

# The High Tech Future of Finance Managing Complexity

FEI National Breakfast Series  
Montreal **Winnipeg** Vancouver **Toronto** Calgary **Edmonton**  
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# **THE HIGH TECH FUTURE OF FINANCE MANAGING COMPLEXITY**

**FEI Canada & Microsoft Canada Co.  
National Breakfast Series**

**Dr. Tony Dimnik  
Queen's School of Business**

# Emoticons celebrate 25 years :-)



- **First emoticon 11:44 a.m. on September 19, 1982 in a Carnegie Mellon University posting to an online electronic bulletin board**
- **New award to celebrate this anniversary -- annual Smiley Award for innovations in technology-assisted person-to-person communication**
- **If you type : and – and ) into PowerPoint 2007, you get**



- **Do finance people use emoticons?**



- **Increasing complexity requires increasing decentralization**
- **Role of technology in promoting and supporting decentralization**
- **Implications for the finance function**
- **Theory in action**
  - Microsoft partners
  - Questions
- **Please hand in surveys**

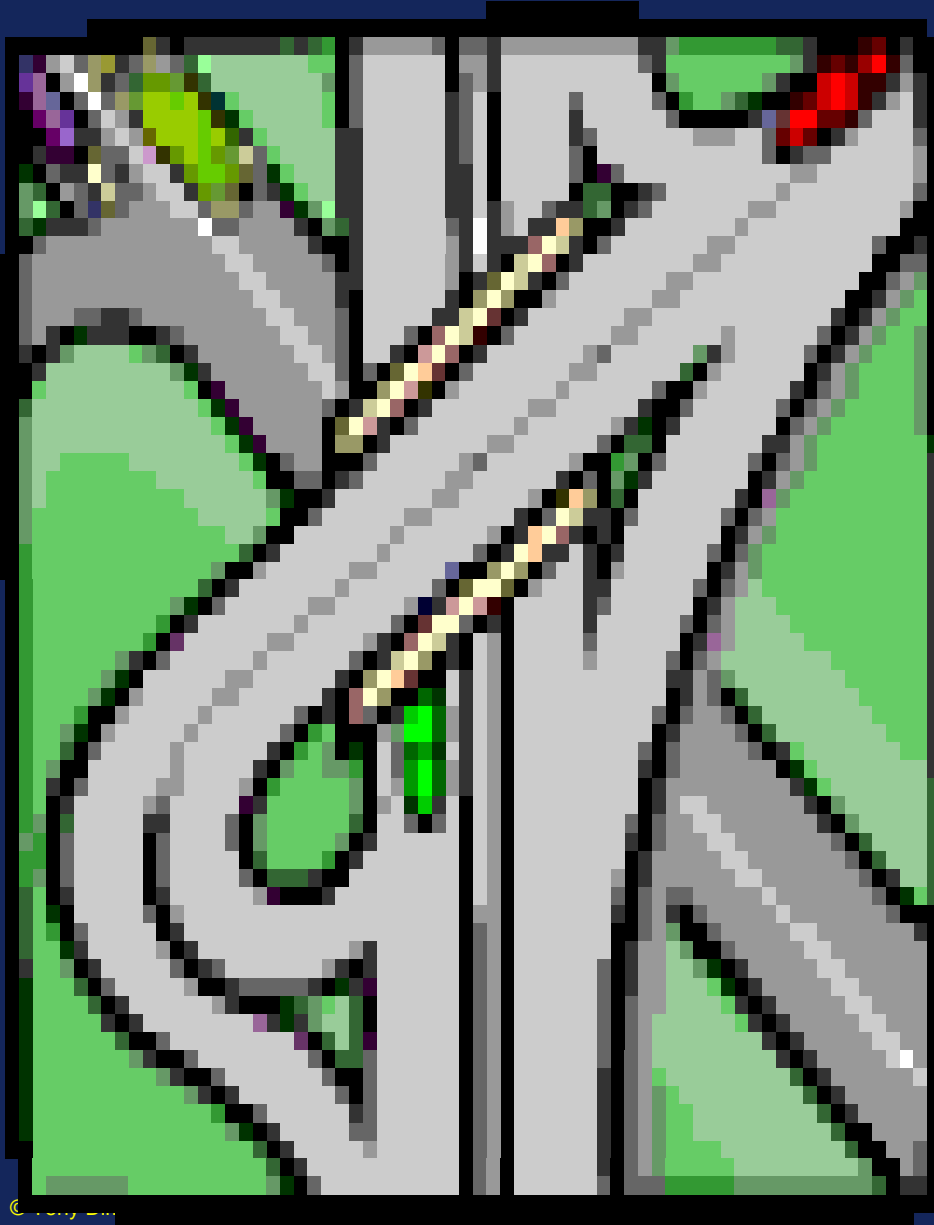


## **Ross Ashby and the Law of Requisite Variety (1956)**

**The regulation of a complex system is only possible  
if the regulating system is as complex  
as the system to be regulated.**

**Complexity can only be managed by complexity.**

# An example of a complex system



- **Centralized management requires complex communication and processing capability**
- **Decentralized management requires organization and control**
  - Individual decision-making
  - Information and enforcement
  - On-board processing by drivers and cars
- **Management capability must match environmental complexity**



**Complexity is increasing.**

**Volume**

**Variety**

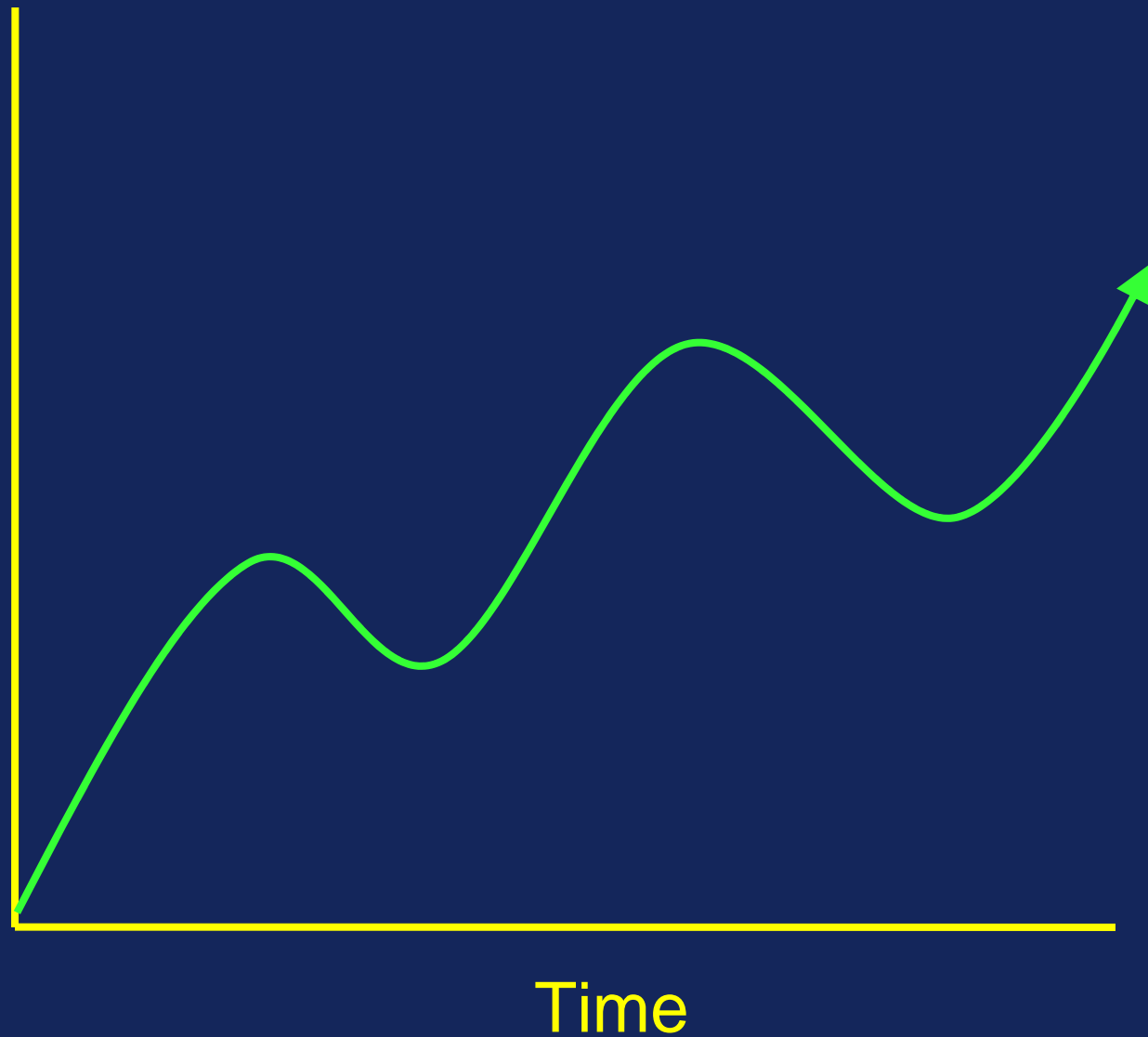
**Speed**

# Drive for decentralization



Decentralization

Centralization



# Reasons for swings back to centralization



- Reaction to failures in control
- New technologies



# Technology at the crossroads in 1970



- **Centralization and Project Cybersyn**
- **Decentralization and International Telephone and Telegraph Corporation (ITT)**



# Project Cybersyn (1970-1973)



- **Stafford Beer attempted a real-time computer system to manage the Chilean economy under Salvador Allende**
- **Used 500 telex machines to link factories with central computer**
- **Achieved some success especially when factory managers started to use information**
- **Ultimately failed because**
  - Central computer system could not match complexity of Chilean economy
  - CIA overthrew Allende

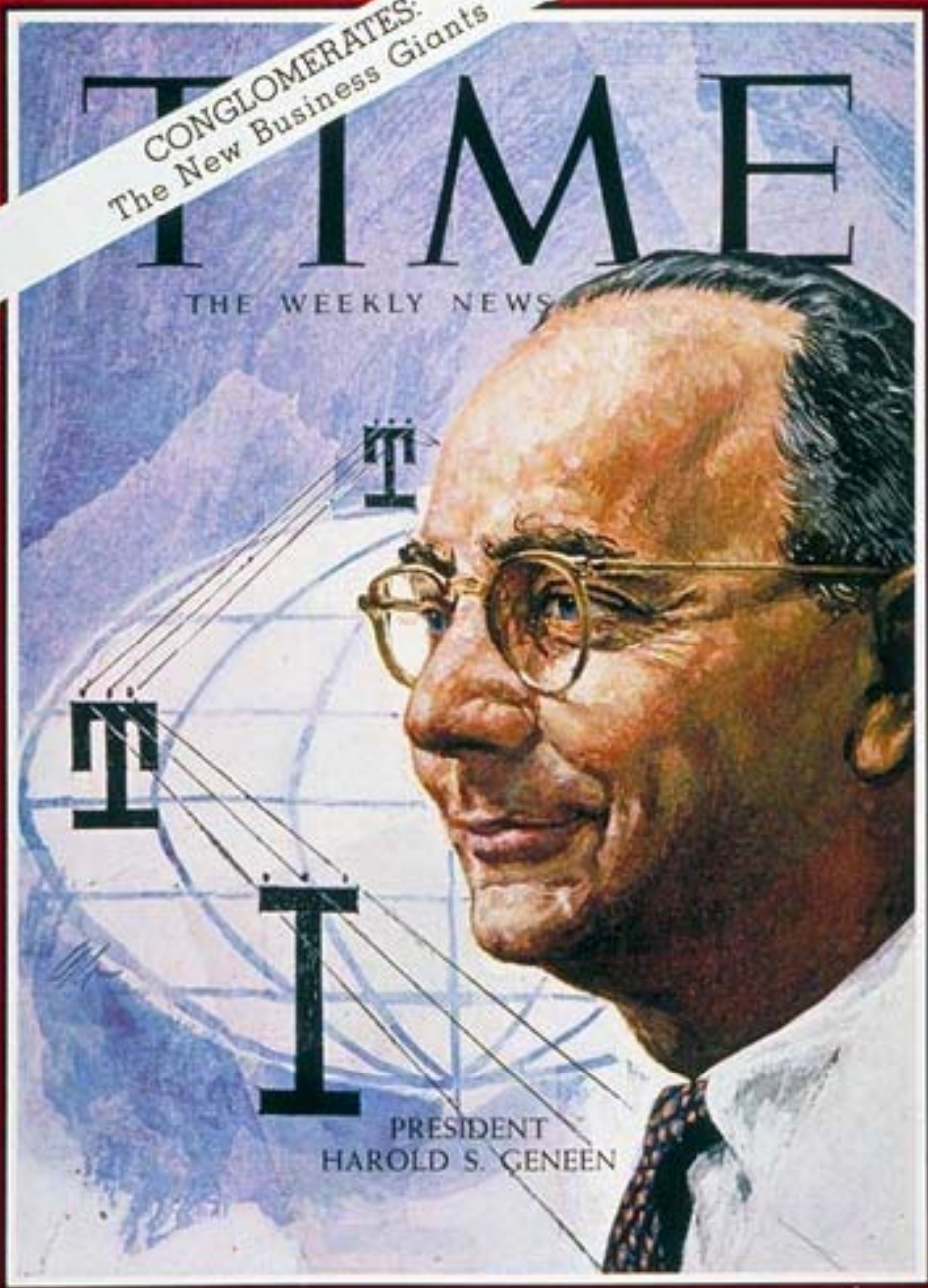
FIFTY CENTS

SEPTEMBER 4, 1967

**CONGLOMERATES:  
The New Business Giants**

# TIME

THE WEEKLY NEWS



PRESIDENT  
HAROLD S. GENEEN

VOL. 91 NO. 10

# ITT and Harold Geneen



- **Harold Geneen was an accountant and president of ITT from 1959-1972**
- **Management icon and highest paid executive in world**
- **Grew sales by a factor of 22 and had continuous increases in quarterly profits**
- **350 acquisitions in 80 countries**
- **Divisional managers responsible for results**
- **Ultimately failed because**
  - **No excuses management resulted in ethical meltdown (bribes and phantom companies)**
  - **The drudgery of the numbers may not set you free**
  - **Technology was not ready for pushing decentralization to the next level**



- **Decentralization beats centralization in managing complexity**
- **Technology is key to decentralization**
- **Control is key to managing technology**

**The spreadsheet was the tipping point technology for decentralization.**

# PC spreadsheets celebrate 25 years :-o



- **VisiCalc late 1970s**
- **IBM PC 1981**
- **PC spreadsheet in November 1982 – killer app**
- **Significant impact of spreadsheets by 1988**
  - Widespread use of spreadsheets by managers
  - Changing role of finance

# Issues with spreadsheets



- **Unintended use – kludgy link between systems**
- **Internal control problem – undocumented spreadsheets prone to error and fraud (SOX)**
- **Efficiency and effectiveness problem – accessing, processing and presenting vast amounts of data**

**Performance Management Applications  
address these issues and  
take spreadsheets to the next level of  
Business Intelligence.**



# Performance Management (PM) Applications

**Significantly improve corporate performance by  
integrating planning, monitoring, analysis and  
reporting into a single application**

**Make every manager a financial manager**

# The Ultimate Objective



**Firms built on the Taylor model are going to lose. In these firms, the bosses do the thinking while the workers wield the screwdrivers. Managers of these firms are convinced deep down that this is the right way to run a business. For them, the essence of management is getting the ideas out of the heads of the bosses and into the hands of labor.**

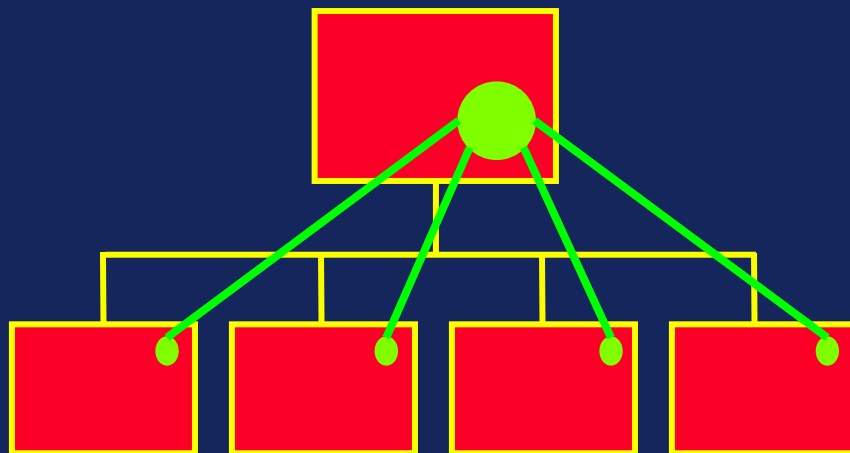
**We must go beyond the Taylor model. Business is now so complex and difficult, the survival of firms so hazardous in an environment increasingly competitive and fraught with danger, that their continued existence depends on the day-to-day mobilization of every ounce of intelligence.**

*Adapted from: Konosuke Matsushita  
Founder of Matsushita Electric Industrial Company*

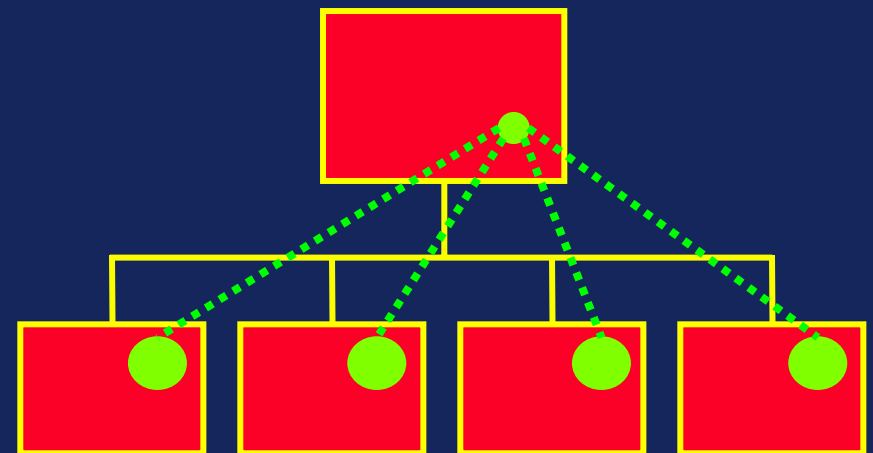
# Implications for the Finance Function



## Centralized



## Decentralized



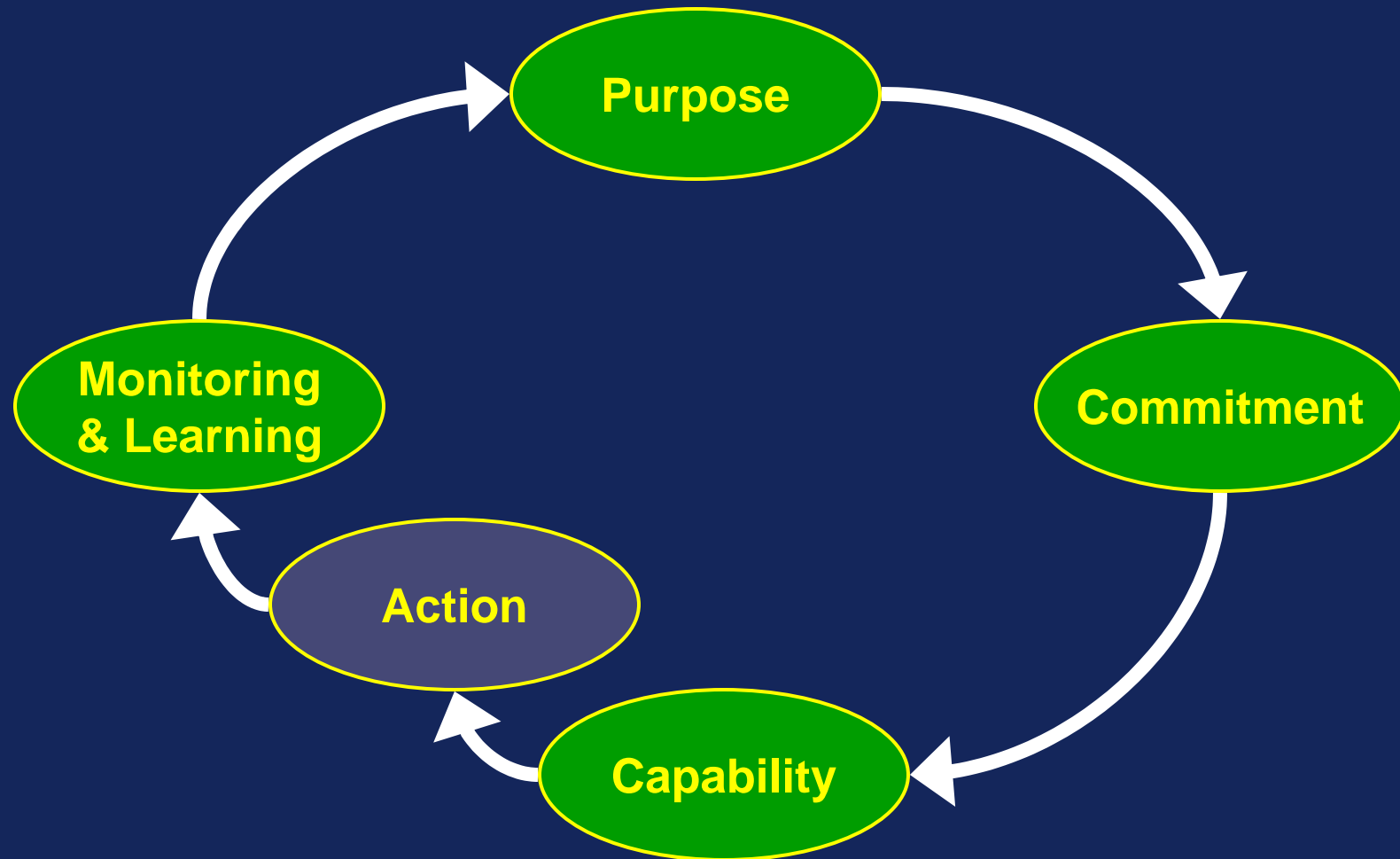
**From policeman and proof-reader to partner and coach.**

# Assessing your role as partner and coach



- **How much time do you spend on the future and how much time do you spend on the past?**
- **How much time do you spend on people and how much time do you spend on numbers?**
- **How much time do you spend on external customer issues and how much time do you spend on internal customer issues?**

# A model for partners and coaches (CoCo)

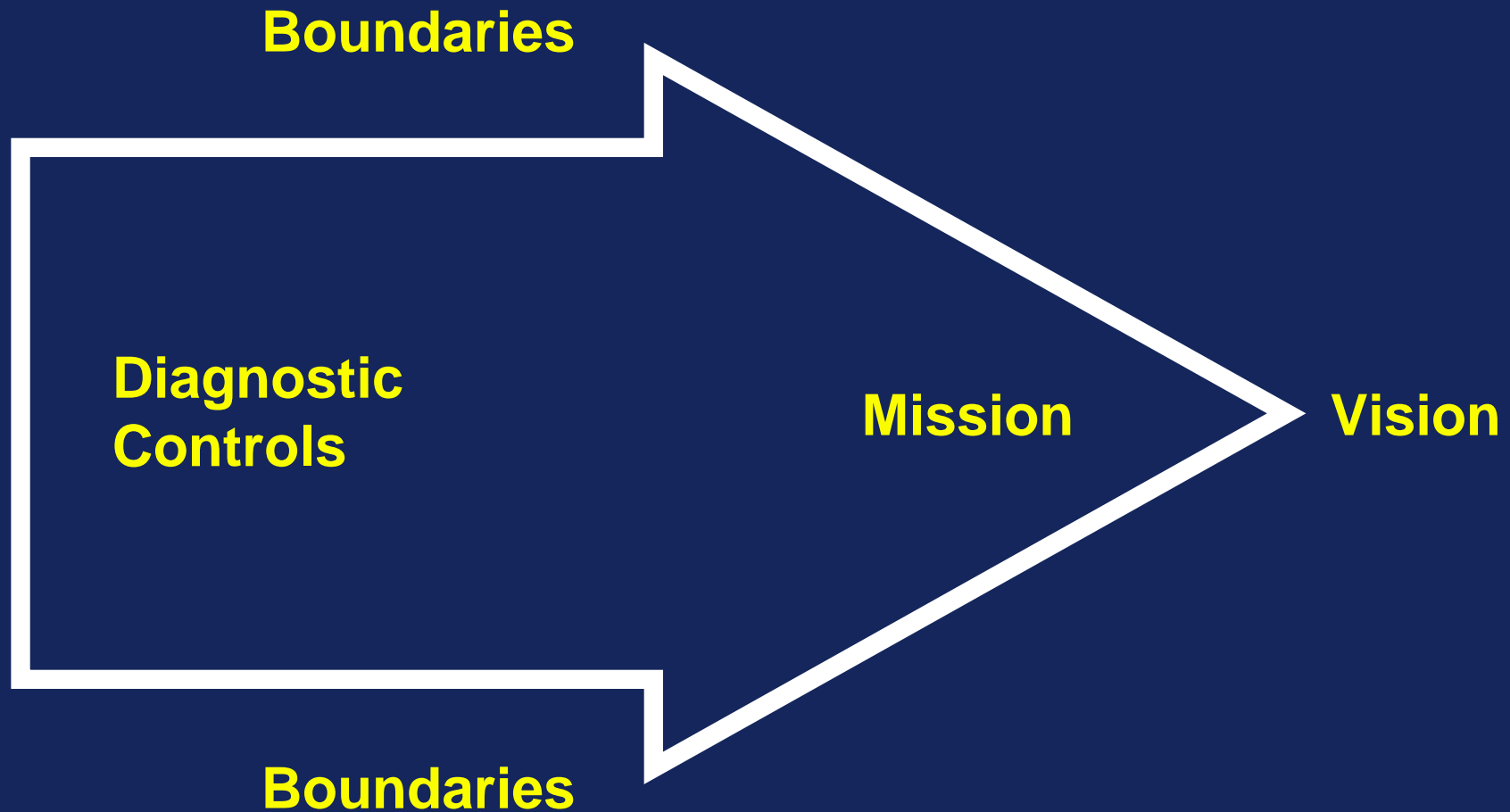


# Priorities for partners and coaches



- **Strategic control systems**
- **Measurement – non-financial measures**
- **Open Book Management**

# Portfolio of Strategic Controls



# My Definitions of Vision and Mission



- **Vision is why it matters**
- **Vision is what you believe**
- **Vision is the "dream"**
  
- **Mission defines how you compete**
- **Mission provides focus**
- **Mission is the "plan"**

# **Vision Statement - J&J Credo**

**We believe our first responsibility is to the doctors, nurses and patients,  
to mothers and fathers, and all others who use our products and services.  
In meeting their needs everything we do must be of high quality.**

**We must constantly strive to reduce our costs in order to maintain reasonable prices.  
Customers' orders must be serviced promptly and accurately.  
Our suppliers and distributors must have an opportunity to make a fair profit.**

**We are responsible to our employees, the men and women who work with us throughout the world.  
Everyone must be considered as an individual.  
We must respect their dignity and recognize their merit.  
They must have a sense of security in their jobs.  
Compensation must be fair and adequate, and working conditions clean, orderly, and safe.  
We must be mindful of ways to help our employees fulfill their family responsibilities.  
Employees must feel free to make suggestions and complaints.  
There must be equal opportunity for employment, development, and advancement for those qualified.**

**We must provide competent management and their actions must be just and ethical.  
We are responsible to the communities in which we live and work and to the world community as well.  
We must be good citizens - support good works and charities and bear our fair share of taxes.  
We must encourage civic improvements and better health and education.  
We must maintain in good order the property we are privileged to use,  
protecting the environment and natural resources.**

**Our final responsibility is to our stockholders.  
Business must make a sound profit.  
We must experiment with new ideas.  
Research must be carried on, innovative programs developed and mistakes paid for.  
New equipment must be purchased, new facilities provided, and new products launched.  
Reserves must be created to provide for adverse times.  
When we operate according to these principles, the stockholders should realize a fair return.**

# Mission Statement



- **Direction and focus - What "business" are we in and what do we have to do to be successful?**
- **Developing a mission statement should be contentious**

# Vision and Mission

## Philthy McNasty's No Sucks Allowed

Our mission is to provide a unique bar experience, great food and quality billiards with a sense of humour. We are a top line sales driven company that promotes sports, our community and above all ourselves. We must always remember our staff and our culture are the reason we are in a league of our own. We are a proud Canadian team that believes in the following:

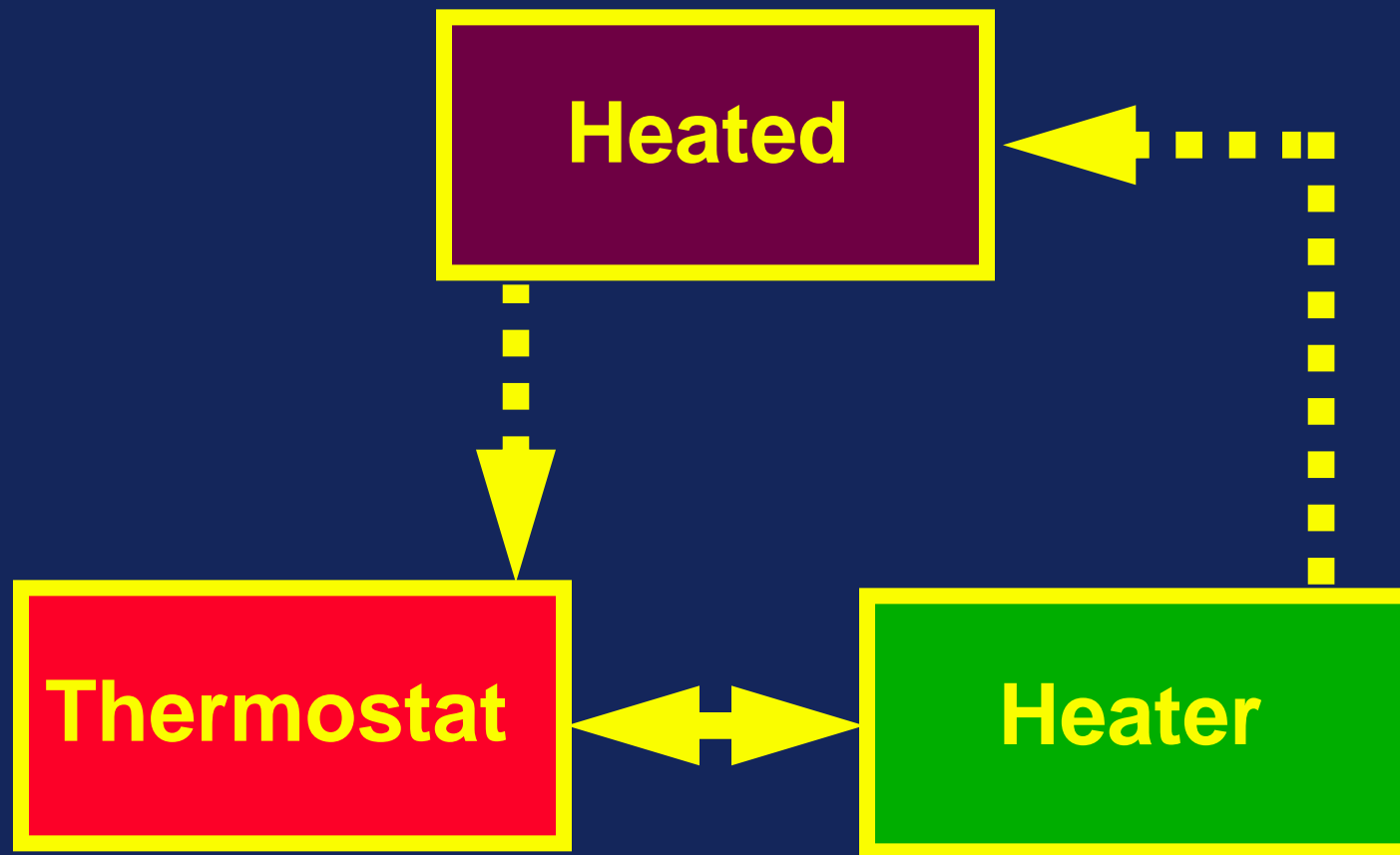
- 1 If it ain't fun, it probably ain't worth doing.
- 2 Winning is better than losing.
- 3 Three downs are better than four.
- 4 Competition is healthy and fun.
- 5 Working hard is no substitute for playing hard.
- 6 Shootouts are a lousy way to end a hockey game.
- 7 Everything tastes better with cheese and bacon.

# Boundaries – What do we not do?



- **May be expressed as prohibitions (e.g. Ten Commandments, code of conduct)**
- **May be expressed by restrictions (e.g. must spend money on certain programs or certain items)**
- **May be expressed by procedures (e.g. this is how we respond in certain situations)**

# Diagnostic Controls



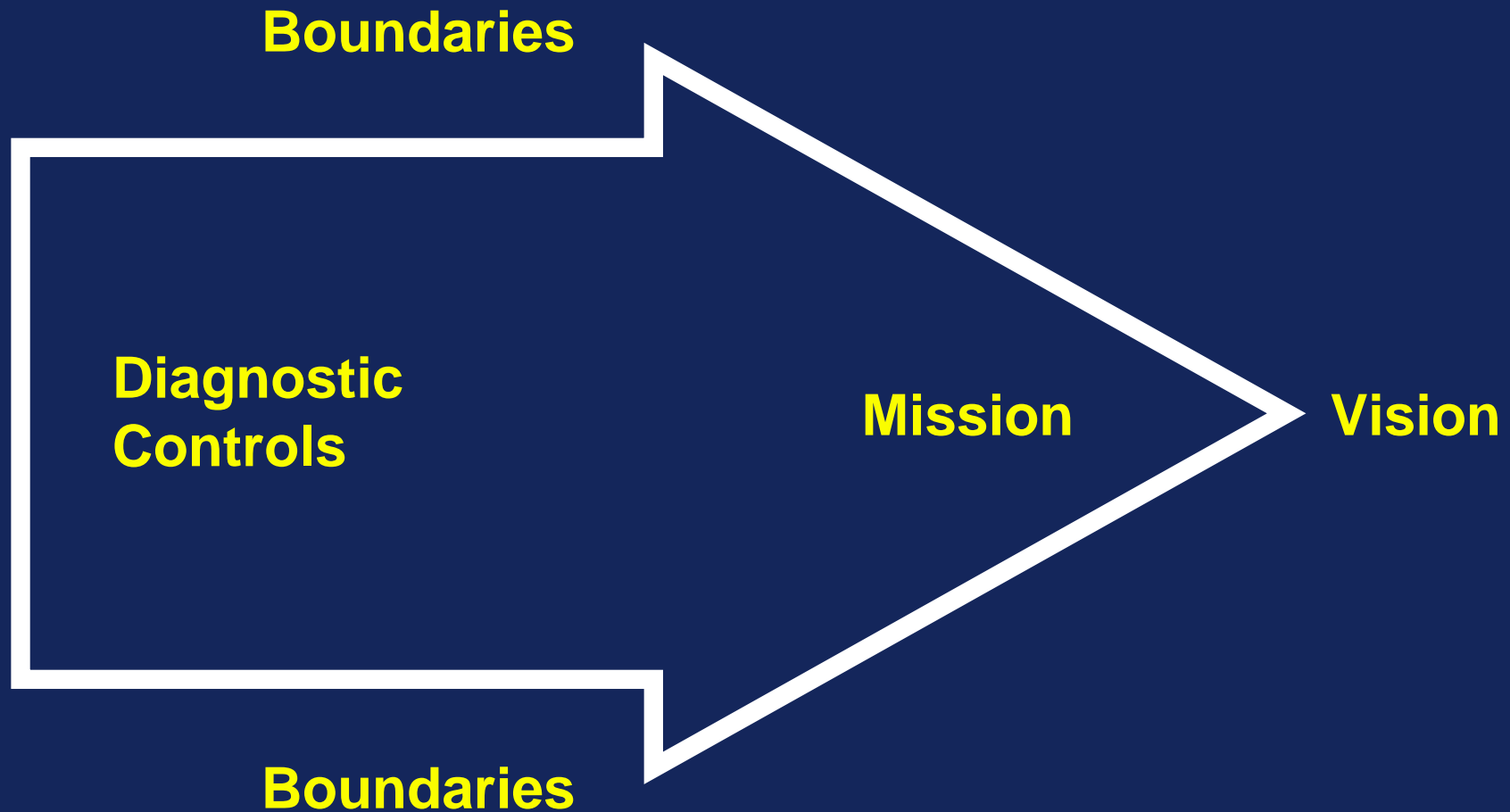
**Diagnostic**



## **Diagnostic Controls Monitoring and Reporting**

**Good diagnostic controls frees managers  
to focus on strategic issues.**

# Portfolio of Strategic Controls



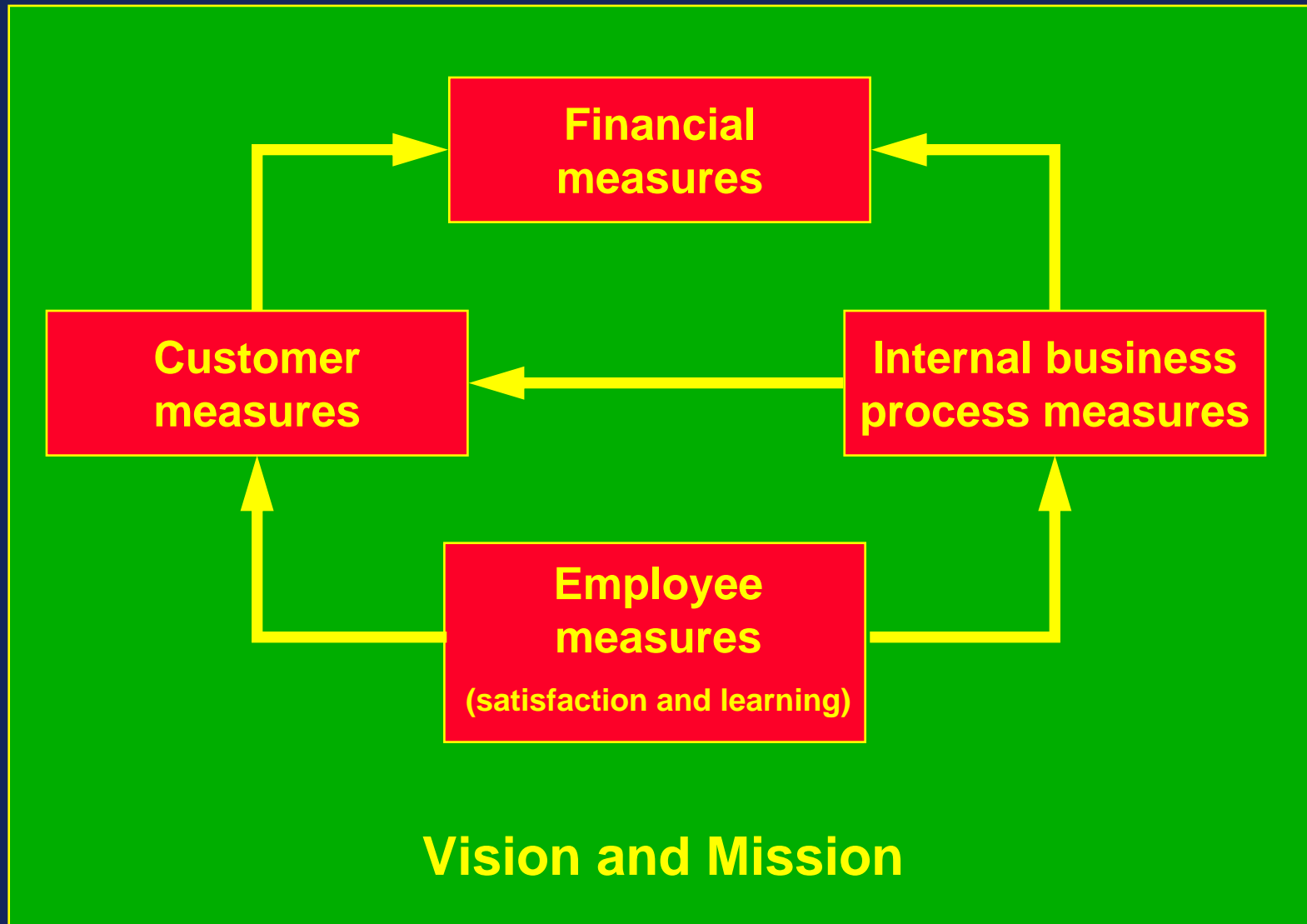
# Salvation Army Measurement



**Peter Drucker calls the Salvation Army "by far the most effective organization in the U.S. No one even comes close to it."**

**The criteria Drucker uses to assess organizations are: Clarity of mission, innovative ability, clear definition of results, and willingness to measure performance .**

# The Balanced Scorecard



# Balanced Scorecard Issues



- **Too many measures**
  - Aggregate to a maximum of two or three in each category
  - Let people “drill down” within the aggregate measures
- **Rewarding scores on Balanced Scorecard**
  - Rewards in early stages are OK
  - Use “Singapore” approach
- **Linking the part to the whole**
  - Rare to have measures that apply to everyone in an organization
  - Encourage people to set their own Balanced Scorecard

# Open Book Management



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# Open Book Management (OBM)



- **Everyone in the organization has access to appropriate financial information**
- **Everyone understands their role in a financial context**
- **Everyone can make knowledgeable financial decisions**
- **Everyone shares in the success**

# Key Success Factors of OBM



- **Trust and respect**
- **Commitment to training**
- **Consistency**
- **Providing information (getting accountants to open the books)**

# Same questions again

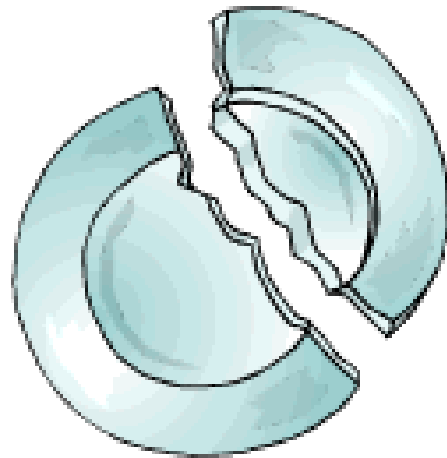


- **How much time do you spend on the future and how much time do you spend on the past?**
- **How much time do you spend on people and how much time do you spend on numbers?**
- **How much time do you spend on external customer issues and how much time do you spend on internal customer issues?**



- People affected by change must *understand* the “theory” and the financial rationale of the change
- People affected by change must be *involved* in the implementation of change
- People affected by change must be *trained* to exploit the change
- People affected by change must be *rewarded* for responding to the change

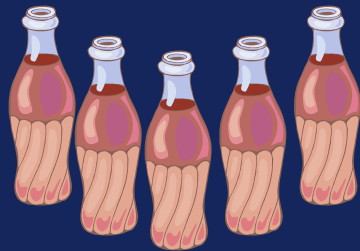
# OBM and Solving Problems – Start Small



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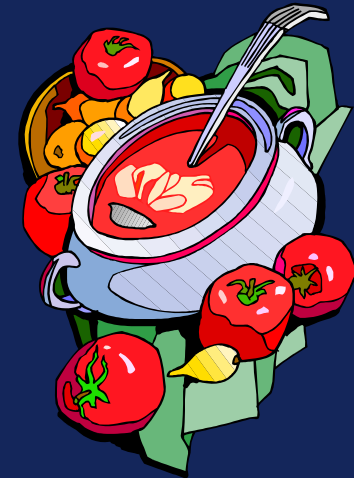
# OBM and Solving Problems – Start Small



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# Be Careful in Using OBM!

inc.com



- **Complexity requires decentralization**
- **Decentralization requires technology (Performance Management Applications)**
- **Technology requires a new role for finance**
  - Partners and coaches
  - Strategic controls
  - Non-financial measures
  - Open Book Management philosophy
- **Theory in Action – Performance Management Applications**

# Panel Members by City/Contact Information

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# Paul Barter

- Vice President Strategy T4G Limited, a leading North American IT services firm that provides Business Intelligence and Performance Management solutions
- Over 25 years senior management experience at firms such as GE Capital
- Writes extensively about Business Intelligence and Performance Management for major media such as *The National Post* and for Don Tapscott's *New Paradigm* think-tank
- Member of Microsoft Canada's BI Vision team
- Teaches Technology Strategy in the MBA program at the Schulich School of Business
- Studied engineering and economics at the undergraduate level and holds an MBA from the Kellogg International Executive MBA program

# Dan Germain

- **Vice President and Chief Financial and Information Officer at the Credit Valley Hospital (CVH) in Mississauga – 400 bed community hospital that has just completed a \$120 million expansion and now started another**
- **E-Health Lead for the Mississauga Halton LHIN**
- **27 years experience including 7 years at GE Canada**
- **BComm from Concordia University and MBA from the University of Toronto**
- **Certified Management Accountant**

# Anthony D'Anna

- **Expert in Corporate Performance Management with 18 years experience designing and implementing financial business processes and systems for global corporations**
- **Co-founder and VP of Praxinet in 1988**
- **Former VP of Corporate Financial Systems for Citigroup, where he managed worldwide Budgeting, Forecasting, and Corporate Consolidation for the entire bank**
- **BSc in Management from Rensselaer Polytechnic Institute and an MBA from Columbia University**

# Brett Knowles

- **Founder of Performance Measurement and Management (pm2)**
- **20 years experience in performance measurement starting with the initial research at Harvard**
- **Implemented more than 2,000 balanced scorecards for both the private and public sectors around the world**
- **His clients have added over \$40B in valuation and have won three Hall of Fame Awards and has been profiled in every book written by Drs Kaplan and Norton.**

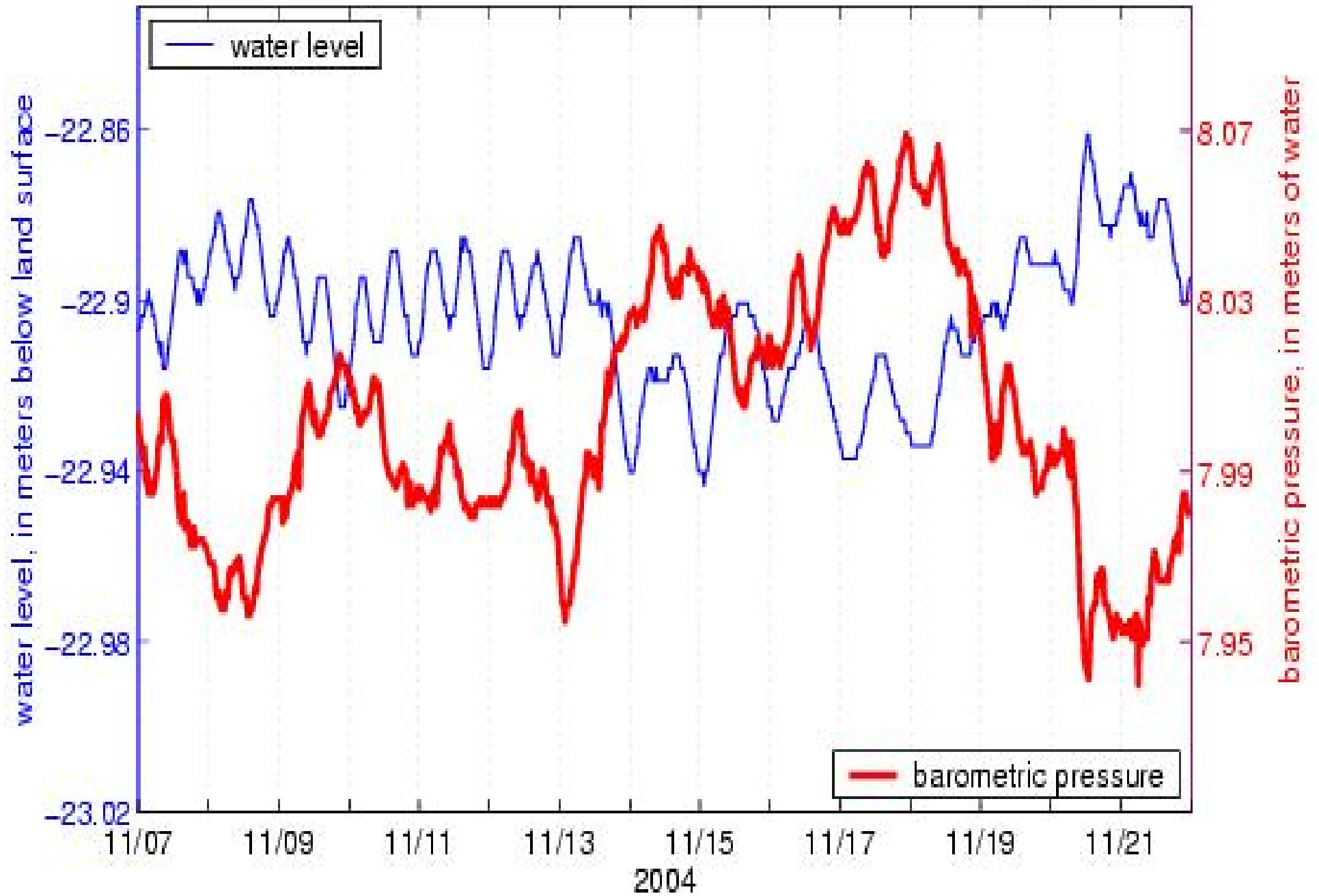
# Richard Hines

- **Director of Business Intelligence for Ideaca's Business Intelligence practice, one of the largest in Canada**
- **14 years international experience leading projects on financial analytics, marketing analysis, and supply chain management**
- **Focused on aligning technology with Corporate Performance Management which may include Balanced Scorecard, Six Sigma, or Activity Based Management**
- **Professional certifications in accounting, business intelligence, and information systems auditing**

# Discussion

- **Definition of Performance Measurement**
- **Motivation for adoption**
- **Identifying measures**
- **Balanced Scorecard opportunities**
- **Sourcing relevant data**
- **Communicating relevant information**
- **Performance Measurement examples**
- **Implications for Finance**
- **Security and privacy issues**
- **Lessons learned**

Lookout Mountain Water Level (blue) and Barometric Pressure (red)





20 Sep 2002 07:44 AM EDT

THE WEATHER CHANNEL

**Forecast Input-1 @ MS BI Conf...**

Open

- Forecast Input-1

More assignments...

**Online - Forecast Input-1**

Name: Forecast Input-1  
 Status: Partial  
 Deadline: 6/1/2008 2:48:00 PM

Actions:

Save Privately

Include workbook

More details...

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**Assignments**

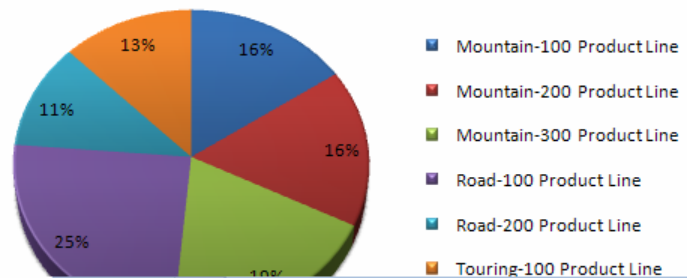
**Authoring**

AdventureWorks							
Rolling Sales Forecast - Production Assumptions							
Demand Summary				Contribution Summary			
Time	June FY2007			Forecast		Target	
	Demand	Units Available	Product Back Orders	Corporate Contribution	Contribution Margin	Corporate Contribution	Contribution Margin
Mountain-100 Product Line	19,320	14,320	5,000	\$ 570,440	30%	\$ 600,000	38%
Mountain-200 Product Line	14,596	14,596	-	\$ 601,324	32%	\$ 600,000	30%
Mountain-300 Product Line	14,935	14,935	-	\$ 701,945	36%	\$ 650,000	34%
Road-100 Product Line	12,000	12,000	-	\$ 900,000	33%	\$ 850,000	33%
Road-200 Product Line	11,330	11,330	-	\$ 406,600	28%	\$ 425,000	28%
Touring-100 Product Line	15,940	15,940	-	\$ 456,620	22%	\$ 425,000	22%
<b>Total</b>	<b>88,121</b>	<b>83,121</b>	<b>5,000</b>	<b>\$ 3,636,929</b>	<b>30%</b>	<b>\$ 3,550,000</b>	<b>31%</b>

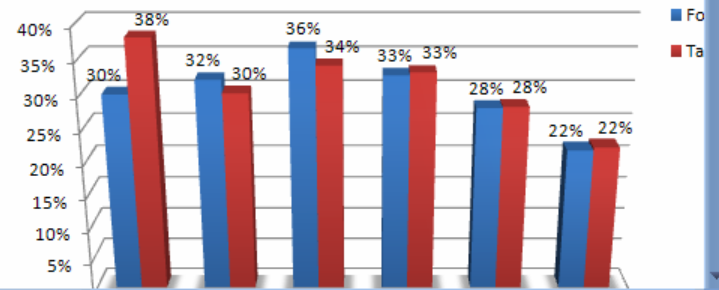
  

Production Plan Summary						Production Assumptions	
Time	June FY2007			Product Back Orders	Resale Margin (Buy)	Production Margin (Build)	
	Demand	Max Build Capacity	Buy				Build
Mountain-100 Product Line	19,320	15,000	3,320	11,000	17%	39%	
Mountain-200 Product Line	14,596	12,000	2,596	12,000	15%	36%	
Mountain-300 Product Line	14,935	15,000	-	14,935	22%	36%	
Road-100 Product Line	12,000	10,000	2,000	10,000	33%	33%	
Road-200 Product Line	11,330	10,000	1,330	10,000	16%	29%	
Touring-100 Product Line	15,940	10,000	5,940	10,000	17%	24%	
<b>Total</b>	<b>88,121</b>	<b>72,000</b>	<b>15,186</b>	<b>67,935</b>	<b>22%</b>	<b>33%</b>	

**Forecast Contribution to Corporate**



**Contribution Margin**



Strategy Map Scorecard

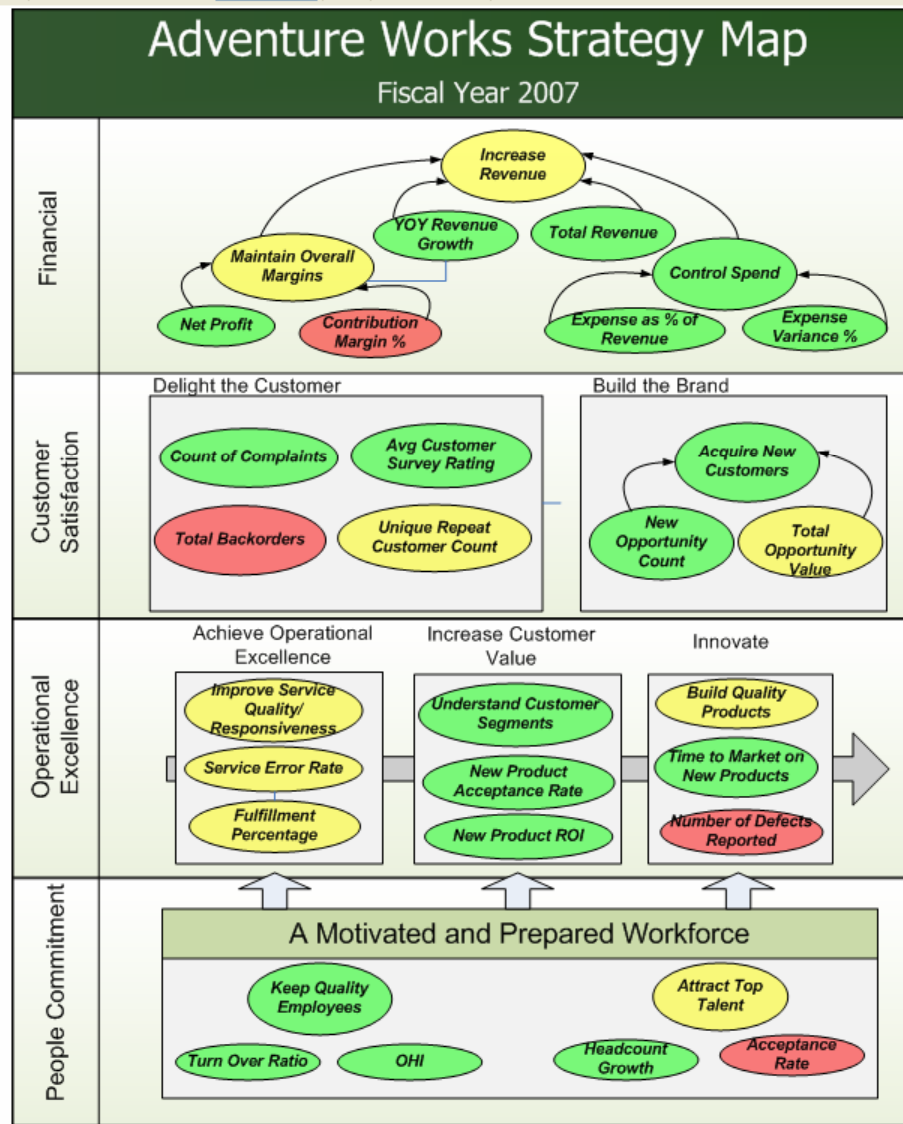
Filter Mode

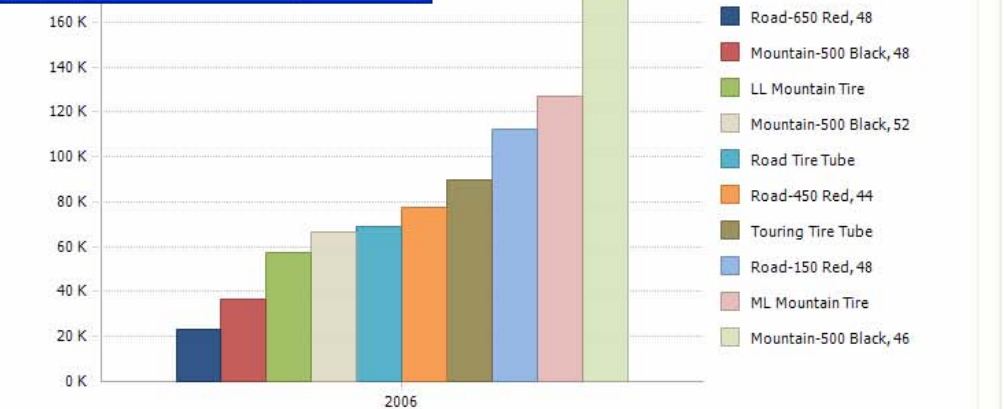
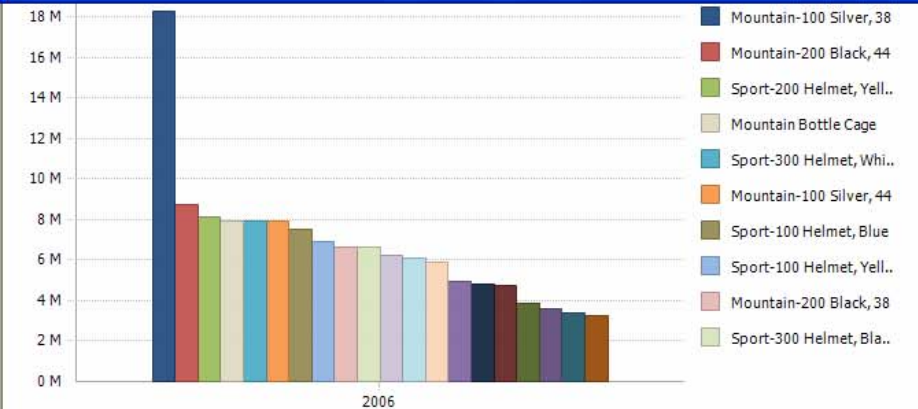
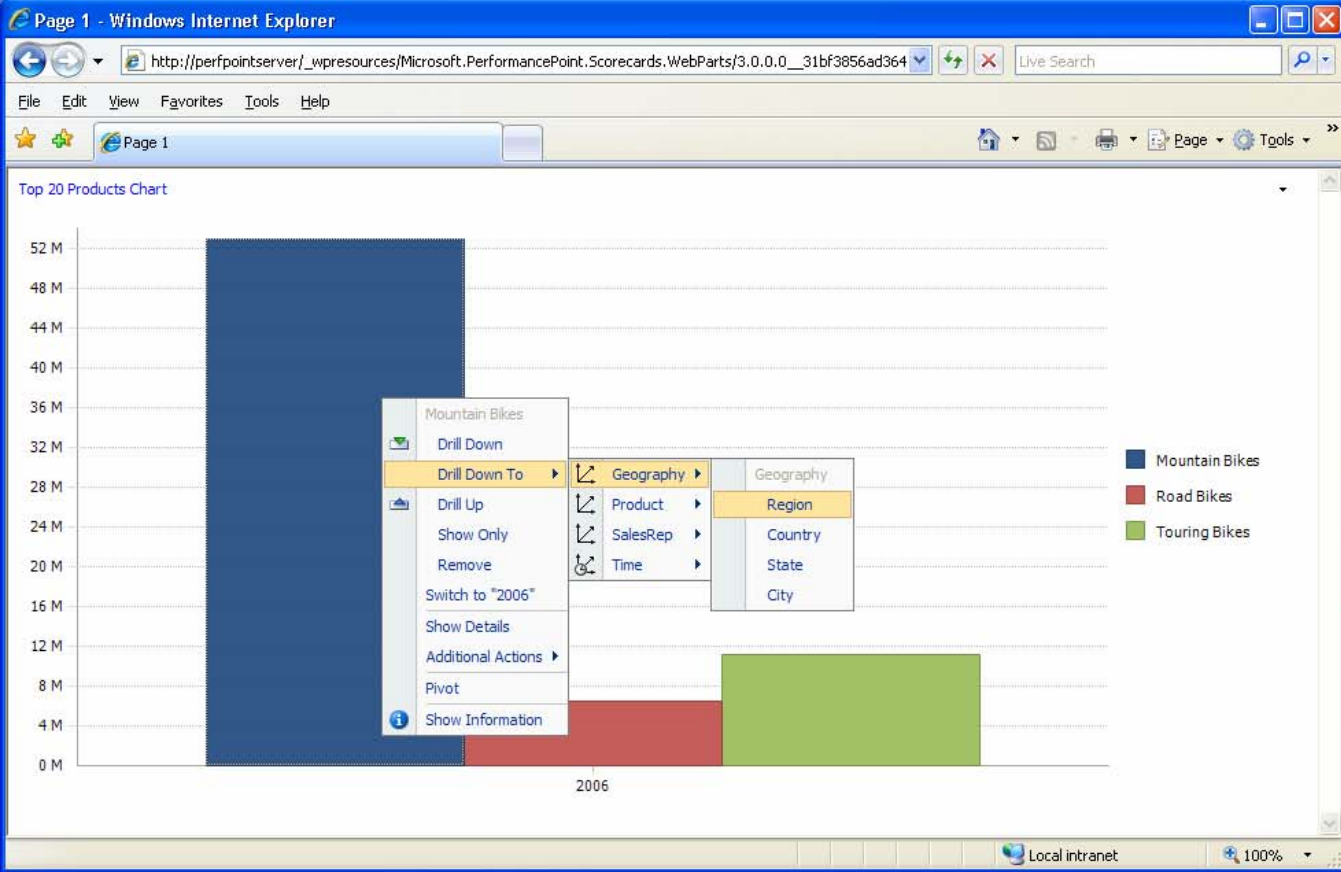
Only show rows with indicators: (Any)

	Actual	Target	Person Responsible
<b>Financial Performance</b>		●	Ben Smith
<b>Increase Revenue</b>		▲	Ben Smith
<b>Maintain Overall Margins</b>		▲	Ben Smith
Net Profit	18.00%	●	Ben Smith
Contribution Margin %	30.15%	◆	Ben Smith
YOY Revenue Growth	22.00%	●	Ben Smith
New Product Revenue	\$2,463,887	●	Ben Smith
<b>Control Spend</b>		●	Paul Shakespear
Expense as % of Revenue	12.00%	●	Paul Shakespear
Expense Variance %	3.00%	●	Paul Shakespear
<b>Customer Satisfaction</b>		●	Erik Rucker
Count of Complaints	127	●	Alex Roland
Total Backorders	5,000	◆	Erik Rucker
Avg Customer Survey Rating	7	●	Alex Roland
Unique Repeat Customer Count	785	▲	Erik Rucker
<b>Acquire New Customers</b>	3547	●	Naoki Sato
New Opportunity Count	446	●	Naoki Sato
Total Opportunity Value	\$1,443,989.44	▲	Naoki Sato
<b>Operational Excellence</b>		●	Don Richardson
<b>Improve Service Quality/Responsiveness</b>		▲	Martin Spona
Service Error Rate	3.00%	▲	Martin Spona
Fulfillment Percentage	55.00%	▲	Martin Spona
<b>Understand Customer Segments</b>		●	Jeanne Bosworth
New Product Acceptance Rate	33.00%	●	Jeanne Bosworth
New Product ROI	12.00%	●	Jeanne Bosworth
<b>Build Quality Products</b>		▲	Don Richardson
Time to Market on New Products	33.00 weeks	●	Don Richardson
Number of Defects Reported	978	◆	Don Richardson
<b>People Commitment</b>		●	Dana Birkby
<b>Keep Quality Employees</b>		●	Dana Birkby
Turn Over Ratio	3.00%	●	Dana Birkby

Strategy Map View

100%





# Microsoft Contact and Product Information

## Contact Information

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Canada**

**Olivier van Branteghem –**

Solution Specialist, BI

[olivanb@microsoft.com](mailto:olivanb@microsoft.com)

Ph: (514) 846-5866

## Product Information

Microsoft's Corporate Performance  
Management Product:

PerformancePoint Server 2007

[www.microsoft.com/performancepoint](http://www.microsoft.com/performancepoint)

Microsoft Business Intelligence –  
Business User Information

<http://www.microsoft.com/bi/solutions/audience/bdm.aspx>

Microsoft Business Intelligence –  
Technical User Information

[www.microsoft.ca/bi](http://www.microsoft.ca/bi)

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# The High Tech Future of Finance Managing Complexity

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