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Performance management – 2012

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Information Management

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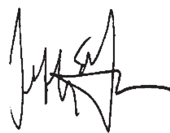
Over the past five years, performance management has come a long way. But there's still a ways to go. Though most of the component pieces exist already, most companies haven't really caught a vision for putting them all together. An old proverb says that without vision, the people perish. Sadly, companies can too.

So – how do you build a vision for comprehensive performance management?

In this article, David Axson offers a number of guidelines: Your processes should follow the rhythm of your business. Your information must be relevant. You need to be aware of risk. Your systems need to integrate. Incentives should reward performance.

Follow these guidelines and, at the end of the day, David argues, there'll only be one excuse for poor decision-making: management stupidity.

"Performance Management – 2012" is the fifth 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.



Jeff Holker
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The plasma panel hanging on the wall dissolves from a graph of year-to-date sales by region into a series of real-time feeds of key business measures: orders received, inventory levels for key products, shipment status for the ten largest customers, call center volume and Web site activity—occasionally one of the quadrants dissolves into a specific alert about potential threats or opportunities—a change in the buying pattern of one customer, a quality issue with a batch in a supplier's plant.

The top-right quadrant shows a map of sales by region; an icon allows the view to be changed to sales by product or by customer, again opportunities and threats are highlighted—below-quota sales in one territory or a close-rate problem in another. The lower left quadrant provides a business risk "heat map" addressing key risk factors across multiple dimensions—financial, competitive, regulatory, and project. Senior managers review the heat map during their regular operations reviews and as an input to the rolling forecast process.

Out in the field, a sales associate can see that a shipment for one of his biggest customers is delayed on the loading dock and will ship twenty minutes late.
He sends a quick revised delivery time alert to the customer, which triggers a Blackberry message to the shipping manager and sales manager forecasting a slight shortfall in monthly performance. Both act quickly. The sales manager authorizes the salesman to offer a discount for the performance shortfall, and the shipping manager adjusts the staffing schedule to avoid any further delays in vital month-end shipments.

These changes trigger an alert on the CFO's performance monitor showing a negative variance in labor costs. However, she is unconcerned, since the extra few percentage points, which she knows will directly translate into improved customer satisfaction; and the 12-month rolling trend for labor costs is still well within the acceptable range. Her mind flashes back to the bad old days before Performance Management, when she would have been beating up the shipping manager for a negative labor variance compared to a budget he had developed more than a year earlier. In response, he would have reduced labor costs triggering a dangerous decline in shipping performance and setting up a major customer relations problem

that she would have spent the next three quarters trying to explain to Wall Street. Now she has the right information and rational bases for comparison that allow her to make the right decisions for the overall business.

Snapping back from her daydream, she turns her attention to the recent up-tick in orders from Southwest China—a 20 percent spike in the last 72 hours. Her screen shows that this follows the rollout of a new series of ads on Asian YouTube. She suggests to her colleague, the VP of marketing, that the program be expanded, since the company has plenty of flexibility to ramp up supply in this crucial new market.

The forecast for the month is dynamically updated to reflect both the increased marketing spend and expected orders; the CFO clears the updated forecast for publication. Delivering a presentation to the Board, the CEO is able to communicate an upbeat assessment of future prospects based upon growth in China, while acknowledging that work remains to be done in the fulfillment process.

An analyst supporting the VP of Operations is reviewing the latest status reports for the top five projects currently in progress. He sees that there are delays in two of them. Further drilldown indicates that the issue engineers—and both projects need access to the same resources. He starts to develop an impact assessment and sees that there is enough contingency built into one of the projects to absorb the delay, while any delay in the other will likely affect the production date for a new product. He apprises the VP of Operations of the problem, diagnosis, and recommended course of action, and the action is quickly approved after consulting with the two project managers. The VP comments that this is exactly the sort of timely, insightful analysis he wants, and vows to pass his complements onto the CFO. The analyst enters the approved action and the work schedule for the testing group is updated as are the project plans for each project.

> *"Your mission, should you choose to accept it, is to isolate management stupidity."*

Sounds farfetched? It isn't really. Many of the component pieces exist today. Unfortunately, few companies have developed a complete vision for performance management that allows them to construct the roadmap to a dynamic, risk-aware performance management process. The pace of change in performance management over the least few years has been dramatic and there are few signs of a slowdown. So what does the future hold and how do we prepare? Let's take a time out from the hectic day-to-day and look at the attributes we should be incorporating into our performance management visions for 2012.

Dare we anticipate that mind-numbing four-to-six month budget processes, sandbagged forecasts, and the avalanche of precisely the wrong management information will be things of the past? Will memories of futile arguments over internal cost allocations and floods of Microsoft® Excel® spreadsheets attached to email messages as primary vehicles for budget development fade into obscurity? Let's hope so. If they remain, the foundations of our performance management processes, we will be hurtling towards irrelevance as more agile competitors or dynamic market changes leave us scrabbling around in the dust searching for the one version of the budget that anticipated such reality.

We should set an ambitious goal for our performance management process: to eliminate all the excuses for poor decision-making (except one). No longer will managers be able to blame computer systems, the lack of timely and relevant information, or the absence of credible analysis for making the wrong decision—the only excuse left will be their own stupidity!

So how do we go about building a set of processes, systems, and behaviors that fulfill this mission? Here are the basic rules that you need to build into your performance management vision:

Management processes must follow the rhythm of the business, not the turn of the calendar (real-time will finally become a reality).

Online, "real-time!" has been the clarion call of business information systems for close to thirty years. Only now is the reality catching up to the hype. Historically, performance management has been an episodic calendar-driven process where actions were dictated, not by events in the marketplace, but by the turn of the calendar. Activities are pre-programmed on daily, weekly, monthly, or quarterly schedules. Any disruption to the schedule places major strains on the management process. However, things are changing. The increasing availability of real-time performance tracking supported by tolerance- or exception-based alerts will provide managers with a valuable early warning mechanism to potential opportunities or threats.

Content must be relevant.

Look at the two columns in Exhibit 1 and ask yourself two questions:

"Which of these items are more important for the success of your business?"

"Which ones represent line items in our current budgets or forecasts?"

Exhibit 1

What's Important	vs	What's Budgeted
• Acquiring Customers		• Salaries and Wages
• Retaining Customers		• Facilities Expense
• Retaining Talent		• Telecommunication Costs
• Fostering Innovation		• Travel and Entertainment
• Managing Projects		• Depreciation

See the problem? What we plan and budget is not what's important for the business. We are stuck in an accounting-centered view of the world that bears little relation to the practical reality of the things that will determine whether we are successful or not. Organizing our plans around the things that matter is a crucial step on the road to relevance.

Risk-aware management processes will be the norm.
Today most of our management processes are predicated on certainty and accuracy—both fatally flawed assumptions. Budgets provide a specific profit number, while forecasts offer a single, and often very detailed, view of the future. Detail flows as future performance is deconstructed down to the minutia. This is dangerous and leads to a degree of confidence in the future that has no basis in reality. Variability and uncertainty are the norm when looking forward. The only certainty about any plan or forecast is that in some way it will be wrong. What determines success is the speed with which an organization can detect change and then respond positively.

Progress is being made: Real options, scenario planning, contingency planning, and rolling forecasts all recognize the crucial importance of understanding risk in performance management. At the best companies, these tools are being combined with an enterprise risk management that has evolved from a discrete "audit-like" function to an integral part of the overall management process. Risk management is not just a finance job; it's the job of every individual in the organization.

Performance management systems will seamlessly integrate.
Seamless integration has been the Holy Grail of IT for quite a few decades now. However, attaching spreadsheets to emails does not constitute integration—despite what many may think! The true measure of performance management value is better performance through better decision-making. A key enabler is the ability to source, synthesize, and deliver the total sum of an organization's collective knowledge about a subject into the hands of decision-makers, whether a customer

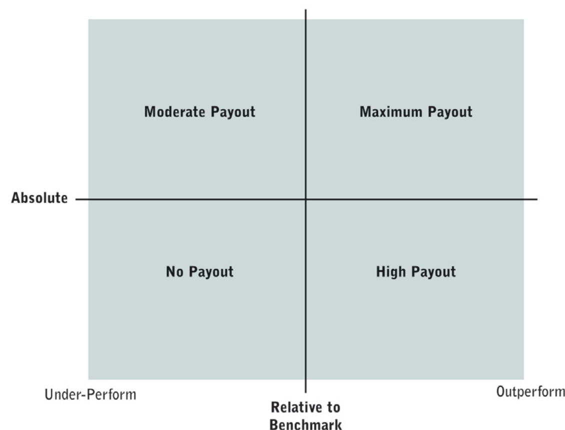
service agent dealing with a complaint or the CEO deciding whether to make an acquisition. The ability of an organization's performance management systems to tap into both internal and external sources of data will be a hallmark of a high-performing organization.

Ubiquitous, situationally relevant management information.
Moving beyond real-time, alert-based information, performance management systems will routinely structure and deliver information that is not only relevant for the individual based upon their job, but also based upon their situation. This includes both the delivery channel—laptop, text message, voicemail, message on their vehicle's satellite information system, or even a break into the song or program they are watching—and the decision-making context. Information will be organized around the decisions they are making. Hiring a new employee? Compensation, benefits, and demographic characteristics of the most successful past hires will be grouped together and delivered as an integrated information "packet."

Incentives will reward performance, not plans.
One of the pernicious attributes of many planning and budgeting processes is the level of "sandbagging" that is induced by tying individual rewards to achievement of plan or budget. It is a surefire certainty that you never get a stretch plan from a manager whose incentives are directly linked to its achievement. Much better to tie incentives to measures that are difficult to sandbag, such as absolute performance improvement or performance relative to an established peer group or benchmark (see Exhibit 2).

Exhibit 2

A Sandbag-Free Payout Matrix



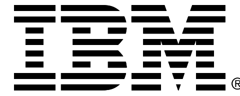
Conclusion

The recurring theme is relevance. Information, tools, systems, even incentive systems must be relevant if they are to be effective. Obeying these design principles will go a long way towards achieving the vision of world-class performance management. Today, many market leaders follow these principles despite the constraints of their current processes and systems – the opportunity is to embed performance management discipline into the very fabric of a company and eliminate all the excuses. Good luck!

David A.J. Axson

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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