Agenda

Performance Management

- Concepts and Definition
- Why use Performance Management
- Benefits
- Success Factors
- The PM Cycle

How does ABCM support Performance Management?

Case Study

Wrap Up

Performance Management (PM) is...

3

An enterprise-wide management system

- Aligns operations with strategy
- Ensures consistency
- Enables deployment of rapid directional changes

An ongoing process

- Focuses priorities and results
- Integrates measurement, analysis and action
- Encourages continuous improvement
- Defines and reinforces accountability

PM Concepts

- **KPI - Key Performance Indicator**

- **Scorecard - Report displaying all KPIs owned by an executive, manager, or team**

- **Targets - Short-term and long-term KPI goals Status Level of KPI performance in comparison to the short-term target**

- **Trend - Performance of a KPI in comparison to the prior period**

PM Concepts

- **Balanced Scorecard**
  - Shows all of the balanced measures for a KPI owner
- **KPI Trend Graphs**
  - Graphically displays the performance of a specific KPI over time
- **Alerts**
  - Exception reporting to inform of high and critical performance within a span of responsibility
- **Knowledge Integration**
  - Tracks explanations and actions taken for critical and high performing KPIs, creating organizational memory and helping to establish internal best practices

Why Use Performance Measures?

- Focus efforts

- Provide direction towards increasing shareholder value

- Monitor progress

- Benchmark against others

- Catalyze change

Seven Sins Of Traditional Performance Measures

3

- Output only
- Short-term
- Lack of integration
- Historical
- Isolated and remote
- Too complex
- Not connected to the customer

Providing Value to Your Customers at a Profit…

Shareholder Value	Results
Profitability — **Customer Satisfaction**	Goals
Cost Effectiveness — **Quality Processes** — **Timeliness**	Critical Success Factors

Performance Goals and Measures

A company that consistently satisfies its customers' needs and makes a profit doing so, will be well positioned to withstand competitive pressures…

The Power Of Change

Create a Platform for Change	Design the Changes	Create an Organization Conducive to Change	Implement & Measure the Changes

"What Get's Measured Gets Done"

What Good Is Running If You're on the Wrong Road?

Every morning in Africa a zebra and a lion wake up and run all day. The only difference is that one is running for his lunch and the other is running for his life.

Be The Lion

The Benefits of PM are...

- *Satisfying Customers (internal & external)* **- performance measures focus everyone on a company's most important mission: customer satisfaction.**

- *Monitoring Progress* **- the right performance measures make process improvement not just possible but continuous.**

- *Benchmarking Processes and Activities* **- performance measures provide the information needed to focus on the best processes and allow comparisons between companies.**

- *Driving Change* **- the right performance measures help organizations change successfully, because the right performance breaks down barriers and, in many cases, prevents barriers.**

The Benefits of PM are...

AT&T
Bristol-Myers Squibb
Delta
Dun & Bradstreet
DuPont
Emerson Electric
General Electric
Gillette
Hewlett-Packard
Johnson & Johnson
Merck
Motorola
PepsiCo
Phillip Morris
Reader's Digest
Wal-Mart
Xerox

- Industry leadership and steady financial gains
- Measurable improvement in customer satisfaction
- Major increase in employee morale/satisfaction
- Greater understanding of vision, values, and goals
- Greater understanding of individual role and impact
- Increased emphasis on innovation and revenues from new products
- More fact-based decision making
- Increased competitor awareness/understanding
- Ability to manage vs. react to change
- Enhanced accountability for results

PM Key Success Factors

3

- Strong leadership
    - Utilization
    - Communication
    - Approach
- Comprehensively defined performance management program/architecture
- Dedicated implementation resources
- Inclusion of employees (buy-in and acceptance)

PM Summary

Effective performance measurement systems:

- Balance output and process measures
- Support continuous improvement
- Help anticipate and prevent problems
- Monitor the critical steps in a process
- Change as the company's strategy changes
- Rely on cross-functional teams
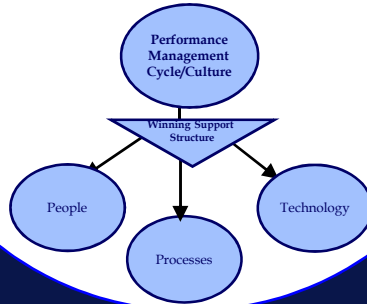- Consist of family of measures

PM Overview

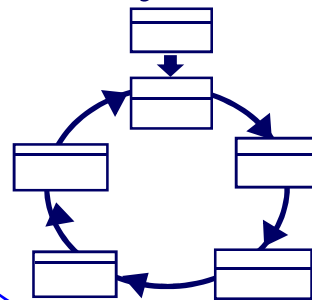*There are three critical components of a successful Performance Management program:*

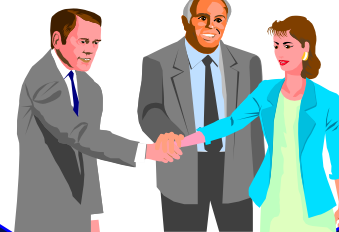Alignment of people, processes and technology with strategy and the PM program

Performance Management Cycle

An integrated, continuous cycle rather than a one-time event

Performance Management Infrastructure

Performance Management Cycle/Culture

Winning Support Structure

People

Processes

Technology

Performance Management Culture

A culture of responsibility, authority, and accountability

The PM Cycle

Develop Strategy

What do we want to achieve ?

Set Performance Targets

How do we set the direction ?

Identify Performance Barriers

What is getting in our way?

Reward and Coach

Are we encouraging the right behavior?

Overcome Performance Barriers

What are the required actions to be taken?

Monitor and Evaluate

How much progress are we making?

The PM Cycle

STRATEGY ARTICULATION MAP: THE BEATLES

	Vision	Mission	Values
Drivers	To develop a band "bigger than Elvis"	To develop and promote a band with an "identifiable" image, broad based personal appeal and acceptability to the executives, producers, and promoters who control access to the music industry's channels of distribution	• Always be polite • Be available to the media • No swearing • No marriage
Market Differentiators	Release more than one single at a time	Band of Individuals: The "Fab Four"	Hold sell-out concerts in big venues	Exploit all media-- especially TV
Strategic Objectives	Sell more records than Elvis	Improve marketing of the band without constraining their spontaneity	100 % sell-out concerts	Obtain access and visibility for the band
Critical Processes	Songwriting	Marketing	Stage Performance	Promotion

The PM Cycle

Key Performance Indicator Development Process

Process	Description
Develop KPIs and KPI Targets	A quantifiable measure established to communicate and monitor desired results
Define Critical Processes	Activities that directly impact the achievement of objectives
Develop Objectives	Statement of what is to be achieved to meet customer needs
Align Customer Needs	The individuals, groups, or organizations that receive products or services
Communicate Strategy	Purpose and direction

The PM Cycle

Key Performance Indicator Characteristics:

- Linked to objectives
- Controllable
- Actionable
- Simple
- Credible
- Integrated
- Measurable

The PM Cycle

"Would I be proud of this level of performance"?

"Would I bet money on the outcome"?

Target Aggressiveness
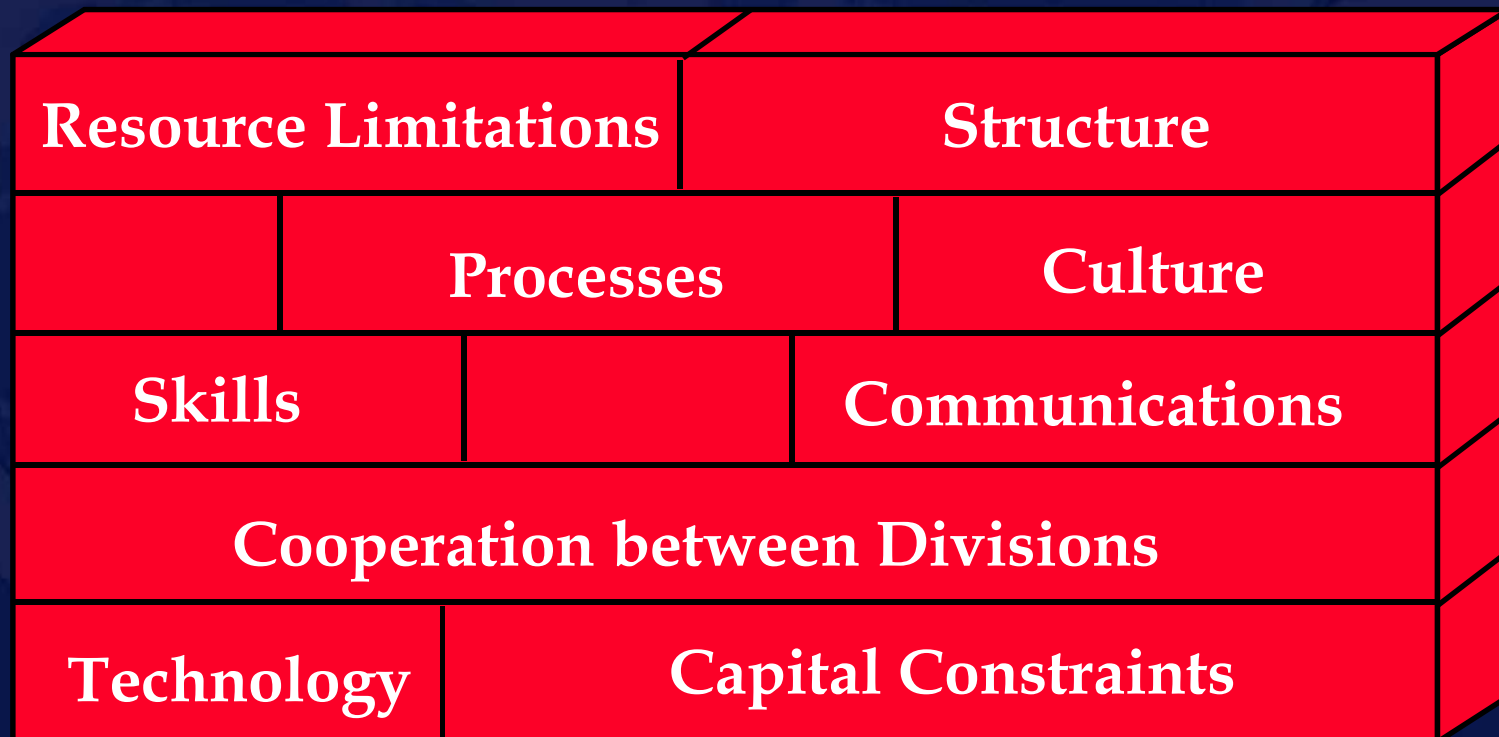
Target Achievability

Targets Need to be Balanced

The PM Cycle

Identify Performance Barriers

3

Resource Limitations	Structure
Processes	Culture
Skills	Communications
Cooperation between Divisions	
Technology	Capital Constraints

The PM Cycle

Overcome Performance Barriers

Reengineer Business Processes

Enhance Technology

Redeploy Resources

Adjust Organization Structure
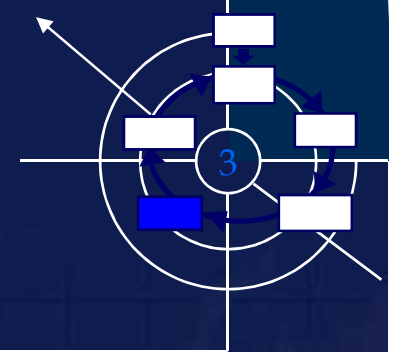
Increase People Skills
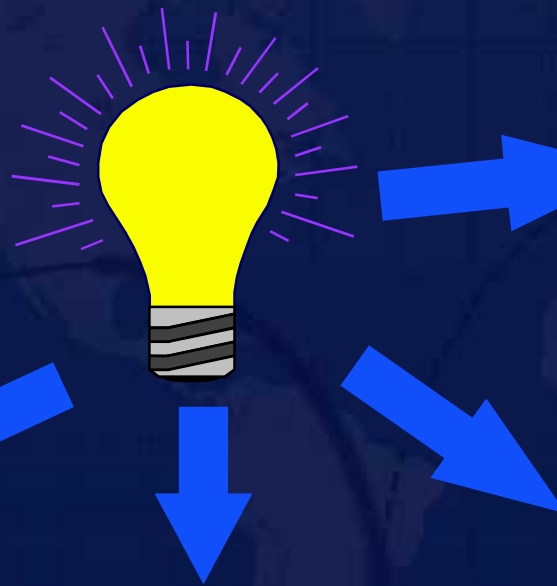
The PM Cycle

Monitor and Evaluate Performance
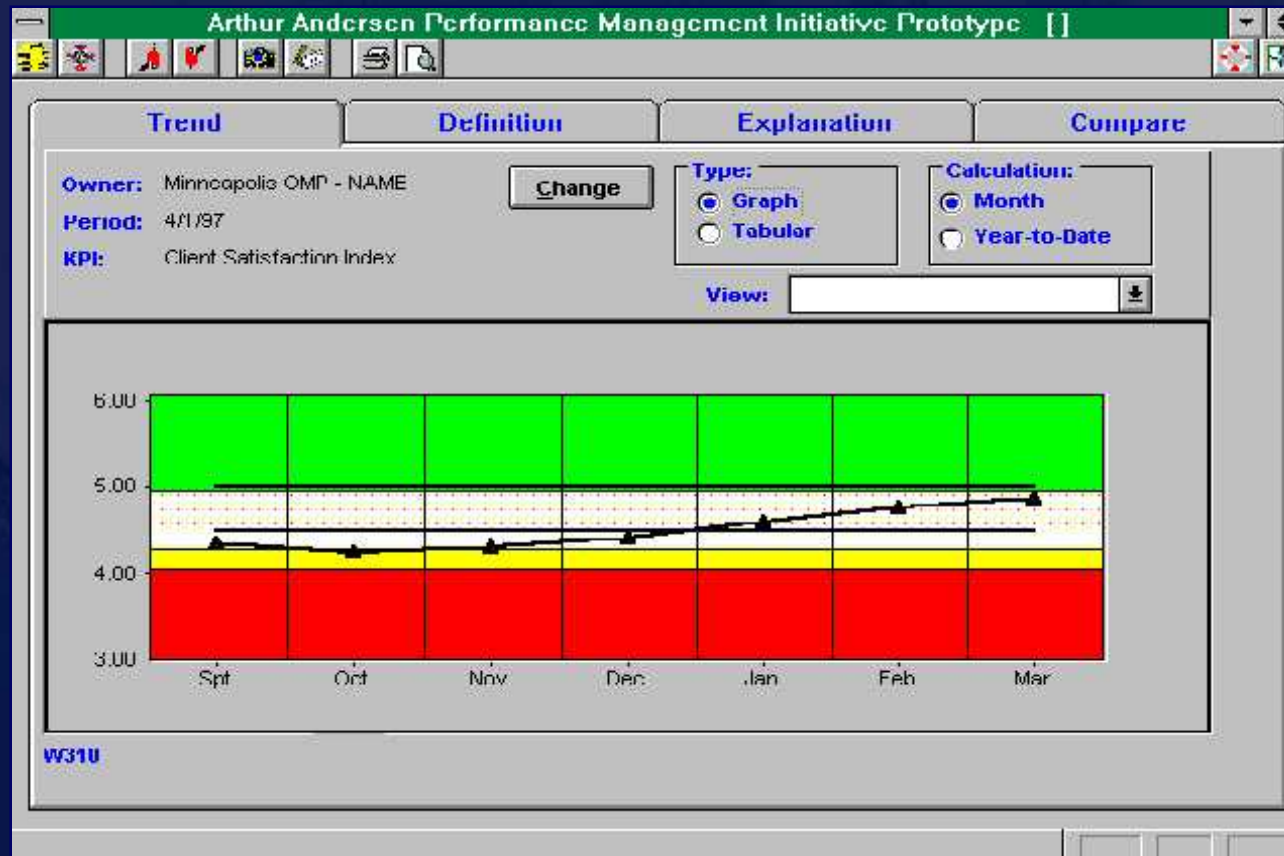
⌘Continuously track actual performance

⌘Proactively manage future performance

⌘Take corrective action

⌘Celebrate success

The PM Cycle

Monitor and Evaluate Performance

Key Performance Indicator Analysis - [March 1996 Balanced Scorecard - CDO Vou

File   Reports   Views   Window   Help

| ○ High | ⊖ Expected | ⊖ Minimum | ● Critical |

Cost	Description	Actual	Short-term Goal	Variance	Long-term Goal	
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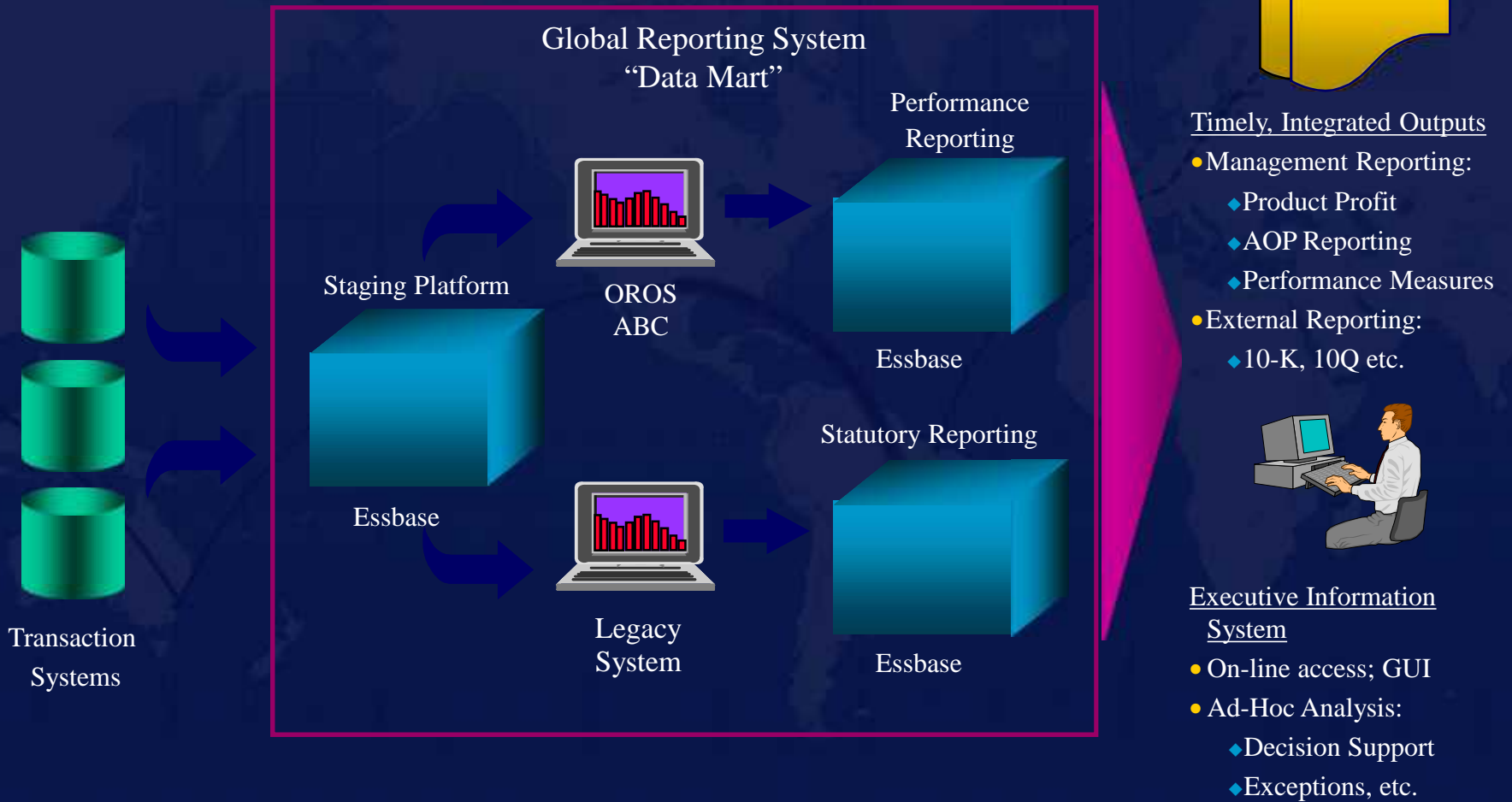W220: Balanced Scorecard - Month   NUM

The PM Cycle

Reward and Coach
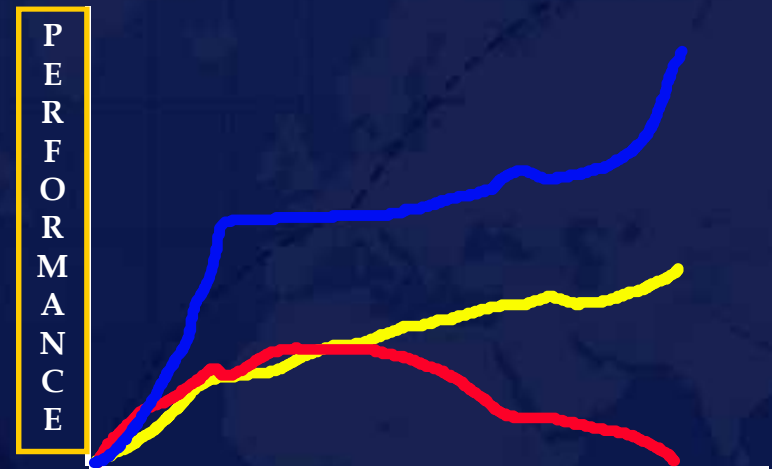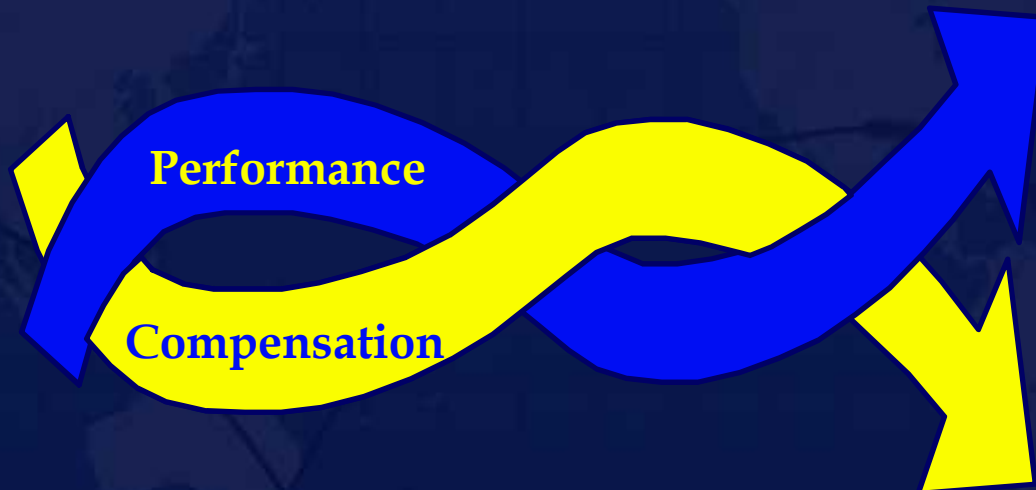
Evaluate performance and reward/coach to ensure accountability and reinforce desired performance.
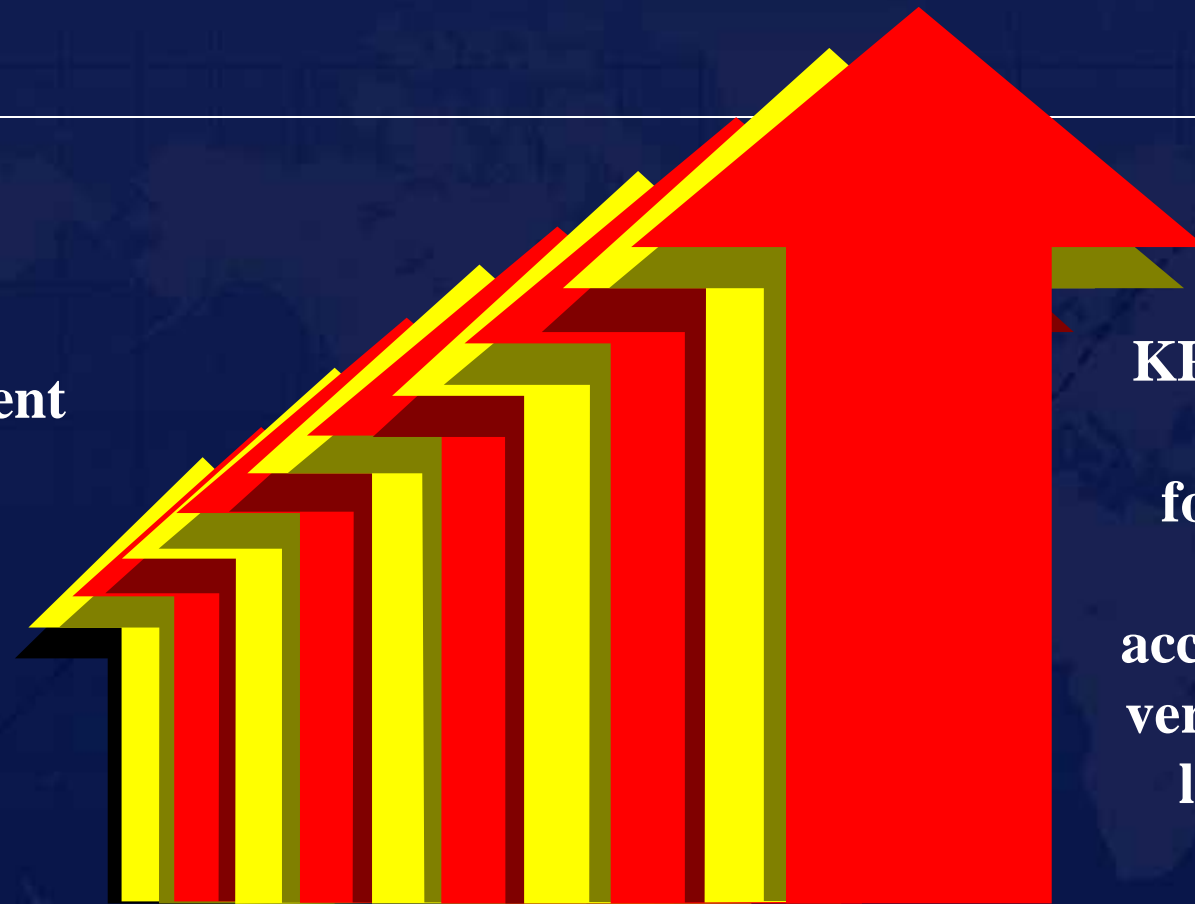
Future State Reporting Overview

Global Reporting System "Data Mart"

Transaction Systems

Staging Platform

Essbase

OROS ABC

Legacy System

Performance Reporting

Essbase

Statutory Reporting

Essbase

Timely, Integrated Outputs
- Management Reporting:
  - Product Profit
  - AOP Reporting
  - Performance Measures
- External Reporting:
  - 10-K, 10Q etc.

Executive Information System
- On-line access; GUI
- Ad-Hoc Analysis:
  - Decision Support
  - Exceptions, etc.

The PM Culture

Level of Empowerment

KPIs provide the foundation for accountability versus budget line items

Budgets and Controls

Accountability Tools

KPIs

The PM Infrastructure

Technology

- Effective performance management requires support from an integrated technology infrastructure that provides:
  - An accurate picture of the organization's performance
  - Ability to analyze to the real causes of performance problems and successes
  - Easy access to appropriate information

Visibility
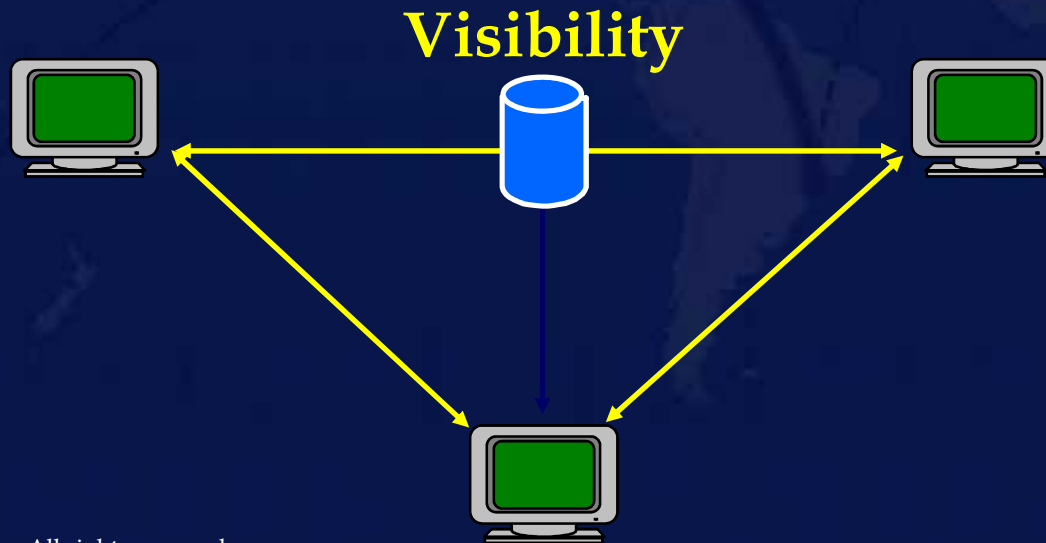
Tools for Measuring Financial Performance
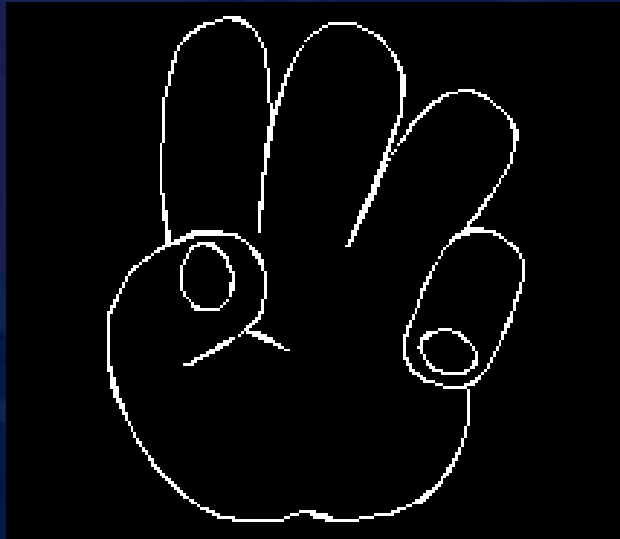
- Cost is a fundamental component of performance measurement

- Effective performance measures are based on business processes

- Traditional financial measures do not report on business processes

The PM Infrastructure

Processes

3

Functional	Process	Combination
		F O D
FINANCE OPERATIONS DISTRIBUTION	Service Delivery Procurement Product Development	Service Delivery Procurement Product Development
Measures Determined Solely by Function	Measures Determined Solely by Process	Measures Combine Process and Functional Views

Tools for Measuring Financial Performance

- **Activity-Based Cost Management** is the tool of choice for measuring the financial performance of business processes

An Overview of How ABC Works

3

Costs

↓

Activities

↓

Activity Drivers

↓

Cost Objects

Comparing Functional and Process Views of Costs

The Departmental View...

The Activity-Based View...

Computer Operations

Call Center

Billing Department

Salaries	$50,000
Premises	20,000
Technology	10,000
Other	5,000
Total	$85,000

Billing Process

Invoice Preparation	$ 35,000
Credit/Collection	40,000
Inquiries	40,000
Adjustment	25,000
Total	$140,000

Definitions of "Cost Driver"

- A factor that causes a change in the performance of an activity and thereby affects the resources required by the activity.

- Cost drivers determine the work load and effort required to perform an activity.

- The "root causes" of costs.

- Activities may have more than one cost driver associated with them.

- Cost drivers may be qualitative or quantitative.

Value Drivers

- Performance measures throughout the organization that link shareholder value to the work performed in the organization from the chairman's desk to the factory floor.

Value Driver Characteristics

- Aligned with corporate strategies
- Significant and measurable
- Simple to understand and use
- Close to operations
- Controlled by empowered employees
- Promote continuous improvement

Typical ABM Questions

Is this a value-added activity?

What are the steps required to perform this activity?

What resources contribute to the cost of this activity?

How can I reduce the time required to complete this activity?

Produce Parts

Why use ABC?

- ABC Measures the Costs of Complexity and Diversity
  - Small order quantities
  - Low volume products
  - Unique products
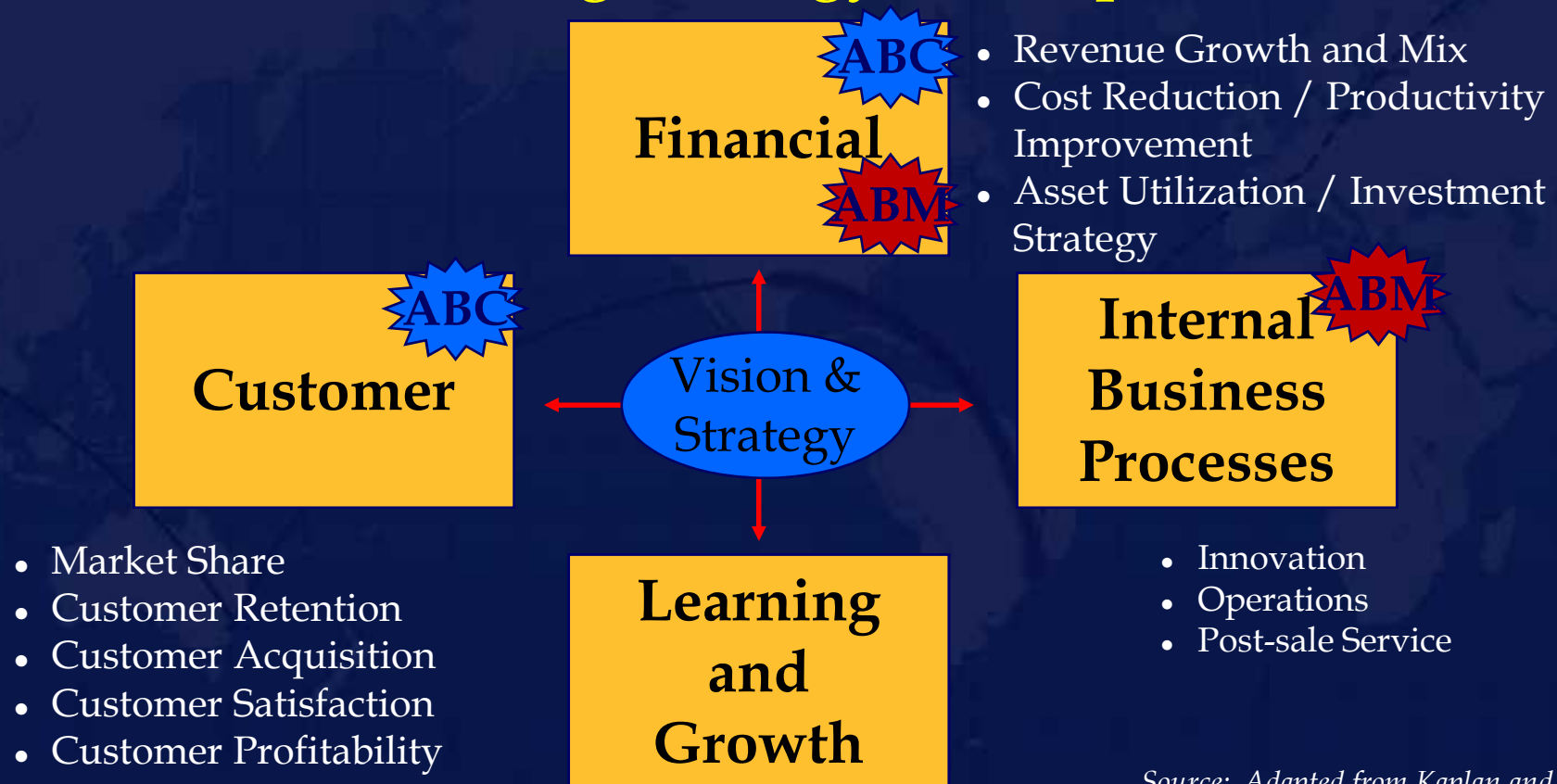 - Customer service demands
- This allows a more accurate depiction of product, customer and channel profitability

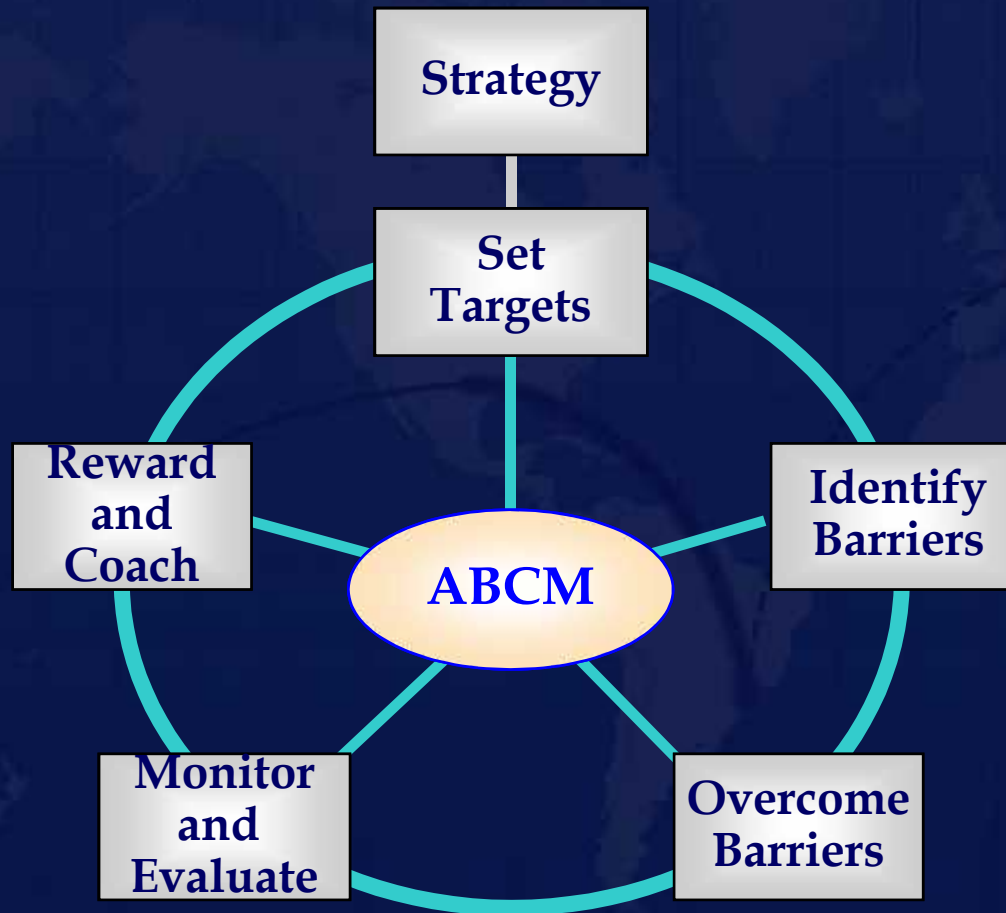304 - 37

Linking ABM to the Balanced Scorecard:

Translating Strategy into Operations

ABC

ABM

Financial

- Revenue Growth and Mix
- Cost Reduction / Productivity Improvement
- Asset Utilization / Investment Strategy

ABC

Customer

- Market Share
- Customer Retention
- Customer Acquisition
- Customer Satisfaction
- Customer Profitability

Vision & Strategy

ABM

Internal Business Processes

- Innovation
- Operations
- Post-sale Service

Learning and Growth

Source: *Adapted from Kaplan and Norton*

How Does ABM Work?

```
                        Strategy

                          Set
                        Targets

   Reward                                   Identify
    and              ABCM                   Barriers
   Coach

        Monitor                    Overcome
          and                      Barriers
       Evaluate
```

Overview How Does It All Fit Together?

ABC

ABM

	Dollar Resources	
Cost Drivers	Activities	KPIs
	Products, Services	

Continuous Improvement

Relevant Cost
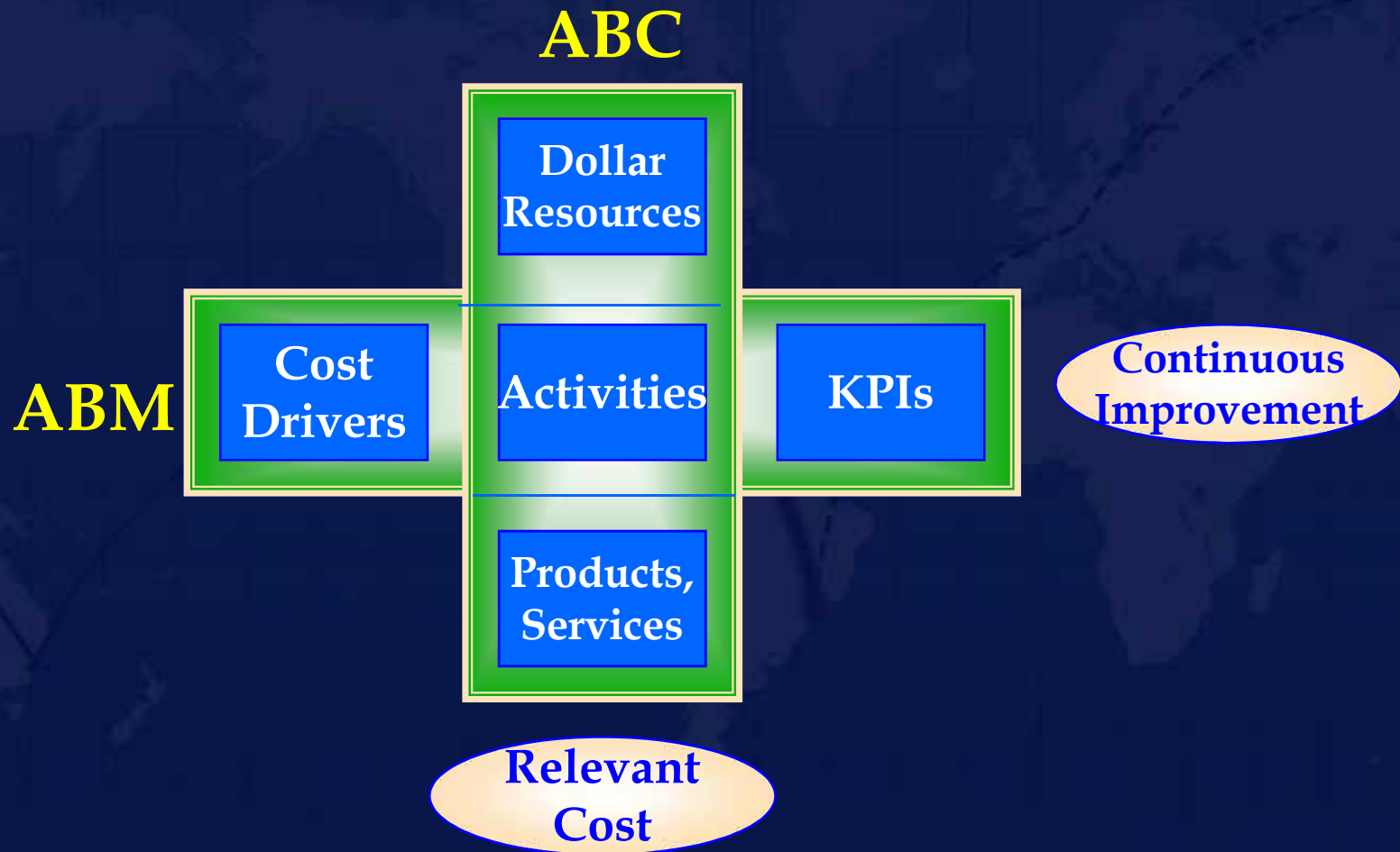
How Does ABM Work?

- Measure performance of activities

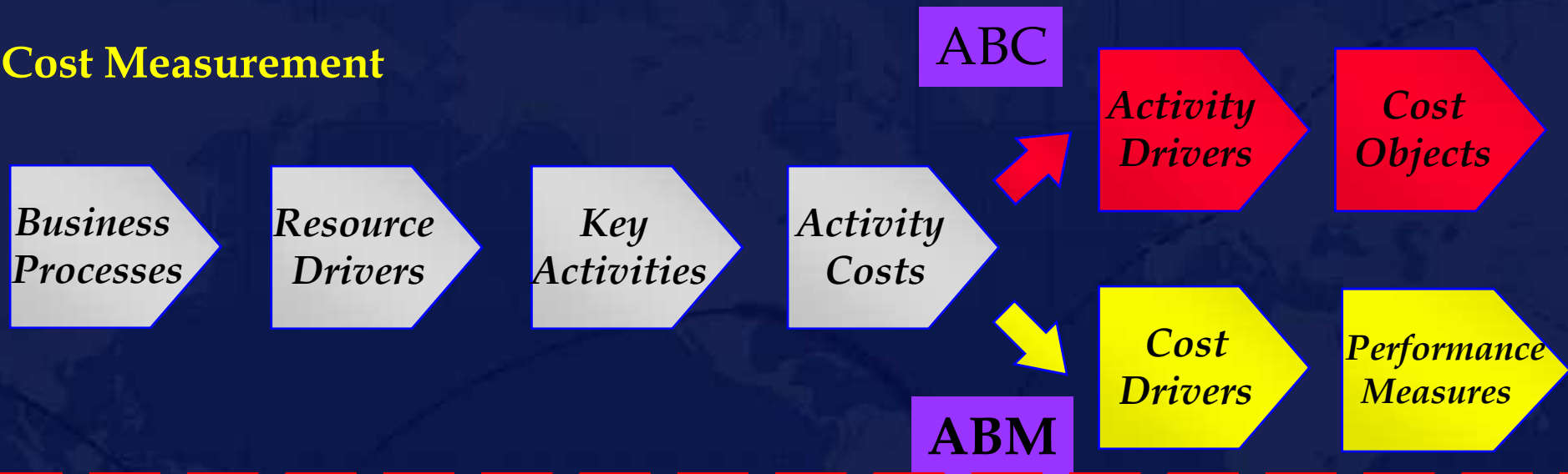| Cost Driver	→	Activities	→	KPIs

- Performance Measure = An indicator of the work performed and the results achieved in an activity or a group of activities; a measure of how well an activity meets the needs of its customers

- *Example : Cost per transaction*

Linking Measurement Initiatives

Cost Measurement

Business Processes → Resource Drivers → Key Activities → Activity Costs

ABC

Activity Drivers → Cost Objects

Cost Drivers → Performance Measures

ABM

Performance Measurement

Articulate Strategy → Critical Processes → Key Activities → Output Measures → Process Measures → Balanced Scorecard

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Case Study

USAir Project Description
Business Challenge

USAir has:

- Lost several billion dollars in past five years

- Highest cost structure in the industry

- Disparate systems, processes, and culture as a result of acquisition growth

- Increased competition from low-cost carriers

USAir Project Description
Resulting Action

- Focus on becoming a High Performing Enterprise

- Reengineer the operational processes and the management process

- Implementation of a comprehensive and integrated Performance Management Program is deemed critical to becoming a High Performing Enterprise

USAir Project Description
Project Scope

- February 1995 to present
- Conceptual Design of an Enterprise Management Initiative
  - Performance Management
  - Finance Reengineering (Activity Based Management)
  - Human Resources Reengineering
  - Procurement Reengineering
- Well into detail design

USAir Project Approach and Results

3

Project Team

- *Andersen*
    - One Business Consulting Partner; Part-time
    - One Andersen Consulting Associate Partner; Part-time
    - One Business Consulting Manager; Full-time
    - Two Andersen Consulting Managers; Full-time
    - Four seniors; Full-time

- *USAir*
    - Three USAir IS Managers; Full-time
    - Four USAir Division Controllers; Part-time
    - Five USAir client representatives; Part-time

USAir Project Approach and Results

- **Major Deliverables:**
  - Corporate Performance Management Conceptual Design
    - Process
    - Culture
    - Infrastructure
  - Corporate Performance Management Implementation Strategy
  - Corporate Key Performance Indicators - assisted with developing corporate vision, mission, and strategic objectives
  - Performance Management Training Program

Project Approach and Results
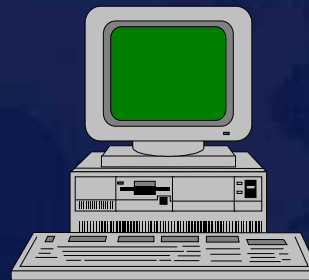
- **Major Deliverables**
  - <u>Reservations Pilot</u>
    - Key Performance Indicator hierarchy
    - Reservations activity hierarchy - current costs
    - Performance Management prototype
    - Communications strategy

KPI Reporting

Prototype Architecture

Options for reporting
- *Comshare - Commander*
- *Wired for OLAP*

Essbase

Multi-dimensional database

Source Systems

- *ACD*
- *GL*
- *PACER*

Identifying the Client's Needs - Bell South

3

Business Challenges:

- Continuously improve value and service to *all* customers

- Improve operational performance

- Transition to a competitive environment

- Integrate with organizational alignment

- Integrate with reengineering initiatives

- Project competition with Human Resources Department

Project Description - Scope

Finance Org. in BellSouth Telecommunications:

- Cost Management implementation across Finance Organization

- Balanced Scorecard pilot in Consolidated Cost, Disbursement, and Treasury Offices (CCO, CDO, CTO)

- KPIs driven down to manager-led teams

- Reporting systems built to scale across Finance

TPM Project Approach

Mar 94	May 94	Aug 94	Nov 94	Jan 95	Mar 95	Apr 95

Pilot

Cost Model

Cost Tools

KPI Development

KPI Reporting System

TPM Project Approach

Mar 94	May 94	Aug 94	Nov 94	Jan 95	Mar 95	Apr 95

Pilot

Voucher Function in the CDO

- Activity Analysis
- Product Analysis
- Process/Activity Cost Rollup Model (Excel)
- $50,000; 3 - 4 BC Professionals

TPM Project Approach

Mar 94	May 94	Aug 94	Nov 94	Jan 95	Mar 95	Apr 95

Cost Model

Finance Cost Model Development

- Process/Activity Analysis
- Product Cost Model Development
- Process/Activity Cost Rollup Modeling
- $900,000; 6 - 8 BC Professionals

TPM Project Approach

3

Mar 94	May 94	Aug 94	Nov 94	Jan 95	Mar 95	Apr 95

Cost Tools

- Cost Management Decision Support Tools
  - Process/Activity Structure and Costing
  - Cost Reporting and Management Rollups
  - Integration with BST Finance systems
  - $300,000; 3 - 4 BC Professionals

TPM Project Approach

3

Mar 94	May 94	Aug 94	Nov 94	Jan 95	Mar 95	Apr 95

KPI Development

- KPI and Balanced Scorecard Development
  - KPI Facilitation for CCO/CDO/CTO
  - Scorecard Development and Alignment
  - $350,000; 3 - 4 BC Professionals

TPM Project Approach

3

Mar 94	*May 94*	*Aug 94*	*Nov 94*	*Jan 95*	*Mar 95*	*Apr 95*

KPI Reporting System

- Balanced Scorecard Reporting and Monitoring System
  - KPI and Exception Reporting System
  - Client Server Application for Scorecard Owners
  - $450,000; 5 - 7 BC Professionals

TPM Project Deliverables

- Cost Management Process and Models

- Cost Management Decision Support Tools

- KPI Development

- KPI Reporting and Analysis Concepts

- KPI Process Timeline

- KPI Training, Development and Delivery

- KPI Reporting and Monitoring System

TPM Project Deliverables

- Balanced Scorecard
  - Shows all of the cost, quality, and timeliness measures for the scorecard
- KPI Trend Graphs
  - Graphically displays the performance of a specific KPI over time
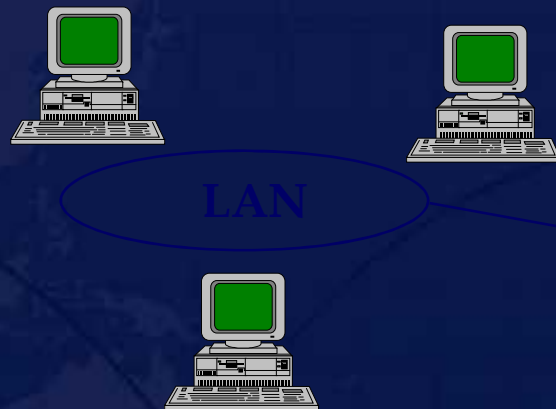
TPM Project Deliverables

3

- ● **Exception Report**
  - ● Informs managers of high and critical performance in their span of responsibility
- ● **Knowledge Integration**
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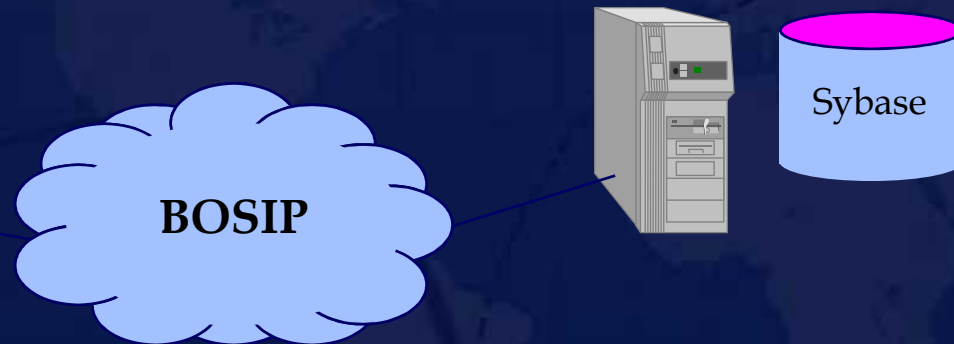
TPM Project Deliverables

Client Server Architecture

- SQLWindows 5.0 and MS Access for client application development

- Sybase System 10 running under UNIX for database management on server

LAN

BOSIP

Sybase

- ABC Technology's Oros product for ABC analysis

- Local and wide area networks for communication services between the client PCs and the central server

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TPM Project Deliverables

Key Performance Indicator Analysis - [March 1996 Balanced Scorecard - CDO Vou

File   Reports   Views   Window   Help

◉ High   ⊖ Expected   ⊖ Minimum   ● Critical

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W220: Balanced Scorecard - Month   NUM

Phase II

3

- Strategy articulation and commitment setting
- Activity and cost object analysis and simplification
- KPI development for the rest of the Finance Organization (40 - 50 additional scorecards)
- Extend hierarchy to EVP Finance level
- Implement KPI system enhancements
- Train BST facilitators and process administrators for long-term support

Phase II

3

Sept 95	Dec 95	Feb 96	Apr 96	Jun 96	Aug 96

Strategy

Cost Mgmt Process

KPI System

KPI Development

Wrap Up

3