IBM WHITE GLOVE EVENTS

Moderator: Tim O'Brien
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Tim O'Brien: Hello everyone, and welcome to this installment of the Best Practices in Action Webcast Series brought to you by the IBM Cognos Innovation Center. Today we're featuring Jeremy Hope on maximizing performance management in turbulent times.

We're excited to have Jeremy with us today to present to you all. Jeremy is the cofounder of the beyond budgeting roundtable. He's the author of a number of articles and books on performance management and associated leadership issues.

His article "Beyond Budgeting" with colleague Robin Fraser won the prestigious IFAC award for best management accounting article of 1998. He is currently research director of the Beyond Budgeting Roundtable, an organization dedicated to helping firms improve or improve their performance management processes, very excited to have him along.

Before I turn the microphone over to Jeremy, I just wanted to spend a minute or two talking to you all about what's going on in the IBM Cognos Innovation Center, who we are, what we do, and how you can leverage our assets as well as a little bit around this business practice called business analytics.

So the IBM Cognos Innovation Center is a membership community. We're a global community of over 6,000 customers that participate in this community via Webcast, via live events, via customer advisory board meetings and user groups that we run literally around the globe.

We also partner with third party thought leaders who deliver content that's best practices, research studies, survey feedback, benchmark information, feed this content back into our global customer community through articles that they author, through Webcasts that they hope like – host like Jeremy's doing today, as well as presenting at live events directly to our Innovation Center membership.

And all of this work produces some great benefits that our membership community can leverage. And that is such as this Webcast you're listening to right now, as well as these live workshops that we deliver around strategy management and score carding, around planning, budgeting and forecasting, best practices, around working capital management and a number of other topics for the live workshops.

And we also host a number of other Webcasts on a monthly basis that we make available to our membership. We've got customer success podcasts, thought leadership articles. We've got an online community. We've got the financial performance management customer advisory board and other customer benchmarking tools that you all can leverage at no cost.

And one way to stay current with the Innovation Center, as you can see there's a lot going on, is to access our IBM Cognos Innovation Center widget. And essentially, it delivers to you, on demand, all of these Webcasts and when they're taking place and the content that's contained within them as well as information on the white papers, our online community, our linked-in group, a lot of other stuff, our Twitter account that you can access right off of our Web site

And we'll make sure that you get that information coming out of this Webcast, but for now it's ibm.com, www.ibm.com/cognos/innovation-center. And you'll find the widget right there on that main page.

I'm your presenter today, happy to be your host. I lead the customer Relations and Marketing Team for the Innovation Center and I just told you about Jeremy Hope, who we're excited to bring to you today.

In regards now to business analytics, we all know the world's getting smarter, it's riskier, the speed of business, that velocity of business, is extraordinarily fast these days. And based on our community feedback around the globe what we're hearing is that there is this new normal and the new economic environment that's out there.

And we're seeing our community focusing around three areas and that's focusing on value, exploiting opportunities and acting with speed. And in these workshops, we get into this detail here and how organizations are successfully able to accomplish these things.

And we're also talking about what people are doing today, so you'll hear from other people within the workshops and how successful they are in these areas. And we offer up tips and advice on how to get those processes started so you're ready to exploit those opportunities, act with speed and certainly focus on value.

And one of the things we're seeing that makes it so critical to have performance management solutions in place through an integrated platform is that through a Brookings Institute study going back to 1982 through to 2006 if you look at the S&P 500, the market value of those companies in 2006, it went all the way to a 90 to 10 ratio.

That is that 90 percent of the market value of those S&P 500 companies was based off of their intangible assets and that's customer relationships, that's innovation, that's new products, that's all around the areas that your human capital can influence in your business.

And as a result, getting those employees, your human capital within your organization, getting the right information to them at the right time so that they can make the right decisions based off of reliable, timely and accurate information has never been more critical.

And one way to accomplish this is through business analytic solutions. And when I talk about this, there's really four areas of business analytics that's worth mentioning and that is business intelligence, financial performance and strategy management, advanced analytics including predictive and analytics application.

And let me just tell you real quickly, business intelligence, what we mean by that is query reporting analysis, scorecards and dashboards to enable decision makers across the organization to easily find, analyze and share the information they need to improve decision making.

And when we talk about advanced analytics, we're talking about data mining, predictive modeling, what-if simulations, statistics and text analytics to identify meaningful patterns and correlations and data sets to predict future events and assess the attractiveness of various courses of action.

And thirdly, financial performance and strategy management, we're talking about budgeting and planning, financial consolidation, score carding and strategy management, financial analytics and related reporting capabilities to help simplify structure and automate dynamic and sustainable financial performance and strategy management practices.

And lastly, analytic applications and we're talking about applications that (pack) business analytic capabilities, data models, process workflows and reports to address a particular domain or business problem, for example, customer workforce, supply chain and financial performance management.

And IBM helps our clients optimize business performance through actionable insights for decision makers, consistent, accurate and trusted information and rich industry solutions, proven practices and professional services.

And just really looking at business analytics in a different way, it's really answering three questions that decision makers ask. And that is, what's happening in the business? How are we doing?

And that can be accomplished through scorecards and dashboards, reports and real-time monitoring for immediate insights to business performance. And the next question is, well why? I want to be able to go to that next level and I want be able to drill through, through those measuring and monitoring tools, say a dashboard, a scorecard.

I want to drill through from that number so I'm dealing with the same source of data for ad hoc querying, trend and statistical analysis and content analytics for deeper analysis of trends and patterns.

And then lastly, I want to be able to answer the question of what is likely to happen? What should we be doing? What's the next step based on these insights we've gleaned from answering those first two questions? And that through what-if analysis, predictive modeling and planning and budgeting to provide foresight to plan and allocate your resources.

So that's an encapsulation of what the Innovation Center is, what's going on that we're – what kind of content are we perusing for our global customer community that we want you all to leverage as well and then a bit about what business analytics is.

So hopefully that gave you a little context. And now, I think it's a perfect opportunity to pass the microphone over to our featured presenter today, Jeremy Hope. Jeremy, you have the floor.

Jeremy Hope: Thanks, Tim. And a big welcome from me to this Webcast on how performance management can help you navigate through turbulent times.

The aim of the Webcast is to support the launch of five new papers that you can download by registering with the IBM Cognos Innovation Center. Tim gave you the reference a few minutes ago.

So let's kickoff there's little doubt that we have recently experienced the worst economic crisis since the 1930s. Trillions of dollars have been wiped off corporate balance sheets and in 2009 alone, world trade fell by 12 percent.

Governments around the world have been forced to act to avoid a financial meltdown. To survive, many organizations have had to take drastic action including huge capacity reductions and mass redundancies.

Everyone is asking the same questions. How did it happen? Who is to blame? Why didn't we see it coming? Or most importantly, what can we do to improve performance and start growing again.

While most commentators have blamed inept regulators, egotistical executives, selfish salespeople, or short selling hedge funds, many business leaders have pointed their fingers at inadequate performance management systems.

Typical questions include, why didn't we have fast, frequent and relevant information that would have enabled us to respond more quickly and effectively? Why didn't we see and act on the leading indicators and forecasts that would have provided more visibility and enabled us to take the right strategic decisions?

Why didn't we know which product lines and business segments were creating value and which weren't so we could better allocate our resources and manage risk. And why didn't we know how to identify and eliminate those bad costs that add no value for the customer?

Answering these questions with high quality information would certainly have helped leaders to better navigate their way through recent turbulent times. But implementing necessary management tools and information systems is not straightforward.

Many organizations have spent fortunes on these tools with in most cases little sustained success. While tools such as balance scorecards, KPI dashboards, activity based costing systems and rolling financial forecasts are high on the solutions agenda of many leaders. It is how they are implemented and how the whole system works together that determines success or failure.

The trouble is that many of these tools have been used to tighten the coils of central control rather than to empower frontline teams. These teams complain that more than 30 to 40 percent of their time is spent on annual budgeting, irrelevant reports, burdensome administration and unnecessary meetings. The result is that opportunities for performance improvement have been lost.

Now I'm not saying that these tools are worthless, far from it. Rather that their potential value has been neutralized by poor implementation. Instead of adding to the top down control system, we should be using these tools to empower local teams.

To enable front line teams to respond more rapidly to unpredictable events, leaders need to divulge more planning, forecasting and decision making to them. Support them with fast frequent relevant metrics and open up the information system so that everyone can see what's happening. Frontline teams need to feel part of the problem and part of the solution.

In some cases, more compliance of control might be necessary to meet regulatory requirements but it is not the answer. The trouble is that our organizations are increasingly expensive to run, slow to react and hard to change. And the problems are getting worse.

Over recent years, the management controlled bureaucracy has expanded in scale and cost as increasing numbers of standard setters, compliance officers, risk managers, performance controllers, internal consultants, quality inspectors, customer relationship managers and many other back office management roles have proliferated. And most of these roles have come not only with new tools but also with extensive training courses and time-consuming reports.

The level of cost that add no value for the customer can be astonishing. While they vary with each particular study, rarely have figures of less than 20 to 30 percent quoted. Clearly implementing more internal controls and external regulations have not prevented the current crisis. In fact, they could have made it worse by focusing managers on following the plan and explaining variances rather than looking at the road ahead and taking the right actions.

Applying more of the same thinking will not help organizations to survive and grow, they need to look for more innovative solutions. More visionary leaders are looking at their organizations, information systems, tools and controls in a different light.

They believe the future lies in a more adaptive organization. The first step is to turn the traditional vertically shaped higher hierarchy on its side so the organization faces the customer. This new horizontal shape helps leaders to see more clearly where accountability should lie and how the information and reporting systems should flow.

While leaders should aim to transfer accountability to as many teams as possible, these changes are not so much about restructuring the business, as changing the nature of relationships. Instead of the organization comprising of many units in a multi-layered hierarchy, the key change is that each unit is a link in a horizontal supplier customer value chain that continuously connects and combines to deliver solutions to the paying customer.

Some leaders struggle with the idea that many small teams can actually cost less than a few large units. While (economizers) are scared to look deductive on spreadsheets creating many small teams leads to a more flexible and innovative organization.

That with more accountability and transparency and less top down management control actually consumes fewer costs. This more than anything else explains why organizations such as Southwest Airlines and Swedish bank, Handelsbanken, continue to have lower cost than their competitors.

In this emerging organization, each team responds to the needs of the customer, whether internal or external and to prevailing demand for products and services. Though each team spends much time planning how to improve, it is not a slave to the plan. As demand changes, they change what they do. The key words that describe this organization are clarity, simplicity, freedom, accountability and transparency.

Now changing the shape of the organization and rethinking accountabilities is of course beyond the powers of the CFO but the CFO can certainly influence this change by spelling out the cost saving benefits up to 40 percent of total costs I would suggest and pointing to more comprehensive controls.

In most organizations there are only three kinds of teams excluding temporary ones such as project teams. How you change the roles and responsibilities of these teams and provide the right information are the keys to a successful implementation.

Let's start with the executive team. The executive team is a single level suite responsible for setting a compelling purpose and vision, inviolate values, aspirational goals and clear strategic direction as well as challenging all other teams to maximize their performance. It also acts more like a venture capital provider than a central banker, always prioritizing resources to the best current opportunities and managing portfolio risk and reward.

An effective executive team is always aware that the organization is a system within which everything is connected to everything else. So ensuring that these connections are natural and smooth is critical. The aim is to satisfy customer needs with the highest quality products and services at the lowest cost.

The value center team is responsible for formulating and executing strategy and is accountable for both improving customer outcomes and improving its performance against its peers. These teams are typically created around lines of business, brands and product groups and customer segments such as regions and countries.

Value centers act as standalone businesses and invariably have their own profit and loss accounts. They are accountable for satisfying customer needs and for achieving consistently high performance standards compared with their peers.

The aim is to create as many value center teams as possible by continuously subdividing them and adding new ventures. They should be based around a clear market niche and have a distinctive customer value proposition and as they don't need much central control, their central support costs should gradually reduce over time. But they do need to be challenged and supported.

This model is not a soft option if it's to inspire to perform consistently than either the team will be changed or the value center terminated. Support services teams are responsible for serving and supporting value centers.

Examples include, design, production, supply chain, strategy finance, human resources, marketing, legal, risk and information technology.

In large organizations, the work of these teams is increasingly centralized and often moved to shared services centers and in some cases outsourced to third party providers. That role is two-fold, the first is the efficiency role that is to manage routine transactions at the highest quality and lowest cost.

The other is the effectiveness role that is to act as a business or strategic partner to the value center team. In this role, they aim to provide performance insights on such topics as benchmarks, KPIs and cost drivers.

The emerging organizational form makes the deployment of many management tools and information systems more clear and compelling. As one user noted, tools such as the balance scorecard are turbo charged. Also, the new model is the clearer representation of the organization as a system and enables leaders to embrace systems or lean thinking.

There is more clarity around how work flows, should be organized and which processes and activities add value for the customer and which should be eliminated. All of the core ideas behind lean thinking, the strategy focused organization, customer relationship management and economic value added start to coalesce around horizontal accountability flows.

At the same time technology vendors have developed enterprise wide Web based performance management systems variously known as CPM, short for corporate performance management and BI short for business intelligence.

CPM involves the integration of planning, forecasting, score carding and business intelligence including financial reports and (then) consolidation. It uses a common database and the ability to display the database on a scorecard or dashboard interface.

In a sense, CPM is to performance data what enterprise resource planning, the RP systems, are to transactional data. That is a broad embrace of all relevant information. Fully integrated and thus providing a single view.

The whole point of a Web based CPM system is to empower people by enabling them to access whatever information they think will be useful. Everyone is on the same page at the same time. The result, if while implemented and it's a big if, is more coherent, effective and responsible decision-making.

Another major development supporting the emerging adaptive organization is the power speed and connectivity of Web 2.0. If Web 1.0 was about the Web as an information source, then Web 2.0 is about the Web as a platform for participation and connectivity that includes such social networking sites as wikis and blogs that aim to facilitate creativity, collaboration and sharing among users.

The emergence of Web 2.0 provides a framework for harnessing the ideas of thousands of people who can now interact and coordinate their actions in real time across large, complex organizations.

Web 2.0 is a dynamic peer-to-peer network with everyone potentially connected to everyone else. Everyone has a voice it is the ultimate democracy. Like Web 2.0, the new management model will be radically decentralized with many more decisions being taken at the periphery rather than at the center.

It will be much easier to change them before the problems of disparate information systems and disconnected controls are receding. Controls can be at the front line and at the corporate center at the same time and power teams that can respond rapidly to change can be deployed without the side effects of poor coordination and lack of control.

Knowledge can be shared instantly. The glue that holds this model together will not be centralized authority and enterprise wide budgets but a shared vision of what the organization stands for and where it is going together with clear, horizontal lines of accountability and open transparent information systems.

Resources will be more easily accessible and teams will be encouraged to experiment with new solutions, processes and business models. And rewards will be shared fairly across all teams and their members. (Transparent) information systems, in my view, are likely to become the most effective management control system available to any organization in the future.

Gary Hamel is acknowledged to be one of the greatest thinkers about management today. In his latest book, "The Future of Management" he lists a number of principles that will define what he calls, Management 2.0 and they correspond almost exactly with the type of organization I am describing.

Clear horizontal lines of accountability and open transparent information enable leaders to implement fast, relevant management information systems that provide real performance insights. But these insights are not readily found within the traditional accounting system.

Like a knowledge iceberg, only one-tenth is above the surface and nine-tenths below.
The trouble is that most organizations manage only with the one-tenth they can easily see and this is based primarily on accounting transactions.

Managers need to look deeper at the business analytics that lie below the surface which cost set value, which segments are worthwhile, which customers are profitable? What are the key risks? Answering these and many other similar questions will provide the insights that will help you to navigate through the turbulent times ahead.

To transform performance management and empower teams to respond rapidly each team needs to know where they are today. They need to know where they're going in the near term, know where value is created and destroyed and know how to cut costs without cutting value.

These are the titles of the four papers that are now being made available on the IBM Cognos Innovation Center Web site. There is also an introductory paper to the series. I will now summarize the contents of these four papers.

Following the introductory paper, the second paper is entitled, "Know Where You are Today." Every organization is increasingly vulnerable to short-term twists and turns and thus needs to manage its cash and profitability more effectively. But most information flows around the business at a glacial pace.

In the new model, information is fast, open and transparent. But to ensure information is shared leaders need to provide a common IT platform that enables all managers to see the same information at the same time and gain rapid insights into what's happening right now.

A few (old shows) and key performance indicators should be available at every level and act like a radar screen to enable managers to avoid threats and seize opportunities. The speed and quality of information is a key feature of the new control system. Here are some of the guidelines. First, encourage every team to design KPI dashboards that they can monitor daily or weekly.

Ensure that teams have the authority to act on any early warning indicators on the dashboard. The role of finance is to help and guide managers to make the best choices and to challenge them to maintain only a small number of them.

Second, derive measures from purpose or strategy. Agreeing what success looks like for each team leads to the selection of the right KPIs, that in turn, tell managers what action, if any, to take.

Thirdly, keep reported KPIs to a small number, probably around three to five, but provide lower level KPIs to help managers to learn and improve and take the right action if the (trend line) changes. And fourth, empower teams to act on the KPIs. It is pointless to implement the necessary enterprise wide information systems and KPIs, if local teams cannot act upon them.

The third paper is entitled, "Know Where You're Going in the Near Term." Not only do most organizations suffer from slow information, often lacking relevance, but they also have little visibility into the near term future, that is three to 18 months ahead.

Needless to say, this is a critical handicap in turbulent times. While most do budget revisions quarterly, they only look toward the fiscal year end and this process is often blighted by some managers who manipulate the numbers to protect senior people from bad news.

The problem is that there are no rolling plans or forecasts that enable managers to continuously see ahead and take the right decisions. Rolling forecasts are a key control and decision support process in the new performance management system. They inform leaders about future cash flows and capacity needs and they give them extra time to deal with changes and customer demand.

Here are some guidelines. First, place continuous planning and rolling forecasts at the core of the management system. Value center teams should have the freedom and capability to take action to improve their performance at any time. Ensure that executive and support services teams know that their role is to challenge and support rather than command and control.

It is the aggregate of value center forecasts that should equal the consolidated forecast for the whole organization. The finance role is to support this process. Secondly, design reports that show performance trends, for a range of KPIs, that enable leaders to ask the right performance questions.

Thirdly, avoid turning forecasts into contracts or commitments. Ensure that forecasts are separated from target setting, performance measurements and rewards, otherwise, don't be surprised if every forecast miraculously meets the target.

Fourthly, ensure that forecasts are light touch and take no longer than a few days to compile. Identify (un-based) forecasts on no more than 10 to 20 key value and cost drivers and build driver based models for each forecast line. The fourth paper is entitled, "Know Where Value is Created and Destroyed."

Many business segments, such as product lines and customer segments are poor performers. But the drain on profitability and cash flow is often hidden within more aggregated accounting numbers. In a management structure with many more accountable value centers, it becomes clear which teams are creating value and which are not.

The executive team's role is to terminate poorly performing businesses and place these resources into new value centers. In this way, profitability and cash flows can be transformed. Here again are some guidelines.

First, reorganize the accounting at the information system so that value-center teams have fast access to full profit and loss information as well as key operational indicators. Second, design a standard investment approvals process using balanced and weighted approvals criteria, including for example strategic impact, risk assessment, net present value, cost timeframe and sustainability impact.

And thirdly, design and implement an integrated portfolio management system that is one database that enables the executive team to continuously examine risk and reward, both at the individual project and at the portfolio levels and actively manage the portfolio.

The fifth and final paper is entitled, "Know How to Cut Costs Without Cutting Value." It is reckoned that up to 40 percent of costs have no value for the customer, but traditional accounting systems can't readily identify them.

In the new model, there's a sharp focus on eliminating waste by improving processes rather than managing budgets. All managers are looking to improve speed and quality and cut out unnecessary work.

And they are continuously aligning capacity with changing demand rolling forecast help to anticipate changes in demand. It is important to note that resources are pulled through the system by customer orders, rather than pushed by the plan. Here are some more guidelines.

First, split operating cost into core and discretionary and make teams bid for discretionary spending. Don't allocate it. Secondly, take an ax to the number of cost centers and budget lines. Keep the detail local. Only report and manage at a higher level.

Thirdly, eradicate budget negotiations and sandbagging. Drive cost down to a benchmarking and peer pressure. Fourthly, manage cost drivers rather than cost budgets. Identify key cost drivers and work out a plan for reducing transaction volumes and eliminating activities and transactions caused by system failures or errors.

As the quality, grandmaster Edwards Deming once said, around 95 percent of problems are in the system and only 5 percent are concerned with people. Yet, most managers in our organizations today spend their time trying to get people to stretch their performance by working longer hours or trying harder.

Swedish Bank, Handelsbanken is a great example of everything I've been talking about. It consistently has the lowest cost of any bank in Europe, with a cost-to-income ratio of around 40 to 45 percent. And it sailed through the credit crunch, continuing to grow profits and attract customers, while other banks with traditional (command of control) management models were going cap in hand to the government.

Around 600 branches have profit loss accountability and are compared with each other on two metrics customer-income ratio and profit per employee. These relentless comparisons drive continuous improvement. There's no need for annual targets and detailed budgets that waste so much time and cause so many behavioral problems.

Information is open and transparent. Everyone can see the performance of everyone else. Only 300 people at the head office support 10,000 employees in the regions and branches. Branches run their own business and can make decisions on lending, staffing, salaries and improvement initiatives.

Fast local decisions lead to satisfied staff and loyal customers. Since intro in the U.K. market in the early 2000s, Handelsbanken now has around 60 branches and is number one in all the independent customer satisfaction charts.

The expensive management-controlled bureaucracy was dismantled in the 1970s and this has enabled the bank to operate with low costs and high profits ever since. The formula is simple. Its systems are clear, simple and transparent. Its people have the freedom and capability to make decisions and are accountable for their results.

In the emerging organization, the aim is to give managers more time and freedom to make decisions based on the latest information. Finance managers are partners in this process always on hand to provide the essential performance insights that turn those decisions from average to excellent. But to break free from generally accepted practices and systems takes belief and courage.

The clear message sent to managers throughout the organization is one that says that the CFO and the finance team are reducing the non-value-adding work that frustrates our managers and slows down decision-making. And they are raising their game and building their capability and credibility, as analysts and advisors. The potential impact on the whole organization is huge.

There are many more ways to get changes like these wrong than to get them right. Too many organizations act before thinking. That's the wrong way around. Managers need to work on the system rather than inside it.

The problems are systemic. They are not about fine-tuning the parts of the performance management engine. Just implementing a rolling forecast, or a balanced scorecard is only a part of the solution. To be successful, it has to be holistic and coherent. Everything from process to culture has to fit together.

Another piece of advice is not to rely on anecdotal evidence. The best way to learn is from others. You can join groups such as the IBM Cognos Innovation Center and the Beyond Budgeting Roundtable who regularly share their knowledge of what works and what doesn't.

You can go to our Web site, www.bbrt.org and take a free diagnostic and learn how to join the movement. The BBRT is growing rapidly, both in North America and in other parts of the world. So that's it for me. Thank you for your time and thank you for listening.

Operator: This concludes today's presentation. You may now disconnect.

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