

# The Payoff of Pervasive Performance management

*Spreading data analysis tools from the executive suite to the shop floor brings top-line and bottom-line benefits.*

An exclusive report from BusinessWeek Research Services

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**CONTENTS**

Executive Summary ..... 4

Methodology..... 4

Introduction ..... 5

PM Starts to Spread ..... 6

Finer Focus, Fewer KPIs..... 7

All About Culture ..... 8

Different Views of Data .....10

Providing Information Faster .....12

Conclusions and Recommendations .....13

Sponsor’s Statement.....14

## EXECUTIVE SUMMARY

- Two-thirds of senior executives whose companies use performance management say it has a positive effect on shareholder value.
- Organizations exercising world-class enterprise performance management, including widespread dispersal of the tools, enjoy 2.4 times the three-year equity market returns of typical companies in their industry.
- The broader the distribution of business intelligence and performance management tools, the higher the potential return on the investment.
- A successful performance management program realizes that not all employees need to view data in the same way—or to view the same data.
- The biggest return on investment can come from extending performance management to front-line workers, like telemarketers and collections staff.

## METHODOLOGY

BusinessWeek Research Services (BWRS) launched a research program in early 2008 to determine the views of senior business and technology executives on whether widespread use and dispersal of performance management (PM) and business intelligence (BI) tools lead to tangible financial benefits such as increasing revenues, shareholder value, and customer loyalty.

This report includes in-depth telephone interviews with executives at large and midsize companies known to be employing PM. The organizations included in the research for this report are:

- BNSF Railway
- L.B. Foster Co.
- Corporate Express N.V.
- Premier Bankcard Inc.
- Energizer Holdings Inc.
- Procter & Gamble Co.
- ICO Holland
- Skanska USA Building

Furthermore, experts from The Data Warehousing Institute and The Hackett Group, along with consultants Cindi Howson and Bob Paladino, provided invaluable guidance on the use and ROI of performance management.

Triangle Publishing Services Co. Inc. supported BWRS by conducting the in-depth telephone interviews, and providing the writing, editing, and

production of this report. BWRS and the author of this report, Joe Mullich, are grateful to all of the executives who provided their time and insights for this project.

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For more information about this project, please contact BusinessWeek's Director of Primary Research at [chris.rogers@businessweek.com](mailto:chris.rogers@businessweek.com).

## INTRODUCTION

As performance management (PM) and business intelligence (BI) tools move from the executive suites to the shop floor, and all points in between, companies are deriving both top-line and bottom-line benefits from widespread dispersal of these technologies. Among these benefits are increased revenues, reduced costs, heightened customer loyalty, and other key measures of success.

Performance management, considered by many to be the next generation of BI, is a framework for organizing, analyzing, and automating business methodologies, metrics, processes, and systems that drive business performance. Pervasive PM brings transactional systems and analytic systems together to provide more information at the point of decisions.

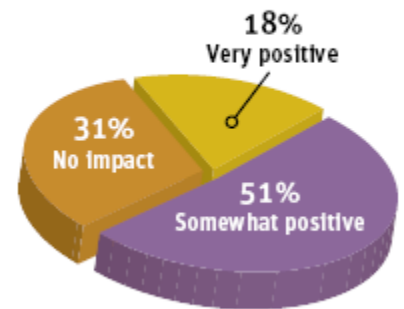
Deploying enterprisewide, or pervasive, PM is still in its early stages. The early adopters said they decided to more widely distribute their PM and BI tools to better align strategy and execution in an environment of extreme competitive pressures. Others determined that empowering more employees with information in real time would enhance organizational agility. Still others indicated that widespread PM access improves the quality of decision-making throughout the organization by replacing hunches and guesses with data-based analysis.

A growing body of evidence attests to the achieved value of performance management. In a 2007 survey of 317 C-level executives by BusinessWeek Research Services (BWRS), two-thirds of respondents said that PM increased shareholder value (see chart 1, "PM Drives Shareholder Value," at right).

This dovetails with the findings of a 2007 study of 200 large companies by The Hackett Group, a research and consulting organization based in Atlanta. According to that research, organizations that exercised world-class enterprise performance management enjoyed 2.4 times the three-

### PM Drives Shareholder Value

*Two-thirds of C-level executives indicated that PM has a positive effect on shareholder value (% of respondents).*



Source: BusinessWeek Research Services and SAS, April 2007

year equity market returns of typical companies in their industry, including stock price increase and dividends.

Hackett defines “world-class PM” as companies that are in the top-quartile for both efficiency and effectiveness. Generally, these companies employ a number of best practices, such as focusing on fewer budget line items and making greater use of online reporting tools than typical companies.

Probing deeper, the Hackett study also offers clues to the benefit of widespread deployment of this technology. For example, in world-class finance organizations, 59 percent of operations managers have access to an online reporting tool. In contrast, at peer group companies, only 39 percent of operations managers have access to online reporting tools.

“There is clearly a benefit to distributing these tools widely and taking an enterprise approach,” says Tom Willman, senior business advisor at The Hackett Group. “And just as clearly, companies are beginning to appreciate and leverage that value by putting these tools in the hands of as many people as possible.”

### PM STARTS TO SPREAD

PM achieves this kind of financial benefit when distributed throughout an organization. While PM was historically first deployed in the finance department, visionary C-level executives have urged adoption in other areas, including manufacturing, human resources, marketing, and elsewhere.

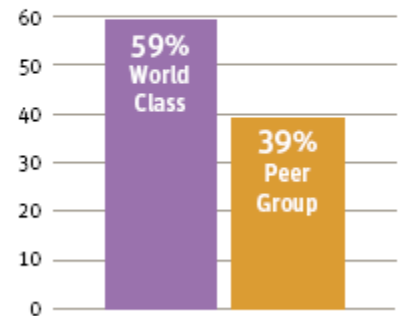
“We see performance management permeating every part of organizations,” says Wayne Eckerson, research director of The Data Warehousing Institute (TDWI), an association of data warehousing and business intelligence professionals based in Seattle. “Generally, we are seeing more enlightened business leaders who understand the importance of establishing key performance indicators around strategy and measuring by objective.”

The push to pervasive PM is embryonic, though. Only 25 percent of employees had access to BI tools in 2006, according to a survey of 513 companies conducted by consultant Cindi Howson and noted in her 2007 book *Successful Business Intelligence: Secrets to Making BI a Killer App*.<sup>1</sup> While half of the companies deployed these tools to executives and business analysts, some rolled out the capabilities to field staff and even to suppliers and customers (see chart 3, “Who Is Using BI?” on page 7).

<sup>1</sup> Howson, Cindi. *Successful Business Intelligence: Secrets to Making BI a Killer App*. New York, NY: McGraw-Hill Professional, 2007.

### Power to the Operations People

*Financial companies that achieve the highest financial success are much more likely to extend reporting tools to their operations managers (% of operations managers with access to online PM or reporting tools).*



Source: The Hackett Group

With the emergence of new technology, and the increasingly competitive business landscape, leading companies are not only dispersing BI tools widely but linking them in a coherent strategy. Among the hallmarks of a successful broad-based PM deployment is a strategy that successfully develops the appropriate number of metrics.

### **FINER FOCUS, FEWER KPIS**

Performance management, at its heart, is about focus—aligning workers and their tasks so that they are working toward common goals. In the 2007 BWRS survey, 46 percent of C-level executives said that a key benefit of PM was to articulate, communicate, and align strategies across departments and throughout the enterprise. Benchmarks in the form of metrics, commonly known as key performance indicators (KPIs) are the typical tool used to impose alignment.

However, in the early days of PM deployment, many organizations created so many metrics that employee confusion was the most common result. These days, determining the appropriate number and type of metrics is considered the number one PM success factor, according to the 2007 BWRS survey (see chart 4, “Keying in Performance Management Success,” on page 8).

“Too often, organizations get obsessed with numbers and report too many indicators instead of focusing on the indicators that are critical to the organization’s success,” says Gregg Stocker, director of operations at ICO Holland, a global manufacturer of specialty polymers powders.

The experience of L.B. Foster Co., a Pittsburgh-based manufacturer with multiple plants across the United States, shows the importance of determining the right number and type of KPIs for broadly dispersed PM. The PM program, in the form of a balanced scorecard, extends from the C-suite to the shop floor.

“L.B. Foster had a couple of hundred measures that were not linked and aligned,” says Bob Paladino, a consultant to the company who helped it deploy a broad-based PM initiative. “We worked with them to reduce the factory metrics load to 20 measures and the operations down to a dozen, so workers could have a focused set of goals to get their mind around.”

At one of L.B. Foster’s factories, for example, a simple line chart tells teams how effectively they, for example, monitor the production of railroad ties. Because of this focus, the company was able to mobilize a couple of hundred workers in a way that improved customer-delivery time, scrap material rates, and other important measures.

Rolled out over two years, the widespread PM deployment helped management at L.B. Foster achieve numerous important milestones, including the following:

- Appreciated stock price over 300 percent
- Increased revenue 44 percent since 2004
- Reduced OSHA recordable incident rate below the industry rate
- Reduced order backlog by 79 percent
- Improved overall customer satisfaction score

Those impressive numbers are a result of not just measuring performance, but deciding on what measures would encourage behavior that achieved the company's goals. "Most companies have pockets of measurement," Paladino says. "What is missing is sharpening, linking, and aligning those measurements."

This can only come with a pervasive, or enterprisewide, focus. As The Hackett Group's Willman notes, "There is a big risk in having the business units making decisions on what to measure independent of the broader enterprise."

Willman, other consultants, and users note that development of enterprisewide KPIs must be part of a data governance strategy to ensure apples-to-apples comparison. Otherwise, individual business units will use different data definitions. When senior executives roll up the enterprisewide information, it will be worthless, because of inconsistent data definitions, obsolescence, or other flaws.

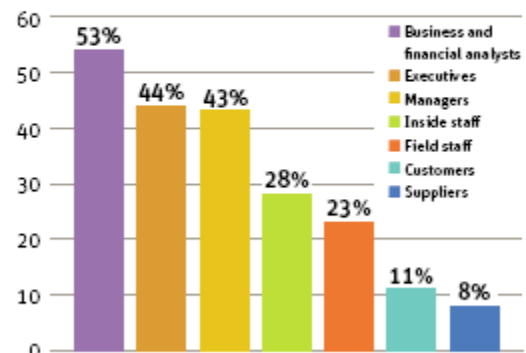
"The more up-to-date the information, the better people can respond and take or change plans for improvement," adds ICO Holland's Stocker. "It is key, however, that people understand how to read data and that the KPIs reported reflect improvement in key areas."

## ALL ABOUT CULTURE

In addition to the right KPIs, another prerequisite for pervasive PM success is establishing and maintaining the right culture. "The first thing you need to do is step back and develop a culture that is based on measurement, strategy, and facts," says Eckerson of TDWI. "Performance management is not about being efficient but effective. PM does help cut costs, streamline processes, and make things run more efficiently. But it is more about prioritizing and doing the right things, not just about doing things right."

## Who Is Using BI?

*BI applications are moving beyond analysts and top executives to people throughout—and outside of—enterprises (% of companies reporting access provided to specific roles).*



Source: Successful Business Intelligence: Secrets to Making BI a Killer App, by Clint Howson (McGraw-Hill Professional, 2007).



Indeed, the biggest obstacles to successful execution of PM are “lack of accountability” and “a culture that does not support measurement,” according to the executives who responded to the 2007 BWRS survey.

That culture can only come from the top. Gary Herzog, director of business intelligence at BNSF Railway in Fort Worth, Texas, notes that the company’s corporate dashboard initiative was firmly backed by the CEO, Matthew Rose. “Support from top levels in the company is critical,” Herzog says. A culture of accountability is typically demonstrated by the C-suite’s monitoring of KPIs.

But that attitude must radiate throughout the organization. For example, ICO Holland invited a union representative to participate in the strategic planning process that drives improvement, including development of KPIs. “This was important to make sure that the plan—and the process for developing the plan—is discussed with the workers and buy-in is achieved,” says Stocker, who authored the book *Avoiding the Corporate Death Spiral: Recognizing & Eliminating the Signs of Decline*.<sup>2</sup> Regular meetings were held with workers to discuss the plan, and the KPIs were posted throughout the organization.

At St. Louis-based Energizer Holdings Inc., “The broader goal was to build a corporate culture founded on information-based decisionmaking,” says CIO Randy Benz. “Where business intelligence strategies have typically been aimed at data analysts and decisionmakers at the top of the organization, Energizer’s BI strategy is aimed at what I call ‘difference makers’—the hundreds of people throughout our organization who are managing departments and small teams of people and who are making thousands of decisions every day that impact our business.”<sup>3</sup> “Once the KPIs have been implemented, it is important to make sure that everyone in the organization has access to them to see how well the organization is performing and whether improvement is taking place or not,” Stocker says. “People want to know how things are going, but—more importantly—they want to be involved in improvement.”

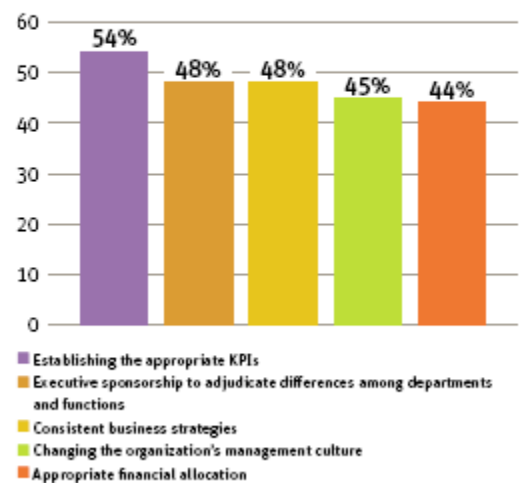
Another aspect of successful cultural change is the pervasive PM deployment strategy. Typically, widespread PM begins by addressing the biggest pain point or point of opportunity, and then spreads from there. But the enthusiasm of even the most zealous supporters will dim quickly if the project does not provide tangible benefits.

<sup>2</sup> Stocker, Gregg. *Avoiding the Corporate Death Spiral: Recognizing & Eliminating the Signs of Decline*. Milwaukee, WI: ASQ Quality Press, 2006.

<sup>3</sup> <http://www.microsoft.com/casestudies/casestudy.aspx?casestudyid=4000000646>

### Keying in Performance Management Success

The biggest factor in PM success is the right key performance indicators, according to C-level executives (% of respondents indicating which efforts were most important to PM success).



Source: BusinessWeek Research Services and SAS, April 2007

"If you do not give any consideration to the ROI, or use soft numbers, you are set up to fail," says Ron Van Zanten, managing officer of business intelligence at Sioux Falls, S.D.-based Premier Bankcard Inc., one of the largest credit-card companies in the United States, with more than 3.7 million customers nationwide.

Premier Bankcard first went after "low-hanging fruit" with its PM efforts, such as determining the most profitable customers. Consequently, the marketing department could cut out millions of direct-mail solicitations to customers while keeping the same response rate, thereby reaping huge savings. "If you can cut 10 percent of the letters that get no response from the letters we send each month, that is a powerful demonstration of ROI," Van Zanten says.

### DIFFERENT VIEWS OF DATA

Although performance management encourages all employees to have the same viewpoint toward corporate goals and standard corporate information, a successful PM program realizes that not all employees need to view data in the same way—or to view the same data. Instead, employees each need the right data presented in the right way to help them take the *right* actions.

"You can create a dashboard for any role in the organization, but you cannot always know every role that each individual plays in an organization, at any point in time," says Terry McFadden, one of the enterprise architects at Cincinnati-based manufacturer Procter & Gamble Co. "You need capabilities that match the fluidity of the organization." P&G is rolling out corporate dashboard capabilities to 32,000 users worldwide.

At Parsippany, N.J.-based Skanska USA Building, a subsidiary of multinational residential and commercial construction giant Skanska AB, "These tools are great," says Director of IT Andy Hough, "because they are accessible to all managers and provide a level of detail on a month-to-month basis. But we knew that operations and project teams as well as mid-tier management also needed that information to make the best possible business decisions. Our employees all make decisions that directly affect the company's financial health on a regular basis." <sup>4</sup>

Over the past six years, Corporate Express, a business-to-business office products and services distributor in Broomfield, Colo., has expanded its BI tools from 500 to 3,500 employees—about 90 percent of its white-collar

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<sup>4</sup> <http://www.microsoft.com/casestudies/casestudy.aspx?casestudyid=4000000676>

staff. According to Matt Schwartz, vice president of business intelligence and analysis, that level of pervasive PM required the following three-pronged approach to data and KPI customization:

- Give each department the content it needs, so users have a reason to log onto the system.
- Improve the corporate infrastructure, so employees can access information fast.
- Focus on usability, so front-line workers can use BI and PM proactively and see tangible benefits fast.

“When we talk about business intelligence with the salespeople, they do not think in terms like ‘standard deviation,’” Schwartz says. “Instead, we discuss BI in terms that resonant with them, like ‘average sales.’”

Schwartz’s team built a sophisticated predictive model for forecasting customer retention. The first version of the system did not provide enough useful information. Salespeople would be alerted simply when a customer was in danger of being lost, which the company defines as no activity for 90 days. “By the time our salespeople were alerted, they already knew the customer was on the way out,” Schwartz says. That gave our salesperson no compelling reason to check the system or use the metrics.

To spur participation and increase value, Corporate Express deepened the analytics, providing its salespeople with a probability score of the customer leaving. That put the sales staff on firmer terrain. For example, a customer with an 80 percent probability of staying would receive a call from the inside sales staff, while a customer with a lower percentage would receive a face-to-face sales visit. Beyond this, the BI system analyzed buying behaviors and gave the salespeople concrete action steps for each customer, such as suggesting they shift to more online purchases or aggregate their orders instead of spreading them over several days. “These are subtle things, but they all give our salespeople very specific steps,” Schwartz says.

Herzog of BNSF Railway also stresses the need to match the level of detail provided to the needs of each user. “If the data is too broad, it does not tell a field supervisor what they can do to make improvements,” he notes. BNSF’s innovative dashboard, for example, has automated reporting on more than 40 significant operational measures. The color-coded measures allow supervisors to evaluate crew starts and locomotive velocity, in addition to revenue and on-time performance. By drilling down to critical operating measures and finding comparisons to historical views, managers can use this information to improve day-to-day operations.

## PROVIDING INFORMATION FASTER

As performance management spreads to front-line workers, they need data delivered more quickly, inextricably tying pervasive PM to operational business intelligence and real-time data.

Premier Bankcard's Van Zanten notes that PM and BI are "the communication flow of the company," whether that means line managers looking ahead to the rest of the day, the vice president honing strategy for the remainder of the year, or the CEO looking several years into the future. "The companies that fail are those who do not believe the numbers or think they do not need the numbers and can do this by feel," he says.

Van Zanten estimates that Premier Bankcard's biggest ROI came from extending PM to front-line workers like telemarketers and collection staff. For example, the company has always run contests for its telephone sales department, awarding lunches, movie tickets, or other prizes to the group that signs up the greatest number of new credit-card users. Thanks to improved BI and PM capabilities, the departments are able to track how they are doing in those contests with real-time data.

"In the past, the data was loaded nightly, and a team might not know if they won the contest until the next day," Van Zanten says. "Now, they can know if they are behind with 30 minutes left to go in the day, which gives them an incentive to make a bigger push. Instead of spending time doing paperwork, people work at 110 percent capacity those days."

As TDWI's Eckerson puts it, "This is like giving employees a performance review everyday. The idea is not to punish employees but to provide better coaching to ensure they succeed." He adds, "Once you start publishing performance results so they can see how they are doing compared to their peers, you turbo-charge productivity," he says.

The crucial aspect is to think through how different employees use information and to provide it in a way that dovetails seamlessly with how they do their work, especially at less senior levels. As McFadden of Procter & Gamble puts it, "If the system is not intuitive immediately with limited self-help, you have missed the mark."

PM systems, in McFadden's view, need to be extensions of how workers do their jobs, with personalized capabilities according to the needs of individual workers. They should see no distinction between performance management and business intelligence—they simply need to be able to work more efficiently. The total set of capabilities needs to be "loosely coupled," via open standards, so it is possible for composite applications to

be quickly created and quickly modified, translating IT agility into business agility.

## **CONCLUSIONS AND RECOMMENDATIONS**

According to surveys and our interviews, pervasive performance management is providing clear value to both the top line and the bottom line. Spreading this technology successfully throughout a company depends on adopting the following best-practice techniques and philosophies:

- Create a culture of accountability as part of the deployment of dashboards and balanced scorecards.
- Go for the fast win, gaining support and user adoption, and demonstrating a clear ROI.
- Focus on infrastructure, data quality, and governance. Slow systems with dubious data are quickly abandoned.
- Take a pruning blade to your KPIs. Most companies overwhelm workers with too many metrics.
- Hail to the Chief: High-level executive sponsorship is crucial.
- Provide compelling information to every level of employee, appreciating that what is compelling changes from user to user.
- Do not think about just providing information; also give clear guidance on actionable steps to take with it.

## SPONSOR'S STATEMENT

### Pervasive Performance Management from Microsoft

Today, organizations are challenged more than ever to empower their employees with actionable data that helps drive business performance and information worker productivity. With the countless sources of data available to make a decision today, there is a greater need than ever for business intelligence throughout the organization. But many of today's BI solutions are not adopted for the simple reason that they force us to adapt to their processes—and the way they work—rather than adapting to our processes and the way we work. Being “People Ready” is more than just a slogan. It involves providing the right tools, in the right context, for the right user throughout your organization to ensure that your business intelligence project drives results.

Microsoft® Corporation business intelligence solutions deliver a full range of tightly integrated personal, team, and organizational BI tools and products. The power of Excel®, the world's #1 personal BI productivity tool; the team and collaboration capabilities of SharePoint® Server; the new performance management capabilities of PerformancePoint™ Server; and the reporting and analysis capabilities of SQL Server® are designed to drive personal productivity and team and organizational performance—all in one solution. They support your work the way you do it today, with a focus on making the right decision to drive your business forward.

If you are going to unlock the potential of all your employees, your teams, and your organization to achieve your goals, it is clear that you cannot do it with just one tool, data source, or application. You need a solution that allows for the flexibility demanded by your workers to do their jobs, with the security, administration, and centralization that the IT department requires to do its job, at a price that allows you to get the tools and the applications to every information worker in your organization. We believe that there is only one vendor that can provide the breadth and depth of tools, applications, and infrastructure that will help you achieve true business performance. Only Microsoft can deliver this comprehensive solution. For the first time, the combination of personal empowerment and corporate accountability are joined together in a single solution that allows the potential of wide-scale BI and true productivity gains within your organization to be realized. This is the prime driver of true business performance, and this is what we are delivering to our customers today.