

Presented by David Parmenter
June – July 2012
Website: www.davidparmenter.com
Email: parmenter@waymark.co.nz

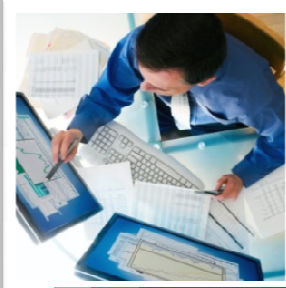
The CFO as the Chief Performance Officer



The finance team is at the crossroads



The finance team's role has changed



Accountants should not be writing about history, they should be making it

3

© 2012 IBM Corporation

However, Charles Dickens is alive and well in many finance teams

- Slow month-end reporting
- Finance teams with a spreadsheet epidemic
- Accounts payable buried in paper-based invoices
- Cheques still being used
- Wedded to the annual planning process
- Forecasting in too much detail



4

© 2012 IBM Corporation

Level of audience satisfaction

- Who is satisfied that their annual planning process produces monthly targets that are relevant for reporting performance?
- Who is satisfied that staff in their organization are aligning their daily activities to the organization's strategic direction?
- Who is satisfied that their KPIs are transforming their organization from good to great?



5

CFO as a Chief Performance Officer (CPO)



6

To revitalise performance in an organisation you need solid foundations

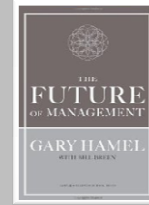
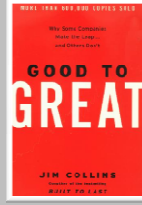
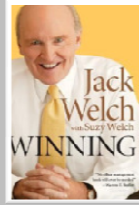
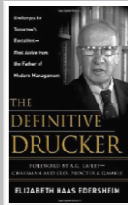
- 1 Understand more about the drivers of human behaviour
- 2 Be knowledgeable about the work of the paradigm shifters
- 3 Have an appropriate strategy
- 4 The organization's critical success factors ascertained and communicated to all staff
- 5 Abandonment of processes, systems, reports that do not work

Foundation Stone #1: Understanding more about the drivers of human behaviour

- Need to know more about ourselves (Enneagram)
- Need to know more about our staff
- Need to know more about winning leadership traits
- Need to be able to recruit winners
- Need to know how to motivate our staff



Foundation Stone #2: Knowledge of the paradigm shifters



- Peter Drucker - the Leonardo da Vinci of management – *The definitive Drucker* by Elizabeth Edersheim is a great summary of his work
- Jack Welch “Winning” –very profound wisdom
- Jim Collins – understanding what it takes to be a great organization
- Tom Peters & Robert Waterman – a timeless classic
- Gary Hamel - seeing into the future (wisdom of the crowd)

See www.davidparmenter.com for an analysis of these writers

Foundation Stone (FS) #3: Using an appropriate strategy - Jack Welch’s five strategy slides

1. What the playing field looks like now
2. What have the competition been up to?
3. What have we been up to?
4. What’s around the corner?
5. What’s our winning move?

1. What the playing field looks like now (competitor analysis / market share)

Competitors	Global share	Market#1	Market#2	Market#3	Market#4
Us					
Competitor #1					
Competitor #2					
Competitor #3					

New entrants	Global share	Market#1	Market#2	Market#3	Market#4
New entrant #1					
New entrant #2					
New entrant #3					



FS #4: The organization's critical success factors ascertained and communicated to all staff

- Staff should be linking their daily activities to what is important to the organization
- The five to eight CSFs should be on every wall
- CSFs should drive the performance measures and reporting



Not knowing your organization's CSFs is like going to the Soccer World Cup without a goalkeeper

Finding the CSFs - is the El Dorado of management



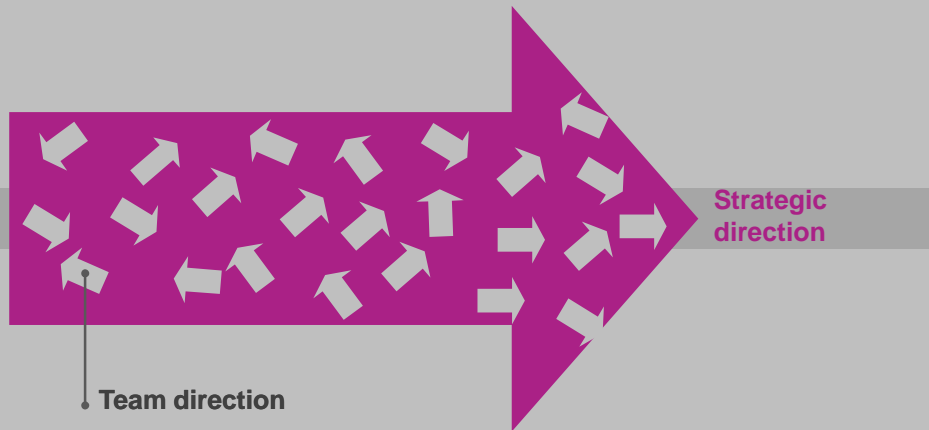
Critical success factors

Timely arrival and departure of planes

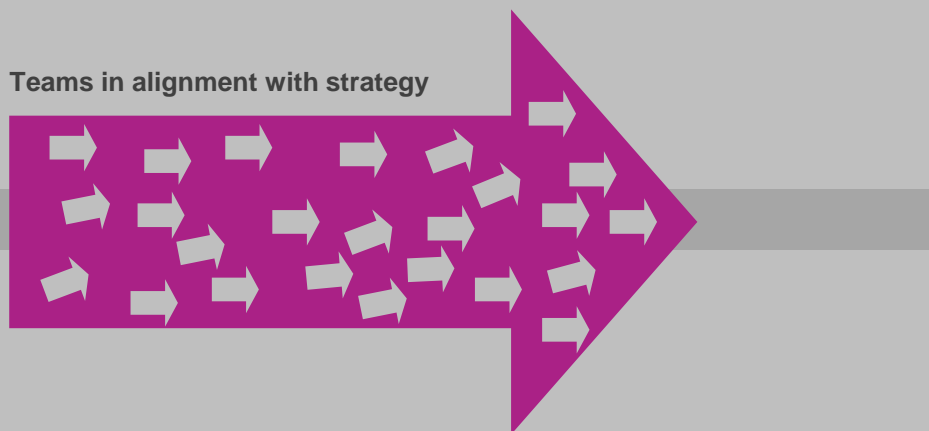
Success factors

The two day workshop process to find your organizations CSFs is outlined in my KPI book

CFOs need to change this ...



... to this



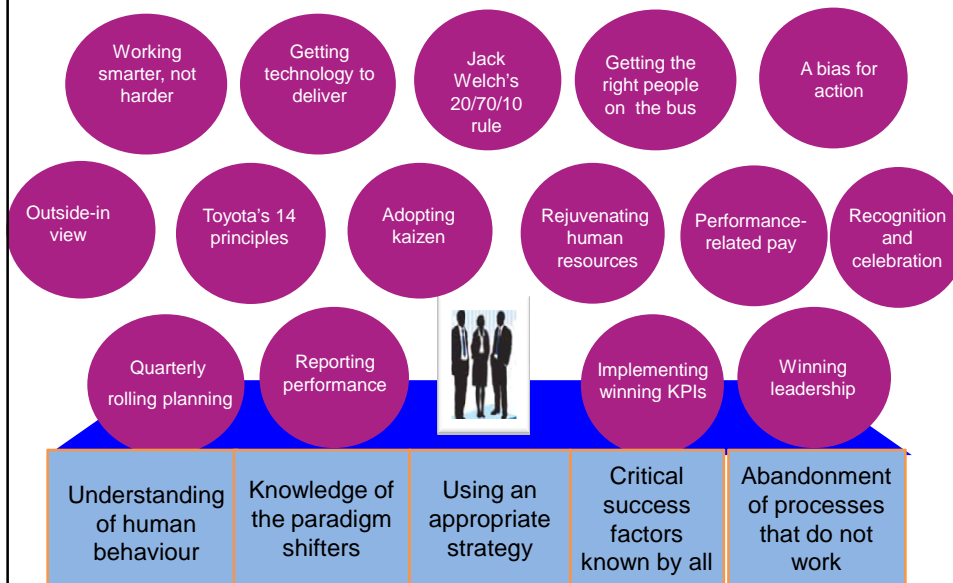
Foundation Stone #5: Abandonment of processes that do not work

Every finance team should consider abandoning:

- Spreadsheets with over 100 rows in the finance team, particularly in forecasting, budgeting and reporting
- The annual planning process
- The existing performance measures, and restart the exercise basing them on the CSFs
- Reports that have no relevance to the CSFs and strategy
- The linking of pay to KPIs

We undertake tasks, we embed processes, we attend meetings, we monitor measures, we write reports that are broken, which are only in existence because it was done last week, last month, last quarter.

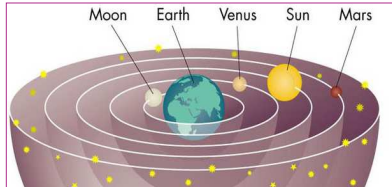
Revitalizing performance management



Myths of performance measurement that are undermining performance



- By tying KPIs to pay you will increase performance
- Most measures lead to better performance
- All performance measures are KPIs
- Monitoring monthly performance measures will improve performance
- KPIs are financial and non financial indicators



17

© 2012 IBM Corporation

Myth : By tying KPIs to pay, you will increase performance

- KPIs become **key political indicators** when they are linked to pay
- Performance with KPIs should be treated as a “ticket to the game”
- Bonus schemes attached to a balanced scorecard will fail
- Measures will be manipulated
- Weighting of measures leads to crazy performance agreements

Category	Perspective weighting	Measure	Measure weighting
Financial	40%	Net profit before tax	20%
		Unit's profitability	10%
		Growth in market share	10%
Customer	20%	Customer satisfaction survey	10%
		Delivery in-full on-time to key customers	10%
Internal	20%	Above average rank in quality survey of industry	10%
		Decrease in delivery cycle time	10%
Innovation and learning	20%	Employee suggestions implemented	10%
		Satisfaction survey	10%

18

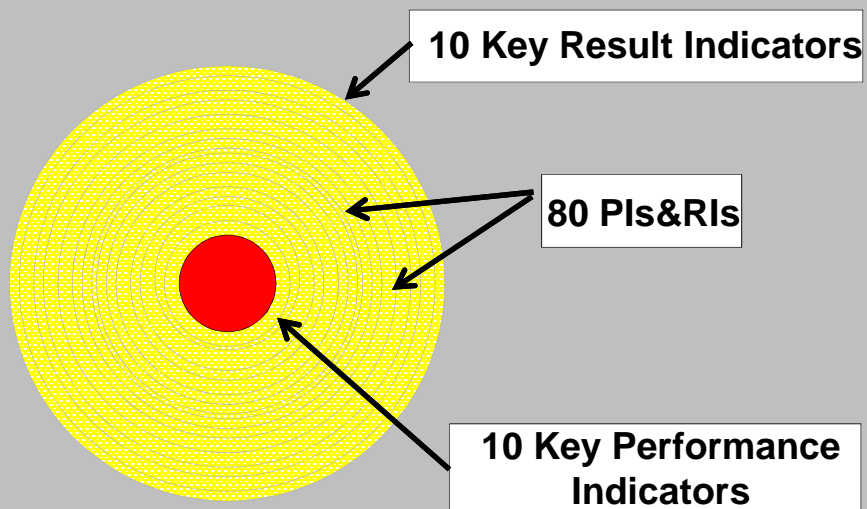
© 2012 IBM Corporation

Myth : Most measures lead to better performance

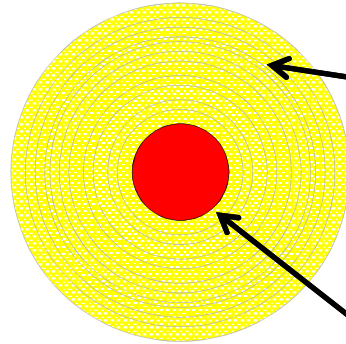
- Every measure has a dark side
- We need to look for the unintended consequence of performance measures
- Accident and emergency department story
- Sydney train service story
- Social workers assigning difficult cases to inexperienced staff
- Zero wastage of chicken in fast food outlet—lead to less customers



Myth: All performance measures are KPIs



Peeling the layers off to find our winning KPIs

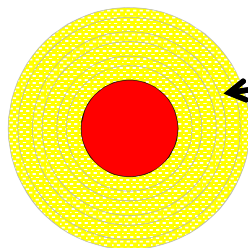


PIs & RIs that start to focus on what needs to be done

Key Performance Indicators still deeper

21

Peeling the layers off to find our winning KPIs

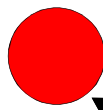


More interesting PIs&RIs

22

© 2012 IBM Corporation

Winning KPIs located



Have found our Key
Performance Indicators

Myth : Monitoring monthly performance measures will improve performance

However, monthly measures are never KPIs

- Monthly measures seldom change anything
- Information too late, e.g., *it is as useful as telling a trainer that his prize horse escaped the stables, sometime last month!*



Myth : KPIs are financial and nonfinancial indicators

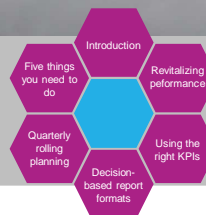
KPIs have special characteristics:

- Nonfinancial measures (not expressed in £, €, ¥, \$)
- Measured frequently, e.g., daily or 24x7
- Acted upon by CEO and senior management team
- All staff understand the measure and what corrective action is required
- Responsibility can be tied down to a team
- Significant impact, e.g., it affects most of the CSFs and more than one balanced scorecard perspective
- Has a positive effect in the right direction, e.g., minimum dark side

25

© 2012 IBM Corporation

Using the right KPIs—an airline story



26

© 2012 IBM Corporation

The reasons why organization's do not have the right measures

Organizations have:

- Never ascertained their critical success factors
- Followed the myths of performance measurement
- Short circuited the measurement process - a free afternoon
- Lacked an understanding of what to look for
- Lack of in-house measurement experts

Dean Spitzer is calling for the establishment of a Chief Measurement Officer

Revolutionize reporting - to encourage action to take place, on a timely basis, in the right direction

- Greater focus on daily and weekly reporting
- Month-end reporting needs to be quick by +3
- Numbers, graphs and comments on a page
- Be a true and fair view and error free
- Be concise—fewer than nine pages
- Follow Stephen Few's guidelines

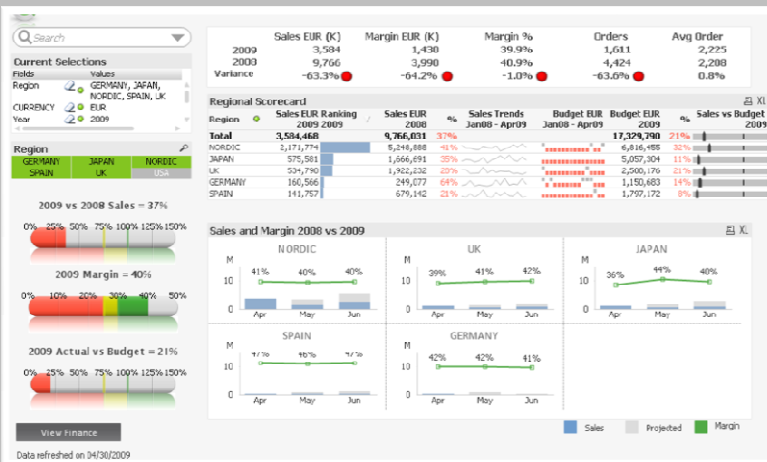


You need 24x7 exception reporting of KPIs to the CEO

- Intranet based
- Contact details for follow-up by CEO, SMT, etc.
- Enough details for staff and management to action

Late planes over 2 hours													
Time:													
Statistics of last stop							Contact details			No. of late planes over 1 hour			
Flight number	How late	Expected arrival time	arrived late	left late	time added	region manager name	Current time at location	work	mobile	Home	last 30 days	ave. of last 3 months	30 day ave. of last 6 months
BA1243	02:15	21:45	01:45	02:15	00:30	Pat	18:45	xxxxx	xxxxx	xxxxx	5	4	4
BA1244	02:15	21:45	01:45	02:15	00:30	xxxxxxx	19:45	xxxxx	xxxxx	xxxxx	6	4	4
BA1245	02:15	21:45	01:45	02:15	00:30	xxxxxxx	20:45	xxxxx	xxxxx	xxxxx	7	4	4
BA1246	02:15	21:45	01:45	02:15	00:30	xxxxxxx	21:45	xxxxx	xxxxx	xxxxx	8	4	4
BA1247	02:15	21:45	01:45	02:15	00:30	xxxxxxx	22:45	xxxxx	xxxxx	xxxxx	9	4	4
BA1248	02:15	21:45	01:45	02:15	00:30	xxxxxxx	23:45	xxxxx	xxxxx	xxxxx	10	4	4
BA1249	02:15	21:45	01:45	02:15	00:30	xxxxxxx	00:45	xxxxx	xxxxx	xxxxx	11	4	4
Total											7 planes		

Weekly progress updates



One-page month-end financial report to CEO on fanfold (A3)

Financial Report
30 November 20XX

Performance of Division Units

Financial Performance for the month ended 30/11/20XX

Significant variances:

- Revenue: 97,000 vs 100,000 (-3%)
- Expenses: 50,000 vs 50,000 (0%)
- Operating Profit: 47,000 vs 50,000 (-6%)
- Net Profit: 30,000 vs 30,000 (0%)

Performance of Division Units

Business unit A's performance is a concern.

Major business units performing well:

- Business unit X
- Business unit Y

Under performing business units:

- Business unit Z

Financial Performance for the month ended 30/11/20XX

	Actual	Budget	Variance	% Diff
Revenue	97,000	100,000	(3,000)	-3%
Expenses	50,000	50,000	0,000	0%
Operating Profit	47,000	50,000	(3,000)	-6%
Net Profit	30,000	30,000	0,000	0%

Statement of Financial Position

	Actual	Budget	Variance	% Diff
Equity	25,000	25,000	0,000	0%
Bank and Cash	5,000	5,000	0,000	0%
Debtors and Receivables	5,000	5,000	0,000	0%
Total Current Assets	10,000	10,000	0,000	0%
Fixed Assets	15,000	15,000	0,000	0%
Total Assets	25,000	25,000	0,000	0%



© 2012 IBM Corporation

One-page board dashboard summarizing performance on fanfold (A3)

Dashboard for Board - March 20XX

Financial Performance for the X months ended XX XXX 20XX

	Actual	Budget	Variance	Actual %	Budget %
Revenue	97,000	100,000	(3,000)	97%	100%
Expenses	50,000	50,000	0,000	100%	100%
Operating Profit	47,000	50,000	(3,000)	94%	100%
Net Profit	30,000	30,000	0,000	100%	100%

Statement of Financial Position

	Actual	Budget	Variance	Actual %	Budget %
Equity	25,000	25,000	0,000	100%	100%
Bank and Cash	5,000	5,000	0,000	100%	100%
Debtors and Receivables	5,000	5,000	0,000	100%	100%
Total Current Assets	10,000	10,000	0,000	100%	100%
Fixed Assets	15,000	15,000	0,000	100%	100%
Total Assets	25,000	25,000	0,000	100%	100%

Key Metrics

- Revenue: 97,000
- Operating Profit: 47,000
- Net Profit: 30,000

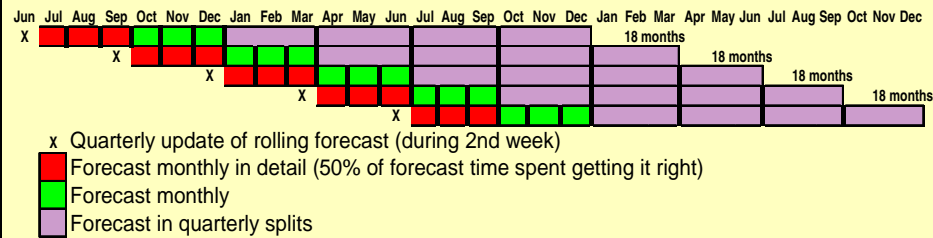
Statement of Financial Position

	Actual	Budget	Variance	Actual %	Budget %
Equity	25,000	25,000	0,000	100%	100%
Bank and Cash	5,000	5,000	0,000	100%	100%
Debtors and Receivables	5,000	5,000	0,000	100%	100%
Total Current Assets	10,000	10,000	0,000	100%	100%
Fixed Assets	15,000	15,000	0,000	100%	100%
Total Assets	25,000	25,000	0,000	100%	100%

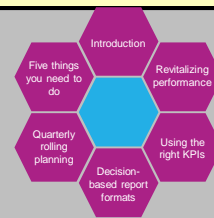


© 2012 IBM Corporation

We have to replace the annual plan – it is broken!



- The “x” marks the month the forecast is done (2nd or 3rd week in month)
- Only quarter 1 & 2 estimated monthly
- Monthly targets set in the red zone a quarter ahead

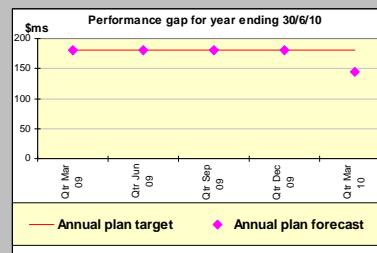


35

© 2012 IBM Corporation

The foundation stones for quarterly rolling forecasting and fast planning

- 1 Separation of targets from forecasts (telling management what they need to know rather than what they want to hear)
- 2 A bottom-up process performed quarterly rather than monthly (wisdom of the crowd)
- 3 Forecast beyond year-end (e.g., six quarters ahead)
- 4 The monthly targets are set a quarter ahead from the quarterly rolling forecasting process
- 5 The annual entitlement to spend is replaced with a quarter-by-quarter funding mechanism



36

© 2012 IBM Corporation

The foundation stones for quarterly rolling forecasting and fast planning (continued)

- 6** The annual plan becomes a byproduct of the QRF
- 7** Forecasting at a detailed level does not lead to a better prediction of the future
- 8** The QRF should be based around the main events/key drivers
- 9** A fast, light touch (an elapsed week)
- 10** Built in a planning application—not spreadsheets

Old detailed approach		Forecasting by categories	
Stationery	4,556		
Uniforms	3,325		
Cleaning	1,245		
Miscellaneous	7,654		
Consumables	2,367		
Tea & coffee	2,134		
kitchen utensils	145		
	<u>21,426</u>	Consumables	<u>21,400</u>



© 2012 IBM Corporation

Obtaining the articles and electronic templates that accompany this presentation

DavidParmenter.com
My vision is to change how leading organisations, around the world, measure and manage performance – by 2030

[Home](#)
[David's Blog](#)
[Whitepapers](#)
[Books](#)
[Courses](#)
[Tools & Templates](#)
[David's Specialities](#)

The King of the KPIs – David Parmenter




Photo of David by Jennifer Gilchrist.

DAVID PARMENTER is a writer, facilitator and an international presenter who is known for his thought provoking and lively sessions that have led to substantial change in many organizations. He is a leading expert in the development of winning KPIs, replacing the annual planning process with quarterly rolling planning, and management and leadership practices that will get you to the top. David has delivered workshops to thousands of attendees in many cities around the world including Sydney, Melbourne, Kuala Lumpur, London, Manchester, Edinburgh, and Prague through professional business event management companies and to organisations who want to implement his work.

His stated vision is to "change how leading organisations, around the world, measure and manage performance – by 2030". John Wiley & Sons Inc. have published his four books, "Key Performance Indicators – developing, implementing and using winning KPIs" in

[USA](#)
[UK](#)
[Canada](#)
[France](#)

Select Language

Become a Certified Coach

I am seeking like minded people around the world who wish to help organisations adopt 21st century performance management techniques.

[Please read more here if you are interested.](#)

Get David to Present for You

I present thought provoking, practical and enlightening workshops

Get David's Help on Your Project

I have time to assist project teams who are implementing my methodologies.

Subscribe to David's insight

Receive free templates via email 4 times a year with David's latest insights on performance management.

Attended one of David's courses?

[Download the templates from the workshops](#)

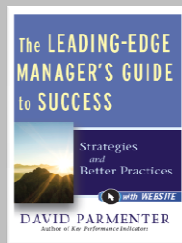
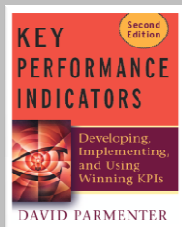
© 2012 IBM Corporation

Five things you can do immediately

- Commence the replacement of spreadsheet over 100 rows —start by taking on board the messages of today
- Visit www.davidparmenter.com for the templates and papers
- Redesign last month's reporting pack so you are ready to go live with new reports ASAP
- Commence research of the paradigm shifters
- Abandon processes and reports that are "broken"



John Wiley and Sons has published



Amazon link on www.davidparmenter.com



Thank you for this opportunity to present.

I look forward to hearing about the goals you have scored.



Trademarks and notes

IBM Corporation 2012

- IBM, the IBM logo, ibm.com, and the planet icon are trademarks or registered trademarks of International Business Machines Corporation in the United States, other countries, or both. If these and other IBM trademarked terms are marked on their first occurrence in this information with the appropriate symbol (® or ™), these symbols indicate U.S. registered or common law trademarks owned by IBM at the time this information was published. Such trademarks may also be registered or common law trademarks in other countries. A current list of IBM trademarks is available on the Web at "[Copyright and trademark information](http://www.ibm.com/legal/copytrade.shtml)" at www.ibm.com/legal/copytrade.shtml.
- Other company, product, and service names may be trademarks or service marks of others.
- References in this publication to IBM products or services do not imply that IBM intends to make them available in all countries in which IBM operates.