Performance Management and Reporting 10

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10.1 Cascading Targets: Cascading Reporting

As discussed in Chap. 8, the managers of a company would commence a restructuring/optimization process by defining improvement targets, usually in the form of percentage improvements, that are then cascaded down and detailed further in targets for the company's various units, all the way to the level of individual departments and teams. Department managers often define their departments' targets by stipulating how much each unit has to contribute, as they do so, they make sure that all individual targets are in line with the overall purpose. Each unit and sub-unit would therefore have unique targets, made up of efficiency improvement and cost reduction elements that come together to form a joint goal. Depending on the given instructions and the unique nature of each unit—e.g. considering whether it operates in a growth segment—the right balance between efficiency and cost reduction needs to be found.

Every measure needs to be defined and quantified in detail: Everybody needs to be clear about what the measure covers and what its aims are. In order to do so, the target needs to be quantified, cost reductions need to be defined precisely in terms of the relevant cost type and cost unit, and the deadlines and responsibilities need to be known. Taking all of these individual efficiency or cost reduction measures

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F. Abolhassan (ed.), *The Road to a Modern IT Factory*, Management for Professionals,
DOI 10.1007/978-3-642-40219-7_10,

Intervention	Area	Person in Charge	Category	Affects Cost Types	Affects Cost Units	Deadline	Planned Savings 2012	Actual Savings 2012	Performance 2012
Improving processes for higher utilization of IT capacities	IT Production	Joe Miller	Efficiency improvement	HR Hardware Software	10XXXX 31XXXX	30 Sept 2012	$4.5 million	$4.3 million	96%
Reducing the number of active software tools	IT Production	Marie Maher	Cost reduction	Software licenses Software maintenance	10XXXX 25XXXX 47XXXX	31 Dec 2012	$2.8 million	$3.2 million	114%

Fig. 10.1 Layout of an action plan for a "Network" unit

together, the activities need to add up to match the overall target of the unit as a whole. On the practical side, this is done effectively by recording all measures, targets, and additional information of note in a dedicated chart (Fig. 10.1).

Progress on all of these measures is monitored by people assigned for the purpose and financial controlling, using a peer-review principle in this tandem approach between the people on the ground and controlling. A longer cycle allows too much leeway for deviation, whereas shorter cycles make for reporting that is too labor-intensive and complex. It can, however, make sense to send weekly abstracts about current progress to the management board or the supervisor in charge.

Controlling consolidates the data into a 360° view that gives executive managers and the line managers on all levels an up-to-date overview of current activities and enables them to intervene if the need arises.

When it becomes clear that certain measures are not getting anywhere at the level they are intended to work on, they need to be replaced with other means that can contribute better to the intended outcome (compensation principle). The failure of a specific measure should never be cause for criticism, since nobody can predict their effectiveness with any certainty beforehand, especially in the case of efficiency measures that are built on certain assumptions about volume growth. Interventions or penalties should only be introduced when the general target for the unit in question itself is in danger of being missed (cf. Chap. 10.4).

10.2 Integration in Finance and Reporting Systems

On a basic level, targets, measures, and the reports used when pursuing them should be designed in such a way as to allow all relevant reporting data to be sourced from the established enterprise resource planning (ERP) system. In turn, the reports should be ready for easy and straightforward integration into established financial reporting, i.e. they need to match the structure and contents of standard reporting used in management accounting, e.g. in terms of defined cost types. This keeps additional effort for management accounting personnel to a minimum, which helps them include all such planned measures in their normal planning tools—and annual planning in particular.

This does not mean that the sub-units in question have to input their data into the ERP system. Rather, lower-level units in particular are encouraged to use more straightforward tools like Excel spreadsheets to plan their activities. A very helpful tool is a company-wide tracking system to record all activities and the progress they are making. Yet restructuring or optimization activities should be monitored in any case, even if such a tool is not available or not commercially viable. In that case, the process needs to rely on what it is there in the toolbox. Anything else would put the company's general goals at risk.

More important than practical tools for planning cost reduction measures is the right definition of the relevant cost types and cost units in compliance with the system used by the company's accounting personnel. For measures relating to business transactions, e.g. when redesigning the order-to-deploy process, the right timeframe is similarly important, because many procedural efficiencies can only come into effect when the relevant processes have been revised in full.

10.3 Monitoring Methods and the Management of Change

Reporting needs to be clear and well-ordered. This means that the indicators in question should be tracked with monitoring methods that are established and accepted at the company as a whole. This is best left to management accounting staff, working with executive managers and the business departments in question.

Cost data can be monitored relatively easily: One simply adds up the spending of the relevant cost units. When trying to reduce labor costs, the plans are calculated on the basis of the average headcount and average labor costs over a given period of time. The eventual savings are then reported on a monthly basis with the actual figures achieved as a result.

As a criterion for improved efficiency, the growth of business volumes should be tracked on a monthly basis. However, the make-up of companies often changes intrinsically as a result of restructuring or optimization campaigns. Their headcount can change when major outsourcing contracts are introduced and new employees are recruited. In such cases, the basis for comparing efficiency has changed.

To compare such growth between different time periods, one would define a sample "basket" containing as many of the company's products as possible, allocate fixed prices for these products—discounting for inflation—multiplied with the planned and actual volumes, and total the weighted prices for the products to reach a sum that can be compared for different points in time. The calculation should ignore any industry- or market-specific discounts. It allows the company to track the development of production volumes over several years and makes efficiency transparent, even if it has to account for very mixed sets of products. In the case of global processes, these "baskets" need to be defined on a country-by-country basis, since the programs and products of different country organizations often differ considerably from each other.

Despite the principle of utmost precision, efficiency measures often leave no option but to use fictional indicators, like annual average production volumes.

When higher production volumes come at higher costs, these need to be offset with the growth in production to understand the actual gains in efficiency. After all, efficiency is only that part of additional production that was achieved without additional costs (cf. Chap. 8.1).

It helps to design reporting processes in such a way that the data for certain product groups or cost units can be sourced without major effort. This can help benchmarking cost or activity groups with similar companies, e.g. the costs for operating mainframes, for training measures, travel expenses, or simple floor space. Such benchmarks can provide important insights about how well the company is doing in certain areas and which aspects should be pulled into focus for further restructuring or optimization activities.

10.4 Escalation Management

As in normal business, restructuring or optimization processes can always encounter difficulties or crises that call for a corrective intervention. Usually, there are three occasions that demand a response from higher up in the hierarchy:

- Regular reporting shows that the planned targets are not being reached at some stage in the chain.
- Milestones, i.e. deadlines, are not being complied with.
- The people in charge of the measures or their supervisors responsible for actioning them are asking for support, because targets are in danger of being missed.

In all three cases, it is important for the next-higher level to try to understand where the stumbling blocks are as soon as possible. If this reveals that the people actioning the measures do not have the means or the authority to remove the obstacles, the issue should be escalated upward. This escalation should not stop until the problem has been removed or a level has been reached that has the authority to act on the problematic process component. If need be, escalation proceeds to the top-level process governance committee or board-level management.

No report should try to obfuscate or whitewash the presence of difficulties or delays in a restructuring or optimization process, be it for the team or for higher management audiences. This can endanger the continued well-being of the company as a whole, which is another reason for the mentioned peer-review principle. In extreme cases, such strategies can call for immediate disciplinary actions. A problem-solving process should only be considered finished when the critical issue has returned to a “green light” state or when the process has been fully redesigned, for instance if the original target turned out to be unrealistic or not achievable with the planned measures. All reporting formats should be designed to allow the report recipient to dig deeper (drill down) to the reports covering lower levels of the corporate hierarchy.