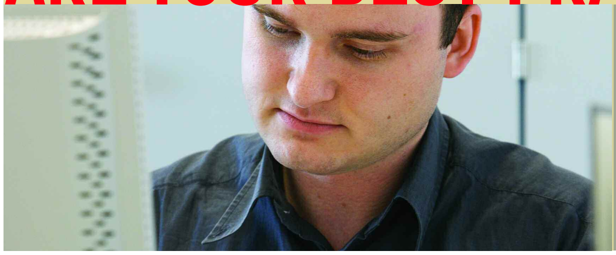
ARE YOUR BEST PRACTICES REALLY THE BEST?



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I wonder how many executives really know whether any given "Best Practice" would really improve performance at their organizations. It may sound like a "Why didn't I think of that?" kind of idea, but how would anyone know whether the "Best Practice" could really bring about the desired results?

In a recent Cognos Finance Forum presentation, Richard Roth of the Hackett Group answers the question by saying in effect, "Show me the data!" then goes on to explain how "Hackett-Certified" practices can ensure that the innovations you implement at your company are the right ones. I hope you'll be both enlightened and motivated by this summary of Richard's remarks.

Jeff Holker
Cognos Innovation Center for Performance Management

The following is an excerpt from World-Class Enterprise Performance Management, a presentation by Richard T. Roth, Chief Research Officer at The Hackett Group and advisor to the Cognos Innovation Center for Performance Management™. It was delivered at the Cognos Finance Forum in Boston, MA, on April 19, 2006.

When asked if they know what a "Best Practice" is, most executives would raise their hands in the affirmative. But would a given best practice lead to improved performance? Is it a "good idea" described in a case study, or is it proven, time and time again, to yield results? Most important, is the technique backed up by empirical data?

In most cases, it is not. Using Crest toothpaste because "four out of five dentists surveyed recommend it" is not a Best Practice. Without data, "Best Practice" is a generic term that offers no proof of relevance nor applicability to any situation or environment. The approach may be a good idea—or a serious mistake.

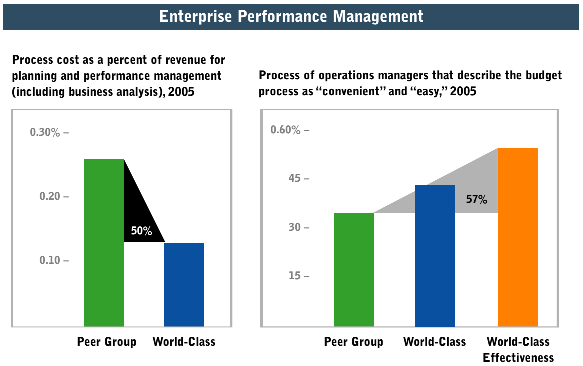
For The Hackett Group, a Best Practice is a proven technique that delivers measurable value—an approach whose adoption correlates with World-Class performance metrics.

A Best Practice does not necessarily always reduce cost; it can enable alignment with business strategy, promote timely execution, reduce error rates, ensure acceptable levels of risk, and so on.

The characteristic that differentiates a Hackett-Certified practice from a "Best Practice" is the correlation of the technique used with World-Class performance metrics gained through ongoing empirical benchmark studies. Hackett's continuously updated knowledge repository is derived from 3,500 empirical studies of almost 2,100 of the world's leading companies over 14 years.

HACKETT BEST PRACTICES DRIVE WORLD-CLASS PERFORMANCE

Hackett defines "World-Class" as top-quartile performance across both efficiency and effectiveness measures. Once these leaders are identified, we look closer at the specific practices these companies utilize that enabled them to excel. Hackett analyzes performance metrics using our proprietary Hackett Value Grid™. Overall, World-Class fundamentally outperform their peers across the board.



MORE EFFECTIVE

World-Class companies are more effective than their peer groups. For example:

- They outperform the peer group and do so with almost 20 percent lower operating profit volatility.
- They deliver a higher return on their planning investment (4.9 percent vs. 1.5 percent).
- Reports and commentaries generated by World-Class organizations are 30 percent more likely to be forward-looking.

MORE EFFICIENT

World-Class companies are also more efficient than their peers. For example:

- They spend 50 percent less on planning and performance management processes.
- They generate 53 percent fewer business performance reports than their peers.
- They have internal customers who are likely to describe the process to revise budget numbers as "convenient and easy" 10 percent more often than their peers. At the most effective organizations, internal customer satisfaction is 47 percent higher than the peer group.
- They devote more full-time resources to decision support.

BEST PRACTICES MUST ALIGN WITH STRATEGY

Not all companies value the efficiency and the effectiveness of every function equally. Depending on its business strategy, each company may have different goals as they drive toward World-Class. World-Class companies as defined by The Hackett Group's empirically based methodology have attained their superior performance levels because they have made the appropriate tradeoffs and decisions regarding the practices they follow, and they have executed on them extremely well.

For example: If the corporate strategy is to make products as inexpensively as possible, then the functional leader's goal—to be aligned with corporate strategy—should be to reach the top decile in efficiency. If the objective is to provide a total solution, that is, high-touch, high-value products, service, and so on, then the goal should be to achieve top decile in effectiveness. The importance of establishing functional performance that is aligned with Corporate Strategy cannot be over-emphasized.

REPORTING MODELS MUST EVOLVE

Reporting models used by most companies fail to support effective decision making and must evolve. The activities associated with business analysis and reporting represent some of the most visible performance gaps between World-Class and average finance organizations. According to Hackett benchmark studies, operations managers of World-Class Effectiveness organizations describe the budget process as “convenient and easy” 57 percent more often than their peers.

World-Class companies support the planning process with fewer technology systems, reaping the benefits of reduced system complexity, while leveraging those systems to provide timely and relevant information access to decision makers.

CHARACTERISTICS OF WORLD-CLASS PERFORMERS

World-Class performers adopt specific best practices to out-perform their peers. For example:

- Using fully integrated strategic planning, operations planning, and budgeting processes: World-Class link strategies to budgets via integrated processes 124 percent more often than their peers
- Minimizing unnecessary detail: World-Class have 36 percent fewer line items in the budget than their peers.

World-Class performers also stress collaboration, with fully integrated planning processes that link strategy and budgets and provide a collaboration framework. They demonstrate a diligent integration of operational and financial planning processes. Performance measures are aligned with strategic objectives and balanced between financial, operational, leading, and lagging metrics.

LOOKING AHEAD

The Hackett Group has identified several key trends that will drive World-Class performance in the future. Among them:

- “Collaboration” will become the watchword.
- World-Class performers will continue to de-emphasize the traditional budget in favor of driver-based rolling forecasts.
- Increased focus on more dynamic planning processes that allow organizations to anticipate and adapt when events happen rather than waiting for the roll of the calendar.
- Technology advances will bring tantalizingly close the possibility for real-time decision support.

ABOUT THE AUTHOR

Richard Roth is Chief Research Officer and executive team member of The Hackett Group, a business process advisory firm and world leader in best practice research, benchmarking and advisory services that empower executives to achieve World-Class enterprise performance. With extensive experience in benchmarking and best practices, he is responsible for the quality of the firm's analysis and published research, and for architecting its benchmarking methodology. He is also an advisor to the Cognos Innovation Center for Performance Management.™

Richard has over 20 years of experience working with executives to achieve World-Class performance in all areas of SG&A, including finance, information technology, human resources and procurement. He has employed his expertise to guide executives at a wide range of companies, including GE, Hewlett-Packard, Cisco Systems and Citigroup.

ABOUT THE COGNOS INNOVATION CENTER FOR PERFORMANCE MANAGEMENT

The Cognos Innovation Center is dedicated to transforming routine performance management practices into "next practices" that help cut costs, minimize risk, streamline processes, boost productivity, enable rapid response to opportunity, and increase management visibility.

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