

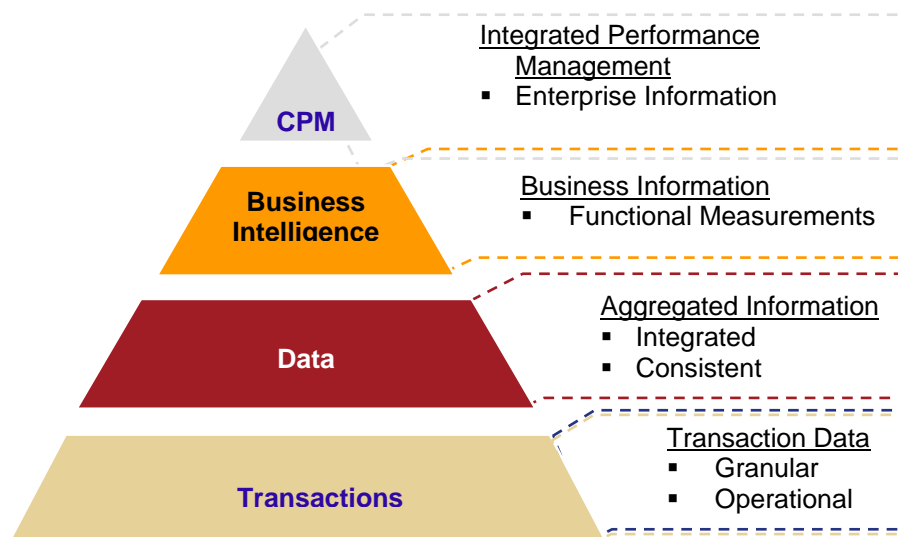
Corporate Performance Management

Corporate Performance Management (CPM) is a framework for organising, automating, analysing and monitoring the business metrics and processes that drive business performance. CPM links strategic planning, budgeting, forecasting and modelling with operational and financial reporting. Utilising a common methodology and tools, CPM enables an organisation to understand, act on, and influence its business performance.

It makes so much sense, everyone must be using CPM for managing and driving their business in these days of hyper competition, globalisation and constant demands for improved stakeholder returns. But no, companies struggle to implement the right systems, create the appropriate linkages and align personal performance to corporate strategies. As such, fundamental questions go unanswered and corporate performance suffers.

To achieve success, senior management must improve decision-making, business processes and company performance. CPM delivers on these demands by:

- Delivering role-based business intelligence to each information consumer in a personalised manner;
- Linking strategy with performance measures and cascading these measures and analysis throughout the company;
- Integrating a company's informational assets across the value chain; and
- Integrating advanced technologies and analytics within key processes to positively drive individual performance.



From Production to HR, Sales to Finance, CPM aggregates operational and financial transactional data on a consistent basis, presenting functional results against pre-defined performance metrics. Senior management can then evaluate this business intelligence at an enterprise level endorsing positive performance and driving appropriate corrective action where required.

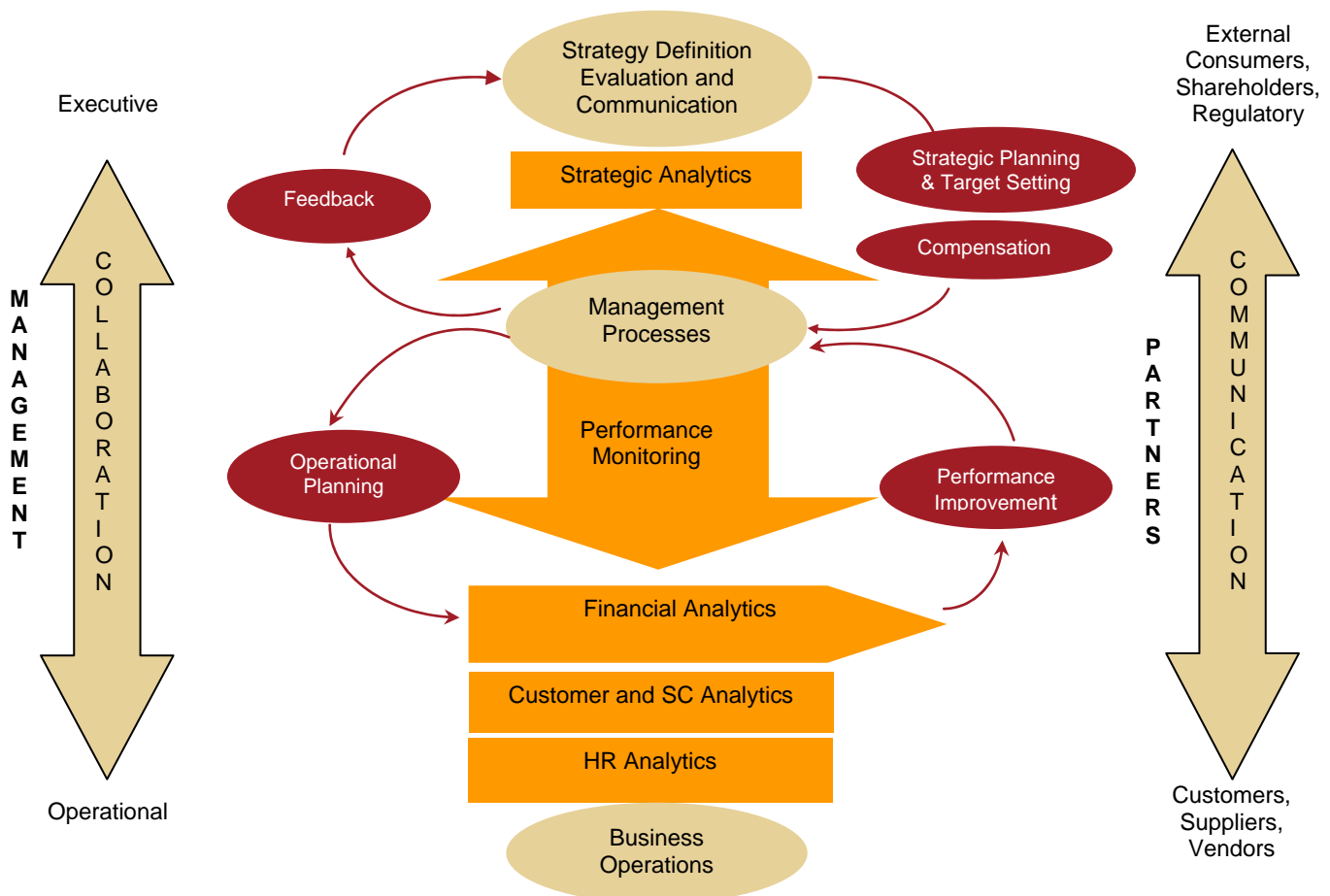
Effective CPM Environment

An effective CPM environment embodies:

- Speed – agile decision making and responsiveness to real time events
- Information as an asset – competitive edge in use of financial, marketing, production and environmental information
- Strategic focus – information and performance measures accurately reflect company strategies and timely communication of strategic performance.
- Accountability – clear line of sight from strategy and company performance through to individual accountability. Compensation is tied to performance.
- Value return of information – focused use of information to monitor performance, understand and predict variations and assess potential decisions quantitatively and qualitatively.
- Collaboration – end to end business analysis conducted via a community of information consumers.

CPM Framework

The CPM Framework can be visualised as:



Starting with the definition, evaluation and communication of strategy, specific targets are set for operational management and compensation packages linked accordingly. Operational metrics are established at financial, customer, supply chain, human resource and environmental levels and performance is constantly monitored. Best practice is adopted as appropriate to control cost, optimise sales, reduce working capital, etc. Management report back against strategic objectives on a regular basis, allowing strategic analysis of performance and a re-evaluation of targets. Throughout the process, there is ongoing collaboration between executive management and operational staff, ensuring targets are understood, monitored, executed and where required, tactics modified. Likewise, there is ongoing communication with business and external partners, ensuring governance is respected and customer and supplier service optimised.

CPM Challenges

Each step of the CPM framework must operate seamlessly to deliver optimal results. However challenges exist for most companies in delivering required information in a consistent format against pre-defined targets on a timely basis. In addition, the reporting of non-financial information in an intelligent and comprehensive format challenges many companies. For each of the key delivery tools (forecasting, operational planning, cost & profitability analysis, information delivery, management reporting), the company must question how each will deliver for the company; assess current limitations in delivering same; identify and implement solutions in delivering the appropriate processes and information; and assess the associated performance related impact.

For example, in considering strategic planning, a question often asked by senior executives is how can we increase linkage of business strategy to effect overall financial performance. Constrained by poor financial performance, lack of actions tied to strategies and unclear performance targets, the task is unenviable. However, solutions do exist and options include developing financial and non-financial targets; integrating strategic planning with forecasting, planning & budgeting; cascading and communicating strategies and measures into the organisation; and tying resources and compensation plans to strategies. The benefits generally include more focused and clearly communicated management initiatives, improved results against targets and enhanced financial performance.

Research undertaken in the US indicated that whereas 58% of companies tie compensation to strategic plans, 60% of companies had minimal linkage between strategic and operational plans. You manage what you measure and failing to link strategy to performance metrics dilutes the ability to deliver against strategic objectives.

Limitations of Current Systems

Our experience indicates that traditional limitations include:

- Management Reporting: data is scattered; many different sources of information; paper delivery systems; frequent need for adhoc analysis
- Performance Measures: too many measures, without targets; predominantly financial focus; tools don't permit effective reporting; lack of integration with other systems; not creating actions to improve financial and operating results
- Consolidation & Operational Planning; too much detail, too many iterations; minimal link with business drivers
- Forecasting: poor assumptions based on inadequate data; high reliance on spreadsheets; limited understanding of business drivers; limited visibility of sales forecasts and commitments
- Cost Analysis: limited cost analysis capabilities, poor tools; limited knowledge on cost of capacity or drivers of cost
- Profitability Analysis: costs attributed evenly across all products; customer driven costs not understood
- Information Delivery: lack of integration; data duplicity; paper delivery system

Conclusion

CPM is a framework, which links strategic planning, budgeting, forecasting and modelling with operational and financial reporting. The benefits include a more focused management team, rewarded for delivering against initiatives designed to deliver strategic objectives. A seamless framework is a major challenge, but by focusing on the limitations of each delivery tool, success can be achieved in overall enterprise performance.

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