



The Journey to World-Class

Technology Association of Georgia Finance Society Event

*Creating World-Class Organizations for Measuring and Monitoring
Business Performance*



Tom Willman

EPM Advisory Practice Leader

The Hackett Group

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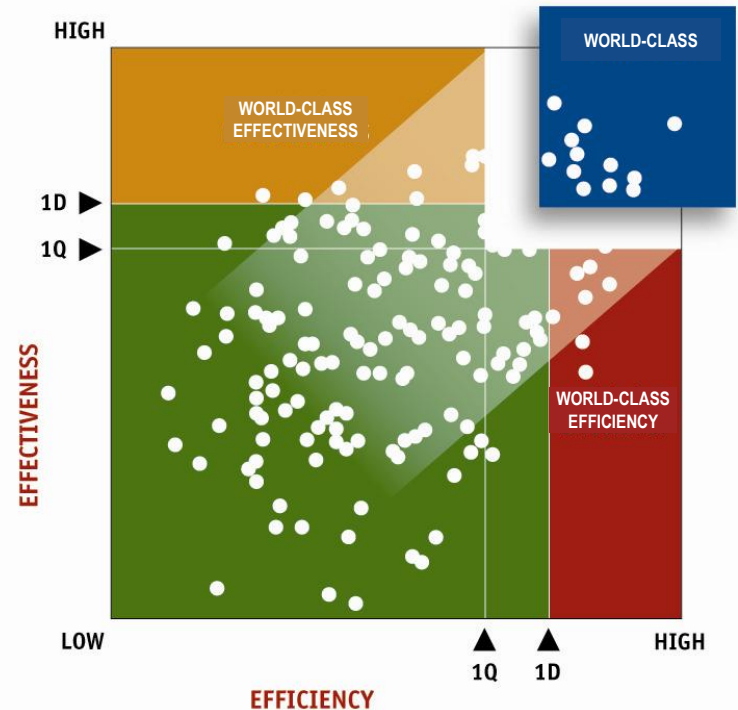


Agenda

- Who is Hackett and What Do We Do?
- Overview of World-Class Finance in 2010
- Creating World-Class Organizations for Measuring and Monitoring Business Performance

The Hackett Group defines and enables world-class performance

- We are the global leader in operational improvement strategies and implementation
- Our strategy and implementation advice is based on more than 5,700 benchmarks
 - Over 1,900 Best Practices across over 100 processes
 - Over 10,000 performance metrics
 - Best Practices Intelligence Center™
 - Global implementation tools
- Our intellectual capital and focused implementation experience accelerates the time to realized benefit
- We address both efficiency and effectiveness including strategic business enablement





“We know how the best do it, where they do it and the benefit of doing it.”

97%

of the
Dow Jones Industrials

80%

of the
Fortune 100

88%

of the
Dow Jones Global Titans

80%

of the
DAX 30

49%

of the
FTSE 100

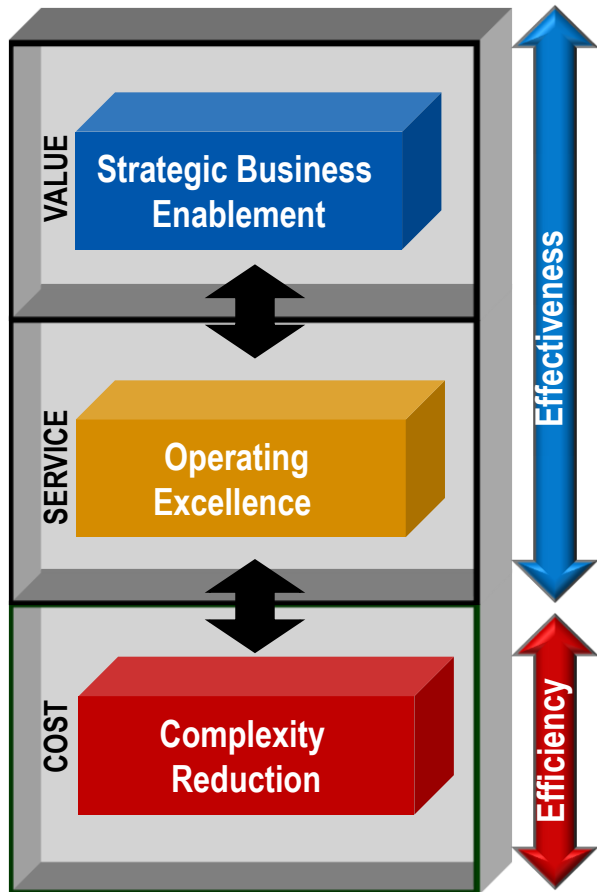
35%

of the
CAC 40



The Hackett Group – What do we do?

Hackett analyzes both efficiency and effectiveness performance drivers to identify World-Class performers and assists our clients in achieving their improvement objectives



EFFECTIVENESS

- Agility / Scalability
- Alignment with business
- Supplier leverage
- Economic return
- Quality
- Access to information
- Working Capital

EFFICIENCY

- Cost
- Cycle time
- Productivity
- Staffing
- Technology leverage

Hackett Value Grid™



How Hackett Defines SG&A – Our Area of Focus

Finance

- Cash disbursements
- Revenue cycle
- Accounting and external reporting
- Tax management
- Treasury management
- Compliance Management
- Planning & Performance Management
- Business Analysis
- Function Management

Information Technology

- Infrastructure Management
- End User Support
- Infrastructure Development
- Application Maintenance
- Application Development & Implementation
- Quality Assurance
- Risk Management
- IT Business Planning
- Enterprise Architecture Planning
- Emerging Technologies
- Function Management

Human Resources

- Total Rewards Administration
- Payroll Services
- Data Management, Reporting & Compliance
- Staffing Services
- Workforce Development Services
- Organizational Effectiveness
- Total Rewards Planning
- Strategic Workforce Planning
- Function Management

Procurement

- Supply Data Management
- Requisition & PO Processing
- Supplier Scheduling
- Receipt Processing
- Compliance Management
- Customer Management
- Sourcing Execution
- Supplier Management & Development
- Function Strategy & Performance Management
- Sourcing & Supply Base Strategy
- Function Management

Executive and Corporate Services

- General Administration Mgt
- Travel & Transportation Services
- Real Estate & Facilities Mgt
- Government Affairs
- Legal
- Quality Management
- Risk & Security Management
- Corporate Communications
- Planning & Strategy
- Executive Office

Service

- Order & Contract Management
- Service Execution
- Service Operations
- Planning & Strategy
- Function Management

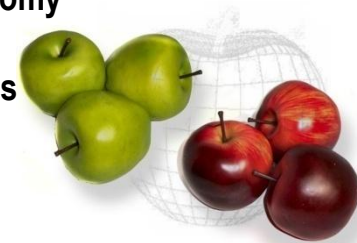
Marketing

- Marketing Communication & Program Management
- Brand & Product Management
- Planning & Strategy
- Market Research & Analytics
- Function Management

Sales

- Sales Execution
- Sales Operations
- Planning & Strategy
- Function Management

Hackett's taxonomy ensures an apples-to-apples comparison



Finance Focuses on 9 Process Groups

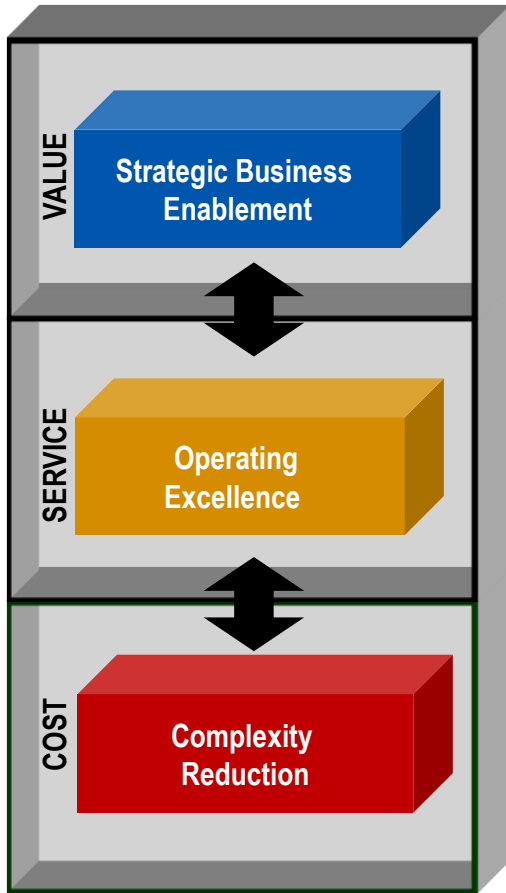
Process Category	Transaction Processing	Control and Risk Management	Planning and Strategy	Management and Administration
Process Group	<ul style="list-style-type: none"> ▪ Cash Disbursements <ul style="list-style-type: none"> – Accounts Payable – Travel and Expense ▪ Revenue Cycle <ul style="list-style-type: none"> – Cash Application – Credit – Collections – Customer Billing ▪ General Accounting and External Reporting <ul style="list-style-type: none"> – General Ledger – Intercompany Accounting – Cost Accounting – Fixed Assets – External Reporting 	<ul style="list-style-type: none"> ▪ Tax Management ▪ Treasury Management <ul style="list-style-type: none"> – Cash Management – Capital and Risk Management ▪ Compliance Management 	<ul style="list-style-type: none"> ▪ Planning and Performance Management <ul style="list-style-type: none"> – Planning – Forecasting – Business Performance Reporting ▪ Business Analysis <ul style="list-style-type: none"> – Business Analysis 	<ul style="list-style-type: none"> ▪ Function Management
Process				

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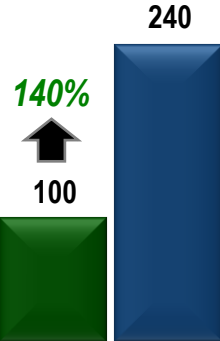
Why does World-Class Performance Matter in 2010?

Achieving a balance between executing on the fundamentals while making a measureable impact in improving business value



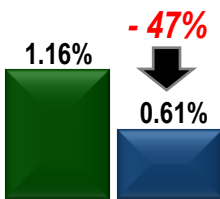
Finance

World-Class EPM
Return on Equity
Index



Peer Group World-Class

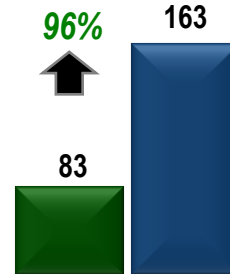
Finance Cost as
% of revenue



Peer Group World-Class

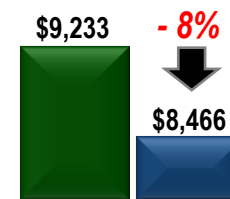
IT

World-Class ITBVM
Net Profitability
Index



Peer Group World-Class

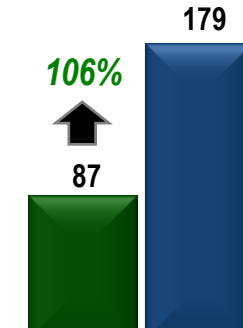
IT cost per end
user



Peer Group World-Class

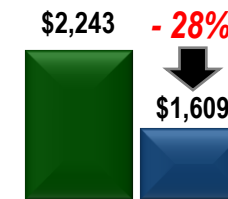
HR

World-Class Talent Mgmt
Net Profitability
Index



Peer Group World-Class

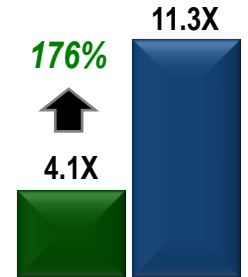
HR cost per
employee



Peer Group World-Class

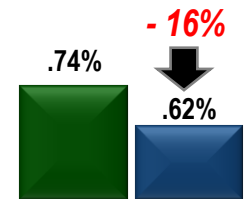
Procurement

"Procurement ROI"
Annual spend savings
divided by annual
cost of procurement



Peer Group World-Class

Procurement cost
% of spend

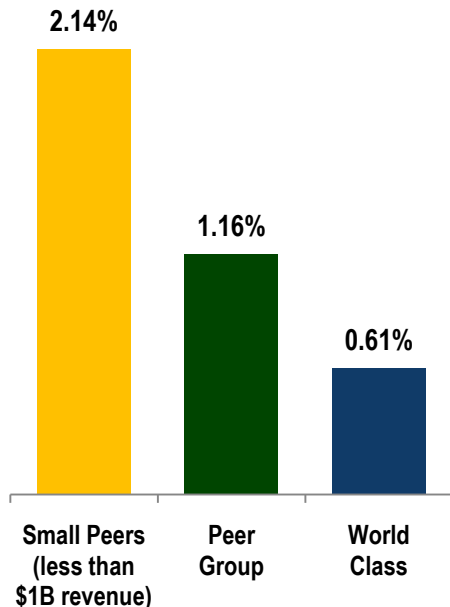


Peer Group World-Class

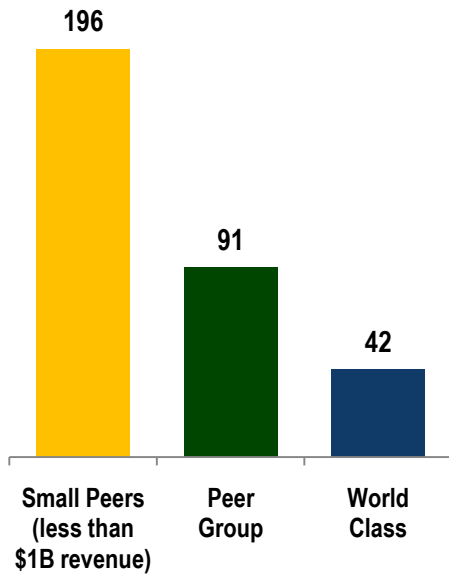
Finance: World-Class Performance in 2010

Continuing to deliver greater value at significantly lower costs

Overall finance cost
as a % of revenue



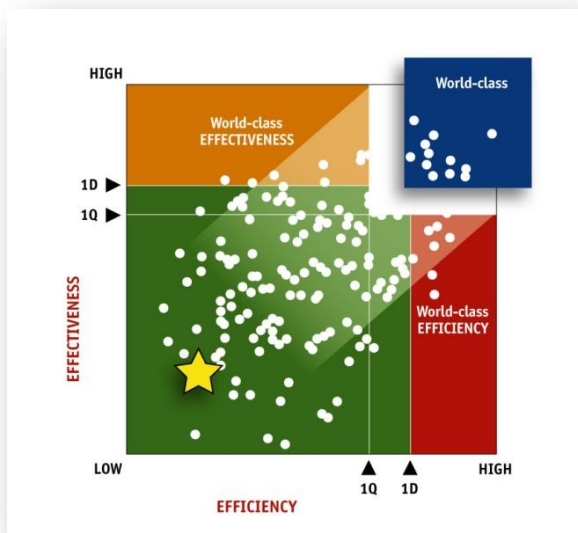
Finance FTEs per
\$1B in revenue



- World-class is significantly more efficient in all process categories
 - 47% less expensive and 54% less staff across all finance areas
 - 59% fewer management reports generated and distributed
 - 47% more management reports generated from a central data repository
 - 25% fewer days required to complete the annual budget
- And deliver higher value to the business
 - 40% fewer billing/payment errors
 - 15% more credit sales collected within terms
 - 33% greater cash flow forecasting accuracy
 - 68% more likely to have a documented strategic plan for Finance

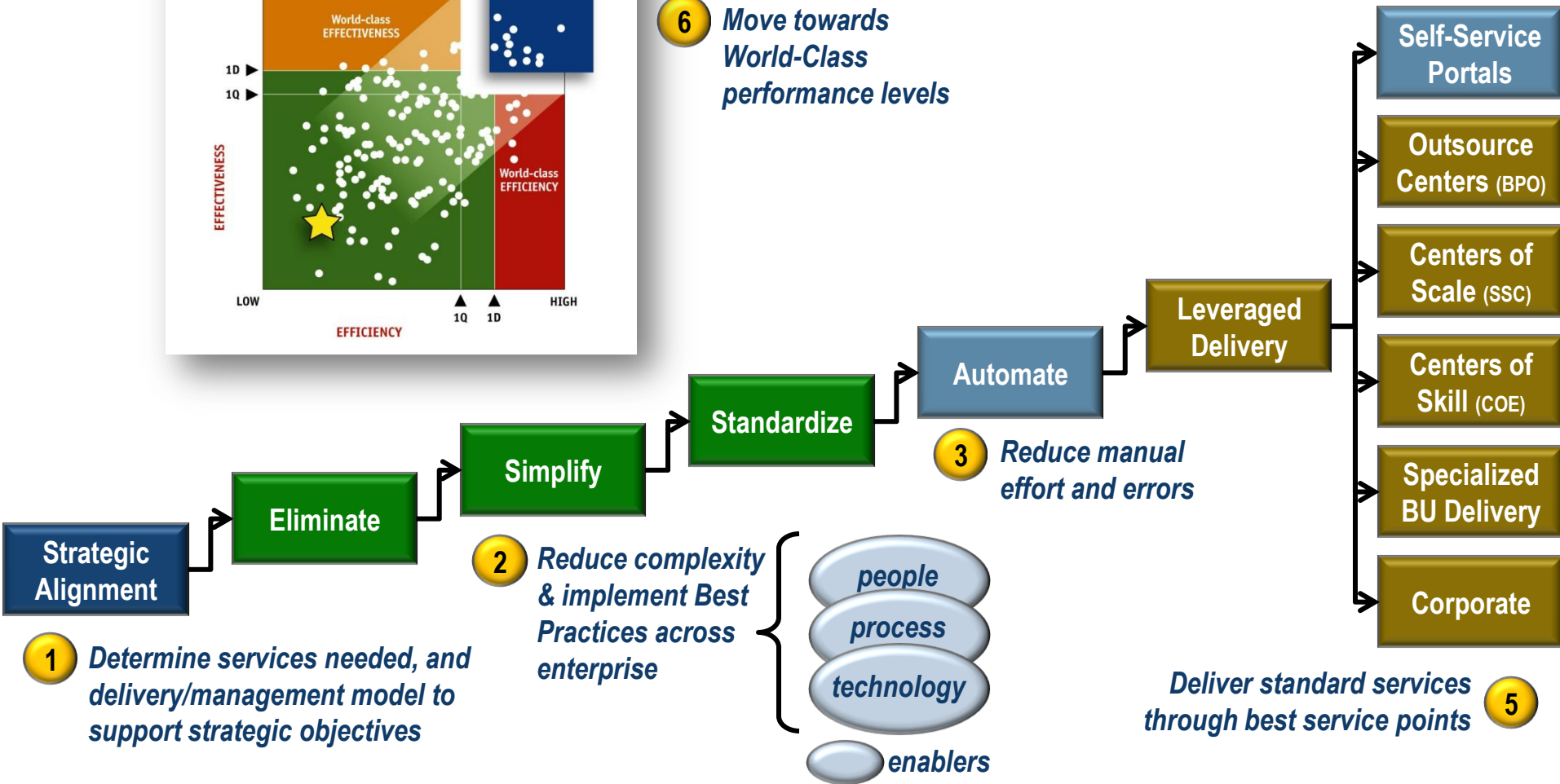
The Journey to World-Class Performance is consistent...

...but the speed of execution and importance of the outcome has increased



6 Move towards World-Class performance levels

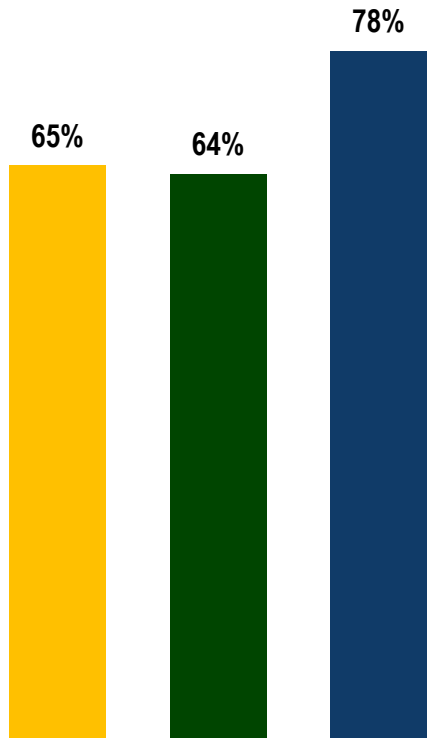
IT enablement for lowest service delivery cost **4**



The journey to world-class includes initiatives to simplify, standardize and automate and improve alignment with the business

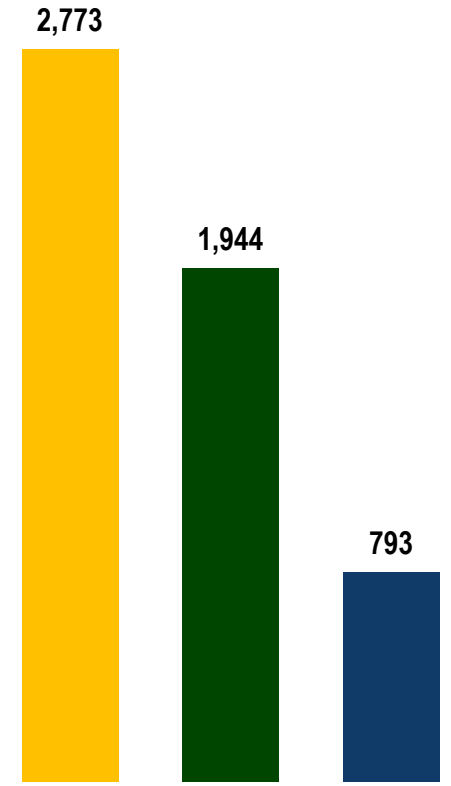
Business Alignment

Percent of analysts having skills and acumen to partner with the business



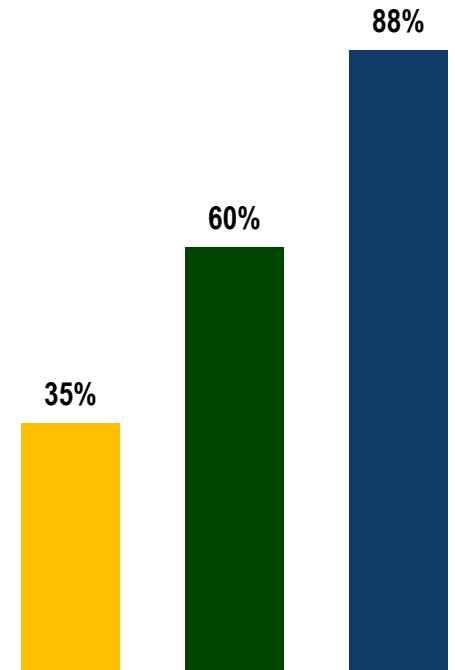
Elimination/Simplification

Number of business performance Reports per \$B revenue



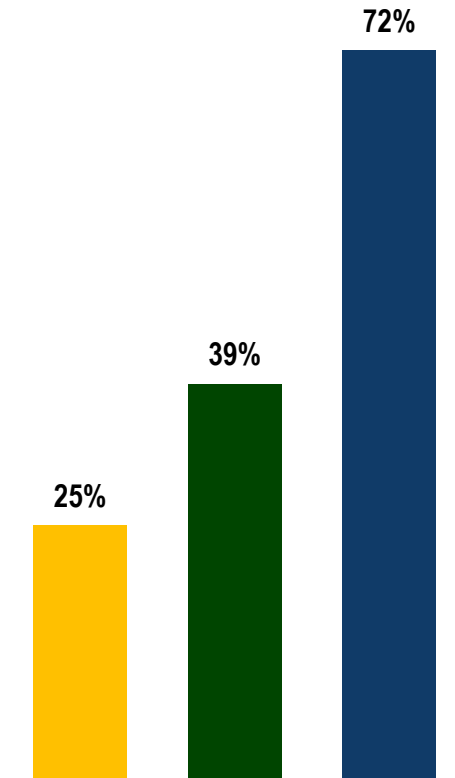
Standardization

Percentage of business performance reports generated from a central data repository



Technology Leverage

% of business managers with online access to management reporting

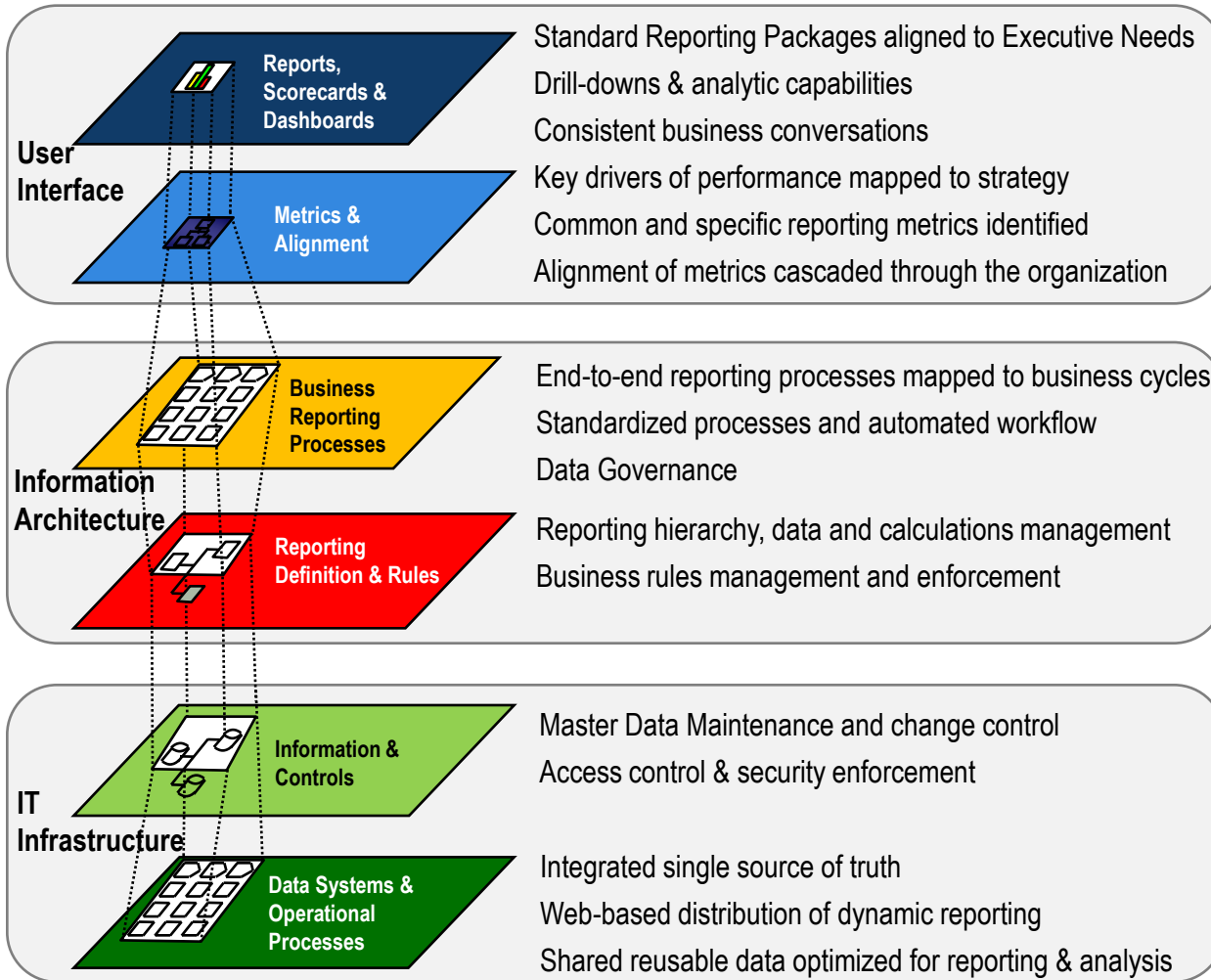


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What does a World-Class Reporting Capability Look Like?

World-Class Companies Implement a Series of Key Best Practices to Support a World-Class Performance Reporting Capability



Best Practice Reporting Vision

- Focus on key information that drives the business
- Leading indicators / predictive measures
- Link operations and strategic information
- Unifies functional units and products / regions around strategy
- Provides executives with summary information and the option to drill down to problems
- Integrated with other finance/IT systems
- Standardized reporting & analysis processes

Reporting optimization requires tackling a complex “Supply and Demand” problem for management information

Demand Side Problem

- Management needs timely, accurate and valid management information to make rational decisions

Supply Side Problem

- Finance, IT and other functions must source information, often from a large number of systems in order to supply management information

Implication

- Rationalizing and developing standard reporting to support corporate and management reporting requires a clear articulation of the need for management information in order to support corporate and management decisions, from the outset
- Failing this, the supply side will rely on ad-hoc activities to meet the need of the demand side

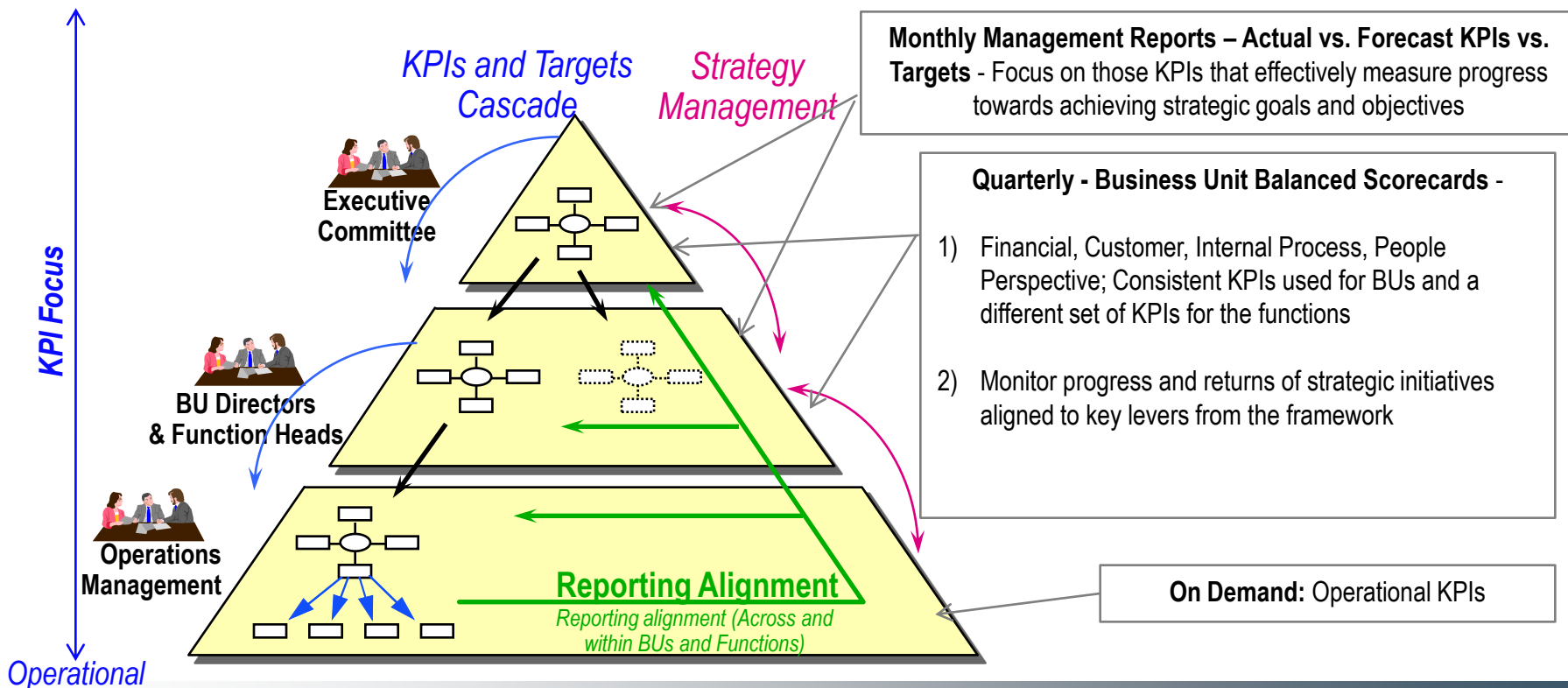
Recommendation

- Adopt a demand led approach
- The initiative should be led by a Reporting Governance Board

World-Class finance organizations take a “top-down” approach in establishing their reporting framework

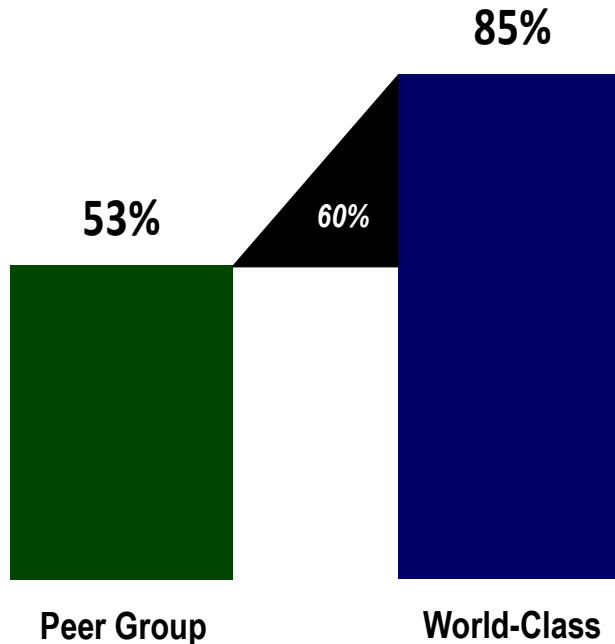
1. First, rationalize Executive Management Reporting
2. Second, rationalize Business Unit Reporting
3. Third, develop a broader Measurement & Reporting Framework

Strategic



Balanced scorecards are an integral component of that reporting framework

Percent of organizations utilizing balanced scorecards or similar process to measure and manage performance, 2009



Source: Hackett Finance Benchmark, 2009

Success factors – best practices in EPM are critical to a sustained scorecard effort

- Strong enterprise-wide leadership on decision support priorities and infrastructure.
- More collaborative across functions, SBU's and with finance in EPM and decision support activities in developing strategy, building driver models, reviewing progress and forecasts.
- Greater focus on key business drivers more generally, ongoing use and testing of driver models in EPM activities – better able to prioritize information.
- Greater quality and consistency of information derived from use of central data repository and data standards.
- Greater integration between strategic planning, budgeting and reporting processes.
- More efficient reporting processes and leveraging technology for self-help reporting
- More forward looking analysis and insights versus data gathering

The balanced scorecard is a strategy management system that monitors progress towards the execution of strategy

“The Balanced Scorecard is a strategy management and implementation system that comprises a **Strategy Map** AND an **accompanying scorecard** of strategic measures, targets and initiatives.”

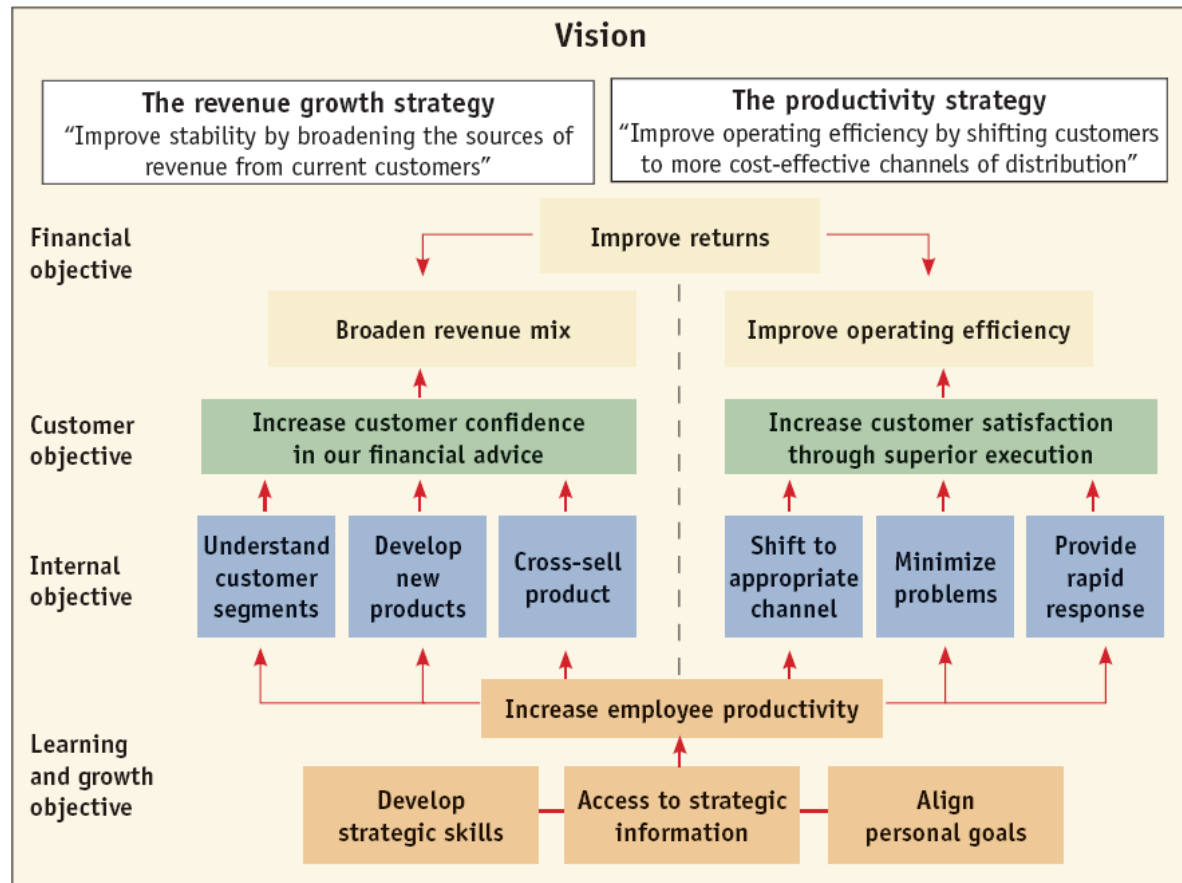
“It enables the prioritizing of performance within a balanced framework.”

The Balanced Scorecard system *is not* a measurement system. It is strategic management system of which strategic measurement is but one component and which, crucially, plays a *supporting* role to strategic objectives. So measures exist purely to monitor progress toward the implementation of strategy, as described through a Strategy Map.

Succeeding with the Balanced Scorecard
by James Creelman, Naresh Makhijani
John Wiley and Sons (Asia) 2005

The strategy map is a critical first step in the development of a successful balanced scorecard program

An example of a balanced scorecard strategy map illustrating possible themes and strategic objectives



Source: The Hackett Group, 2007

Accompanying scorecards are then constructed to translate the vision and strategy into key objectives, measures and targets across 4 perspectives

Vision and strategy							
To succeed financially, how should we appear to our shareholders?				To achieve our vision, how should we appear to our customers?			
Financial Perspective				Customer Perspective			
Objectives	Measures	Targets	Initiatives	Objectives	Measures	Targets	Initiatives
To satisfy our shareholders and customers, what business processes must we excel at?				To achieve our vision, how will we sustain our ability to change and improve?			
Internal Process Perspective				Learning and Growing Perspective			
Objectives	Measures	Targets	Initiatives	Objectives	Measures	Targets	Initiatives

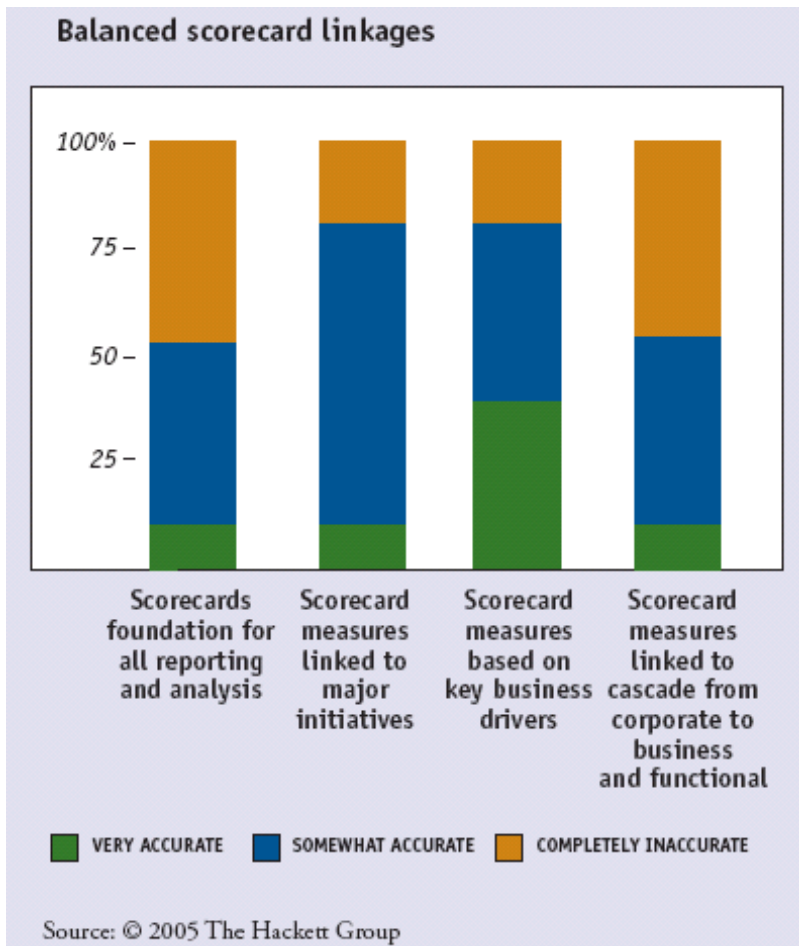
Source: The Hackett Group, 2007

- **Financial Perspective** - Is the company creating value for its shareholders?
- **Customer Perspective** - How is the company performing from the perspective of those who purchase the company's products or services?
- **Internal Process Perspective** - How is the company managing its internal business processes to meet its client's expectations? Is throughput improving? Other processes include fulfillment, customer retention, and financial planning.
- **Learning & Growth Perspective** - Is the company improving its ability to innovate, improve, and learn?

Greatest challenges in successful scorecard development

- Achieving shared understanding on the finance strategy and strategic priorities
- Effective leadership in positioning the role and importance of the scorecard performance management system at an enterprise level
- Clarity of purpose of the scorecard in the wider information framework, competing reports – a strategic management tool, not a process management tool
- Lack of understanding on true drivers of value in the function and causality impacts ability to prioritize objectives and metrics
- Tendency to focus on metrics rather than strategy map and initiatives.
- Lack of integration with process management and monitoring processes and reporting.

Greatest challenges in successful scorecard implementation for the long-term



- Lack of standards in metric definitions, and disparate information sources
- Poor quality of analysis and insight to support the scorecard
- Poor integration of scorecard with planning, forecasting, reporting processes, management processes, initiatives
- Poor ability to reforecast scorecard metrics in light of dynamic business conditions and scenarios

Key elements of a successful scorecard-based performance management program

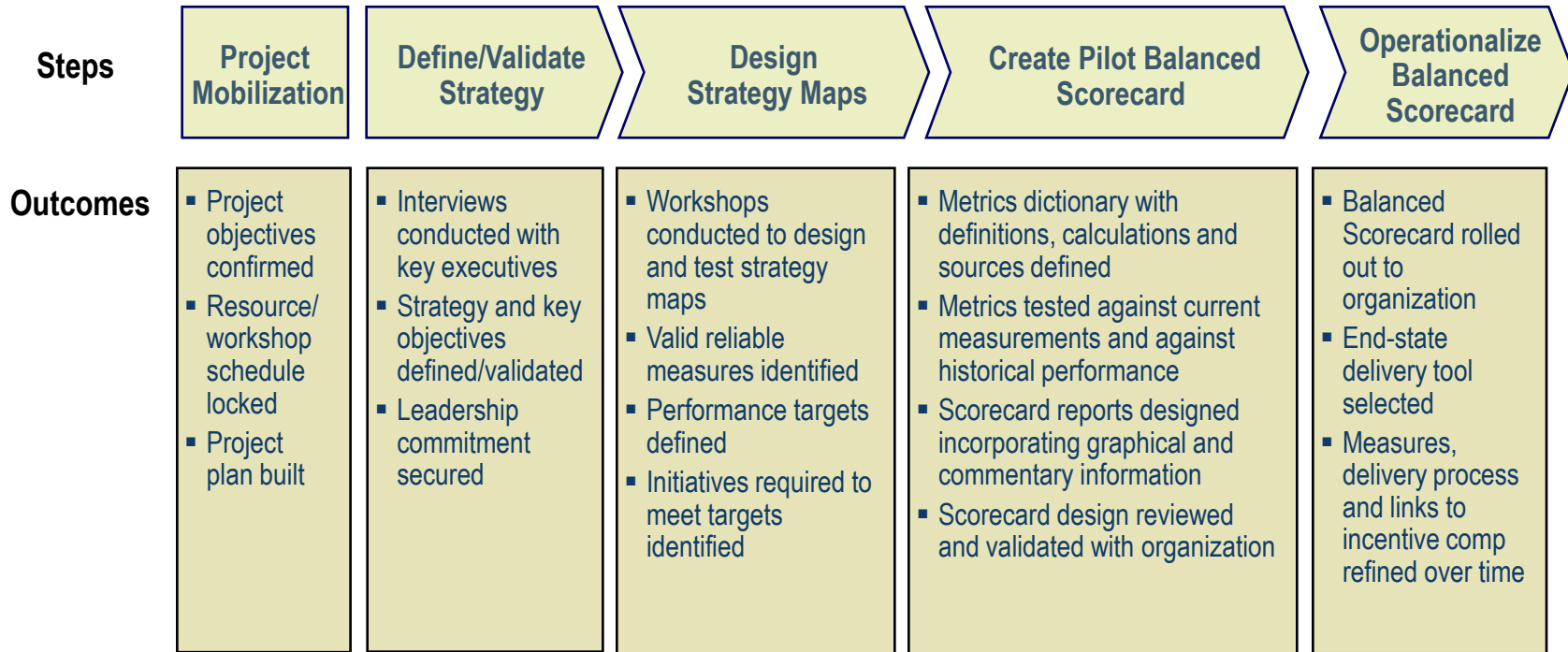
Strategy and sponsorship	Governance and Structure
<ul style="list-style-type: none">▪ Strong executive leadership and communication advocating the metrics program as the method of tracking success of the strategy▪ Benchmark performance both internally and externally to drive improvements▪ Adopt common language and messaging	<ul style="list-style-type: none">▪ Governance model in place to ensure KPIs are standardized and maintained centrally.▪ Metric and KPI definitions and hierarchies are standardized, governed and maintained centrally in the integrated architecture.
Communication	Process integration
<ul style="list-style-type: none">▪ Widespread training and communication on the purpose and importance of the scorecard.▪ Metric performance should be visible to employees (e.g., publicly displayed and widely communicated.)	<ul style="list-style-type: none">▪ Performance tracking is part of a loop, integrated with strategy-setting, budgeting, planning, forecasting. Key KPI's should be common throughout these processes.▪ Management meetings and reporting should incorporate scorecard as a foundation for monitoring performance.

Key elements of a successful scorecard-based performance management program

Content Relevance	Technology enablement
<ul style="list-style-type: none">▪ Metrics should be driven by and aligned to the strategy▪ Metrics should be linked to a strategy map.▪ Incorporate both performance outcomes (lag) and performance drivers (lead) in the scorecards▪ Avoid “plug and play” templates▪ Review metrics periodically to ensure continued relevance▪ Targets should be challenging and timebound	<ul style="list-style-type: none">▪ Capability in place to enable automatic capture and reporting of metrics to minimize effort to collect▪ Capability for users to view metrics online, drill-down and view metrics multi-dimensionally.
Incentives	Deployment Strategy
<ul style="list-style-type: none">▪ Key scorecard metrics should be linked to personal performance contracts and rewards.	<ul style="list-style-type: none">▪ Choose starting point carefully to avoid rework▪ Ensure alignment of scorecards developed between inter-related levels/departments.▪ Demonstrate early success through delivery of a targeted end-to-end solution for a core set of metrics▪ Employ a structured process that enables wide consultation in identification and development of metrics

Balanced Scorecard Pilot Development Project

Major steps and outcomes



What can you do now?

- If your organization does not have a balanced scorecard program today, consider establishing one for your business or department that can serve as a pilot and platform to build upon for the rest of the organization

- If your organization is currently designing and/or implementing a balanced scorecard program, ensure that the key elements of success are incorporated into the plan such as:
 - Clear linkage to strategy using strategy maps
 - Use of both leading and lagging indicators
 - Common metric definitions, calculations and sources of data

- If your organization has a mature balanced scorecard program in place, review metrics to ensure that they are still relevant and aligned with current strategy and ensure that the balanced scorecard is incorporated into management review process

Appendix: Statoil Hydro Case Study



Balanced Scorecard at StatoilHydro

■ Background:

- StatoilHydro places great emphasis in the use of metrics and use of the Balanced Scorecard. It has been a committed user since 1997 and in 2007 was inaugurated into the Balanced Scorecard Collaborative Hall of Fame, which is reserved for those organizations that can demonstrate outstanding results through scorecard deployment

■ Balanced Scorecard:

- StatoilHydro has over 700 scorecards within the organization. For instance, scorecards exist at corporate, business unit and Global Business Services (GBS) levels
- Within GBS there's a scorecard cascade to functional shared services lines and departmental levels
- Most conventional templates call for four perspectives: financial, customer, internal process and learning and growth; Statoil has added Health, Safety and Environment as a fifth
 - Financial , Market (essentially customer) , Operational (essentially process), Health, Safety and Environment, People and Organization
 - Each perspective has three parts: Strategic objectives (the strategy map), Strategic measures or key performance indicators and targets and initiatives or action programs

Source: <http://www.epmreview.com/Resources/Case-Studies/Balanced-Scorecard-at-StatoilHydro.html>

Balanced Scorecard at GBS level for StatoilHydro

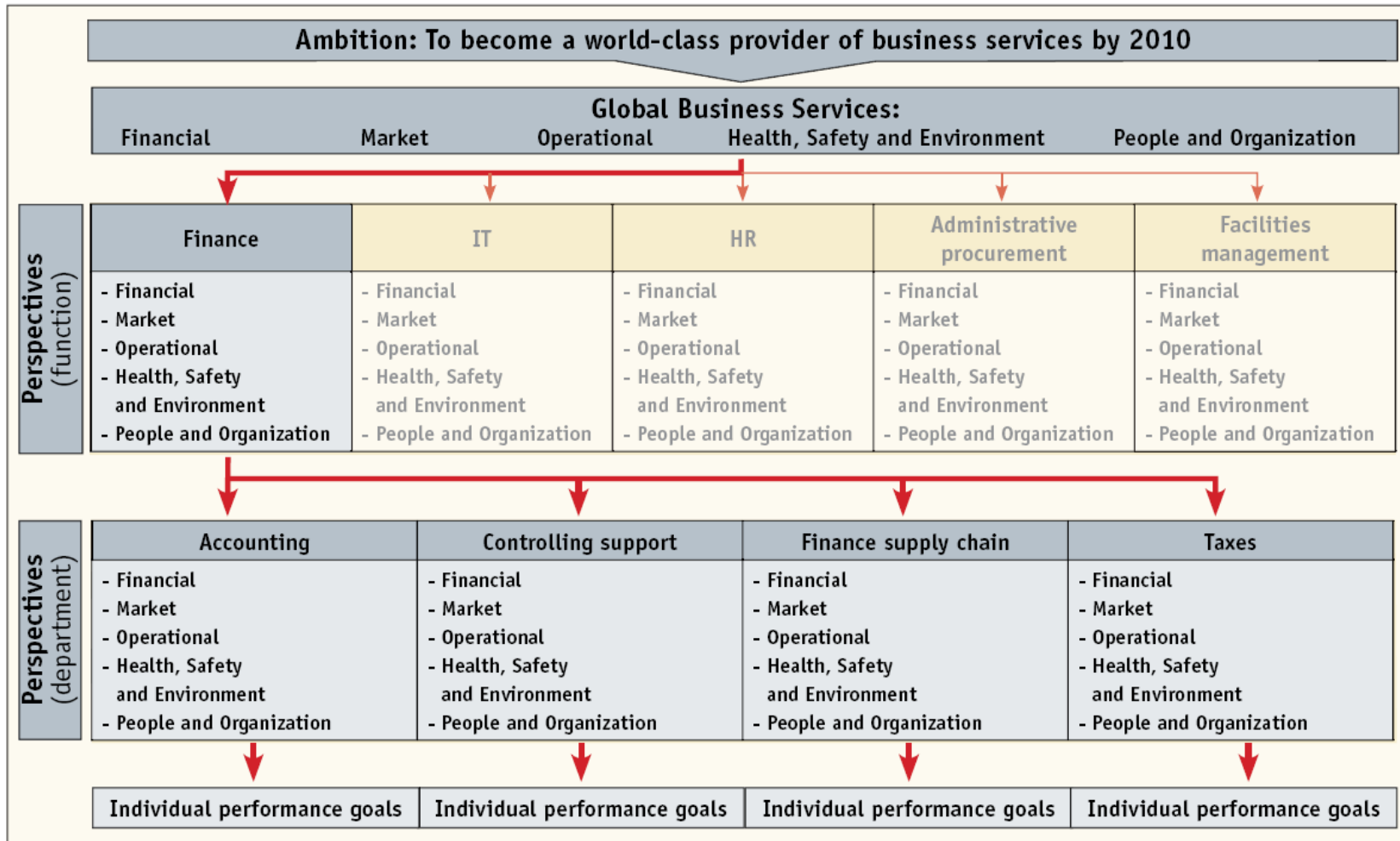
StatoilHydro > Corporate Staffs & Services >

Global Business Services (GBS)

Ambition: GBS – World class provider of business services (by end of 2012)

Strategic objectives	Performance indicators	Actions (top 5)
People and organisation		
A value based performance culture The exceptional place to develop knowledge, skills and attitude Bridge the competence and capacity gaps Professional integration of new people and tasks into GBS	GPS Integration satisfaction of new GBS employees GPS Living our values GPS Performance culture Progress PO-plan	Drive implementation of the StatoilHydro Book 31.12.2008 Further develop GBS as a competence center in StatoilHydro 31.12.2008 Professional integration of people and tasks 31.12.2008 Alignment of capacity to business needs (SLA and committed projects) 31.12.2008
Health, safety and environment		
Working safely with suppliers A working environment that promotes well-being and good health No integrity violations	Progress HSE actions GBS SIF	Practice preventive measures for ensuring a good working environment 31.12.2008 Carry on the Safe Behaviour Program 31.12.2008 Improve emergency response plans and training 31.12.2008
Operation		
Deliver business services and projects in line with commitments Establish a robust international delivery model Ensure adherence to and continuous improvement of processes Demonstrate business understanding in all services	Completed Projects SM Incident Resolution Time SD SM Problem analysis SD	Design and implement new process for hiring personnel (Innleieprosessen) (KJMM) 12/31/2008 Improve supplier relations and collaboration (KJMM) 12/31/2008 Realise synergies by completing the integration process (VC) 31.12.2010 Improve customer interaction and request handling 31.12.2008 Update and implement sourcing strategy 31.12.2008
Market		
Satisfied customers and users. Acknowledged international delivery capabilities Recognised as a World Class Shared Services provider and business partner	Customer satisfaction SD SLA matrix SD	Implement Service Management and Service Desk (KJMM) 12/31/2008 Implement systematic dialogue with defined clients and customers 31.12.2008 Profile GBS 31.12.2008
Finance		
Enable StatoilHydro's businesses to create value Cost improvements at the speed of World Class service providers	Unit cost My workplace FMS Unit costs BS workplace ITS BSS Unit costs IT workplace ITS CIM Unit costs Sub Surface BAS SUB	Personell Synergies (VC) 31.12.2008 Office Synergies (VC) 31.12.2010

Balanced Scorecard Cascade to Functions and Departments within GBS



Source: The Hackett Group, 2007

Finance Shared Services Balanced Scorecard at StatoilHydro

- Financial Strategic goal: “To enable StatoilHydro businesses to create value”
- Financial Strategic Measure: “KPIs and targets focused on a StatoilHydro-wide cost savings program”
- How Financial Scorecard is Created?:
 - At the finance shared services level (as a functional example) the ambition is the same as that at the GBS level and so broadly are the strategic objectives. At the KPI level, metrics will better capture how the finance shared services organization supports the GBS objectives. For instance, there are KPIs around the number of serious audit remarks and the Sarbanes-Oxley failure rate
 - At the finance departmental level, there is even greater finance specificity. Here one can find more granular KPIs, such as automation of invoices within the accounting department scorecard and, within the financial supply chain scorecard; cash forecast accuracy and supplier payments on time
 - Throughout StatoilHydro, there is greater specificity at the lower organization level. This broadens as one rises up the shared service organization until we reach the world-class vision of 2012 at the GBS level. The scorecard is StatoilHydro’s core tool for aligning performance from the corporate level all the way down to the team level – a classic scorecard cascade

Steps in Creating Balanced Scorecard at StatoilHydro

Senior Management Commitment

- It's about getting the organization to understand weaknesses of the conventional budget, that they are using something that basically doesn't work
- They created a case for change around the more obvious and visible weaknesses of budgeting, like the resource waste, or the conflicting purposes
- Finally, it took them years to get buy-in from CFO & CEO to introduce Balanced Scorecard within Statoil

Resource Allocation

- Pivotal to its new approach, they transformed their process for resource allocation
- For running costs and operations, there is no "allocation". The business will however have KPI targets on e.g. profitability or unit cost, against peers where possible
- The new approach contained:
 - direction stated in the strategy and plan
 - scorecard targets
 - mandates
 - project decision gates

Planning

- Statoil intends to save time on the planning process itself by reducing the amount of detail and the amount of time spent on plan
- Benefit expected from the new approach is that less time will be spent on explaining past events and more emphasis placed on the future and actions
- The success required support of a good data system (MIS) that secures automatic data-collection from source systems, with good reporting functionality and flexible and dynamic action follow up

Implementation

- The approach was simple: "Design to 80%, and sort out the rest along the way"
- Statoil believed and adopted following policy: "There will always be a large group of concerned people that you cannot convince up front. Instead of arguing against them, tell them you accept that there is a risk that it will not work"

Source: <http://www.epmreview.com/Resources/Case-Studies/Statoil.html>

Contact Information

The Hackett Group

World Headquarters

Suite N500
1117 Perimeter Center West
Atlanta, GA 30338
Phone: +1 770 225 3600

Martin House
5 Martin Lane
London EC4R 0DP
Phone: +44 207 398 9100

Torhaus Westhafen
Speicherstrasse 59
60327 Frankfurt am Main, Germany
Phone: +49 69 900217 0

8, rue de Port Mahon
75002 Paris, France
Phone: +33 1 53 43 0400

Strawinskylaan 3051G, 1077 ZX
Amsterdam, The Netherlands
Phone: +31 20 301 2210

Tom Willman

EPM Advisory Practice Leader

Phone: +1 770 225-7286

twillman@thehackettgroup.com