

# Managing business performance

The metrics that matter\*

# Contents

- 01 Introduction
- 02 What is CPM?
- 04 How does CPM work?
- 08 How to make CPM succeed
- 15 Contributors
- 16 How PwC can help
- 17 Contacts

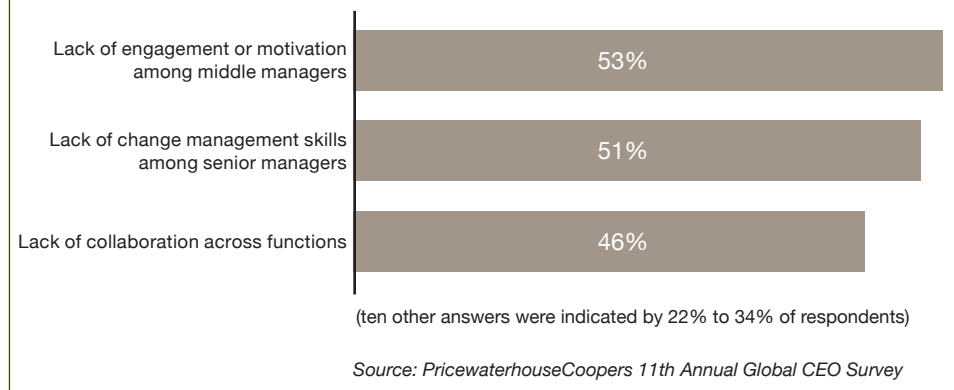
# Introduction

Corporate Performance Management (CPM), in its many forms, is a hot topic among multinational business leaders. The issue that has raised its visibility is the need for better management information – not only more complete and more accurate data but also information that is more current and more efficiently delivered. It has been estimated that half of the Fortune 1,000 companies have installed some form of CPM programme in an attempt to make sense of the tremendous amount of data they possess. However, not all of them are satisfied with the results.

Very often, initiatives to set up a CPM programme fall well short of achieving their objectives. There are two main reasons for this: first, the approach to CPM was only partially executed; and second, the initiative, no matter how well intentioned, was mismanaged.

Successfully implementing a CPM programme requires an approach that flows from a strategic plan, measures progress against carefully defined goals and rewards employees for behaviour and actions that meet those goals and support the strategy. PricewaterhouseCoopers' experience shows that a good CPM programme is not a technical fix, a mere adjustment to the management information programme. It is a new way of using information to get things done. It represents significant change for an organisation, so success requires a strategy-based approach, strong leadership and sensitive change management skills. Most attempts to install a CPM programme will be resisted by some managers or employees, who

Which of the following people challenges were critical barriers to change?



see the change as threatening or unnecessary, and many a CPM launch has been wrecked on the shoals of such resistance. This paper offers practical suggestions that will help overcome resistance and win support.

Corporate leaders have become increasingly concerned about managing change, not least because they have learned that the rest of the organisation does not automatically align with management's corporate objectives. In fact, many CEOs now recognise that effective alignment between their top executives, middle managers, and the rest of the organisation can represent a serious barrier to achieving the agility required in today's rapidly changing marketplace.

In PricewaterhouseCoopers' 11th Annual Global CEO Survey of more than 1,000 CEOs, more than 70% of the CEOs reported that they had implemented five or more major changes – such as new

processes, new technologies and acquisitions – in the previous three years. Fifty-three percent said that lack of engagement or motivation among middle managers presented one critical barrier to change. 51% said that lack of change management skills among senior managers was another.

We hope you find the ideas in this paper about how to overcome such problems valuable and we welcome your comments or questions.

Dave Pittman

Global Leader, Managing Business Performance

# What is CPM?

Definitions proliferate. So do approaches. Consider this definition, which links strategy to performance and provides for continuous improvement:

“Corporate performance management encompasses all the processes, information, and systems used by managers to set strategy, develop plans, monitor execution, forecast performance, and report results with a view to achieving sustainable success no matter how success may be defined.”<sup>1</sup>

David Axson, author and authority on performance management

There is no single definition of corporate performance management, but David Axson’s is a good starting point because it offers a very broad view of the activities and processes required for a successful programme and makes the link between strategy and performance, and continuous improvement.

Not only is there no single definition of CPM, there is also no single name for it. When we surveyed 112 senior executives of US-based multinational companies in late 2007 on the subject, 62% of the respondents said that improvement of corporate performance and reporting was one of their top corporate priorities. But when they were asked what they called their efforts in this area, respondents volunteered more than 40 names, including business performance management, company dashboard, enterprise information management, key performance indicators and matrix management.

The need is widely understood: to gather, organise and use the wealth of data available to make better decisions faster, guide performance more effectively, and monitor the results more closely. But there is less unanimity about how best to do it.

CPM, as we see it, is an approach that:

- Links a company’s strategy to its execution
- Determines the financial and operational plans that should be developed to drive execution

- Establishes a system for measuring the results of those financial and operational plans
- Rewards managers and employees whose activities help to achieve the company’s strategic goals
- Provides for continuous improvement through periodic strategic reviews and appropriate adjustments in the financial and operational indicators

CPM, then, is not simply a management information programme, although management information is a critical part of it. Nor is it a new information technology system, although CPM relies on effective information technology.

The desire for richer management information and a new performance management process often starts in the finance function. The finance department gets locked into a routine of slow “shuttle diplomacy” between management and the business units to determine what is actually going on in the business and why actual results differ from budgets and forecasts. Finance becomes the middleman in an interminable negotiation that involves too many people doing low-value work of gathering and assembling, so the department looks for a better way. The tipping point often comes with a change of leadership, such as when a new CEO or chief finance officer (CFO) comes in and wants more actionable management information. But it can also be triggered by explosive growth, a sudden deterioration in the commercial outlook or other such changes.

<sup>1</sup> David Axson, “Best Practices in Planning and Performance Management, Second Edition”  
Published by John Wiley and Sons, Inc. 2007

## *CPM means using management information to continuously improve the performance of the business*

Here are some examples of CPM in action:

- An Australian steel manufacturer serving international markets has begun an enterprise-wide CPM programme to support the outcomes of a “test and refresh” review of the company’s strategy.
- A global pharmaceutical company is transforming its financial reporting and budgeting system, based on CPM principles. Complex and inconsistent processes are being replaced by a single process to be used by all units.
- A global energy company is using CPM to improve transparency in its financial, operations, safety and production performance.
- A European brewery with worldwide distribution is introducing new financial reporting and budgeting processes to replace a ponderous system hampered by inconsistent terminology and measurements.

PricewaterhouseCoopers’ Management Barometer (a survey of 91 senior executives of multinational companies) shows that improving performance management and budgeting and forecasting is a major priority, ranking only behind hiring qualified professionals and coming well ahead of strategic actions such as mergers and geographic expansion.

### How senior executives rate important company needs over the next 12 months

Three major areas were rated as being critically to somewhat important:

Hiring qualified professionals/technicians:	73%
Critically important:	45%
Important:	28%
Somewhat important:	11%
Improving performance management and reporting (including new technologies):	71%
Critically important:	41%
Important:	29%
Somewhat important:	17%
Improving budgeting and forecasting:	70%
Critically important:	26%
Important:	33%
Somewhat important:	26%

Source: PricewaterhouseCoopers Management Barometer survey of 91 senior executives of multinational companies

# How does good CPM work?

Founded on a sound strategy, CPM uses management information that matters to drive actions and behaviours that directly support the enterprise's goals

CPM is an approach for translating a company's strategy into financial and operational plans and then measuring how well the company is meeting those plans. In its most sophisticated versions, management information is updated on a near real-time basis. The result is an up-to-date picture of how the organisation is performing against its financial and operational goals and a powerful decision-making tool for management, as evidenced at the Australian steel manufacturing company BlueScope Steel, Ltd. where a broad-ranging CPM initiative is being implemented.

## Strategy first

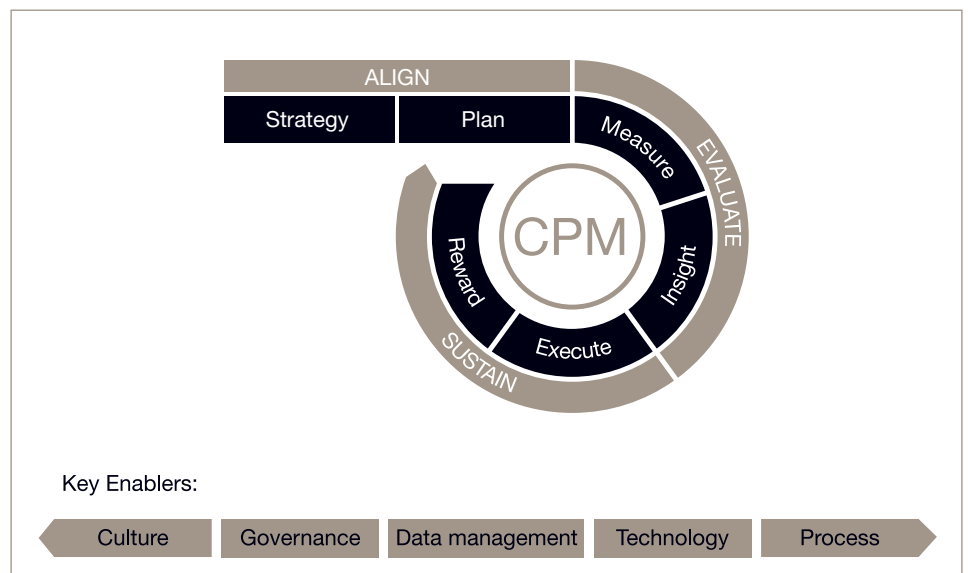
The process begins with the development of a strategy and financial and operational plans. This comprises debate, modelling and scenario analysis at various levels throughout the organisation. At BlueScope Steel in Australia, for example, a new CEO

headed a three-month review of the company's strategy. The new strategy was announced, with a focus on:

- achieving a stronger customer and market focus,
- driving productivity and manufacturing excellence, and
- enhancing the supply chain and improving capital planning.

all without compromising the company's commitment to safety.

What distinguished BlueScope was its "top down" approach. Many companies try to start a CPM programme from a tactical point, such as implementing a budgeting application or adding reports. Only by taking it from the top down does a company get the cultural shift that is essential to link its strategy to the way people perform.



*People all along the line must be engaged*



## Evaluating the information

Once strategy and plans have been determined, it's necessary to identify the financial and operational information that must be measured and analysed to see whether the company is succeeding in achieving its goals and plans. At BlueScope, several months were devoted to this process.

It's crucial to select the measures that matter. That's not as easy as it sounds. The measures have to be aligned to the strategy and driven by actionable plans. Ultimately, the goal is transparency. There must be an easy path from actions back to strategy. Often, the hardest part of this process is letting go of "legacy" or irrelevant metrics and performance indicators to allow for the new relevant ones.

"A performance management programme is not a headcount, cost-savings project. It's about adding value to an organisation by getting better information for decision-making", says Robert Macmillan, Vice President of Planning and Performance, and the person assigned to run the programme. "If it's really well done the company will actually overshoot on the cost-savings benefit as well as the value-adding benefit."

## Driving sustainable change

Strategies, plans and measures are all critical to success, but the heart of CPM is driving sustainable change and improvement. At this stage, a company must review its system of compensation and recognition to ensure that it rewards people for behaviour that reinforces its strategy. Many CPM programmes have scorecards that provide managers with very specific guidance on what's expected of them and whether they're meeting expectations. Training, coaching, communication and recognition programmes are essential.

This is also the time to accelerate the change management efforts designed to win support among non-believers. The new system will not be perfect from "day one", but that doesn't mean it's a failure. At BlueScope Macmillan explains that he has "moved away from quick wins, because they create the expectation that it's going to be quick and you're going to win, that it's all very easy. I tend to talk about first steps and the one key point that is absolutely critical is that the first step is set up for success". As the company makes adjustments, people will see the programme in action and begin to understand how CPM can help them improve their performance and better do

their jobs. Management knows that a CPM programme is effective when other parts of the business want CPM for themselves.

A common misconception is that CPM will be easy for employees to implement. A common mistake is to forget to manage the "people" factor:

- people can become frustrated when things are not perfect from "day one",
- people forget that they are changing processes that may have been in place for decades,
- people have a natural desire to please everyone with the new process, which isn't possible,
- organisations sometimes believe that a new software application is the CPM process itself, and ignore the necessary people transition steps,
- organisations sometimes underestimate, or even forget, to budget for the costs of managing the people and culture change process.

Executing a transformation such as CPM requires dividing a large task into practical, iterative steps that achieve measurable results and build momentum.

## *It is crucial to select measures that matter*

### Continuous improvement

The loop is closed when management makes changes in the overall strategy and formulates new plans. Now the process begins again. A well engrained CPM programme is the best way to ensure continuity of operations. For example, in turnaround situations, a charismatic leader may come in and resurrect a facility or business unit, but when he or she moves on to a new challenge the operation lapses back into its old ways. If the company has established a rigorous framework with a clear strategy and good information, the change can be made permanent, in anticipation of changing leadership.

There must be very active debate in all phases of the process. This isn't a matter of corporate headquarters coming up with a strategy and dumping it on the business unit managers. There has to be vigorous give-and-take. Managers all along the line have to become engaged in the process, they have to believe they can implement the strategy and must commit themselves to the goal. That is where strong leadership comes in, and that is why a company needs good agents for change.

### The payoff

Companies that undertake a performance management programme with a clear understanding of its challenges can reap enormous benefits. Here are some:

- Clear agreement among leaders on both the strategy and the true drivers of the business
- Clear links and alignment between strategy and performance
- Improved agility -- the ability to make decisions faster so as to seize opportunities or to intervene when something starts to go awry
- Information that can be trusted
- A finance department freed from data gathering and checking, and devoted to analysis and decision support
- Timely reports based on metrics that matter
- Lower costs and less complexity in the preparation of plans and reports
- Clear understanding among executives, managers and employees of what's expected of them
- A compensation and reward system based on performance that advances the strategic objectives
- A process that encourages continuous improvement

# How to make CPM succeed

A new CPM programme means cultural change, and change must be managed through people. Some successful executives tell how

Whether applied to a specific function or unit, or launched throughout an enterprise, CPM represents significant change in the way things get done. It takes people out of their comfort zones and requires a fundamental shift in the way they see and do things. Some executives and managers will embrace the change from the beginning, others will resist it outright; and still others will adopt a wait-and-see attitude. This is the moment that an enterprise's desire for change slams up against its own inertia and desire to stay at rest. Something's got to give.

Here are some observations from the front lines of CPM about the factors and skills required to make CPM successful.

## The company must provide a vision for the future

"It's essential that people believe tomorrow will be better," says Colin Maclean, who recently retired from a senior position at BP. Only then will they support the change. One way in which Maclean rallies support is by creating mantras or slogans that express the future state and at the same time define the behaviour that is expected. He repeats the mantras endlessly. They serve as a call for change as well as a strategic goal around

which programmes for new actions and measurements can be constructed.

## Leadership must be committed to the effort

A committed leader is essential to the success of CPM. The leader must be involved in the programme, passionate about the business and have a clear understanding of how all the elements of CPM tie together. At BlueScope, for example, new CEO Paul O'Malley was the first speaker at a global meeting on CPM called by Robert Macmillan, the programme leader. "I cannot overemphasise how important it was to have the CEO at that meeting," Macmillan recalls. "He is very supportive and often asks how he can help."

## An experienced change agent must be appointed to manage the CPM effort

Company leadership should appoint a benevolent change agent who establishes a council of advisers, who listens to the council carefully, and who then issues decrees. At BlueScope Macmillan was careful with the selection of his council "because if I have too many in my core

*It's essential that people believe tomorrow  
will be better*



group of leaders, or influencers, or doers, it creates too much noise, too much resistance". Once established, the change agent must:

- have the confidence to make decisions despite not being able to make everyone happy.
- be high enough in the organisation to be respected without being so high that he or she cannot devote sufficient time to the project. Ideally, this is a full-time job.
- be fully invested in the project.
- possess strong leadership qualities.
- be an excellent communicator and delegator.
- have a thick skin.
- be able to show a history of getting things done and a reputation for honesty and forthrightness.
- be more than just a little bit stubborn.

Such people are rare.

### Those who must change must be engaged

Maclean, the turnaround expert from BP, adds a philosophical viewpoint. "You must listen unconditionally to what people say," he insists. "It's not a part of a deal between you and the people, an arrangement of some sort. It's you being unconditionally committed to listen to what people have to say. There is great power in an act of unconditionality. You must believe in your heart of hearts that what people say really does matter".

At BlueScope Steel, Macmillan, who has also managed CPM programmes at Foster's Group and Pacific Brands, is acutely aware of the need to engage others in the transformation. "From the first day in any improvement initiative involving significant change there will be people who embrace it, people who say they will wait and see and people who resist it for various reasons," Macmillan notes. "If the company doesn't invest in getting a level of engagement from the right stakeholders, the influencers, the doers, it's doomed from the start. Engaging participants in the process of change is absolutely critical. And if the company fails on the first one or two major steps, it will never work, no matter how much the change is needed".

### The company must show sensitivity to personal impact

"People are always concerned about the personal impact change will have on them, and that's a key reason why change initiatives might be resisted at the outset", says Macmillan. "Conflicts don't arise from politics or personal animosity, but from uncertainty. It's natural for someone to wonder about things and ask, 'What will the new KPIs mean to me and my job?' And so managers have to deal with these concerns sensitively and on a case-by-case basis. Change initiatives can often arise out of dissatisfaction with the present but always with a special concern for the personal impact it will have".

The company must score wins early and often and, then, celebrate them. Some change agents say visible accomplishments must be marked every 60-to-90 days or the organisation will classify the CPM initiative as just another wasteful or impractical corporate project that will never come to pass.

BlueScope's Macmillan says that early wins are crucial in building support. One of his wins was an overhaul of the company's internal quarterly report. He and his team worked with various stakeholders to develop a new corporate report that reduced the number of pages

## *People will embrace change if seriously engaged in the process*

for each business unit from the previous 40-to-80 to about 10. Overall, the old report, covering all units, numbered 1,500 pages. The new report reduced it to about 200 and, “without a great loss of usefulness”, Macmillan says. The new approach reduced the effort to produce the report by 80%. And once the new quarterly report was unveiled, Macmillan’s broader initiative began winning converts among some business unit managers and other executives who had previously doubted the need.

Deciding what constitutes a win can be a tricky matter. Pilot projects must be complex enough to be real and big enough to matter. If the pilot is in some remote, atypical region, those who are not affected will think the changes will never happen to them. If it’s too easy, critics won’t be impressed. There should be a confluence of three factors: the greatest impact, the greatest support and the greatest likelihood of success.

Don’t try to do too much at once. Implementing CPM can be a lengthy campaign, and the company needs a battle plan that addresses complexity with swift, targeted actions. The company must keep it simple at the start and expand as it goes, achieving success in waves. It must focus on the processes that have a high impact on the strategy and not wait for perfection. And it must monitor, measure and improve as things progress.

### Signs of progress

How do company leaders know when they’re winning support for their transformation efforts and the measures of performance? Surveys will show them, but there are other signs as well.

On one hand, a company knows it’s winning when people start calling and wanting to participate or when the CPM programme deployment model becomes a pull instead of a push. When that happens, a company leader can say, “If you want this programme, here’s what I need from you”, and involvement and enthusiasm increase.

On the other hand, signs that a programme is not working are less obvious. Everything may seem fine but the change should arouse passions on both sides, so if company leaders aren’t feeling mild to moderate resistance and hearing lots of complaints and questions, they should be concerned because it means key people don’t think the change is ever going to happen.

Colin Maclean notes that in industrial facilities “skunk works” will proliferate, as morale improves. Skunk works are occasional, independent employee initiatives to improve working conditions, such as painting a meeting room or ordering new furniture. There will be more laughter as managers and employees rise to new challenges. Those who are not laughing, Maclean says, are generally over their heads and unable to meet the changed requirements of their newly redefined jobs.

*Company leadership must believe that what people say really matters*



# The change process in brief

Achieving change can be a challenging and complex undertaking but it can also be understood as a series of overlapping steps, says Robert Macmillan of BlueScope. This is how he views the process of organisational change:

## Agreed need and shared vision

To begin change, participants need to forge a shared view of the future. It can often help if there is dissatisfaction with the present condition. Thus, from the start of change in any organisation, there must be a compelling story, effectively communicated.

## Personal impact

An emotional reaction to the vision of change is normal and should be expected. People react differently. Those who resist often do so out of a conscious or unconscious fear of loss. Such fears can be overcome by a variety of methods, including participation in the change process, communication, counselling, training and negotiation.

## Developing capability

With change agreed and individual concerns addressed, the organisation develops the capability to deliver the vision of the future. The capability comes from three sources: processes, systems and skills.

## Taking and celebrating first steps

Transformation takes time. It is important to identify short-term goals with visible, tangible outcomes that can be met and celebrated and that will keep the momentum going.



## Contributors

### Colby Conner

Director, Finance and Performance Management practice, PricewaterhouseCoopers, Boston, USA. A Certified Public Accountant and former auditor, he works to help clients translate strategy into action by delivering innovative CPM solutions.

### Ryan Hawk

Partner, Operations, People and Change practice, PricewaterhouseCoopers, Chicago, USA. His focus is cost reduction and corporate performance management, primarily in the Industrial Products and Energy sectors. Ryan's experience includes over 16 years in industry and consulting across a broad range of operational areas including cost reduction, performance measurement and

management, lean manufacturing, supply chain management, environment, and health and safety.

### Sarah Laidlaw Meehan

Director, Finance Effectiveness practice, PricewaterhouseCoopers, Melbourne, Australia. Sarah has over 13 years of experience assisting clients understand and resolve complex problems impacting finance functions. Her work focuses on assisting clients balance the need for controls with process efficiency and to demonstrably add value to the business.

### Dave Pittman

US National Lead, and Global Lead, Managing Business Performance, PricewaterhouseCoopers, Chicago, USA. Dave's expertise is working with executive

management not only to solve problems, but also to assist organise, mobilise and execute the solution. His experiences cover a broad range of businesses, organisations and industries including industrial products, energy, consumer packaged goods, automotive, technology, medical devices, media, and telecommunications.

### Paul Terrington

Partner, People and Change practice, PricewaterhouseCoopers, Belfast, United Kingdom. He works with clients on large-scale change projects, particularly focussed on behavioural change, engagement, alignment and change strategy and governance.

## Acknowledgements

### Robert Macmillan

Vice President, Planning and Performance, BlueScope Steel Ltd., Melbourne, Australia. A lawyer and accountant by training, Macmillan has led CPM initiatives across Foster's Group, headed an acquisition effort, and developed strategic business plans for a variety of business units.

### Colin Maclean

Retired former turnaround specialist at BP, London. He began his career as a geologist involved in, and then leading, exploration and production activities. He later undertook challenging leadership assignments at refineries in Australia, Scotland and the US.

# How PricewaterhouseCoopers can help

Increasingly, value is created across a connected network of partners, suppliers, customers, regulators and stakeholders, and success depends on collaboration among them. This means most business issues can no longer be resolved within a company's own four walls. The best solutions must capture opportunities and navigate risk across an extended business network. But does a company have the insight, skills and resources to ensure success?

PricewaterhouseCoopers' Advisory team can help execute a company's business strategy. We advise and we implement – locally and globally – by helping organisations capture opportunities, navigate risk and deliver lasting change across business networks.

When it comes to performance management, the challenge for organisations lies in improving the connectivity, transparency, reliability and timeliness of information. The PricewaterhouseCoopers approach to CPM enables organisations to integrate their financial and non-financial systems and processes to achieve sustainable improvements in performance. We help our clients:

- Develop their strategies
- Design and build robust business intelligence systems
- Identify the most appropriate measures of financial, operational, and regulatory performance
- Increase the efficiency and frequency of reporting processes
- Improve the reliability of prospective information, including budgets and rolling forecasts
- Develop corporate scorecards to evaluate performance and drive improvements
- Manage the people and culture changes
- Link organisational targets with employee evaluation and remuneration policies to ensure lasting change

For more information, visit [www.pwc.com/consulting](http://www.pwc.com/consulting)

# Contacts

## Global

Dave Pittman +1 312 298 2114 [dave.pittman@us.pwc.com](mailto:dave.pittman@us.pwc.com)

## Asia

Mark Easton +66 (0)2 344 1179 [mark.easton@th.pwc.com](mailto:mark.easton@th.pwc.com)

## Australia

Sarah Laidlaw Meehan +61 (0)3 8603 2327 [sarah.laidlaw.meehan@au.pwc.com](mailto:sarah.laidlaw.meehan@au.pwc.com)

## Canada

Philip Townsend +1 416 941 8220 [philip.e.townsend@ca.pwc.com](mailto:philip.e.townsend@ca.pwc.com)

## China

Edmund Lee +852 2289 2714 [edmund.ym.lee@hk.pwc.com](mailto:edmund.ym.lee@hk.pwc.com)

## Europe

Dimitri Hoogenboom +31 (0)20 568 5920 [dimitri.hoogenboom@nl.pwc.com](mailto:dimitri.hoogenboom@nl.pwc.com)  
Damir Maras +49 211 981 4823 [damir.maras@de.pwc.com](mailto:damir.maras@de.pwc.com)

## India

Debdas Sen +91 332 341 3185 [debdas.sen@in.pwc.com](mailto:debdas.sen@in.pwc.com)

## South America

Luiz Viotti +55 11 3674 3413 [luiz.viotti@br.pwc.com](mailto:luiz.viotti@br.pwc.com)

## United Kingdom

Tom Gunson +44 (0)20 7804 2043 [tom.gunson@uk.pwc.com](mailto:tom.gunson@uk.pwc.com)

## United States

Gary Apanaschik +1 617 530 4313 [gary.apanaschik@us.pwc.com](mailto:gary.apanaschik@us.pwc.com)  
Ryan Hawk +1 312 298 3319 [ryan.l.hawk@us.pwc.com](mailto:ryan.l.hawk@us.pwc.com)

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