

**Integral
performance
management:
locating the
missing link
in the process**

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ABSTRACT. Performance management has really taken off over the last few years. New methods of management, like the balanced scorecard or TQM models, have made a positive contribution to this. There is more and more scientific proof that organisations with proper performance management systems outperform organisations without it. However, implementing performance management is not an easy job, and we still see many failures. These failures are mainly due to a lack of acceptance and the missing link to primary processes. Integral performance management (iPM) might be the right answer to overcome these failures.

You are in complete control of your company. There is a common purpose. Everyone is aware of the strategic objectives. All daily activities support these objectives. Employees are motivated to go the extra mile. Management information offers insight into how well the objectives have been achieved. Information and communication technology ensure that data is always available. Only projects that contribute to your objectives have been launched. You know perfectly well what is happening in your company. You can act quickly when things change in your business.

For many companies this is a Utopian dream, so they introduce performance management. Objectives and performance indicators are defined. Derivative objectives and performance indicators are drawn up and incorporated at lower levels. But does all this actually grant you a more powerful grip on your company? How well are you able to work with this new management information? You may consider making it bonus-related, thus motivating employees to meet the targets. Then you ask yourself once more: "Have I gained more control over the company's performance?"

Performance management has really taken off over the last few years. New methods of management have made a positive contribution to this, such as the European Foundation for Quality Management (EFQM, comparable with Malcolm Baldrige in America and Deming in Japan), value-based management, intellectual capital management and the balanced scorecard. Their development has reached a stage where new labels are attached to performance management. Thus it is that business performance management, strategic performance management, enterprise performance management and corporate performance management have all become widely known concepts.

Why does performance management generate so much attention? The answer is clear. The context within which companies operate has become more complex and dynamic. Companies must anticipate these changes to survive. Organisations unable to anticipate the changes will be punished relentlessly by customers, competitors and shareholders – not to mention the government, for with their laws and rules of conduct they expect companies to be in control of their activities.

Yet, in many companies, performance management has not reached the level where changes within the business environment can be anticipated quickly and adequately. Most companies are still using management control structures devised for an era in which thinking was calendar-focused and when it was all about using optimised fixed assets. In this archaic system, the budget is the anchor and is focused on tangibles, ie on the company's defined assets. It stresses cost reduction and the efficient use of both people, funds and other resources. The budget functions as a financial straitjacket, and not as a means to monitor and implement a strategy, because there is little relationship with that strategy. A budget, moreover, is also the basis for management reporting and reward. Management reporting will thus be far too financial in focus, and typically short-term in outlook.

Companies are beginning to reach for new methods to break this cycle. Performance management processes are also scrutinised. Rolling forecasts or beyond-budgeting principles are implemented. Planning and review processes are brought more into line. Many companies choose one or

more methods to eliminate the shortcomings. Ten years of research by Bain & Company across 6 000 companies worldwide shows the average company applying 16 methods or tools. The most popular methods help to formulate the strategy more sharply during the strategy process, contributing to the realisation of growth objectives. Exhibit 1 lists the most popular methods.

The same research also examines people's satisfaction about the various methods (*see Exhibit 2*). What is striking is that all methods in this table have a score that is 3,45 or

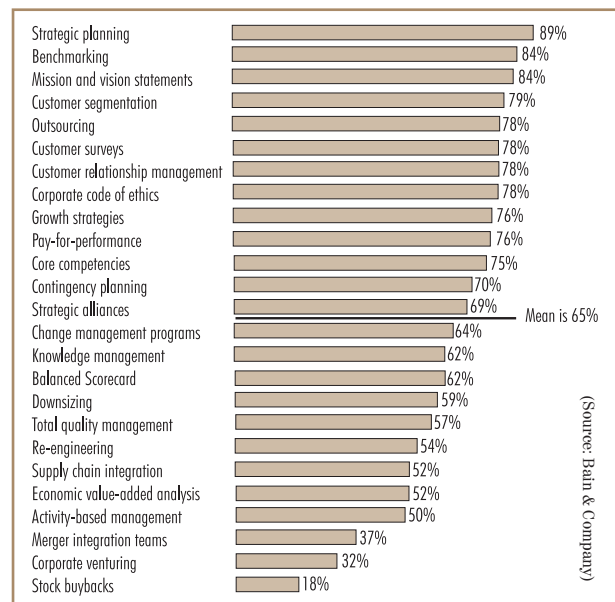


Exhibit 1: Methods applied

higher on a scale of 1-5. What is also striking is that the degree of satisfaction with regard to performance management-related methods, like strategic planning, pay-for-performance, balanced scorecard and value-based management (EVA analysis) is more than average.

Despite these fine satisfaction scores, the question remains whether the results of performance management live up to expectations, namely, a better execution of the strategy through achieving strategic objectives. Companies invest substantial sums in performance management, but will they yield the required control or performance improvements? And does all this pay off? Actual practice shows this is not often considered. The performance management business case is often qualitative, especially when it comes to improving effectiveness.

Companies with good performance management systems outperform companies without it – this is bolstered

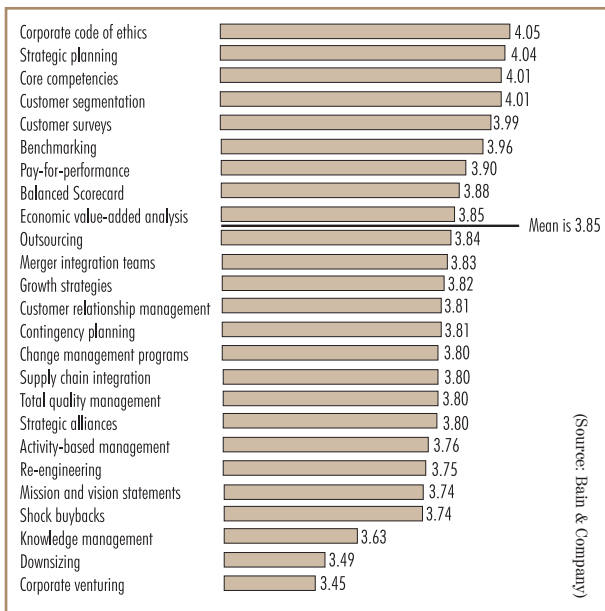


Exhibit 2: Satisfaction about method used

by growing scientific proof. But do these companies get enough from their performance management system? The answer is clearly “no”. Despite the fine satisfaction figures from the Bain & Company study on the balanced scorecard, we all know much can still go wrong. Translating strategic objectives into performance indicators is quite an exercise in itself. Adopting a performance management methodology, like BSC or EFQM, within the entire company is an even bigger challenge – one often beset with obstacles, even failures.

The main reasons for these failures are acceptance and processes. Projects fail because management is not convinced of the benefits of the new working methods. People are uncomfortable about the new key performance indicator (KPI) list. The KPI list is also intimidating (too many performance indicators), too remote or too difficult to measure. So the degree of acceptance is low and management will revert to its former behaviour: the financial report.

By defining performance indicators, many companies believe they can bridge the gap between strategy and execution, ie between thinking and doing. Yet more than this is necessary to manage the company.

Strategic objectives are translated into performance indicators (possibly via a stepping stone of success factors). We define clear targets for these performance indicators and we link performance-linked pay to performance

indicators. Points of action are defined to bridge the gap between current performance and targets.

Performance indicators are included in the planning and budgeting process, so that these processes are drawn within the strategy context. Agreements can be made to harmonise the top-down strategy and the bottom-up planning processes. Agreements on action points are carried out and forecasts are made, depending on market dynamics, to enable timely change anticipation. Performances are reviewed systematically. A business intelligence (BI) environment also enables management to analyse performance indicator details from a number of angles (dimensions), directly from their desktop computer or mobile phone. Analysis results are kept and serve as a foundation for future improvement.

Companies have been attempting to implement such improvements in recent years. The balanced scorecard, value-based management and the EFQM model are embraced, and staff work hard at improving and integrating the planning and budgeting processes. These improvements are certainly a step in the right direction – but something is still lacking, namely processes.

The management process may currently be in order; but the link with primary processes has only been implicitly arranged, through performance indicators. Despite the EFQM model and the balanced scorecard, devoting attention to processes, there is only an indirect or implicit primary process link. The EFQM model thus needs self-assessment to operate in “processes”, resulting in a radar score and an improvement plan. The balanced scorecard is asked to define process-related improvement objectives, needed to realise the customer-perspective objectives.

But what does an objective like “improving delivery reliability” tell us about the delivery process itself? The balanced scorecard defines how to measure the success of the objective well. The desired performance improvements are also clear. However, what is not clear is the way the delivery process itself looks, and how the expected performance improvement can be achieved. The performance indicator is the guideline. It is the same performance indicator (and objective) that has a guiding role when cascading the balanced scorecard to lower echelons. This is not easy to do, because functionally-

orientated departments make their own interpretation of the objective and performance indicator (*see example in Box 1*).

BOX 1: Example: Imagine a technical installation and services company (eg heating systems) has formulated a customer objective on the scorecard, ensuring that the response to a customer's machinery breakdown is quick and effective. The objective's success is determined through a KPI response time. This KPI measures the average time needed to solve a breakdown. There is increasing electronic circuitry in machinery, so that software patches are often needed to solve breakdown incidents – software patches which, depending on the problem's complexity, have to be supplied by the software department. The service unit is responsible for maintaining heating systems. The software department is part of the development unit. When cascading this KPI, a translation will have to be made to the service scorecard as well as to the software development department scorecard. Whether the same (type of) KPI appears on both scorecards, whether they will be equally effective or whether the ambitions when setting targets are in line depends completely on the quality of the cascading process. Within the iPM model the only thing to be worked out is the escalation process, in which both departments are involved at the same time, so that alignment of performance indicators or targets is not subsequently necessary.

Locating the real problems, like waiting-times, bottlenecks, etc, cannot be deduced from this. Where the balanced scorecard and the EFQM model end, the company will have to face another challenge: that of processes, primary processes. This is, after all, where money is made. Processes can be improved by the company itself – this is where influence can be exercised.

Performance management methods will face another challenge: making explicit the link between performance management, primary processes and improvement potential in those very processes. Only then will you have control over your company, whose performance will continue to improve.

Performance management methods have to make another step, linking it explicitly with primary processes. This should be a method that goes beyond creating a list of performance indicators and involves all employees, making use of their brainpower. It should be a method of which the outcome is accepted and which also reaches the shop floor. It should also be a method that enables continuous improvement. That method is now available and is called integral performance management (iPM).

THE iPM MODEL. The central idea behind iPM is direct improvement of company performance by an explicit link between strategic objectives with primary processes and to create a culture of continuous improvement. Five steps

have to be carried out to implement iPM (*see Exhibit 3*).

Going through these five steps brings you your strategic objectives (no more than four to seven), linked with your relevant processes. These processes will be decomposed, instead of cascading through the functional hierarchy. This bridges the gap between processes and performance indicators on a high organisational and abstraction level with daily operations. iPM brings performance management to the level where influence can be largest: the operational processes and your employees. iPM will result in the following advantages:

- iPM links processes to customer needs and, consequently, is customer-focused.
- iPM creates focus in the organisation – firstly, by reducing the number of objectives and, secondly, by focusing on the relevant processes.
- Employees are involved from the start, which increases acceptance. They determine the best performance indicators and improvement initiatives to measure the success and improve the performance of their job.
- Process performance indicators will be of a more direct nature and, consequently, will be measurable more frequently. Frequencies of performance (and operational) indicators can vary from minutes to weeks or months.
- iPM eliminates functional boundary or stovepipe thinking; stating priorities (which processes first) is also possible.
- Initiative management offers a structural approach for process improvement, which allows you to overview and control your initiatives and ensures that finances are only channelled to those initiatives that contribute to strategic objectives.
- The process orientation of iPM lowers the barrier for an organisation to introduce activity-based management and it provides a basis that is also required for corporate governance or quality systems. ■

Exhibit 3: Five steps of the iPM model

