


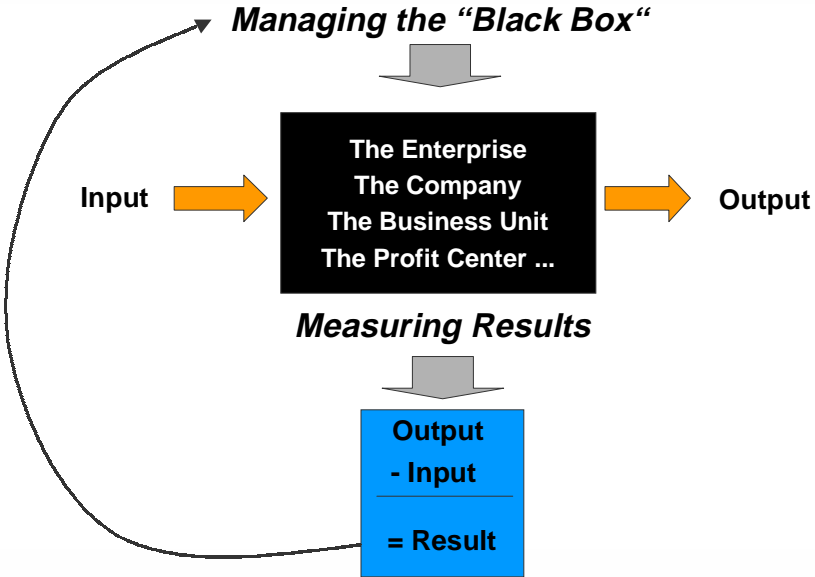
# Performance Management and Business Controlling in the 21st Century

Juergen H. Daum  
SAP AG

## Agenda

- 
- What is Performance Management ?
  - Limitations of Traditional Performance Management Systems
  - Next Generation Performance Management Systems and Supporting IT Solutions
  - The Role of Finance and of The CFO/Controller in Making It Happen

# What is Performance Management ?



# The Evolution of Performance Management Systems

Type of Economy	Value Creation-Model/Processes	Management/Controlling Tools
<i>International Trade, 16th-18th Century (Example: Fugger)</i>	<p>Value creation through legally binding external transactions</p>	Double Entry Accounting, General Ledger
<i>Industrial Mass Production, 19th-20th Century (Example: Ford)</i>	<p>Value creation through complex internal mass manufacturing processes</p>	General Ledger + Cost Accounting
<i>Knowledge and Service Economy, 21st Century (Example: Cisco, SAP)</i>	<p>"Extended" Enterprise</p> <p>Value creation through systematic innovation and relationship building with customers and partners</p>	General Ledger + Cost Accounting + ??





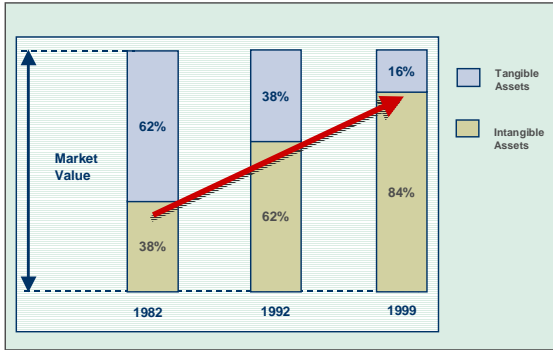
- What is Performance Management ?
- **Limitations of Traditional Performance Management Systems**
- Next Generation Performance Management Systems and Supporting IT Solutions
- The Role of Finance and of The CFO/Controller in Making It Happen

## Reasons for the limitations of Traditional Performance Management Systems



- 1. Changing economics**  
New value drivers/changing corporate operation models
- 2. Changing enterprise structures:**  
Performance management of “ecosystems“/“business process networks“
- 3. Changing corporate governance philosophy**  
Outside-in enterprise/stakeholder orientation

## Changing Corporate Value Drivers



### New Value Drivers\*:

- Investments in systematic innovation (Knowledge/intellectual capital-based)
- Investments in relationship building
- Investments in organizational capital

\* Activities which generate a return above cost of capital

## Changing Economics

“

20 years ago we had the tools that were needed to manage strategy based on tangible assets. The management toolbox was filled with financial tools that were designed to manage tangible things.

Now we have a different world. Strategy and value is being created from intangible assets. We need a new toolbox for management. Organizations understand strategy and how to compete in the new economy. But they do not have the management tools that allow them to do this. As a result we find that 7 out of 10 organizations fail to execute their strategy.

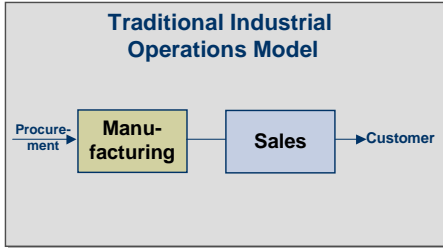
David P. Norton,

”

co-author of the Balanced Scorecard concept\*

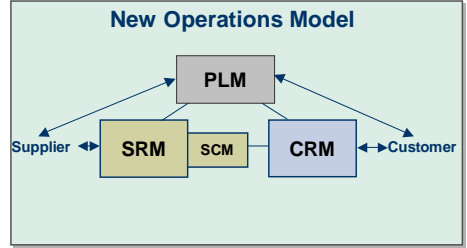
\*Interview with David Norton from the book: Juergen H. Daum, Intangible Assets and Value Creation, p. 234

# New Value Drivers Are Triggering Change in Corporate Operation Models



- Time dimension: Month, Quarter
- More direct relation between input and output
- Resources can be acquired and deployed short term

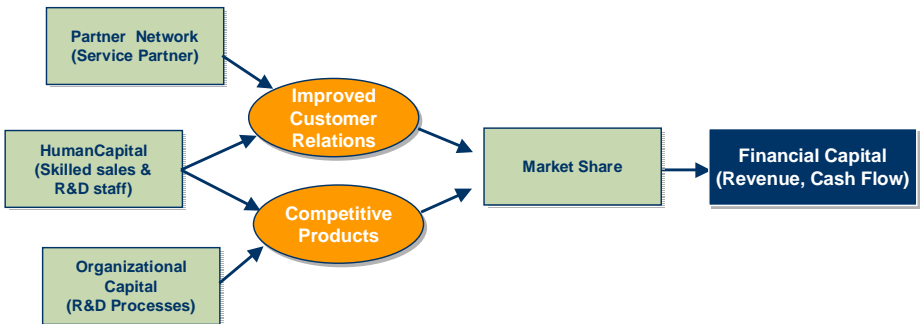
**Management Tools:**  
 - P&L / Financial Reporting  
 - Cost Accounting



- Time dimension: Quarter, 1-2 years, 3-5 years
- More indirect relation between input and output
- Major resources have to be developed in-house

**Management Tools:**  
 ?

# As a result of the more complex value delivery systems, strategy is playing a more important role



Role of strategy: Bundling tangible and intangible assets and processes and activities around these assets in order to create value

Strategy has to be adapted continuously

Strategy has to be continuously adapted to changing market conditions in order to preserve the company's value creation potential:



## Reasons for the limitations of Traditional Performance Management Systems

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## Changing Enterprise Models and Structures:

“

The real structural changes ... are the alliances and partnerships. They are creating a “different climate“. They create a different economy and require different management. They change, for instance, what we mean by “leadership“. For in these new alliances, partnerships, and co-existences, nobody commands.

Making these new structures perform and work is a good deal more difficult than making the traditional command structure based on ownership and control work. But where they do work, they produce superior performance and results.

”

**Peter F. Drucker\***

\*Peter F. Drucker, “The Real Meaning of the Merger Boom”, *The Conference Board 1999 Annual Essay and Report*, 1999, p. 6.

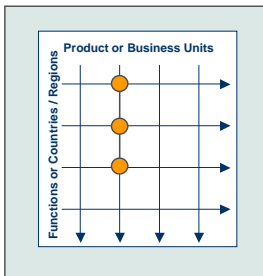
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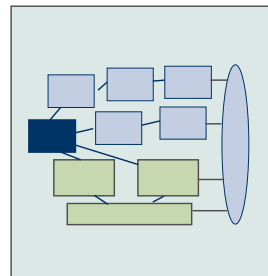


## Changing Enterprise Models and Structures:

### 90s: Global Enterprise



### Tomorrow: Global Ecosystem of Partners



- Provide performance information for the extended enterprise
- Collaborative performance management processes required
- Higher flexibility required for (re-)configuring performance management systems

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## Reasons for the limitations of Traditional Performance Management Systems

### 1. Changing economics

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Outside-in enterprise/stakeholder orientation

## Changing Corporate Governance Philosophy

“

In today's post-cold war world, trade, commerce and technology have reconfigured the global balance of power equation.

Market forces and large corporations in many ways have a bigger impact on people's lives than government or regional and international institutions. Against that backdrop we need to widen the focus of business and embrace a new civic role for large corporations, globally and locally

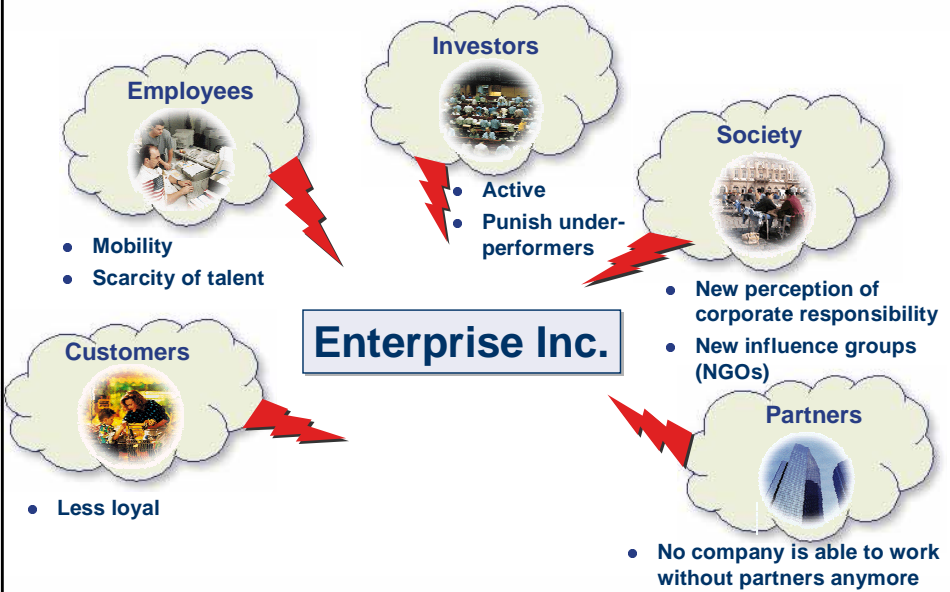
”

**Göran Lindahl,**

former CEO ABB Group\*

\* Göran Lindahl, “A New Role for Global Businesses”, *Time Magazine Europe*, January 31, 2000

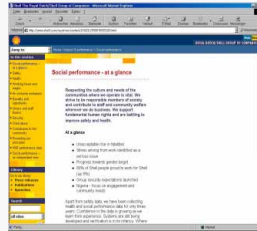
# The Changing Corporate Governance Philosophy



# The Changing Corporate Governance Philosophy

## Examples:

- Sustainable Development / Triple Bottom Line Reporting
- Corporate Social Responsibility (CSR) movement
- Global Reporting Initiative ([www.globalreporting.com](http://www.globalreporting.com))



## The Shell Report:

“triple bottom line” reporting about:

- Economic,
- Environmental,
- Social performance

- Balancing different strategic objectives
- Consider stakeholder objectives in internal decision making
- Engage stakeholders and improve relationships with them

## Impact on The Performance Management System

- **Extending the scope:** The new management system has to reflect the business system and its value drivers. It therefore has to include financial and non-financial performance indicators and has to span the extended enterprise
- **Balancing long term value creation with short term performance management and continuous business optimization:** Integration of strategic and operational control through strategic, enterprise performance and operational management processes
- **Outside-in approach:** The growing importance of external relationships for enterprise success require a target management system based on external benchmarks rather than on internal management objectives
- **Continuous change becomes the standard:** Requires more transparency of risks and opportunities and continuous optimization of investment decisions and strategy
- **Adaptability becomes a success factor:** No fixed budgets but flexible plans and flexible resource utilization based on rolling collaborative forecasts

## Agenda

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- What is Performance Management ?
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“

Investors need a variety of information to project future profits and cash flow. Historical financial results are a starting point, but are rarely adequate by themselves. Investors need to understand the company's business model, the market for its products, the specific tangible and intangible assets that provide its competitive edge, and the quality of its management team. They also need to understand the key milestones for the development of the company and its progress on achieving key operating performance measures.

”

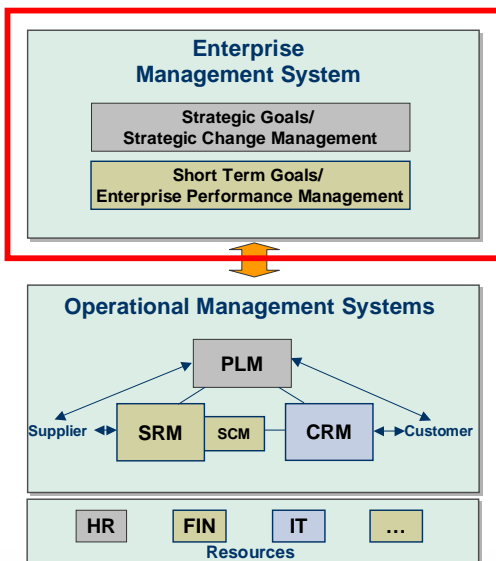
### an SEC Taskforce\*

Managers need the same information in order to be able to deliver on investor's expectations. Changes in external disclosure of corporations require changes in the internal performance management system first.

\* an SEC Taskforce: "Strengthening Financial Markets: Do Investors have the Information they need ?", New York, 2001, p. 4.  
The article can be downloaded at <http://www.fei.org/finrep/files/SEC-Taskforce-Final-6-6-2k1.pdf>

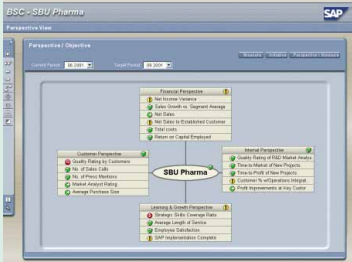


## Next Generation Performance Management Systems



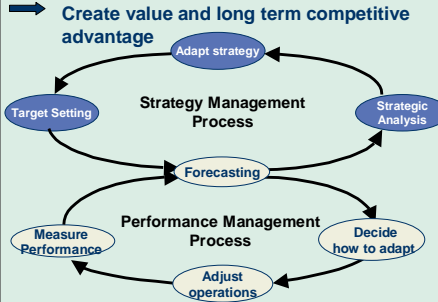
# Elements of The New Enterprise Management System

## Extended Strategic Measurement System



Enabling a "balanced" view of all strategic success factors

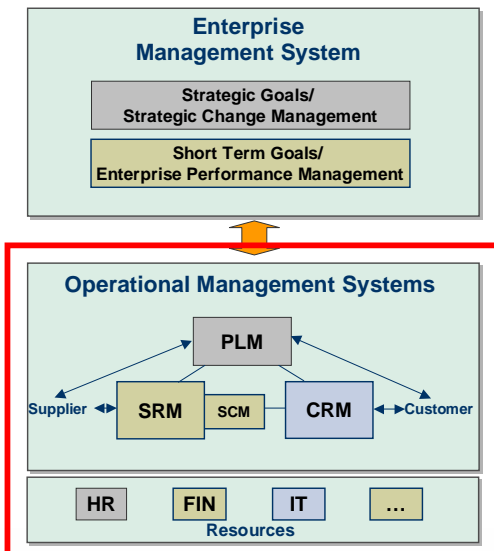
## Integrated Management Processes



Meet short term performance targets and realize created value

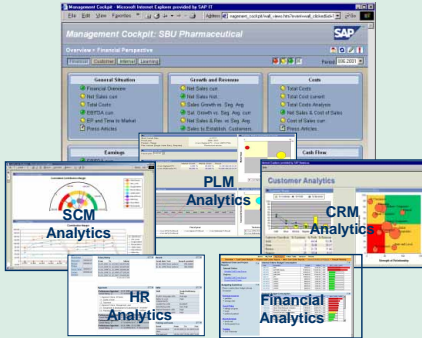
Integrated management processes enable linking of strategy to operations and day-to-day business

# Next Generation Performance Management Systems



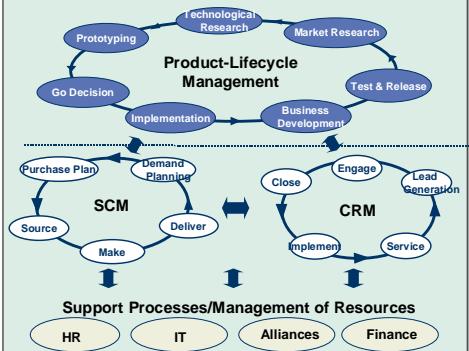
# Elements of The New Operational Management System

## Comprehensive Operational Measurement System



Informs about all relevant value creation processes (actual performance, forecasts, opportunities and risks)

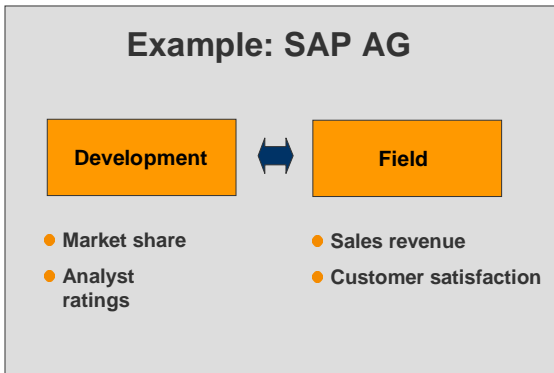
## Integrated Operational Management Processes



Integrated management processes enable coordination of activities and better forecasting for optimized resource demand planning

# Conflicting Economics of Enterprise Sub-Ecosystems

## Example: SAP AG



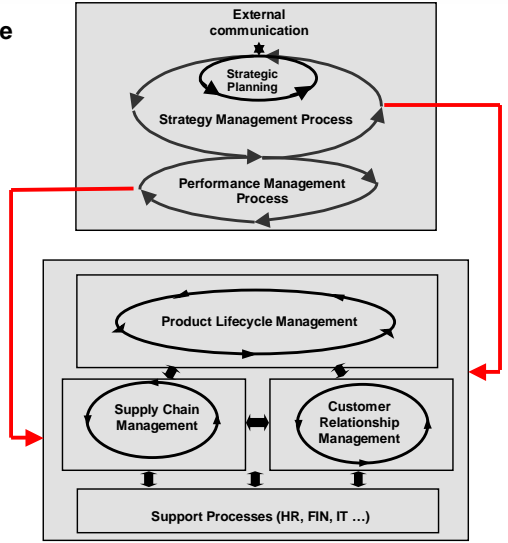
# One Common KPI-Based "Truth" and Integrated Management Processes as The Main Building Blocks

## Strategy and Enterprise Performance Management System

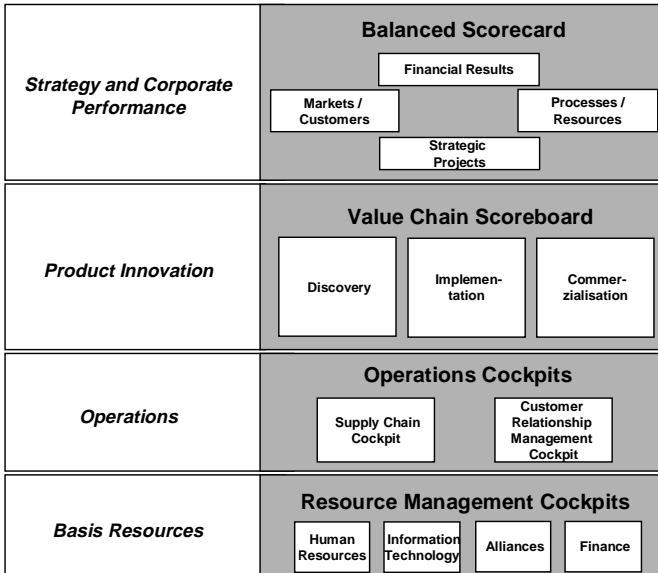


KPIs/Measures as "communication basis" for management processes

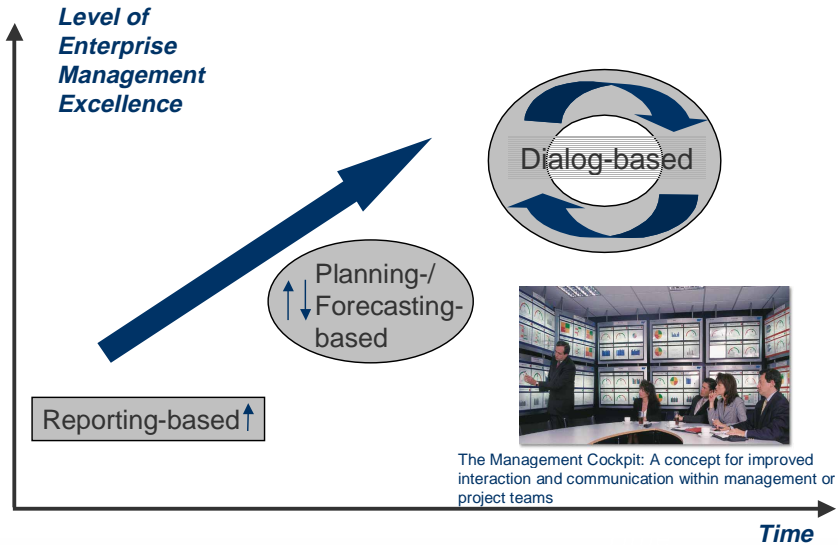
## Business Execution System



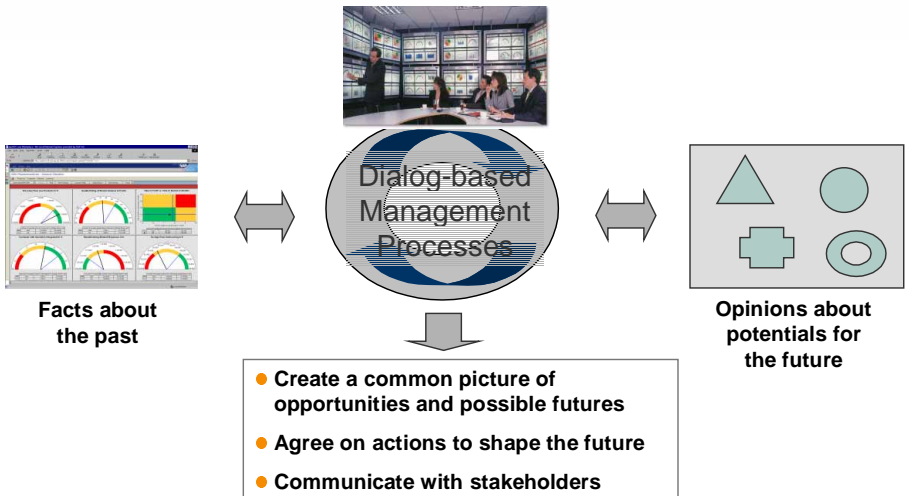
# The Tableau de Bord: A conceptual framework for a comprehensive performance measurement system



# The Evolution of Management Systems



# A Dialog Based Management Systems Help Companies to Move Beyond Budgeting



Management processes are supported by instruments such as:  
Rolling forecasting, Scenario planning, Systems thinking

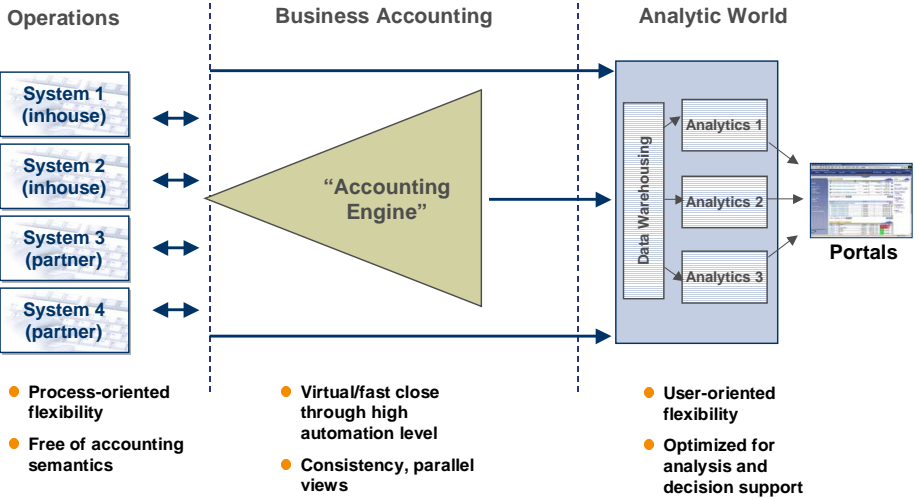


### What kind of IT support does the new performance management approach require ?

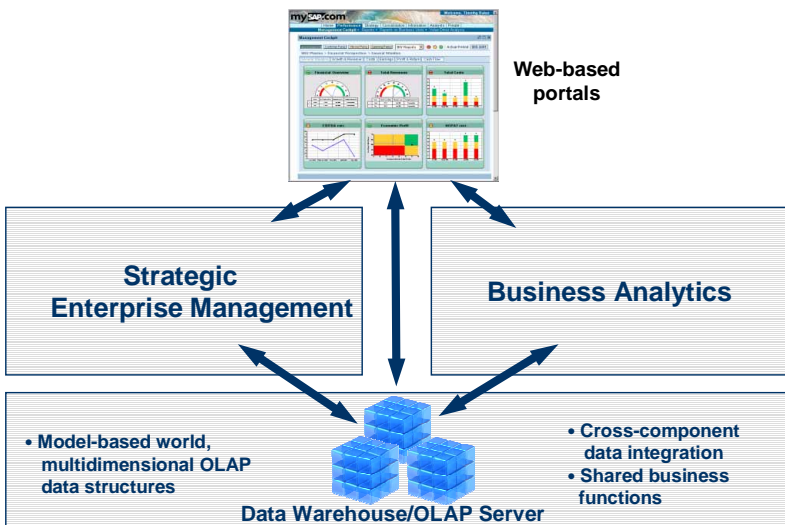
## IS Requirements to Support Performance Management Concepts Beyond Budgeting

- Flexible KPI based measurement system that provides managers with timely and relevant information and decision support  
→ Data Warehouse, Analytics, Fast Close/Business Activity Monitoring
- Flexible resource planning, forecasting and monitoring processes require a system, that spans the organization  
→ Planning system and forecasting system decoupled from operational systems (e.g. based on a Data Warehouse)
- Flexible IT infrastructure that is able to easily integrate various systems, provide flexibility to change processes, enables user centric access and services without losing the necessary integration  
→ Open and flexible IS infrastructure for accounting, analytics, management process support and user interaction

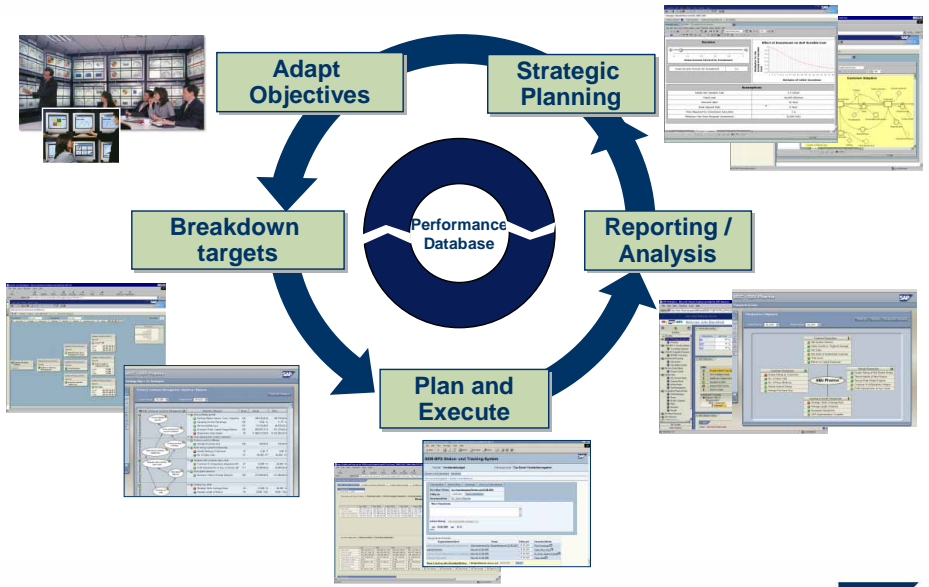
# Management Information Delivery Architecture



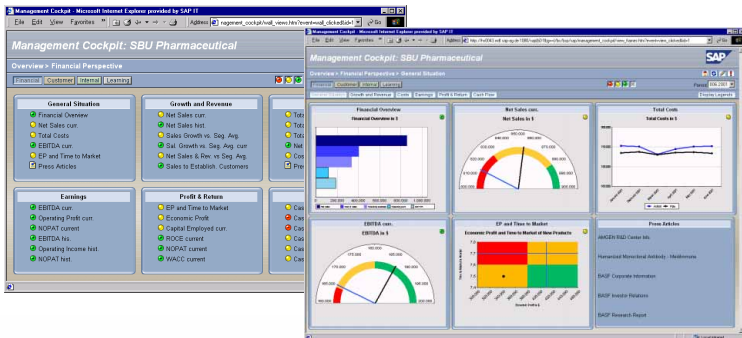
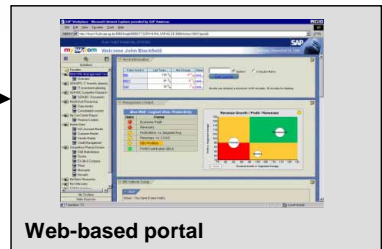
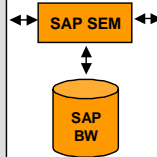
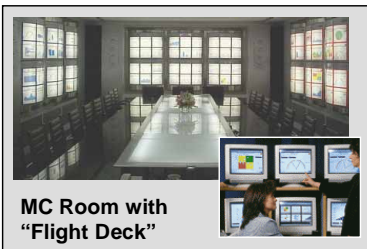
# A Reporting and Information System That Is Optimized for Analytics and Decision Support



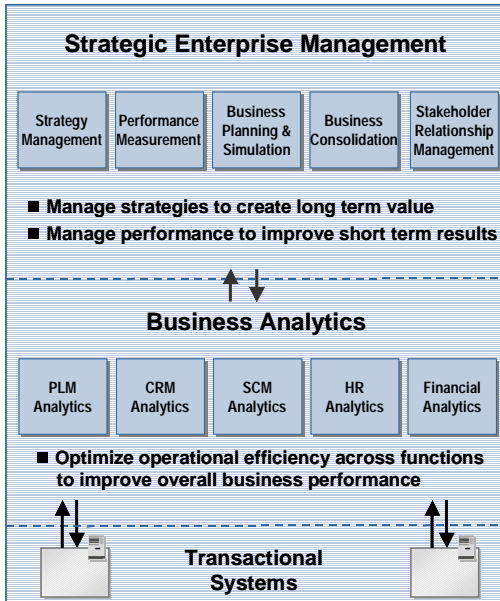
# Integrated Strategic Enterprise Management Process



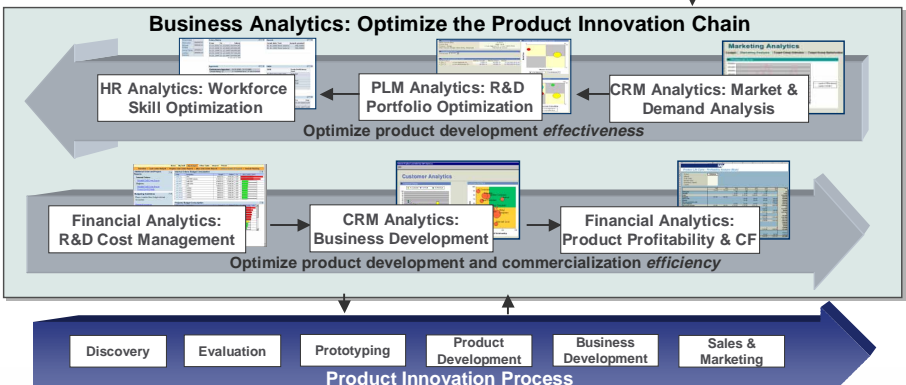
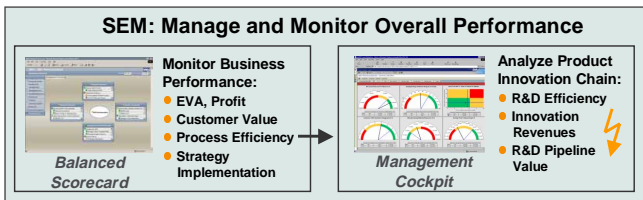
# Decision Support



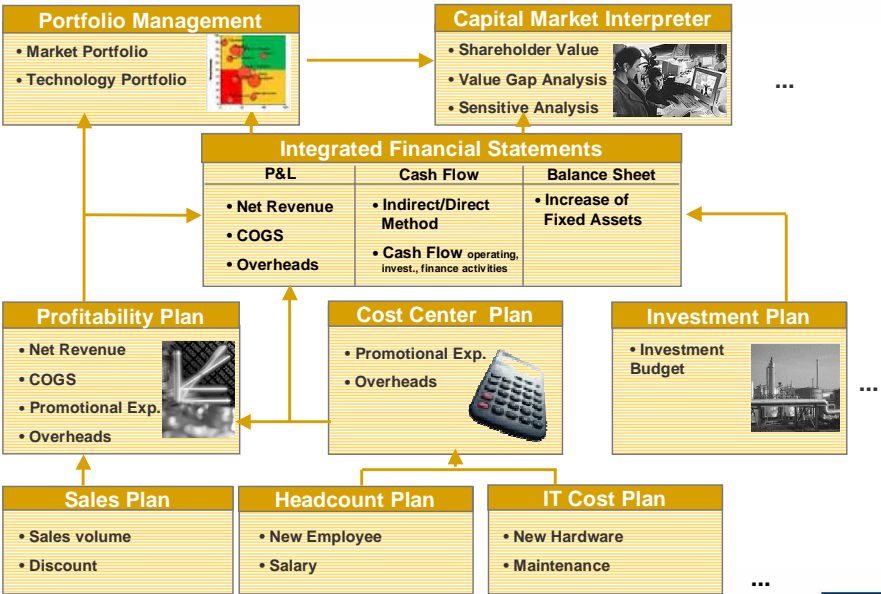
# From Strategy and Enterprise Performance Management to Business Optimization



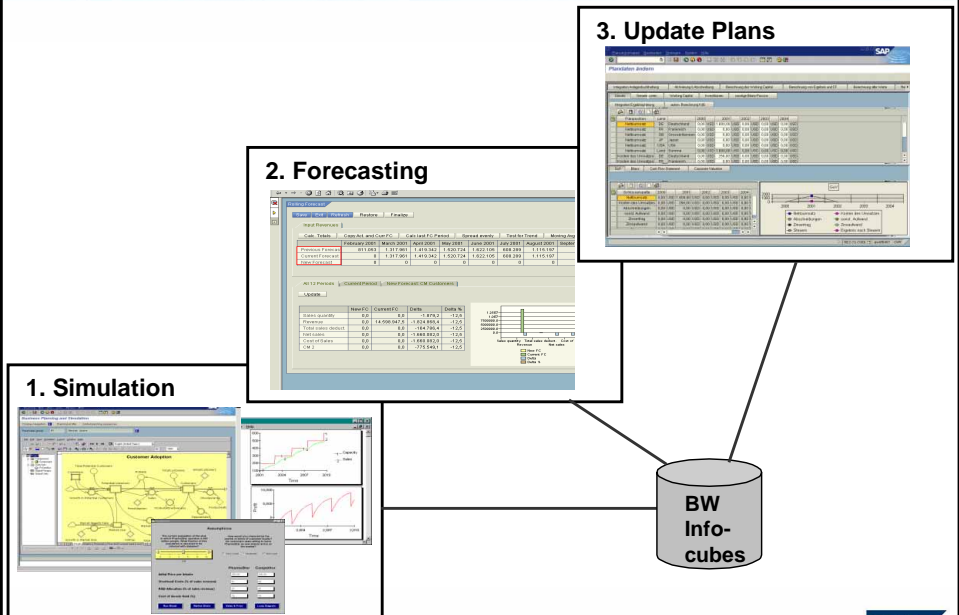
## Business Analytics Example: Optimize the Product Innovation Chain



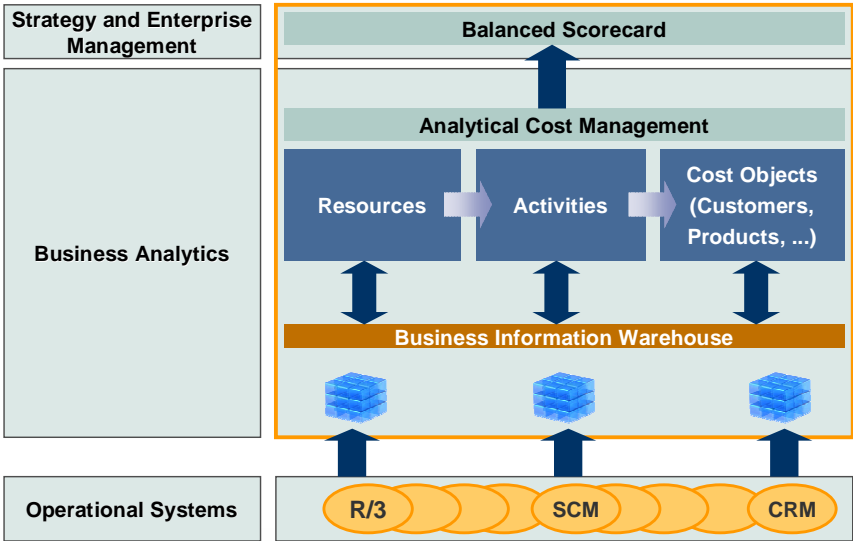
# A Framework for Integrated Strategic and Operational Planning and Forecasting



## Forecasting Process



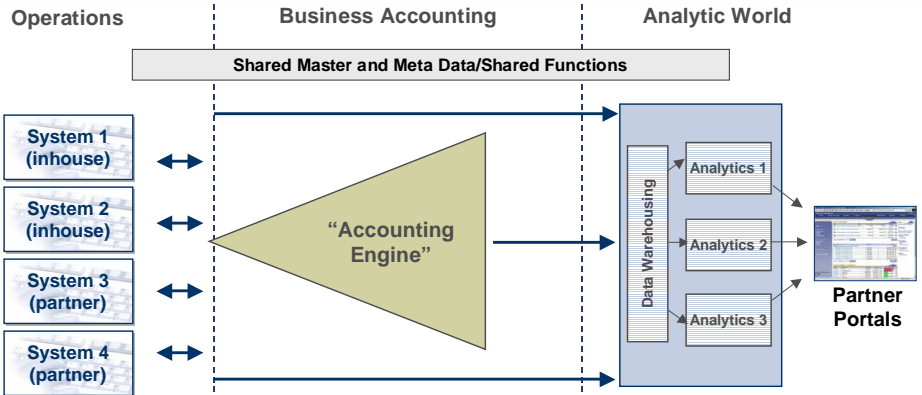
# Analytical Cost Management



# Stakeholder Relationship Management



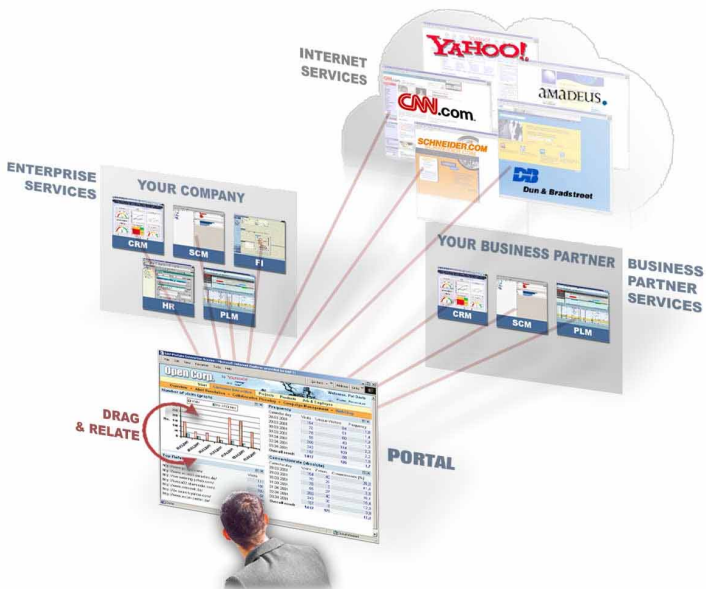
# Management Information Delivery Architecture



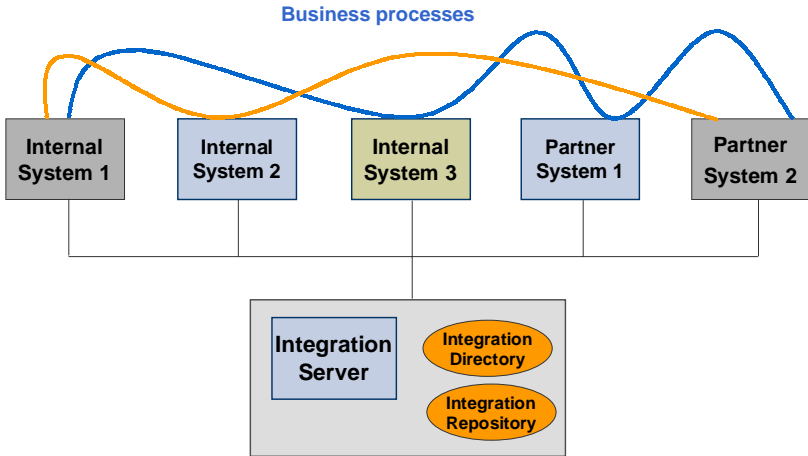
## Integration tools:

- Web-based portals (user-centric)
- Exchange infrastructure (process-centric)

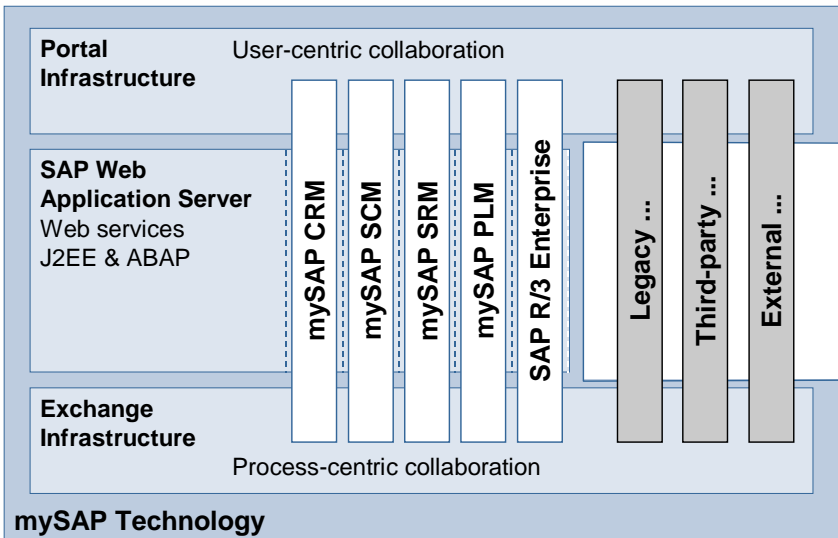
# Portal Infrastructure – User-Centric Integration



# Exchange Infrastructure – Process-Centric Integration



# mySAP Technology – Web Services Architecture



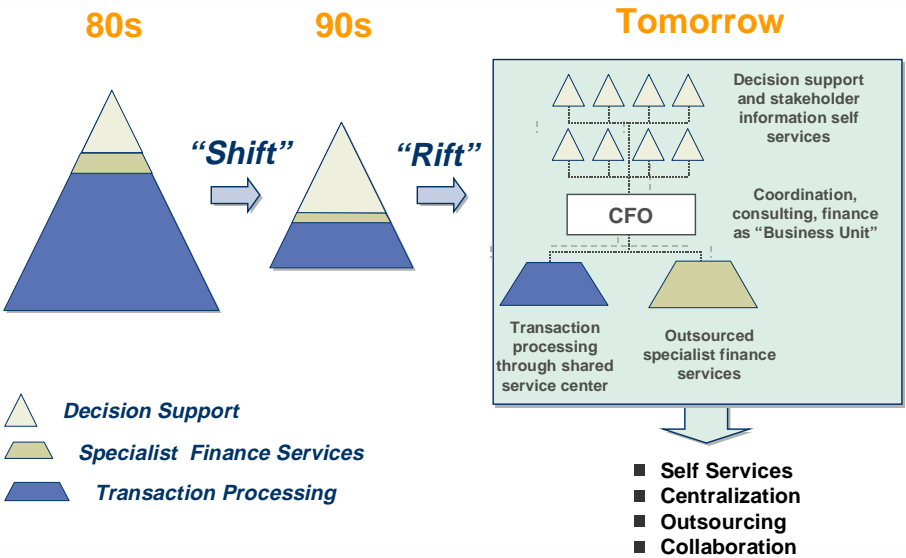
# Agenda



- What is Performance Management ?
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# Organizational Vision: Virtual Finance



# Step 1: Corporate Finance Self Services

## Self Services for "customers"

Alerts/  
"push"  
reports



Interactive  
analysis  
on  
demand

- Accounting/consolidation
- Budgeting/forecasting
- Capital investment planning
- Cash management/treasury



- Information preparation
- Creation of new reports
- Content management
- ....



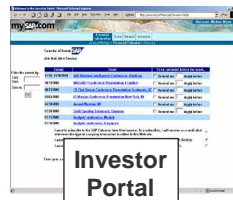
# Step 2: Central Business Intelligence Competence Center

Transfer of  
economic  
knowledge  
(e.g. workshops)

Special services  
e.g. commercial  
due diligence  
in M&A



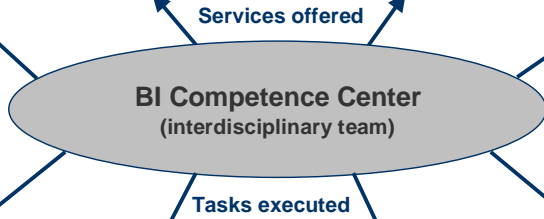
Manager  
Portal



Investor  
Portal

Individual  
investor  
relationship  
management

Management  
consulting  
internally &  
for partners



Monitoring the  
economics in  
the company's  
value creation  
system

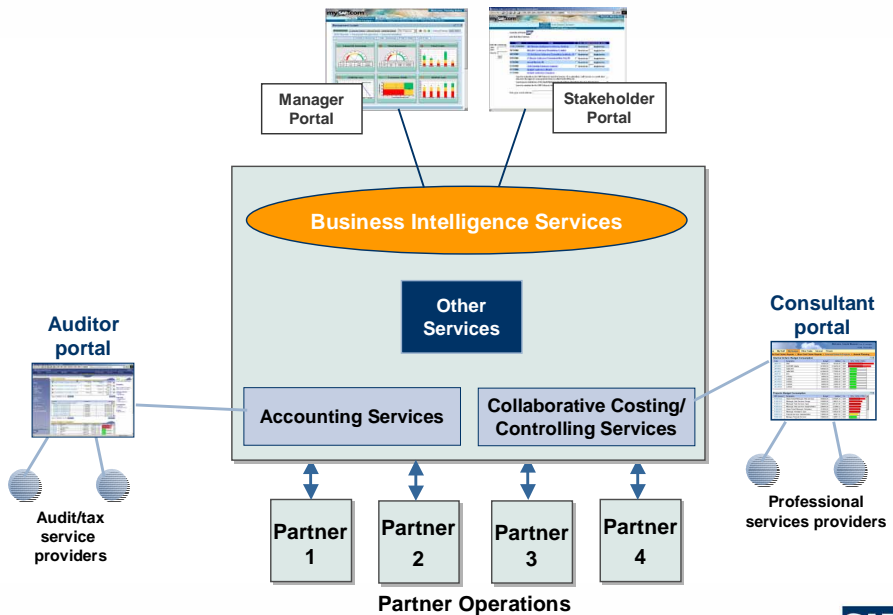
External &  
internal  
information/  
data  
gathering

Editing &  
publication of  
important  
business  
information

Keeping the  
management  
system  
conceptually  
up-to-date



## Step 3: Shared Collaborative Business Intelligence Competence Center



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## The Transition Route – Major Success Factors

- **Identify the problem areas with the current performance management system (e.g. via a survey) and actively sell the case for change and a vision for a new system to senior management**
- **Look for quick wins (by providing fast actuals, by improving access to information, by moving to continuous rolling forecasting, by introducing KPIs ...) - start small, be fast**
- **Set up a cross-functional, interdisciplinary team to steer and manage the implementation project – it can serve later as the core group of the new Business Intelligence Competence Center**

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“

**“I used to believe that changing the culture was the first action that had to be achieved, but on reflection everything I’ve seen over the past decade tells me it’s wrong... Culture changes only after you have altered people’s actions, after the new behavior produces some group benefit for a period of time, and after people see the connection between the new actions and the performance improvement.”**

”

**John Kotter\***

John Kotter: Leading Change, Harvard Business School Press Boston, 1996, pp156

## Book Tip



## Intangible Assets and Value Creation

by Juergen H. Daum

German edition now available, Galileo Press, ISBN 3-89842-112-0, April 2002

English edition forthcoming (publisher: John Wiley); planned for summer 2002

Including interviews with

- David Norton
- Leif Edvinsson
- Baruch Lev

and other leading experts

More information about the book at:

[www.juergendaum.com/mybook.htm](http://www.juergendaum.com/mybook.htm) (English)  
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Contact the author: [jhd@juergendaum.de](mailto:jhd@juergendaum.de)

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