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Integrated Performance Management

How is it aligned with shareholder value?

White paper, Business Consulting

Introduction

In order to enhance shareholder value and align employees’ efforts with this overarching objective, businesses have been introducing and implementing various performance management tools and techniques: strategy implementation dashboards, balanced scorecards, planning and budgeting methodologies, management reporting dashboards, product and service costing methodologies amongst others. When these tools are implemented in a fragmented manner without a cohesive approach and strong integration across the organization (strategy, people, processes and systems), they do not create a strong link between employees’ performance and shareholder’s wealth, nor do they lead to transparency throughout the organization.

The implementation of these tools are costly and if they do not lead to the desired alignment, the capital invested can be futile, which often requires additional funds for the integration. The pathway of successful companies indicates that when there is a clear strategy to effectively integrate performance management tools across the organizational elements of strategy, people, processes and systems, an enhanced alignment is achieved between shareholder’s interest and employees’ actions. Alongside this, the integration of different tools leads to cost savings and implementation of cost-efficient solutions. With a plummet in oil prices, the impending introduction of taxation in the region, reduction in the liquidity of banks, recent slowdown in the business activity, spending smart and being cost-aware can be key to remain competitive in the market. This white paper sets out to outline:

(i) the principles of integrated performance management as a tool to integrate (a) the strategic planning, business planning and budgeting; (b) financial management and reporting, (c) organizational alignment and accountability;

(ii) the hitches businesses get into while fragmentarily implementing various performance management tools, thus adding more costs and impacting their current competitiveness;

(iii) and it concludes by setting out to aim for clear advantages and benefits of building an integrated performance management framework to achieve synchronised alignment of employees’ efforts with overall shareholder’s wealth.

Integrated Performance Management

Principles of Integrated Performance Management

Integrated Performance Management (IPM) is a leading method to helping companies develop a coherent, integrated approach to financial analytics to drive shareholder value. IPM provides the basis for executives to align their corporate strategy with people's behaviour through operational goals and rewards (refer to figure 1). It introduces a new way to integrate planning with a comprehensive management framework. IPM links the strategic plan to the budget and forecast. Under IPM plans remain relevant and aligned with the changing environment. It requires gaining support and commitment from all functions and key personnel and ties the compensation of employees to budget performance and forecast accuracy. Thereby, creating a link between strategy, budget, forecast and performance management.

The broad steps towards implementing Performance Management include:

• create a long-term strategic plan that includes a common vision, goals and strategic direction;

• translating the strategic plan, to align functions and responsibilities and to communicate effectively across all levels;

• Administrate the budgeting, capital and staffing plans based on targets from the strategic plan.

• Align the strategic thought process with the operational thought process;

• Construct detail and summary feedback on performance, from cost center reports to line-of-business scorecards;

• Perform ongoing forecasting that recalibrates performance expectations based on current trends and market developments;

• Publish organizational, product and customer profitability measurement reports that ideally merge together with a forward-looking plan.

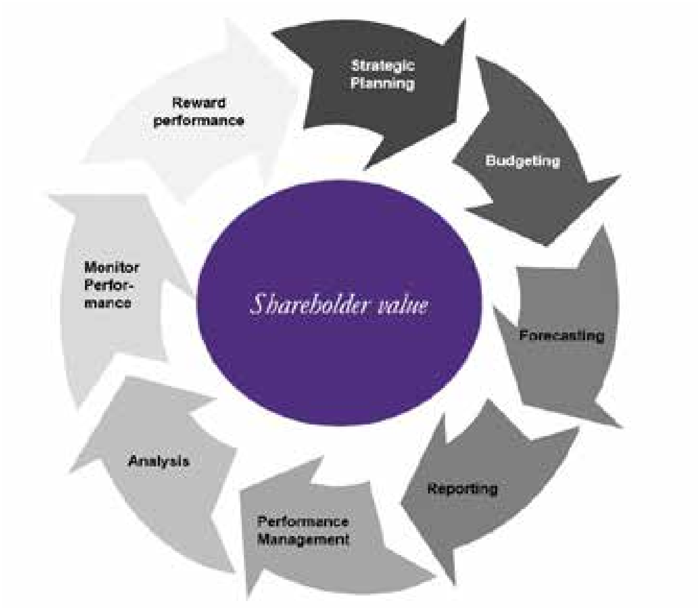

Figure 1

IPM improves the decision-making process for the management by providing integrated frameworks for corporate strategy, resource allocation and planning, performance management, and consolidation. It is the technology discipline that enables companies to translate strategies into plans, monitor execution, and provide insight to improve financial and operational performance. Implemented effectively, IPM enables enterprises to better shape and influence business outcomes, improve decision-making, respond to shifting market dynamics, intelligently allocate and utilize critical resources, and consistently meet shareholder expectations
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Key benefits from the integrated approach derive from the following:

• Visibility: Improved communication and IT integration creates enterprise-wide visibility;
• Flexibility: Faster information collection and analysis results in greater agility;
• Accountability: Systems enable responsible parties to track key performance indicators;
• Focus: Linking strategy to allocation and measurement focuses enterprise on goals;
• Cost savings: Reduction in the number of redundant systems and people required to support the processes;
• Overall process value: Allows management and the organization to focus on more value added activities.

IPM removes the boundaries associated with previous performance management frameworks and provides a holistic approach that addresses the entire spectrum of both operational and management processes in an integrated manner. It is also deemed more than just a performance management approach. At the core of management excellence is integration: integration of processes, integration of organizational functions, and integration of technologies. It identifies, prioritizes and manages the organizational drivers most critical to a successful performance management solution. IPM focuses on ensuring the organization has an over-arching vision with the appropriate structure to deliver the intended results across the organization.

Eminent set-back

Companies often adopt business management and improvement methodologies in fragmented ways. Frequently following a need to set a direction, businesses develop a corporate strategy with their internal resources or with the involvement of a professional consultancy. Once the strategy is in place, the consultants leave and the strategy team is disbanded with limited follow up on the strategic implementation at a later stage. The budgeting, planning and forecasting is done to ensure that the strategic objectives are translated into quarterly and monthly targets and action plans.

Often, planning, budgeting and forecasting is implemented using a standard IT solution, often available in the wider market. Later, planning, budgeting and forecasting is managed by a business planning unit under the CFO's supervision. Individuals involved in the strategic planning do not necessarily play a pivotal role in the planning, budgeting and forecasting cycle. Management reporting dashboards are introduced to keep track of the business indicators, however often, these dashboards are not tied to the implementation of the strategic objectives of the organization.

Another important initiative is to manage the performance of employees with a singular approach. Often a balanced-scorecard methodology is introduced to cascade the strategic objectives to departmental and individual hierarchy.

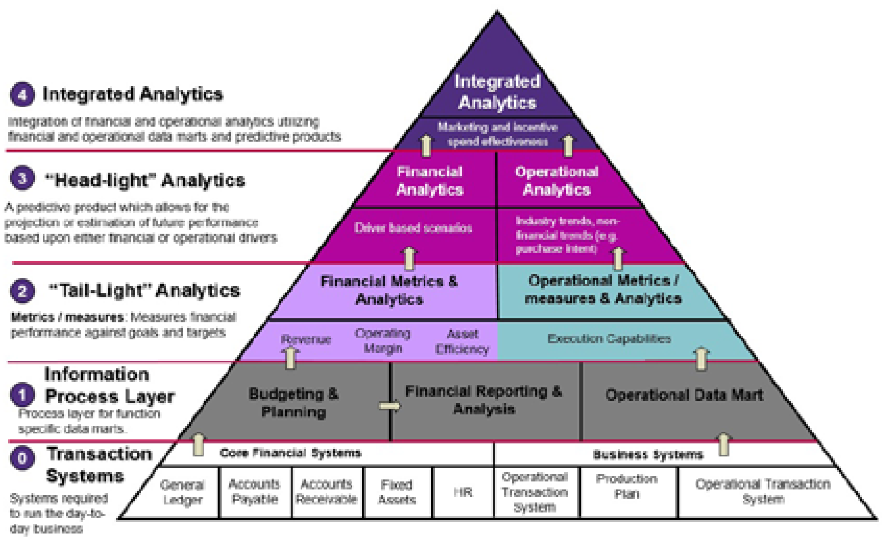

Figure 2

This can also be supported by the introduction of career plans for employees. The initiative can be driven by the HR unit of an organization but again, often the individuals dealing with the strategy development and planning, budgeting and forecasting cycle do not always play a pivotal role in this process. As a result, businesses may fall into a natural trap – disintegrated business management methodologies, which can result in a disconnect at key interfaces, which may erode the shareholder value in an organization (figure 2).

The problem is also aggravated by the implementation of various technologies for business management. Surprisingly, most performance management software vendors can't deliver a truly integrated system. This is often the case because the various Performance Management applications within the system, were either acquired or built by a different set of developers using different programming languages, architectures and data structures. Successful Integrated Performance Management solutions should sustain a common look-and-feel, support common data structures and ensure security across all applications, along with providing a framework for integrated analytics (refer to figure 3).

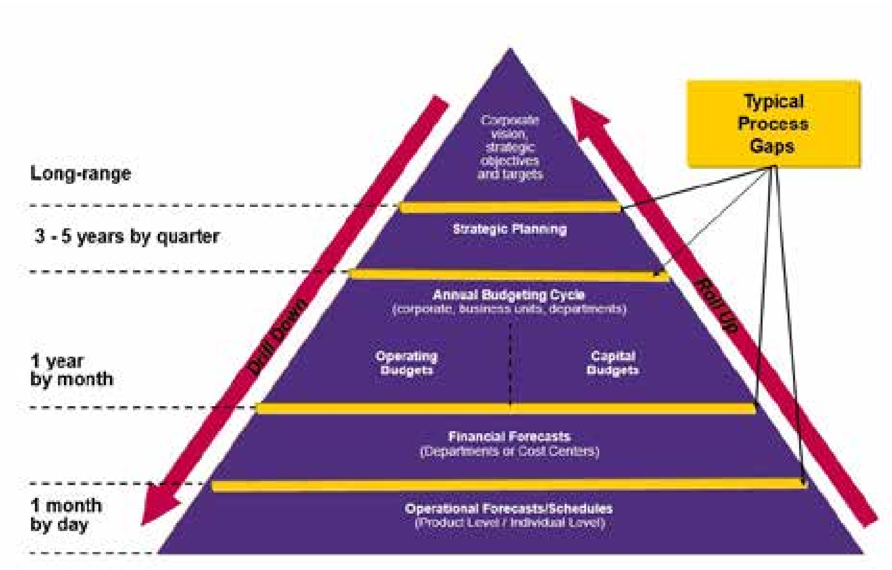

Figure 3

Conclusion

The seamless integration of the distinct but associated functions of strategic planning, budgeting and forecasting, reporting, score carding and profitability measurement can yield remarkable increases in productivity and profitability. Successful implementation of a cohesive approach depends upon: developing a culture of (i) accountability and transparency, (ii) thorough communication of the mission, vision and plan, (iii) involving the right people and championing the concept at a senior level, (iv) architecting the appropriate IS infrastructure, (v) selecting the right technology partner that has the vision and expertise to execute.

With the successful introduction and implementation of integrated performance management tools, strategic plans are strongly integrated with budgets and forecasts. There is support from all functions and the commitment is strong and sustainable. Alongside this, the frameworks for corporate strategy, resource allocation and planning, performance management, and consolidation are strongly integrated. There is an alignment of the strategic thought process with the operational thought process. This shapes and influences business outcomes, improves decision-making, responds to shifting market dynamics, intelligently allocates and utilizes critical resources, and consistently meets shareholder expectations.

No matter how sound the strategy or advanced the technology, solutions that do not prioritize integration often fail to meet expectations. With a plummet in oil prices, overhaul in public finances and impending taxation in the region, reduction in the liquidity of banks and a risk of possible hikes in the interest rate - spending smart and being cost-aware is more so important than ever before. IPM is the tool which will ensure that costs are well-controlled, given any costs are traced with the value they bring along with the need for cash-flows remaining robust – which in turn will ensure investments within the organization will deliver value and that businesses continue to retain and enhance their competitive advantage in the market over the long run.

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Komil is an Associate Director at Grant Thornton UAE and manages the Business Consulting practice. Prior to Grant Thornton, he worked at Deloitte Consulting where he was instrumental in establishing the business consulting offering which further enhanced his technical skills whilst giving him exposure to international markets.

Komil has over ten years of experience within advisory having worked within financial services and later, professional services. He has worked with large conglomerates operating within various sectors within the CIS region and more recently the Middle East. The breath of his experience covers internal controls, risk management, feasiblity studies, enterprise cost reduction, financial modelling, IFRS and IPSAS compliant, processes and procedures development, strategy development and organizational design, performance management and business processes reengeneering, business transformation and sector studies to name a few.

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