

Performance Management Review*

If it's important, measure it, act and improve it!

Are you a company experiencing ...

- good overall results, but you know you could do better?
- employees that work hard, but could be more effective?
- difficulties achieving your strategic objectives, despite good business results?
- parts of your organisation are not performing as you would like?

The PricewaterhouseCoopers Focus

PricewaterhouseCoopers has developed a Performance Management Review (PMR) so that organisations can measure their organisational capabilities. Results can be used to identify gaps between the current and the desired status, to compare relative performance between departments, operations, or divisions and to be able to track whether the company's organisational capabilities are improving, failing, or remaining as they are.

PMR starts with a comprehensive electronic survey designed to be completed by a representative number of employees of all staff levels. The results of the survey will identify gaps and the potential for value creation. The end result is a targeted work plan of activities that, if executed, will improve your organisational capability and generate improved business results. Our experience shows us that annual cost savings in excess of at least three percent of operating costs are possible.



What is Performance Management?

The key components of an effective Performance Management capability include:

- company's strategic plan,
- annual budget,
- reporting metrics,
- individual employee performance,
- business processes and
- information technology.

While each of these individual components are important, the overall alignment of all of these components is by far the most important aspect of an effective, comprehensive Performance Management programme. In addition, communication, feedback from customers and suppliers as well as the people and culture within an organisation are all supporting elements of Performance Management.

Almost all companies have already implemented Performance Management systems. The shortfall is the alignment and thorough execution of the existing PM-tools. While essentially every company has a well defined strategy, experience indicates that most do an inadequate job when it comes to proactively aligning their annual budget with the strategic plan.

Key questions for key components to be answered:

Strategy – Alignment of all business operations

	yes	no	partly
Is the strategy clearly communicated at all levels of the organisation?			
Is the strategy in line with the realities of the market place?			
Do strategies in different business units conflict with the overall goals or with each other?			
Does the strategy drive the plan?			

Budgeting – Dynamic and more efficient planning

	yes	no	partly
Is there an appropriate amount of people to accomplish the desired budget process?			
Are the resources linked to the strategic priorities?			
Is the budget designed to guarantee the fulfillment of the plan?			
Does the budget plan align with the strategy?			

Metrics – Alignment of strategic objectives with a balanced set of financial and non financial KPIs

	yes	no	partly
Is there alignment between objectives and reporting?			
Is there a clear distinction between controllable and non-controllable costs?			
Do allocations and recharges blur the accountabilities?			
Is there inconsistent or missing data?			
Is there a highly manual process?			

Personnel – Alignment of rewards and KPIs

	yes	no	partly
Do people have straight forward conversations about performance?			
Is there the right balance between short term reaction and developing for the long term?			
Do staff members understand the Performance Management process and what is expected of them?			
Does the organisation reward people for behaviour that supports the strategy and plan?			
Have individual performance evaluation and reward processes been properly implemented and communicated?			

Business processes and information systems – Getting the data into a meaningful and clear format

	yes	no	partly
Are the leading tools for financial planning, consolidation, reporting and analytics standardised and leveraged?			
Do you have IT-interface problems that implicate inefficient business processes?			
Is the IT-troubleshooting institutionalised so that problems can be solved rapidly?			
Is there an integrated, cross linked thinking regarding business processes?			
Do you have the required IT-tools for gathering and storing enterprise data in an appropriate way?			
Can you redesign your business processes without harming day-to-day business?			

How can PwC help to improve your performance?

PwC has created a time and cost effective tool to support the PMR. The PMR tool is based on the PwC Performance Management Framework (PMF). The survey tool provides a numerical measurement of how well a company is performing on the dimension of the PMF. The survey questionnaire, can be completed by a participant in less than 20 minutes. The initial step in conducting PMR is addressing the strategic goals of the company in obtaining ‘targets’ – the level where the executives would like to see the company perform in all areas followed by an employee evaluation. The gaps between the actual employee scores and the executive targets are the most interesting aspect of this analysis.

The potential for value creation comes from analysing the gaps and defining which of them have the greatest potential to improve the organisation as well as from the relative ease with which changes can be made. PMR includes a facilitated, action oriented work session with leaders from the organisation, generating a targeted work plan of activities that, if executed, will improve the company’s performance. A sample of the questionnaire is shown below.

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Online Survey System

Home > Performance Management Review

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Performance Management Review (PMR)

Sample Company

Status: Accepted Year: 2007

General

Information

	strongly disagree	disagree	somewhat disagree	somewhat agree	agree	strongly agree	not applicable
1. I know how my work fits into strategic objectives of the company	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input checked="" type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
2. Our company has a clear strategy and sticks with it	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input checked="" type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
3. We have optimized all the revenue opportunities for our company	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input checked="" type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
4. We have fully exhausted every cost saving opportunity for our company	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input checked="" type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
5. I see and hear from the leaders of the company as often as I need to	<input type="radio"/>	<input type="radio"/>	<input checked="" type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
6. When leaders in this company speak I sense their commitment	<input type="radio"/>	<input type="radio"/>	<input checked="" type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
7. Our leaders are more committed to the success of the company than their own careers	<input type="radio"/>	<input type="radio"/>	<input checked="" type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

Your benefits

PwC has undertaken a wide variety of Performance Management engagements and has generated savings in excess of three digit million Euro amounts per year.

While the clients varied, and the initial reasons to commence the assignments were different, four key elements did not change:

- The senior executive team’s view on how staff members interpreted the company’s strategy and what staff members were actually doing differed significantly.
- The key issues/obstacles that companies thought were holding them back were usually just symptoms of problems in other areas of the company.
- In instances where a senior executive was willing to champion the review, the ease and indeed the likelihood of success was exponentially greater than if the review had been led by a mid-tier manager or director.
- No matter how profitable a company was, significant savings could be realised by reviewing and addressing the gap between how the senior team wanted the company to run and how it was actually running. We found these savings to amount to a minimum of three percent of a company’s operating costs.

The Performance Management capability of a company has the potential to become a strategic advantage and value creator for the company. A comprehensive approach to Performance Management creates an environment where employees not only have a clear understanding of how their work is aligned with the strategic direction of the company, they are also motivated to do the right things and inclined to invest some of their discretionary effort in activities for their employer. Sounds logic and early results indicate that a company that improves its PMR result also achieves improved operational and financial results. Four weeks from today, your company could be looking at its very own PMR report, charting an action plan to capture value creating improvements, and enjoying the following additional benefits:

- PMR can help both leadership and employees alike understand the direction of their company.
- The PMR process develops performance targets, thereby creating a valuable benchmark from year to year.
- The action plan following the PMR results discussion creates accountability for the entire company.
- Savings and improvements can be generated for all stakeholders.

Your savings potential

Operating costs by industry in % of sales¹

Industry	Operating costs
Automobiles	86-88
Chemicals	79-81
Retail	89-91
Industrial	87-89
Information services	69-71

Industry	Operating costs
Food wholesalers	91-93
Paper	77-79
Steel	83-85
Telecom. (Services)	45-47
Tabacco	80-82

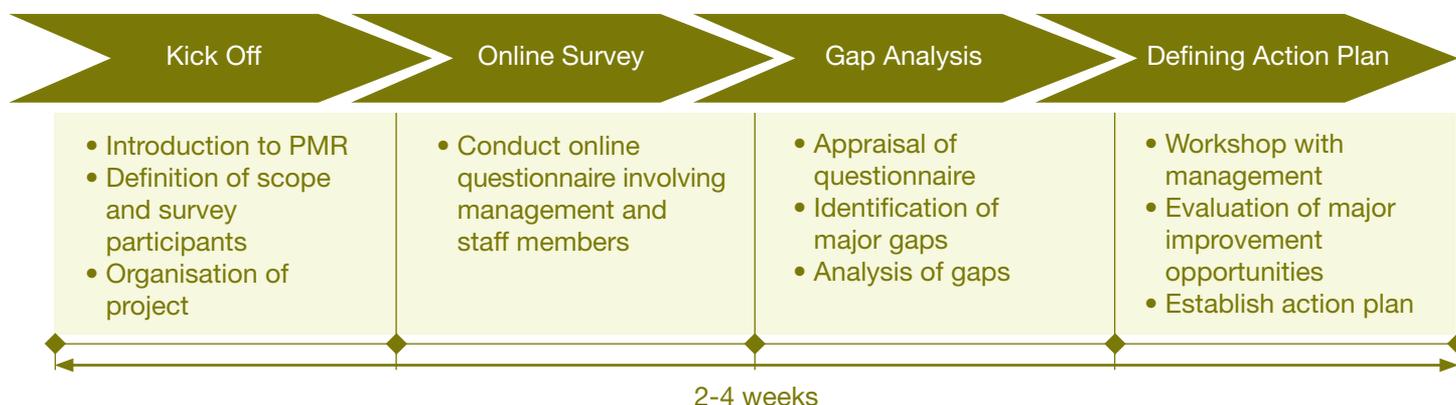
¹ Operating costs = Sales - EBITDA
Source: Damodaran 2006

	Typical business		Your business		Your potential savings
	Benchmark	EUR	%	EUR	
Sales revenues		500m		... m	
Operating costs	85% ²	425m	...%	... m	
Average performance improvement	2-4%	12.75m	...%	... m	

² Assumptions per “Operating costs by industry“ table

Our offer

PwC offers a four stage process for identifying the major improvement opportunities. This process has been developed and improved in the course of many projects. The project duration is dependent on the availability of the relevant employees and the amount of information made available.



Best practice concepts

- Establish clear goals and business sponsorship upfront.
- Identify key business drivers to set a foundation for future planning, reporting and analysis.
- Develop quick wins with tactical deployment – keeping longer term vision in mind.
- Plan for business changes – flexibility is the number one requirement.
- Engage business and functional expertise in operating model development – this is not just a finance exercise.
- Address data, quality and integration issues upfront.
- Standardise and leverage leading tools for financial planning, consolidation, reporting and analytics.
- Utilise prototype driven approach for deployment.

What sets us apart

- PwC is the world's largest professional service provider with over 142,000 employees in 149 countries.
- PwC's services are divided into global service lines, ranging from business auditing and consulting, tax, legal and IT consulting to corporate finance and the outsourcing of whole business functions.
- PwC provides services to clients in nearly every industry and market: utilities and mining companies, banks and financial service providers, IT companies, telecommunications companies, the media and entertainment industry, as well as consumer and industrial products and classic industries such as general service providers and public institutions.
- PwC treats each company equally, adding rigour to the Performance Management process. Savings are limitless and vary case-by-case.

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