Corporate Performance Management

Framework, Approach and Challenges Observed

16 June 2009

PRICEWATERHOUSECOOPERS 🖗

Performance Improvement

Agenda

Section 1
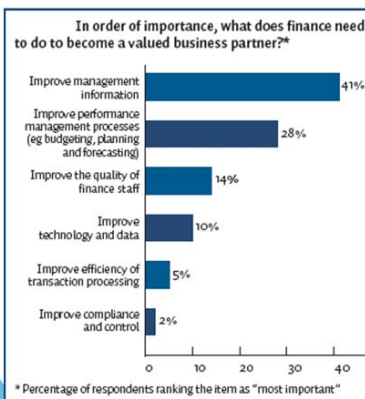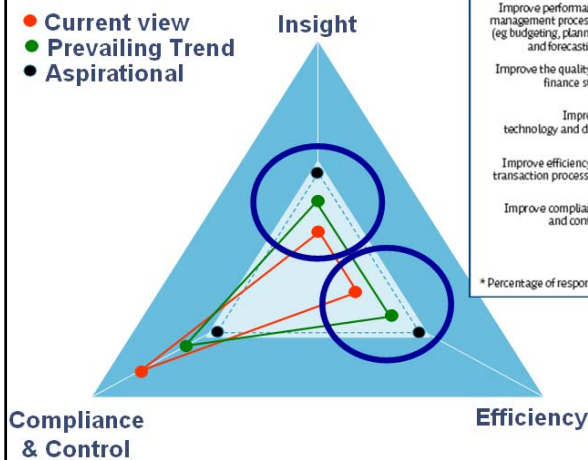## CPM defined for performance leadership

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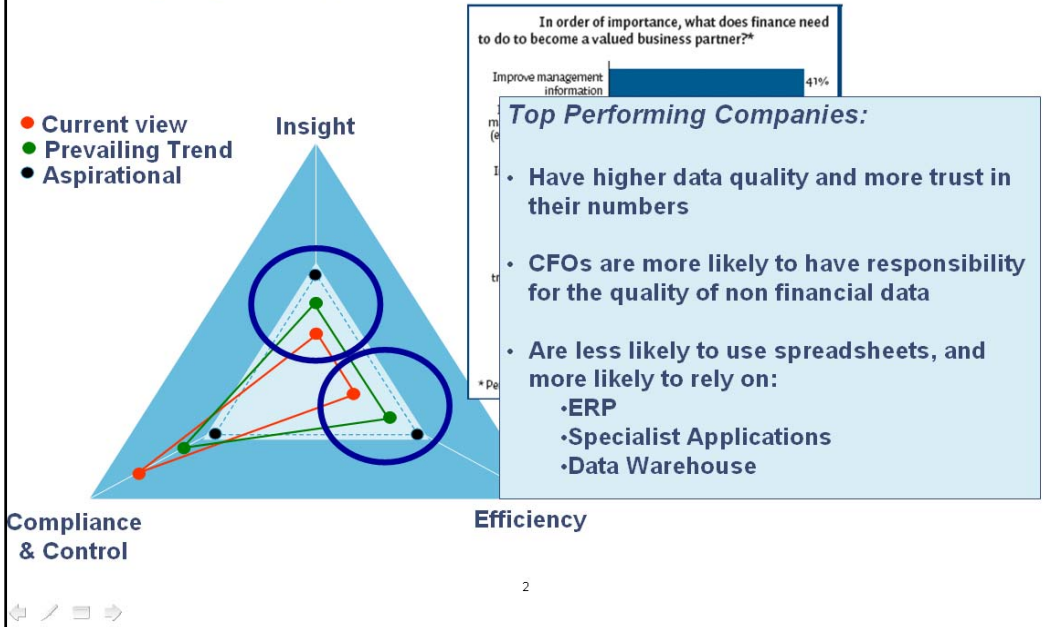Section 1 - CPM defined for performance leadership

The changing role of Finance - balancing competing demands and aligning closely to business

- **Current view**
- **Prevailing Trend**
- **Aspirational**

Insight

Compliance & Control

Efficiency

In order of importance, what does finance need to do to become a valued business partner?*

Improve management information	41%
Improve performance management processes (eg budgeting, planning and forecasting)	28%
Improve the quality of finance staff	14%
Improve technology and data	10%
Improve efficiency of transaction processing	5%
Improve compliance and control	2%

0 10 20 30 40

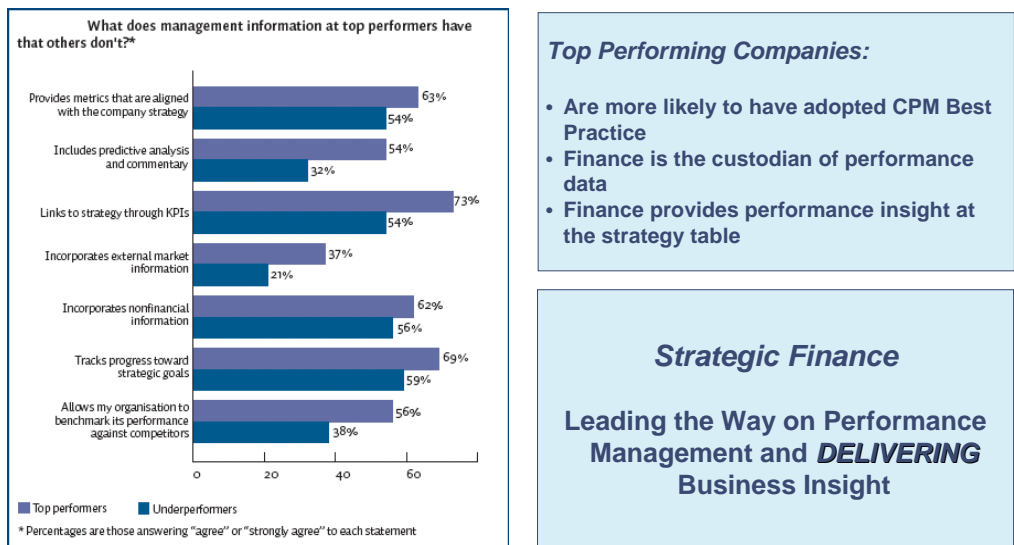* Percentage of respondents ranking the item as "most important"

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Section 1 - CPM defined for performance leadership

The changing role of Finance - balancing competing demands and aligning closely to business

In order of importance, what does finance need to do to become a valued business partner?*

Improve management information — 41%

● **Current view**
● **Prevailing Trend**
● **Aspirational**

Insight

Compliance & Control

Efficiency

Top Performing Companies:

• Have higher data quality and more trust in their numbers

• CFOs are more likely to have responsibility for the quality of non financial data

• Are less likely to use spreadsheets, and more likely to rely on:
  •ERP
  •Specialist Applications
  •Data Warehouse

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Section 1 - CPM defined for performance leadership

Strategic Finance: Leading the Way

What does management information at top performers have that others don't?*

	Top performers	Underperformers
Provides metrics that are aligned with the company strategy	63%	54%
Includes predictive analysis and commentary	54%	32%
Links to strategy through KPIs	73%	54%
Incorporates external market information	37%	21%
Incorporates nonfinancial information	62%	56%
Tracks progress toward strategic goals	69%	59%
Allows my organisation to benchmark its performance against competitors	56%	38%

0   20   40   60

■ Top performers ■ Underperformers

* Percentages are those answering "agree" or "strongly agree" to each statement

Top Performing Companies:

• Are more likely to have adopted CPM Best Practice
• Finance is the custodian of performance data
• Finance provides performance insight at the strategy table

Strategic Finance

Leading the Way on Performance Management and _DELIVERING_ Business Insight
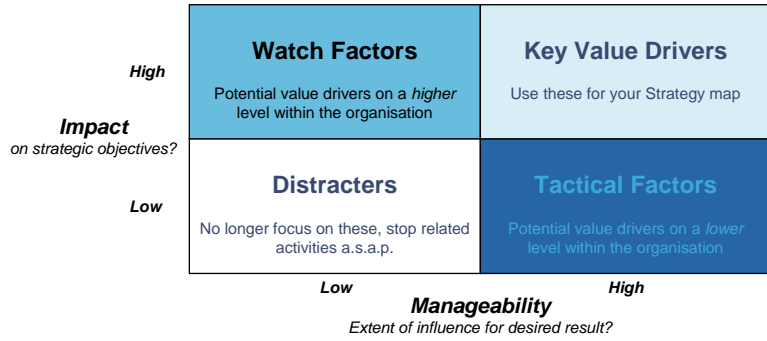
"Information is not Management Information until it is used by Decision Makers"

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Section 1 - CPM defined for performance leadership

Performance Leaders translate their value drivers to KPI's to actions and related budgets focused on strategy

	Watch Factors	Key Value Drivers
High	Potential value drivers on a *higher* level within the organisation	Use these for your Strategy map
Impact on strategic objectives?	**Distracters**	**Tactical Factors**
Low	No longer focus on these, stop related activities a.s.a.p.	Potential value drivers on a *lower* level within the organisation
	Low	**High**

Manageability
Extent of influence for desired result?

What do we really have to excel at?	*How do we know if we are actually excelling at this?*	*How good do we need / want to be at this?*	*What initiatives are needed to reach our target?*	*What do we need / want to invest to reach our target?*
Value drivers	**KPI's**	**Targets**	**Initiatives**	**Budget**

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Section 2
CPM framework

Performance Improvement

Section 2 - CPM framework

PwC's Performance Management Framework

PwC's CPM framework helps companies develop an integrated CPM approach that supports the design and implementation of management processes and systems that aligns business strategy to drive accountabilities, decision support and operational execution.

Key Enablers: Culture | Governance | Data Management | Technology | Process

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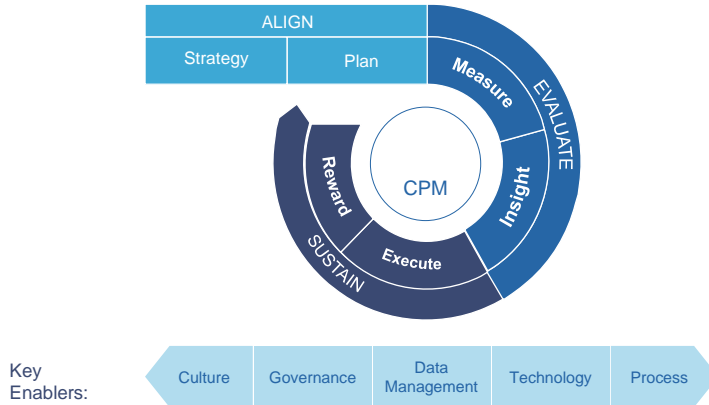
Section 2 - CPM framework

ALIGN – Strategy and Plan

Key Areas – Strategy	Key Areas – Plan
• Strategic alignment	• Target setting
• Strategy Maps	• Business planning
• Value Drivers	• Financial/operational planning
• Performance measures	• Budgeting
• Scorecards/dashboards	• Performance Budgeting
• Scenario models	• Collaboration
• Stakeholders Management	• Accountabilities
• Organization structure	

Red Flags
- No linkage of plans to strategy
- Poorly defined roles and accountabilities
- Plans not linked to performance measures
- Historical vs. leading views
- Unbalanced measures-highly financially focused
- No use of risk and opportunity based frameworks for prioritization

Clear alignment of strategy and plan that is dynamic and focuses on both financial and non-financial objectives.

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EVALUATE – Measure and Insight

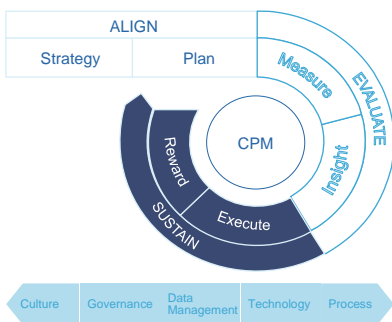| Key Areas – Measure	Key Areas – Insight
• Close & consolidate • Statutory reporting • Management information	• Goal & performance tracking • Forecasting • Business activity monitoring/ alerting • Business analytics

Red Flags

- Disparate reporting tools
- Different accounting policies of Subsidiaries / JVs
- Lack of comprehensive management information and business analytics
- Poor data quality
- Historical vs. leading views
- Unbalanced measures-highly financially focused
- Fragmented management, statutory and external processes

ALIGN | Strategy | Plan
Measure | EVALUATE | Insight | CPM | Reward | SUSTAIN | Execute
Culture | Governance | Data Management | Technology | Process

The right information to the right people at the right time to make the right decision.

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SUSTAIN – Execute and Reward

Key Areas – Execute	Key Areas – Reward
• Process and business evaluation • Performance dialogue & Communications • Improvement planning & corrective measures • Change management	• Compensation & rewards • Accountability • Motivation, leadership and behavior • Employee development • Support, training, and coaching

Red Flags

- No processes for performance review
- Frequent restarting of improvement programs
- Low forecast accuracy
- Little use of driver based concepts
- Lack of rolling forecasts
- P&L focused vs. balance sheet and cash flow

ALIGN | Strategy | Plan
Measure | EVALUATE | Insight | CPM | Reward | SUSTAIN | Execute
Culture | Governance | Data Management | Technology | Process

Taking action and rewarding people to ensure sustainable results.

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Section 3
CPM – Practical implementation approach

Performance Improvement

Section 3 - CPM – Practical implementation approach

Address prioritized initiatives but keep a holistic perspective

- **Financial Planning and Budgeting**
  - How do we shorten the budgeting cycle or deploy rolling forecasts?
  - How do we implement an accountable driver-based planning process against which the BU performance can be monitored?
  - How can we automate financial planning / budgeting and reporting for BU's (post o/h allocations)
  - Are financial plans linked to operational plans

- **Financial Consolidation**
  - How do we automate and produce IFRS / GAAP compliant consolidated financial statements from subsidiary / JV-Associate / from their disparate GL systems on a periodic basis?

- **CPM Solution Selection**
  - Evaluate and select CPM tools supporting planning, consolidation, analytics and reporting

- **Analytics and Reporting**
  - How do we align our KPI's and reduce reporting complexity?
  - How can we employ real-time dashboards and scorecards?
  - How do we generate management and operational reports consistently on time?

- **Data Warehousing**
  - How can we improve data integrity of reports generated by various user groups?
  - How do we streamline the meta-data definition across multiple divisions / entities?

- **Performance Framework and Incentives**
  - How can we improve our rewards programs to better drive progress against business plans?
  - Implement a specific performance framework (e.g. balanced scorecard)

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Section 3 - CPM – Practical implementation approach

Holding companies with complex consolidation structures
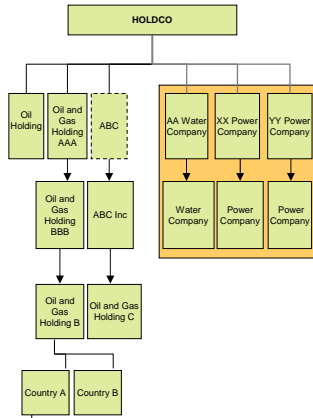

Holding Company currently

- Receives Excel Trial Balance templates by 5th and global accounting team then consolidates books by 15th of every month
- Used manual and ERP allocation functionality for consolidation

However, vision is to

- Provide a consolidated view of the whole business by 3rd
- Assist in faster risk sensitivity analysis, portfolio analysis, act as a baseline for financial planning / budgeting and drive a KPI based reporting environment
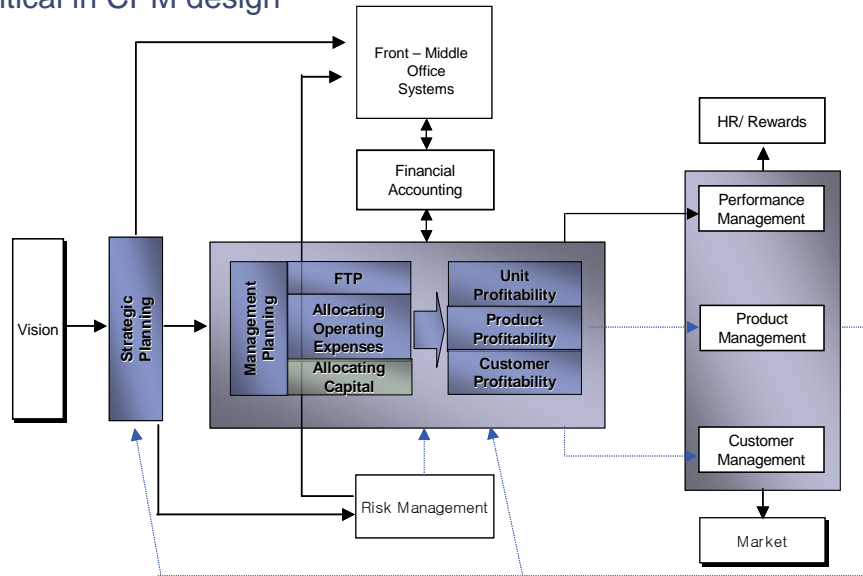
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Section 3 - CPM – Practical implementation approach

Performance oriented planning will require a holistic policy framework that aligns strategic intent and resource allocation

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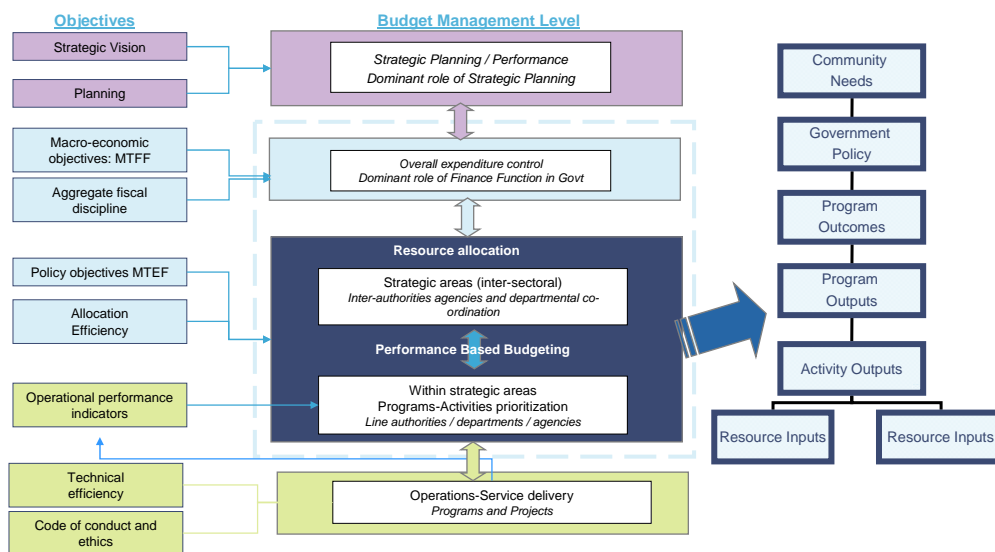
In FS, integration to risk models and risk based decision making is critical in CPM design

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CPM – Best Practices Summarized

- Reinforce strategic clarity for the performance measurement mission.
- Elicit a comprehensive evaluation of business performance through a performance management system
- Leverage technology to facilitate continuous performance reporting.
- Link incentives to performance measures.
- Integrate performance measurement, planning, budgeting, and financial consolidation processes to achieve successful strategy implementation.

Closing Thought:

" What gets measured gets done!"

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