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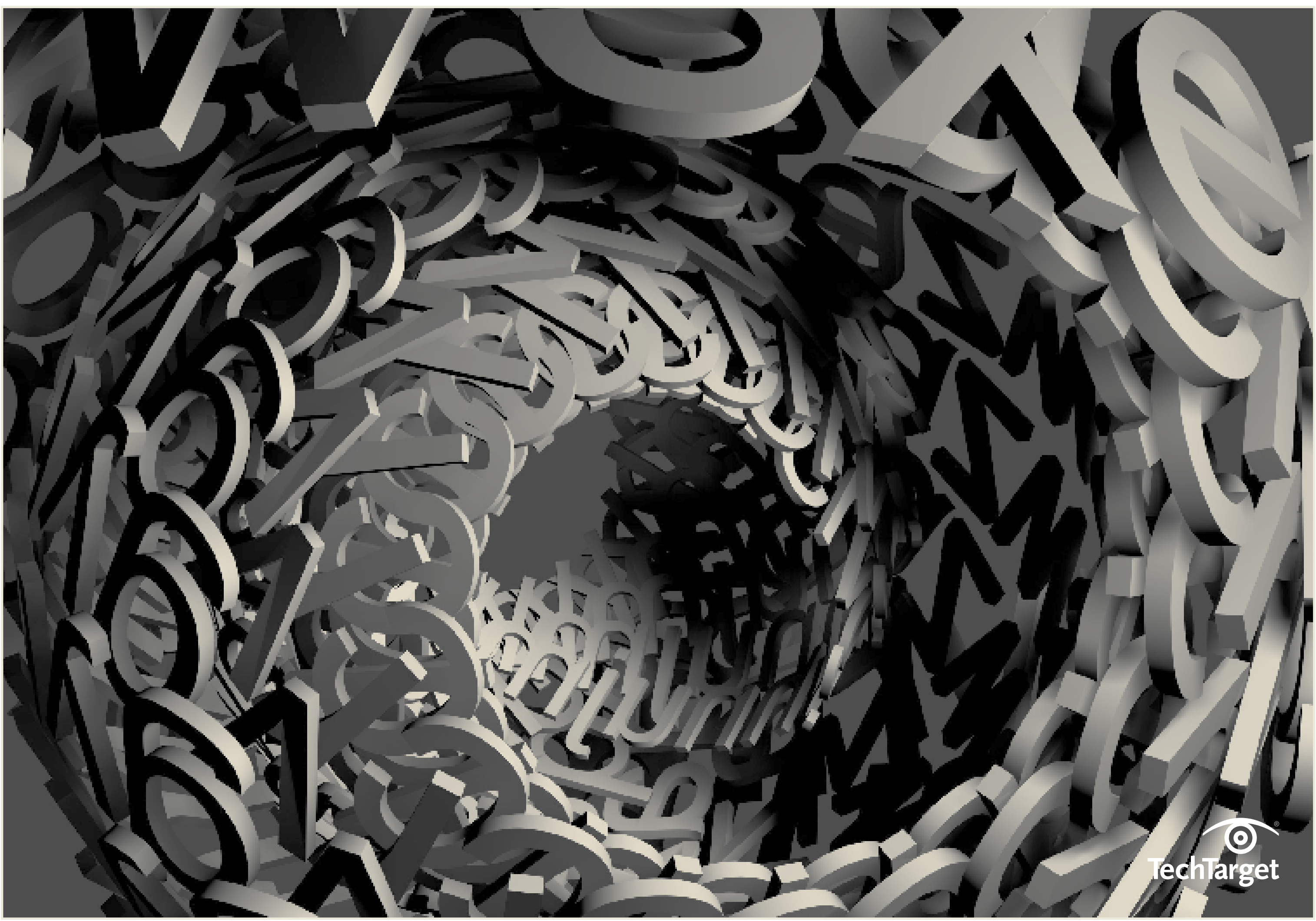

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PERFORMANCE MANAGEMENT GAP: GOALS VERSUS REALITIES

Successful performance management initiatives involve more than purchasing and implementing software. And despite good intentions, there's a high probability that you're not getting everything you should from your system. By Craig Schiff

A**S WITH MOST** corporate initiatives, the intended goal of performance management and what it actually ends up achieving are often quite different. Many companies aren't even aware of the real purpose of performance management. But it doesn't have to be that way.

To understand what kind of performance a performance management system is meant to manage and how to implement an effective performance management program, it's helpful to start with a definition: Business performance management is a set of integrated, closed-loop management and analytics processes that address financial as well as operational activities. Done properly, it enables businesses to define strategic goals and then measure and manage performance against those goals.

Ultimately, what is being managed is a company's performance in achieving its goals. That's the intent, at least—but far too often not the reality. Let's look at why this is often the case:

REALITY NO. 1: JUST FIXING AN ISOLATED PROBLEM

The core performance management processes include financial and operational planning, consolidation and reporting, modeling, analysis and monitoring of key performance indicators (KPIs) linked to organizational strategy. Ideally, those pieces work together as a whole to help a company achieve its strategic objectives. But in practice, very few companies are addressing all of them.

Most are putting out fires—fixing a painful budgeting process, shortening a lengthy monthly close and reporting cycle or providing greater access to information through enhanced management reporting capabilities and dashboards. Such steps can provide tremendous business value, but on their own they do little to improve execution of a company's primary goals. The true value of performance management comes into play when all key elements are implemented and integrated.

REALITY NO. 2: LIVING IN THE PAST

Let's suppose an organization is implementing a full suite of performance management software. Is there an increased likelihood that it will in fact improve its execution against strategic objectives? Yes, somewhat. But there is a major stumbling block: Many organizations are so focused on the technological aspects of this major undertaking that they overlook the business side of the equation.

More specifically, they simply automate (or upgrade) what they have been doing for years either manually or in another system. They do not revisit what accounts and cost centers they are tracking. They do not change the content of reports, which may be based on the needs of an executive team that has long since left the company or a business climate that hasn't existed in decades. They do not even think in terms of KPIs but in terms of key ratios that are straight out of an accounting textbook from the 1950s.

The point is that the information going into a performance management system and how it is going to be packaged and presented must be based on an organization's current needs. The data all needs to be tied back to strategic objectives. If that is not done, companies will just end up with more efficient, but not more effective, systems.

Find more articles by Craig Schiff in his [BeyeNETWORK expert channel](#).

REALITY NO. 3: GETTING CAUGHT IN A METRICS MINEFIELD

When you've addressed those two issues, it might seem like you're on the verge of success. If a company rolls out and integrates all of the key elements of performance management and revises its data and reports to align with current corporate objectives, executives should be able to better track and manage performance as it relates to those goals—right? Unfortunately, that is easier said than done.

Translating strategic objectives into a series of KPIs that will be the focus of a performance management system is arduous and highly charged. It is political, territorial and often driven by individual egos. Simply stated, people will want the system to measure what they do well, which is not necessarily what the company needs them to do well. The process of creating performance management KPIs linked to strategic objectives needs to be driven from the top down by a strong leader with little patience for gaming the system.

So are we there yet? Actually, we are. If the all-too-common realities described above are corrected or avoided, a performance management system will effectively measure the right metrics and KPIs and help executives and business managers achieve corporate objectives.

One more thing, though: No business operates in isolation, and neither should a performance management system. Companies should also measure their performance against that of their peers—that is, the competition. While a company may be doing well against internal goals, it may be falling short in terms of the performance of its industry as a whole. Benchmarking completes the performance management picture. ■

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