Think Ahead

Enterprise Performance Management

An Eye on Performance

A KPMG and ACCA Thought Leadership Report

November 2016

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ABOUT THE RESEARCH

Three surveys were jointly commissioned by ACCA and KPMG to assess how the Enterprise Performance Management (EPM)* capability within the Finance function is providing the business with the appropriate people, processes and technology to:

- Support Planning, Budgeting and Forecasting.
- Deliver effective and efficient Performance Reporting
- Improve business decisions through insightful Profitability and Cost Analysis.

The data used in the reports are from a series of three surveys which were conducted between 17 April 2015 and 26 January 2016, and represents the view of over 2,670 Finance professionals from more than 120 countries. Whilst employees from organisations of all size participated in the survey, over 60 percent were from organisations with over 1,000 employees with annual turnover of at least $100m.

In addition, 31 percent of the respondents identified themselves as a Senior Finance Manager/Manager, 20 percent as newly qualified/experienced Accountant, 11 percent as Financial Controller, 7 percent as Director/Partner, 6 percent as CFO and the remaining 26 percent spread between a range of roles that included CEO, Internal Audit, Treasury Analyst and Consultant.

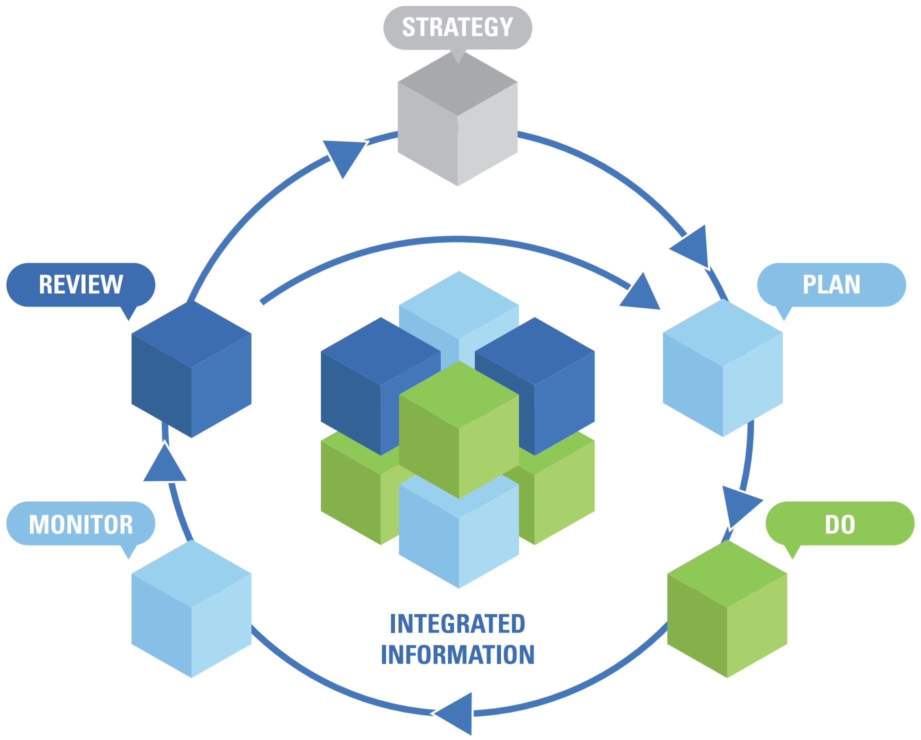
The results of the surveys were carefully reviewed and analysed; common trends were identified and discussed to extract meaningful interpretations. The purpose of this document is to summarise the themes and findings from the three surveys and create a EPM wide point of view.

"THIS REPORT PRESENTS THE VIEW OF OVER 2,600 FINANCE PROFESSIONALS FROM MORE THAN 120 COUNTRIES"

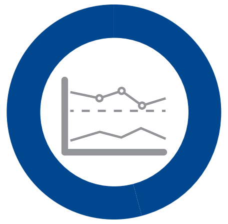
OPTIMAL BUSINESS OPERATION

There is a typically a disconnect between where financial plans are put in place and performance is measured, often against cost and profit centres, and key decisions made in relation to businesses, brands, products, services, customers, channels and processes.

Consequently, many key business issues continue to go unaddressed with the issues affecting stakeholders right across the business, not just finance. Businesses must employ insight, foresight, control and agility to set targets and drive performance and profitability.



*EPM consists of **3 core propositions**; Planning, Budgeting and Forecasting; Performance Reporting; and Profitability and Cost Analysis, all combine to dynamically drive performance improvement of a business and delivery of its strategy.*



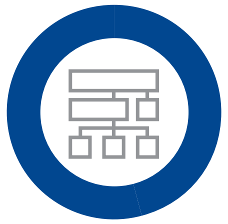
Planning, budgeting and forecasting should serve to support the business in understanding how its on-going activities contribute to delivering its future longer term strategy. It is a method for allocating scarce resources in-line with the strategic intent of the business and for planning actions to help meet its strategic goals in response to changing circumstances.

Performance Reporting supports organisations in converting their data into insightful, relevant and timely management information that is at the kernel of supporting fact-based decision making.

Profitability and Cost Analysis should be developed to enable organisations' efficient and effective analysis of business costs, income and profitability at multiple levels enterprise-wide, rather than by traditional means at profit and cost centre, enabling the business to align its analysis to where strategic decisions are made.

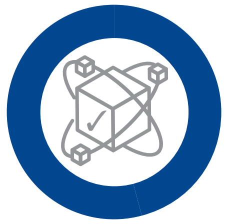
EXECUTIVE SUMMARY

The findings from our three surveys highlighted interesting themes. Organisations are facing challenged across all the areas we reviewed. These included:



Organisation structure – are accountabilities clear for Performance Management? Are reports aligned to this?

Operating model – how can cultural challenges be successfully navigated to bring finance to the heart of decision making? Can Finance attract and retain talent with the right skill and true capability to effectively partner with the business? How can Business Partnering be effectively embedded to engage Finance professionals in supporting strategic and operational insight? Are there opportunities for a Centre of Excellence in this area?



Quality of data – how can organisations tackle big data opportunities while many are still struggling with local data structures and quality issues?

Use of technology – why have organisations failed to realise the return on investment for projects and why do so many continue to rely on spreadsheets as the tool of choice? How can organisations exploit the benefits of the cloud while they are nervous about security?

To effectively tackle these issues a clearly defined Performance Management Framework must be put in place this enables the processes to be clearly defined, integrated and linked to the delivery of value.

The focus needs to be on defined value drivers which are variables or activities that affect the value of a company. These should be a common thread across all processes used to drive accountability for the development and delivery of plans and a key focus area for reporting and analysis.

However, defining and integrating the processes alone is not enough. Organisations in the survey highlighted the need to also focus on critical enablers such as data and technology to truly realise the potential value of Enterprise Performance Management.

PLANNING, BUDGETING AND FORECASTING

Planning, Budgeting and Forecasting (PBF) should serve to support the business in understanding how its on-going activities contribute to delivering its future longer term strategy. It is a method for allocating scarce resources in-line with the strategic intent of the business and for planning actions to help it meet its strategic goals in response to changing circumstances.

Yet in the face of an increasingly challenging business environment, this study suggests current PBF process are flawed, and many enterprises continue to invest significant time in sub-optimal performance management processes which do not meet the strategic or operational needs of the business.

This study suggests there are three critical areas to focus on to improve the current PBF process and better align to a leading practice performance management framework:

1. CREATE THE RIGHT ORGANISATIONAL CULTURE AND WAYS OF WORKING

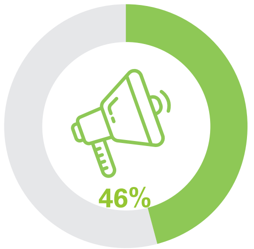
- Ownership must remain within the business, with Finance being a facilitator of the process and one of a number of equally important inputs into it. Traditional performance measures reinforce short-termism in organisations as they are rarely, if ever, aligned to strategic goals.

2. INTEGRATE THE PBF PROCESS, LEVERAGING TO PREVENT DISJOINTED ACTIVITIES

- The PBF processes are often disjointed and discrete activities, seen as being driven by the Finance function without meaningful input from across the enterprise. To change the status quo organisations need to bring activities closer together, creating a truly integrated business process.

3. DEPLOY EFFECTIVE AND SCALABLE TECHNOLOGY SOLUTIONS

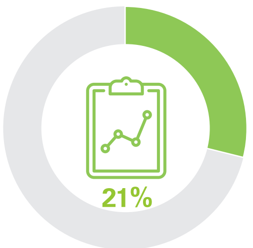
- Technology is moving from providing one-off static analysis to a more regular, quicker and dynamic enabler in the process. Cloud solutions are enabling real-time reporting with continuous improvement embedded at a cheaper cost, which enables increased effectiveness and efficiency.



Respondents believe the current budget produces a politically-agreed number not aligned to real business outlook

Over 1/3 of respondents to the survey work for organisations which are still not using rolling forecasts

Over 2/3 of respondents agreed that within 5 years the traditional budgeting process would be transformed into rolling forecasts



Respondents agreed that the planning, budgeting and forecasting process incorporated sufficiently flexible data modelling capabilities

Either did not know or felt that cloud solutions were not secure enough to hold the information to use for planning, budgeting and forecasting processes

PERFORMANCE REPORTING

Performance Reporting at its best should enable a business to link its operational activity and decision making with the attainment of its strategy. It gives organisations the essential information to make more confident and effective decisions, focuses the attention of management on activities that truly matter, and provides a consistent view of actual performance across the business.

By starting with the strategic intent of the business, an agreed hierarchy of KPIs can be developed at all levels of the business which links the strategy to the day to day operations, and which can be used to target and incentivise performance (including individual performance). The hierarchy of KPIs then define the content of the reports required at each level and the data model needed to support reporting across the business.

Yet, despite the opportunity that exists in the face of ever-increasing volumes of data and disruptive technologies, this study suggests current Performance Reporting processes are flawed, and many enterprises continue to proceed with 'information' that is ineffective in the support of rapid and informed decision making. The result is missed value delivery opportunities and slow responses to emerging threats.

This study suggests there are three critical areas to focus on to improve current Performance Reporting capability and provide the business with information which can drive value:

1. BUILD THE RIGHT DATA AND GOVERNANCE FOUNDATION

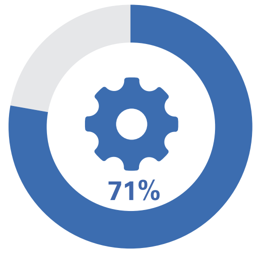
- There must be a focus on collecting the data that really matters to the organisation – i.e. what is the right data to support an integrated set of defined key performance indicators.
- In addition, data quality is imperative, and is the bedrock upon which a Performance Reporting capability should be built, ensuring that there is absolute trust in the data provided to the business.
- It is also essential that this data is supported by a robust governance structure to ensure integrity in the data is maintained on a sustainable basis.

2. STRUCTURE THE DELIVERY MODEL FOR SUCCESS

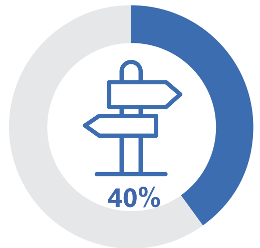
- The management team needs performance information which is consistent, controlled, timely, relevant, complete and delivered in a cost-efficient manner.
- How the Finance function is structured, and how efficiently and effectively it delivers its Performance Reporting capability, will determine success.

3. EMPOWER FINANCE PROFESSIONALS TO COLLABORATE WITH THE BUSINESS EFFECTIVELY

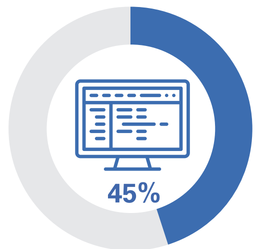
- A Centre of Excellence (CoE) for Profitability and Cost Analysis can provide the organisational capability for a step increase in output quality and operating efficiency, helping to overcome people, process and tooling barriers.
- An effective delivery structure can only be successful when the CoE, retained Finance and the business work together.
- An effective approach is business owned and Finance governed - business areas own the data, dimensions and insight, Finance ensure integrity and consistency across the organisation.



Believe their organisation applies a common set of kpis consistently.



Respondents believe decisions are based on 'gut feel'



Respondents' reports are driven directly from the source systems

Respondents felt that cloud solutions were secure enough to hold sensitive information involved in performance reporting

PROFITABILITY AND COST ANALYSIS

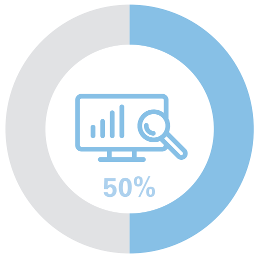
Profitability and Cost Analysis is at the heart of great business decision making, whereby organisations use cost allocation to analyse performance (cost, income and profit) across different business attributes, also referred to as dimensions. This analysis provides insight into the true value drivers of the business and provides management with the right information at the right time to make informed business decisions such as whether to discontinue an existing product, invest in a new asset, operate in a new channel or market. As a consequence of this insight, organisations can improve forecast accuracy, with increased data available to validate the expected profitability impact resulting from a change in its operations such as loss of a key customer or change in sales channel mix.

Finance has understood the power of this insight, and risen to this business challenge, however this study suggests that there are various opportunities to improve, ranging from the maturity, dynamicity and depth of the Profitability and Cost Analysis performed, to ensuring this can be delivered efficiently and sustainably over time including technology enablement and delivery model effectiveness. Without these next steps, value is being left on the table, decisions may be flawed if the insight is not robust, or business opportunities may be missed.

This study suggests there are three critical areas to focus on to improve current Profitability and Cost Analysis:

1. STRENGTHEN THE QUALITY AND DEPTH OF INSIGHTS

- Key business decisions around cost and profitability are essentially focused on WHAT products and services are offered, WHO they are provided to and HOW and WHERE these are sold and serviced efficiently.
- Transparency and action on customer and channel profitability presents a real opportunity for strengthening financial performance.
- The most effective methods and models for Profitability and Cost Analysis are focused, clear, and end-to-end.
- It is important not to overlook the stakeholder engagement, cross-functional collaboration and governance that will play a major role in achieving the desired outcomes.

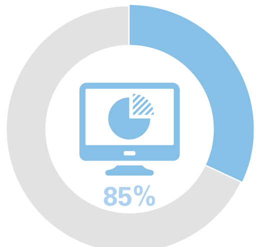


Less than half of businesses know who their most profitable customers are.

Two thirds of businesses admit to not measuring the profitability of their sales channels.

2. DESIGN AND BUILD A MODEL FOR EFFICIENCY

- The data model needs to align to both business and Finance needs and both parties have a role to play in defining and delivering an effective data model.
- To remain relevant to business needs, review of the model should be part of the annual strategic planning cycle or triggered by a particular event, such as regulatory change.
- Sustainable and efficient analysis across dimensions will usually be aided by implementing a specialist software tool, provided that data is structured appropriately.
- Over-frequent refresh of data is often not a good investment of effort – focus on turning outputs to insight to answer key business questions and drive decisions.



Respondents indicated that their organisations carry out analysis on cost and profitability.

3. OPTIMISE THE ORGANISATION MODEL

- A Centre of Excellence (CoE) for Profitability and Cost Analysis can provide the organisational capability for a step increase in output quality and operating efficiency, helping to overcome people, process and tooling barriers.
- An effective delivery structure can only be successful when the CoE, retained Finance and the business work together.
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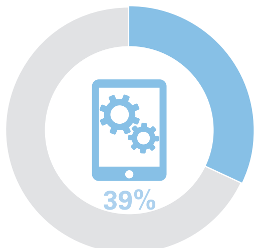


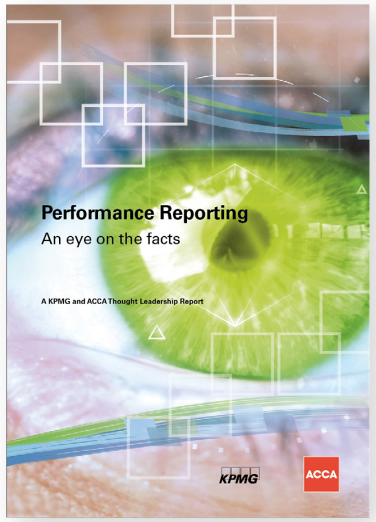
Respondents indicated that profitability and costs analysis is available for distribution channels.

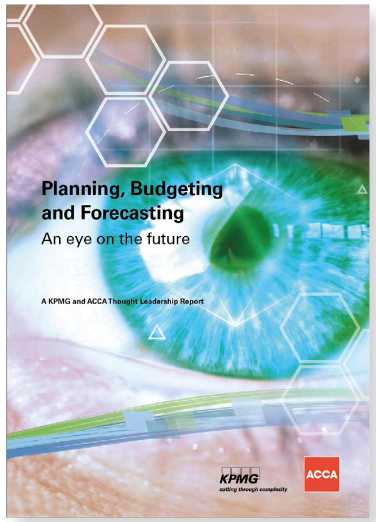
CONCLUSION

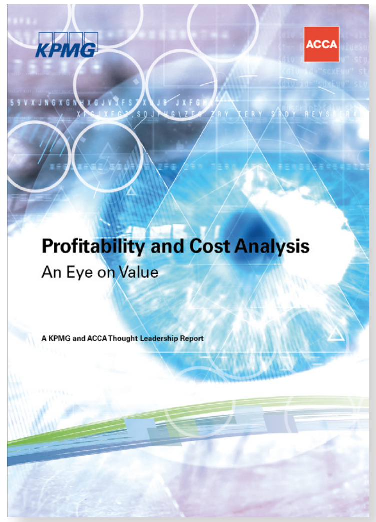
The key issues facing organisations are not unique to the individual processes. In many cases they are common across all areas of Enterprise Performance Management.

It is our view that to tackle these issues effectively there needs to be a clearly articulated vision across the organisation of what the Performance Management Framework is and how it will be applied. We believe the following are key considerations for organisations who wish to drive value through Enterprise Performance Management:

- Ensuring the performance management framework is flexible, aligned and relevant to all parts of the organisation.
- Ensuring that senior executives, from the CEO down, have this as a key area of focus and act as resilient advocates from such an investment.
- Investing in defining, deploying and maintaining clear and consistent data models.
- Having personal incentive plans integrated with a common performance management framework.
- Making decision support requirements part of key review events.
- Placing an emphasis on achieving timely, accurate and forward looking insight.
- Focusing on analytical insight using a clearly defined understanding of the drivers of performance by dimension.
- Take an integrated approach to planning, using rolling forecasts and with moving targets that reflect real-time changes in external factors.







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John leads the Enterprise Performance Management service offering in the UK, which supports large, complex, multi-national organisations in transforming their Planning, Budgeting & Forecasting, Performance Reporting and Dimensional Profitability processes.

Prior to joining KPMG, John spent nine years within industry, where he held several senior roles including Finance Manager and Divisional Finance Director positions with global blue chip firms.

Jamie leads ACCA's global policy team and best practices in the areas of financial management, finance transformation, enterprise risk management and corporate governance.

Prior to ACCA he spent his spent his previous career working for two FTSE 100 businesses in a variety of finance, audit and risk management roles.

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