



Made to measure

Corporate performance management in the financial services industry

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Now an established tool at many financial services firms, corporate performance management systems give executives transparent, up-to-date information on the performance of their entire organisation. As take-up of CPM applications grows, they will increasingly be used to evaluate and enhance intangible assets and to plan, run and value information technology projects like an investment portfolio.

“Corporate performance management is now a reality,” declares a recent report from Gartner Group, a market research firm. “The adoption of corporate performance management (CPM) will build slowly but steadily in 2004.” *

For financial services firms in particular, there could hardly be a better time for CPM applications to make their mark. Regulatory and market pressures are making the collection and use of information on the performance of the business a source of genuine competitive advantage.

“We’ve got a firm belief that one of

your key assets is your information,” says Billy Cotter, chief financial officer at the large Australian insurance company Medical Benefits Fund of Australia Limited (MBF). “The more you know about your corporate information, the more you can enhance value for the customer.”

CPM addresses this challenge directly by gathering, arranging and presenting corporate information on an ongoing basis. Used effectively, CPM applications set key performance indicators (KPIs),

Minding the store

Corporate performance management (CPM) embraces a variety of planning, budgeting, analysis and management software applications that work together to collect and collate information from databases, data warehouses and a host of business intelligence applications. Once collected, the information is presented on a unified and comprehensive dashboard that gives executives the data they need to plan, monitor and improve business results.

* Corporate Performance Management, Gartner Group, November 2003

create a standardised approach to enterprise planning and budgeting, and enable activity-based costing and analysis. As a result, CPM can help managers at all business levels monitor performance. Summary results are often accessible on a single screen, but the option to drill down into the details behind a particular metric helps firms understand not only what happened but where, when, how and—most importantly—why. Using a single, standardised set of tools and metrics for tracking performance expedites the planning process and ensures consistent results across all of an enterprise’s divisions and functions.

Even the process of preparing to use CPM can help firms define corporate goals precisely so that all employees understand what’s required from them—and how everyone’s performance can contribute directly to the bottom line. “The most important benefit we expect is to make people accountable for the part of the business they manage,” says Fuad Khoury Zarzar, controller at Interbank, one of Peru’s largest banks. “We expect to make faster and better decisions using the information gathered.”

Large financial services firms, which tend to manage diverse lines of business as separate companies, are particularly prone to the proliferation of corporate facts and figures, says Brian Wood, a Gartner research director who specialises in CPM. Individual

management of the separate units can make it difficult to get a clear picture of how a corporation is performing overall. But with CPM “you have one single and consistent source, one definition of the different metrics,” says Mr Wood. With CPM “you’ve got one version of the truth sitting on your desktop for the whole company,” agrees Mr Cotter. “It flags the key areas where you are off track and eliminates confusion and misunderstanding.”

That’s especially important in today’s fast-moving, volatile marketplace. As customers become more demanding, it is increasingly critical to have the right tools to pinpoint and correct missteps without missing a beat. “In the Internet age, customers demand instant gratification,” says Mark Rodrigues, managing director at Mercer Oliver Wyman, a financial services strategy and risk management consulting firm in New York. “Corporate performance management enables us to respond quickly to market changes,” says Interbank’s Mr Khoury Zarzar. “CPM aids in monitoring performance by condensing financial, customer and operational information into a unified repository for faster and effective analytical reports.”

Regulators are also spurring the uptake of CPM. In the US, for example, significant regulatory changes brought about by the Public Company Accounting Reform and Investor





Protection Act—also known as Sarbanes-Oxley—include requirements for the CEO and CFO of public companies to certify their quarterly and annual reports, and for events affecting an organisation’s financial performance to be reported within 48 hours. To comply with Sarbanes-Oxley, top management at financial services firms need a much clearer picture of how their company is performing than they’ve had in the past.

At an international level, the Basel II accord mandating new ways of monitoring risk at banks, including operational risk, again spurs CPM use. “Clearly, things like Basel II put a new emphasis on CPM,” says James Maguire, an information systems senior vice president at Sumitomo Mitsui Banking Corp. (SMBC) in the Japanese bank’s New York office. “The regulations have a clear technological implication,” agrees Gartner’s Mr Wood, adding that complying with the nuances of many regulations is virtually impossible without help from technology.

Measuring intangibles

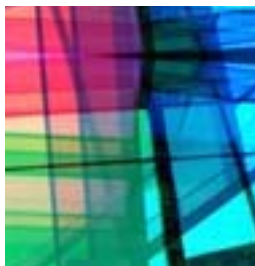
Few firms today are using CPM only to manage purely financial benchmarks of business health. Many are adding non-financial, or intangible, assets—such as employee skill levels, customer satisfaction, brand awareness and alliances—into the measurement mix. Smart management of these assets will

be critical for all companies over the next five to 10 years. “It is really important to get intangibles into the evaluation and improvement of a financial services firm,” says Mr Maguire. “Financial services institutions are not yet using the right CPM metrics”, says Mr Khoury Zarzar from Interbank, which is now beginning to use CPM to improve performance. “I will use CPM to measure the non-financial as well as the traditional indicators of corporate performance”.

Here too, new regulations are coming into play and shaping CPM use. Basel II and Sarbanes-Oxley “may not explicitly mention intangible assets, but they are implicit in the spirit of the law,” says another recent report from Gartner, adding that successful monitoring of, and improvement to, non-tangible assets can yield rich rewards.*

Gartner outlines a host of benefits that visibility and management of non-financial assets can offer, such as: an improved ability to compare actual performance to performance potential in order to better use resources and manage assets; better identification of new business opportunities found among untapped skills and processes; improved judgement of the organisation’s capacity to take on new projects; better assessment of personnel skills and intellectual capital; and improved schedules and cost quotes through better accounting of hidden assets.

* Intangible Assets in Corporate Performance Management, Gartner Group, 2004



“By filling in gaps left by financial accounting, non-financial measures (such as customer loyalty and employee satisfaction) promise to complete the picture of your company’s performance,” agree Christopher Ittner and David Larcker in the November 2003 edition of the *Harvard Business Review*. *

But Professors Ittner and Larcker, who teach at the Wharton School of the University of Pennsylvania, warn that few firms track such metrics effectively. Some firms, for example, get lost in the process of collecting data and don’t pay enough attention to which bits of data will have a direct impact on their bottom line. Before deciding which non-financial assets to track, Professors Ittner and Larcker suggest companies draw direct, causal links between an intangible metric, such as employee satisfaction, and its ultimate impact on, say, the quality of customer service.

How’s your portfolio?

As well as a new focus on non-financial assets, some financial services firms are also beginning to use CPM applications to make better use of their information technology spending. It’s an important task when you consider estimates included in a new report from Mercer Oliver Wyman that financial institutions’ spending on IT was \$490bn in 2001—a third of financial services firms’ total cost base and more than double the IT

spending of all other sectors except for the IT industry itself.**

Mindful of this scale of expenditure, Mercer Oliver Wyman recommends revolutionising how that IT money is spent by managing IT budgets in the same way an investment manager would manage a stock portfolio. “IT has been thought of as a cost or even a commodity rather than a strategic asset that should be valued and planned as an investment”, says Mr Rodrigues, one of the report’s authors.

He argues that financial services firms need to be able to measure the shareholder value gained from IT investment in order to make strategic decisions with their IT portfolio. Just as asset managers continually monitor the market value of stocks in their portfolios, the IT portfolio performance can be managed with some of the same tactics used when trying to earn a return on a market investment. Options include staged funding linked to performance goals; indexation or benchmarking of projects against other high- and average-performing projects; and exit strategies that keep everyone focused on an IT project’s ultimate goal.

Applying the “ethos of portfolio management” to IT projects can help avoid a common problem at financial services firms: a lack of innovation as legacy systems absorb more than their share of IT dollars. “More than 80% of today’s typical IT budget is spent on the

* Coming up Short on Nonfinancial Performance Measurement, *Harvard Business Review*, November 2003

** Information Technology and Financial Services, Mercer Oliver Wyman, November 2003

legacy systems that run existing operations,” the Mercer Oliver Wyman report says. In some cases, “their cost of management inhibits investment in innovative technology.”

Managers need far greater transparency about their IT initiatives, so that they can effectively challenge the business benefits offered by, say, a costly legacy system. Smart use of CPM can help a financial services firm stop asking what a certain IT project will cost and start asking what value it will deliver back to the firm or what it will cost the firm if it doesn't use the new technology that its competitors do. “There is so much to keep track of,” concludes Mr Rodrigues. “You need tools and data to be able to make decisions.”

The CPM gospel

“To get clarity, use CPM,” advises Lane Leskela, a financial services research director in Gartner's Seattle office. “Without corporate performance management, a company looks like it is stumbling in the dark.” Achieving visibility on performance at all levels of the organisation facilitates responsive management and makes the yearly budgeting process an ongoing exercise rather than an annual push. But to get the best out of CPM, bear the following ten rules in mind:

1. **Involve your users.** Finance

departments often lead the charge in setting the metrics by which corporate performance will be managed. But it's important, as well, to get the participation of those who will use the metrics on a daily basis. “Engage the business folks,” recommends Gartner's Mr Wood. At MBF, where a new CPM system is being used to measure a range of metrics, those metrics were set with the participation of business managers. “These are the key performance indicators (KPIs) that were agreed to by the business people rather than being imposed by the finance department”, notes Mr Cotter, MBF's CFO. “If you have the engagement of the business folks in structuring the tool it will go more smoothly.”

2. **Look to leaders.** Different units at your financial services firm won't be interested in using CPM if your leaders aren't, so make sure CPM support starts at the top of your firm. “Get the leadership team using it so that it becomes the norm,” advises MBF's Mr Cotter. “Get to a situation where it's agreed at a senior level. Then populate it down.”

3. **Build on your foundations.** When installing a new CPM system, it's easy for financial services firms to think that a new era is dawning that will be completely unlike anything the firm has previously known. If that happens, get a grip. Business has continuity and while CPM will allow your firm to make



important changes, you shouldn't naïvely try to destroy business fundamentals. "We went out with some pretty grand ideas" to change everything, recalls Mr Maguire at Sumitomo Mitsui Banking Corp. "You can't make a clean break. You need a buy-in throughout your organisation."

4. **Focus on things that matter.** Especially when measuring non-financial metrics—such as customer satisfaction—make sure you track metrics that you know affect your bottom line. If companies don't investigate whether there is a plausible causal relationship between actions and outcomes, counsel Professors Ittner and Larcker, they risk measuring aspects of performance that don't matter very much.

5. **Keep it simple.** It's easier than you might think for a financial services firm to get lost in its own CPM metrics, so keep your system basic and direct. "You can think of thousands of metrics to measure," notes Mr Maguire. "Complexity is not necessarily the answer."

6. **Identify your limits.** The cost of perfecting some performance metrics outweighs the benefits that perfection might bring. Financial services firms should never blindly strive for perfect metrics but rather should know how far to go before benefits drop off. Professors Ittner and Larcker use the example of a firm at which customers who were 100% satisfied brought in no more revenue than customers who were

80% satisfied. "Getting to 100% required considerable investment, with little or no payback," they explain. "Only by determining the level at which satisfaction ceases to contribute to revenue growth can a business know whether and how much to invest at any given point in trying to raise it."

7. **Get everyone on the same page.** CPM is a system for the benefit and use of everyone in the company, whether they monitor the metrics on a daily basis or simply use CPM principles in order to better understand how they should treat customers on the front line. Everyone needs to get involved. "It's important to make strategy become a concrete plan for each employee," says Mr Khoury Zarzar at Interbank.

8. **Business leads, technology follows.** As in all aspects of your company's work, remember that business needs dictate technology use and not the other way around. Be sure to find the technology that suits your needs rather than running your company based upon features offered by technology tools. Letting technology drive your business or imagining that technology alone can solve your business problems is naïve, says Mr Rodrigues at Mercer Oliver Wyman. "It creates a false sense of comfort."

9. **Standardise across business units.** Financial services firms that identify core strategies and the CPM metrics needed to achieve them do best





if they've got one source of corporate metrics. Veterans warn against customised metrics or strategies for individual business units. "You need to know globally what you're measuring," says Mr Maguire.

10. **Keep the faith.** Even if your CPM system is doing a good job of measuring your non-financial metrics, strive to make it even better. Systems and metrics need ongoing attention and improvement. "The refinement process should be never-ending," say Professors Ittner and Larcker. "Reassessment of results should be ongoing and regular."

Faced with a perfect storm of

challenging markets, changing regulations and choosy consumers, the value of CPM is increasingly evident to financial services institutions. And the uptake of CPM is only likely to increase as the need to measure non-financial metrics and to hone the value of IT projects become increasingly intertwined. Gartner predicts that by 2005, leading-edge enterprises will rely on non-financial measures as the primary factors in more than two-thirds of IT investment choices. CPM will be central to making sure those decisions are the right ones.

