Performance Management - Making It Work: Common Misunderstandings about Performance Management

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Most new improvement methodologies typically begin with misunderstandings about what they are and are not. Perhaps that is why the famous business management author, Peter Drucker, observed that it can take decades before a new and reliable management technique becomes widely adopted. Misunderstandings are typically not a result of ignorance but rather inexperience. The latest buzzword, performance management, is predictably laden with misconceptions due to the lack of experience with it. That is now changing.

At the top of the heap of the misunderstandings that are delaying widespread application of performance management are three primary debates:

What it should be called,
What and how broad it is, and
What it does.

Which Phrase Should Be Used to Describe Performance Management?
There is confusion in the marketplace about performance management in part due to semantics and language. We increasingly see in the press and media the acronyms BPM for business performance management, CPM for corporate performance management and EPM for enterprise performance management. But just as the words merci, gracias, dunke schein and thank you all mean the same thing, so do these acronyms. I have personally opted to refer to it in the short version and simply call it performance management.

What is the Definition of Performance Management?
What is troublesome is that performance management is sometimes mistakenly perceived to be part of a human resources and personnel system. If you perform a Google search on the term, the topic that predominantly appears relates performance management to the personnel function. But performance management as we will describe it is much more encompassing. It addresses how entire organizations, not individuals, are performing.

Think of performance management as an umbrella concept that integrates multiple business improvement methodologies often pursued by organizations. Examples are the balanced scorecard, Six Sigma, ERP, CRM and activity-based costing. The problem is these initiatives and methodologies are typically implemented in isolation from each other. It is as if the project managers live in parallel universes. But we all know there are linkages and interdependencies. So the good news is performance management is not a new methodology that everyone has to learn; it is the assemblage and integration of existing methodologies that most managers are already familiar with.

Another misunderstanding is the tendency to describe performance management too narrowly. It is much more than just better strategy, planning, finance and control. I view performance management as overarching from the C-level executives cascading down through the organization and its processes. Performance management extends all the way from the top desk to the desktop. In my mind, performance management is a closed-loop, integrated system that spans the complete management planning and control cycle including the processes, metrics, methodologies, systems and software tools that collectively manage the implementation of an organization's strategy. It traverses the entire value chain from customer-facing CRM systems to supply chain management systems and the operations processes in between.

In short, the margin for error gets slimmer each passing year, and performance management will grow in importance.

What Does Performance Management Accomplish?
What may matter more than defining performance management and knowing what it does is to answer the following question: what has led to the rise in interest in performance management? A primary reason is the major frustration of senior management. CEOs, managing directors and their executive teams are typically excellent at formulating a good strategy; their major problem is the failure to successfully execute and implement it. Surveys by the Chicago-based employee recruiting firm Challenger, Gray & Christmas, Inc., repeatedly reveal increasing rates of job turnover at the executive level compared to a decade ago.[1] In

complex and overhead-intensive organizations where constant redirection to a changing landscape is essential, the main cause for executive job turnover is the failure to execute their strategy.

One cause for this failure stems from managers and employee teams typically having no clue as to what their organization's strategy is. Most employees, if asked, cannot articulate their organization's strategy. The implication is significant: if managers and employee teams do not understand their organization's strategies, then how can the executives expect employees to know how what they do each week or month contributes to the achievement of the executive's strategy? Employees can effectively implement a strategy only when they clearly understand the strategy and how they contribute to its achievement. Performance management resolves this problem by aligning the behavior of the workforce with the strategy - and much more.

One of the fundamental components of the suite of methodologies that comprise performance management is the strategic plan and the performance measures associated with it. The "balanced scorecard" is hailed as the new salvation for senior managers whose are frustrated with the execution of strategies. But there are two major misconceptions about the balanced scorecard:

1. Scorecards and dashboards are the most important product of performance management. Regular review of key information is definitely important, but perhaps the greatest benefit of a scorecard is the creation of a strategy map. A strategy map can explain for the first time how everything is connected in a cause-and-effect manner. However, strategy maps function as a hypothesis. It is more important to review and test the hypothesis on a regular basis and gather insight into what causes variability of result. This means looking at far more detail than a scorecard or dashboard can provide.
2. Key performance indicators (KPIs) are critically important in their own right. On their own, KPIs merely tell you whether things are good or bad. They are fine for creating focus, but they don't explain why a change occurred or the consequences throughout the organization. To do that, they need to be viewed in the context of a strategy map with additional analytic detail to create insight into why the KPIs changed and foresight that predicts what could happen next.

Performance management is a value multiplier to the substantial investment organizations have made in software systems and technology, yet they are often viewed as falling short of their expected returns on their investment. This misconception arises when scorecards are viewed as the end result of a performance management initiative. Scorecards are merely summaries. True performance management goes beyond summary information to provide insight and foresight into why things happened and what could happen in the future. In the coming months, we will explore methods and techniques that further address the misunderstandings about performance management.

Additional Information:

References:

1. Webber, Alan. "CEO Bashing has gone too far." USA Today, June 3, 2003. p. 15A.

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