

FINAL **DRAFT**

Corporate Performance Management

A Business Case for MyCompany Ltd.

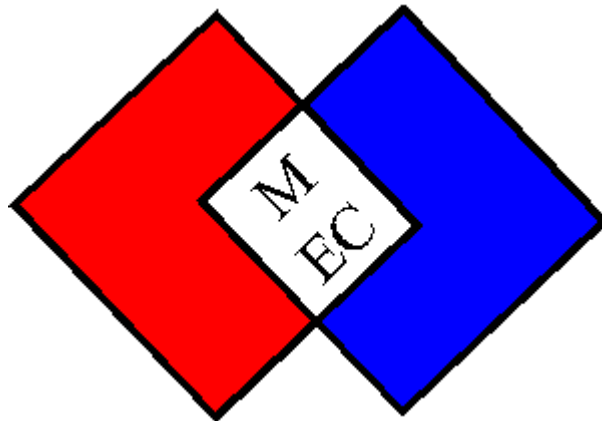


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1. Executive Summary

The new strategic plan aims at positioning MyCompany Ltd as the No.2 organisation within the UK Widgets market, based on turnover, while equalling or exceeding the net operating profit margin of the market leader.

The company's auditors and some external stakeholders are concerned that MyCompany may not be able to achieve the targets set out in the strategic plan based on past performance. In order to ensure that these targets are achieved, and to provide a communications method for all stakeholders, the introduction of a Corporate Performance Management (CPM) Framework should be considered.

CPM is the term used to describe how the processes, people, and procedures used by the organisation can be aligned and managed in support of a business strategy through shared objectives and agreed targets. The technique is premised on the hypothesis that measuring the financial dimension alone is not sufficient to properly manage an organisation and that non-financial dimensions - e.g. markets, staff, management, society - need also be considered. CPM does not represent a one-off exercise but creates a fundamental change to the normal on-going management system of a company so that more attention is given to the key strategic issues that lead to competitive advantage.

It is estimated that the introduction of CPM will result in an ongoing improvements in year-on-year net revenues of 10% (7.5% Year1) and one-off cost savings of £5.6K. The cost of implementing CPM is estimated at £57.2K with on-going costs of £3K per annum. This represents a net improvement in operating profits in Year 1 is 2.8K, rising to £291.4K in Year 4. Revenue improvements arise through:

- Improved understanding, at all levels of the organisation, of the business strategy enabling staff to pay more attention to specific issues
- Better downwards / upwards communication allowing relevant changes in market conditions to be brought to management's attention more quickly
- Attention to key targets required to meet the agreed strategy

The project can be started as soon as board approval is obtained with a role out of CPM across the organisations within 6 months and the project can be closed within 14 months.

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2. Background

2.1. Introduction

MyCompany Ltd is a medium sized organisation in the servicing of the domestic and industrial widgets market with a turnover, in the financial year ending July, of £16M and achieving a net profit before tax of £0.7M and employing 76 staff.

2.2. Market Position

Recent expansion has resulted in a 12% increase in turnover and a 32% increase in staff numbers but MyCompany still only holds the number 3 position in the market in terms of market share as shown in Table 1 below.

Organisation	Turnover £'M	Profit £'M	Profit %	Staff FTE	Market Share %
MarketLeader Ltd	38	2.4	6.3	134	28.8
NextBest Ltd	25	1.5	6.0	101	18.9
MyCompany Ltd	16	0.8	4.8	76	12.1
NearCompetitor Ltd	14	1.1	7.9	66	10.6
Other Organisations (estimated)	39	1.8	4.6	144	29.6
Total Market	132	7.5	5.6	521	100.0

Table 1 - Domestic and Industrial Widgets Market (Source: Financial Times)

MyCompany's net profit margin is slightly below the market average but significantly worse than our major competitors.

2.3. Strategic Planning

A new strategic plan for the next five years has been created, which aims to place MyCompany in second place in the market.

2.4. Stakeholder Views

Our auditors have reviewed the new strategic plan and they believe the objectives and targets in the plan to be attainable. However, they have expressed some reservations about our ability to implement the requirements of the plan. These reservations are based on:

- a) A staff survey where over half the staff said that they did not understand the strategy despite the recent formal presentations from the Managing Director

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b) Interviews with members of the Senior Management Team, two of whom felt that the previous strategic plan would deliver success given enough time.

Complaints from two of the key shareholders indicate that they are not happy with the organisation's performance and are demanding an explanation of how the trading position can be improved.

2.5. Management System

The organisation uses standard financial techniques such as planning and budgeting to forecast how the market will change and to control the actions of the organisation. MyCompany reacts to anticipated changes in the market when these are identified and plans / budgets adjusted accordingly

3. Objectives

The key objectives of the project are to:

1. Ensure that the new strategic plan is implemented and the plan objectives are achieved
2. Improve understanding and commitment to the new plan amongst staff and other stakeholders.
3. Improve the standard of strategic decision-making by reducing the need for senior management time on operational issues and through improved market information
4. To reduce the staff workload and reduce overheads by ceasing any projects that do not directly support the new strategic plan and direct any spare resources to new projects.

4. Overview of Corporate Performance Management (CPM)

CPM is the term used to describe how the processes, people, and procedures used by the organisation can be aligned and managed in support of a business strategy. The technique is premised on the hypothesis that measuring the financial dimension alone is not sufficient to properly manage an organisation and that non-financial dimensions - e.g. markets, staff, management, society - need also be considered. CPM suggests, for the organisation to be successful, that the cause and effect links between these dimensions need to be understood.

The introduction of CPM causes organisations to examine and validate their processes and procedures - and the linkages between them - to focus on those matters that need to be considered in achieving the strategic objectives. This examination results in the weeding out of any projects that are not required to support the strategic plan.

Proponents of CPM also claim that the introduction of the initiative aids communication and change management by getting everyone involved in the strategic process and therefore gaining people's commitment.

Success of a CPM initiative is maintained over time by changing the way the organisation is run - the management system - so that emphasis is given to strategic imperatives. The new management system together with the integral 'double loop' learning constantly updates the system itself in line with market realities so ensuring that the CPM approach evolves as necessary.

5. CPM Options

There are several widely used frameworks that are often used when discussing CPM:

5.1. The EFQM Excellence model

The EFQM Excellence Model has been around for over 10 years and is widely used in the UK and across Europe within organisations of many different sizes and in different markets.

The model consists of an integrated set of fundamental concepts that describe criteria for best practice. Organisations can undertake a process of self-assessment to measure how well they are performing and can apply for regional, national, or international awards. The assessment is based on a score using a Results / Approach / Deployment / Assessment & Review matrix

5.2. The Balanced Scorecard

The Balanced Scorecard is also just over 10 years old and has been adopted by many of the top private and public organisations across the world.

The model is based on the premise that organisations cannot pay attention to just their Financial Perspective but also must attend to their Customer / Business Process / Learning & Growth Perspectives. The Balanced Scorecard represents a set of strategic objectives, measures, and targets across the perspectives linked by cause and effect.

5.3. Other Methodologies

There are other methodologies that support the CPM approach such as Six Sigma, Earned Value Analysis (EVA), Performance Prism, and Total Quality Management (TQM). A review of these approaches conducted by MyCompany, the consultants, and our auditors concluded that they were not suitable to achieving the objectives of this particular project.

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6. Scope and Staff Commitment

6.1. Scope

Any Corporate Performance Management implementation by definition will affect all parts of the organisation although a pilot study will be undertaken to identify how CPM can be best implemented and used within MyCompany Ltd. It is therefore proposed to pilot CPM in the Domestic Widgets Division as this is a small independent unit who have expressed an interest in adopting the approach and have two key managers who are familiar with the application of CPM during other employments.

6.2. Staff Commitments

Activity	MyCompany Time (Days)	Consultants Time (Days)
Preparation of Business Case		5
Managing Director	1	
Project Sponsor	3	
Project Manager	10	
Initial Training		3
Managing Director	3	
Senior Management Team (3 people)	3 each	
Project Manager	3	
Pilot Project		10
Managing Director	2	
Senior Management Team (3 People)	5 each	
Project Manager	60	
Other Managers (2 People)	8 each	
Other Staff (5 People)	4 each	
Full Role Out		7
Managing Director	3	
Senior Management Team (3 People)	5 each	
Project Manager	60	
Other Managers (4 People)	10 each	
Other Staff (67 People)	3 each	
Sub-total Implementation Project	461	25
Project Review		5
Managing Director	1	
Senior Management Team (3 people)	1	
Project Manager	5	
Other Managers / Staff (72 people)	1/2 each	
Total Days Required	504	30

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6.3. Timeline

Activity	Working Days Elapsed	Cumulative
Preparation of Business Case	10	10
Review and approval of business case	4	14
Initial Training	3	17
Review and approve next project stage	2	19
Pilot Project	60	79
Review and approve next project stage	5	84
Full CPM Role out	60	124
Operate under CPM processes	130	254
Implementation Project Review and Closure	5	259

If the project was to start on 1st March it is anticipated that the implementation phase can be completed by 31st August this year with a project completion date, when the CPM system will be fully embedded in normal business processes, of 31st May next year.

There may be certain activities, e.g. tying salaries / incentive bonuses to CPM objectives / metrics, that can not be completed until Year 2 when staff confidence in the process is attained.

6.4. Key Project Roles

- Managing Director
 - Demonstrate commitment to CPM project
- Project Sponsor
 - Provide support and guidance to the Project Manager
 - Represent the project at Board meetings
- Project Manager
 - Manage all day to day aspects of the project
- External Consultant
 - Provide training on CPM principles / implementation practices
 - Provide external knowledge and experience
 - Act as independent facilitator

7. Finance Case

7.1. Costs

Cost	£'000s	Assumptions
Implementation: Consultancy and training fees	15.0	Fixed cost of consultancy and training based on 25 days assistance plus other expenses
Consulting fees	3.0	Additional consultancy to review progress based on 5 days p.a.
Back-fill project staff	32.3	Based on replacing project manger and one project staff member for 6 months with interim staff
Sundry expenses	6.9	Purchase of publications and other research information; travel expenses; incremental office costs

7.2. Excluded Costs

The cost of additional management and staff time in attending training and project meetings.

7.3. Initial Commitment / Decision Points

The initial funding required for the project is £3.0k being the consultancy fee for the preparation of the full business case in conjunction with MyCompany management, and the project team.

The other occasions where a decision to halt or proceed with the introduction of CPM are:

Milestone	Cumulative Cost
Completion of training	£8.0K
Completion of pilot project	£20.0K

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7.4. Benefits

Benefit	£'000s	Assumptions
Saving on non-core initiatives	5.6	Case studies of other organisations that have implemented CPM indicate that cost savings of 10% are achievable - a 5% saving has been assumed for MyCompany
Improvement in net profit before tax	80.0	An empirical survey of organisations implementing the EFQM model demonstrated that organisations that succeeded in employ these techniques improved operating income by 93% compared to 43% improvement for other organisations - a sustainable 10% year-on-year improvement has been assumed for MyCompany (7.5% in year 1)

	This Year	Year +1	Year +2	Year +3
Benefits				
Improvement in Net Profit	60	88	99.8	109.8
Savings on non-core initiatives	5.6			
Total Incremental Revenues	65.6	88	99.8	109.8
One-off costs				
Consultancy	15.0			
Temporary Wages	32.3			
Sundry Expenses	6.9			
On-going Costs				
Consultancy	3.0	3.0	3.0	3.0
Total Costs	57.2	3.0	3.0	3.0
Net Incremental Revenue	2.8	85.0	96.8	106.8
Cumulative	2.8	87.8	184.6	291.4

The improvement in Net Profits occur because of:

7.4.1. Improved Revenue Growth

- Improved understanding, at all levels of the organisation, of the business strategy enabling staff to pay more attention to specific issues
- Better downwards / upwards communication allowing relevant changes in market conditions to be brought to management's attention more quickly
- Attention to key targets required to meet the agreed strategy

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7.4.2. Cost Control

- Better targeted investment decisions so resources are spent on key strategic and operational projects only
- Less waste of resources as activities are aligned to business strategic needs
- Improvements in staff morale because of better communication and clearer targets
- Improvements in internal knowledge base with staff competencies aligned to strategic needs
- More coherent business processes
- Better communication to external stakeholders allowing better access to new capital

7.5. Risks

The following risks of implementing CPM have been identified:

Risk	Probability	Impact
CPM does not deliver expected benefits	Low	Medium
Additional work distracts from existing activity	Medium	Low
Failure of CPM initiative leads to future resistance to change	Low	High

To minimise the possibility of these risks the consultants CPM Implementation planning process is to be used. (Consultants are covered by Professional Indemnity Insurance)

8. Constraints

8.1. Cultural Issues

The staff survey indicated that there would be resistance to the implementation of Corporate Performance Management as previous initiatives had not been successful and there were concerns that this would be an attempt to reduce staff or freeze wages. Failure to deal with these concerns will mean that MyCompany would not meet the success criteria for the project.

8.2. Financial Issues

The investment required in new machinery required by the strategic plan means that there is little latitude in increasing the cost of this project.

8.3. HR Issues

The staff survey indicated that most staff members felt that they were already stretched in their work due to the large number of new projects being raised by senior managers and would not have enough time for any new initiatives.

It will be difficult to employ additional staff because of the state of the local economy so new initiatives will require redistribution of people from existing activities

9. Conclusions and Next steps

9.1. Recommendation

It is recommended that the organisation implement a Corporate Performance Management initiative based on the Balanced Scorecard. In order to avoid any unnecessary costs it is recommended that external consultants be appointed to initiate the project, acts as a mentor for the MyCompany project manager, and provide the necessary training and seminar facilitation.

9.2. Next Steps

Once the project is approved, the contract with the consultants should be signed as soon as possible for the work outlined in the stages described in their document 'Implementing Corporate Performance Management.'

The internal project manager should be appointed as soon as possible, selected from the three people who have expressed an interest in the role.

A more detailed assessment of the business case will be undertaken by the project team in conjunction with MyCompany management and the consultants to firm up on financial / non-financial requirements for board approval.

Work should start within 10 working days of the signed contract with the CPM process being rolled out within 6 months with final project closure within 14 months.