

# The PERFORMANCE Manager

**Proven Strategies for  
Turning Information  
into Higher  
Business Performance**

**FOR BANKING**

by Roland Mosimann, Patrick Mosimann, Dr. Richard Connelly, and Meg Dussault  
in collaboration with Laurence Trigwell, and Frank McKeon

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# The **PERFORMANCE** Manager

## **Proven Strategies for Turning Information into Higher Business Performance for Banking**

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<b>Introduction</b> .....	5
<b>Promise: Enabling Decision Areas that Drive Performance</b> .....	9
<b>Finance: Trusted Advisor or Compliance Enforcer?</b> .....	17
<b>Risk Management: Managing Risk Is Managing for Profit</b> .....	29
<b>Marketing: Investment Advisor to the Business</b> .....	39
<b>Sales &amp; Relationship Management: Your Business Accelerator</b> .....	47
<b>Customer Service: The Risk/Reward Barometer of the Bank's Value Proposition</b> .....	59
<b>Product Management: Developing the Right Product, the Right Way, at the Right Time</b> .....	69
<b>Operations: Winning at the Margin</b> .....	77
<b>Human Resources: Management or Administration of Human Capital?</b> .....	87
<b>Information Technology: A Pathfinder to Better Performance</b> .....	97
<b>Executive Management: Chief Balancing Officers</b> .....	115
<b>Summary</b> .....	139
<b>About the Authors</b> .....	141



# INTRODUCTION

*The Performance Manager* continues an exploration that began more than ten years ago with the publication of *The Multidimensional Manager*. Both books examine the partnership between decision-makers in companies worldwide and the people who provide them with better information to drive better decisions.

More than a decade ago, the focus was on understanding an exciting new transformational trend—companies were becoming more *customer-* and *profit-centric*. What drove that trend? Companies were relying more and more on information assets such as business intelligence.

Today, that focus has become even sharper and more important. Global competition and interconnected global supply chains have further intensified downward pressures on cost. Technology and the Internet have transformed the knowledge economy from the equivalent of a specialty store into a 24/7/365 big-box retailer. Vast amounts of content are accessible anytime, anywhere.

Today, companies are expected to have a depth of insight into their customers' needs unheard of ten years ago. And yet market uncertainty is greater than ever. The pace of rapid change does not allow for many second chances. In other words, if being customer- and profit-centric was important then, it is critical now.

To better support the decision-maker/technology professional partnership, *The Multidimensional Manager* introduced *24 Ways*, a set of business intelligence solutions used by innovative companies to drive greater profitability. These solutions were organized by business function and reflected the insight that the most valuable information in corporate decision-making is concentrated in a relatively small number of information “sweet spots”, nodes in a corporation's information flow.

The book also introduced two further insights. First, the emergence of a new breed of manager—the *multidimensional manager*, who could effectively navigate and process these information sweet spots and thus make better, faster decisions. Second, the maturity of the enabling technology—business intelligence.

The book launched a fascinating dialogue. Demand led to the printing of more than 400,000 copies. People used it to help understand and communicate the promise of business intelligence. The pages often dog-eared and annotated, it became a field manual for business and IT teams tasked with developing solutions for their companies. Cognos® (which commissioned the book and is now part of IBM), BI International (which co-authored it and developed the *24 Ways*), and the company PMSI

(which partnered closely with both), maintained a dialogue with hundreds of companies over the years, collecting and synthesizing the many common experiences and refining them into a body of best practices and solution maps.

Ten years on, *The Performance Manager* revisits this dialogue and the underlying assumptions and observations made in the first book. We share our conclusions about what has changed and what has been learned by successful companies and managers in their attempts to drive profitability with better information. While the core principles originally presented have evolved, they are still largely true. After all, businesses exist to serve *customers*, and notwithstanding the tech boom's focus on market share, *profit* is the ultimate measure of success. *The Performance Manager* is not a sequel; though related, it stands on its own. We hope it will launch a new dialogue among those ambitious and forward-looking managers who view information not as a crutch but as a way to both drill down into detail and search outward into opportunity.

### The Changing Value of Information

McKinsey Quarterly research since 1997<sup>1</sup> has followed an interesting trend that relates directly to the dialogue we started a decade ago. Based on this research, McKinsey distinguishes between three primary forms of work and business activity:

1. **Transformational work** – Extracting raw materials and/or converting them into finished goods
2. **Transactional work** – Interactions that unfold in a rule-based manner and can be scripted or automated
3. **Tacit work** – More complex interactions requiring a higher level of judgment involving ambiguity and drawing on tacit or experiential knowledge

In relation to the U.S. labor market, McKinsey drew several conclusions. First, tacit work has increased the most since 1998. It now accounts for 70 percent of all new jobs, and represents more than 40 percent of total employment. The percentage in service industries is even higher—for example, it's nearly 60 percent in the securities industry.

Second, over the same period investment in technology has not kept pace with this shift in work. Technology spending on transactional work was more than six times greater than spending on tacit work. This reflects the past decade's efforts in re-engineering, process automation, and outsourcing. It makes sense: linear, rule-based transactional processing is the easiest to improve. But McKinsey's third finding is the most important: competitive advantage is harder to sustain when

<sup>1</sup> Bradford C. Johnson, James M. Manyika and Lareina A. Yee: "The next revolution in interactions," *McKinsey Quarterly* (2005, Number 4), and "Competitive advantage from better interactions," *McKinsey Quarterly* (2006, Number 2).

it is based on gains in productivity and cost efficiency in transaction work. McKinsey's research found that industries with high proportions of tacit work also have 50 percent greater variability in company performance than those industries in which work is more transaction-based. In other words, the gap between the leaders and laggards was greatest in industries where tacit work was a larger proportion of total work.

This fascinating research confirms what most of us have known intuitively for some time. Our jobs have become more and more information-intensive—less linear and more interactive, less rule-based and more collaborative—and at the same time we are expected to do more in less time. While technology has helped in part, it hasn't achieved its full potential.

*The Performance Manager* can help this happen. It offers insights and lessons learned on leveraging your information assets better in support of your most valuable human capital assets: the growing number of high-value decision-makers. Given the right information-enabling technology and leadership, these decision-makers can become performance managers. Such managers deliver sustainable competitive advantage by growing revenue faster, reducing operational expenses further, and leveraging long-term assets better. The companies whose experiences we share in this book have validated this promise with hard-earned victories in the trenches.



## Enabling Decision Areas that Drive Performance

This book synthesizes countless, varied company experiences to construct a framework and approach that others can use. The information sweet spot was the cornerstone concept of *The Multidimensional Manager*. Sweet spots, business intelligence, and multidimensional managers were the keys to the book's profitability promise.

These three insights are still fundamental to the promise of *The Performance Manager* and the need to leverage information assets to make high-value decisions that:

- Enable faster revenue growth
  - Further reduce operational expenses
  - Maximize long-term asset returns
- and therefore deliver sustainable competitive advantage.

If anything, these three insights are even more critical to success today.

### Insight 1 revisited: *The information sweet spot* → *More “sweet” required today*

In 1996, we wrote that “the most valuable information for corporate decision-making is concentrated in a relatively small number of *sweet spots* of information that flow through a corporation.” The driving logic was the relative cost of acquisition and delivery of information versus the value and importance of that information. While this cost/benefit consideration is still valid, four factors require today's decision-making information to be defined, refined, and repackaged in even more detail than ten years ago:

1. **More:** There is simply much more information available today. The term “data warehouse” is no accident. Companies collect massive amounts of transaction data from their financial, supply chain management, human resources, and customer relationship management systems. Early on, often the problem was finding the data to feed business intelligence reports and analytics. Today, data overload is the greater challenge.
2. **Faster:** Information flow has become faster and more pervasive. The Internet, wireless voice and data, global markets, and regulatory reporting requirements have all contributed to a 24/7/365 working environment. Today's company is always open for business. Managers are always connected. Time for analysis, action, and reaction is short, especially in the face of customer demands and competitive pressures.



3. **Integrated:** Work has become more interactive and collaborative, requiring more sharing of information. This means integrating information across both strategic and operational perspectives as well as across different functional and even external sources.
4. **Enrichment:** Effective decision-making information requires more business context, rules, and judgments to enrich and refine the raw transaction data. Categorizations and associations of this data create valuable insights for decision-makers.

**Insight 2 revisited: *Managers think multidimensionally* → *Managers perform within iterative and collaborative decision-making cycles***

Ten years ago, many multidimensional managers tended to be “power users” who were both willing and able to navigate through a variety of information to find the answers they needed. These users were adept at slicing and dicing *when, who, what, and where* to better understand results.

The ease of ad hoc discovery was incredibly powerful to managers previously starved for information and, more important, answers. This power of discovery is still highly relevant today, but the need for decision-making information has evolved: analysis by *some* isn’t enough—what is required is interaction and collaboration by *all*. As the research by McKinsey shows, more and more tacit work is required to drive innovation and competitiveness. Today’s performance managers include more executives, professionals, administrators, and external users, and are no longer mainly analysts.

Iterative and collaborative decision-making cycles result from more two-way interaction in common decision steps: setting goals and targets; measuring results and monitoring outcomes; analyzing reasons and causes; and re-adjusting future goals and targets. These two-way interactions can be framed in terms of different *decision roles* with different *work responsibilities* and *accountabilities* for a given set of decisions. These job attributes situate performance managers in a decision-making cycle that cuts across departmental silos and processes. This cycle clarifies their involvement in the information workflow, helping define the information they exchange with others in driving common performance goals. A decision role can be derived from a person’s work function (such as Marketing, Sales, Purchasing, etc.) and/or their job type (such as executive, manager, professional, analyst, etc.).

Work responsibilities can be divided into three basic levels of involvement:

1. **Primary:** Decisions at this level are required to perform particular transactions or activities and are made often. Typically, this employee is directly involved, often in the transaction itself, and his/her activity directly affects output and/or cost, including for planning and control purposes. He/she has access to information because it is part of the job requirement.
2. **Contributory:** Information supports decisions made with indirect responsibility. Decisions are more ad hoc and may add value to a transaction or activity. The employee at this level may have to resolve a problem or, for example, adjust a production schedule based on sales forecasts.
3. **Status:** Information supports executive or advisory decisions. These people receive status updates on what is going on. Sometimes they manage by exception and get updates only when events fall outside acceptable ranges.

These different levels mean that securing sweeter information sweet spots is not enough. Information must be tailored to a person's decision role, work responsibility, and accountability for a given set of decisions. In the past, many business intelligence efforts stumbled precisely because of a one-size-fits-all approach to user adoption. Information must be packaged according to use and user role.

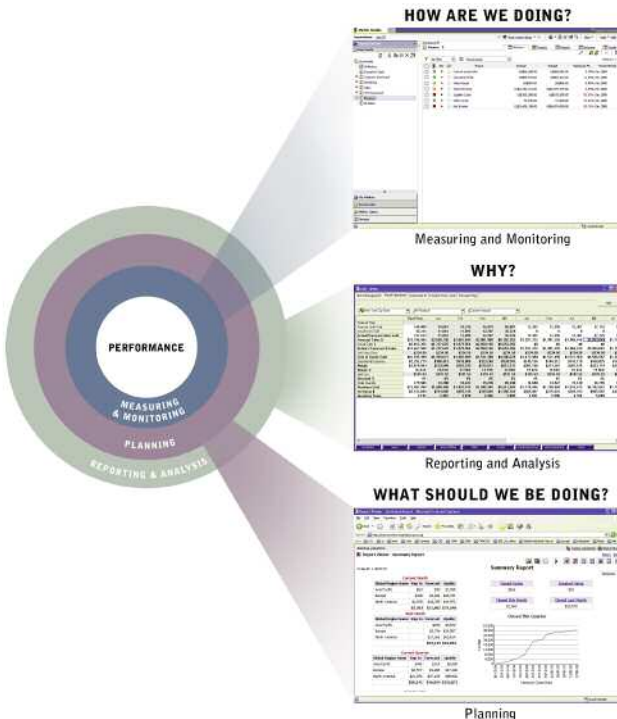
**Insight 3 revisited:** *The reporting paradigm for managers has changed → Performance managers need integrated decision-making functionality in varied user modes*

Business intelligence was an emerging technology in the mid 1990s. Today's business intelligence has matured to fit the notion of performance management. To fully support sweeter information sweet spots and collaboration within decision-making cycles, you need a range of integrated functionality. For performance managers with varied roles and responsibilities and those making decisions based on back-and-forth collaboration, functionality can't be narrowed to just one kind, such as scorecards for executives, business intelligence for business analysts, or forecasting for financial analysts. In practice, performance managers need a range of functionality to match the range of collaboration and interaction their job requires.

Every decision-making cycle depends on finding the answers to three core questions: *How are we doing? Why? What should we be doing?* Scorecards and dashboards monitor the business with metrics to find answers to *How are we doing?* Reporting and analysis provides the ability to look at historic data and understand trends, to look at anomalies and understand *Why?* Planning and

forecasting help you establish a reliable view of the future and answer *What should we be doing?* Integrating these capabilities allows you to respond to changes happening in your business.

To ensure consistency in answering these fundamental performance questions, you must integrate functionality not just within each one, but across them all. Knowing what happened without finding out why is of little use. Knowing why something happened but being unable to plan and make the necessary changes is also of limited value. Furthermore, this integrated functionality must be seamless across the full network of performance managers, whether within a department or across several. In this sense, the new paradigm today is the



platform. Just as the questions are connected, the answers must be based on a common understanding of metrics, data dimensions, and data definitions, as well as a shared view of the organization. Drawing answers from disconnected sources obscures the organization's performance and hampers decision-making. Real value means providing a seamless way for decision-makers to move among these fundamental questions. The integrated technology platform is vital to connect people throughout the system to shared information. Its core attributes include the ability to:

- Integrate data from a variety of data sources
- Supply consistent information across the enterprise by deploying a single query engine
- Restrict information to the right people
- Package and define the information in business terms

You must also be able to present the information in a variety of user modes. Today many decisions are made outside the traditional office environment. The system must support the shifting behaviors of the business consumer. Decision-makers must be able to:

- Use the Internet to access information
- Use text searches to find key information sweet spots
- Create the information they need by using self-service options
- Set up automatic delivery of previously defined snippets of information
- Have guided access to the information they need so they can manage by exception

### **The 24 Ways Revisited: *Decision Areas that Drive Performance***

Perhaps the single most powerful idea in *The Multidimensional Manager* was the 24 Ways. Organized by functional department, these proven information sweet spots became a simple road map for countless companies to deploy business intelligence. This system was easy to communicate, notably to a business audience, and showed how operational results ultimately flowed back to the financial statements. Through hundreds of workshops and projects that followed the release of *The Multidimensional Manager*, BI International and PMSI became informal clearinghouses for ideas and feedback on the 24 Ways. This was most notable in the BI University program, developed and launched by BI International and then acquired and operated by Cognos (which has subsequently been acquired by IBM).

Starting in 2000, BI International and PMSI synthesized these experiences into a new, more refined and flexible framework to address the revisions to each of the insights noted above. Known as the DecisionSpeed® framework, it enables faster business intelligence *designs, deployments*, and ultimately *decisions*.

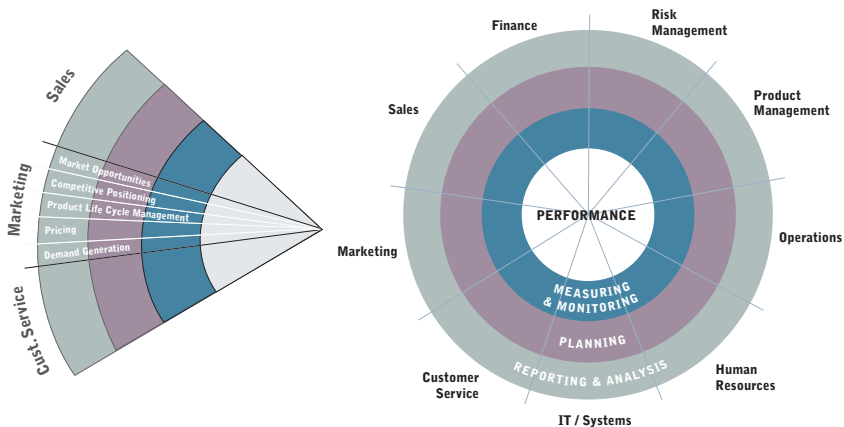
Expanded to include roughly twice as many sweeter information sweet spots as the 24 Ways, these decision areas are common to most companies. The framework is highly flexible, and circumstances

will dictate how to best design and develop specific information sweet spots. You may require more detailed variations, in particular, other decision areas to meet specific needs. But the logic of each decision area is the same: to provide a simple, easy-to-understand way to drive performance—and also to measure, monitor, and analyze it, report on it, and plan for it.

The specific industry is also a key factor in the number and definition of decision areas. For this book, we chose and adapted a generic manufacturing industry model because it is the most common and broadly recognized.<sup>4</sup> While other industries may present a different set of specific decision areas, the business fundamentals in this book apply across most companies.

Decision areas are organized by the nine major functions of a company that drive different slices of performance. Though this is similar to the *24 Ways* functional map, there are some significant differences. An enlarged Operations function now combines the purchasing, production and distribution areas, reflecting the decade-long effect of integrated supply chains and business process improvement. Human Resources and IT now each have their own focus, as does Product Development.

These nine functions provide the core structure of the book. Starting with Finance, each chapter introduces some key challenges and opportunities that most companies face today. A recurring theme is that of striking the right balance among competing priorities. How to weigh different options, how to rapidly make adjustments—these are often more difficult decisions than coming up with the options in the first place. The decision areas for a particular function represent the information sweet spots best suited to it, for the balancing act required to meet challenges and exploit opportunities. In this book we have focused on some 46 decision areas, ranging from three to seven per function.



<sup>4</sup> Other industry models of the framework will be available in later publications.

We introduce each decision area briefly, giving an illustration of the core content of the corresponding information sweet spot. These are organized into two types of measures: goals and metrics, and a hierarchical set of dimensions. While performance can be measured both ways, metrics typically offer additional detail for understanding *what* drives goal performance, especially when further described by dimensional context. A map of *which* performance managers are likely to use this decision area is included, showing relevant *decision roles* and *work responsibilities*.

The DecisionSpeed® framework is more than a list of sweeter information sweet spots. As the bull’s-eye graphic implies, decision areas and functions are slices of a broader, integrated framework for performance management across the company. You can build the framework from the bottom up, with each decision area and function standing on its own.

GOALS	METRICS		DIMENSIONS	
Actual vs. Plan Variance (\$/%)	Income Tax Expense (\$/%)		Fiscal Month	
Income (\$)	Non Interest Income (\$/%)		Year	
Net income/Profit (\$/%)	Interest Expense (\$/%)		Quarter	
	Non Interest Expense (\$/%)		Month	
	Income Tax Expense (\$/%)		Organization	
	Net Operating Income (\$/%)		Division	
	Net Interest Margin (%)		Department	
	Salaries/Benefits Expenses (\$/%)		Org. Code	
	Operating Expenses (\$/%)		G/L Accounts	
	Overhead Expense(\$/%)		Class	
	Loan & Lease Losses/Gains (\$/%)		Group	
	Securities Losses/Gains )\$/%)		Account	
	Tax (\$/%)		Plan/Actual Scenario	
			Scenario	

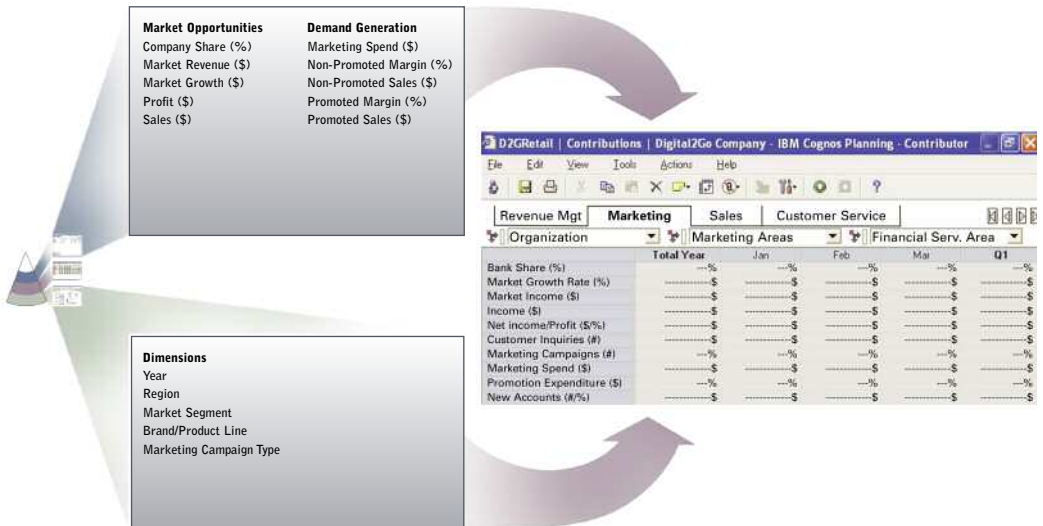
FUNCTION	DECISION ROLES	PRIMARY WORK	CONTRIBUTORY	STATUS
Finance	Executives	*		
	Managers	*		
	Analysts	*		
	Professionals	*		
Tax	Professionals	*		
Audit	Executives			*
	Managers	*		
	Professionals	*		
General Management	Executives		*	
Customer Service	Executives		*	
Human Resources	Executives		*	
IT / Systems	Executives		*	
Marketing	Executives		*	

Over the past ten years, we have learned that you need a practical, step-by-step approach to performance management. Overly grand, top-down enterprise designs tend to fail, or don’t live up to their full promise, due to the major technical and cultural challenges involved. This framework is designed for just such an incremental approach. You can select the one or two functional chapters that apply, much like a reference guide. Decision areas empower individual performance managers to

achieve immediate goals in their areas of responsibility. As you combine these goals across decision areas, you create a scorecard for that function. Then, as you realize performance success, you can build upon it to solve the greater challenge posed by cross-functional collaboration around shared strategies and goals.

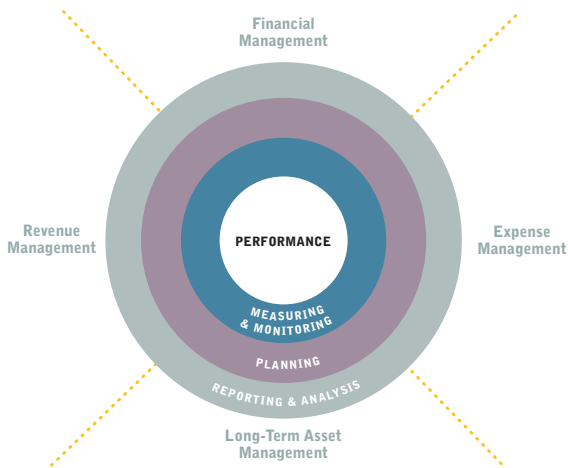
A key factor that makes this step-by-step approach work within a broader company perspective is the direct tieback to the financials included in the design. While each decision area can provide integrated decision-making functionality around its own set of issues, it also provides answers that impact financial results. Goals and metrics in non-financial decision areas, such as Sales, Marketing, or Operations, provide answers to financial statement numbers in the income statement, balance sheet, and cash flow, and help set future plans for growing revenue faster, reducing operational expenses further, and leveraging long-term assets better.

At the end of each chapter, we illustrate how each function can monitor its performance and contribute plans for future financial targets. Key goals and metrics for the function are shown for two decision areas outlined in the chapter. The planning process links them with the relevant dimensions, ensuring that resources are allocated and expectations set against financial and operational goals. For instance, “Company Share (%)” is planned out using the dimensions of time, region, market segment, and brand. This process changes the objective from an aggregate percentage share increase to a specific percentage share increase for a particular quarter, region, market segment, and brand. In this way, the planning process ties back from decision-making processes through the organization to the financials.



The Executive Management chapter outlines how different decision areas across multiple functions combine to drive shared strategic goals in the areas of financial management, revenue management, expense management, and long-term asset management. It also provides the top-down narrative for the overall framework.

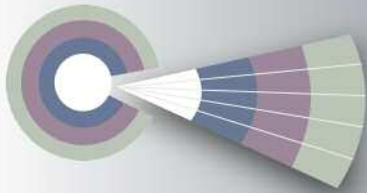
A further objective of the DecisionSpeed® framework is to help define the decision-making process, or tacit work, described in the introduction. You can think of decision areas as a layer of information sweet spots that sit above the transaction flow in a related but non-linear fashion. As described in the Executive Management chapter, performance decisions often must combine input from across multiple processes, and do so in an iterative and non-linear fashion, in contrast to core transaction processes.



Here the framework is anchored in three back-to-basics concepts:

1. How does this tie back to the financials? (the *so what* question)
2. How does this tie back to organizational functions and roles? (the *who is accountable* question)
3. How does this fit with business processes? (the *where, when, and how* question)

Our jobs have become less linear and more interactive, requiring iteration and collaborative decision-making. This requires the kind of information that drives high-performance decisions. This information is aggregated, integrated, and enriched across processes in a consistent way. It is grouped and categorized into information sweet spots designed to drive performance decisions. This is the information framework outlined in this book.



## Trusted Advisor or Compliance Enforcer?

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*Can anybody remember when the times were not hard and money not scarce?*

Ralph Waldo Emerson

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Of all the various roles Finance can play in a bank, the two most necessary to balance are complying with legal, tax, and regulatory requirements and dispensing sound advice on the efficient allocation of resources. In the first, Finance must focus on regulatory standards, checks and controls. In the second, it leverages its extensive expertise in understanding what resources are required to generate which types of assets, liabilities and fee income. It is uniquely positioned to play this second role because, while most commercial functions push as far as they can in a single direction, Finance must evaluate the bank's contrasting realities.

How Finance strikes this balance (and many others) to a large measure determines the success or failure of the business. *Is your budget a tool to control costs, or to sponsor investment?* Depending on economic circumstances, and where various products and services fall in the market life cycle, one choice is better than the other.

Finance is the mind of the business, using a structured approach to evaluate the soundness of the many business propositions and opportunities you face every day. Information feeds this process, and Finance has more information than most departments. As it fills its role of balancing—aligning processes and controls while advising the business on future directions—Finance faces a number of barriers when it comes to information and how to use it.



**Barrier 1: *Lack of information needed to regulate what has happened and shape what will happen***

Finance requires new levels of information about past and present processes and events to meet its regulatory compliance responsibilities (e.g., Basel II). Did the right employee or department sign off a particular credit application (operational risk)? Did the appropriate customer approval process and risk assessment take place before accepting a new mortgage application (credit risk)? For some banks, the information demands of compliance and control have forged better relationships between Finance and IT. They have led to changes in information gathering and collaboration methods (such as linking disconnected spreadsheets, for example), lowering the control risks these represent.

But while Finance works to manage these issues, it must also ensure the information investment helps drive its other key responsibility: helping guide decisions that make a difference to the future bottom line.

The executive team and commercial functions both look to Finance to help the business unit plan its future with confidence, not simply manage compliance and controls. Finance must pay attention to the drivers that make profit, using value-added analysis to extrapolate the impact of these drivers on tomorrow's results—and anticipate them when necessary.

Valuing, monitoring, and making decisions about intangible assets exemplifies the interconnection and sophistication of the information Finance requires. Regarding human capital, for example, Human Resources and Finance must work together to identify the value-creating roles of individuals, reflect their worth, and manage their growth, rewards, and expenses.

Without information sweet spots that show both the status of control and compliance and the impact of drivers on future business opportunities, Finance can't strike the necessary balance.

**Barrier 2: *The relevance, visibility, and credibility of what you measure and analyze is designed for accounting rather than business management***

Finance collects, monitors, and reports information with distinct legal, tax, and organizational requirements to fulfill its fiduciary role. But Finance also needs an integrated view of these and other information silos to fill its role of advisor. This role requires not simply reporting the numbers, but adding value to those numbers.

For example, executives must understand the costs and transfer prices related to various activities, products, and services. Finance must, therefore, categorize relevant line items across a wide range of detailed and hierarchically complex general ledger accounts. Without this integrated view, the executives will lack the comprehensive understanding around income growth and profitability to manage the various business units and product offerings effectively.

Another example: Risk-adjusted returns and effective customer segmentation is not possible without an integrated approach to information. With the increasing need to develop a “tailored” value proposition designed from a customer perspective, this gap increasingly affects the long-term success and competitiveness of a bank.

**Barrier 3: *Finance must balance short term and long term, detailed focus and the big picture***

Finance balances different and contradictory requirements. It must deliver on shareholder expectations every 90 days; it must also determine a winning vision and a strategy to achieve that vision over quarters and years. Banks can cut costs and investments to meet short-term profit objectives, but at what point does this affect long-term financial performance? A well-informed executive team is better able to understand the drivers, opportunities, and threats when balancing short- and long-term financial performance.

Executives and financial analysts define performance in terms of shareholder value creation. This makes metrics such as net income, earnings per share (EPS) growth, or economic value added (EVA) important. However, these distilled financial measures tell only part of the story. You need to augment them with more detailed measures that capture risk ratios, asset quality, operating efficiency, market share gains, and revenue growth targets to understand the real performance of the business, and strike a good balance between long- and short-term growth.

**Barrier 4: *Finance must find the path between top-down vision and bottom-up circumstances***

To what extent should goals be set top-down versus bottom-up? *If the executive team mandates double-digit net income growth, does this translate into sensible targets at the lower levels of the organization? Does it require a double-digit target at the lowest profit center?* Top-down financial goals must be adjusted to bottom-up realities. Finance must accommodate top-management vision while crafting targets that specific business units can achieve.

This barrier particularly illustrates the importance of engaging frontline managers in financial reporting, planning, and budgeting. The need for fast and relevant information requires an interactive model. Frontline managers must assume some budgetary responsibility and feed back changes from various profit or cost centers as market conditions change. This decentralized model engages the business as a whole rather than relying on a centralized function to generate information.

Besides freeing up Finance for value-added decision support, bottom-up participation generates an expense and revenue plan that overcomes hurdles of relevance, visibility, and credibility. Individuals who engage in the process take responsibility for delivering on expectations. This helps expose drivers of success and failure that are otherwise lost in a larger cost calculation or financial “bucket”—for both the frontline manager and Finance.

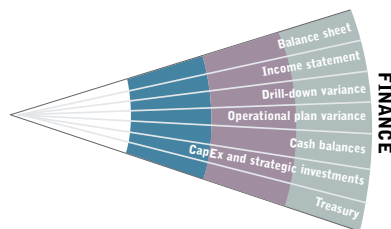
## Balancing Short Term and Long Term, Past and Future, Compliance and Advisor

The information Finance uses to report what has happened and shape what will happen is critical to the rest of the organization. Dynamic tools that allow Finance to balance compliance and performance, accounting and business structures, short term and long term, top-down vision and bottom-up reality, are more important than ever. Information sweet spots can support Finance's responsibilities and decision areas.

### A Balanced Financial Experience

Finance decision areas include:

- **Balance sheet** → How do we balance and structure the financial funding options, resources, and risks of the business?
- **Income statement** → How did the business team score? Where was performance strong or weak?
- **Drill-down variance** → What causes changes in financial performance?
- **Operational plan variance** → How do we best support, coordinate, and manage the delivery of meaningful plans?
- **Cash balances** → How do we manage the cash proof and monitor cash use effectively?
- **Capital expenditure (CapEx) and strategic investments** → What are the investment priorities and why?
- **Treasury** → How can we efficiently manage cash, liquidity requirements and cost of capital?




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*Using a performance management system instead of Excel spreadsheets largely automates the process of consolidating the group companies' figures. It makes things much easier. Automated plausibility checks take the burden off our financial analysts and simplify reporting by producing all of the statistics and notes that we need.*

Alexander Huber, Project Manager and Team Leader, Zurich Cantonal Bank

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### Balance Sheet

The ratios generated from the balance sheet are frequently top of mind with Finance executives, who seek not only to balance the financial structure of the bank’s assets and liabilities, but increasingly also to mine the balance sheet as a source of nontraditional income opportunities. These range from loan securitization to off-balance sheet activities such as derivatives and financial guarantees. All of these are associated with various risk profiles, and since capital and risk are connected, the balance sheet and the associated capital adequacy standards are a key concern for any bank.

With Basel II and the need to profile the risks associated with any capital allocation, the executive focus on the balance sheet has increased dramatically. The ability to leverage commitments both on and off balance sheet in a volatile market environment with the associated risks will directly impact the bank’s ability to maximize its return on equity (ROE) or more appropriately its risk-adjusted return on capital (RAROC). RAROC reflects how well the business can convert capital into profit for a given risk exposure. Selling the financial performance and attractiveness of the business to new investors is an important Finance function. RAROC can be a benchmark that reflects positively or negatively on senior management and Finance. It highlights the importance of managing future capital, risk, and balance sheet decisions and having a clear understanding and sense of priority about which investment projects generate better returns. This understanding leads to the next decision area: looking at where income is generated.

GOALS	METRICS	DIMENSIONS
Return on Assets (%)	Risk Adjusted Return on Capital (RAROC) (%)	Balance Sheet Accounts
Return on Equity (%)	Interest Income/Average Assets	Sub-class Account
Earning Assets/Total Assets	Non-Interest Income/Average Assets	Fiscal Month
A/R Reserve (\$)	Assets (\$)	Year
	Liabilities (\$)	Quarter
	Asset growth (%)	Month
	Liability growth (%)	Organization
	Volatile Liabilities	Division
	Loans	Department
	Deposits	Org. Code
	Net Loans & Leases	Loan Type
	Securities over One Year	Deposit Type
	Fixed Assets	
	Equity (\$)	
	Market Value (\$)	
	Reserve for Loan Losses	
	Provision for Loan Losses	
	A/R \$/% Outstanding	
	A/P \$	

FUNCTION	DECISION ROLES	PRIMARY WORK	CONTRIBUTORY	STATUS
Finance	Executives	*		
	Managers	*		
	Analysts	*		
	Professionals	*		
Audit	Executives			*
	Managers	*		
	Professionals	*		
Risk Management	Executives		*	
	Analysts		*	
General Management	Executives			*
Marketing	Executives			*
Operations / Production	Executives			*
Product Management	Executives			*
Sales	Executives			*

### Income Statement

This decision area represents the bottom line. It is the cumulative score achieved by everyone in the business for a set period. Everyone needs to understand his or her individual contribution and performance measured against expectations. You must understand where variances above budget occur so you can correct the course. If costs are increasing too quickly, you risk damaging future profits unless you control them, adjust selling prices, or develop new markets. Unexpected revenue spikes can mean additional resources are required to continue future growth. Adjustments such as these take time, and the sooner you take action, the sooner you improve margins and realize the full potential of a growth opportunity. The ability of Finance to quickly identify, analyze, and communicate important variances has competitive implications for your company. How quickly the business capitalizes on a new situation is determined by how quickly it discovers budget variances.

GOALS	METRICS	DIMENSIONS		
Actual vs. Plan Variance (\$/%)	Income Tax Expense (\$/%)	Fiscal Month	Year	Quarter
Income (\$)	Non Interest Income (\$/%)			
Net income/Profit (\$/%)	Interest Expense (\$/%)			
	Non Interest Expense (\$/%)	Organization	Division	Department
	Income Tax Expense (\$/%)			
	Net Operating Income (\$/%)			
	Net Interest Margin (%)	G/L Accounts	Class	Group
	Salaries/Benefits Expenses (\$/%)			
	Operating Expenses (\$/%)			
	Overhead Expense (\$/%)	Plan/Actual Scenario	Scenario	
	Loan & Lease Losses/Gains (\$/%)			
	Securities Losses/Gains (\$/%)			
	Tax (\$/%)			

FUNCTION	DECISION ROLES	PRIMARY WORK	CONTRIBUTORY	STATUS
Finance	Executives	*		
	Managers	*		
	Analysts	*		
	Professionals	*		
Tax	Professionals	*		
Audit	Executives			*
	Managers	*		
	Professionals	*		
General Management	Executives		*	
Customer Service	Executives		*	
Human Resources	Executives		*	
IT / Systems	Executives		*	
Marketing	Executives		*	
Operations / Production	Executives		*	
Purchasing	Executives		*	
Product Management	Executives		*	
Sales	Executives		*	
Compliance	Executives			*
	Analysts		*	

### Drill-Down Variance

Once you identify a difference between actual and plan, you need to drill down into the details to understand what caused it. *If net income increases by 5 percent between two time periods, was the cause greater transaction volume, higher price, or a change in the mix? Did your competitors have the same increase? Alternatively, have internal changes impacted costs or possibly the transfer pricing used to allocate departmental costs? What are the drivers of these allocations, and are they directly attributable to the business activity? Also, has the risk profile changed with the increase in net income?*

Finance needs to understand the why behind changes. Knowing what drove changes in revenue and net income provides a more complete picture to help guide the company.

GOALS	METRICS	DIMENSIONS
Net Income/Profit Change (\$/%)	Aug. Net Loss/Gain for Loans & Leases	Fiscal Month
Income Change (\$/%)	Aug. Net Loss/Gain for Securities	Year
Product/Service Variance (\$/%)	Interest Rate Spread (%)	Quarter
	GL Expense Detail (\$/%)	Month
	Net Change (\$/%)	Organization
	Asset Loss Rate (%)	Division
	Loan Ratio (%)	Department
	Yield (%)	Org. Code
	Net Interest Spread	G/L Accounts
		Class
		Group
		Account
		Product Line
		Product Line

FUNCTION	DECISION ROLES	PRIMARY WORK	CONTRIBUTORY	STATUS
Finance	Executives	*		
	Managers	*		
	Analysts	*		
	Professionals	*		
Audit	Executives			*
	Managers	*		
	Professionals	*		
Customer Service	Executives			*
	Analysts		*	
Compliance	Executives			*
	Analysts		*	
IT / Systems	Executives			*
Marketing	Executives			*
	Analysts		*	
Operations / Production	Executives			*
	Analysts		*	
Purchasing	Executives			*
	Analysts		*	
General Management	Executives			*
Product Management	Executives			*

### Operational Plan Variance

Once Finance understands what caused performance variances, it can lead discussions about future operating plans. The ability to advise and push back on management plans is important. Knowing the why behind variances from plan helps companies re-evaluate and improve the next plan. Without this information, plans lose their purpose and become academic exercises to please senior management. Ideally, Finance offers input and feedback that other business areas can use for guidance. At the same time, these other areas provide frontline information to Finance that helps improve the plan. Such cross-functional and coordinated effort lets you test the roadworthiness of existing business plans.

GOALS	METRICS	DIMENSIONS
Operating Expense variance (\$/%)	Actual vs. Plan (%/\$)	Fiscal Month
Operating Efficiency (% of assets)	Plan/Forecast (\$)	Year
Cost/Income Ratio (%)	Department Costs (\$/%)	Quarter
	Salary Costs (\$/%)	Month
	Employees (#)	Organization
	Marketing Costs (\$/%)	Division
	Revenue per Employee	Department
	Direct Expenses	Org. Code
	Other Expenses (\$/%)	G/L Accounts
	Overhead Costs (\$/%)	Class
	Non-Interest Income/ Non-Interest Expense (%)	Group
		Account
		Product Line
		Product Line

FUNCTION	DECISION ROLES	PRIMARY WORK	CONTRIBUTORY	STATUS
Finance	Executives	*		
	Managers	*		
	Analysts	*		
	Professionals	*		
Audit	Executives			*
	Managers	*		
	Professionals	*		
Customer Service	Executives			*
	Analysts		*	
Marketing	Executives			*
	Analysts		*	
Operations / Production	Executives			*
	Analysts		*	
Purchasing	Executives			*
	Analysts		*	
Product Management	Executives			*
	Analysts		*	
Sales	Executives			*
	Analysts		*	
Human Resources	Executives			*
	Analysts		*	
IT / Systems	Executives			*
General Management	Executives			*

### Cash Balances

The management of cash balances is also associated with reserve management and the objective to minimize cash holdings. When cash balances increase significantly above legal requirements, money managers need to evaluate if this is a short- or long-term occurrence and consider the appropriate action, such as a short-term money market instrument or a longer-term government security. Equally, a cash shortage will require selling short-term liquid securities or possibly purchasing deposits. This daily activity extends to a cash proof role to identify the reconciliation floats for nostro and vostro accounts. *Do the cash positions reconcile? If not, why not?* Without the systems and information to manage these positions effectively, there are likely to be missed opportunities. Also, the constantly changing external market conditions and internal variances in loan demand and deposit activity put daily pressure on managing these cash balances efficiently. *If the bank expects an interest rate to increase, should fed funds be purchased earlier in the reserve maintenance period?* Finance will seek to monitor and evaluate its cash balances in the broader context of its liquidity management strategy.

GOALS	METRICS	DIMENSIONS
Liquidity Ratio	Nostro Account Balance (\$)	G/L Accounts
Volatile Liability Dependency	Vostro Account Balance (\$)	Class
Cash & Securities/Assets	Suspense Account Balance (\$)	Sub-class
GL \$ Reconciliation (%)	Unreconciled Accounts (#)	Account
	Securities & Treasury (\$/%)	Day
	Cash assets (\$/%)	Year
	Interest Cash	Quarter
	Non-Interest Cash	Month
	Temporary Investment Ratio	Day
	Net Change (\$/%)	Organization
	A/R \$/ % Outstanding	Division
	A/P (\$)	Department
		Org. Code
		DDA Accounts
		DDA Account
		Third Parties
		Third Party

FUNCTION	DECISION ROLES	PRIMARY WORK	CONTRIBUTORY	STATUS
Finance	Executives	•		
	Managers	•		
	Analysts	•		
	Professionals	•		
Audit	Executives			•
	Managers	•		
	Professionals	•		
IT / Systems	Executives			•
	Analysts		•	
Marketing	Executives			•
Operations / Production	Executives			•
	Analysts		•	
Product Management	Executives			•
Sales	Executives			•
	Analysts		•	
Risk Management	Executives			•
	Analysts		•	
Compliance	Executives			•



### CapEx and Strategic Investments

Since capital expenditure (CapEx) has an impact on ROA performance, businesses must evaluate and monitor investment decisions carefully. Investments can range from minor to strategically significant; from a new computer to a market investment into a new country. Finance must ensure that CapEx and investment requests don't simply become wish lists.

Finance must establish the basis for prioritizing and justifying capital expenditure. This means coordinating with different function areas. For example, Finance must understand the impact of both yes and no before agreeing to new investments. *Will the business be exposed and lose market share if the investment is delayed? Will this action improve service standards? Will efficiencies be made over the longer term?*

Mergers and acquisitions represent the strategic dimension of investments. *What are the potential cost savings from combining the two businesses? If the banks serve the same market or product segments, what is the likelihood of customer erosion?*

Understanding upside and downside impacts from potential investments is part of the evaluation process. Finance arbitrates such decisions, and requires detailed financial scenarios that forecast investment ROI and payback.

GOALS	METRICS	DIMENSIONS
Investment (\$)	Acquisition Profit Growth (%)	Balance Sheet Lines
NPV (\$)	Acquisition Income Growth (%)	Class
ROI (%)	Capex \$	Sub-class
	Breakeven Months (#)	Account
	IRR (%)	Fiscal Month
	Payback Months (#)	Year
		Quarter
		Month
		Organization
		Division
		Department
		Org. Code
		Plan/Actual Scenario
		Scenario
		Potential Projects
		R&D Project Type
		Project
		Project
		Project/Program Type
		Project

FUNCTION	DECISION ROLES	PRIMARY WORK	CONTRIBUTORY	STATUS
Finance	Executives Managers Analysts Professionals	• • • •		
Audit	Executives Managers Professionals	• • •		•
General Management	Executives			•
IT / Systems	Executives Analysts		•	•
Marketing	Executives Analysts		•	•
Operations / Production	Executives Analysts		•	•
Product Management	Executives Analysts		•	•
Risk Management	Executives Analysts		•	•
Sales	Executives Analysts		•	•

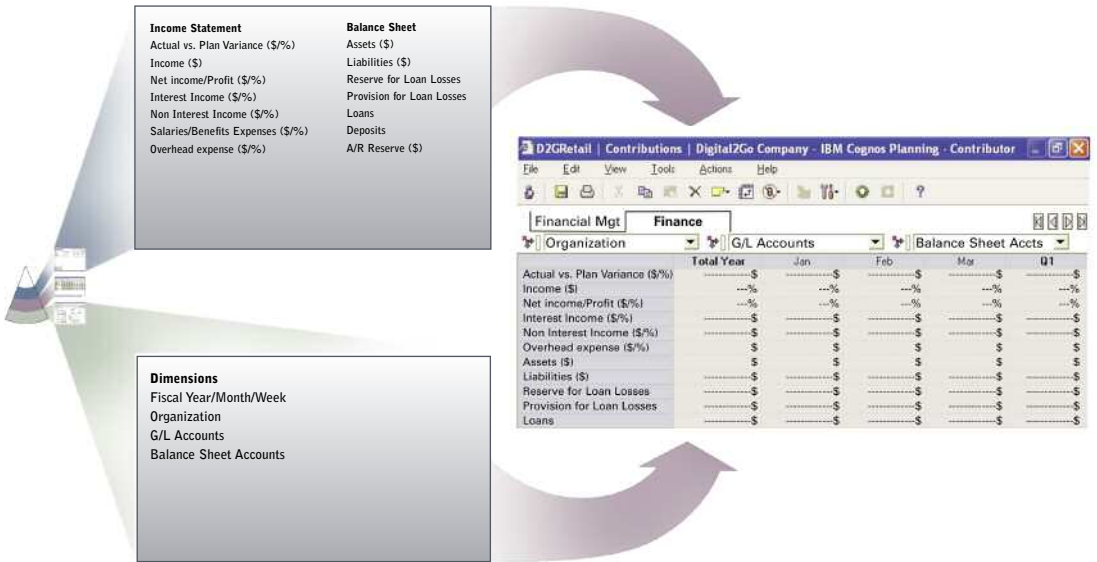
**Treasury**

The Treasury decision area moves beyond the tactical cash balances into the broader area of the asset-liability mix and bank strategy. Capital adequacy, regulatory deposit requirements, off-balance sheet product derivatives, and even foreign exchange exposures are evaluated with the objective of optimizing the cost of funds. Increasingly tailored solutions are available for Finance executives to lower the cost of capital. Improved collateral management can be achieved through the use of tri-party repurchase agreements to more effectively leverage the bank’s collateral and thereby reduce cost of overnight funding. Lower costs of capital benefits are achieved through better utilization of securitized instruments owned by the bank, because the bank is making a loan to itself rather than borrowing money. There is the additional benefit of eliminating unmatched liabilities incurred by The Money Desk when they go for overnight funding without a matching offset; the tri-party contract will have been priced to reflect the current market value.

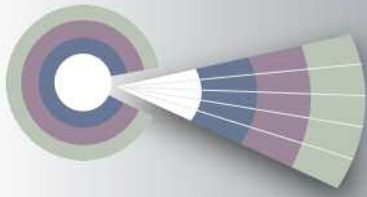
Effectively managing these asset-liability and liquidity options is a balancing act, and fine-tuning can make a difference. But without the appropriate system and information support, there will be lost opportunities in terms of managing the bank’s cost of funds. Having access to current market information and aligning it with future business requirements is the key to effectiveness.

GOALS	METRICS	DIMENSIONS
Interest Sensitivity Ratio (%) (Assets/Liabilities) Dollar Gap Ratio (%) (Interest Sensitivity)	Cumulative Gap	Maturity Buckets/Time Periods
	Gap/Total Assets	Security Types
	Unsecured Assets (#/\$)	Security Type
	Rate Sensitive Assets	Security ID
	Rate Sensitive Liabilities	Depositories
	Non-Rate Sensitive Assets	Depository
	Non-Rate Sensitive Liabilities	Cash Accounts
	Relative Gap Ratio	DDA Account
	Duration Gap	Balance Sheet Accounts
	Duration Drift	Class
	Net Worth	Sub-class
	Shares Issued (#)	Account
	Shares Outstanding (#)	Fiscal Month
	Dividend Payments (\$/%)	Year
	Options Paid-Up (\$)	Quarter
	Intra-day Loan (#/\$)	Month
Overnight Loan (#/\$)	Organization	
Legal Reserve RRequirements (\$/%)	Division	
	Department	
	Org. Code	

FUNCTION	DECISION ROLES	PRIMARY WORK	CONTRIBUTORY	STATUS
Finance	Executives	*		
	Managers	*		
	Analysts	*		
	Professionals	*		
Audit	Executives			*
	Managers	*		
	Professionals	*		
General Management	Executives			*
Risk Management	Executives			*
	Analysts		*	



*The Income Statement and Balance Sheet decision areas illustrate how the Finance function can monitor its performance, allocate resources, and set plans for future financial targets.*



# RISK MANAGEMENT

## Managing Risk Is Managing for Profit

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*Risk comes from not knowing what you're doing.*

Warren Buffett, 1930-, American investment entrepreneur

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Banking is about managing risk across multiple risk types. In fact, the bank's raison d'être is to accept structured uncertainty and manage the associated risks with the goal of capitalizing on these risk differences to earn profits. The skill with which the bank balances alternative risk/reward strategies will determine its ability to deliver on shareholder returns. However, in a market environment where competition, globalization, market volatility, and structural change are increasing, banks need to manage their risks even better and with greater transparency. In addition, the Basel II requirements have galvanized financial institutions across the world to re-evaluate the role of risk management.

At one level, banks need to assess credit and operational risk and use empirical transaction data to confirm that reserves are set correctly for balance sheet capital contingencies. The collateralization of mortgage and consumer loan portfolios into the secondary market is an example of market risk management. Today there is great debate around the global parameters that monitor market risk and support or maintain market stability. Given the various risk parameters, the key is to identify where and how a bank can manage proactively its risks and various assets – physical, financial, and human – to its advantage.

Risk mitigation strategies are today a top concern for the board, senior executives, CFOs, and risk managers. However, while risk management is an accepted priority, it also represents an unenviable task that can become very political, depending upon the culture. The challenge is implementing an integrated approach that can be ingrained in the organization and its management practices. Without a coordinated risk management strategy, organizations will continue to struggle with repeated policy iterations before risk handling procedures and controls are efficiently aligned.

Banks need to tackle three important barriers to ensure a successful, integrated risk management process:

**Barrier 1: *Lack of consistent measurement methodology***

Risk measurement is complex, and no methodology will accurately capture the full picture. Any risk evaluation process will, by definition, be flawed, and financial institutions need to remain open to new learnings as economic, demographic, market, or other conditions change. Over time and through experience, the bank will gradually hone in on methods that better identify risk patterns and adapt its procedures accordingly. However, the issue of risk measurement is further complicated by the lack of consistency across various institutions' approaches, and this can have a direct impact on competitiveness. For example, credit scoring methods may differ among mortgage providers; an application that passes in one institution may fail in another. The more detailed and extensive the risk assessment, the more a bank can devise granular strategies based on borrower segmentation.

Another measurement challenge flows from the above example. By standardizing the risk management process across the enterprise, banks may limit their business flexibility and the ability of front-line troops to identify opportunities for future growth. The danger in standardization is reducing the options down to a common denominator that does not apply in every market sub-segment. More agile competitors can move in with finely tailored offerings for certain demographic groups or micro-segments, posing a serious competitive threat. In such situations, an overly rigid and standardized methodology in determining risk profiles will lead to lost opportunities. As market opportunities continue to fragment due to intense competition, banks must balance risk minimization with commercial relevance.

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*With Cognos, we've gone from a situation where we've had annual reviews and a quarterly interim review of the exposures, to where we can actively monitor exposures daily to get within limits.*

Edmund Ruppmann, Director of Credit Risk Reporting, CitiGroup

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**Barrier 2: *Hidden information gaps in the quantification of risk***

Three generic risk mitigation approaches exist:

1. Risks can be eliminated or avoided – e.g., hedging, asset-liability matching
2. Risks can be transferred to other entities – e.g., asset sale, syndication, derivative hedging
3. Risks can be actively managed.

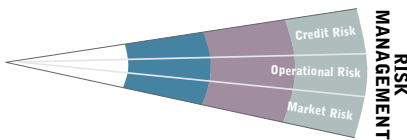
To the extent that an institution has a good understanding of its risks and exposures – where, what, and how much – it can be proactive in its risk mitigation strategy. However, such transparency is not easy to come by without significant investment in systems, analytical tools, and sophisticated modeling techniques. Frequently risk prevention measures are brought in after the event, in a reactive fashion. To what extent is the risk manager fully aware of the existing risks? Are business units still making decisions without coordinating and communicating exposures to the risk managers? These information gaps represent an unknown risk exposure, and the bank is not even in the position to decide how to mitigate these risks. As products and services become more complex to address new market segments, the challenge is to enhance and keep up with the necessary risk information flow. Without serious management attention, investment, and effective execution, success is likely to remain elusive. This leads naturally to the next barrier:

**Barrier 3: *Lack of integrated risk procedures that are "owned" by specific functional roles and embedded in the organization***

Active risk management is also about ensuring that the full organization identifies with and takes ownership of its own risk mitigation responsibilities. A risk management function cannot sit in its organizational silo and be disconnected from the day-to-day business. Pushing risk awareness and procedures down into various functional roles will help establish a coordinated and proactive approach to risk management. In fact, different functional roles are directly associated with certain types of risk, including operational risk. The greater their ability to communicate risk concerns, identify risk patterns, and support the development of appropriate risk controls, the more effective the risk management capabilities will be. An effective risk management process that is embedded in the organization and well executed will deliver higher returns and a competitive advantage.

Risk management combines many types of risk, such as credit risk, operational risk, interest rate risk, liquidity risk, price risk, compliance risk, foreign exchange risk, reputation risk, country risk, management risk, etc. For the purpose of simplicity, this discussion will focus on three decision areas:

- **Credit Risk** → The possibility of a loss due to a failure to meet contractual debt obligations
- **Operational Risk** → The risk of loss resulting from internal processes, systems, and people, or from external events
- **Market Risk** → The risks associated with various classes of assets and liabilities.



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*Using Cognos enables us to add much needed context around our data. We are able to quickly answer key business questions to determine our level of risk in a particular country or counterparty dimension and quickly make decisions to protect ourselves. Whether you are looking for a high-level portfolio ceiling view or a more detailed transaction-level analysis, Cognos provides us with a powerful solution that lets us quickly and easily access and understand information on risk exposure.*

Patrick Hendrikx, Head of Risk Datamart and Business Intelligence Solutions, UBS AG

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### Credit Risk

Generally credit risk is associated with a lending activity and is typically incurred when a loan is not repaid in part or in full. Credit risk is also associated with holding bonds and other securities. The credit risk is the risk of a decline in the credit standing of a counterparty. Banks use credit-scoring models to rank potential and existing customers and then decide what strategies are appropriate. Some banks might accept higher risk as part of an aggressive loan growth strategy; others may adopt a more conservative policy. Whatever the credit strategy, it should be fully aligned with corporate strategy. Management needs access to detailed internal data to track progress against agreed-upon goals, using metrics such as the ratio of non-performing loans to total loans. Clearly, if the proportion of non-performing loans increases, managers need to perform an in-depth evaluation to understand why. Have general or regional economic conditions shifted sufficiently to warrant a re-assessment of the bank's credit risk exposure? What action should be taken with existing or new customers, for example, higher interest rates to reflect higher risk? The more segmented and detailed the customer information, the more flexible and focused the possible strategies will be.

GOALS	METRICS		DIMENSIONS
Capital Ratio	Loan (\$/#)	Average Time to Close	Billing Customer
Credit Risk Exposure Rating	Loan Participations (#)	Portfolio Size	Industry Group
	Loan Points	Average Loan to Value	Industry Category
Loan Loss (Write-down) (\$/%)	Loan Servicing Expense (\$)	Delinquency Rate	Customer Name
	Loan Syndications (#)	Foreclosure Rate	Customer Location
	Bad Loan (\$/%)	Average Loan Size	Region
	Min. Balance Required	Internal Risk Rating	State/Province
	Min. Interest Rate	Number of Losses	County
	Collateral (\$)		Postal Code/Zip Code
	Deposit \$ Growth (%)		Fiscal Month
	Loan \$ Growth (%)		Fiscal Year
	Loan Loss Reserve (%)		Quarter
	Loans: Deposits Ratio		Month
	Credit Investigations (#)		Market Segment
	Appraisals (#)		Market Segment
	Estimated Loss Incidents (#)		Micro-Segment
	Estimated Loss Value (\$)		Sales Channel Partners
	Deposits (\$)		Sales Channel Type
	Deposits (#)		Sales Partner
	Interest Expense (\$)		Sales Organization
	Fee Income (\$)		Sales Region
	Net Interest Margin (%)		Sales Territory
			Org. Code

FUNCTION	DECISION ROLES	PRIMARY WORK	CONTRIBUTORY	STATUS
Credit	Executives	*		
	Analysts	*		
Risk Management	Executives		*	
	Analysts	*		
Sales	Executives		*	
Compliance	Executives			*
	Analysts		*	
General Management	Executives			*
Finance	Executives			*

*To understand credit risk concentrations and to ensure regulatory compliance, we needed consistent, accurate answers to the identification and classification of risk.*

Patrick Hendrikx, Head of Risk Datamart and Business Intelligence Solutions, UBS AG



## Operational Risk

According to 644 of International Convergence of Capital Measurement and Capital Standards, known as Basel II, operational risk is defined as “the risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events.” This includes legal risk, but excludes strategic and reputation risk. In effect, institutions are responsible for establishing adequate safeguards to protect against various operational risks. Basel II defines a number of event categories:

- **Internal fraud** – Misappropriation of assets, tax evasion, intentional mismarking of positions, bribery
- **External fraud** – Theft of information, hacking damage, third-party theft, forgery
- **Employment practices and workplace safety** – Discrimination, workers’ compensation, employee health and safety
- **Clients, products, and business practices** – Market manipulation, anti-trust, improper trade, product defects, fiduciary breaches, account churning
- **Damage to physical assets** – Natural disasters, terrorism, vandalism
- **Business disruption and system failures** – Utility disruptions, software failures, hardware failures
- **Execution, delivery, and process management** – Data entry errors, accounting errors, failed mandatory reporting, negligent loss of client assets.

The problem lies in accurately identifying what constitutes operational risk, as it can be part of credit or market risk. For example, if a security sale is wrongly accepted because of a glitch in the electronic trading system, should this be classified as market risk, an operational risk, or a combination of both? To assist in implementing an operational risk process, Basel II provides guidance around three broad methods of capital calculation for operational risk:

- **Basic indicator approach** – based on the financial institution’s annual revenue
- **Standardized approach** – based on annual revenue of each of the financial institution’s broad business lines
- **Advanced measurement approaches** – based on the bank’s internally developed risk measurement framework and prescribed standards (e.g., IMA, LDA, scenario-based, scorecard, etc.).

The operational risk management framework should include identification, measurement, monitoring, reporting, control, and mitigation. The more advanced the methodology, the greater the opportunity to design mitigation strategies. However, whatever the method, successful implementation requires unconditional support from senior management. By breaking down operational risks into specific work process and job roles, it is easier to control, monitor, and mitigate key design factors for any framework.

## OPERATIONAL RISK

GOALS	METRICS	DIMENSIONS	
Operational Risk Rating (#)	Business Disruptions (#)	Fiscal Quarter	Reporting Cycles
	System Failures (#)	Fiscal Year	Cycle
Controls Performance Rating (#)	System Downtime (#)	Quarter	Process
	System Errors (#)	Organization	Activities
Contingency Testing Score (#)	Hardware Failures (#)	Division	Risks
	Accounting Errors (#)	Department	Risk Types
	Data entry Errors (#)	Org. Code	Risk Exposure
	Failed Mandatory Reporting (#)	Controls Objectives	System Applications
	Fiduciary Breaches (#)	Controls Objective Type	Application
	Account Churning (#)	Control Objective	Test Types
	Incidents of Fraud & Theft (#)	Regulatory Standards	Test Types
	Scenario Risk Sensitivity	Regulatory Standard	Tests
	U/W - Asset Control Audit Score		

FUNCTION	DECISION ROLES	PRIMARY WORK	CONTRIBUTORY	STATUS
Risk Management	Executives	*		
	Analysts	*		
Compliance	Executives	*		
	Analysts	*		
IT / Systems	Executives		*	
	Analysts	*		
Customer Service	Executives		*	
Operations	Executives		*	
Sales	Executives		*	
Audit	Executives			*
General Management	Executives			*
Finance	Executives			*

*We had to eliminate data silos, and create a process that would allow us to identify and select risk-related data for all divisions (Investment Banking, Global Asset Management and Global Wealth Management and Business Banking), globally.*

Patrick Hendrikx, Head of Risk Datamart and Business Intelligence Solutions, UBS AG

## Market Risk

Market risks occur when assets and liabilities change value due to changes in market factors. These risks include:

- **Equity risk** – the risk that equity prices will change
- **Interest rate risk** – the risk that interest rates will vary
- **Currency risk** – the risk that the currency exchange rate will change
- **Commodity risk** – the risk of price fluctuations for commodities such as metals, oil, agricultural products, etc.

The key issue is not simply to identify market risk factors, but to quantify the risk and develop approaches or strategies to address them. One common valuation methodology is “value at risk,” which looks at the likelihood of an asset’s value decreasing over a period of time. Others include shortfall probability, downside risk (semivariance), and volatility. Risk management executives will need to be aware of the inherent strengths, weaknesses, and sensitivities associated with each method. It may also be useful to compare market risk with other risks to understand various risk priorities. For example, how does market risk compare with specific industry risk, which measures industry changes rather than systemic market risk?

Whatever the method, managers who have access to better information on market detail and segmentation will be better equipped to identify and mitigate risk. Only by clearly understanding the various business streams and positions can managers implement an effective risk management strategy. The increasing trend towards market specialization has led many banks to redefine their business strategies and focus on core capability and, by extension, core risk competencies. For example, many banks will actively hedge their portfolio risk to immunize against asset/liability mismatches. Others will focus on building an asset portfolio, which is then securitized and managed by specialists. Depending upon its strategy, a bank can now more effectively decide what market risk it wishes to manage or assume. Risks that fall outside these parameters are avoided by transferring them to a third party.

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*The team needed to be able to show, more quickly and effectively, how people within Skandia were performing in the business and where the risks lay.*

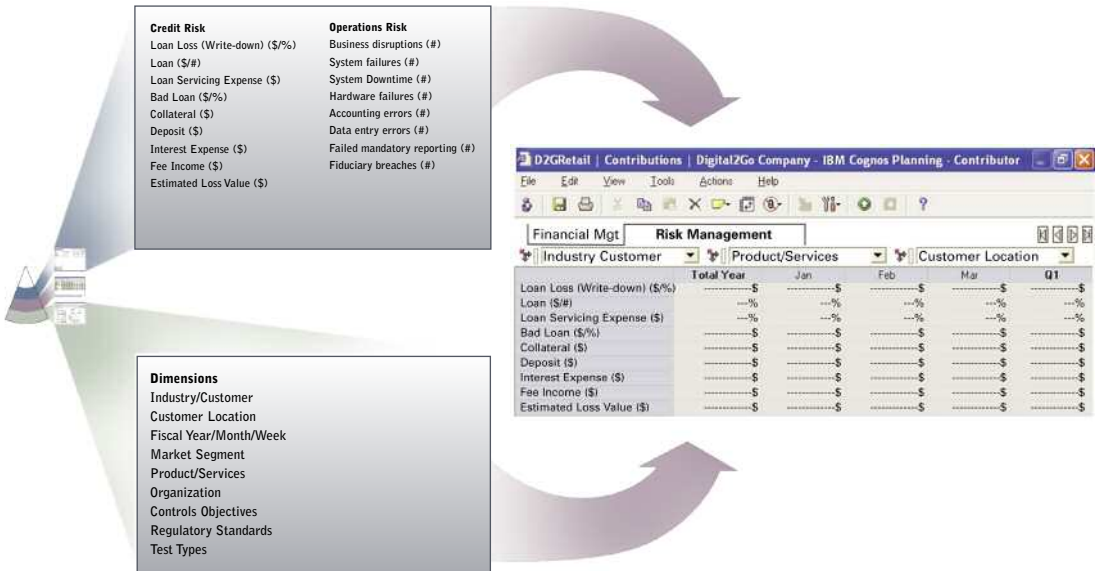
Ann-Louise Hancock, Head of People Division, Skandia

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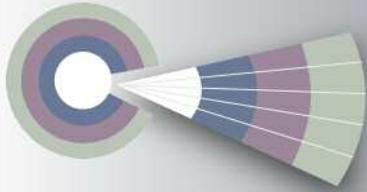
## MARKET RISK

GOALS	METRICS	DIMENSIONS
Price Risk (\$/%)	Political-Economic Risk Rating	Billing Customer
Interest Rate Risk (\$/%)	Economic & Business Trends Rating	Industry Group
Economic Risk (\$/%)	Foreign Exchange Risk	Industry
	Business Risk Rating	Category
	Avg. Interest Rate	Customer Name
	Avg. Spread	Customer Location
	Risk Sensitivity (\$)	Region
	Fee Risk (\$)	State/Province
	Options Risk	County
	Loans Sold (\$)	Postal Code/Zip Code
	Loans Purchased (\$)	Fiscal Month
	Loans Serviced (\$)	Fiscal Year
		Quarter
		Month
		Market Segment
		Market Segment
		Micro-Segment
		Sales Channel Partners
		Sales Channel Type
		Sales Partner
		Sales Organization
		Sales Region
		Sales Territory
		Org. Code

FUNCTION	DECISION ROLES	PRIMARY WORK	CONTRIBUTORY	STATUS
Risk Management	Executives	•		
	Analysts	•		
Credit	Executives		•	
	Analysts		•	
Sales	Executives		•	
General Management	Executives			•
	Executives			•



*The Credit Risk and Operations decision areas illustrate how the Risk Management function in banks can monitor risk exposure, allocate resources and set plans for future requirements to manage multiple risk types that cascade across the business.*



## Investment Advisor to the Business

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*Successful investing is anticipating the anticipations of others.*

John Maynard Keynes

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The banking environment of today is rapidly changing and the rules of yesterday no longer apply. The corporate and legal barriers that separate the various Banking, Investment and even Insurance sectors are less well defined and the cross-overs are increasing. As a consequence the marketing function is also changing to better support the bank in this dynamic market environment. The key marketing challenge today is to support and advise the focus, positioning and marketing resources needed to deliver performance on the bank's products and services. Marketing as an investment advisor, is about re-defining the delivery needs within not only key strategic market segments but increasingly refined to relevant micro-segment.

The marketing challenge is to satisfy the ultimate customer needs while still recognizing the challenges of institutional integration. For example the growth of "community banks" in the U.S. shows that customers want personal service and have concerns that large banks treat them "institutionally". Customer service surveys show that large banks that make major strides in addressing customer needs have benefited financially while other banks have discovered the downside to over-zealous cost savings, for example spending millions to correct the problems associated with sub-par customer service.

In the context of these dynamic market changes, these are the facts every marketing professional understands:

- There are more and more competitors in your market
- Your competitors are constantly changing their business models and value propositions
- Your customers can access massive amounts of information, making them aware of their options, the service differences, negotiation power and therefore increasingly fickle behavior
- At the same time, consumers' appetite for products and services continues to change and grow.

Your competition and customers will continue to increase in sophistication. Marketing must do so as well if it is to serve this new environment and help the bank compete and win. This means its role

must evolve. Marketing must become an *investment advisor* to the business. As that investment advisor, Marketing must support:

- The overall investment strategy—what is offered, where, and to whom
- The strategic path for maximizing the return on assets (ROA)
- The cost justification for the operational path required to get there (i.e., support of return on investment (ROI) numbers for scarce marketing dollars).

Marketing must be present in the boardroom, offering business and market analysis coupled with financial analysis. It must connect the dots among strategic objectives, operational execution, and financial criteria. It can provide the necessary alignment between strategy, operations, and finance.

Marketing must overcome three important barriers to provide this alignment and become an investment advisor. Each barrier underscores the need for information sweet spots, greater accountability, and more integrated decision-making.

### **Barrier 1: *Defining the “size of prize” has become more complex***

In the days of homogeneous mass markets, traditional banks assessed value based on market share of major product lines, counting on economies of scale in marketing spending and healthy margins to deliver profits. More recently, the challenge evolved from mass markets to defining and improving customer profitability. Businesses began to allocate costs at a more granular level to better evaluate customer and product performance. Many banks have successfully developed this information sweet spot and now can group customers into meaningful segments. Today, this trend is evolving as customer requirements and characteristics are divided into smaller and smaller micro-segments, which requires organizations to become responsive to the needs of more and more customer categories.

Size-of-prize marketing requires the company to do two things well. First, it must pool customers into meaningful micro-segments that are cost-effective to target, acquire, and retain. Second, it must determine the profitability potential of these micro-segments in order to set company priorities. These profit pools allow Marketing to recommend the best investment at product/service/segment levels. This is of particular relevance when considering different channel strategies: the more detailed the understanding and mapping of micro-segment profits, the more the marketing and sales propositions can be refined.

### **Barrier 2: *Lack of integrated and enhanced information***

Without appropriate context (*where, who, when*), Marketing can't define or analyze a micro-segment. Without perspective (comparisons), Marketing can't define market share or track trends at this more detailed level. As an investment advisor, Marketing must merge three core information sources: customer (operational), market (external), and financial. To leverage large volumes of customer and product data, the information must be structured thoughtfully and integrated cleanly. Marketing's judgments and assessments must be supported by the capability to categorize, group,

describe, associate, and otherwise enrich the raw data. Banks need easy, fast, and seamless access to typical market information such as trends by market categories, geographic locations, account types, channels, and competitor performance. They also need financial information from the general ledger and planning sources to understand the cost and revenue potential in order to place a value on each micro-segment.

### Barrier 3: *Number-crunching versus creativity*

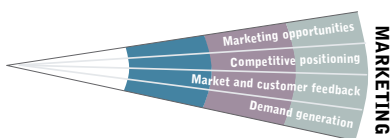
Businesses create marketing strategies to win customer segments and the associated “prize.” Marketing’s work now really begins, and it must justify the marketing tactics it proposes, set proper budgets, and demonstrate the strengths and limits of those tactics. Drilling down into greater detail and designing tactics around this information will help satisfy Finance’s requirements. In the past, such detailed design has not been the marketing norm, but it is required to generate the ROI that Finance wants to see. However, the right information is not always easy to get, and some departments contend that good ideas are constrained by such financial metrics, stifling the creativity that is the best side of Marketing. Marketing’s traditional creativity should not abandon finding the “big idea,” but must expand to include formulating specific actions with a much clearer understanding of *who, why, and size of prize*. This is not a loss of creativity, but simply a means to structure it within a more functional framework.

### A Guidance and Early Detection System

As investment advisor, Marketing guides strategic and operational activity, which focuses on the potential of specific markets and how the organization can meet these markets’ needs. In this role, Marketing can also be an early detection system for how changes in the market lead to changes in products and services, selling strategies, or even more far-ranging operational elements of the business.

Many marketing metrics are important indicators for a bank’s scorecard. Sudden drops in customer satisfaction should alert marketing to limitations in its traditional marketing efforts and could mean competitor pressure, market shifts, and/or revenue trouble down the road. Good marketing departments see the big picture. They notice and interpret trends that are not readily apparent on the front line and provide the business context for what is being sold, or not, and the associated value proposition.

Marketing has the responsibility for defining, understanding, and leading four core areas of the bank’s decision-making:



- **Marketing opportunities** → What is the profit opportunity?
- **Competitive positioning** → What are the competitive risks to achieving it?
- **Market and customer feedback** → What external verification process will enhance and confirm product and service value propositions?
- **Demand generation** → How do we reach and communicate value to customers?



**Marketing Opportunities**

Making decisions about marketing opportunities is a balancing act between targeting the possibility and managing the probability, while recognizing the absence of certainty. This decision area is fundamentally strategic and concerned with the longer term. It manages the upfront investment and prioritizes the most promising profit pools while dealing with a time lag in results. Increasingly Marketing is looking into value propositions that reflect different life stages and business cycles.

Marketing is looking to pre-package new solutions defined by a customer’s financial planning needs and not simply a single product or service requirement.

Understanding the profit potential in such opportunities requires a detailed assessment of pricing, cost to serve, distribution requirements, product quality, resources, employees, and more. The most obvious market opportunities have already been identified, whether by you or the competition. The creative use of derivatives and capital markets will drive new solutions (see Product Management). But there are still hidden gems buried in the data missed by others. These are the micro-targets that need to be identified, analyzed, and understood.

GOALS	METRICS	DIMENSIONS
Bank Share (%)	Market Growth (\$)	Fiscal Month
Market Growth Rate (%)	Market Profit (\$)	Year
Market Income (\$)	Market Volume (#)	Quarter
	Operating Profit (\$)	Month
	Income (\$)	Industries
	Channel Income (\$)	SIC 2-Digit
	Channel Share (%)	SIC 4-Digit
	Customer Growth (%)	Marketing Areas
		Region
		Area
		Marketing Segment
		Market Segment
		Micro-Segment
		Product Brand
		Product Line
		Brand
		Banking Industry Segment
		Banking Segment
		Sales Organization
		Sales Region
		Sales Territory
		Org. Code
		Financial Services Area
		Financial Services Area

FUNCTION	DECISION ROLES	PRIMARY WORK	CONTRIBUTORY	STATUS
Marketing	Executives	•		
	Managers	•		
	Analysts	•		
	Professionals	•		
Product Management	Executives			•
	Analysts		•	
Sales	Executives			•
	Managers		•	
	Analysts		•	
Finance	Executives			•
	Analysts		•	

*Knowing which customers are making and losing money, and why, at the net profit level, is an essential foundation of any customer segmentation strategy that includes improving profitability as one of its goals.*

Chris D. Fraga, Chief Strategy Officer at Acorn Systems Inc.

### Competitive Positioning

Effective competitive positioning means truly understanding what you offer as products and/or services to the segments you target, and how they compare with those of other banks. As an investment advisor, Marketing must clearly define the business and competitive proposition: *In which market segments are you competing, and with what products and services?*

Marketing must define and invest in specific information sweet spots that give it insight into how its customer selection criteria compare to those of its competitors. Marketing must understand the customer-relevant differentiators in its offerings and the life span of those differentiators. In reality, these differentiators may actually be weak and linked more to the convenience of the branch network, making it important to fully understand pricing sensitivities and customer feedback (see Market and Customer Feedback). Marketing needs to ask:

- Are our price points below or above those of key competitors, and by how much?
- If below, is this sustainable given our cost profile, or is cost a future threat?
- What premium will customers pay for a service or value-added propositions?

GOALS	METRICS	DIMENSIONS
Competitor Growth (%)	Competitor Price Change (\$)	Competitor
Competitor Price Change (%)	Competitor Income (\$)	Competitor Type
Competitor Share (%)	Market Growth (\$)	Competitor Company
	Market Value (\$)	Financial Services Areas
	Sales Revenue(\$)	Financial Service Category
		Fiscal Month
		Year
		Quarter
		Month
		Marketing Areas
		Region
		Area
		Marketing Segment
		Market Segment
		Micro-Segment
		Product/Service
		Product Line
		Service Line
		Sales Organization
		Sales Region
		Sales Territory
		Org. Code
		Financial Services Area
		Financial Services Area

FUNCTION	DECISION ROLES	PRIMARY WORK	CONTRIBUTORY	STATUS
Marketing	Executives	*		
	Managers	*		
	Analysts	*		
	Professionals	*		
Sales	Executives			*
	Managers		*	
	Analysts	*		
	Professionals		*	
Product Management	Executives			*

*We continue to devote our resources and energy to the individual customer in our quest to be more efficient and better suited to banking in the 21st century. An integrated view of the enterprise allows us to target customers based on their individual needs, which undoubtedly gives us a competitive edge in the market.*

Tal Shlasky, Data Warehouse Project Manager, Bank Hapoalim

**Market and Customer Feedback**

The market and customer feedback decision area combines an external reality check with internal understanding of the product and service value proposition. It is an objective assessment and gap analysis into the bank’s offering and whether these confirm or challenge the internal value assessment. There are many examples of products and services that do not offer sufficient value to customers. Market feedback and external verification as part of an adjustment process are essential for success.

The insights these activities produce let the organization understand what investments are necessary for additional product or service features and determine if the business can afford them. In some cases, it may make sense to pull out of an opportunity area rather than make investments with an insufficient chance of payback. An information framework that uses this data can support and confirm product development decisions. This decision area is also a tool for creating cross-functional alignment and internal commitment to new product commercialization.

GOALS	METRICS	DIMENSIONS
Suggestion Cost (\$)	Customer Feedback Count (#)	Banking Industry Segment
Suggestion Value-Added Score (#)	Comments/Suggestions (#)	Banking Segment
Customer Satisfaction Score	Improvement Priority Score	Service Benchmarking Issues
	External Verification Score (#)	Service Category
	Implementation Difficulty Score (#)	Service Issue
	Product Awareness Score (#)	Fiscal Quarter
		Year
		Quarter

FUNCTION	DECISION ROLES	PRIMARY WORK	CONTRIBUTORY	STATUS
<b>Product Management</b>	Executives	•		
	Managers	•		
	Analysts	•		
	Professionals	•		
<b>Customer Service</b>	Executives			•
	Managers		•	
	Analysts		•	
<b>Sales</b>	Executives			•
	Analysts		•	
<b>Marketing</b>	Executives			•
	Analysts		•	

### Demand Generation

Driving demand is where Marketing rubber hits the road. All of Marketing’s strategic thinking and counseling about micro-segments, profit potential, the offer, and competitive pressures comes to life in advertising, promotions, online efforts, public relations, and events.

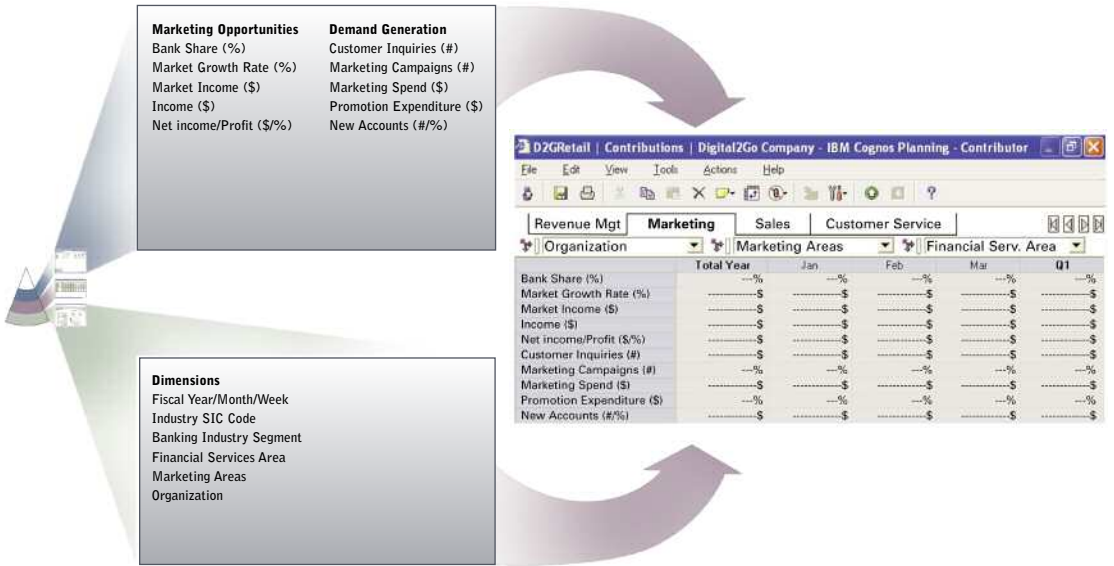
Marketing manages its tactical performance by analyzing promotions, communications, marketing campaigns, below-the-line support, internal resourcing, response rates, and cost per response. At the same time, Marketing must understand whether or not the bank is acquiring the right customers for the ideal future portfolio. This is key to understanding the results of a micro-segment Marketing effort.

Improving Marketing tactics is not simply about designing more detailed and specific activities; it also means understanding what elements work better than others. Marketing must understand the health and vitality of its various decision areas, including pricing, promotions, product and service bundling changes, and consumer communications. *What provokes a greater response? At what cost?* With a wide variety of options for online, direct response, and traditional advertising, Marketing needs to know which tools work best for which groups.

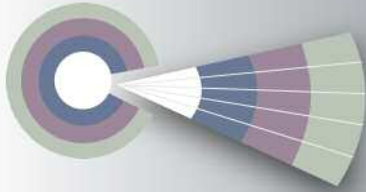
GOALS	METRICS	DIMENSIONS
Promotions ROI (%)	Product Awareness Score (#)	Fiscal Month
Customer Inquiries (#)	Marketing Campaigns (#)	Year
Demand Effectiveness Index (#)	Marketing Spend (\$)	Quarter
	Customer Penetration (%)	Month
	Customers (#)	Marketing Areas
	Households (#)	Region
	Household Penetration (%)	Area
	Qualified Leads (#)	Marketing Method
	Promotion Expenditure (\$)	Marketing Method
	Incremental Income (\$)	Marketing Segment
	Qualified Leads (#)	Market Segment
	New Accounts (#/%)	Micro-Segment
		Marketing Campaign Projects
		Marketing Campaign Type
		Marketing Campaign
		Product Line
		Product Line
		Sales Organization
		Sales Region
		Sales Territory
		Org. Code
		Weeks on Promotion

Understanding and analyzing this information is key to alignment and accountability. Driving demand requires close alignment with Sales, and Marketing tactical teams continually fine-tune their aim and selection of tactical “arrows” until they hit the bull’s-eye.

FUNCTION	DECISION ROLES	PRIMARY WORK	CONTRIBUTORY	STATUS
Marketing	Executives	*		
	Managers	*		
	Analysts	*		
	Professionals	*		
Sales	Executives			*
	Managers		*	
	Professionals		*	
Customer Service	Executives			*
Finance	Executives			*



*The Marketing Opportunities and Demand Generation decision areas illustrate how the Marketing function can monitor its performance, allocate resources, and set plans for future financial targets.*



# SALES & RELATIONSHIP MANAGEMENT

## Your Business Accelerator

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*Things may come to those who wait, but only things left by those who hustle.*

Abraham Lincoln

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### **Not Enough Time, Not Fast Enough**

Customers are increasingly educated and competent. To expand banking relationships, the sales function must be able to react, adjust, and satisfy customer demands on the spot. Understanding customer needs and credibility in offering a solution are prerequisites for even being in the running. New customer demands mean banking products and services conversations have become far more complex, demanding a wider range of product knowledge, sales techniques, customer insights, and company-wide awareness. And the customer expects a fast response. This is the key challenge facing today's sales function: how to balance the need for faster customer response while gaining the right information to qualify the customer risk profile and close the sale.

The ability to close deals efficiently and the knowledge needed to invest your time in the right customers are critical factors driving your bank's success. Both depend on a timely, two-way flow of information. Accurate and speedy information can help improve revenue results and reduce selling costs. Information flowing through Sales can affect every other department in the bank: for example, high demand forecasts will drive greater internal resourcing and transaction processing needs. The slower the two-way flow of information, the less responsive the organization.

This viewpoint brings together the three core insights in this book (see Promise). Sales has clear accountability for results, requires information sweet spots, and thrives on the most integrated decision-making capabilities. A sales and relationship management function with the right information, at the right time, driven by the right incentives, is formidable. Unfortunately, many banking organizations do not optimize time and speed of execution due to three barriers:

**Barrier 1: *You don't set revenue targets and allocate effort based on maximizing overall contribution***

How you measure performance and set compensation drives how the Sales function allocates its time. If you define targets in terms of potential profit and contribution, Sales will invest time where it maximizes sustainable returns. Customer relationships that secure today's inquiries and tomorrow's revenues are a strong competitive advantage. If focusing Sales on customer and product profitability isn't a new thought, and it's not difficult to see the benefits, why is it still rare in terms of implementation?

There are several reasons. In many cases, integrated profitability information is unavailable or is too sensitive to distribute. Determining how to allocate costs and define internal transfer pricing may be complex or politically charged. More frequently, the bank's focus on short-term revenue means Sales does not have or need a perspective on long-term customer contributions. As a result, it neglects to measure cross-sell and up-sell revenue paths or the estimated lifetime value of a customer.

The customer's potential lifetime value is not static: it changes over time. A good sales or relationship manager can positively affect the change. Effecting positive change requires that Sales understand:

- The cost benefit of maintaining versus acquiring customers
- Relative weighting of various opportunities based on the "cost" of expected effort
- Longer-term planning as opposed to a single sales opportunity
- A multi-tiered portfolio approach to opportunities

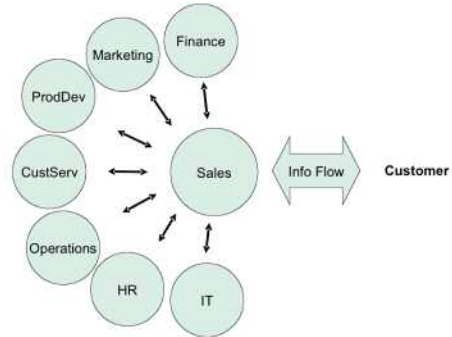
Without an understanding of these sweet spots, your time may be poorly invested. Or worse, you won't know if it is or isn't.

**Barrier 2: *There is no two-way clearinghouse for the right information at the right time***

IT departments are precisely benchmarked and highly subject to internal scrutiny. These departments expect reliable company-to-company relationships, where vendors are business advisors and valued solutions experts. Sales, too, is becoming more and more about information rather than just products and relationships. However, turning sales professionals into experts on every topic is not the answer. There is simply too much customer information required to process, distill, and communicate for sales managers to be fully educated on every possible buying scenario. Instead, Sales needs to become an efficient clearinghouse of the right information at the right time. What's missing in most organizations is an effective two-way flow of "smart facts" between the customer and the business. Smart facts are focused information packages about customer needs and challenges, bank advantages, and important interaction points between both entities.

The two-way nature of this information is critical. The entire organization (Marketing and Product Management in particular) needs customer insights into what works, what doesn't, and what is of greatest importance. Without this, your response to important concerns is impeded, and you won't understand the customer perspective, which is necessary for sustainable relationships. Smart facts let Sales:

- Build on customer success stories and best practices
- Link understood bank values to what the customer requires
- Proactively deal with issues between the customer and bank (such as service delays, etc.) and stay on top of the account



*Sales: two-way clearinghouse of smart, fast facts*

Sales and relationship managers—your front line with customers—are at a disadvantage when trying to build reliable relationships and loyalty if you do not provide them with these smart facts in a timely fashion.

### **Barrier 3: You don't measure the underlying drivers of sales effectiveness**

What type of input drives the results, as measured by sales success? This is rarely evaluated or understood, and yet it is one of the most critical areas for a bank to master.

Lead generation, customer preparation, sales calls, and collateral material are all familiar tactics of the sales process. The missed opportunity comes from not tracking what expectations were set around these tactics and not monitoring what actually happens. Despite significant investments in automation and customer relationship management systems, banks miss this opportunity when they see setting targets as a complicated planning exercise or when it conflicts with an organization's bias to rely more on intuition.

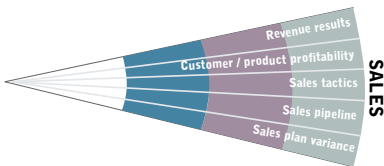
The choice doesn't have to be either/or. Experience and intuition can guide the initial tactical choices and outcome expectations—but monitoring these outcomes lets you make informed decisions to improve your results. Your goal is to increase sales productivity and adjust tactics when something doesn't work. Without set expectations and a means to monitor the underlying drivers of sales effectiveness, you will likely suffer both higher selling costs and missed sales targets.



### Continuous Accelerated Realignment

The five decision areas described below can improve the speed of sales execution and enable a more effective use of time. They rely on the two-way flow of vital information between customers and bank. This sharing of information can accelerate the speed of adjustments and realignments of product, market, message, service, and other elements of the business. Decision areas in Sales and Relationship Management:

- **Revenue results** → What is driving revenue performance?
- **Customer/product profitability** → What is driving contribution performance?
- **Sales tactics** → What is driving sales effectiveness?
- **Sales pipeline** → What is driving the revenue pipeline?
- **Sales plan variance** → What is driving the revenue plan?



The order of these decision areas reflects a logical flow of analysis and action. They start with understanding where Sales is achieving its results, first in terms of overall revenue performance and then in terms of net income or contribution. This is followed by drilling deeper into how the Sales function is using its time and to what effect. Finally, the insights gained are applied to revising the planning and forecasting process. In this way, Sales can drive a continuous and accelerated re-examination and realignment of the organization. This cycle is anchored by the organization's strategic objectives (profitability and net income) and incorporates frontline realities for an accurate view of Sales and Relationship Management performance.

## Revenue Results

Revenue results are one of the most basic and important information sweet spots. They are one of the two foundations of Sales management, the other being Sales planning. They provide a consistent overview of actual revenue across the five basic components of the business—product, customer, territory, channel, and time.

Accurate understanding of these components suggests why results diverge from expectations.

*Are revenues trending down in certain territories? Is this consistent across all products, services, channels, territories, and customers?*

Revenue results should not be confined to managerial levels, but should be shared at various levels of the organization. You can empower the frontline with appropriately packaged analytic information, adapted for individual representatives with specific products and services in specific territories.

Beyond immediate operational analysis, revenue results let you recognize broader performance patterns to see if strategies and management objectives are on track and still making sense. With a consistent flow of information over time, you can make more strategic comparisons, interpretations, and adjustments. For example, if revenues are flat in the premium customer segment, you need to know: *Is this a tactical problem or a strategic one—i.e., should this lead to a full re-evaluation of the bank's future in the premium segment? Are significant resource investments necessary to revive this segment? Has the product or service proposition been outflanked by the competition?* These questions are part of an accurate assessment of revenue results.

Revenue results information also connects time spent, level of responsibility, strategic decision-making, and operational activities. If you identify a weakness in a commodity segment of the market, the bank has a number of time-related options to deal with it. A drop in such revenues in the short term may cause serious competitive damage, leading to long-term difficulties. The short-term solution might be a series of sales push activities, such as more promotions and more aggressive pricing. Given the impact of this on the net income margin, however, management may choose to look at the overall product and service proposition to identify and find opportunities to cut costs. This may require long-term strategic decisions at the highest level of the organization involving Marketing, Product Management, Operations, and Finance. Revenue results are one of the main contributors of information for this decision. The speed and accuracy with which this information is provided to the bank is critical. More of this dynamic will be covered in the Executive Management chapter.

## REVENUE RESULTS

GOALS	METRICS	DIMENSIONS	
Income Growth (%)	Fee Income Growth (%)	Billing Customer	Market Segments
Income (\$)	Non Fee Income Growth (%)	Industry Group	Market Segment
New Banking Products/ Services (\$/%)	Customer Relationship Growth (%)	Industry	Micro-Segment
	Avg. Product Service Revenue (\$)	Category	Services
	Customers (#)	Customer Name	Product Line
	Lost Customer Count (#)	Customer Location	Service
	New Customer Count (#)	Region	Sales Channel Partners
	Lost Income (\$)	State/Province	Sales Channel Type
	Revenue per Employee	County	Sales Partner
	Net Income per Employee	Postal Code/Zip	Sales Organization
	Fees per Account (\$)	Code	Sales Region
	Fee Waivers as a % of Fees	Fiscal Month	Sales Territory
		Year	Org. Code
		Quarter	
		Month	

FUNCTION	DECISION ROLES	PRIMARY WORK	CONTRIBUTORY	STATUS
Sales	Executives	*		
	Managers	*		
	Analysts	*		
	Professionals	*		
Audit	Executives			*
	Managers	*		
	Professionals	*		
Customer Service	Executives		*	
	Analysts		*	
Marketing	Executives			*
	Managers		*	
	Analysts		*	
	Professionals		*	
Finance	Executives			*
	Analysts		*	
Product Management	Executives			*
	Analysts		*	
Operations / Production	Executives			*

*Understanding what drives customer profitability is the Holy Grail in retail banking. With the help of Cognos, we have been able to increase our understanding of our customer base, across all product businesses, as well as provide our customer relationship managers with meaningful, actionable information that impacts their decision-making process. Customer data is much more consumable and therefore, much more strategic to our organization.*

Eugene McCarthy, Head of Profitability Measurement, Retail Division, Bank of Ireland

**Customer/Product Profitability**

The key to this decision area is recognizing which customers, products and services are making the largest contributions. A basic contribution assessment is possible using a “revenues less allocated costs” formula for customers and products. Once this is calculated, you can develop more complex views by allocating direct costs using certain drivers to determine either effort or activity plus related costs. This may highlight inconsistencies in internal transfer pricing and lead to a reassessment of net operating income for various products and services. Using a phased approach when moving to a more direct measure of income enables learning by successive iterations, and the benefit of gaining wins and proof of value before tackling more complex cost allocations and associated drivers. The Sales function must adopt the income goals and work with the rest of the organization on achieving them.

GOALS	METRICS	DIMENSIONS	
Avg. Customer Income (\$)	Income (\$)	Billing Customer	Market Segments
Avg. Customer Margin (\$/%)	Direct Cost (\$)	Industry Group	Market Segment
Net Income (\$/%)	Allocated Cost (\$)	Industry	Micro-Segment
	Average Transfer Cost (\$)	Category	Services
	Customer Acquisition Cost (\$)	Customer Name	Product Line
	Customer Retention Cost (\$)	Customer Location	Service
	Interest Margin (\$/%)	Region	Sales Channel Partners
	Service Costs (\$)	State/Province	Sales Channel Type
	Non-Interest Margin (\$/%)	County	Sales Partner
	Discounts/Reductions (\$/%)	Postal Code/Zip Code	Sales Organization
	Customer Tenure (#)	Fiscal Month	Sales Region
	Fees per Account (\$)	Year	Sales Territory
	Income per Account (\$)	Quarter	Org. Code
	Cost per Account (\$)	Month	
	Net Income per Account (\$)		
	Fee Waivers as a % of Fees		

FUNCTION	DECISION ROLES	PRIMARY WORK	CONTRIBUTORY	STATUS
Finance	Executives			*
	Managers		*	
	Analysts	*	*	
	Professionals		*	
Sales	Executives	*		
	Analysts	*		
Marketing	Executives			*
	Analysts		*	
IT / Systems	Executives			*
	Analysts		*	
Product Management	Executives			*
	Analysts		*	
Customer Service	Analysts		*	
Audit	Analysts		*	
Human Resources	Analysts		*	
Operations / Production	Analysts		*	
Purchasing	Analysts		*	

Understanding customer lifetime profitability is vital to a business. It focuses the organization on the value of the long-term customer. Customer/product profitability is a powerful tool that is used at senior levels of product management, risk management, and corporate strategy. The sensitivity of this information dictates that it cannot be widely distributed, but by indexing some of this information for the sales function, you ensure Sales understands its profit priorities and is ready to put that knowledge into action.

*There are two basic components that we needed from the implementation of Cognos. First: the ability to create standard reports every quarter for our account managers, branches and regions; and second, the ability to generate monthly data cubes for the purpose of detailed analysis.*

Gernot Schwarz, Sales Controlling Department, Bank Austria Creditanstalt

**Sales Tactics**

This decision area evaluates the sales process to determine which activities and mechanics are most effective. The key is to understand what resources, activities, and tools you need to achieve targets for specific channels and accounts. This decision area continually monitors and reviews the *what* (resources) versus the *how* (mechanics).

The *what* includes understanding the following: *How many warm and cold prospects are available? How do you best approach them? How much time is spent on research? How much time is spent with existing customers versus time with new customers? What is the proportion of direct effort to indirect effort?* You require insight into all these areas to optimize time and resources.

The *how* includes understanding how the cost and time spent on activities like promotions, face-to-face meetings, brochures, direct mail, and cold calls will drive revenue targets.

By combining these two viewpoints, the Sales function is able to guide greater sales effectiveness. Sales tactics are a direct extension of the Sales performance decision area. You need a structured and coordinated understanding of sales tactics to manage your customers and sales effort effectively. This information must be accessible by your Sales frontline to direct their efforts and help them learn from the success of others. In today’s climate, call reports and sales process information are also audited to evaluate compliance with “know your customer” and related anti-fraud regulations.

GOALS	METRICS	DIMENSIONS
Commission (\$)	Qualified Prospects	Billing Customer
Applications (#)	Relationship Cross-Sell Index	Industry Group
Sales Calls (#)	Loan Applications (#)	Industry
Customer Gains (\$/%)	Enrollments (#)	Category
	Cost per Activity (\$)	Customer Name
	Cost per Application (\$)	Customer Location
	Income per Application (\$)	Region
	Sales Cost (\$)	State/Province
	Customers (#)	County
	Customer Gains (\$/%)	Postal Code/Zip Code
	Customer Losses (\$/%)	Fiscal Month
	Inactive Customers (#)	Fiscal Year
	Lost Customers (#)	Quarter
	Avg. Loan U/W Time	Month
	Inquiry Count (#)	Market Segments
	Inquiry Conversion (%)	Market Segment
	Prospect Rating Score	Micro-Segment
	Conversion Ratio (%)	Services
	Account Growth (%)	Product Line
	Fees per Account (\$)	Service
		Sales Channel Partners
		Sales Channel Type
		Sales Partner
		Sales Organization
		Sales Region
		Sales Territory
		Org. Code
		Sales Time Priority Rating
		Priority Rating

FUNCTION	DECISION ROLES	PRIMARY WORK	CONTRIBUTORY	STATUS
Sales	Executives	*		
	Managers	*		
	Analysts	*		
	Professionals	*		
Finance	Executives			*
	Analysts		*	
Marketing	Executives			*
	Analysts		*	

### Revenue Pipeline

This is more than a revenue forecast; it is an opportunity to see into your bank’s future and change it. The revenue pipeline is critical as an early warning system of future opportunities, growth, and problem areas. By defining and monitoring the phases of the revenue pipeline, you can derive metrics that let you qualify new performance standards and manage business growth. Your pipeline intelligence can become even more sophisticated by looking at details such as new versus existing customers, territories, product and service groups, markets, and more.

Each metric suggests useful business questions that can lead to positive functional

change: *Why do only 2 percent of initial customer loan inquiries lead to loan application requests? How does this compare with the competition’s experience? What would it take to increase this ratio to 5 percent? Why are loan applications lost, possibly for a given customer segment?* The revenue pipeline should tie into Operations, typically to future resource and processing requirements. The more predictive and accurate the revenue plan is in terms of product or service needs, the more efficiently Operations can manage its transaction processes and staffing, and stop expensive reactive resourcing allocations due to short-term bottlenecks.

GOALS	METRICS	DIMENSIONS	
Income Growth (\$/%)	Income/Assets (%)	Billing Customer	Services
New Customer Count (#)	Active Customers (#)	Industry Group	Product Line
Average Income per Customer (\$)	Inactive Customers (#)	Industry	Service
Average Income per Product/Service (\$)	Inquiries (\$)	Category	Sales Channel Partners
	Lost Business Count (#)	Customer Name	Sales Channel Type
	Lost Business (\$)	Customer Location	Sales Partner
	New/Lost Customer Ratio (%)	Region	Sales Organization
	New Branch Count (#)	State/Province	Sales Region
	Deposit \$ Growth (%)	County	Sales Territory
	Loan \$ Growth (%)	Postal Code/Zip Code	Org. Code
	Securities (#/\$) Growth (%)	Fiscal Month	
	Loan Application Growth (%)	Year	
		Quarter	
		Month	
		Market Segments	
		Market Segment	
		Micro-Segment	

FUNCTION	DECISION ROLES	PRIMARY WORK	CONTRIBUTORY	STATUS
Sales	Executives	*		
	Managers	*		
	Analysts	*		
	Professionals	*		
Customer Service	Executives			*
	Analysts		*	
Audit	Executives			*
	Analysts		*	
Operations / Production	Executives		*	
	Analysts		*	
Purchasing	Executives			*
	Analysts		*	

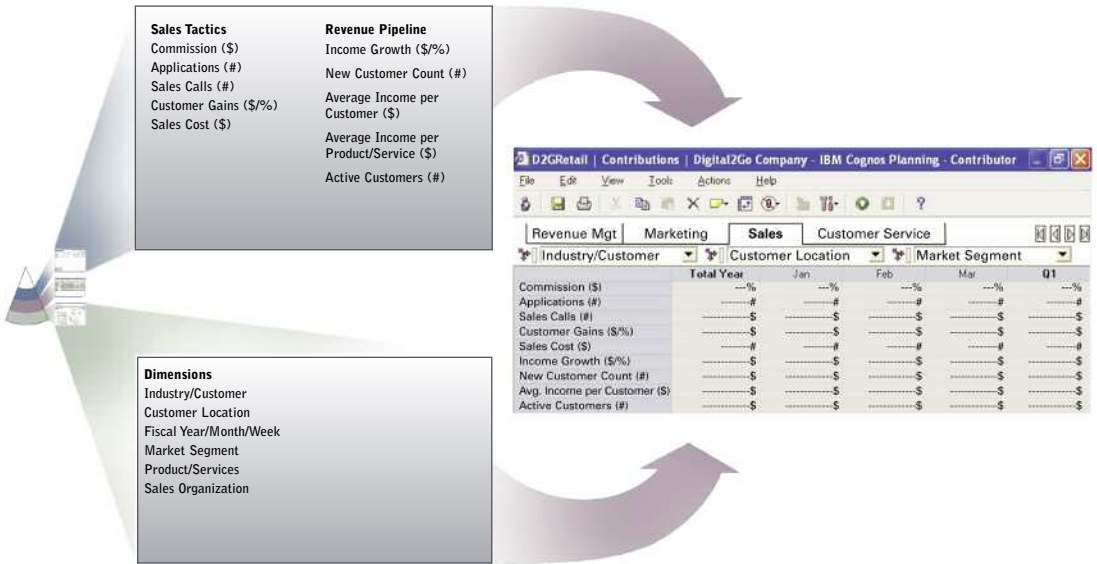
### Revenue Plan Variance

Revenue planning is a control mechanism, tightly linked to the budgeting and planning process. It is also a way to manage change and understand the ebb and flow of your business. Unfortunately, the control side tends to dominate. A top-down budgeting process, where corporate objectives must be achieved (e.g., double-digit revenue growth), emphasizes planning over the actual situation. This leads to companies identifying and plugging revenue gaps with short-term revenue solutions, usually at the expense of long-term strategy—milking the future to get results today. More useful revenue plans work from the bottom up.

Alignment and accountability must be meaningful. In a meaningful revenue plan, every department provides feedback on revenue objectives, markets, customers, channels, and products. Iterations of this process may be needed to fit with top-down corporate objectives, but it allows individuals across the organization to own their numbers and be fully accountable. When the entire business is engaged in monitoring under/overperformance, front-line levels of the organization can answer questions regarding the where and why of existing revenue targets. The Sales function responsible for a missed customer segment revenue target can explain the why and suggest ways to correct the gap. Today’s tools enable that essential granular knowledge to be included and rolled up into meaningful plans. Customer account level variance analysis helps reinforces customer focus and strengthen service delivery standards.

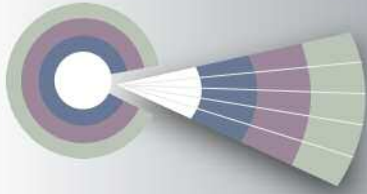
GOALS	METRICS	DIMENSIONS
Results Plan (\$/%)	Customer Gains (\$/%)	Fiscal Month
Results Variance (\$/%)	Customer Losses (\$/%)	Year
	New Customers (\$)	Quarter
	Income Growth (\$/%)	Month
	Cost Growth (\$/%)	Forecast Scenario (Plan/Actual/Forecast)
	Account Growth (\$/#)	Scenario
	Revenue/Income (\$)	Market Segments
	Account Balance (\$/#)	Market Segment
		Micro-Segment
		Product Line
		Product Line
		Sales Channel Partners
		Sales Channel Type
		Sales Partner
		Sales Organization
		Sales Region
		Sales Territory
		Org. Code

FUNCTION	DECISION ROLES	PRIMARY WORK	CONTRIBUTORY	STATUS
Sales	Executives	*		
	Managers	*		
	Analysts	*		
	Professionals	*		
Audit	Executives			*
	Managers	*		
	Professionals	*		
Customer Service	Executives			*
	Analysts		*	
Finance	Executives			*
	Analysts		*	
Operations / Production	Executives			*
	Analysts		*	
Purchasing	Executives			*
	Analysts		*	



*The Sales Tactics and Revenue Pipeline decision areas illustrate how the Sales function can monitor its performance, allocate resources, and set plans for future financial targets.*





## The Risk/Reward Barometer of the Bank's Value Proposition

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*There is only one boss. The customer. And he can fire everybody in the company from the chairman on down, simply by spending his money somewhere else.*

Sam Walton

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The rewards of good customer experience are straightforward: a satisfied customer is more likely to be loyal and generate more repeat business. There are related benefits:

- Customer retention is far cheaper than customer acquisition.
- A loyal customer is a strong competitive advantage.
- A satisfied customer can become “part of the team,” helping to sell your value proposition by word-of-mouth referrals.
- Customers are also a great source of market intelligence to generate feedback on service standards.

Taken as a whole, the benefits of achieving great customer satisfaction are like a multi-tiered annuity stream. Wall Street rewards annuities because they reduce uncertainty and volatility. The risks of poor customer service are greater and more insidious because they are less visible. For every unhappy customer you hear from, there are countless more who are silent. Negative word of mouth can damage years of good reputation and ripple through countless prospects who never become customers. Ultimately, unhappy customers become lower revenues for you and higher market share for your competitors.

Customer Service is both an advocate for the customer within the bank, and an advocate for the bank with the customer. It generates unique insight into the customer experience, providing an outside view on the business value proposition.

However, many banks pay little more than lip service to customer relationships. Historically, bank customers have been more tolerant than in other industries, and despite experiencing poor service, customers find it inconvenient to change mortgages, loans, accounts, etc. In the future, with increasing competition and customer expectation, Customer Service will assume a more important role. Many banks still view Customer Service as a necessary expense, as opposed to a critical barometer of sustainable value creation, and three significant barriers must be overcome to change this view:

**Barrier 1: *Insufficient visibility of the risks to customer loyalty uncovered by Customer Service***

Customer Service can be thankless and hectic. Picture a room full of service representatives juggling calls from frustrated customers, often in outsourced and offshore call centers. In such a volume-driven environment, it is difficult to determine the context and pattern of the calls received. Banks have made major investments in customer relationship management, specifically in call center software. While these technologies make call centers more efficient, they generate vast amounts of transaction detail that can obscure meaningful patterns and root causes.

Finding patterns in problems such as service delays, information requests, complaints, and claims can lead to proactive solutions. Categorizing the types of complaints by type and seriousness of error, response time, and resolution time can reduce service costs and identify the causes of dissatisfaction. Informed banks can address problems at the source and understand the pattern and context of the calls they receive.

Even when you can't eliminate the root cause, better categorization of issues can speed up the time to resolve problems. Timely responsiveness can salvage many frustrated customer relationships. As one executive of a major airline said: "Customers don't expect you to be perfect. They do expect you to fix things when they go wrong." Achieving this requires that problems and their causes be grouped and studied so that effective action can be taken.

**Barrier 2: *Poor awareness of the benefits of a good customer experience, especially when grouped by who and how***

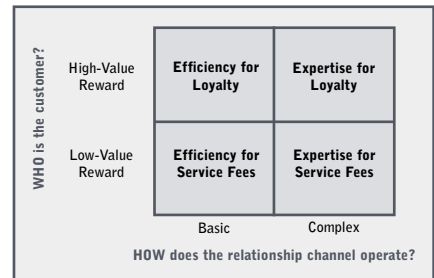
While many businesses know how much they save by reducing customer service, few can project the cost of lower service levels. In particular, you need to understand how customer service levels affect your key and most profitable customer segments. If you don't, you may understate—or overstate—the risk. Overstating the risk leads to an inefficient allocation of resources, which reinforces the view that Customer Service is an expense. Understating the risk can be even worse, leading to the loss of your most valuable customers—the ones your strategy counts on—and the marketing impact of negative word of mouth on other customers.

Good Customer Service departments take into account the absolute and relative lifetime revenue of customer segments and prioritize service efforts for high-reward customers. Beyond direct future benefits, you may also segment strategic customers that represent high-value segments or product

champions. The key is to segment Customer Service issues by *who*—the customers that matter most to your current and future bottom line.

Once banks understand which customer segments are most important, they must gain insight into how the relationship works. In complex customer-bank interactions, the relationship depends on expertise (for example, offering investment advice). This is a clear market differentiator. If the customer-bank interaction is more basic (for example, payment services), then the day-to-day efficiency of the relationship becomes more important for both parties.

Segmenting customer relationship channel interaction helps to clearly define the relative value of great service. When you include the relative value of the customer, you have a useful framework to maximize the rewards of service for you and the customer. For example, if your expertise in a given service is a differentiator, you may want to offer it free to high-net-worth customers in return for expanded product commitment or greater loyalty. At the same time, you may want to charge low-value customers extra for this service. Whatever metrics you choose, you must align them with what the customer perceives as important. *Does the customer value convenience above price? Is personalized service more important than automation? What are acceptable response times? Customers may always want immediate service response, but are they willing to pay a premium?* Understanding the relative importance of such criteria will make customer service monitoring more relevant.



**Barrier 3: The absence of a customer advocate and direct accountability**

Ideally, your entire organization has common customer service performance goals. You should back up this alignment with accountability and incentives, especially when the different drivers of those goals span different functions. Without incentives, you create a barrier to achieving better customer service.

Overcoming this barrier requires clear, credible, and aligned customer service metrics—and the political will and organizational culture to rely on them for tough decisions. *Do you incur higher costs in the short term to secure long-term customer loyalty?* Only banks that understand the risks and rewards of customer service can make informed decisions on such questions.

Customer Service has a key role in generating and sharing this information. Beyond being the handling agent, it can become an effective customer advocate to other departments, and an expert on customer performance metrics and their drivers. It has to understand the problems and the operational solutions. Most important, Customer Service must effectively communicate these metrics to the rest of the organization so that other departments can resolve the root causes of customer experience issues.

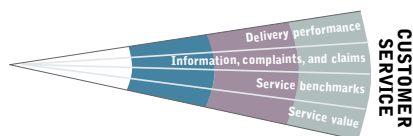
This works both ways. Not only must Customer Service bring in other functions to resolve problems, it should offer useful information in return. For example, trends in the type of complaints or problems can suggest process improvements and operational efficiencies in the back office. Forewarning the branch network about service issues will allow them to craft an approach, message, and appropriate assistance. Cooperation like this demonstrates the responsiveness of the organization and can salvage troubled relationships.

### Excellence in Customer Experience

The four decision areas described below equip Customer Service with the critical risk and reward information they need to be more effective customer advocates, bringing excellence to the customer experience.

Decision areas in Customer Service:

- **Delivery performance** → What is driving delivery performance?
- **Information, complaints, and claims** → What is driving responsiveness?
- **Service benchmarks** → What is driving service levels?
- **Service value** → What is driving the service cost and benefit?



The sequence of these decision areas provides a logical flow of analysis and action, starting with understanding the primary drivers of customer risk. First and foremost, is customer service performance acceptable and competitive? Customers do not easily forget failures in this area; such mistakes, therefore, carry significant risk. Customers are not expecting complications or excuses for poor service delivery, for example, a lost loan application or account transaction errors. Beyond the fundamental product and service responses with the customer, there are many additional issues that customers expect to have resolved quickly. These include simple requests for information, complaints, and major claims on banking errors.

The next two decision areas shift the focus to the benefits of retaining key customers. You start by benchmarking your bank against internal and external standards. *What criteria are you measured against, and how good is your performance compared with the competition?* The last decision area brings everything together into a relative cost/benefit analysis of each customer segment relationship. *Are you reaping the rewards of Customer Service, what are they, and how much has it cost?*

### Delivery Performance

One of the biggest obligations for a bank is to deliver its products and services on a timely basis. “Timely” is a relative benchmark linked to changing customer expectations as well as competitor alternatives. In an environment where convenience dominates purchasing behavior, the quest to be timely is a never-ending challenge. This is why it is vital to identify what, where, and why internal processes are failing or underperforming in their timeliness. Reducing time-related bottlenecks is critical in a relatively undifferentiated competitive banking market. Monitoring performance also provides sales channels with information to pre-empt potential issues before interacting with customers.

Unfulfilled expectations regarding service delivery can also be important for reconciliation purposes when checking on late payments from customers. This decision area can also uncover root causes of back-office problems. Tracking timeliness by product, service, and customer segment will highlight potential deficiencies in key hand-off steps within the internal process. With better information, you can categorize different levels of timeliness and compare them to different customer delivery performance thresholds for a more detailed view of risk and recommended action.

GOALS	METRICS	DIMENSIONS
Average Fulfillment Time (#)	System Problems (#)	Systems
Fulfillment on Target (%)	Avg. Time to Service Response	Application System
System Downtime (#)	System Downtime Events (#)	System Problems Problem Severity System Problem
		System Downtime Downtime Time of Day
		Customer Transaction Accounts Customer System Transaction Account
		Day Year Quarter Month Day

FUNCTION	DECISION ROLES	PRIMARY WORK	CONTRIBUTORY	STATUS
Customer Service	Executives Managers Analysts Professionals	• • • •		
Sales	Executives Managers Analysts Professionals		• • •	•
Operations / Production	Executives Analysts		•	•

### Information, Complaints, and Claims

Every complaint is a proactive customer statement that you are not meeting expectations. It is an opportunity to listen to your customer, whether it’s a simple request for information, a complaint about performance, or even a financial claim on a service error. Experience shows that each call can be the tip of an iceberg—the one frustrated customer who calls may represent many more who don’t bother. By tracking and categorizing these calls, you can gauge the severity of various risks and prevent them in the future.

There are three dimensions to monitoring the customer voice: frequency, coverage across customer and product segments, and type of issue. Simply counting complaints will not adequately reflect the nature or risk of a problem. For example, you may receive many complaints about paperwork and problem resolution, but these represent lower risk than complaints about loan terms and uncompetitive offerings, as these may be an early flag for market share loss. In this example, a count of complaint frequency will not adequately reflect the underlying market loss risk. Claims are complaints that have been monetized. Perhaps through bank errors, the customer now needs compensation or related resolution. Claims are a potential direct cost to the bank, especially if they escalate to legal involvement, impacting the bank’s public reputation. Poor customer handling can accelerate customer account losses and lessen customer loyalty.

GOALS	METRICS	DIMENSIONS	
Open Claims (\$/#)	Claim – Avg. Settlement Time	Billing Customer	
Paid Claims (\$/#)	Claim Amount (\$/#)	Industry Group	
Lost Customer Count (#)	Fines (#)	Industry	
	Errors (#)	Category	
	Error Rate Index	Customer Name	
	Investigations (#)	Claims	
	Investigations – Closed	Claim Type	
	Investigations – Open	Claim Identification (#)	
	Complaint Count (#)	Claim Status	Claim Status
			Claim Aging
		Claim Time Range	
		Claim Beneficiary	
		Beneficiary	
		Claim Remitter	
		Remitter	

FUNCTION	DECISION ROLES	PRIMARY WORK	CONTRIBUTORY	STATUS
Customer Service	Executives	*		
	Managers	*		
	Analysts	*		
	Professionals	*		
Finance	Executives	*		
	Analysts	*		
Compliance	Executives			*
	Managers		*	
	Analysts		*	
	Professionals		*	
Operations / Production	Executives			*
	Managers		*	
	Analysts		*	
	Professionals		*	
Sales	Executives			*
	Managers		*	
	Analysts		*	
	Professionals		*	

### Service Benchmarks

Service benchmarks help evaluate how your customer service stacks up against internal and external standards. They measure not only response times, but also service gaps affecting customer satisfaction. Understanding the link between service benchmarks and customer/product revenue performance is a key goal. For example, we may find that excessive overdraft charges are impacting a customer’s behavior and willingness to apply for personal loans, driving the customer to seek a more sympathetic alternative. An overly complex and burdensome process for mortgage applications may discourage potential new customers. A simplification and re-engineering of the bank’s internal review processes may end up having the double benefit of market share gains and cost savings.

Internal metrics may include number of applications, process time, successful/rejected applications, average revenue amount, number of service calls, types of customer interactions, and correspondence. External performance metrics may include account and product comparisons, problem resolution, customer satisfaction surveys, response time, and claims. Using standard industry criteria allows managers to compare external information from third-party assessments with internally driven customer surveys. Gaps in external information can uncover risks not picked up by internal monitoring. Such information can also identify the need for better external communications.

Combined with skilled analysis, service benchmarks can be used to adjust the product and customer proposition. You can summarize customer benchmarks by region and customer segment, and thereby offer a high-level overview or drill down into Customer Service performance issues.

GOALS	METRICS	DIMENSIONS
Average Service Time (#)	Service Quality Std. (%)	Banking Industry Segment Banking Segment
Customer Satisfaction Score	Service Calls	Financial Services Area Financial Service
Service Support Score	Service Reconciliation – Avg.Time	Billing Customer Industry Group Industry Category Customer Name
	Reporting Info Accuracy (%)	Workflow Support Areas
	Reporting Info Timeliness (%)	Service Support Activity
	Rework (%)	Service Benchmarking Issues Service Category Service Issue
	Outstanding Service Issues (#)	
	Lost Customer Count (#)	
	Wait Time (#)	

FUNCTION	DECISION ROLES	PRIMARY WORK	CONTRIBUTORY	STATUS
Customer Service	Executives Managers Analysts Professionals	• • • •		
Sales	Executives Analysts		•	•
Finance	Executives			•
Marketing	Executives			•
Product Management	Executives			•
Purchasing	Executives			•

### Service Value

This decision area combines costs and benefits to evaluate the value of the customer relationship. It segments customers by who they are and performance by how the bank provides the service.

Quantifying customer risk issues and the efforts required to resolve them provides the cost overview. Some issues can be financially quantified, such as the number of calls received, cost per call, and dollar value of errors processed. Others, such as poor response times or complaints, can be categorized through a service level index.

When determining cost, it is also important to understand how the relationship operates. Does the customer communicate with you through efficient electronic means and direct access to internal support systems, or use less efficient means such as phone or fax? Customer conversations that can be captured as data (i.e., electronically) tend to indicate more efficient relationships. You can define sub-categories of complexity based on customer and transaction knowledge: for instance, by tagging relationships based on how many separate steps and hand-offs are required to complete the transaction.

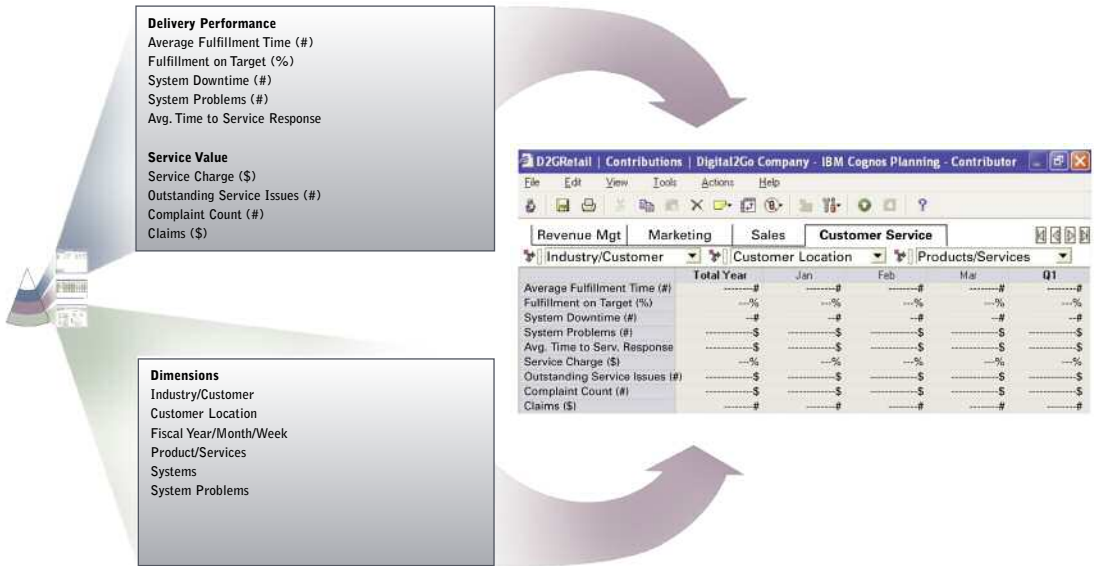
At the same time, you need to categorize the benefits, for example, using a lifetime revenue metric or strategic value index based on expected revenue.

When Customer Service can analyze value and cost, it can avoid trading one for the other by setting more accurate priorities for use of resources. Poor service performance in simple channels implies that Customer Service should invest more in process automation and improved efficiency. Performance issues in complex channels point to increasing investment in skills, expertise, and decision-making support when analysis shows that the investment is worth it.

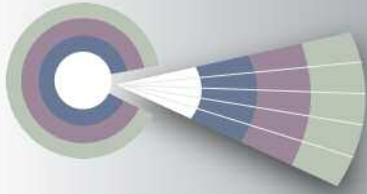
GOALS	METRICS	DIMENSIONS	
Service Cost (%)	Service Support Score	Billing Customer	Services
Service Effectiveness Index	Service Efficiency Std. (%)	Industry Group	Product Line
	Service Charge (\$)	Industry	Service
	Outstanding Service Issues (#)	Category	Sales Channel Partners
	Customers (#)	Customer Name	Sales Channel Type
	Lost Customer Count (#)	Customer Location	Sales Partner
	Average Customer Income (\$)	Region	Sales Organization
	Complaint Count (#)	State/Province	Sales Region
	Claims (\$)	County	Sales Territory
	Net Income (\$/%)	Postal Code/Zip Code	Org. Code
	Profitability Score	Fiscal Month	
		Year	
		Quarter	
		Month	
		Market Segments	
		Market Segment	
		Micro-Segment	

FUNCTION	DECISION ROLES	PRIMARY WORK	CONTRIBUTORY	STATUS
Customer Service	Executives	*		
	Managers	*		
	Analysts	*		
	Professionals	*		
Finance	Executives			*
	Managers		*	
	Analysts		*	
	Professionals		*	
Sales	Executives			*
	Managers		*	
	Analysts		*	
	Professionals		*	
Marketing	Executives			*
	Analysts		*	





*The Delivery Performance and Service Value decision areas illustrate how the Customer Service function can monitor its performance, allocate resources, and set plans for future financial targets.*



## Developing the Right Product, the Right Way, at the Right Time

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*Innovation is not the product of logical thought, although the result is tied to logical structure.*

Albert Einstein

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Product Management is about targeting a specific market or customer segment with the right product and service proposition. A key element is developing innovations that keep the offering competitive and ideally differentiate positively against competitors. Product Management represents the lifeblood of future success, but also requires an assessment of commercial risks involved in any product or service change. For example, moving into a new market with a new product or service offering is a high-risk activity, and success is rare. Equally rare is successful development of a product offering that fundamentally changes the value proposition within an industry (e.g., Internet banking). Such new innovations require deep financial commitment.

Product Management is also looking to find the right balance between fee-based services and interest rate related charges on products such as loans or mortgages. While working closely with Marketing, a key consideration is to understand the customer requirements. Being clear on the customer needs and defining the product/service solution that delivers key benefits is a critical success driver within Product Management. The additional challenge is defining the price value relationship that drives growth and customer satisfaction.

Economic, demographic and industry cycles set the context for the importance of innovation, and its role within Product Management. In fast-growing market segments, product change and adaptation is part of the competitive race, and significant investments are likely. In mature markets, where growth has slowed, the commoditized context will push Product Management less towards innovation and more towards designing cost savings into the offering. Nevertheless, new developments can help slow the rate of market commoditization and protect margin erosion. These are likely to be incremental, and small advantages can differentiate a leader from less successful followers.

Product Management is a combination of opportunity identification, evaluation, and new product and service implementation. A pipeline of incremental and more innovative changes will help determine the bank's future financial performance and ability to identify organic growth opportunities. Three significant barriers prevent it from delivering the required product changes in the most effective way

**Barrier 1: *Lack of information to determine strategy requirements***

Evaluating the impact of product and service changes is difficult without access to several sources of information, both internal and external. The insights from these multiple sources need to be integrated into a commercial framework that offers granular clarity and strategic assurance. Product Management takes the “size of prize” discussion in Marketing further into product and service specifics. For example what mortgage or loan proposition could the bank design for a given age profile, say, below 30, that accounts for their current and future life stage needs? For those who feel the pinch of financial pressures when life expenses exceed earnings, banks could offer creative solutions to alleviate initial payments. However, product innovation embraces risk. The odds are stacked against continual success, and executive expectations need to be managed carefully.

Measuring financial performance is vital, but interpreting success too rigidly may lead the bank to miss innovation opportunities. It is better to define and measure drivers and development milestones that affect the pipeline of new initiatives. Similar to a portfolio investment strategy, these metrics allow for more opportunities (and therefore more failures), but let you know when to “fail fast” to satisfy the overarching net income or growth goal.

Only a few product initiatives make it through to financial success. What resources need to be invested in a given initiative? What human capital skills are required? Does the initiative impact internal processes and require infrastructure changes? These costs will need to be evaluated and often incurred before there is any assurance that revenue targets will be achieved. The tolerance for calculated financial failure regarding new initiatives will vary by institution. Certain initiatives will be seen as more strategic and critical, while others will not be as important. A portfolio approach to new initiatives will help prioritize resource requirements, expectations, and risk tolerances.

Product Management will need support from Marketing and Sales into product and service trends as well as insight into customer segment behavior. Equally the function will need to work with Finance and Risk Management with regards to the offering. Financial engineering and solutions that leverage the balance sheet or external specialist providers are increasingly critical to innovation success. Strategic considerations will have an impact, for example, leveraging the bank's branch network to focus more on mortgage or loan generation and securitizing these through external specialists. Only by integrating all these business inputs and information sweet spots can you achieve a well developed new initiative.

**Barrier 2: *New product and service initiatives lack the integrated business process information needed to develop targeted, comprehensive product offerings***

Product Management decisions affect and rely on Marketing, Sales, Finance, Risk, Operations, and other business departments. Without appropriate visibility, departmental barriers may get in the way and stymie the Product Management process. By monitoring the appropriate performance drivers, combined with appropriate incentives, you can improve the Product Management process from idea generation to alignment on priorities to engaging Finance, so the value of new initiatives is understood and forecast.

**Barrier 3: *Inability to measure and analyze the drivers of success***

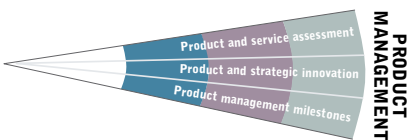
New initiatives depend on timely action, but are hampered and even blocked by the lack of clarity and calculated assurance that any resource investment will lead to a sufficient reward. *What are the drivers of success? Have they been measured, evaluated, and communicated effectively?* Risk is part of the development process. Past failures are not necessarily negative; they may actually assist the development process. Failures can become stepping stones toward success. The key is to understand what drives success and failure. When new initiatives reach a certain milestone, the department may consider working with Marketing to test the product proposition in the market. The feedback you require will determine the means you select: selective customer input, larger external research, or a limited territorial launch.

No amount of testing guarantees success. Making the “go or no go” decision requires information sweet spots to allow the business to decide whether it needs more resources to improve the new offering, or if the cost of delay—in either lost revenue or lost competitive advantage—means the product initiative must launch now.

**From a Gamble to Controlled Product Management**

Product Management combines many cross-functional requirements, balances risk, learns from failures, then both adjusts and develops new product and service initiatives in a timely and effective manner. Accurate information is a key enabler of this process.

The Product Management process combines three key decision areas with associated information sweet spots:



- **Product and service assessment** → What is our value proposition, and does our product and service portfolio meet customer and market requirements?
- **Product and strategic innovation** → Which strategic initiatives and product/service gaps are addressable with the available resources, and what are the associated risks?
- **Product management milestones** → How do we manage priorities, goals, and timing, and monitor risks as they change?

**Product and Service Assessment**

There is an ebb and flow to any products and services in terms of their relevance, competitiveness, and financial performance. Product Management must manage this life cycle by adapting and innovating the product and service proposition where possible. The first key step in this process is to understand the “what.”

The spectrum and variables are broad and cross-functional. For example, Risk Management may ascertain that interest rates are likely to decline, leading to a re-assessment of mortgage and loan pricing. What are the various scenario implications? Or a new channel such as Internet banking and the associated customer segment, young professionals, could offer Product Management an opportunity to re-design and tailor the service towards a convenience offering. In fact, convenience is likely to be a key theme for any bank, as this represents a key customer behavior driver. However, identifying new ways of making life easier for the customer with more flexible offerings needs to be balanced against process costs, risk implications, and resource and infrastructure considerations.

GOALS	METRICS	DIMENSIONS
Product & Service Opportunity (\$)	Product & Service Achievability	Fiscal Year
Market Gap (\$)	New Products/Services in Market (\$/%)	Quarter
Product & Service Risk Score (#)	New Product/Service Suggestions (#)	Month
	Competitive Score (#)	Market Segments
	Est. Development Cost (\$)	Market Segment
	Income Share Gain (\$/%)	Micro-Segment
	Market Transaction Volume (#)	Services
	Market Transaction Volume Share (%)	Product Line
		Service
		Sales Channel Partners
		Sales Channel Type
		Sales Partner
		Sales Organization
		Sales Region
		Sales Territory
		Org. Code

FUNCTION	DECISION ROLES	PRIMARY WORK	CONTRIBUTORY	STATUS
<b>Product Management</b>	Executives Managers Analysts Professionals	• • • •		
<b>Finance</b>	Executives Analysts		•	•
<b>Sales</b>	Executives Analysts		•	•
<b>Marketing</b>	Executives Analysts		•	•
<b>Customer Service</b>	Executives Analysts		•	•
<b>Operations / Production</b>	Executives Analysts		•	•

The product and service assessment serves as a gap analysis to prioritize the various improvement options and the associated financial scenarios. Initiatives to adapt the current offering or more fundamental innovations represent a pipeline of future revenue opportunities to sustain the bank’s competitiveness and net income growth. New initiatives also have an impact on Marketing, as these bring “new news” to your customers. New news fuels the marketing machinery, a significant way to excite and capture attention and customer mindshare. This decision area will not only identify gaps, but determine what effect these changing factors have on cash, credit, balances, etc. The more up-to-date and dynamic the monitoring of these changing factors, the quicker the ability to identify new opportunities and capitalize on these for the benefit of the bank.

**Product and Strategic Innovation**

This decision area takes potential opportunities identified by the product and service assessment and examines the practicalities in more depth. It answers questions about the costs, resources, and benefits of implementing new initiatives and innovations. It also offers more granular clarity in terms of benefits, strategic fit, how achievable these initiatives are given available resources, and the risk of failure. Innovation runs the gamut from incremental improvements to a significant strategic shift. For example a strategic decision to extend the branch network with the associated up-front investment implications, against a backdrop of competitors cutting their branch networks, will require a detailed understanding of the rationale in terms of customer gains. New derivative products will also be considered in cooperation with Risk Management to determine the risk/reward profile and relative fit with the bank's portfolio.

GOALS	METRICS	DIMENSIONS
New Product & Service Developments (#)	Product – Service Achievability Score	Fiscal Year Quarter Month
New Product & Service Income (\$/%)	Implementation Cost (\$)	Market Segment Market Segment Micro-Segment
New Product & Service Cost (\$/%)	New Product – Service Income Potential (\$)	Services Product Line Service
	Potential / Actual Revenue (\$/%)	Sales Channel Partners Sales Channel Type Sales Partner
	Implementation time (#)	Sales Organization Sales Region Sales Territory Org. Code
	Product & Service Risk Score (#)	

FUNCTION	DECISION ROLES	PRIMARY WORK	CONTRIBUTORY	STATUS
Product Management	Executives Managers Analysts Professionals	• • • •		
Finance	Executives Analysts		•	•
Sales	Executives Analysts		•	•
Marketing	Executives Analysts		•	•
Customer Service	Analysts		•	
Operations / Production	Executives Analysts		•	•

Whatever the innovation, you must measure the time to market, implementation difficulty, external factors, technical improvements, and financial scenarios, e.g., the value-added return on net capital. These metrics also help you prioritize threats and opportunities. For example, by classifying the initiatives into short-term and long-term priorities, or by measuring the difficulty of implementation, you limit the attention on impractical blue-sky projects at the expense of what's needed in the short term. Future scenario valuations with estimates of the upper and lower limits on revenue and net income growth will help define the relative priorities.

As a decision area, portfolio and strategic innovation recommends which opportunities are right for the business by aligning with other departments, particularly Marketing and Risk Management.

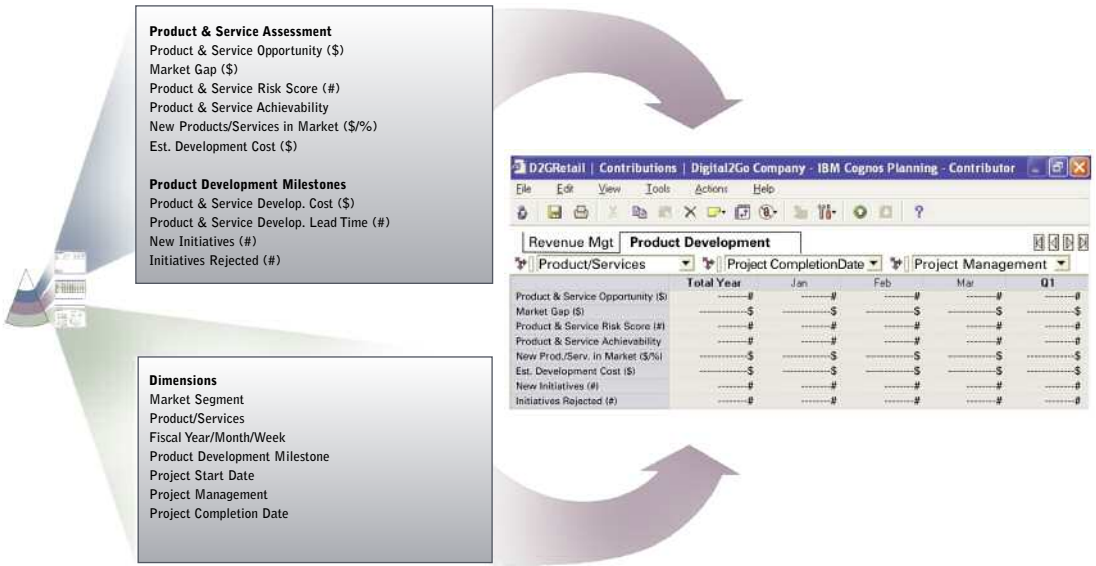
**Product Management Milestones**

This decision area is used to manage the innovation process. It establishes milestones, manages and adjusts priorities and timing, and monitors risks as they change. Banks may take a cue from the manufacturing sector, where many companies use Stage-Gate® or phase-gate processes involving five stages for product development. These are a preliminary assessment, definition (market), development (product/cost), validation, and commercialization. Typically, a very low percentage of preliminary ideas pass through the final gate. Less formal processes still require that you answer questions such as: *What new product development ideas do we have? What is the scale of the identified opportunity? Do we have the skills in-house? What are the risks? Is the opportunity aligned with our strategic priorities? What are the likely financial rewards?*

In banking, measuring performance milestones is critical. Given a number of preliminary initiatives, how many milestones are passed before rejection or commercialization? Logging and evaluating the reasons for success or failure through these milestones will help you improve your innovation process. Regular planning and gap analysis reviews anchor the innovation process with business priorities. Without this focus and monitoring, the process may be sidelined by day-to-day concerns. It is critically important to ensure the success of all phases, from design to implementation and full commercialization. Information that focuses and fine tunes each stage and provides incentives is imperative to ensuring successful innovations.

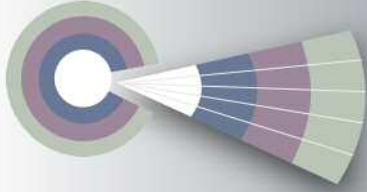
GOALS	METRICS	DIMENSIONS
Product & Service Development Cost (\$)	Initiatives Rejected (#)	Fiscal Month
Product & Service Development Lead Time (#)	New Initiatives (#)	Year
Project Completion by Milestone (#/%)	New Product & Service Launch Failures (#)	Quarter
	New Products & Services Developed (#)	Month
	Modified Products & Services (#)	Forecast Scenario (Plan/Actual/Forecast) Scenario
	Proj. Duration – Business Days (#)	Product Development Milestone
	Proj. Duration – Variance (%)	Product Line
	Rejection Causes (#)	Product Line Project
	Market Tests (#)	Project/Program Type Project
		Project Start Date
		Year
		Quarter
		Month
		Project Start Date
		Project Management
		Project Team
		Project Manager
		Project Member
		Project Completion Date
		Year
		Quarter
		Month
		Project Finish Date

FUNCTION	DECISION ROLES	PRIMARY WORK	CONTRIBUTORY	STATUS
Product Management	Executives	•		
	Managers	•		
	Analysts	•		
	Professionals	•		
Finance	Analysts		•	
Sales	Executives			•
	Analysts		•	
Marketing	Executives			•
	Analysts		•	
Customer Service	Executives			•
	Analysts		•	
Operations / Production	Executives			•
	Analysts		•	
IT / Systems	Executives			•
	Analysts		•	
General Management	Executives			•



*The Product and Strategic Innovation and Product Management Milestones decision areas illustrate how the Product Development function can monitor its performance, allocate resources, and set plans for future financial targets.*





## Winning at the Margin

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*A man who does not think and plan long ahead will find trouble right at his door.*

Confucius

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Operations is the delivery mechanism of the bank, providing the processing infrastructure that ensures execution of the product and service promise. It is the engine driving the back-office work by clearing transactions, reconciling balances, executing on transfers, tackling execution anomalies and dealing with peaks and valleys of demand. That engine depends on input from the frontline functions of the business—Branch Network, Sales, Marketing, and Finance.

In broad terms the Bank's Operations challenge is setting up efficient access points for customers that cut across workflows that have different operational / institutional standards. For example the highest level operational structures in the industry are the Payments Mechanism and the Securities Mechanism. They both involve a common goal: Same Day Settlement. Other operational structures such as the Checking and Funds Transfer are part of Cash Management services while Securities Clearance, Custody and Collateral Management have historically been associated with Trust Services. The common operational requirement being efficient execution balanced against the delivery or required performance standards.

Of all departments, Operations has dealt the longest with the competitive situation described in Tom Friedman's book *The World Is Flat*. Offshore and outsourced solutions and technology-enabled process excellence are part of the relentless drive for lower costs. After more than a decade of investment and continuous improvement initiatives, banks have achieved what major cost savings are possible. Managing and winning at the margins is the new competitive area for Operations.

Three critical barriers prevent Operations from working these margins to deliver the best possible performance:

**Barrier 1: *The operational back end can't see where it's going without the frontline's vision***

Operations depends on accurate and constantly updated information on what is required by customers. If you don't have accurate information about the transaction demand (both volume and variety) in your pipeline, you stand to lose operational efficiency and margin. With better information, you can plan for an upsurge and up-resource accordingly to satisfy the unforeseen. System cut-off times for transaction processing can be better accommodated, and extra capacity can be scheduled. You can better match capacity with customer demand and limit the exposure to high incremental costs additions, for example salary overtime.

**Barrier 2: *Process bottlenecks and downtime***

Operations continuously competes against time. Can this process be faster? Can workflow processes be re-engineered and simplified to gain time? The more steps between start and finish, the more bottlenecks and downtime risk may be hidden in them. The time to complete a series of process tasks is inflated by waiting periods. In some situations, actual process time can be as low as five to ten percent of the total time from start to finish. When only one-tenth of the time used is productive, reducing such waste is a worthy prize. You must identify and eliminate predictable process time-wasters. While many solutions may be internal—such as Internet banking, changes in loan application procedures and forms, or upgrades to IT infrastructure—you may decide the bank is better served by outsourcing to a specialist with technical and scale advantages.

Information sweet spots help generate continuous intelligence loops on the real cost of bottlenecks and downtime, showing you the benefits of increased automation or specialization.

**Barrier 3: *In a fast-paced, increasingly specialized economy, cost averages disguise cost reality***

With the pressure to adapt to new and changing customer requirements and offer specialist solutions, the Operations workflow is regularly affected. It is no longer sufficient to use broad standard cost allocations when the activity drivers differ significantly. That approach may disguise significant variances in actual process performance costs. Customer segments or products and services that appear profitable on a standard transfer cost basis may not be in fact.

By breaking down work processes into discrete activities and measuring them with accurate activity indicators, you can achieve real-time costing. The best indicators will vary with the situation. Some will be based on labor time used to process a given activity, such as credit scoring. Others may directly measure the nature of the customer interaction, for example, electronic, fax, or telephone, used for a given transaction request, or the number of problem resolutions required for a given customer or product type. The more detailed this activity breakdown, the more accurate your understanding of actual costs. Understanding and analyzing the information sweet spots lets Operations identify process patterns and suggest cost savings.

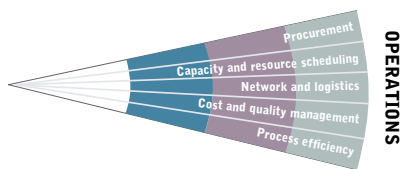
Based on more granular costing information, the business unit can better understand the segment profitability and decide how to position its proposition in the market. “Important” customers may still benefit freely from loss-generating services due to their high net worth. Less premium customers may be asked to pay for certain services. The key is being sure of the drivers of cost and that the underlying cost-allocation methodology is sound and is not driving business away from the bank. Using a broad-based cost transfer and allocation methodology will never highlight customer-specific cost realities. Information sweet spots that let you understand what drives the larger cost categories will have an immediate and sizable impact on managing actual costs.

### Delivering on the Promise Made to the Customer

For Operations to win at the margins, every day and every process step, it must balance the need to reduce costs while staying agile enough to respond to new customer and product demands.

Operations has the responsibility to lead five core areas of the bank’s decision-making:

- **Procurement** → Ensuring timely and cost-effective input of resources and capacity
- **Capacity and resource scheduling** → Generating timely output in the face of uncertain demand, complicated processes, and variances in input
- **Network and logistics** → Achieving efficient logistic and network execution
- **Cost and quality management** → Balancing the need to reduce costs with the equal requirement to deliver quality output
- **Process efficiency** → Designing a process to monitor and analyze performance benchmarks to find opportunities for greater efficiency.



### Purchasing and Procurement

The procurement decision area manages both input costs and supply requirements. Effectively managing them can bring savings directly to the bottom line. In addition to cost, the procurement personnel must ensure inputs arrive in a timely and effective manner. For example, an upgrade of the data service infrastructure within the branch network could cause unacceptable disruption if not planned carefully with the supplier and ensuring associated performance guarantees. Managers must balance cost savings with the performance standards while maintaining the focus on customer satisfaction.

There is also a balancing act in responding to short- and long-term situations. For example, is the procurement need related to a short-term or long-term service level agreement (SLA) contract?

Long-term decisions will tie the supplier directly to the bank, and its performance will become an extension of the bank’s performance. As such, they require a different degree of diligence in the supplier assessment and selection process.

How do you balance the savings and/or better quality or performance from exclusive supplier agreements against the risk of creating unacceptable dependencies? These decisions require information on specifications, procurement tenders, price quotations, and vendor performance assessments. You cannot make the necessary procurement trade-offs without access to information sweet spots. The better you understand the trade-offs, the more finely tuned your ability to win at the margins.

GOALS	METRICS	DIMENSIONS
Supplier Timeliness (%)	Purchase Order Cost (\$)	Fiscal Week
Purchase Price/Unit (\$)	Purchase Orders (#)	Year
Supplier Performance Rating	Supplier Credit Rating (#)	Quarter
	Contingency Tests (#)	Month
	Supplier Discount (\$)	Week
	Supplier Discount (%)	Suppliers
	Contract Remaining (#)	Supplier Type
	List Price/Unit (\$)	Supplier
	Supplier Testing Score (#)	Supplier Services
		Services Type
		Supplier Service
		Contingency Tests
		Contingency Type
		Contingency Test

FUNCTION	DECISION ROLES	PRIMARY WORK	CONTRIBUTORY	STATUS
Purchasing	Executives	*		
	Managers	*		
	Analysts	*		
	Professionals	*		
Audit	Executives			*
	Managers	*		
	Analysts	*		
IT / Systems	Executives			*
	Analysts	*		
	Professionals	*		
Operations / Production	Executives			*
	Managers		*	
	Analysts		*	
Customer Service	Managers		*	

### Capacity and Resource Scheduling

Without an efficient and timely delivery process, there is no business. Accordingly, this decision area is the backbone of the business.

Capacity management depends on scheduling and fulfilling effectively the demand expectations of the front office and, more importantly, those of the customer. Ideally, you know the transaction demands well in advance to be able to plan capacity needs and fulfill process cycle standards in payments, remittance services, demand deposits, money transfers, etc. This minimizes bottlenecks, errors, and process re-runs. Changing a schedule, especially for an urgent requirement, means rearranging existing process schedules, resulting in extra system time, overtime, and lost transaction capacity. The bottom line? It reduces your ability to win at the margins.

As with any chain of interconnected links, changes in demand affect your process requirements. The domino effect of changes spreads across the whole Operations workflow, creating a series of costly capacity management responses. To counter this, you must communicate new information seamlessly, so that Operations can adjust its schedule and resource needs in the most effective manner. You must also communicate potential delays to Customer Service for resolution. Closely monitoring this ebb and flow of changing circumstances through production information sweet spots lets Operations maximize its capacity and resource scheduling.

GOALS	METRICS		DIMENSIONS
Capacity Utilization (%)	Transaction Value (\$)	Quality Score (#)	Fiscal Day
Systems Up Time (%)	Transactions per Employee (#)	Error Rate (%)	Year
Transaction Volume (#)	Cost per Transaction (\$)	Accuracy (%)	Quarter
	Transaction Activity Growth (%)	Avg. Reject Items (#/\$)	Month
	Accounts (#)	Avg. Reversals (#/\$)	Week
	Avg. Transactions per Business Day		Day
	Closed Accounts (#)		Customers
	Funds Transfers (#)		Customer Billing Account
	New Accounts (#)		System Transaction Account
	Overdrafts (#)		Transactions
	Payments (#)		Transaction Types
	Withdrawals (#)		Transaction
	Capacity Hours (#)		Messages
	Backlog Hours (#)		Message Types
			Message
			Counterparties
			Counterparty Types
			Counterparty
			Systems
			Application System

FUNCTION	DECISION ROLES	PRIMARY WORK	CONTRIBUTORY	STATUS
Operations / Production	Executives	*		
	Managers	*		
	Analysts	*		
	Professionals	*		
Audit	Managers	*		
	Professionals	*		
IT / Systems	Executives			*
	Analysts		*	
	Professionals	*		
Customer Service	Executives		*	
	Managers		*	
	Analysts		*	
Finance	Managers		*	
	Analysts		*	
	Professionals		*	
Sales	Executives			*
	Managers			*

### Network and Logistics

This decision area looks into the operational support and infrastructure requirements of a branch network or indirect network. It also includes the management of local process performance standards, cost, and timeliness of execution and delivery. Examples could include security logistics, branch network systems, ATMs, or telecommunications needs, all to ensure that the support

functions offer the branch customers an efficient, convenient, and relationship-supportive service. The operations management will also scrutinize whether you can reduce costs, improve execution standards, and, ideally, exceed customer service expectations. The network infrastructure and logistics to deliver a given service are intricate and costly. Managing third-party providers to fulfill specialist support requirements also involves effective project management skills. Strategic third-party support can be an advantage either in cost or performance.

While outsourcing makes sense on many levels, it does mean you lose direct control and have to accept the risks that come with loss of control. Managing such risks requires negotiating and monitoring agreements with clear terms and performance guidelines.

GOALS	METRICS	DIMENSIONS	
Transaction Timeliness (%)	Avg. Transaction Volume	Processing Date	Systems
Efficiency Ratio (#)	Avg. Transaction Value (\$)	Fiscal Year	Application System
Account Growth (%)	Avg. Reject Items (#/\$)	Quarter	Month
Infrastructure score (#)	Avg. Reversals (#/\$)	Week	Depositories
	Customers (#)	Day	Depository Time Standards
	Accounts (#)	Hour	Depository
	Branches (#)	Customers	Transaction Processing Method
	Teller Transactions per Month (#)	Customer Billing Account	Processing Method
	Transactions per Customer (#)	System Transaction Account	Funds Transfer Method
	Inquiries per Customer (#)	Transactions	Funds Transfer Method
	Products/Accounts per Customer (#)	Transaction Types	Method
	Revenue per Employee (\$)	Transaction	
	Net Income per Employee (\$)	Messages	
	Infrastructure Expenditure (\$)	Message Types	
	Infrastructure Expenditure per employee (\$)	Message	
	Infrastructure Expenditure per Account (\$)	Counterparties	
	Infrastructure Expenditure Growth (%)	Counterparty Types	
	Supplier Performance Score (#)	Counterparty	

FUNCTION	DECISION ROLES	PRIMARY WORK	CONTRIBUTORY	STATUS
Operations / Production	Executives	*		
	Managers	*		
	Analysts	*		
	Professionals	*		
Audit	Managers	*		
	Professionals	*		
IT / Systems	Executives			*
	Managers			
	Analysts		*	
	Professionals	*		
Customer Service	Executives		*	
	Managers		*	
	Analysts		*	
Finance	Managers		*	
	Analysts		*	
	Professionals		*	
Sales	Executives			*
	Managers			*

### Cost and Quality Management

In cost and quality management, you balance cost savings in one area against potential threats of reduced performance standards, increased errors, reconciliation monitoring, customer complaints, etc. A new, lower-cost call center may be attractive, but the impact on problem resolutions and customer satisfaction may be unacceptable. *What is best for the business?*

You need to understand cost variances and their impacts. By contrasting cost differences, you can benchmark performance, identify patterns, and understand the root causes of cost differences. You also need to understand and analyze the value and cost of preventative measures that ensure quality performance such as training, appraising workflow bottlenecks, and resource improvement. The more you examine measurable work activities and the more detailed your breakdown of costs, the more detailed your understanding will be of the root causes of variances in those costs. Measuring and monitoring must be integrated with quality expectations to understand the effect of changes.

GOALS	METRICS	DIMENSIONS	
Transaction Reconciliation (\$/%)	Avg. Balance (\$)	Processing Date	Counterparties
	Negative Net Free Equity (#/\$)	Fiscal Year	Counterparty Types
Cost per Transaction (\$)	Avg. Reject Items (#/\$)	Quarter	Counterparty
	Avg. Reversals (#/\$)	Month	Systems Application System
	Transactions per Employee (#)	Week	
	Avg. Overdraft (#/\$)	Day	
	Transaction Activity Growth (%)	Hour	Depositories Depository Time Standards
	Accounts per Employee (#)	Customers	
	Customers per Employee (#)	Customer Billing Account	Depository
	Quality Score (#)	System Transaction Account	
	Error Rate (%)	Transactions	Reconciliation Method Reconciliation Method
	Accuracy (%)	Transaction Types	
Reconciliation Cost (\$)	Transaction		
Avg. Reject Items (#/\$)	Messages		
Avg. Reversals (#/\$)	Message Types		
	Message		

FUNCTION	DECISION ROLES	PRIMARY WORK	CONTRIBUTORY	STATUS
Operations / Production	Executives	*		
	Managers	*		
	Analysts	*		
	Professionals	*		
	Audit	Executives		
	Managers	*		
	Professionals	*		
Product Management	Executives			*
	Managers		*	
	Analysts		*	
	Professionals		*	
	Customer Service	Executives		*
	Analysts		*	
Finance	Executives		*	*
	Analysts		*	
Marketing	Executives		*	*
	Analysts		*	
Purchasing	Executives		*	*
	Analysts		*	
Sales	Executives		*	*
	Analysts		*	
IT / Systems	Analysts		*	

### Process Efficiency

Process efficiency management looks at ways to improve operational and work process activities. This means looking for performance outliers and understanding why they occur. There are three areas where well-designed comparative performance metrics can make the difference between an industry follower and a leader:

- Internal operational processes
- External developments and trends
- Competitive benchmarking.

Your internal operational processes are most familiar to you, and the easiest to analyze. For example, if “cost per transaction” is a benchmark, then an unusual increase in this index may indicate two things. Either short-term transaction costs have increased or transaction volume has decreased. You must determine whether the efficiency has gone down or if revenues have slumped. Another possible benchmark

is “number of mortgage applications per loan.” If this metric is decreasing, it can indicate that the business is filling more mortgage applications for the same numbers of loans. This may mean that the bank is less competitive in mortgage pricing and/or that it is attracting less credit-worthy customers who are failing the credit-scoring process—but it may also indicate that you need to re-engineer the mortgage evaluation process to make it quicker and more convenient for the customer.

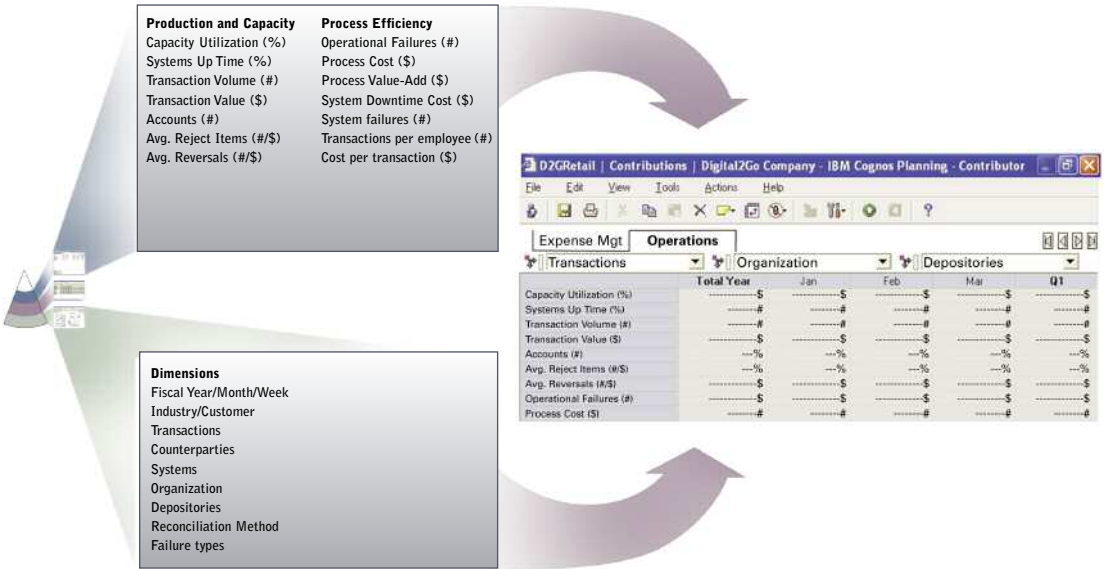
Taking advantage of external developments and trends requires looking outside your organization. Should you shift to low-labor-cost economies for services such as call centers? Are there new IT systems, hardware, and third-party providers that can introduce dramatic efficiencies?

Failing to follow up on these external efficiency developments may jeopardize your competitive position. Beyond this focus, many leading banks extend their monitoring activities to their competitors. Simple comparative benchmarks such as net income per employee, cost per employee, cost per account/deposit, and others will help identify performance differences. With these identified, you can determine the actions you need to take.

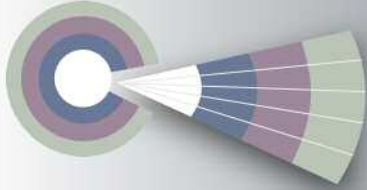
GOALS	METRICS	DIMENSIONS
Operational Failures (#)	Capacity Utilization (%)	Fiscal Month
Process Cost (\$)	Systems Up Time (%)	Year
Process Value-Add (\$)	Transaction Volume (#)	Quarter
	Process Steps (#)	Month
	System Downtime Cost (\$)	Manufacturing Product Component
	System Failures (#)	Product Line
	Transactions per Employee (#)	SKU
	Cost per Transaction (\$)	Component
		Product SKU
		Product Line
		Brand
		SKU
		Production Process
		Production Process
		Work Function

FUNCTION	DECISION ROLES	PRIMARY WORK	CONTRIBUTORY	STATUS
Production	Executives Analysts Managers Professionals	• • • •		
Finance	Executives Analysts		•	•
IT / Systems	Executives Analysts		•	•
Purchasing	Executives Analysts		•	•
Customer Service	Analysts		•	
Sales	Analysts		•	





*The Process Efficiency and Production and Capacity decision areas illustrate how the Operations function can monitor its performance, allocate resources, and set plans for future financial targets.*



## Management or Administration of Human Capital?

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*Did you realize that approximately 42 percent of the average company's intellectual capital exists only within its employees' heads?*

Thomas Brailsford

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Your people interact with your customers to generate revenue. They introduce the small and significant innovations that move your bank forward. They set the strategic direction for your organization and then put those strategies into operation. Human capital is your most valuable asset.

It is also typically *undervalued*.

Helping the organization recognize human capital as a valuable asset and competitive differentiator is the strategic role of Human Resources.

Human Resources must demonstrate positive ROI from human capital investments. Human Resources guides the alignment of employee roles, job functions, talent, and individual performance with business results and goals. It finds, engages, assesses, develops, and retains the talent that drives the business. It manages administrative requirements such as payroll, benefits, the recruitment process, policy standards, and holiday and sick leave tracking. Human Resources also acts on behalf of employees, and in this respect is the conscience of the organization.

Three critical barriers prevent Human Resources from fulfilling its strategic role and hamper it tactically:

**Barrier 1: *Lack of information in defining and selling the role and business value of Human Resources***

Senior management expects every business unit to generate reports and analysis that measure performance against plan. Human Resources is no different. Research suggests that better human capital practices lead to higher financial returns and have a direct impact on share price. Investors, for example, scrutinize headcount and salary or wage ratios. Historically, however, Human Resources has focused more on managing administrative requirements than on communicating—and selling—the business value of human capital management.

While managing administrative requirements is essential, there are other critical strategic aspects of managing human capital. Fulfilling them requires that Human Resources understands the strategic objectives of the business, translates them into job skill requirements and individual capabilities, and designs an appropriate performance tracking process. Human Resources should first assign a value to each human capital asset and, by communicating this value, underline the importance of managing its performance:

$$\begin{array}{l}
 \text{Base salary expenses +} \\
 \text{Recruiting expenses +} \\
 \text{Transfer expenses +} \\
 \text{Training expenses +} \\
 \text{Bonus and/or incentive expenses +} \\
 \text{Stock option grant value (estimate) =} \\
 \hline
 \text{Human capital asset investment}
 \end{array}$$

Tracking these factors allows Human Resources to better manage human capital assets by asking the following questions: *What is the quality and value of the employee/employer relationship? What are the training and development needs in this specific case? How should we provide incentives and motivation for employees?* Answers may come from reports on staff turnover, high-performer retention rates, headcount growth, role definitions, job productivity, and individual performance monitoring.

Assessing comparative productivity ratios such as revenue to headcount also helps manage resource requirements, both short-term and long-term. These information sweet spots demonstrate the asset's strategic business value to the organization. Lack of such information impairs the ability of Human Resources to fulfill its strategic role.

### **Barrier 2: *Lack of visible and consistent Human Resources practices***

The credibility and business value of Human Resources is often compromised by a lack of consistency in decisions and by insufficient information. This allows an “informal network” to bias the selection and promotion of employees. As a strategic partner in the business, Human Resources should understand and define the factors defining success for employees. *Does the bank depend on customer service? On innovation? Automation?* Based on this understanding, Human Resources can institute practices that guide employees toward consistent and measurable milestones, creating a structured process.

Implementing visible and consistent practices requires quality information. You will not achieve the consistency you need if policy documents, performance reviews, career objectives, and compensation assessments are not combined and positioned within a larger structure. Consistency requires a well defined and structured process shared across the organization.

You also need a clearly defined process for collecting Human Resources information. *How should this data be stored and retrieved? Can this mostly qualitative information be analyzed usefully, and synthesized into a metric framework?* With such a synthesis, Human Resources gains the ability to compare and contrast different performance drivers. Identifying, managing, and retaining talented individuals is a key competitive requirement, and consistent information and management practices allow you to achieve this.

### **Barrier 3: *Human Resources has a natural ally in IT but is not fully leveraging this asset***

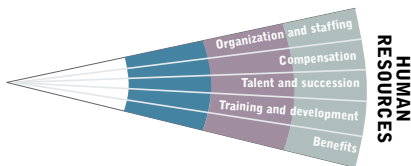
Both Human Resources and IT strive to position themselves within an organization as driving business value instead of expense. They can be seen as two sides of the same coin.

Human Resources is responsible for job design and ensuring that the right skills and competencies are developed or acquired to fill these jobs. In turn, performance in these jobs is defined and measured against goals and objectives. In this sense, Human Resources information needs to mirror the performance to be monitored, analyzed, and planned for in a given job. IT must understand a user’s responsibilities in order to include that user in planning where functionality is deployed. Both Human Resources and IT must understand how software tools and skills drive greater productivity. As performance management information becomes more consistent and reliable, it will also enhance the performance and compensation process for which Human Resources is responsible.

## Earning a Place at the Executive Table

Human Resources decision areas:

- **Organization and staffing** → What job functions, positions, roles, and capabilities are required to drive the business forward?
- **Compensation** → How should we reward our employees to retain and motivate them for full performance?
- **Talent and succession** → What are the talent and succession gaps we must address to ensure sustained performance?
- **Training and development** → What training and development do we need to maximize employee performance; is there a clear payback?
- **Benefits** → How do we manage costs and incentives?



### Organization and Staffing

In a human capital discussion, first define the organization’s requirements. *What are the job functions, positions, roles, and capabilities required to drive the business forward?* The organization chart becomes a road map highlighting staffing needs and the necessary hierarchy. From this road map, Human Resources further refines the role, position, and skill requirements needed to accurately evaluate candidates and current employees.

Organization and staffing analysis is a core Human Resources role. Typically, companies align staffing reports with information about position planning, staffing mix, and staffing transaction activities (new hires, transfers, retirements, terminations, etc.). Analyzing this data helps the company monitor policy standards and legal requirements. Human Resources must track issues such as employee overtime, absenteeism, pay/tax, and termination/retirement to ensure they are managed correctly.

GOALS	METRICS	DIMENSIONS	
Avg. Tenure (#)	Absenteeism Days (#)	Employee Decision Role	Job Types
Employee Turnover (%)	Applications per Vacancy (#)	Work Function	Job Type
Headcount (#) / Plan (%)	Avg. Age (#)	Decision Role	Job
	New Hires (#)	Employees	Organization
	Authorized Position Count (#)	Full-Time/Part-Time	Division
	Open Position Count (#)	Employee Name	Department
	Rejected Job Offers (#)	Fiscal Month	Org. Code
	Retirements (#)	Year	Plan/Actual Scenario
	Sick Leave Days (#)	Quarter	Scenario
	Terminations (#)	Month	
	Transfers (#)	Job Grade Level	
	Work Function Count (#)	Job Level	
	Work Time Actual Hours (#)	Job Name	
	Staffing Changes Count (#)		

In addition, when senior management discusses strategy and corporate goals, there are typically accompanying reports that show headcount by division/department, turnover rates, loss trends, and high-level project status. These reports help ensure resources are aligned with the global priorities of the bank.

FUNCTION	DECISION ROLES	PRIMARY WORK	CONTRIBUTORY	STATUS
Human Resources	Executives	*		
	Managers	*		
	Analysts	*		
	Professionals	*		
Finance	Executives			*
Audit	Managers			*
	Professionals			*
IT / Systems	Executives			*
	Professionals			*
Sales	Executives			*
Compliance	Executives			*
Purchasing	Executives			*
Operations / Production	Executives			*
Product Management	Executives			*
Customer Service	Executives			*
Marketing	Executives			*

**Compensation**

Compensation review examines salary costs—existing and planned—across the workforce, as well as how these costs are reflected at the departmental, business unit, and global levels. This decision area defines how you need to reward your employees to retain them and motivate them for the best possible performance. Profiles on base pay, merit increases, promotions, and incentives help you decide the total compensation strategy and individual employee compensation. With this complexity comes the need for systematic methods for identifying and analyzing pay increases, bonuses, and incentive awards. Many organizations now require that performance reviews are ongoing; tracking the review process is therefore a requirement. Plans and reports on the coverage, completeness, and timeliness of the review process confirm your progress against rewards management, career planning, and development targets.

GOALS	METRICS	DIMENSIONS	
Avg. Compensation Increase (\$)	Actual Salary/Salary Range Mid-Point	Compensation Program Program Type Program	Job Grade Level Job Level Job Name
Avg. Compensation Increase (%)	Avg. Base Compensation Increase (\$)	Diversity Diversity Class Employee	Job Types Job Type Job
Compensation Cost (\$)	Bonus/Incentive Costs (\$) Stock Option Grants (#/\$) Compensation Increases (#) Compensation Reviews (#) Employee Promotions (#) Employees (#) Base Salary (\$) Performance Rating (#)	Employees Full-Time/Part-Time Employee Name Fiscal Month Year Quarter Month	O/T Eligibility Status Exempt/Non-Exempt Organization Division Department Org. Code Work Function Work Function

FUNCTION	DECISION ROLES	PRIMARY WORK	CONTRIBUTORY	STATUS
Human Resources	Executives Managers Analysts Professionals	*		
Finance	Executives Managers Analysts Professionals		*	*
Audit	Executives Managers Professionals	*		*
Tax	Professionals	*		
Customer Service	Executives		*	
Marketing	Executives		*	
Sales	Executives		*	
Compliance	Executives		*	
Purchasing	Executives		*	
Operations / Production	Executives		*	
Product Management	Executives		*	
IT / Systems	Executives		*	

### Talent and Succession

An organization’s talent and succession review lets management see how current and planned business skills and technical qualifications meet today’s and tomorrow’s requirements. Human Resources must understand both the skill gaps and talent risks within the organization and plan accordingly. Talent review lets Human Resources assess recruiting, staff transfer, and succession planning needs. Other data such as turnover analysis, average tenure, and time in position also help define succession plans.

GOALS	METRICS	DIMENSIONS	
Employee Satisfaction Index (#)	Avg. Tenure (years)	Core Competency	Job Types
Succession Gaps (#)	Retirements (#)	Skill Type	Job Type
Talent Gaps (#)	Terminations (#)	Skill	Job
	Avg. Performance Rating	Employees	Organization
	Avg. Skill/Experience Rating (Current)	Full-Time/Part-Time	Division
	Avg. Skill/Experience Rating (Target)	Employee Name	Department
	Skills Rating Gap (%)	Fiscal Month	Org. Code
	Skills Rating Index (#)	Year	Work Function
	Succession Reviews (#)	Quarter	Work Function
		Month	Tenure Range
		Job Grade Level	Tenure Range
		Job Level	Age Range
		Job Name	Age Range

FUNCTION	DECISION ROLES	PRIMARY WORK	CONTRIBUTORY	STATUS
Human Resources	Executives	*		
	Managers	*		
	Analysts	*		
	Professionals	*		
Customer Service	Executives		*	*
	Managers		*	*
Marketing	Executives		*	*
	Managers		*	*
Sales	Executives		*	*
	Managers		*	*
Compliance	Executives		*	*
	Managers		*	*
Purchasing	Executives		*	*
	Managers		*	*
Operations / Production	Executives		*	*
	Managers		*	*
Product Management	Executives		*	*
	Managers		*	*
Finance	Executives		*	*
	Managers		*	*
IT / Systems	Executives		*	*
	Managers		*	*



### Training and Development

When you've defined the organization's required skill sets (to match employee abilities with position descriptions), the next logical decision area is determining the training and development needs of those employees. This decision area lets you review employee competencies and understand the value of improving them. *How much development time and training cost is being invested, and is there visible evidence of the benefit?* With training and development analysis, Human Resources gains a systematic picture of all training investment.

GOALS	METRICS	DIMENSIONS	
Skills Rating Gap (%)	Training Cost/Payroll (%)	Employee Decision Roles	Job Types
Training and Development Cost (\$)	Employees (#)	Work Function	Job Type
Training & Development Cost/Payroll (%)	Skills Rating Index (#)	Decision Role	Job
	Training and Development Cost Change (%)	Employees	Organization
	Training Days (#)	Full-Time/Part-Time	Division
	Training Events Completed (#)	Employee Name	Department
	Training Events Planned (#)	Fiscal Month	Org. Code
		Year	Plan/Actual Scenario
		Quarter	Scenario
		Month	Training Course
		Job Grade Level	Type
		Job Level	Course
		Job Name	Work Function
			Work Function

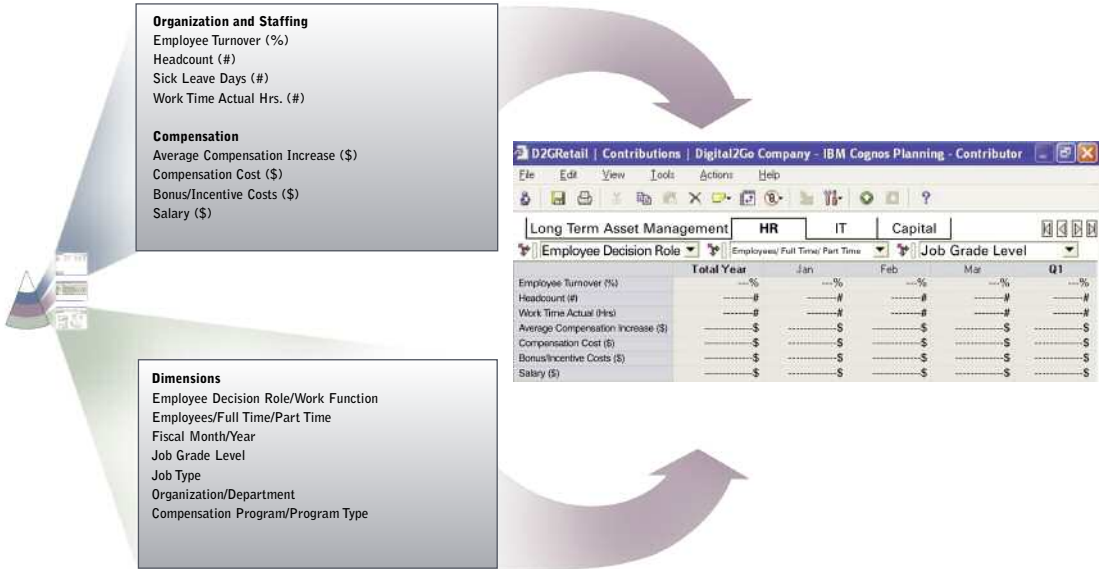
FUNCTION	DECISION ROLES	PRIMARY WORK	CONTRIBUTORY	STATUS
Human Resources	Executives	*		
	Managers	*		
	Analysts	*		
	Professionals	*		
Customer Service	Executives			*
	Managers		*	
Marketing	Executives			*
	Managers		*	
Sales	Executives			*
	Managers		*	
Compliance	Executives			*
	Managers		*	
Purchasing	Executives			*
	Managers		*	
Operations / Production	Executives			*
	Managers		*	
Product Management	Executives			*
	Managers		*	
Finance	Executives			*
	Managers		*	
IT / Systems	Executives			*
	Managers		*	

## Benefits

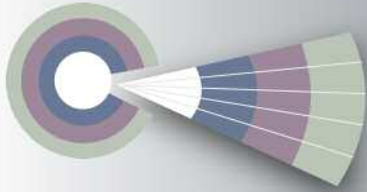
The benefits decision area lets you manage the costs of healthcare programs, savings and pension plans, stock purchase programs, and other similar initiatives. It compares the company’s benefits with those of the competition. Benchmarking benefits helps determine whether you are aligned with the marketplace. As well, because investors scrutinize benefits costs for risk and liability, understanding this area helps demonstrate your company’s management acumen. Employee census data on employee benefits and workers compensation insurance represent a critical benchmark used in measuring core cost changes related to Human Capital management decisions.

GOALS	METRICS	DIMENSIONS	
Benefit Cost Increase (%)	Avg. Benefits per Employee (\$)	Benefits Program	Insurance Coverage
	Benefit Market Comparison Index (#)	Program Type Program	Type Coverage
Benefit Costs (\$)	Benefits Approved (#)	Claim Type	Job Grade Level
	Benefits Claimed (#)	Type Identification #	Job Level Job Name
Benefit Costs/ Payroll (%)	Benefits Claimed (\$)	Employees	Loss Control Program
	Benefits Paid (\$)	Full-Time/Part-Time Employee Name	Program
Payroll (\$)	Qualified Benefits Cost (\$)	Tenure Range	Benefits Communication Program
	Employee Enrollments (#)	Tenure Range Age Range Age Range	Benefits Communication Program
		Fiscal Month Year Quarter Month	Organization Division Department Org. Code
		Insurance Carrier Distributor/Carrier Type Carrier	

FUNCTION	DECISION ROLES	PRIMARY WORK	CONTRIBUTORY	STATUS
Human Resources	Executives	*		
	Managers	*		
	Analysts	*		
	Professionals	*		
Audit	Executives			*
	Managers	*		
	Professionals	*		
Finance	Executives			*
	Managers		*	
	Analysts	*		
Tax	Professionals	*		



*The Organization and Staffing and Compensation decision areas illustrate how the Human Resources function can monitor its performance, allocate resources, and set plans for future financial targets.*



# INFORMATION TECHNOLOGY

## A Pathfinder to Better Performance

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*Our Age of Anxiety is, in great part, the result of trying to do today's jobs with yesterday's tools.*

Marshall McLuhan

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IT can be to the bank what high-tech firms have been to the economy—a catalyst for change and an engine driving rapid growth. Of course, the opposite is also true: IT failures can seriously harm the bank. Why? Technology and information have become so important to how banks operate that even small changes can dramatically affect many areas of the business. This reality is reflected in the amount of IT assets accumulated over years due to large IT budgets, often second only to payroll in size. *How many of these assets are still underleveraged, for whatever reason? What impact on results would an across-the-board 10 percent increase in return on IT assets (ROA) have?*

Clearly, the stakes are high. And yet, IT is often seen as a simple support function or an expense ripe for outsourcing. It is rarely seen as an enabler or creative pathfinder for the business. IT's daily pressures often derive from thankless, sometimes no-win tasks, such as ensuring core service levels of up-time, data quality, security, and compliance. Beyond these basic operations—"keeping the lights on"—IT must also respond to the never-ending and always-changing needs of their business customers. The challenge of managing their expectations is intensified by the pressure to reduce costs, do more with less, and even outsource major capabilities.

Companies often cite poor alignment of IT with other functions as the key challenge. IT, however, can be the pathfinder that helps the company discover a new way to drive value and maximize ROI and ROA. Unfortunately, the opportunity for IT to demonstrate this is often blocked by three common barriers:

**Barrier 1: *Effective alignment cannot succeed without a common language and unifying map***

IT must be well aligned with the business. Much has been written about processes for achieving greater alignment in IT decisions. These include:

- Securing senior executive sponsorship
- Implementing gating procedures and ROI justifications for project approvals
- Establishing steering committees and business partnering roles and responsibilities

However, for any of these processes to be successful, IT and the company as a whole need to share a common language and unifying map.

This is really about building a relevant business context for what IT can do. The language and map must reflect a fundamental understanding of what issues matter to the success of the bank. Then you can form a credible view on how IT capabilities can help. The map must show how IT capabilities fit among the company's other functions, processes, decisions and, most important, goals. It must show who benefits from these capabilities. And it must be able to communicate the strengths and weaknesses of these IT capabilities across a range of infrastructure, applications, and information, as well as how to manage them. Think of it as a Google™ Earth tool for IT. Zoom in on business objectives and evaluate different technical options based on an understanding of detailed capabilities.

**Business Visibility**



**IT/Business  
Options/Paths**

**Detailed IT Capabilities**

The common language and unifying map should include the fundamental anchors of metadata, such as customer, product/service, and location, along with standard business rules. Finally, it must also clarify and explain IT terminology. Non-technical audiences should be able to understand the impact of IT in business terms and answer some fundamental questions, including:

- Where are we today, where do we want to be, and how can we get there?
- What business processes and strategic goals are being negatively affected?
- How could IT drive better business performance? Which users stand to benefit?
- How well do multiple, discrete IT assets combine to fulfill complex business performance requirements?
- What information do you need to drive better decision-making capabilities, in terms of content (measures and dimensions), business rules (metadata), and use (functionality)?
- What financial and human resources do you require to fulfill your goals?
- How should costs be aggregated and allocated to reflect actual use?
- What are the cost/benefit trade-offs between alternative technical options?

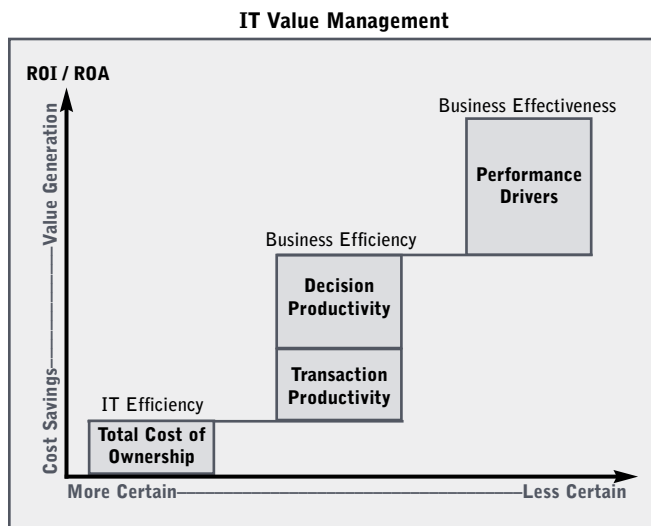
**Barrier 2: *The difficulty of developing more credible, closed-loop measurements of IT's value to the company***

It is standard practice within most IT departments to evaluate the return on investment for projects and initiatives, and measure the cost/benefit of various IT capabilities. The challenge comes in developing a value measurement system that:

- Is credible with Finance and users alike
- Provides insight into cause and effect drivers
- Goes beyond point measurement to reflect the entire organization
- Is consistent across projects, departments, and business units
- Provides a closed loop so that results can be compared to the plan and lessons learned.

Fundamentally, IT creates value by improving operational efficiency and/or effectiveness, but defining what this actually means isn't straightforward. One approach is to use the simple notion of input/output changes. Greater efficiency means reducing input cost—the effort or time required to achieve a given level of output. Greater effectiveness means achieving better-quality or higher-value output for the same level of input. A further guideline for defining useful metrics is to divide them into three distinct categories:

- **IT efficiency** → Direct total cost of ownership (TCO) savings in use of IT resources
- **Business efficiency** → Productivity savings in terms of business users' time to perform both transaction-based and decision-making work
- **Business effectiveness** → Improved business performance from faster and more informed decision-making



These three categories include measures ranging from cost savings (efficiency) to value generation (effectiveness), as well as from more to less certainty in the numbers. This is the dilemma and the challenge for IT: the greatest opportunity for ROI and ROA is also the least verifiable, and therefore the least credible.

Hard numbers around IT efficiency, such as cost savings and cost avoidance, are easier to measure and are often the only ones Finance sees as credible. Businesses document such costs, or they occur upfront, and therefore involve fewer future projections. Pursuing TCO is a well established discipline. It captures hidden costs such as implementation, change orders, maintenance, training, and user support. TCO also evaluates common drivers of IT inefficiency such as lack of standardization and consolidation.

Determining the value of business efficiency in user productivity improvements is somewhat harder. However, there are established processes. Historically, IT's primary focus has been on improving efficiency through automation. Cost savings in core transaction processes justified much of the countless dollars spent on technology over the last decade. The heavy investment required to implement enterprise resource planning systems, for example, was usually justified based on the ROI of process improvement that reduced cost per transaction.

However, measuring value merely in terms of IT efficiency from cost savings, or business efficiency from improved transaction productivity, understates the total value. Banks have already achieved most of the major cost savings available from consolidations, platform standardization, and transaction process improvements. While you may still need incremental upgrades and integration initiatives, the bigger opportunity for value is in improving the efficiency and effectiveness of decision-making.

As noted in the introduction, analysis from McKinsey shows that the proportion of more complex decision-based (tacit) work has increased relative to transaction-based work. It now represents more than 50 percent of the workload in many industries.

Unfortunately, decision-based work is much harder to measure, and therefore to determine how to improve. It is information-intensive, interactive, and often iterative. IT must evaluate the value of improving business efficiency and effectiveness around decision-making work. The critical asset—and therefore the element to measure—is information. IT delivers value through quality of information. You measure that quality in terms of relevance, accuracy, timeliness, usability, and consistency. The higher the quality of information, measured across all of these factors, the better the decision-making. This leads to greater user productivity and the ability to drive performance goals.

Some metrics on decision productivity come from monitoring the use of a reporting, scorecard, or overall performance management system. *How many people use it? How often do they use it? When do they use it? How often are reports updated? How many new reports do users create? Who are these power users?* IT can also track user feedback about information quality through self-assessments and qualitative ratings.

Metrics quantifying business effectiveness are in some ways more straightforward, though not necessarily as certain or verifiable. These are based on the performance metrics for the decision area you are improving. As demonstrated throughout this book, decision areas are defined by drivers and outcomes that reflect the cause-and-effect relationships among business issues. This metric hierarchy provides the logic for ROI/ROA calculations and for monitoring success over time.



### Barrier 3: *Lack of good decision-making information for managing IT*

IT often lacks its own decision-making information. Beyond the need for metrics noted above, IT needs a context for making a wide range of decisions, as well as for filtering the volume of data it generates. There are two types of IT information sources that are often not fully integrated or harnessed.

The first comes from applications that serve IT processes. Use of information from systems management tools has become quite common, notably to manage security and compliance issues. For example, compliance with Sarbanes-Oxley's Section 404 for General IT and Application Controls involves reviewing access rights, incident logs, change and release management data, and other information generated by IT applications. This information is useful for making decisions beyond compliance.

The second source comes from having more consistent information about the IT management process itself. The Sarbanes-Oxley legislation was a catalyst for well-established best practices in IT becoming more widely adopted. These practices include:

- Frameworks such as Control Objectives for Information and related Technology (COBIT®) from the IT Governance Institute and the Information Technology Infrastructure Library (ITIL) framework
- Methodologies such as the software development life cycle (SDLC)
- Organizations such as the Project Management Institute (PMI)

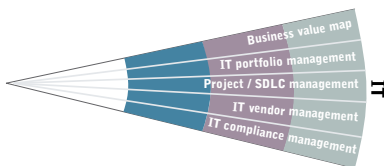
Greater acceptance and use of these best practices provides more information about IT and the business processes, organizations, and users that IT supports.

## The Business of IT

The five decision areas described in this chapter provide IT with insights and facts to help drive overall value for the company. The sequence of these decision areas provides a logical and iterative flow of analysis and action. The start and end point—IT with a clear view of *where* and *how* it is driving business value—sets the basis for priorities and plans to close gaps. You require a detailed understanding of the effectiveness of IT assets, both individually and combined, to see how to make them more effective. In order to optimize your current assets, or add new ones, you must monitor the projects closely and manage vendors. Finally, you need visibility over the many “moving parts” to ensure you comply with business and regulatory objectives to mitigate risks.

Decision areas on IT:

- **Business value map** → Where and how does IT drive business value?
- **IT portfolio management** → How are IT assets optimized for greatest ROA?
- **Project/SDLC management** → Are projects on time, on budget, on target?
- **IT vendor management** → Are vendor service levels and costs managed optimally?
- **IT compliance management** → Are IT risks and controls managed appropriately?



## Business Value Map

The business value map provides a high-level view of IT's effect on the business, both currently and potentially. This information sweet spot combines common language with value measurement in a single unifying map for use throughout the business. Of the five decision areas, this is the most important for driving better alignment between IT and the other functions. It helps define the demand for IT and the ways IT can assist. Organizations use the business value map at different levels and stages of IT processes. These include defining IT strategy, setting priorities, approving projects and investments, defining requirements, monitoring user acceptance, and validating success.

The business value map provides a consistent understanding of the business and an overall understanding of IT. One useful source of this information is the consistent view of the business required by Section 404 of the Sarbanes-Oxley legislation in terms of organizational entities, transaction processes, systems, people, and their overall relationship to financial accounts. The business value map provides context and measures gaps in current or projected IT capabilities.

This helps clarify the *where / who / how / what / when* questions:

- *Where* are better IT capabilities needed in the company in terms of organizational units, functions, and processes?
- *Who* are the users and stakeholders of better IT capabilities?
- *How* will better IT capabilities drive value for the business (and did they last quarter)?
- *What* are the requirements for developing better IT capabilities?
- *When* must better IT capabilities be available?

This decision area lets you compare strengths and weaknesses in IT capabilities across different business units, processes, and functions. Then you can relate any gaps back to the drivers of performance. *Information quality is a leading indicator of business value—is IT delivering the right information at the right time to the right decision-makers to support the business?* You can evaluate gaps in information quality using a number of qualitative factors. These include relevance, accuracy, timeliness, availability, reliability, breadth of functionality, and consistency. These factors can be used to clarify cost/benefit options and let you prioritize potential improvements.

## BUSINESS VALUE MAP

GOALS	METRICS	DIMENSIONS	
Business Priority Score	BI Users (#)	Current/Target Scenario	IT Projects
Business Value (\$)	Business Effectiveness Index	Scenario	IT Project Type IT Project
Information Quality Index	Business Efficiency Index	Decision Processes	Key Business Information
IT Capability Index	Employees (#)	Business Function	Business Subject Area
IT Costs (\$)	Information Accuracy Rating	Decision Area	Metadata Model
	Information Availability Rating	Employee Decision Role	Organization
	Information Consistency Rating	Work Function	Division
	Information Functionality Rating	Decision Role	Department
	Information Relevance Rating	Fiscal Year	Org. Code
	Information Timeliness Rating	Year	Strategy Focus
	IT Project Costs (\$)	Quarter	Strategic Area
	IT Projects (#)	Month	Strategy
		Information Supply Chain	Transaction Processes
		Information Stage	Process
		IT Improvement Priority	Sub-Process
		IT Improvement Priority Rating	Activity
		IT Project Status	

FUNCTION	DECISION ROLES	PRIMARY WORK	CONTRIBUTORY	STATUS
<b>IT / Systems</b>	Executives	*		
	Managers	*		
	Analysts	*		
	Professionals	*		
<b>Finance</b>	Executives	*		
	Managers	*		
	Analysts	*		
	Professionals	*		
<b>Customer Service</b>	Executives			*
	Analysts		*	
<b>Marketing</b>	Executives			*
	Analysts		*	
<b>Sales</b>	Executives			*
	Analysts		*	
<b>Purchasing</b>	Executives			*
	Analysts		*	
<b>Operations / Production</b>	Executives			*
	Analysts		*	
<b>Product Management</b>	Executives			*
	Analysts		*	
<b>Human Resources</b>	Executives			*
	Analysts		*	

## IT Portfolio Management

This is the supply side of the IT value equation, while the business value map decision area is the demand side. Portfolio management offers details of and insights into the bank's IT assets, how well these support the business, and what opportunities exist to improve IT ROA spending by:

- Expanding the portfolio by acquiring new IT assets.
- Investing more in existing IT assets to generate greater value from them.
- Retiring obsolete or inefficient IT assets.
- Implementing controls to mitigate risk related to IT assets.

GOALS	METRICS	DIMENSIONS	
IT Capability Index	BI Users (#)	Application Software	IT Efficiency Opportunity
IT Costs (\$)	Employees (#)	Application Type	IT Savings Magnitude
IT Efficiency Index	IT Asset Availability Rating	Software	IT Savings Type
	IT Asset Compatibility Rating	Data Sources	IT Improvement Priority
	IT Asset Flexibility Rating	Data Source Type	IT Improvement Priority Rating
	IT Asset Reliability Rating	Data Source	IT Project Status
	IT Asset Scalability Rating	Decision Processes	IT Projects
	IT Direct Costs (\$)	Business Function	IT Project Type
	IT Indirect Costs (\$)	Decision Area	IT Project
	IT Project Costs (\$)	Discretionary Budget	Key Business Information Area
	IT Projects (#)	Fiscal Month	Metadata Model
		Year	Organization
		Quarter	Division
		Month	Department
		Goals/Metrics Hierarchy	Org. Code
		Goal Type	Transaction Processes
		Goals	Process
		Metrics	Sub-Process
		Information Supply Chain	Activity
		Information Stage	
		Infrastructure Environment	
		IT Technical Layer	
		IT Asset Type	
		IT Asset	

While there are many potential categories and attributes of IT assets, the three core ones are infrastructure, applications, and information. Using this decision area, IT can analyze the inventory of physical IT assets (hardware, software, data sources, and applications), their properties (such as vendor and direct cost), and their core capabilities (such as flexibility, scalability, reliability, compatibility, and availability).

FUNCTION	DECISION ROLES	PRIMARY WORK	CONTRIBUTORY	STATUS
IT / Systems	Executives	*		
	Managers	*		
	Analysts	*		
	Professionals	*		
Finance	Executives	*		
	Managers	*		
	Analysts	*		
	Professionals	*		
Customer Service	Analysts		*	
Marketing	Analysts		*	
Sales	Analysts		*	
Compliance	Analysts		*	
Purchasing	Analysts		*	
Operations / Production	Analysts		*	
Product Management	Analysts		*	
Human Resources	Analysts		*	
Audit	Analysts		*	

Improving IT efficiency, however, is not enough. Most organizations have tied 70 percent of their IT budget to non-discretionary items. You can't cut these "keeping the lights on" costs easily. You can gain additional and invaluable insight in this decision area by comparing how diverse IT assets work together to support specific areas of the business. Think of these IT assets as belonging to an information supply chain that acquires, manages, and delivers access to information for end users. Thinking in terms of shared and integrated supply chains delivering information and functionality makes it easier to explain how improvements to incomplete, complex, or obsolete IT assets represent greater effectiveness and value to the bank. IT should set standards and document the core business metadata for the bank. Consistent metadata and business rules are critical for information to become a trusted sweet spot in decision-making processes.

## Project/SDLC Management

This decision area is one of two that make up IT's operational bread and butter. Value is generated from IT assets by implementing new software and infrastructure or developing new applications. With IT's discretionary budget for new projects limited to about one-third or less of the total IT budget, resources are scarce and expectations high. This makes good information even more critical. Most IT departments have hundreds of separate projects that are interrelated, overlapping, or at various stages of completion. This decision area tracks the status of major projects against common project management milestones such as scope, requirements analysis, design specifications, development, testing, implementation, and production. Monitoring on-time, on-budget, on-quality project indicators is critical to managing scope, unplanned changes, and necessary adjustments. This information, which may need to be aggregated from several sources, also improves alignment around project priorities and helps flag duplication in purpose or scope.

GOALS	METRICS	DIMENSIONS	
IT Project Completion (%)	External Resource Days (EFT)	Business Scope	Project Start Date
IT Project Lead Time (#)	Internal Resource Days (EFT)	Fiscal Month	Year
IT Project ROI (%)	Initiatives Rejected (#)	Year	Quarter
	IT Project Cost (\$)	Quarter	Month
	IT Project Value (\$)	Month	Project Start Date
	New Initiatives (#)	Forecast Scenario (Plan/Actual/Forecast)	Project Management
	Project Duration (#) – Business Days	Scenario	Project Team
	Project Duration (%) – Variance	Investment Range (\$)	Project Sponsor
	Rejection Causes (#)	IT Projects	Project Manager
	Total Resource Days (EFT)	IT Project Type	Project Member
		IT Project	Project Completion Date
		IT Project Status	Year
		IT Project Complexity	Quarter
		IT Project Milestones	Month
		IT Project Risk Level	Project Finish Date
			Related Projects
			Organization
			Division
			Department
			Org. Code

FUNCTION	DECISION ROLES	PRIMARY WORK	CONTRIBUTORY	STATUS
IT / Systems	Executives Managers Analysts Professionals	• • • •		
Audit	Executives Managers Professionals	• • •		•
Finance	Executives Analysts		•	•
Customer Service	Executives			•
Marketing	Executives			•
Sales	Executives			•
Compliance	Executives			•
Purchasing	Executives			•
Operations / Production	Executives			•
Product Management	Executives			•
Human Resources	Executives			•

Contextual dimensions provide greater comparability across different projects. This allows for learning and best-practice sharing between “apples and oranges” by pooling common information about different projects. These dimensions can include:

- Investment amount (< \$50K, < \$100K, < \$500K, > \$1M, etc.)
- Complexity (features, information, architecture)
- Dynamic versus static
- Business scope (point solution, departmental, or enterprise)
- Critical skills required
- Risk level (likelihood and impact assessments)

A key benefit of this information is that you gain insights even from failed projects. By seeing what worked and what didn't across many different projects, and by ensuring a full life cycle perspective on development projects, you can avoid future mistakes and resource misallocations. This information sweet spot helps manage expectations across the team, sponsors, and stakeholders. With it, IT management can avoid project cost overruns, missed deadlines, and sub par quality deliverables. Beyond avoiding the adverse financial implications of failed projects, it also helps IT avoid the potentially serious impact on the company's reputation and credibility.



## IT Vendor Management

This decision area represents the other operational information sweet spot for IT. In banks, IT expenditure is significant and strategic in terms of dollars spent on external vendors. IT needs a consolidated view of how much it is spending on IT assets and with whom. It's a long list, from PCs and PDAs to routers and telecom services, from software licenses to system integrator services.

Analyzing this information sweet spot helps identify what to consolidate and/or standardize to reduce costs and complexity. It also reveals where you can pool requirements to gain purchasing power or generate higher service levels. When this information is fragmented across the enterprise, it is difficult to spot duplication of contracts and agreements. Simple comparisons of vendor costs by function and user can help uncover potential excesses. Knowing that other vendors have provided similar products or services also helps IT foster healthy competition and price/quality comparisons.

GOALS	METRICS	DIMENSIONS	
IT Contract Cost (\$)	Credit Rating (#)	Application Software	IT Contract Start Date
IT Project Completion (%)	Employees (#)	Application Type	Year
IT Project Lead Time (#)	IT Asset Availability Rating	Software	Quarter
IT Vendor On-Time (%)	IT Asset Compatibility Rating	Data Sources	Month
SLA Performance (%)	IT Asset Flexibility Rating	Data Source Type	Contract Start Date
	IT Asset Reliability Rating	Data Source	IT Vendor Status
	IT Asset Scalability Rating	Fiscal Month	IT Vendor
	IT Direct Costs (\$)	Year	IT Vendor Type
	IT Indirect Costs (\$)	Quarter	IT Vendor
	IT Project Costs (\$)	Month	Organization
	IT Projects (#)	Infrastructure	Division
	IT Vendor Hourly Rate (\$)	Environment	Department
	Quality Rating (#)	IT Technical Layer	Org. Code
		IT Asset Type	Transaction Processes
		IT Asset	Process
		IT Contract End Date	Sub-Process
		Year	Activity
		Quarter	
		Month	
		Contract End Date	

FUNCTION	DECISION ROLES	PRIMARY WORK	CONTRIBUTORY	STATUS
IT / Systems	Executives	*		
	Managers	*		
	Analysts	*		
	Professionals	*		
Audit	Managers	*		
	Analysts		*	
	Professionals	*		
Finance	Analysts	*		
Customer Service	Analysts		*	
Marketing	Analysts		*	
Sales	Analysts		*	
Compliance	Analysts		*	
Purchasing	Analysts		*	
Operations / Production	Analysts		*	
	Analysts		*	
Product Management	Analysts		*	
Human Resources	Analysts		*	

This decision area is also important in managing service levels tied to major outsourcing contracts, a fixture for many IT functions. All service level agreements have trade-offs between quality, time, and cost. Measuring quality, especially in the more complex Tier 3 contracts that manage and enhance applications, can be a challenge. For example, where Tier 1 agreements may measure service availability, numbers of incidents, and resolution response times, Tier 3 agreements need to address access to and use of information from applications, and how easy and quick it is to make changes. Even knowing when contracts are up for renewal, as well as when you are triggering penalty or incentive clauses, can lead to cost savings or improved service levels.

## IT Compliance Management

IT compliance management is a key focus for U.S. public companies and especially banks. This decision area consolidates information from different compliance initiatives. As noted in Barrier 3, various frameworks and IT best practices such as COBIT and ITIL require general and application-specific IT controls. This decision area requires three common sources of information.

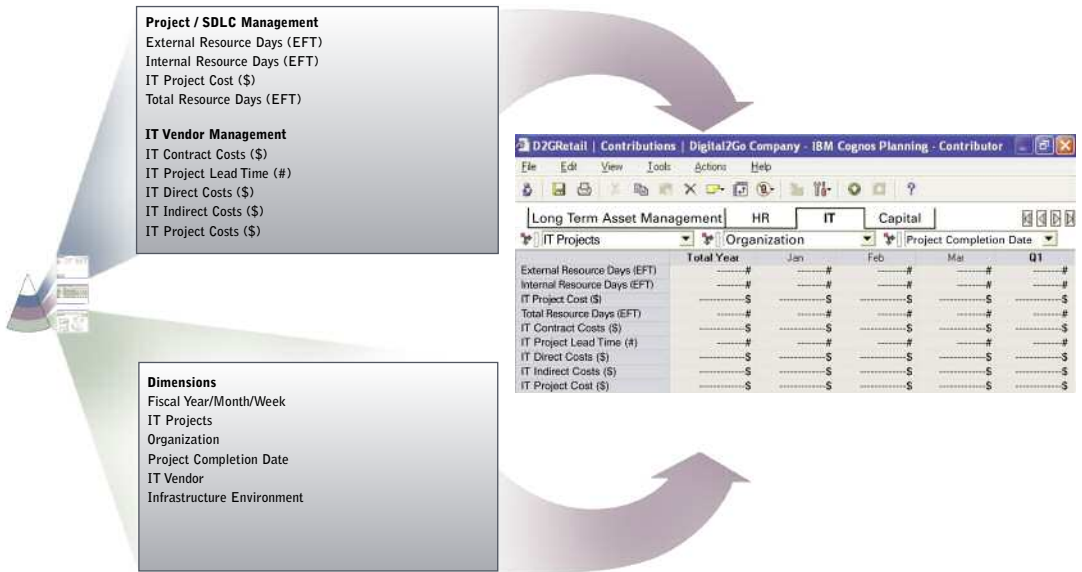
The first is from compliance program management software, such as that used for Sarbanes-Oxley. Similar to the project/SDLC management decision area, this allows IT to ensure that compliance tasks take place and are meeting program milestones.

The second source of information comes from the controls themselves. Of the 34 IT processes across four domains used in COBIT, a subset is required for Sarbanes-Oxley, notably around security and access controls, change and release management, and incident and problem management. In most cases, these controls involve reviewing large volumes of data and flagging exceptions to established procedures.

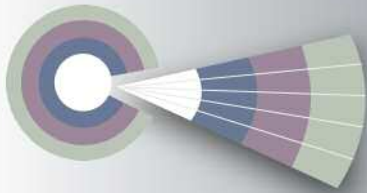
GOALS	METRICS	DIMENSIONS	
Compliance Completion (%)	Control Effectiveness Rating	Application Software	In Scope
Compliance Costs (\$)	Controls (#)	Application Type	Infrastructure Environment
Material Weakness (#)	Exceptions (#)	Software	IT Technical Layer
Regulatory Compliance (%)	External Audit Fees (\$)	Assertions	IT Asset Type
Risk Level Index	Internal Audit Costs (\$)	Control Frequency	IT Asset
	Issues (#)	Control Method	IT Control Processes (COBIT)
	Items Overdue (#)	Control Objective	Control Type (App/Gen)
	Outsourced Internal Audit Costs (\$)	Control Objective	IT Domain
	Reg. Audits	Control Owners	IT Process
	Risk Impact Rating	Function	IT Control
	Risk Likelihood Rating	Position	Key Control
	Sample Size (#)	Control Owner	Remediation Status
	Significant Deficiencies (#)	Control Type	Risks
	Tests (#)	Documentation Status	Risk Category
		Entity	Risk Type
		Financial Account	Risk
		Financial Statement Type	Test Status
		Financial Statement Line	Transaction Processes
		Financial Account	Process
		Fiscal Month	Sub-Process
		Year	Activity
		Quarter	
		Month	

FUNCTION	DECISION ROLES	PRIMARY WORK	CONTRIBUTORY	STATUS
IT / Systems	Executives	*		
	Managers	*		
	Analysts	*		
	Professionals	*		
Audit	Executives			*
	Managers	*		
	Professionals	*		
Finance	Executives			*
	Analysts		*	
Customer Service	Executives			*
Marketing	Executives			*
Sales	Executives			*
Compliance	Executives			*
Purchasing	Executives			*
Operations / Production	Executives			*
Product Management	Executives			*
	Executives			*
Human Resources	Executives			*

The third source is metadata itself. Today, many organizations still have mostly manual internal controls. Approximately two-thirds or more are “detective” controls, versus the more reliable “preventive” ones. Detective controls involve reviewing transaction records in both detailed and summary form. For example, reviewing an accounts receivable trial balance is a detective control. In order for greater reliance to be placed on these controls, there must be a clear audit trail linking the source of information with the definitions and business rules that apply. Being able to monitor and analyze which metadata governs which reports and who has access to it creates a more reliable control environment.



*The Project / SDLC Management and IT Vendor Management decision areas illustrate how the IT function can monitor its performance, allocate resources, and set plans for future financial targets.*



## Chief Balancing Officers

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*Checking the results of a decision against expectations shows executives what their strengths are, where they need to improve, and where they lack knowledge or information.*

Peter Drucker

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Executive Management bears the ultimate responsibility for the success or failure of the bank. Yet this senior team must work largely by indirect means: setting goals and communicating strategy; strengthening the organizational culture; recruiting senior talent and building teams; and determining how to allocate capital, especially for long-term priorities.

The team faces complexity, uncertainty, time pressures, and constraints in its efforts to lead the organization, and set and deliver on performance expectations. Today, these traditional challenges occur in the context of unprecedented levels of investor and regulatory scrutiny. Executive Management must find the proper equilibrium among these pressures, striking the right balance at the top and causing this influence to pervade the organization.

In the wake of the Sarbanes-Oxley Act (SOX), Basel II and other regulatory initiatives worldwide, risk management, corporate governance, and compliance are major focal points for Executive Management. Governance starts with performance. It reflects the highest-level balancing act for management: *Are we performing to shareholder expectations?* Risk starts with the flip side of performance: *Are we successfully taking and managing the right risks to sustain this performance?* Compliance sets the rules by which we must play: *Are we complying with regulatory requirements?* Executive Management must understand and balance these business forces to ensure long-term success with customers, investors, employees, and the law.

Driving your organization's performance is an exercise in balancing:

- Strategic goals and operational objectives
- Financial performance and operational drivers
- Short-term and long-term pressures
- Top-down and bottom-up perspectives.

There are many business approaches that help unlock the right formula: Total Quality Management, Balanced Scorecard, Six Sigma, homegrown variations of these, and more. Such business approaches provide focus, context, and alignment for decisions. They all require the development of a performance management system. This system turns your organizing philosophy into executable actions for decision-makers at the top and throughout the business. Among the many methodologies and frameworks for defining a performance management system, three basic concepts are universal:

1. How does this action tie back to the financials? (the *so what* question)
2. How does this action tie back to organizational functions and roles? (the *who is accountable* question)
3. How does this fit with the business process? (the *where, when, and how* question or questions)

While many companies embrace a business philosophy, most lack the performance management system necessary to make it truly successful. Four common barriers prevent Executive Management from striking the right balance in achieving performance, managing risk, and ensuring compliance.

#### **Barrier 1: *Poor vertical visibility of performance drivers***

Executive Management requires a simple vertical hierarchy to connect goals and objectives to underlying functions, processes, and decision areas—including a clear tie back to the financials. This hierarchy is central to a performance management system. With it, Executive Management can understand what has happened, guide today's actions, and plan future performance. However, despite extensive help in this area (Six Sigma, Balanced Scorecard, Total Quality Management, etc.), companies still struggle with successfully implementing a performance management system. Why? It is difficult to translate the top-to-bottom conceptual logic—goals and objectives, leading and lagging indicators, financial and operational considerations, cause and effect—into practical, measurable areas for which people can feel accountable. The many interrelated factors become too complex to implement or manage.



As this illustration shows, a pyramidal hierarchy ensures a clear, logical path to follow from strategic goals at the enterprise level to operational objectives at the functional level, and then down to specific decision areas within those functions. This reduces the number of goals at the top while building detail at appropriate levels of the organization. This creates a basis for delegating accountability.

The pyramid structure requires a consistency and logic that governs cause-and-effect assumptions. Metadata underpin this consistency, which requires defining appropriate business rules and controlling changes through them.

**Barrier 2: *Unclear ownership of performance goals and accountability for them at the front line***

Executive Management is accountable for everything but directly controls nothing. Executives rely on many individuals to strike the right balance and make the right decisions. Micromanaging is maligned for good reasons: it is not feasible for an executive to be everywhere, doing everything; it weakens everyone under the executive; and it distracts the executive from strategy into tactical execution.

Successful leadership thrives in an environment where there is clear ownership of and accountability for results up and down the organization, rather than merely expected tasks and duties. Ownership requires clearly assigned roles in making decisions that drive performance goals and objectives. Accountability requires measuring the value of actions and outcomes. Using the pyramid structure, you can overlay the goal hierarchy with primary and contributory roles in decision-making according to function and decision area.

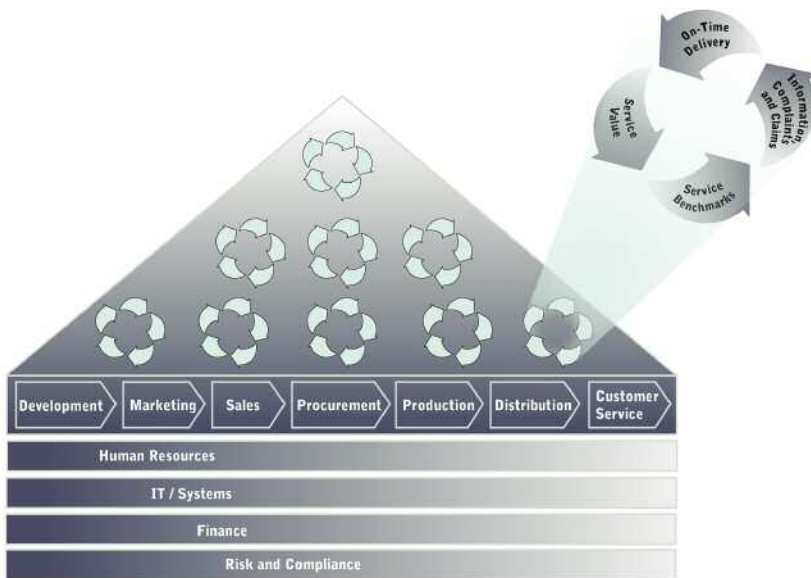


FUNCTION	DECISION ROLES	PRIMARY WORK	CONTRIBUTORY	STATUS
Finance	Executives			•
	Managers		•	
	Analysts		•	
	Professionals		•	
Audit	Executives	•		
	Managers	•		
	Professionals	•		
Customer Service	Executives			•
Distribution	Executives			•
Operations / Production	Executives			•

You can assign accountability for these decision areas through the planning process. When you ask people to contribute a target number or set an acceptable threshold for a goal or measure, you have shared ownership of the outcome and helped link the person back to the financial results.

**Barrier 3: Poor horizontal visibility of cross-functional alignment and coordination**

A true performance management system spans more than one function or department. It sits above the business process flow in a related but non-linear fashion. Many performance decisions draw upon different elements across process flows in an iterative way.

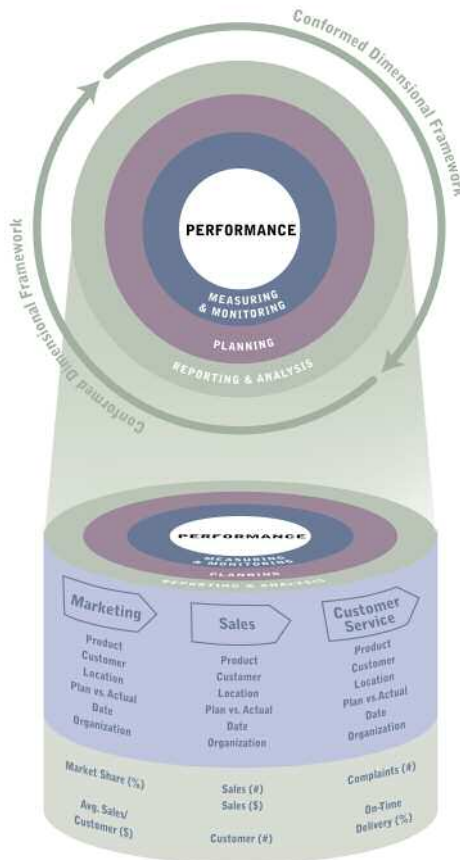


*Decision areas overlay the familiar view of core processes and underlying support processes. Each functional set of decision areas provides an iterative feedback loop. Cross-functional sets combine to address additional performance goals and objectives.*

If your performance management system adequately captures vertical cause-and-effect relationships, it may still lack visibility across different functions that share common goals or objectives. This visibility is necessary for striking the right balance throughout the organization. Cross-functional or “horizontal” visibility lets decision-makers across business processes collaborate and execute strategy. It also lets Executive Management weigh in on the difficult choices that cannot be resolved at lower functional levels. Delays in cross-functional handoffs and misalignments among departments negatively affect your overall performance.

The performance management system must include two capabilities. First, it must show how everything fits together in terms of business process. Second, it must include a consistent definition of and context for performance drivers across functions that share common goals or objectives. In metadata terms, horizontal consistency means defining common dimensions shared across functional decision-making processes. (For example, it is critical to define and track products, customers, and locations—the anchors of the business—consistently across processes.)

### Horizontal Coordination: Conformed Dimensionality Across the Value Chain

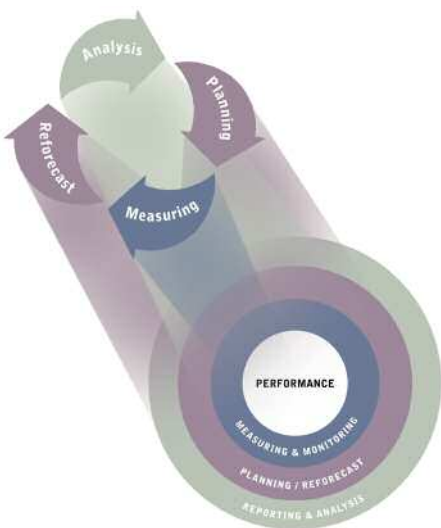


**Barrier 4: *Current executive information capabilities do not support the non-linear and iterative nature of decision-making/management processes***

For most employees, decision-making work has increased relative to transaction work, but this situation is not reflected in the information we receive to do our jobs. This problem is most acute in the management process itself. Decision-making should flow top-down and bottom-up in an iterative closed loop. Various decisions in different functions need to be grouped and understood together when they affect the same goals. There are also different decision-making cycles and requirements for long-term strategic goals than for short-term monthly and quarterly operations.

These metrics constantly evolve because 1) they often need tweaking (typically realized by using them), and 2) people's behavior eventually adapts to what is being measured. There is a natural tendency for people to learn over time how to "work the system", which obscures its original intent. This requires agile, adaptive, and controlled metadata functionality of business rules, definitions, and audit trails.

A multi-year strategic management planning process starts by reassessing assumptions and conventional wisdom based on rigorous analysis. You must validate or readjust what is important, and should therefore be measured and translated into operational plans that can be delegated down through the organization. Decision flow then switches to monthly or quarterly monitoring of performance with fast, drill-down analysis and reporting on the underlying causes of results. When these causes have been understood by each of the contributing decision-makers, you can reforecast adjustments to operational and financial plans. The bottom line: *You need performance management information at each of these steps to support your decision-makers effectively.*



Strategic management cycle:

- **Analysis** → Where do we want to be? (vision and goals)
- **Measures** → What's important? (priorities)
- **Planning** → How do we get there? (objectives and targets)

Operational management cycle:

- **Monitoring** → How are we doing?
- **Analysis and reporting** → Why?
- **Planning** → What should we be doing?

## Decision Areas

The six decision areas listed below support the core governance, risk, and compliance balancing act of Executive Management. They include four performance management decision areas and one decision area each for risk and compliance management.

- **Performance** →

**Financial management** → Are we performing to shareholder expectations?

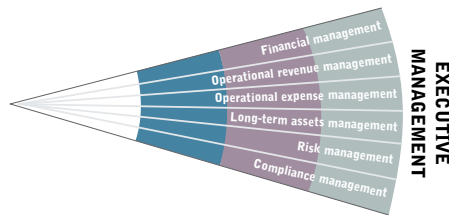
**Operational revenue management** → Are we driving revenue growth effectively?

**Operational expense management** → Are we managing operational expenses effectively?

**Long-term assets management** → Are we managing long-term assets effectively to increase future revenue and expense management capabilities?

- **Risk management** → Are we managing the risks of sustaining this performance?

- **Compliance management** → Are we complying with regulatory requirements?

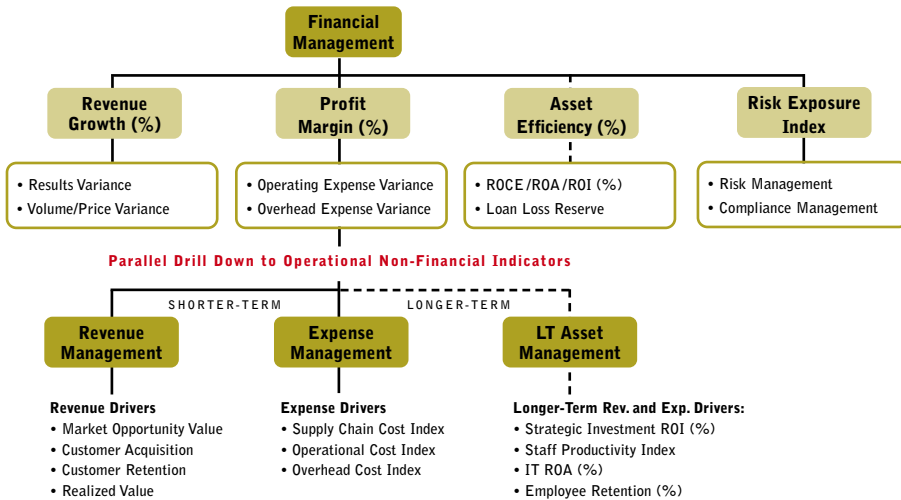


The four decision areas for performance management are further designed to support several interrelated balancing acts: between leading and lagging indicators; between income and expense trade-offs; between short-term and long-term resource allocations; and between top-down and bottom-up management processes. Specifically, each of these decision areas has two integrated levels: an overview “dashboard” level and a more detailed operational level.

The latter is an intermediate level that points to other underlying decision areas that contain even more detail, as in the pyramid structure outlined on page 117. It allows Executive Management to gain a comprehensive view of business performance and to zero in on additional detail for greater insight when necessary, then reset targets and plans accordingly. In each case, the set of goals in the overview level dashboard is purposely limited to one illustrative goal per theme, with additional goals and metrics made available at the next drill-down level. Each bank will have its own variations on these goals and may determine that more than one indicator should be added at the dashboard level.

Inspired by the Balanced Scorecard framework, the four performance management decision areas provide clear, parallel paths to drill down from goals into their underlying operational drivers. The customer-focused perspective is adapted to include information and metrics from decision areas that drive income. The internal process perspective is adapted to focus on operational expense drivers.

The learning and growth perspective also reflects investment and leverage from long-term assets such as human capital and IT assets. The financial management perspective is where we analyze and monitor directly quantifiable financial indicators, but the three other performance management decision areas provide parallel non-financial paths to drill down to operational drivers. The functions and decision areas described in the rest of this book form a bottom-up framework for designing effective and interconnected information sweet spots of scorecards and dashboards, analytical and business reports, and budgets and plans. Each decision area in this chapter shows a path or starting point for linking the other decision areas together in a top-down logic and, by doing so, establishing cross-functional teams to drive shared goals and objectives. This chapter also highlights the balancing act and trade-offs that Executive Management must make.



*Our executive dashboard allows executives to quickly understand the behavior of all the company’s revenue drivers. By adding reporting and scorecarding capabilities, we make it easier for decision-makers to manage what matters the most.*

Louis Barton, Executive VP, Cullen/Frost Bankers

## Financial Management

The financial scorecard is a well-developed information sweet spot for most companies. Its bottom-line results are tied to executive financial rewards and additional incentives such as share options, as well as overall risk factors, to align shareholder expectations with executive team motivation. The three basic performance measures illustrated here are critical to any business. Revenue growth and operating margin are linked to the statement of income, and asset efficiency is linked to the balance sheet. The fourth is a high-level risk measure. Revenue growth is a key component of shareholder value creation. If costs stay flat, revenue increases will directly affect earnings growth, leading to a positive change in the price to earnings ratio (P/E). Executives and investors watch the operating margin and the associated percentage of operating margin to sales ratio. More sophisticated performance measures include return on capital employed (ROCE), return on assets (ROA), and economic profit. Risk exposure is the flip side of this coin, tracking various categories of risks and mitigating factors that could affect the company's ability to meet its performance goals. These measures more closely align with the investor's perspective, since they give an indication of the risks/rewards generated by a given capital or asset base. Since the capital tied up in the business has a certain opportunity cost for investors, unless these rewards are sufficiently high shareholders will take their cash elsewhere.

### *Revenue Growth (%)*

*Is revenue growing? How fast? How does this compare with projections?* Executive Management reviews the income statement and the sales plan variance to find out how the bank performs against plan, and drills down to find the drivers of any revenue variances. Product and service variances tell Executive Management what other decision areas should be examined. For example, if service fees are declining, then Executive Management should review the product and service assessment to determine whether the service proposition needs to be repositioned.

### *Profit Margin (%)*

Profit margin is a vital internal performance benchmark. When compared to that of a competitor, it provides a performance comparison for investors. If profit margins are weakening, Executive Management will examine the income statement to determine why. Other margin indicators such as net interest income or non-interest income help identify what type of earnings or expenses are changing. Operational plan variance may suggest that operating expenses are significantly higher than plan, and the drill-down variance can help determine the cause.

### *Asset Efficiency (%)—ROE, ROA, ROI, Economic Profit*

Assessing the bank's performance through ROE or similar measures gives Executive Management the same benchmarks that shareholders use to evaluate the business. If the asset efficiency index is not aligned with market expectations, Executive Management can look at causes in the balance sheet or income statement. The CapEx and strategic investments decision areas may highlight when a major strategic decision or investment program has impacted the asset base.

Alternatively, by looking more closely at the management of assets and liabilities, Executive Management may decide that more effort should be placed on loan securitization or off-balance sheet activities to improve overall asset efficiency and economic returns. The treasury decision area can give Executive Management confidence that cash, liquidity requirements and cost of capital are being effectively managed.

### *Risk Exposure Index*

Executive Management needs a clear understanding of what the bank's major categories of risk are and, most importantly, what level of exposure to these risks it faces. Its ability to communicate these risks while instilling confidence in investors and regulators that it is managing them appropriately is critical. While risk appetite is what generates returns, regulators, customers and investors expect the controls for these risks to be solidly managed. Risk exposure is a derived metric that shows residual risk after inherent risk has been mitigated.

Executive Management can review changes in exposure and evaluate the potential impact on capital allocation across the operation. Drilling down into the risk management decision area gives Executive Management additional insight into inherent risk (such as loss events, loss amounts, or risk assessments), and into the methods of responding to risk (such as avoidance, reduction, sharing, and acceptance).

Likewise, review of compliance management shows the effectiveness of internal controls and the status of current compliance programs and audit activity. Managing compliance is clearly driven by the company's reputation and litigation risks, hence the need for Executive Management to be informed and involved. Basel II and SOX performance is first reported to the Board's audit committee, whose directors, together with company officers, are now more personally liable for financial misstatements and inaccuracies. Directors' and officers' liability insurance rose tremendously after SOX was enacted, precisely for this reason.





### **Operational Revenue Management**

Revenue performance is a key driver of shareholder value. Executive Management must focus on managing revenue or income goals and directing the business and its resources to the most profitable opportunities. This requires cross-functional cooperation. Growth requires looking beyond current revenue/income performance to new opportunities. The strategic plan for growth involves Marketing, Sales, and Product & Risk Management. Executive Management looks at the bank's ability to acquire new customers in order to generate new income, and compares this to existing customer retention performance.

#### *Market Opportunity Value (\$)*

While you may structure your organization along functional lines, revenue opportunities cut across Marketing, Sales, and Product Management. By clustering the decision areas associated with market opportunities, you allow more complete and aligned decision-making. This important business driver allows you to develop an overarching index or series of indicators to describe performance. If needed, Executive Management can drill down further into specific decision areas and the related goals and metrics. If market opportunity value tracks below an acceptable level, Executive Management may look for new market opportunities. For example, a new customer or product segment growing at 20 percent annually is clearly attractive but the bank may have a poor market share. The competitor position assessment indicates a low level of competitor consolidation, suggesting it would be easy to gain share. Product and Service Assessment has evaluated the costs necessary to enter this segment. Available market and customer feedback gives some confidence that these new product concepts could hit the mark. Executive Management can now assimilate this information and decide the best way forward.

#### *Customer Acquisition (%)*

Revenue management is also concerned with the effectiveness of customer acquisition strategies. This means becoming well versed in revenue results and the expectations for future revenue pipeline and demand-generation activities. If you have weak customer relationships, increasing customer calls may be a solution. The customer acquisition percentage lets Executive Management monitor this key performance area. Executive Management must closely scrutinize product innovation to see if new products deliver the projected revenue results. Most organizations launch new products or services with high optimism.

Executive Management must be particularly attentive to early performance indicators. If projected revenues are not delivered, you must find out why and communicate this to all levels of the organization. Results plan variance becomes an essential information sweet spot for determining the why and where of problems, allowing for a decision regarding the what. You must explain these findings well enough that the Board has confidence in the proposed measures, and also be detailed enough to allow lower levels of the organization to execute effectively.

### ***Customer Retention (%)***

Growing revenue is not enough if income leaks away due to poor customer retention. If the customer retention index is low, Executive Management must focus on the operational and service performance issues that directly affect customers. Early indicators of potential problems are likely to come from inadequate delivery performance and from complaints and claims. Monitoring these early indicators informs the team and helps ensure accountability from those responsible. Service benchmarks also offer insights into customer service problems that need to be managed. These benchmarks may also indicate the relative service performance differences between the bank and its competitors, highlighting disadvantages that could lead to customers switching despite consistently good service performance.

Despite positive numbers in these early-warning measures, the revenue results decision area may indicate poor results, with decreasing income to existing customers. The solution may be rebalancing sales tactics. Perhaps you need a greater emphasis on improving customer information to better clarify product or service terms when making a loan application.

### ***Realized Value (\$)***

Realized value provides an overview of the effect on profit or margins in the effort going into driving revenue growth. The customer/product profitability decision area is an important sweet spot for Executive Management. You must review unprofitable customers and pursue different strategies if they are important to the business. A pricing review may indicate that increasing prices or reducing services for a large but unprofitable customer segment would be a bad decision, since this would accelerate the competition's penetration of that market segment. Reviewing the service cost of the service value metric could highlight too much spending on service support. In that case, you might increase or introduce a service charge to maintain existing service levels.

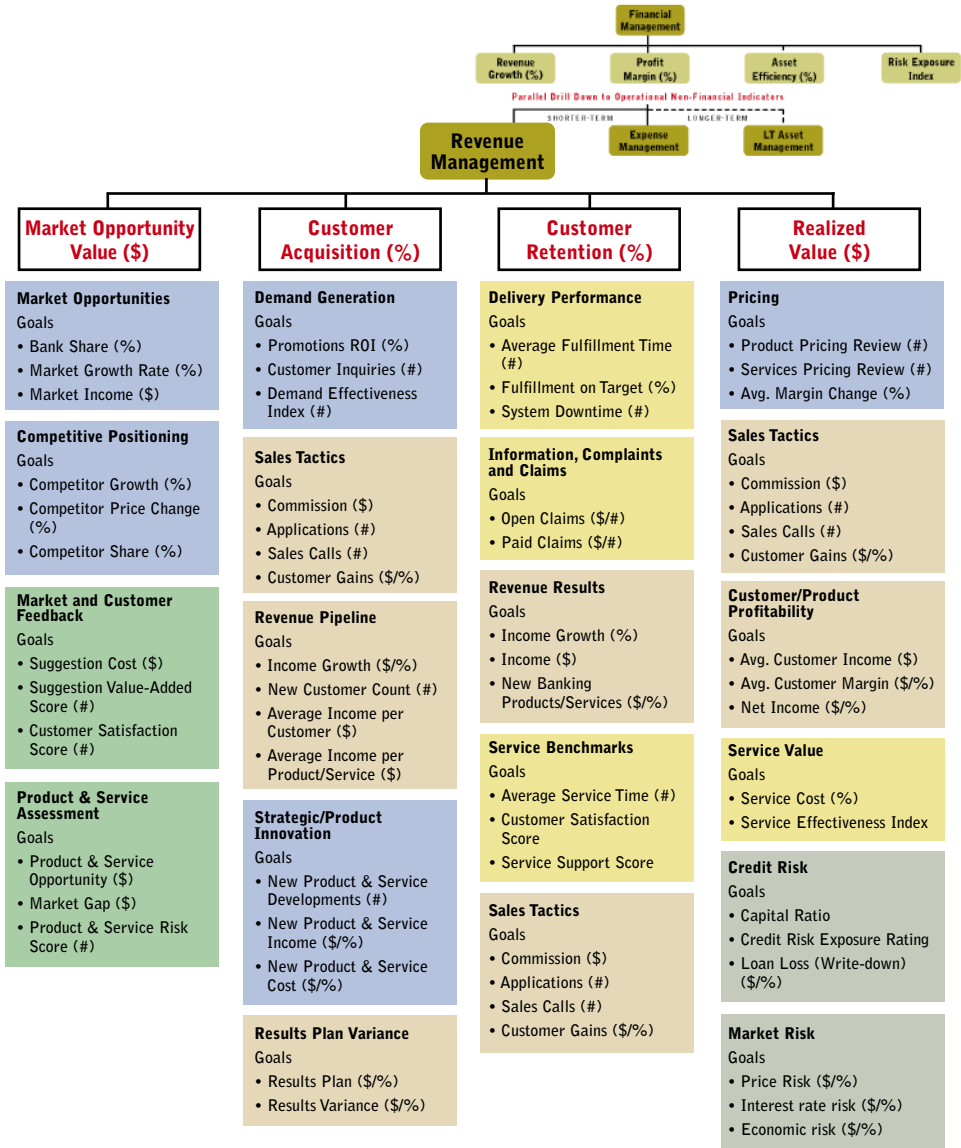
Executive Management may also examine product profitability to determine realized value performance. You may look at options to correct the underperformance of certain product and service offerings. These could include discontinuing a service, increasing the price, or changing sales tactics. Increasing prices for certain niche segments may offer a "milking" option in the short term to counteract losses somewhere else. Compensating for losses by increasing profits elsewhere is a common decision area in the Executive Management balancing act.

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*Our key priority was to provide accurate, meaningful management information automatically and be able to send it directly to managers' desktops.*

Ann-Louise Hancock, Head of People Division, Skandia

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MARKETING

SALES

DEVELOPMENT

CUSTOMER SERVICE

EXEC. MANAGEMENT

## Operational Expense Management

Once customers have committed their business, there is little scope for operating and delivery errors not affecting profit margins. Information that helps Executive Management identify operating anomalies and act quickly can make the difference between success and failure. By grouping relevant functional decision areas together, the information sweet spots can be aligned with typical business concerns. These business challenges need to be approached cross-functionally and cannot be solved in isolated silos. Business is a process that starts with inputs and ends with outputs. In between, you must manage value-added activities for efficiencies and costs. On the input side, this starts with supply chain efficiency, followed by the internal operating processes needed to deliver a product or service. You manage these internal operating processes by monitoring operating costs, reflecting the key driver in achieving sustainable margins. Organizations carry a number of support functions broadly classified as overhead. You must manage these overhead costs to ensure that, for example, departmental headcounts do not grow out of control, and that your various support activities deliver real value.

When you have a finished product, you must distribute and deliver output, bringing the cycle back to supply chain efficiency.

### *Supply Chain Cost Index*

This index highlights the balancing act between input and output for management. The unpredictable is the norm. Transaction volume spikes, customer complaints, operational failures and third-party support failures mean that this month's service and resource requirements are not the same as last month's. The revenue plan variance metric reflects future income expectations; if it indicates an unexpected increase in new accounts and customer support, Network & Logistics must respond. If resources are not allocated and aligned with customer expectations, the expected increase in new customer accounts may be disappointing and become a problem that Executive Management must address by looking at, for example, ways to announce possible compensation for short-term delivery concerns such that there is minimal negative long-term impact on customers.

The ability to see across the supply chain indicators helps Executive Management understand the overall situation. Poor delivery can highlight a problem that may also be reflected in poor process performance. The surge in transactions may create an increase in operating failures that Executive Management must decide either is temporary or requires an increase in capacity. Information, complaints, and claims may indicate risk and exposure with certain customers. Temporary process bottlenecks can be solved by looking at delivery performance. Increasing back office capacity with

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*The tasks that took several hundred man-hours and, consequently, considerable time, financial, and human resources, can now be accomplished in just one day.*

Alexander Belavin, Deputy Chairman, JSIC Oranta Board of Directors

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OPERATIONS	CUSTOMER SERVICE	IT	PRODUCT MANAGEMENT
HUMAN RESOURCES	SALES	FINANCE	EXEC. MANAGEMENT

additional short-term resources may avoid investment but will probably require a reassessment whether the existing infrastructure is sufficient. This ability to see the whole supply chain and derive information from different decision areas is essential to good leadership. When Executive Management understands the various tolerances and risks, it can confidently make an informed decision. Information gaps are not acceptable reasons for failure.

### *Operational Cost Index*

Executive Management uses operational cost to monitor the operation's backbone and the related cost implications of inefficiencies and bottlenecks. For example, if you approve a new transaction system, how can you manage and monitor its implementation effectively? In the project management software/system development life cycle (SDLC) decision area, a clear plan will outline the scope of work and time needed to implement the new system. Executive Management must watch cost and time overruns, and perceived risks. You can use the service vendor management decision area and its indicators of past vendor performance to mitigate risks and make better forecasts. If the loan application process is difficult—causing system rejections, delivery delays, and an increase in complaints and claims—Executive Management can look at capacity management. With the information from this sweet spot, it can assess the implications of using overtime to push applications through. You can gauge cost implications from the operational efficiency and quality management decision areas. The increase in operating costs will affect the operational plan variance. Executive Management will use this information to communicate the discrepancy from plan and focus on solving this problem. The above example illustrates the importance of managing the unforeseen by using fact-based indicators. Every business has to be ready for the unexpected. Companies that manage these situations as they occur gain a significant advantage.

### *Overhead Cost Index*

Monitoring support functions with the overhead cost index ensures the balance between cost and value makes sense. If this area underperforms, you can analyze the organization and staffing decision areas to look at headcounts, or the income statement to review more detailed functional costs. Management analyzes ratios to understand the cost changes and the relative importance of various support functions or departments. For example, percentage of back office costs to assets and percentage of branch headcount to total headcount will tell you whether these resources are changing in proportion to the business. Increasing revenue unaccompanied by an increase in Customer Services headcount could affect future customer relationships and account loyalty. The results plan variance gives Executive Management a key indicator to determine future resource requirements and support costs. If you expect strong income growth, then this insight can be used to look at the operational plan variance. Senior management can take a more active role in deciding if future income growth requires broad resource upgrades in the support functions. You can integrate the associated increase or decrease in costs into the planning process. Fast, proactive decision-making increases competitive capabilities across the organization.

## Long-Term Asset Management

Long-term investment and asset decisions represent Executive Management's opportunity to influence the future direction and success of the business. This is where the right investment choice can fundamentally redefine both the revenue opportunities and cost efficiencies of an organization. Unfortunately these important decisions are both costly and risky. Senior management has to decide carefully which investment options have priority. The uncertainties involved in these long-term investment decisions are difficult to balance against a backdrop of short-term performance pressures. Failure is not a palatable option, resulting in a lower share price, restructuring and, at the extreme, corporate failure. What are long-term assets? From a balance sheet perspective, what asset/liability mix is required, for what risk exposure and at what expected returns?

From an executive perspective they also must include intangible assets such as human capital and IT capability and infrastructure. Designing key measures that offer a holistic perspective on these investments (tangible and intangible) allows Executive Management to monitor the long-term health of the corporation.

### *Strategic Investment ROI (%)*

The strategic investment ROI percentage tracks strategic projects. This sweet spot lets Executive Management learn from the past and adapt those experiences to future decision-making. Strategic investment decisions, for example an acquisition, require input from a number of decision areas. The market opportunity decision area may have identified an attractive adjacent market segment. You may build a case for the acquisition if existing options for the organization are limited and strategic/product innovations shows poor performance of new product and service propositions. The case for acquisition strengthens if your existing product offering is under-performing and there is little prospect of generating satisfactory growth or market share. If the competitor assessment decision area has identified a potential acquisition target that satisfies corporate due diligence, you then require financial evaluations. Through the CapEx and strategic investments decision areas, Executive Management can review scenarios with associated ROI assumptions. If these conform to the corporate investment structures, then Executive Management must consider whether the balance sheet is strong enough to finance the acquisition. Should you increase debt or is it necessary to raise additional capital from new shares?

The above example reflects the type of information sweet spots that Executive Management requires in order to make strategic investment decisions. By making strategic investments a dedicated sweet spot, it can monitor investment performance and rationale for a decision. Acquisitions fail in financial terms due to overpaying for the target or poor execution when consolidating the business. With Executive Management well informed by past acquisitions of the key factors that influence success or failure, you reduce the risks for the future.



MARKETING

IT

HUMAN RESOURCES

SALES

FINANCE



### *Staff Productivity Index*

Human capital is a key asset of any business, and Executive Management must track this asset's productivity. A basic assessment reveals headcount and assets per employee by department, but there can be many added levels of sophistication in this tracking. Understanding the context for changes in staff productivity requires Executive Management to seek information from a number of decision areas.

If this indicator increases, implying improved staff productivity, Executive Management should look at how to sustain it. The results plan variance decision area may show an increase in income or assets versus expectations, and organization and staffing information will help Executive Management see if and where additional staff were employed. If overall headcount has not increased and an assessment of the compensation decision area indicates stable staff expenses, you know your staff is more productive. The business value road map may confirm that a recent project implementation has had a direct and positive impact on staff productivity. You may have seen an associated increase in training and development expenditures due to the new project, but the result directly improves the staff productivity index. With these figures, Executive Management can push for a review of plans and have other functions record the impact in operational plan variance.

### *IT ROA (%)*

Sudden technology shifts can upend the business model, so Executive Management must know where and how IT assets are driving value across different business units, lines of business, and functions. Comparing the upward or downward trend in IT ROA with current financial and operational results lets you see potential weaknesses in IT strategy. Likewise, comparisons with staff productivity and strategic investment percentages highlight the level of alignment with long-term business goals. If IT ROA is declining in a high-performing area of the business, a drill-down on the business value road map may indicate what specific drivers of performance are at risk, such as revenue growth or profit margins. Understanding who is affected leads to a more productive and proactive approach.

### *Employee Retention (%)*

Retaining employees saves money on recruitment and start-up costs; keeping the right employees builds one of your most important assets. The talent and succession review decision area provides additional information for Executive Management, making it aware that new people and talent are necessary to improve the capability of the business. Designing a blend of internal career advancement and strategic recruiting of new talent is an Executive Management priority.

If the employee retention percentage is a concern, you may examine compensation and benefits information, looking at market comparisons. Overall staff cost-to-income ratios provide high-level benchmarks for senior management to compare against competitors. Do you increase staff costs, with the associated effect on the income statement, to reverse a weak employee retention index? Perhaps low employee morale is the cause. If so, improving compensation may not actually change employee retention. In this case, it may be more productive to invest in employee team-building or other employee development programs. Training and development information may help to set an appropriate strategy.

## Risk Management<sup>1</sup>

Recent regulatory trends such as Basel II for financial services and SOX for publicly traded organizations have heightened the importance of better risk management. So have trends like globalization, integrated financial markets, the knowledge economy, and political uncertainty. The resulting competitive environment and constant rapid change have created countless potential threats to business performance. Today, more than ever, how well you take and manage risks affects your cost of capital through:

- Investors and major exchanges such as NYSE and NASDAQ
- Lenders and related rating agencies such as Moody's and S&P
- Insurers and related loss control programs and coverage discounts.

This decision area provides a consolidated view of several categories and hierarchies of risk, such as operational, credit, and market risk. In addition to these, organizations must monitor environmental and natural risks that impact disaster recovery and business continuity. Having a single integrated universe of identified risks that cuts across common organizational units, functions, and business processes enables more coordinated and cost-effective risk responses.

The trend toward an integrated view of risk has gained ground as the costs of compliance have increased, in particular due to SOX. Many enterprise and operational risk frameworks are available, including the so-called COSO II, which identifies four high-level objectives that frame risk management components, as shown in this exhibit from their Enterprise Risk Management—Integrated Framework, published in 2004. The cube visual reinforces the multidimensional nature of risk management and compliance.

Ideally, this decision area combines both qualitative and quantitative information. Qualitative risk ratings and assessments are more reliable and verifiable when they are underpinned by numbers that measure risk incidents, events, and loss amounts. Setting accepted risk thresholds, modeling expected outcomes, and monitoring actual results ensures finer insights and tweaking for managing risk.

- The four objectives—strategic, operations, reporting, and compliance—are represented by the vertical columns.
- The eight components are represented by horizontal rows.
- The entity and its organizational units are depicted by the third dimension of the matrix.



<sup>1</sup> As a subject, risk management warrants a book of its own. Accordingly, this decision area is only meant to provide an overview of what could easily be several more detailed information sweet spots. Also, although it is represented here as a drill down within Executive Management, many companies have a separate risk management function.

For many risks, such as those related to SOX, specific internal controls are in place to mitigate risks. This decision area helps to flag the controls that are most effective and reduce inherent risk to a more acceptable exposure of residual risk.

Risk management is more than tracking obscure or unlikely threats. When risks are tracked against a common map of the business, it is easier to establish the relationship between business performance and risk, like flip sides of the same coin. Insuring common operational risks, notably in Human Resources and Finance, is another area of overlap. For example, the escalating costs of employee benefits and uncertainty in workers' compensation claims are forcing companies to negotiate more self-insurance offerings from their insurance carriers, requiring close analysis and monitoring of reserves-to-losses trends. Likewise, determining the right price for insured cash flow programs requires similar analysis of bad debt reserves.

GOALS	METRICS	DIMENSIONS	
Loss Incidents (#)	Claim Payments (\$)	Control Objective	Product Line
Loss Value (\$)	Claim Payments (#)	Control Objective	Product Line
Risk Level Index	Claims Aging (#)	Credit Limit Range	Risk Response
Risk Mgt. Audit Score	Control Effectiveness Rating	Range	Response Type
	Country Risk Rating	End Customer Location	Response
	Credit Balance (\$)	Region	Risk
	Default Rate (%)	State/Province	Risk Category
	Environmental Risk Rating	County	Risk Type
	Est. Loss Incidents (#)	Postal Code/Zip Code	Risk
	Est. Loss Value (\$)	Fiscal Month	Strategy Focus
	Intrinsic Risk Rating	Year	Strategic Area
	Occupational Risk Rating	Quarter	Strategy
	Operational Risk Rating	Month	Transaction Processes
	Residual Risk Rating	Information Supply Chain	Process
	Risk Impact Rating	Information Stage	Sub-Process
	Risk Likelihood Rating		Activity
	Write-off Amount (\$)		Organization
			Division
			Department
			Org. Code

FUNCTION	DECISION ROLES	PRIMARY WORK	CONTRIBUTORY	STATUS
Risk Management	Executives	*		
	Analysts	*		
Audit	Executives	*		
	Managers	*		
	Professionals	*		
Customer Service	Executives		*	*
	Analysts		*	
Distribution	Executives		*	*
	Analysts		*	
Finance	Executives		*	*
	Managers		*	
	Analysts		*	
	Professionals		*	
Operations / Production	Executives		*	*
	Analysts		*	
Purchasing	Executives		*	*
	Analysts		*	
Product Development	Executives		*	*
	Analysts		*	
Sales	Executives		*	*
	Analysts		*	
Marketing	Executives		*	*
	Analysts		*	
Human Resources	Executives		*	*
	Analysts		*	
IT / Systems	Executives		*	*
	Analysts		*	

*The focus was on income figures, risk, and the representation of aggregated data.*

Gernot Schwarz, Sales Controlling Department, Bank Austria Creditanstalt

### Compliance Management<sup>2</sup>

Managing compliance is the key operational execution area of risk management. Even when addressing purely regulatory requirements, the frameworks that guide compliance are often based on a risk perspective. For example, SOX program management uses the COSO framework for defining internal controls requirements based on identifying risks of financial misstatement. Likewise, non-SOX internal audit programs are also anchored in initial risk assessments that suggest which areas of the business require audits.

Ideally, compliance management provides an integrated view of the entire regulatory universe. Most companies face numerous overlapping regulatory requirements. In banking, certain business processes are scrutinized by the Office of the Controller, Basel II, the Patriot Act, and SOX alike. Knowing where and how to leverage the same controls for multiple regulatory reporting can save you considerable effort in compliance.

GOALS	METRICS	DIMENSIONS	
Compliance Completion (%)	Controls (#)	Application Software	Fiscal Month
Compliance Costs (\$)	Exceptions (#)	Application Type	Year
Material Deficiencies (#)	External Audit Fees (\$)	Software	Quarter
Materiality Rating	Internal Audit Costs (\$)	Assertions	Month
Regulatory Compliance (%)	Issues (#)	Control Frequency	In Scope
Risk Level Index	Items Overdue (#)	Control Method	Key Control
	Outsourced Internal Audit Costs (\$)	Control Objective	Regulators
	Qualitative Materiality Rating	Control Objective	Regulator Type
	Quantitative Materiality (%)	Control Owners	Regulator
	Reg. Audits	Function	Remediation Status
	Risk Impact Rating	Position	Risks
	Risk Likelihood Rating	Control Owner	Risk Category
	Sample Size (#)	Control Type	Risk Type
	Significant Deficiencies (#)	Documentation Status	Risk
	Tests (#)	Entity	Test Status
		Financial Account	Transaction Processes
		Financial Statement Type	Process
		Financial Statement Line	Sub-Process
		Financial Account	Activity

As in IT compliance management, this decision area can draw on more than one data source. The first is compliance program management solutions, such as for SOX, that manage a company’s projects and programs to ensure compliance. The second source is a new category of tools, often referred to as continuous controls monitoring software, that generate real-time or near real-time information about transactions and flag any exceptions to expected

FUNCTION	DECISION ROLES	PRIMARY WORK	CONTRIBUTORY	STATUS
Finance	Executives			*
	Managers		*	
	Analysts		*	
	Professionals		*	
Audit	Executives	*		
	Managers	*		
	Professionals	*		
Customer Service	Executives			*
Distribution	Executives			*
Operations / Production	Executives			*
Purchasing	Executives			*
Product Development	Executives			*
Sales	Executives			*
Marketing	Executives			*
Human Resources	Executives			*
IT / Systems	Executives			*

<sup>2</sup> As compliance can span several regulatory areas, this decision area is only meant to provide an overview of what could easily be several more detailed information sweet spots. Also, although it is represented here as a drill down within Executive Management, many companies have a separate internal audit function reporting directly to the Board’s audit committee.

outcomes, as defined by internal controls. For example, inconsistent accounts payable patterns in terms of purchase order numbers or amounts that are just below authorized levels might indicate fraud.

Finally, compliance management can also draw information from solutions that automate manual spreadsheet-based processes, including reports that are used to perform detective or monitoring control activity. The most common and costly, from a compliance perspective, are manual financial reporting and close processes, in particular for consolidation and adjustments.

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*Through our Business Intelligence Competency Center, we've been able to standardize and streamline our reporting process to provide the corporate office and branches with a single and complete view of our business. Bank employees are now able to access data that is more accurate, timely and previously unavailable. As a result, they are able to make better decisions, manage closer to objectives, and support the growth of the company.*

Serge Couture, Senior Manager, Business Intelligence Competency Center, Laurentian Bank

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# S U M M A R Y

We reviewed thousands of performance management initiatives in writing this book. Organizations successfully engaging with performance management were able to align resources, opportunities, and execution to gain a sustainable competitive advantage.

Alignment requires a unifying map and a common language. That is what the framework in this book is about. This shared framework supports and strengthens the business/IT partnership, and the partnership between decision-makers in different decision areas across different business functions. It offers a single viewpoint on customers and suppliers, products and brands, and the business results. It ensures people in one division are looking at the same information as people in another.

Three fundamental requirements enable this alignment and successful performance management:

### *Information Sweet Spots*

The issue is not getting more data—people are drowning in data—the issue is getting the right information. The key is to design, group, and enrich data into information sweet spots. Information sweet spots help managers make the best revenue growth decisions, the best expense management decisions, the best financial management decisions, and the best decisions for long-term asset management.

### *Managers Perform Within Collaborative Decision-Making Cycles*

Decision-makers need to achieve their objectives in the context of the company's objectives. Information and strategy must be communicated in multiple directions, not just one way. Information sweet spots link executive management and line management. They connect decision-makers throughout the organization and let them understand, manage, and improve the business.

### *Integrated Decision-Making Functionality in Different User Modes*

Each decision is a process rather than an event. Once you see *what* has happened, you may need to analyze it to understand *why* it happened. You must put the occurrence in context to see trends common to other parts of the business, geographies, product lines and, most important, objectives. From there, you can see the way forward and plan the future of the business.

**The Performance Manager**

Decision-makers need integrated information at their fingertips to focus on winning, rather than the distraction of gathering information. This requires a system to deliver performance management information whenever and wherever they require it.

Knowing what's happened and why it happened, aligning this knowledge with objectives, and articulating a plan to establish a forward view of your business—these are the skills of a performance manager. This book provides a framework to design information sweet spots that will drive your business performance. We hope you will use these concepts to surpass the results achieved by performance management initiatives from around the world.

The right information at the right time can make all managers better; but more importantly, it can make good managers great. Letting people realize this untapped potential is why we wrote this book. We hope your personal and business successes drive our next edition.



## ABOUT THE AUTHORS



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As CEO and co-founder of BI International, Roland has led major client relationships and thought leadership initiatives for the company. Most recently, he drove the launch of the Aline™ platform for on-demand Governance, Risk, and Compliance. Roland is also a co-author of *The Multidimensional Manager* and *The Multidimensional Organization*.

Prior to founding BI International, Roland was a member of the Executive Board of the World Economic Forum in Geneva. Responsible for leading the financial services and supply chain management sectors of the Forum's activities, he worked with Chief Executive Officers and cabinet-level government officials in North America, Europe, and Asia. He was a consultant with McKinsey & Company in Zurich, and he served in Singapore as Market Executive for Tetra Pak's Asian sales operations.

Roland holds an MBA from the Wharton School of the University of Pennsylvania and a B.Sc.(Econ) from the London School of Economics.



**Dr. Richard Connelly**  
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As Chairman and co-founder of BI International, Richard leads global engagements with clients who are deploying enterprise BI applications for risk management controls. His career experience includes Group Executive responsibilities at the Chase Manhattan Bank, the CIGNA-INA Insurance companies and the Hay Group's Financial Services Consulting practice.

Richard holds a B.A. from the University of Notre Dame and a Ph.D. from Michigan State University. He is also a co-author of *The Multidimensional Manager* and *The Multidimensional Organization*.



**About Business Intelligence International**

BI International is a global expert in providing the frameworks, structures, and analytics that allow businesses to properly manage risk and performance.

Since 1995, with *The Multidimensional Manager* and subsequent DecisionSpeed® framework, BI International has pioneered core principles for aligning information requirements with roles, decision-making processes, and cascaded goals to drive performance. In 2004, BI International also launched its Aline™ platform for on-demand Governance, Risk, and Compliance. These Software as a Service (SaaS) solutions seek to “right size” Fortune 1000 capabilities so they become affordable for small and medium-sized companies.

For more than 10 years, BI International has led the development of key business intelligence solutions for companies both large and small across the Financial Services, Manufacturing, Pharmaceutical, and other industries. Beyond its direct customers, BI International has influenced thousands of companies worldwide through its thought leadership, frameworks, workshops, and design tools. For more information, visit the BI International Web site at [www.aline4value.com](http://www.aline4value.com).

**Patrick Mosimann**

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As co-founder of PMSI (Practical Management Solutions & Insights), Patrick has led major client engagements and has significant experience across several industry sectors.

His prior experience includes consulting at Strategic Planning Associates (now Mercer Consulting), working on projects in Banking, Telecoms, and other industries. He also worked at the investment bank Morgan Grenfell (now Deutsche Bank) and with Arthur Andersen on audit assignments in Europe.

Patrick also holds an MBA from the Wharton School of the University of Pennsylvania and a B.Sc. (Econ) from the London School of Economics, University of London.

**About PMSI**

PMSI provides practical and commercial solutions to drive performance with data-driven decision-making using a combination of business consulting skills, data integration, and analytical capability.

The design of a successful performance management solution requires the expert understanding of the business decisions and drivers across various responsibilities and functions. PMSI acts as a bridge between the insights needed within a business and the potential IT capability and delivery. The focus is to fully leverage the innovative use of technology and create highly repeatable, business-led solutions while reducing cost of delivery.

PMSI's experience ranges across industry sectors and markets; this cumulative business knowledge and flexibility of solution and approach is of particular value to its clients. For more information, visit the PMSI Web site at [www.pmsi-consulting.com](http://www.pmsi-consulting.com)



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Meg started her marketing career in 1990, beginning with campaign management for the national telecommunications carrier of Canada as deregulation was changing the market. She then moved to market development for Internet retail and chip-embedded smart cards before moving to product marketing with Cognos (now part of IBM).

Since joining the company, Meg has worked extensively with executives and decision-makers in the Global 3500 to define and prioritize performance management solutions. This work was leveraged to help shape the vision of IBM Cognos performance management solutions and to communicate the message to key influencers.

**About IBM Cognos BI and Performance Management**

IBM Cognos business intelligence (BI) and performance management solutions deliver world-leading enterprise planning, consolidation and BI software, support and services to help companies plan, understand and manage financial and operational performance. IBM Cognos solutions bring together technology, analytical applications, best practices, and a broad network of partners to give customers an open, adaptive and complete performance solution. Over 23,000 customers in more than 135 countries around the world choose IBM Cognos solutions.

For further information or to reach a representative: [www.ibm.com/cognos](http://www.ibm.com/cognos)

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Frank is responsible for the IBM Cognos Financial Services go-to-market strategy and plan. McKeon also works with the IBM Cognos partner and Innovation Center teams to help develop and support a portfolio of partner solutions for Financial Services.

Frank has more than 20 years Financial Services industry experience providing the industry with his expertise in Management Accounting theory. He has a proven track record of providing enhanced business intelligence solutions and management information systems for major financial institutions.

Before joining the company, Frank was Senior Vice President for Performance Measurement at BOK Financial, where he was responsible for implementing a business performance measurement solution using IBM® Cognos® 8 BI and IBM® Cognos® 8 Planning. He also served as Managing Director for PMG Systems, a recognized best practice solutions provider of performance measurement software and professional services to the banking industry. Frank has been a featured speaker at several industry conferences, including BAI and AMIFS.



### **Laurence Trigwell**

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Laurence joined Cognos (now part of IBM) in 2003 with almost 20 years experience of the Financial Markets, 10 years of which were spent at Dresdner Kleinwort Wasserstein delivering business solutions across the investment bank. Most recently Laurence was with Thomson Financial as Product Marketing and

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Laurence is responsible for setting the IBM Cognos strategy and objectives for Financial Services that address our clients' business goals of increased profitability, consolidated risk reporting and analysis and increased transparency and controls.

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# The PERFORMANCE Manager

## Proven Strategies for Turning Information into Higher Business Performance for Banking



**Roland P. Mosimann** *Chief Executive Officer, BI International*

As CEO and co-founder of BI International, Roland has led major client relationships and thought leadership initiatives for the company. Most recently he drove the launch of the Aline™ platform for on-demand Governance, Risk and Compliance. Roland is also co-author of *The Multidimensional Manager* and *The Multidimensional Organization*.



**Patrick Mosimann** *Founding & Joint Managing Director, PMSI Consulting*

As co-founder of PMSI (Practical Management Solutions & Insights), Patrick has led major client engagements and has significant experience across a number of industry sectors.



**Meg Dussault** *IBM Software Group, Information Management Corporate Positioning*

Meg started her marketing career 15 years ago, beginning with campaign management for the national telecommunications carrier. She then moved to market development for Internet retail and chip-embedded smart cards before moving to product marketing with Cognos (now part of IBM).



**Dr. Richard Connelly** *Chairman, BI International*

As Chairman and co-founder of BI International, Richard leads global engagements with clients who are deploying enterprise BI applications for risk management controls. His career experience includes Group Executive responsibilities at the Chase Manhattan Bank, the CIGNA-INA Insurance companies and the Hay Group's Financial Services Consulting practice.

