

NASACT Benchmarking Update

The Hackett Group
Proven Best Practices
Backed by Empirical Data



Hackett-REL
Total Working Capital



NASC Alexandria Conference
March 23, 2006

 **The Hackett Group**
World-Class Defined.

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Agenda

- **Update on NASACT Benchmarking program**
 - Background and status
 - Program features and approach
- **Tennessee Update And Experiences With Their Current Benchmarking Initiative**
- **How the State of Washington has leveraged benchmarking for its business transformation**
- **Q & A from the panel (sample topics):**
 - Reasons for State Participation in the Program
 - Executive Message and Expectations
 - Required Resources to Execute
 - Project Timeline

Overall NASACT benchmarking program features

- **Standardized approach and taxonomy**
 - Finance, Human Resources, Information Technology and Procurement
- **Results are based on objective facts and documented in a report to include:**
 - Evaluation of efficiency and effectiveness
 - Understanding on use of best practices
 - Quantify opportunities for improvement
 - Establish basis for ongoing measurement to analyze improvement
- **Comparisons included:**
 - States (after 7 states complete their data submission for each function)
 - We will provide the first 7 states with an updated report that includes the State peer group when available
 - Hackett World-class and peer group organizations
- **A state may participate, in one or more benchmark studies, at any time**

Benchmarking Program Adapted for State Governments

- Using the Hackett Standardized approach, data collection tools, and taxonomy as a basis, we conducted several review sessions with NASACT and participating states to identify any changes
- The four major functional areas have been organized in subordinate “process areas”, for which data is collected and metrics and performance is reported
- Changes have been agreed upon by NASACT and incorporated into the benchmarking program
- The result is the only benchmarking program that has been specifically adapted for satisfying the unique requirements of state governments
- As more states participate in the program, in conjunction with NASACT the process of sharing “lessons learned” between the states and refining the benchmarking program will continue

Background - States Participating

Program Launched at NASACT Conference in Portland in August 2005

State	Benchmark Scope	Status
Tennessee	FIN, HR, IT, PROC	Active
Arizona	FIN	Active
Delaware	FIN, PROC	Active
Mississippi	FIN, HR, IT, PROC	Contracting
Colorado	FIN	Contracting
Massachusetts	FIN, HR	Contracting
Alaska	HR	Contracting

States Who Have Indicated High Interest:

New York, Florida, Oklahoma, Virginia, Missouri

Reasons states are participating in the benchmarking program

- Ensures that you use standard definitions and metrics for accurate comparisons
- Allows comparisons between agencies within your own state, to world-class organizations, as well as other State Governments
- Provides a baseline, supporting a “before and after” comparisons when undertaking an improvement project (such as a new ERP)
- Identify ways to improve and augment your business processes, people, organization, and technology utilization
- Provides insight into areas that are performing well and into areas for improvement that will yield the highest ROI, and to prioritize best practices initiatives

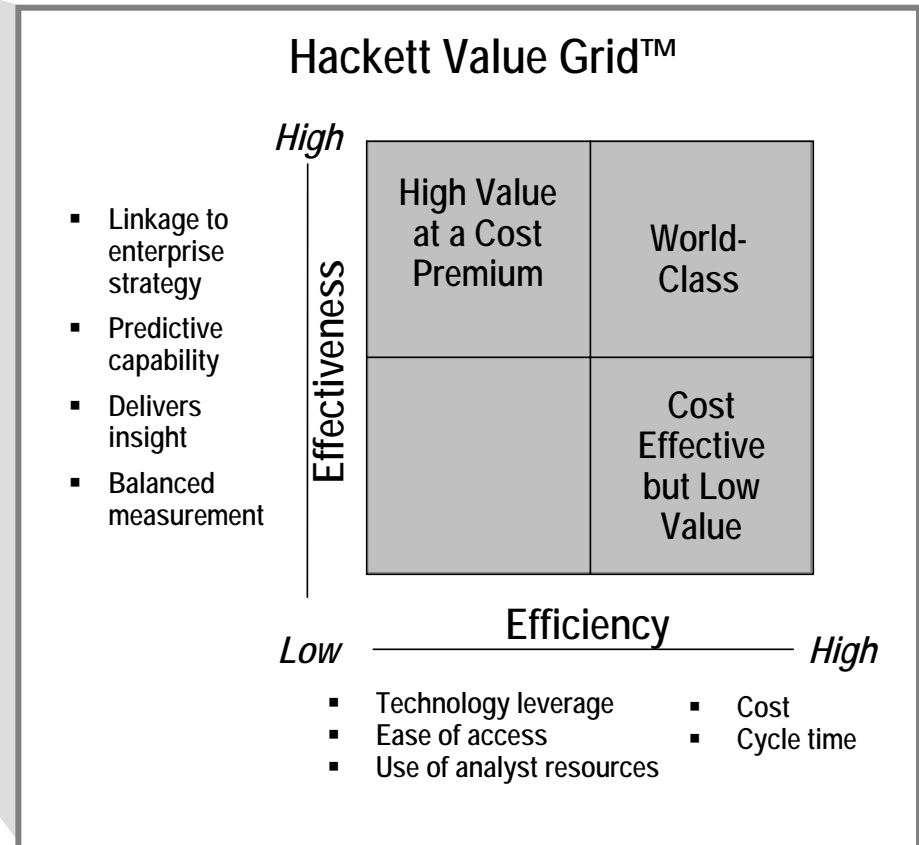


Hackett Benchmarks Provide a Balanced Perspective on Efficiency and Effectiveness Performance Measures

SGA Key Metrics			
Finance Function <ul style="list-style-type: none"> Staffing levels Labour rates Process costs Cycle times Effective tax rate % Time analyzing vs. collecting data Value of reporting Finance costs as a % of revenue 	Human Resources Function <ul style="list-style-type: none"> Staffing levels Cost per employee Self-service utilization Termination rates % total HR spend on outsourcing Linkage of HR and business strategies Transaction efficiency/errors 	IT Function <ul style="list-style-type: none"> Staffing levels # of data centres % electronic business transactions Help-desk call volume FTEs per application % custom applications Cost per end user Resource skills & education 	Procurement Function <ul style="list-style-type: none"> Staffing levels Process costs # of suppliers per \$ billion in spend Degree of utilization of cross functional teams Cost of procurement as a % of spend Use of analytical reporting tools
Sales Function <ul style="list-style-type: none"> Sales cost as % of revenue Sales staff turnover % Orders processed per FTE Sales revenue per company FTE 	Marketing Function <ul style="list-style-type: none"> Marketing cost per process Marketing cost as % of revenue Marketing cycle time compared to world class 	Corporate Services <ul style="list-style-type: none"> Administration as % of revenue Risk Management as % of revenue % of revenue spent for environment, health & safety 	

World-class organizations leverage best practices solutions that deliver:

- Lowest sustainable operating cost model
- Simple / scalable / standardized / reliable technology portfolio driving high ROI
- Most flexible and responsive organization model
- Greater leverage of highly professional talent
- A lower risk profile
- Right information to the right people at the right time
- Enhanced collaboration with stakeholders



Hackett's Benchmarking is Process Driven and Relies on Strict Definitions to Ensure Comparability of Results

Evaluate functional performance on a process level to ensure actionable results

Transaction Processing	Compliance & Risk Management	Planning and Analysis	Management & Administration
<ul style="list-style-type: none"> ◆ Cash disbursements <i>- Accounts Payable, T&E</i> ◆ Revenue cycle ◆ General accounting and external reporting 	<ul style="list-style-type: none"> ◆ Tax management ◆ Treasury management ◆ Compliance management 	<ul style="list-style-type: none"> ◆ Planning and performance management ◆ Business analysis 	<ul style="list-style-type: none"> ◆ Mgmt. & admin. - performance improvement ◆ Mgmt. & admin. - general

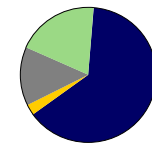
Strict definitions for processes and metrics ensure that...



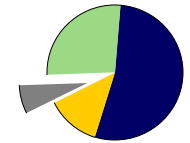
■ ...an invoice is equal to an invoice !



■ ... total costs are equal to total costs !

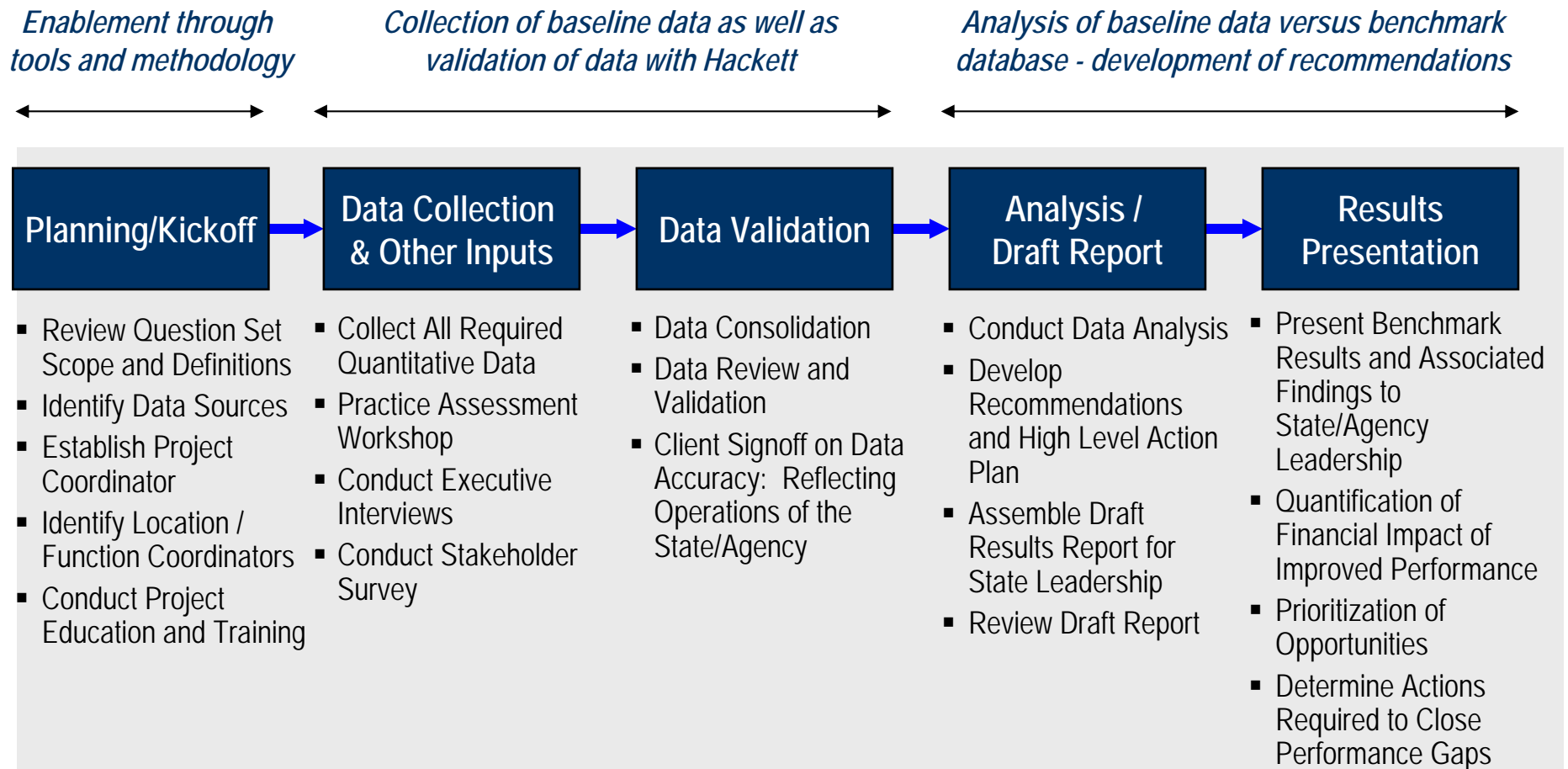


■ Labor
 ■ Outsourcing
 ■ Technology
 ■ Other



NASACT Utilizes Hackett's Proven Benchmark Process and Tools

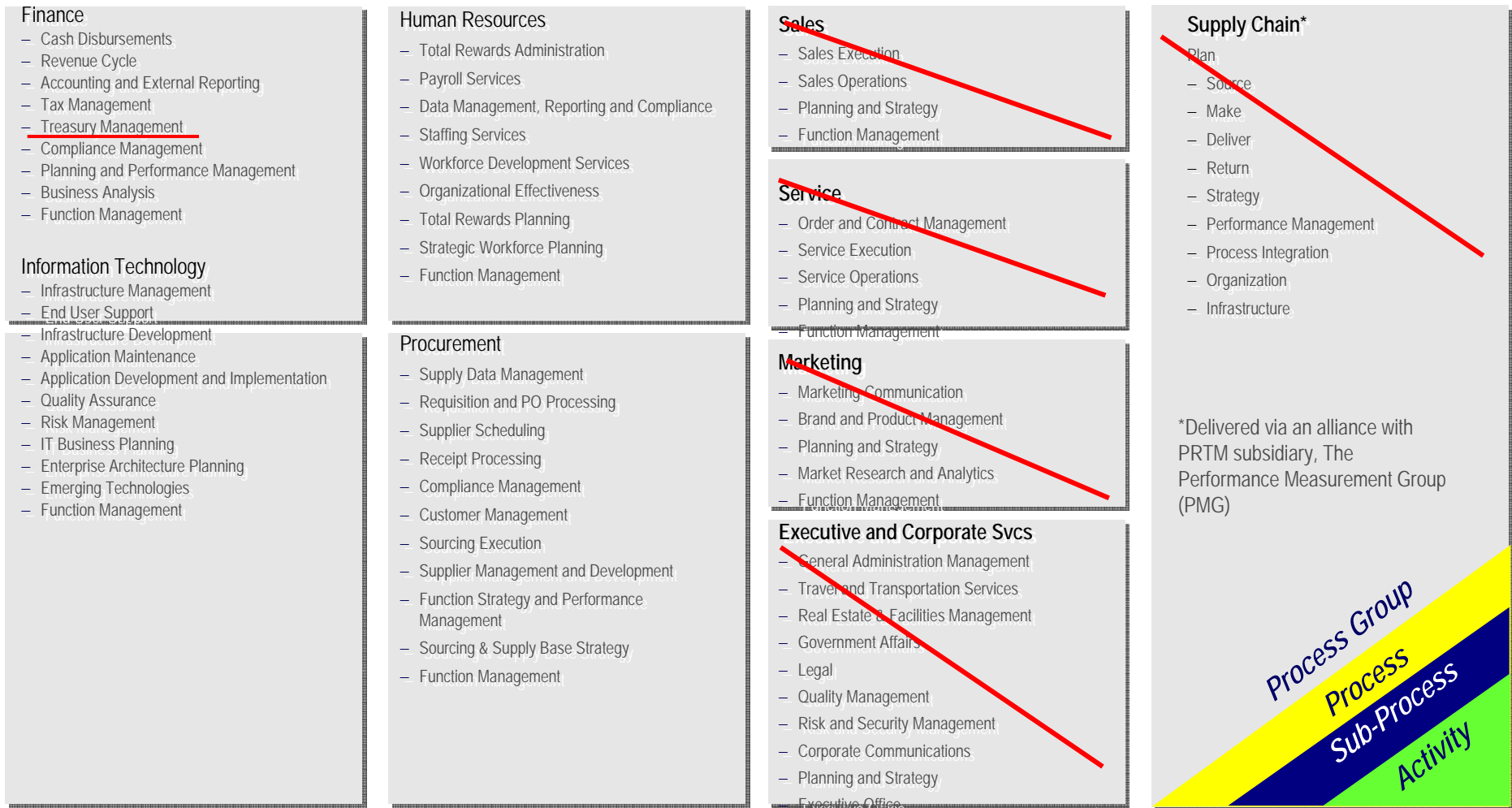
(8-12 week process from kickoff)




Background - state of Tennessee benchmark project

- Leverages NASACT sponsored Hackett benchmark program
- Provides a State-wide baseline of current performance and best practice utilization
- Provides an understanding of the best practices that the State could leverage
- Creates the catalyst for changing the appropriate processes to maximize the upcoming technology investment (e.g., Edison)
- Supports the prioritization of improvement initiatives

TN's components: 4 functions and 39 defined process groups



 *Function is out of scope*

Hackett's finance benchmark focuses on 8 discretely defined process groups

Transactional	Compliance and Risk Management	Budgeting and Analysis	Management and Administration
<ul style="list-style-type: none"> ◆ Cash Disbursements <ul style="list-style-type: none"> ◆ <i>Accounts Payable</i> ◆ <i>Travel and Expenses</i> ◆ <i>Program Payables</i> ◆ Revenue Cycle <ul style="list-style-type: none"> ◆ <i>Credit</i> ◆ <i>Customer billing</i> ◆ <i>Collections</i> ◆ <i>Cash Application</i> ◆ Accounting and External Reporting <ul style="list-style-type: none"> ◆ <i>Fixed Assets</i> ◆ <i>Interfund/Interdepartmental Accounting</i> ◆ <i>General Ledger Accounting</i> ◆ <i>Project Grant and Cost Accounting</i> ◆ <i>External Reporting</i> 	<ul style="list-style-type: none"> ◆ Treasury Management <ul style="list-style-type: none"> ◆ <i>Cash Management</i> ◆ <i>Capital and Risk Management</i> ◆ Compliance Management <ul style="list-style-type: none"> ◆ <i>Regulatory Compliance and Auditing</i> ◆ <i>Process Certification</i> 	<ul style="list-style-type: none"> ◆ Budget Preparation and Reporting <ul style="list-style-type: none"> ◆ <i>Long Term Forecasting</i> ◆ <i>Annual/Bi-Annual budgeting</i> ◆ <i>Budget and Performance Reporting</i> ◆ Business analysis <ul style="list-style-type: none"> ◆ <i>Department/Program Analysis</i> 	<ul style="list-style-type: none"> ◆ Finance Function Management <ul style="list-style-type: none"> ◆ <i>Function Oversight</i> ◆ <i>Personnel Management</i> ◆ <i>Policy and Procedures Oversight</i>

Hackett's HR benchmark focuses on 9 discretely defined process groups

Transactional	Employee Life Cycle	Planning and Strategy	Management and Administration
<ul style="list-style-type: none"> ◆ Total Rewards Administration <ul style="list-style-type: none"> ◆ Health & Welfare Administration ◆ Pension & Savings Administration ◆ Compensation Administration ◆ Payroll Services <ul style="list-style-type: none"> ◆ Time & Attendance ◆ Payroll Administration ◆ Data Management, Reporting & Compliance <ul style="list-style-type: none"> ◆ Compliance Management ◆ EE Data Management & HR Reporting 	<ul style="list-style-type: none"> ◆ Staffing Services <ul style="list-style-type: none"> • Recruiting & Staffing • Exit Process ◆ Workforce Development ◆ Organizational Effectiveness <ul style="list-style-type: none"> • Labor Relations Administration • Organization Design and Measurement • Employee Relations 	<ul style="list-style-type: none"> ◆ Total Rewards Planning ◆ Strategic Workforce Planning 	<ul style="list-style-type: none"> ◆ Function Management

Hackett's IT benchmark focuses on 11 process groups

Technology Infrastructure	Application Management	Control and Risk Management	Planning and Strategy	Management and Administration
<ul style="list-style-type: none"> ◆ Infrastructure Management ◆ Operations Management ◆ Security Management ◆ Disaster Recovery Planning ◆ End User Support ◆ Help Desk ◆ End User Training ◆ Infrastructure Development • Planning • Construction • Implementation 	<ul style="list-style-type: none"> ◆ Application Maintenance ◆ Application Support ◆ Enhancement Delivery ◆ Upgrade Execution ◆ Application Development and Implementation ◆ Planning ◆ Construct ◆ Implement 	<ul style="list-style-type: none"> ◆ Quality Assurance ◆ Change Management ◆ Risk Management ◆ Audit and Compliance 	<ul style="list-style-type: none"> ◆ IT Business Planning ◆ Alignment ◆ Project Prioritization ◆ Communication ◆ Enterprise Architecture Planning ◆ Governance ◆ Standards Management ◆ Emerging Technologies ◆ Technology Evaluation 	<ul style="list-style-type: none"> ◆ Function Management ◆ Function oversight ◆ Personnel management ◆ Policy and procedures oversight

Hackett's procurement benchmark focuses on 11 discretely defined process groups

Operations and Compliance	Sourcing and Supplier Management	Planning and Strategy	Management and Administration
<ul style="list-style-type: none"> ◆ Supply Data Management ◆ Requisition and PO Processing ◆ Supplier Scheduling ◆ Receipt Processing ◆ Compliance Management 	<ul style="list-style-type: none"> ◆ Customer Management <ul style="list-style-type: none"> • External Customer Management • Internal Customer Management • Product Development and Design Support ◆ Sourcing Execution <ul style="list-style-type: none"> • Requirements Definition and Bidding • Negotiation and Supplier Contract Creation ◆ Supplier Management <ul style="list-style-type: none"> • Supplier Management • Supplier Partnering 	<ul style="list-style-type: none"> ◆ Function Strategy and Performance Management ◆ Sourcing and Supply Base Strategy 	<ul style="list-style-type: none"> ◆ Function Management

- ◆ FTEs are captured for each process/process group listed
- ◆ Detailed definitions are provided

Project scope assumptions

- **Scope of benchmark includes all Agencies within the State of Tennessee**
- **The time period from which data will be collected is FY 2006 (July 1, 2005 thru June 30, 2006)**
 - Benchmark data will reflect status as of the end of the period
 - Costs should reflect the annualized benchmark period
 - Both costs and related revenues / volumes must be included
 - Remember recently completed, ongoing and future projects of each function and how that will possibly change the outcome

Benchmark project delivery team involvement and commitments

Sponsor

- Provide project oversight; remove barriers as needed

State Coordinator

- Coordinate the entire benchmark across the entire state (approximately 50% time commitment)

Functional Lead

- Coordinate the collection of data; provide access to key resources (approximately 50% time commitment)

Agency/Location Coordinators

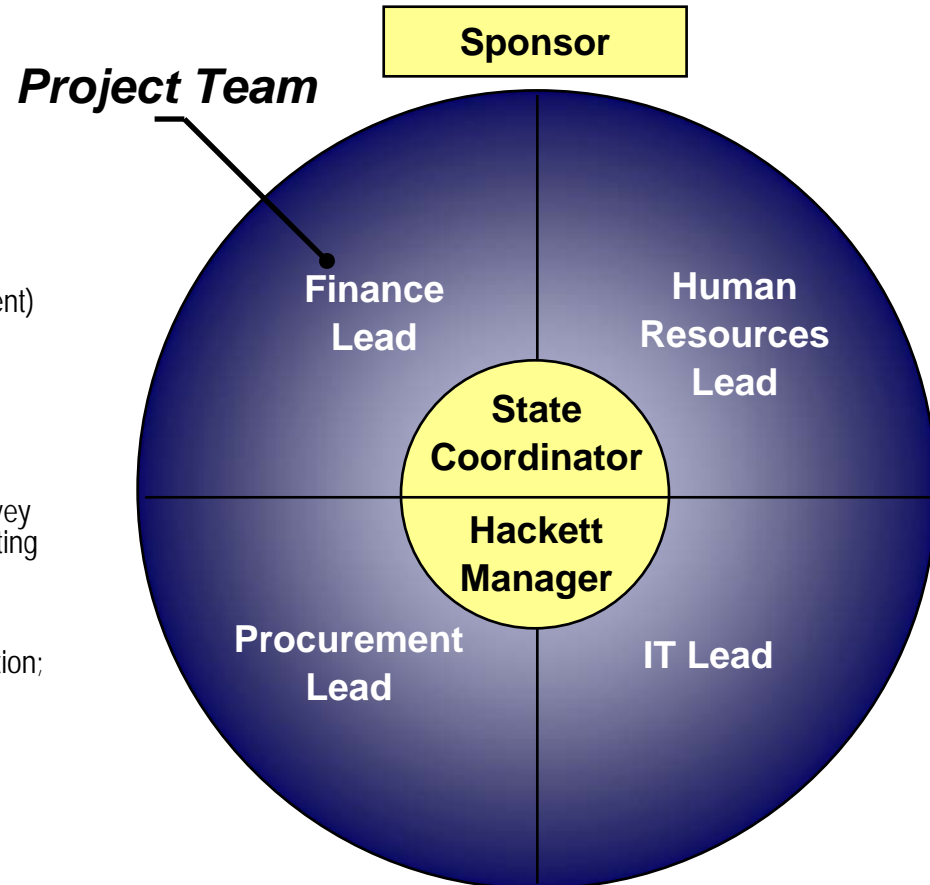
- Collect and submit data; meet with Leader to report progress (2 to 3 days per function/location)

Strategic Advisors (Hackett)

- Provide local support and industry-specific translation of survey questions; interpret performance; create and deliver interpreting results session

Benchmark Advisor (Hackett)

- Respond to participant's questions regarding survey completion; validate submitted data; develop comparison population



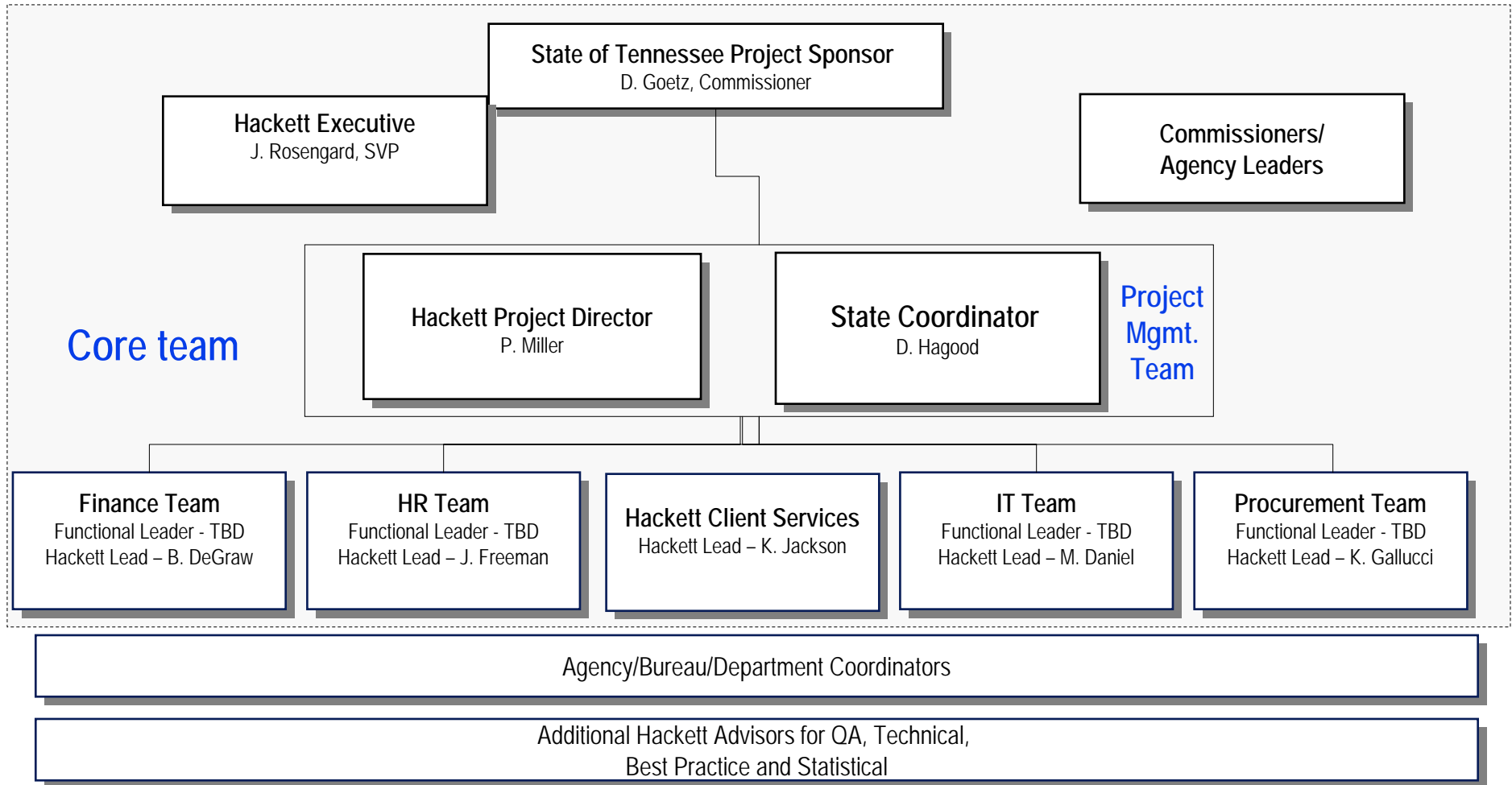
Overall state roles & responsibilities

- Responsible for coordinating benchmark across all functions
- Monitor progress of location coordinators and answers general questions
- Determine organization's scope, timeline, and level of detail for data collection
- Manage the project according to the agreed upon timeline
- Develop an internal communication strategy for questions, concerns
- Identify list of location coordinators that will help to collect the data
- Train location collectors or assist in training
- Coordinate responses for questions and concerns
- Conclude and 'lock' State data submission process
- Communicate scrub issues to Agency/location coordinators

Agency/Location coordinators (“data collectors”) roles & responsibilities

- Trained on process definitions, terminology and data collection tools
- Provide progress related to data collection/ participate in status updates
- Responsible for collecting and entering responses into the web questionnaire
- Advised to direct questions for help to functional/overall coordinators
- Required to follow up on scrub issues identified by functional coordinators

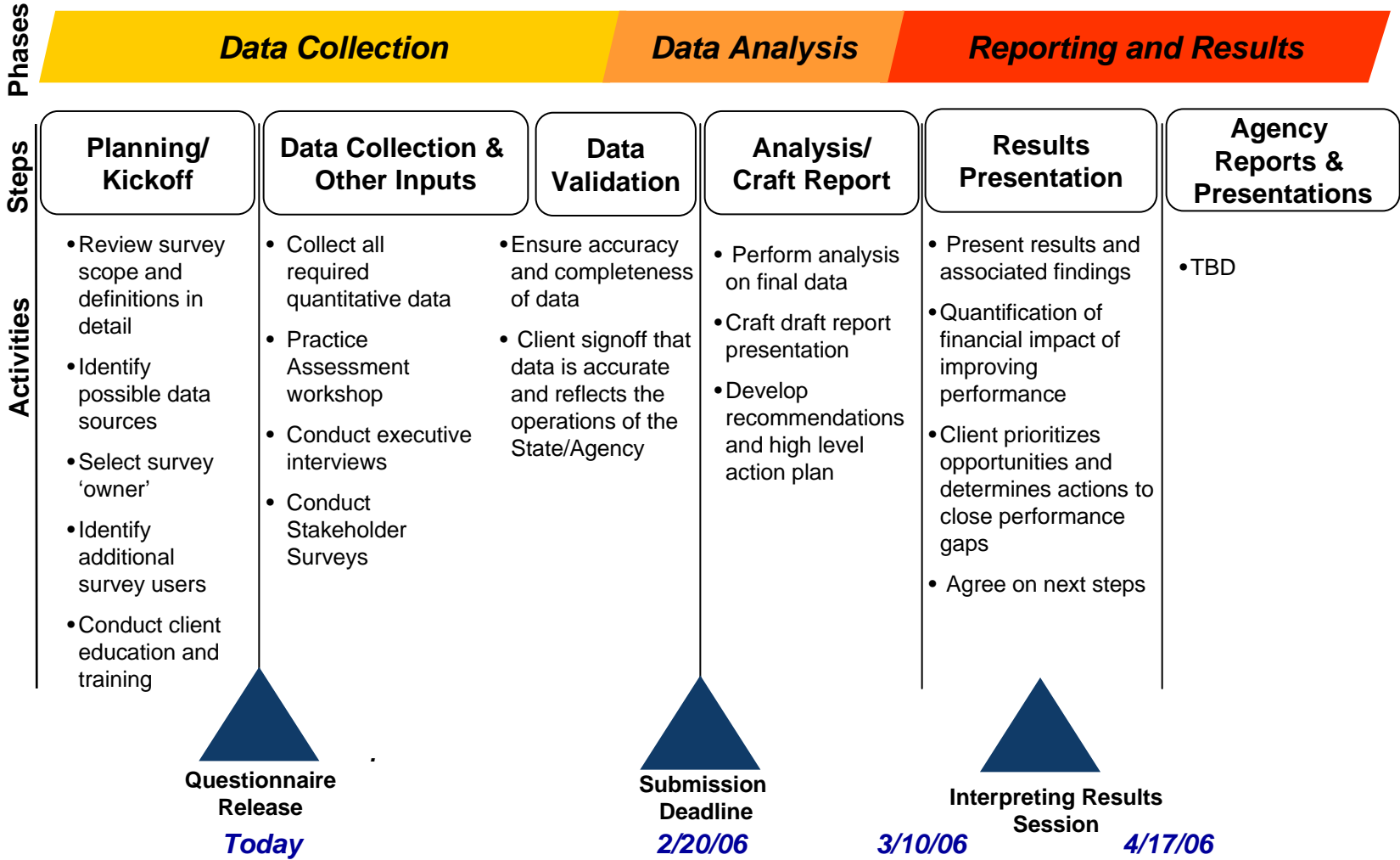
Team structure



In summary, Tennessee will receive:

- A detailed report on our state's performance as compared to average, world-class and state government
- An analysis of the drivers of unnecessary costs and complexity within our state
- A prioritized set of recommendations to guide us in planning and implementing a continuous improvement program
- A quantification of potential savings, by functional area, in cost and cycle time achievable through the deployment of best practices / technology
- An understanding of proven "Best Practices" to drive toward "world-class" performance

Benchmark timeline



All submitted data is immediately secured for 100% confidentiality

Proposed milestones



- | | |
|--|------------------|
| <input type="checkbox"/> Planning – Project coordination | 11/29/05 |
| <input type="checkbox"/> Benchmark kickoff – Data collection effort | week of 12/14/05 |
| <input type="checkbox"/> Data collection concludes | 3/10/06 |
| <input type="checkbox"/> Internal data scrub – Data sent to Hackett | 3/17/06 |
| <input type="checkbox"/> Data validation – Hackett data review | 3/24/06 |
| <input type="checkbox"/> State revises or validates data submission | 3/31/06 |
| <input type="checkbox"/> Data declared final | 4/3/06 |
| <input type="checkbox"/> Review of draft benchmark results | week of 4/17/06 |
| <input type="checkbox"/> Presentations of final results/ executive summary | TBD |
| <input type="checkbox"/> Agency reports/presentations (if selected) | TBD |

** If a milestone is missed, each subsequent date will be adjusted accordingly.*

Critical success factors

- Visible support by State Leadership
- Dedicated and knowledgeable coordinators
- Managing to the timeline to hit key milestones
- Strong communication through the help chain
- Raise issues early
- Accuracy is important; however, judgment must be used to manage materiality
- Active collaboration during analysis stage
- Identifying team resources early in the planning process

Panel Q & A

- Questions?

For Further Information, Please Contact

Pat O'Connor

NASACT Association Manager

Lexington, KY

poconnor@nasact.org

Ph: 859-276-1147

Jim Anthony

Hackett Account Director

Chicago, IL

janthony@thehackettgroup.com

Ph. Work: 312-664-0878, Cell: 312-543-6938

Bill Kilmartin

Accenture Account Director

Boston, MA

william.kilmartin@accenture.com

Cell: 781-367-9576