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CFO Key Performance Indicators (KPI) Survey

Bringing value to the business through relevant and reliable information.

2013

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Content

Introduction

For the last couple of years Luxembourg companies have been facing economic uncertainty and turmoil. This unprecedented situation has urged the need for both Top Management and Executives to have relevant and reliable information at their disposal to drive their business.

As a result, the role of CFOs and Finance Function's Executives had to change accordingly to provide them with insightful Key Performance Indicators (KPI) to support monitoring and decision support.

In that regard, the crisis may be the element that finally triggers a full fledge evolution of the role of the Finance Function from bookkeepers to business partners.

On the short term, this might be a matter of survival but provided this mutation is carried out successfully, this may also turn out to be a strong competitive advantage for businesses on their way to recovery.

That's why we have conducted the CFO KPI Survey 2013. We have focused on the definition of key performance indicators, the data and tools used, their preparation and control and the interactions between Finance Function Executives and other professionals.

This survey is the third instalment of PwC CFO Surveys of the Luxembourg marketplace after our CFO Reporting Survey in 2011 and CFO Budgeting Survey in 2012.

We have found that there are rather clear patterns emerging from the respondents' answers regardless of their sector of activity.

Key take-aways from this survey include:

- Defining indicators is really key

  What is at stake for Management and Business is to have the right information at the right time and not to receive an over flow of data.

- Data quality is the foundation for effective Key Performance Indicators

  Data quality is a necessity. In addition, financial data should also be aligned with actual business operations and processed via an effective and efficient IT solution.

- Finance Functions are becoming full fledge business partners

  Both Top Management and Executives are expecting more active input and support from their Finance department. This is resulting in changes in Finance Functions profiles and organisation.

- To be impactful KPIs must be adapted to their target audience

  Not only the content, but also the support and the frequency used have to be in line with the target audience expectations, use of KPIs' information and profiles.

We trust you will find this study interesting and useful. If you are interested in discussing our service offering in that area, feel free to contact us.

About Finance Function Effectiveness

Our dedicated team draws upon finance, operations, technology, regulations, risk, tax and people skills to seize opportunities, navigate risk and deliver lasting change to Finance departments.

We can help deliver sustainable improvements to your Finance Function, whether it is for a specific issue you are addressing or for a wider Finance transformation programme.

We look forward to discussing the results of this survey with you.

Best regards,

François Génaux, Advisory Market and Financial Services Leader

Laurent Gateau, Senior Manager, Finance Function Effectiveness Leader

About the Survey

This survey is the third instalment of the CFO survey.

This year, we surveyed 65 Luxembourg-based companies on the activities and challenges related to Key Performance Indicators (KPIs).

The survey's results are not meant to be representative of the entire Luxembourg Marketplace but rather to provide insight on the way companies manage their KPIs with regards to:

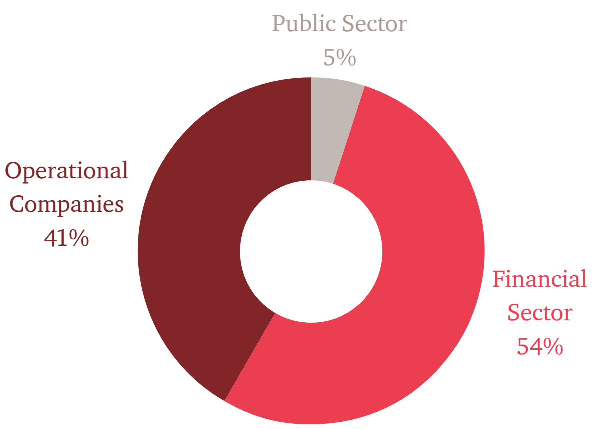
- Definition and time aspect;
- Data quality and tools;
- Preparation and analysis;
- Users aspects;
- Future trends.

About the panel

All respondents completed the survey through online forms between November 2012 and February 2013.

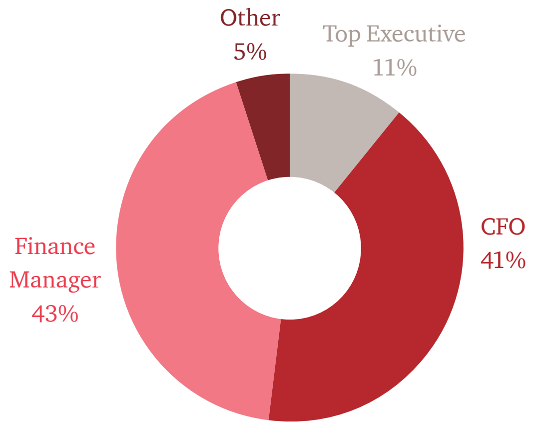
The respondents to the survey were kept strictly confidential.

In which industry does your company operate?



The panel of respondents is a fair representation of the Luxembourg marketplace in terms of business sectors.

Position of the respondent

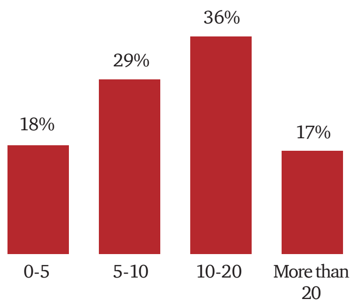


More than 4/5 of the respondents are professionals from the Finance Function.

Answers from top Executives and other professionals will provide insight from a business perspective.

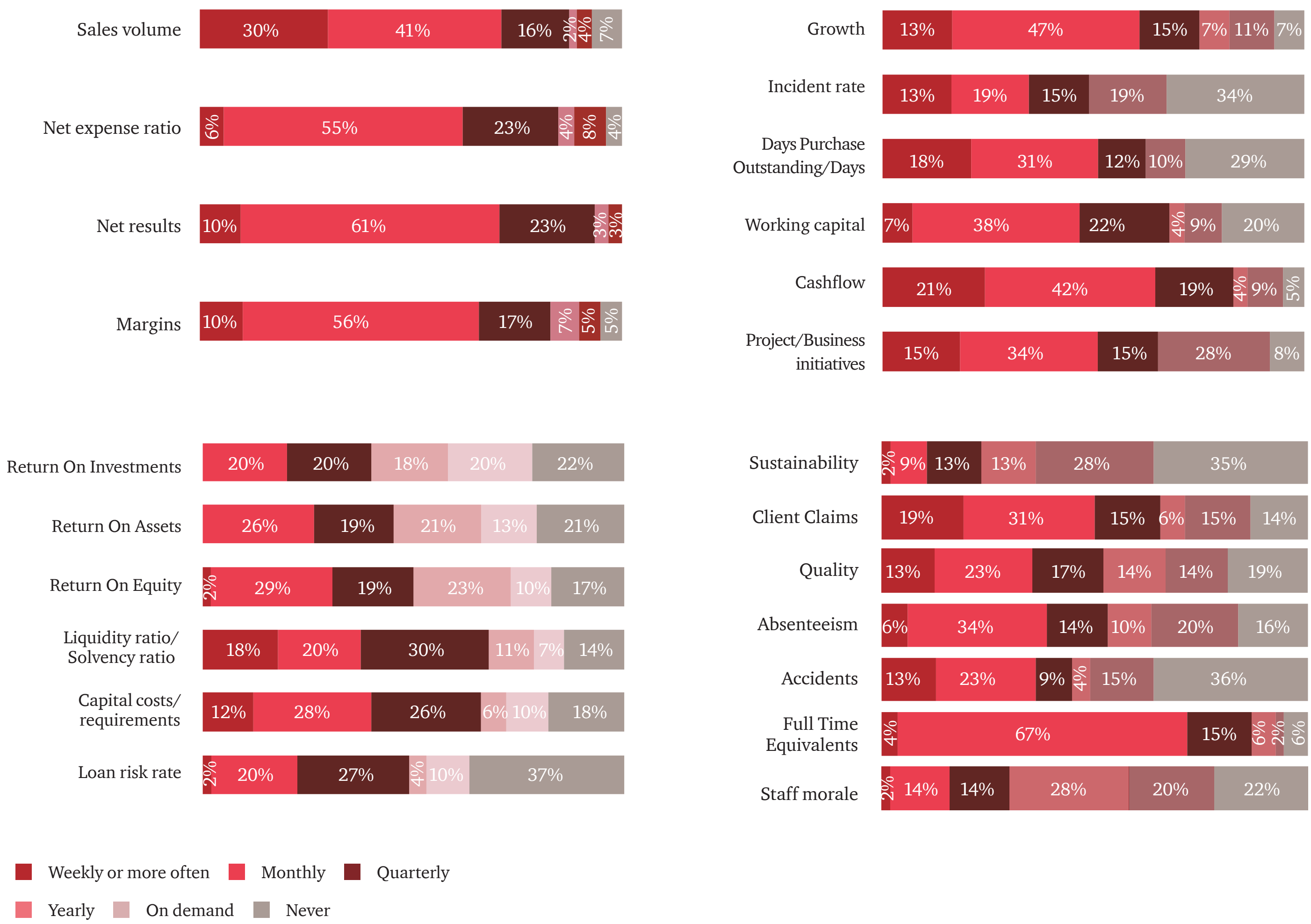
Insight from the market: definition and time aspects

How many Key Performance Indicators do you regularly consider?



1/3 of respondents deploys too many (more than 20) or not enough (less than 5) KPIs.

Which KPI do you regularly consider?



Rather than gross sales volume, the focus is clearly on profitability, contribution to net result, cash generation and usage for which indicators are monitored monthly or even more frequently.

Definition and time aspects

Challenge 1: Defining what makes an indicator key

While it is clearly impossible to define one single perfect set of KPIs applicable to all companies, having an indicator is important to reflect either internal business focus or external concerns. Indeed, regardless of the size and complexity of operations, key indicators are the most useful tools to monitor activities and take business decisions.

Additionally, KPIs must be the same over the years to stay relevant. Yet, their composition can be slightly changed on the edge to reflect business conditions. That's why cash and treasury or DPO/DSO are increasingly incorporated into sets of KPIs.

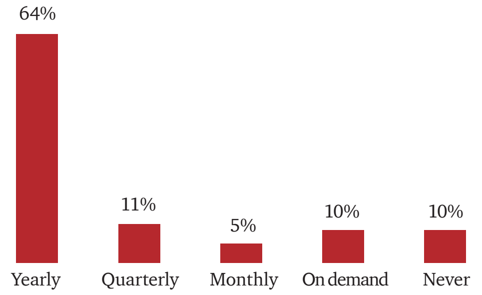
A limited set of KPIs is also a pre-requisite for them to be relevant. Adding too many details would prevent stakeholders from seeing what is important by blurring the overall picture. Based on what we have observed in the Luxembourg marketplace and among the global leading practices, we suggest including between 10 to 20 indicators.

An effective set of KPIs should reflect the right mix between strategy and operations. Indicators linked to Enterprise Performance Management would allow to answer the question "Are we able to pursue our strategy?" while those linked to Operation Performance Management would allow to answer the question: Whether we are efficient in doing so? The composition should be balanced between both while covering all business areas and activities to support a fair review of the business.

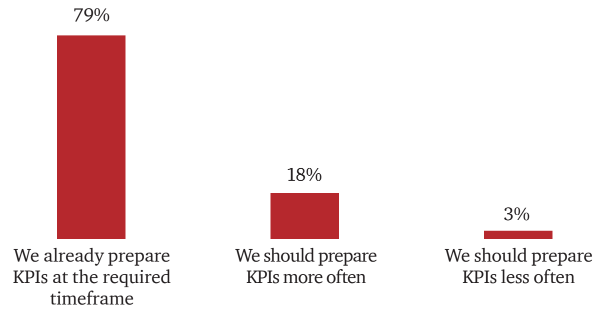
Finally, it is essential to use a standard definition and a single version of the truth regarding information and data sources used to set up KPIs. By standardising KPIs definitions and underlying data, everybody would be able to speak the same language. Finance Function professionals should be explaining what data are used as reference and which KPIs are key to managing their business to facilitate transparency and effectiveness.

Insight from the marketplace: definition and time aspects

How often do you redefine your set of KPIs?



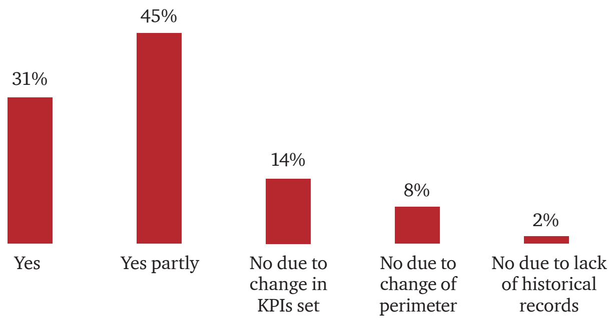
Do you think that your KPIs are prepared at the right frequency?



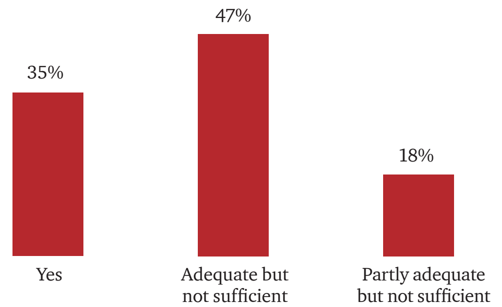
Nearly 2/3 of respondents set their KPIs annually to ensure the consistency of data so that they can be compared.

Yet, there is a strong need for quicker delivery of KPIs to the different stakeholders as almost 20% of respondents plan to produce KPI more often.

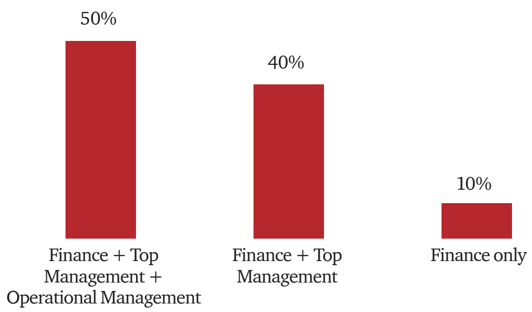
Has your set of KPIs been consistent over the years?



Do you think that the set KPIs you are currently following is adequate?



Who is involved in the definition and redefinition of your set of KPIs?



Although Top Management and Executives are often involved in the definition of KPIs, only 31% of respondents can compare their KPIs over the years and only around 1/3 think their current set of KPIs is adequate.

Definition and time aspects

Challenge 2: Deciding which Key Performance Indicators to report, to whom and how often?

Having information at the right time is necessary. And the pattern is moving toward reducing this time even more.

A well defined set of KPIs is both more efficient (i.e. quicker generation process) and more effective (i.e. focus on what really matters to the decisions makers) than a full list of indicators which may be less impactful. As discussed in the previous challenge, no KPIs are set in stone once for all. Yet, any change should be documented and explained. To ensure continuity, the cursor should be set accordingly between core KPIs and new ones according to each company's business, situation and strategy.

To ensure objectivity in rating and comparability, KPIs need to be assessed versus target baselines defined at the beginning of the review period (e.g. previous year actual and budgeted figures) and need to use strictly defined rating criteria.

Similarly, Management and the Finance Function should regularly question the relevance of the set of KPIs to the targeted Executives (i.e. do they actually support them in monitoring their activity, respectively setting up the strategy?). For instance, the total turnover should be the same for Top Management and Sales Executives. Yet Sales department's will be more granular with a breakdown per relevant dimensions (e.g. distribution channels, countries and products).

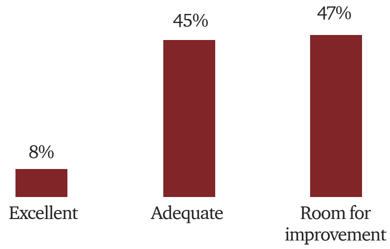
KPIs also underline interactions between departments and support synergies by underlying the impact of decisions taken by others on their own core sphere of responsibility and vice versa. For instance, it may be very useful for a production manager to know what is in the sale pipeline to adapt the level of stock accordingly. Otherwise, delivery delays may be at risk and the client relationship negatively impacted.

Moving forward

- Are all the KPIs you have defined really efficient? How to define relevant core KPIs?
- How to align strategic and operational performance indicators?
- Does your present set of KPIs fairly and effectively reflect the current business and hot issues?
- How to help business and top Executives define KPIs that really matter to them?
- Are you able to analyse how your performance indicators have evolved over the years?
- Is the reference data used for the generation of KPIs documented and reliable? Is it sufficient to cover all needs from the business or top management?
- What prevents you from producing KPIs more often?

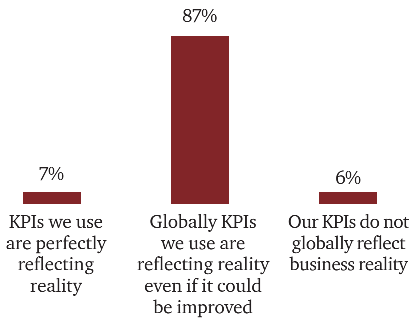
Insight from the market: data quality and tools

How would you define the quality of your source data?



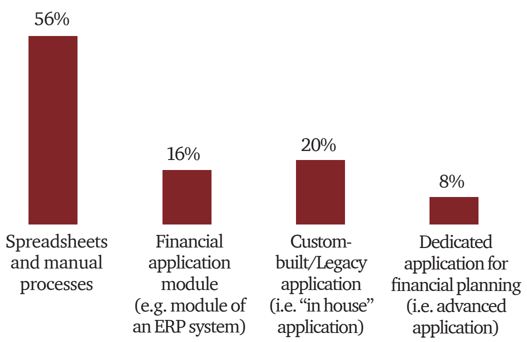
Only 8% of the respondents think that quality of their source data is excellent and almost one half that the quality of data can be further improved.

How do you assess your set of KPIs regarding business reality?



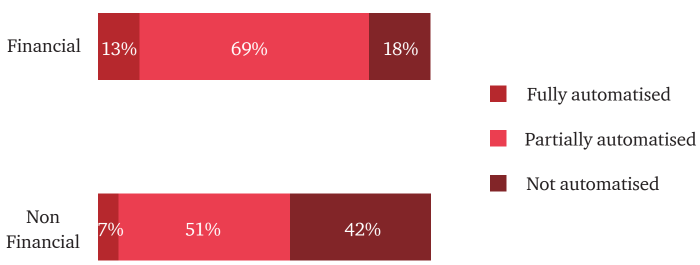
Close to 9 out of 10 respondents think that KPIs used are reflecting reality but they could be improved.

Which system do you currently use to prepare your KPIs?



56% of the respondents still use spreadsheets and manual processes to follow KPIs.

How far have you automatised the preparation of your KPIs?



There is a global trend to move towards more automation, even for non-financial KPIs.

Data quality and tools

Challenge 3: Setting up reliable and effective KPIs by combining data quality and alignment with business activities

How to ensure that KPIs actually reflect business reality (i.e. every business transaction is properly translated into financials figures and accounted for in KPIs)?

The first pillar for success is Business Process Management. So designing processes and enhancing programmes are essential to enable standardisation and automation of data processing (efficiency) and to make sure that business activities are fully and fairly reflected into financials (effectiveness).

The second pillar for success is data quality. Combined with the process approach, strong data governance and data management are necessary to align KPIs with business activities and their challenges.

The fact is that technology will not be a competitive advantage unless the data is right. Well defined and consistent data taxonomy is required to fully unlock the potential of IT solution and automation.

Challenge 4: Making the right use of technology to produce KPIs in a quick, reliable and cost effective way

By investing in technology, companies aim at reducing manual processing to the maximum, limiting it to reviews and analyses while data treatment and production of KPIs are automated.

To accelerate processes and improve the quality of analyses, the right set-up of IT tools should be defined for each given individual situation and strategy. There is no miracle solution as one size does not fit all. Each company should invest time and resources to define a suitable and relevant set-up (e.g. automated workflows, data warehousing and centralised reporting databases).

Alternatively, spreadsheets might also be used as the basement stone for these activities if strict processes and quality controls as well as clear audit trail are implemented.

There should be an analysis of the return on investment regarding moving forward with more integration and automation.
The trade off is between cost of implementation and benefits. The choice is between following the motto “if it’s not broken, don’t fix it” and creating an agile organisation which is able to accommodate increasing complexity while containing the costs.

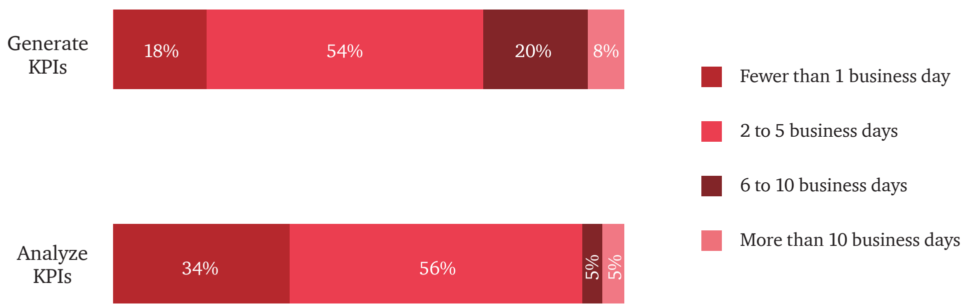
Finally, automation allows reducing manual processing, accelerating operations and leaving time for analyses and explanations.

Moving forward

- How robust and agile are your data governance and data taxonomy?
- Do you have streamlined and well defined processes for interactions between business and Finance?
- Do you have a clear view on how mature and robust your IT framework is?
- Do you know how much you would gain from more integration and automation?
- How to reduce the time spent on data cleansing and reconciliation to be able to have more time for analysis and value adding activities?

Insight from the market: preparation and analysis

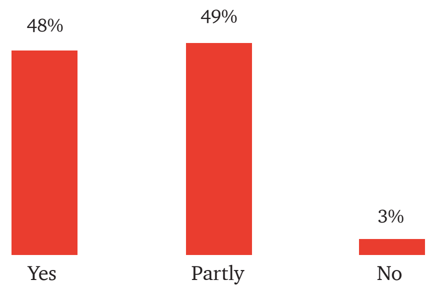
Approximately how long does your company take to generate and analyse your KPIs?



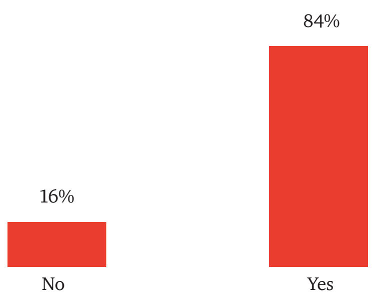
More time is spent on analyses than on generating KPIs.

Yet, the global lead time for preparation could be further improved.

Are KPIs analysed and variation explained at each iteration?



Is the set of KPIs reviewed before its launch?

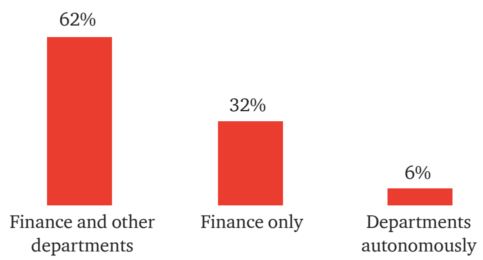


Yet, less than half of the respondents systematically analyse and explain their KPIs.

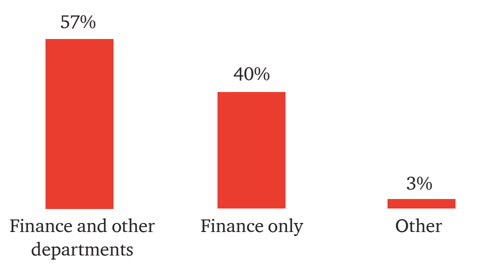
One out of five respondents does not control its KPIs before being communicated.

For a majority of respondents KPIs are prepared and analysed jointly by Finance and business Executives.

Who is preparing your set of KPIs?



Who is in charge of analysing and explaining your KPIs?



Challenge 5: Enabling the transition of Finance from Score keeper to Business partner

Top Management and Executives are asking for a more active input from their Finance Function for the operational and strategic challenges they have to face.

Stakeholders are no longer awaiting data but rather insight: the sharper and the more timely the insight, the more impactful and quicker the action stemming from the review of KPIs.

KPIs are crucial in driving the business the right way since they are the junction between Business and Finance and between operations and strategy. Therefore, the role of Finance Functions is changing at a rapid pace. They are no longer super-bookkeepers but (more and more) business partners.

First, Finance plays a role of controls: it must make sure that information is reliable. The faster data is controlled and reconciled, the quicker it can be turned into information communicated via KPIs.

Second, Finance plays an information builder role. Producing relevant KPIs faster than competitors might become a competitive advantage which would allow Top Management to make decisions quicker and be more reactive to the evolution and changes in the different activities and segments in which a firm is active.

Finance should also play a connecter role between accounting and controlling topics and the business activities. To do so, Finance professional should not only master the set up and calculation of KPIs but also understand what is at stake with the business and the way it is operated.

In doing so, they will be able to explain the impact of business decisions on financials figures and indicators. This would allow for proper corrective actions in case of deviations or potential issues (e.g. impact of sale and payments terms on day sales outstanding and payables outstanding).

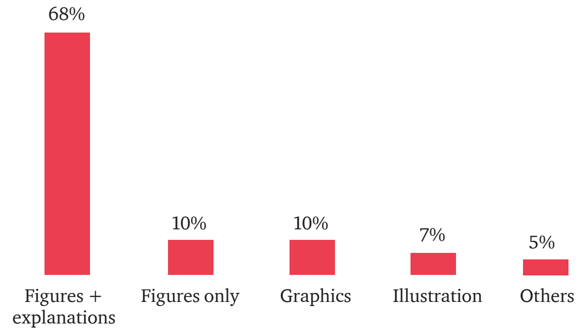
Sharper insight and decision support will also result from the ability of Finance Functions to provide stakeholders with trends in the way KPIs are evolving and explaining the root causes for these evolutions instead of commenting on static data.

Finally, Finance professionals might also have to communicate information to raise awareness of the whole firm on hot issues.

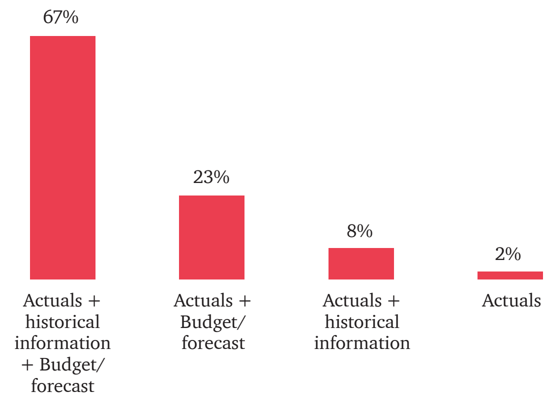
This evolution towards being a business partner will not only impact Finance’s business counterparts but also the Finance Function itself. Indeed, job descriptions for Finance professionals will make positive changes. These revised tasks and responsibilities will allow for further career paths within Finance Functions and, if managed well, will allow for higher retention of Finance professionals.

Insight from the market: users aspects

How are the KPIs used to present information?

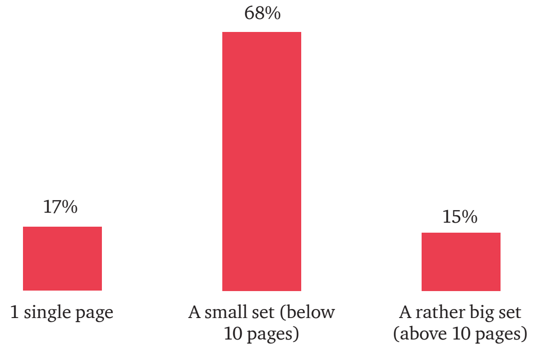


Which information do you use to present your set of KPIs?



Figures are provided with explanations by 2/3 of the respondents with a comparison with target and/or historical figures.

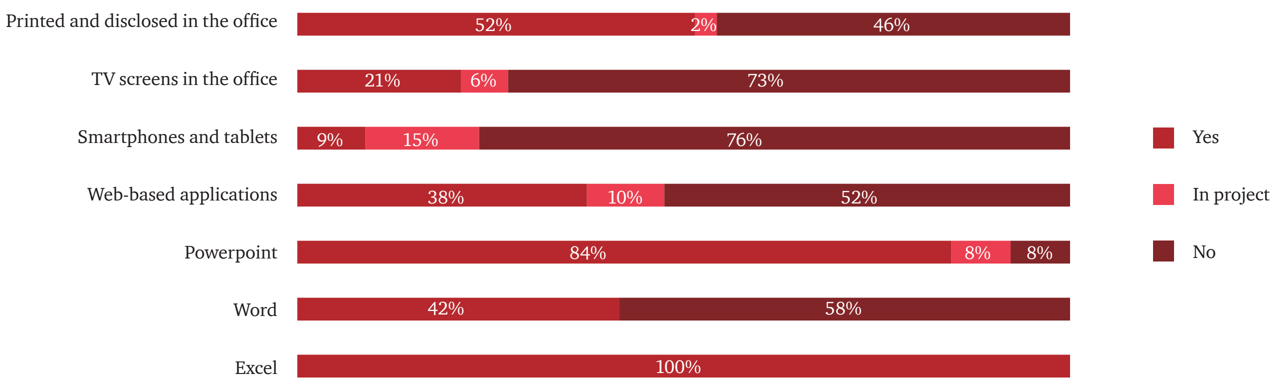
How big is your set of KPIs?



The norm is to present KPIs in a small booklet and to circulate electronically or via printouts.

While web-based applications are used by more than 1/3 of respondents, distribution via smartphones, tablets or even display on TV screens remains marginal.

What supports do you use to present KPIs within your company?



Users aspects

Challenge 6: Defining the right supports and shapes for KPIs to be impactful and useful to users

Based on the target to reach, disclosure patterns may differ. Thus, the shape, support and assessment frequency of KPIs should be adapted to the different targets and their working habits.

Business indicators must be followed on a quasi-real time basis. This implies being automated as much as possible to save processing time. For those usages, there is a clear trend towards most advanced companies to go for web-based applications, smart-phones or tablets so that nomad Executives can remotely and securely access to the information they need. Alerts can be generated automatically in case of abnormal results or patterns so that push notifications are sent to the Executives in charge and corrective actions are taken quickly. Those aspects are reflected in the survey results which show that the current main implementation projects are related to those two communication tools.

Top management will not require this frequency for the key indicators followed. KPIs must allow them to get a broad view on what is at stake in his company at one glance. Therefore the indicators must be prepared on an aggregated basis (with possibility to drill down if necessary) and be presented in a way that facilitates decision making (colour scale being the norm).

KPIs can also be used as a way to communicate information to the whole staff. In that regard, KPIs disclosed to staff using TV broadcast in cafeteria or at entrances are a way to share relevant information to them in a transparent, effective and efficient way (e.g. Turnover, absenteeism, etc).

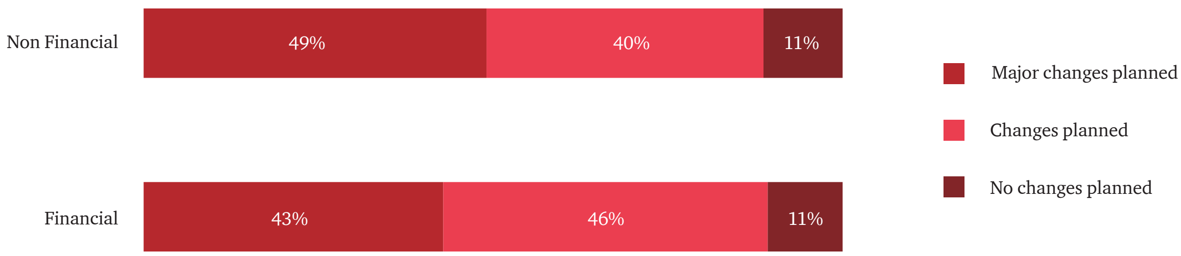
It appears eventually that most of respondents followed a reasonable number of KPIs, which illustrates the needs to provide the right insight to the right users to ease decision making. If larger sets were communicated, the risk would be not to highlight key information and support related decisions to be made.

Moving forward

- **Does Finance understand the business and vice versa? How to help them speak a common language?**
- **How to help Finance evolve into a provider of added value for the business?**
- **What can be done to optimise interactions between Finance and other stakeholders and make them more effective and efficient?**
- **Have you assessed how the evolution towards business partners impacts the career path of your finance professionals?**
- **Do you know if Executives and management are satisfied with the KPIs they receive? Do they read it? Do they understand it and ask for further information?**
- **Have you thought about communicating some KPIs to all staff members? What support would you use?**

Future trends

How would you assess your new KPI's needs in the next 2 years regarding Non Financial and Financial KPIs?



The uncertainty of the economic climate and impact of external business events have urged the need of new KPIs for Management and board members. This trend will clearly continue.

Companies will have to keep adapting their KPIs by revising financial ones to put the spotlight on new issues (e.g. cash and liquidity management and working capital needs, etc). Additionally, they will also have to introduce non-financial indicators covering Corporate Social Responsibility and Sustainability.

Finance Functions are expected to play an active role in this process. This is an opportunity for Finance Executives and CFO to eventually fully operate as business partners providing substantive and sharp insight to support both strategic and operational decisions.

Finance Functions will have to make their revolution. This is a huge challenge to take since the transition from bookkeepers to business partners should not only be effective but also cost efficient. This is a must to prevent going concern in an economic environment of fierce competition and survival of the fittest.

CFO KPI Survey 2013

Take-aways from the Survey

The survey is meant to provide insight on the way Luxembourg-based companies manage their Key Performance Indicators (KPIs) and also show a view on provider leading practices.

65 companies from all industries have been surveyed on the way they define, analyse, control and distribute KPIs and about their related challenges. These main challenges include:

Challenge 1: Defining what makes an indicator key

Challenge 2: Deciding which Key Performance Indicators to report, to whom and how often

Challenge 3: Setting up reliable and effective KPIs by combining data quality and alignment with business activities

Challenge 4: Making the right use of technology to produce KPIs in a quick, reliable and cost effective way

Challenge 5: Enabling the transition of Finance from Score keeper to Business partner

Challenge 6: Defining the right supports and shapes for KPIs to be impactful and useful to users

Moving forward

The current economic climate has urged a need for radical changes on the way KPIs are managed.

The challenges to take are huge and involve a major change of the role of the Finance Function from bookkeepers to business partners.

Yet, while this evolution is deemed by the crisis necessary in the short term, it can turn into a strong competitive advantage on the longer term for companies which would have managed the transformation of their Finance Functions.

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