

# industrial products outlook

Driving towards Corporate Performance Management







The challenges facing industrial products companies in the 21st century are well known: the ongoing globalisation of manufacturing, rising costs, skills shortages, increasing demands from shareholders and other stakeholders, to name a few.

Now more than ever, industrial products companies need to improve how they do business. Corporate management performance (CPM) is an operating philosophy that makes companies more effective; yet our research shows that Australian companies have been slow to embrace this discipline.

CPM is about integrating vision and strategy with financial and operational information. We believe it is the key to the further success of Australian industrial product companies.

In this Outlook, we explore how CPM can transform a company's ability to access its business information and move towards its future goals.

These are exciting times; the outlook for industrial products companies looks bright, but only if they are prepared to change and adapt.

A handwritten signature in black ink, appearing to read 'Graeme Billings'. The signature is fluid and cursive, with a long horizontal line extending to the right.

Graeme Billings  
Industrial Products Leader  
PricewaterhouseCoopers  
February 2008



# Driving towards Corporate Performance Management

The Australian industrial environment has changed. This is not news anymore – simply the day-to-day reality. Rapidly emerging economies such as China are changing both supply and demand. Raw material costs continue to rise and the strengthening dollar is dampening exports. Climate change and increased regulation have started to have an impact across Australia, while generation Y and the shrinking global talent market continue to challenge industrial products companies.

Traditionally, Australian industrial products companies have sought to gain competitive advantage and increased returns through improving quality of their product, cost control and changes to the supply and distribution chain. In the face of industry changes, this focus is no longer sufficient to maintain desired returns.

Now, more than ever, Australian industrial products companies need holistic, predictive management information on financial and operational performance in order to understand and take advantage of market needs.

## The Outlook

Over the next few years we expect industrial products companies will change their:

- focus, from an internal, manufacturing/operational view to an external view concentrating on customer needs
- strategy, so that it includes a rich and creative mix of forecast and historical, external and internal, and operational and financial data
- reporting, so that the focus is on understanding what creates and destroys value for their business, moving away from preparing reports to analysing results
- budgeting and forecasting, with the emphasis on monthly forecasts which become ‘business as usual’ and achieving a resultant substantial reduction in the time taken to complete the budget
- data capture and reporting processes and technology, so that they are more integrated, streamlined and automated
- performance management systems, so that they reward all employees for achievement of the company’s strategy first and foremost. The cultural shift and transparency of accountability is key to success in the CPM space.

# The shift to Corporate Performance Management

Globally, we see a range of industrial products companies making a clear change to the way they develop strategy and set budgets, report and analyse data to make decisions, and reward staff. These individual elements are not new. What is new is truly connecting them into a cycle that drives better alignment from strategy to decision making and from the CEO to the salesforce. We have seen companies realise significant tangible benefits from getting these linkages right.

Early this decade, the term Corporate Performance Management (CPM) predominantly referred to the information tools that sat above a company's core applications. A more complete picture of CPM is emerging as a framework that integrates strategy with business operations. True CPM gives management a prospective and real-time picture of what is actually going on across the value chain and provides a robust platform to support future growth. It helps executives address the fundamental business questions of:

- How are we doing?
- Why is that happening?
- What should we action now?

At its most beneficial, CPM is about alignment of all decisions, activities and processes to a clear vision for success. CPM is about real-time decisions based on a comprehensive understanding of the external market and the capabilities of a company that tangibly improves its business performance.

Like a global positioning system (GPS) for your car, CPM can provide information to help your business get to its destination. It is an integrated set of related activities that provides information on current performance and the outlook for future performance.

## What does the landscape look like today?

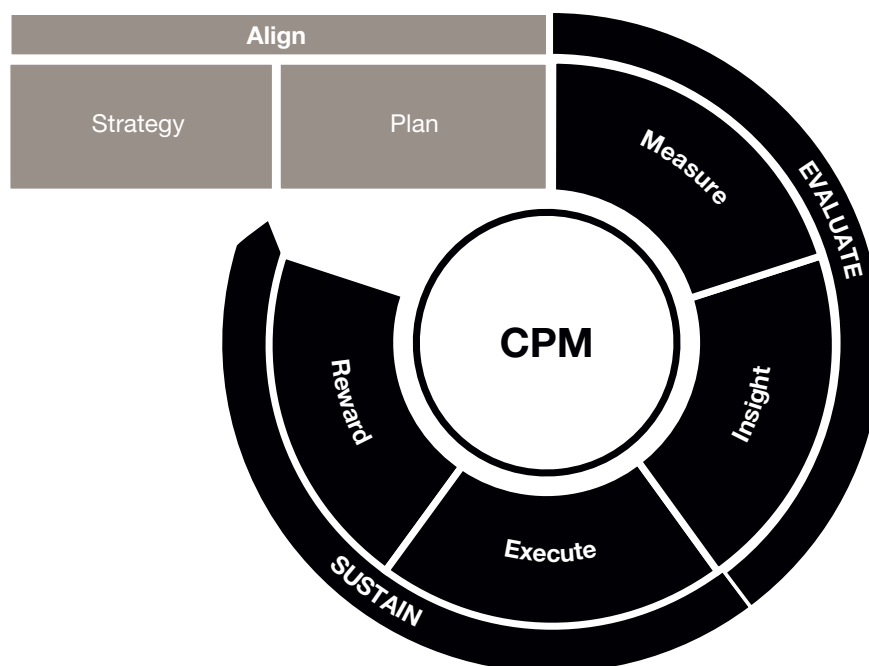
Running a company based on the key elements described in the above 'outlook' sounds like common sense.

In researching this chapter, we talked with a number of industrial products companies about their ability to proactively manage corporate performance. We see companies falling into one of three distinct groups:

- those that have not started – we estimate this to be 60 per cent of the market
- those that have started but have not gained the traction required within their companies – 30 per cent
- those that are substantially complete and have achieved CPM goals – 10 per cent.

We were surprised to find so many industrial products companies have not yet adopted CPM as a core operating philosophy. In our mind, the rapid globalisation of manufacturing, the war for talent and spiralling input costs – all in the face of increasing demands from shareholders and other stakeholders – makes CPM an organisational imperative for industrial products companies.

### Elements of Corporate Performance Management (CPM)



Our research identified listed Australian industrial products companies that take up to nine months to complete a budget; companies that produce quarterly reports of more than 1,000 pages; companies where finance and operations bring differing sets of numbers to management meetings; and companies that cannot agree on standard definitions of key ratios between their business units.

It appears that industrial products companies are struggling to proactively drive business improvement because they are running hard to keep up with the day-to-day tactical decisions that must be made to survive in addressing the critical industry issues noted above. However, for long-term sustainability and growth, we believe it is essential to take a step back and develop a strategic view. It is then necessary to drive company activities and performance to achieve that strategy.

*“Sometimes the benefits may not be visible for a period of time – potentially six months – so keeping the faith is critical to success.”*

*Robert Macmillan, BlueScope Steel*

## Taking a fresh look at corporate performance

While the Australian Industry Group’s *Performance of Manufacturing Index* for December 2007 reported the 19th consecutive month of growth, smart industrial products companies realise there is no room for complacency.

At the end of the day, CPM is about one key concept – making better quality business decisions to increase stakeholder returns.

These decisions are as much about stopping non-strategic activities and projects as they are about determining which new market to enter or which acquisition to undertake. In our experience, too many companies continue to make decisions based on incomplete or inaccurate data, fail to develop a robust business case for forays into new markets and/or new products, and fail to terminate projects that are not performing or delivering. As funds and resources are limited for Australian industrial product companies and given the market is volatile, it is surprising to see a lack of rigour around decision making.

According to the Australian Industry Group’s *Business Prospects for Australian Manufacturing* report for January 2007, sales of new products were anticipated to represent just over 21 per cent of total sales. It would be interesting to assess, a year later, how many of those companies achieved the revenue growth anticipated, given the relatively late adoption of CPM in Australia, and particularly in the wake of the credit crunch and the strengthening dollar.

We see significant variance between industrial products companies that have put the basic principles of CPM into action, and those that have not. A recent survey outlined key differences in management information between the ‘top performers’ and ‘underperformers’. Key highlights are outlined below.

The evidence supports our observation that most organisations continue to struggle with gathering relevant, accurate operational information in a timely manner.

### Benefits resulting from better management information<sup>1</sup>

Focus area	Rating	Top performer*	Under-performer**
Quality of financial data	Accuracy – excellent	35%	5%
	Timeliness – excellent	28%	9%
	Relevance – excellent	28%	8%
Quality of non-financial data	Accuracy – excellent	6%	3%
	Timeliness – excellent	6%	0%
	Relevance – excellent	13%	5%
Key information included	Link strategy through to KPIs	73%	54%
	Track progress to strategic goals	69%	59%
	Include metrics aligned with strategy	63%	54%
	Include predictive analysis	54%	32%
Acceptance, trust and decision making in decision making in response to reported trends	Frequently take decisions based on reported trends	70%	53%
	Frequently accept and trust reported data	75%	54%

<sup>1</sup> *Management Information and Performance: CFOs Face New Demands for High-Quality Data that Drives Decisions*, a report prepared for PricewaterhouseCoopers by CFO Europe Research Services; June 2007, CFO Europe Research Services. Fifteen per cent of companies surveyed were industrial products companies – the largest industry segment.

\* Top performers: survey respondents who performed above expectations

\*\* Under performers: survey respondents who performed below expectations

# Is your strategy understood by all stakeholders?

The majority of industrial products companies operate in a highly competitive, global market. Australian industrial products companies are pursuing their growth strategies against a complex backdrop of factors including rising domestic inflation, the emergence of China and the other 'BRIC' economies, skill shortages, the strengthening dollar and the ongoing restructuring of businesses, including offshoring<sup>2</sup>. Market consolidation continues as large players acquire smaller companies.

In this environment it is difficult to see how any industrial products company would be able to maximise stakeholder value without gathering a significant volume of information on external and internal factors, and developing a strategy – and a plan – to assist in achieving the vision.

## Summary of findings – focus on growth and expansion

<p>PwC's <i>Business Insights Survey</i> June 2007</p>	<p>Sixty-eight per cent of companies surveyed were pursuing a strategy of growth and expansion via two key channels – improved sales and marketing (75%) and gaining market share (63%).</p>
<p>PwC's <i>Private Business Barometer</i> October 2007</p>	<p>Over 59% of businesses surveyed did not have a business plan. However, nearly 80% of businesses with such a plan exceeded their growth targets – clearly demonstrating the value of planning for success.</p>

It is important to develop a vision and a strategy that define 'success' for the business and establish a roadmap to get there, for reasons that include the following:

- Providing a clear end goal (the vision) and a roadmap (the short-/mid-/long-term strategy) to achieve the vision will provide direction to all stakeholders.
- Articulating the strategy and vision will enable the Board/CEO and leadership team to clearly communicate them to all staff members – and other stakeholders, including investors.
- Developing an understanding of the vision and strategy in the minds of all staff members will help them understand how their actions contribute to or diminish the success of the company.

EXAMPLE: A listed Australian industrial products company relies heavily on a consensus of analyst reports in setting the targets and strategy for the year, together with the knowledge and experience of the senior management team. The defined strategy for the next 12 months is then cascaded to all employees in a series of face-to-face meetings – allowing them to question the strategy and provide real-time feedback to management.

## Key elements in creating a strategy

### Strategy development must involve:

- *Creation of an evocative vision.* This must be clear, compelling and quantifiable – how else will you know when you've got there?
- *Calculation and consolidation of hard-edged facts and figures to support delivery.* This is the 'how to' – how will we deliver the change required to achieve the vision?

### In determining the vision and strategy care must be taken throughout the year to:

- gather a wide-ranging set of prospective data around customers, markets, competitors, research and development, raw materials, labour movements and regulatory issues – in terms of both opportunities and risks.
- obtain a detailed, quantitative understanding of your company's internal capabilities, investment/funding arrangements, organisational culture and performance.

Once the strategy is developed, stakeholder support is key to success. The strategy must win the hearts and minds of employees, shareholders and customers as well these days. How you communicate your vision and strategy can greatly assist in support and take-up by your stakeholders. How it resonates with your stakeholders and ensuring they know how it applies to them personally is critical to your company's success.

<sup>2</sup> *Business Prospects for Australian Manufacturing in 2007*, January 2007, Australian Industry Group

# Linking your strategy and day-to-day operations

The budgeting and forecasting process creates the most significant link between strategy and operations. How you operationalise your strategy in a way that minimises the time and resources spent and maximises your ability to achieve the strategy is a question many industrial products companies continue to be challenged by.

## Budgeting and forecasting survey results<sup>3</sup>

In a study by PricewaterhouseCoopers in the United States:

- 65% of respondents indicated that the strategic relevance of budgeting and forecasting needs to increase.
- 44% of respondents saw this link between strategy and budgets as requiring the most improvement.

Typically, the budget cycle takes most industrial products companies 4–6 months, though some take as few as two months and others as long as nine. If you are taking 6–9 months to budget, it means:

- You are basing your budget on an outdated strategy. For example, if you commence budgeting in October 2007 for FY09, and perform quarterly reforecasting, then that means your targets for July–September 2008 are based on assumptions and financials that are 12 months out of date. This is effectively trying to implement ‘last year’s’ strategy.
- You are tying up resources on data collection and consolidation, review and approval cycles and report preparation. This limits the time for your staff to understand the external market, analyse both internal and external information and identify interdependencies – the tasks that really add value to the planning process.

In our experience, companies that spend many months budgeting are also generally poor at performing monthly or quarterly forecasting. Interestingly, PwC’s Business Insights Survey June 2007 identified that while 75% of companies used a fixed annual budget as their key performance management strategic tool, only 57% used a quarterly rolling forecast.

# Why forecasting is so important – and so hard to implement

In the current environment, with the rising dollar, increasing input costs and quickly changing market needs, we believe frequent forecasting – both financial and operational – is essential to the success of Australian industrial product companies. Preferably, this should be monthly, supported by weekly operational meetings. Budgeting and forecasting should be the consolidation of knowledge already held by the company – the means to the end, rather than the end itself. Too often budgeting appears to be detached not only from the strategy, but the day-to-day operations of the business.

Part of the cycle time issue for both budgeting and forecasting is related to the failure to link clearly to the strategy, agree and enforce standard assumptions, and stay clear from an endless cycle of iterations on hundreds of line items. However, in our experience the other key reason for substantial time spent on budgeting is the failure to implement an automated solution for data entry, consolidation and analysis. Seventy per cent of respondents to the 2007 Budgeting and Forecasting Study were dependent on spreadsheets for part or all of their financial planning. Our experience indicates this situation is similar in Australia.

## Key elements in developing a meaningful financial plan

- Develop a timetable that includes both an annual budget and frequent forecasting to ensure that changes to market demands, input costs, production issues, etc can be factored into forecasts.
- Set strategic goals ahead of the planning and budgeting cycle, allowing management to rely on a standard set of key assumptions to ensure their plans and budgets are aligned with strategy from the beginning.
- Review assumptions on external economic factors, as well as internal cost and allocation models, on a regular basis given the frequency of change. This should be a particular focus where prices for metals, plastics and fuel are key to a company.
- Determine what to budget for and the level of granularity required. Leading organisations are moving away from the traditional profit-and-loss view to include balance sheet, cash flow and working capital – and doing this in less than 100 line items.
- Review your processes and technology to assess streamlining opportunities. This may include moving to an integrated and automated solution. Web-based planning and budgeting software allows for ease of data entry, consolidation and analysis.

<sup>3</sup> 2007 Budgeting and Forecasting Study, PwC Advisory, Performance Improvement, USA. Twenty-five per cent of respondents to this survey were industrial products companies – the second largest industry surveyed.

EXAMPLE: An Australian-based global industrial products company has reduced its budget cycle time by approximately 30%, due to a new Financial Planning Manager taking the time to thoroughly review and document the process to identify blockages, and due to the strategic automation of the process using Hyperion. The company then provided a standard set of key assumptions and reduced the number of budget iterations to two. This allows greater time to be spent on analysis and discussion of the strategy and plan rather than the mechanics – resulting in a better quality plan.

## The ‘people’ element

Finally, the ‘people’ element should not be underrated. Communication between executives and management, finance and operations is critical to budget success. Companies need to ensure that once they have set their strategy, plans and budgets that they are rewarding employees for adhering to practices that support the achievement of the vision. The reward mechanism for each and all employees needs to recognise both financial and non-financial performance hurdles. Again, this focus on driving the right culture is key to success.

## Using real-time, robust financial and operational information for decisions

As we suggested in the introduction to this article, the whole rationale for getting CPM right is to ensure you have the right information in the right format at the right time to make the decisions you need to in order to add value to your company. However, in practice we see many industrial products companies struggling to deliver this.

One Australian industrial products manufacturer with a global footprint produces more than 250 pages of management reports each month. Another’s quarterly management reports are the thickness of the metropolitan yellow pages directory. However, it’s not just production of the reports at issue here. We see many companies spending the first half of the monthly management meeting debating whether the numbers are ‘right’ – they are still striving to reach a ‘single source of the truth’.

Traditionally, finance has been the clearinghouse for management reporting in industrial products companies. Management reports have focused largely on internal historical financial information. Over the past 5–10 years we have seen a shift towards the balanced scorecard. Often, these balanced scorecards are based on the data that is available, rather than capturing information on the true drivers of performance for the company. The inclusion of non-financial data continues to show significant room for improvement, as noted above.

## Summary of findings – management information for decision making<sup>4</sup>

Quality of management information	8% of respondents strongly agreed that they were satisfied; 55% disagreed or strongly disagreed.
Timeliness of data	24% of respondents felt that timeliness of financial data was excellent; 6% held this view for non-financial data.
Quality of non-financial data	56% of respondents stated that the accuracy of non-financial data was poor or adequate; 46% stated the relevance of non-financial data was poor or adequate; 57% stated the timeliness of non-financial data was poor or adequate.
Management reporting	35% of respondents include information on the external market in their standard reporting; 47% include predictive analysis and commentary.

## The importance of accurate and timely information for decision making

The importance of complete and accurate information for decision making comes to the fore when an industrial products company is considering outsourcing/offshoring part of its operations, for example. Key to decision making will be the outcome of the feasibility study outlining the potential cost savings available.

In our experience, many industrial products companies struggle to gather a complete and accurate picture of their cost base – particularly at a process and activity level. This is relevant to both actual costs for the prior period, as well as forecast costs. Yet building a baseline cost profile by process and activity – and being comfortable with the allocation of costs to each activity – is essential to the quality of your sourcing decision.

If you are one of the 55% of industrial products companies that is dissatisfied with the quality of management information, how do you know you are making the right decision?

4. *Management Information and Performance: CFOs Face New Demands for High-Quality Data That Drives Decisions*, a report prepared for PricewaterhouseCoopers by CFO Europe Research Services, June 2007, CFO Europe Research Services.

# Understanding what drives value for your company

Leading industrial product companies should be analysing their strategy, vision and definition of success to determine the drivers of value for their organisation – that is, what creates, or destroys value. These drivers, and resultant metrics, generally focus on largely non-financial key areas; these may include external information such as customer and supplier relations and competitor behaviour; internal operational information such as stock turn, percentage capacity used and safety standards breached; and ‘softer’ information including staff satisfaction and turnover, and training hours. These are all in addition to traditional financial information.

Getting management information ‘right’ – inclusive of the elements of performance reporting outlined below – is like setting up a GPS for your business. Once you provide the inputs, the system will provide you with real-time guidance on the future and a suggested route. It is then up to you to use your knowledge and experience to either take that route, or detour for unplanned incidents – for example, unplanned road closures, loss of a customer, accidents or plant interruption.

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**EXAMPLE:** BlueScope Steel spent considerable time reviewing and refocusing its reporting process. This includes taking a top-down approach to identifying the value drivers for the organisation and using these to determine what should be reported to management. BlueScope then redesigned reports from the top down. These initiatives resulted in reducing the quarterly BU report from 50 pages to 10 with an associated time saving of 80 per cent.

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## Key elements of good practice performance reporting

### i. Balance

- Strike the ‘right’ balance of strategic and tactical measures
  - > Strategic – forward looking, aligned to strategic objectives, results focused
  - > Tactical – actionable, provide lead indicators of performance, focused on inputs, processes and outputs

### ii. Accuracy

- Reports are valid, reliable and at the appropriate level of detail
- Measurement processes are consistent and repeatable
- Data sources are reliable and represent underlying business performance

### iii. Commerciality

- Non onerous – use existing measurement/reporting frameworks
- Automated measurement and reporting processes

### iv. Contextual

- Evaluations of performance take into account random/seasonal variation
- Provide visibility of competitive environment (eg market share)
- Comparisons (budget/forecast) overlay seasonal variation
- Where appropriate, display upper/lower control limits

### v. Relevance and timing

- Reflect underlying drivers of business performance
- Reflect the value drivers of a business
- Represent the reality of the business

### vi. Utility

- Enable informed decisions to be taken on an immediate basis
- Easily digestible, easy to read/understand
- Clear, concise, accepted definitions



### Leading to...

- Greater probability of taking the ‘right’ decision to improve performance and hence achieve or exceed desired business outcomes
- Increased visibility of business drivers/value drivers
- Minimised cost of performance measurement and reporting
- Executives are presented with information that aids informed decision making and measureable actions

## Are you still using spreadsheets to run your business?

Another common reason for lengthy budgeting and reporting processes is the failure to implement an automated solution for data entry, consolidation and analysis. We recently worked with an ASX 100 company that uses more than 15 applications in planning and budgeting alone.

Web-based planning and budgeting software allows for ease of data entry, consolidation and analysis. These tools can also facilitate scenario planning and the move to a quarterly rolling forecast. For industrial products companies, understanding the impact of rising input costs or the strengthening dollar is critical. The ability to easily reforecast quarterly figures based on changing market conditions is key to obtaining – and retaining – prime mover advantage in the competitive Australian manufacturing sector.

It is important that data sources and calculation of metrics are clearly defined and agreed, measurement processes are documented and repeatable, and information is measured and reported using fully automated and integrated systems. Automation through a range of packages such as Crystal Reports, as well as more sophisticated systems such as Cognos, Business Objects and Hyperion is key to driving transparency and repeatability of the reporting process.

In addition, we are seeing an increasing push to better utilise the core functionality of enterprise resource planning (ERP) systems.

One industrial products company we spoke with has just spent a significant sum on upgrading its ERP planning module and re-rolling this out to their staff. This now forms the key data input piece of its planning process. The company's ability to use a single application for both collation of the operational plan and the financial forecast in a seamless manner has improved the quality of the outcome as well as reducing the time to complete.

## Getting the right culture

*“Reward, recognition, leadership and communication are essential for success. This is not about lip service.”*

*Robert Macmillan, BlueScope Steel*

CPM program sponsors cite cultural change as the most challenging but important element for success. A cultural shift is fundamental to CPM as it is the people in your company who will deliver the change, the growth and the focus required to achieve the strategy. As our earlier *IP Outlook* chapter on ‘The Real Business of People’ noted:

*“PwC’s manufacturing survey found that 75 per cent of all business improvement activities failed to realise forecast productivity gains because staff felt left out and lacked the motivation, skills and/or knowledge to adapt to new systems and procedures.”*

There is little point in setting a strategy at an executive level unless you communicate it to each and every staff member in a compelling manner. There is a dissonance between ‘being briefed’ and signing up personally and as a team to the process outlined to achieve it. For example, obvious improvements such as streamlining overly detailed and redundant management reports can be met with unexpected resistance. The right culture will assist in breaking down silos and individualistic behaviour for delivery of the desired outcome as a cohesive team.

Many leading organisations now ask a subset of their staff to assist them in deciding the vision and values the company will adhere to. This is an excellent method of developing a framework that resonates with your employees. In addition, the people involved in these projects can act as ‘cultural champions’ back within their business units – helping the message to permeate throughout the company.

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EXAMPLE: BlueScope Steel gathered inputs from approximately 200 staff members to establish ‘Our Bond’ – the company charter – which governs the way it does business. This is publicised on its website for all interested parties to read – not just employees or shareholders – and supports its vision: “We and our customers proudly bring inspiration, strength and colour to communities with BlueScope Steel”.

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In our experience, industrial product companies can find this cultural shift challenging as it seems intangible to start with, when compared to the production of goods. In addition, industrial products companies traditionally spend money on improvements to products and the manufacturing process, rather than on cultural development programs. A PricewaterhouseCoopers survey of Australian-based manufacturing in December 2006 revealed 53 per cent of respondents did not have an internal program to support the development and alignment of people to the culture of their company.

## Aligning the behaviour and performance of staff to company strategy

In many cases we still see industrial product companies cascading performance measures to the top one or two layers of management, but no further. Often these performance measures are too simplistic. They are either based on achievement of budget (which may not result in tangible contribution to achieving strategy), or they are extremely complex – too many KPIs is as bad as no KPIs. We generally see 4–6 individual KPIs at each level as the most appropriate for providing clear instructions to staff and management on what's important.

Industrial product companies that understand the importance of this alignment set top-down KPIs at the company, business unit, team and individual levels that clearly align to strategy, drive consistent behaviours and encourage team work. At an individual level, each employee – and contractor – sets a personal development plan on an annual basis with their manager that aligns their tasks to strategy and focuses on specific training or development needs.

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EXAMPLE: An Australian-based global industrial products company performed a review of all KPIs and found many staff were compensated for 'business as usual' (BAU). The manager of the team worked with staff to determine appropriate stretch targets, and KPIs were realigned to these to encourage innovation and performance above 'BAU'. Staff members bought into this process and their revised KPIs as they were involved in the process of setting them, and could clearly see that refocusing their energy on innovation and improvement would provide greater job satisfaction.

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Finally, compensation and reward schemes must clearly align to achievement of the established KPIs. Best-practice organisations structure compensation plans so that all targets – personal, team, unit and company – must be achieved to obtain the maximum available reward, and no one receives a bonus if the company as a whole does not achieve the overall targets. This encourages teaming and cross-functional/departmental assistance. We believe it is important for the definition of compensation to be broader than just monetary reward. For example, one manufacturer has a Chairman's Club that recognises the people who provide the most innovative ideas contributing tangible benefit to the company on a monthly basis.



Chris Furnell  
Executive Manager of Corporate  
Finance, Incitec Pivot

I've held various senior finance positions for more than two decades both at Incitec Pivot and its former parent Orica. I was the inaugural Group Financial Controller of Incitec Pivot, since the merger of Incitec Limited and Pivot Limited in June 2003. Incitec Pivot, which supplies more than half of Australia's agricultural plant nutrient needs to farmers, has gone through a number of significant changes in that time.

The biggest was separating from Orica in July 2006 and acquiring Southern Cross Fertilisers from BHP Billiton. That's when the pressure on Incitec Pivot, which is a publicly listed company, really started. There was no longer anywhere to escape from the spotlight – you knew that if you didn't deliver, your shareholders would simply take their money elsewhere.

Incitec Pivot responded to this challenge by implementing a comprehensive Corporate Performance Management (CPM) framework. This gave us a checklist of what we needed to do in order to accomplish our strategic goals and enabled us to monitor our progress at regular intervals.

The cornerstone of this approach was a clear-cut goal. Incitec Pivot had a very concrete strategic goal: to enter the ASX 100 within four years, having been just inside the ASX 200 when separating from Orica. We managed to achieve that within 12 months and are now close to the top 50. That doesn't just happen by accident.

The CPM framework that has enabled us to transform this strategic objective into a measurable outcome was based on a specific strategy that was underpinned by a culture of Ownership, Innovation or Breakout and Delivery or Accountability (OwnBreakoutDeliver). A specific business plan was sketched out at our annual senior leadership conference before being fed via line managers to all employees. The plan provided clarity of purpose for all and was closely aligned with staff performance agreements and incentive schemes.

To deliver on the plan, managers are expected to come up with a bottom-up budget and then work towards bridging any 'gap' with the market consensus forecasts. The strategy is always subjected to disciplined financial management. A key pillar of our strategy is to ensure the lowest possible cost base. At any plant or new investment, for instance, the target is to always deliver an 18 per cent RONA or 15 per cent IRR. These are not magical numbers plucked from the air, but the minimum growth required to deliver sufficient return for shareholders. This gives the business the right to exist and ability to reinvest. The way we see it, if you don't have the lowest cost base in manufacturing, you might as well be an importer and not tie up funds in manufacturing assets.

The overall strategy is held together by the company's culture, which encourages and rewards high performance, accommodates fresh thinking and promotes fairness and accountability. These values weren't dreamed up by senior management and imposed from above either. Rather, we asked 17 people across all sites and functions to define the company's core values at a grassroots level. These are now being rolled out across the organisation.

Another important feature of our CPM framework is that everyone from the CEO down to people on the shop floor is on an incentive scheme that operates (depending on the person's job) on two to three levels – company, team and individual performance. On the company level, if we don't achieve a gateway target set by the Board, nobody gets anything. This ensures cross-functioning teams help each other deliver results.

*continued...*

# The way I see it

One of the most important values we encourage is accountability. Employees sign a performance agreement with their manager that provides for a twice-yearly review. If they're performing below expectation we suggest putting them on a training course and/or providing them with appropriate support. If that doesn't work, it means they probably don't fit in with our values and we have to let them go.

Team performance is also assessed on a regular basis. During group meetings we review performance against targets related to each specific function or site or the department as a whole. One thing the company doesn't tolerate is excuses. When you emphasise accountability, people have to stand up and be counted. There's nowhere to hide and no excuses for not delivering. But on the positive side, you're also giving people the freedom to innovate and empowering them to make decisions and take responsibility for them.

As the CEO, Julian Segal, noted when announcing the 2007 annual results, it is the people of Incitec Pivot who have delivered such outstanding results. This in turn is due to the strategic direction given to the employees by a very experienced and competent executive team and board. In short, everyone at Incitec Pivot is pulling in the same direction.

## Conclusion

CPM is like a GPS for your business. If you don't have a destination in mind you won't know when you've got there. If you don't track your progress to that destination you won't know when you're lost – or if you've found a short cut.

If you seek sustained competitive advantage you need to make CPM part of the day-to-day operations of your business. This is a fundamental cultural shift that, at its best, overcomes silos, organisational politics and individualistic tendencies to create a unified team that is striving for the same goal.

CPM is about developing a 'fit for purpose' solution. It is about reviewing the tasks you currently perform and determining how you can better link these to drive real change. CPM is not something you can implement overnight;

you may take 2–3 years or more to move from the 60 per cent who have not started to the 10 per cent who are realising the benefits.

The financial rewards of successful corporate performance management are substantial. As illustrated by Incitec Pivot, which understands and measures the key drivers, companies can generate returns significantly over the market average – even in a boom market.

Companies can use improvement management information to lower their costs, streamline the allocation of resources, create more flexible and usable budgets, and receive better returns. When combined with an effective tollgate process for new initiatives, CPM can lower the cost of capital on investment opportunities and growth projects, improve the overall quality of financial decision making and increase benefits realisation.

## Take action

- **Develop an holistic strategy** based on a wide array of inputs, and clearly and consistently communicate this throughout the organisation.
- **Drive a top-down approach to operational planning and financial forecasting** to link from the strategy.
- **Understand what creates and destroys value for your business**, and measure and report against these drivers.
- **Turn financial and operational data into information** for real insight and making decisions quickly and accurately based on that insight.
- **Engage your talent** – provide them the skills and technology they need to deliver your strategy.
- **Ensure you align organisational, business unit, departmental and individual reward structures to your strategy and value drivers throughout the organisation.**

## References for surveys

- Business Insights Survey
  - 220 Australian CEO/CFO's private and public businesses with turnover of between AUD70m - AUD500m
  - 24 per cent manufacturing – the largest industry segment
- Private Business Barometer
  - 757 Australian businesses with turnover between AUD10m – AUD100m.
  - 21 per cent manufacturing – the largest industry segment
- Management information and performance: CFOs face new demands for high quality data that drives decisions; a report prepared for PricewaterhouseCoopers by CFO Europe Research Services; June 2007; CFO Europe Research Services.
  - 190 global businesses with revenue of USD750m
  - 15 per cent were industrial products companies – the largest industry segment.
- 2007 Budgeting and Forecasting Study, PwC Advisory, Performance Improvement, USA.
  - 200 global businesses with revenue of USD2b'
  - 25 per cent were industrial products companies – the second largest industry surveyed.

# Contacts

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Graeme Billings leads the Industrial Products practice for PricewaterhouseCoopers in Australia. He has over 25 years experience providing assurance, transaction and consulting services with multinational and national clients in the automotive, construction and general manufacturing industries.

Graeme draws on his extensive experience with acquisitions and mergers and other business investigation areas such as due diligence, investigating accountants' reports, fraud investigations and internal control reports.

As a regular media commentator on the Ai Group/PwC Performance of Manufacturing Index, Graeme provides insight into the direction and challenges of the manufacturing sector.

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Sarah Laidlaw Meehan is the lead director for the Finance Effectiveness practice in Melbourne. Sarah has over 13 years experience assisting clients understand and resolve complex problems impacting finance functions. Her work focuses on assisting clients balance the need for controls with process efficiency and to demonstrably add value to the business.

Sarah has a background in finance process improvement - focusing on finance strategy, communications and people, and systems, processes and controls. Sarah identifies opportunities to improve existing functions as well as assisting clients to design, implement and maintain more effective and efficient finance functions moving forward.

Sarah has worked extensively in Australia and overseas including the US, UK, Europe and Asia with clients across a wide range of industries including industrial products, utilities, information / communications, media and financial services.

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John Studley leads the Finance Performance Improvement practice for PricewaterhouseCoopers. He assists CFO's with strategic issues such as Finance Vision and Function Effectiveness, including special projects for the CFO and corporate finance solutions including business valuation.

John has assisted ASX 100 companies with a number of Corporate Performance Management projects, including streamlining of excessive reporting, re-design of corporate dashboards, evaluation of management information systems, review of key value drivers and process improvement for month end.

He has worked across a range of sectors including Industrial Products, Retail, Mining, Manufacturing, Telecommunications, and Insurance.

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