Innovation in Action Series
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IBM

From ideas to action: Implementing new performance management

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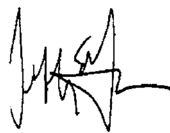
So you've decided that business-as-usual is completely unacceptable, and that fundamental change in your approach to performance management is a life-or-death matter for your organization. Great! But now you have to ask the question, "How in the world do I get started, anyway?"

This is the final article in a series of six setting forth a new agenda for performance management. The first five articles made the case for change, described a new vision for performance management, and expanded on three critical components of the vision: transforming the planning process, developing an effective risk management capability, and delivering insightful, focused, and timely management information to support better, faster decision-making.

David Axson is an advisor to the Innovation Center. He is an unflinching advocate for innovation in business management practices, questioning the effectiveness of the status quo and urging companies toward better ways of doing business.

David's final article offers guidance for those of you who are about to launch a program of radical management practice change, switching the focus from what and why to how.



Jeff Holker
Associate Vice President
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Moving from ideas to action

The first five articles in this series described the need for and components of a radical new vision for performance management—a vision where plans are actually useful and easy to develop, budgets are not sandbagged, reports contain information that is directly relevant to decisions or issues needing immediate attention, and where managers feel comfortable dealing with risk, uncertainty, and complexity as a normal part of their routine. The heart of this new vision encompasses four actions:

1. Replace the annual planning process with a repeatable, streamlined, tactic-focused process that requires less time, less effort, and yields better results.
2. Radically refocus performance reporting and analysis around key relationships and linkages while re-balancing measures of leading and lagging, internal and external information.
3. Establish a risk-based early-warning system to recognize major threatening trends, assess the degree of exposure to the business, and enable managers to act early and decisively.
4. Recapture intuition as a factor in decision-making to foster dialogue, debate, and discovery, to develop meaningful scenarios, create practical action plans, and identify the first signs of flawed decision-making.

For most organizations, these represent major behavioral and procedural changes. In this final article, I will describe some of the steps an organization needs to take as it begins implementing these new practices. Many of the techniques described here are the same ones I used while leading a major change program as Head of Corporate Planning at Bank of America.

Make the case for change

Companies have long been frustrated with business-as-usual management practices. Excruciatingly detailed budgets, sandbagged forecasts, voluminous reports, poorly integrated systems, limited predictive or leading indicators, and poor early warning of potential threats have been the norm for many years. The question remains: *Why have organizations tolerated such ineffective processes for so long?*

Part of the answer is that, while the inadequacies have long been apparent, many organizations have not found the pain sufficiently great to make the need to change a top priority. Consumed by cost-cutting, productivity improvement, and the implementation of major new systems, few resources have been available to tackle the update of outmoded management practices. A further barrier to action has been genuine uncertainty as to what the fix actually looks like. Benchmarking has been largely ineffective when applied to management practices which are uniquely influenced by a company's business environment, leadership style, and business model. Generic process, cost, and productivity comparisons can create false expectations of opportunities, whereas the real value of better decision-making is far harder to quantify. Taken together, such factors have hindered all but the most aggressive change agents from making real progress.

However, the accelerating pace of external change driving increased volatility, complexity, and uncertainty is introducing a new and much more potent reason to tackle the problem: the very real risk that poor plans, budgets, or forecasts will induce managers to make bad decisions — or worse — miss internal or external threats that signal the decline or even demise of the business. The list of once-revered corporate titans who have suffered major reverses as a result of missing such trends is long, and includes Digital Equipment, Montgomery Ward, Wang, Polaroid, Pan Am, Motorola, and Kodak. Such risk has finally forced many companies to tackle the issue.

The argument is compelling: An organization's management practices need to provide for rapid identification, analysis, and decision-making about emerging opportunities or threats, if high levels of performance are to be sustained over the long term. Over the past twenty years, companies like GE, IBM, Johnson and Johnson, Bank of America and Exxon Mobil have transformed themselves, all the while sustaining market leadership and delivering exceptional returns, which demonstrates the value of confident decision-making predicated upon sound management practices. Benefits such as shorter cycle times, improved accuracy, stronger ownership, and greater accountability simply add to the value to be derived.

Step One: Stop all current improvement efforts

For the last fifteen years, the office of finance has focused almost exclusively on cost and productivity improvement activities such as benchmarking, best practices, and process-and-controls streamlining. Teams continue to beaver away at continuous improvement efforts, building and running shared service centers, installing or upgrading ERP systems, and migrating processes to the Web. While resulting cost reductions have been impressive, impact upon the effectiveness of organizational management practices has been minimal. Planning, budgeting, forecasting, and reporting processes have changed little, and if finance continues to focus on cost and productivity in largely transactional areas, there is little hope of improvement in the future. Hence, the first step for an organization committed to upgrading its management practices is to stop all incremental process improvement efforts and initiate the outsourcing of all transaction processing and administrative work.

It is only by removing the distraction of day-to-day operational tasks and marginal improvement efforts focused on lower-value activities that sufficient capacity can be released to focus on the far more fundamental behavioral, procedural, and technological changes required to create a new series of management practices capable of serving an organization in an increasingly complex world. I was fortunate that Bank of America had already outsourced many of its more mundane transactional tasks. Senior finance executives at the Bank were already focused almost exclusively on risk management and decision support, making the early stages of the change effort that much more successful.

Build commitment through involvement

Building commitment to change is frequently cited as one of the top two or three critical success factors for any project. Less clear however, is exactly how commitment is secured. Commitment requires individuals or organizations to actively support and embrace changes to long-standing but increasingly obsolete management practices. Securing the commitment of individuals who are impacted by the changes or who are essential to implementation is a major component of an effective change program. Keep four points in mind as you develop plans for securing and sustaining buy-in for your program:

1. Commitment is earned; it is not an entitlement.

2. Once earned, commitment must be constantly renewed.

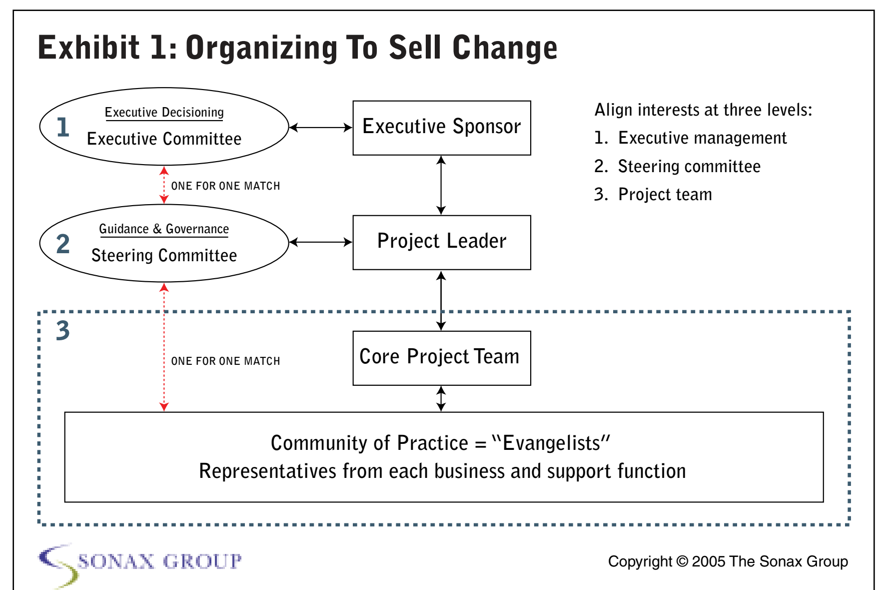
3. Select the right approach for each audience.

4. You will never convert everyone.

Securing commitment is most effectively achieved by transitioning key constituencies through a three-stage process of awareness, involvement, and commitment. Awareness seeks to educate the target audience of both the opportunity that exists and the benefits of making the change. It is really a marketing program for change that seeks to communicate that there is a better way of planning, budgeting, forecasting, and decision-making, thereby generating enthusiasm and excitement. Having made them aware of the potential that exists, the next step is involvement—to engage your people in the effort. Using a combination of workshops, collaborative design sessions, and educational programs, it is possible to transform key players from being simply process observers with little or no stake in the outcome to real participants who have a vested interest in the program's success. Engaging a broad range of stakeholders reduces the risk of full benefit not being realized. Once people are both aware and engaged, it becomes a lot easier to secure their commitment.

Deploying new business management practices requires changes in four areas: behavior, processes, information, and systems. Of the four, the most critical element is changing behavior—getting managers to think and act differently. One of the most effective ways to change behavior is by example. Seek to identify the people who combine enthusiasm for change with credibility amongst their peers. They will be the most effective agents for change. In the early stages of a major change program, seek out people across the organization who "get it"—who can see the problems with the current process and are eager to help effect change. Engaging this group early in the process creates a cadre of "evangelists" who can serve as your program's sales force out in the organization. At Bank of America we identified a group of twenty or so senior vice presidents across all business and functional units who shared the common view that significant improvements could be made in the planning, budgeting, and forecasting processes. Through a program of periodic working sessions, frequent conference calls, and other forms of interaction, this

group was equipped to work effectively within their own organizations to educate and sell the changes being proposed. More important, they also served as a vital communication link to senior management ensuring sustained support for the program and helping remove barriers to progress as needed. *Exhibit 1* illustrates how this technique can be incorporated into the overall project organization.



What have you done for me lately?

Getting off to a fast start is essential. Too many projects create a lot of excitement at launch, but deliver little tangible value for months thereafter. The momentum gained during project launch must be sustained. Momentum is a function of two things: activity and delivery. Both are essential if a project is going to be successful. Ensure that meaningful, tangible deliverables are produced at least every 90 days. Quick wins can also offer immediate relief from some of the most irritating aspects

of the current process. *Exhibit 2* shows some examples of near-term changes that can deliver immediate value and prepare the ground for the more systemic changes that follow.

Implementing new management practices is a significant effort for all but the very best companies. The magnitude of such change is great, and not something that can be done all at once. It is simply too much for an organization to digest. The primary factor in defining an appropriate implementation sequence is balancing speed of implementation with overall risk. At Bank of America, our first objective was simply to reduce the five different calendars that governed planning and forecasting to a single calendar that everyone could work with. This seemed a small victory, but demonstrated the ability of the project team to get all parts of the organization to collaborate and agree on a course of action—a vital step for the tougher challenges that lay ahead.

Exhibit 2: Quick Fixes

PROBLEM	FIX
Forecasts are wildly inaccurate or sandbagged	1. Publish a forecast accuracy league table 2. Forecast both drivers and results
Annual planning takes too long	1. Start later 2. Decimate detail
Bottoms-up budgets fail to meet required targets	1. Stop doing them 2. Automatically generate baseline budgets
Analysts spend all their time digging for data	1. Set aside an hour a day for a group analyst debate about a key trend or ratio in the business 2. Ensure no more than 50% of analyst is pre-scheduled
Project proposals offer unrealistically optimistic ROI's	Mandate that all proposals include: 1. A list of potential causes of failure; 2. The criteria under which the investment should be abandoned
Plans fail to adequately address risk	Get the CEO to ask three questions: 1. What if you're wrong? 2. How will you know it? 3. What will you do about it?

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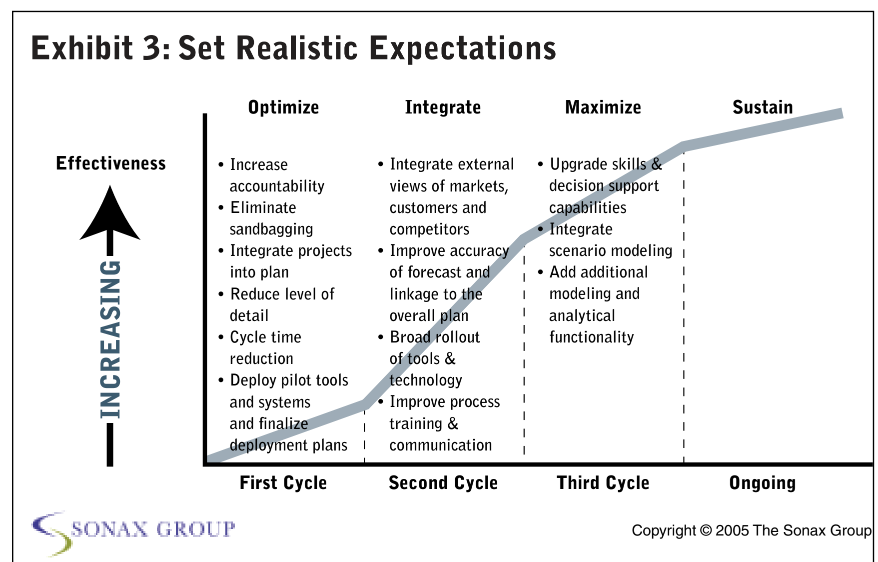
Setting realistic expectations is crucial, since it can take two to three cycles for behavioral change to stick. Constant reinforcement and progressive introduction of new changes help create a climate of permanence and reduces the risk of the organization slipping back to old ways of doing things. *Exhibit 3* shows a typical progression for a major program of management practice change. Key to sustaining changes to management practices is the use of an organization's systems to reinforce and reward good behaviors, while discouraging unproductive ones. Configuration of performance management systems is as much about influencing behavior as it is about delivering functionality. Correctly configured, these systems can encourage collaboration, deliver insight, and promote confident decision making while at the same time minimizing superfluous detail and ensuring discipline and compliance.



Summary

Through the course of the six articles that make up this series, we have tried to provide a provocative, yet practical road map for organizations that are seeking to dramatically improve the effectiveness of their business management practices. After years of relative neglect, upgrading the planning, forecasting, reporting, and risk management practices in an organization is no longer optional. It is a matter of survival, never mind sustainability. Fortunately, the body of knowledge regarding effective management practices and the advent of world-class performance management tools and technology provide a powerful set of resources that organizations can leverage as they embark upon their own transformation.

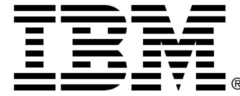
Good Luck!

About David Axson

David Axson is a partner in The Sonax Group and an advisor to the IBM Cognos Innovation Center. He is the author of the book "*Best Practices in Planning and Management Reporting*" published by John Wiley. He can be contacted at daxson@sonaxgroup.com.

About the Sonax Group

The Sonax Group is a consulting and advisory firm redefining business management practices. Established by David Axson a cofounder of the renowned benchmarking and finance transformation authority The Hackett Group, the firm works with executives to improve the effectiveness of their planning, performance management, and decision-making processes, radically simplifying and refocusing them to achieve flexibility, agility, confidence, and consistency.



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The IBM Cognos Innovation Center is dedicated to transforming routine performance management practices into "next practices" that help cut costs, minimize risk, streamline processes, boost productivity, enable rapid response to opportunity, and increase management visibility.

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