Converting Strategic Planning Into Business Realities

A Navint Partners White Paper

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Executive Summary

While the last 20 years have seen executives radically change the Finance Function for significant bottom-line cost savings, CFOs in particular still struggle to link Performance Measurement – a key part of the Finance Function – to enterprise strategy. Measuring current results against historical, internal data, leaves executives unprepared for significant Change outside their enterprise. Readily available, real-time data; universal participation; and concrete results are the hallmarks of best-in-class Performance Measurement. Practiced correctly, Performance Measurement inspires better results and drives shareholder value.

Transforming the finance function has been a goal of many CFOs since the early 1990s. Over the past 20 years, companies large and small have achieved significant productivity gains in areas of typical finance function transactional activity. In many organizations, paying the bill, invoicing customers and closing the books have gotten" better, faster and cheaper". One aspect of the finance function that has not seen the same level of improvement is Performance Measurement, particularly in terms of aligning Performance Measurement to Strategy.

Developing a comprehensive Business Strategy is typically the domain of the CFO in conjunction with line executives to devise the road map for the coming five years. The strategic plan typically results in a financial model unlike any the business has seen in the past. The gap between History and the Future needs to be bridged by some level of change: sell more, spend less, acquire three companies, develop five new products, and the like. To achieve this change, key strategic objectives need to be defined, measured and managed.

The traditional performance measurement approach in most companies is inwardly focused based on historical organization structure. Business Units and Cost Centers performance is tracked in terms of revenue, expense and profit. In no way is there clear linkage to the outcomes that are the foundation of the strategic plan. Best-in-Class* companies have a high alignment of Performance Measures to their Strategic Plan. What is interesting is that these Best in Class companies exhibit a 4% greater overall profit result and a 17% greater market share than their peers.They also have 3 times the customer loyalty than other peer group organizations. That translates to Shareholder Value any way you look at it.

(Best in Class refers to those companies with a lower cost structure, higher growth rate and better profit margins and are in the top 20% of their peer group in terms of performance)*

Laying the Groundwork for Optimized Performance Measurement

The development of a Performance Measurement model that is aligned to Strategic Goals and Objectives is neither random nor coincidental. It is grounded in a handful of foundation elements, all of which are designed to make the organization more agile and more capable of converting performance insights into actionable tactics and concrete business results.

- **Create the Strategy** – Strategic Planning should be performed once every 3-5 years and refreshed annually to make sure the assumptions are still relevant. One notable exception is if there is a major event that makes the current plan obsolete. These events occur from time to time. For example a major consolidation within the industry may force a management team to refresh their strategic plan more often; a major regulatory mandate can cause this shift as well. The strategy should include both key initiatives to undertake as well as major financial outcomes that executives can agree to as a baseline for Planning, Executing and Measuring.

- **Define the Measures** – Once the strategy has been defined, it is critical that it be broken down into a framework that will allow for measurement. These measures must include a combination of leading indicators as well as lagging indicators and be both inwardly focused as well as externally focused. This balanced approach will allow executives to see what is happening from 360 degrees and make operational adjustments on a more real time basis.

  In a recent engagement, the Strategy was defined and nine areas of Measurement were defined. Based on this framework the Executives developed a set of approximately 100 unique performance measures that aligned to their strategic goals and objectives. This "Measurement Framework" was:

  Once the Measures were developed we identified Specific Targets across various dimensions of the organization.

- **Cascading from the Entity to Individuals**. Once defined, it is critical that the Measures cascade downward throughout the enterprise. Top-level, Enterprise Measures must be broken down to more discrete Business and Functional unit Measures and ultimately, in most cases, down to the individual level. This process ensures local and discreet decisions are aligned to the overall objectives. Every employee has a role to play in achieving the overall Strategic Objectives of the organization. Allowing employees to understand their role by defined measures will allow them to make better decisions along the way.

- **Identifying valid source for the measurements.** Data is the lifeblood of Performance Measurement systems. Good clean data will help getting good performance information. Bad data will kill the credibility of any performance measurement system. Data Dictionaries, data definitions and standards and a strong governance model around data are keys to ensuring the sustainability of a Performance Measurement approach. There are many ways to approach the data governance from Data Management Applications to Organization Structures to support data on a global basis. Ensuring clean, consistent data from a defined source is critical.

- **Delivering the measurements to the right people quickly.** Speed is paramount in Performance Measurement. While it is nice to report at the end of the month what the trailing 31 days revenue was, it is much more valuable to know well in advance that revenue is trending downward, leaving time for corrective actions. Dashboards and Executive Cockpits along with workflow based alerts and notifications are an essential component in the delivery of relevant content to relevant managers for timely decisions. While this seems obvious, only 14% of executives are retrieving critical business information using online tools. Most are still waiting for paper-based reports.

  Consider the experience of a local Pharmaceutical Contract Manufacturing client. After developing a Performance Measurement Framework, the CFO was tasked with delivering improved insight to the CEO and COO. Sourcing daily inquiry and sales input from a highly distributed sales force via PDA applications and displaying real-time data on an Executive Dashboard allowed the Executives to develop predictive insight into revenue trends. This insight resulted in real decisions to make the business align with goals and objectives. Management could see sales activity by product, client, region and salesman and predict where revenue would fall 60-90 days out. This insight drove tactical decisions throughout the enterprise. Changes in the trend resulted in pricing and workforce management decisions, facility capacity management decisions, and allowed top executives measure how close they were to achieving their strategic objectives.

10 Critical Things to Remember

When embarking on a Performance Measurement redesign project there are some critical reminders to keep in mind.

1. Performance Measures must be specifically aligned to Strategic Goals and Objectives - Interview executives to make sure the Strategic Plan is well understood.

2. Performance Measures should include Leading as well as Lagging indicators and focus on internal as well as external measures. – Balance is key and will allow for better-informed decisions and corrective actions.

3. Performance Measures must be cascaded on a structured basis downward to LOBs, Divisions, Areas, Teams, and Individuals within the enterprise – A multidimensional view of similar Performance Measures will bring further insight to executive management teams.

4. Performance Measures do not necessarily align Organizational Structures. Certain performance measures cut across organization structures. Team-based and Cycle-based operations may involve people, spend and commitment from many departments.

5. Single Source of Data is a must – Remember: data is the life blood of any Performance Measurement system. Standardized, harmonized and sourced consistently from a single point is critical to maintain clean and credible Performance Measures.

6. Frequency of measurement should take into consideration the cycle time in which change occurs and should allow for corrective action before an issue becomes a crisis. There are daily, weekly, quarterly and periodic events that all justify measurement. Creating trend lines outside of accounting cycles can prove helpful in predicting the future.

7. Performance Measurement should be 100 percent independent of the General Ledger, yet financial results should reconcile - The GL should not be the repository of your Performance Measurement information. This sub optimizes both the accounting close cycle as well as the Performance Measurement process. That said, financial data should "Source" from the transactional ledger and remain in synch at all times.

8. Timely and relevant delivery of Performance Measurement Insight is critical – Getting the right information to the right person in time to make a decision is essential.

9. Let technology do the heavy lifting – There are a plethora of tools on the market. Once a solid conceptual foundation is achieved, look to a suite of tools that fits into the enterprise architecture to deliver solid value.

10. Change Management should not be taken lightly when redesigning the Performance Measurement process; putting a new model in place is the easy part – Getting everyone to use it is the real work.

How to Approach Performance Measurement Redesign

In most corporations, Performance Measurement is not far along the maturity cycle. Benefits of the approach outlined here are substantial. Corporations that do employ such a model typically enjoy higher revenue growth, market share and profit than those who do not, making a compelling case for Performance Measurement Redesign.

This type of initiative must be driven from the top down and can take between six months and a year or more depending on the complexity of the organization and current state of Performance Measurement and the underlying Data.

Start at the beginning. How well do the current strategic plan's objectives align with the existing performance measurement systems? Typically a 30-45 day assessment identifies the issues, gaps and helps to scope out the magnitude of the effort.

Next develop the conceptual foundation. Define the measures and validate across the organization for buy-in. These definitions combine to form the Measurement Dictionary, a critical change management tool. It lays the foundation for what will be measured – ensuring there is buy-in from those who will be measured is critical.

Once the dictionary is created the process of scouring the enterprise systems environment for the appropriate source is undertaken as is the data harmonization effort. This typically involves looking within financial and operational systems for internal data, developing a common data language to ensure consistency and identifying appropriate external sources for the outward look. Governance and control play a large part at this juncture. Maintaining source consistency is crucial for sustainability. Critical change management takes place here as well. Making sure there is clear communications on any definitional changes will make the acceptance process that much smoother.

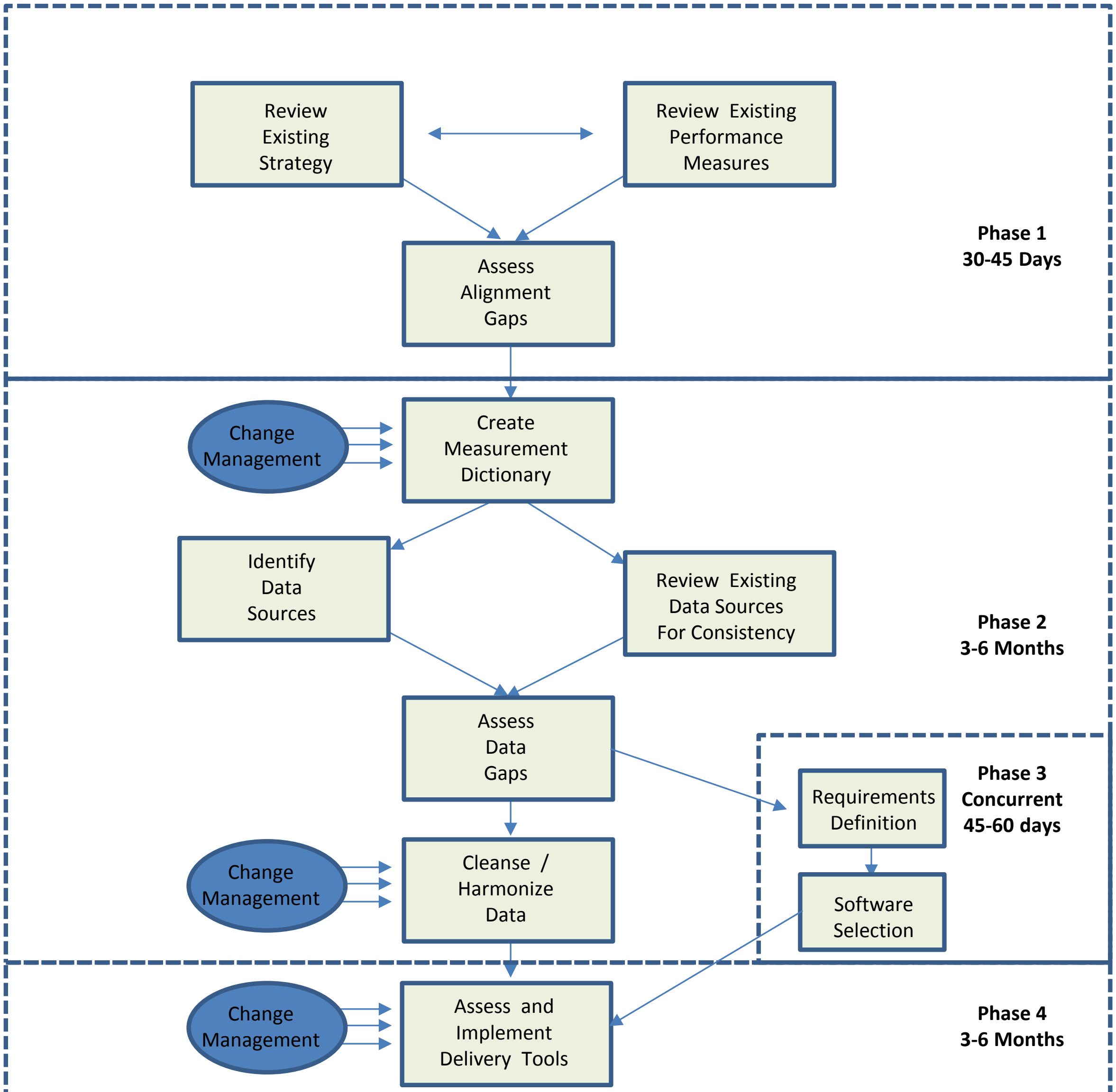
Requirements definition and Tool selection typically starts and runs concurrently with the Dictionary creation and Data Cleansing effort. A classic Requirements Definition based on the prior work, coupled with a formal evaluation of no more than five software vendors should take 30-45 days.

Once selected and contracted, the implementation of the tools can take 3-6 months. This again can vary depending on the complexity of the solution and the capabilities of the organization.

About Navint Partners

Navint is a different kind of management consulting firm, excelling in large scale business process change. With offices in New York, Chicago, Boston, Pittsburgh, Philadelphia and Rochester, Navint's consultants specialize in managing the alignment of people, processes and technology when organizations face operational restructuring and IT transformation. A unique blend of experience and innovative thinking allows Navint consultants to address clients' business challenges in imaginative ways. http://www.navint.com/

Appendix: A View - How To Develop and Implement a new Performance Measurement Framework



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