

Preview of New FERF Report— Enhancing Performance Management

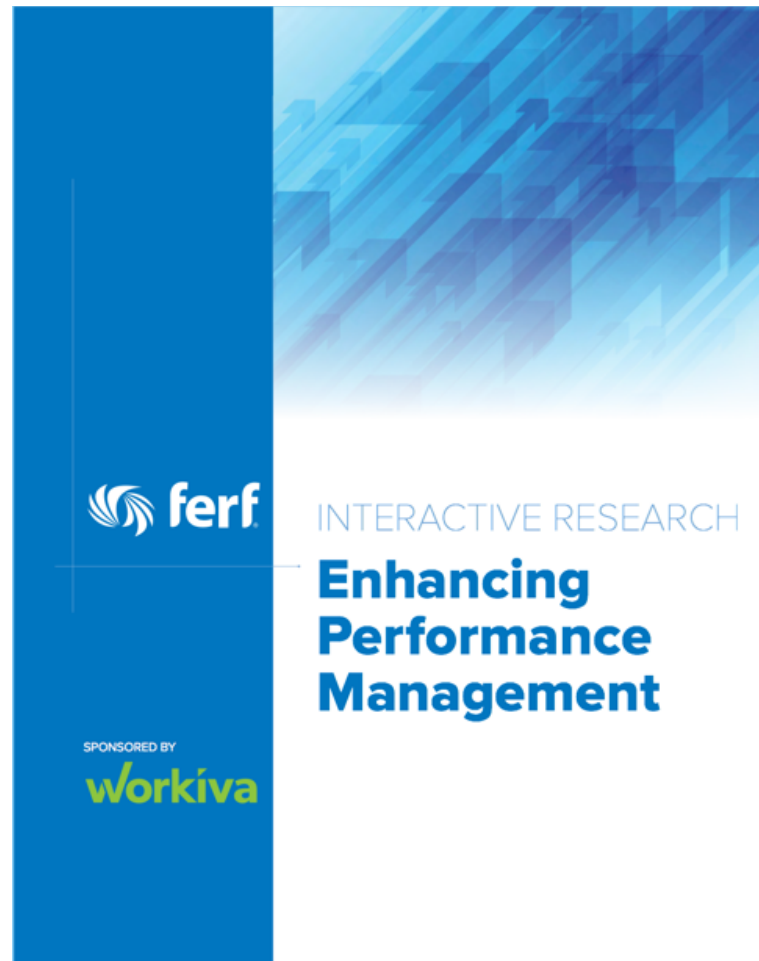
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Preview of Upcoming FERF Report



Today's Panelists



- Joe Howell, Co-founder & EVP, Workiva



- Dave Pelland, Managing Director,
Research, FERF

Today's Panelists



- Gaeton Biscardi, Partner, Genova Group



- Adam Gushard, CFO, 3D Glass Solutions, Inc.

Research Methodology



Click arrow to play video of Gartner's John Van Decker describing performance management technology.

“ [Performance management] improves accuracy and reduces the need for restatements because you may have missed something. ”

Improving Insights and Performance

While the term “performance management” may have different meanings among various companies and technology vendors, a common theme is enhancing an organization’s performance by providing deeper insights into its financial and operational results, and centralizing information so it can be analyzed and reported more effectively.

“Financial corporate performance management consists of a number of pillars of functionality, including financial consolidation, financial management reporting, close management, reconciliations management, journal entry, and others,” says John Van Decker, research vice president at technology advisory firm Gartner, Inc. “Essentially, the focus is on improving the financial close, making it more effective and efficient while providing better assurance that the numbers are correct.”

Some of the common characteristics of a financial corporate performance management system include the following:

performance. By understanding data more effectively and unlocking insights into the factors driving performance, finance can help increase the organization’s ability to react quickly to market conditions and emerging opportunities.

“Performance management is trying to set measurable goals that are important to the organization for a range of purposes,” says Joseph Howell, Executive Vice President, Strategic Initiatives, Workiva, Inc. “Many of those goals are not related specifically to the things that the accounting department is measuring and reporting in the financial statements. And many of those measures are correlated, perhaps indirectly, with something you want to measure because you’re unable to really measure the things you’re after.”

Howell cites the example of measuring revenue per headcount as a proxy for gauging productivity — a seemingly straightforward ratio that can be influenced inaccurately by outsourcing high-cost labor to lower-cost, but less productive, locations.



“When you begin to talk about performance management, in most

Polling Question #1

Please tell us about your employer

- a) Public company
- b) Private company
- c) Not-for-profit organization
- d) Academic or student
- e) Retired or not currently employed

Principal Findings

Enhancing Performance Management

Companies looking to improve the efficiency of their performance management are investing in technologies that help centralize and enhance financial reporting, operational monitoring, compliance and forecasting.

Performance management technology is helping finance to shift from an historically delayed reporting function to providing real-time results and playing a larger role in strategic planning. By understanding data and unlocking insights into the factors driving performance, finance can help increase the organization's ability to react quickly to market conditions and emerging opportunities.

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| BENEFITS | CHALLENGES |
|---|--|
| <ul style="list-style-type: none"> • Enhanced insights into organizational performance. • Better understanding of market opportunities, challenges and risks. • More efficient financial closes and reporting. • Consistent data sources, definitions and governance. • Improved collaboration among business units. • Real-time performance monitoring. • Enhanced controls and compliance. | <ul style="list-style-type: none"> • Not considering process shortcomings before investing in technology. • Incompatible or inconsistent data sources or definitions. • Tracking irrelevant metrics due to inertia. |

Benefits

Performance Management Benefits

Effective performance management tools and processes allow FP&A leaders to play larger roles in their organizations' strategic planning, risk management and decision-making. Performance management technology can provide deeper insights into the organization's results while enabling a closer partnership and collaboration between finance and business leaders.

"The primary benefits are making finance more efficient, and, ultimately, to reduce the amount of time it takes to close the books," says Van Decker. "Financial corporate performance management provides standards and more visibility into the processes so that you can manage them better, as well as a focus on having a more complete experience and a more effective experience."

"Better performance management = better organizational results"

"...making finance more efficient.."

Polling Question #2

Describe your company's internal performance reporting

- a) Focused exclusively on traditional financial metrics
- b) Includes significant non-financial metrics
- c) Not sure or doesn't apply

Financial & Non-financial Metrics

Combining financial and operational data can provide better insights into what's taking place than either category can offer by itself.

For more sophisticated reporting and analysis capabilities.

For instance, Joseph Loner, Vice President, Financial Planning & Analysis at private equity firm Panda Power Funds, says a wide range of factors affect whether energy is being generated and distributed profitably — which, in turn, affects the fund's investment performance.

"With our portfolio companies, the metrics become somewhat specific to those particular types of companies," Loner says. "Generally, in power, you're looking at things like levels of output, akin to capacity utilization in a manufacturing facility, as well as market indications of power prices, fuel prices and the associated growth margins.

"Then you look at metrics around operations. Some standard ones in the power industry would be availability percentage; every possible hour of the day, how many of those hours were you fully available and ready to be dispatched to a registered city grid," Loner adds.

Timing & Timeliness

The traditional month-end accounting close and reporting cycle is becoming inadequate for many organizations.

everyone has access to the same data.”

Podany says improving the consistency of the reports and metrics being analyzed has improved his organization’s overall forecasting and reporting capabilities.

“The fact that it’s interactive and [business units] have access to it contribute to a better forecasting process,” he says. “It’s a controlled system as opposed to a lot of things that were done on spreadsheets. It’s in a controlled environment and helps to establish a standard measurement and a standard process.”

Real-Time Data

Demand is also growing for real-time reporting and analysis of organizational performance, which places new demands on FP&A teams and systems.

“We make and lose money every hour of every day at a different rate, based on what the market pricing is doing,” says Panda Power Funds’ Loner. “And technically, it settles in 10-minute increments, so you’ve got a very dynamic environment. There’s a ton of vulnerability in your cash flow and your performance that can be determined by many, many factors. With this many complicated details, a well-designed financial model

Collaboration

“ People in different disciplines speak different languages, whether that’s different companies or different parts of the organization, and that can be frustrating. ”

“If, for example, our material cost is too high, I’m working with our production supervisor to understand why,” says Hope Foods’ Wait.

“Were we seeing a high level of yield on the floor? Did we have a huge scrap event where we had to throw a bunch of things away? Hopefully I would have heard about that, but sometimes that doesn’t happen. Or, if we’re over on labor, what was happening? If our trade spend isn’t making sense, we’ll work with the sales team to get more insight on what’s going on. Sometimes the numbers can only tell part of the story, and I need that front-line understanding of what’s happening.”

Polling Question #3

How many sources are required for your performance reports?

- a) General ledger only
- b) 5 or fewer non-financial systems, including Excel-based records
- c) 6 or more non-financial systems, including Excel-based records
- d) Don't know or doesn't apply

Challenges

Potential Challenges

Despite the compelling advantages that performance management technologies can provide, obtaining those benefits may require overcoming a variety of implementation challenges.

A common mistake a number of organizations make, for instance, is approaching performance management primarily as a technology project, says Gartner's Van Decker.

"Many times, organizations will buy the technology and not do the appropriate process work," he says. "Process first, then technology. So if you haven't thought about how you want to improve the close, just buying a solution can break the close. You're not going to have the thought leadership that's going to make your project effective."

Relevance

“Not all measures are going to be perfect and you won’t know that unless you assess the risks of monitoring an inappropriate measure.”

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“Most But th creat Chang didn't

“When you’re building a control environment, you need to have a framework to understand that control, and to understand what you should be looking for.”

requirements for new reports. As part of that process, the finance team works with the business unit to design reports and to validate their findings.

“We need an executive endorser from the business unit to make sure they’re asking for the right set of metrics, and we help them drive those metrics and come up with the definition,” Raghavan says.

“Then we can help them with the financial data, and they start to look at the objectivity of the report and how good it is. And then we can tweak it as we go, and then we start to pull in some more challenging metrics. After a couple of cycles where they’re pulling in the right sort of information, then we’re more comfortable with them doing it on their own.”

Polling Question #4

How often do your performance reporting requirements change?

- a) Rarely, if ever— our reporting more or less static
- b) Only occasionally— less than once a year
- c) About once a year
- d) More than once per year
- e) Don't know or doesn't apply

Ongoing Evolution

“ Systems will need to be updated to reflect changes in the company, market conditions, compliance concerns, or other reasons. ”

Ongoing Evolution

While finance leaders are making considerable strides in enhancing performance management, continual evolution in reporting technology means that additional capabilities are going to be available for all organizations, and a growing number of smaller companies are likely to adopt features being used by their larger counterparts.

For some organizations, that might mean increased automation, enhanced revenue forecasting, or improved tools where business units would prepare and monitor budgets directly in the performance platform. For others, it could include dashboard reporting capabilities that allow users to see visual representations of results, and explore more details about information they want learn more about.

For most organizations, systems will need to be updated to reflect changes in the

Your Questions

Closing Comments