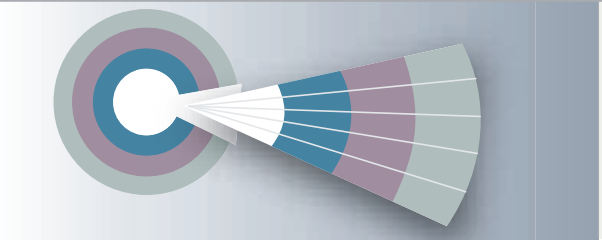
THE PERFORMANCE MANAGER
Turning Information into Higher Business Performance



THE PERFORMANCE MANAGER SERIES

BOOK ABSTRACT

IBM

INTRODUCTION

The new business book, **The Performance Manager**, can help you turn the growing information-intensity of your job from a challenge to a competitive advantage.

The Performance Manager, *Proven Strategies for Turning Information into Higher Business Performance* examines the partnership between decision-makers and the people who provide them with information to drive better decisions. It offers suggestions for 42 decisions areas, or information sweet spots, taking into account the need to not only understand your data, but also plan and monitor your performance.

These 42 decision areas are organized by the eight major functions of a company. These eight functions provide the core structure of the book: Finance, Marketing, Sales, Customer Service, Product Development, Operations, Human Resources, Information Technology, plus an over-arching section for Executive Management.

Each chapter introduces key challenges and opportunities companies face in the specific function. **The Performance Manager** then dives into each decision area, illustrating the core content of the corresponding information sweet spot. These are organized into two types of measures (goals and metrics); the hierarchical set of dimensions that allow you to look at the information from a variety of vantage points; and the plans that would be associated with functional goals.

Each decision area then offers advice on who beyond the specific function would benefit from seeing the information (e.g., Marketing should see Sales pipeline targets) to make better performance a truly cross-organizational exercise. We hope you see the value in this white paper and choose to take our offer for the whole book, **The Performance Manager**.

Why the Performance Manager?

The Changing Value of Information

Research by McKinsey Quarterly confirms what most of us have known intuitively for some time. Our jobs have become more and more information-intensive—less linear and more interactive, less rule-based and more collaborative—and at the same time we are expected to do more in less time. While technology has helped in part, it hasn't achieved its full potential.

McKinsey[1] has followed a trend that directly relates to the better performance dialogue we started a decade ago. Based on the research, McKinsey distinguishes among three primary forms of work and business activity:

1. Transformational work – Extracting raw materials and/or converting them into finished goods. *(Taking wood and making a chair)*
2. Transactional work – Interactions that unfold in a rule-based manner and can be scripted or automated *(Taking precut wood and building chairs on an assembly line)*
3. Tacit work – More complex interactions requiring a higher level of judgment involving ambiguity and drawing on tacit or experiential knowledge. *(Managing the sales of wooden chairs for the eastern US)*

Looking at the U.S. labor market, McKinsey drew several conclusions.

First, tacit work has increased the most since 1998. It now accounts for 70 percent of all new jobs, and represents more than 40 percent of total employment. The percentage in service industries is even higher. For example, it's nearly 60 percent in the securities industry.

Second, over the same period investment in technology has not kept pace with this shift in work. Technology spending on transactional work was more than six times greater than spending on tacit work. This reflects the past decade's efforts in re-engineering, process automation, and outsourcing. It makes sense: linear, rule-based transactional processing is the easiest to improve.

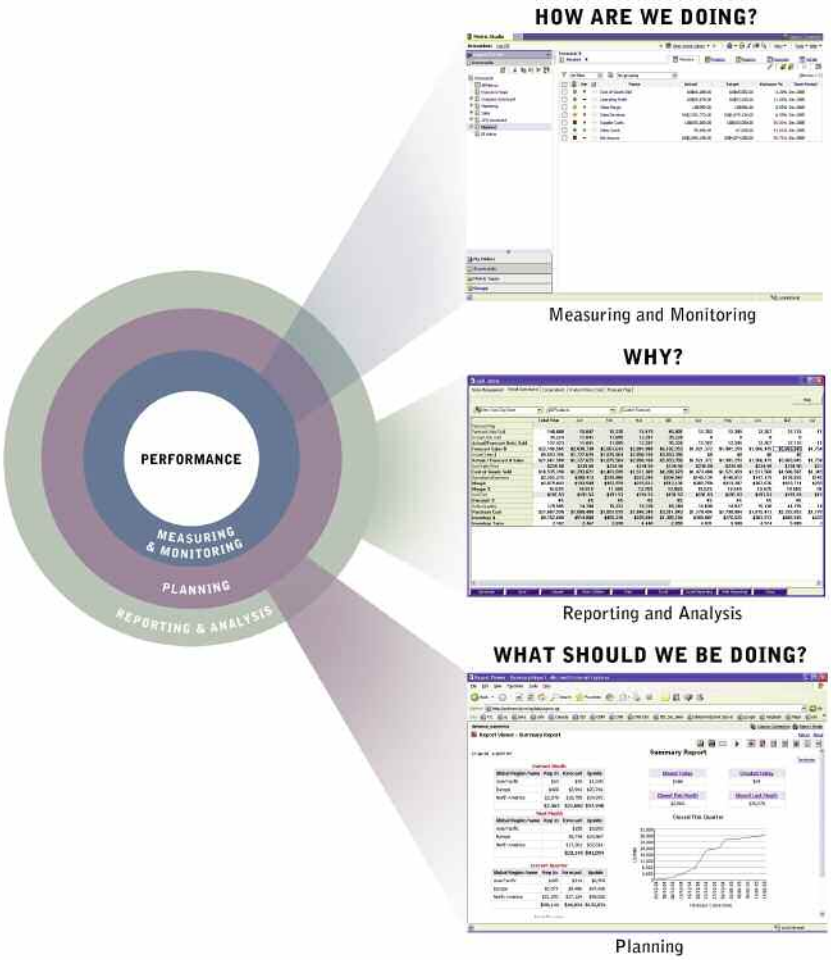
But McKinsey's third finding is the most important: competitive advantage is harder to sustain when it is based on gains in productivity and cost efficiency in transaction work. McKinsey's research found that industries with high proportions of tacit work also have 50 percent greater variability in company performance than those industries in which work is more transaction-based.

In other words, the gap between the leaders and laggards was greatest in industries where tacit work was a larger proportion of total work.

[1] Bradford C. Johnson, James M. Manyika and Lareina A. Yee: "The next revolution in interactions," *McKinsey Quarterly* (2005, Number 4), and "Competitive advantage from better interactions," *McKinsey Quarterly* (2006, Number 2).

Every decision-making cycle depends on finding the answers to three core questions: How are we doing? Why? What should we be doing? Scorecards and dashboards monitor the business with metrics to find answers to How are we doing? Reporting and analysis provides the ability to look at historic data and understand trends, to look at anomalies and understand Why? Planning and forecasting help you establish a reliable view of the future and answer What should we be doing? Integrating these capabilities allows you to respond to changes happening in your business. This is the underlying philosophy of the decision areas and **The Performance Manager.**

The Performance Manager offers insights and lessons learned on leveraging your information assets better in support of your most valuable human capital assets: the growing number of high-value decision-makers. Given the right information-enabling technology and leadership, these decision-makers can become performance managers. Such managers deliver sustainable competitive advantage by growing revenue faster, reducing operational expenses further, and leveraging long-term assets better.



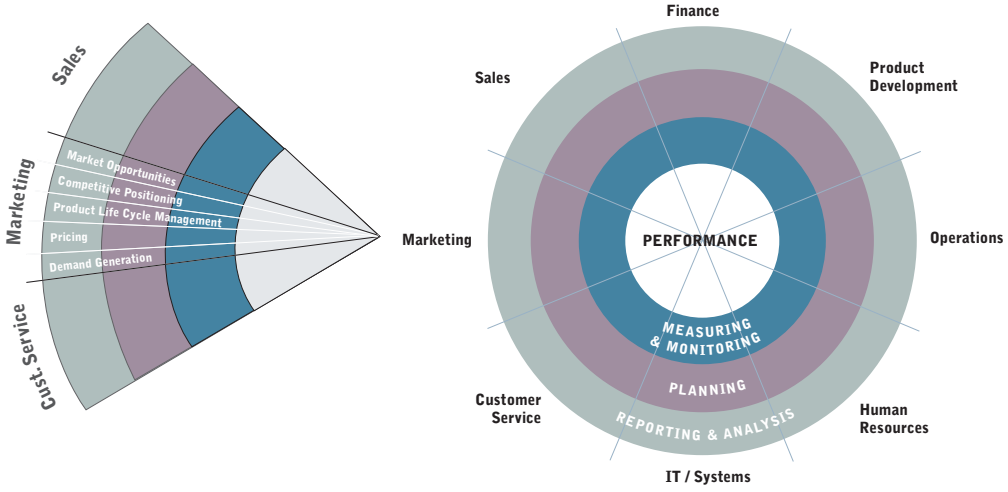
Decision Areas that Drive Performance

The Performance Manager offers 42 information sweet spots, or decision areas common to most companies. The framework for these decision areas is highly flexible, and circumstances will dictate how to best design and develop specific information sweet spots. You may require more detailed variations or other decision areas to meet specific needs. But the logic of each decision area is the same: to provide a simple, easy-to-understand way to drive performance—and also to measure, monitor, and analyze it, report on it, and plan for it.

The specific industry is also a key factor in the number and definition of decision areas. **The Performance Manager** adapted a generic manufacturing industry model because it is the most common and broadly recognized. While other industries may present a different set of specific decision areas, the business fundamentals in this book apply across all companies.

The decision areas are organized by the eight major functions of a company that drive performance:

- Finance
- Marketing
- Sales
- Customer Service
- Product Development
- Operations
- Human Resources
- Information Technology
- Plus an over-arching section for Executive Management.



Each chapter (e.g., Marketing) introduces key challenges and opportunities that most companies face today. A recurring theme is that of striking the right balance among competing priorities. How to weigh different options, how to rapidly make adjustments—these are often more difficult decisions than coming up with the options in the first place. The decision areas for a particular function represent the information sweet spots best suited to it, for the balancing act required to meet challenges and exploit opportunities. In this book we have focused on some 42 decision areas, ranging from three to seven per function.

The book introduces each decision area, giving an illustration of the core content of the corresponding information sweet spot. It presents two types of measures: goals and metrics, and a hierarchical set of dimensions. A map of which performance managers are likely to use this decision area is included, showing relevant decision roles and work responsibilities. For instance, a Marketing decision area should be shared with Product Development if it affects product features planning, or Sales and Operations if it means higher demand. At the end of each chapter, we illustrate how each function can monitor its performance and contribute plans for future financial and operational targets.

A key factor that makes this step-by-step approach work within a broader company perspective is the direct tieback to the financials included in the design. While each decision area can provide integrated decision-making functionality around its own set of issues, it also provides answers that impact financial results. Goals and metrics in non-financial decision areas, such as Sales, Marketing, or Operations, provide answers to financial statement numbers in the income statement, balance sheet, and cash flow, and help set future plans for growing revenue faster, reducing operational expenses further, and leveraging long-term assets better.

At the end of each chapter, we illustrate how each function can monitor its performance and contribute plans for future financial targets.

The next two sections of this abstract look at two functional areas—Marketing and Information Technology—and how two decision areas in each of these departments help you manage performance better.

A LOOK INSIDE

Marketing: The Guidance and Early Detection System

Marketing departments can be your investment advisor, guiding strategic and operational activity, focusing on the potential of specific markets and how the organization can meet these markets' needs. In this role, Marketing can also be an early detection system for how changes in the market lead to changes in products and services, selling strategies, or even more far-ranging operational elements of the business.

Many marketing metrics are important indicators for a company scorecard. Sudden drops in response rates for traditionally successful marketing efforts could mean competitor pressure, market shifts, and/or revenue trouble down the road. Good marketing departments see the big picture. They notice and interpret trends that are not readily apparent on the front line and provide the business context for what is being sold, or not, and the associated value proposition.

Marketing has the responsibility for defining, understanding, and leading five core areas of the company's decision-making:

- **Market Opportunities:** What is the profit opportunity?
- **Competitive Positioning:** What are the competitive risks to achieving it?
- **Product Life Cycle Management:** What is our value proposition?
- **Pricing:** What is it worth?
- **Demand Generation:** How do we reach and communicate value to customers?

Let's look in more detail at two of these decision areas: **Marketing Opportunities** and **Competitive Positioning**.

Decision Area: Market Opportunities

What is the profit opportunity?

Making decisions about **Market Opportunities** is a balancing act between what's possible, what's probable, and getting comfortable with the fact that if Marketing only backed "sure things", you are likely too late to the game.

The **Market Opportunities** decision area is strategic and concerned with the longer term. With it, you can

- Manage the upfront investment
- Prioritize the most promising profit areas
- Project results while dealing with a time lag in numbers.

The most obvious market opportunities have likely been identified, whether by you or the competition. You are looking for hidden gems buried in the data. These micro-targets need to be identified, analyzed, and understood.

With the **Market Opportunities** decision area, you can set planning goals and scorecarding metrics for these elements:

- Company share (%)
- Market growth (% and $)
- Market revenue ($)
- Profit
- Sales (# of units and $).

Further, you can analyze these goals and metrics by a number of dimensions to find the hidden gems in the data:

- Industry
- Geographic region
- Market segment (macro & micro)
- Brand and Product line
- Sales territory
- Date.

Using the Market Opportunities Decision Area

As a Marketing professional, you set targets and plan campaigns based on your targets for the goals and metrics in **Market Opportunities**. You monitor your success by looking at how you measure up against your targets. Further, you dive into your results to find the hidden gems.

- **Company share (%):** Are there regions where our share is significantly less than our average?
- **Market growth (% and $):** Is a product growing above average with a particular market segment?
- **Profit ($):** Are we maximizing revenue per unit in some sales territories over others?

Decision Area: Demand Generation

How do we reach and communicate value to customers?

Driving demand is where Marketing rubber hits the road. All of Marketing's strategic thinking and counseling about micro-segments, profit potential, the offer, and competitive pressures comes to life in advertising, promotions, online efforts, public relations, and events.

Marketing manages its tactical performance by analyzing:

- Promotions and communications
- Marketing campaigns
- Internal resourcing
- Response rates
- Cost per response.

At the same time, Marketing must understand whether or not the company is acquiring the right customers for the ideal future portfolio. This is key to understanding the results of a micro-segment marketing effort.

With the **Demand Generation** decision area, you can set planning goals and scorecarding metrics for elements such as:

- Marketing campaigns (#)
- Marketing spend ($)
- Marketing spend/lead ($)
- Qualified leads (#)
- Promotions ROI ($)
- Baseline and Incremental sales ($).

To gain even more value, you can analyze these goals and metrics by a number of dimensions to find trends or opportunities hidden in the data:

- Industry and Region
- Market segment (macro & micro)
- Brand and Product line
- Marketing method
- Marketing campaign
- Sales organization
- Weeks of promotion.

Using the Demand Generation Decision Area

As a Marketing professional, you set targets, plan campaigns and create tactics based on your targets for the goals and metrics in **Demand Generation**. You monitor your success by looking at how you measure up against your targets. Further, you dive into your results to find the hidden gems.

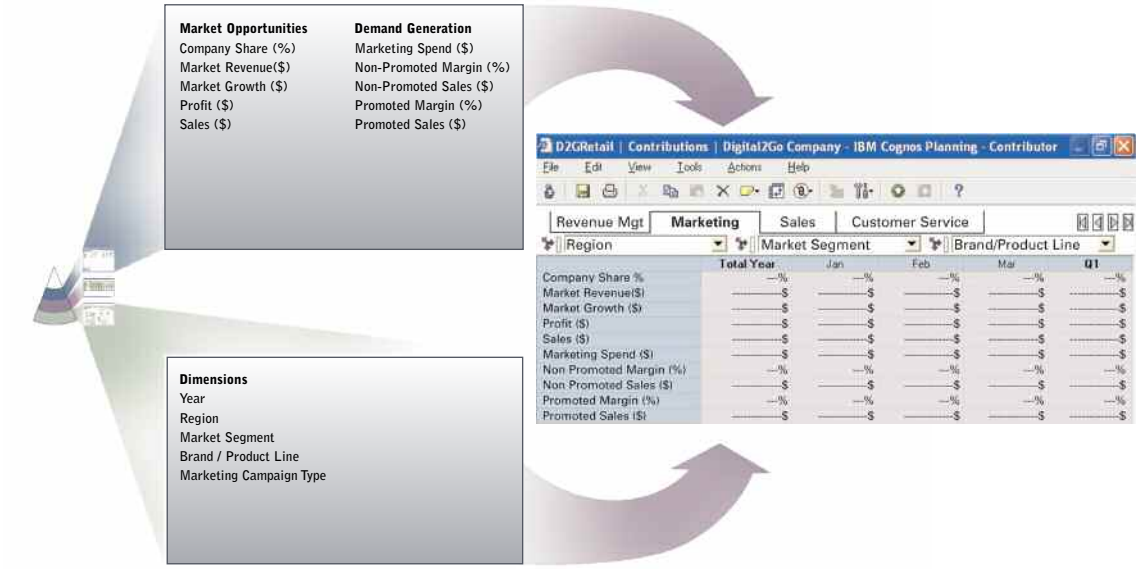
- **Promotions ROI ($):** Do our ROI targets and marketing spend mean we will generate enough activity for a given region?
- **Marketing spend/lead ($):** Can we look at changing the marketing mix to lower our cost per lead?
- **Incremental sales (#):** Are there regions where our marketing efforts generate more sales activity?

Improving Marketing tactics means understanding what elements work better than others. What provokes a greater response? At what cost? With a wide variety of options for online, direct response, and traditional advertising, Marketing needs to know which tools work best for which groups.

Understanding and analyzing this information is key to alignment, growth, and accountability.

TYING MARKETING METRICS AND DIMENSIONS BACK TO YOUR FINANCIALS

Key goals and metrics for Marketing are shown for the **Market Opportunities** and **Demand Generation** decision areas. The planning process links them with the relevant dimensions, ensuring that resources are allocated and expectations set against financial and operational goals. (The screen shot shows the IBM Cognos® planning software). In this way, the planning process ties back from decision-making processes through the organization to the financials. This illustrates how Marketing can monitor its performance, allocate resources, and set plans for future financial targets.



The Marketing Opportunities and Demand Generation decision areas illustrate how the Marketing function can monitor its performance, allocate resources, and set plans for future financial targets.

A LOOK INSIDE

Information Technology: A Pathfinder to Better Performance

IT can be to the company what high-tech firms have been to the economy—a catalyst for change and an engine driving rapid growth.

Technology and information have become so important to how companies operate that even small changes can dramatically affect many areas of the business. This reality is reflected in the amount of IT assets accumulated over years due to large IT budgets, often second only to payroll in size. *How many of these assets are still underleveraged, for whatever reason? What impact on results would an across-the-board 10 percent increase in return on IT assets (ROA) have?*

Clearly, the stakes are high. And yet IT is often seen as a simple support function or an expense ripe for outsourcing. It is rarely seen as an enabler or creative pathfinder for the business. IT's daily pressures often derive from thankless, sometimes no-win tasks, such as ensuring core service levels of up-time, data quality, security, and compliance. Beyond these basic operations—"keeping the lights on"—IT must also respond to the never-ending and always-changing needs of their business customers. The challenge of managing their expectations is intensified by the pressure to reduce costs, do more with less, and even outsource major capabilities.

The Business of IT

The five decision areas in **The Performance Manager** Information Technology chapter provide IT with insights and facts to help drive overall value for the company. The sequence of these decision areas provides a logical and iterative flow of analysis and action. The start and end point—IT with a clear view of *where* and *how* it is driving business value—sets the basis for priorities and plans to close gaps. You require a detailed understanding of the effectiveness of IT assets, both individually and combined, to see how to make them more effective. In order to optimize your current assets, or add new ones, you must monitor the projects closely and manage vendors. Finally, you need visibility over the many "moving parts" to ensure you comply with business and regulatory objectives to mitigate risks.

Decision areas for IT:

- **Business Value Map:** Where and how does IT drive business value?
- **IT Portfolio Management:** How are IT assets optimized for greatest ROA?
- **Project/SDLC Management:** Are projects on time, on budget, on target?
- **IT Vendor Management:** Are vendor service levels and costs managed optimally?
- **IT Compliance Management:** Are IT risks and controls managed appropriately?

Let's look at two of these decision areas: **Project/SDLC Management** and **IT Vendor Management**.

Decision Area: Project/SDLC Management

Are projects on time, on budget, on target?

Most IT departments have hundreds of separate projects that are interrelated, overlapping, or at various stages of completion. The Project-Software Development Lifecycle (SDLC) decision area tracks the status of major projects against common project management milestones such as scope, requirements analysis, design specifications, development, testing, implementation, and production.

Monitoring on-time, on-budget, on-quality project indicators is critical to managing scope, unplanned changes, and necessary adjustments. This information, which may need to be aggregated from several sources, also improves alignment around project priorities and helps flag duplication in purpose or scope.

To help with this analysis, the **Project/SDLC Management** decision area lets you set planning goals and scorecarding metrics for elements such as:

- IT project completion (%)
- IT project lead time (#)
- IT project ROI ($)
- External & Internal resource days (#)
- New initiatives & Initiatives rejected (#)
- IT project cost & Value ($)
- Project duration & Variance (# & %)

With a performance management system in this decision area, you can analyze these goals and metrics by a number of dimensions, including:

- Investment amount (< 50K, < 100K, < 500K, > 1M, etc.)
- Complexity (features, information, architecture)
- Dynamic versus static
- Business scope (point solution, departmental, or enterprise)
- Critical skills required
- Risk level (likelihood and impact assessments).

Using the Project/SDLC Management Decision Area

As an IT professional, the Project/SDLC Management decision area let you ask questions such as:

- **Project duration:** Where are the greatest percentage and absolute variances for projects based on department and project team?
- **Internal/External resource days:** What is the trend in internal and external resource days for project complexity—how are we using our own team?
- **IT project ROI:** What return do we see on projects based on their complexity and risk level?

A key benefit from this decision area is gaining insights even from failed projects. By seeing what worked and what didn't across many different projects, and by ensuring a full life cycle perspective on development projects, you can avoid future mistakes and resource misallocations.

This information sweet spot helps manage expectations across the team, sponsors, and stakeholders. IT can avoid project cost overruns, missed deadlines, and sub-par quality deliverables. Beyond avoiding the adverse financial implications of failed projects, it also helps IT avoid the potentially serious impact on the company's reputation and credibility.

Decision Area: IT Vendor Management

Are vendor service levels and costs managed optimally? IT needs a consolidated view of how much it is spending on IT assets and with whom. It's a long list, from PCs and PDAs to routers and telecom services, from software licenses to system integrator services. Analyzing the **IT Vendor Management** decision area helps identify what to consolidate and/or standardize to reduce costs and complexity. It also reveals where you can pool requirements to gain purchasing power or generate higher service levels.

When this information is fragmented across the enterprise, it is difficult to spot duplication of contracts and agreements. Simple comparisons of vendor costs by function and user can help uncover potential excesses. Knowing that other vendors have provided similar products or services also helps IT foster healthy competition and price/quality comparisons.

To help with this analysis, the **IT Vendor Management** decision area lets you set planning goals and scorecarding metrics for elements such as:

- IT contract cost ($)
- IT project completion (%)
- IT vendor on-time
- SLA performance
- IT asset availability, compatibility, scalability ratings
- IT vendor hourly rates.

With a performance management system in this decision area, you can analyze these goals and metrics by a number of dimensions, including:

- Application software type
- Data sources
- Infrastructure environment
- IT vendor
- Department/ organization.

Using the IT Vendor Management Decision Area

As an IT professional, the **IT Vendor Management** decision area let you ask questions such as:

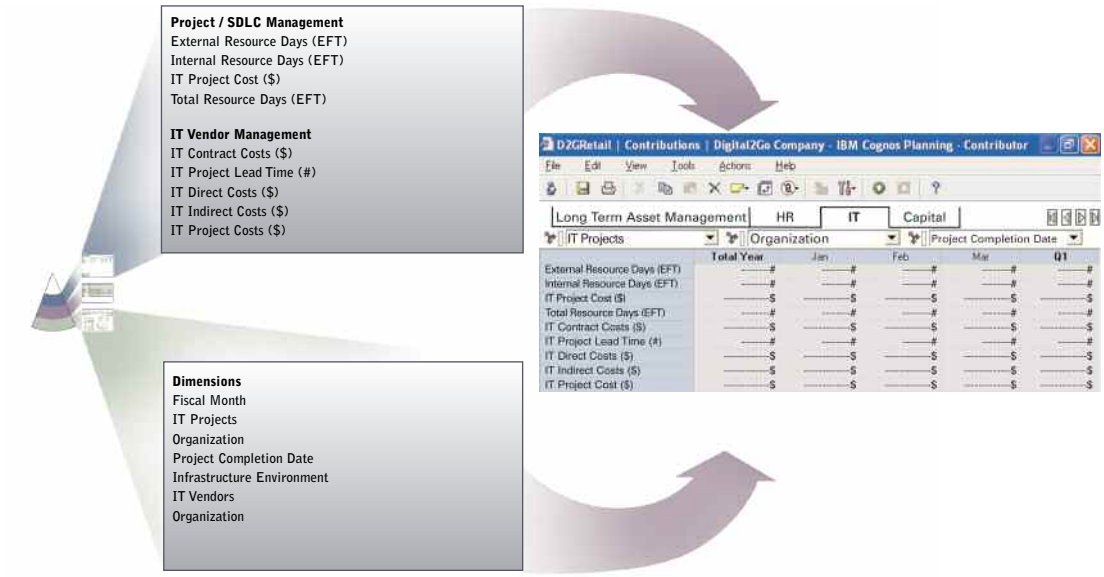
- **IT project completion:** Are we exposed with too many open projects for a particular application area? Is there a way to consolidate?
- **SLA performance:** What vendors perform best or worse on service level agreements, and is there a department we are underserving because of it?
- **IT vendor rates:** Are rates jumping due to overtime because of completion issues?

This decision area is also important in managing service levels tied to major outsourcing contracts, a fixture for many IT functions. All service level agreements have trade-offs with quality, time, and cost. Measuring quality, especially in the more complex Tier 3 contracts that manage and enhance applications, can be a challenge.

For example, where Tier 1 agreements may measure service availability, numbers of incidents, and resolution response times, Tier 3 agreements need to address access to and use of information from applications, and how easy and quick it is to make changes. Even knowing when contracts are up for renewal, as well as when you are triggering penalty or incentive clauses, can lead to cost savings or improved service levels.

TYING IT METRICS AND DIMENSIONS BACK TO YOUR FINANCIALS

Key goals and metrics for IT are shown for the **Project/SDLC Management** and **IT Vendor Management** decision areas. The planning process links them with the relevant dimensions, ensuring that resources are allocated and expectations set against financial and operational goals. (The screen shot shows IBM Cognos planning software). In this way, the planning process ties back from decision-making processes through the organization to the financials. This illustrates how IT can monitor its performance, allocate resources, and set plans for future financial targets.



The Project / SDLC Management and IT Vendor Management decision areas illustrate how the IT function can monitor its performance, allocate resources, and set plans for future financial targets.

Next Steps

Due to major technical and cultural challenges involved, overly grand, top-down enterprise designs for performance management can fail, or not live up to their full promise. **The Performance Manager** book presents a framework designed for an incremental approach. You can select the one or two functional chapters that apply, much like a reference guide. Decision areas empower individual performance managers to achieve immediate goals in their areas of responsibility. As you combine these goals across decision areas, you create a scorecard for that function. Then, as you realize performance success, you can build upon it to solve the greater challenge posed by cross-functional collaboration around shared strategies and goals.

Knowing what's happened and why it happened, aligning this knowledge with objectives, and articulating a plan to establish a forward view of your business—these are the skills of a performance manager. This book provides a framework to design information sweet spots that will drive your business performance.

The right information at the right time can make all managers better; but more importantly, it can make good managers great. Letting people realize this untapped potential is why we offer **The Performance Manager** for your use.

About The Performance Manager

The book, **The Performance Manager**, is authored by:

Roland P. Mosimann Chief Executive Officer, BI International

As CEO and co-founder of BI International, Roland has led major client relationships and thought leadership initiatives for the company. Most recently he drove the launch of the Aline™ platform for on-demand Governance, Risk and Compliance. Roland is also a co-author of the Multidimensional Manager and the Multidimensional Organization. He holds an MBA from the Wharton School of the University of Pennsylvania and a B.Sc. (Econ) from the London School of Economics.

Patrick Mosimann Founding & Joint Managing Director, PMSI Consulting

As co-founder of PMSI (Practical Management Solutions & Insights), Patrick has led major client engagements and has significant experience across a number of industry sectors. Patrick Mosimann also holds an MBA from the Wharton School of the University of Pennsylvania and a B.Sc. (Econ) from the London School of Economics, University of London.

Meg Dussault IBM Software Group, Information Management Corporate Positioning

Meg started her marketing career in 1990, beginning with campaign management for the national telecommunications carrier of Canada. She then moved to market development for Internet retail and chip-embedded smart cards before moving to product marketing with Cognos (now part of IBM). She has been with the company for 8 years and has worked extensively with executives and decision makers within the Global 3500 to define and prioritize performance management solutions. This work was leveraged to help shape the vision of IBM Cognos performance management solutions and to communicate the message to key influencers.

About IBM Cognos BI and Performance Management

IBM Cognos business intelligence (BI) and performance management solutions deliver world-leading enterprise planning, consolidation and BI software, support and services to help companies plan, understand and manage financial and operational performance. IBM Cognos solutions bring together technology, analytical applications, best practices, and a broad network of partners to give customers an open, adaptive and complete performance solution. Over 23,000 customers in more than 135 countries around the world choose IBM Cognos solutions.

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