How Finance teams can help their organizations get future-ready

by David Parmenter

Contents

Introduction

This white paper discusses how finance teams can help their organizations get future ready. By "future ready," I mean an organization that is fast and light on its feet and able to react quickly to events as they unfold. It is an organization that is nimble through utilizing world best practices, and is an advanced adopter of leading-edge technologies. Finally, a future-ready organization embraces modern people practices and abandons the broken, ill conceived management practices of the past.

The issue is that many finance teams are far from being future ready. How many finance teams today have:

- Fully embraced all the lean best practices?
- An annual planning process that helps their organization prepare for the unexpected?
- Successfully adopted the tried and tested leading-edge technologies now available in the 21st century?

Finance teams have a burning platform

While some finance teams are most definitely "future ready," the vast majority are stuck in a time warp, blissfully ignoring the change that is all around us, signaling the future.

This paper will take a brief look at areas the finance team can focus on to get some traction in this important, and perhaps, organization-saving area.

Yes, indeed the platform is on fire and we need to jump off it right now. Many performance management processes that I used during my brief time with BP Oil, and help support as a consultant for Ernst & Whinney are well and truly broken. I am talking about key performance indicators (KPIs), the annual planning process, forecasting, using outdated technology and, to round it off, month-end reporting.

These processes have not worked nor did they stop the collapse of a number of once-great companies. No doubt their busy executives were, like Nero, busy fiddling while Rome burned. Attending yet another annual round of planning where management and the board were told the lies they wanted to hear. Taking home a briefcase full of reports that on their third return journey back to the office were deemed as read.

Many of the great companies that have collapsed were clearly not "future ready." But what role did the finance team play in these corporate collapses? Were we not shouting at the top of the cliff "Go back, go back"? Were we not heard or did we not make the message clear?

There are now significant performance gaps between what the CFO sees as important and their current proficiency in that area. In the recent IBM Global C-suite study,[1] the biggest gaps were in five areas as shown in Figure 1.

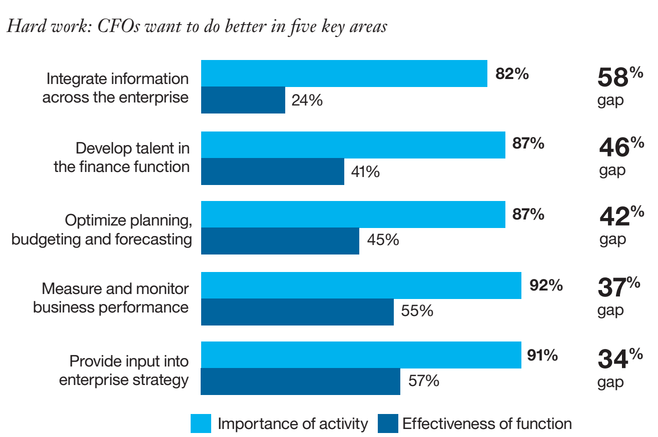
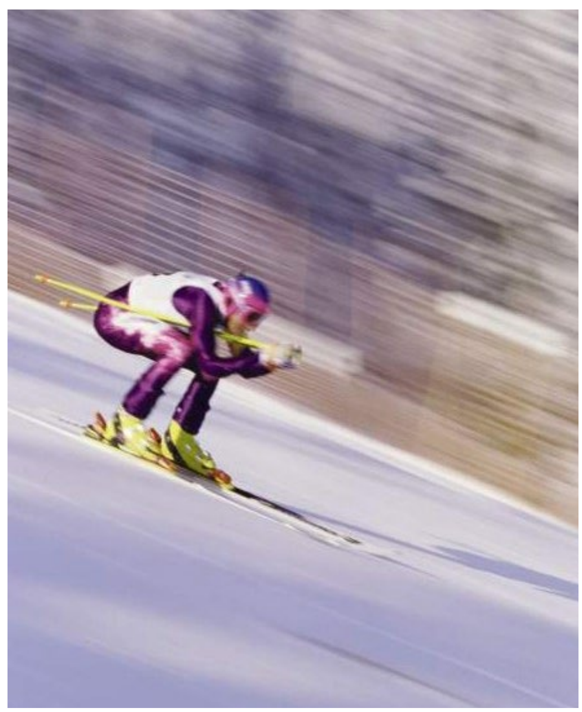


Figure 1: Biggest performance gaps in Finance teams

Source: IBM Global C-suite study based on ≠ 600 CFO interviews.

Slowing down time—a ski racer

Tony Levy, a Business Unit Executive with IBM Business Analytics, offered the ski racer analogy during one of our thought-provoking discussions. It certainly resonated with me. How does a ski racer, travelling at speeds in excess of 80 mph, manage to turn through gates, absorb bumps in the slopes and complete a course that most experienced recreational skiers would not even venture out on? They have discovered a secret; they have learned to "slow down time." Or we could say that they somehow created more time to think, to plan, to execute. How do ski racers do this?



Instant feedback	Ski racers understand their past performance and get feedback immediately on their various time splits. They learn from each run. They certainly do not wait for a monthly report to tell them they are well behind the competition.
Work with big data	The skiers, without realizing it, work with big data. They have numerous information feeds on their own performance and that of their competitors. They analyze weather and snow conditions and understand the capability of all the latest equipment technologies that promise a possible second or two advantage.
Future focused	Racers are always future focused--always looking ahead to the next turn, the next race, the next technology. Whereas many accountants are simply completing the next month-end just like the last, using the same spreadsheets that were used years ago and no doubt still containing the same number of undetected errors.[2]
Learn from coaches and mentors	Skier racers do not succeed alone. They have coaches and mentors who are consulted frequently. Yet the finance team members rarely do. I am always flabbergasted by the small response when I ask qualified accountants "How many of you have mentors?"
Benchmark	Skiers observe their competitors, know them inside out, and often even collaborate with them by sharing training sessions. Yet many companies give scant regard to their competitors. They do not know how they are performing, what is giving them an advantage or what their organization's next ground-breaking move may be. They, like some of the once-great companies, carry on, ignoring the future that is already here. Finance teams are seldom aware of the performance gap between world best practice and their own processes and procedures, which may be outdated and dysfunctional.
Quick adapter	Skiers use new skis for each run and a new type of ski at least each season. Yet some finance teams use technology which is the equivalent of racing with wooden skis.
Move on from failure to compete again	Isn't it amazing how, after a major crash, racers brush themselves off, straighten up and head back up the mountain for more? No time to dwell on the mishap and feel sorry for themselves. They move on as if failure is part and parcel of everyday racing. Yet finance teams can be so scared of trying something new (in case they are no good at it), that they stay put, frozen in time, using antiquated methods and systems.
Extensive training	Through a commitment to extensive training the skier can react quicker to conditions, use leading-edge techniques to carry more speed through the turns and stay on the optimal line. Whereas finance teams are not investing enough time learning the Finance best practices and thus, instead of slowing down time, one month merges into the next, in a blur.

Finance teams are locked in the past

Let me make it clear that I was a failed corporate accountant. I was taught well to deliver services that an organization might have needed in Charles Dickens' era. I duly performed these tasks with a reasonable degree of efficiency.

Here are some of my experiences:

Slow month-ends	Slow month-end reporting as finance teams pursue the perfect number. Yet we are only required to get to a true and fair number and the 'right' month-end number does not exist.
Slow year-ends	The year-end financial report nearly consumed all of the Finance team's time in the first quarter
Spreadsheet epidemic	A spreadsheet for everything that moved, and most certainly my own version of the truth.
Process seen as more important than actual benefit	Watched the organization produce paper documentation for everything, no matter how immaterial, and only showed concern when a particular voucher had not gone through the correct formal process, regardless of whether the process cost more than the items on the invoice.
Maintaining an annual planning process	Overseeing the annual planning process, believing that it must be of some use, and each year thinking that this time the annual planning process will be better, quicker, and easier than last year's disaster, as surely we must have learned from the past mistakes.
Generating unread reports	Reports would be generated that I would leave in a half-finished state and get back to when I felt like it. I knew they would not be read.
Reporting on a calendar month-end	I blindly followed Julius Caesar's calendar as I did not know any better. Nobody told me that there was an alternative, a period with 4 or 5 weeks that ended on the same day each month.

Finance teams need to embrace lean practices and systems

Joseph Heller's iconic 1961 book, *Catch 22*, introduced a new term to popular culture. The Oxford English Dictionary defined "Catch 22" as:

- "A situation in which a desired outcome or solution is impossible to attain because of a set of inherently illogical rules or conditions"
- "A situation or predicament characterized by absurdity or senselessness"

I see many finance teams in this situation. The annual planning process and the long, drawn-out annual reporting cycle are both beautifully summed up by the above statements. How do we get out of this Catch 22? The finance team needs to create time for change, to have more time to act. Where do we find this time? We find it by attacking the top twenty mistakes corporate accountants make day-in day-out.[3] An extract is shown in the table below.

Area	Lean targets
Month-end reporting	Fast month-end by day three or less (by next month-end) with a goal of reporting by the close of the first working day by 12-18 months and be able to report net profit intra-month (virtual reporting) inside of three years.
Year end accounts	Fast year committing the auditors, your finance team, board and executive to a 15 working day signed set of annual accounts
Annual planning	Produced in less than two weeks from the rolling planning exercises. Eventually the annual plan will be dropped in favor of a quarterly rolling planning process.
Key performance indicators (KPIs)	Working with no more than 10 KPIs in the organization. The other operational measures, which are not key to operational performance, to number less than 80, see the 10/80/10 rule.
Excel ad hoc systems	All spreadsheets over 100 rows replaced with a robust solution using one of the modern planning and reporting tools now readily available.
Streamlining the chart of accounts	Having over 50 account codes for profit and loss (P/L) is unnecessary, leads to miscoding, and is anti-lean.

Get your next month-end reporting to three working days or less

I have a method that has helped hundreds of organizations get to reporting within three days. It really comes down to common sense, which, unfortunately, is not that common. There are a number of practices you should adopt immediately, and I have extracted them from my "*Quick month-end reporting—by day three or less*" white paper.[4] You can access these from my website www.cfo.davidparmenter.com, using the password futureready. I suggest the following practices to begin immediately.

Establish month-end reporting rules for the finance team.

Accountants are all artists: we sculpt a month-end result and there is no such thing as a 'right' number, only a "true and fair" number. The finance team need only do enough to arrive at a 'true and fair' view and stick to some rules:

- We will not delay for detail.
- Hunting for the perfect number is now unacceptable.
- The final report will have extensive quality assurance (QA) checks.
- Reporting will cover only major revenue and cost categories, with account code analysis left out.

Ban spring cleaning at month–end

Month-end reporting is not the time for spring cleaning, no matter how tempting it may be. This discipline often requires a re-education within the finance team and with budget holders. One of the most important practices is to catch all material adjustments in an "overs and unders" spreadsheet that traps major adjustments—say, over $5,000, $50,000 or $500,000, depending on the size of the organization. The accountants enter all adjustments on the spreadsheet, which resides on a shared drive on the local area network. In most months, you may need to process just one or two adjustments as the rest will offset each other and can be processed in a quiet time in the following month.

Avoid late inter-company adjustments

Clever organizations ban all inter-company adjustments at month-end except for major internal profit adjustments. They have an application that posts all inter-company transactions simultaneously, to both general ledgers. One party thus does the transactions for both general ledgers. When there is a difference, establish a rule that the accounts payable (AP) or accounts receivable (AR) ledger is always right, and adjust accordingly, leaving the inter-company parties to sort it out in the following month. This change will require a CEO directive to all subsidiaries.

Avoid high processing at month-end

The last thing the AP team needs is to receive a tsunami of invoices on the last day of cut-off. It is important to push processing back from the end of the month by avoiding a payment run at month-end. It is a better practice to have weekly or daily direct credit payment runs with none happening within two days of month-end.

Closing off AP, accruals, AR, and inventory on the last working day or earlier

If AP is held open after month-end, you will find it difficult to complete prompt month-end reporting. What is the benefit of holding open AP for one or two days? We could hold the accounts payable open for two weeks after month-end and still not get all the accruals right. A better practice is to cut off AP at noon on the last working day or earlier. For a tight cut-off, budget holders will need to have cleared all outstanding issues regarding purchase invoices a day earlier (day –2) to give the AP team time to meet the cut-off deadline. Budget holders can then complete their accruals in the afternoon of day –2, as long as they are given a guarantee that all invoices sent to AP within the deadline will be processed prior to the AP cut-off, or accrued directly by the AP team.

Immediately close off AR on the last working day or, better still, noon on the last working day, with sales in the afternoon carried forward to the first day of the new month. Closing off earlier may be required for an organization where the sales representatives make a lot of sales, and create a lot of paperwork, on the last working day of the month, e.g., car dealers. You simply get the CEO to agree to set the deadline earlier by stating, "All sales made on the last day of the month will now be in the following month." Sales staff will get motivated earlier to meet their target.

If the last day of the month's production is delaying your month-end, make the inventory cut-off at the close of business on day –2 with all production on the last day being carried forward to the next month. This gives you one day to check the valuation and records. Always avoid a month-end stock count: these should be done on a rolling basis and be held no nearer to month-end than the third week of the month, e.g., a jewellery retailer counts watches one month and gold chains the next at a quiet time during the month.

Capital expenditure closed off earlier

Why perform depreciation calculations at month-end when clever organizations do so much earlier? They close off capital projects at least one week before month-end. Any equipment arriving in the last week is therefore treated as if it arrived next month. It can still be unwrapped, driven or plugged in. The depreciation is calculated and posted by at least three days before month end (day –3). I have found accountants, in organizations where depreciation is not significant, who use the depreciation calculations from the annual plan and correct to actual at months 6, 11 and 12.

Day-one procedures including a flash report

At 5:00 p.m. on the last working day, with all the cut-offs done, we can print the first cut of the numbers. The management accountants should take a copy home and look for areas where they think the numbers could be wrong. At 9:00 a.m. the following day, all the accountants meet to assign the areas needing further work to be sure the numbers are true and fair. At 3:00 p.m. meet again to discuss the adjustments; with luck, many will have netted each other off. Process only the few material adjustments that restate the numbers to "true and fair."

Issue a flash result on the profit and loss statement (P/L) bottom-line to the CEO by the close of the first working day, stating a level of accuracy (e.g., +/–5%, +/–10%). Five to seven lines is normally enough. Never attempt a flash report until the AP, AR and accrual cut-offs have been successfully moved back to the last working day of the month. The flash result will largely satisfy the CEO's appetite for month-end information. This creates a great opportunity to reduce the final month-end report to the CEO to one A3 (U.S Fanfold) page. This electronic template is in a free download to readers of this white paper, see www.cfo.davidparmenter.com

Get your next year-end signed off by the auditors within 15 working days of year-end

The key to a quick year-end is to utilize the same practices of quick month-end and tell the finance team that the month-12 result is the year-end result and will not be adjusted. Trapping all the errors on an "overs and unders" spreadsheet, and hopefully, along with the auditor's adjustments, you will find that the net profit and loss impact is immaterial.

Technology needs to be optimized with the use of consolidation tools. There also needs to be a "document and disclosure management system" to control the "last mile" of information gathering. These systems not only store the source documents but also link any changes automatically to the document so everything is up to date.

Year-end is a time when many strange Excel spreadsheets are dusted off and used again. From my experience, many of these have no purpose. They were updated with this year's numbers just because the accountant did not have time to question the purpose or reason for having them. Most certainly, all spreadsheets of over 100 rows should be replaced with a reliable planning, reporting, or consolidation tool.

Having embraced a "big hairy audacious goal" to get signed audited accounts in 15 working days, commence a planning process so the finance team and auditors will work together in a seamless way. It is important to improve the way the finance team and auditors work during the interim and final audits. To this end, I have included some tips in a free download to readers of this white paper (see www.cfo.davidparmenter.com).

Finance teams around the world must carry out a number of silly year-end exercises only because they were done last year, although nobody fully knows why. Years ago, Peter Drucker introduced the concept of "abandonment," encouraging us all to abandon the broken and antiquated processes of the past. There will be plenty of year-end processes that can be culled.

Adopt the Scrum methodology

One technique that is important for the finance team is to adopt the "scrum" methodology, named for a software development process based on collaboration within cross-functional teams. Each day, during the month-end or year-end close, the finance team members involved should gather in a stand-up meeting. The meeting is held every day during the deadline period, first thing in the morning and lasts less than 15 minutes. Participants are asked to talk about:

- What they did yesterday
- What they are doing today
- What are the barriers to progress

Each person's debrief is to take no more than a minute or so. (Some teams even have a rule that speakers must hold out a dumbbell using their weaker arm, and only talk for as long as they can hold it up.) The team leader, called the "scrum master," notes all the barriers and immediately sets about removing them with an appropriate phone call or walkabout: "Pat, please make time this morning to see my corporate accountant. I understand Sam has being trying to meet with you for the last few days. This is now holding up the year-end and we need to resolve the issue today." At the end of the session, members of the group touch fists, a homage to the origin of the term "scrum" in the game of rugby.

The scrum does many things; it replaces loads of emails, as the team members get to know what has been done, what is going to be done and by whom. It makes everyone accountable. There is no place for a team member to cruise by unnoticed during this busy period. (For more information about scrum, see Appendix 1.)

Replacing Julius Caesar's calendar

Julius Caesar gave us the calendar we use today (with a few helpful tweaks from Pope Gregory in the 16th century). It is not a good business tool because it has divided up the year into uneven periods. With the number of weekdays and weekend days in any given month being different from the next month, it is no wonder that forecasting and reporting is unnecessarily compromised.

All organizations, whether in the private, government or not-for-profit sectors, will, at some time migrate away from calendar months. We can and should base our forecasting models around a 4-4-5 quarter i.e., with two four-week months and one five-week month in a quarter.

Closing off the month on a weekend can make a big positive impact on the efficiency of month-end. Every routine is done on the same day and staff around the organization naturally get better and more efficient with such a routine.

Forecasting becomes easier, as you have four or five complete weeks of revenue, and four or five weeks of salary, power, telecommunications and property-related costs can be allocated more accurately. To make progress in this area, I recommend that you contact your general ledger supplier and ask, "Who is a very sophisticated user of 4-4-5 reporting periods?" Arrange to visit them and see how it works for them. Ask them, "Would you go back to calendar reporting?"

With the time saved from these relatively simple changes you will have time to get the Finance team future ready and start tackling annual planning, the organization's KPIs and the adoption of the advice provided by the paradigm shifters.

Abandoning processes that do not work

Peter Drucker's "abandonment" is, in my opinion, one of the top ten gifts he gave the world. He believed that abandonment is the key to innovation, saying, *"Don't tell me what you're doing; tell me what you've stopped doing."*[5] In finance, many processes are followed, year-in and year-out, because "it's the way things have always been done." When staff question, *"Why do we do this?"* the CFO or financial controller will often answer, *"There must be a reason; so please do it."*

All the previous "givens" should be challenged and all the obsolete or unproductive processes thrown out. Here are some abandonments that finance personnel need to consider:

- Using spreadsheets for consolidating, annual planning and forecasting
- Annual planning (replacing it with quarterly rolling planning)
- Making the month-end and year-end a never-ending process
- Issuing Finance reports over ten pages
- Setting monthly targets from the annual plan
- Receiving paper-based invoices from key suppliers
- Budgeting at the account-code level
- Having over 50 account codes for the P/L
- Using a checkbook (many readers will already have reached 100% electronic payments)

For a better understanding of these suggested abandonments, read my book, *Winning CFOs*.[6]

See the future clearer—by using rolling planning

Without any doubt, rolling planning is one of the most important changes that an accountant can make. To help you in this area I have written the following IBM white papers, which are available on the IBM website: **ibm.com** (Search "Parmenter.")

Why you need a planning tool and how to sell the concept to the senior management team

How to implement a planning tool and get it right the first time

I believe that annual planning, as businesses use it today, is one of the greatest mistakes companies have made since 1494. This was the year Luca Pacioli wrote about double-entry bookkeeping.[7] The first writers to put annual planning to the sword were Jeremy Hope and Robin Fraser in their classic book *Beyond Budgeting*.[8] The reasons the annual planning process should be replaced are because it:

- Takes too long and costs too much (is an "anti-lean" process)
- Is wrong as soon as the ink is dried
- Leads to dysfunctional behavior, building silos and barriers to success
- Undermines monthly reporting (monthly budgets from the annual plan are poor targets)
- Is not designed for a dynamic company in a rapidly changing environment

The two papers listed above, as well as my book *Winning CFOs*[9] will help you on the journey of abandoning annual planning. No organization can say they are future ready if they have an annual planning process in place.

KPIs needs a total rethink in future ready organizations

I have studied and written about performance measures for over 20 years, but in that time I have witnessed minimal progress in the right direction. Deriving measures is often viewed as an afterthought. Measures are regarded as something we fill into a box to say we have achieved a goal. I firmly believe that performance measures exist for a higher purpose—to help align the staff's daily actions with the organization's critical success factors (CSFs).

Yet all too often the measures in an organization amount to a random collection of metrics prepared with little expertise, signifying nothing. To make matters worse, these measures can cost the organization dearly:

- Measures are sometimes gamed to the detriment of the organization so that executives can increase their pay.
- Teams are encouraged to perform tasks that are contrary to the organization's strategic direction.
- Costly "measurement and reporting" regimes lock up valuable staff and management time.
- Measures are often derived from six-figure consultancy assignments that yield little more for the organization than another "doorstop" report.

In an accompanying IBM whitepaper "The New thinking on KPIs," I explained that in order to get performance measures to work, we need to challenge the myths they have been built on. In that paper, I talked about the following myths:

Myth	Reality
Measuring performance is relatively simple and the appropriate measures are obvious.	I believe the performance measurement process needs a specialist, a "chief measurement officer."
By tying KPIs to pay, you will increase performance.	Operational measures that are key to success are too important to be gamed. Performance is expected, or as Jack Welch says "It is a ticket to the game."
Most measures lead to better performance.	Many measures have a dark side—an unintended consequence. We need to abandon those measures where the dark side is the dominant side.
All performance measures are KPIs.	I propose that there are in fact four types of measures: result indicators (RIs), key result indicators (KRIs), performance indicators (PIs) and key performance indicators (KPIs).
KPIs are financial and non financial indicators.	When you put a dollar, yen, pound or euro in front of a measure you have placed a value on an action or event that has taken place. It is the action or event that is the driver. Thus, I believe there are no financial KPIs on this planet.
Indicators are either lead (performance driver) or lag (outcome) indicators.	Measures are either based in the past, the current (the here and now) or the future (measures based on events to occur in the future).
Measures are cascaded down the organization.	Measures should all stem from the organization's critical success factors and should never be cascaded from each other.

The four types of performance measures

In "The New thinking on KPIs," I also defined four types of performance measures. (See Figure 2.)

Types of performance measures (PMs)	Characteristics	Frequency of measurement	Number of measures
1. Key result indicators (KRIs) give an overview of the organization's past performance and are ideal for the Board as they communicate how management has performed e.g., return on capital employed (%), employee satisfaction (%), net profit before tax and interest.	These measures **can be financial or non financial**. They do not tell you what you need to do more or less of. They are a summary of the collective efforts of a wide number of teams.	Monthly, quarterly	Up to 10
2. Result indicators (RIs) summarize the collective efforts of a number of teams in a specific area e.g., yesterday's sales ($), complaints from key customers.		24/7, daily, weekly, two weeks, monthly, quarterly	80 or so. If it gets over 150, you will begin to have serious problems
3. Performance indicators (PIs) are targeted measures that tell staff and management what to do e.g., number of sales visits organized with key customers next week/ next two weeks, number of employees' suggestions implemented in last 30 days.	These measures are **only non financial**. Staff know what to do to increase performance. Responsibility can be tied to a team or a cluster of teams who work closely together.		
4. Key performance indicators (KPIs) tell staff and management what to do to increase performance dramatically e.g., planes that are currently over two hours late, late deliveries to key customers.		24/7, daily, weekly	Up to 10 (you may have considerably less)

Figure 2: The four types of performance measure and the 10/80/10 rule.

Key performance indicators represent a set of measures focusing on those aspects of organizational performance that are the most critical for the current and future success of the organization. I believe KPIs have certain characteristics, and I have developed a seven point checklist. (See Figure 3.)

Non-financial	Non-financial measures (not expressed in dollars, yen, pounds, euros, etc.)
Timely	Measured frequently e.g. 24 by 7, daily or weekly
CEO focus	Acted upon by the CEO and senior management team
Simple	All staff can understand the measure and what corrective action is required
Team based	Responsibility can be tied to a team or a cluster of teams that work closely together
Significant impact	Has a significant impact (e.g., it affects more than one of the top CSFs and more than one balanced scorecard perspective)
Limited dark side	Encourages appropriate action (e.g., has been tested to ensure they have a positive impact on performance)

Figure 3: Characteristics of KPIs

Key performance indicators, which fit the characteristics I have proposed, could include:

- Number of CEO recognitions planned for next week or two weeks.
- Staff in vital positions who have handed in their notice on a given day. (The CEO has the opportunity to try to persuade the staff member to stay.)
- Late deliveries to key customers.
- Key position job offers issued to candidates that are more than 48 hours outstanding (The CEO has the opportunity to try to persuade acceptance of the offer.)
- List of late projects, by manager, reported weekly to the senior management team.
- Number of innovations planned for implementation in next period (30 days, 60 days or 90 days) reported weekly to the CEO
- Complaints from key customers that have not been resolved within two hours (report 24/7 to CEO and GMs)
- Emergency response time over a given duration (reported immediately to the CEO).

The 10/80/10 rule

Instead of all measures being KPIs, I believe that there are about 10 key result indicators (KRIs), up to 80 performance and result indicators (PIs & RIs) and 10 key performance indicators (KPIs) that an organization should use. Very seldom do there need to be more measures than this, and in many cases less.

To understand more about the differences between these measures, how you go about ascertaining your measures and reporting them please access my "How to implement winning KPIs" white paper on www.davidparmenter.com.[10]

The importance of measuring current and future actions

Many management books talk about "lead and lag indicators," which I believe merely clouds the KPI debate. Using this new way of looking at KPIs, we dispense with the terms lag (outcome) and lead (performance driver) indicators. I have presented to over three thousand people on KPIs and I always ask *"Is the late planes in the air KPI, a lead or lag indicator?"* The vote count is always evenly split. The late plane is clearly a result of past actions (lag), but it will also create issues at the airport when it arrives (lead). Surely, this is enough proof that the 'lead and lag' labels are not a useful way of defining measures.

Instead of lead and lag indicators, I suggest we talk about whether measures pertain to the past, the current time frame or about the future that has yet to occur.

- **Past measures** (which are clearly lag measures) are those that look at historic events, activity that took place last week, last month, last quarter etc. Key result indicators will nearly always be past measures. Result indicators, performance indicators and key performance indicators however, are now characterized as either past, current or future measures.
- **Current measures** refers to those monitored 24/7 or daily (e.g., late/incomplete deliveries to key customers made yesterday).
- **Future measures** are the record of a future commitment for an action to take place, see Figure 4 for examples of future measures.

Future innovations	To be an innovative organization, we need to measure the number of initiatives that are about to come online in the next week, two weeks, and month.
Future sales meetings	To increase sales, we need to know the number of sales meetings that have been organized/scheduled with our key customers in the next week, two weeks, and month.
Future key customer events	To maintain a close relationship with our key customers, a schedule should be prepared, showing which of our key customers are booked to attend some social interactions, e.g., a sports event, a meal, the opera, etc.
Future PR events	To maintain the profile of our CEO, we need to monitor the public relations events that have been organized for the next one to three, four to six, or seven to nine months.
Future recognitions	To maintain staff recognition, the CEO needs to monitor the formal recognitions planned for the next week/next two weeks by the CEO and senior management team.

Figure 4: Examples of more future measures

All these future measures would be reported in a weekly update given to the CEO. While the CEO may let a couple of weeks pass with gaps appearing in these updates he or she will soon start asking questions. Management would take action prior to the next meeting to start filling in the gaps and avoid further uncomfortable questioning.

Be a follower of the paradigm shifters

Much has already been commented on about what a future-ready organization is by the pathfinders, or as I call them, the "paradigm shifters."

Peter Drucker (1909-2005), is often called the father of modern management. His work contains many gems that have been overlooked. Alongside Drucker are some brilliant writers like Jack Welch, Tom Peters and Robert Waterman, Gary Hamel, Jeremy Hope, Jeffrey Liker and Jim Collins, who have now taken over the baton. The only problem is that many of us are too busy to read and absorb their work.

The impact of these great writers should never be underestimated. To assist you on your journey of discovery I have set out below some analysis of Peter Drucker's wisdom.

The best book on Peter Drucker is Elizabeth Haas Edersheim's "The Definitive Drucker: Challenges for Tomorrow's Executives – Final Advice from the Father of Modern Management"

— McGraw-Hill 2007

A selection of Peter Drucker's wisdom on being future ready

Do not give new staff new assignments. When an organization wants a new system implemented it is very tempting to hire someone who has expertise, as a consultant or as a permanent appointment. Drucker pointed out that they do not stand a chance, as staff who are concerned about the change will do their utmost to de-stabilize the project. He referred to these jobs as widow makers, jobs where the incumbent did not have a chance to succeed. Instead, you need to appoint an in-house person best suited for the role--someone who is well respected in the organization, who has a pile of IOUs which they can use when favors are required. Staff will support the new initiative more readily when it is led by such an appointee.
The scarce resource in an organization is performing people. Drucker highlighted that these scarce resources need to be specifically monitored and not taken for granted. Their goals should be hard enough to stretch them and keep them interested.
Outstanding performance is inconsistent with a fear for failure.
What "everybody knows" is frequently wrong.
Make obsolete your past success. Here, Drucker is saying that we need to always look forward and recognize that the cash cows of today will likely be overtaken by tomorrow's technology.
Abandonment Drucker said: "*The first step in a growth policy is not to decide where and how to grow. It is to decide what to abandon. In order to grow, a business must have a systematic policy to get rid of the outgrown, the obsolete, the unproductive."* *"Don't tell me what you're doing, tell me what you've stopped doing."* Measuring the extent of innovation and abandonment will help focus management's attention on these two important areas. Abandonment of that which is obsolete or unproductive is a sign that management recognizes that some initiatives will never work as intended and it is better to face this reality sooner rather than later.
Have an outside-in focus to your business. See the operation from your customers' perspective – especially your key customers' perspectives.
Collaborate with other organizations—even your competitors. Jack Welch turned General Electric into a powerhouse by focusing on what GE was good at. This led Welch to follow Drucker's advice that "Your back room is someone else's front room." In other words, if others can do a better job than you can, then subcontract to them rather than diverting energy, trying to be good at everything, a task that is impossible to achieve.
What information do I need to do my job? From whom? When? And how? By asking these basic questions, we can streamline much of the reporting formats as well as dispensing with those reports that add no value.
Have three test sites. Drucker pointed out that one test site was never enough.
Do what you are good at (look to your strengths). Peters and Waterman said, "stick to your knitting." Jim Collins said, "focus on your flywheel."
Execution—first and always. Drucker, like all the other writers, did not follow the model of planning in such detail that execution of steps was seen as a secondary event.
Generate three protégés for senior positions. Drucker was adamant that the CEO and the senior management team should be home grown, and it was the key responsibility of a leader to nurture three protégés.

Other paradigm shifters to read are:

- Jim Collins and Jerry Porras, *Built to Last: Successful Habits of Visionary Companies*, Harper Business 1994
- Jim Collins, Good to Great: *Why Some Companies Make the Leap and Others Don't*, Harper Business, 2001
- Jim Collins, *How The Mighty Fall: And Why Some Companies Never Give In*, Jim Collins 2009
- Jack Welch and Suzy Welch, *Winning*, Harper Business, 2005
- Thomas J. Peters and Robert H. Waterman, *In Search of Excellence: Lessons from America's Best Run Companies*, Harper and Row, 1982
- Gary Hamel, *The Future of Management*, Harvard Business School Press, 2007
- Jeremy Hope, *Reinventing the CFO*, Harvard Business School Press, 2006
- Jeffrey K. Liker, *The Toyota Way: 14 Management Principles from the World's Greatest Manufacturer*, McGraw-Hill, 2003

Help get your thinking future ready by reading these books.

Leading and selling the change

Leading and selling change within an organization, as most of us know from experience, is not easy and often prone to failure. In order to improve in this area I suggest the following:

- Become a follower of John Kotter's work.
- Learn to sell through the emotional drivers of the buyer. Thus, we need to radically alter the way we pitch the idea of change to the senior management team (SMT), the CEO and the board.
- Kick-off the sales pitch with an attention-getting "elevator speech."
- Deliver a compelling burning platform presentation
- Get a coalition of oracles behind the project and prepare a compelling project plan, a blueprint of the vision and the way forward.

"Leading Change" by John Kotter

In 1996, John Kotter published "Leading Change[11]," which quickly became the seminal work in the field of change management. He pointed out that effecting change—real, transformative change—is hard. Kotter proposed an eight-stage process for creating major change, a clear map to follow when persuading an organization to move.

The Eight-Step Process is:

1. **Establish a sense of urgency**—We need to create a burning platform in the minds of the CEO and senior management team. In other words, there is no staying put, we have to change. We need to be careful to address both the intellectual and the emotional sides of the reasons why change is necessary. Build an urgent sense of capturing an opportunity.
2. **Create a guiding coalition**—Find and include the "oracles" in the organization—the staff whose opinion or advice is frequently sought. Ensure that you have a representative cross section of people from all levels of the organization. If you can get these people on board you will find that they are invaluable sales agents for the change.
3. **Develop a vision and strategy**—In order to sell change you need to paint a picture so the journey can be seen by all. Link back to folklore from the past to reference the changes the KPI project is seeking. The documenting of a blueprint, by the oracles, is a very worthwhile exercise and makes for a compelling case.
4. **Communicate the change vision**—Kotter emphasized that it's likely that you will under-communicate a little bit; in fact, you will probably under-communicate a lot, by a factor of 10 to 100 times.

5. **Empower broad-based action**—Early on, the need for change and the right to change must be handed over to teams within the organization.
6. **Generate quick wins**—Obvious to us all but frequently missed. Always remember that senior managers are, on occasion, afflicted with attention deficit disorder. Progress in a methodical way at your peril. We need easy wins that the CEO can celebrate publicly to maintain interest and energy.
7. **Consolidate gains and produce more change**—This is the flywheel effect so well put by Jim Collins in his books *Built to Last* and *Good to Great*. The change, like a giant flywheel, is hard to turn at first but as it gains momentum it becomes easier and easier to make it go faster.
8. **Anchor new approaches in the culture**—Make heroes of the change agents. Make sure their values are embedded in the corporate values.

Learn to sell by using the emotional drivers of the buyer

Many initiatives fail because we attempt to change the culture by selling logic, writing reports, and issuing commands via e-mail. It does not work. A KPI project needs a public relations (PR) machine behind it. No presentation, e-mail, memo, or paper should go out unless it has been vetted by your PR expert. All your presentations should be road-tested in front of the PR expert. Your PR strategy should include selling to staff, budget holders, the SMT, and the board.

Selling by emotional drivers: How a car sale is made

Three customers arrive on the same day to look at a car that has been featured in the local newspaper. The first person is a young IT professional, generation Y, wearing latest designer clothing. The salesperson slowly walks up and assesses the emotional drivers of this potential buyer. Having ascertained that the young man is an IT guru, working for a major search engine organization, the salesperson says, "I hope you have some track racing experience. You need to be a Lewis Hamilton to handle this beast. This car has 320 BHP, a twin turbo, and corners like it's on railway tracks. Only a top driver can handle this beast. It's a real driver's car." SOLD.

The second person could be me, with my gray hair visible. The salesperson might say, "This car is five-star rated for safety, with eight air bags, enough power to get you out of trouble, unbelievable braking when you have to avoid the idiots on the road, and tires that will never fail you." SOLD.

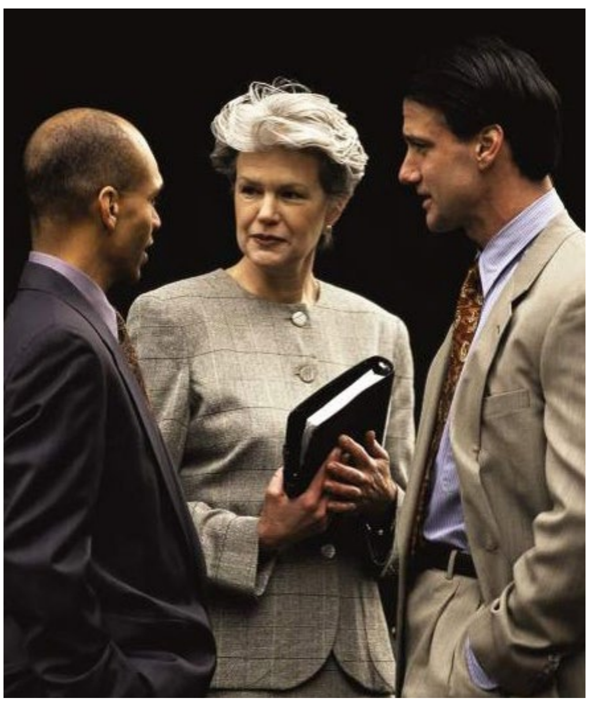
The third person is wearing stylish clothing and is impeccably well groomed. The opening sales line might be, "This car has won many awards for its design. Sit in the driver's seat and see the quality of the finish. Everything is in the right place. You look a million dollars in that outfit you are wearing and every time you drive this car you will feel like a million dollars!" SOLD.

The elevator speech

Having now understood why prior initiatives have failed through poor selling, let us now look at how we get the senior management team motivated. The key is to have a twenty-second elevator speech practiced and ready that will capture their attention when next you meet them. As Kotter, said "We need to create a sense of urgency and connect both intellectually and emotionally."

The term "elevator speech" originated in management books describing the need to get a point across to a decision maker in a brief elevator ride. The aim is to have the decision maker ask you to come to his or her office in the next few days to discuss the matter further.

To sell our new performance measurement methodology, a possible elevator speech might go something like this:



"I have been looking at a new measurement methodology that could accelerate our progress on the "good to great" journey. It raises many questions such as 'Do our people have a clear and common understanding of our critical success factors?', 'Do we have too many measures, some of which are creating dysfunctional behavior?' I would like 20 minutes of your time to outline the methodology and the easy next steps we could take. Do you have a window? I know it will be of interest."

Deliver a compelling burning platform presentation

Assuming the elevator speech has given us an audience, we need to prepare and deliver a presentation that will get the senior management team to agree to holding a focus group workshop with the organization's "oracles," this presentation having been vetted by a PR expert and practiced many times. The argument being, "If I can convince the oracles that this project will work, and get their involvement in the project plan, I can table back to you a project that has a greater chance of success."—The organization's "oracles" being those "go to" individuals everyone refers you to when you need to get something done.

It's important to get this presentation right, because you will probably not get a second chance. Thus one needs to embrace the better practices around "winning" presentations. I have included my chapter on the subject in some electronic media that readers can access from www.cfo.davidparmenter.com.

As part of the sale process, point out to the SMT:

Broken measures	The previous performance measures have not changed anything.
Reducing long days and weekends	The focus on the right measures would mean that the CEO and SMT could be more effective in less time, saving many long evenings and weekends of work.
Alignment	The right KPIs will link daily staff activities to the strategic objectives as they have never been linked before.
Reporting focused on the here and now	This KPI project would start to transform the reporting into a decision-based tool with a greater focus on daily, weekly, and monthly reporting that is interesting, concise, and prompt.
Cost of current measures	The investment of time and money in the current performance measurement system is not generating enough value (estimate on the high side — costs motivate the SMT).
Need to involve the oracles	The project team needs to focus on marketing this new concept and the organization's oracles are the place to start.

Get a coalition of oracles behind the project

I have found holding a one-day focus group meeting is a great way to get a coalition of oracles behind the project. This focus group meeting would be attended by a cross section of between 15 to 30 experienced staff, covering the business units, teams, area offices, and head office, and covering the different roles from administrators to senior management team members.

This focus group meeting should discuss the existing issues with performance measures, expose the attendees to the new thinking, outline the intended approach and seek their advice to decide if the project is viable and if so what lessons could be learned from past projects.

The aim of this workshop is to get the green light and secure the full support of the attendees. The next step is to develop a robust blueprint that sets out the direction and the requirements, using some of the oracles who have attended the focus group workshop.

Immediate steps

There are a number of immediate steps I would recommend. These include:

- Read a chapter or two every week from the recommended books.
- Access the free electronic media that I have made available to readers on my website, see www.cfo.davidparmenter.com
- Re-engineer your month-end, as this is the first step to free up time.
- Prepare your elevator speech and "change" presentation (with PR help).
- Organize your visits to sites using 21st century software (planning tools, document disclosure management systems, reporting, performance measures).

About the author

David Parmenter is an international presenter, known for his thought-provoking and lively keynote addresses and workshops, which have led to substantial change in many organizations. Mr. Parmenter has worked for Ernst & Young; BP Oil, Ltd; Arthur Andersen; and Price Waterhouse. He is a fellow of the Institute of Chartered Accountants in England and Wales. He is the author of four books published by John Wiley & Sons, Inc., *'Key Performance Indicators: Developing, Implementing, and Using Winning KPIs, Third Edition 2015'*, *"The leading-edge manager's guide to success, 2011" "Winning CFOs, 2011" "Key Performance Indicators for Government and Non Profit Agencies, 2012"*. He has written more than 50 articles for accounting and management journals. He can be reached at parmenter@waymark.co.nz; website: www.DavidParmenter.com. Phone:+64 4 499 0007

Appendix 1: An introduction to Scrum

Scrum is a technique that was developed to radically reduce the time it takes to write new software applications. It recognized that teams in very intense work periods do not always function properly.

Scrum (a technique developed in accordance with the *Manifesto for Agile Software Development*[12])—started off as a rethinking of the project management process by Jeff Sutherland, a software developer and onetime fighter pilot. He saw that combat fighter planes and big software development projects had a lot in common. They both had to avoid being shot down. He noticed that large projects were:

- Typically late, with lots of pressure and no fun
- Run even later as more resources were applied to help speed things up. Typically the new staff were "tripping over each other" and spending time in long, dysfunctional meetings
- Frequented with duplication of effort
- Often over-planned, only to find the "game had changed"
- Constantly hitting roadblocks which team members were unable to surmount as they did not have the skills or sufficient clout within the organization.

Sutherland was challenged to produce a new product in six months. He discovered:

- A 1986 Harvard Business Review study "The New Product Development Game" by Hirotaka Takeuchi and Ikujiro Nonaka, which noted that the best product development teams looked like sports teams, united in overcoming obstacles with intensity
- A company called Borland, which thrived on daily meetings

Sutherland soon developed the "scrum" system (named after a formation in the sport of rugby) and was successful. The team needs to have a clear vision of what it is after. With this shared vision you take a small chunk of work, saying, "If we deliver this feature we will advance the project. We thus do not need a massive project schedule befitting the Apollo space program."

The key is that this chunk requires about two weeks of effort and is an isolated, standalone part of the project that can be signed off by the customer. This chunk is called a "sprint."

Each day the team's members participate in a stand-up meeting. They are asked to talk about:

- What they did yesterday?
- What are they doing today?
- What are the barriers to progress?

About IBM Business Analytics

IBM Business Analytics software delivers data-driven insights that help organizations work smarter and outperform their peers. This comprehensive portfolio includes solutions for business intelligence, predictive analytics and decision management, performance management, and risk management.

Business Analytics solutions enable companies to identify and visualize trends and patterns in areas, such as customer analytics, that can have a profound effect on business performance. They can compare scenarios, anticipate potential threats and opportunities, better plan, budget and forecast resources, balance risks against expected returns and work to meet regulatory requirements. By making analytics widely available, organizations can align tactical and strategic decision-making to achieve business goals. For further information please visit **ibm.com**/business-analytics.

Request a call

To request a call or to ask a question, go to **ibm.com**/business-analytics/contactus. An IBM representative will respond to your inquiry within two business days.

IBM Corporation
New Orchard Road
Armonk, NY 10504

Produced in the United States of America
January 2015

1 Global C-suite study, 2014, see www.ibm.com

2 David Parmenter "*Why You Need A Planning Tool And How To Sell The Concept To The Senior Management Team*," www.IBM.com 2014

3 David Parmenter white paper "*Top Twenty Mistakes Corporate Accountants Make Day-In Day-Out*" www.davidparmenter.com 2014

4 David Parmenter white paper "*Quick Month-End Reporting —By Day Three Or Less*", www.davidparmenter.com 2014

5 Elizabeth Haas Edersheim, *The Definitive Drucker: Challengers for Tomorrow's Executives—Final Advice from the Father of Modern Management* (New York: McGraw-Hill, 2006).

6 For more abandonments, read David Parmenter's "*Winning CFOs—Implementing And Applying Better Practices*" John Wiley & Sons 2011

7 Luca Pacioli, *Summa de arithmetica, geometria, proportioni et proportionalità*, 1497

8 Jeremy Hope, *Reinventing the CFO*, Harvard Business School Press, 2006

9 David Parmenter, "*Winning CFOs –Implementing and Applying Better Practices*" John Wiley & Sons 2011

10 David Parmenter, "*How to implement winning KPIs*" whitepaper on www.davidparmenter.com

11 John Kotter, "*Leading Change*," Harvard Business Review Press; 2012

12 Kent Beck, et al, *Manifesto for Agile Software Development*, 2001 http://agilemanifesto.org/

Please Recycle

YTW03402-USEN-00