

WHITE PAPER

Performance Management Drives Improvement at European Banks

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IN THIS WHITE PAPER

In this report Financial Insights analyzes how European banks are approaching the challenge of improving their performance management capabilities. The regulatory environment and competition among banks have intensified to new levels, with increasingly higher stakes at risk. Customers are less loyal and many now demand online access to all their banking facilities, which can expose weak offerings. Banking products are ever changing, and margins have narrowed due to the Euro and its impact on business requirements, further elevating the challenge for banks to manage operating costs and infrastructure investments.

During the winter/spring of 2005 Financial Insights completed a study to assess the progress of European banks in the critical area of enterprise performance management. We found that European banks are evolving toward a more mature use of performance management techniques, supported by a powerful technology infrastructure that sustains a proactive, more distributed, learning culture. However, these banks did not take the same journey. In fact, our analysis determined that these banks are at different levels of maturity in their pursuit of enterprise performance management capabilities.



FINANCIAL INSIGHTS' OPINION

Despite many competing issues, agile banks in Europe are placing great emphasis on improving their performance management tools and modifying the culture that surrounds performance management. On the one hand, banks now need to develop a "retail mentality" to focus on the customer and improve product sales and distribution. On the other hand, they need to develop a "factory mentality" to focus on straight-through processing and seamless, end-to-end business processes. To meet the challenges of these dual demands, banks should consider the following:

- ☒ The foundation of all good performance management is a reliable set of financial information that is generated automatically and reconciles with operational transaction systems, providing clear accountabilities for profit and cost centers
- ☒ The need to develop reliable measurement tools that cover financial targets, customers, business processes, technology, human capital and their relationship to return on capital
- ☒ An online environment with appropriate access for all levels of management enables better and faster decision making as well as timely and consistent measurement of results
- ☒ Planning tools and processes should enable effective linkage between departments, lines of business, and the enterprise level to eliminate dysfunctional manual steps and provide integration between strategy formulation, business planning, and execution
- ☒ Development of the analytical processes and tools to explain variance against plans, to test "what-if" hypotheses and recovery scenarios to improve decision making

To assist banks in their pursuit of improving their performance management, we have developed a leadership grid for enterprise performance management. This grid illustrates how banks are moving forward on these various initiatives. We have also developed a performance management maturity model to assist banks in their preparations to move forward into the brave new world of enterprise performance management. Each bank must develop its own strategy, one step at a time, taking into account its level of organizational maturity, management skills, and business strategy.

SITUATION OVERVIEW

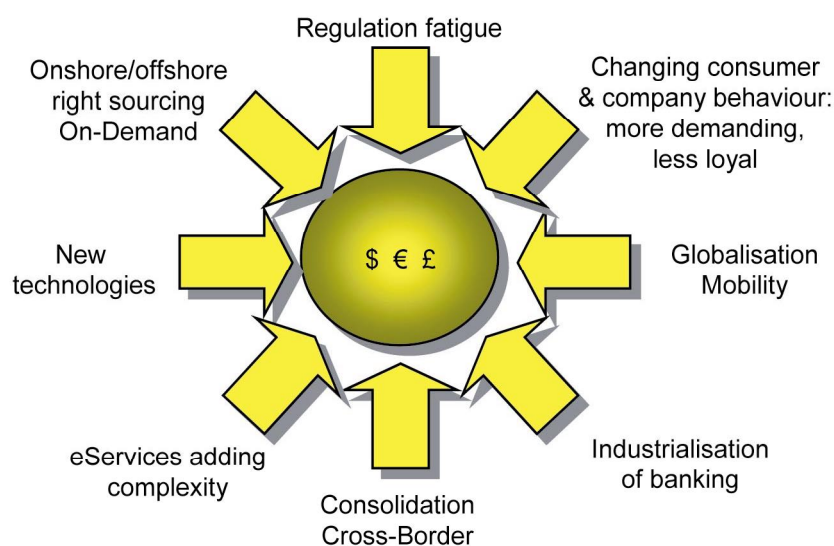
European banks face challenges influenced by their local economic situation, market position, and their core value propositions. For example, banks in the United Kingdom, with its more flexible labor market, have enjoyed cost income ratios below 50% and higher returns, while many continental banks often have a cost ratio between 60–80% and lower returns on equity capital. In the United Kingdom and Spain, returns on Tier 1 equity were running at over 16%, while many German banks suffered losses in 2003 and are just returning to profitability. French and Italian banks fall between these extremes.

The regulatory environment and competition among banks have intensified to new levels, raising the stakes to even higher levels. Customers are less loyal and many now demand online access to all their banking facilities, exposing weak offerings. The range of banking products is ever changing, and margins have narrowed with the introduction of the Euro, elevating the challenge for banks to manage their infrastructure and operating costs. Figure 1 depicts the multidimensional pressures that challenge bank management and affect operating performance.

During the winter/spring of 2005, Financial Insights undertook a study of European banks (see Appendix: Methodology) to assess the progress of European banks in the critical area of enterprise performance management. Understanding what banks are doing to manage their performance, and why, is key to assessing how enterprise performance management (EPM) best practices are evolving.

FIGURE 1

Multidimensional Pressures on Bank Performance



Source: Financial Insights, an IDC Company, 2005

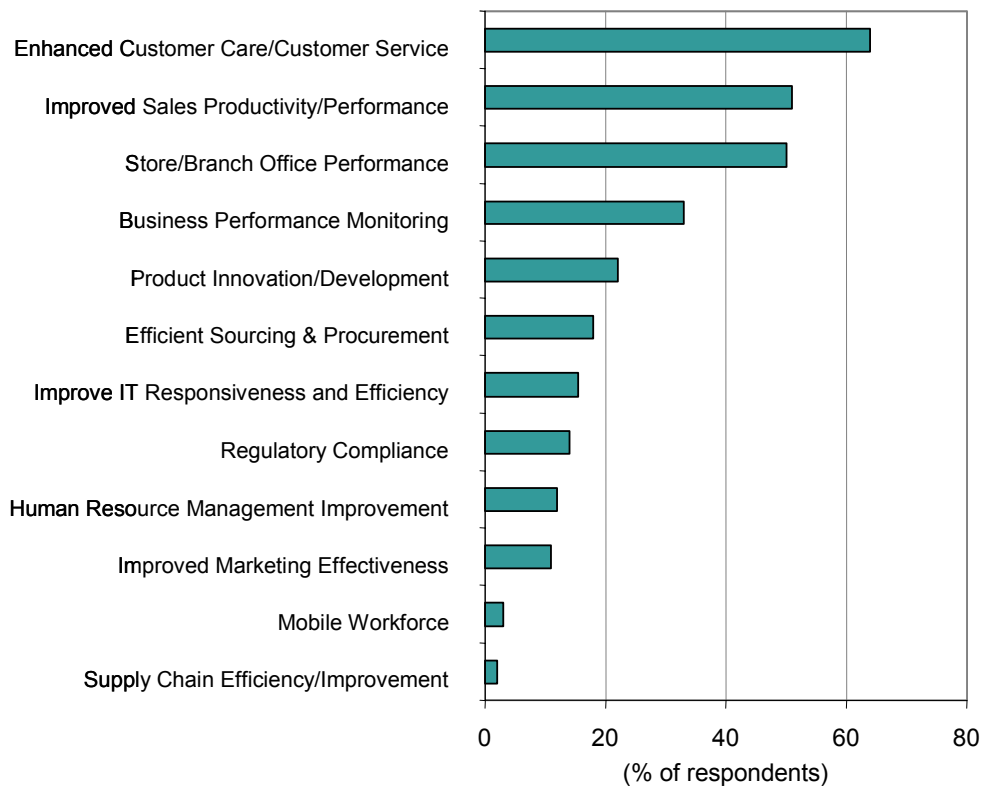
RESEARCH FINDINGS: EPM DRIVERS

Financial Insights has ranked performance management as the number 1 or 2 issue for global retail bankers since 2004. Banks must excel at performance management to achieve leadership status. As depicted in Figure 2, Financial Insights tracked CEOs' priorities at European banks. The search for improved customer relationships, sales productivity, and store/branch performance dominate the CEO agenda, underscoring the importance of performance management.

FIGURE 2

Leading the CEO Agenda in West European Banks

Q. *What are your organization's leading business priorities?*



n = 27

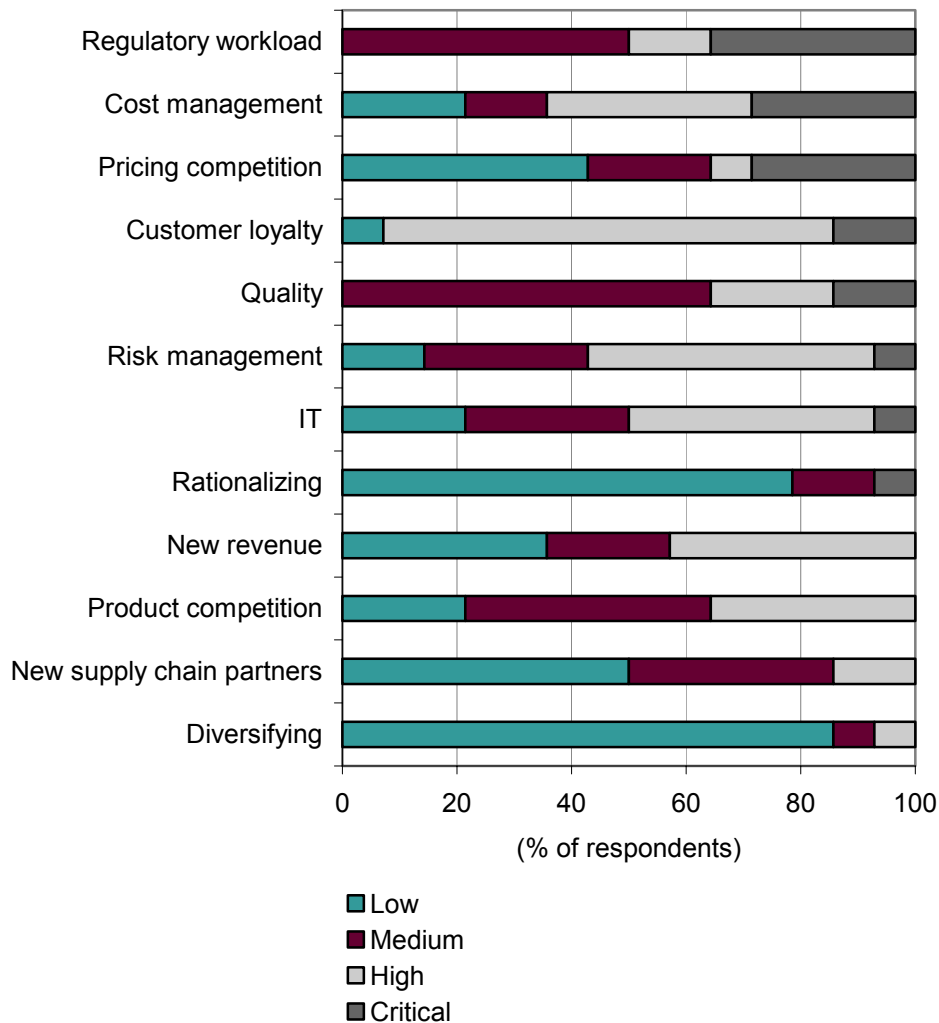
Source: 2005 European Bank Survey, Financial Insights, an IDC Company.

Performance Management Challenges and Drivers

In our interviews, we asked each bank to rate a series of 12 issues facing the management team on a four-point scale ranging from critical to low importance. Figure 3 shows how the banks rated the impact of these 12 business challenges. Although all banks talked about regulatory compliance, it was only a significant issue for around half of the respondents and then mainly smaller players in special situations. Three large tier 1 banks and some smaller tier 2 banks confirmed that regulatory compliance, while a burden, was not a particularly high priority issue as they were now either in rollout or were postponing their major efforts until after 2006. The second highest rated critical issue reflected a tie between cost management and pricing, although more banks felt cost management was also a high priority.

FIGURE 3

EPM Drivers: Challenges Faced by the Banks



Source: 2005 European Bank Survey, Financial Insights, an IDC Company

Cost efficiency was still a significant factor, notwithstanding some growth in overall budgets. However, for a few banks, this seemed to be driven by competitor pricing pressures rather than overall profitability. Indeed, new revenue streams and pricing competition were the key issues for many players.

The issue that attracted the broadest combination of critical and high priority was customer loyalty. Some banks explicitly talked about "changing customer behaviour," due to the perspective that customers had become more demanding and less loyal to the bank. This issue is clearly a growing concern to bankers and is a key driver for their strategic performance management requirements. Quality management, IT, and risk management rounded out the next grouping of important issues.

While the analysis displayed a wide variety of environments within the banks, none of the institutions surveyed were going through a major rationalization or restructuring phase.

The information derived from our surveys forms the basis of our analysis of performance management tools and solutions for financial, customer, and business process metrics (Figures 4, 5, and 6, respectively).

Financial Metrics Focus on Costs, Losses, and Risk-Based Returns

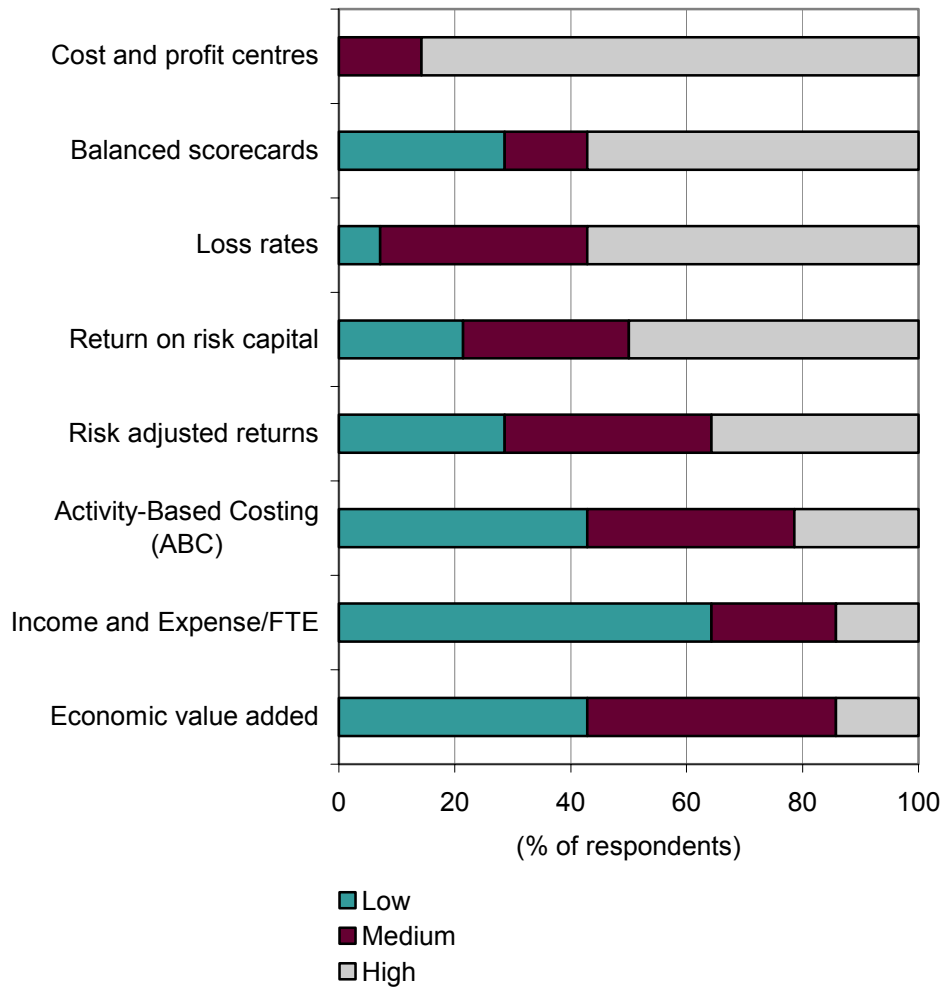
Most banks are still driven by financial measurement systems tied to their annual profit plans and budgets. Figure 4 depicts the ratings of eight financial and risk-related performance measurements. Generally speaking, the banks all had a well-established, integrated general ledger with profit and cost centers, which is used to measure and control the business. Loss ratios are also important for all banks. For some banks, these loss ratios were reported, but were not considered a key driver. Risk-return calculations were also extensively used by operational line managers. Between 70 and 80% of banks rated their usage medium or high. In some cases this was a recent innovation, driven by Basel II compliance projects.

Around 60% of banks claimed to use balanced scorecards, but in reality were in reference to the use of dashboards as the majority of metrics were financial. Only about 20% of the sample, mainly larger U.K. banks, were active users of Activity-Based Costing (ABC). A couple of banks had used ABC techniques on a project basis, but claimed there was no need to update the initial analysis.

Over 70% of banks had back-office operations set up as pure cost centers. The rest had some degree of profit-driven product factories. A growing number of banks were also using variable, transaction-based charge-back schemes to recover back-office costs from customer-facing profit centers. Banks might calculate income and expense per FTE for annual reports, but these were not typically used by line managers. Interestingly, one East European bank was using FTE profitability extensively with an advanced technology dashboard to control branch productivity. In somewhat of a surprise, 14% of the respondents had no business plan and only used the annual budget for measuring performance. The other 86% had business plans that extended from 3 or 5 years, although a few claimed they were not tracked rigorously. Collectively, these responses illustrate the weakness of the internal linkages established for enterprise planning.

FIGURE 4

Value of Financial Metrics



Source: 2005 European Bank Survey, Financial Insights, an IDC Company

Customer Metrics Focus on Three Rs: Relationship, Risk, and Revenue

The level of usage of advanced customer metrics is fairly limited and concentrates on three fundamental dimensions: relationship related measures; risk at the customer level; and revenues tied to customers. Figure 5 shows the level of usage of the different customer measurements at these banks. A majority of the banks reported total revenues, risk scores, tenure, products sold, cross selling ratios, and other loyalty metrics by individual customer or by customer segment. A few banks used these metrics for segment level reporting. However, banks that tended to be investing heavily in performance management technology also tended to be investing more in customer metrics. This reflects the CEO priorities previously cited.

Customer satisfaction scores are somewhat less frequently used, mainly by banks under pressure from competition to improve customer retention. Just over 50% of the banks calculate customer profitability and make reasonable use of segmentation based on behavior or statistical clustering techniques. Potential profitability and stage

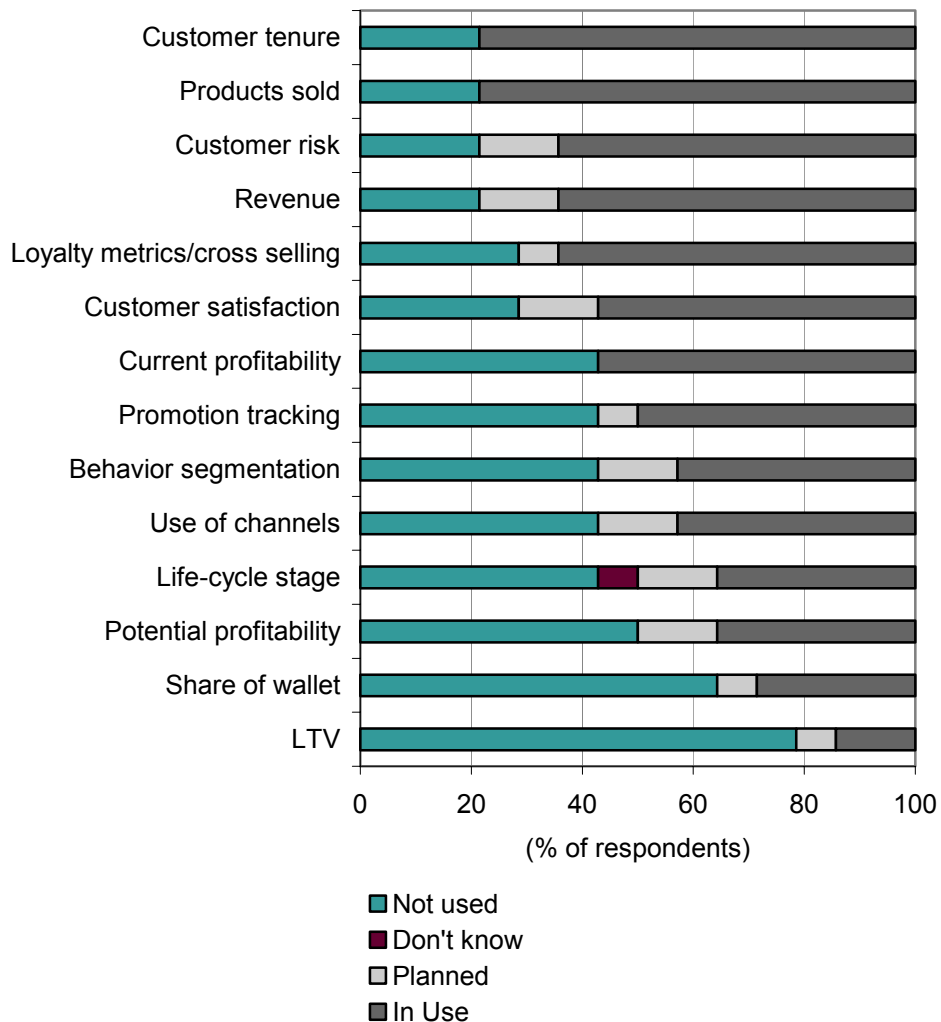
of life cycle metrics are used by a growing subset of retail banks. These are important in targeting schemes to increase cross selling and a few banks said they would be implementing these in the near future.

Lifetime value and share of wallet metrics were felt by most banks to be highly qualitative evaluations and not worth the effort. Only the supermarket and direct banks focused on these indicators, using a total spending analysis to project both wallet size and propensity to spend.

Customer use of channels is mainly monitored by retail banks. Retail banks focusing on a low cost value proposition are keen to control channel usage, due to cost implications. One bank with heavy on-line banking capabilities sponsors monthly on-line market research including customer satisfaction ratings with high response rates (>20,000 responses).

FIGURE 5

Utilization of Customer Metrics



Source: 2005 European Bank Survey, Financial Insights, an IDC Company

Measuring Service Delivery: Developing A Factory Mentality

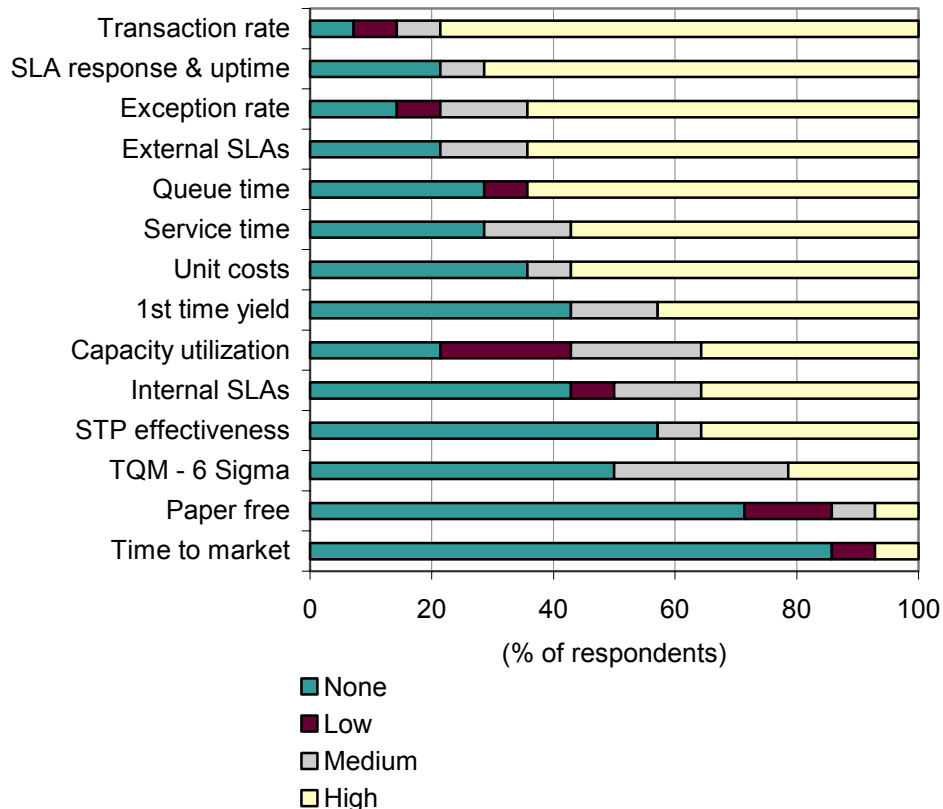
For many banks, business process and IT metrics still appear to be largely the preserve of the local operational silos that look after the relevant services and delivery systems. Figure 6 depicts the value to bankers of business process metrics, which are rated from high to not at all. Many banks placed high value on common metrics that are integral to their business.

Leading-edge measurements linked to total quality management, paperless office, or time to market were seen very much as advanced features. A few banks under heavy competitive pressure were tracking these measures with ambitious service-level targets in order to achieve outstanding customer satisfaction. One very large retail bank, for example, was using six sigma methodologies. However, many corporate banks do not appear to be addressing these issues yet.

Monitoring of queuing and service times, exception rates and unit costs tend to be managed locally by line-of-business managers. Branch activity may be more widely published, but in many cases this information is just not available. Corporate or transaction banks or bank processors tend to track these kinds of metrics and publish them more frequently (even daily). First-time yield metrics (also known as first touch resolution) are starting to become more common, but paper-based processes appear to create the biggest obstacles. Again these metrics tend to be managed locally with targets set by local managers, rather than by central planning teams.

FIGURE 6

Value of Business Process Metrics



Source: 2005 European Bank Survey, Financial Insights, an IDC Company

RESEARCH FINDINGS: EXECUTION

Besides looking at the business performance measures, the survey also sought to understand the tools and processes used by banks to support managers at the execution level. We wanted to identify best practices and the approaches that banks were pursuing. We explored the adoption of seven types of measurement tools and solutions (see Table 2 in the Appendix for more complete descriptions).

- Integrated planning and closed-loop tracking tools
- Data warehouses/data marts for balanced scorecards
- Data extract, transform, and load (ETL) tools
- Online self-service dashboards with graphical or other features
- Historical reporting or future-focused simulation models
- Advanced analytics and content management for report preparation
- Integrated personal incentive plans

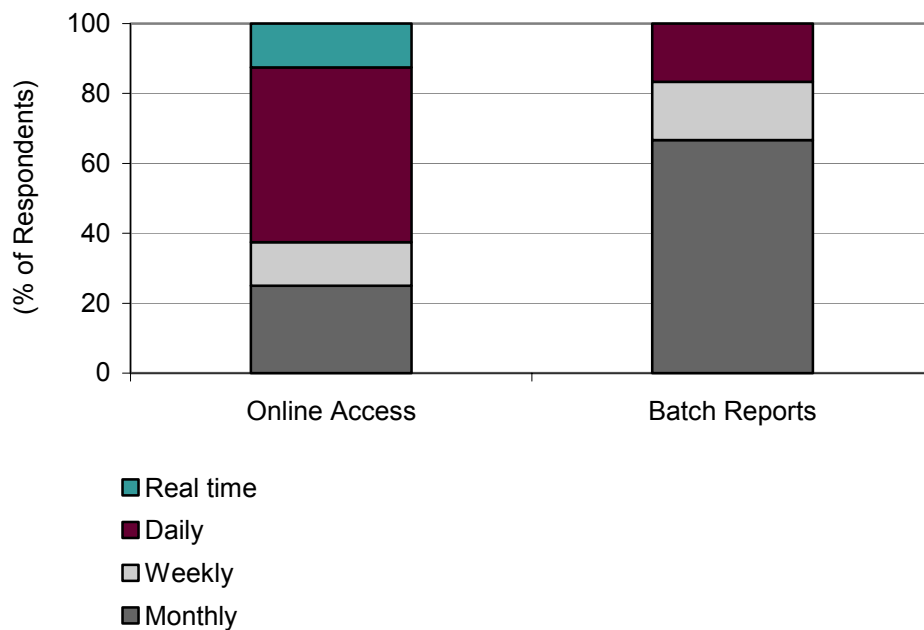
Leveraging Technology for Performance Execution

Figure 7 indicates the frequency of the main update for online access and batch reports. Respondents are using a mix of online access to performance metrics and batch reports, which is more or less a mixed bag. About 62% of respondents have either daily or real-time performance management capabilities enabled by distributing information to line managers. And 67% of respondents still rely on monthly batch reports. These results suggest a transition may be underway as leaders pursue better quality and timeliness to measure results. Among the laggards, many of the monthly reporting systems were still using spreadsheets for manually compiling the data.

As we can see, around one-third of online performance management systems are only updated weekly or monthly. However, that means that around two-thirds are updated daily. A few scorecards may still only be updated weekly or monthly even in this case, but the majority are updated either online or by end of day.

FIGURE 7

Frequency of Update by Type of Reporting System



Source: 2005 European Bank Survey, Financial Insights, an IDC Company

Figures 8a and 8b show the usage of performance management tools used by the banks for each of five requirements. Around two-thirds of the banks used data warehouse (or data mart) technology. The batch reports were nearly all tabular data with few graphics. Individual managers might be able to download the data to spreadsheets where graphics could be applied.

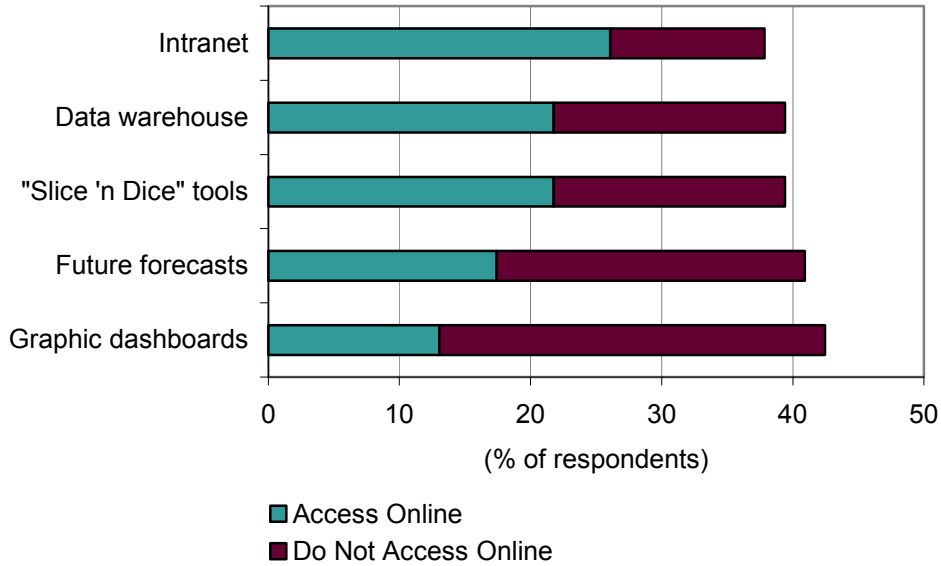
Analytical tools of any kind were used by a central planning team. These teams typically responded to email inquiries requesting analysis from departments or business units. Otherwise, department or local managers could only transfer report data into Microsoft Excel for further analysis. In many cases, managers would have to request the data from the central planning team. This roundabout process inevitably leads to poor quality analysis, inconsistency within the bank and an inability to link actual business performance and the business plan. Several respondents highlighted this situation as a major weakness to achieving higher performance levels.

Interestingly, where only batch reports were available, some level of budget comparison was typically included in the standard reports. Where online systems were used for distributing performance data, the emphasis was on historical data rather than forecasting. As might be expected, online performance management systems contained a higher proportion of graphics and slice and dice tools.

FIGURE 8A

Technology Attributes of Performance Management Systems —
Online Access to Performance Data

Q. How do you use the following performance management tools?



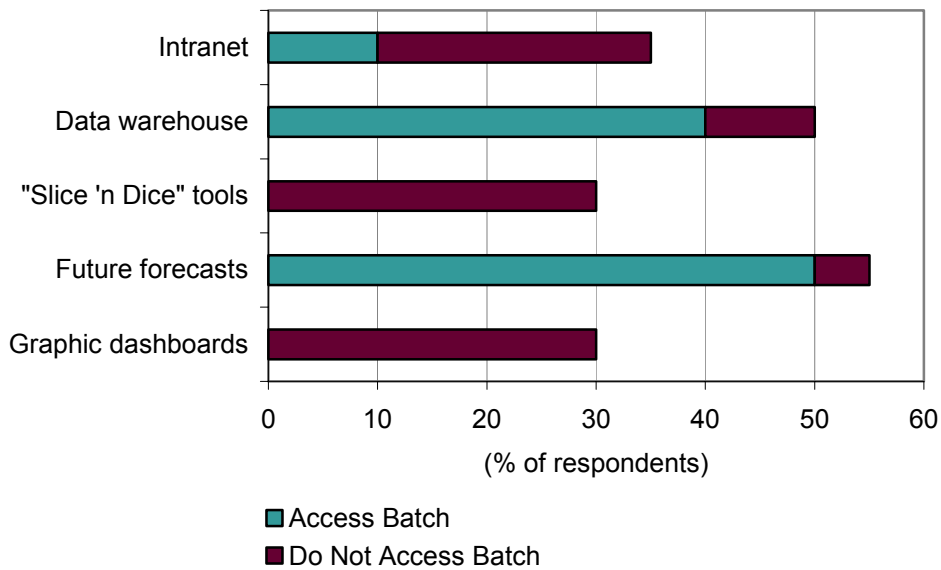
n = 20

Source: 2005 European Bank Survey, Financial Insights, an IDC Company.

FIGURE 8B

Technology Attributes of Performance Management Systems —
Batch Reports Only

Q. How do you use the following performance management tools?



n = 20

Source: 2005 European Bank Survey, Financial Insights, an IDC Company.

Case Studies of Effective Performance Management

There are lessons to be learned from the journeys of the banks interviewed for this study. Four of these institutions illustrate the range of initiatives currently underway. We have summarized the performance management initiatives at a private bank, a medium-sized savings bank, a rural savings bank, and a large Pan European bank.

The private bank had a powerful online, real-time banking system with drill-down capability combined with a sophisticated and detailed daily online financial report with a wide variety of financial analytics. Account executives had very high incentives and considerable entrepreneurial freedom. They each had their own P&L and were charged on a transaction basis for all activity, based on an Activity-Based Costing analysis, carried out a couple of years ago. This is an example of how banks can tailor systems to their own requirements. The system is considered highly effective and proven, and there are no plans to enhance it, even though it had few non-financial scorecards.

One medium-sized savings bank still had a batch reporting system, updated monthly. Their value proposition was to be the low-cost player, hence the strict financial and other controls. Growth was one of the highest of any of the banks. There were no self-service technology tools, but the bank was investing heavily in a data warehouse with analytical tools and many new performance measurement analytics. The distribution of and access to performance management information was traditional, the bank also used advanced metrics, including Activity-Based Costing, balanced scorecards, total quality management, and highly disciplined service level agreements. Managers felt exposed to stiff competitive pressure, and they frequently benchmarked themselves against other banks in many ways using their performance management metrics. They also maintained many customer and operational metrics. Their reports included some automatic forecasts so that managers could see where they were going, and not just where they had been. They were not heavy users of segmentation analysis, but did analyze customer behaviors in order to promote effective cross selling. While they did not use the most advanced analytics like customer life time value or share of wallet, or total levels of STP, they did use many standard metrics in a very disciplined way, and are currently focused on extending their human capital metrics.

The third case is a rural savings bank that already had a powerful set of online tools, but the key update cycle was still monthly. In the past that approach had been adequate, but the bank is now under competitive pressure and is trying to expand their geographic base. This bank was building new performance metrics to cover most of their analytical indicators and to address the update cycle. However, they felt their rich history of data analytics was a unique advantage. This was generated by a modern core banking system, which also gave them a fast time to market for new products and contributed to a high cross-selling ratio. They were being threatened by the big banks and therefore considered it essential to be able to respond quickly to any competitive initiative. They were also implementing document imaging and monitoring the level of paperless operations. This too was important, as they wanted to increase the level of outsourcing and shared services in order to reduce costs. Although the bank was small compared to large competitors, they had outsourced their IT and various product factories, but still had tools comparable to a major Tier 1 bank.

The large Pan European bank is currently rolling out a major set of performance management system enhancements including a data warehouse and a new analytical dashboard aimed at improving performance management across a large number of jurisdictions and currencies. Their current systems provide online access, but updating is done weekly, with mostly financial metrics, and analytical tools are available only to the central planning team. However, there is poor integration across the group. Since the strategy is to focus on growth and use global hubs and shared services to reduce cost/income ratios it is critical that their performance management system is able to give them the necessary insight into costs and profitability. Instead of building out the range of balanced scorecards, they are focusing on standardizing their existing indicators across all the companies in the group.

Conclusion

Clearly there are many ways to address performance management. So, what are the issues that a bank should consider when setting priorities for enterprise performance management systems? Based on the research results, Financial Insights has developed a performance management leadership grid, shown in Figure 9, which aligns the banks that participated in the study based on three factors:

- ☒ The effectiveness of their performance management system based on the last three years of results and the bank's internal value assessment of the performance management system on their results, as noted by the size of the bubbles.
- ☒ The alignment of the key performance metrics used by line managers to run their business against four key business strategies (see Appendix, Table 3 for strategy descriptions): brand values, market position, market challenges, and sensitivity to customer needs; this alignment is shown on the vertical axis.
- ☒ The extent to which advanced technology systems and management processes were deployed in order to enable better decision making and execution; this alignment is shown on the horizontal axis.

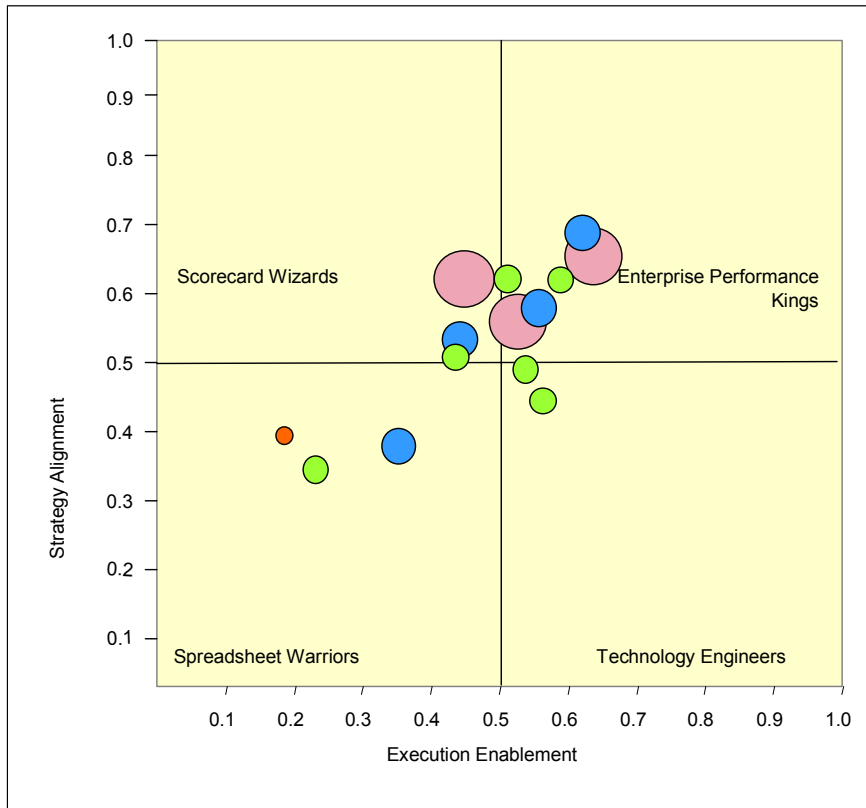
We normalized the results around the median values to classify four kinds of strategies for enterprise performance management. Clearly the greater the alignment with strategy, and the greater the investment in technology and processes, the higher is the perceived effectiveness. Indeed, banks with advanced technology features were generally much more articulate at explaining their strategy and showing how their systems supported the strategy.

Some of the banks in the upper right quadrant (Enterprise Performance Kings), still have a less than optimal execution effectiveness rating. It should be noted however that these banks were in most cases currently investing heavily with a view to improve their effectiveness.

The Technology Engineers describe those banks who had quite good tools but little strategic alignment, and rather low effectiveness scores. They were not spending on performance management, and did not perceive particular shortfalls. One bank did, however, want to improve its integration capabilities with third-party market data.

FIGURE 9

Leadership Grid for Performance Management



Source: Financial Insights, an IDC Company, 2005

The Scorecard Wizards had developed advanced analytical scorecards but were currently distributing only monthly reports using only a few tools. One of these banks was investing heavily in technology to develop additional analytical measurements and scorecards.

The Spreadsheet Warriors were struggling, used fewer analytics and measurement metrics, and used the least technology support for performance management. These banks all operate in protected markets, and felt they had little control over their own IT capabilities, due to outsourcing commitments. These banks also had low effectiveness ratings. Two of these banks were starting to invest, especially in improved risk and financial control systems.

FUTURE OUTLOOK

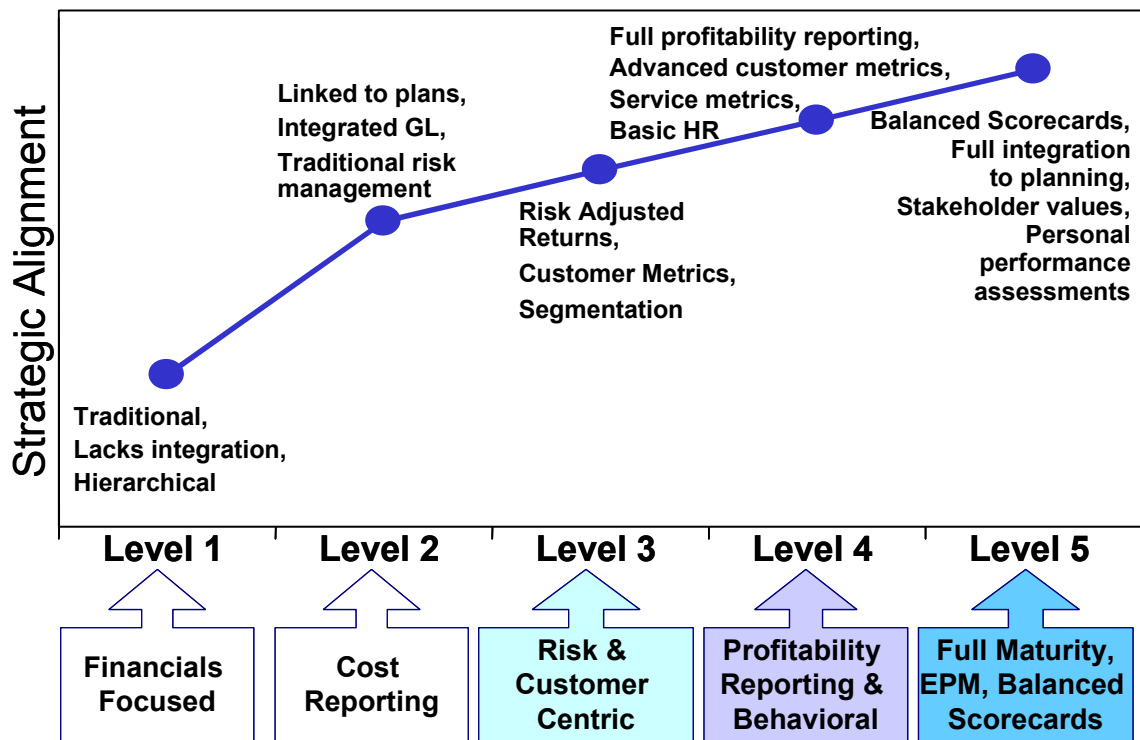
There is now a wide gap between best practice and lagging banks as some banks have essentially stood still over the past few years. As banks modify their strategies, their existing performance management systems may limit their ability to succeed. Therefore, banks are increasingly looking to enhance these systems with richer analytics/metrics, more automation for measuring and distributing metrics, and better decision support tools to plan/budget/forecast and analyze business objectives.

Evolution of Performance Management

Most banks will continue to invest in performance management systems over the next 24 months. A clear, purposeful path for these investments is essential. Our findings from this study have identified levels of maturity, from primitive (Level 1) up to a highly advanced level (Level 5). Figure 10 depicts the road to a robust enterprise performance management model, which is marked by increasingly sophisticated performance management analytics and business decision-making capabilities.

FIGURE 10

Evolution Toward Enterprise Performance Management



Source: Financial Insights, an IDC Company, 2005

Achieving Level 5 Maturity for Enterprise Performance Management

As banks continue to build out performance measurement analytics and related infrastructure, more advanced thinking about how to use performance measurements will become common. One or two banks are already taking some initial steps along this road. From this analysis we can build a maturity model for performance management across the five levels, as depicted in Figure 11. The maturity level evolution for "business oriented" and "technology oriented" follows different paths.

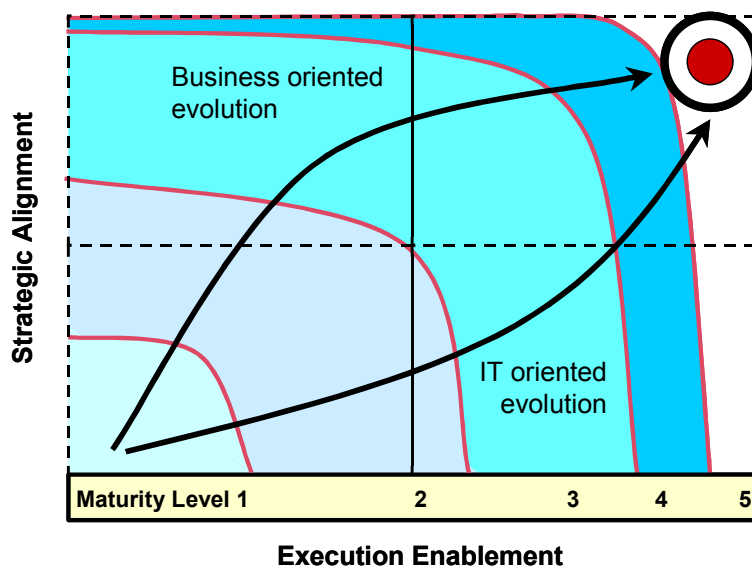
Full strategic alignment with an EPM system supported on an enterprise basis is required at the highest maturity level, marked by the bull's eye. Some banks are taking a more business-oriented approach, developing the EPM analytics and scorecards first to be followed by the IT platforms to support them. Others will lead

with technology and then persuade management to use the tools more effectively. Banks still have a long way to go to reach Level 5. From our research sample, only a couple of banks are approaching Level 4 and most are distributed over Levels 2 and 3 on the road to maturity.

The realization sinks in after the transition from Level 2 to Level 3 that the effort requires an order of magnitude of execution effort combined with a steady hand at the helm of strategic alignment. Any shifting in strategic alignment will likely halt progress.

FIGURE 11

Acquiring Maturity in Enterprise Performance Management



Source: Financial Insights, an IDC Company, 2005

ESSENTIAL GUIDANCE

The market position and strategy at leading banks increasingly drives business decisions based on performance measurement metrics enabled by IT. Banks will need to choose carefully, adapting their future EPM investment plans to match their challenges and capabilities. Table 1 describes how leading European banks are driving toward effective performance management and identifies several barriers to progress that our analysis uncovered at some of the respondent banks. We encourage every bank to examine the performance management processes, related solutions and tools and assess its maturity level for managing business results.

TABLE 1**Achieving Effective EPM & Overcoming Barriers**

Area of Focus	Effective EPM Requires	Barriers to Progress
Strategy	<ul style="list-style-type: none"> Continuously review/adjust EPM systems against strategy and core values Seek perpetual improvement 	<ul style="list-style-type: none"> Management culture and skill set that is not ready to hold managers accountable Lack of resources to develop the systems
Process	<ul style="list-style-type: none"> Build metrics into core banking systems to drive operational decisions Invest to integrate customer value management with enterprise metrics 	<ul style="list-style-type: none"> Difficulty in defining modifications to metrics in a rapidly changing environment Organizational issues that block progress
Tool	<ul style="list-style-type: none"> Activity-Based Costing is being widely adopted by leading banks Include performance metrics into staff incentive plans 	<ul style="list-style-type: none"> Inflexible and complex IT infrastructure that inhibits use of metrics and related tools

Source: Financial Insights, 2005.

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- Next Generation Financial Systems: DBS Bank Comes of Age* (FIN #1528, October 2004)
- Preparing Asia's Banks for Performance Measurement* (FIN #1522, September 2004)
- Customer Metric Survey: What Effective Banks are Using and Investing In* (FIN #1465, June 2004)
- Reconnecting the Enterprise: the Next Great Architectural Challenge for Banks* (FIN #1455, April 2004)
- Customer Metric Survey: A Quantitative Analysis of Effective Customer Strategies* (FIN #1418, February 2004)
- Top 10 Strategic Initiatives in Retail Financial Services for 2004: Tuning the Engine Cautiously* (FIN #1398, January 2004).

APPENDIX

Methodology

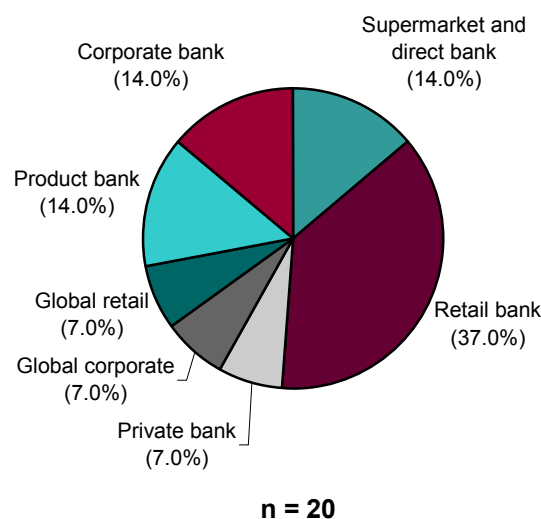
During the winter/spring of 2005, Financial Insights, sponsored by Cognos, set out to analyze the enterprise performance management trends among European banks. We conducted the research in order to gather perceptions and opinions about the banking industry's need for enterprise performance management (EPM) solutions, and how these might develop over the next few years in the following areas:

- ☒ Factors that influence decisions relating to performance management strategies
- ☒ EPM strategies that aim to improve a bank's market position
- ☒ Metrics to monitor performance and how metrics relate to business strategies
- ☒ Technical systems and processes for reporting and process improvement

This study included a series of in depth interviews with 20 Tier 1 and 2 banks (see Figure 12) across Europe, conducted both by telephone and in person. Survey respondents included senior bank executives focused mainly in the highly competitive U.K. and German markets and executives from France, Benelux, Spain, Switzerland, the Nordic countries, Austria, Poland and Czech Republic to ensure a more balanced picture. The executives interviewed typically had titles like: CFO, deputy general manager, group director, head of strategy, head of operations, head of operations and treasury, head of planning and control or head of special performance projects. These executives had a broad understanding of the EPM approach their banks were taking as well as the challenges they were facing.

FIGURE 12

Market Focus of Respondent Banks



Source: 2005 European Bank Survey, Financial Insights, an IDC Company

Four banks were Tier 1 (over \$150 billion in assets), three banks were large Tier 2 (between \$50 and 150 billion in assets), and the rest were smaller Tier 2 but over \$10 billion in assets. Two of the Tier 1 banks had substantial Pan European interests.

TABLE 2

Measurement Tools and Solutions

Performance Initiative	Impact on Performance Management
Integrated planning & tracking tools	<ul style="list-style-type: none"> • Planning support tools to forecast scorecard targets or likely achievement from base assumptions • Closed-loop benefit tracking, whereby forecast benefits of investment programs are locked into future budget plans • Most of the current performance investment is focused on current year management, although one bank was operating a two year budget cycle linked into a five year business plan
Scorecard coverage	<ul style="list-style-type: none"> • Range and sophistication of the scorecards covered • Integrated into a common data warehouse or data mart architecture for online access • Reference data services and data cleansing tools to ensure the quality of data and to reconcile the various data sources • Automated reporting tools with built-in distribution lists, alert escalation hierarchies, and work-flow links • Content management tools to help compile the reports from the data including automated text and graphics generation, and HTML or PDF publishing with XBRL wrappers to make reports machine readable and to link the documents to the relevant databases
Frequency of update	<ul style="list-style-type: none"> • Real time to weekly is seen to be more useful than the traditional monthly to quarterly review
Future focused	<ul style="list-style-type: none"> • Enterprise performance management tools need to help managers to focus on the future rather than just analyze the historical past • Some were considering sophisticated simulation models to enable forecasts given a set of initial conditions and planning parameters
Variance analytics & data mining	<ul style="list-style-type: none"> • Business intelligence to assist managers to understand "why?"; for example, to explain the variance between plan and performance in terms of a number of factors such as inflation, growth in volumes, reduction in underlying productivity etc. • Data mining and analytics to help to understand performance drivers or inhibitors • None of the banks talked about this in the study

TABLE 2**Measurement Tools and Solutions**

Performance Initiative	Impact on Performance Management
Self-service management tools	<ul style="list-style-type: none">• A variety of tools, which enable line managers to analyze their own data and develop their own strategies• Some banks reserve these tools to central planning teams, although others see this as an obstacle• Online, multidimensional drill-down and slice 'n dice tools are the most common• Graphical dashboards to help managers to navigate round the data are also popular• Many tools are built into operational transaction systems
Integrated personal incentives	<ul style="list-style-type: none">• Targets and review processes need to be fully integrated into personal compensation packages• Some banks have high incentive bonuses, while others are less significant; nevertheless, most banks saw this as important to bring home the impact to individual decision making

Source: Financial Insights, 2005.

TABLE 3**Strategy Alignment**

Strategy Initiative	Impact on Performance Management
Brand-value proposition	<ul style="list-style-type: none"> • Successful customer focused banks use segmentation actively, preferably behavioral features as well as most of the basic customer metrics and credit risk metrics • Innovative banks need to focus on customer segmentation for product innovation, with more emphasis on basic and advanced customer metrics to work out what customers will buy, and service quality and time-to-market metrics in order to be able to produce products quickly • Low cost banks need to emphasize unit costs, operational efficiency, and other basic & advanced service metrics, ensuring quality while maintaining customer satisfaction, if they are a medium to large bank, then ABC analysis is also needed
Market position	<ul style="list-style-type: none"> • Supermarket and direct banks where performance tends to focus on customers and quality • Corporate/ factory bank — performance focus tends to be on quality, service level agreements, operational efficiency and related metrics • Retail banks — performance focus tends to be more on balanced scorecards • Private banks — less focus on segmentation and advanced customer metrics, more on financials • Specialist bank with protective barriers (such as a product or central clearing bank for a captive savings or mutual bank association) — expect non-alignment of other indicators • Global banks — need to concern themselves with standardizing scorecards across jurisdictions or organizational entities
Market challenges	<ul style="list-style-type: none"> • Competitive pressure — need to invest in performance management and customer metrics in particular • Pricing pressure — need to focus on cost reduction programs and financial metrics • Outward focus on opportunity, enterprise and growth — high ambition leads to high focus on performance and especially planning • Inward focus on integration, rationalization, compliance & operating efficiency — more emphasis on financials
Sensitivity to customer needs	<ul style="list-style-type: none"> • High on standard & advanced customer metrics • Active use of behavioral segmentation or statistical clustering

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