

Performance Management Overview

By Greg Winston for ClearAnalytics



**Manage What Matters.
Measure What Matters.**

Overview

Organizations that successfully implement performance management solutions will have a competitive advantage. As a result, Gartner Group estimates that 40% of Global 2000 enterprises plan to implement performance management solutions by 2006. This white paper provides an overview of performance management and outlines the keys to successfully implementing performance management solutions. These keys to success are highlighted by both defining organizational strategy and implementing technical solutions to support the strategic goals. Strategy consulting is needed to identify these strategic goals and manage the implementation of the system and help the organization embrace the changes that come with performance management implementations. However, setting strategic direction is not enough to implement performance management. Deep technical expertise is needed to support the metrics, leverage existing data, and disseminate information via dashboards and scorecards, throughout the enterprise.

Performance Management Defined

At ClearAnalytics, we define performance management as a management methodology that captures the strategic vision of an organization by translating it into a comprehensive hierarchy of quantifiable performance goals. These goals are tied to specific metrics and key performance indicators (KPI's), or critical success factors. On a regular basis, the values of these metrics are collected and reported to managers and employees. Over time, these KPI's are used to measure progress towards strategic goals and provide timely and relevant information for decision-making.

The Time Is Right for Performance Management

Performance management is not a new concept. The need to align management with strategic direction and the inability of lagging indicators such as financial metrics to understand organizational performance has been understood and embraced for more than a decade.

However, in the 1990's most organizations were not ready for performance management. Many were panicked about Y2K, the dot com era did not always reward organizations for focusing on strategic direction in the short term, most MBA students studying strategy were not in management positions yet, and technology solutions did not support performance management.

Additionally, systems such as data warehouses, CRM and ERP provided detailed analysis of past performance and operational data, but did not necessarily tie into strategic direction. In fact, these systems failed to provide insight into organizational strategy and were extremely disappointing to executives.

Different than existing systems

Companies continuously revisit their paradigms for evaluating performance, which have a bi-directional relationship with advances in technology. The recent advances in data warehousing, business intelligence, activity based costing and analytical applications have helped transform large volumes of disparate data into actionable intelligence. Unfortunately, these systems have not served as a panacea for organizational performance. They are not aligned with strategic objectives and as a result there have been multi-million dollar implementations that do not address strategic needs. Also, these solutions tend to provide information on past information and lagging indicators, such as sales revenue as of yesterday close of business.

Some organizations believe in performance management but believe that a well designed data warehouse or financial reporting solution will provide the same information as a performance management system. Invariably these systems fall short because they provide a set of metrics, but they do not communicate the relationship of these metrics to strategy. Also, they do not provide modeling capabilities or 'what if?' analysis.

Legacy technical implementations should be leveraged by performance management systems. Since performance management requires cleansed and reliable data to drive metrics and KPI's , legacy technical systems such as data warehouses and ERP systems are a critical component of performance management.

The Role of Technology

Technology enables organizations to disseminate performance management information to employees at all levels of an organization. This includes communication between groups, integration with various systems such as analytical applications, ERP, CRM, and data marts, and dissemination of information. This dissemination includes scorecards and dashboards containing daily KPI's that immediately compare departmental and enterprise performance relative to their strategic goals.

Technical advances in recent years have been instrumental to performance management solution. Previously, many organizations understood the importance of performance management but vendors did not support performance management solutions. In fact, we have several customers who initially used Microsoft Excel as their performance management tool in lieu of a tool architected for performance management. Recently several vendors have developed robust technical solutions that enable performance management systems to be deployed throughout the enterprise.

However, technology is not enough; performance management also requires business and communication tools. We have seen performance management projects fail because they view performance management as a technical solution instead of a management and process centric solution. Successful performance management requires organizations to realize that although technology is a critical component of a performance management system, technology is an enabling component of a broader change in management, not the solution itself.

Components of a Successful Solution

There are many challenges to implementing a performance management system. Since performance management systems cause significant changes in an organization, including new processes, cooperation and involvement from all levels is mandatory. The most common and important challenges that we have encountered include the following:

Vision

Simply, organizations need to clearly understand where they want to go. If they have not determined their vision, then the first step is to identify and set the vision. If the vision has already been established, it needs to be validated and articulated throughout the enterprise. It is not unusual for a company to establish their vision but not spread it to everyone in the organization.

Execution

Execution refers to the steps necessary to move between the organizations' current state and the desired future state. Changes fall into two categories: process improvements and new initiatives. Process improvements are generally targeted at those processes that directly impact the customer. New initiatives change how the company does business.

Metrics

Companies cannot manage goals that they cannot measure. It is imperative to identify metrics for each strategic goal. Metrics need to be set for all levels of the enterprise, including executives, directors, managers and employees. Many organizations fall into the trap of referring to everything that they can measure as a KPI. Whereas metrics refer to measurable information, KPI's are leading indicators that are tied directly to performance and most relevant. A system might produce hundreds of metrics, but only a handful of key KPI's.

Automation

Technology is a critical component of a performance management solution. The data to drive metrics comes from underlying systems such as business intelligence, data warehouse and analytical applications. The metrics critical for performance management are communicated via technology.

We have seen performance management systems failure because of both underestimating and overestimating the importance of technology. On one hand, failure to consider technology and choosing an inappropriate technical solution, such as selecting a performance management vendor that does not support the processes being implemented, will create problems. On the other hand, performance management must not be viewed as strictly a technical solution at the expense of focusing on the vision, metrics and management components of the solution.

Project management

Project management expertise is required to ensure a successful implementation. Project plans, meetings and deliverables need to be established and met, budgets need to be managed, and resources need to be allocated appropriately for implementation of a performance management system. Project management will vary for each client. For example, the strategy and focus of a performance management system for large companies is different than for mid-size companies. Thus, the needs are different for each client, and the project management must reflect these needs

High level commitment – Since performance management systems tie into strategic objectives, it is helpful to have executive support and champions of the system. However, it is not imperative to begin at the top. It is common to begin at the departmental level of an organization. When a department implements performance management effectively, it spreads like wildfire and proliferates throughout the organization. Typically executives will embrace the system within a couple of months.

Iterative – We have found that the best way to begin to practice performance management is to start implementing performance management. Thus, it is not necessary to implement performance management for all areas at one time. Although the big picture objective should involve the entire enterprise performance management can be implemented iteratively, one department at a time. Due to the scope of a performance management engagement, attempting to implement all departments concurrently can lead to project failure because of the resources required by such a large endeavor.

Change Management

Performance management affects the entire enterprise, even if the implementation is iterative or begins with a single department before being deployed to other departments in the organization. Also, a performance management system is likely to introduce new processes that alter employee's daily activities and require feedback and paperwork. As a result, consultants implementing performance management should expect initial resistance by some groups. To mitigate this resistance, change management provides communication and cooperation throughout the enterprise. Training employees is a key to facilitating change, and cannot be neglected. Dedication to change management improves morale and encourages participation. The result is a faster, more thorough and more effective performance management system.

Conclusion

Performance management provides a forward thinking, strategy centric management process that allows organizations to function more efficiently and meet their strategic goals. However, implementation is complex and requires expertise in both management consulting and technical implementation. The key keys articulated in this white paper provide a road map effectively implementing performance management solutions.

About ClearAnalytics

ClearAnalytics specializes in performance management and business intelligence solutions. At ClearAnalytics, we define Performance Management as a holistic process that incorporates business planning, development of an execution plan, modeling the execution plan using key business metrics, and reporting on business operations against the execution plan. To learn more, visit www.clearanalytics.com.