Dashboards: expectations, practices and results

3rd Finance-Management Monitor | White paper | 2010-2011

In partnership with

DFCG
ASSOCIATION NATIONALE
DES DIRECTEURS FINANCIERS
ET DE CONTRÔLE DE GESTION

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Contents

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Editorial

Third Finance-Management Monitor
The annual meeting of financial directors and management auditors

General management and boards of directors expect financial directors to provide an explanatory vision of the situation of the business, especially its management fundamentals.

In the middle of the crisis, it was first short-term issues that caught managers' attention. They had to quickly introduce measures to preserve cash flow and profitability. While business tracking and controlling financial balance are still a priority in the current context of a gradual recovery, it is no longer such a serious survival issue. Managers can look ahead to beyond the crisis, introducing new strategies and of course tracking their implementation.

The Financial Director/Management Audit Director is therefore adapting to oversee the development of the business. He provides better targeted and more relevant information to ensure that the strategy is being followed and to give decision support to management.

In this connection, the strategic dashboard of the Balanced Scorecard type, with key indicators drawn from the various areas of the business, is in theory a relevant tool for satisfying General Management. It offers the advantage of being cross-cutting and succinct, and of focusing attention on the main issues.

However, in practice we observe many doubts and a fairly high level of dissatisfaction with the dashboards available in businesses. The business world does not yet seem to have managed to face up to the exponential increase in information communicated, whereas tools in the personal area offer everyday information quickly and with a clear interface (Smartphones, websites, car dashboard, etc.).

In order to take stock of the situation in a concrete way and also to identify areas for improvement and good practice, DFCG and BearingPoint surveyed the Finance-Management and General Management populations receiving such dashboards.

Enjoy your reading!

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Summary

MANAGERS WANT DASHBOARDS TO BE A GENUINE DECISION-SUPPORT TOOL. FINANCIAL STAFF HAVE A KEY ROLE TO PLAY.

Management and financial staff express a high level of expectation

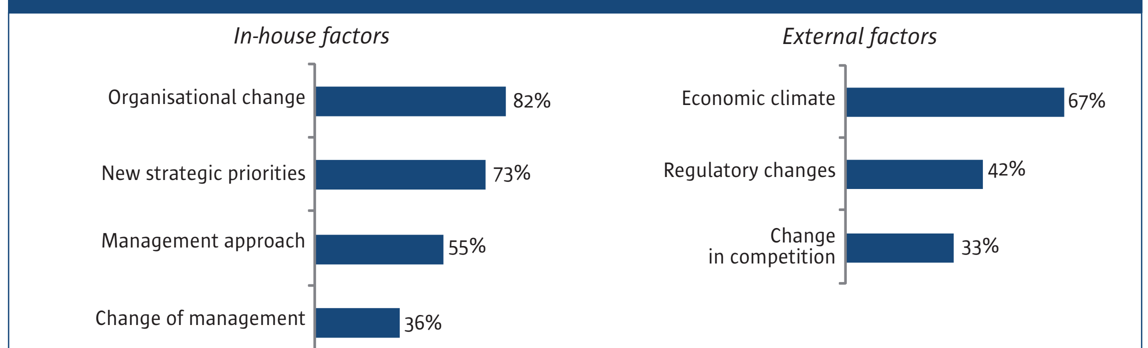
The dashboard's objectives embody the level of expectation detected in our study. Managers and financial staff interviewed agree on two main objectives:.

- As a matter of priority, **track implementation of strategic and operational objectives;**
- Next, manage the field of business.

Managers lay particular emphasis on tracking implementation of the strategy and assessing the impact of operational action plans. Financial staff, on the other hand, are very keen on the concept of warning systems.

The factors determining how dashboards are created or evolve correlate closely with those expectations. In businesses with a turnover exceeding 100 million euros a year, 54% of respondents felt that they are mainly in-house factors. **A large majority are linked to organisational change and new strategic priorities.** Noteworthy among external factors are the developing economic climate and changes in the business environment (regulation or competition).

Factors determining how dashboards are created or evolve (Finance-Management)



Source: BearingPoint - DFCG study, 2010-2011

Current dashboards do not live up to managers' expectations

In relation to the expectations they express, 56% of general managers say they are dissatisfied. Their main criticisms are as follows:

- Dashboards **are not sufficiently orientated towards action** (61% of respondents), should be more forward-looking (44%), have irrelevant indicators (44%) and are available too late (33%);
- They receive **a profusion of documents**: 47% of respondents consider that there are far too many dashboards;
- There is a **lack of accompanying information**: not enough qualitative information such as comments and action plans (50%).

Looking at these results, one might wonder whether managers are not seeking a co-pilot as much as an effective dashboard.

Financial staff do not share these concerns, 66% of respondents expressing satisfaction with the effectiveness of their current dashboards.

While this level of satisfaction should be qualified by the individual interviews and the detailed results of the study, it raises questions about the understanding of the expectations of managers regarding performance management, or even the very definition of a dashboard.

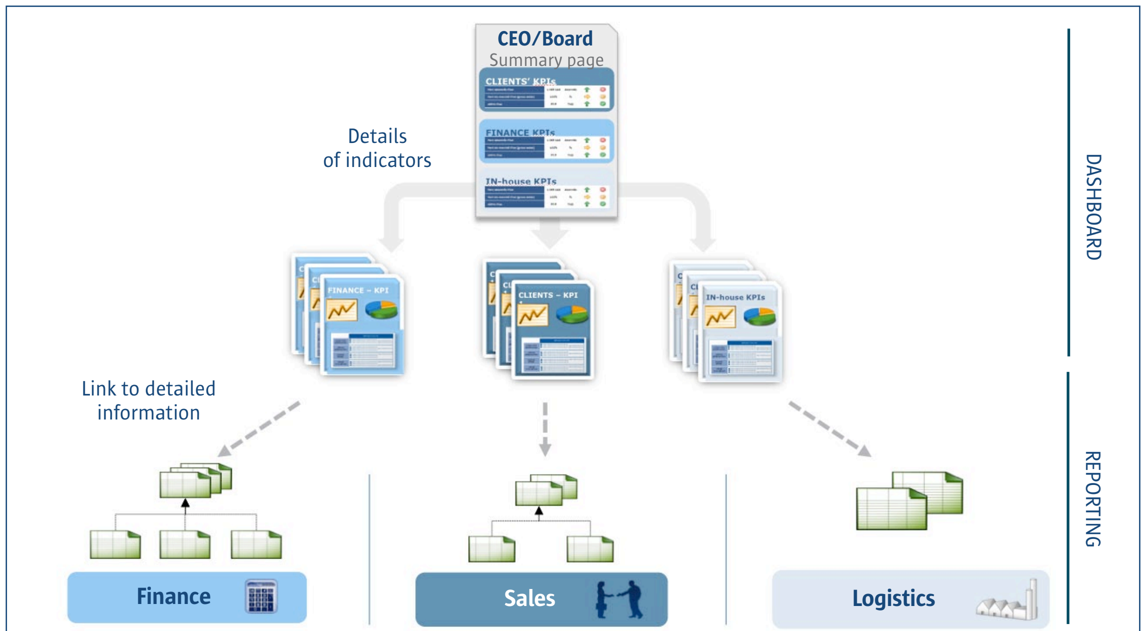
Indeed, we find that there are few proper dashboards in practice: **over two thirds of businesses interviewed operate on the basis of reporting**.

And yet efforts have been made to reduce reporting closure and production lead times, to set up dedicated teams for tracking performance, projects with BI or CPM tools or enhancing forecasting information.

The link between dashboards and reporting could be clarified

To try to respond to the feeling of confusion that we observed throughout this study, there follows a proposal for a definition and the linkage between dashboards and reporting:

- The dashboard is a management tool linked to the business's strategic objectives; it is a summary based on a top-down logic;
- Reporting is a tool for providing information to monitor a particular area, generally in a detailed, static and bottom-up manner;
- The linkage between these two tools must allow the dashboard to remain simple and concise, relying on detailed reporting for in-depth analyses.



Source: BearingPoint - DFCG study, 2010-2011

Factors for success are applied unequally

The monitor confirms that it is essential to apply the key success factors, including those summarised below. However they do not seem to be applied much in practice: less than 10% of those interviewed use dashboards that embody them all.

The recipe for the useful dashboard contains the following ingredients:

- **"SMART" indicators:**
  Indicators must be simple and **Specific** so that stakeholders adopt them easily. They must be **Measurable** so that changes in the indicator can be evaluated with sufficient accuracy without necessarily relying on accounting data. They must also be **Achievable**, in other words realistic and linked to the management cycle to cover the allocation of the underlying resources. Next, someone must be **Responsible** for them and they must be **Time-bound**.

- **Simple, linked and dynamic dashboards:**
  - There should be no more than 20 indicators, with a presentation at several levels of interpretation, offering a summary view and a facility for looking at subjects in more depth;
  - A mere 25% of general managers consider that dashboards are suited to their organisation. The introduction of dashboards that are aligned in terms of content and coherent in their presentation requires a genuine dashboard governance approach;
  - The dashboard must evolve to reflect priorities, with a regular review of the indicators it comprises. The increase in the number of non-financial indicators is an expression of the desire to have real triggers available;
  - Qualitative information, in-house and external benchmarks, and comparisons with trends are also much in demand.

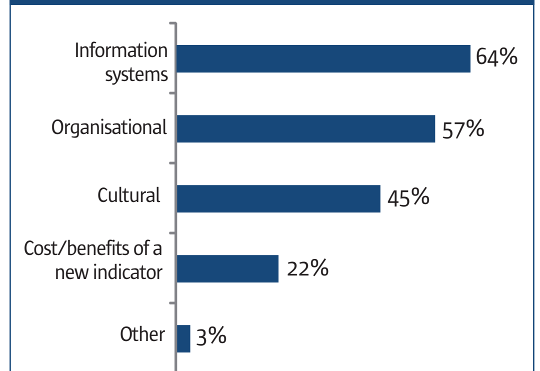
- **Individual and collective management use:**
  - Existence of a managerial body (management committee, business review, etc.), each player being accountable in his area of competence;
  - Top-down approach for selecting priorities (used by 82% of businesses) which is a powerful vector for rationalisation, standardisation and alignment of cross-cutting choices in the business;
  - Forward-looking view of performance using data that are not only in the "rear-view mirror": estimated data, qualitative information, benchmarks, action plans, etc.;
  - Pay-related: 67% of respondents would like a partial alignment.

- **The finance function as co-pilot**
  The study confirms the legitimacy of the financial staff/management auditor working outside the financial sphere (79% of financial staff and 72% of General Management). In his mission to oversee General Management, the financial/management auditor must forge a link between the financial and operational indicators, and play an explaining and warning role.

- **Tools for producing and analysing information**
  Two thirds of respondents have experience of information systems as the main constraint on the evolution of dashboards. The leading dashboard tool is Excel: its success in the field of dashboards is explained by its ability to display data but above all its flexibility.

However, there is an extremely pressing need to bring in specialist tools. The study demonstrates the value to the business of implementing dashboards with better structure and tools, to make them more quickly and easily available. Dashboards have a high impact on information systems, from decision-support tools and sometimes as far as transaction systems. One should therefore draw up a master plan and then move forward in stages.

Constraints on the development of dashboards (Finance-Management)



Source: BearingPoint - DFCG study, 2010-2011

Emerging practices respond to the new challenges

Certain emerging practices, related to the current economic and social climate, have caught our attention:

- **Monitoring performance using variance analysis**
  This method allows one to focus on issues that can be controlled and feeds into discussions that go beyond simple between forecast/actual differences. It consists of breaking down the performance of an activity by tracking variations in budget/actual in the form of effects. These effects are generally split into exogenous effects (exchange rates or legislation), not under managers' control, and endogenous effects (volume effect or variable costs), which are the responsibility of each manager and constitute true performance.

- **Combining risk analysis with performance management**
  In contrast to aircraft cockpits, which have a fault panel, most businesses are run merely on the strength of a dashboard. Tracking the conventional operational indicators cannot anticipate drops in performance. Only risk indicators can respond to the growing challenges, whether managerial, regulatory or shareholder-related.

- **Humanising performance monitoring using HR indicators**
  Private businesses and public organisations today use indicators and advanced simulations of their staffing levels and wage bill. Resource planning is also becoming an essential issue in the public sector (number of staff for redeployment, number of retirements, etc.). New indicators to monitor the added value of human capital are also appearing. These indicators measure the performance of the administrative processes, quality of service, social climate (turnover, resignations, etc.) or management of skills and potentials.

- **Taking account of sustainable development issues**
  Businesses are firmly committing to reducing the use of natural resources, controlling their dependence and taking groundbreaking measures in this area. New management auditor profiles are emerging to oversee these changes and to answer the question "how much?".

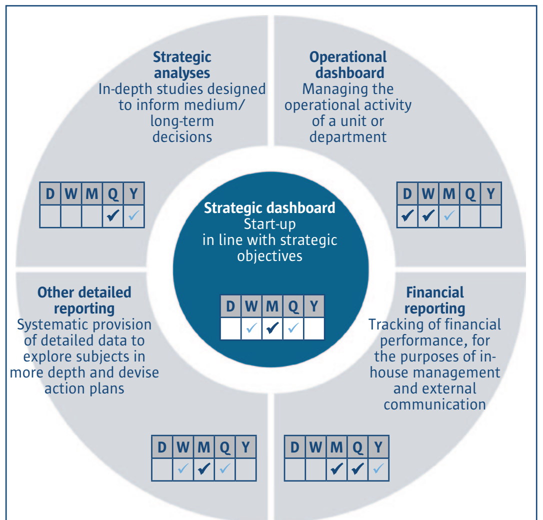
- **Building a "War Room" for the management team**
  The term may seem warlike and indeed it is: it refers to Winston Churchill's war cabinet. The current principle obeys the same logic: dashboard information is displayed on the digital screens of a dedicated room to facilitate the work of the Management Committee, or even to organise simulation exercises.

The dashboard is part of a management system specific to each business

In response to expectations and key success factors, it is crucial to **clarify the objectives of the various management and monitoring tools** made available to managers.

The strategic dashboard is at the heart of the performance management system for the following reasons:

- It is a powerful tool for bringing the structure of the business into line with the strategic objectives;
- Cross-cutting by nature, it encourages sharing and collective intelligence in organisations which all too often operate in isolation;
- Offering a concise overview, it allows a hierarchical interpretation of performance and provides targeted access to further information.

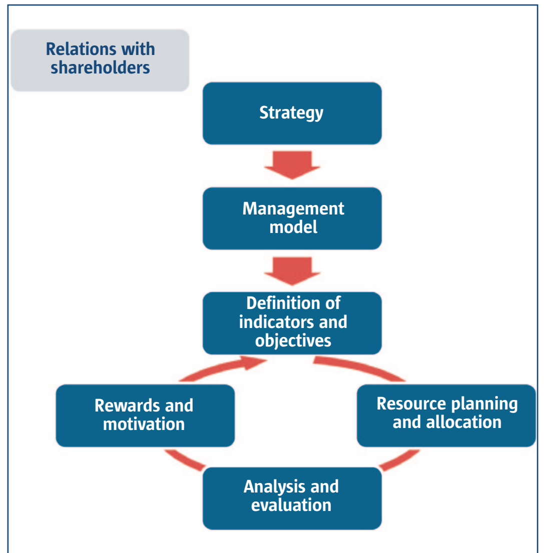


Source: BearingPoint - DFCG study, 2010-2011

Groups, businesses and administrations have all experienced major change in recent years: strong growth through **mergers/acquisitions**, adaptation to the **crisis**, development in the **BRICs, change of economic model, shareholding, status,** management model, etc. Faced with the resistance to change inherent in any organisation, **adapting the means of managing these changes is a precondition for success.**

Before tackling the choice of indicators and entering the management loop, this adaptation requires:

- An understanding of the expectations of the shareholders, partners and markets;
- A definition of the strategic objectives and triggers;
- A clarification of the management model.



Source: BearingPoint - DFCG study, 2010-2011

Not only the business's management cycles but also the HR processes for setting objectives and individual appraisal must reflect these changes.

Without trying to describe all kinds of businesses or take account of the peculiarities of each business segment (economic models, triggers, decision cycles), we can point to some **fundamental differences in performance management depending on the role of General Management**. For instance, a "portfolio manager" will focus on tracking financial performance, a "strategic and financial architect" will add specific indicators by main business segment, while an "operational auditor" will introduce a true cross-cutting strategic dashboard and will be able to set up variants for use throughout the organisation.

An appropriate approach and governance are indispensable

Our study reveals that the main steps for introducing a dashboard create bias. An empirical approach, for example, does not foster linkages or coherence between dashboards, nor the introduction of an integrated information system. Conversely, an approach focusing mainly on the information systems takes little account of strategic discussions and sometimes complicates subsequent development of dashboards.

In our view, in addition to the key success factors mentioned above, **governance** around the dashboard is an essential factor: it helps not only to get the players behind the dashboard, but especially **to ensure coherence of the whole and of the number and content of the indicators.** ■

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For further information, point your browser at: www.dfcg.com
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