

Follow the leaders

Being performance competitive is a main concern for members in industry. What separates the top performers from the rest?

By Robert Angel

Illustration: Mike Constable



At GE Capital Canada everything gets measured — everything from the phone calls made to the deals done, explains Patrick Palerme, the CEO of the Montreal-based company. The point is not to track whether the company is doing better or worse but to spot potential business opportunities. In fact Palerme describes managing performance as his opportunities dashboard. And he turns the dashboard's data, much of it collected through the customer relationship management system, into predictions that help the sales force be more successful.

“The payoff is in being able to predict and tackle revenue generation and related risks more reliably over the different industries GE Capital serves,” Palerme says. “The result is a sales force that is able to hold 15% more customer meetings, with strategic and nonstrategic customers. This has helped GE Capital increase its win rate by close to this percentage and gain ground on the competition.” In other words, taking a more business-performance-oriented approach and using the data to connect more profitably with customers is integral to keeping GE Capital “performance-competitive.”

And performance competitive is the main theme in the findings of CAMagazine's 2010 Performance Management Survey of CICA members in industry. The survey responses tell us that more competition-minded organizations such as GE Capital are going beyond traditional financial measurement in their performance management approach. They are integrating it into a broader business context, using more sophisticated tools and are getting better than average business performance results.

The linkage between approach and results comes out clearly in the survey, differentiating the top third of performers in Canada from the rest.

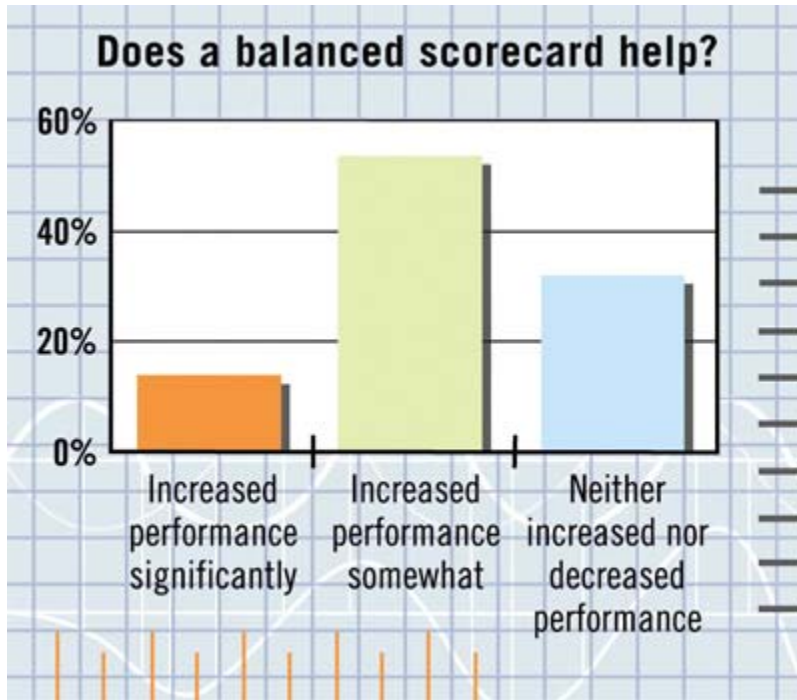
Fewer balanced scorecards but better results

The first performance management survey in 2005 (“Do scorecards add up?” May 2005) concentrated on balanced scorecard usage. Canadian CFOs revealed a story of spotty scorecard penetration and often disappointing results.

As this was significant for CA members, a formal performance management poll was conducted in 2007 (“Just do it,” August 2007). It showed that, of the CAs in industry who were polled, only 33% had implemented a balanced scorecard and performance management results, not just from scorecards but generally, were underwhelming for too many Canadian organizations.

This year's survey shows gradual improvement in indicators such as performance sophistication

and satisfaction with results. Only a third of respondents say their performance strategy is not supported by current actions and only one-quarter say this is a major factor limiting success.



Interestingly, in the past three years there has been a decrease in balanced scorecard penetration to 28% from 33%. Are some organizations simply abandoning the balanced scorecard methodology, perhaps because of disappointment with results? Judging by anecdotal evidence, that's not the case. It appears a number of organizations — either with homegrown, special-purpose scorecards or the full-fledged, strategy-oriented balanced scorecard model introduced by Robert Kaplan of the Harvard Business School and David Norton, president of Renaissance Solutions Inc., in the 1980s — have found that data volumes and complexity have outstripped the capabilities of manual spreadsheets and such organizations have installed new integrated enterprise operational systems, incorporating automated performance tracking and analysis.

Hewitt Equipment, a Pointe Claire, Que., heavy-equipment dealership, illustrates this point. Chief operating officer André Hudon and his team developed in-house scorecards to track market share, customer satisfaction and profitability. "We want to be among the best in our industry so we also look for — and find — a wealth of up-to-date industry data to show how we stack up against competitors. We must strike the right balance between customer satisfaction and profitability," Hudon says. "However, the scorecards are no longer completely to my satisfaction as other challenges have grown in importance." Hudon is in the planning stage of a move to an enterprise resource planning system.

The five enterprise performance maturity levels

Basic Using traditional financial reporting and operating budgets with mainly financial indicators — without a formal mechanism to link activities to strategy drivers and their strategic results and to bridge the gap between long-term strategies and day-to-day actions.

Beginning Starting to transform business needs into actionable plans — by defining key metrics and assigning ownership to them to increase accountability, and ensuring employees are focusing on tasks essential to strategy and aligned with day-to-day tasks.

Scorecards Using a spreadsheet-based performance management framework, e.g., balanced scorecard, Malcolm Baldrige, Six Sigma, to track performance against key performance metrics; align performance measures with critical organization perspectives; and track cause-and-effect of under- and overperformance.

IT evolution Using a commercial application to manage the scorecards or other framework — using IT to help improve scorecard execution e.g., with automated data integration and online drill-down; and systematically communicating results periodically.

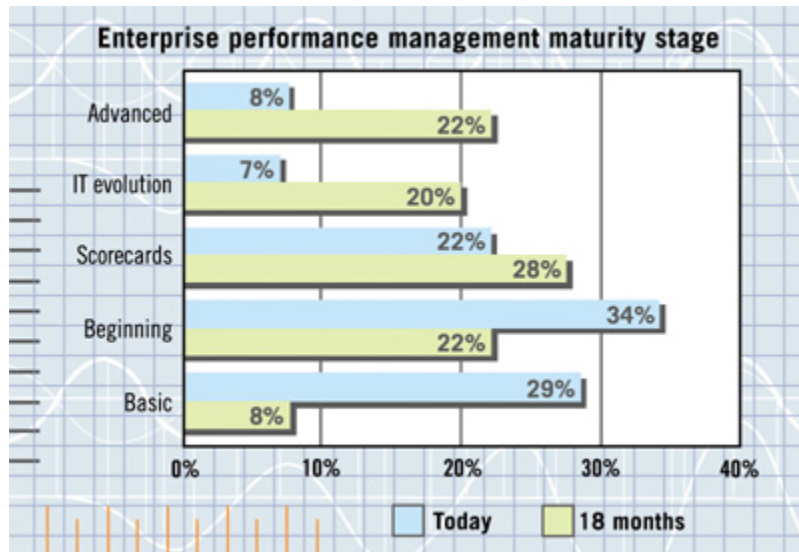
Advanced Improving accountability enterprise-wide — by instating a formal performance culture-change program; assigning ownership of individual measures across organizational boundaries and into the extended enterprise; and taking a collaborative approach to bring about a sustained high-performance culture.

The Gilford Group Ltd.

Balanced scorecard usage may have decreased, but those still using them seem to be getting better value from them. In 2007, only 54% of those surveyed said their scorecard helped improve their organization’s performance somewhat or significantly. Today, things are looking up as 68% (see chart on page 22) of scorecard users now say their scorecard is helping to improve performance significantly or somewhat.

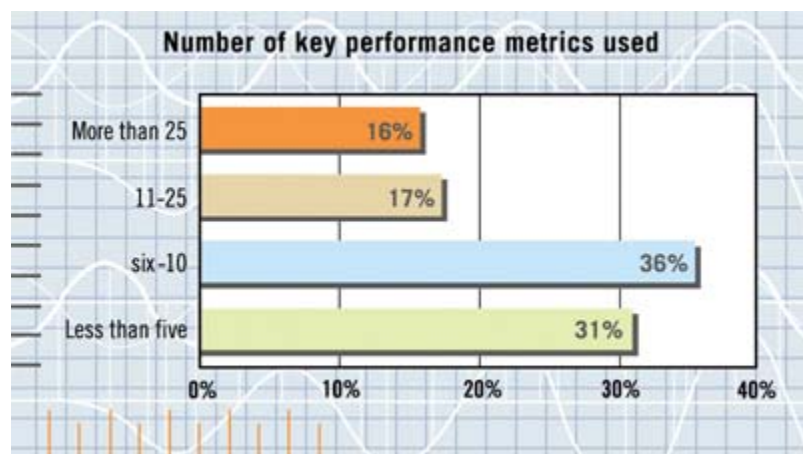
More organizations climbing the maturity curve

Respondents were asked to rank their performance sophistication over five maturity levels, which ranged from basic (traditional financial measurement) to advanced (business-driven enterprise performance management), as described on page 22.



The result shows a gradual shift from the bottom of the maturity scale to the middle (see chart below) — 22% of organizations are at scorecard level compared with 17% in 2007; 63% remain at the bottom two levels, a 12 percentage point decrease from the 75% at the bottom in 2007. The top two levels have also grown slightly.

Ambitions seem to have moderated slightly. In 2007, when asked where they expected to be in 18 months, 75% (mostly in the bottom two levels) expected to be at the top three levels of performance maturity. At the time, that did not seem realistic — and so it has been proven, with only 15% actually in the top two levels today. A slightly more modest 70% of respondents now say they will be at the top end of performance maturity in 18 months. It remains to be seen how many will get there.



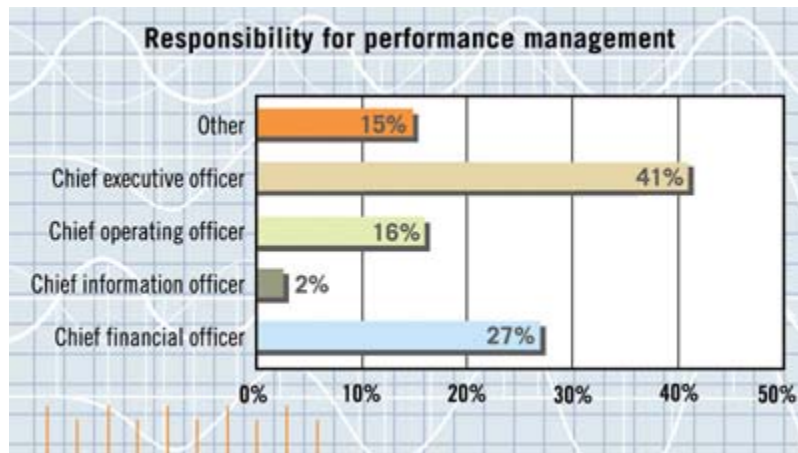
Upgrading a performance approach from basic or beginning can take time and management commitment. Joyce Matthison, a former public sector manager at a large municipality in Ontario, described how for years her organization has relied on sector wide standard municipal operating metrics. “This may be useful to compare similar organizations, but it is not nearly as helpful in managing programs internally, especially in an organization with a very constrained budget spread thinly over a range of somewhat disparate services,” she says. “A performance manager function was set up more than five years ago to work with staff to develop internal measures and comparative measures used by a collective of upper-tier municipalities in the province,” she says. “A new performance manager has been appointed, which should lead to a stronger focus on development of performance metrics that will assist staff in managing service and program performance.”

What about the remaining 29% still at the basic level? Most might think they are predominantly small companies, but this is not wholly the case. The survey shows that more than half are medium and large companies, a surprising finding given the intensity of competition today. It’s quite likely this means too many organizations are rooted in a bygone age of business-as-usual when competition was less complicated, innovation seemed less urgent and organizations faced fewer uncertainties. More importantly, basic organizations may be paying a price. The survey confirms that the higher an organization is on the maturity scale, the more likely it is to get superior business results.

Trend to using more metrics

The survey highlighted that metrics are an important performance management consideration: two-thirds of the respondents reported their boards are asking for more effective performance metrics.

How many metrics do Canadian organizations use? Experts have long considered 10 to 20 metrics to be the maximum most organizations can manage, but this may have to be re-examined in light of the survey responses, which reveal a trend to increasing the number of metrics. The chart above shows 33% use more than 10 metrics (up from 23% in 2007) and 16% use more than 25 metrics (compared with 7% in 2007). Do more organizations share GE Capital's measure-everything philosophy?



Pierre Galarneau, a Montreal-based entrepreneur and CA, suggests this may be the case. Formerly a divisional executive with a nationwide industrial supply company, he tracked more than 50 metrics locally and regionally. “This enables individual teams to benchmark their sales and operations metrics against other teams. It also helped me track priorities across the division to make sure local actions link to divisional strategy,” he says. “To be the top organization in your field, you must be clear about objectives and where you need to adapt. This means setting measurable and objective divisional goals that define the responsibilities, scope and impact of each manager in each business unit.” As Galarneau puts it, the highest performing dealer also had the highest market share relative to competitors. “This was not an accident,” he says. “It was because everyone on that team knew what the company wanted to do.”

Expanding metrics across the business is also occurring at Keen Canada, a footwear manufacturer and distributor whose subsidiary is based in Brockville, Ont. It set up a multidisciplinary team, which takes in functional specializations such as multi-national business management, supply-chain effectiveness, quality and financial backbone. “We are expanding our metrics from half a dozen to as many as 100,” says Bob Hanna, director of finance. “My contribution is financial risk — metrics on foreign exchange, interest rates, credit exposures and financial productivity. I cover measures such as revenue and profit per employee, distribution system throughput, scorecard-driven activities, cost per unit shipped and financial ratios.” The second-level managers of the various functional areas have been included in metrics development for their respective disciplines to help get integrated performance metrics organization wide.

One indication that metrics are aligned to broader business performance needs is the use of nonfinancial rather than financial metrics. One-quarter of respondents said they use more nonfinancial metrics than financial. “Our organization is in an industry where nonfinancial performance measures are far more important than financial ones,” one respondent explained, “although the financial ones are used to assess efficiency of delivering services and sustainability of the organization.”

But much work remains to be done: half of the survey respondents are still using more financial than nonfinancial metrics. The one-third who use less than five metrics are mostly using traditional financial measures — and noticeably underperforming the other respondents.

At Hewitt, Hudon has refined his metrics to have fewer key performance indicators that are more in line with the company's strategy. Metrics range from health and safety incidents to return on sales. "One of our most critical metrics is the net promoter score, the likelihood a Hewitt customer will recommend us to a potential customer," Hudon says. Hewitt's ranking against other dealers has improved perceptibly since introducing key performance indicators.

Performance culture getting broad recognition

Performance culture looms large in many performance management studies — and this survey is no exception. Two key findings from the survey illustrate the emphasis on culture. When asked which major factors are limiting performance success, buy-in was the No. 1 choice, picked by 46% of those surveyed (lack of accurate data comes next, at 39%). There is concern that performance goals may be accepted at the executive level where they are formulated but not bought into at the department or individual levels.

A related concern is over incenting staff. A number of respondents stressed that this is essential as a cultural tool. "Over the long term, incentive compensation is critical for the culture and staff acceptance, to be able to link pay with performance," says Palerme. GE Capital now pays sales representatives on profits, where previously incentives were tied to volume, leading to unplanned behaviours and unexpected consequences. Palerme attributes enabling representatives to see how they are doing to optimizing performance through the recession.

Hanna says that linking a significant portion of compensation to performance to motivate people is Keen's reason for upgrading the performance system. "The second-level managers have been brought in to the system and really like it," he says, "because they now understand what they are evaluated on and focus more on what we think is most important." Hanna believes this has contributed to the annual growth rates of the company forging ahead at 25% to 35%.

Early analysis and operations trend recognition is how Don Evans, vice-president, finance and administration at Culliton Brothers Ltd., a Stratford, Ont., construction contracting company, monitors performance. "Most of our inputs are similar to our competitors' so we need to be more focused on labour productivity. We used to be 50% through projects before we really knew how well the project was going," Evans says. "Now, we break progress down in much more detail and move quickly on a divergence from plan before chances of recovery disappear. We are also much more accurate on our quotations to customers."

Evans credits team effort for improved results. "Operations have taken the lead in developing the productivity index," he says, adding he would like to get more visibility for the productivity factor and bring the organization closer together around a clear, common purpose.

Giving a nonfinancial view of the cultural aspects of performance management, Joy Kosta, senior director of the talent development community at Washington-based The Human Capital Institute, says that paying attention to culture yields benefits higher up in the organization. "The CEO wants frequent checks of the company's pulse in areas of deployment because this is where the link is most likely to break." From her talent-performance vantage point, Kosta sees enterprise performance as a frequently recurring topic. Proactive companies in her view link enterprise performance and talent performance, for example by displaying finance, operations

and human resources metrics side-by-side. She cites studies by the Malcolm Baldrige National Quality Program, a US public-private partnership dedicated to performance excellence, to make the point that the winners make this link. “The successful performers also tend to be those who move from traditional measures like turn-over to more proactive metrics like engagement,” she says.

Performance culture also requires thinking about managing risks to performance. Dragica Grbavac, executive director of The International Centre for Operational Risk Management and former program director of the Centre of Excellence for Business Performance and Risk Management at the Schulich Executive Learning Centre in Toronto, says that people often are inhibited in taking innovative management actions. “Resilience is not articulated as a necessary component against which performance is measured in any other context than in significant business interruption,” she says. “Performance management, like risk management, needs to be first understood in terms of the elements that constitute performance, before a manager goes on to manage it. It can’t be managed as a whole until the parts are clearly aligned.” In other words, it needs to be managed by understanding the key contributing factors.

Performance-competitive taking hold — gradually

To what extent do the signs point to being truly performance-competitive? Certainly much of the survey data indicates a gradual shift in that direction — stemming from greater performance management sophistication and more emphasis on business performance rather than just financial measurement. However, some data show more ambiguity about progress.

For example, the CFO is losing performance management direct responsibility. As the chart on page 24 (top, left) shows, three-quarters of performance management programs are now the responsibility of the CEO, chief operating officer or other senior nonfinancial executives. Also, financial function involvement in strategic planning is declining. About half are involved moderately or strongly — but involvement has declined from nearly two-thirds in 2007. Innovation planning tells a similar story but at a slightly lower level: 45% of respondents set aside specific innovation funds, compared with 48% three years ago.



As the foregoing chart shows, one-third of survey respondents rated their organization's overall business performance (revenue, profit and operational measures relative to goals) below target. One-third of scorecard users also say their scorecard has had no effect on profit. Both findings are almost identical to 2007's survey. One can only conclude that the apparent investment to climb the maturity curve has not had an effect on performance for so many organizations.

There are also indications that performance technology investment decisions can be daunting. One participant summed up his experience of looking for a replacement to his spreadsheet approach: "Performance management software vendors are not explaining the technology benefits as well as I would like."

To this, Tina Schweihofer, performance management solutions specialist at SAS Canada, says, "Performance management return on investment often depends on the organization's level of maturity. For example, organizations currently using spreadsheets might look to improved accuracy and transparency of information, while organizations with larger data volumes and more advanced methodologies might realize productivity savings through automation." Ultimately, the carrot is becoming a more agile organization that is able to uncover or discover where problems exist, find the root cause of the problem and address the issue quickly, she says. "It is important to keep in mind that performance management is an iterative process. ROI will depend on where an organization is on that journey."

Her colleague, Gary Cokins, manager, performance management solutions with SAS, says, "The rate of adoption of performance measurement has historically been slowed by social and cultural obstacles such as people's natural resistance to change, fear of knowing the truth, and not wanting to be measured or held accountable."

All this carries a strong message for CFOs, not just the 27% who are directly responsible for performance management. As a CFO, how well is your role adjusting to reflect your organization's competitive performance needs? Bear in mind that the 2010 Performance Management Survey shows some organizations are moving forward, while some are standing still. And the prize goes to the ones moving forward, in the form of better than average performance.

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Follow the Leaders

More competition-minded organizations are going beyond the traditional financial measurement in their performance management approach. What are the leaders doing to keep themselves performance competitive and what can others learn from them?
BY ROBERT ANGEL

<http://www.camagazine.com/archives/print-edition/2010/oct/camagazine42001.aspx>

[From the editor](#)

Going beyond tradition

“Performance competitive” is the theme of businesses today and they are using more sophisticated tools to accomplish this

By Okey Chigbo, Editor-in-chief (interim)



In this tight economic climate it pays to be able to spot potential business opportunities. Some firms such as GE Capital do this by measuring everything and using the data to predict sales and manage the performance of their sales force. This business performance-oriented approach is integral to keeping such companies “performance competitive.” Performance management is a top-10 management issue and has been for a while. That’s why in 2005 and 2007, we ran features reporting on surveys conducted for CAmagazine on aspects of PM. The first survey revealed poor balanced scorecard usage; the second, a formal poll, showed that only 35% had implemented a balanced scorecard, and performance management results were generally not impressive. How have things gone since then?

In “Follow the leaders” (p. 20), Robert Angel, author of the previous two features on the topic, reports on CAmagazine’s 2010 Performance Management Survey of CICA members in industry, which was designed to find out what progress has been made on the issue. Angel tells us that “performance competitive is the main theme in the findings” and “more competition-minded organizations such as GE Capital are going beyond traditional financial measurement in their performance management approach. They are integrating it into a broader business context, using more sophisticated tools and are getting better than average business performance results.” This year’s survey also shows gradual improvement in indicators such as performance sophistication and satisfaction with results.