

INTERNAL MANAGEMENT REPORTS: INTERNATIONAL TRENDS



- ➔ Overview
- ➔ Introduction
- ➔ Management Systems
- ➔ IMA Statement
- ➔ Forecasting
- ➔ GLW Preferences
- ➔ Conclusion



Objectives

- ➔ Strategic Base
- ➔ Balanced
- ➔ Efficient
- ➔ Flexible
- ➔ Reliable
- ➔ Understandable

Current Approaches

- ✓ Tableau de Bord
- ✓ Balanced Scorecard BSC
- ✓ Stakeholder Approach
- ✗ Theory of Constraints
- ✗ Activity Based Costing
- ✓ Beyond Budgeting

How Did We Get Here?

- Johnson & Kaplan
- AICPA Special Committee on Financial Reporting 1994
- Business Reporting Surveys

"Relevance Lost" 1987

- Accounting – no accurate signals on efficiency & profitability
- System designers need to understand production processes
- Non-financial indicators are vitally important
- Indicators should be based on strategy
- Return to operations based measures.

AICPA

- AICPA Special Committee on Financial Reporting 1994:
 - Users need forward-looking information
 - Financial and Non-financial measures

Surveys: UK

- Business Reporting Survey April 2000:
Proposal #5:
 - include Forecasts
 - include non-financial information

Surveys: USA

- Survey 1998 of top executives in US Fortune firms and Canadian Post 300 Companies
 - Non-financial measures are important
 - Many are not measured in practice
 - Many measured are not used in practice

Surveys: Australia: 1

- Management Accounting in Large Manufacturing Companies 1997:
 - Many non-financial measures adopted
 - High benefits from non-financial performance measures
 - Companies have only just begun to use the Balanced Scorecard.

Surveys: Australia: 2

- Non-financial performance factors in Australian listed companies 1998:
 - Customer service, market performance, employee involvement highly important
 - Lower rating for innovation
 - Some important factors not measured
 - Some factors measured not used.

Tableau de Bord

- Emerged in France
in early 1900s

- Developed by process engineers working on
cause-and-effect relationships

- Involves translation in stages:

Mission=>Objectives=>KSF=>KPI



Balanced Scorecard (BSC)

- Strategic
- measurement-based management system
- originated by Kaplan & Norton in USA
- provides a method of aligning business activities to the strategy
- and monitoring performance of strategic goals over time



BSC Perspectives & Outcome Measures

Customers	Market share, customers added, retained, profitability, satisfaction
Financial	Return on investment, economic value added
Internal	Quality, response time, costs, new product introductions
Learning	Employee satisfaction, retention, productivity, information systems.

Management Systems

BSC Approach

- A strategy is agreed and communicated
- Perspectives are identified
- Objectives are proposed
- Performance measures are proposed
- Stretch targets are derived
- Annual budgets are established
- Monthly/quarterly reviews are conducted
- The strategy is reviewed annually

BSC Example: National Insurance Coy, USA

- 6,500 employees, \$4 billion revenue 1994
- Substantial losses and marked for closure
- New management team hired
- New strategy of specialist not generalist insurer
- BSC implemented over 24 months
- Company survived and became profitable

Stakeholder Approach



- Primary objective is defined
- Stakeholders are identified
- Primary and secondary objectives for each stakeholder group are derived
- Strategy of satisfying stakeholders is derived
- Performance measures are derived

Stakeholder Performance Measures

- Secondary objectives are set for each group
- Performance measures are defined for each secondary objective
- Measurement aims to cover:
 - value received
 - value provided
 - process efficiency
 - efficacy

Stakeholder Example: Bank of Montreal

- Objectives identified
- Stakeholders identified
- Performance Measures set for performance drivers
- 7 criteria used for performance measure selection
- Performance scores used

Beyond Budgeting Group

- CAM-1 Beyond Budgeting Round Table from 1998
- New management systems avoiding the use of fixed budgets.
- Performance Management is based on self-governing business units

Features of No-Budget Companies

- Targets relate to competition
- Anticipatory systems, including rolling forecasts
- Flexibility in investment management
- Control delegated to front-line managers
- Rewards based on relative performance at unit/company level

IMA Statement on Management Accounting 1998

- Condemnation of traditional approaches:
 - do not indicate how to improve
 - do not identify core issues
 - retrospective rather than pro-active
 - review results not causes of results



IMA View of Performance Measurement

- An enterprise wide management system
- Linkage of strategic objectives, core business strategies, critical success factors, and key performance indicators
- Balanced mix of performance measures
- individual organizations develop own unique set of key performance indicators

Forecasting: Methods

- Extrapolation:
smoothing/decomposition
- Causal: regression and econometric models
- Box-Jenkins (ARIMA) & US Bureau of
Census & Statistics X11 time-series
methods



Forecasting: Achievements & Challenges

- Achievements:
 - anticipation
 - what-ifs
 - investments/borrowings
- Challenges:
 - Errors – random shocks
 - Errors – “group think”
 - Credibility

GLW Preferences: Strategy

- Link strategy to
annual targets/budgets
- Annual strategy reviews
- All stakeholders identified
- Research & Learning



GLW Preferences: Reporting Process

- One Day Reporting
- One Page Reports
- Spreadsheet flexibility for changes
- Reconciliations with financial reports
- Error checking
- Integration if possible

GLW Preferences: Personnel Groups & KPI

- Shareholders
- Customers
- Employees
- Suppliers
- Financiers
- Government
- Community
- Competitors

GLW Preferences: Forecasting

- Calendar year basis
- Monthly updates automatic and/or manual
- Extrapolation method for SMEs
- Key assumptions
- Include:

Operations

Cashflow

Profit & Loss

Balance Sheets

Taxes

GLW Preferences

Conclusion

- Alternative management systems
- Align with strategy
- Balanced view of data
- Balanced view in time
- Flexible
- Understandable

Web Sites

- www.balancedscorecard.org
- www.beyondbudgeting.org
- www.cima.org.uk
- www.glwsoftware.com.au
- www.ifac.org
- www.imanet.org