



Relevance Found
Salient Performance Management

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Relevance Lost

Reliance on information that causes unwanted actions, inefficient processes, and inadequate results is the premise of the 1987 book *Relevance Lost: The Rise and Fall of Management Accounting* by Thomas Johnson and Robert Kaplan (Johnson and Kaplan & Thomas H. Johnson and Robert S. Kaplan, 1987).

However, what if you can simplify the complexities, and reveal the hidden costs, while knowing and understanding the value of every action? And, what if you can motivate desired behavior for continuous improvement in alignment with your business vision and mission? This would be the treasure of *Relevance Found*.

Competitive challenges and stakeholder expectations force companies to strive continuously to balance innovation, flexibility, agility, quality, customer service, capital, and profitability. Sounds difficult? Add risk, uncertainty, regulation, environmental, currency fluctuation. Even more difficult? And, as companies fluctuate between vertical integration and global supply network, even more to think about!

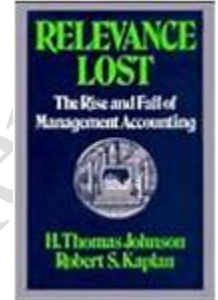


Figure 1 – Relevance Lost

“The first order of business or any enterprise is to survive, then to improve continuously. The key is to align every person and every action to the mission every day.” Guy Amisano, CEO, Salient Management Company

Since the earliest days of the industrial revolution there have been a plethora of campaigns to enhance value and productivity. The lexicon of acronyms and terms includes: T&M, SPC, MRP, ERP, JIT, TQM, MES, SCP, S&OP, ABC, ABM, and Balance Scorecard. Since the 1980s, *Lean* is the term most often applied to a strategic philosophy for value enhancement, whether labeled as Lean Manufacturing, Lean Accounting, TQM, Six Sigma, Lean Six Sigma, Kaizen, or other.

These initiatives/programs have resulted in epic success stories. But there are challenges, including the difficulty to implement, maintain and institutionalize, plus a dependency on expensive outside experts and models that may not adjust easily to change. And there has been a misalignment of the top-down Management Accounting and the requirements for operational excellence. All in all, academia has evolved curricula, software companies have created applications, and consultants have assisted change, but there is a gap between the desired results and the supporting systems and reports.

Management Accounting Irrelevance

Management Accounting necessarily serves three masters: (1) to support financial statements; (2) to provide process control information to the respective cost centers; and (3) to estimate the product costs for pricing, margin analyses, sourcing, etc.

During the 19th century, where a single product, simplified business was common, this was feasible as the overheads could be simply assigned to products based on the direct labor (typical 60% Direct Labor, 10% overhead, 30% material), and you could aggregate the throughput for the financial reporting.

However, as industry in the 20th century grew in complexity with multiple products, multiple business units, diverse sourcing and customers, and an increasingly indirect bureaucracy of support,

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a simplified approach to allocating overhead based on an easily measured direct labor was, at best, inappropriate, and, at worse it was extremely misleading. The need to fully absorb all costs to satisfy inventory rules and external financial reporting forced an allocation of variable, as well as relatively fixed costs, down to individual products, without regard to whether those products actually affected or drove those costs. Typically, a small percentage of the products that truly created margin were perceived to be heavily penalized by the large percentage of products that truly caused the complexity costs.

The worst-case scenarios were incorrect pricing, misguided outsourcing, and disastrous product segmentation. This was all exacerbated by the need to measure short term results, which further forced incorrect decisions on whether to invest for the long term. Management Accounting, even when augmented by more sophisticated systems, drove incorrect behavior, such as:

- Applying (absorbing) indirect overhead based on direct labor, even in cases where the overhead was inverse to direct labor (e.g. automation equipment)
- Continuing production of a product well beyond demand in order to “absorb” more labor, resulting in expensive inventory
- Outsourcing products predicated on perceived short-term internal costs without regard to the resultant impact on longer term capacities
- Slower turns of inventory, and greater complexity of mix due to inaccurate costing, driving up capital investments and ongoing carrying costs
- Lost margin due to under-estimating the costs, and due to over pricing (lost competitiveness)
- Misapplied management metrics and labor incentives, which resulted in short-term focus and heavy reliance on efficiencies, at the expense of long-term strategy and effectiveness
- And many more...

Through the 1980s, Management Accounting remained as a subordinate to Financial Accounting, while companies focused on the external reporting of short-term results, rather than providing operational insights for performance improvement. While the Management Accounting practices remained much unchanged from the early 20th century, industry evolved dramatically. It is as paradoxical as if a Ford Model T assembly worker from 1920 attempted to supervise the final assembly of a late 20th century Lincoln Continental, let alone a 2019 Tesla. *“Wait a minute. You mean we sell more than one model in one color - black?”*

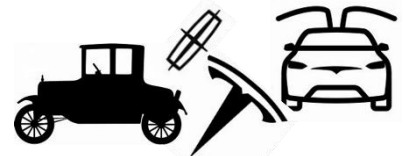


Figure 2 – From Model T to Tesla

Great attempt, but not quite there: Activity Based Costing

A growing recognition that Management Accounting was inadequate for managing most businesses, including prominent writings such as the aforementioned *Relevance Lost*, stimulated a movement by the 1980s. Activity Based Costing (ABC) and Activity Based Management (ABM) were very significant approaches for recognizing the real costs of a product or service, and the respective drivers that could identify opportunities for improvement. ABC was responding to the inadequacies of traditional standard costing approaches in which the indirect overhead was allocated to a product, service, etc. based on an easily measured direct labor. The issue was that, while the indirect overhead was increasing as a proportion of total costs, it was becoming less related to direct labor, and in some cases, inverse to

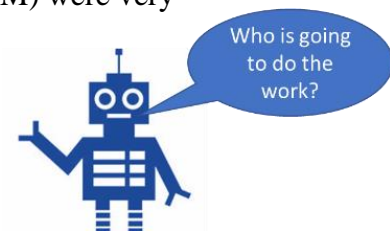


Figure 3 – Robots eliminate direct labor

direct labor. For example, robotics and automation are captured in indirect overhead (programming, maintenance, depreciation), but actually eliminate the direct labor! At some point you have high indirect overhead but very little direct labor.

ABC assigns the cost of each activity in an organization to specific products and services according to the actual consumption by each based on cost drivers. For example, procurement process costs such as issuing purchase orders might be assigned based on the number of purchase orders related to each product. This is significantly different than using direct labor to spread the costs. ABC assigns more indirect costs (overhead) into direct costs compared to conventional standard costing.



This all sounds great, but ABC lost ground in the 1990s because it was an inefficient use of resources (expensive and difficult to implement for small gains) and could not easily be institutionalized. The following comments represent some of the challenges identified by two of the most prominent spokesmen for ABC, Robert Kaplan and Robin Cooper.

“The time and cost demands of creating and maintaining an ABC model on this scale (pertaining to a subject company in this citation) is a major barrier to widespread adoption at most companies. Since the systems that are put in place are updated infrequently (because of the costs of re-interviewing and resurveying), the model’s estimates of process, product, and customer costs soon become inaccurate. What’s more, people waste their time arguing about the accuracy of cost-driver rates that are derived from individuals’ subjective beliefs rather than addressing the deficiencies the model reveals: inefficient processes, unprofitable products and customers, and excess capacity” (Kaplan and Anderson, 2004)

In a case study on Innovation, Robin Cooper noted that when a firm wants to actively drive value during the lifecycle of a product, *“the cost-reduction insights that activity-based costing provides might be redundant because of Olympus’ (case study company) use of general kaizen costing and functional group management. This limited role for product costing (ABC in this example) might seem surprising given the recent popularity of activity-based costing (as of 2004), but it reflects the way that Olympus Optical has designed its cost management program.”* (Cooper and Slagmulder, 2004).

Activity Based Costing alone did not improve competitiveness. It was an improved method of accounting for the real costs but was not organized to reflect the unused capacities nor customer requirements – two very critical elements of improving performance. ABC was a better way to account for a complex product and process but didn’t drive reduction of that complexity. In fact, it increased the complexity of the accounting process.

Despite of the downside, ABC was a great improvement over Standard Costing, and provided insights for continuous improvement by identifying the cost drivers. Benefits such as cost reductions by 3-5% have been cited, as well as increased revenue due to improved pricing competitiveness and product/customer rationalization. ABC was beneficial for pricing, continuous improvement, business segmentation, mergers & acquisitions, customer validation, sourcing strategy, investment strategy, product innovation, organizational development, benchmarking (selling costs, production costs, etc.), transfer pricing – if it can be sustained!

An enhancement to ABC, Time-Driven ABC was introduced during the 2000s with promise to simplify by requiring fewer interviews and less data collection and adding a benefit of recognizing

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unused capacity within the processes. With the advancement of tools for tracking time cycles, the overall process could be more automated, and likely would exceed the benefits of ABC.

However, it continued to be stymied by a still tedious need to collect and maintain data, and lack of ability to institutionalize due to the inevitable business factors changes. The current adoption of time-driven ABC seems limited, although there is some prevalence in healthcare.

ABC - ✓ Pros and ✗ Cons

- | |
|---|
| ✓ Improved costing (vs. Standard Costing) for product pricing |
| ✓ Indirectly assists in cost reduction, process improvement |
| ✗ Is not a bottom-up operational improvement, nor driving customer responsiveness |
| ✗ Time consuming and difficult to implement |
| ✗ Difficult to institutionalize |

Beyond ABC

ABC helped pave the way for new, improved cost and strategic management systems. There was still recognition that Management Accounting was subordinate to Financial Accounting and was not serving the operational improvement methods. Other approaches included:

- Balanced Scorecard (BSC) - performance management and strategic management system, with its focus both, on historical accounting, and the achievement of long-term financial performance. It established a framework for better accounting (rear-view mirror) and assessed future capabilities front-view mirror) on employees' readiness (learning and growth), internal business processes, and customer perspective. Contrasted to traditional Management Accounting, including Standard or ABC, the Balanced Scorecard looked beyond the financial metrics in order to determine readiness for the future.



Figure 4 – Balanced Scorecard

- Throughput Accounting (TA) - introduced as the performance measurement approach in the Theory of Constraints (TOC), promoted substantially by Eliyahu M. Goldratt. TA identifies factors that limit an organization from reaching its goal (constraints, bottlenecks), and then focuses on simple measures that drive behavior in key areas towards reaching organizational goals based on increased throughput. Throughput Accounting is cash focused and does not allocate all overhead costs to products and services of the enterprise (Sales minus variable costs).



Figure 5 – Throughput Accounting

- Lean Accounting - introduced to support the growing Lean philosophy focused on elimination of waste and complexity, rather than accommodating excruciating detail. *"Let's not count the waste. Let's eliminate it!"* Lean Accounting organizes costs by value stream (flow of activities) instead of by department or function. One caution is that any business decision on pricing, or rationalization of products/services and customers, should continue to consider marginal costs (variable) vs. fully absorbed costs (including the costs external to the value stream).



Figure 6 – Waste Elimination

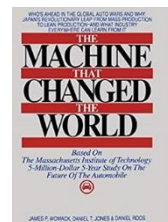
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- Economic Value Add (EVA) - champions the idea that a business is only profitable when it creates wealth and returns for shareholders and requires performance above a company's cost of capital. It is calculated as [Net Operating Profit After Taxes (NOPAT)], minus [(Invested Capital) times (Weighted Average Cost of Capital (WACC))]. This forces managers to be aware of assets and expenses when making managerial decisions. However, the EVA calculation relies heavily on the amount of invested capital and is best used for asset-rich companies that are stable or mature. Companies with significant intangible assets (and less tangible assets), such as technology businesses, may not be good candidates for an EVA evaluation.
- Continuous Audit and Continuous Monitoring - automated feedback mechanisms used respectively by Internal Audit or Management to monitor IT systems, transactions and controls on a frequent or continuous basis, throughout a given period. Companies who deploy Continuous Auditing (CA) can leverage technology to more efficiently analyze risk data on a frequent basis. This approach helps the detection of anomalies, outliers, inconsistencies and other factors to more efficiently focus audit resources. Continuous Monitoring (CM) provides management with information on key performance metrics in close to real-time, allowing them to have better insight into issues as they arise, thereby improving their ability to manage risks and opportunities.



The merits of these methods of accounting, whether for costing, external reporting, or continuous improvement were impacted by other initiatives that focused on reducing complexity – rather than merely learning how to account for it. Operational excellence requires an understanding of the performance factors that inhibit achievement of the company strategies and goals. This embraces methods such as:

- Lean - encompasses a perspective of the client who consumes a product or service, where "value" is any action or process in which a customer would be willing to purchase. Inspired by Toyota Production System and advanced by experts including James P. Womack and Daniel T. Jones in their seminal book on Lean *The Machine That Changed the World: The Story of Lean Production--Toyota's Secret Weapon in the Global Car Wars That Is Now Revolutionizing World Industry* (Macmillan/Rawson Associates, 1990), Lean promotes elimination of waste, initially for manufacturing, but ultimately throughout the enterprise. There are various derivations where the goal or means are through waste elimination such as JIT, TQM, TQM, Six Sigma, Lean Six Sigma, Kaizen, etc.
- Six Sigma - a disciplined, data-driven approach and methodology for eliminating defects (driving toward six standard deviations between the mean and the nearest specification limit) in any process – from manufacturing to transactional and from product to service. Each Six Sigma project carried out within an organization follows a defined sequence of steps and has specific value targets, for example: reduce process cycle time, reduce pollution, reduce costs, increase customer satisfaction, and increase profits.
- In parallel with the Lean approach, a company can also practice Kaizen (Japanese for *improvement*), which refers to activities that continuously improve all functions and involve all employees from the CEO to the assembly line workers and applies to supporting processes and supply chain. The Toyota Production System is known for kaizen, where all line personnel are authorized and expected to stop their production line for any abnormality and resolve it.



Lean Six Sigma



Figure 9 – Six Sigma



Figure 10 – Individual Ideas

Still not quite there

A company's increasing complexities of products, suppliers, customers, etc. was out of synch with methods, systems, and accounting. Former reliance on "easy" measurement and accounting rules was contrary to the growing need to continuously improve performance. Subsequent "fixes" tended to be a good first step but were not easily adopted. In the meantime, the world was also moving forward with an entirely different approach to organizing a company. Rather than the mass production methods of the 19th and early 20th centuries, we moved customer-driven, flexible and agile approaches.

We need a new capability that satisfies the needs for performance improvement, and that is easily maintained and adopted by all people. We need to answer:

- How do you know where, what and on whom to focus energy?
- How do you motivate people to excellence?
- How do you learn from the past?
- And how do you turn 'getting better' into the strategy itself?

Salient recognizes the merits of the various accounting and waste elimination methods and understands the inhibitors to ensuring sustainable progress. Unless you can provide accurate, actionable insights to individuals that control value add, you'll quickly erode to *"nice project, but back to my dependable inertia!"*

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Salient Management Company recognizes the urgency for accounting of value over time created by the business processes and individuals, and the imperative to enable insights for continuous improvement. Salient Performance Management (SPM) provides the context, practice, and solution to defeat the inadequacies of previous approaches.



Figure 11 – Salient Management Company

SPM is enabled through a precise accounting over time of the value-add for each action, in time to act. Essentially, it is enabled through speed, granularity (specificity), and a precise accounting of the relative costs for each transaction, as constrained by the capital deployed, personnel, or other assets. These insights are in the hands of the individual responsible for the transaction and cost. This minimizes the latency of bureaucratic audit, and minimizes the ineffectiveness of necessary aggregation, averaging, and vagueness when delegated through policy and procedure across multiple levels of hierarchy.

Underlying management principles

When information is in aggregation it is not actionable. Managers need to direct the individual contributors through multiple levels of supervision by translating the company objectives and aggregated data into policy, procedures, and directives. They seek visibility, accountability, and control. Only when individual contributors can get to the atomic, situational detail of each unique occurrence is it possible to properly respond, and to take responsibility for the consequences.

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SPM flattens the organization because it enables individual contributors, to understand the root causes of value contribution, to anticipate the likeliest outcome of the next transaction, and to progress continuously toward perfection.

SPM does not rely on inference from statistical sampling or fragile spreadsheet tables to allocate indirect overhead. It depends on truth—true data—and the special knowledge, skills and intuition of the individual contributors, and their respective managers who are close to transactions. SPM enables individual contributors to control the totality of their activity history: all entities, all transaction and allocation details, and all conditions and constraints. This empowers every employee to strive towards the overall company objectives, provided they are given the Knowledge about their impact on those objectives; they are Empowered to take action towards those objectives; and they are motivated (Stake). Salient calls this fundamental management style: Knowledge, Power, Stake.

The knowledge is delivered by capturing and storing the complete history of created value: all the facts of causation and value added, the entities involved, prevailing conditions and capacity limits, documentary and social (unstructured) information. This gives decision makers the ability to reduce massive data to short lists of performance outliers, learn quickly and precisely what individual accounts are worth, and then, ultimately, direct or redirect resources toward the greatest potential. The premise is that having a deep understanding of the historical value-add at each execution point enables knowledge of how much to spend for improvement and minimizes the need for management layers of control.

SPM encourages companies to empower their people, which is consistent with the Lean practices of Jidoka (automation with human intelligence, where individuals are empowered to act) and Kaizen (continuous improvement). And, SPM provides the indisputable measurement that enables incentive payment for value added (stake). The ideal measurement is a role-based ratio of the individual's contribution to the value added relative to the constraints of the business environment (e.g. revenue per sq. ft. per hour, profit per customer). Once these constraints have been identified, appropriate thresholds must be established (generally based on the last cycle). Each company will determine the appropriate incentive relative to the progress made each period. Armed with the knowledge of how to improve, and the incentive (stake), companies can have confidence in empowering their people to take responsibility.

Approach

SPM provides a precise accounting for every entity and activity and deploys an intuitive capability to investigate to the root cause of underperformance. SPM delivers indisputable facts that can also provide the basis for motivating desired behavior and incentive plan. Unlike some of the other approaches, it is automated, thus eliminating the resistance to institutionalizing. And, it provides a common understanding of facts, resulting in “Never a reason not to know!”

SPM is comprised of two fundamental enablers, **Salient Precision Accounting** and **Salient Continuous Improvement Practice**:

Salient Precision Accounting (SPA) is a precise and thorough continuous accounting of value created by all assets and events at all points in the enterprise value network, an exact model of the business. SPA is a time-driven model of value creation built from the evidence of your daily transactions, allocations of indirect money flows, capacity constraints, prevailing causal conditions,

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environmental factors, and related documents (notes, documents, pictures, video, etc.). It is an exhaustive multi-dimensional continuous accounting of productivity – the rate at which activity creates value – from the unique object (person, customer, product, asset), to the process and, ultimately, to **your** whole enterprise.

SPA embraces the ABC foundation by ensuring that all directly assignable and assignable indirect allocations are understood at the most granular level of products, services, customers, and other interesting attributes/views. Once you've primed SPA by mapping the General Ledger and other cost sources to activities and activity centers/processes, and subsequently to individual products, services, customers, etc through cost drivers, the SPA becomes sustainable through an automation of the activity and cost driver actuals.

Salient Continuous Improvement Practice is a new paradigm for visual interrogation and root cause analysis in which your decision makers can immediately extract productivity outliers from graphical patterns and trends, isolate outliers, and observe the full history of causes and effects of variance over time. It is visual data mining for both expert and unsophisticated inquirers to ask “why” many times and from many angles. This interrogation and remediation enable continuous improvement practice.

SPM promotes a continuous improvement process that is consistent with Plan Do Check Act, in which we embed the “practice” as follows:

- Understand patterns, trends in the historical data, in aggregations based on “stream of thought”
- Identify outliers from graphical patterns and trends
- Interrogate visually to root cause down to the most granular level such as transaction, entities, products, etc. observe the causes and effects of variance and re-direct resources to the sources of greatest return.
- Remediate

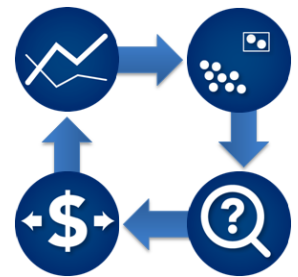


Figure 12 – Salient Practice Cycle for continuous improvement

The institutionalization of SPM captures the essence of a robust automated Continuous Audit and Continuous Monitoring (CACM), which minimizes the need for repeat ABC projects common to early (and failed) implementations by other providers. Salient “primes” the ABC system, then integrates the CACM capabilities from various disparate data sources, which enables the visual and mathematical analysis by the individual value contributors.

SPM removes the institutional barriers to continuous improvement practice with information that is:

- Specific: a comprehensive accounting of value created by every transaction in every cycle
- Holistic: text, video, documentary content connected directly to transactions
- Flexible: to follow curiosity down any path, in any direction, in any form, without limit
- Scalable: to embrace and reconcile data from all sources and perspectives across the enterprise

Salient Performance Management works due to the depth, rigor and immediacy of the accounting providing the necessary foundation for continuous improvement. Based entirely on atomic data (not statistical inference), SPM combines modern computing power with the human mind’s superior

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ability to discern outliers and anomalies from graphical patterns and trends, enabling non-technical managers to quickly understand, remediate and continuously improve over time.

Salient's core purpose is to help win through an exact accounting of performance and use of this knowledge in the field as well as the office. We are committed to understanding your business strategy, how each role contributes to strategy objectives and to train all roles in extracting maximum value from work. The Salient "practice" described above serves as the foundation for a modern management style based on local autonomy* and mastery* of the business process without the usual risk to central control. Further, our complete visualization and interactive interrogation toolset provides the feedback loop that is essential for continuous improvement and, ultimately, mastery of business process.

*Daniel Pink, et.al. Drive

"Never limit the pace or direction of inquiry or the quality of the answer; make it easy to do; and, most of all, make it so fast and flexible that there is never a reason not to know."
Guy Amisano, CEO, Salient Management Company

SPM Beyond ABC

Salient Performance Management provides the precise accounting of all value added, and thus recognizes the unique requirements for assigning supportive and/or indirect costs and cost drivers by product, service, customer, or other entity as appropriate. While supporting the simplification of accounting through Lean and Throughput Accounting, SPM is also able to take the best of Activity Based Costing and Time-Driven ABC. It will systematize and automate with continuous feedback on the relevancy of chosen methods for attributing those costs. Simply, you can track the actual "realization" of the chosen cost drivers, with the option of adjusting "on the fly".

SPM enables ABC in a multi-step process, where an activity is initially allocated to varying families of products based on certain similarities (e.g., methods of production, configurations). This allocation may be based on volume, revenue, time, complexity, etc., and estimated based on a forecast. Or, perhaps the activity is allocated based on Reason Codes, Cost of Quality, or other methods of segmentation. As the year progresses, the initial allocation may need to change based on actual consumption, in order to have a real view of the costs for internal decisions (not necessarily external reporting).

Secondly, the same consideration is needed to allocate product family (or other segmentation) costs down to the individual item sold. The final net cost is the total of direct costs and allocated costs, including multiple activities (mapped to the sellable product with a Bill of Activities). Salient's approach is revolutionary in that, once you have primed the system, it continuously updates cost driver formulas in ABC based on actual performance. The inability to automatically update has been an Achilles heel for most ABC initiatives, which typically rely on initial cost driver assignments based on forecasts and must be updated manually to reflect actual business performance.

An example might be the assignment of Purchase Order (Procurement, Supply Chain personnel fully loaded compensation) expenses based on the cost driver of "# of Purchase Orders". Maybe you initially assigned the Purchase Order expenses (\$8000/week) to 4 families (Family A: \$3000,

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Family B: \$2000, Family C: \$1500, Family D: \$1500)¹. For Family A, the cost driver is number of purchase orders, estimated at 100 P.O.s per week, which results in \$30/P.O. assigned to products², customers (depending on how the P.O.s are proportioned to those products, customers). However, during the month, you will have visibility to the realized number of P.O.s, and if they are tracking to 120 or 80, you can adjust rate/P.O. accordingly. And, you have a continual accounting of the cost drivers, thus the ad-hoc maintenance is alleviated.

The following illustration reflects Salient's ABC model:

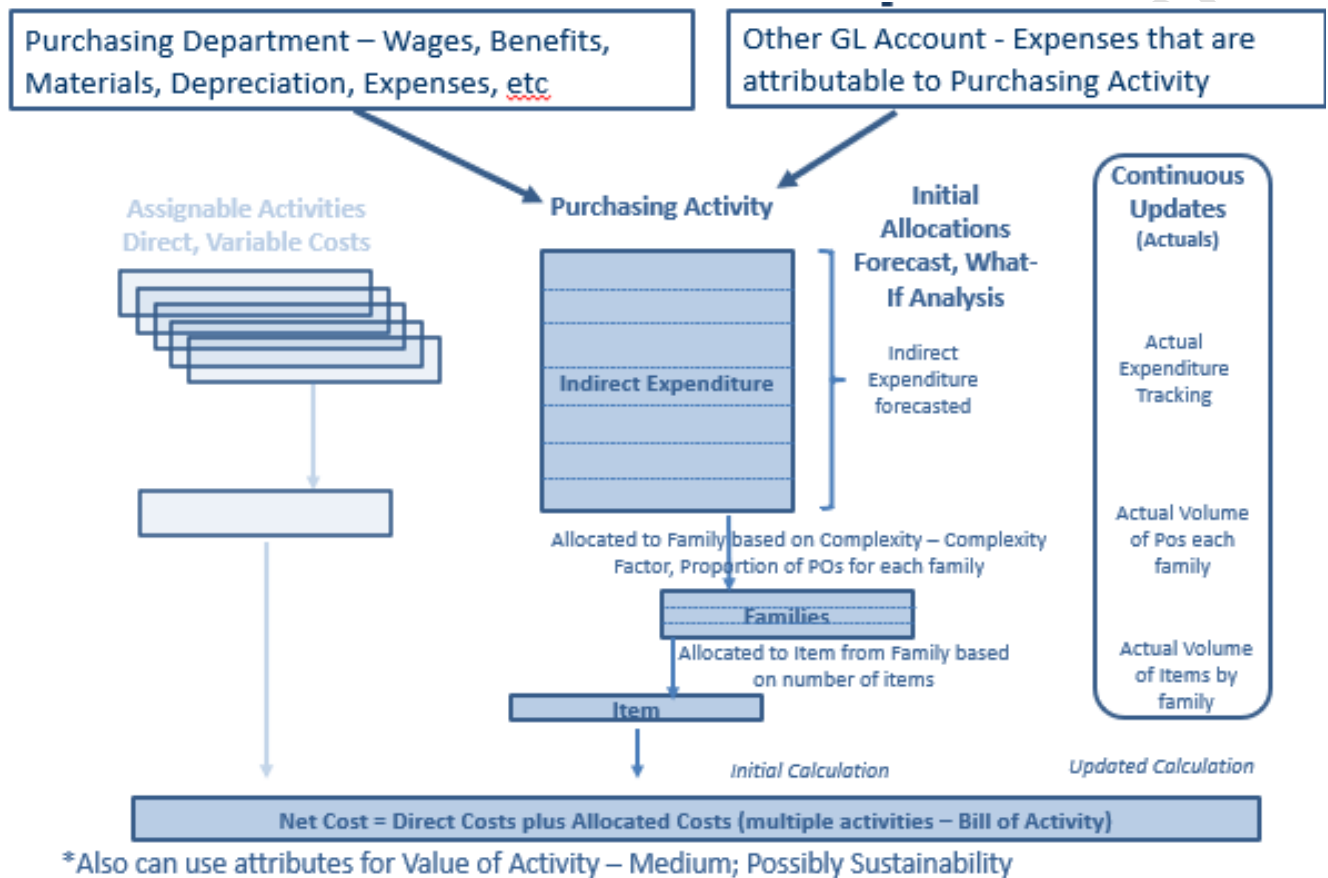


Figure 13 – Salient model for ABC

Click [here](#) to learn more about how Salient's Allocations Advanced enables a precise accounting

Simply, SPM leaps past the former challenges that reduced effectiveness of Standard Accounting, and stymied the institutionalizing of ABC. At the same time, it supports the Lean initiatives to simplify through blanket orders, reduced suppliers, etc., with the recognition of reduced P.O.s per week AND the respective reduced personnel compensation that will be re-assigned to other value-add duties.

¹ This initial assignment may be based on knowledge of complexity, people assigned specifically, etc.

² There may be further nuance based on complexity factors – thus each type of purchase order may have specific weightings

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Salient Performance Management enhances ABC, BSC, EVA, Constraint-based Throughput Accounting, Lean, Six Sigma, and continuous improvement, and makes them all viable methods.

- SPM automates and institutionalizes ABC
- SPM provides the underlying operational improvement insight for BSC
- SPM enables the exact and transparent accounting of value, which is needed for EVA
- SPM provides the visibility and performance monitoring for Throughput Accounting
- SPM enables the valuation of waste reduction opportunities for Lean, Six Sigma
- SPM is fundamentally about enabling continuous improvement.

Business impact

Continuous improvement techniques require investments in software/technology, process improvement, and organizational development. SPM provides the insights and practice for rapid realization of the improvement and institutionalization of best practices. Additionally, there are potential findings through discovery of business opportunities (not possible in more static analyses, reports, and less robust approaches in Lean) (Figure 2).

These are typical benefits:

- Revenue enhancement based on rationalized products and customer, insights for pricing, increased competitiveness
- Gross Margin enhancement based on the Revenue enhancement benefits, plus cost reduction through continuous improvement and mix management
- Indirect Costs reduction through insights on cost drivers, capacity optimization, inventory optimization, and continuous improvement
- Working capital optimization
- Fixed assets optimization

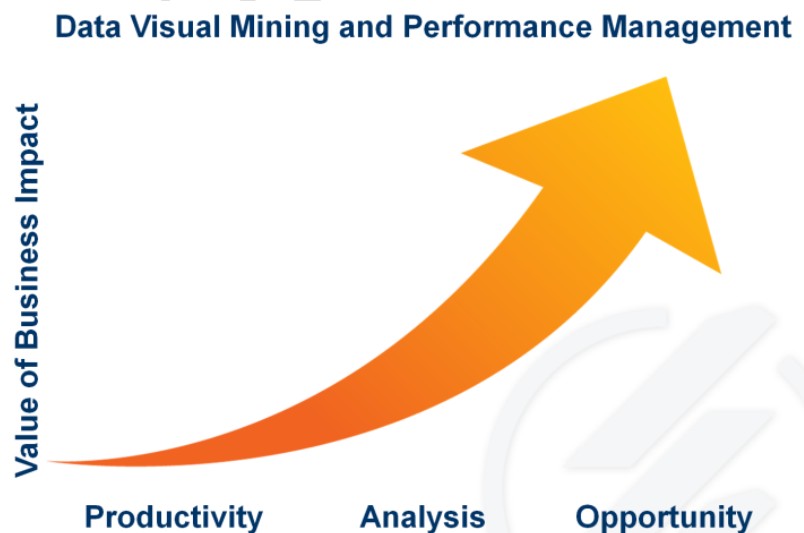


Figure 14 – Salient delivers the benefits

Additional benefits such as quality, customer service, etc. are results of the actions taken above.

SPM - ✓ Pros and ✗ Cons

- ✓ Values each action with facts relevant to each person
- ✓ Eliminates the excuses of “not knowing”

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- ✓ Provides path to investigate underperformance, and enables continuous improvement
- ✓ Supports bottom-up operational improvement and top-down accounting
- ✓ Provides basis for Pay for Performance
- ✓ Automates to ensure institutionalization
- ✓ Promotes Lean, Six Sigma, and Continuous Improvement, but supports traditional organizations as well

Relevance Found

Systems are a means to support achieving business objectives, including maximizing shareholder and community value. Finance, Accounting, and Operational Performance Management should enable progress, but are not an end. And, these systems should certainly not drive incorrect behavior and results. Simple but profound: *“People do as they are measured.”*

If top-down control motivates undesired actions merely to satisfy misaligned measures, the result can be reduced competitiveness. This is how Management Accounting became irrelevant. Salient Performance Management simplifies and softens the shift to lean management. It provides an exact accounting of the value drivers, enabling credible decisions such as pricing, product placement, customer attention, capital investments, supply chain selections, operational actions, and employee incentives. And, by ensuring that individuals understand indisputably the value of their actions, and enabling methods for continuous improvement, Salient Performance Management defeats the usual resistance to adoption of other approaches.

Fortunately, when you motivate and empower people with bottom-up measurements, encourage elimination of waste, simplify the processes, focus on the customer, and measure real value, the organization can be synchronized for Operational Excellence. Salient Performance Management embraces these attributes.

So here it is: Salient Performance Management is Relevance Found.

Appendix

- *Relevance Lost: The Rise and Fall of Management Accounting* by Thomas Johnson and Robert Kaplan (Johnson and Kaplan & Thomas H. Johnson and Robert S. Kaplan, 1987)
- https://en.wikipedia.org/wiki/Activity-based_costing
- <http://businessfinancemag.com/business-performance-management/time-driven-costing-bottom-line-new-abc>
- <http://thejns.org/doi/pdf/10.3171/2014.8.FOCUS14381>
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- https://en.wikipedia.org/wiki/Economic_Value_Added
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- *The Machine That Changed the World* (Macmillan/Rawson Associates, 1990)
- <https://www.lean.org/WhoWeAre/LeanPerson.cfm?LeanPersonId=1>
- <http://leanmanufacturingtools.org/77/the-seven-wastes-7-mudas/>
- https://en.wikipedia.org/wiki/Lean_manufacturing
- https://en.wikipedia.org/wiki/Single-Minute_Exchange_of_Die
- https://en.wikipedia.org/wiki/Six_Sigma (Motorola, 1986)
- Actions to reduce the time associated with location include:
- [Poka yoke](#) (mistake proofing the process).
- Commonality of setups as previously mentioned (The [5S](#) tool of standardization)
- <https://www.bing.com/search?q=6+sigma&form=EDGNTT&q=PF&cvid=0aaeeb748faa43108f1e0dab24d9703e&pg=6+sigma&cc=US&setlang=en-US>
- https://en.wikipedia.org/wiki/Six_Sigma
- <https://hbr.org/1996/01/control-tomorrows-costs-through-todays-designs>



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