
Performing better, using Integral Performance Management

Introducing performance management in today's businesses is associated with implementing commonly accepted management methodologies. Among these the most popular one is the Balanced Scorecard. The results of this type of performance management methodologies have often proved to be disappointing. Integral performance management (iPM) is a very good alternative.

Peter Geelen and Rob van de Coevering



The big promise of performance management is getting full control over your company. That is quite a promise since it means that employees are aware of the companies' strategic objectives and are striving to achieve these. Also, there is no waste of money, since all assets are dedicated to projects that are of strategic importance. The company is flexible and able to respond quickly to changing market circumstances. Finally, management information is well-balanced, reliable and timely made available throughout the company, making optimal use of information technology.

The most popular methods for improving performance management are the balanced scorecard and TQM models (EFQM in Europe, Deming in Asia and Malcom Baldrige in US). However, the results of these kinds of methodologies are often disappointing, from a performance management point of view.

Why is this the case? The balanced scorecard, for example, is a wonderful instrument to create strategic focus, to communicate and to manage strategy. It helps you to quantify and guard the pursuit of strategic targets. Also, the TQM models help you as holistic models to reflect and assess

your organization, to determine your TQM position and to create your improvement plan for climbing the TQM stairs.

Both methods appear far easier in concept than in their implementation. It requires quite some exertion to fill in the questionnaires frequently, determining your TQM position and give proper follow-up to the agreed improvement actions, a discipline a lot of companies often lack. Developing a strategy map and determining performance indicators seems simple within the Balanced Scorecard concept, but if you have participated in such a project you know how difficult it is to translate the corporate scorecard into lower organizational levels. This cascading of scorecards is conditional to bringing the strategy to the shop floor, the level where strategy is actually executed. The alignment of objectives and performance indicators, both horizontal and vertical throughout the organization, and the – often needless – questions about ‘who is my customer and what does he expect from me’ is a complex exercise.

REQUIRED ACCEPTATION

Let's try to illustrate this with a simple example. An Installation and Service company of professional heating machines

has formulated 'being responsive' as a strategic objective on their scorecard. Customers expect adequate support when the installation breaks down. The success of this objective is measured by the 'response time' performance indicator. This performance indicator measures the time between the time of the call of the breakdown and the time the incident is solved. Nowadays, these installations are becoming more and more complex and the software within these installations has grown exponentially. As a result, software patches are often part of the solution in case of breakdowns. These software patches are delivered by the Software development department, which is part of Development. Service is delivered by the unit Service. When translating the corporate strategic objective 'being responsive' into the unit Service and the department Software Development, you need to ensure that both entities contribute to the corporate objective. Whether the same (type) of performance indicators will appear on both scorecards, whether they aim at the same objectives and both have the same ambitions, fully depends on the quality of the cascading process. Furthermore, to make this really work both units have to create and use their scorecard at the same moment. Managers feel this complexity and don't adopt the new way of working. This doesn't mean managers don't approve of performance management. On the contrary, no one else has a clearer need to control the company's performance and to mobilize its employees than the manager himself.

A large part of the complexity is determined by the functional approach which is inside a scorecard cascading process. Besides, these kinds of methods stop at the 'what' level. The direct relation with the area where performance is created, the processes, is lacking. The way processes are handled within TQM models and Balanced Scorecard is focused on the 'what', not the 'how'. Performance Management has to make another step, in which the 'what' and 'how' are linked. Thus, a method that contains an explicit link with primary processes, the area where the company's influence is largest. A method that goes beyond creating a list of performance indicators. A method that involves all employees, making use of their brainpower. A method of which the outcome is accepted and also reaches the shop floor. A method that enables continuous improvement. That method is now available and is called integral Performance Management (iPM).

THE iPM MODEL

The central idea behind iPM is direct improvement of company performance by an explicit link between strategic objectives with primary processes and to create a culture of continuous improvement. Five steps have to be carried out to implement iPM (see green area and figure 1).

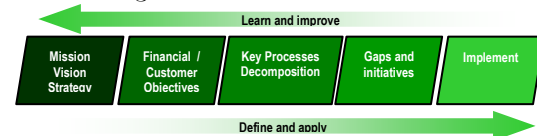


Figure 1: Five steps of the iPM model

iPM in five steps

STEP 1: verify and validate mission, vision and strategy

The basis for iPM is a well-defined and sound mission, vision and strategy. Defining a sound strategy amounts to inventing and testing new ideas. It is important that the organization reflects its position within the market. Based on market information, rules and regulations, trends, capabilities and experiences, companies could derive several scenarios.

It requires equal access to information for all participants to be able to validate and verify mission, vision and strategy. In this step a number of documents are collected that have to be studied by all participants and which will ultimately lead to this validation. After this step all participants have the same knowledge, which creates the basis for the next step.

STEP 2 Define financial and customer objectives

In step 2 financial and customer objectives are determined, including performance indicators and targets. In this way, strategy is translated into measurable items. Still, this is insufficient if an organization wants to define its improvement initiatives. That's why a translation has to be made from these objectives, performance indicators and targets to the things organization can influence: its processes. Eventually, financial and customer objectives are only the results of the company's activities.

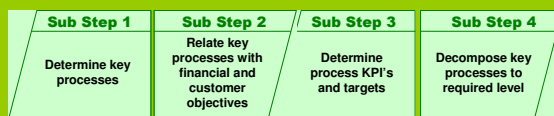


Figure 2: four sub steps to connect processes with strategic objectives

STEP 3 Determine key processes and decompose

Figure 2 gives an overview of the various sub-steps that need to be carried out within this step. Processes are linked with the strategic objectives and performance indicators. Process performance indicators are determined for process inputs, activities and outputs. As a result performance indicators become less woolly than is often the case on a balanced scorecard. A distinction is made between performance indicators and operational indicators. First and foremost, focus is on the key processes.

Going through these five steps brings you your strategic objectives (no more than 4 - 7), linked with your relevant processes. These processes will be decomposed, instead of cascading through the functional hierarchy. This bridges the gap between processes and performance indicators on a high organizational and abstraction level with daily operations. iPM brings performance management to the level where influence can be largest: the operational processes and your employees.

Instead of cascading to functional units or departments processes are decomposed. There are rules and conventions as to the best way in which this can be achieved. Decomposing processes bridges the gap between strategic process overview at the highest abstraction level and the next abstraction level, up to and including day-to-day operations.

STEP 4 Determine performance gaps and define initiatives for improvement

The objective of this step is to define those improvement initiatives that have the biggest impact on the company performance. We need to measure current performance to gain insight into the (sub)processes containing the big wins. Comparing current scores with our ambitions will indicate your improvement areas. As with step 3, this step will be carried out involving all relevant employees, which will increase acceptance and performance tremendously. They know best how things operate currently and have often the greatest ideas. Statistical techniques can be used to find root causes of problems and to suggest improvements.

STEP 5 Implementation

The initial definition of what to measure and to improve has been defined when carrying out the first four steps. It is now important that rules are defined and applied to keep the model alive, and to use it intensively and to integrate it into other processes as well.

Going through these steps thoroughly will result in the following advantages:

- iPM links processes to customer needs and, consequently, is customer-focused;
- iPM creates focus. Firstly, by reducing the number of objectives and secondly by focusing on relevant processes;
- employees are involved from the start which increases acceptance. They determine the best performance indicators and

improvement initiatives to measure the success and improve the performance of their job;

- process performance indicators will be of a more direct nature and, consequently, will be measurable more frequently. Frequencies of performance (and operational) indicators can vary from minutes to months;
- iPM eliminates functional boundaries or stovepipe thinking; stating priorities (which processes first) is possible;
- initiative management offers a structural approach for process improvement, which allows you to overview and control your initiatives and ensures that finances are only channeled to those initiatives that contribute to strategic objectives;
- process-orientation of iPM lowers the barrier for organization to introduce activity-based management and it provides a basis that is also required for corporate governance or quality systems.

iPM puts an end to vague performance management that does not exceed the strategic level. Management gets relevant

information, in context of processes and derived from customer needs and financial ambitions. It is these very processes that can be influenced and that have the largest effect on company performance. Processes in which employees are invited to voice their ideas and thus continuously contribute to improving the company. Employees that now understand in which way these processes contribute to realizing customer needs and the strategic objectives of the organization. In short, iPM aligns strategy, customers, processes and employees.

Peter Geelen - is founder of CPM Partners and author of several Performance Management books and articles.

He can be contacted through Peter.Geelen@CPMPartners.nl. **Rob van de Coevering** - is senior consultant and advice group manager at O&I management partners. He can be contacted through Rvdcoevering@oimp.nl. Both are the authors of the Dutch book on iPM which was released in April 2005.

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