IBM WHITE GLOVE EVENTS

Moderator: Tim O' Brien
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Operator: I'd like to welcome everyone to today's Web event titled "Best Practices and Action Webcast Series". It is my pleasure to turn the floor over to (Tim O'Brien). (Tim), you may begin.

(Tim O'Brien): Thank you and welcome everyone to this installment of the Best Practices and Action Webcast Series featuring the fifth of a five-part Key Performance Indicator Focused Webcast Series delivered by Jeremy Hope from the Beyond Budgeting Round Table. You may also know Jeremy Hope as the author of a number of books, a couple of things; Beyond Budgeting as well as Reinventing the CFO. He's also authored many articles that have been released through various outlets that you might be familiar with. So, we're really excited to have Jeremy with us today.

Today's subject is "How to Use Key Performance Indicators to Empower People Through a Better Transparency and Communication." Before I transfer the microphone over to Jeremy Hope, I wanted to quickly tell you about IBM Cognos Innovation Center and then briefly about what it is when we talk about Business Analytics. What does that mean? And then, that should take a few minutes and we'll get to Jeremy our keynote speaker.

So, briefly about the IBM Cognos Innovation Center, we are delivering this Webcast to you today. We've got over 6,500 customers that are part of our global membership community, some of which you see on your screen right there. We also partner with third-party Thought Leaders like Jeremy Hope who's leading this Webcast and many others who are considered subject

matter experts across all of the different practice areas within Business Analytics. A couple examples of practice areas would be like strategy management and score-carding, like planning, budgeting and forecasting, reporting and analytics, things like that. Again, I'll get into more detail in a minute about that.

So, we partner with these third-party Thought Leaders. We've got a global customer community that's a part of our membership and from that we deliver a great deal of content, some of it's offered and delivered by these third-party of Thought Leaders. Other content is actually produced by the Innovation Center team as well as coming from our customers. And all of these consists of things like these Webcasters, a few others that we deliver on a monthly basis, that will certainly make you aware of – there's also customers that (inaudible) Podcasters, there's Thought Leadership articles and Best Practices articles are available to you.

We've got an online community, a monthly calendar of events. We've got a customer advisory board that we run as well. Bench-marking tools that can leveraged by our community and many other things that are great assets for our costumers to use to get the most out of their Business Analytics solutions form IBM. Now, as you can tell, there's a lot of different assets we deliver and there's a lot of it coming to you on week to week basis. A great way to stay connected is through the IBM Cognos Innovation Center Widget. You can download that at ibm.com/cognos/innovation-center.

Again, a great way to stay connected with the Innovation Center and everything we're doing on a go forward basis. Now I mentioned, I just briefly want to tell you about Business Analytics. Now, what is it when we mention Business Analytics? In short, essentially, what we're talking about is four different components. And you might think of them as product or solution areas that comprise Business Analytics. And that is Business Intelligence, Financial Performance and Strategy Management, Advanced Analytics and Analytic Application.

And when we talk about Business Analytics, excuse me, Business Intelligence, we're talking about query, reporting, analysis, scorecards and

dashboards to enable decision makers across the organization easily find, analyze, and share the information they need to improve decision making. When we talk Advanced Analytics, we're talking about data mining, predictive modeling, what ifs simulation, statistics, and text analytics to identify meaningful patterns and correlations in data sets to predict future events and access the attractiveness of various courses of action.

And Financial Performance and Strategy Management, we're talking about budgeting and planning, financial consolidation, score-carding and strategy management, financial analytic and related reporting capabilities, to help simplify structure and automate dynamic and sustainable Financial Performance and Strategy Management practices. And lastly, Analytic Application is net applications that package Business Analytic capabilities, data models, process workflows and report, to address a particular domain of business problem. For example, customer, workforce, supply chain in Financial Performance Management.

So that's all the solution areas that are comprised in the Business Analytics. But to look at it at another way, think of all of those solution areas working within a single integrated platform and in such a way that allows decision makers, regardless of the level of the organization in which they sit, regardless of the functional area they sit, or the geography, that region that they sit in, decisions in this highly competitive with the high velocity–at the speed of business has changed such that decision makers are making decisions every day.

And in order to facilitate fact-based or informed decision making, you want to work with a single integrated platform. And the decision makers are going to work through, essentially, three questions before making that decision if you will. That first question is, it's around measuring and monitoring the business, and it's asking a question like "What's happening with the business? How are we doing today?"

Typically done by monitoring and measuring key performance indicators, are we on target, are we off target? How are we doing? And that's through scorecards and dashboards, reports and real time monitoring. Once you

understand how the business is doing or a particular key performance indicator, then you'd want to understand 'why'.

"Why are we above target? Why are we below target? On target?" Whatever the answer maybe, you want to be able to drill through in context. You don't want to log in and out of different applications, different sources of data. You want to do it through an integrated platform and answering that question of 'why' is through ad hoc query, trend and statistical analysis, content analytics. Those comprise the different solution areas or tools that you would leverage to answer that question of 'why'.

And then lastly, once you've understood 'why', "Why are we on, why are we off target? Why are we missing our number by 20 percent?" Once you've understood the 'whys', now, you want to understand, "What's likely to happen?" You know, "What should we be doing?"

And that's where the 'what if' analysis, predictive modeling, planning and budgeting come into the play to round out that final component or category in decision making.

And that is what Business Analytics is in a nutshell. Certainly, there's more to it and we got other resources available to you at ibm.com also within the Innovation Center. So, I encourage you all to go to ibm.com/cognos/innovation-center. Become a member of our group and you can leverage all the assets that we provided, as well as going out to ibm.com and leveraging those assets as well to give you more information around Business Analytics.

So, I thank you for your time in letting me share with you some of the information about the Innovation Center and what is Business Analytics. I'm now pleased to introduce to you all, Jeremy Hope from the Beyond Budgeting Round Table. Jeremy? You have the floor.

Jeremy Hope: Thanks Jim and hello everyone. And a big welcome for me to this Webcast on How to Use KPIs to Empower People Through a Better Transparency and Communication.

Many organizations invest huge amounts of time and expense on improving their management information systems, especially implementing KPIs but then blow the benefits by tightening the coils of central control rather than empowering their people.

The opportunity to use KPIs to improve transparency and communication is now beckoning. Control can be at the front line and at the corporate center at the same time. In other words, Control and Empowerment are no longer trade offs that leaders have to make.

In this Webcast, we will look at what this means for traditional views about compliance and control and what the mind-set challenges are as we move further toward an open information business world.

This is the last in a series of five Webcast about how to derive and use KPIs that I will be presenting throughout 2010 for IBM Cognos. The first four were; How to Select the Right KPIs by Aligning Them with Team Best Success Factors; How to Turn Dumb KPIs into Intelligent Analytics; How to Use KPIs to Design Insightful Reports; and How to Use KPIs to Support the Forms Evaluation and Rewards.

I'm sorry. I just jumped to (inaudible), too farther, we're back on the right one here. Nine years after (inaudible), eight years after Sarbanes-Oxley, why do so many companies' persistence being less than truthful with their employees, customers, investors and other stake holders? You would have thought that all those TV images of CEOs and CFOs being escorted to jails in orange jumpsuits with their heads, hands tied behind their backs would have been sufficient to tell every leader that the risks are never worth the rewards but the evidence does not bare this out.

The levels of lying, cheating, greed, corruption and fraud are just as high today. In the UK, it was announced only yesterday that in the first half of 2010 the figures for corporate fraud were the highest ever, with almost half being perpetrated in the financial sector. While weary investors were on their guard for the next corporate scandal, employees' stress levels are rising and

customer's satisfaction in (inaudible) are stubbornly failing to improve. Over all, the public perception of business is at an all time low.

In 2003, a research team from the International Federation of Accountants looked at many failed companies across the world from a corporate governance perspective. And this report concluded that the top three most common problems were: poor ethical standards at the top, aggressive targets in earnings management, and misaligned incentives.

The top of the (inaudible) list was poor ethical standards at the top despite Sarbanes-Oxley and all the time the money spent on internal control and risk management, ethical standard has failed to improve. Know how these additional controls prevented the credit crunch on the recession that followed but they did add a great deal of complexity and cost as companies appoint (inaudible) risks and ethics offices, implemented more screening for the right employees, implemented more computer security and spyware in the office, and expanded the management control bureaucracy.

The lessons I think are two fold. First, more detail does not equal more control. And secondly, rules and regulations do not change hearts and minds. The problem is that governance, compliance, and risk management often become standardized processes that give (inaudible) as the impression that potential compliance ethics are risk problems of being well managed when this may be a long way from the truth. In other words, it can easily lull leaders into a false sense of security.

Another problem is that when rules define what's right or wrong, it can lead to a check-box mentality. In other words, anything that's not specifically forbidden is allowed, leading to managers finding ways to circumvent the rules or explain away the risks.

As long as the process passes stringent audit tests, they're in the clear. The reality is that too many organizations continue to operate in the gray area between what's right or wrong, and too often step over the wrong side of the ethical line. When a short term profit opportunity beckons, there is always a way to explain away the ethical dilemma of the risk.

But in a world of constant digital surveillance, 24/7 media and Web-based social networks such as Facebook, any of which can turn an error of judgment or hidden truth into a reputation meltdown in an instant, operating in the twilight world of balancing cost and profit against what's ethically right or wrong makes no sense at all. The ethical road is the only one to take.

Number two and three on the (inaudible) list of the common thread of failure were aggressive targets and incentives. They too often lead to five outcomes.

One, dysfunctional and unethical behavior are a culture of meet the numbers at any cost. The Worldcom culture, say those who work there, was all about living up to CEO Bernie Ebbers' demands.

He said this, "You would have a budget," then he would mandate, "you had to be 2 percent under budget. Nothing else was acceptable." That came out in the testimony on the case.

Two, misreporting. When Professor William Ouchi, looked into the reporting standards of public schools in America, he was shocked to find that graduation rites in big cities like Chicago, New York and Los Angeles run only 50 percent, but those cities all reported around 90 percent. What he discovered was that these school districts commonly test only 60 to 70 percent of their students, the good test takers, and report that results as their performance.

Three, over zealous risk taking. You only have to think of the excessive risk taking and the aggressive bonus culture at all the banks that collapsed. Four, greed, corruption, and fraud. The gap between the CEO's pay and the average pay in 2008 was an incredible 344 to 1. How do you make – how do you think that makes average employees feel?

There's little doubt that fraud or corruption is much more likely in organizations where people are disconnected from their leaders who feel no responsibility for their actions and who see greed and manipulations at the top as a license to act with the utmost self-interest. If individuals can convince themselves that their contemplated behavior is not wrong using excuses such as: everybody does it, the effect is immaterial, no one is hurt, or I'm doing it

for the good of the company, then, there's little to prevent this type of behavior that puts both the individual and the organization at risk.

And five, shatter reputations and corporate collapse. Leaders at BP had been preaching about good governance and transparency for over a decade. Yet in recent years, it has been hit with the refinery explosion that killed 15 in Texas, a fine for safety violations at the refinery in Ohio, a major oil pipeline leak in Alaska, a U.S. Justice Department probe to a suspect in manipulation of oil prices, and of course the recent disaster in the Gulf of Mexico.

The impact on its reputation and its share price has been nothing less than catastrophic. As a report on the Texas City fire highlighted, the culture at BP was one of pursuing aggressive targets and tight budgets before due consideration was made about health safety and the environment.

But BP is not alone, the difference between the (inaudible) and the reality, is that the vast majorities – majorities of CEOs and CFOs are more concerned about meeting this quarters numbers than protecting their people or saving the planet.

What's needed is nothing less than a cultural climate change. Unlike compliance or risk management directives, attitude and behavior change cannot be mandated from the corporate center. Rules do not change mindsets. It needs a combination of inspiring leadership and management systems that drive the right behavior. So, here are my 10 actions that define the new transparency agenda.

One, establish a malleable a purpose. Two, move beyond compliance. Three, include values and performance appraisals. Four, make information open and transparent. Five, speak with one truth. Six, communicate frequently and effectively. Seven, accelerate the communication of bad news. Eight, teach people to understand the numbers. Nine, use information to empower rather than control. And 10, use technology to reap the benefits. We now look at each of these in turn.

The first action is, establish a noble purpose. When Citicorp merge with Travelers in 1999 to create a sprawling bank conglomerate CitiGroup, the

joint CEOs held a press conference. John Reed, Citicorp CEO, declared the model I have is of a global consumer company that really helps the middle class with something they haven't been served well by, historically. That's my vision, that's my dream. His joint CEO, Travelers' Sandy Weill, rapidly interjected, saying, my goal is increasing shareholder value.

Reed and his old fashion, oblique way of running a business was sidelined but just a few years later, Citi was in trouble and Weill was forced out. Within a decade Citigroup of course was forced into the arms of the U.S. government. By pondering to replace a shareholder, firms are not just trying to come up with the goods too quickly. They're actually pursuing the wrong goal.

Business is not just about numbers and targets and signages, it's about great products, happy customers and loyal staff. If you define success purely in terms of increasing short-term shareholder value then it's likely that you've already sown the seeds of self-interest and unethical behavior. The lesson is that, that shareholder value might be a reasonable historical measure of performance, but it represents a lousy target. There are just too many ways that leaders can influence the share price that do not benefit the company in the long-term.

John Mackey, CEO of organic foods retailer Whole Foods Market, puts it this way, "I think that business has a noble purpose. It's not that there's anything wrong with making money, it's one of the important things that business contributes to society but it's not the sole reason that businesses exist. Just like every other profession, business serves society, they produce goods and services that make peoples lives better. Doctors heal the sick, teachers educate people, architect's design buildings, lawyers promote justice. Whole Foods puts food on people tables, and we improve people's health. And we provide jobs, and we provide capital through profits that spur improvements in the world. And we're good citizens in our communities and we take our citizenship very seriously at Whole Foods."

A clear and compelling purpose above and beyond shareholder values sets the right cultural climate for ethical behavior, and long term wealth creation.

These two are not mutually exclusive. In fact there is strong evidence, that ethical companies are more successful in the longer term.

The second action is to move beyond compliance. To root out unethical behavior, obsessive sequence secrecy, and outright dishonesty, leaders need to go beyond compliance and build a culture based on truth, transparency and trust. This must be an all or nothing belief system that governs every thought, action, and relationship. Never cheating or even being economic with the truth with fellow employees, customers, external partners or investors, must be the guiding maxim throughout the organization.

As Professor Kim Cameron explains, it means being positively deviant towards what he calls virtuousness. In other words, people need to go out of their way to be truthful, transparent, and trustworthy. Cameron suggest that we think about the human body and points out that the large majority of medical research, and almost all of the physicians time is spent tying to get people from the left point on the continuum, that's illness, to the middle or health. This middle point represents an absence of illness or injury. Very little is known about how to get people from the middle point to a state of wellness on the right.

Psychologically, the same thing occurs. More than 95 percent of psychological research in the last 50 years has focused on closing the gap between the left point and the middle point. That is overcoming depression anxiety, stress or emotional difficulties. Little is known about how to get people from a condition of health to a state of flourishing vitality or what's referred to as Flow, in psychology. Most of what we know about human physiology and psychology is how to overcome weakness or illness, and reach a state of normality.

Ethics, information, and integrity can be viewed in the same way. Unethical behavior, obsessive secrecy, and outright dishonesty, violate basic principles. We spend a lot of time in our writing about ethics and our legislation in the popular press addressing these types of behavior. The large majority of our attention is spent reminding leaders and organizations to comply with

regulations. Hardly any attention is given however to the right side of the continuum, truth, transparency, and trust.

As Cameron notes, this is not only a condition of not producing harm but it's a condition of doing good, honoring others, taking a positive stance, or behaving in ways where self-interest is not the driving motivation.

Virtuousness is also self perpetuating. When people are exposed to virtuous acts, they are attracted to them, they are alleviated by them, they tend to reproduce them. When we observe virtuousness, we are inspired by it. Just as these dynamics occur in individuals, similar dynamics occur in organizations.

Organizational performance tends to improve when virtuousness is fostered or nurtured. When people see others behaving humanely, they tend to behave humanely as well. Integrity, compassion, and trust for example, create an environment where people are encouraged to be their best, where innovativeness, loyalty and quality are likely to be higher. That's the virtuous cycle. The amplifying nature of virtuousness causes it reproduce itself and to improve organizational performance over time.

The third action is to include values in performance appraisals. Cultural values that are deeply ingrained are either a priceless asset or an onerous liability. World class organizations don't just issue written statements. They re-enforce their values everyday with their actions.

Norwegian oil and gas company Statoil, made it clear that abiding by its values would form a key element of its performance appraisal process. As project leader Bjarte Bogsnes explains, these are the benefits that guide the company's operations and the foundation on which it's building it's future.

The key to effective performance is crystal clear values and principles. This management style can only operate effectively if there is high trust and open information. But if this trust is breached then the sanctions are clear, people will not survive.

He told me this in an interview, "We are ruthless on policy violations that usually lead to dismissal. We have a simple ethics test so that people know

whether or not their action is acceptable. They just need to ask the following question: is it acceptable if the results of their actions appear on the front page of the local newspaper? If yes, go ahead, if no, don't do it."

Delivery goals are now evaluated through a pressure testing of KPI results against KPI targets. However these results are not the starting point – I'm sorry, are now the starting point for an evaluation and not the endpoint. These five questions are used to pressure test the results.

First, did the KPI results contribute towards the strategic objectives? If with the benefit of hindsight, we look at what the KPI was unable to pick up. How does it now look? The answer might confirm what the KPI indicated or provide a more positive or even a more negative picture.

Secondly, how ambitious were the targets? Did you stretch yourself or not? This is often much more visible with hindsight than at the outset. The assessment provides a more level playing field and offers a fair basis for performance comparisons.

Thirdly, are there changes in assumptions that should be taken into account? Did you have a tailwind or headwind that had nothing to do with performance?

Fourthly, where (inaudible) necessary actions taken? And fifthly, are the results sustainable or have you done things you shouldn't have done to lift your results?

Many of these questions are also applicable when evaluating behavioral goals. These include peer reviews, and how managers and employees are living the values. Bogsnes acknowledge that this is not as easy as it sounds. (Sentiment) evaluated behavior goals is not easy. "And we are learning everyday", he says, "But we are convinced that this is the right thing to do."

It wasn't that easy with KPIs either when we start with these, 10 to 15 years ago. You can see from how the performance appraisal is now conducted at Statoil, that while KPIs are important, they are used to inform the judgment and that's the right approach.

The fourth action is to make information open and transparent. But what does real transparency mean? Here are five radical ideas that get the point across. One, everyone can see the organizations and their teams, goals, strategies, plans, KPIs and so forth. This means that every team member has no excuse for not understanding goal, strategy, and so forth, and has every opportunity to engage in and contribute to these important processes.

Two, everyone can see complete financial statements, apart from group forecast, maybe, as well as KPIs, trends and peer to peer comparisons. Everyone can see how their own team and their whole business is performing.

Three, everyone can see everyone's salary, bonus and even their peer review. Salary and bonus differentials are a source of much employee concern and dissatisfaction so make the open. Also open up the evaluation scores of all managers, this provides a rich source of learning and improvement.

Four, everyone can see everyone expenses. Again, open up the books, so everyone's expense account is available to scrutiny. This alone will probably cut expenses by 20 to 30 percent. And five, everyone can see the minutes of team meetings. Open up the decision making process so everyone can see how decisions were taken, including which options where considered but discarded and why.

Consider what happened recently at Roche, a $50 billion Swiss-based pharmaceutical business. In April 2009, six Roche managers from different parts of the group met at London Business School. Their perception was that red tape was absorbing too much energy. We need you to think of something to tackle bureaucracy that we as a group felt was getting a bit out of control, noted one manager.

The questions they asked were, is it feasible to use radical transparency to dispense with bureaucracy without losing control? Is personal responsibility a substitute for external controls? These are big questions to which the Roche team, believed the answer have to be, yes. Their intuition was that not only are there alternatives to bureaucracy, there are simpler, more motivating ways

of working that are more aligned with Roche's organizational values, and hopefully mutual on trust.

After considering a number of options, the team chose to examine travel expenses. Roche spends three – $430 million dollars a year on travel and entertaining to see whether changes in management control might achieve. As one manager puts it, "I'm responsible for 60 million euros in sales but need approval to buy a cup of coffee."

So, what they did was set up two pairs of matched group of 50 people each. A controlled experiment as you might expect from a pharmaceutical company. One group was in Germany and the other at the head office in Basel, Switzerland. In one group, in each place, there was no change in the travel policy. But the other group was told that their travel would no longer require any prior approval provided they abided by the company's policies but, and this is the point, their expenses would be available on the Internet for everyone to see.

What were the results? The experiment was designed to test three things, would people be more motivated by the removal of the bureaucratic process of pre-authorization? Was the new process simpler than before? And what will be the consequences for costs?

The answer to the first question was that 45 percent were more motivated and 46 percent were neutral, 94 percent were comfortable with full transparency, and 83 percent said it was more in tuned with the Roche's values and wanted it to become permanent.

On the second question, around 80 percent thought the system to be – was more efficient. But the real surprise was the answer to the third question. While cost in the control groups remained the same, they went down in both groups operating onto the new system. And in one group, this reduction was quite a substantial percentage. The study didn't say exactly what it was.

HCL Technology is a $2 and 1/2 billion dollar IT company based in India. In 2005, when Vineet Nayar, became CEO, he looked for ways to kick start growth. So he started a number of initiatives to change the management

culture. For example, all financial information was to be published on the company's Intranet, and all managerial performance appraisals were to be made available to those who participated in them. He also wanted to invert the management hierarchy and reverse the traditional flow of accountability. He even challenged the power of the CEOs office.

This is how he puts it, in the context of the annual planning process. In his words, "You come and make a presentation to me about what you're going to do, and I will sit in this chair god has given to me, and tell you if I liked the plan or not. The power of the hierarchy flows from the fact that I will comment on what you write." He then reflected on the different views that his kids had about the use of information. "As my kids become teenagers," he mused, "I started looking at Facebook a little more closely. There was a significant amount of collaboration, there was open understanding, nothing seemed to be secret, friends were commenting on each other and it was obviously working."

"Now, here is my generation which is very security conscious and privacy conscious, and I thought what are the differences? This is the generation coming to work for us. It's not my generation. So we started having people make their planning presentations and record them for our internal Website. We now open each presentation for review to a 360 degree workshop, which means your subordinates will review it, you managers will read it, your peers will read it, and everybody will comment on it. I will be or your manager will be, just one of many who read it. So, every presentation is now reviewed by, maybe 300 or 400 people."

Two important lessons emerged. First, because your subordinates are going to see the plan, you cannot lie, you have to be honest. Secondly, because your peers are going to see it, you're going to put your best work into it. Managers also learn by reviewing somebody else's presentation. You learn from the comment somebody else gives you. The 8000 people who participated, there was a massive collaboration learning that took place.

Since 2005, the company's revenues and earnings have tripled, a peer-beating accomplishment. In the financially year 2010, ending in March, the company

out grew its major Indian competitors by 21 percentage points. And between 2006 and 2008, employee satisfaction grew by 70 percent. And in 2009, the company was ranked as the best employer in India.

Vineet Nayar's book, 'Employees First, Customer Second', has now been published by Harvard Business School Press. I urge you to buy it.

The fifth action is to speak with one truth. Many organizations have to deal with a patch work (inaudible) of Legacy Information System. So, that's difficult to stitch together. This is one of the primary causes of slow information. Not only this, they keep parallel sets of books including in some cases; one is for cost accounting, one for management accounting, one for financial accounting, and one for reporting to regulators.

Most managers don't know what happened last month, until the second half of the following month. They typically spend the first couple of weeks, joining their systems together, often leaking information to spreadsheets to show leaders a complete picture.

In a fast changing market, on the first few months of a new product launch, this can mean the difference between taking the right and wrong actions. And will have a major impact on the bottom line. Effectively, this (inaudible) in only one set of numbers that are transparent throughout the whole organization.

And turning one set of books on one truth is the key to high levels of ethical practice. Gunnar Haglund, CFO, Swedish distributor Ahlsell, is a passionate believer in open information, and made this comment to me during an interview I did with him a few years ago.

We established at the onset that one of our key principles was self management and internal competition based on free access to information. We reduced all management reports to the simplest and most relevant content and format. Our reporting system have no middleman and there's only one truth.

This is really important; no one is treating the information or giving it some particular spin. Performance is transparent we only use the real numbers. The lesson is that transparency leads to trust and trust is reciprocal. If senior executives trust their people then that – their people will return that trust with greater commitments and better results.

The sixth action is to communicate effectively. Southwest leaders know that they can't fully empower frontline people unless they're trusted with fast, open and relevant information. So, that's what they provide. Southwest is known for saturating people with information and allowing each employee to analyze and interpret the key messages that have meaning for them.

Access to information is especially critical for dealing with customers and for taking the right action. The finance teams have launched a (bizlit) campaign, to educate people about the key numbers. These includes earnings, debriefing article every quarter, scoreboard posters, other financial articles in intervening months, departmental newsletters align to the – knowing the score message and the real deal initiative that turns magic numbers into animated characters.

They've also done an excellent job of communication to key members of the workforce, and helping them to understand what they mean, posters are distributed throughout the field. They talk about the four magic numbers being the key to prosperity. And they also tell them about the penalty cost if they're not achieved.

In fiscal 2008, these numbers were, one; tough (inaudible), the prosperity goal was 6.4 cents. Two; net income, the prosperity goal was $760 million. Three: net income margin, the goal was 8 percent. And four, return on invested capital, the goal was 15 percent.

The individual profit sharing penalty is the difference between actual results and prosperity goals. For example, while actual result in 2007 was net income of 471 million, the base line prosperity goal was 820 million. That's a prosperity penalty of $850 per $25,000 of wages. Isn't that an interesting way to explain profitability on the impact on the bonus scheme.

This process was supported by extensive employee training. According to CFO Laura Wright, that the employees who completed the training, over 50 percent said, they believe they have an improved ability to identify and explain the company's strategy and then they can now better explain what the magic numbers are; what they mean and what the goals are for their department as well. This is the essence of the Southwest approach. I'm not only trusting employees with the information, but spending time educating them on how to interpret and respond to it.

The seventh action is to accelerate the communication of bad news. The earlier bad news is shared, the faster the problem is tackled and the lower the cost will be. What happened at Sears Roebuck in 2002, is a good example of how bad news can be suppressed with severe adverse consequences. The credit card business is the major source of Sears' profitability. It was sometimes called the credit card company but dabbled in retail. While the recently introduced Sears MasterCard was successful, it was not achieving the planned growth levels. Average user balances were well below forecast.

So in early 2002, the company took steps to raise rates and fees to well above competitive offerings, but this move just pushed already rising delinquencies rates even higher, as few Sears customers could get credit elsewhere. The problem erupted shortly afterwards, as bad debts were increase by 50 percent in one quarter.

CEO Alan Lacy made this admission to the New York Times. The president of the credit division did something that was unacceptable in the third quarter, it was not forthcoming about what was happening in his business. The problem was that Sears did not write-off bad debts, until they were 240 days old.

So, even though the manager could see the trends of delayed payments and the likely write-offs, they were under pressure to make their numbers and were not obliged to report them until the due date. Sears ultimately decided that the damage cost by inadequate monitoring and reporting on the credit portfolio had surprise their company too many times. Well, (inaudible) large organization assimilate bad news quickly and deal with it as a team. By doing

this, local managers are not afraid of building the results of such bad news into their forecast. This thing – have been already been taken out of them.

In early 2003, Sears announced that it sold its 29 billion receivables to CitiGroup for just $3 billion. Bill Gates offers some good advice, "a change in corporate attitude" he says, "encouraging and listening to bad news has to come from the top. The CEO and other senior executives have to insist on getting bad news, and they have to create an appetite for bad news throughout their organizations."

The bearer of bad tidings should be rewarded, not punished. Business leaders have to want to listen to alerts themselves, people, the product developers and the customers. You can't just turn off the alarm and go back to sleep, not if you want your company to survive.

The eight action is to teach people to understand the numbers. It's reckoned that up to 40 percent of costs in large organizations fail to add value for their customer, but because accounting systems record cost by account code and not by the type of work done, they provide few clues as to which they are.

In 2008, Cisco Systems slash travel expenses from $750 million a year, to just 350 million; all from around 7,900 per employee, down to a run rate of 3,400. This is how they did it. Like the Rose Experiment, the pre-trip approval expenses process was eliminated. A self-booking tool now asks employees to identify reason for travel. Is it for customer travel, external travel, internal travel, training, or emergency travel?

Any travel for sales, new business, and other customer opportunities continued unaffected but was now self-authorized, but internal travel and training was now redirected to Cisco's various virtual meeting technologies. Including, WebEx, Telepresence, audio video con – or audio and video conferencing.

Cisco found that 49 percent of travel was for internal reasons. Now, only a senior vice president can approve internal travel. What this exercise taught Cisco was that employees can be educated to understand which costs are good cost, those that add value, and which costs are bad cost, those that don't add

value. In other words, by changing how they describe cost, employees were much more conscious of how they spend their time and money.

The ninth action is to use information to empower relative in control. William Ouchi spent many years trying to improve the U.S. public school system. No one cared how schools were organized. Even academic experts believe that parental background was the most important factor in the child's education.

By 1994, he found three school districts that have local autonomy; Houston, Seattle and Edmonton in Canada. So, he compare them with the three largest U.S. districts; New York City, Los Angeles and Chicago. His team interviewed many principals, and found that respectively they control only 6 – 6.7 and 19.3 percent of the money spent in their schools.

In Seattle, Houston and Edmonton, the figures were 69, 80 and a 92 percent. He proved that local control was the key to higher student achievement record. It enables school managers to change three key factors; the staffing next year, the curriculum and the schedule.

He found that one KPI was the most telling factor; total student load. The number of classes a teacher takes; multiplied by the number of students per class. The average daily figure is around 160. That's five classes times 32 students, compared with around 55 to 60 in the elite private schools.

Since then, hundreds of schools have followed his advice. Once school have authority, they share ideas, reduce the admin and put their resources into the classroom. Everybody teaches, there's no registrar, no guidance counselors. They also dump the seventh period, five day a week schedule that nobody likes and represents a poor use of teacher resources.

And then they innovate. At one school, the math and science teachers geared up to teach in the other discipline. The result was to work (inaudible) longer hours, but with half the class size. Once school (inaudible) have the scope and authority to change, they began to see opportunities for innovation and more flexibility that were previously invisible to them.

They could see how the key to performance driver was not parental wealth but student load factor. They could see how reducing the bureaucracy and transferring much needed resources to frontline team, would rapidly translate into positive results.

The tenth and final action, is to use technology to reap the benefits. One of the most common objections to building transparent organizations is the slow speed and high custom equipment communications and the lack of IT integration. In fact, most still operate with desperate islands of knowledge. Each function or department has its own knowledge base that is not available to other managers, thus denying them access to the bigger performance picture.

But technology, especially the internet, has dealt leaders a new deck of cards. Communications is now instant, and the costs are becoming negligible. Control can be everywhere at the same time.

There are three principal benefits. First, effective empowerment is enabled by enterprise-wide systems that provide fast relevant information. This enables managers to see the patents and trends, and they only interfere with KPIs and moving in the wrong direction and the right action is not being taken.

Second, effective planning and decision making depends on open access to information, effective analysis, and performance insights based on KPIs and trends and forecast. Integrated systems enable hundreds of people to participate in the planning process at any one time; helping to build their strategic capabilities.

And third, effective control depends on knowing where you are today, having good visibility into the short term future, and providing transparent information systems.

To deal with these challenges, IT vendors have developed enterprise-wide performance management systems, very easily known as Corporate Performance Management or CPM or Business Intelligence or BI. While CPM or BI might sound a bit like the executive information system of the 1980's, what makes them different is the closed loop nature of their design in

which data doesn't just flow toward a decision maker, but through a company, allowing decisions at all levels to be driven by strategy and, when needed, to alter that strategy.

CPM involves the integration of planning, score-carding, and business intelligence, including financial reports and consolidation. They uses a common database, on the ability to display that data via a scorecard or dashboard interface. In a sense, CPM is to performance data, what Enterprise Resource Planning or ERP systems are to transactional data; a broad embrace of all relevant information, fully integrated, unless providing a single view.

If the benefits of going beyond compliance and building transparent organizations are so compelling, why isn't every leader adopting this model?

This is a difficult question to answer. Maybe it's because mostly just prefer to stick with the existing command to control model they know so well, rather than face a cultural climate change. And it's this my own (inaudible) interested view' that's the hardest to shift. Here are six comments that are frequently express.

One, we will lose control. Many senior executives, who have only ever worked in command to control organizations, believe that they can predict and control future outcomes through a performance management system that includes target, spreadsheets, and incentives. They believe that devolving, planning, and decision making, and releasing key information, is a recipe for chaos and anarchy.

But the evidence tells us that these organizations have excellent control systems. What's different is that they're based on top down systems of control but on systems with self regulation supported by KPI's forecast and trends, and the continuous process of benchmarking against peers and best practices.

Second, it's too expensive. But if you look at the many exemplars of transparent organizations including Southwest Airlines, Whole Foods Market, HCL Technologies and Handelsbanken, you'll find that they're often the lowest cost competitive in their industries.

The reality is that their transparent models enable leaders to scrap layers of controller-oriented bureaucracy and rely more on open checks and balances. The result is often a reduction in fixed cost of up to 40 percent.

Third, it's too risky. Many leaders are concerned that more transparency would provide their competitors with sensitive information that would give away their competitive advantage. Of course, I'm not suggesting that you lay open the secret recipe of Coca Cola or your company's innermost know-how and strategies. But I am suggesting that all current information are openly shared with employees and investors, and explained to them.

Fourth, it will constrain risk taking. Many believe that too much transparency will stop people from taking risk. This is of course a valid objection if decision making and risk remain the prerogative with a few senior executives. This is the point. In transparent organizations, the opportunities to open up decision making and risk taking to many more people. For the first time these people will have the information they need to make the right decisions and to experiment with new ideas. Transparency builds confidence at every level.

Fifth, the regulators and internal auditor won't worry. Many regulators and auditors understandably focus on process rather than culture. Agreeing and following a plan leaves an audit trail and that can be followed and check, but it's based on the wrong model. Having said that, regulators also have a strong interest in truth and transparency, there are many finance leaders who overlook this aspect to the compliance.

And sixth, it's not the real world. Some people believe that word such as truth, transparency and trust belong in Sunday school or philosophy seminars and not in the real cutthroat, cutthroat world of business. They typically say that we live in a dog eat dog world. And if we don't operate this way, then we won't win orders and satisfying our shareholders.

But as various studies have shown, the evidence does not support this view. If the perpetrators of unethical behavior such as Bernie Ebbers ex-CEO, CEO of WorldCom and Dennis Kozlowski, ex-CEO of Tyco, could have had their time over again, it's doubtful that they would have chosen the actions that lead

to their demise. None would now take the view that misrepresenting the truth was the best option, even in the precarious situations they found themselves. Of course it's easy to do wise after the event, but this is the point; it is never worth it.

That concludes our five Webcasts. I'd just like to thank (Tim O'Brien) and Rhonda Rekstad from IBM Cognos for hosting them. I hope you enjoyed them. Please send me an email if you have any comments. I'll now hand you back to (Tim).

(Tim O'Brien): Thank you Jeremy Hope and that concludes this Webcast on how to use KPI to empower people through a better transparency in communication. It is the final Webcast in a series of five on key performance indicators and how to leverage them in the appropriate way. How they can empower better decision making and improve the performance of an organization and the overall culture of the organization.

So, thank you to Jeremy Hope. Thank you all and I appreciate you in participating in a role, in this Webcast series. Thank you.

END