

# Performance Measurement & Management – (by Jeff Herman)

The management mantra that 'if you can't measure it, you can't manage it' is a refrain that managers often hear but do not fully appreciate until confronted with a major challenge such as the complexity of a business transformation programme. The need to diagnose the problems, stop the rot and administer a course of treatment within a timeframe to be effective, often quickly overwhelms management resources more used to reactive management of day to day events.

Driving through the strategy should be the focus of all management. Performance management is the mechanism that enables managers to maximise and sustain corporate performance by measuring and managing the **drivers of future profitability**. Those drivers are what a business should invest in now to sustain and improve performance. The start point must be to *quickly* establish the necessary disciplines and approaches for the design and implementation of an effective management information system. Such systems must comprise not only of key performance indicators (KPIs) but also the management skills and processes to use them effectively in achieving operational and strategic objectives.

## The Road Map

An organisation's efforts to develop effective management information systems are often hampered by confusion caused by factors that include a one-dimensional, simplistic view of the problems. For example :

- **The Finance View** - *'All we need to do is supplement our financial information with a range of non-financial measures.'*
- **The IT View** - *'All we need is a data warehouse and interrogation software to exploit the operational data'*
- **The Management View** - *'All we need are better managers and staff'*
- **The Staff View** - *'All we need is a business strategy and effective management'*

All these views are valid, but the inter-relationships and dependencies between them are not identified and so critical thinking is impossible. The absence of a universally accepted discipline for management information, similar to that for accounting which for centuries has underpinned the development and integrity of financial systems, means there is limitless scope for confusion and paralysis.

A disciplined and structured approach to developing a performance management system must address the management processes, training and personnel issues to make effective interventions and encourage appropriate behaviours.

## The Performance Measurement Framework

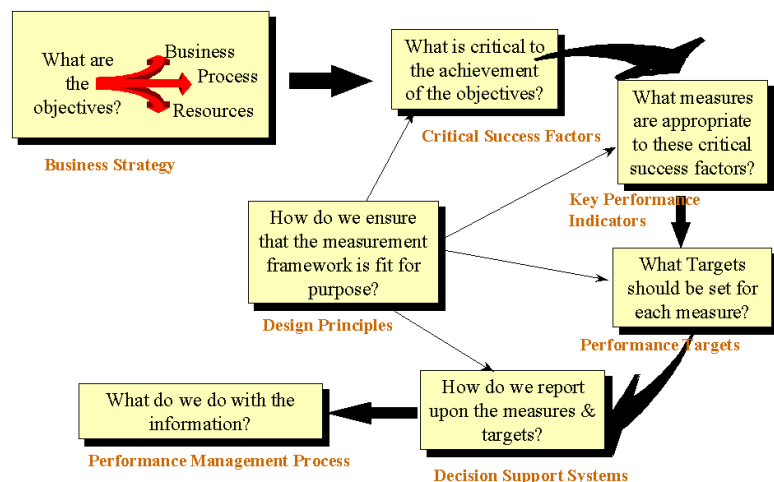
Business managers inhabit a practical world of reacting to day to day operational issues. They may not have the time nor interest in relating the management theories and measurement concepts that underlie the design of a performance management system.

The Performance Measurement Framework model links business objectives to the interventions needed to manage their achievement and gives managers a key to relating the concepts with the practical steps they can immediately take to develop their own performance measures.

The framework model is structured as a sequence of provocations linking business objectives with performance measures. The performance measures feed the management process enabling the business to be actively managed to achieve the strategic objectives. Each of the provocations is addressed by practical approaches and quality assured by the pre-determined design principles.

The design principles reflect the values and behaviours that an organisation wishes to embed in all aspects of its structure, processes and relationships

## The Performance Measurement Framework...



...Linking Objectives with Measures

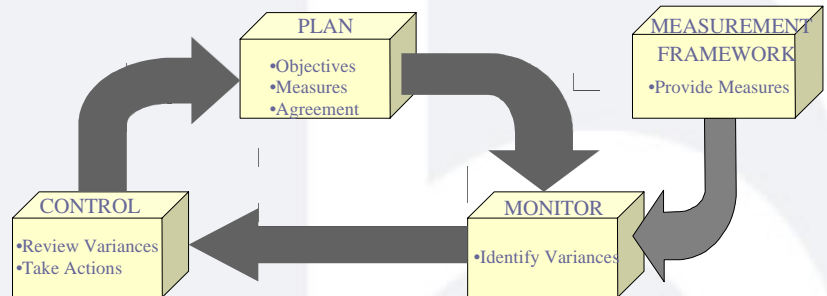
## The Performance Management Process

A performance measurement system is often described as a 'dashboard', similar to that of a car. Taking the analogy further, the performance management process ensure that the driver is sitting in the driving seat, knows ho to drive and where he is going! As with a car, the driver must **plan** the route and fuel the car, **monitor** process of the car and road conditions and take **control** with appropriate actions to ensure a safe and timely arrival. Mangers use just such a cycle to 'drive' through the business strategy

The Performance Management Process is one of the tools Blue-Plate uses as part of a development programme, enabling managers to visualise and understand the component parts of the process.

This conceptual understanding is a prerequisite to equipping managers to design and implement a performance management process that is appropriate for their organisation.

## The Performance Management Process...



## ...A Cycle of Management Actions

## Lessons for the Finance Function

The development and implementation of a performance management system creates both opportunities and threats for the Finance function and accountants working there. The development of a performance management system becomes a focus point for a number of strategic strands for Information Technology, management development, strategy development and operational management.

The dissemination of financial information is only one dimension as opportunities emerge to harvest and share information from a wide range of sources and as a business case justifies the development of latest technologies such as datawarehousing and the intranet.

When management information and systems are no longer predominantly financial, new disciplines and high levels of business awareness are required to transform neutral data and information into **knowledge management**, ie information, understanding and intelligence about the organisation's capabilities and activities.

## Typical Financial Management Issues

### Data Processing

- lack of sufficient segregation between data processing and added-value activities in supporting the business

### Credit Control

- poor performance in collection of balances from the market

### Poor Management Information

- bias towards the provision of regularity and financial accounting information to the detriment of management information
- financial management information is focused on profit and cost centre structures rather than business processes
- lack of a clear understanding of the business drivers and strategic objectives
- insufficient financial information and activity cost drivers for effective cost management

### Lack of Customer Focus

- inability to understand the business processes and support business managers with a customer focused approach
- centralised v decentralised organisation structure - finance personnel isolated from the business in functional silos

### Consolidation

- poor processes for consolidation of financial results of subsidiaries

### Treasury and Risk Management

- financial risk management not integrated with business and operational risk management and control