Be Not Afraid of Greatness

For years organizations have struggled for greatness, to be the best. Balanced Scorecard, Focused Financials, Simplification, Integrated Performance Management, Financial Performance Management, Key Performance Indicators, Key Risk Indicators, Key Compliance Indicators, Corporate Performance Management, Business Performance Management, and Operations Performance Management are all approaches used to help achieve this. Search the Internet for Balanced Scorecard and you’ll get thousands of hits. Performance Management gets millions. So many terms and so much written on different aspects of a relatively simple concept — planning the work and measuring whether or not you did it.

Simple? Maybe. Because the planning and measuring isn’t really the objective. The objective is to change the way people behave to produce better results for your organization. As soon as that becomes the objective, the world gets complex. First you need a strategy. That can become complex in itself. But, it isn’t enough to want to be the biggest, most efficient, most profitable or greenest. Now you have to understand how those goals are impacted by an increasingly complex set of rules and regulations.

Something wicked this way comes

Transport a CEO from 2000 to 2008 and she would be lost in a bewildering new world. In addition to dealing with the regulations of Sarbanes-Oxley, there are new trade restrictions following 9/11, an increasingly global flow of goods and services requiring licenses and documentation, environmental regulations, cap and trade systems, complex and shifting tax regimes, business models with names like ‘commissionaire’, and a host of new reporting requirements such as International Financial Reporting Standards (IFRS). Even the dollar isn’t the reliable companion that it once was. Adapting your strategy to first comply and then take advantage of this environment requires constant vigilance and monitoring.

Once you have a winning strategy, then you need to plan how to allocate your scarce resources to execute it. You need to look at how the business performed against past plans and budgets. Then look forward under different scenarios and select an aggressive but achievable target. Only when the high-level goals are set can they be driven down to the lower levels in the business.

To be effective, your rewards system must then be tied to your goals. All too often leaders tell us that their employees are rewarded for performance. But these rewards are usually tied to the budget and plan for the organization as a whole. Or worse, leaders give the employees a few shares or there is an employee share purchase plan, and the leaders assume that the employees know exactly what aspects of their daily roles will increase the share price.

An effective rewards system must be balanced and tied to employee values as well as their activities. Measures should be different for different levels and roles, rewarded throughout the annual cycle, and be measurable and planned so that they roll up to the overall goals of the business. In a truly integrated business, they should also be extended to other stakeholders, influencing suppliers and customers as well.

Lastly, all of this needs to be measured, tracked, consolidated, fed back and acted upon.

Uneasy lies the head that wears a crown

In 2008, our CEO finds herself trapped. Her vision has not been realized; not because there is a lack of will or understanding, but because the information needed to execute it has not been available in one place at one time. Each of the activities to accomplish her vision requires information across the business. While ERP gave her the ability to capture and track transactional data, much of the information needed isn’t transactional.

While software vendors and integrators had rushed to build tools to bridge the information gaps, no one had taken a business-wide perspective to address performance. Software vendors had tried to build the best planning and budgeting solution without knowing how to cascade the plans down through the business and into the underlying transactional systems. Compliance, tax and trade systems had become a universe of bolt-ons — one-off solutions to one-off regulations.
In a twist of irony, risks to the corporation were tracked in spreadsheets on someone’s hard drive. Employee rewards and business performance were vaguely linked through annual reviews, often totally disconnected. And business results were primarily measured financially and transactionally. Improving the business became a tantalizing but unreachable goal. The promise of one more database, one more reporting tool, one more piece of middleware proved false. What was needed was a fundamental reassessment of the problem, and a solution to match.

O brave new world, that hath such people in it?
SAP’s expansion of the GRC suite from mere controls to include trade, risk management and environmental solutions started a trend. If we could integrate strategic acquisitions with strong in-house capabilities, it would be possible to create a full compliance suite, integrated through NetWeaver and the Service Oriented Architecture. If this could be fully integrated, not stuck onto, an enterprise’s core systems then what else could be?

The answer is a Performance Management and Analytics suite that provides tools to help you improve your business. It brings together the transactional controls and reporting capabilities of the new GL with budgeting, planning, consolidation, balanced scorecard, dashboard and analytical tools. By bringing these together, SAP’s new Performance Optimization Applications suite provides companies the opportunity to improve their business practices.

Beware the Ides of March
But implementing the technology is not the answer in itself. You have to think through the compliance, performance and human capital challenges that your business faces. As you improve your business, you have to evaluate the business problems and your objectives.

Deloitte has been working closely with SAP to develop specific business scenarios to help companies in their efforts to answer some tough questions like:

• What should my employee rewards program look like?
• How do I integrate my business strategy with risk management?
• Which metrics should cascade down through my business?
• How should I perform planning and budgeting?
• How do I expand into global trade?
• How can I improve my global tax position?

All the world’s a stage, and all the men and women only players
The first step in answering these questions is to understand where you are today. This seems obvious, but the needs and expectations of each function in your business may have changed in the last 8 years.

Take, for example, the role of the CFO: In 2000, it was simple to define:

• Close the books
• Manage the money
• Run some numbers for a major acquisition, disposal or initiative
• Participate in analyst calls
• Repeat until year end
• Start again

Now the role of the CFO can be viewed as four distinct sets of responsibilities and capabilities:

As a Steward the CFO is concerned with preserving the organization’s assets, managing the corporate risk portfolio and ensuring compliance with all applicable statutes and regulations.

The Operator is concerned with managing the Finance organization. As an operator the CFO is concerned with day-to-day finance activities and the trade-off between cost and service that all executives face.

The Strategist is responsible for supporting the strategic decision-making for the company and acting as a direct support to the CEO in her day-to-day activities.

Finally, as a Catalyst the CFO is responsible for gaining business alignment and changing organizational behavior to support the business strategy.

The new CFO role is far more complex than that of the past, and the organization needed to support it has become more diverse. This means that it is very difficult to tell how well the finance function is performing. Where before simple metrics of how long it took to close the books and how much it cost to do it would suffice, now finance needs to be measured on multiple dimensions.

Modest doubt is called the beacon of the wise
Consultants and advisors love to talk about best practices. The trouble is that they don’t always apply. A stand-alone best practice may be a good idea for one organization or industry, but be anathema to another. Figuring out where you are in this complex environment requires a more nuanced approach.
For each factor we have developed a series of capabilities and measures to help an organization to determine whether it is performing at a threshold level, on the leading-edge, or somewhere in between. While enablers can help deliver value, we recognize that there are other ways to achieve leading-edge performance. You cannot look simply at reporting or process; you also have to consider policy maturity, risk and governance, tax, and controls to truly understand whether you are on the leading-edge.

Once mapped, you can start to see a picture of where you are on the maturity model, and it should become clear what areas you could focus on to improve. And we stress ‘could’. It takes a practical, experienced assessment of where you want to be to decide where to focus your investments and efforts.

At this point it should be easy, just pick the right product and implement it, but the choices are staggering. In the rush to implement, many lose track of the problem they were trying to solve in the first place.
As the bard would say, ‘Ay, there’s the rub’. You have to keep the problem front-of-mind before you implement, taking a business, and not a product, view.

To simplify this process, Deloitte and SAP have been working closely together to define some integrated service offerings centered on ‘troubled processes’ – complex cross-functional activities that are not addressed by the core ERP and BI products. Each offering addresses a specific business concern with a preconfigured solution drawing on functionality in the core product suite (see side bar listing) and the following new SAP Performance Optimization Applications.

**Exit, followed by a bear**

So what next? We believe technology has finally caught up with the business objective of improving the performance of the business, and SAP has the capability to support this. But at the same time, over the last 8 years, the traditional roles within a business, and in particular within Finance, have changed in a complex way. To set strategy, manage risk, identify measures, define rewards and execute requires deep business insight and understanding. Moreover, it requires a clear vision of what you want to do, not what you could do, before you start to implement. Otherwise you could find yourself being overtaken by something nasty, just as you look to the future.