

Creating a dashboard for the Board

(extract from “Pareto's 80/20 Rule for the Corporate Accountant” published by John Wiley & Sons Inc ISBN: 978-0-470-12543-4)

By David Parmenter (davidparmenter.com)

David Parmenter states “Since the Board’s role is clearly one of governance and not of management it is, I believe, inappropriate to be providing the Board with the KPIs.”

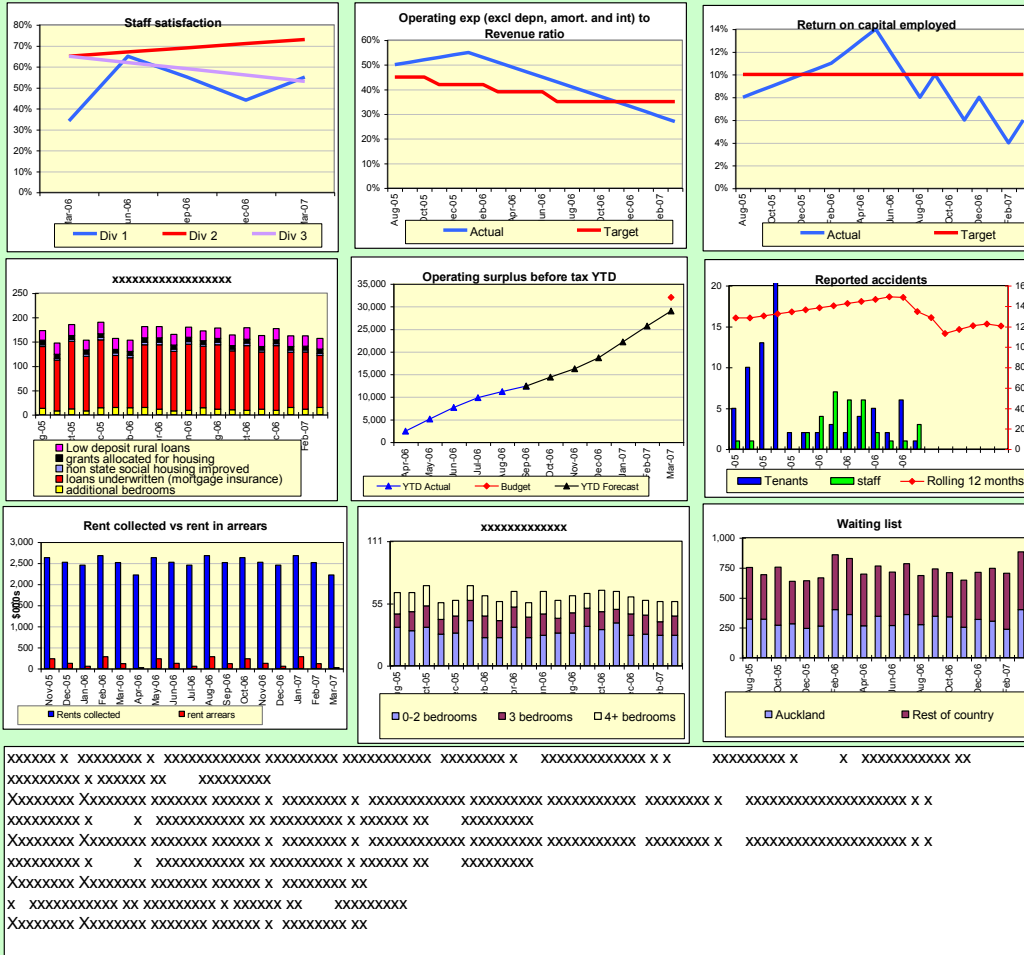
There is a major dilemma in most organisations that have boards over what information is appropriate for the Board, and what is not. In an earlier article I pointed out that KPIs are a special indicator, and are often misunderstood by management. A characteristic of KPIs is that they are monitored 24 / 7, daily or at least weekly by the senior management team. KPIs are thus certainly not measures that are reported monthly or bimonthly to the Board. How can a measure be key to your organisation if it is reported monthly, well and truly after “the horse has bolted”?

This then answers a common question: “Is the balanced scorecard for the Board or for management?” The answer is the balanced scorecard is for management and staff. The Board should get something different, a one pager I call the dashboard, with key result indicators that show overall performance and help the Board focus on strategic rather than management issues.

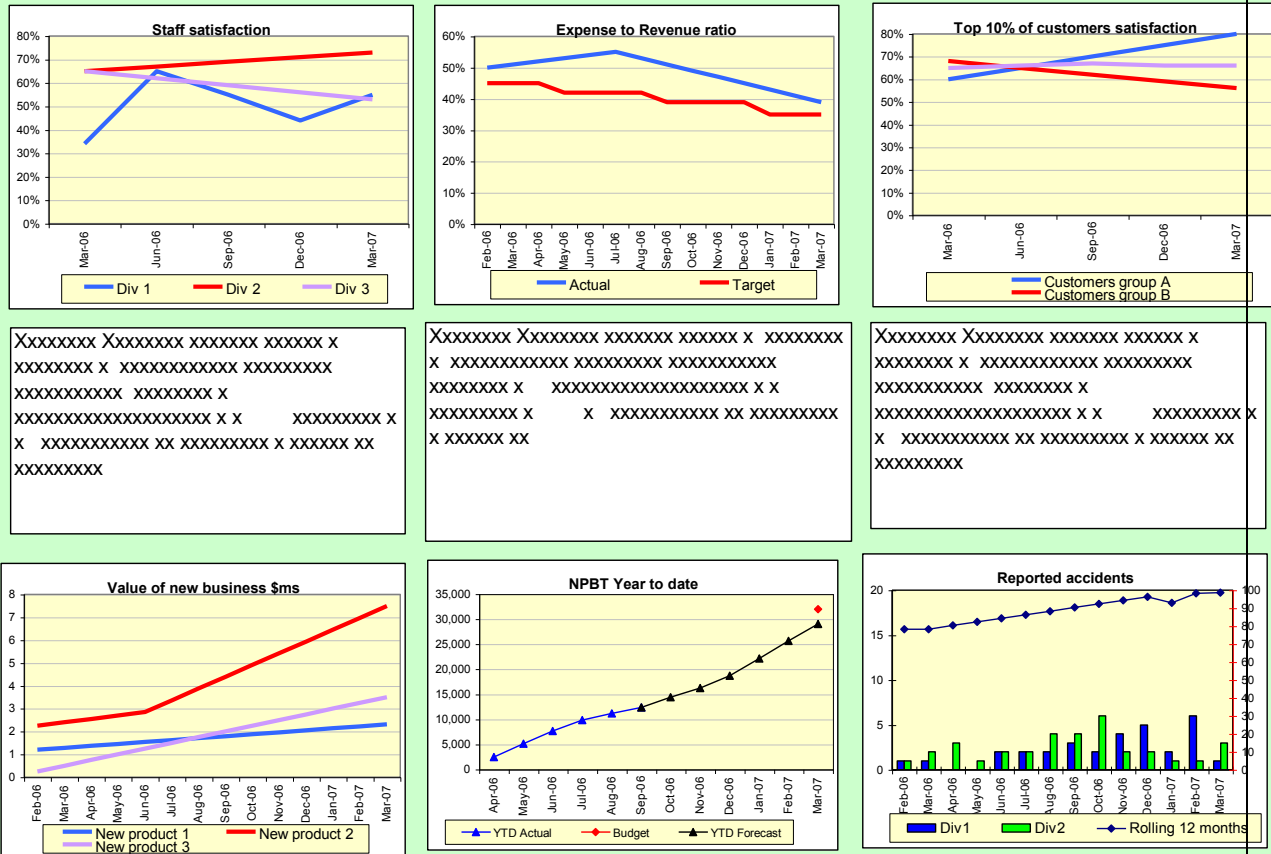
A good dashboard with the KRIs going in the right direction, will give confidence to the Board that the management know what they are doing and the “ship” is being steered in the right direction. They can then concentrate on what they do best, coaching the CEO, as required; focusing on the horizon for icebergs or looking for new ports to call. This is instead of parking themselves on the “bridge” and thus getting in the way of the captain who is trying to perform important day-to-day duties.

Set out below are two examples of dashboards, one for a public sector organisation and one for a private sector. Whilst every dashboard will be slightly different there will be common KRIs which are the same across many sectors, such as “return on capital employed”.

Dashboard for Board - March 2007



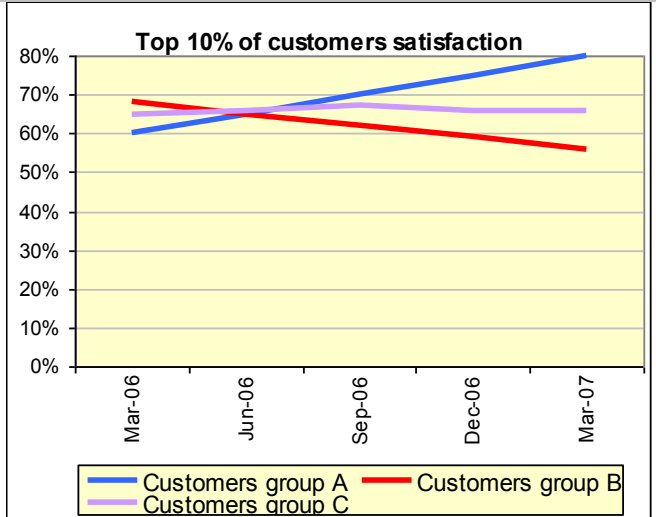
Dashboard for Board - March 2007



Examples of key result indicators for a Board dashboard

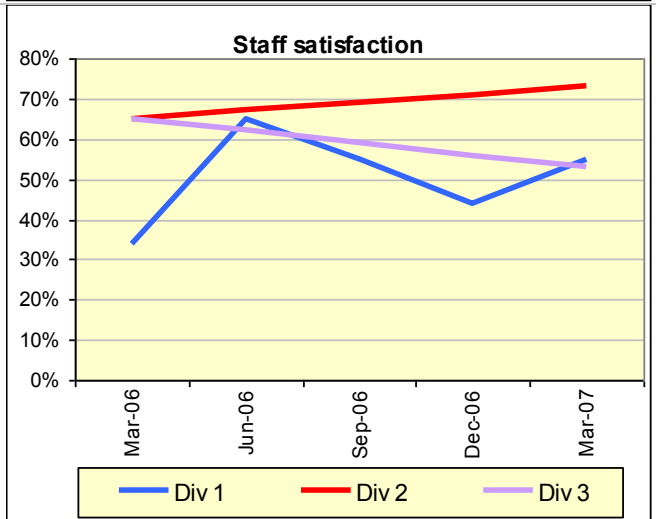
Satisfaction of key customers:

This measure needs to be assessed at least every 3 months. By using statistical samples and focusing on your top 10-20% of customers (the ones that are generating most, if not all of you bottom-line). This process does not need to be overly expensive. If you think once a year is adequate for customer satisfaction stick to running a sports club as you are not safe in the public or private sectors.



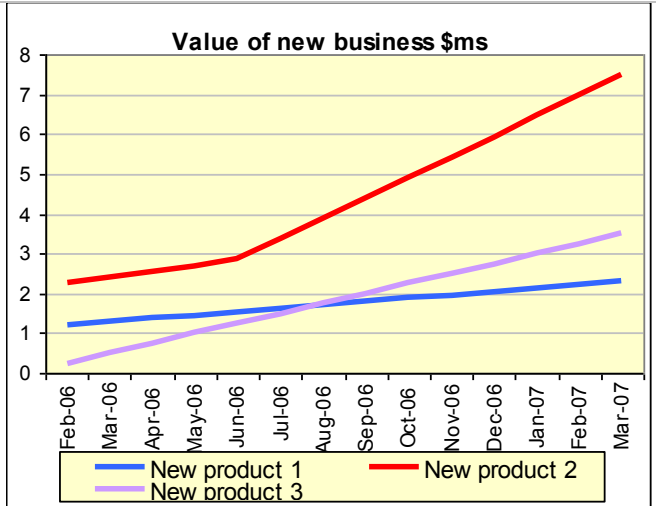
Employee satisfaction:

No different or less important than customer satisfaction. As one person said, happy staff make happy customers that make a happy bottom-line. If you believe in this connection, run a survey now! A staff satisfaction survey need not cost the earth and should never be done covering all staff. Instead it should be replaced by a rolling survey. See how to seek staff opinion and not blow your budget at Human Resources June 2002 see www.waymark.co.nz



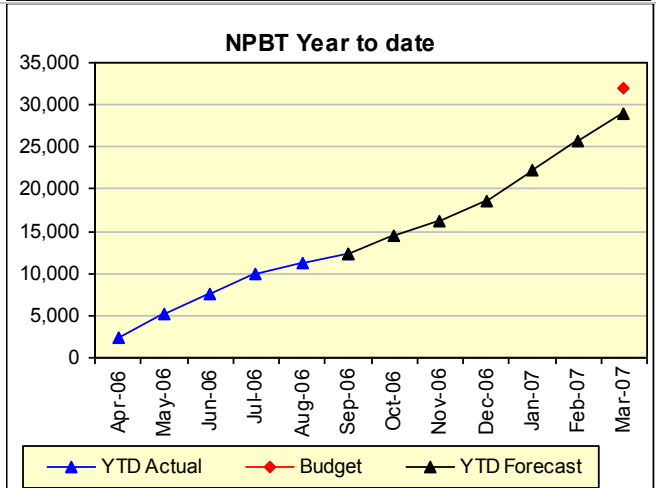
Value of new business:

All businesses in the private sector need to focus on the growth of their rising stars. It is important to monitor the pick up of this new business, especially amongst the top 10-20% customers.



Net profit before tax (NPBT):

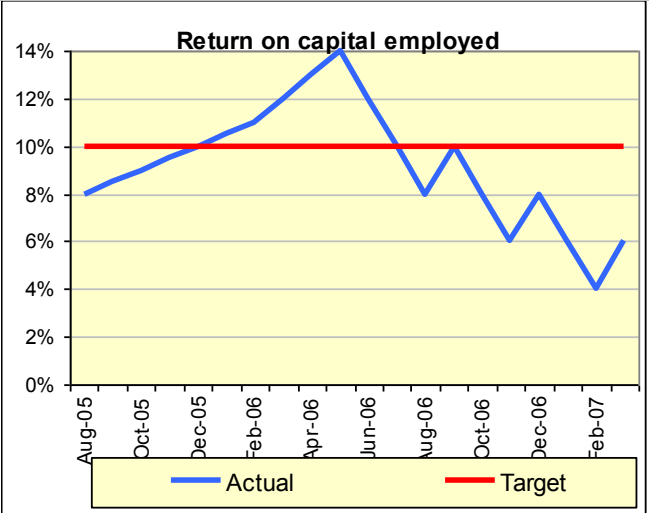
Since the Board will always have a focus on the year-end it is worthwhile showing the cumulative NPBT. This graph will include the most recent forecast, which should be updated on a quarterly basis. See the "barriers to success" article (March 2005). There is no room to show a flawed monthly or year to date budget line (an arbitrary apportionment of the annual planning number that was done at the last minute and was wrong from the very start). It is like setting your race plan for the Americas Cup regardless of the wind



conditions on the day of racing. See the article "Throw away your budget"

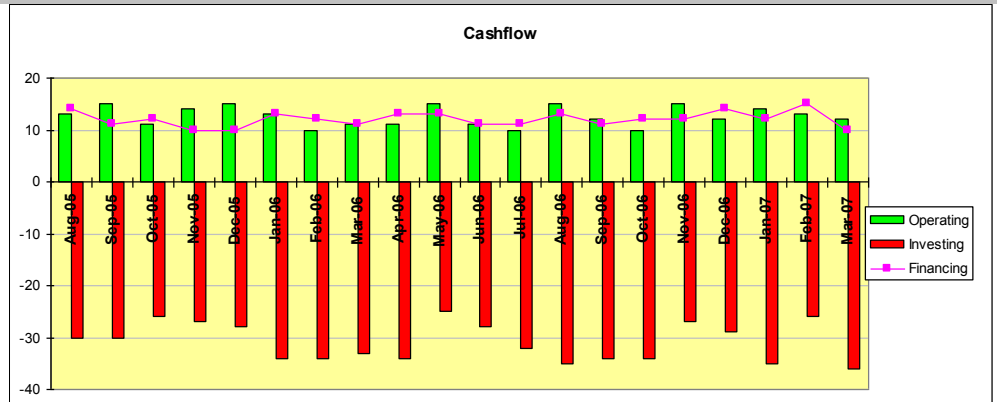
Return on capital employed:

The old stalwart of reporting. The difference now that it is no longer a KPI but a KRI. This needs to be a 12 to 15 month trend graph.



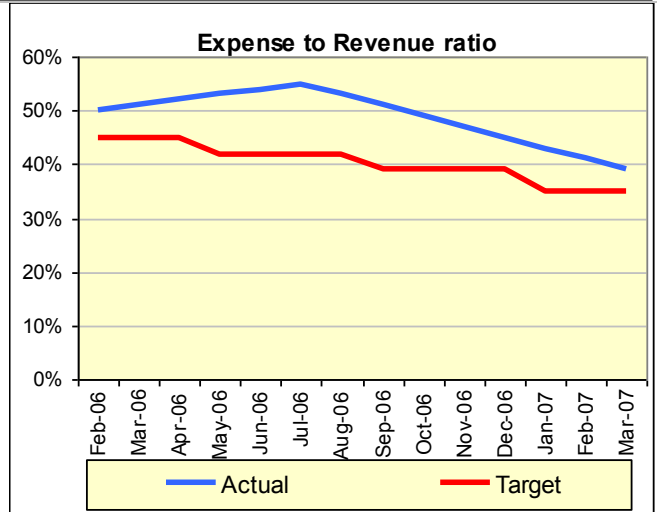
Cashflow:

This would be projected out at least 6 months forward.



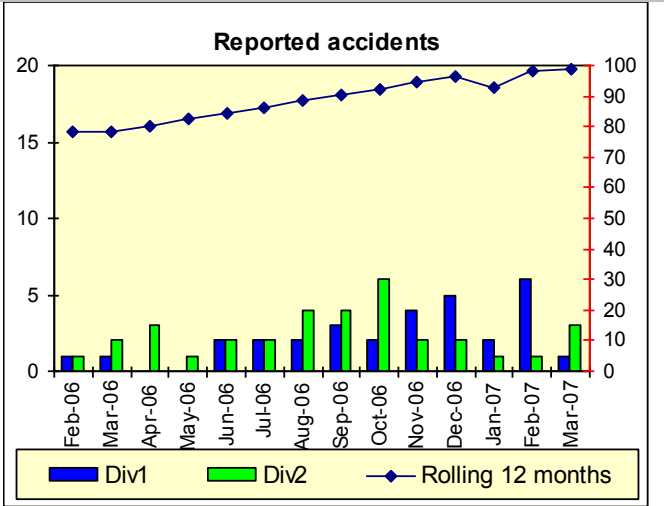
Expenses as a ratio to revenue:

The Board should be interested in how effective the organisation has been in utilising technology and continuous improvement to ensure the cost of operations is tracking well against revenue.



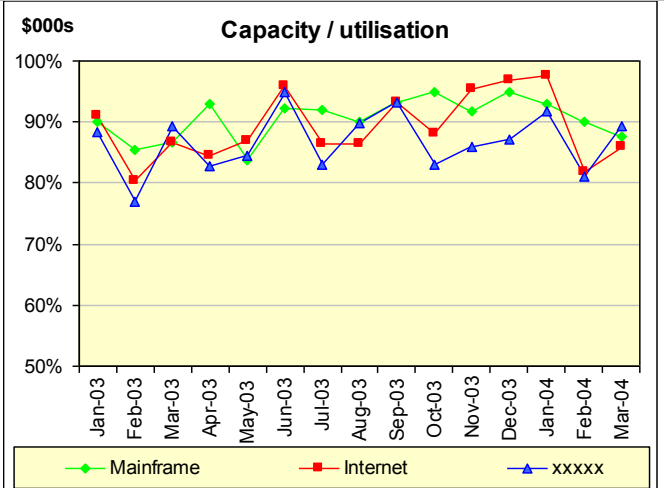
Health & Safety:

All Boards are interested in this area as the well-being of staff is a much higher priority these days.



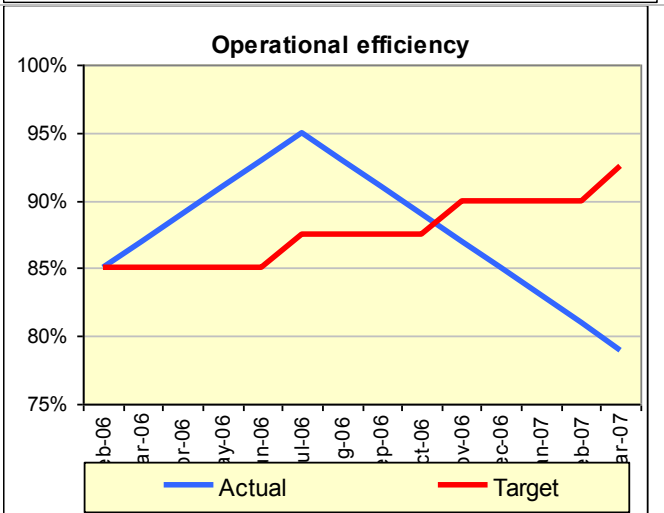
Capacity:

Monitoring the capacity of key machines and plant, going forward at least 6 to 12 months. The Board needs to be aware of capacity limitations, and such a graph will help focus them on new capital expenditure requirements.



Operational efficiency:

A composite index based on a variety of statistics such as “delivered in full on time”, and portion of idle machine time (measuring key machines only).



Key features about the dashboard

The key features of these two dashboards include:

- they are a one page document with brief commentary covering the issue and what is being done about it.
- the trend analysis goes back at least 12 months (some businesses need to go back a rolling 15 to 18 months). Remember business has no respect for your year-end, it is merely an arbitrary point in time.
- you can use the title of the graph to explain what is happening. “Return on capital employed” becomes “return on capital employed is increasing”.
- you may need to maintain somewhere between 8-12 graphs, and report the most relevant ones to the Board.

- these KRI measures need to cover the six perspectives¹ of a balanced scorecard in order to show whether the organisation is being steered in the right direction at the right speed
- to find your KPIs you need to ascertain the critical success factors² first.

W^{riter's} biography



David Parmenter is the CEO of waymark solutions. David specialises in assisting organisations measure, report and improve performance. waymark helps organisations streamline their: month-end reporting and annual planning processes, implement quarterly rolling forecasts, adopt the principles of beyond budgeting, develop decision based reports, and adopt performance measures that will improve performance. He has had speaking engagements in 2007 in Wellington, Auckland, Christchurch, Sydney, Melbourne, Brisbane, Canberra, Adelaide, Perth, Kuala Lumpur, Singapore, Dublin, Edinburgh, Glasgow and London.

John Wiley & Sons Inc are publishing two of his books in 2007 “Key performance indicators – developing, implementing and using winning KPIs” (January 07) and “Pareto's 80/20 Rule for the Corporate Accountant” – better practices from winning finance teams (April 07).

David has an in-depth understanding of better practices of corporate accountants across all sectors. David has also worked for Ernst & Young, BP Oil Ltd, Arthur Andersen, and Price Waterhouse. David is a fellow of the Institute of Chartered Accountants of England and Wales.

He has written over 30 articles for the accounting and management Journals in Australia, Malaysia, Ireland, England and New Zealand. His articles published include: “quarterly rolling planning - removing the barriers to success”, “Throw away the annual budget”, “Maybe its time to look at your KPIs”, “seven time wasters”, and “quick month end reporting”, “Beware corporate mergers”, “Implementing a Balanced Scorecard in 16 weeks not 16 months”, “Convert your monthly reporting to a management tool”, “Smash through the performance barrier”, “Is your board reporting process out of control?”

He can be contacted at parmenter@waymark.co.nz or telephone +64 4 499 0007 He has recently completed a series of white papers which can be purchased from his website <http://www.waymark.co.nz>. His recent thinking is accessible from www.DavidParmenter.Com

¹ See www.bettermanagement.com and search under “Parmenter” listen to presentations on KPIs and read the whitepapers

² As above