Gesellschaft für Informatik e.V. (GI) GI. (Hrsg.): INFORMATIK 2021,
Lecture Notes in Informatics (LNI), Gesellschaft für Informatik, Bonn 2021 1351

Organizational Performance Management – From Planning to Execution and Re-Alignment

A holistic approach

Philipp Klingmann[1], Albrecht Altenhoener[2], Dr. Carsten Brockmann[3], Selina Silbernagel[4]

Abstract: The organizational performance management frameworks presented in this contriobution cover the whole lifecycle from planning to monitoring up to intervening and re-aligning. The business architecture shall always be aligned with the technological architecture through thr supporting elements. In addition, Governance and people play a crucial role in defining and achieving performance goals, even allowing organizations to exceed their goals.

Keywords: Organizational performance management, plan, monitor, intervene, CFO Services, strategic cost transformation, business finance, controlling.

1 Introduction

Our increasingly volatile economic environment is providing enormous challenges for today's businesses. Factors such as globalization and demographic change as well as disruptions in business continuity have become massive turning points that are also redefining the role of the Chief Finance Officer. In addition to pushing for value-adding growth, CFOs and their teams need to take on several roles at once instead of focusing solely on monthly/quarterly/yearly results. Business partnering is likely to gain a more dominant position within Finance, moving the CFO role more towards that of value architect. Capable of balancing major business issues in a volatile and complex environment, value architects identify competitive cost advantages and design digital structures that are fit for purpose. This also includes leveraging specific growth potential and differentiating the business from competitors. Transparency as well as legal and regulatory compliance are also becoming an increasingly important part of the Finance function's portfolio. From identifying and implementing compliance policies to establishing governance structures and issuing sustainability and environmental impact reports, today's CFO is called to deliver a cross-functional set of skills.

[1] Deloitte Consulting GmbH, Finance & Performance, pklingmann@deloitte.de
[2] Deloitte Consulting GmbH, Finance & Performance, aaltenhoener@deloitte.de
[3] Deloitte Consulting GmbH, Finance & Performance, cbrockmann@deloitte.de
[4] Deloitte Consulting GmbH, Finance & Performance, sisilbernagel@deloitte.de

On one side, CFOs can make their own actions more efficient; on the other side, they are in a position to establish an Organizational Performance Framework designed to leverage gains across the organization as a whole.

The Finance function has made enormous efficiency gains over the last few years. Back in 2010, the average company spent 1.5 percent of its revenue running Finance; today it only spends 1.0 percent. Top performers even spend as little as 0.56 percent of their revenues to run the Finance department [1]. An increase in process efficiency, systems and people have been key drivers for this change.

By documenting, standardizing and streamlining processes, they paved the way to develop a mature governance model that not only covers process specifics but also challenges the existing data basis. Digitalization has become a significant agent of change on the systems side, where the finance function can lead the way [2, 3]. New digital technologies, from cloud solutions to robotic process automation, are replacing manual tasks and reducing both the effort involved in transactional processing as well as headcount in Finance. Although digitalization is high on the CFO agenda, plans are far from being completed: estimates show that the Finance workforce is likely to decrease by 15-24 percent in the future [4] – an even stronger indicator for efficiency gains in Finance.

Finance departments are responsible for delivering the results that support the business and bolster the company's growth in a competitive market. They can use a structured approach and accelerators such as architectural templates [5], scenario analyses, analytics-based solutions and business-modelling capacities to differentiate their business from the competition. Establishing a corporate culture that supports this mission is a critical success factor. Finance professionals can make a decisive impact by implementing a well-designed Organizational Performance Management framework.

Analytics, driver-based forecasting and scenario planning generate progressive insights once deployed. For the Finance function, focusing future decision-making on creating value, driving operational excellence and providing multi-dimensional insights is key in providing holistic performance management for the entie organization based on transparency and reliability.

2 Our organizational performance framework

Our performance management framework consists of three major process steps – setting the target, monitoring the execution and intervening if required. People, IT and organizations are all enablers that allow the Finance function to grow and thrive.

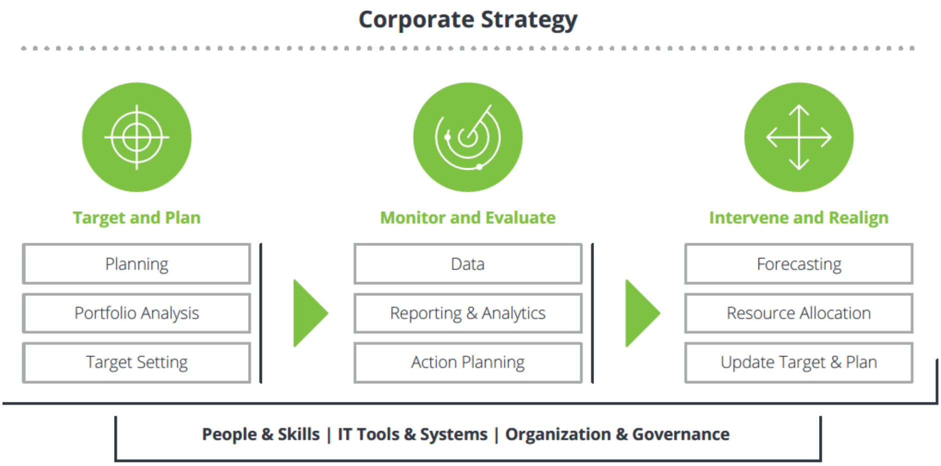

Figure 1: Organizational Performance management framework

2.1 Phase Target & Plan

In this phase, organizations set targets using a structured portfolio analysis and the corporate strategy to identify and operationalize overarching goals.

The planning cycle starts by updating strategically relevant long-term goals covering a timespan of three to five years. In a next step, the focus shifts to the upcoming financial year by setting financial and non-financial targets. This requires the Finance team to identify key drivers of business value and operationalize strategic goals accordingly by taking both current and future drivers into account, from an internal as well as external perspective.

A portfolio analysis allows us to operationalize high-level targets for growth. For each growth target, we identify and group opportunities by product, customer and market, and then identify and quantify both vertical and horizontal growth opportunities. Market opportunities may also highlight potential shifts in the offering portfolio, which could change the overall business portfolio in terms of short and long-term value creation.

During the target setting phase, the opportunities we identified are cascaded into an action plan, resulting in goals measured with financial and non-financial KPIs. Our experience has shown that it can be beneficial to choose a setting physically separate from the usual office environment to define your overarching goals. We find formats like conclaves, CFO labs or other events very productive, as they allow participants to focus on goal-setting for a full day or longer. Strategic goals are broken down into concrete long and short-term targets, shifting the focus from past performance to a more forward-looking view. Once the targets are set, it is time to cascade them to all levels of the organization and place the focus clearly on the KPIs we need to measure progress and make adjustments when required.

2.2 Phase monitor and evaluate

In the Monitor & Evaluate phase, the focus is on the continuous and close monitoring of the targets and the action plan to improve the current state.

Finance departments need to acquire data from multiple sources to determine the overall progress with their goals, focusing on consistency in data structures. Developing a central governance and quality management structure helps ensure that a single view on the truth can be generated. Where no central governance structure exists, individuals at the business unit level are tasked with setting up and maintaining data collection systems as well as the continuous provision for interconnected areas.

The reporting and analytics step analyzes all of the data collected to determine where there are discrepancies and the potential actions to remedy them. The reporting feature uses an event-driven model to issue reports outlining actions that will improve on the current situation. In order to make reports more actionable, the system sets and updates thresholds for key values and the resulting tasks. Structured real-time data is used to identify performance discrepancies.

The action-planning step to improve the current situation relies on data as well as reports. These individualized reports with detailed visualizations can generate insights faster and ease the decision-making process. Precise measures are defined for each target, while forecasting as well as action plans become more flexible to adapt to the outcome of business events.

2.3 Phase Intervene and Re-Align

During the planning process and subsequent evaluation of the measures taken, managers may have to make interventions if the established plan changes. They develop corrective measures during this phase and implement them in response to the situation as it now stands.

In the forecasting step, Finance departments update data from the original plan in line with the latest developments, providing a new forecast as an initial indicator for a possible mismatch between the current state and the established plan. In addition to analyzing the plan, they can elaborate multiple scenarios that consider external variables by applying their knowledge on intrinsic and extrinsic motivations of actors.

Overall, resources should be allocated where they add the most value. If plans change, the Finance function needs to make a holistic evaluation of any adjustments in resource allocation that result from the intervention. On the one hand, this pertains to financial resources designed to create value. On the other hand, the allocation of non-financial resources, such as human resources, is also a key element to success. After all, the most value is created when only the right resources are deployed at the right location.

In this last part of our framework, Finance departments update overall targets and plans with any changes that have occurred in the respective systems. They communicate any modifications made to the resource allocation across the hierarchy and adjust individual goals/targets where necessary.

2.4 Enabling Elements

Enablers foster value creation throughout the planning cycle by creating links between the process steps. They also support process execution and record all changes that result from execution or re-planning.

In terms of personnel management, we know well that competences and capabilities vary between employees. Simply deploying resources does not take their specific background into account. Each employee has his or her own personal perspective on performance management and the value created by individual actions. That is why individualized communication with clear objective-setting between employees and their superiors is so impor-tant for good performance, along with clear guidance on how to achieve those goals. Providing open dialogue on performance and the right incentives, such as aligned and structured targets, short and long-term horizons or relative ambitions, can boost performance for individual staff members. Teams that introduce modern approaches like lean or agile management may increase employee satisfaction by involving staff more closely with the value creation process.

For all elements of the performance management methodology, Finance departments need robust IT systems to store and monitor the results of each process step. The best tools will provide an analytical environment as well as the possibility to run predictive forecasts and build custom reports.

In terms of corporate structure, Finance should promote its position as a partner to business entities. Defining clear roles and responsibilities will enable Finance to fulfill that mission, while still focusing on improving current transactional processes.

3 Our recommendations

One of the primary goals of Finance is to reduce costs and it is precisely for this reason that shared services are once again coming to the fore. 70 percent of German CFOs are looking to reduce costs by deploying Shared Service Centers or Global Business Services [6]. This is quite a drastic development: in a previous survey conducted just one year earlier, they had described Shared Services as a means to add decisive business value for the company as a whole [7].

We recommend focusing on the value being created, while letting go of activities that do not create value. Zero Based Budgeting (ZBB) has proven to be one of the leading practices for companies looking for a different approach to allocating funds. With this approach, the budget is planned from scratch each period, i.e. starting with a "zero base". This ensures that the budget is based exclusively on necessary expenses. Stakeholders need to explain and justify each spending item, which guarantees that the focus is placed solely on essentials.

Our approach to Strategic Cost Transformation recognizes the general trend moving away from strictly tactical cost reductions towards a more strategic approach. It supports and enables clients to optimize and align their costs strategically by implementing traditional cost approaches, a targeted redesign of the operating model and/or next-generation cost solutions that leverage state-of-the-art technologies [8]. The overall objective is to make clients adopt a save-to-transform mindset, i.e., a sustainable change in their business and operations [9], which will finally pave the way for integrated organizational performance management.

4 References

1. APQC. *Key Finance Organization Benchmarks – Cross Industry*. 2020; Available from: https://www.apqc.org/resource-library/resource-listing/key-finance-organization-benchmarks-cross-industry. Last access: 31st of May 2021
2. Epstein, R., et al., *Die Finanzfunktion als Accelerator einer agilen Organisation.* CFO Insights, 2019. **November**: p. 1 - 7.
3. Brockmann, C., et al., *Stepping stones to an agile enterprise.* Deloitte Review, 2019(25): p. 36 - 47.
4. Deloitte. *CFO Survey - Konjunktur, Klima, Talente*. 2019; Available from: https://www2.deloitte.com/content/dam/Deloitte/de/Documents/finance-transformation/CFO_Survey_Herbst_2019.pdf. Last access: 31st of May 2021
5. Brockmann, C., et al., *Die IT-Finanzarchitektur im Cloudumfeld*, in *INFORMATIK 2020*, R.H. Reussner, A. Koziolek, and R. Heinrich, Editors. 2020, Gesellschaft für Informatik, Bonn: Bonn. p. 197 - 203.
6. Deloitte. *CFO Survey - Sustainable Finance & Service Delivery – Transformation als Chance*. 2020; Available from: https://www2.deloitte.com/content/dam/Deloitte/de/Documents/finance-transformation/CFO-Survey-2020-Sustainable-Finance.pdf. Last access: 31st of May 2021
7. Deloitte. *Global Shared Services Survey Report - 11th biennial edition*. 2019; Available from: https://www2.deloitte.com/content/dam/Deloitte/us/Documents/process-and-operations/2019-global-shared-services-survey-results.pdf. Last access: 31st of May 2021
8. Deloitte. *Solutions - Strategic Cost Transormation*. 2021; Available from: https://www2.deloitte.com/de/de/pages/operations/solutions/strategic-cost-transformation.html. Last access: 31st of May 2021
9. Deloitte. *Deloitte's second biennial global cost survey - Save-to-transform as a catalyst for embracing digital disruption*. 2019; Available from: https://www2.deloitte.com/content/dam/Deloitte/global/Documents/Process-and-Operations/gx-consulting-global-cost-survey-2019.pdf. Last access: 31st of May 2021