Closing the gap in performance management
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I can’t think of a time in my career when trading conditions have been quite so challenging for many of the companies we work with. Certainly anyone who started their working life within the last twenty years won’t have encountered some of the difficult and at times stressful decisions they face today. But what’s been most encouraging is the positive attitude of many of the accounting and finance people I have had the pleasure to work with in the last few years. Far from blaming their commercial colleagues for the faltering growth, they have readily engaged with their peers to explore ways to ensure research and innovation essential for future growth continue to be funded. That marketing budgets remain viable, and that managers can make better decisions by having better access and insight into both financial and non-financial data.

The findings of this research show that stepping up to these challenges has convinced many people working at all levels within the Finance function that many of the processes and tools they use to manage performance are well past their sell-by date. They’re either not fast enough, not accurate enough or insufficiently detailed – as well as being laborious and time-consuming at a time when Finance needs to share some of the pain that other business functions are going through, and become much more efficient.

We recognise those needs, and can use our consulting methodology to deliver projects that rapidly and dramatically benefit the organisations that choose to work with us. The responses from this research suggest that many working in finance and accounting roles see timely action as critical in closing the gap between where they are today and where they need to be. There is little time to waste in making performance management ‘fit for purpose’ in the ‘new normal’.

The three key trends we are seeing from Finance are the relentless drive for further efficiencies, the demand for better information, and a need for accountants to be more influential in their organisations. Any performance management innovations that can support these trends are a welcome addition to the suite of Finance tools.

Naomi Smith, Technical Specialist at CIMA
Executive summary

For many people in Finance, the economic crash of 2008 was the first time in their career that they had experienced a serious recession. It was simply no longer business as usual and facing up to it needed special resilience. The anxiety and stress involved in realigning their businesses with the new reality and having to let staff go left deep scars, that no-one wants to suffer again soon – and let’s hope that is the case.

In the months immediately after the crisis, what needed to be done was obvious, and many companies took the knife to expenses and discretionary spending. This resulted in many sitting on cash reserves that collectively ran to billions. However, five years later, consumer demand remains fragile with many western economies still struggling to deliver sustainable economic growth, and suggestions that it will take another five years to turn the corner.

So, burdened with burgeoning cash reserves that need to be invested on one hand, but faced with low growth and persistent economic uncertainty on the other, it’s no surprise that CFOs are concerned about the future. The only thing that’s obvious today is that times were easier a decade ago.

But if any good has come out of the last five years, it has to be that the crisis has accelerated the transition of the role of Finance from custodian and bean counter to business partner. It has been written about in the journals of the accounting profession for decades, but has only been realised in recent years.

Today CFOs and their teams are expected to take a leading role in developing and delivering strategy to create value for investors and other key stakeholders.

From the uncertain position of today, our research was commissioned to explore the priorities that Finance sees ahead of it in terms of managing performance to deliver the financial objectives that their company has promised to stakeholders, and to ensure that profitability is sustainable in the future.

Our findings suggest ongoing frustration with planning and budgeting, and a clear recognition that cost and profitability management is still insufficient to optimise operating margins in the difficult trading conditions of today. There is evidence of failings in data quality and data integration that compromise both productivity and timely decision making.

The good news is there is a willingness and desire to address these challenges quickly, before competitors with superior performance management capabilities take competitive advantage.

Consumer demand remains fragile with many western economies still struggling to deliver sustainable economic growth and suggestions that it will take another five years to turn the corner.
Our findings

Setting the agenda
Despite respondents having a broad spread of responsibilities that ranged from financial analyst to chairman, there was considerable agreement on which areas of Finance were priorities for improvement initiatives (as is shown in Figure 1).

Figure 1: Priorities for improvement

<table>
<thead>
<tr>
<th>Priority</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Linking KPIs to strategic objectives</td>
<td>54%</td>
</tr>
<tr>
<td>Improving cost management</td>
<td>47%</td>
</tr>
<tr>
<td>Defining tracking and making KPIs</td>
<td>47%</td>
</tr>
<tr>
<td>Product and/or customer profitability reporting</td>
<td>40%</td>
</tr>
<tr>
<td>Improving understanding of organisational capacity</td>
<td>28%</td>
</tr>
<tr>
<td>Better cost allocations to the business</td>
<td>28%</td>
</tr>
<tr>
<td>Quantification of the cost of process failure or waste</td>
<td>28%</td>
</tr>
<tr>
<td>Improving support for pricing strategy</td>
<td>22%</td>
</tr>
<tr>
<td>Shared service cost allocation/transfer pricing</td>
<td>21%</td>
</tr>
</tbody>
</table>

Strategy management
This includes both linking key performance indicators (KPIs) to strategic objectives and defining and measuring KPIs. It’s a clear priority, and suggests that many companies still struggle with the process of mapping their strategy and identifying and measuring suitable KPIs to track progress towards its achievement.

Answers to other questions in our research suggest that part of the issue is the challenge of achieving consistency in measuring non-financial KPIs. But given that few organisations have implemented a robust process for cascading and mapping their strategy, objectives and KPIs, such as that proposed by the Balanced Scorecard Collaborative, it may be that many are still juggling to manage performance with too many different dashboards.

Cost management
Given current trading conditions, it’s perhaps not surprising this comes out as an area of high concern. It is at the heart of product and customer profitability reporting, support for pricing and concerns about capacity and the cost of waste. Many companies continue to apportion indirect costs to products, customers and internal business units and the findings suggest that many respondents are finding these to be inadequate when trying to gain insight into overheads. They recognise the need for more scientific methods of cost assignment that are based on real cause and effect relationships.

There were some noticeable differences between sectors. For instance ‘defining, tracking and managing key performance indicators’ was seen as particularly important by the Public Sector (59%), which is understandable given their need to be accountable to stakeholders about what outcomes they achieve with public funds.

‘Clearly linking key performance indicators to strategic objectives’ was a clear priority for Banking which was mentioned by 71% of respondents.

‘Improving cost management’ came out as an important issue for those working in the Financial Services sector and had the highest level of support in Insurance (62%) and Banking (57%). ‘Product and customer profitability reporting’ found support in Retail & FMCG (56%) and IT (61%), which we suspect reflects the challenges these sectors are having in sustaining profitability in difficult trading conditions.
Planning agility

Although many of the respondents may not have been involved in the planning and budgeting process, the findings suggest that the uncertainties of recent years have triggered a widespread desire to shorten planning and budgeting cycles in order to become more responsive to fluctuations in markets.

These challenges are made particularly worse for respondents coming from companies with revenues in excess of £1bn, with over 40% of them wanting to reduce planning cycles, higher than the overall results. Clearly the number of contributors and the complexity of budgeting increases with company size, rapidly exceeding the capabilities of spreadsheets although they continue to be widely used. This was particularly noticeable in Insurance where ‘Reducing planning cycles’ was selected by more respondents than any other option (62%).

The desire to integrate operational and financial planning, which comes out as the main way respondents seek to improve planning and budgeting, suggests that many respondents may be moving towards integrating operational data such as demand volumes and productivity ratios to their budgets to drive specific line items, resulting in budgets that can be rapidly re-forecast with simple updates by sales and operational colleagues. Until recently it was difficult to manipulate the volume of data contained in such models. However, the advent of in-memory computing with sub-second response times means this is now possible, giving enterprises a level of agility they had previously only dreamt of.

Figure 2: Percentage of respondents wanting to improve planning and budgeting

- Integrating operational and financial planning: 50%
- Developing the ability to re-forecast on demand: 41%
- Moving to rolling re-forecasts: 40%
- Reducing planning cycles: 33%

Reducing planning cycles was selected by more respondents than any other option in the Insurance sector (62%).
Doing more with less

There are two core responsibilities of the Finance function. One, to provide a superior level of service to those who need information for business decision making. And two, to continually seek efficiencies that will drive down its own departmental costs. In today’s climate of cost control, that means Finance ‘doing more with less’, just like their colleagues elsewhere across the organisation. Based on the findings of this research, performance management is an area where investment in systems would help drive productivity and reduce costs. At the same time it could improve service to decision makers within the business by providing faster and more reliable information.

For example, 44% of respondents indicated that ad hoc reporting is difficult and time-consuming, while 42% suggested that their organisation lacked the appropriate tools to create analysis in a timely manner. This was recognised by those with board-level responsibilities (44%) who are no doubt familiar with long delays in responding to their queries. Perhaps the most interesting finding is that so few finance analysts (32%) recognise this issue compared with other members of the finance function.

This may be because they are all too aware of some of the time-consuming processes involved in extracting and analysing data in order to provide answers to their colleagues’ queries. However, creating an agile enterprise depends on having rapid access to information and this can be directly addressed by investing in information management and business intelligence capabilities. As an increasing number of such tools come with intuitive interfaces and self-exploratory navigation, the role of analyst may soon become redundant, releasing talent for more value-adding roles than simply manipulating data to provide insight for others.

Figure 3: Percentage of respondents who agree that ad hoc reporting is difficult and time-consuming

<table>
<thead>
<tr>
<th>Role</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Financial controller</td>
<td>51%</td>
</tr>
<tr>
<td>Head of Finance</td>
<td>48%</td>
</tr>
<tr>
<td>Director/Finance director</td>
<td>46%</td>
</tr>
<tr>
<td>Finance manager</td>
<td>45%</td>
</tr>
<tr>
<td>Board level (CEO, COO, CFO etc.)</td>
<td>44%</td>
</tr>
<tr>
<td>Management accountant</td>
<td>42%</td>
</tr>
<tr>
<td>Finance/business analyst</td>
<td>32%</td>
</tr>
</tbody>
</table>

42% suggested that their organisation lacked the appropriate tools to create analysis in a timely manner.

44% of respondents indicated that ad hoc reporting is difficult and time-consuming.
Addressing data governance

The integration and collation of data from many different source systems was a high priority across all respondents (60%) as were data quality issues (43%) and meeting the information needs of those inside and outside the organisation (43%).

The proportion of respondents reporting that their organisation has more than one ‘version of the truth’ is also high and grows alarmingly with company size.

Half of respondents considered their company to have poor quality non-financial data rising to 83% for those in CEO and chairman roles. This perhaps reflects the as yet limited provision of self-guided business intelligence tools, such as tablets and other mobile devices, to senior management. Of more concern is the finding that over 50% of respondents thought that their company had ‘poor quality non-financial data’ and that the people most concerned about the issue are the financial analysts (38%) who generate much of the data and those on the board (33%).

Such concerns suggest that many companies still have significant challenges with the management and governance of data. Part of the issue is clearly the lack of alignment across systems, which was identified as the major data management issue by 60% of respondents, making it the most important in every sector except for Banking and IT.
How is Finance closing the gap?

Investment in performance management capabilities

At a time when investments need to deliver demonstrable value in as short a time as possible, it’s reassuring that almost all respondents state that any plans that their organisation does have to improve performance management and analytic capabilities, are scheduled for the next 1-2 years.

**Figure 6: Focus of investment in performance management in next two years**

<table>
<thead>
<tr>
<th>Area</th>
<th>Total</th>
<th>£501m+</th>
<th>£51m – £500m</th>
<th>&lt;£50m</th>
</tr>
</thead>
<tbody>
<tr>
<td>Budgeting, planning and forecasting</td>
<td>71%</td>
<td>73%</td>
<td>70%</td>
<td>70%</td>
</tr>
<tr>
<td>Cost management</td>
<td>66%</td>
<td>66%</td>
<td>48%</td>
<td></td>
</tr>
<tr>
<td>Profitability reporting</td>
<td>62%</td>
<td>57%</td>
<td>59%</td>
<td></td>
</tr>
<tr>
<td>Risk management</td>
<td>43%</td>
<td>43%</td>
<td>45%</td>
<td></td>
</tr>
<tr>
<td>Financial consolidation</td>
<td>41%</td>
<td>41%</td>
<td>46%</td>
<td></td>
</tr>
<tr>
<td>Investment appraisal</td>
<td>37%</td>
<td>39%</td>
<td>41%</td>
<td></td>
</tr>
<tr>
<td>Financial disclosure</td>
<td>28%</td>
<td>24%</td>
<td>28%</td>
<td>33%</td>
</tr>
</tbody>
</table>

**Budgeting, planning and forecasting**

This is the most popular selection by some distance, with 71% of respondents intending to make improvements in the next 1-2 years. It’s a priority for companies of all sizes and is particularly important for Not-For-Profit (89%), Manufacturing (75%), Public Sector (76%), Insurance (77%), Retail & FMCG (77%) Education (75%), and IT (75%). Given that many organisations will have been compromised by their inability to produce a timely re-forecast in recent years, these findings are hardly surprising.

71% of respondents intend to make improvement in budgeting, planning and forecasting in the next 1-2 years.
**Cost management**

This is clearly an important topic with over two-thirds of organisations planning to invest in improving their costing capabilities in the next 1-2 years. Interest is highest in Oil, Gas & Energy (80%) and in Banking (79%), but well over 50% in every industry.

**Profitability reporting**

The close relative of cost management, profitability reporting receives almost as much attention with 62% of respondents reporting further investment in this area in the next 1-2 years. This figure rises to 66% among companies with turnovers in excess of £500m, which reflects the additional complexity of product and customer profitability reporting in larger organisations. The most enthusiastic sector is Retail & FMCG (77%), which is perhaps expected given the challenges they have to sustain profitability at a time of fragile demand, but again every industry shows over 50% of respondents intending to make improvements over the next couple of years.

Navigating through the uncertainties of the last few years has also raised the importance of risk management (43%), taking it above financial consolidation (42%), investment appraisals (37%) and financial disclosure (28%). It should be noted however that given some of these topics are only of interest to a small number of respondents working in corporate Finance functions, these findings should be expected.

**Investment in data management**

Investments in improving data integration (64%), data quality and governance (63%) and business intelligence (55%) are all popular choices across companies of all sizes and across all sectors, with the majority of respondents intending to start projects within the next two years.

**Figure 7: Focus of investment in data management and analytics in next two years**

Banking and the Public Sector report having significant challenges with data management with 82% of those employed in Banking and 81% in the Public Sector reporting data quality as an area of investment, and 79% and 73% respectively listing data integration as a focus over the next couple of years.

Business intelligence (55%) is not far behind in terms of priorities. Given how the advent of analytics on tablets and other hand-held devices, that offer intuitive user interfaces, is rapidly making it more pervasive right across business, we suspect that the level of investment will far outweigh that of other areas of data management.

**Profitability reporting**

receives almost as much attention with 62% of the respondents reporting further investment in this area in the next 1-2 years.
Performance management in the ‘new normal’

The key findings of this research highlight that the uncertainty of recent years has rapidly demonstrated the inadequacy of many planning, budgeting and cost management systems. This was at a time when Finance teams were tasked with working alongside their peers.

If CFOs were seeking to deliver in this new role, they needed to identify and capitalise on emerging growth opportunities and steer their companies through the challenges that were endemic in the business climate. Many CFOs have now realised they need to invest in performance management solutions that are agile in every sense.

The willingness of respondents to address the shortcomings of their current systems shows that they have a vision of the performance management capabilities required. Planning and budgeting cycles need to be counted in days rather than weeks or months, and management reports need to provide insight into operational variances that underpin the numbers and lead to more informed decision making. They also recognise the need for clean data that represents a ‘single version of the truth’ with the ability to access this information almost instantly, while there’s time to act on it.

With the development of improved performance management solutions, new technologies such as in-memory processing (fundamental to real-time reporting) and the ability to pro-actively provide information to managers on their mobile devices are being rapidly adopted. Coupled with effective processes and data quality, these companies are seeking to bolster their capabilities, and ensure they have performance management systems that provide the intelligence to create competitive advantage.

These new technologies, such as in-memory computing, not only deliver faster information – they provide insight into data that was previously inaccessible.

For example, analysis of profitability across multiple dimensions, such as customer, channel, SKU, period or version, meant that the vast volumes of data made models slow to calculate and queries tiresome.

Today, with cost and profitability solutions powered by in-memory calculation engines, the speed of processing is dramatically improved. Think seconds rather than hours. There is no limit to the depth of analysis, so that managers can gain instant reports on the profitability of individual product variants supplied to each one of their customer's outlets, through a complex manufacturing and supply chain. At a time when improved profitability depends on the accumulation of small improvements in margin throughout the value chain, big data mining is a definite competitive advantage.

Agility is now a fundamental requirement in order to survive uncertain, persistent economic environments. Our research highlights that companies realise the need to move to a state of perpetual planning, with rolling re-forecasts that can be quickly and easily updated.

It appears that having Finance work alongside their business colleagues to drive revenue growth and profitability has also caused many respondents to realise the need to extend performance management systems, spanning the traditional divide between financial and operational data. This may lead to the implementation of driver-based planning and budgeting, where key inputs (and KPIs) such as productivity ratios, the sales pipeline, the unit cost of inputs, exchange rates and the like can be actively monitored and managed on a daily basis, with corrective action taken as required. Such an approach will be the catalyst that facilitates and accelerates the path for Finance and business to collaborate as true partners.

It appears that having Finance work alongside their business colleagues to drive revenue growth and profitability has also caused many respondents to realise the need to extend performance management systems.
Technology has often become the enabler, as previous driver-based budgeting models have been somewhat time-consuming to work with. Recalculating a large multi-dimensional planning model that contains many business rules spanning time periods and departments would take considerable time, even when models have been partitioned across servers and the complex workarounds brought into play. Similarly, updating sales and operational drivers relied on contributors finding a quiet moment to input the data – a task which is never easy with field operatives or those in a production or distribution unit.

Any inputs not system-generated can be collected using mobile devices with the process automated by workflow, so reminders and templates are screen ready for the critical data to be entered. As these drivers are routinely monitored as part of the daily role, it takes seconds to submit the data. Secondly, building planning models that make use of in-memory calculation engines means that even the largest driver-based planning and forecasting models run real-time.

Everyone from junior line managers to the CEO can instantly access insight and intelligence based against goals and targets. As the model is based on drivers, automated variance analysis highlights exactly which issues need to be addressed, with the ability to run scenarios to assess the impact of any changes that need to be made.

Thankfully advances in financial systems and technologies keep in step with the endless pursuit for effectiveness and efficiency. It may also be the golden age of the CFOs and Finance too, as after years of promises the position is viewed as a more central role in the business, working alongside their commercial colleagues to help them analyse, quantify and compare growth opportunities and risks. In addition, the CFOs will ensure that sufficient resources are made available to them so they can operate effectively and efficiently to deliver optimum profitability.

We are mindful that it may not always be a harmonious partnership. Finance will always be the custodian of costs; driving down the cost of their own department and critically reviewing costs and profitability of resources, products, customers and individual business units.

Finance will have a central role in allocating resources and even rejecting favoured business opportunities in favour of those able to demonstrate a greater return. Sometimes they will have to simply say, ‘no’. But ultimately, supported by performance management solutions that provide better insight and timely decision support, their commercial peers will recognise the undeniable value they bring to the business.

Thankfully advances in financial systems and technologies keep in step with the endless pursuit for effectiveness and efficiency.
About this report

Our data was collected by inviting the global membership of the Chartered Institute of Management Accountants to complete an online survey that was available from 26 October 2012 until 1 January 2013. In all, 893 completed responses were analysed.

Geography

Nearly three-quarters of the respondents were based in the UK with the rest distributed across the globe in a pattern that broadly follows that of the membership of CIMA itself, suggesting that the response rate was fairly even across all geographies.

Respondents came from a variety of sectors covering a broad spread including Manufacturing, Financial services and the Public Sector.

Figure 8: Respondents by geography

<table>
<thead>
<tr>
<th>Region</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>UK</td>
<td>72%</td>
</tr>
<tr>
<td>Ireland</td>
<td>9%</td>
</tr>
<tr>
<td>Asia Pacific/Japan</td>
<td>7%</td>
</tr>
<tr>
<td>North America</td>
<td>4%</td>
</tr>
<tr>
<td>Africa</td>
<td>2%</td>
</tr>
<tr>
<td>Rest of Europe</td>
<td>2%</td>
</tr>
<tr>
<td>Middle East</td>
<td>2%</td>
</tr>
<tr>
<td>Other</td>
<td>16%</td>
</tr>
</tbody>
</table>

Figure 9: Respondents by sector

- Financial services: 16%
- Manufacturing: 13%
- Healthcare: 6%
- Retail/FMCG: 6%
- Public sector: 5%
- Education: 5%
- Oil and gas: 4%
- IT: 4%
- Not for profit: 4%
- Leisure and travel: 4%
- Property and construction: 4%
- Pharmaceuticals: 3%
- Media and entertainment: 3%
- Consultancy: 2%
- Utilities: 2%
- Telecommunications: 2%
- Defence: 2%
- Other: 15%
Responsibility and company size

The job titles of the respondents and sizes of the companies and organisations they are currently employed in varied widely. However, there are some instances where particular job roles look to be under and overrepresented and these should be borne in mind when drawing conclusions from subsets of the sample. For instance the number of responses from executives in larger companies looks to be low while the role of finance or business analysts looks to be heavily weighted towards larger companies, reflecting the increasing specialisation of roles in larger Finance departments as shown in the table below.

<table>
<thead>
<tr>
<th>Turnover in £millions</th>
<th>&lt;10</th>
<th>11-25</th>
<th>26-50</th>
<th>51-200</th>
<th>201-500</th>
<th>501-1000</th>
<th>1001+</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Board level (CEO, CIO, COO)</td>
<td>1%</td>
<td>1%</td>
<td>0%</td>
<td>1%</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
<td>3%</td>
</tr>
<tr>
<td>Director/Finance director</td>
<td>6%</td>
<td>2%</td>
<td>1%</td>
<td>2%</td>
<td>3%</td>
<td>0%</td>
<td>2%</td>
<td>16%</td>
</tr>
<tr>
<td>Head of finance</td>
<td>1%</td>
<td>1%</td>
<td>0%</td>
<td>1%</td>
<td>1%</td>
<td>1%</td>
<td>1%</td>
<td>6%</td>
</tr>
<tr>
<td>Financial controller</td>
<td>4%</td>
<td>3%</td>
<td>2%</td>
<td>3%</td>
<td>1%</td>
<td>1%</td>
<td>4%</td>
<td>18%</td>
</tr>
<tr>
<td>Finance manager</td>
<td>3%</td>
<td>3%</td>
<td>1%</td>
<td>3%</td>
<td>3%</td>
<td>3%</td>
<td>9%</td>
<td>25%</td>
</tr>
<tr>
<td>Finance/Business analyst</td>
<td>1%</td>
<td>1%</td>
<td>1%</td>
<td>2%</td>
<td>2%</td>
<td>2%</td>
<td>4%</td>
<td>13%</td>
</tr>
<tr>
<td>Management accountant</td>
<td>4%</td>
<td>3%</td>
<td>2%</td>
<td>2%</td>
<td>1%</td>
<td>2%</td>
<td>4%</td>
<td>18%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>21%</td>
<td>14%</td>
<td>7%</td>
<td>14%</td>
<td>11%</td>
<td>9%</td>
<td>24%</td>
<td>100%</td>
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</tbody>
</table>
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