Time to rethink performance management

Why not switch focus from effect to cause?

By Martin Atherton, December 2007

In a nutshell:

Evidence suggests that performance management capabilities have been outflanked by change

Key points:

- Periodic and retrospective performance management cannot deliver real time steerage;
- Business could be missing out on opportunities to improve by ignoring lower level drivers;
- New business and IT collaboration is needed to redefine requirements and capabilities;
- To be of value today, performance management needs to focus on cause, not effect.

The financial services sector is one of the most progressive when it comes to managing business and IT risk. Many of the day-to-day techniques used by financial services firms are specific to their industry, but some of their approaches are highly relevant to other fields with similar but perhaps less intense requirements.

An area of focus for many organisations is corporate or business performance management - the ability to make decisions based on sound insights into performance.

While many organisations have metrics in place, recent research suggests the capabilities of many organisations have slipped behind actual requirements - such is the pace of commercial change.

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What is the evidence for this? Research among senior business managers in the investment and insurance community in the City of London suggests a gap has opened up between existing performance management capabilities - more suited to retrospective and periodical analysis - and current business requirements.

The result of this gap in analysis is that a financial services institution is only likely to find out it has a problem when it is too late and the bottom line is affected.

At the root of the problem lies the approach taken by most organisations. Today, monitoring and managing at the level of overall financial performance is considered to be most important.

Significantly less emphasis is placed on tracking granular measures at a customer and product or service level.

Furthermore, financial services companies tend to be particularly inconsistent when it comes to monitoring operational drivers and external factors such as performance against the competition.

Ultimately, the focus needs to be switched from effect - the overall or line of business financial performance - to cause. Firms must get smarter about dealing with the lower level drivers that affect higher level outcomes.

Many managers readily acknowledge the need for this change of focus. But the challenge lies in how to update existing capabilities to bring them in line with today's increasingly real-time requirements.

Use of structured key performance indicators (KPIs) in the financial services sector has driven up the quality and completeness of specific types of data perhaps more than elsewhere. So an obvious thing to do might well be to extend the use of an already successful technique into newer areas. This is possibly easier said than done, though.

Technology is both a hindrance and a help here. As IT's footprint has extended, so too has the number of places in which data is captured and stored. Indeed, information fragmentation is acknowledged as being a significant factor in the inability of organisations to refocus performance management and match the increasing speed of business.

However, IT also has to be part of the solution, because effective performance monitoring is dependent on capturing trends derived from huge volumes of underlying data. This can only be enabled through technology. But in an environment where IT is already so pervasive the obvious question is what kind of technology?

One can gain a view of how well companies are doing today by mapping IT practices and capabilities onto business managers' perceptions of how their information needs are being met.

Broadly speaking, research suggests that the basics are well covered, but there is a clear desire for a more holistic and real-time view of business performance. One of the widest technology-related gaps is associated with the concept of management dashboards and cockpits.

'An organisation cannot operate effectively in a fast-paced environment with old data'

More than 60 per cent of business managers see a need to either extend or enable this kind of solution. Another important observation is the growing importance of real-time capabilities. An organisation cannot operate effectively in a fast-paced environment with old data.

There are two aspects to this in practice. First, populating delivery mechanisms with the latest version of the truth based on live or at least fresh information to enable alerting mechanisms that proactively draw attention to areas that need management focus.

The second - collaboration between departments - is the pivotal area in several ways. Whereas populating delivery mechanisms with the latest data is a matter for process design and integration, collaboration is the area where businesses will find most opportunity to reassess and improve existing performance management capabilities.

While IT is considered to be doing a good job in general, it is often viewed as falling short when it comes to serving the organisation's information requirements. Collaboration is needed so that the business gets an opportunity to reassess its requirements, and the IT department gets to revisit underlying capabilities.

Finding new ways of exploiting operational data to manage a business more effectively at speed will also probably require collaboration between individuals and departments unused to working together on assessing and acting on management information.

These points are based on insights gained from the financial services sector, which is an industry that exemplifies the need for these capabilities. But if this highly progressive sector still has its work cut out, then other industries have plenty to learn and plenty to gain too.

Shifting the corporate mindset - followed by actual capability - to dealing with cause and effect sets a new agenda for action required to switch from passive, to proactive corporate management. The result will be a set of performance management capabilities that are more appropriate to today's high-speed businesses.

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