Solution Brief

IBM

Making the business case for performance management

Highlights

- ***Helps businesses gain greater benefits and efficiency from their enterprise resource planning expenditure***
- ***Provides the right metrics to use to optimize linear, sequential transaction processes to do things cheaply, without mistakes***
- ***Facilitates innovative business modeling to improve operational processes***
- ***Promotes optimization of your performance management efforts for greater success***
- ***Helps you tie results to the corresponding business methodology – so you can see what approach works best***

Which of the following benefits is key to a successful business case for performance management?

a) Streamlined processes
b) Greater efficiency
c) Integrated data platform
d) Competitive advantage
e) All of the above

If you answered "e," you're right. And you're wrong.

Yes, each of these is an achievable, well-documented benefit of a best-in-class, enterprise-wide performance management process. But no, not even their combined weight will be enough to convince your CFO that performance management is a worthy investment.

Why? Because every CFO has heard these promises before–most recently as the rationale for investments in ERP–and they've yet to be fulfilled.

"After massive investments with questionable returns, CFOs are waking up to discover that SAP doesn't stand for 'solves all problems,'" quips David Axson, President of The Sonax Group and co-founder of the Hackett Group.

While it's unfair to say ERP hasn't delivered on any of its promises, it's no secret that CFOs want more value from those investments. And given that most ERP deployments cost millions and take years, it's understandable that they're wary of technologies that make the same claims.

Command and Control, meet Sense and Respond

After all, think about the metrics you used to fulfill those promises, says Axson. At the heart of every ERP business case was the promise of greater efficiency. Systems would cut costs by doing things better, faster, and cheaper than before. And you justified the investments using efficiency-based metrics: cycle time, hours to complete, number of iterations, accuracy.

But what made these metrics so effective in your ERP argument is what makes them so ill-suited to the case for investing in performance management. "These are the right metrics to use to optimize linear, sequential transaction processes and your goal is to do things cheaply, without mistakes."

That's precisely the problem. Nothing about our current business climate is linear or sequential. Rather, it's networked and collaborative. It's modular, flexible, and responsive. Constant change and growth are now the essence of survival[1] (See sidebar, "No longer business as usual").

Business has changed. The Finance function has changed. Shouldn't the way you build a business case change, too?

Where are the stars?

"Where are the stars?" asks Frank Mackris, Managing Director at BearingPoint and leader of its Banking Practice and Enterprise Performance Improvement Solutions Group for Financial Services. "The performance management promise hasn't changed in years, but there still aren't any companies that are really known for their success with it."

Too true. Performance management promises consistent information, clear answers to core business questions, and a platform for collaborative decision-making. But our Advisors saw few companies that had taken that ability enterprise-wide. We posit two explanations.

The first is what we'll call the "Six Sigma effect." That because Jack Welch drove GE's turnaround on the back of higher quality, CEOs have been preconditioned to favor similar high-profile stories. And it's here, you could argue, that performance management has something of an image problem. For while success stories abound, their scope is often limited to a department or division. And so while CFOs may see saving money in marketing as a positive, the promise of performance management doesn't engage their imagination as effectively as does Welch's dictum, "Get better or get beaten."

No longer business as usual:

Collaborating with customers trumps command and control

In 2000, Procter & Gamble lost more than half its market cap when its share price slid from $118 to $52. Productivity had leveled off, its innovation success rate had stagnated, and newer, more nimble rivals were nipping at its heels. In response, the company long known for its insularity chose to open its intellectual property–nearly 27,000 patents in all–to outsiders through a strategy dubbed "connect and develop." To keep pace with innovation and technological change the company would tap into a worldwide talent pool of millions, in addition to its 9,000 internal researchers. Eight years later the strategy accounts for 35 percent of P&G's new innovations (including Swiffer Dusters and the Crest SpinBrush) and the company plans increase that figure to 50 percent by 2010.

Source: Larry Huston and Nabil Sakkab, Connect and Develop: Inside Procter & Gamble's New Model for Innovation. Harvard Business Review, 20 March 2006.

Consider also that one of the largest motorcycle manufacturers in China isn't a company at all, but a network of hundreds of different companies that collaborate through informal networks on everything from design and production to market trends and market intelligence. Though it sounds like a recipe for chaos, the approach turns out finished products more quickly and at less cost than a conventional supply chain. It's also taken 40 percent of the market away from Honda, Suzuki, and Yamaha in less than 10 years.

Source: Don Tapscott & Anthony D. Williams, Wikinomics: How Mass Collaboration Changes Everything, Portfolio, 2008.

The second concerns fundamental flaws in many core management processes. To Steve Player, Director of the Beyond Budgeting Round Table (BBRT) North America, many companies are still in the dark about what actually drives their business. There's also fear of the unknown: rather than identify and optimize core business drivers, or make the move to rolling forecasts, many companies continue to cling to an outdated, hierarchical command-and-control approach to budgets and forecasts. Further, observes Brett Knowles, Founding Partner of Performance Measurement and Management (PM2), few managers know how to track the impact of their decisions. As a result, they're unable to tie their results to their approach. "[Managing the business] is just assumed to happen," he laments.

For you, then, is the solution, to hope for a visionary leader who does it on faith?

Hardly, says Scott Sognefest, a Principal with Deloitte's Information Dynamics Practice. Opportunities are everywhere: "Companies are spending the money now; if you need to sell the argument, don't waste your time."

For Mackris, marketing (or any other functional area) is precisely the best place for performance management projects to start. It lets you change tactics, realize efficiency gains, and cost savings more quickly than with ERP, he says. Find a small, self-contained business unit or a function and build around your knowns–your most profitable customers, for example. Momentum and pacing are key: evaluate and communicate your results every 90 days.

It's also important to ensure your projects are self-funding. Unlike ERP implementations, savings realized from performance management projects should be reinvested into expanding the project scope or starting new ones in other parts of the business. "Build a rapid little pilot and let the ROI question answer itself," says Knowles. "The ROI will be obvious in hindsight."

Reframing ROI

And what of the CFO who needs justification up-front? Here it's a question of value versus cost. No doubt cost savings and efficiency gains are important to your CFO–witness Finance's significant progress in reducing its own costs as a percent of revenue. But base your business case on efficiency alone and your CFO will miss the forest for the trees, says David Axson.

Performance management is an opportunity to look beyond the ERP efficiency play and build a case for business value, says Larry Maisel, Co-founding Partner of DecisionVu and an Adjunct Professor of Strategy Management at Columbia University's Graduate School of Business.

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"Start with the end in mind, but not in the hand," adds Mitchell Weisberg, Senior Principal and Practice Lead in Business Performance Management at HP. To get there, be sure you can articulate clear answers to questions like these:

- Will this investment positively impact performance in customer-facing roles?
- How does it give us a long-term competitive advantage in markets we compete in?
- Will we create a more collaborative planning culture across our diverse functions?
- Will our operating plans motivate people to exceed expectations?

Questions like these also present a new opportunity to improve decisions and productivity through the interaction of people, data, and decisions, says Roland Mosimann, CEO and Co-founder of BI International and co-author of The Performance Manager. In building an "information supply chain," Finance and IT can examine core processes to discover where the data comes from, the people who use it, the decisions they need to make, and how they affect performance.

Finally, suggested Axson, you can appeal to emotions. Simple questions about why things are going wrong and see the need for a better approach come into sharp relief. Try, for example, asking "Why didn't we see that half of our customers would shift to a competitor?"

Build a performance management culture

Top performers, says Axson, distinguish themselves not by efficiency metrics alone, but by the quality of their decisions and the confidence of their actions. Your performance management case must promise a sea of change in your decision-making culture.

"Performance management isn't about process and cost benchmarks. It's about confidence and behavior."

Consider "New" Coke. To some it was a disaster. But to Axson, the company's decision to pull it from the market so soon after its launch makes it an object lesson in confident decision-making. "A world-class performance management culture is one in which bad decisions aren't punished," says Axson.

Top-performing companies also have the confidence to kill their failures rather than throw good money after bad. "Many companies have plans that outline criteria for success," Axson observes. "But how many have criteria for failure? Not many outline the conditions under which they'll abandon a project."

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Consider the death of HD-DVD, he says. Toshiba's decision to abandon the format (thereby conceding victory to Sony's Blu-Ray) rather than risk another protracted battle like the VHS-Beta battles of the 1980s will save the company millions of dollars.

Build the team, sell the dream

And whom to enlist in your efforts? Because true performance management is as much about building a new culture as it is building new solution, the answer to this question may be more important than that of where to begin, or even what to measure.

"Find the people who understand your process inputs, your core business drivers, and your management model," advises Steve Player.

"Just find someone who's in a lot of pain," adds Sognefest.

Also, says Knowles, take care not to alienate potential executive sponsors by suggesting they're incompetent: "The people at the top who you're trying to convince are there because they've mastered the processes you're saying are broken. You don't sell it on the premise that people are bad at their jobs."

"You can't sell a solution to people who don't think they have a problem," adds Sognefest. "To them, you simply become another problem."

Finally, be sure to recruit the believers. Your initial team may not be truly cross-functional, but in the initial stages it's more important to have people who can "sell the dream" and want to see it come true.

Passion is what will engage people's imaginations, says Knowles. Your project must be something people can see themselves owning. "Connect your story to the highest-level business goals and tell it so it touches every player," he says. And avoid being overly prescriptive: "Leave gaps in the story for them to fill in." If you're successful all you need do is ask the question, "Who wants to be first?"

Summary

Our current business climate is undergoing a profound shift, from linear processes to networks and collaboration. To survive in this brave new world, Finance must establish a performance management system with these same attributes. It's a fundamentally different approach from the case for ERP. If it's up to you to make the case for change, focus on the value, not on the costs.

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Endnotes

1 Don Tapscott and Anthony D. Williams, Wikinomics: How Mass Collaboration Changes Everything. Penguin, 2008.

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