

## Finance & Performance Management

# Finance mastery (III): Mastering enterprise performance management

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According to Accenture research, high-performance businesses possess a powerful drive toward value creation. These companies are adept at grounding their strategy in discrete and measurable value drivers, and then managing toward those metrics. In other words, high-performance businesses are strong when it comes to enterprise performance management—one of the five capabilities identified by our research as strong contributors to finance mastery.<sup>1</sup>

Enterprise performance management refers to the broad suite of competencies required to manage and optimize performance across a single enterprise or business network. EPM enables an organization to understand and refocus its competitive position to maintain its industry leadership. Through EPM, senior executives can measure performance at all levels of the business and accelerate the transformation of insight to action. Excellence in performance management helps organizations make better and more timely decisions to ensure optimal resource allocation on a consistent basis—with the goal of maximizing sustainable shareholder value.

For many companies, though, all is not well when it comes to enterprise performance management. Getting the metrics right is a significant challenge. According to a *Harvard Business Review* study<sup>2</sup>, only 23 percent of companies with balanced scorecards had any proven link between the scorecards and growth in shareholder value. Only 12 percent of those companies link their quality measures to stock returns, and at least 70 percent of companies employ metrics that lack statistical validity. Incentives to

drive performance tend to be near-term focused and do not strike the right balance between short- and long-term performance. Companies spend huge sums on data warehousing applications to cope with the information generated by their businesses, yet effective decision making is still hindered by oceans of data. Information systems are another culprit. Individual solutions that are not coordinated or integrated create islands of systems delivering inconsistent results and conclusions, and many systems ignore and under-manage value-creating assets.

We have found that, with a more comprehensive EPM approach—one that is grounded in an integrated management framework—companies can support their drive toward high performance with actionable, timely information and insight provided to every level of the organization. With this approach, companies can also save money by focusing their performance management efforts on those processes that maximize financial return.

## Enterprise performance management: Lessons from the masters

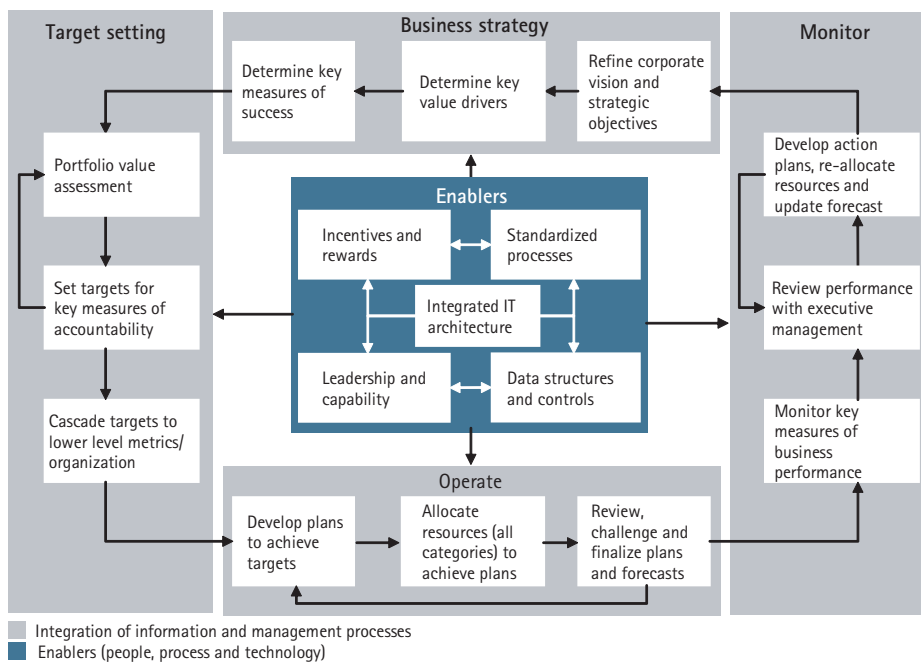
Although no single recipe exists for optimizing performance management, our research has found that the finance masters exhibit seven common attributes that enable them to deliver sustained value creation through EPM.

1. An integrated framework for quick decision making and action (see figure, next page). The finance masters use such a framework for establishing strategic direction, establishing performance targets,

<sup>1</sup> The essential capabilities of finance mastery are explored in more detail in a new book from Accenture: *CFO Insights: Delivering High Performance*, by Mike Donnellan and Mike Sutcliff (John Wiley & Sons, 2006).

<sup>2</sup> Christopher D. Ittner and David F. Larcker, "Coming Up Short on Non-Financial Performance Measurement," *Harvard Business Review*, November 2003.

## The Accenture Enterprise Performance Management Framework



monitoring progress toward objectives and putting proactive course corrections in place when needed.

2. A firm grounding in driving overall value. High performers have a natural bias toward external benchmarking and competitive intelligence to inform strategic direction, tactical course changes and performance evaluation.

3. A deep understanding of the organization's critical value drivers, current and future. For most companies, competitive advantage is built and sustained upon a discrete and limited set of drivers that provides focus and direction.

4. An external, market-based approach to setting performance targets. Leading companies instill a capital markets discipline into internal planning processes. They use a market-based approach to establish minimum performance thresholds and targets.

5. Dynamic evaluation of initiatives, planning and resource allocation. The finance masters use planning processes to allocate capital and human resources to highest-value opportunities to achieve performance targets.

6. A focus on improving the speed and efficacy of performance monitoring and statistical analysis so that senior executives closest to the customer have the information and tools to make decisions and take actions faster than competitors.

7. Key enablers regarding people, process and technology that can sustain high performance over time. The finance masters can instill a performance and value management mindset deep within the organization. They put in place the enablers that drive decision making and the actions to steer the overall direction of the company.

The Accenture Enterprise Performance Management Framework is especially key because it enables companies to build stronger EPM capabilities in a phased and logically organized manner. The framework helps executives:

- Determine key value drivers and measures of success within the business strategy.
- Set performance targets, both for high-level accountability measures and for lower-level organizational metrics.
- Operate the EPM processes and systems, including resource allocation and ongoing review of plans and forecasts.
- Monitor key measures of business performance and reviewing performance with executive management.
- Put in place the essential people, process and technology enablers, including incentives, leadership and data structures.

### The benefits: Using EPM as a competitive weapon

Dell is a good example of a company that uses a holistic and integrated approach to EPM as a competitive differentiator to drive sustained high performance. In the summer of 2000, Dell began to see trends indicating a slowdown in demand—ahead of the projected global economic downturn. "As more

data came in each day, it was clear to us that demand was really starting to drop," says Jim Schneider, senior vice president and CFO of Dell. The company's management team quickly acted upon this insight by cutting costs and lowering prices.

Although the investment community did not immediately understand its decision, Dell's insight paid off in the long run. The company's ability to quickly assess overall trends in the external industry, its understanding of the key drivers of demand and its ability to use its insight to drive decisions at a faster pace than the competition paid off handsomely. Dell saw its value increase by more than 23 percent in 2001, while its major competitors each declined in value.

### Moving forward

The context in which businesses look at enterprise performance has changed, but significant challenges remain. Many enterprise performance management approaches and systems tend to focus only on current value and tangible assets. Traditional EPM initiatives have often produced fragmented systems that add some value but conflict with other systems. Going forward, enterprise performance management will require an integrated solution that focuses on proactively managing current and future value from all assets.

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