

Financial services companies need to anticipate future workforce needs and analyze the strengths and weaknesses of their employees so they can better prepare for changes from mergers, growth and an aging workforce.

Performance management in financial services

sascom magazine sits down with Becca Goren, Product Marketing Manager for Performance Management at SAS, to discuss the results of financial services industry responses* to BetterManagement.com's Performance Improvement Benchmarking Web Survey.



Becca Goren, Product Marketing Manager for Performance Management, SAS

sascom: What is driving performance management initiatives in financial services companies?

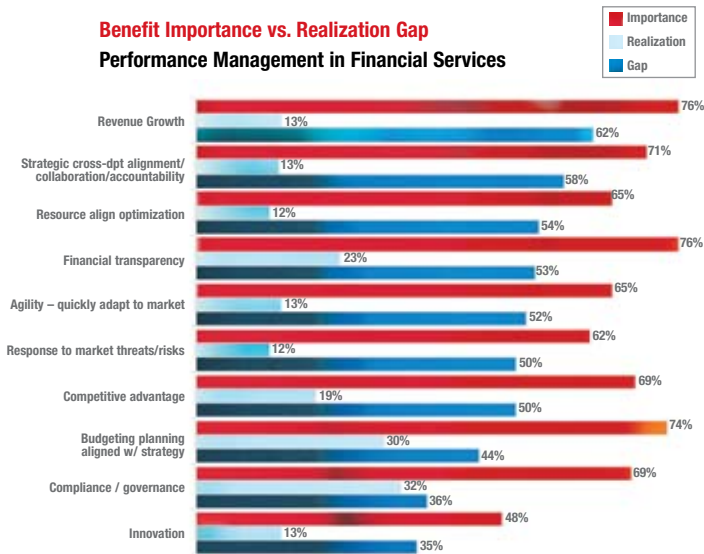
Goren: Revenue growth is perceived as an important outcome of performance management, but one that is little realized today. In contrast, financial transparency – considered as important as revenue growth – is more frequently realized. Other benefits to financial services are alignment of budgeting and planning with the strategy and compliance. Like transparency, these benefits are realized more fully, compared with their relative level of importance.

Regulations such as Sarbanes-Oxley and the Basel II accord serve as catalysts for embarking on performance management initiatives. Consequently, it is not surprising that a majority of companies surveyed have implemented financial management systems (56 percent), and another 37 percent plan to implement these systems. Risk management solutions are also widely implemented.

Although businesses might begin with the goal of addressing compliance and other regulations, financial transparency will help them get a handle on the financial health of the organization and identify opportunities for revenue growth.

* There were 57 responses to the survey from the financial services industry.

Benefit Importance vs. Realization Gap
Performance Management in Financial Services



sascom: Why is revenue growth such a challenge?


Goren: For banks, profitable growth through mergers is inhibited because there are simply fewer opportunities and increasing price premiums. Establishing a competitive advantage through improved service quality is also becoming more difficult, because service and customer satisfaction is steadily improving across the industry.

Product innovations are short-lived, and most are considered commodities. Faced with these trends, banking executives are searching for a sustainable competitive advantage that will fuel organic customer growth. They often look to greater profitability analysis, customer growth initiatives, and improved financial consolidation and reporting.

For the past four or five years, insurers have focused on cost containment, expense management and improving operational efficiency. Their focus is shifting toward top-line revenue growth and bottom-line profitability. Premium costs that rose rapidly in response to significant reinsurance expense increases following 9/11 meant unprecedented profits and surpluses in 2002 and 2003. Major catastrophes in 2004 and 2005 reset this cycle, but a remarkably calm hurricane season in 2006 will undoubtedly provide US P&C carriers and their reinsurers tremendous profits once again. Forecasts for 2007 suggest that the lack of catastrophes was an aberration, and companies will need to carefully manage their exposure in the coming years.

A major contributing factor is lack of good information. It was disappointing to learn that less than half of financial services companies report that they are making decisions that improve competitive advantage and revenue growth. Although the financial services industry is more mature overall along its performance management path, in this case, the type of decision making that improves competitive advantage and revenue growth is performed more often in non-financial services industries (60 percent vs. 48 percent).





Trust will go a long way in breaking down resistance to measurement, while accountability will ensure performance management and measurement efforts have longevity.

sascom: Strategic and cross-department alignment seem to be challenges as well. Why?

Goren: To a great extent, performance management is about alignment, which is important to financial services. Many financial services companies still run their business in a very disjointed way. For example, banks typically run demand deposit accounts, mortgage and credit card divisions as separate businesses. The lack of collaboration and alignment among these divisions becomes problematic, especially given Sarbanes-Oxley, Basel II, and USA PATRIOT regulations.

There are different types of alignment – most notably strategic, financial and resource alignment. Strategic alignment ensures the strategies of each business unit support the strategy of the enterprise. Ironically, successes in one business unit can contribute to failures in others, so cross-departmental alignment is also important. Financial alignment ensures money is allocated to best support the strategy. Resource alignment ensures your assets – human, IT and others – are aligned to support the strategy. Financial services companies have had some success in achieving financial alignment, but strategic and resource alignment remain challenging.

sascom: What's contributing to the difficulty in aligning strategies and resources?

Goren: Are departments collaborating? Supporting each other? Is there accountability? Often, the answer is no. In financial services companies, business units typically set goals and metrics by departments that aren't aligned to an overall strategy. An example of this is a bank that sends low-interest debt payoff offers to its best credit card holders. These goals may be achieved independently but don't necessarily advance the organization as a whole. It's a challenge to get departments to collaborate and share – to think about and be accountable for the greater corporate good.

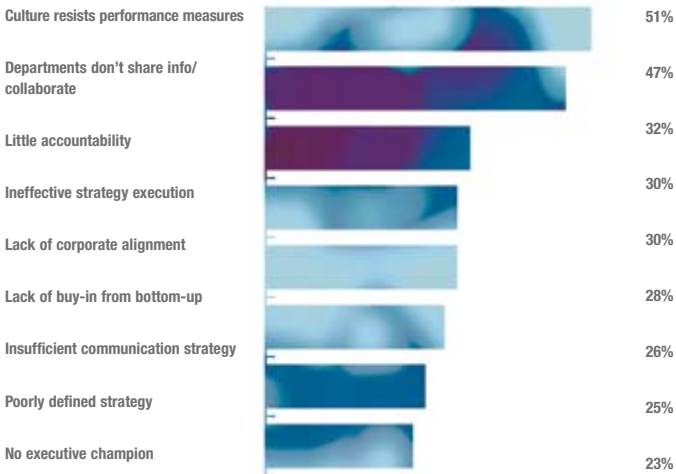
Resource alignment issues often arise from a reactive approach to managing human and IT capital. For example, if intellectual capital is critical, the acquisition and retention strategies need to be in place to support this effort. Financial services companies need to anticipate future workforce needs and analyze the strengths and weaknesses of their employees so they can better prepare for changes from mergers, growth and an aging workforce. IT alignment can only happen when the IT department's goals align with the business, it has the information to best support the business as a whole, and it can empower business units with essential information and tools.

sascom: What cultural obstacles do companies face in their performance management efforts?

Goren: Cultural resistance to performance measurement is the primary obstacle to the success of these initiatives. This resistance is most likely what's at the root of the second-most cited obstacle:

departments don't share information or collaborate. Insufficient communication of the strategy also hampers alignment. And with these cultural barriers, organizations struggle with accountability, leading to problems accessing relevant information.

Cultural Barriers – Performance Management in Financial Services



sascom: So what can organizations do to encourage a culture that supports measurement and sharing of information?

Goren: There must be a top-down as well as a bottom-up approach. Top management must set the stage for an environment of measurement, sharing and collaboration. They must effectively articulate the company's strategy. Also, management must establish both trust and accountability – not an easy balance. Trust will go a long way in breaking down resistance to measurement, while accountability will ensure performance management and measurement efforts have longevity.

From the bottom up, employees need to understand the benefits of performance measurement and management, as well as their roles in the effort and how their efforts map to the organization's overall success.

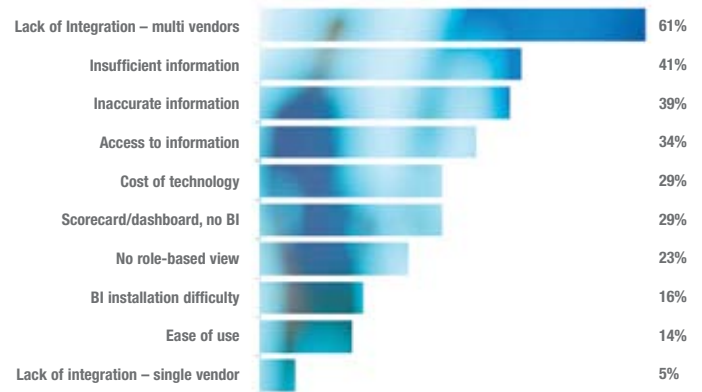
sascom: The most pressing technology challenge cited in the survey was lack of integration among multiple vendors. Why is integration such a problem?

Goren: Change often brings new ways of doing business, new systems to support, and a different way of collecting data and measuring it. The recent mergers and acquisitions in banking in particular have created tremendous data integration issues. In addition, global expansion can bring currency and language issues into the mix. Each line of business/product line often has its own system for gathering and reporting on information. So getting a consistent view of customer activity across product lines, for example, is nearly impossible. Determining customer

profitability – or even revenue – on the bank level versus product level is often a futile exercise.

Also, core systems upgrades haven't been the saving grace organizations had hoped they would be. Many large organizations have multiple core systems that aren't designed to integrate data from multiple systems or provide intelligence based on the data they acquire. Without a full view of enterprise information, efforts to manage performance are meaningless. Add in third-party data, and it becomes even more difficult to understand what is going on in the organization.

Technology Barriers – Performance Management in Financial Services



sascom: How can organizations overcome these integration issues?

Goren: First and foremost, businesses need to recognize that integration is not solely a technology issue but a cultural one as well. Each business unit must understand that it is in its best interest to share information. Not sharing information is a top cultural challenge financial services organizations face (47 percent). The fact that the culture doesn't support measurement (51 percent) also hints at a lack of desire for broader accountability and collaboration.

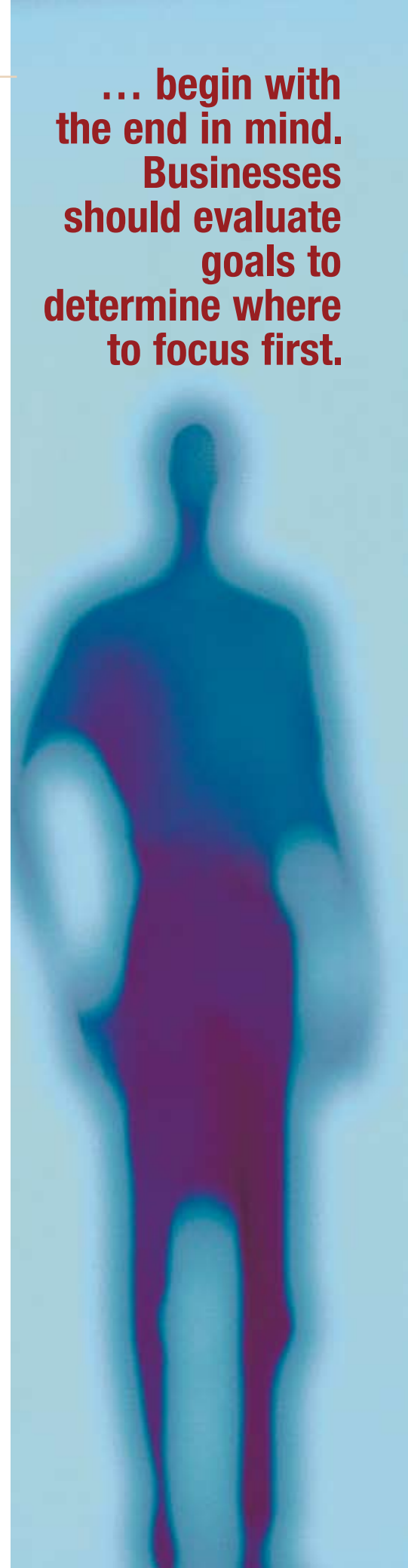
Before addressing technology challenges, companies should look at how to create an environment of trust and sharing and show how each business unit and each employee contributes to the overall goals of the organization.

Another challenge in sharing is making sure the information is captured in the first place. Much of it is in people's heads and there isn't time to put it into a software system where it can be captured, shared and used.

On the technology side, businesses need to ensure the seamless flow of information from multiple systems. Companies need an accurate view of their information – by focusing on data integration and cleansing. These are foundational steps that should not

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Technology	What it does	How it supports integrated performance mgmt
Data integration and cleansing	Brings together data spread across the organization, transforms and cleanses it in real time and ensures that it is consistent and accurate.	Creates a common foundation for delivering trusted information throughout the enterprise. Helps organizations add value to their data and ensures availability of the best data possible for performance management.
Financial management	Streamlines budgeting, planning, consolidation and reporting. Dashboards, customizable by user, deliver timely, pertinent information and reports.	Helps synchronize financial and operational strategy across the organization supported by repeatable, sustainable processes for financial reporting, risk analysis and achieving performance goals. Provides a process to deliver financial strategy to every level of the organization.
Dashboards/scorecards	Monitors and displays key performance indicators with at-a-glance visuals. Indicators typically tie to an organization's strategy.	Presents an integrated enterprise view of performance. Helps organizations focus on performance and opportunities to take appropriate action, align resources and day-to-day activities with corporate strategy, and adapt to meet the changing demands of the market and stakeholders.
Strategy map	Provides a visual macro view of an organization's strategy.	Helps align the organization by articulating its goals and the initiatives that support those goals throughout the enterprise.
Human capital management	Optimizes the workforce, ensuring alignment with organizational goals.	Provides a holistic view of the workforce for all lines of business by integrating employee data from multiple systems to analyze the workforce and help with proactive planning.
Activity-based management	Helps determine accurate costs and cost drivers at the activity level.	Helps organizations identify opportunities across the enterprise to control cost and improve process efficiency by determining the "true" cost of a product, process or service. Organizations can better understand which resources are consumed by an activity and the financial consequences.
Customer relationship management	Provides customer insight for more effective, more profitable customer strategies.	Offers a single comprehensive view of the customer across products and channels to build more effective customer strategies.
Profitability management	Enables organizations to make better decisions based on profitability information for products, customers, channels and regions.	Decision makers can define the segmentation reports they need on the fly. Business managers can integrate and track profit performance of customer groups or individual customers, product groups or individual products, channels or specific branches. They can access a drill-down view into revenue and cost to identify and investigate problems that affect the bottom line.
Risk-based performance management	Provides integrated view of key risk and compliance information for greater capital adequacy and capital efficiency.	Integrates key information from across a broad spectrum of risk and compliance functions (credit risk, market risk, operational risk, fraud, anti-money laundering, etc.).



be compromised, because skipping them will lead to inefficiency and an inability to move the organization forward and improve revenue growth.

Next, start small. Taking on too much at once can be a recipe for failure. Last, but not least, they need to ensure that their technology purchases support their organizational goals. In other words, begin with the end in mind. Businesses should evaluate goals to determine where to focus first.

sascom: What has the survey helped you identify as elements of successful performance management initiatives?

Goren: Employing a sequential approach will dramatically improve the results of performance management efforts. This involves starting with foundational activities such as data integration and data cleansing before measuring and managing, and then improving performance through analytics.

Finally, looking at the process of performance management holistically, we see that successfully implementing performance management tends to occur among organizations with a high level of maturity in how they use information. The most successful ones include key departments or program managers in their efforts, are diligent in practicing key activities that support performance management, and have adopted a core set of technologies to help them achieve their desired results. By combining people, processes, skills and infrastructure, businesses can make significant strides in improving their performance. ■

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