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CFO Guide for Target Setting and Performance Management

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Contents

Introduction

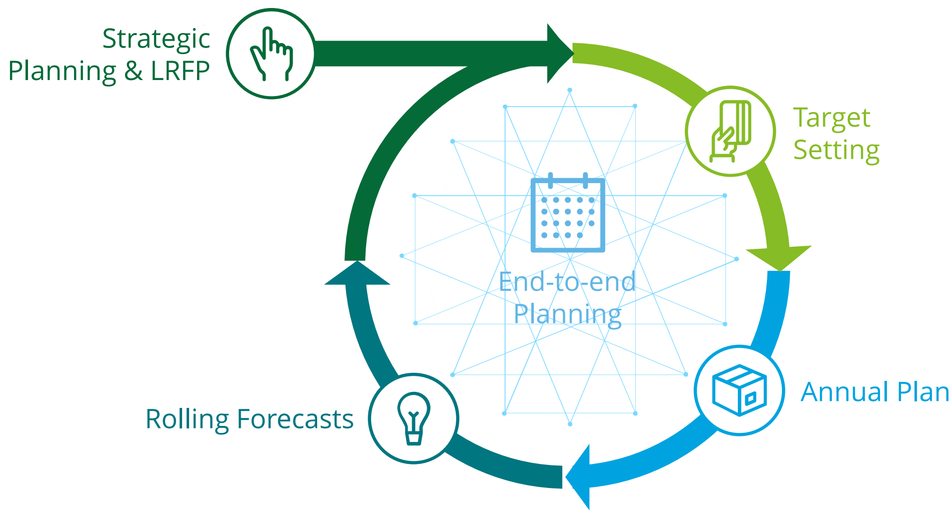
CFOs are navigating one of the most complex and intricate business environments of modern times. Massive influxes of data and information have required the rapid digitization of the world and finance functions alike. CFOs are quickly working to adopt next generation planning capabilities and integrated business planning frameworks to capitalize on data availability and drive strategic decision making across the enterprise.

As decisions are forced to be made in a more efficient and dynamic manner, it is crucial that strategic priorities are tied to everyday business decisions leaders are making. The connective tissue between strategy and business decisions lies within the organization's ***Target Setting & Performance Management*** processes. It is important for CFOs to facilitate target guidance in a connected manner that translates broad-based portfolio strategies and market expectations into obtainable goals, objectives, and KPIs for business leaders to take aim and execute. The linkage between strategy and defined objectives will drive the desired behavior from business leaders and enable your organization to meet stakeholder expectations and create sustainable value.

In this guide, we will explore several ways CFOs can leverage people and data to set targets that properly motivate and incentivize the business leaders and front-line workers to align with the organization's overall objectives and goals. We will also touch on some of the common challenges organizations face, and how to overcome them when setting targets.

Process Overview

When determining the target setting process, organizations should consider the full end-to-end planning lifecycle. Organizations should strive to create a connected ecosystem of processes and capabilities that drive integration and alignment across the business, maximizing organizational involvement and strategically linking inputs, outputs, and assumptions across planning, budgeting, and forecasting activities.

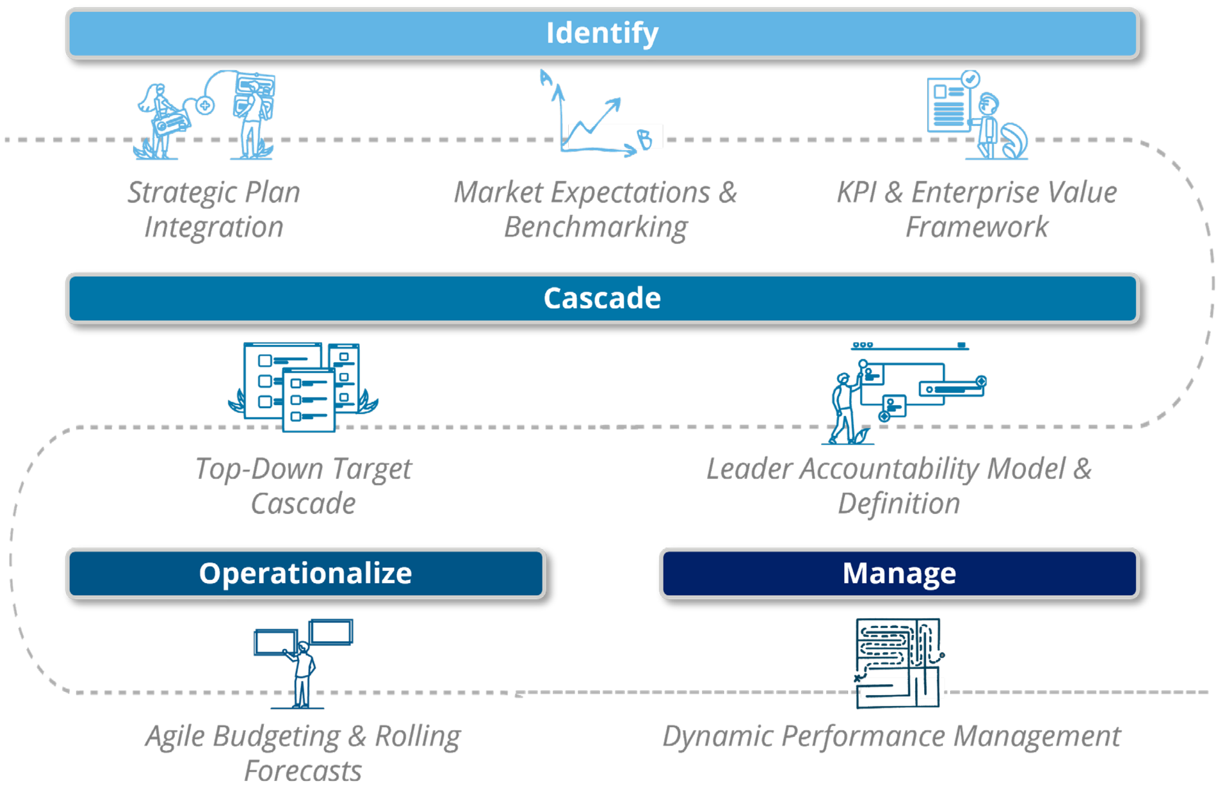


Target setting is the connective tissue that drives linkages from strategic planning through to business strategy and performance measurements.

A thoughtful approach should drive the timing and integration of target setting and performance management processes. Consider the linkages to strategic, operational, and financial planning cadences.

Top-Down Approach

A leading practice target setting framework is executed in a top-down manner to drive alignment to overall business strategy and reduce the number of iterations required to develop financial plans. This process includes [1] identifying organizational targets, [2] cascading targets to accountable leaders, [3] operationalizing a financial and operational plan against identified targets, and [4] managing performance throughout the forecasted horizon.



Identify

The process to identify organizational targets should come from the top-down, with direct linkages to strategic objectives, long-range financial planning, shareholder expectations, and external benchmarks. Less is generally more when establishing targets, meaning finding the right 3-5 metrics that are quantifiable and will deliver the strategic outcome the business is looking to achieve.

It is important for organizations to have a mix of financial and operational metrics to achieve their strategic vision. Many organizations fail to take operational metrics into consideration when setting targets. This oversight often arises from a lack of clarity within companies regarding how strategic ambitions influence day-to-day operations and how operational factors ultimately impact financial outcomes.

Leading practice: *Leading organizations clearly define KPIs that are tied to their strategic objectives and measure the success and delivery of enterprise value (I.e., revenue growth, operating efficiency, asset productivity, shareholder expectations). As strategic objectives vary year to year across, targets should also adapt to effectively motivate and deliver on the KPIs tied to the organization's strategic objectives.*

Cascade

The target cascade is a critical component of the overall process, and many times more difficult than the actual identification of targets. When cascading targets, organizations should consider:

1. ***Accountability:*** Organizational accountability - Finance and non-Finance - is important to reducing churn, but also for enabling leaders to effectively action plan to deliver against assigned targets. Matrixed organizational models drive increased complexity and inefficiency when assigning targets and expectations of leaders.

2. ***Level of Detail:*** Up-leveling targets provides leaders the autonomy to effectively work across their organizations to action-plan and deliver strategies to achieve assigned targets.

3. ***Mix of Performance Goals:*** Considerations for Enterprise performance (I.e., total company) vs. individualistic contributions (I.e., Business Unit) must be established as part of the target cascade. Appropriately balancing this mix enables organizations to incentivize individual contributions, while managing total enterprise performance.

Leading Practice: *Leading organizations cascade targets to single accountable leaders that have a direct ability to influence the performance of the metric assigned to them. The level at which targets are assigned is equivalent to the first level of unique operational accountability.*

Operationalize

Once targets are identified and assigned at an accountable leader level, the business is now positioned to operationalize and commit to a plan. By adopting a top-down approach, the organization eliminates churn and the need to negotiate targets, streamlining the overall process.

A properly defined RACI (Responsible – Accountable – Consulted – Informed) model is crucial to identify strategies and deliver on commitments across the organization. Furthermore, the formulation of operational plans can be further improved by incorporating rolling forecasts, structured analysis of risks and opportunities, accountability aligned level of detail, and unbiased planning.

Leading Practice: *Leading organizations are leveraging rolling forecasts to drive efficiency and effectiveness as they operationalize strategies against targets. Rolling forecasts, with extended planning horizons, provide a continuous pulse on projected financials across the strategic window that targets are assigned. This approach allows for continuous planning, rather than a single point in time during the annual budgeting process.*

Performance Management Considerations

There are many factors, controllable and non-controllable, that impact an individual leader's ability to meet their goals and objectives. A choice organizations must make in their performance management process is how they manage and encourage overall business performance, while rewarding individualistic achievements.

Key questions to consider?

1. *How do you differentiate performance management for controllable vs. uncontrollable performance?*

2. *How do you adapt targets based on external factors, hypergrowth or decline?*

3. *How do you ensure you are motivating behavior consistent your business goals, culture, and values?*

4. *How do you account for total business performance vs. individual department contributions?*

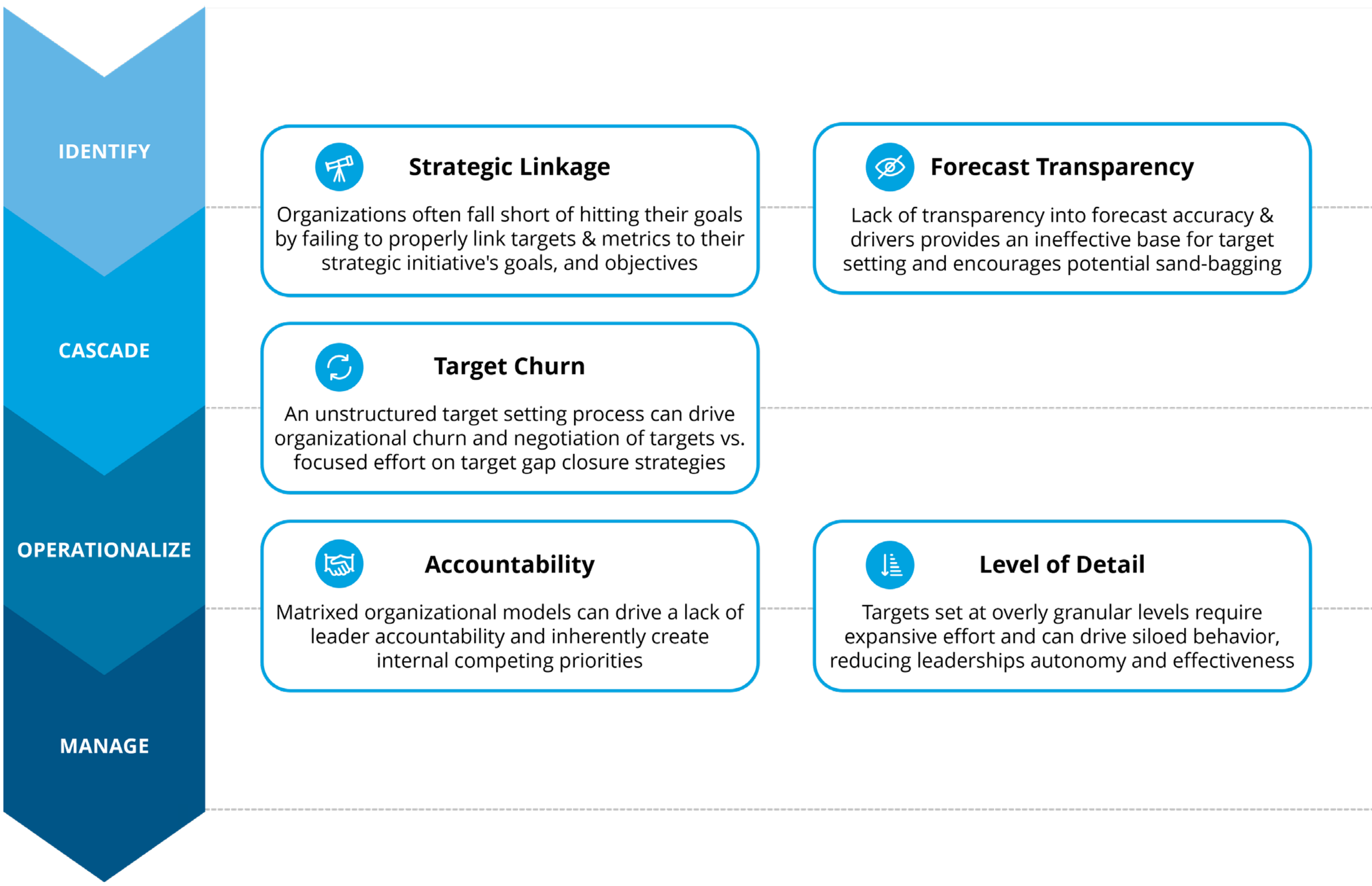
Manage

Now that plans have been operationalized to meet targets, organizations should continuously manage performance to help ensure goals and objectives are met across the enterprise. This is executed most effectively through transparent, unbiased forecasts that highlight risks and opportunities in the business. This, combined with the flexibility and reporting capabilities of modern planning tools, allow organizations to manage targets and performance more dynamically – adapting for macroeconomic changes, internal performance, and market expectations. Maintaining a constant pulse on performance enables leadership the flexibility to quickly pivot and reallocate resources based to meet the needs of changing business environments.

Leading Practice: *Many organizations are including forecast accuracy as a key metric for performance management. Rewarding forecast accuracy promotes unbiased forecasting, reduces sandbagging, and produces additional transparency for leadership to assess performance and adapt as required.*

Challenges

Enterprise target setting is an essential part of an organization's ability to motivate and reward employees, as well as a roadmap for how the company will execute on its vision. Too often, organizations fail to effectively link targets and actionable metrics to desired business outcomes. As a result, organizations not only fail to add value during this process but potentially drive undesired, value diminishing behavior. Below, we dive into some of the most common challenges organizations face.



Value to the CFO

An effective target setting process provides the connective tissue required to drive linkage between organizational strategic objectives and operational outcomes. CFOs can deliver substantial value to the business by providing meaningful targets that lead the organization towards achieving overall strategic objectives and driving stewardship in the execution of operational plans. Additionally, CFOs will see a more efficient process that creates collaboration among teams and motivates employees to achieve their goals, as well as the overall business goals.

Increased Focus on Strategic Priorities

Alignment of operational and financial targets to enterprise KPIs and metrics ensures organizational leaders are focused on delivering what is most meaningful to the business

Enhanced Market Agility

Up-levelled targets delivered to actionable leaders enable leadership the autonomy to manage and drive execution to meet target expectations

Reduced Silos & Organizational Churn

Top-down target guidance provided within a clearly defined accountability model eliminates target negotiations and provides leaders the ability to manage their business effectively

Effective Delivery of Enterprise Value

Modern planning, analytics, and reporting tools provide leaders with the data and information required to drive execution and manage delivery of targets

Critical Design Success Factors

End to End Strategy & Design – Focus design efforts on the end-to-end planning process and ecosystem that you develop for your organization. Consider key linkages and use cases for target setting across forecast, strategic, and operational planning cycles.

Top-Down Leadership Support – Establish top-down leadership support to drive commitment and focus from the organization to the defined process and value it delivers.

Alignment of Organization Model – A great target setting process is enabled by a clearly defined operating model. This enables targets to be effectively cascaded and provides leaders the autonomy to drive and deliver business outcomes.

Simplify the Process – Focus on the metrics and areas of the business that are most critical to achieving organizational goals. Many times, fewer metrics and up-leveled target cascades drive a more efficient and effective process.

Closing Comments

An effective target setting and performance management process requires an end-to-end strategy to create the critical linkages required across strategy, operational planning, and performance management. For CFOs, this means more agility, strategic focus, and effective delivery of enterprise value. This is especially important as companies navigate unprecedented times and complex competitive environments.

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Please reach out to start a conversation on how to begin or advance your journey toward effective target setting and performance management.

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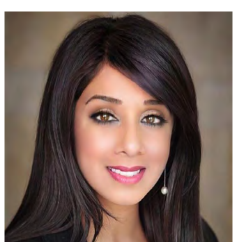

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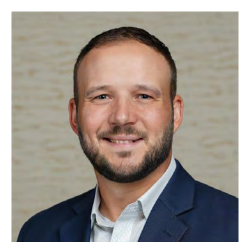

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