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Code Red: Taking the Guesswork Out of Performance Management

There is one category of management aid that has endured the test of time: Performance Management (PM). Not only has it outlived many other management disciplines, it is becoming more popular by the day, according to market analysts.

In April last year, AMR Research forecast that spending on PM solutions would swell to almost US\$23 billion in 2006. Significantly, it found that organisations were now less focused on the analysis, and more concerned with the reporting, on the basis that there's little point digging deep into company data if this can't be interpreted and presented in a digestible fashion – so that someone can do something sensible with it. AMR noted that as a result, dashboards and scorecards are now the most sought-after features of business intelligence and reporting applications.

More specialised management information tools in their various guises have not delivered the benefits that organisations expected. Whatever these applications are delivering in the way of management information, it is not being applied in a way that transforms the way the business performs.

Hence there is renewed interest in PM. Senior managers in organisations right across the spectrum of vertical markets are, it seems, wrestling with the same problem: how to bring day-to-day operations closer in line with the business's over-riding goals.

In the financial services industry, for example, organisations are grappling with a series of critical business challenges, from compliance, to reducing customer attrition rates, and boosting the Average Revenue Per User (ARPU) by cross-selling to existing

customers.

Meeting these broad goals relies on the participation of staff right across the organisation, however, and while standard measures and process rules can ensure policies are followed, how can banks ensure, for example, that risks are being managed at an optimum level – so that the business isn't made vulnerable by acceptable barriers being passed, yet, at the same time, that opportunities aren't being missed because staff are being too cautious?

The trouble is that, despite all the fancy technology they have thrown at the challenge, most organisations – and managers and staff up and down the business – have no idea how they are performing against their overall business

Organisations are grappling with critical business challenges

strategy. PM tools get straight to the heart of this problem, by putting business intelligence into context, so managers can compare day-to-day productivity with the strategic objectives they have been set, and then roll out action plans with their individual teams.

Skim-read any of the business books on PM, and you'll find that the balanced scorecard remains the single most-used framework for putting PM into practice. The concept, which originated at Harvard Business School in the early nineties, and forms the basis of broader and more developed PM frameworks such as Six Sigma, is a simple one – it forces organisations to examine their business beyond just the financials, and define which aspects of performance really matter (the key performance indicators), so that these can be

monitored and tackled proactively. Once the criteria for measurement have been agreed upon, organisations can begin to score their performance against them, charting any improvement or deterioration over time.

While traditional query and reporting tools may tell a company how sales of women's shoes performed in Leeds over Christmas 2006 compared to Christmas 2005 and 2004, they are unlikely to allow broader reporting such as: 'How is my business running?', 'Are my customers any happier?', 'Is there anything that will prevent me from meeting my growth target for 2007?', or 'What market share can we expect in 'n' years?'

PM, done properly, is about going beyond the 'hunch' to the reality; it is about aligning what the people on the shop floor are doing with the core mission statement of the organisation. If this can be achieved in a clear, objective, measurable, and easily communicated way, it can be used to powerful effect – if performance failure can be pinpointed, behaviour can be changed. If a scorecard or dashboard system flashes red for customer service in Birmingham, rockets can be applied under the appropriate posteriors.

With PM, the question budget-makers now need to ask themselves is what will happen to the business if they continue to fumble around in the dark? With the current rate of take-up of PM software, the chances are that the risk of not refining their reporting capabilities, when competitors may be making great headway, will be the deciding factor that encourages companies to add a contextual layer to their business analysis activities.

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