12 Best Practices in Financial Planning & Analysis

board

Introduction

Most CFOs are not happy with their Financial Planning and Analysis process, believing it delivers too little value and eats up too many resources. As a result, they often ask:

" What are Best Practices in FP&A? "

To date, the answers have been based on conventional wisdom, anecdotes, and popular trends propagated by finance magazines. What's been lacking is hard data... until now.

The Institute of Management Accountants (IMA) and I developed a survey that more than 700 organizations around the globe participated in. What made this survey different was the approach it took. Previous research focused on a particular methodology, then worked backward to find success stories. The IMA survey instead focused on what the most successful organizations are doing differently from everyone else when it comes to FP&A. These successful organizations consistently meet or exceed their targets, and they consistently meet or beat their competition. Hard to think of a single CEO who wouldn't crave those results (which, by the way, guarantee their bonus).

These most successful organizations tell us that their Financial Planning & Analysis process:

- Drives Shareholder Value (or business value if privately held)
- Drives execution of the strategy
- Provides the mechanisms to ensure the financial and operational goals of the organization ar achieved
- Builds organizational awareness of the strategy and each department's role in achieving it
- Ensures the optimal allocation of resources
- Ensures coordination of initiatives, projects and programs

About the Author

Lawrence Serven is a well-recognized subject matter expert in Enterprise Performance Management and is a Sales Director for BOARD Americas. He knows Financial Planning and Analysis "from the ground up" having spent many late nights at the office as a Manager for Pepsi Cola International.

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*This guide comprises articles from the "**12 Principles of Best Practice in Financial Planning and Analysis**" series, originally published on the BOARD International blog.*

Again, what CFO, or CEO for that matter, wouldn't want that? The question though is how these best managed organizations were able to achieve these results. What's in their drinking water? This guide lets you in on their secrets, running through the 12 best practice principles for FP&A.

Principle 1:

While most organizations have a strategy, the best performing companies do a better job of translating that strategy into actionable plans.

Most organizations have a strategy, even if it's very informal. It may be written on the back of a napkin; something like "We need to continually find ways to cut costs and do more with less so we can remain the low-cost provider." Or it may be captured in a 3-inch binder and delivered by a strategy consulting firm after months of analysis and offsite executive retreats. While we cannot comment on the quality of any given strategy, the global survey results indicate that the best run companies do a better job turning that strategy into something actionable and concrete.

How? By defining initiatives to achieve the strategy and then converting those initiatives into an action plan that will be executed in the shorter term. In the experience of the authors, a one-year timeframe is a reasonable definition of "shorter term" and fits into the framework of the conventional annual plan process.

▶ Why strategies alone are not enough

To help illustrate the point, one CEO we spoke to told us that the first year in his role he scheduled a 3-day offsite retreat that was facilitated by a well know strategy consulting firm. The results, in his words, were excellent. The team of executives had identified their strengths, weaknesses, opportunities, and threats. They developed a winning strategy to deal with the competition and grow the business. They even took it to the next step and identified strategic initiatives. Seemed like they had everything in place and had thought through everything they needed to.

Three months later when reviewing the Annual Operating Plan, the CEO said "*I couldn't see where our strategy was anywhere in our plan. I had pages and pages of financial projections but nothing that connected the strategic initiatives we talked about in our offsite meeting with what I was looking at in the AOP. Frankly it felt like a waste.*"

That CEO is not alone.

What the survey of more than 700 organizations revealed is that **connecting strategy to actionable plans is part of what makes the best performing companies so successful.** They actually have a strategy or some type of long range plan, as do a lot of other organizations. But what begins to separate them apart from average companies is they document specific initiatives designed to achieve that strategy. What sets them even farther apart is they break those broad initiatives into actionable projects.

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▶ Commit to continuous monitoring and improvement

A good example comes from a somewhat unlikely source, the City of Fayetteville, North Carolina. It's not often that a government entity is seen as leading innovation, but a new push for increased government accountability and transparency drove the innovation. As they so succinctly put it:

The City of Fayetteville recognizes the need to be both accountable and transparent to residents in its operations. In order to provide this accountability and transparency, the City has committed itself to implementing and maintaining a system for planning strategically, capturing operational performance data, analyzing this data to enhance performance and decision making, and reporting results to residents.
It allows for long range planning at the organizational level with alignment to departmental operations and performance expectations. With this system in place, the City is able to allocate resources appropriately and build strategies for continuous improvement.

To better understand the approach they have taken visit TRACStat - their performance dashboard which provides an interactive dashboard.
This is just one example of course, what you design and build for your organization could look very different. And that brings us to the role of Finance in all this. It's not necessarily to plot the strategic direction of the organization, but it is to help design and then facilitate the process of translating strategy into actionable plans.

Principle 2:

The best performing companies do a better job of identifying resources needed to deliver projects & meet plan results, and actually get those resources into the budget.

Many well-conceived projects that have the potential to drive desired outcomes wither and die on the vine. Why is that? The most common reason is that the project was not properly resourced to begin with. By resource we mean both money; and just as importantly, people's time. This is often because the people developing or leading these projects don't think it through and put pen to paper (but instead fall back on "We'll just do it").

The second common pitfall has to do with the calendar. The process of developing the strategy and the initiatives/projects to support it is disconnected from the budgeting process, and happens well before or after it. Keep in mind that no matter what's said in an offsite meeting, the real allocation of resources happens in the budget process. So while executives may have stars in their eyes during a retreat and "commit" to a project; sometime later during the budget process is when real decisions about the allocation of resources actually get made. In the best performing organizations; however, the resources needed to execute projects that will drive results actually get funded in the budget.

▶ The budget holds the key to achieving strategic targets

The budget process has gotten a bad rep over the years, and more than one CFO I know is slightly embarrassed to admit her company even has budget (sometimes referred to as the Annual Plan). **What we have to come to terms with is that until something else replaces your company's budget or annual planning process, it remains where the "real" allocation of resources happens.**

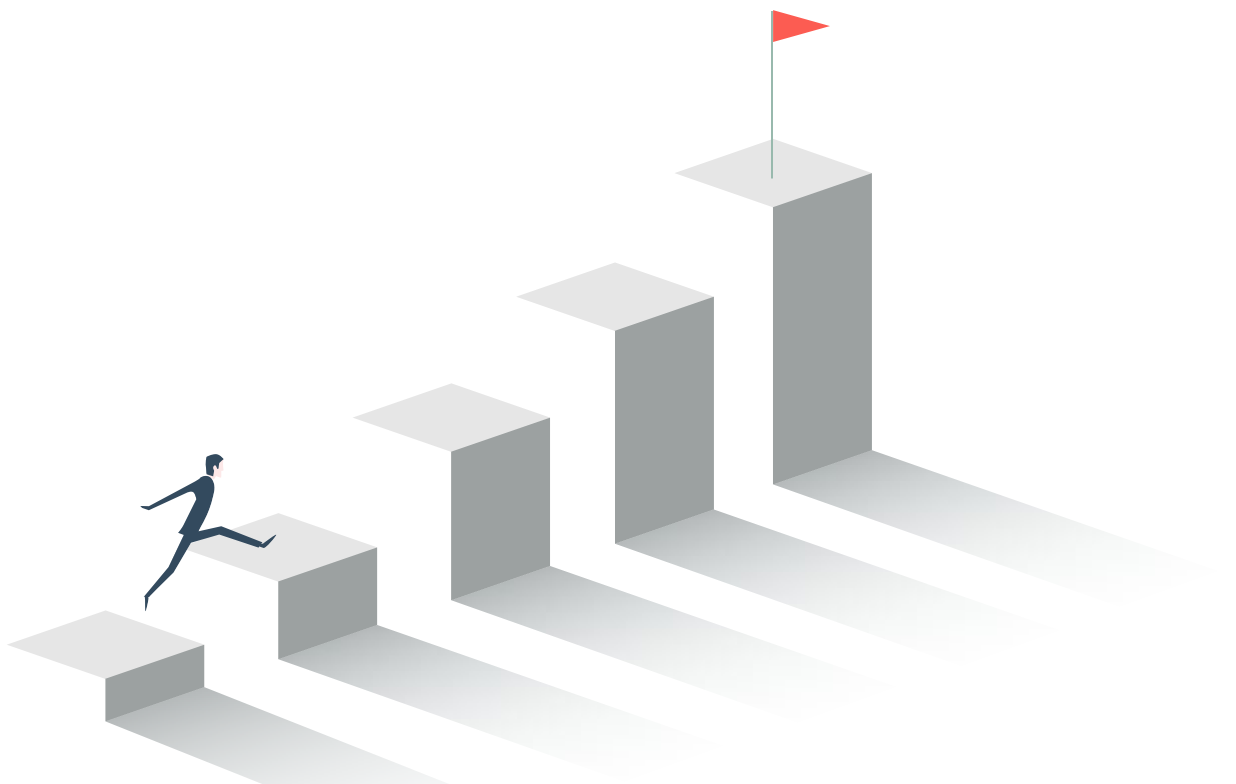
Is that initiative to enter the new market funded? Is that project to increase employee retention though enhanced training funded? What about the program designed to speed up new product development? The short answer is "If it's not in the budget, no."

One challenge is that many Managers, while they may know their area of the business, have never actually built a project plan. It's not hard, but it does require some training to learn how to establish milestones and dates, to break activities down into tasks and put them on a timeline, and most importantly to estimate the resources needed to fulfill all those activities and tasks to meet the key deliverable dates. As a side note, it's not enough for a manager to "have it in his head"; it needs to be documented so that it can be shared with others and become a tool to deliver results.

Another challenge is that the typical budget process itself does a poor job of incorporating initiatives. The budget process is good at delivering a P&L, but it's often impossible to identify where project spending has been included. For example, how much of the budget relates to the initiative to double the number of new recruits into R&D? How much relates to the initiative to shrink new product development time by 30%? How much relates to the initiative to increase productivity by 2% next year? Are those initiatives funded in the budget... if so by how much? What P&L line items are impacted?

From a budget process and systems perspective, project spending needs to be well documented, and translated into the individual General Ledger accounts they'll hit. That's where the rubber hits the road. We did this at Pepsi, and it was time consuming to do in Excel. **The good news is that today there are much better options for leveraging technology to keep it all straight.**

The last point to mention is that while the best performing organizations have mastered all that we have discussed here, it really is a case of progress not perfection. Start small, take one or two key strategic initiatives and bake them into the budget. Work out the kinks in your process, and expand over time.



Principle 3:

The best performing companies have a much better understanding of how their operational plans drive their financial results, and monitor the progress of those plans.

The best performing organizations know that their financial results are the product of operational decisions and actions. For example, increased manufacturing productivity translates into decreased Cost of Goods Sold and increased EBITA. Operations and the resulting P&L are completely intertwined. While we all know this on some level, the best performing organizations make those connections explicit. When they establish a goal of increasing EBITA by some amount, they know what they have to do to achieve that, and put projects in place to make it happen.

Beyond that - and this really separates the goodfrom the great - **the best performing organizations monitor the progress of those projects and have a clear understanding of how progress (or lack of progress) will impact the P&L.** So, for example, if a project that is designed to increase productivity by 5% is delayed by six months, they know the impact on Cost of Goods Sold (COGs) will be $Y and the impact on EBITA will be $X.

▶ Bridging the gap between Finance and Operations

The role of Finance here is significant - this is where we can live up to our role as a Partner in the Business. Operational Managers know everything there is to know about the specifics of their operations, but don't necessarily understand the P&L or their impact on it. Finance can bridge this gap. It requires that they know enough about the business and the area the serve to be conversant on the issues and have a well-reasoned point of view.

Once they have this foundation, they can **connect the dots between operational goals and the impact on the financials.** They can then work with Operational managers to share this know how and build business acumen.

▶ Build a strong foundation for monitoring progress

Monitoring the progress and impact of these plans requires, among other things, a robust Dashboard. Displaying KPIs, goals and progress toward goals, the status of initiatives, are all key elements of an effective dashboard.

The more sophisticated organizations have "drillable" dashboards that capture cascading goals and KPIs so each successive layer of management can key in on their responsibility, but at the same time see where they fit in the chain. The last point to make here is the importance of continuous improvement.

Not just in perfecting KPIs, but also in learning the connections between operational performance and the P&L. Take, for example, the impact of promotions on sales. We know there is an implicit connection, but how strong is it and to what degree does it exist? Which promotions work and which don't? Incorporating lessons learned from real world experience will improve forecast accuracy, and ultimately will help the organization achieve greater success.

Principle 4:

As a result of building plans based on tangible projects and understanding how they impact the financial results, the best performing companies do a better job of variance analysis and have the ability to get the story behind the numbers.

Variances are often seen as something to avoid, but they can be extraordinarily helpful in understanding what's happening in the business. What did we expect to happen? What actually happened? What can we learn from the variance? While comparisons of financial results are helpful, they rarely if ever tell the whole story. Without a real business plan, all Finance can say is "We have a negative 2% variance in Revenue because we didn't sell as much as we forecasted."

There's very little business insight offered in that case, nothing that points to what can be done differently next time, nothing to learn from.

▶ Go beyond the high-level figures

Contrast that with what can be gleaned from a real business planning process. Because there was a real plan to grow Revenue by 8%, we can identify what happened from a business perspective. Perhaps a key marketing campaign launch date was delayed, and a Groupon event didn't draw the response rate we anticipated. We can and should delve much deeper into those issues. What caused the delay in the marketing campaign? If it was an agency issue, maybe we need a new one. If the root cause was the marketing person leading the campaign left the company on short notice, maybe we have a succession planning issue. The point is the analysis can reveal real business issues that we can draw important lessons and insights from, and learn what to do differently next time. In other words, it facilitates continuous improvement in the enterprise.

The challenge is that in many organizations the near exclusive focus is on financial outcomes, rather than how those financial results will be achieved. If you had never seen a budget process before but walked into the middle of one, you'd be forgiven for assuming you're witnessing a negotiation process, and not business planning.
What we see too often is that Senior management comes out with goals and objectives, and the organization explains why they can't be met. Marketing and sales explain why increased competition has made it unlikely goals will be met, while operations explain why productivity can't be improved. Eventually, when the Board meeting to review the budget is looming, compromise is struck and the P&L finalized.

A well-informed plan is key

The best run companies use FP&A to drive results, not just predict them. They know exactly how they plan on achieving their results. They know the strategies and initiatives they put in place, the actions they're going to take and who is responsible. The benefit, apart from greatly increasing the likelihood that goals will be achieved, is that they can pinpoint "what happened". Learn from it, and incorporate lessons learned to be even more competitive. Variances and their explanations provide business insight and value.

The role of Finance in all this is critical. As a Partner in the Business they understand how the business is run and the unique challenges of the department they support. They're well versed in how their department operates, and what levers drive performance. They also know the language that's used. For example, if they are supporting logistics they know what a racked warehouse is, when refer truck is used, and what a Peddle Run is. They use this business acumen and combine it with their expert understand of accounting and financial analysis to help define targets and support the process of developing projects and initiatives to achieve them.

Then, as the year progresses and actual results roll in, they perform variance analysis that provides true insight into the business.

Principle 5:

The best performing companies are models of agility - they take action when they fall behind on their financial or operational goals.

One of the major distinguishing features of best performing organizations is that they take action when things aren't going as planned. Rather than just adjust their expectations downward, they take stock and evaluate what they can do to get back on track. And what's key here is they aren't just focused on financial progress but also the progress being made on operational goals as well.

In the best run companies financial and operational goals and results are tightly integrated. So when a best practice company falls behind any operational goal, they know the impact it will have on the financials – and they take action to get back on track.

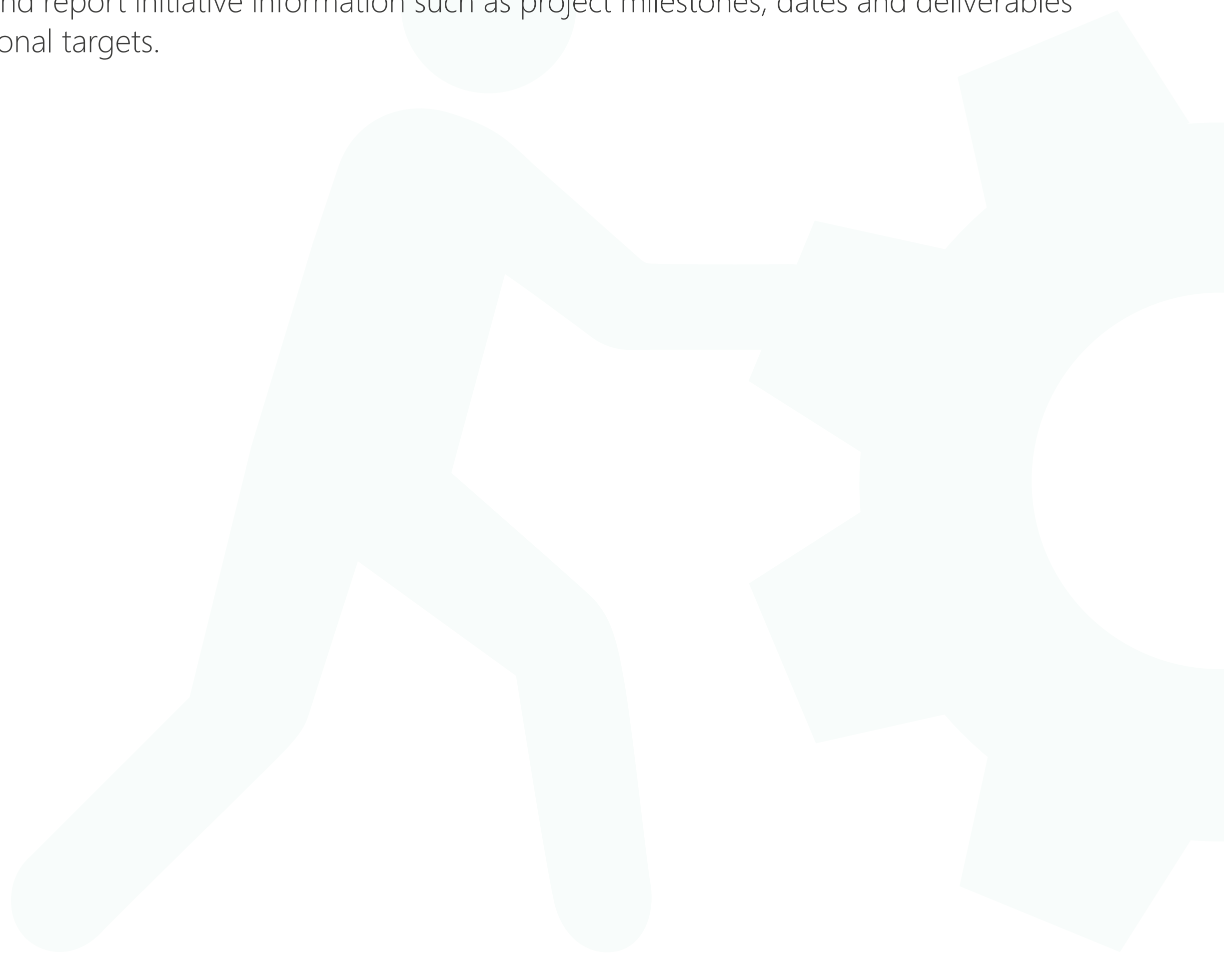
▶ How forecasting fits into the planning process

We said the best performing organizations are models of agility, so let's discuss what that means for Forecasting. In this blog series it may seem like we've ignored Forecasting, but we've just put it in its proper place. Keep in mind it's called Financial Planning & Analysis, not Financial Forecasting and Analysis. That's because planning for success is what drives value, merely forecasting favorable outcomes does not.
Forecasting does serve a vital function as an early warning system and provides an unbiased, clear-eyed projection (at least it should). **Gaps between the Forecast and the Plan should prompt a dialog around the underlying business issues behind the gaps. Just as importantly, they should trigger mitigation to get back on track.** Executives need to decide if there is a way to keep to their commitments, or if resetting expectations of business results is in order. That decision should be made only after thoughtful consideration of proposed mitigation plans.

Keep in mind that forecasts but should not be focused exclusively on the financials. The progress of the initiatives and project plans should also be assessed. If they're falling behind, then the

expected financial results may also be delayed. This type of analysis **requires an understanding of the business and the initiatives, which goes above and beyond the understanding of financial models.** From a technology perspective, scenario planning and the ability to capture risks & opportunities are key enablers. **The ability to anticipate what could happen, and more importantly building a mitigation plan to address it, is essential to agility.**

In addition, if we want unbiased and realistic forecasts, predictive analytics can be quite helpful. If there is a wide discrepancy between the system generated forecast and what people are predicting, that should prompt a meaningful business conversation.
Lastly, capturing not just financial measures, but operational measures as well is key; along with the ability to store and report initiative information such as project milestones, dates and deliverables to meet operational targets.



Principle 6:

The best performing companies cascade both financial and operational goals down the organization to ever more specific targets.

One theme we've seen throughout this series is that the best performing organizations have integrated financial and operational planning. This extends to the cascading of goals down through the organization. This means that higher level goals (such as growing sales by 100K units) is broken down into incrementally smaller goals, potentially down to an individual level.
For example, the 100K unit sales growth will cascade down into regions, districts, and sales people. Cascading of goals is a critical element of building accountability. While many companies cascade financial targets, the best performing organizations stand apart for cascading operational targets as well.

An interesting finding from our global research of more than 700 organizations is that public companies were more likely to cascade financial goals than privately held companies or Not-For-Profits. However, public companies are no more likely than anyone else to cascade operational targets. One reason could be that public companies have an especially high need to reach financial goals for stockholders and analysts, and that consumes all of their bandwidth.

▶ Cascading operational targets through the organization

Now most people are familiar with the concept of cascading financial goals. Typically, something like a revenue target will cascade from the enterprise to a business unit to a region to a district or Sales Representative.

What makes the best performing organizations different is they also cascade operational targets; and hold people accountable for delivering them.

Keep in mind that the best run companies have explicitly linked operational metrics & goals with financial performance (they understand and leverage the relationships). So it would make perfect sense for these organizations to cascade operational goals to drive accountability for results; knowing that without that their financial goals are at risk.

From a technology perspective, scorecards/dashboards that effectively communicate key financial and non-financial measures is key. This means being able to "zip and unzip" targets -- to have a line of sight from a high level vantage point down to an individual's goals.

Principle 7:

The best performing companies do a better job of holding people accountable for delivering financial results and linking them to financial incentives.

The best performing organizations translate strategy into actionable initiatives, and then further refine those initiatives into specific projects. They hold people accountable for delivering financial targets, but go a step further by linking those results to financial incentives. So "being accountable" in these organizations takes on deeper and more personal meaning than simply being called out for failing to deliver on a commitment, or publicly praised for achieving one.

It's important to note here that accountability means responsibility for leading the way to reaching financial targets. Those given this responsibility should be in the best position to enable the organization to reach the goals and, if they are not achieved, be most knowledgeable about what happened and why.

▶ Ensure everyone has clear visibility and understanding of performance

One CEO who really understood that point made a significant change to monthly business reviews by changing who explained the monthly financial results. In most companies Finance presents the financial performance and explains the variance to plan, prior year or latest forecast. This CEO instead made it a rotation each month to different VPs. While he had tried to convey in the past that VPs were ultimately accountable for Financial results (while the Accounting department was accountable for their accuracy) nothing seemed quite as effective as having the VPs present to their peers their financial performance. That meant that they had to understand what budgets or forecasts were really based on, as well as what was behind the actual results. It elevated their "Financial IQ" as he put it, but it also made them more accountable.

It is critical that incentives avoid "gamesmanship," or motivating managers to optimize their own performance at the expense of the organization. To avoid this environment, incentives should include both individual and company-wide metrics. Best performing companies avoid "blaming" people but instead foster a culture where those who are accountable feel free to report what really happened, with the objective of collaborating to help the enterprise reach its goals.

▶ Using technology to make financial results clearer

From a technology perspective, having the ability to drill-down or roll-up financial results (both targeted and actual) is key. To really instill accountability, people outside of Finance not only need access, they need to results to be presented in an easy to understand way. They also need to be able to easily interact with the data – to see different views of the data by Geography or Business Unit or Channel or Location for example. Lastly, my experience has been what one company finds "easy to use" can be very different from another company. So the look & feel of the system needs to be highly configurable to meet unique needs. Put another way, ease-of-use drives user adoption and engagement.

Principle 8:

The best performing companies also do a better job of holding people accountable for delivering operational results and linking them to financial incentives.

This principle goes back to the theme of operational and financial plans being tightly integrated in the best performing organizations. Accountability isn't just about hitting the financial targets, it's also about achieving the operational targets that ultimately drive the financials. Because operational changes drive financial performance, the best performing organizations hold people just as accountable for achieving operational targets as they do the financial ones.

▶ Create performance objectives to help achieve shared goals

Again, they avoid "blaming" people but instead foster an environment where people feel safe in reporting what happened. It is also important that the operational goals are clearly linked to financial outcomes, in a cause-and-effect linkage. There should be both leading and lagging indicators of performance that ultimately lead to desired financial outcomes.

Take for example a company, let's call it National Foods, where there is a goal to improve productivity by 5% and where a project was launched to achieve that goal. In this case, the head of manufacturing will have the responsibility for delivering that 5% improvement, but will also make that an annual goal for the Plant Manager and all the people working on the project. In addition, the project leader will also have a goal of delivering the project on-time and on-budget. In turn, she may assign milestone delivery dates to key members of her project team.
These well-coordinated individualized goals will become the basis for annual bonuses, merit increases or other forms of incentives pay to motivate employees.

From a technology perspective, having easy to access and easy to read Dashboards/ Scorecards so employees can see how they, their team, and the enterprise as a whole is tracking to meet their goals can be a very important enabler.

In this blog post and the one prior, we discussed the importance of linking incentive programs to achievement of both financial and operational goals. We intentionally addressed them in two separate posts to underscore the need to address both equally, and avoid the common mistake of focusing exclusively on financial targets, without defining how they'll be achieved operationally.

Looking ahead, the last four Principles are designed to help get FP&A to the next level. If the first eight principles are firmly put in place, FP&A will deliver significant value to the organization as it drives execution and achieve desired business outcomes. These last four principles focus on business drivers and integrating them into FP&A. It's a more advanced topic, but with the other eight principles firmly in place, the use of drivers can take FP&A (and the organization) to a whole new level.

Principle 9:

The best-performing companies do a better job of not only identifying what drives success in their business, but also developing measures for those drivers.

Most people working for a company would say they know what drives success in their business and call it conventional wisdom. What the best performing organizations do differently is they codify or formalize those beliefs so they become widely shared and understood. They then go a step further: they develop clear measures for those drivers.

▶ But what are the types of business drivers?

As an example, in the high-tech industry innovation is considered a driver of success. The best performing organizations would take that driver and develop a clear measure for it, such as, "We measure innovation as the % of Sales coming from products introduced in the past two years."

These are sometimes referred to as Key Performance Indicators. KPIs should be tracked not for the sole purpose of having something to put on a dashboard or scorecard, but because they've been determined to be success drivers.
Let's take another example; for the hotel industry customer loyalty, occupancy, and the amount you're able to charge for a room are frequently cited as drivers of success. The question then becomes how to measure those drivers. Customer loyalty can be measured by a Net Promoter Score (an index ranging from -100 to +100, used to assess to what extent a customer would recommend a certain company). A measure called RevPAR combines the occupancy rate and the average room rate to calculate Revenue per Available Room.

What's worth noting here is these are drivers of success, or economic drivers, whether a particular hotel chain pays attention to them or not. Likewise, they remain a driver of success regardless of whether or not a hotel chain's strategy addresses them or not. In fact, the strategy will impact the drivers of success one way or another -- to the betterment or detriment of the company -- knowingly or unknowingly. In our view, it's far better to know how your strategy will impact the drivers of success, and better still if the strategy is designed to move those drivers in the right direction.

From a technology perspective, this leads to a discussion of Dashboards or Scorecards. The point we've made in this blog post is to carefully identify the KPIs, but how they are presented to the organization is important as well. Of course, the dashboard/scorecard should be uncluttered, visually attractive, easy to read, and just as easy to interact with (e.g., drill down roll up, and access relevant alternative views such as by Geography). Even better if they are accessible on any platform – laptop, smartphone, tablet or PC.

Knowing what to measure and communicating it effectively is half the battle, but just looking at numbers for the sake of viewing them is not the goal. Ultimately, we want to drive those numbers in the right direction, which is the subject of the next articles.

Principle 10:

The best performing companies not only identify driver measures, they also establish long term and shorter targets for them.

Instead of loosely configuring all the many aspects of FP&A, the best performing organizations tightly integrate them. That overall theme is also evident in the way KPIs are leveraged.

▶ The importance of setting targets for business drivers

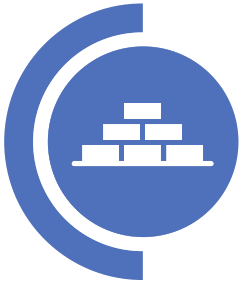
As discussed in the previous blog post, the best run organizations do a better job of identifying and measuring what drives success in their business.

Further, they put those strategic business drivers to work by establishing both long term as well as shorter term targets for those drivers. They have a vision of where they want to be on those measures in the long term, but also “make it real” by establishing short term targets.
More specifically, they establish long-term goals for KPIs and then shorter-term (usually annual) targets for those measures. In doing so, they develop a line-of-sight between where they are now and where they want to be.

Take for example a high tech company that identified Innovation as a driver of success. They decided to measure that as “The percent of sales coming from products introduced in the past 2 years.” They’re at 20% now and want to raise that to 40% over the next five years. With some efforts they already have in place, they believe they should be at 25% next year.

From a technology perspective, predictive analytics could help establish a baseline for those targets, economic drivers or other types of business drivers, which can then be adjusted for existing and new initiatives that will favorably impact those targets. While stretch targets should be sought, a baseline delivered through predictive analytics will help quantify how much “stretch” is really in the targets.

Principle 11:



The best performing companies develop initiatives and projects to achieve their targets.

Once best performing organizations have defined their drivers and set targets for them, they establish initiatives to achieve them. Longer term targets will probably need strategic initiatives; while operational projects will deliver the nearer term results. This again underscores the theme that targets need to be accomplished with clear plans, not just wishful thinking.

For illustrative purposes, take an example from my days at Pepsi Cola International. One of the Drivers of success the company identified was Productivity. Now one quick point on Drivers, they're probably not unique to the company. Pepsi wasn't the only beverage company to recognize Productivity as a Driver, but what they did about it is what made all the difference.
Pepsi had set an ambitious target to double Earnings Per Share. They knew that they needed to continue to increase Revenue growth, but that wouldn't be enough. They needed to control costs, and that's where Productivity as a Driver of success was quickly elevated. The company projected a significant increase in sales volume but established a target of flat cost growth.
Wait, sell more volume… but at the same costs? How does that work?

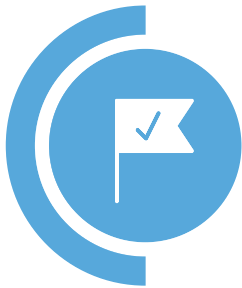
▶ Meeting targets with continuous improvement initiatives

The company realized productivity would not improve overnight, and wouldn't improve on its own. They also realized that while near term improvements could be made, "quick wins" would not get them the order of magnitude improvement they needed. Instead, they needed a bold initiative, one than would span multiple years. Enter an initiative around Total Quality Management / Continuous Improvement, and entire strategy for driving substantial improvements in productivity. Equally substantial were the investments in training, technology, and process improvement. Incentive bonuses (and a new employee stock ownership plan) were put into place to align goals up and down the organization. Long term initiatives were broken down into nearer term projects, those projects were staffed and funded, and in turn project plans were developed that detailed activities, milestones, and tasks.

To make a long-story blog-short, Pepsi achieved not only its productivity and Cost of Goods Sold targets, but the investors were rewarded with a doubling of the stock value. This is just one illustration of course, but the point is Pepsi knew what drove success in the Beverage business, quantified it, and made selective strategic investments in what mattered most to drive their long-term success.

From a technology perspective, obviously Dashboards and Scorecards are helpful to capture and track Drivers. But budgeting and planning are equally necessary to allocate resources effectively, and forecasting necessary to answer the question "are we heading in the right direction and does it look like we'll achieve our goals?" Pushing use of the technology deep into the organization is important for alignment and to build a shared understanding, and ease-of-use therefore becomes all important.

Principle 12:



The best performing companies also do a better job of monitoring results and tying them to incentives.

"You get what you measure" is an often-used expression, and I'd add to that "You get what you measure AND pay for." Let's look into that.

First, what does it mean to do a better job of monitoring results? The best run companies have reliable data to begin with, they trust their numbers. The systems and processes are designed for accuracy, clarity, and timeliness. There is one version of the truth, and it's undisputed.
Doing a better job of monitoring results also means measuring operational results and building an understanding of how operational results drive financial outcomes. They connect the dots between, say productivity and profitability, and rigorously report on both.

▶ Supporting effective business monitoring through the right technology

There are some technology implications here, including the need for self-service reporting and analytics. One mistake companies often make is not accommodating the various needs of the organization – and they are normally quite varied. Someone managing the production line needs to have a dashboard that reflects productivity at each stage of the process. A warehouse manager needs to know inventory positions of every SKU, both current and forecasted. A marketing manager needs to analyze the sales lift they got from their latest promotion. The list goes on. But consider something as seemingly standard as a P&L. There are accounting rules governing that, so there are only so many ways to look at it, right? Wrong. One manager might need to see the P&L by geography, another by Product Line, another by Business Unit, another by Sales Territory. One manager might want to look at a P&L and compare results to last year, another might want to compare to latest forecast, another to the plan. One manager might want to look at results by month, another by quarter, another by rolling 12-month average. And let's not even broach the topic about all the ways that data can be translated into forecasts.
As much as I've listed various examples here, there are hundreds more.

Some companies try to address this by thinking of every possible permutation and producing a

mountain of reports. That makes it hard to sift through all of them to find the one you want. Other companies limit the number of reports to make them easy to find, but that drives people back into Excel to get the analysis and reports they need.

The best run companies offer self-service reporting and analysis so people can get the data they need when they need it. A key to this is ease of use. If people find it hard or confusing to access the reports they need, or difficult to get the data they need, they'll give up.
As a side note, "easy to use" is relative. I know this firsthand. I've been fortunate in my industry and consulting career to work side-by-side with the Dallas Cowboys, Pepsi Cola International, Bayer Pharmaceuticals, Tufts University, and for the Port Authority of New York & New Jersey. I named these five because they are obviously dissimilar, and I can tell you what was perceived as easy for one of those organizations would have been complex for another. Of course their business models were different, but it goes well beyond that. Culture. Management. Hiring practices. Industry. Training & development. They all have a role to play in shaping perceptions of what is "easy to use." The implication of that is the reporting/analysis systems need to be tailored to fit the organization. I've seen something as minor as repositioning a drop-down menu impact the perceived ease of use. The term of I've heard is bespoke, or made to order, and it drives usage.

So let's assume those powerful but easy to use systems are in place, the measures have all been well defined, and people can get the data they need when they need it. Are we done? Not quite.

▶ Motivating employees with incentive-based pay

You might measure the amount of water I drink every day, but I'm unlikely to alter the amount I drink unless there is an incentive to do so.
There are scores of books written about incentive pay, but we have limited space in this blog post. So I'd like to focus on "connecting the dots". We've seen in earlier posts the best run companies have a deep understanding of how operational results drive financial performance. We've also seen that they know where they stand today and develop targets for the future. Knowing that hope is not a plan, they develop initiatives to turn those targets into reality. Both the targets, and the initiatives to achieve them, clearly cascade down through the organization at lower levels of specificity. When all of that is firmly in place, as it is with the best run companies, tying incentives to achievement of results is a comparatively easy thing to do. People know their role in the organization, and what targets they are working to achieve. The question for Senior Management and Human Resources is how much compensation to put at risk, but all the ground work at that point has been laid.
The best run companies monitor their operational and financial results, including progress toward goals, and provide the right incentive structure to help ensure those goals are met. In some respects, all the previous Principles discussed have provided the foundation to make this possible.

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