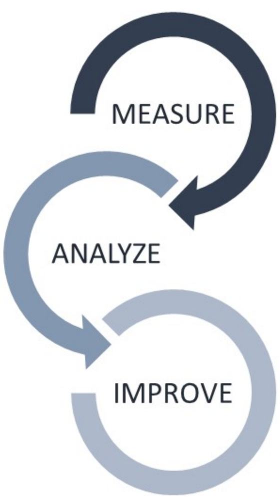
February 2017

Turning a Profit from Continuous Improvement



OVERVIEW

Identifying, gathering and utilizing the right business information to make sound management decisions continues to be a top-priority for leading organizations. Increasingly, the CFO is playing a pivotal role as either executive sponsor or gatekeeper.

However, the task of keeping employees focused on leveraging data to drive process improvements does not seem to be getting any easier. Many organizations, having invested heavily in process automation are yet to see a return on the promise of improved business intelligence due to the seemingly over-abundance of data. It seems the old adage 'data rich, information poor' is more relevant than ever with meaningful business insight remaining frustratingly out-of-reach for many.

To compound the issue, many companies have become lulled into running stagnant and ineffective performance monitoring routines, increasingly perceived as another onerous chore for over-burdened finance teams rather than a meaningful review of operating results with the objective of finding opportunities to drive profitability. With that in mind, it's worth a quick reminder of some best-practice when it comes to performance measurement.

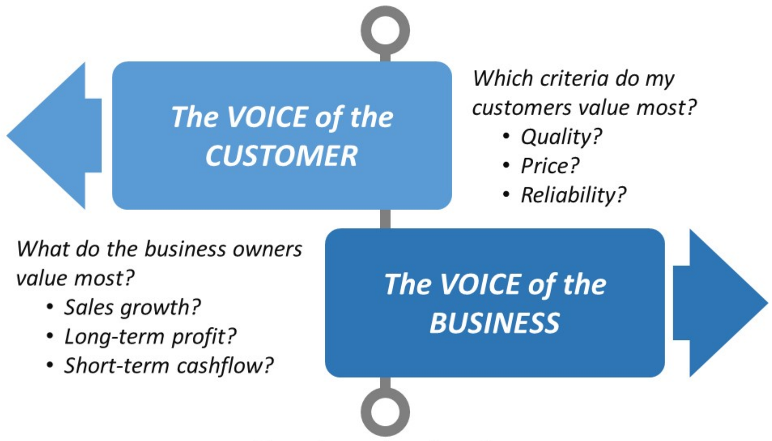
Executive Summary:

- Assess the critical needs of both your Customer and the Business

- Process map to identify key measurements and definitions.
- Start measuring & recording data
- Research best-in-class performance and assess the gap to standard
- Establish challenging but credible goals
- Routinely review performance and prioritize actions to provide biggest impact
- Routinely review the relevance of your metrics

REGULARLY ASSESS WHAT SUCCESS LOOKS LIKE

Without a clear destination, it's impossible to judge whether you're on the right path. When determining the destination it's worth considering what success means both to your customers and to the owners of the business. Occasionally the 2 views align but very often there will be tension.



Opposing point of tension

For most products and services, customers will fundamentally expect to receive what was promised, at a time and price to which they've agreed. However, depending on the industry, a customer's priorities may vary. Some customers may value reliability over timeliness. The needs of the business can also vary, depending on the organization's strategic maturity. For example, different decisions may be required when prioritizing long-term growth over short-term cashflow. It's worth recognizing that on either axis, what constitutes success is unlikely to remain static for very long.

IDENTIFY THE METRICS THAT WILL DEMONSTRATE PERFORMANCE

Less is more: many businesses will intuitively seek to gather a variety of performance metrics but the objective should be quality over quantity. Using more than 10 metrics as critical performance indicators dilutes a manager's time, increasing the likelihood of inaction. Demoting or delegating less important metrics will encourage individuals to focus on their pieces of the puzzle cascading the benefits throughout the organization.

Avoid overly complex or difficult to gather measures: If a measure is so complicated and time consuming, the cost may outweigh the benefit. It pays to focus on obtainable goals while remaining pragmatic over data gathering.

Start recording and creating baselines: Where measurements are created from scratch, it will be necessary to build a baseline before meaningful analysis and reliable business decisions can be formed. Knowing where you are is a start, knowing where you're heading is the next step.

Innovate with new metrics: One way to avoid stagnation is to maintain evolution in the metrics used. Although it can be tedious to stay current with all of the latest management acronyms, they can be useful to galvanize management or workforce participation in performance measurement.

For example, some currently popular metrics in use:

> **Right First Time (RFT):** It's possible to be right, and then it's possible to be right-first-time. Intuitively, the fewer iterations it takes the more cost-effective and efficient the process.
>
> **On-Time Delivery (OTD):** How often is a product or service delivered within the customer's expectation (either contractual or perceived).
>
> **On-Time-In-Full (OTIF):** Frequently used in the supply-chain domain, this is used to measure the contractual satisfaction of delivery
>
> **Cost of Non-Quality (CoNQ):** Essentially sums up the expense of not achieving RFT and OTD. The financial consequences are both tangible (such as credits, penalties, cost of rework) and intangible (damage to reputation, lost sales opportunities)

ESTABLISH RELEVANT TARGETS

On the horizon, not over it: Although most executives and managers are target orientated, individuals quickly dis-engage if a goal is too far off in the distance. Targets should be set with a timescale both perceived as being and impactful.

Look at the competition: Benchmarks are measures of performance (time, quality or cost) that are being achieved, somewhere, by either a competitor or within a comparable industry. They reveal what's possible and can be used to set goals within your own organization.

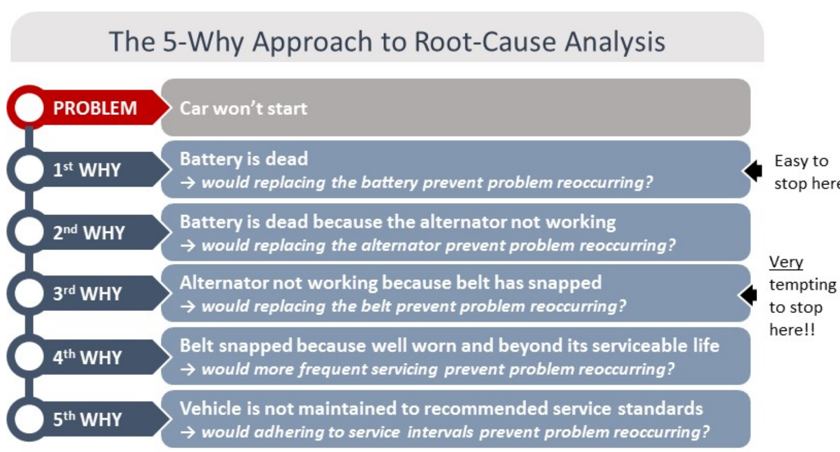
Recognize cross-functional relationships: It's easy for organizations to slip into silo-structure with operational leaders, although sympathetic to other functions, highly focused on achieving personal success. It's therefore necessary to create an environment where inter-dependencies are recognized and goals sometimes shared, where business decisions are made genuinely to benefit the company as a whole and not just any single function within it.

ROUTINELY DRIVE CORRECTIVE ACTIONS

Management decisions and actions might take time to deliver an impact so reviewing performance too frequently and you run the risk of merely 'firefighting' issues of the day rather than navigating to strategic end-point. Review too infrequently and, potentially the target could drift out-of-reach. Organizational cultures vary but in our opinion, the most effective include the following characteristics;

Empowerment of line managers: Individuals tend to value things more once they own them and it's important to recognize that individual line-managers are normally in the best position to recognize opportunities to optimize and improve performance.

Digging below the first level of root-cause: It's common for management reviews to accept the most obvious reason for under-performance when the true root-cause is often layered well below. The '5-Why Approach' to root-cause analysis has been gaining popularity as it forces reviewers to continue to ask the question 'why?' as each issue is revealed. The value is not necessarily in revealing 5 layers of issue, but more the discipline of continuing to dig into the root-causes.



Focus and prioritization of actions: When attempting to optimize operational performance it is easy to embark on a large number of corrective actions to rapidly improve the situation. This creates two issues. First, when multiple initiatives are launched simultaneously, it can be very difficult to assess the impact of each action. Secondly, too many concurrent priorities can overwhelm managers. Pareto charts can be a useful tool to identify and eliminate the root-causes causing the biggest deviance to target.

Ability to fail-fast: It is imperative to quickly assess whether a corrective action is going to have the desired impact or not. Successful companies are increasingly allowing individuals the freedom to fail, which has been counter-intuitive to many corporate cultures.

CONTINUALLY ASSESS SUCCESS CRITERIA

Clearly, the needs and priorities of both business and customers change constantly, so it is vital you schedule regular reviews and adapt your perspective of success accordingly.

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HOW WE CAN HELP

There is no one-size fits all solution to corporate governance and performance review. However, WilliamsMarston has a depth of experience in developing performance measurement and governance infrastructures within detailed internal control frameworks. If you would like to have a deeper discussion on these topics, please contact:

Boston Office
800 Boylston Street
16th Floor
Boston, MA 02199
www.williamsmarston.com

New York Office
375 Park Avenue
Suite 2607
New York, NY 10152
www.williamsmarston.com

Landen C. Williams
Partner – Boston
Phone: (617) 306-0951
landen@williamsmarston.com

Michael R. Donoso
Managing Director – New York
Phone: (646) 757-0572
mdonoso@williamsmarston.com

Jonathan T. Marston
Partner – Boston
Phone: (617) 851-0891
jon@williamsmarston.com

Greg McKenzie
Director – Boston
Phone: (617) 386-6837
gmckenzie@williamsmarston.com

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