# Performance Management Demystified

## *Navigating the confusion to achieve performance management's promise*

**A White Paper**

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## Summary

You've heard performance management touted as the cure-all business solution more times than you care to count — and likely in as many flavors. Perhaps you're not yet convinced that performance management is not just another panacea *du jour* that will soon take its place in the annals of management and technology trends whose promise fell short. If you have been tempted to dip your toe in the water and see what the clamor is about, perhaps you are struggling with where to begin. How do you navigate this fresh sea of acronyms — BPM (business performance management), FPM (financial performance management), OPM (operational performance management), to name a few — and find success in performance management's promised land?

## Why Performance Management — and Why Now?

With a focus on automation and efficiency, the 1990s equipped organizations with more data — and faster — than ever dreamed. Unfortunately, more reports, spreadsheets and emails scattered in islands across the organization were not the answer. If the 90s were about efficiency, this decade's unique set of challenges demands a focus on effectiveness — in other words, results. As organizations have begun to understand that the one with the most data does not necessarily win, they've sought a way to help them actually achieve their desired results or goals.

Enter performance management, whose focus is on creating methodical and predictable ways to improve business results, or performance, across organizations. Simply put, performance management helps organizations achieve their strategic goals. Rather than discarding the data accessibility previous systems fostered, performance management harnesses it to help ensure that an organization's data works in service to organizational goals to provide information that is actually useful in achieving them.

## Deciphering the Brands of PM

With all of the various flavors of performance management out there, how do you decide which one is right for your organization? Despite common elements, their focus varies, as do the primary stakeholders driving them. In general, performance management can be grouped into three overall categories: *business performance* *management* (under which typically falls financial and workforce/human resources performance management), *IT performance management* and *operational performance management*. The chart below depicts where and how the three general categories are often applied in organizations:

| | **BUSINESS** **PERFORMANCE MANAGEMENT*** | **IT** **PERFORMANCE MANAGEMENT** | **OPERATIONAL** **PERFORMANCE MANAGEMENT** |
|---|---|---|---|
| Business imperatives | Compliance management; Performance efficiency | Cost reduction; Profitability management | Business innovation; Process effectiveness |
| Typical owner | CFO | CIO | COO |
| Functional focus | Financial; Workforce/Human Resources | IT Systems; Information & Integration | Customer Operations; Products & Supply Chain |

**Also called Corporate Performance Management and Enterprise Performance Management.*

*Business performance management* includes finance — covering compliance issues, competition, risk and profitability — and human resources performance management — encompassing employee performance appraisals and incentive compensation. *IT performance management* assists organizations with the increasing demands of maximizing value creation from technology investments; reducing risk from IT; decreasing architectural complexity; and optimizing overall technology expenditures. *Operational performance management* addresses the growing pressure to increase revenue while managing costs, while meeting ever-evolving and expanding customer demands.

Which one is right for your organization? As with most things, there isn't one "best" flavor; the right approach for your organization depends on many factors, such as your organization's strategy and goals, capabilities and competitive context.

## Mistaken Identities: What is *not* PM

As performance management (PM) continues its way into popular consciousness, it is often confused and/or used interchangeably with other differing, though sometimes related, concepts. Some of the confusion is propagated by business intelligence (BI) vendors who slap a performance management label on existing BI technology. However, while the data provided by BI systems can feed into performance management, by itself, it is insufficient for managing performance. Not only is BI typically backwards-looking, moreover, it lacks the critical links to organizational strategy and ongoing execution. The chart below highlights, at a glance, some of the fundamental differences between BI and PM:

| | **Business Intelligence** | **Performance Management** |
|---|---|---|
| ***Focus*** | ***Measure*** and ***monitor*** | ***Motivate***, ***manage***, measure, and monitor |
| ***Visualizations*** | ***Dashboards*** and ***reports*** | ***Strategy plans***, ***pathways***, ***initiatives, scorecards***, dashboards, reports, ***comments*** |
| ***Timeframe*** | ***Lagging*** metrics | ***Leading*** and lagging indicators |
| ***Data Structure*** | ***Structured quantitative*** data | Structured quantitative and ***unstructured qualitative*** data |
| ***Data Entry*** | ***Automated*** data loading | Automated loading and ***manual*** entry |

Let's take a closer look at some of the key reasons BI should not be confused with performance management:

*Lack of Context:* Without a connection to overall strategy and goals, the values and trends presented by BI systems are difficult to interpret. How do you know if a particular result is good or bad? Besides targets and goals, there may be inside information — background knowledge that may shed light on a particular result — that BI systems do not capture or share throughout an organization. An effective performance management system, on the other hand, frames information and trends in the context of progress toward goals. Whereas BI stops at providing just the actuals, performance management tells you how those actuals compare to the targets and thresholds important to meeting overall organizational goals. In addition, it provides for the dissemination of background commentary essential to understanding what the information and trends actually mean, and/or how they're being addressed.

*Lack of Forward Projections:* With its backward-looking perspective, BI focuses solely on *lagging indicators,* such as market share, costs, profits, and other measures of past performance. While important, these lagging indicators aren't useful in projecting future performance to enable organizational change today that can effectively adjust course. Performance management, on the other hand, includes both traditional lagging indicators as well as *leading indicators* from customer, operational, or employee points of view. The forward-looking nature of leading indicators enables organizations to seize nascent opportunities, proactively correct issues, and more effectively shape future performance.

*Difficulty in Tracking History:* Despite their backward-looking nature, without context and captured commentary about organizational trends, BI systems cannot provide a useful history for organizations. The right performance management system, on the other hand, archives comprehensive, contextual historical information to function as valuable "corporate memory."

*Data Characteristics:* With its focus on *structured quantitative data*, BI misses out on *unstructured qualitative data* — comments, initiatives, and the objectives themselves — critical to providing the context described above. Without it, it is not possible to get a true and meaningful gauge of organizational performance.

Relying on BI alone in an attempt to manage performance is akin to driving while looking in the rear-view mirror, not knowing what your ultimate destination is, and not knowing which route you should be taking to get there. In contrast, performance management ensures that your organization knows where it is going and how it will get there, while providing a 360-degree view as you navigate the course.

Likewise, although metrics also play a supporting role in performance management, be careful not to mistake them alone as substitutes in managing performance. As alluded to above, looking at metrics in isolation actually can be dangerous to organizational progress, as it doesn't take into consideration what the organization is trying to achieve overall. Without strategic context, an accurate assessment of whether performance is improving or deteriorating is impossible.

## Three Pillars of Success

Now that you know what *isn't* performance management, what does effective performance management look like? A successful performance management program rests on three essential pillars: *approach*, *technology*, and *domain expertise*.

### *Approach*

Organizations may choose among any number of approaches and methodology frameworks to guide their performance management programs. Some of the most well-known include the Balanced Scorecard, Logic Model, and Six Sigma; many organizations modify one of these to suit their particular situation and/or goals.

#### **Balanced Scorecard**

Widely attributed to Kaplan and Norton's 1993 *Harvard Business Review* article, the essence of the Balanced Scorecard (BSC) approach was used as early as 1987, when a team at Analog Devices developed it to track non-financial performance measurements vital to their strategic plan. Heralding the need in the modern competitive environment to go beyond financial measures in taking an organization's pulse, the BSC is now one of the most prevalent methodologies in use today. Central to the BSC methodology is formulating strategy and managing execution based on the perspectives of key constituents/stakeholders of an organization's strategy, such as *Financial*, *Customer*, *Internal Process* and *Learning & Growth/Employees*. Together, the perspectives "tell the story of a strategy" in understandable terms to all of an organization's stakeholders, helping motivate them to achieve objectives. Another important aspect of the BSC is employing *leading indicators* — not just looking at past results — to gauge how well an organization is positioned to perform in the future, which then enables it to refine strategy and execution accordingly.

#### **Logic Model**

Though it dates back to the 1970s, the Logic Model gained prominence in the 90s largely in response to the Government Performance and Results Act (GPRA). Now a widely accepted management tool in the public and nonprofit sectors as well as the international arena, the Logic Model is a roadmap or picture of a program that shows the logical relationships among *inputs* (what an organization invests); *outputs* (what an organization gets done); and *outcome-impacts* (what results or benefits happen as a consequence). Logic models are useful for program design and planning, program management, communication to stakeholders and performance management.

 

**Six Sigma**

Originally developed by Motorola engineer Bill Smith, Six Sigma is a quality management and process improvement methodology particularly well-suited to process-intensive industries like manufacturing. A basic tenet of Six Sigma is that the higher the variation of a process, the higher the frequency of defects. It measures a given process by its average performance and the standard deviation (or variation) of this performance, aiming to reduce the occurrence of defects in a given process to a level of "Six Sigma" outside the norm; no more than 3.4 times per million. This goal is accomplished by reducing the variations in the process and progressively improving its performance.

While the overview above is by no means comprehensive — and in fact, many organizations adopt their own brand of strategic methodology that may be a blend of approaches — it should begin to paint the picture of the objective-focused, forward-looking, holistic (i.e., beyond financial measures) purview of performance management.

***Technology***

While the right approach provides the conceptual framework for your performance management program, actually enabling alignment across the organization requires technology to support it. Besides ensuring it supports your methodology framework of choice, the performance management solution you choose to support your efforts should effectively facilitate communication and collaboration across the organization.

As mentioned previously, beware of vendors who apply the performance management label to dressed-up iterations of the same reports and metrics that already overwhelm organizations, providing no strategic context and way to actually align employees toward organizational goals. An effective performance management solution not only helps communicate objectives, but also facilitates collaboration across the organization to achieve them. Toward these ends, your performance management technology should include capabilities for creating and sharing strategy plans; developing and collaborating on initiatives that tell *how* the organization plans to achieve its strategic objectives; along with other mechanisms, such as scorecards, dashboards — and yes, reports — for intuitively monitoring and understanding ongoing progress toward goals. A solution also should assist with the critical task of prioritizing tasks, to help managers determine where to strategically apply limited organizational resources.

***Domain Expertise***

Too many organizations have learned the hard way that deploying a successful solution entails much more than installing the latest software. Just as even a sound strategy is useless if not incorporated into organizational execution, so too is a performance management solution rendered ineffective if not rolled out successfully and used regularly across the organization. To ensure that your performance management program reaps tangible improvements — and starts doing so sooner rather than later — look for a performance management provider who, along with technology, provides the domain expertise to foster a successful deployment. In addition, get a feel for a provider's philosophy; for example, do they promote a "big bang" or "top-down" approach, in which the entire organizational strategy is cascaded down from the executive level throughout the organization? Or do they support a more incremental approach, in which an organization starts small — perhaps with just one strategic objective in one group within the organization — thereby having the opportunity to test and refine before rolling out on a wider scale? As you may imagine, deployment philosophy has wide implications, including time to results, cost, and ultimately, the overall prognosis for success of your performance management program.

## Making Vision Reality

Performance management offers big promise for organizations as they face the evolving challenges of today's new economy. Though it can yield powerful benefits, performance management does not have to be an overwhelming proposition. In fact, unlike some of its predecessors in the business and technology world — whose data excess often created more fog than clarity — performance management, approached correctly, actually distills information down to the essential, sharpening an organization's focus on the critical path to achieving its goals, both short- and long-term. By consistently harnessing the full potential of organizational resources in the direction of goals, organizations can make good on their strategies, bringing their ambitious visions into the realm of reality.