Improving Management Effectiveness in Midsize Companies

Better Performance Management Is Within Reach

White Paper
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V E N T A N A
R E S E A R C H

Aligning Business and IT To Improve Performance

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Table of Contents

Challenges for Midsize Businesses

Improving a company's performance, the daily focus of business executives since the beginning of time, has never been easy. Achieving the best use of resources, especially people, capital, materials and time, is a challenging undertaking. So are aligning day-to-day decisions to the company's strategy and achieving coordination across all parts of the business.

Ventana Research believes that performance improvements require companies to resolve their business challenges by addressing often overlapping issues related to people, processes, information and technology. While each area is important to companies of all sizes, this white paper focuses on how midsize companies can take advantage of recent advances in information and technology capabilities to address business challenges unique to them. We stress the connection between information technology and key business issues because we find people in finance positions often are not aware of practical solutions that are readily available to them.

> **Midsize companies must find new ways of meeting their operational needs.**

Midsize companies (which we define as those that have 100 to 1,000 employees) are no longer the small, nimble organizations they once were, and they need many of the capabilities larger businesses have. Yet they lack the resources (that is, money and people) of large corporations. Frequently this dilemma presents itself in the form of operational challenges. Important processes that involve key parts of the business are less well-coordinated because people no longer get enough of the right information soon enough. Moreover, the systems in use were designed for a much smaller company.

Faced with these developing problems, midsize companies must find new ways of meeting their operational needs. Fortunately, the information and technology dimensions are no longer the constraints they once were. Indeed, they can enable change and help organizations achieve greater efficiency and effectiveness.

This opportunity is particularly promising for the finance departments of midsize companies. Our research benchmarks consistently find that most of them fall short in their use of available information technology, both absolutely and relative to larger companies.

Opportunities for More Effective Management

Many companies are seeking to improve their effectiveness through performance management. The goal of performance management is simple enough: to get people to agree on high-level strategic goals and a plan to achieve them and then to determine how the efforts of each part of the business will support that plan and to ensure that they do. Without

agreement on how to improve performance, organizations will not be able to derive full value from either their human capital or their business processes. Done well, however, performance management enables individuals to act efficiently and make effective decisions in ways that advance corporate strategy and coordinate with other efforts across the organization.

Performance management initiatives always involve addressing people, process, information and technology issues. Recent advances in information technology enable companies to efficiently collect and present accurate and objective performance measurements. This is particularly true for midsize companies, which have many opportunities to harness more capable information technologies.

> **Midsize companies have more opportunity than ever before to use software to improve their effectiveness.**

One of this decade's more important advances in information technology has gone largely unnoticed. Today, small and midsize businesses have access to a much greater variety of information technology resources designed specifically for their needs and able to provide capabilities that once were available only to large corporations. Midsize companies have more opportunity than ever before to use software to improve their effectiveness. Senior executives of these companies, especially the CEO and CFO, must take the initiative to understand how these newly available capabilities can help their companies improve effectiveness.

There are many areas where midsize businesses can apply information technology toward the goals of performance management. Here are just three in which Ventana Research sees particularly strong opportunities to improve performance:

- Getting more actionable information to executives and managers sooner
- Tracking business unit and individual performance faster and more accurately
- Improving the business value of planning and budgeting.

Know More, Sooner

Since the start of business computing, one of the paramount goals of applying technology has been to give executives and managers all the information they need when they need it. Our research shows that companies today have made considerable progress toward achieving this goal, but midsize companies still have a long way to go, especially compared to their larger competitors.

In terms of information availability, we find that companies do a fair job. Our research shows that nearly three-fourths of companies provide executives and managers with sufficient high-level information about the financial condition of the company and the individual user's business unit. Two-thirds

of research participants said they get enough basic operational information to manage their business well. Yet there are gaps in the information that organizations provide to their employees.

When it comes to performance management, our research shows that about half do not get enough information about how well they are achieving their personal objectives. More than half said they do not get adequate leading indicators that would enable them to anticipate changes in the business. And more than three-fourths said they receive little insight into how well their competitors are doing.

There can be many reasons why this information is not provided, yet most of those barriers can be overcome, especially if they involve information that a company could collect and disseminate but doesn't. The solution is to stop focusing on just the basics and understand that the company can provide its decision-makers with a richer set of information, likely without having to make a substantial investment. One notable area where a majority of companies fall short is in providing individuals with meaningful key performance indicators. Another is making available leading indicators that would enable them to anticipate issues and opportunities rather than react after the fact. In terms of timing, our research shows that only four in 10 participants are satisfied with the timeliness of the information they receive.

One performance improvement achievable by most midsize companies is to close their books faster. Ventana Research has done extensive benchmark

> **Companies can provide their decision-makers with a richer set of information.**

research in this area which shows that midsize companies take longer to produce their monthly management reports than larger ones: Only 41 percent of midsize companies complete them within six business days compared to 53 percent of larger ones; 23 percent take 11 or more days compared to just 14 percent of larger companies. We find that processes and technology are the two most viable avenues of improvement to speed up the accounting close. While the research shows a range of process changes that companies can make to accelerate their close, there is a common IT-related thread running through them: Companies that minimize the use of stand-alone spreadsheets will close their books faster and find fewer errors in their financial reports, and thus improve the timeliness of their information.

Financial as well as management reports are another area where a majority of midsize companies rely on desktop spreadsheets to collect information, analyze it and distribute the information. As we will discuss below, using desktop spreadsheets creates a barrier – often unnoticed – to providing accurate information on a timely basis.

Track Performance Faster and More Accurately

One common business issue most companies face is providing individual employees with information about how well they are performing. To do this,

we find, companies must address two major issues. One is to set objectives in ways that are measurable, understandable to the individual and consistent with the strategy and goals of the corporation. The second is to be able to collect, collate and present this information quickly and accurately. Our research shows that midsize companies lag larger ones significantly when it comes to tracking individual performance: Only one-third (32%) of these companies track individual performance, compared to 44 percent of larger ones.

The first issue requires serious thought about how to connect high-level strategy and objectives to each individual's contribution in a way that balances the inevitable trade-offs in business – for example, when confronted with the choice between losing a sale or reducing profitability, giving employees better guidance on the discounts they can offer. Managing these trade-offs is especially important when decisions affect other parts of the organization (for example, reducing the bonus pool for salespeople if they give additional warranties or other "freebies" to close business). These people and process issues also have information and technology dimensions. Companies need to substantially reduce the time and effort necessary to handle the mechanical functions of collecting and assembling data, as well as presenting information in ways that people can use.

> **Our research shows that midsize companies lag larger ones when it comes to tracking individual performance.**

This is especially true for midsize companies, which typically do not have the IT resources (people, infrastructure or budget) to support complex computing systems; equally important, they do not have the time to devote to preparing and providing this performance information through manual effort. Until now, midsize companies have been in a bind because, as our research shows, they typically rely on desktop spreadsheets to collect, analyze and distribute information. While stand-alone spreadsheets appear inexpensive and companies almost always have people who are experienced in using them, they stand in the way of improvement.

Plan, Don't Just Budget

Planning and budgeting are critical to any company's performance. Planning well should enable the company to align its efforts to its strategic goals and can serve as the basis for objective assessments of performance. Planning goes beyond financial budgeting by explicitly integrating both operational and financial projections. Planning and budgeting ought to provide a company with five basic benefits:

- Alignment of corporate, departmental and individual objectives
- Collaboration across the organization to ensure clear communications
- Accuracy sufficient to support smoothly functioning operations and financial management

- Insight into performance and the factors that drive results
- Agility to enact coordinated responses to change.

Most midsize companies focus more on budgeting than planning, and though the terms typically are linked, they are different tasks. Planning creates a program for action to achieve specific objectives. Budgeting produces a statement of the financial position of an organization for a specific period of time based on estimates of revenues and expenditures. Planning is concerned with activities, people, resources needed and time spent, while budgeting is about money. Planning explores what is possible; budgeting is about setting limits. Too often, planning is an implicit part of budgeting, but it should be explicit. When it is not explicit, important assumptions about the things that drive a business (the people and things behind the budget numbers) are not shared and thus are not available when reviewing performance.

Our research has shown repeatedly that software can be an important enabler of effective planning and budgeting. The research confirms that spreadsheets fall short compared to dedicated planning and budgeting applications when it comes to handling financial budgeting, sales and operations planning, cash-flow forecasting, capital budgeting, compensation planning and HR planning. While desktop spreadsheets are an invaluable tool for finance and other employees, they have inherent limitations when used for repetitive and collaborative processes and cause planning and budgeting to be less effective as a performance management tool. Dedicated applications (including some that use spreadsheets as the user interface) do not have these limitations.

> **Spreadsheets have inherent limitations and cause planning and budgeting to be less effective as a performance management tool.**

Not long ago, such applications were available only to large corporations because of their cost and the complexity of managing them. Today, however, all companies with 100 or more employees have multiple options that can fit their operating (and operating budget) requirements.

Spreadsheets: Hidden Barriers to Better Performance

Our research confirms that people in most midsize companies use desktop spreadsheets for a variety of tasks. In so doing they must accept that they will have to deal with errors, obsolete and inaccessible data, conflicting versions of the same spreadsheet and the chore of combining multiple spreadsheets. These issues are so common and longstanding that many spreadsheet users have become numb to the difficulties the software imposes on them and the extent to which using them hinders their efficiency.

This, in turn, leads to the spreadsheet paradox: They are both a boon and bane to the efficiency and effectiveness of organizations. Their flexibility and the ease with which users (particularly experienced ones) can create and prototype makes them an attractive tool for almost any business task

involving numbers. Yet these qualities produce many problems when people use spreadsheets in repetitive, collaborative business tasks. Three types are especially common.

First, errors – such as incorrect data, data in the wrong cells, numbers instead of formulas or formula errors - are common. It is simple for users to create these errors inadvertently, and they persist through multiple iterations because most people check their work only by exception. Checking comprehensively for errors is time-consuming. On top of that, a great deal of data (especially in midsize companies) is stored in spreadsheets on individual PCs and often is not accessible to others who could use the information.

Second, it is hard to know whether the information in the spreadsheet is up-to-date, especially if the data has been compiled by others. Moreover, when many different people keep their own information, it can lead to conflicting analyses. While this won't bring a company to a screeching halt, resolving these differences wastes time and delays decisions. Third, spreadsheets are also a major means by which companies record and collect data, and people have to bring it all together by combining spreadsheets. Our research shows that most people (even very experienced users) find this a difficult, time-consuming process.

> **Companies can combine the familiarity and ease of use of spreadsheets with a central database to produce an "enterprise spreadsheet."**

Despite these and other problems cited by our participants, only 12 percent said spreadsheets are a drag on their productivity. Again, that's the paradox of spreadsheets. People are so familiar and comfortable with them – and in many cases so adept at using them – that they overlook or minimize their drawbacks. Spreadsheets are seductive because they are easy to design and set up. In many cases, there is no practical alternative to them. However, when used in collaborative, repetitive processes, they prevent companies from generating better information and improving their performance. Moreover, when used in business processes with potentially significant impact on the company's profits or reputation, they pose significant risks.

Resolving the Paradox

Many observers have noted that stand-alone spreadsheets pose problems, but people have resisted changes that force them to give them up. Until recently this attitude was justifiable since the cost and difficulty associated with the solutions made the alternatives impractical. Today, however, Ventana Research sees several ways for companies to resolve the spreadsheet paradox in their favor. One of the most important is to combine the familiarity and ease of use of spreadsheets with a central database to produce what we refer to as an "enterprise spreadsheet" (as opposed to a stand-alone or desktop spreadsheet).

The enterprise spreadsheet allows people to continue to work in a familiar environment where they are productive and comfortable: the spreadsheet itself. Yet behind that spreadsheet is a real database and the ability to define and control processes and business logic. The database capabilities can eliminate most of the inherent technological defects of desktop spreadsheets. We have identified many benefits of combining a spreadsheet interface with a central database, compared to using stand-alone spreadsheets. Here is a quick look at the most important ones:

- Data is centralized. Reliable, accurate information is accessible to everyone who has permission to use or view it. Business rules, formulas and calculations are applied consistently.

- Data is easier to work with. Unlike in desktop spreadsheets, the information is structured so people can work with it in ways that are natural to a business, in terms of business hierarchies, product lines, time units and so forth. Combining the information coming from a dozen people, for example, and then viewing it by region and product line by month is straightforward and simple.

- "Slicing and dicing" the data is easier because the data is stored in a format that makes it easier to analyze the numbers.

- Consistent, accurate reports can be created faster with less effort. Some enterprise spreadsheet systems have built-in charting and automated report preparation, which cut down on the time and training needed to prepare them.

- The planning, budgeting and review process is easier. There is no need to roll up spreadsheets, and it's possible to create and manage multiple scenarios. You can view the impact of changes to assumptions quickly and ensure that key assumptions (say, the price of a commodity, pay rates or benefits expenses) are applied consistently across the business.

- More people can collaborate in processes such as planning. Enterprise spreadsheets substantially reduce the difficulty of rolling up information and ensuring its accuracy.

In addition, some enterprise spreadsheets have workflow management built in. Workflow handles the roles, responsibilities and rules attached to any repetitive process, cutting the amount of time anyone has to spend watching over the process.

Turn Difference into Advantage

Midsize companies are different. As we've shown, they have many of the same challenges as larger companies but many more constraints on resources. The right information technology tools can enable employees of midsize businesses to collect, analyze and report on information faster and with considerably less effort and can give executives and managers all the information they need to run the business more effectively. Over the past five years there has been a considerable advance in IT tools designed expressly for midsize companies and sized and priced to fit their organization and budget. These tools can be a significant aid to improving the effectiveness of core business processes such as creating management and

financial reports, speeding up the accounting close, and increasing the business value of planning and budgeting.

Ventana Research recommends that executives of midsize companies familiarize themselves with the tools currently available. They can consult with other executives who have already taken steps to transform their companies by focusing on performance management to learn first-hand the challenges and opportunities. They should begin to chart a course to address the people, process, information and technology issues that are preventing them from achieving better performance.

About Ventana Research

Ventana Research is the leading Performance Management research and advisory services firm. By providing expert insight and detailed guidance, Ventana Research helps clients operate their companies more efficiently and effectively. We deliver these business improvements through a top-down approach that connects people, processes, information and technology. What makes Ventana Research different from other analyst firms is our focus on Performance Management for finance, operations and IT. This focus, plus research as a foundation and reach into a community of more than 2 million corporate executives through extensive media partnerships, allows Ventana Research to deliver a high-value, low-risk method for achieving optimal business performance. To learn how Ventana Research Performance Management workshops, assessments and advisory services can impact your bottom line, visit www.ventanaresearch.com.