RG Perspective

Enterprise Performance Management

An Executive-Level Implementation Guide

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1. Introduction

The Enterprise performance management (EPM) is a methodology that can provide leadership with a more complete toolkit with which to view, analyze, and improve their organizations. Here, enterprise means the total organization—all of its departments or functions and how they interact.

There are many variations to an enterprise approach to performance management. The approach presented here has two key elements that differentiate it from the crowd. First, this methodology can be easily understood. Simplicity is critical if the entire organization is going to not only be involved but involved effectively. Second, this methodology is outcome-based. It focuses on the end results, the bottom line. It is not directed at implementing tools, enablers, technology, or processes, although it involves all of them.

2. Six Steps to Success

The six steps involved in implementing effective and efficient enterprise performance management are:

- Develop an enterprise strategy.
- Objectively map the organization.
- Identify improvement opportunities and key performance indicators (KPIs).
- Develop an objective and relevant scorecard.
- Implement outcome-based change management.
- Measure the results and refine the methodology.

Develop an Enterprise Strategy

Most mature organizations have a strategic plan. What you need to find out is if the leadership knows the contents of the plan and if it is used to guide the organization. A "no" answer to either of these questions might mean the plan should be revisited. Enterprise performance management builds on the framework of a good strategic plan. EPM takes the elements of the strategic plan and deploys the plan throughout the organization.

Strategic planning starts with determining who is going to participate, where they are going to meet, and what the outcomes should be. Next comes the initial strategic planning workshop, typically held over several days and involving the senior leadership team, selected organizational representatives, and a facilitation team. Outcomes of the initial sessions include:

- The organization's vision and future
- Guiding principles and behavior
- A mission statement that transitions vision to goals
- Strategic goals and a method that cascades their implementation throughout the organization
- Team roles and responsibilities including buy-in
- Plan deployment, publicity, and exposure to the organization

Objectively Map the Organization

This step requires creating or revising the blueprint of how work is accomplished within the organization (process flow), identifying resources required to accomplish the work, and identifying the outputs resulting from the work.

Consistent with EPM's outcome- based methodology, it is essential to know objective answers to these elements for fact-based change decision to occur.

Mapping the organization in this way permits predictive versus chance change to occur. Strong EPM organizations have a solid expectation of what will happen when a change occurs. They understand the causal linkages between outputs (products and services), the work processes and their costs, and the resources (people, facilities, etc.) required to produce the work. Enablers such as activity-based costing (ABC) provide an efficient and effective means to map the organization. ABC and its implementation—activity-based management (ABM)—can help uncover improvement opportunities such as:

- Workflow bottlenecks and workforce leveling
- High cost, non-competitive or redundant processes
- Candidate processes for outsourcing
- Objective articulation of budget requirements
- Creation of "what-if" scenarios (predictive change)

Equipped with its process and cost blueprint, the organization can proceed to the next step of seeking improvement opportunities and establishing KPIs.

Identify Improvement Opportunities and KPIs

Mapping the organization from a process flow and cost perspective accelerates the identification of opportunities for improvement. These opportunities exist throughout every organization. They are frequently not targeted because long-standing processes, resources, or outcomes are thought to be unchangeable. At this stage, you can profit by challenging everything. There is no need to break successful and profitable business lines, but you can often refine them. Ask these questions, and you may be surprised at the answers:

- Can things be done in another way that makes them even better? If not, why not? Should we do something about it?
- Can someone else do these things better, cheaper, and faster? This information could lead to outsourcing decisions.
- What are the cost drivers of this process or activity? What can we do to optimize them?
- Are resources at full or optimum capacity? This information could indicate adding workload or moving staff.
- How are products and services priced? Are they estimated, fully costed, or is another method used?
- How are budgets developed and defended? Are they built on last year plus or activity and cost-to-produce-based?

KPIs describe critical organization metrics like a compass indicates direction. Well-conceived KPIs are causal and linked to outputs and process health. For example, backlog volumes could be a KPI of equipment downtime, staff losses, material defects, or increased sales. It is important to understand KPI linkages so that change actions are directed toward solving the problem, not causing another one.

Develop an Objective and Relevant Scorecard

Managers typically do not have time to review detailed elements of their entire organizations on a routine basis. Yet they need to know the health of major processes, outputs, resource consumption, revenue and cost streams, profitability, and other business-related information.

Well-designed and relevant business scorecards can provide decision makers with critical information in a timely fashion. Think of your scorecard as a dashboard with a series of meters displaying metrics on your KPIs. For this process to work, three things must happen. First, your meters must be relevant—or have a causal linkage—to something important that occurs within your organization. Second, the data that feeds the meters must be objective, easy to accumulate, accurate, and as current as possible.

Using three-month-old data to form decisions is similar to driving your car using your rear view mirror. And third, scorecards must be trusted and used. Scorecard information must not be gamed or manipulated to fit a desired outcome.

The primary purpose of scorecards and their component meters is to generate questions about why things are happening this way. In understanding the details of the answers, positive change can be generated to correct underlying causes. This is the proactive approach to managerial decision making. The alternative is reactive or chance.

Getting started with scorecards takes a little effort but is not difficult. The recommended implementation steps are:

Develop or refine KPIs for your organization

- KPIs must be tied to your strategy.

Select five to seven critical areas for review

- You can select more if required but they must be critical.

Tie KPIs to the selected area

Develop a scoring methodology Meters, scales, spreadsheets, whatever works is valid.

- Zero means OK and on course with your strategic plan.

Monitor and track scorecard information

- Have a communication plan and schedule.

Ask why when meters exceed limits, whether positive or negative

Fix the negatives and promote the positives

Implement Outcome-Based Change Management

The fifth step is where most EPM failures occur. The downside of implementing outcome-based change management is the failure to do something with actionable information. There are many reasons for failure to act: poor leadership, fear of change, and mistrust of information. The most common reason for unsuccessful change management is lack of a well-conceived and communicated change management plan.

To overcome this obstacle, ask these questions when developing a change management plan:

What needs to happen and why?

- Is people, process, or outcome change involved? What about our customers?

When will change occur?

- What does the timeline look like?

Who is responsible for the change?

- Do they understand their roles and responsibilities?

Has a communication plan been developed that addresses change?

What is the prediction or impact of the change?

- How will it affect people processes, or outcome? Is there collateral impact? If so, develop a risk and mitigation plan.

What are the measures of change success or failure?

- What is the measurement mechanism? What is the feedback mechanism? What is the plan to deal with failure?

Have rewards and accountabilities been developed and communicated?

Measure the Results and Continue to Refine

This is the final step in what should be a continuous process. The effects of change need to be objectively measured and then evaluated. The previous steps, when followed correctly, will lend their outputs to the change management measurement process. The organization's scorecard is an excellent starting place and mechanism for this purpose because of its linkages to KPIs.

A few key questions can be useful in evaluating change results including:

What was the intended effect of the change?

Was the effect achieved?

- If not, why not? Is an adjustment required or some other action?

If a positive outcome occurred, can this change be applied elsewhere?

Is the change management process itself correct?

3. Conclusion

The value of implementing EPM is an example of the sum of the parts exceeding the value of the whole or synergy. Understanding the makeup and roles of each component within an organization, especially component interdependencies and linkages, provides insight into how best to organize and operate the enterprise for maximum outcome. Organizational leadership needs to understand these principles. This guide provides a framework to begin the journey.

The change process can be viewed as and consists of:

A plan and set of processes used to incorporate change within an organization

A vehicle used to incorporate various change management strategies that can be:

- Profit oriented
- Production or process oriented
- Customer oriented
- Workforce oriented

A starter set that encourages change input and then institutionalizes positive change within the organization

A means to expose the organization and its people to change management concepts and dispel fear of change