

Mind Your Own Business News Letter

Volume 9, Issue 3

Fall 2009

Special points of interest:

- Managing Risks
- Balanced scorecard fundamentals
- Roadmap

Inside this issue:

- Dashboard in a volatile economy 2
- Financial perspective 2
- Porter's five forces 2
- Metrics for telecommuting 3
- Financial series 3
- Coming soon 3
- Are you ready to Storm ? 6

Managing risks for better business performance

Risks can be defined as uncertainties that may impact negatively (and rarely positively) the business, its objectives or its strategy. Every business decision, every strategic initiative, every change of strategy or plan comes with risks that may change the overall business performance, when risks turn into issues. The only way to deal with risk is to manage it pro-actively.

Risk management is a discipline that implies timely risk identification, risk assessment, risk strategies, risk mitigation, risk monitoring and often a contingency plan. To be efficient, organizations should setup a risk management system and integrate into their business strat-

egy and performance frame-



work. Risks should be assessed from every angle: IT, People, Market, Projects, Regulatory and many others.

An integrated risk management framework will improve the overall business performance. By considering risks, organizations are forced to define their appetitive or tolerance for

risks. For example, by considering risks as part of the selection of their strategic initiatives, companies improve their success rate of individual initiative and of the overall project portfolio. Another example is dealing with operational risks: A volatile economy comes with many uncertainties: suppliers may go under, prices may be pressured. Being ready and able to minimize the impacts of risks will differentiate between the strong organizations and the weaker ones.

Some uncertainties and their associated risks can also be bring positive returns: The end of the downturn is often synonym with lots of new opportunities.

Will risks attack you or will you attack the risks ?

HR Scorecards

The market conditions has major impacts on the Human Resource (HR) aspect of most organizations. Employee stress, changes in the employment demand-supply, short-term savings on training budget, compensation adjustments are just a few examples of the current market variables and consequences.

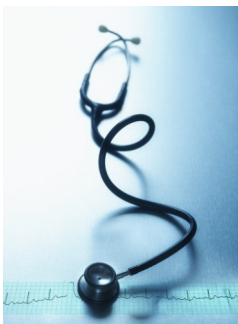
To have a true picture of their HR situation, employee commitment and costs, HR managers must watch closely the key indicators of their human resources performance. While the current market could be tagged an "employer market", it will not be long before it turns around to be back to an "employee market". At that point, compa-

nies that implemented the finest HR strategy and maintained a motivated and loyal workforce will have a paramount competitive edge. The strategy and its monitoring can be achieved through scorecards, where Key Performance Indicators will reveal the true status and trends of the human resource management.



How can you plan ahead if you cannot see ahead?

“Lead indicator should surface into management scorecards”



Porte's five forces

Management scorecards for a volatile economy

With the economy in turmoil, managers must be prepared to respond to changing situations quickly. Waiting for a “read” of past result indicators is just not good enough to make timely decisions. Managers must also rely on indicators that will predict the future.

Lead indicators should therefore surface into the management scorecards and reports. Lead indicators (as opposed to lag indicators) are great predictive tools. A good management scorecard will be made of

more KPIs (Key Performance Indicators) than KRI (Key Result Indicators). For example, when dealing with sales, measuring your last quarter sales or your backlog is important, however, assessing the size of your funnel provides more insight of future performance.

The economy has changed enough that past, accepted facts are not true anymore: customer behavior, competitive landscape, cost saving opportunities and many things will never be as before.

Like any other indicators, lead indicators must be clear and straightforward. The management scorecards is a good way to collect, report and communicate factual information to management and team members. In a volatile economy, dashboards and reports should be available real-time to management so that educated, timely yet non-emotional decisions can be made and auctioned.

Financial perspective of the Balanced Scorecard

The 4-perspective balanced scorecard (BSC) is a management tool that allows an organization to set, track and eventually achieve its key business objectives. One of the perspective is known as the “financial perspective”.

The financial perspective focuses on the economics of the organization. The perspective can assess the past results of the organization such as overall profit or ROI (Return On In-

vestment) of the strategic initiatives.

Some financials measures are also indicative of performance such as the ability to generate revenue from current capital.

Also of interest in the financial perspective are elements such as available capital (e.g. cash flow) that can help the decision process and drive some of the strategic planning and control activities.

To design a value-add financial perspective, managers should try not to repeat standard accounting reports such as P&L and balance sheet. Instead, management should detect insightful indicators that will shape the future of the organization and analyze they are influenced by the indicators belonging to the other perspectives of the balanced scorecards.

Porter's five forces as a tool

Porter's five forces is a business tool designed to help organizations analyze their business and products, and then come up with a strategy. Porter's five forces is geared toward the for-profit companies and centered around the concept of *rivalry*. In basic terms, rivalry is influenced by 5 forces:

- Barriers to entry, that analyzes your ability to shield new competitors

from your market segments.

- Supplier Power, that defines how your partners influence your business.
- Buyer Power, that measures how your customers can affect your service offering or pricing.
- Threats of substitute,

that collects information about products of services that may come as new possibilities to your clients.

- Intensity of Rivalry, that studies you competitors.

Analyzing the competitors is a mandatory step when implementing a strategic planning process. Porter's five forces is one of the tools available to the

The metrics corner: measuring telecommuting

Usually associated with Human Resources, telecommuting brings great value to employees, employers and the community.

While telecommuting can deliver both qualitative and quantitative value, it is best practice to reflect the efficiency of the organization's telecommuting program by measuring the efficiency and value of telecommuting.

Here are a few indicators that can be considered in the business performance management

framework.

Number of days tele-commuted per FTE: Indicates if the organization enables telecommuting well.

Employee retention importance: Reports how employees value telecommuting in their relationship with their employer.

Productivity increase: Reflects how manager quantify the im-

pact on telecommuting on productivity.

Carbon footprint reduction: Measures the savings on carbon footprint the organization enables through its telecommuting or telework program.

Net cost/ROI of the telecommuting program: Calculates the sum of expenses (e.g. VPN) and savings (real-estate space reduction) of the telecommuting program.



Using the right KPI and KRA in the right dashboard.

KPI: Financial reporting series, what is Debt to Assets.

Financial reports and indicators are often used as generic indicators of the state-of-health of an organization.

The "Debt to Assets" ratio is a simple division of a company total liabilities by its total assets (that should be both found in the company balanced sheet).

This indicator measures the company's solvency. Solvency reflects the ability of an organization to pay its debts and is

also often associated to the ability to meet long-term goals or to sustain a bumpy economy.

Solvency is different than profitability, as an organization could be profitable without being solvent and vice-versa.

The debt to assets ratio is one of the indicators that investors or creditors will look at when assessing a company.

Future performance of the

organization can be related to its debt to assets ratio and therefore this indicator often makes it to the management report.

While being debt-free is always a natural objective, debts can also increase the growth of an organization. The debt-to-assets ratio should therefore be always measured with other indicators that will reflect of the organization is making good use of its working capital.

"Tele-commuting brings great value to employees, employers and the community"

Coming soon

The MS2C Fall 2009 release includes a set of tools to help organization manage risk in a structured way.

The MS2C risk management functions can be mapped to your business objectives and key strategic initiatives.

The risk management framework enables:

- Risk identification: By logging each risk, users of MS2C are forced to

maintain a risk list. It enforces consistent and repeatable risk management.

- Risk assessment: MS2C offers a risk assessment through quantitative and qualitative methods that will drive proper risk mitigation.
- Risk strategy: The MS2C risk framework allows user to declare

and elaborate on the risk strategies and mitigation techniques applied to the risks.

- Risk Monitoring: Risk monitoring is part of standard business practices. With its risk history tracking and advanced reporting and dashboarding, MS2C offers a fully featured risk monitoring solution.



New activities at MS2C.

MANAGEMENT SCORECARDS

GEM-UP CONSULTING
Management Scorecards
117#4031 Lakeshore Road East
Mississauga, ON
L5G 4T6

Phone: 905-486-0587
Fax: 905-486-0588
E-mail: info@gem-up.com

If you are not keeping score, you're just practicing.

MS2C is a product of GEM-UP CONSULTING. The product is dedicated to helping organizations with their strategic planning and business performance. By combining the strengths of strategic planning tools, balanced scorecard and portfolio management, we strive to accommodate the needs of the agile and modern organizations and enable them to perform to their best of their capability. **MS2C** integrates all the tools within a single on-line framework that makes the overall business performance easier to manage and execute. More information on the product can be accessed at www.managementscorecards.com



Are you ready to form, storm, norm and perform ?

A few experts predict a turnaround in the economy in the Fall. True or not, it is inevitable that at some point in time the economy will be stable again and the business environment will have changed, to never be the same.

Organizations will therefore have a new start:

- The competitive landscape will have changed. Some competitors will have disappeared; new ones will surface with different value propositions.
- The crisis will have forced some organizations to change their structure, to change their outsourcing strategy.

- Customers will have changed.
- Organizations will have changed and learned. For instance, the im-

portance of a strong balance sheet will have more weight. All of the above as well as many other elements will mean that organizations have to re-form their eco-system, and surely, as well-known by change management experience, organizations will have to go through *storming* and *norming* phases before they can *perform* again.



While it is good news to get out of a volatile economy, light is not just quite at the end of the tunnel. Organizations have to be prepared to implement an adequate performance management framework to transition back to the level they

need. Failure to transition could mean some companies may not make the cut.