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Incentives for success – ensuring full value from your investment in performance management

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Information Management

Cognos software

This year, companies will spend hundreds of billions of dollars – that's billions with a "b" – on software. And a substantial chunk of those software dollars will be spent on performance management solutions. But how about the ROI? How can you help ensure that the benefits of a new performance management system outweigh its costs?

In this article, David Axson suggests that a key factor is management behavior: Your company may spends millions, but if management doesn't display genuine focus, discipline, and leadership, a truly successful project – one that yields tangible results – is much less likely.

"Incentives for Success – Ensuring Full Value from Your Investment in Performance Management" is the fourth in a new series of papers written for the IBM Cognos® Innovation Center by David Axson, founder and president of the Sonax Group. David is former head of Corporate Planning at Bank of America and co-founder of The Hackett Group. In this series, David draws on research and material from his second book, Best Practices in Planning and Performance Management, which was published by John Wiley & Sons in January 2007. The book provides practical insights into the ways world-class companies leverage corporate performance management processes and systems to attain and sustain superior performance.

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Numerous studies over the last decade have cited the relatively low level of satisfaction most business executives have with the returns realized on their investments in information technology. Tales of missed deadlines, blown budgets, poor functionality, and failed integration abound. But despite all these frustrations, managers recognize the critical importance of deploying effective systems to remain competitive. In fact, it is estimated by Forrester Research that companies will spend $334 billion on software during 2007, an eight percent increase over 2006. Spending on performance management applications is growing at an even faster rate. IDC projects average growth of 11.2 percent through 2010. Given the scale of these IT investments, it is critical that implementations translate into tangible business benefits. The days of $100 million, three-year implementations that yield inconclusive results are gone.

Focus, discipline, and leadership are characteristics that differentiate investments that pay off from those that don't. Focus is a function of clear objectives, defined benefits and a manageable scope; discipline is reflected in clear accountability and precise execution; and leadership manifests itself in the commitment of senior management to adopt best practice processes, tools, and behaviors that translate an investment in new systems into better business decision-making.

Successful investment in performance management systems demands that a number of traditional beliefs are updated to reflect: a) the evolution of the role of technology in business, and b) the high standards to which performance management investments must be held. In this paper, I will explore some of the keys to ensuring success, not just during implementation, but more crucially, as an integral part of the overall business management process.

There is no such thing as an "IT project" any more.

For close to three decades, managers have viewed new system implementations as discrete projects with costs and benefits that are uniquely and separately identifiable. For a long time this perception was valid, but as technology has become more embedded in the fabric of business, it is not only wrong, but dangerous. Rarely are purely IT-related benefits from new systems either large enough or important enough to justify the investment.

Nowhere is this more true than in performance management. Implementing performance management software is not a stand-alone systems project. It is an integrated business initiative combining elements of policy, process, business practices, organization, and human behavior with technology in order to deliver more effective management. A focus on benefits improved business performance. Understanding the holistic nature of this type of initiative is the first step towards leading a successful effort. Implementation efforts must be championed and guided by business managers—not by IT—if new software is to help produce better plans, budgets, forecasts, and reports, let alone decision-making.

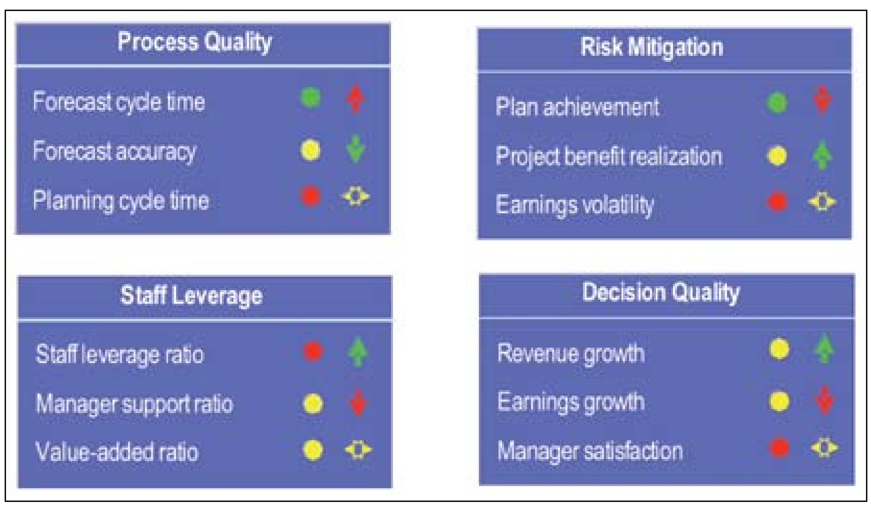
On-time and on-budget are the wrong metrics.

For years, IT professionals and consultants have assiduously tracked the progress of their projects. Measures of project progress and budget utilization dominate project reporting mechanisms. Many non-IT managers cynically comment that "late and over budget" are the norm when it comes to IT projects—a track record of which no one should be proud. An unfortunate side effect of this poor performance is that project progress and budgets are often the only measures that are tracked with any rigor, and even this measurement ceases on the day the system goes live, which is precisely the time when systematic measurement is most crucial, as system deployment is far less important than system use. It is only when the intended users integrate use of new performance management systems into the normal business processes that the expected benefits can ever be realized. All too often, I hear stories of an expensive new system failing to replace a myriad of stand-alone spreadsheets. It is essential to understand that the real work of leveraging new technology begins – rather than ends – on the day it is deployed.

The ultimate measures of success for a new performance management system are reflected in revenue and/or earnings growth through delivering better products at better prices with better service. It is no coincidence that companies leading their respective markets – such as BMW, Best Buy, FedEx, Nike, and Starbucks – are also noted for their ability to deliver on the plans and forecasts they develop, the foundation of which is sound infrastructure for the aggregation, synthesis, and analysis of performance data.

The graphic below provides an example of a performance management scorecard that integrates measures of both efficiency and effectiveness (see the second paper in this series, "Justifying Your CPM Investment," for a more detailed discussion of these measures).

Performance Management Scorecard



Motivate the right behaviors.

Simply implementing a new performance management system does not guarantee that management behavior will change. If sandbagging plans and budgets was endemic before, a new system alone is unlikely to have much impact. It is the combination of powerful new incentives that reward desired behaviors and new systems that support such behaviors that result in meaningful change. For example, the aforementioned problem of sandbagging plans and budgets can be greatly reduced by changing the way managers are rewarded. If the incentive process rewards managers on the basis of their performance to plan or budget, it creates a very powerful motivation to manage expectations downward, thereby maximizing personal rewards when lowered expectations are exceeded. However, if a new incentive mechanism is implemented, setting rewards based upon measures that are difficult to sandbag, such as absolute performance improvement over prior periods, much of the incentive disappears.

Similarly, if an organization suffers from poor levels of forecast accuracy, a simple change such as creating and publishing a league table of forecast accuracy can help by focusing management attention on the issue. The power of measurement is that it sends a very clear message as to what is really important. The risk is that organizations measure so many things that it becomes impossible to decide what is really important; so be selective and identify those behaviors that are most critical for success and align measures and incentives with them. Combining new, but focused, measures and incentives with the power of best-practice performance management processes and systems lies at the heart of a world-class management process.

Extend beyond finance.

"Management-by-spreadsheet" is a notion that accurately describes the way many people think about the tools supporting their performance management processes today. This is good news, since spreadsheet literacy has become mandatory for any aspiring finance professional. However, the same does not hold true for those outside finance. Many managers in marketing, sales, product development, or operations do not feel comfortable navigating around the complex multi-page spreadsheets that spew forth from the finance department whenever a budget or forecast needs to be prepared. For any performance management process to be truly effective, the tools and technologies that support it must be accepted by all those responsible for the creation and execution of plans. A key measure of performance management system success is the extent to which the system is used by managers outside of finance.

Best-practice companies recognize that it is unrealistic to expect every business manager to acquire the same level of spreadsheet literacy as the typical finance professional. Therefore they create practical tools that embrace formats and frameworks familiar to less financially literate managers. The use of natural language or graphical interfaces can greatly increase the usability, hence, ownership of plans and budgets by business managers.

Form is substance!

The criticism that something is "form over substance" does not apply to performance management. The means by which information is organized and presented can determine how effectively it is used. All too often though, new systems simply replicate the dense, hard-to- read, and exhaustive data presentation of the earliest computer printouts or spreadsheets.

Format is more than just designing screen layouts and reports. It includes designing how the information fits into the recipient's role and situation. No standard format is better than any other. It all depends upon how the recipient responds. The advent of low-cost, Web-based reporting tools allows for much greater creativity in the design of a user interface. Many choose to mimic the layout of popular Internet sites like Yahoo, while others seek to replicate existing interfaces that people are comfortable with, such as the spreadsheet. The key is to match the interface to users' preferences, responsibilities, and situations. This means that the same information may be presented in a number of different ways, depending upon the preferences of the user.

Technology is increasingly capable of supporting design that makes information easier to interpret and act upon. Edward Tufte, author of The Visual Display of Quantitative Information, sets out the goal: "What is sought in designs is the clear portrayal of complexity. Not the complication of the simple." How many of your current reports meet this criterion?

Focusing on the user means designing the interface from the user's perspective, rather than looking at the total set of information and working out how to design reports. Good user interface design does not compensate for bad information, but bad design can destroy the value of good information.

Don't train – educate.

Generally speaking, the quality of education provided when new systems are deployed is pathetic. Typically, training sessions focus solely on the system and its functions. Rarely are prospective users educated in the behaviors, processes and practices that are essential to realizing the benefits envisioned at the outset. For example, a company implementing a performance management system that includes a range of new analytical techniques such as Monte Carlo analysis, scorecarding, or real options needs to ensure that the intended users understand not only the mechanics of using such tools, but also the appropriate context—that is, the circumstances under which it makes most sense to use a particular analytical technique. Similarly, the incredible flexibility now offered in customizing reports can create mass confusion as numerous different versions of the same basic data circulate around the organization, each organized to support one constituency's point of view.

Five simple guiding principles for education can dramatically improve both the efficiency and the quality of the performance management process. They are:

- Train on the process, not just the system. Productivity improves dramatically if people understand their role in the context of the whole process.
- Educate around the decisions that need to be made. For example, what steps are required to make a decision on pricing a new product?
- Focus on the needs and situation of each type of user. For example, a sales manager based in a regional office and a sales representative in the field may need to access the same information, but organized by representative for the manager, and by client for the sales rep.
- •raining before the system goes live is significantly less effective than training after implementation in the context of executing the real work to be done.
- Don't assume anything. One company found that over 80 percent of its non-finance managers had little or no familiarity with spreadsheets, which formed the core of the new budgeting application.

One final word of caution: Be very nervous if you see the training line item in the project plan expressed as a simple percentage of the total project cost or as a fixed number of days per head. It is highly likely that no real thought has been given to making the intended users successful.

Just Say "No."

The term "business partner" has been used to describe the ideal role of the finance organization. Unfortunately, all too often finance partners have interpreted "partner" to be synonymous with "slave" and finance has been all too willing to conform, going out of its way to provide "concierge" service to its customers. Consider the following not untypical exchange:

Manager: "These budget spreadsheets are really confusing. I have no idea how I am going to complete them in time."

Finance Partner: "I know. Would you like me to help? I can key in the budget data for you and, if you want, I can even develop a baseline budget for you, so that all you have to do is review and make any changes you want."

Manager: "That's great – thanks. Get back to me when you have finished."

From this point on, any ownership and accountability that the manager may have had is lost. This is now "finance's budget," which will be the recurring excuse whenever variances occur.

Instead of allowing managers to abdicate their responsibilities for developing and owning plans and budgets, finance's responsibility is to create processes and tools that increase the engagement and commitment of managers while using their time efficiently. Today's performance management systems are capable of meeting this need, yet all too often finance teams take the path of least resistance, which does no one any favors.

Summary

Successful performance management process implementations blend traditional management skills with a new set of incentives that seek to personally engage each individual in the new process. As with the best marketing programs, the key is to emotionally connect with the intended user or participant. For some, that may be through enhanced personal productivity, the elimination of "all-nighters" during planning season, or simply providing easier access to useful information. For others, the hook may be the ability to make more confident decisions that lead to superior performance. Increasingly, the role of the change agent or project manager is akin to that of the marketing manager for a new product. Think of the new performance management process and its associated systems as a product that has to be developed, tested, marketed, and sold. And like any successful product, the intended customer must love it and want more of it. When that happens, you know you have a winner.

About David Axson

This article is adapted from the book Best Practices in Planning and Performance Management by David A.J. Axson, copyright 2007 by David A.J. Axson and The Hackett Group, published by John Wiley & Sons Inc. Hoboken New Jersey. David Axson is the founder and president of the Sonax Group and an advisor to the IBM Cognos Innovation Center.

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