



SECTION - 2

FINANCIAL & NON-FINANCIAL OBJECTIVES OF DIFFERENT ORGANIZATIONS

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“It is not possible to manage what you cannot control and you cannot control what you cannot measure!” - Peter Drucker.

“We consider the advantages and disadvantages of stakeholder-oriented firms that are concerned with employees and suppliers as well as shareholders compared to shareholder-oriented firms. Societies with stakeholder-oriented firms have higher prices, lower output, and can have greater firm value than shareholder-oriented societies. In some circumstances, firms may voluntarily choose to be stakeholder-oriented because this increases their value. Consumers that prefer to buy from stakeholder firms can also enforce a stakeholder society. With globalization entry by stakeholder firms is relatively more attractive than entry by shareholder firms for all societies”.

- Abstract of Report titled “Stakeholder Capitalism, Corporate Governance and Firm Value” by Franklin Allen, University of Pennsylvania, Elena Carletti, Center for Financial Studies, and Robert Marquez, Arizona State University August 4, 2007

2.1. INTRODUCTION

2.1.1 Inexorable change is the order of the day, and conventional theories and business practices are not providing the necessary guidance and support for decision-making. Change in every aspect and in the entire outlook is a constant factor. Business leaders are dissatisfied with the traditional measurement tools as organizations today increasingly perform in real time environment. New tools are being developed to measure the outcome of changes and their effective contribution to the bottom-line.



2.1.2 The three roles of measurement are:

- a. Effectiveness – Are we doing the right things?
- b. Efficiency – Are we doing them well?
- c. Excellence – Are we doing them consistently, responsively to meet changing requirements

2.1.3 Why do we measure?

- a. To know current status, degree of achievement and how far to go for ultimate goals to be achieved;
- b. For strategic alignments to communicate and reinforce messages to employees on company focus, direction and targets.
- c. For strategic learning: to know what works and what does not work & to take better decisions:
 - to identify pockets of excellence practices and universalize them
 - to identify relationships between measures
 - measurement is the trigger for excellence in performance & continuous improvement
 - Strategic Management control of cost

2.1.4 Measurement system of performance has to progress from being reactive to being proactive and finally to be responsive, as the right metrics drive world class performance. Criteria of success are different from product to process, company perspective to stakeholder perspective, revenue to reputation and financial to non-financial.

2.2. THE NEED FOR A RANGE OF PERFORMANCE MEASURES

2.2.1 Organisational control is the process whereby an organisation ensures that it is pursuing strategies and actions which will enable it to achieve its goals.

2.2.2 As to the selection of a range of performance measures which are appropriate to a particular company, this selection ought to be made in the light of the company's strategic intentions which will have been formed to suit the competitive environment in which it operates and the kind of business that it is. It is generally in line with the long term vision, mission and strategies of the company.

2.2.3 For example, if technical leadership and product innovation are to be the key source of a manufacturing company's competitive advantage, then it should be measuring its performance in this area relative to its competitors. If a service

company decides to differentiate itself in the marketplace on the basis of quality of service, then, amongst other things, it should be monitoring and controlling the desired level of quality. The focus thus lies on quality and not just volume at any cost or price.

- 2.2.4 Whether the company is in the manufacturing or the service sector, in choosing an appropriate range of performance measures it will be necessary, however, to balance them, to make sure that one dimension or set of dimensions of performance is not stressed to the detriment of others. While most companies will tend to organise their accounting systems using common accounting principles, they might differ widely in the choice, or potential choice, of performance indicators.
- 2.2.5 Authors from differing management disciplines tend to categorise the various performance indicators that are available as follows:

competitive advantage	flexibility
financial performance	resource utilisation
quality of service	innovation

- 2.2.6 These six generic performance dimensions fall into two conceptually different categories. Measures of the first two reflect the success of the chosen strategy, i.e., ends or results. The other four are factors that determine competitive success, i.e., means or determinants.
- 2.2.7 Another way of categorising these sets of indicators is to refer to them either as upstream or as downstream indicators, where, for example, improved quality of service upstream leads to better financial performance downstream.

Table 1. Upstream Determinants and Downstream Results

Performance Dimensions	Types of Measures
Competitiveness	Relative market share and position Sales growth, Measures reg customer base
Financial Performance	Profitability, Liquidity, Capital Structure, Market Ratings, etc.
Quality of Service	Reliability, Responsiveness, Appearance, Cleanliness, Comfort, Friendliness, Communication Courtesy, Competence, Access, Availability, Security etc.
Flexibility	Volume Flexibility, Specification and Speed of Delivery Flexibility
Resource Utilisation	Productivity, Efficiency, etc.
Innovation	Performance of the innovation process, Performance of individual innovations, etc.

Source: “Performance Measurement in Service Businesses” by Lin Fitzgerald, Robert Johnston, Stan Brignall, Rhian Silvestro and Christopher Voss, page 8.

2.3. FINANCIAL VS. NON-FINANCIAL MEASURES

- 2.3.1 In many companies across the world, the familiar way is to view everything in terms of the bottom line. In this sort of corporate environment, financial indicators remain the fundamental management tool and could be said to reflect the capital market’s obsession with profitability as almost the sole indicator of corporate performance. Opponents of this approach suggest that it encourages management to take a number of actions which focus on the short term at the expense of investing for the long term. It results in such action as cutting back on R & D revenue expenditure in an effort to minimise the impact on the costs side of the current year’s P & L, or calling for information on cost benefit on expenses at too frequent intervals so as to be sure that targets are being met, both of which actions might actually jeopardise the company’s overall performance rather than improve it.
- 2.3.2 Presently, there is a realization among managers that because of the pre-eminence of money measurement in the commercial world, the information derived from the many stages preceding the preparation of the annual accounts, such as budgets, standard



costs, actual costs and variances, are actually just a one dimensional view of corporate activity. Increasingly, a large number of managers have recognized in recent years that a big part of a company's true value depends upon intangible factors such as organizational knowledge, customer satisfaction, product innovation and employee morale, rather than on physical assets like machinery or real estate. While companies recognize the importance of these intangible factors, understanding and measuring their role in value creation poses a formidable challenge. Human resources departments may know how to tabulate payroll for a certain plant, for instance, but if asked to measure the motivation of its employees, they would probably be on uncertain ground. And yet, employee motivation and turnover are as crucial to that plant's profitability as the size of its payroll. That is the reason, employees are now called as 'resources' and the personnel department is called as human resources department.

- 2.3.3 Companies attach high value to financial performance. One reason could be that businesses have been tracking such performance longer than they have been trying to monitor how they are doing in areas such as employee satisfaction. Still, despite the importance of financial performance, executives ranked four other areas as being more important for future value generation: Employee satisfaction, supplier performance, product innovation and customer satisfaction.
- 2.3.4 The ability to manage alliances is seen as another crucial driver of future value. There are massive gaps between what executives believe are key drivers of future economic value and their organizations' ability to measure performance in these areas. The biggest gap is in the customer category, which indicates that companies are still wrestling with ways to measure customer loyalty and satisfaction. Companies are also giving more weightage to assess how well they are managing alliances and fostering employee satisfaction as executives believe that both these areas are crucial drivers of future value.
- 2.3.5 Unless organizations come to grips with these issues, its performance measures will fail to support its strategic objectives. Lack of good performance measures, could fail a good strategy. Besides, if companies track their performance in these key areas, this could lead to more dependable disclosure of their future prospects. It has also been found that with higher transparency and disclosure, the company's cost of capital could go down due to reduced risk for investors.

2.4. STAKEHOLDERS OF AN ORGANIZATION

- 2.4.1 Few people would argue with the idea that commercial businesses' aim to make profits and that decisions in these businesses are focused around how best to achieve this objective. The desire to be profitable need not, however, be all embracing and in practice it can be seen that companies are likely to pursue a wide range of objectives, which are both financial and non-financial in nature.
- 2.4.2 The first thing to note is that the suggestion that companies seek to make profits is a little imprecise. Does this mean that profit is sought at all costs, that maximising profit is the sole aim, or that managers/owners are happy with a specific "satisfactory" level



of profit? The exact answer will vary between businesses, as the priorities of owners and managers differ, but it is possible to establish some basic guidelines.

- 2.4.3 It is useful to remember that although a company is a separate entity in the legal sense, in reality it is made up of a collection of individuals and interest groups, all of whom have personal objectives to fulfil. Management will constantly be trying to balance the return to these groups e.g., shareholders or employees and discussion on corporate objectives really comes down to a compromise which takes account of what the different groups are seeking. Consequently some objectives may be financial in nature, such as a rise in earnings per share, whilst others will be non-financial e.g., shorter working hours, or an increase in the level of waste recycling in a manufacturing process.
- 2.4.4 A useful starting point for analysing non-financial objectives, is to specify the variety of stakeholders which may seek to influence company objectives, because they are affected by a company's operations. The list includes:
- 2.4.5 **Equity investors:** In other words the owners of the business, who will be looking for a decent financial return on their investment.
- 2.4.6 **Creditors:** This group will want to ensure that the business maintains the liquidity at reasonable level required to repay its dues on time.
- 2.4.7 **Customers:** Who will be concerned about product/service quality, price adherence to delivery schedule.
- 2.4.8 **Employees:** Improved working atmosphere and conditions of work will be important to this group and so they may have a mix of financial and non-financial concerns.
- 2.4.9 **Managers:** Whose personal objectives may to some extent conflict with those of the owners. For example, a manager may seek to increase staff levels, as a way of increasing his personal status, but this may be lead to reduced profits.
- 2.4.10 **The community at large:** Communities are affected by company activities in a number of ways such as the use of land in a local area, the potential for pollution from effluents, commercial sponsorship of community projects and the impact of business activity on local transport systems. Corporate Social Responsibility (CSR) is very important for each company to fulfill its social obligations.
- 2.4.11 Government, both Central State, are interested in higher tax revenues from the corporates so that the Government can project a better budget estimates and actuals.
- 2.4.12 Faced with such a broad range of interest groups, managers are likely to find that they cannot simultaneously maximise profits and the wealth of their shareholders whilst also keeping all the other parties happy. In this situation, the only practical approach is to try and work to satisfy the various objectives rather than maximise any individual one. Adopting such a strategy means, for example, that the company might earn a satisfactory return for its shareholders, whilst at the same time paying reasonable wages to satisfy employees, and avoiding polluting the environment, hence being a "good



citizen.” As a result, profit is no longer the sole corporate objective, and the pursuit of non-financial objectives has begun to be increasingly important, as part of a portfolio of corporate objectives which spread right out into the community of which they are a part.

2.5. NON-FINANCIAL PERFORMANCE INDICATORS

2.5.1 Professor Robert Kaplan of Harvard Business School in The Evolution of Management Accounting states : “..... if senior managers place too much emphasis on managing by the financial numbers, the organisation’s long term viability becomes threatened.” That is, to provide corporate decision makers with solely financial indicators is to give them an incomplete set of management tools.

2.5.2 The case is two-fold: that firstly not every aspect of corporate activity can be expressed in terms of money and secondly that if managers aim for excellence in their own aspects of the business, then the company’s bottom line will take care of itself.

2.5.3 Some of the important measures are given below :

1. Balanced Score Card (BSC) : offers four perspectives
 - A. Financial: How do we look to our owners
 - B. Customer: How do customers see us
 - C. Internal: What we must excel at
 - D. Business development: How can we develop business further

BSC puts strategy and vision at centre and not control. The BSC drives performance throughout the organization.

2. Bench Marking
3. Economic Value Addition
4. Market Value Addition
5. Employee Value Addition

2.5.4 The non-financial indicators relate to the following functions:

- a. manufacturing and production
- b. sales and marketing
- c. human resources
- d. research and development
- e. the environment
- f. systems support



2.5.4 Therefore, whether a company is a manufacturer or a service provider, to be successful, its management should ensure that:

- a. products move smoothly and swiftly through the production cycle without any interruption or delay;
- b. warranty repairs are kept to a minimum and turned round quickly
- c. suppliers' delivery performance is constantly monitored
- d. quality standards are continually reviewed and upgraded
- e. sales orders are effected without backlog
- f. customer satisfaction assessment yardsticks are reviewed regularly
- g. labour turnover statistics are analysed so as to identify managerial weaknesses
- h. R & D costs are kept at reasonable levels
- i. the accounting and finance departments understand the needs of business

2.5.5 A representative list of performance measures is given below:

1. Manufacturing and Production Indicators:

a. Production process:

- indicators deriving from time and motion studies
- production line efficiency
- ability to change the manufacturing schedule in line with the changes in marketing plan
- reliability of component parts of the production line
- production line repair record
- keeping failures of finished goods to a minimum
- ability to produce against the marketing plan
- product life cycle
- introducing concepts such as 'kaizen' for continuous improvement in processes

b. Production quality:

- measurement of scrap
- tests for components, sub-assemblies and finished products
- fault analysis



- “most likely reasons” for product failures
- actual failure rates against target failure rates
- complaints received against the quality assurance testing programme
- annualised failures as a % of sales value
- failures as a % of units shipped
- various indicators of product / service quality
- various indicators of product / service reliability
- going to the extent of ‘six sigma’ analysis to ensure quality.

c. External relationships with suppliers:

- inventory levels and timing of deliveries
- “just in time” inventory control measurements
- stock turnover ratio
- weeks stocks held
- suppliers delivery performance
- analysis of stock-outs
- parts delivery service record
- % of total requests supplied in time
- % supplied with faults
- quality and pricing when compared to supplies to competitors from the same sources

d. Sales delivery and service:

- shipments vs. first request date
- average no. of days shipments delayed
- action taken report on response time between enquiry and execution

**2. Sales and Marketing:**

- measurements based on “staying close to the customer”
- complaints rework
- re-packaging / ease of opening
- quality of packaging materials
- customer satisfaction analysis
- price of products comparisons
- unsuccessful visit reports and analysis to find causes & effect remedies
- monitoring repeated lost sales by individual salesmen
- sales commission analysis
- monitoring of enquiries and orders
- sales per 100 customers
- “strike rate” - turning enquiries into orders
- analysis of sales by product line
- by geographical area
- by individual customer
- by salesmen
- matching sales orders against sales shipments - mismatch analysis
- backlog of orders analysis
- flash reports on sales
- publication of sales teams performance internally
- analysis of basic salaries and sales commissions
- share of the market against competitors
- share of new projects in the industry
- new product / service launch analysis



- time to turn around repairs
- delays in delivering to customers and level of customer goodwill
- value of warranty repairs to sales over a period of time

3. People:

- head count control
- head count by responsibility
- mix of staff analysis
- mix of business analysis vs. staff personnel needs
- skilled vs. non skilled
- management numbers vs. operations staff
- own labour / outside contractor analysis
- workload activity analysis
- vacancies existing and expected
- labour attrition rate
- labour turnover vs. local economy
- % of overtime worked to total hours worked
- absence from work
- staff morale
- cost of recruitment
- number of applicants per advert
- number of employees per advertising campaign
- staff evaluation techniques
- evaluation of staff development plans
- monitoring of specific departments, eg. Accounting
- speed of reporting to internal managers vs. HQ



- accuracy of reporting as measured by misallocations and mispostings
- monitoring of departments performance long term
- pay and conditions vs. competition
- level of motivation and morale
- employee satisfaction index analysis

4. Research and Development:

- evaluation vs. basic R&D objectives, strategic objectives and project objectives
- product improvement against potential market acceptance
- R&D against technical achievement criteria, against cost and markets
- R&D priority vs. other projects
- R&D vs. competition
- R&D technical milestones
- analysis of market needs over the proposed product / service life of R&D outcome
- top management audit of R&D projects
- major programme milestones
- failure rates of prototypes
- control by visibility - releases, eg. definition release, design release, trial release, manufacturing release, first shipment release, R&D release
- competitor focus and market segment analysis before finalizing on outcome of R&D

5. Environment:

- work place environment yardsticks
- cleanliness
- tidiness
- pollution and effluent disposal mechanism and effectiveness
- catering facilities vs. competition
- other facilities vs. competition



- compliance with legal requirements
- contribution to society
- education, medical and other facilities provided to the society

2.6. SHAREHOLDER IMPACT OF NON-FINANCIAL OBJECTIVES

- 2.6.1 The impact of the pursuit of non-financial objectives upon shareholder wealth is not clear cut. There are many writers who would argue that companies which pursue a wide range of objectives find that they create for themselves a very positive public image and this serves to increase shareholder wealth. Others would argue that community type projects simply add to costs and thus erode profit, thereby reducing shareholder wealth. In reality, the truth probably lies somewhere between these two extremes. Carefully selected projects, particularly those which are community related, may well serve as a form of indirect advertising and raise the corporate profile and associated shareholder wealth. Other projects may simply represent a gesture of goodwill, on which no return is either sought or earned.
- 2.6.2 For example, suppose that a company decides to pursue an image of high product quality as a secondary objective. The aim is clearly non-financial in nature, but it will involve spending money on quality control and management projects which could add to costs and reduce profits. There is substantial research evidence from people like Juran, which suggests that “quality is free”. In other words, the gains from higher sales levels and reduced costs of warranty claims exceed the costs of the investment in quality improvements. Where this is the case, then the shareholders actually gain from the fact that the company has chosen to pursue a non-financial objective.
- 2.6.3 In other cases, the shareholder impact will be much more difficult to identify. Some companies have a very good reputation in terms of the facilities which they provide for employees. Such provision clearly costs money and absorbs funds which could be used elsewhere within a business and so it might be easy to take the view that pursuit of the objective of employee welfare is detrimental to shareholders. In fact, it may work that such policies serve to reduce staff turnover rates and increase productivity. It is quite possible for the aggregate benefits from such a policy to exceed the costs, so that shareholders see profits rise over the longer term. As with many things, whether a strategy has a positive or negative effect depends upon the time frame within which it is being judged.

2.7. CONCLUSION

- 2.7.1 Financial costs incurred for non-financial aspects such as quality, R&D, employee welfare etc may reduce the bottom-line in profit statements but would in the long run improve shareholder wealth.
- 2.7.2 The pursuit of non- financial objectives is associated with all types of organisations. To seek non-financial objectives is not to ignore the financial, but merely to acknowl-



edge that no single aim is of overriding importance. At the same time, non-financial objectives do not necessarily conflict with the financial and can in fact serve to prosper the interests of shareholders. A strong public image and good publicity must be important too, including, for example, for the Missionaries of Charity or the Ramakrishna Mission. The difficulty lies in reaching the right balance, which keeps shareholders happy but also allows other interest groups to believe that a company also has their interest at heart as well. The good manager must learn to be good at juggling.

BusinessInsight

(10/1/2003) CFO Project Volume 2

By Paul A.Boulanger, Accenture

Business insight is the capability of organizing and analyzing financial, operational, and external information, enabling decision-makers to understand and act, before their competitors, to create sustainable shareholder value.

Gone are the days when it was a major exercise for Unilever to identify and assess the performance of the 1,600 brands that comprised its global portfolio. As part of a new corporate growth strategy, the global portfolio has been reduced to 400 key brands, and a new data warehouse has been implemented. Global, regional, and national brand managers now have access to consistent data on sales performance and changes in customer awareness and attitude toward each brand.

This information enables brand management to readily identify when and where to target promotional investments. Procurement directors have access to a rich data set of global vendor spend information upon which to predicate vendor negotiations. Unilever significantly increased the transparency of critical information in the areas of procurement, brand management, customer management, and finance.

The results? A •2.1 billion reduction in direct procurement costs, a global view of the health of 400 key brands, and a single view of its most strategic (and most profitable) customers. The company also gained a single-stream reporting process by consolidating three different processes for producing financial, management, and category reports. Now all reports tally, eliminating substantive reconciliation at all levels of the business.

At a time when Unilever needed to boost its share price and profitability, the transformation of its performance reporting capabilities (with Accenture's help) enabled the enterprise to achieve dramatic improvements. During a time of flat industry performance, Unilever realized both top-line growth and increased shareholder value.

A Critical and Growing Need

The need to use performance management information effectively has been articulated for years. However, we are at a pivotal point in the evolution of performance management. It is more critical than ever for enterprises to address these capabilities. Decisions made now, capabilities constructed now, will shape a company's competitive position for years to come.



Why now? Four primary drivers are galvanizing organizations to address their use of information to drive business results. First, most companies have made little progress. Their executives are deeply dissatisfied with their organizations' ability to leverage information for competitive advantage. Second, companies are experiencing unprecedented demands for accountability in the current regulatory and economic environment. They require increased insight into the real drivers of business results. Third, technology is now at the stage where it can deliver on the vision promised for years. And last but not least, their competitors are moving.

Recall the “pep” talk given to the salesmen in the movie *Glengarry Glen Ross*: “We’re adding a little something to this month’s sales contest. As you all know, first prize is a Cadillac El Dorado. Anybody want to see second prize? Second prize is a set of steak knives. Third prize is you’re fired.” The stakes are rising. Being unable to generate the competitive advantages that effective access to information can deliver is an increasingly dangerous position.

Organizations and their executives are deeply dissatisfied with the state of their performance management information capabilities. Corporations are increasingly awash in information, yet continue to struggle in creating real “insight” to drive performance. There are several reasons for this continued struggle. Many companies have implemented enterprise resource planning (ERP) systems in ways that have not facilitated the generation of useful information. Accenture recently conducted a survey of 163 companies that had implemented ERP systems. The mean number of instances (separate and distinct implementations of the same software across regions or business units) was eight, with 32 percent having implemented from six to more than 20 distinct instances. This distributed ERP implementation strategy has resulted in disparate, disconnected sources of operational information.

Further, with the decentralized governance of IT manifest in many companies, individual user groups have driven their own development of data warehouses and data marts, contributing to increased fragmentation of information with little progress toward a “single version of the truth.” At some large companies, the data architecture is so fragmented that no one will take accountability. The response is armies of analysts using batteries of spreadsheets, manually generating performance information. The cost of this analyst function within finance alone can exceed 0.5 percent of revenue.

Also propelling the need for business insight is the regulatory and economic environment. Corporations are experiencing unprecedented demand for accountability. The Sarbanes-Oxley Act in the United States is demanding that executives understand exactly what their companies' financial results are saying and communicate these results clearly to the market. The signoff required of U.S. CEOs and CFOs is more than credits and debits. Rather, it is about understanding that reported business results are fairly represented based on personal knowledge. This translates into reporting transparency — being able to explain cause-and-effect relationships behind business results. Further, as markets continue to struggle and the investment environment languishes, companies that can increase the depth of their disclosure will create higher confidence and valuation in the market. According to a variety of analysts, as baby boomers retire and begin consuming their wealth, they will be replaced by a smaller generation, ending a savings and investment bulge. Analysts portend that we will see this in the next 10 years, putting downward pressure on stocks. Falling prices will force companies to provide even more useful information to attract investors.



One of the more compelling reasons for companies to actively pursue the development of business performance management capabilities is that technology is now at the stage where it can deliver on the vision promised for years. Integration technologies such as Kalido and Informatica have advanced to the point where they can more easily establish a common performance management language without remediating frontline transaction systems and compromising flexibility at the local business level. Business analytics applications now contain out-of-the-box functionality with the richness to develop metrics management, deliver online self-service reporting, and support an intuitive discovery process through drill-down and information exploration that is useful to frontline managers and executives alike.

Lastly, your competitors are moving. Leveraging information to derive business insight is becoming a significant competitive advantage. While there are far more instances of companies that have not made substantive progress than of progressive companies that have developed the capability to leverage information to their advantage, there are examples that should give executives pause:

- A global downstream oil producer was operating in 125 countries with several hundred separate operating companies having their own IT systems and reporting tools. It was unable to report consistent and timely information across operating units. By developing a performance management capability, key management information such as customer profitability could be segmented to support better business decision-making at a country level while enabling data to be aggregated for regional and global reporting. As a result of improved customer profiling and reporting, the business unit increased its profitability and delivered overall savings of \$140 million annually to the parent company.
- Based on this success, the company applied the concept to its retail division, where it was experiencing intense competition for fuel sales and eroding profit margins. Non-fuel sales needed to be increased to generate higher margins and growth. However, disparate IT systems made the company unable to access product performance or category management information. By implementing a common reporting solution, category managers got a standard view of sales from thousands of retail sites. The results revealed that 20 percent of non-fuel items generated 94 percent of sales. Armed with these data, the company achieved a 10-percentage-point increase in non-fuel sales and gross margins.
- In the aftermath of a major acquisition, another global oil producer needed to integrate its existing lubricants business with the newly acquired company. At the same time, it wanted to shift management focus from cost-plus to a value-based approach similar to that used in consumer packaged good companies. By deploying a performance management capability, the company created a common information resource while maintaining regional autonomy for local reporting requirements. A centralized reporting solution was implemented rapidly across the global organization to meet the information requirements of the finance, supply chain, and marketing functions. Web-based tools were used for the business units to submit data and for general administration. Standard and ad hoc reports enabled consistent and comparative analysis of key measures so that the merged business could be managed effectively, both globally and locally. A successful integration of the two businesses after the acquisition realized significant synergy savings.



The Continued Evolution

Companies are coalescing around a vision for management information that has a variety of common elements. Generally agreed-upon characteristics of an effective decision-support capability start with housing information using a common taxonomy at a level of common use. A major chemical company worked to define common units of measure, product codes, customer codes, and other key data elements globally. This enabled the company to define economic value created by products in geographic regions by key customers and by a variety of other dimensions.

Commonality must be supported by processes used to compile information so that it is trusted as accurate. Tight integration with source systems, strong central governance, and internal controls are all part of ensuring that when end users access information, they believe it to be true. Too often, review meetings start with a discussion around the veracity of the performance at hand. Moving up the hierarchy of needs requires organizations to construct information-aggregation processes that ensure integrity. High-integrity information enables an organization to divest of competing sources of the same topical information. Eliminating redundant data marts and reporting processes ensures that management is working off of a single version of the truth, a critical but elusive capability for many companies.

Lastly, information is aggregated to benefit decision-makers. Given that decision-making happens at all levels of an organization, an effective performance management information environment provides broad access to a wide community of users through self-service and intuitive portals that facilitate the discovery process without extraneous aggregation effort.

Many companies have yet to achieve these basics. However, leading practice continues to evolve. Increasingly, technologies are available that enable companies to leverage information delivery techniques, such as alerts and data visualization, which increase the speed of recognition and assimilation. Companies also are developing performance management capabilities that support a cascading metrics approach; they're hardwiring strategy to operations with information architecture constructed around a common view of how the business is to be managed. Corporate strategy is manifested in how frontline operations are measured. Information is increasingly forward-looking, with everything positioned in terms of where we will be rather than where we have been.

Content is evolving as well. The line is blurring between financial and operational information, embedding in information delivery tools the ability to rapidly derive cause-and-effect relationships between business drivers and business results. No longer is the P&L important; the drivers behind the P&L are what is measured and managed. As information services evolve, the potential to include external information increases, providing both information and context. Managers should feel differently about a 500-basis-point drop in operating margin if they know that five of their top competitors experienced a greater decrease during the same period. The power of infusing a company's internal information with external information that measures shifts in cross-company supply chains, industry direction, and competitors' positions has the potential to be the single biggest evolution in management information since the development of the database (see Figure 1).

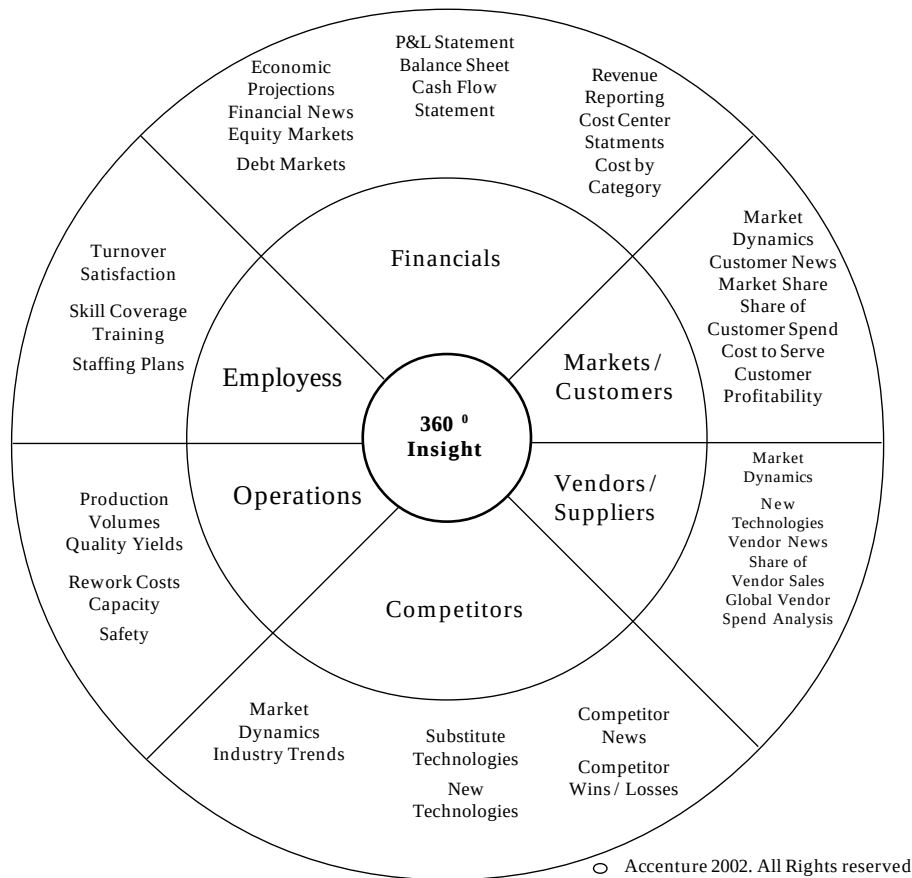


Figure 1: Critical Performance Information Components

The ability to leverage information to create insight into business performance will create competitive advantages in cost structure, go-to-market strategy, and supply chain management that separate successful businesses from those getting the steak knives, or worse. Business insight is the capability of efficiently organizing and analyzing financial, operational, and external information, enabling decision-makers to understand and act, before their competitors, to create sustainable shareholder value.

Executives use enhanced information capabilities to add value in all key management processes. Strategic decision-making occurs with more accurate and relevant information. Organizations are better aligned through the communication and monitoring of key value drivers. Product portfolios and profitability are optimized. Customer offerings, product cross-selling approaches, and pricing strategies are tailored according to superior segmentations and analyses of sales information and customer behavior. Marketing effectiveness is improved based on the impact of a customers' lifetime value. Credit policies are better managed on the basis of customers' total global relationship with the business. Supply chains become more visible, allowing global and regional sourcing strategies to be pursued. Working capital and taxes are minimized and global foreign exchange positions optimized.



Responding to the Challenge

How do companies begin to develop the capability to better leverage information and create competitive advantage? With a focus on business value. The first, and perhaps most important, best practice for achieving business insight is to base the design of business insight capabilities on a rigorous analysis of what drives value in your organization. What information needs to be at the fingertips of decision-makers to keep them better informed, help them make better decisions faster, and to support tactical performance reviews?

In many organizations, technical architecture and data availability determine what information decision-makers have access to. However, the best results are achieved when the decision-makers' information needs drive the information strategy, rather than the information that is readily available to IT. The information needs of critical management processes come first, followed by what content to include (see Figure 2). The process of analyzing your competitors, for example, could include not only the traditional competitive wins and losses but also market dynamics and industry trends — valuable external information that provides context for future action. The information needs of each management process and the resulting content required drive the most appropriate access and delivery channels and, finally, data management and technical architecture. Value comes first, with technology being an enabler, not a destination.

Figure 1: Critical Performance Information Components

The ability to leverage information to create insight into business performance will create competitive advantages in cost structure, go-to-market strategy, and supply chain management that separate successful businesses from those getting the steak knives, or worse. Business insight is the capability of efficiently organizing and analyzing financial, operational, and external information, enabling decision-makers to understand and act, before their competitors, to create sustainable shareholder value.

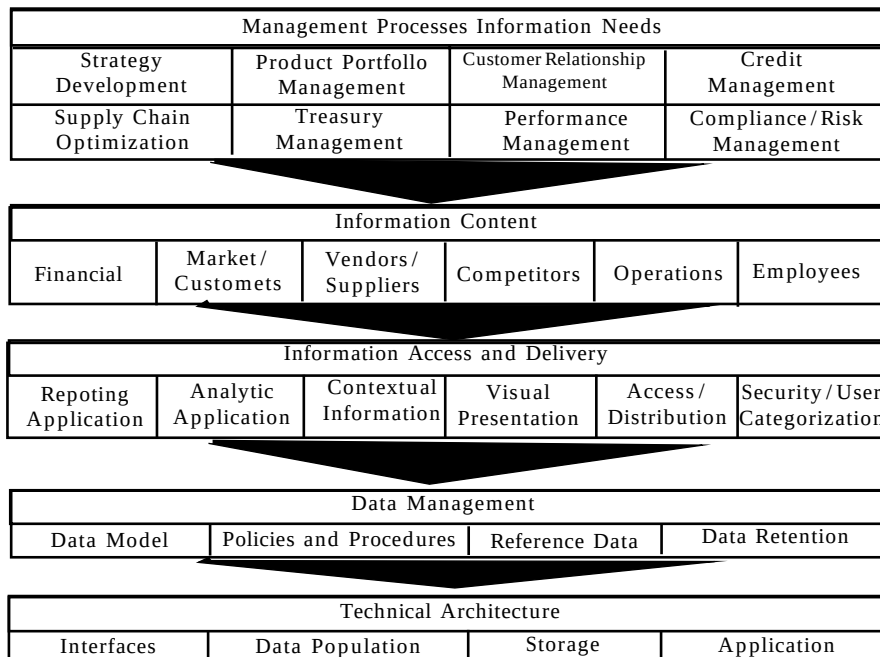
Executives use enhanced information capabilities to add value in all key management processes. Strategic decision-making occurs with more accurate and relevant information. Organizations are better aligned through the communication and monitoring of key value drivers. Product portfolios and profitability are optimized. Customer offerings, product cross-selling approaches, and pricing strategies are tailored according to superior segmentations and analyses of sales information and customer behavior. Marketing effectiveness is improved based on the impact of a customers' lifetime value. Credit policies are better managed on the basis of customers' total global relationship with the business. Supply chains become more visible, allowing global and regional sourcing strategies to be pursued. Working capital and taxes are minimized and global foreign exchange positions optimized.

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Figure 2: Value-Driven Information Architecture Development

For companies that have yet to develop business insight capabilities, there are a number of responses.

First, respond with urgency. Management needs to take decisive action, making tough decisions, driving development and adoption of a common framework for performance management, isolating those elements that are truly business-unit or region specific, and standardiz-



ing cross-company. Demand adherence to a corporate standard and create governance structures to manage data standards, IT development, and other critical success factors.

Second, respond with entirety. Address the entire management cycle. Integrate strategic planning, business planning, and target setting with performance management. Companies must become more disciplined in holding the organization accountable for stated operating objectives and the capability developments associated with investment. This implies that performance management is grounded in targets, plans, and initiatives built into business plans. Companies that develop performance information capabilities divorced from planning processes miss the opportunity to strengthen accountability and focus. Many mid-level managers complain of having to prepare voluminous reports in response to seemingly random corporate queries. If, rather, there is agreement on what will be measured at each level of the organization, and those measures cascade from and relate to the corporate strategy, and they are the basis for both planning/forecasting and performance reporting, management discussion and query tends to have greater focus and impact, and responses require less organizational effort.

Third, respond with vision. Develop a three- to five-year target information architecture for your business to support decision-makers' information requirements, then be prepared to adapt the plan as the business evolves. Be able to dissect and articulate the plan for various components. Armed with a performance management framework and prioritized view of information, have an end state in mind for how the enterprise will manage data. What will be held consistent corporate-wide rather than allowed to vary by business or geography? How will data ownership be assigned in the organization and what processes are required to maintain quality, controls, and integrity? Have a view as to how legacy applications will integrate with a central data store. What integration technologies will be required? Develop an understanding of what performance management applications will be employed and how they will interact with the data repository. Will you need an activity-based costing engine to derive product and customer profitability, or will more simplistic allocation schemes be employed? How will your planning applications integrate with your performance reporting applications? Have a plan for how information will be distributed throughout the organization. How will standard reporting be automated and pushed out to the organization? How will online analytical processing (OLAP) technologies be employed to streamline and support high-powered analytics? Only by having a vision that informs investment in specific capabilities, coupled with a coherent program that governs project direction toward a common goal, will you create an integrated information architecture that dramatically improves the organization's access to and use of information (see Figure 3).

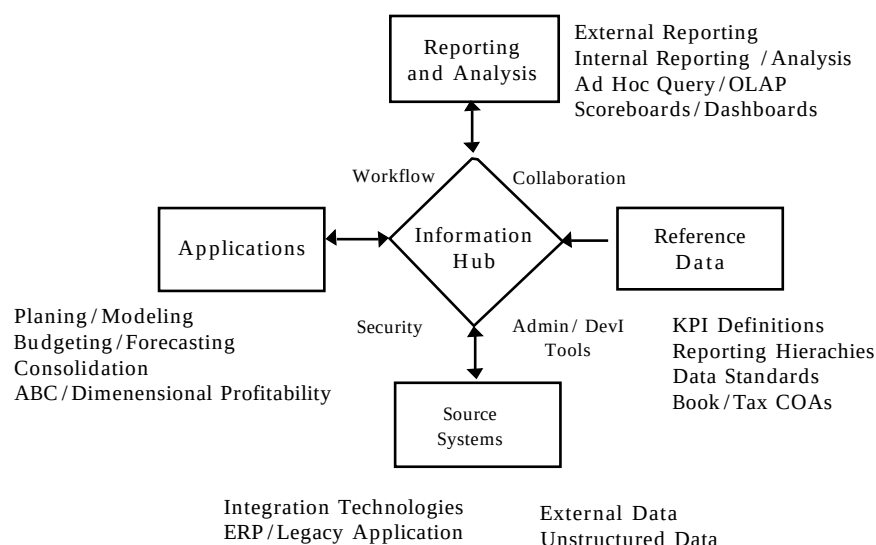


Figure 3: Components of Information Architecture

Lastly, respond with action. Start taking the steps now to move your company in the right direction. A number of short-term actions can be taken to begin developing the competence in managing an enterprise performance information capability.

Begin by moving the organization toward common management metrics and planning processes. Establish corporate key operating metrics. Drive management discussions around these metrics, and demand that individual components of the business use metrics aligned with the stated corporate metrics. While this concept has been an established leading practice for over a decade, many companies have yet to take this crucial step.

For performance reporting and analytics, determine the most urgent management process information needs and start there. For some organizations, procurement processes yield significant, measurable value from improved information. In the Unilever example, customer and product profitability were determined to be of high value as well. Create a positive case study within a specific management process to serve as an internal reference for the power of improved decision support.

With your data architecture, begin the process of creating a common taxonomy. Start with the most valuable elements, such as customers. Launch projects to standardize data companywide and institute organization control and data ownership. Drive consolidation and rationalization of data stores, controlling the rampant development of data warehouses and data marts. Constrain IT budget expenditures that do not align with the target end state. This may mean forcing individual user groups to postpone the gratification of constructing their one-off reporting tools.

Drive toward an integration standard. Select, pilot, and demonstrate the power of an integration technology. In operational applications, allow for variation across division and geogra-



phy where required, but control nonessential variation in application development and data structures.

These short-term measures can begin to shift the organization's thinking about the management of information and create the discipline associated with leading practice performance information.

Looking Forward at Last

For far too long, performance management and reporting has been a backward-looking exercise or a guessing game. Finance executives have analyzed the impact of prior decisions and results to determine how future plans should be developed to improve results or decrease risks. They have monitored trends for key business drivers and attempted to identify the causes of variance in operating performance.

Business insight allows you to look ahead. In the near term, you can easily identify trends, key drivers, and other factors that influence chosen business strategies. You can make capital allocation decisions to develop an investment portfolio aligned with your strategies. Longer term, a robust business insight capability delivers even more, placing CFOs front and center as the chief executive's primary strategy resource. Based on corporate positions and projections of the major factors driving strategy, you can create long-term business strategies. Business insight enables you to choose appropriate industries in which to compete, and it enables you to identify the major factors that will influence your company's ability to grow, compete, and remain profitable. Equally important, you can develop credible early warning systems that identify challenges when company positions are incorrect.

As the chief financial steward of a nimble organization, you will more effectively deliver the critical information that decision-makers and frontline operators need to make faster, more effective decisions. Based on better insight into internal and external business circumstances, your company will understand, act, and prevail, conquering competitors and creating significant (and sustainable) shareholder value.