

# Performance Management 2013

## An Executive Suite circa - 2013

The plasma panel hanging on the wall dissolves from a graph of year to date sales by region into a series of real time feeds of key business measures: orders received, inventory levels for key products, shipment status for the ten largest customers, call center volume and website activity – occasionally one of the quadrants dissolves into a specific alert about potential threats or opportunities – a change in the buying pattern of one customer, a quality issue with a batch in a supplier’s plant. The top right quadrant shows a map of sales by region, an icon allows the view to be changed to sales by product or by customer, again opportunities and threats are highlighted – below quota sales in one territory, or a close rate problem in another. The lower left quadrant provides a business risk “heat map” addressing key risk factors across multiple dimensions – financial, competitive, regulatory and project. Senior managers review the heat map during their regular operations reviews and as a input to the rolling forecast process.

Out in the field a sales associate can see that a shipment for one of his biggest customers is delayed on the loading dock and will ship twenty minutes late. He sends a quick alert to the customer communicating a revised delivery time– this triggers a message on the Blackberry’s of both the shipping manager and sales manager forecasting a slight shortfall in monthly performance; both act quickly. The sales manager authorizes the salesman to offer a discount for the performance shortfall; the shipping manager adjusts the staffing schedule to avoid any further delays in vital month-end shipments. These changes trigger an alert on the CFO’s performance monitor showing a negative variance in labor costs; however she is unconcerned since the extra investment drives up on time shipment performance a few percentage points which she knows will directly translate into improved customer satisfaction and the 12-month rolling trend for labor costs is still well within the acceptable range. Her mind flashes back to the bad old days before Performance Management; she would have been beating the shipping manager up for a negative labor variance compared to a budget he had developed more than a year earlier; in response he would have reduced labor costs triggering a dangerous decline in shipping performance and setting up a major customer relations problem that she would have spent the next three quarters trying to explain to Wall Street. Now she had the right information and rational bases for comparison that allowed her to make the right decisions for the overall business.

Snapping back from her daydream, she turns her attention to the recent up tick in orders from Southwest China – a 20 percent spike in the last 72 hours; her screen shows that this follows the rollout of a new series of adverts on Asian YouTube. She suggests to her colleague, the VP of marketing, that the program be expanded as the company has plenty of flexibility to ramp up supply in this crucial new market.

The forecast for the month is dynamically updated to reflect the increased marketing spend and expected orders, the CFO clears the updated forecast for publication; the CEO, who is delivering a presentation to the Board, is able to communicate an upbeat assessment of future prospects based upon growth in China, while acknowledging that work remains to be done in the fulfillment process.

An analyst supporting the VP of Operations is reviewing the latest project status reports for the top five projects currently in progress. He sees that there are delays in two of the projects; further drilldown indicates that the issue with both projects is a shortage of available testing engineers – both projects need access to the same resources. He starts to develop an impact assessment and sees that there is enough contingency built into one of the projects to absorb the delay while any delay in the other will likely affect the production date for a new product. He appraises the VP of Operations of the problem, diagnosis and recommended course of action and the action is quickly approved after consulting with the two project managers. The VP comments that this is exactly the sort of timely, insightful analysis he wants and vows to pass his compliments onto the CFO. The analyst enters the approved action and the work schedule for the testing group is updated as are the project plans for each project.

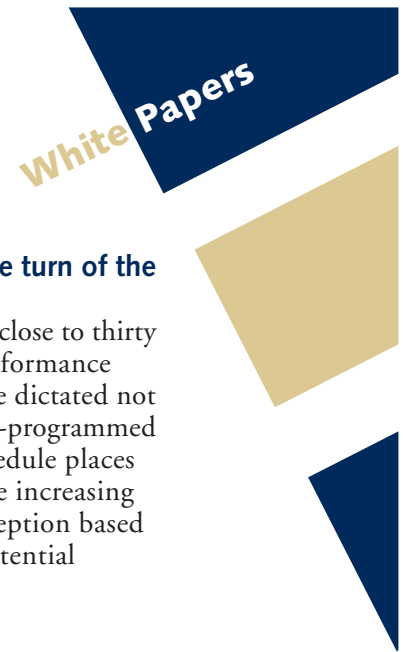
Sounds farfetched? It isn't really; many of the component pieces exist today. Unfortunately few companies have developed a complete vision for performance management that allows them to construct the roadmap to a dynamic, risk aware performance management process. The pace of change in performance management over the least few years has been dramatic and there are few signs of a slowdown. So what does the future hold and how do we prepare? Let's take a time out from the hectic day-to-day and look at the attributes we should be incorporating into our performance management visions for 2012.

Dare we hope that mind numbing four to six month budget processes, sandbagged forecasts and the avalanche of precisely the wrong management information are things of the past? Will we fondly remember the futile arguments over internal cost allocations and lament the passing of Excel spreadsheets attached to email messages as the primary vehicle for budget development? We had better, since if they remain the foundation of our performance management processes we will be hurtling towards irrelevance as more agile competitors or dynamic market changes leave us scrabbling around in the dust searching for the one version of the budget that contemplated this reality.

We should set an ambitious goal for our performance management process; that is to eliminate all the excuses for poor decision-making (except one). No longer will managers be able to blame computer systems, the lack of timely and relevant information or the absence of credible analysis for making the wrong decision – the only excuse left will be their own stupidity!

**Your mission, should you choose to accept it, is to  
"Isolate Management Stupidity."**

So how do we go about building a set of processes, systems and behaviors that fulfill this mission? Here are the basic rules that you need to embed in your performance management vision...



**Management processes must follow the rhythm of the business not the turn of the calendar (Real time will become a reality - finally!)**

Online, real time has been the clarion call of business information systems for close to thirty years. Only now is the reality beginning to match the hype. Historically performance management has been an episodic calendar driven process where actions were dictated not by events in the marketplace but by the turn of the calendar. Activities are pre-programmed on daily, weekly, monthly or quarterly schedules. Any disruption to the schedule places major strains on the management process. However things are changing; the increasing availability of real time performance tracking supported by tolerance or exception based alerts will provide managers with a valuable early warning mechanism to potential opportunities or threats.

**Content must be relevant**

Look at the two columns in Exhibit 1 and ask yourself two questions:

- “Which of these items are more important for the success of your business?”
- “Which ones represent line items in our current budgets or forecasts?”

See the problem? What we plan and budget is not what’s important for the business. We are stuck in an accounting centric view of the world that bears little relation to the practical reality of the things that will determine whether we are successful or not. Organizing our plans around the things that matter is a crucial step on the road to relevance.

Exhibit One

What's Important Versus What's Budgeted	
Important	Budgeted
Acquiring customers	Salaries and wages
Retaining customers	Facilities expense
Retaining talent	Telecommunications costs
Fostering innovation	Travel & entertainment
Managing projects	Depreciation

Source: Sonax Group

**Risk aware management processes will be the norm**

Today most of our management processes are predicated on certainty and accuracy – both fatally flawed assumptions. Budgets provide a specific profit number; forecasts offer a single, and often very detailed, view of the future. Detail flows as future performance is decomposed down to the minutia. This is dangerous and leads to a degree of confidence in the future that has no basis in reality. Variability and uncertainty are the norm when looking forward. The only certainty about any plan or forecast is that in some way it will be wrong; what determines success is the speed with

which an organization can detect change and then respond positively. Progress is being made: real options, scenario planning, contingency planning, and rolling forecasts all recognize the crucial importance of understanding risk in performance management.. At the best companies, these tools are being combined with an enterprise risk management that has evolved from a discrete “audit-like” function to an integral part of the overall management process. Risk management is not just a finance job; it’s the job of every individual in the organization.

**Performance management systems will seamlessly integrate.**

Seamless integration has been the Holy Grail of IT for quite a few decades now; however attaching spreadsheets to emails does not constitute integration – despite what many may think! The true measure of performance management value is better performance through



better decision making. A key enabler is the ability to source, synthesize and deliver the total sum of an organizations collective knowledge about a subject into the hands of decision-makers, be that a customer service agent dealing with a complaint or the CEO deciding whether to make an acquisition. The ability of an organization’s performance management systems to tap into both internal and external sources of data will be a hallmark of a high performing organization.

**Ubiquitous, situationally relevant management information**

Moving beyond real time, alert based information, performance management systems will routinely structure and deliver information that is not just relevant for the individual based upon their job but also based upon their situation. This includes both the delivery channel – laptop, text message, voicemail, message on their vehicles satellite information system or even a break in to the song or program they are watching but also in terms of the context of the decisions they are trying to make. Information will be organized around the decisions they are making. Hiring a new employee? Compensation, benefits and demographics as to the characteristics of the most successful past hires will be grouped together and delivered as integrated information “packet”.

**Incentives will reward performance not plans**

One of the pernicious attributes of many planning and budgeting processes is the level of “sandbagging” that is induced by tying an individuals rewards to achievement of plan or budget. It is a surefire certainty that you never get a stretch plan from a manager whose incentives are directly linked to its achievement; much better to tie incentives to measures that are difficult to sandbag such as absolute performance improvement or performance relative to an established peer group or benchmark (see Exhibit 2).

**A Sandbag Free Payout Matrix**

Exhibit Two

Outperform	<b>Moderate Payout</b>	<b>Maximum Payout</b>
Absolute	<b>No Payout</b>	<b>High Payout</b>
Under Perform		Outperform

**Conclusion**

The recurring theme is relevance. Information, tools, systems, even incentive systems must be relevant if they are to be effective. Obeying these design principles will go a long way towards achieving the vision of world-class performance management. Today many market leaders follow these principles despite the constraints of their current processes and systems – the opportunity is to embed performance management discipline into the very fabric of a company and eliminate all the excuses. Good luck.

**About The Author**

David Axson is an author and consultant. A former co-founder of The Hackett Group and Head of Corporate Planning at Bank of America he is a highly regarded public speaker. His most recent book is Best Practices in Planning and Performance Management (Wiley 2007). For more information visit DavidAxson.com.