The Time for Performance Management Is Now, Not Later

It's dangerous to delay efforts to improve performance

White Paper

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The Importance of Performance Management

For much of the last century, businesses focused on improving efficiency, and in its later decades harnessed technology primarily to ensure that business processes were running smoothly. Massive investments in enterprise resource planning (ERP) and customer relationship management (CRM) systems were intended to help organizations improve their processing of transactions – that is, to be more efficient.

Today it is not difficult to identify where operational efficiency can be improved. At the same time, organizations are realizing that there are limits to the value business process efficiency can deliver. Improving business performance in the face of the complexity of global business, competitive challenges and customer demands requires more than efficiency; it requires the ability to make dynamic changes, to tune the organization to accomplish its goals and then to fine-tune it as conditions change. Effectiveness in achieving goals and objectives has replaced efficiency as the most impactful business priority. Running on a 24-by-7 schedule, organizations now have to measure performance on a weekly – indeed, even a daily – basis. Organizations that delay in adopting performance management will be unable to align resources as needed to compete effectively and thus will find themselves in an increasingly difficult position.

Two key tenets of performance management are to respond quickly and decisively to changes in the business environment and to know you are working on the right set of activities. Immediate responsiveness is essential; the organization should be able to reprioritize and shift goals and targets as needed, not when some schedule says it should. Static reviews, whether annual, quarterly or even monthly, do not reflect the real pace of business and will not enable you to act quickly. If you cannot respond with both agility and the certainty that your actions and decisions are the right ones, you likely will underperform or be outdone by the competition.

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But many organizations have deployed performance management processes and the systems to support them tentatively or experimentally, in small pockets of management or in divisions and departments. Ironically, this tentativeness leads to even greater chaos as some areas of the business try to adapt to change through performance management activities while others continue to operate in the old world of static plans, spreadsheets and e-mail communications. The idea that you can wait and let things work themselves out is a dangerous delay and a detour from the road to enabling effective performance management.

Our research indicates that performance management processes are deployed tentatively or inadequately, if at all, because people lack awareness of how to use supporting applications effectively. These sporadic efforts reflect a failure to realize the strategic importance of performance management and likely also a lack of consensus on priorities among members of the executive team. In fact, our 2007 benchmark research on Financial Performance Management for the 21st Century found that more than one-third (37 percent) of organizations react to change in an uncoordinated fashion.

This will change, because it must. The need to manage performance becomes a stark reality when companies fail to hit their financial and operational targets. Root-cause analysis of these failures usually points to a lack of actionable information and therefore the responsiveness required to change course fast enough to remain competitive and cost-effective. Ventana Research believes that organizations must act to deploy performance management in order to avoid failure and to deliver the results they expect.

The Causes of Delay

Deploying performance management is not easy; many challenges must be addressed to improve effectiveness and thus performance. Two related challenges are unreliable information and disparate siloed systems. Yet most organizations don't assign priority or allocate sufficient resources to improving the accessibility and quality of information and upgrading existing technology investments to support performance management.

Business and IT share responsibility for this situation. On the business side, the pressure of day-to-day activities in the divisions and departments elevates operational priorities at the expense of the strategic need to advance performance management. Also in many cases the continuity and relationship between finance and operations changes with quarterly performance. Information about cost and profit metrics is not always easy to get. For example, HR executives who should have a clear picture of how individuals affect the performance of the organization typically focus more on administrative issues than on optimizing talent in the workforce. In IT management, many CIOs spend most of their time ensuring problem-free operations of the data centers, applications, networks and telecommunications activities, rather than using the technology to improve performance.

> **Our research found that half of organizations fail to use technology to support performance management.**

The challenges that cause delays range from lack of resources and skills to inability to understand the business, user and information requirements for performance management. Our research on Financial Performance Management for the 21st Century found that more half of organizations use information technology only occasionally or not at all to support performance management. In many cases IT management simply assumes that the organization's investments in business intelligence (BI) will address the issue and that existing projects and technology are sufficient. If they don't invest in more effective technology to provide information, organizations will suffer further delays and disappointment. Where performance management deployments are under consideration, delays can be caused by the many pressures on IT, from keeping the data center running to the transaction processing requirements of the order management system.

Recently, we've seen new demands, such as building a service-oriented architecture (SOA) or a grid or "green" initiatives, eat away at IT budgets and resources. And, of course, politics plays a role. Habitual ways of thinking on the part of IT or executive management may influence decisions to maintain status-quo relationships with

existing technology suppliers or to commit to a supposedly improved version of an existing application from an ERP supplier. This latter decision potentially is fraught with difficulty; our recent research found that 58 percent of executives report that changing an ERP system to adapt to new requirements is difficult or very difficult.

Cutting your existing BI or ERP supplier some slack by agreeing to wait for the next release can be risky. The delay will impact your performance; every day in which you aren't able to respond to a market or competitive challenge is a day lost. The only party that deserves special treatment is you, in helping your organization reach its maximum performance.

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Of course, individual issues within business and IT account for only some of the delays in addressing performance management. When it's time for management to review IT investments to address business requirements, the old tension between the two sides surfaces again. There always are competing forces – vendor biases, for example, as business looks toward the opportunities a new application offers and IT continues to try to simplify and standardize on fewer technologies and suppliers. IT governance meetings produce further delays when lack of agreement pushes the issue out for further review. This concept is further explained in the Ventana Research *Aligning Business and IT* white paper.

The Costs of Delay

Given the pace of business today, delay in deploying applications for performance management will cost your organization. When you don't improve information accuracy and availability or add technology to enable agile responses and decision-making, or when management accepts that business intelligence sold by a long-time vendor is all that's needed, the result is the status quo. Then the business continues to be run on spreadsheets, presentations, e-mail and ad-hoc databases – an operational environment that has significant flaws in its ability to synchronize actions and share visibility into trusted information. This personal productivity approach, with its inaccessible silos of files containing multiple instances of questionable data, undercuts the effective decision-making. If you do not act to resolve this today, you may be wasting your organization's time and increasing the risk of error in making effective decisions.

The resulting impact on the business can be sizable, particularly in market environments where success depends on the ability of individuals to use information at hand to make the best decisions. Consider, for example, the importance of deft decision-making in the financial markets in the face of a subprime lending crisis that involves real estate and banks, or the need to make the right calls when global supply chains are disrupted and associated delivery logistics are in disarray. Because your financial results can easily be buffeted by unforeseen events, your business should not operate without a backbone of information systems and applications that can effectively support performance management and the benefits it brings. If you

wait until unforeseen circumstances arise and are not ready with performance management, the "too little too late" cliché could apply to you.

No one thinks businesses should be run on a fingers-crossed basis, but that's what managers do when they expect operations that rely on outdated systems and investments to respond effectively to changing circumstances. Operational management requires better visibility and control than those traditional transaction-based systems provide. Without that, managers are not likely to know in a timely way which initiatives aren't producing the returns expected or when to respond to competition rather than continuing as planned. Opportunities abound, but delays in deploying applications and information access upgrades impede organizations' abilities to succeed – potentially quite painfully.

Steps To Eliminate Delays

Ventana Research believes that every organization should focus on continuous improvement in its ability to support the people and process aspects of performance management more effectively. But unfortunately most organizations fail to recognize the urgency of this need and thus delay acting to drive change.

> **Your business depends on achieving planned results. To do that, management must be empowered and operational visibility improved.**

We recommend a fast-track three step program. The first step is to ensure there is agreement on the business mandate for performance management. What's needed is a clear understanding, shared by executive leadership and finance, operations and IT managers, that achieving the organization's business goals requires systems that will enable them to manage to those outcomes. This can't be assumed, and discussions must continue until every stakeholder has voiced agreement.

The second step is to acknowledge that every person who plays a role in leading the business forward has biases, beliefs and loyalties that can be barriers to that goal. Ensuring that these political issues and barriers are put on the table and addressed is essential; if it does not occur, hidden agendas or assumptions are likely to impede progress. For example, sizable investments in transactional applications for ERP or CRM can create an inherent bias, with the fact of a previous outlay used to rationalize additional investment at the expense of current needs for performance management.

The third step is to determine the most expeditious path forward. You need a concrete plan that identifies specific steps, establishes a time frame and specifies resources. It also must specify how the project will be managed. Having procedures to review and resolve barrier issues is essential. Indeed, we believe that establishing the processes of performance management is sufficiently important that a new governance committee or council on performance management should be chartered to ensure that these key systems and processes are well-chosen and properly deployed. This committee should have representatives from finance, operations and IT who range from management to operational advocates.

It's important to note that most of this program involves not technology or even business processes, but rather people. People are the most underappreciated of the four components of any performance management program (the others are processes, information and technology) – and the most indispensable.

Acting Now Is Imperative

Your business depends on achieving planned results despite the twists and turns of real-world markets, suppliers and customers. To do that, management must be empowered and operational visibility improved to ensure the organization can avoid delays in effective decisions. These challenges are manageable, but it will take work to expose and address the many assumptions, attitudes and biases brought to the table by stakeholders. The process of moving forward must be transparent and fair, but it must stay focused on achieving the organization's goals and objectives.

Our best practices research shows that making the decision to deploy systems for performance management indicates an organization's commitment to operate at peak levels of effectiveness. In many organizations, unfortunately, vendor loyalty and organizational politics hamper these efforts. Choosing the right technology is complicated further by the rapid market consolidation of vendors and technologies. As a result, many organizations have not analyzed the impact of issues such as technology immaturity, the interaction of new with existing investments, how well the requirements of both business and IT are being satisfied and the burden on scarce IT resources. Once again, these issues often translate into delays in determining the best path to align technology and applications with performance management. Ventana Research believes these delays must be eliminated immediately in order to ensure the most effective utilization of resources and investments.

> **Choosing the right performance management technology is complicated by the rapid consolidation of vendors and technologies.**

A primary value of performance management is that it mandates taking concrete, focused steps to eliminate delays in projects and thus working toward continuous improvement. But creating agile capabilities and moving the organization closer to realizing its full potential and achieving its most valuable business outcomes requires strong leadership from both implementers and executive sponsors. Don't delay taking action.

About Ventana Research

Ventana Research is the leading Performance Management research and advisory services firm. By providing expert insight and detailed guidance, Ventana Research helps clients operate their companies more efficiently and effectively. These business improvements are delivered through a top-down approach that connects people, processes, information and technology. What makes Ventana Research different from other analyst firms is a focus on Performance Management for finance, operations and IT. This focus, plus research as a foundation and reach into a community of more than 2 million corporate executives through extensive media partnerships, allows Ventana Research to deliver a high-value, low-risk method for achieving optimal business performance. To learn how Ventana Research Performance Management workshops, assessments and advisory services can impact your bottom line, visit www.ventanaresearch.com.