

Performance Management: Fundamental or Fad du Jour?

Performance management is being touted as “the next big thing.” Is it the current management fad, condemned to fall by the wayside like so many before it? Or is it destined to become an acknowledged business fundamental?

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TQM, Six Sigma, The Performance Measurement Matrix, SMART, The Balanced Scorecard, The Performance Prism, and more represent the evolution of theories of performance measurement and management. Whatever theory, the bottom line is this: to be successful, an organization must understand where it is, where it is going, and what needs to be done to get there. Performance management provides the framework and process for doing just that. It gives the entire organization focus – provides the framework for identifying the tangible and intangible drivers of business success, helps everyone understand where the organization is going and translate that into action and results, and creates a process to obtain feedback about strategy.

Whatever measurement theory your performance management system is based on – whether Balanced Scorecard, Performance Prism, or another methodology – the basic tenet of linking everyone’s actions to strategy is fundamentally sound business.

Performance Management Defined

Performance management has evolved over the years from a means of tracking financial measures to a strategic tool for managing businesses. It is a systematic process for implementing and obtaining feedback about strategy – it is a way of doing business. Articulating strategy, defining and linking interrelated measures and goals, aligning organizational resources, and providing continuous feedback and realignment with strategy are the foundation of any successful performance management effort (Figure 1).

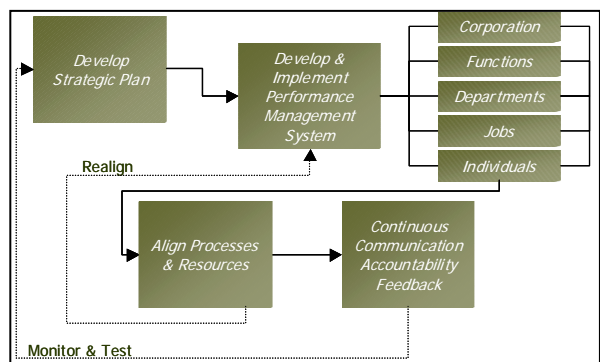


Figure 1

The Performance Management Evolution

...organizational value and long-term sustainable competitive advantage lie in an organization's ability to focus its resources on strategic objectives...

The performance measurement/management evolution began in the early 1900's with the DuPont pyramid of financial ratios and return on investment (ROI). A purely financial model, the 1970's and 1980's brought about a shift when the realization that financial measures alone did not suffice in a more customer-driven business environment. Quality and other customer measures became important and the introduction of quality initiatives such as ISO 9000 and TQM continued the expansion of performance measurement frameworks. More balanced approaches to performance that factored not only financial and customer measures, but other important stakeholders came into being in the 1990's with the Performance Measurement Matrix, the Balanced Scorecard and the like. Today, organizational value and long-term sustainable competitive advantage lie in an organization's ability to focus its resources on strategic objectives. As a result, organizations must deploy a performance management system to identify, measure and manage all drivers of business value, tangible and intangible.

Performance Management is Fundamentally Sound Business

Organizations define success as achievement of some objective or set of objectives. Whether financial, customer, altruistic, or other in nature, each organization is working to achieve some goal. Many organizations have a solid plan and understanding of what needs to be done, big picture, to achieve their ultimate objective(s). The gaps occur as we move into the organization: It becomes less clear what a given group or individual must do, and even less clear how activities are interrelated across the organization. A clear focus on, and better understanding of, the end objective and path to its achievement creates a greater likelihood of success. Performance management gives the organization a process and system to create this focus.

Identifying What's Critical.

Performance management provides a process for identifying the tangible and intangible drivers of the business. Creating a clear map of the organization's strategy and the interrelationships across, up and down the organization outlines clear causality in achieving strategy. From these causal objectives, measures are identified that represent critical gauges of organizational success. The result: The path to success is clear.

Linking Actions to Strategy.

The performance management framework helps everyone understand

where the organization is going and translate that into action and results. Measures, goals, and initiatives are identified for each function, team, job, and individual throughout the organization. These are clearly linked to the organization's strategy and communicated widely and frequently. Everyone understands what actions are required to achieve desired results, how they are interrelated across the organization, and how they impact strategy. The result: Everyone is headed in the same direction, toward the same goal(s).

Realigning as Needed.

Performance management creates feedback about strategy. It proactively identifies how well strategy is being achieved by identifying results gaps and potential causality. The result: Feedback to guide what changes need to be made to compete in an ever changing market.

Tangible Evidence

...82% of companies with formal performance management systems performed at or above competitors...

The focus performance management gives an organization in implementing strategy seems sound theory toward organizational success. But what about the results: Does performance management really work beyond theory? If stock price performance relative to competitors is a reasonable gauge of success, then the answer is

yes. A Conference Board study of over 100 companies around the world showed that 82% of companies with formal performance management systems performed at or above competitors, most of these performing better than their peers (Figure 2).

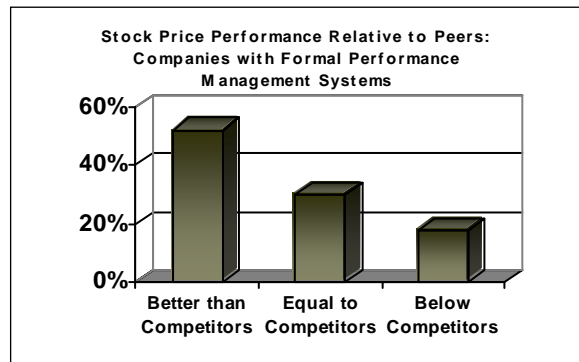


Figure 2

Far from a passing fad, then, performance management is emerging as a fundamentally sound management tool in an ever changing business environment. One that just may be around years after its skeptics have come and gone.

About the Authors. Julie Lewis and David Rayne are the founders and Managing Directors of ALIDADE, Inc., a Richmond, Virginia based Performance Management Consulting Firm. ALIDADE helps clients in the \$5 to \$100 million revenue range translate their business strategy into day-to-day actions and results through implementation of performance management processes. For more information on implementing performance management in your organization, please contact ALIDADE at 804.343.1679.