are able to identify problem areas in the organization, ensure alignment of key stakeholders, and communicate strategy across the organization through enterprise scorecards. The end result is the ability to:

- **Align employees around organizational strategy and execution:** Employees understand what they are responsible for and how their performance contributes to the overall performance of the organization.
- **Make targeted, prioritized information easily accessible:** Scorecards provide the means for people at all levels of the organization manage their own performance. A scorecard is always on, always current, and always factual. As the organization gains a better understanding of the scorecard, and what individual impact has on local performance and organizational performance, confidence increases in its ability to track and manage performance. As individuals see a scorecard as a way for them to identify issues and validate them with senior management, they are able to justify changes in budgets, headcounts, and other matters.
- **Bring clarity and transparency:** Organizations have visibility into the business processes and activities that are important to their mission and program goals. They are able to exploit information to monitor issues, get early warnings when things are not tracking to plan, and manage performance against expected outcomes.
- **Communicate critical success factors:** Everyone has access to relevant information. This ensures employees understand critical success factors and their role in organizational success. This is communicated throughout the organization at the same time from the same system.
- **Enable rapid response to shifts in strategy:** Strategies continually shift. Management tools need to accommodate change. A scorecard is not static. With greater insights into the drivers of organizational success, you can adapt the scorecard to reflect this and changing priorities.

Founded in 1969, Cognos has helped over 1,000 retail, corporate, and investment banks and insurance companies make these goals a reality. Our customers trust Cognos software to increase customer, product, and channel profitability, manage and reduce risk, address compliance issues, and improve the predictability of financial performance. Each of these customers has a unique story. Here is just one:

A Profile in Performance: Scorecarding at Folksam Insurance

Folksam is one of Sweden's largest insurance companies and is represented nationwide. The company has around 50 offices in Sweden and slightly more than 3,000 staff, insuring every other Swede, every other home, and one car in four. In a sector characterized by rapid change, Folksam needed to be able to boost productivity by adapting themselves to changing patterns of customer demand and pushing down costs.

Essential to this mandate was finding the right technologies and standardizing on them. That's why they combined IBM Cognos 8 BI, IBM Cognos 8 Planning, and IBM Cognos 8 Controller to create a standardized solution for their corporate performance management (CPM) platform and the primary tool for effective management.

With Cognos, they now can provide user self-service to business intelligence, access heterogeneous data sources, and leverage a complete performance management framework that includes capabilities such as reporting, analysis, dashboards, scorecards, budgeting, planning, consolidations, and more.

Challenges faced

A number of years ago, Folksam established that up to 60 percent of their time was spent during the follow-up process on the collection and consolidation of data, while only 40 percent remained to actually use the information. They needed a faster way to unite data, and they needed better processes for reporting, analyzing, planning, and budgeting on the unified data.

Strategy followed

In 1995, the company launched a project for installing a new business system — SAP R/3 — and immediately realized that the reporting functions available in SAP did not meet their needs for some users. They needed to unite and leverage data more effectively and were finding that SAP R/3 alone was not enough. Following a survey of various reporting systems, Cognos analysis module was chosen, as it was found to be flexible and user-friendly. The solution needed to be flexible in order to gather and report on information from both SAP R/3 and other sources to get a complete view of the business.

The solution also needed to be tailored to specific users and user needs, ranging from high-level strategic reporting to operational reporting. Relying on SAP R/3 alone could not satisfy Folksam's reporting requirements. Folksam later expanded their solution with functions for reporting, scorecarding, and planning/budgeting. A web portal has also been installed in the company intranet where users can access everything from the minutes of the board meetings of the various subsidiaries to analysis models. Most recently the company migrated to Cognos 8 BI in order to leverage its enhanced capabilities and unified architecture.

The underlying data is provided in most cases by SAP R/3 or IBM DB2, but is also collected from other sources. Information on the market shares is taken from The Swedish Road Administration, PPM statistics from the Swedish Social Insurance Agency, travel expenses from travel agents, and many other external sources. All external data is first saved in a common database and then processed with Cognos systems into easy to use reports.

The key to a cost-effective and flexible system is in the infrastructure. Folksam uses Cognos data integration to collect and prepare all information used for CPM. "With Cognos, we have a system that's easy to change and we avoid becoming too person-dependent, which is what happens when you have many specialized systems," says Business Intelligence Coordinator in Folksam's controller division, George Janson.

Benefits realized

Thanks to the Cognos solution, the company has now reached their target of spending a maximum of 15% of the time on the collection and compilation of figures and the remaining 85% on future-oriented work. The staff now has more than twice as much time at their disposal for analyses and initiatives. The 50 local offices can monitor their own figures, claims managers see the claims figures, the personnel department sees the personnel statistics and so on.

Folksam currently has over 800 Cognos users spread throughout the entire organization. By means of scorecards, analysis models, and reports, they can quickly and easily gain insight into:

- Premiums paid and disbursed insurance sums.
- Operating costs per cost centre and product.
- Internal purchasing support.
- Follow-up on purchasing for the purposes of claims adjustment.
- Profit and loss statement and balance sheet.
- Staff statistics, such as hours worked per person and cost centre (overtime, holiday etc.).
- Sales in relation to the budget.
- Analysis of customer surveys.
- Market shares for auto insurance.
- PPM statistics.
- Change in the sums insured over time.
- Internal follow-up of travel expenses.

"With Cognos we have a simple and quick environment which can handle all our needs. We've increased our reliability and reduced the time spent on certain operations from 66 to 3 hours. In the long term, this means we'll save masses of time and money thanks to this solution," says Janson.

The various reports and scorecards are used very diligently throughout the entire organization. Folksam has a number of specific targets which are ticked off on the scorecards. Key figures are highlighted in light green, yellow, or red depending on the situation. 25 units now have their own scorecards with key figures.

According to George Janson, the management has been firm in the mandate that Cognos gets used at a high-level across the organization. "We work a lot on management issues. The management sets overall targets to aim at. Cognos is an important tool in our follow-up work as well as in analyzing these targets."

With a competitive marketplace Folksam needs to work with forward-looking management to be able to detect warning signs in time and react more rapidly to change. "If you don't know what you're talking about, you can't make the right decisions," says Janson, and mentions the claims statistics as a fine example of how a sound decision-making base can mean a real boost for the business.

"When we started producing statistics on the claims cases, we turned up a whole load of issues that required action. For example, we saw that there were many cases that had never been closed. The claims reports have provided a solid base for determining how long claims cases of various kinds should normally take."

By using Cognos Planning, for planning, forecasting, and budgeting. Folksam can quickly update the corporate plans when required, providing greater flexibility while maintaining control. Users work on their own plans which are then consolidated on a common server. Thanks to the built-in workflow, the user has perfect control of all elements in relation to the plan. The consolidation occurs on an ongoing basis in line with the saving of the plans.

"Users of Cognos are very happy with it, and we're constantly getting in requests for new report templates," says Janson. When we train staff in Cognos products, we encounter so many "aha, I see!" moments when users see reports and numbers generated in Cognos for the first time – numbers that include all data presented in a way that they can understand and act on."

Summary

"The early leaders have adopted common, actionable segmentation across the entire business, integrated the setting of goals for segment-level customer experiences and financial performance into their planning and performance-management efforts, and established clear organizational accountability for segment-level results. To succeed, they must artfully integrate this approach into the organization's existing product, channel, and geographic orientation in a way that makes a real difference. Taking the plunge is worthwhile because it enables a company to create more valuable relationships with customers."

~McKinsey Quarterly, August 2006[3]

With multiple delivery channels, market specialization, high-profile mergers and acquisitions, growing compliance requirements, and rising operational costs, financial services organizations are increasingly turning to Cognos to help make sense of their high stakes and complex business landscape.

Many of the leading players in financial services already choose Cognos, including all of the top banks in the world and seven of the top 10 insurance companies in the US. In addition, Cognos was recently recognized by Insurance Networking News and IDC Financial Insights with an award in the category of "Keeping Insurers Informed Through Analytics." In this ranking, insurers were asked to name the technology firms that truly assist their varied operations across nine different application or business categories, and they put Cognos at the top of the list. For financial services organization large and small we offer:

The Right Technology and Solutions

The integrated performance management software and services from Cognos deliver value to the world's largest financial institutions, enabling them to:

- Leverage their existing data investment to identify, report on, and analyze costs of trade, staff performance, risk management, branch profitability, loan performance, and customer profitability, among others.
- Aggregate risk (credit, operational, market, country) data from multiple silos, diverse business lines, all regions, and across the organization to deliver enterprise risk reporting.
- Augment or replace cumbersome spreadsheet-based systems with flexible, connected planning software that reduces forecasting, consolidation, close, and reporting cycles by days or weeks.
- Manage multiple reporting and consolidation standards such as IAS, Basel II, Solvency II, and US-based GAAP, inter-company elimination and reconciliation, multicurrency translation, complex ownership calculations, and financial consolidation rules.

The Fastest Methods

Financial organizations have no time to waste in implementing software to achieve maximum value and ROI. That's why only Cognos offers a suite of Performance Blueprints to address planning and performance management process areas that directly impact an organization's ability to create business value. IBM Cognos Performance Blueprints consist of targeted, pre-built data, process, and policy models based on proven best practices in bank operations, planning, budgeting, and forecasting. They also combine the power of IBM Cognos 8 BI for reporting, analysis, scorecards, and more. Current Blueprints for financial services include the IBM Cognos Risk Adjusted Profitability Blueprint, a Customer Segment Performance Blueprint for both Retail Banks and Corporate Banks, a Retail Branch Performance Blueprint, and an Insurance Product Performance Blueprint.

Performance Management Experts

When you make an investment in Cognos software, Cognos Global Customer Services makes a commitment to you: to bring the full range of our personnel, resources, and expertise to your deployment to help you achieve the next level of performance. Our Professional Services, Education, and Support services help you accelerate deployment, promote strong user adoption, and increase your competitive advantage.

For more information on our solutions for financial services, please visit our websites at www.cognos.com/banking and www.cognos.com/insurance. For more details on our solutions or to schedule a one-on-one demo, please call 1-800-426-4667.

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3 Sean R. Collins, Peter W. Dahlström, and Marc Singer, *Managing your Business as if Customer Segments Matter*, McKinsey Quarterly, August 2006

About Cognos, an IBM company

Cognos, an IBM company, is the world leader in business intelligence and performance management solutions. It provides world-class enterprise planning and BI software and services to help companies plan, understand, and manage financial and operational performance. Cognos was acquired by IBM in February 2008. For more information, visit **www.cognos.com**.

More than 3,500 financial services firms have selected Cognos software to increase customer, product, and channel profitability; manage and reduce risk; address compliance issues; and improve the predictability of financial performance. Among them:

- Nine of the top 10 banks in Europe.
- All the top 10 banks in the US.
- Six of the top 10 Asian banks.
- Ten of the top 10 Chinese banks.
- All the top four Japanese banks.
- All the top four South African banks.
- All the world's top 10 investment banks.

For more information

For more information on Cognos solutions for financial services companies, please visit **www.cognos.com/banking**

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To request a call or ask a question, go to www.cognos.com/contactme. A Cognos representative will respond to your enquiry within two business days.

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