Enterprise Performance Management . . . *the Basics*

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Business executives need to be informed as significant events and trends occur in their businesses. Frontline managers need key performance indicators (KPI) that are aligned with corporate goals to assess the performance of their people, and to identify areas of opportunity and concern. Employees need clear communication regarding performance expectations and consistent feedback regarding results.

These challenges are daunting in themselves, but each challenge can be either a roadblock to effective performance management or a source of pain that serves as a catalyst stimulating initiatives to improve productivity across the enterprise, including revenue generation, cost savings, customer satisfaction and employee retention.

This paper presents the basic principles and foundation concepts that drive enterprise performance management initiatives to achieve business goals.

Key Questions Answered:

- ***What is performance management?***
- ***What is the science behind performance management?***
- ***Where does the performance improvement come from?***
- ***What are the common challenges in performance management?***

Overview

Enterprise Performance Management is a tactical system for establishing operational standards that are used to assess results and to communicate key performance information at all levels of the organization to achieve business goals.

EXHIBIT-1: ENTERPRISE PERFORMANCE OPTIMIZATION--MANY PROCESSES TO MANAGE

Enterprise performance management is the tool for linking company long-term strategy with day-to-day business decisions.

The effectiveness of your enterprise performance management processes (Exhibit-1) directly impacts all aspects of enterprise performance (e.g. financial, customer service, employee productivity, etc.). Several distinct stakeholder groups each have vested interests in effective, accurate and useful performance management processes.

Executives are focused on strategic issues such as financial performance, business growth, customer churn and increasing expenses.

Operational managers are concerned with more tactical issues such as hiring and retaining skilled employees, productivity, and identifying and solving problems quickly.

Employees are concerned with how they are measured and the resulting impact on income.

At the end of the day, everyone has different interests and different sub-processes within performance management that attract their attention and concern. Everyone looks for crucial information that is valid and useful for his or her specific purposes.

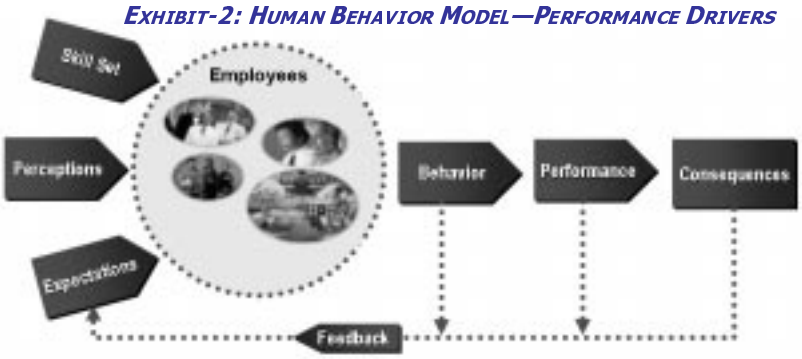
Before we pursue the information aspects of performance management, let's look into exactly where the "gain" in performance management comes from.

The Science behind Performance Management

Enterprise Performance Management is an emerging management discipline that incorporates topics from human behavioral and computer sciences.

The first thing to know about human performance and behavior is that it occurs naturally. Managers are growing in their awareness that they must either get involved to manage organizational performance or allow enterprise performance to find a level driven by external forces.

EXHIBIT-2: HUMAN BEHAVIOR MODEL—PERFORMANCE DRIVERS



Consider the "Human Behavior Model[1]" diagram shown in Exhibit-2. All employees have goals, which is to say they want things and are motivated to achieve certain results. Employees also hold expectations, for example, views and beliefs about the utility and appropriateness of certain behaviors in certain situations, how others will behave, and so on. In pursuit of their goals, and consistent with their values, beliefs, and expectations, employees act or behave in certain ways.

From this simple model we can derive four key management practices known to drive human performance:

- ✓ Ensure goals and expectations are shared up front
- ✓ Focus on performance
- ✓ Make the consequences known
- ✓ Be specific about behavior and its effects

We can readily discern from this model that much of performance management is about where you put the management emphasis and how you get people to understand both the facts of performance and the consequences they bring—in short, communications.

Where Does The Improvement Come From?

The Human Behavior Model describes the key to improving performance as consistent communication regarding individual and peer performance. Improvements are then achieved by providing frequent and consistent performance feedback to drive the low performers (shown in red in Exhibit-3 below) to improve. This is true for all metrics (e.g. productivity, service quality, expenses, retention, learning, manufacturing waste, etc.).

[1] Adapted from a model by Fred Nichols, Human Resources Development Quarterly, Fall Issue, 1995

The frequency of reporting is also an important performance driver. The higher the reporting frequency, the more opportunities there are to take corrective action.

For example, Exhibit-4 below illustrates the lost opportunity for improvement when reporting performance monthly compared to daily reporting. At the beginning of the month the department is tracking to the goal. However, as the month continues, department performance starts to drift below the goal. With monthly reporting, it will be the end-of-the-month before this situation is known and corrective action taken. Monthly reporting limits management's ability to take action as needed to bring the department back on track.

However, the right-side of Figure-4 below indicates that with daily performance reporting, management can quickly take corrective action as necessary to achieve the department's goals.

EXHIBIT-3: FEEDBACK DRIVES LOW-PERFORMERS TO IMPROVE

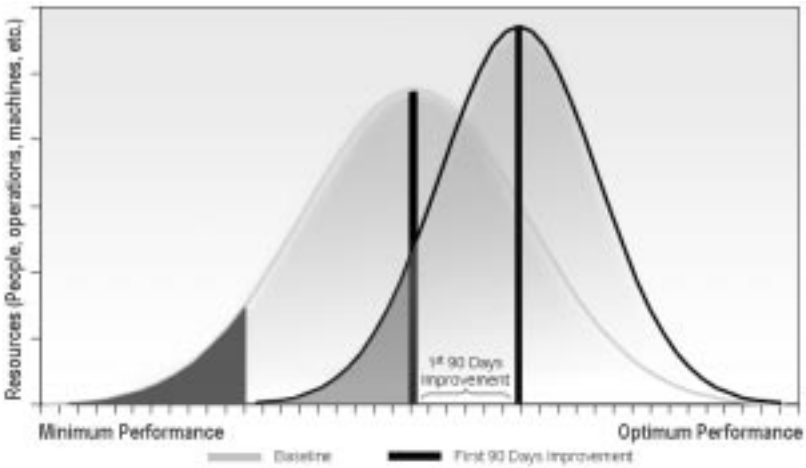


EXHIBIT-4: LOST PERFORMANCE OPPORTUNITY

Part of a Larger Context

So far, we've highlighted some of the key practices and principles that drive human performance. Our ultimate goal, however, is not individual performance, but organizational performance. So the process for communicating and managing individual performance must occur as part of a larger process of organizational performance management.

The following are the key drivers to Improve Enterprise Performance:

1. Translate business strategy into operational metrics
2. Align performance metrics with management processes
3. Personalize performance metrics
4. Use best practices to define metrics and target levels
5. Provide consistent performance feedback company-wide

The Challenges of Performance Management

The overriding challenge in performance management is establishing a tight, accurate linkage between business operations and informational outputs for the various stakeholder groups. What does this look like day-to-day? In everyday experience, this larger challenge shows up as a series of smaller, but significant, challenges in Business Operations and the IT organization. Examples of these challenges are given in Exhibit-5.

EXHIBIT-5: PERFORMANCE MANAGEMENT CHALLENGES

Business Operations	IT Organization
▸ Many processes to manage ▸ Sparse application of best practices ▸ Measurements not aligned business goals ▸ Inconsistent feedback to employees ▸ Data scattered throughout the organization ▸ Inadequate report frequency and detail ▸ Lots of theory (BSC, TQM), few process apps ▸ Requires highly-skilled analysts	▸ Too many technologies (Windows, UNIX, JAVA) ▸ Difficulty integrating new solutions within existing enterprise infrastructure ▸ Supportability of custom integrations ▸ Difficult to deploy and update ▸ Software reliability ▸ Responsiveness of vendor support organizations

We've already established that diverse groups of stakeholders have differing interests and differing information needs with respect to performance management—and that a successful performance management program relies on the quality, accuracy and timeliness with which their performance information needs are met. Each stakeholder group, and each business process in the enterprise, relies heavily on the IT infrastructure to make available accurate and timely performance information to meet their special requirements.

When these needs are not met well, effective performance management is impossible and the various stakeholder groups each experience some of the "organizational pain points" associated with an unmanaged performance program and/or one managed with ineffective informational support.

EXHIBIT-6: ORGANIZATIONAL PAIN POINT

Executives	Frontline Managers	Employees	IT Organization
Declining enterprise performance Declining revenue Increasing expenses Customer churn Declining productivity Employee churn	Difficulty identifying low performers Inconsistent performance feedback to employees	Anecdotal, untimely and inconsistent performance feedback	Too many technologies (Windows, UNIX, JAVA, etc.)
Management processes not aligned with business strategies	Difficult to hire and retain skilled employees	Lack of clarity of how measured	How does the solution integrate within existing enterprise systems?
Performance metrics not aligned with business goals	High employee turnover	No development or career-path	Difficulties around custom integration
Performance reporting frequency and detail not adequate	Lack of information to quickly discover problems	Inconsistent consideration of personal needs	Difficult to deploy and update
Requires highly-skilled business and statistical analysts.	Lack of knowledge and application best practices	Stressful working environment	Software reliability
Lack of insight into performance drivers	Excessive management time administering performance reports	Measurement not aligned with company goals	Poor responsiveness of vendor support organizations

Organizational pain is caused by the lack of automated performance management processes and is different for each employee community (e.g. executives, frontline managers, employees) as summarized in Exhibit-6 above.

These organizational pains are the primary matters that must be overcome in establishing performance management that works smoothly and provides a worthwhile return on your investment. It's no wonder

that one of the net results of performance management is an intense focus by the IT organization on such matters as system reliability, vendor support, deployment flexibility.

These challenges are daunting in themselves, but remember that each challenge can be either a roadblock to effective performance management or a source of pain that serves as a catalyst stimulating improved productivity across the enterprise, including revenue generation, cost savings, customer satisfaction and employee retention.

Summary

Organizations have spent millions of dollars on business-enhancing applications (e.g. ERP, CRM, SCM) with the intent to improve efficiency, boost overall corporate performance, and increase market competitiveness. However, executives now realize that they missed a critical asset and resource—people. With people comprising 50% to 70+% of the operating budget of the typical enterprise and having a major impact on customer satisfaction, people represent the greatest opportunity for productivity improvement today.

As we discussed in this paper, there are many processes to sequence and control, with differing needs at each level of the organization. This complexity requires the use of good tools to efficiently manage performance across the enterprise. We are beginning to see the emergence of new software applications to address the enterprise performance management problem. When evaluating these systems it is important to keep in mind the following criteria:

- ✓ Integration with all enterprise data sources
- ✓ Alignment of performance metrics with corporate objectives
- ✓ Identification of operational and competitive trends
- ✓ Alerts and warning messages
- ✓ Identify off-performance metrics
- ✓ Utilization of comparatives (see "The Proper Use of Comparatives" white paper)
- ✓ Consistent communication across the enterprise

Performance management is not a one-time management solution, but the daily practice of professional managers that spans the gap between corporate objectives and everyday business results.

Further Reading

[1] Measuring Performance: Using the new metrics to deploy strategy and improve performance, Dr. Bob Frost, Measurement International, ISBN: 0-9702471-1-7

[2] The Balanced Scorecard, Robert S. Kaplan, David P. Norton, Harvard Business School Press, 1996

[3] The Proper Use of Comparatives, Dr. Bob Frost, Measurement International, Ken Forbes, CTO, Blue Pumpkin Software, © 2002

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