

Performance Management: The Business Imperative for This Decade

An Open and Modular Approach



V E N T A N A
R E S E A R C H

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Performance Management

The competitive differentiator for this decade will be performance management. Companies will either successfully deploy performance management initiatives or will suffer crippling competitive threats. There were massive investments in transactional systems leading up to Y2K, resulting in some efficiency gains, but the “tough economic times” we have operated in during the last few years have clearly shown companies these gains were not enough to face the challenges of staying off the competition and increasing profitability with fewer resources. A strategic and methodical performance management initiative that drives effectiveness is the answer.

Ventana Research defines *performance management* as creating additional value for the company by leveraging assets to better understand, optimize, and align strategies and processes to improve effectiveness throughout the enterprise.

Performance management is not simply performance measurement or business intelligence. There is some confusion between measuring and managing. Simply providing a view of the past is not sufficient for improving performance. Companies are rapidly deploying dashboards; but they do not deliver on the full requirements of performance management. A complete process that leverages historical performance to improve the future and guide individuals to reach their full potential is what performance management is all about.

Why Performance Management Now

Three years of a dismal market have all levels of management from CxOs down to the line-of-business managers scrambling to reduce financial and operational risks. The smart managers want to capitalize on the efficiencies their previous investments in transactional systems brought. Now they are turning to performance management to drive effectiveness throughout the organization. New technology is arriving on the scene to help management maintain a new level of understanding of, and accountability for, performance on a continuous basis.

Methodically improving performance is not easy for organizations. In the previous two decades, it was easy to gain some efficiencies by spending billions on technologies; that opportunity does not exist today. Companies must invest wisely to leverage existing technologies to optimize and align employees and processes throughout all areas and at all levels of the business.

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Organizations must apply performance management across all levels, and individuals must collaborate on information prior to taking action or making decisions. This builds an interlocking PerformanceNetwork™ where optimizing organizational areas and aligning individual actions can operate bi-directionally.

The PerformanceNetwork is comprised of three key areas: **Level** of the organization; **Focus** on managing performance; and **Information** type. The network relies on the performance of others in the network to achieve and sustain optimal performance. Here we explain the three key areas in detail:

1. **Level** – The individual's level within the PerformanceNetwork determines the requirements needed to understand, optimize and align performance. Levels include executives, management and individuals.
2. **Focus** – The focus of the PerformanceNetwork is the scope for which the level of the organization requires information and collaboration among individuals. The three levels have corresponding focus in the organization. The executives have a strategic focus, management has a tactical focus and the broader individual has an operational focus.
3. **Information** – There are three types of information in the PerformanceNetwork necessary to manage performance: executives' strategic focus requiring business information; management's tactical focus requiring business entity information; and individuals' operational focus requiring process information.

Overcoming Obstacles to Performance Management

You know your company needs performance management. Now what? For successful performance management, alignment of technology, business processes and personnel at all levels is essential. You also must leverage technology to gain quality information upon which to act.

The biggest obstacle to deploying performance management occurs at the first step, understanding where the organization is today with regard to technology and processes and how the two are either aligned or not. Within your company, there are organizations and people inextricably wedded to existing investments and processes for conducting business. These organizational and cultural barriers create resistance to change.

The second obstacle is the lack of consistent and quality information upon which to act. Make sure any new investments in technology are coordinated with your performance management initiative. Take the time to define and assess business processes and how existing technology serves them; where businesses processes are not served, learn what technology your organization needs to fill the gaps. Your organization must overcome these obstacles to begin the process.

Performance Management for Every Business Area

Ideally, successful performance management initiatives must be accepted and driven from the top down, bottom up and middle out. Ultimately, everyone must buy in to the initiative. Reality shows this can be difficult to achieve. It is not uncommon for an initiative like performance management to grow virally through a company from an initial adoption by a department or two. A successful performance management initiative within a business area can provide a proof point for implementation enterprise-wide.

Every business area within a company will benefit from performance management. But initially, it is especially critical for the chief operating officer's divisions. Because of their operational focus, aligning strategy is critical to successfully impact performance. For the COO, performance management allows him/her to manage sales, service and marketing using leading and lagging indicators of performance.

It is important to note that financial indicators are often lagging indicators, but for the COO, leading indicators are essential for managing the business. For sales, managing revenue performance to the financial expectations is a critical piece for sales and operations management. While financial indicators are important, a method to manage expectations of these two groups is an important component for performance management.

Open and Modular Approach to Performance Management

Ventana Research advises organizations to undertake a performance management initiative with an open and modular approach that leverages existing investments. This is the only way to maximize value for your company with performance management. An open and modular approach allows your organization to customize solutions to meet its unique performance management needs not served by stand-alone tools. It also allows for rapid deployment so that processes and technology are adopted faster, resulting in a quicker return on investment. A quick definition of *open* and *modular* are in order:

Open – By leveraging and building upon existing investments, you do not have to throw everything out and start anew, allowing for rapid deployment.

Modular – An incremental approach for deploying the performance management component to provide the maximum impact for the organization, allowing you to rapidly iterate and build upon it.

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You must have an approach that can adapt to your organization's requirements, now and in the future. It is important that your performance management technology framework integrate into the enterprise by connecting to data sources, authenticating users and providing an application development foundation.

Organizations will find it cost-effective to build the performance management solution incrementally. You may start with dashboards or scorecards and then deploy other pieces as it becomes evident that this is the right approach.

Ventana Research strongly advises that these incremental improvements not be silo investments and that they allow for growth within the business. Keep a greater focus on building your performance management solution with future scalability and integration issues in mind.

Iterative Approach to Performance Management

Improving performance requires continuous attention to reach the company's goals and objectives. This requires an iterative approach and process to improving performance.

While Ventana Research firmly believes a successful performance management initiative (one that improves an entire company's effectiveness to drive real value) must be adopted enterprise-wide, this does not mean the only way to success is with a "big-bang" approach (enterprise-wide deployment). In fact, such an approach could result in disaster, as the two main obstacles referenced earlier — the organizational and cultural issues, and information quality — would be magnified to the magnitude of the enterprise.

Starting the performance management initiative within a line of business or division can lead to overall success if this type of deployment adheres to an iterative process. When done this way, the iterative steps must keep in mind the steps down the line that would incorporate other LOBs/divisions and the "greater good" of the business. In other words, it is essential that a performance management initiative that starts in a particular LOB or division not be implemented in a silo.

Solution Requirements for an Iterative, Open & Modular Approach

The process for performance management should begin with a clear strategic definition and end with monitoring execution. Throughout this process, your company should coordinate and communicate input and feedback through bi-directional collaboration.

When evaluating solution components for performance management based on the following criteria, keep in mind they are all important, but focus on an approach that incorporates the area with the maximum benefit and then rapidly build upon it.

Strategy Definition – Solutions must enable the organization to clearly define its strategy and articulate the direction of the business. The solution should link strategies to organizational entities and individuals and visually represent them so everyone in the organization from management down to the business user can review and understand them.

Goal & Objective Setting – The solution should allow an organization to define goals and specific objectives for organizational units linked to strategy. Management must then be able to assign defined goals and objectives to business users and then link them to defined business metrics that can measure performance. Within this capability, management must be able to utilize incentives and rewards to improve performance.

Modeling – Once your company defines the strategy, goals and objectives within the solution, you must then be able to create and manage a business model. This model must be capable of accessing and integrating data from across the enterprise to get an accurate representation of your business across time periods, products, geographies, etc. The solution should be able to support an iterative and scenario-based modeling approach to help understand and optimize the business. This then can ensure that the business can evolve and mature based on management needs to change direction and improve performance.

Analysis – The area in the performance improvement process in which the most time is spent is analysis. The art of comparing and synthesizing quantitative information requires a solution to support the broad set of analysis needs by management, analysts and business users. The solution should provide a user interface that can interact with information and allow the user to find the needed results. There should be a sufficient level of analytic functionality like top-bottom, ranking and filtering of information. This is a critical component of the planning process to optimize performance in an organization.

Forecasting – The solution should be able to perform what-if analysis and conduct scenario-based forecasts and plans as required. This enables individuals to determine the right course and take appropriate actions.

Measuring – To improve effectiveness, your organization must continuously measure individuals' and/or departments' performance. The solution must access and provide metrics that allow the organization to assess performance against stated goals and objectives. The solution should have a means to communicate a variance from a stated goal in order to coordinate action.

Monitoring – The need to continuously monitor is clear. Organizations must be able to monitor business metrics and provide notifications that are relevant and actionable. Alerts deployed out through different devices based on levels of importance and criteria provide the notifications. Monitoring can provide the fastest method to reduce the cycle time for taking action.

Managing Performance with Scorecards

A scorecard is an essential component of a performance management solution that helps organizations manage performance by aligning efforts with strategy. It provides a unified view of performance against defined goals and objectives, ensuring a consistent understanding of company priorities and expectations.

Scorecards should also provide internal and industry benchmarks, goals, and targets that help individuals understand their contributions to the organization. This component should span the operational, tactical, and strategic aspects of the business and its decisions. You can use a methodology derived from internal best practices or an external industry methodology (for example, the term “Balanced Scorecard” is a specific reference to the Kaplan & Norton methodology).

For your organization to have a successful performance management initiative, scorecards must connect individual and/or departmental scorecards in the appropriate context to users throughout the company. It is helpful to look for scorecard solutions that are flexible and can work with the methodology that your organization utilizes — be it standard or proprietary.

Because the strategy and planning phases of performance management initiatives require continuous discussion and iterations as the business changes, the scorecard application must be flexible to support the demands of varying levels of management. The scorecard application should be adaptable so that your organization can build custom connections to dashboards and custom applications that fulfill specific requirements of the line-of-business analysts.

Scorecard Benefits

The value of using scorecard applications is the linking of individuals within the organization to strategies and establishing accountability among individuals with assigned goals and objectives. By driving accountability, an organization should see higher levels of responsiveness from individuals directly linked to the business results of the company. Everyone up, down and across the organization gains visibility that facilitates teamwork and collaboration in the business.

Monitoring Performance with Dashboards

A dashboard is another important component of performance management. A dashboard helps you monitor your organization's performance to understand organizational units, business processes, and individuals. Conceptually a subset of a scorecard, it focuses on communicating performance information. Just like an automobile dashboard, it has meters and gauges that represent underlying information. A dashboard may also have some basic controls or knobs that provide feedback and collaboration abilities.

Dashboards require the ability to measure and monitor elements of the business. The dashboard should include easy-to-understand and simplified interfaces that represent key performance indicators (KPIs) or business metrics that provide a historical indication of results. The dashboard must be open to link in additional content or relevant information that is required to measure and monitor performance.

Dashboards are a critical communication interface to business users in the organization. The ability to rapidly modify them is important to meet the demands of business users. A modular approach can provide the capability to link the dashboard with other applications or requirements of the business.

Dashboard Benefits

Dashboards provide a simple and easy approach to delivering relevant and timely information, unlike lengthy management reports. Dashboards empower individuals with information to ensure that they understand historical performance and focus on the critical KPIs. Dashboards improve performance by informing individuals on the state of their performance and help individuals drive alignment with strategies, goals and objectives.

Summary

Your organization has gained some efficiency with your past investments in transactional systems. Now, to remain competitive and increase profitability, the organization must improve effectiveness. Improving organizational effectiveness (people, processes, and technology) is what performance management — leveraging assets to better understand, optimize and align strategies and processes — is all about.

Every business area within your company can reap substantial benefits by adopting performance management, but for performance management to drive real value, there must be top-down, bottom-up and middle-out buy-in throughout the organization.

Performance Management: An Open and Modular Approach

Performance management is not a simple cure-all to the ills plaguing your organization. It is a methodical process. The technology portion of the implementation process, while seemingly complicated, has a few simple rules:

Bigger Isn't Necessarily Better – While ultimately performance management must be adopted and accepted enterprise-wide to drive the most value, starting with a LOB or division is a good way to manage the process and establish success for further adoption.

Open and Modular – Start with a good open platform and leverage existing technologies to build upon. Consider an incremental approach for deploying performance management components to provide the maximum impact.

Iterative Approach – Performance management requires an iterative approach, and technology used should follow this rule – when you start within an LOB or division, keep your eye on the bigger prize of enterprise-wide adoption.

There are many vendors jumping on the performance management bandwagon. Before investing in any performance management solutions, closely scrutinize whether they meet these capability requirements: strategy definition, goal setting, modeling, analysis, forecasting, measuring and monitoring.