



Enterprise Performance Management – Developing Metrics that Matter

POWERFUL INSIGHTS

Linkage of strategic objectives to the key drivers of value is critical to the successful deployment of strategy. Drivers are those factors that positively or negatively impact a company's ability to execute its strategy and drive economic value. Drivers form the basis for identifying the key metrics and targets that translate strategy and risk appetite into performance expectations.

A number of studies have shown that companies utilizing a comprehensive set of metrics to track the execution of strategy tend to lead their peer group, both in terms of financial results and their ability to adapt to economic or operational changes.

Issue

Most organizations today face an increasingly complex operating environment, making the simultaneous execution of strategy and management of risk extremely challenging. Executives and finance organizations, in particular, are being challenged on multiple levels to identify and implement the right metrics that will allow the organization to measure and monitor performance and risk in a consistent fashion.

Challenges and Opportunities

Executives must prioritize and evaluate strategic goals, modify plans in response to changes in a volatile environment and empower the right people to make decisions. The question many executives face is: What are the appropriate metrics required to measure progress towards the achievement of strategy and how should data for key metrics be gathered and aggregated to ensure transparency and consistency throughout the organization?

Our Point of View

Given the demands companies have today, metrics-based information must be timely, relevant, actionable and insightful so that leadership can make proactive decisions.

Delivering real insight will be dependent, to a large extent, on the ability to align strategy and risk appetite effectively with key metrics and targets, including the incorporation of those metrics into an integrated business planning and monitoring framework. We do not believe that performance and risk should be monitored and managed separately.

The process of identifying the right metrics must begin by integrating the organization's strategic objectives with risk appetite, followed by the identification of specific value drivers that will enable the achievement of those objectives and mitigation of the risks that matter. As mentioned above, the drivers form the basis for identifying key metrics that will help the organization monitor and measure performance. However, before metrics can be finalized, they must be screened to ensure they meet the requirements of a key metric — only then can the targets be set (see table on following page). Targets themselves should be set on an enterprisewide basis and reflect a balance between strategic aspirations (i.e., stretch goals) and risk tolerance.

Once established, key metrics can then be cascaded down through the organization, which will significantly increase the probability of achieving strategic objectives. Improvements will be seen in a company's ability to monitor and manage performance from high-level objectives down to operational metrics. These objectives and metrics will result in increased accuracy in planning at every level of an organization, while reducing budget, financial consolidation and reporting cycles along with their associated costs. Additionally, a company can identify the causes of underperformance and take action to reduce costs and optimize profitability across reportable dimensions, such as product, customer and channel. Setting the appropriate metrics and targets empowers the CFO to act as a strategic advisor to the business. ➤

Metrics Screening Criteria	Description
Aligned with strategic objectives	Can the measure be aligned with an objective?
Aligned with value driver	Can the measure be aligned with a key driver of value?
Aligned with risk profile	Can the measure be aligned with the risk profile?
Controllable or influenceable	Can the results be controlled or significantly influenced by the enterprise?
Actionable	Can action be taken to improve performance and further mitigate risk?
Simple	Can the measure be easily and clearly explained?
Credible	Is the measure resistant to manipulation?
Integrated	Can the measure be linked both down and across the organization?
Measurable	Can the measure be quantified?
Cost-effective to access	Can the measure be easily obtained in a timely and cost-effective manner?

PROVEN DELIVERY

How We Help Companies Succeed

Protiviti's Finance and Accounting Excellence practice offers a unique and proven combination of experience, methodologies and tools to deliver high-value results for your organization's performance and risk management activities. We can assist in the alignment of strategy and risk appetite with operational and financial performance metrics. We also can help design and implement information platforms that will enable management to better understand and forecast business results based on multiple levels and views of the organization's key data.

Example

A regional financial institution had requested an assessment of its management reporting and analysis process. The information provided varied by business unit and was

highly customized. Protiviti performed a five-week assessment, identifying risks and opportunities in the organization's reporting requirements, management processes and technology. As part of this initiative, we leveraged our client's current documentation, facilitated sessions with key leaders and process owners, and employed industry best practices to identify and prioritize the noted gaps in key performance metrics and develop a detailed implementation plan.

Leveraging the assessment and related plan, our client implemented an integrated solution for the financial reporting and analysis team, including visibility of their performance metrics, enabling a more efficient and effective measurement, monitoring and reporting process for the organization.

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About Protiviti

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