Keeping Score

Putting CFO scorecards to work

Kyle Toppazzini

In a series of interviews we have conducted with chief financial officers, nearly all of them stressed the importance of having access to relevant and timely information across all organizational areas. Yet, in today's technology-saturated environment, it is easy for CFOs to be overwhelmed by information. So how can CFOs decide which data is critical and which data is extraneous?

Increasingly, CFOs are using scorecards to help their decision-making. In fact, more than half of all Fortune 100 companies use scorecards, which consist of key performance indicators (KPIs) and targets displayed numerically or graphically by strategy, perspective, process, business unit, organizational hierarchy, manager, or employee, over a certain time period.

What's in a CFO scorecard?

A well-designed scorecard will help CFOs to focus on areas that require immediate attention; drill down to the root causes; and communicate this information across the organization with minimal effort.

Based on my experience working with CFOs across many industries and organizational sizes, a CFO scorecard should include the following six items:

1. **A set of balanced indicators (lead and lag)** across all perspectives of the organization, such as client, financial and risk, process, and people for which the CFO is responsible for. KPIs for the CFO may include anything from return on assets, to ROI of marketing to operational transactions, such as, day sales outstanding, trend in accounts receivable, revenue by account, expenses by service line, processing costs, employee compensation, etc.
2. **A mix of charts highlighting trends in KPIs** relative to a target and gauges showing a snapshot in time of the value of the KPI relative to a target.
3. **A predefined color range to indicate whether action on a KPI is required**. Most scorecards use a green, yellow,

and red coloring system, where green indicates that the actual value of the KPI has been met or exceeded the target, red means that the actual value of the KPI has not met the target and immediate action is required, and yellow typically means the target has not been met, but the value of the KPI does not require immediate action and should be monitored.

4. **The ability to view various dimensions of a scorecard**. The CFO may want a view of indicators by strategy, division, product line, process and time period. The CFO scorecard should provide visibility into processes, especially those with significant cost and revenue drivers.
5. **The ability to provide users with different views of the scorecard**. In recent years, organizations have structured their scorecards to allow people at different levels within the organization access to timely and relevant information to carry out their responsibilities successfully. Naturally, the CFO may want a higher level view of the company performance than a typical employee.

With the proper design, the scorecard reduces the time spent on discussing the issues and allots more time on solutions.

6. **A facility to promote real-time communications**. This could include an alert function to automatically send a message to an individual when a target is not met, instant messaging functionality allowing other members of the company to add notes to explain variations and a publication feature to communicate results to a part or the whole organization.

Designing the CFO scorecard

Designing a CFO scorecard from start to finish across an entire organization can be a fairly lengthy and costly process. Full implementation of scorecard, data, and system integration can cost anywhere from $100,000 to millions of dollars depending on the size of the organization and how many organizational levels have access to key performance information.

However, there is an easier, quicker, and more cost-effective method. If you strip down the CFO scorecard to the bare essentials, you will end up with:

1. **Your strategic story**. The objectives your organization needs to achieve through its people, systems, processes, finances, and clients in order to implement its strategies.
2. **Key performance indicators and targets**. The key performance indicators that will enable the organization to meet its objectives and the targets. Do not look for the ideal measures; look for those that you can measure today and those you cannot measure but are critical to your business, i.e. the business will not be successful if you ignore them.

3. **Web-based scorecard**. The scorecard tool does not have to be sophisticated. However, it should include some basic functionalities such as the ability to drill down to lower levels of detail; instant communication capabilities (critically important); analytical tools for further analysis; and the ability to pull data from various enterprise systems.
4. **A "scorecarding" process**. To ensure that your scorecard keeps up to date, it is a good practice to ensure that a documented process is in place to keep the scorecard current. This includes updating for changing strategy, adding/changing KPIs, enhancing the analytical capabilities, adding more data feeds from various parts of the organization, and the most critical item—enhancing your ability to communicate performance across the organization.
5. **Management process**. Your scorecard is an idle asset until there is a process in place to use the results to facilitate dialogue with your management team. Use the information to make informed decisions and facilitate communication across the organization.

Final thoughts

The CFO scorecard is a management tool that does more than collect and report key performance metrics. By leveraging today's technology, the scorecard facilitates real-time communication across the CFO's areas of responsibility. With the proper design, the scorecard reduces the time spent on discussing the issues and allots more time on solutions.

This article focused on a single executive member of the organization. However, this scorecard methodology can be extended to all senior finance executives. Not only will the executive team members gain from the same benefits as the CFO using the scorecard, the CEO will have a management and communication tool that promotes cohesiveness among the executive team, alignment throughout the organization, and provides board members with increased confidence in the company.

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Q&A

Scorecard Success

Kyle Toppazzini

Bryan Koehler, CFO of Certiport, a company that creates interactive learning software, uses a scorecard to measure and analyze:

- **Test center churn**. This is a key indicator of Certiport's sales forecasts.
- **Marketing return on investment**. This is used to evaluate the effectiveness of Certiport's marketing efforts and is used with the lead-to-sales metric to determine which marketing events Certiport should continue to invest in.
- **Product lifecycle development and maintenance costs**. Since the lead time on product lifecycle development can be influenced by outside factors, such as the release of new products by third-party software vendors, analysis of product lifecycle development allows Certiport to better estimate the timing of its own projects and forecasting of future product development.

Exchange magazine recently spoke to Koehler.

Exchange: Can you provide some background about Certiport?

Koehler: Certiport delivers certification examinations to employers, students and employees worldwide. Certiport offers such solutions as official Microsoft Office Specialist certification programs and the Adobe® Certified Associate certification program. Certiport is in 142 countries and offers certification programs in 24 different languages. Certiport is on course to deliver more than 1.6 million exams in 2010.

Exchange: When did Certiport start using scorecards? How do you use the scorecard daily, weekly, quarterly, etc.?

Koehler: When I first came on board at Certiport knowing that it was a large corporation that operated in 142 countries offer certification programs in 24 languages, I knew that it was critical to understand what factors were driving costs, sales revenues, and its growth. As a result, I developed scorecards for every department that fed into Certiport's vision and mission, which is to certify the world in digital literacy and computer applications, allowing the test candidate to improve his or her education, employability, and personal skills. Today, I manage eight key performance indicators, which include two KPIs for sales, and one for each department and two overarching KPIs that measure the performance across departments for which I am responsible.

Scorecards are used monthly to provide and to share with employees, directors, other executives, and the board of directors, insight into what is working well and what opportunities exist for improvement at Certiport. However, I review some scorecards, such as those dealing with sales and project costs, a couple times a week.

Exchange: What changes have you made since you started using the scorecard? Were there any false starts or changes made when first using the scorecard?

Koehler: Measuring KPIs and using scorecards at Certiport has forced the company to rethink its strategy. Historically, the company had been focused on selling primarily only certifications. However, the company soon realized that selling individual certifications was not as useful to their clients in all regions around the world. Due to the cyclical nature of each region, as well as budgeting cycles in the different academic and commercial sectors, new methods of bundling and packaging were needed. Certiport now implements in many regions and sectors a licensing model that addresses the issues discovered through the scorecarding process. By selling licenses, their clients could better determine their budget requirements on an annual basis as opposed to trying to forecast their individual certification requirements. This change in strategy was more profitable for Certiport and more valuable to its clients.

When scorecards were first launched at Certiport, some KPIs included information that was not necessarily relevant to Certiport's business, and it was only after measuring these KPIs did Certiport come to understand this. For example, Test Center Churn at the start included any individual who took an exam but by measuring Test Center Churn this way, I didn't truly understand the cyclical nature of Certiport's intra-year sales. Academic sectors, for example, have significant peaks throughout the year. Commercial businesses many times provide annual training instead of consistent testing throughout the year. By only looking at one upload, I could see churn rates on an annual basis, but understanding and forecasting quarterly and monthly metrics required stronger definitions of what is considered an active and nonactive test centre.

Exchange: How has the use of the scorecards contributed to Certiport's success?

Koehler: Overall, the use of scorecards has enabled Certiport to refine its key strategies resulting in exceptional growth despite the economic conditions over the last two years. In fact, our sales growth rates have been higher in the last two years than what has been achieved historically.

In addition, scorecards have given me the ability to manage how development times on new and current projects are utilized. Obviously, we want our development time to be more focused on new projects, which are tied to revenue, rather than the maintenance of current projects. Knowing how much time is spent on regular maintenance by project type has enabled Certiport to better determine what projects to take on and better forecast its costs, timelines, and ROI calculations.

Exchange: How do you use the scorecard to communicate results to the rest of the organization?

Koehler: All employees and partners are provided visibility into the results and performance within the organization. For example, Certiport displays tactical and key operational metrics on TV monitors within its office facilities, so that all employees are reminded of what are important to the company.

I also use the scorecards with the CEO and the board to facilitate discussions about strategic imperatives such as key acquisitions, potential new products and other opportunities that accelerate Certiport's growth. This reporting strategy allows more senior members to be focused on the growth of Certiport and employees to focus on their operational responsibilities.

Exchange: What advice would you give to your peers who are considering using scorecards?

Koehler: If you don't measure, monitor, and hold people accountable, nothing will change. Employees have to understand where to focus their efforts and they must also know the contributions they make to the success of the organization in order for the organization to succeed. Morale improves when employees understand how their efforts meet the company's overall goals