



GREENSTONE | FINANCIAL REPORTING

BREAK THROUGH

Opportunity Knocks 2007 / 2008 Management Training Workshop
“Measurement, Analysis and Performance Management”
January 24, 2008

Presented by: Scott Greenstone

I. Overview

A. Introduction

1. Scott’s Background
2. Group Assessment
 - a. How many of you use reports as a basis to assess performance in relation to performance objectives?
 - b. How many of you use information from reports as a basis for making management decisions?

B. Today’s Discussion: Performance objectives, measurement, analysis and performance management

1. Using the PEEP’s cycle, a framework for effective management
2. Building Blocks of measurement & analysis and practical tips

C. Key Definitions

1. Performance Objectives = The desired results that key decision makers want to achieve
2. Measurement and Analysis = The process of assessing progress toward achieving performance objectives
3. Measurement = Measuring the right things in a timely, accurate and meaningful way, yielding *useful reports* (i.e. converting raw data into information)



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4. Analysis = Analyzing and interpreting useful reports, yielding *business intelligence* (i.e. converting information into business intelligence)
5. Performance Management = Making business intelligence *actionable* in the achievement of performance objectives. This means using business intelligence to make better informed management decisions with a higher likelihood of achieving goals.

II. Plan → Execute → Evaluate → Plan Again (“PEEPs Cycle”)

- A. Plan = Establish **performance objectives** and action plans to achieve them.
- B. Execute = Carry out action plans to achieve **performance objectives**
- C. Evaluate = Assess progress toward achieving performance objectives (i.e. **measurement and analysis**)
- D. Plan Again = Maintain and/or revise **performance objectives** and action plans with new information gained from evaluation (i.e. stay on course and/or make course corrections)

III. **Performance Objectives** = The desired results that key decision makers want to achieve (i.e. Goals)

- A. What are you trying to achieve in your area(s) of responsibility?
- B. How do you define success / failure?
- C. What are the key drivers to your team’s success / failure?



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- D. Are your performance objectives aligned with each other and with those of the company, other business units/departments and your team members' objectives?
- E. Are your performance objectives achievable, measurable and within your control?

IV. **Measurement and Analysis** = The process of assessing progress toward achieving performance objectives

A. **Measurement** = Measuring the right things in a timely, accurate and meaningful way, yielding *useful reports* (i.e. converting raw data into information)

1. System Design

*TIP: **Design** is the key to a valuable measurement system. If the information requirements aren't well defined to begin with, the measurement system won't deliver useful, actionable information.*

*TIP: **Types of Metrics**: When selecting metrics, keep in mind that there are 3 types to choose from: (1) Financial data related to other Financial data; (2) Financial data related to Operational data and (3) Operational data related to other Operational data.*

*TIP: **Precision versus Cost**: 100% precision in your measurement system is unlikely to be cost effective, but the information must be credible and valid.*

a. Define ***Information Requirements***

- Based on your performance objectives, what information is necessary to assess your progress toward achieving them?



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b. Assess *Feasibility*

- Can defined information requirements be measured with acceptable accuracy, timeliness and cost effectiveness?
- Are there resource (system / personnel) constraints to consider?

c. *Finalize & Document* System Design

- Mock up the reports and develop cost effective specifications for the system, procedures and personnel

*TIP: **Form over substance:** If the formatting isn't effective, then the information will have little value to the users. Invest the necessary time and money into presentation to optimize the impact.*

2. System Implementation

- a. Implement / Configure the measurement *system* (i.e. the software(s) and/or other ways of capturing data and reporting information)
- b. Develop and document the required *procedures* to ensure desired reports are produced in an accurate and timely manner, with data integrity.
- c. Train qualified *personnel* to carry out measurement system procedures

*TIP: **Garbage In, Garbage Out:** The systems, procedures and personnel must be in place to create reliable reporting that doesn't require substantial rework after data capture.*



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3. Produce Reports (daily, weekly, monthly, quarterly, annually, as appropriate)

*TIP: **Historical context:** When launching a new metric, include historical periods to give context to today’s results. Otherwise you will have to wait for 3-12 months to get comparable information.*

B. **Analysis** = Analyzing and interpreting useful reports, yielding **business intelligence** (i.e. converting information into business intelligence)

1. **Variance Analysis:** A process that yields a **comprehensive understanding** of what happened and a **clear and concise summary that explains performance** in relation to expectations.

- a. Identify and calculate variances
- b. Explain results versus expectations (i.e. goal / budget / gut / prior year, prior month, prior average run rate) – this is tedious work that must be done thoroughly in order **to learn** (and also to validate and QC / correct data integrity issues)
- c. Identify the most significant variances (i.e. pick out the ones that “tell the performance story”)
- d. Tell the performance story (to yourself and to others). Like a newspaper editor, determine what makes the front page and headlines of *your* newspaper.

*TIP: **Results need context:** Results are only meaningful in context to other numbers (i.e. Expectations, historical results, budget)*



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*TIP: **Apples-to-Apples:** Make sure that you’re analyzing apples-to-apples information. If it is a seasonal business, prior year’s results for the same month are probably more relevant than last month’s results. Also, industry benchmarks must be used with great care. Because it is often impossible to know how industry benchmark data was derived, it often can not be trusted as an apples-to-apples comparison to **your** results.*

- V. **Performance Management** = Making business intelligence *actionable* in the achievement of performance objectives. This means using business intelligence to make better informed management decisions with a higher likelihood of achieving goals.
1. Use new information and lessons learned from analysis to evaluate the feasibility of achieving performance objectives with current action plans.
 2. Make course corrections as needed to optimize results. This will require new action plans.