

# The Global Advancement of **Enterprise Performance Management (EPM)**

*Issues and Trends*



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**AUDIENCE:** Business executives and decision makers

# Executive Summary



## Methodology

This paper is the result of a BusinessWeek Research Services project, sponsored by Business Objects, to identify the momentum of enterprise performance management (EPM) among the world's largest organizations. BusinessWeek Research Services interviewed executives from more than 50 multinational organizations (42 interviews with executives from Fortune 500 companies each with revenues greater than \$3.6 billion USD, and 22 interviews with executives from Fortune 1000 companies with revenues ranging from \$152 million to \$1.4 billion USD). The questioning was in-depth and focused on creating qualitative responses regarding their expectations for performance management strategy and techniques over the next 5 to 10 years.

A clear consensus emerged in the study results: EPM has established itself as the de facto mechanism for evaluating and executing corporate strategy. Why EPM? Because it connects metrics, methodology, and financial plans using technology, resulting in the right information getting to the right people, at the right time, in a way that allows for impactful changes to be made. Executing on performance strategy means people at all levels in the organization can see how their activities are measured and how they contribute to the overall performance and achievement of the organization.

Interestingly however, executives were widely divided over how EPM would effect their organizations over time. Thus this paper. Consider it a roadmap for the executive who's seeking a faster route to increased revenues and profits. Within we explore the five overarching visions for the role of EPM in guiding corporate strategy in the coming years. They are:

- ▶ EPM will enable best practices
- ▶ EPM will standardize performance measurement
- ▶ EPM will connect HR to corporate strategy
- ▶ EPM will accelerate informed decision making
- ▶ EPM will change the way CEOs think of strategy

*“EPM means profit and loss responsibility will be measured down to the individual level and more efficiency will be squeezed out of operations.”*

Each has specific and lasting implications for how organizations can and should view strategy in a globally competitive world. That said, all respondents were unified in their view that EPM will make performance management personal by revealing clearly how every individual in an organization contributes to the top and bottom line. And that's a change that's been too long in coming.

# A Global View: Enterprise Performance Management



This paper is the result of a BusinessWeek Research Services project to identify the momentum of EPM among the world's largest organizations. Executives from more than 50 multi-nationals were interviewed about their use of performance management technology and techniques. A clear consensus emerged: EPM has established itself as the de facto mechanism for evaluating and executing corporate strategy.

Consider this document a roadmap for the executive who's seeking a faster route to increased revenues and profits. Within we explore the five overarching visions executives have for the role of EPM in guiding corporate strategy in the coming years. But before casting our eyes towards where we're going, it's useful to look back on where we've been. Let's begin with a brief overview of EPM and its purpose.

## **What is EPM?**

Successful corporate strategy has always relied on getting a straight answer to this question: "How's my organization performing today?" But how many organizations actually have the systems and processes needed to get a straight answer? Not many. And those same organizations have almost no ability to manage scenarios, accurately forecast, or have much, if any, foreword visibility into future performance.

And yet that's changing rapidly, thanks in large part to EPM. Performance management is a process that connects metrics, methodology, and financial plans using technology, resulting in the right information getting to the right people, at the right time, in a way that allows for impactful changes to be made. More importantly, performance and process improvement is an evolution, not a discrete action or one-time action. It is constantly evolving.

In that sense, EPM is a new solution to a very old problem. Indeed, despite the best efforts of technology and management gurus, visibility and connectivity into day-to-day operations have often been inconsistent or absent at even the world's best organizations. You know the story—the boardroom remains disconnected from the front line, and vice versa. Strategy gets created in a top-down, ad hoc fashion that leaves average employees wondering. And wasted money fills the inevitable gap that develops between.

Not so with a strategic approach to enterprise performance management. Again, EPM connects business users with the information they need to improve performance. That could be anything—from demand plan scenarios to regular updates of response time in the call center. All users need a view into the performance metrics, goals, and details which can be viewed in dashboards, scorecards, financial plans, and reports. Of course this requires a company-wide effort to collect and prioritize metrics across business lines and functional areas.



It also requires a common business and financial infrastructure, to manage, secure, and control data from any and all technology infrastructure and source systems. Why? Because only a fully integrated enterprise is able to pull all information resources together and connect them back to capital plans, strategic plans, forecasts, and actionable performance metrics. That's the technical goal of EPM and, in doing so, it draws direct and irrefutable lines of cause and effect between corporate strategy and results. In that sense, performance management becomes a very personal issue since no one is left wondering about his or her impact on the organization.

### **Five Visions for the Future of EPM**

The Holy Grail of EPM is focused performance management that is well understood and embraced by the organization to enable high performance. The specific corporate approach and focus for the process remains a source of debate. BusinessWeek Research Services revealed the disagreements resulting in five different visions for the usefulness of EPM over the next decade. Each has vast implications for corporate strategy.

# Vision One: EPM Will Enable Best Practices



## A Century of Strategic Choices

Ever since 1911 when Frederick Taylor pioneered the idea of using the scientific method to improve management, corporations have been tinkering with ways to improve processes and instill business best practices. The innumerable consulting philosophies that followed have, in many ways, changed business. From total quality management to reengineering, to Six Sigma to the balanced scorecard—it has all impacted how companies across the globe develop strategy and measure its impact.

Performance management strategy is on the same trajectory, except its evolution is arguably far more meaningful. Indeed, most of the methodologies of the past have been top-down mandates that have drawn success in squeezing operational improvements. Respondents to BusinessWeek Research Services's probing, however, found a deeper connection between EPM and boardroom strategy.

According to one chief financial officer of a large telecommunications firm, "It (EPM) will become an embedded extension of many mainstream applications and business processes, brought in as part of a standard methodology for project management and program management, and tied in to such business components as HR goals, employee bonuses, vendor and customer communications, and partner activities."

The idea with EPM, respondents said, is to improve the quality of strategic choices at every level of the company. Or, as the CFO of a multi-national information technology firm put it, "...fundamentally EPM will enable different plants to be connected and coordinated. (That will) make the idea of quality real, not just a management concept."

## One 'Source'

The challenge with best practices is that it is very difficult to capture and replicate them across an entire organization. EPM, then, should help integrate and centralize key data, even if it isn't possible to place everything in one system. Says the CEO of a major telecommunications firm, "It may be wishful thinking on my part, but what I hope we will see in the future are EPM solutions that allow us to easily integrate with existing systems. Many of the systems today are all or nothing. You can't possibly implement them effectively unless you roll out major changes that affect the entire company and the way people work. This almost never works. It's important that there be only one place in the company that is the 'source' for each piece of information, but that doesn't mean everything has to be in the same 'source' database. An EPM (strategy) that can easily and verifiably integrate with other systems accomplishes the business need, without major structural changes."



Indeed, big bang engineering isn't the answer to strategy issues and it isn't reflective of EPM. Instead, great strategy—and, conversely, a great EPM process—builds from the requirements of all managers and employees and drives a better return from every business system in the enterprise. The focus needs to be on making the strategy actionable by everyone.

Connection to strategic goals and performance metrics should involve all employees at all levels of the organization. This implies they are not just aware of the overall corporate strategy and goals, but they have access to information and analysis capabilities that inform and enable them to take rapid action and be more effective. However, users just don't need access to information, they also need to be insulated from data complexity, infrastructure, and technology. They need business focused information that is simple, easy to use and apply. They also need to be able to trust the data and verify it is accurate.

### **Pick the Right Approach**

In the end, the structure of performance management is far less important than the approach. To enable best practices, individuals must have the ability to see their relationship to performance improvement, to collaborate on actions to attain desired goals, and capture progress over time. That, after all, is the fastest and most efficient way to document best practices.

# Vision Two: EPM Will Standardize Performance Measurement



## The 18 Million Faces of Performance Management

Google the term “performance management” and you’ll get back—wait for it—18 million hits. It seems everyone has a view for what performance management is, and isn’t. Indeed, even in something as standardized as the American financial markets, what makes for good performance varies widely. Pro forma, operating earnings, and non-GAAP income—they’re all used by companies to help investors decipher financial statements. And yet they all value key metrics differently. Comparing one firm to another in the same industry can incite the worst kind of migraine headaches.

Internally, organizations face the same issue. That’s because performance is often defined differently across departments. And forget consistency. Mix in the complexity of changing business conditions and cross-cultural differences in international operations and it’s a wonder that many organizations have even a modest grip on where they stand compared to forecasts. That’s why respondents to BusinessWeek Research Services’s study believe EPM strategy has become a must-have component for driving change and enforcing consistency and discipline in measurement.

## One Target

Says one CFO of an office equipment company, “(EPM has become critical for) identifying key metrics measured and disseminated throughout the organization.” In other words: successful business leaves no one in the dark about what good performance is and then goes one step further by creating a personal connection between performance and individual roles, all the way from the boardroom to the manufacturing line.

## A Matter of Survival

In the past, large organizations have depended on deep bank accounts to help bridge rough periods brought about by new competition or tectonic shifts in their markets. No longer. Respondents increasingly see a future market where more information is available for customers and suppliers, which could compress prices and squeeze margins for inefficient organizations. In that environment, perfect, real-time information from every step along the supply and demand chains is crucial. Which, says one CIO in charge of manufacturing processes for a large multi-national firm, makes EPM an urgent need for most organizations, “...(it’s critical to have) a common platform to enable EPM...success or survival depends on how smoothly you integrate with your suppliers and customers.” In other words: Collaboration—both internal and external—is a survival skill, and it’s best enabled through EPM.



### **The Culture of Accountability**

In the high-pressure markets of the future, respondents expect EPM will help them define the contribution of every role in the organization and, thereby, create a culture of accountability. Says the CIO of a major national firm, “...(we are) incorporating best practices into daily operations to ensure maximum results from individual employees up through the entire organization.” Doing so will allow for thorough, consistent measurement of the key metrics that lead to optimized performance. Most respondents told BusinessWeek Research Services they believe EPM should offer them nothing less.

# Vision Three: EPM Will Connect HR with Corporate Strategy



## A \$300 Billion Problem

Performance management begins and ends with people. Therefore, no viable EPM strategy fails to include human capital management. But is that even possible? Dozens upon dozens of periodicals have provided reams of evidence that organizations consistently fail to execute when it comes to providing incentives to draw the best performance from employees. Consider: Research from the Gallup Organization says some 22 million Americans are “actively disengaged” in their workplace, which costs the U.S. economy roughly \$300 billion annually in lost productivity.

Gallup says the problem has much to do with recognizing employee contributions. But the majority of firms have no way of knowing exactly what their workers are actually contributing. Performance reviews are instead an ad hoc, inconsistent process. Training is overlooked, suffered as a necessary requirement, or otherwise viewed only in terms of what it costs. Never mind the potential returns. No wonder employees at all levels can’t connect the dots between their jobs and revenue, customer satisfaction, and margin attainment. It’s as bad as walking in the dark. Yet respondents say they believe EPM can change that.

## Upgrade Compensation

Disenfranchised workers, respondents say, are those who don’t believe their contributions are being appropriately recognized in terms of compensation. EPM will address that by making every meaningful element of the work process measurable, all the way down to departments and team members. Indeed, the CFO of a semiconductor firm told BusinessWeek Research Services, “...(the value of EPM) will be to enable a shift to a more quantitative measure focus, (which) will lead to a greater link between performance and compensation.”

To some, that smacks of pay-for-performance. And that’s no accident, say respondents. When results are black and white, there’s no room left for shades of grey, which, says the CFO of one major financial institution, should lead to fairer, more consistent methods of employee evaluation.

## Fill Needs Quickly

But there’s more to the EPM story than transparent accountability, say respondents. In tracking contributions closely, organizations should be able to rapidly identify skill gaps hurting overall performance, and adjust training and recruiting accordingly. One CIO puts it even more positively, “...(the ultimate benefit of EPM) could be that it enables long-term employees to continue upgrading their skills.” Indeed.



### **The End of the Traditional P&L?**

In the end, though, EPM should help motivate employees to understand exactly what's expected of them, and the consequences should they fail to deliver. Says the CIO of a major financial firm, "...EPM means profit and loss responsibility will be measured down to the individual level and more efficiency will be squeezed out of operations." Is that a little unsettling? Maybe, since it affords little comfort. But it also clearly eliminates the ambiguousness that has for years plagued companies large and small. And, in the end, that should be better for all.

# Vision Four: EPM Will Accelerate Informed Decision Making



## The Fallacy of 'Real Time'

Surf through the headlines and you'd be forced to conclude corporations mastered real-time business years ago. Instead, the phrase may be the most over-used, and over-hyped notion of all time.

That's not to say there aren't instances of real-time data analysis. In fact, there are many examples across industries, especially among customers who are already executing on EPM strategy and invested in business intelligence and financial analytics. But the human component of decision-making is often the slowest. And the right information—all of it—is rarely available at the moment of best opportunity. So most of the classic corporate decision-making process is spent collating, collaborating, and cogitating at the expense of action and results.

## Changing the Game

Respondents say EPM is already changing the game, transforming leading firms in otherwise slow-moving industries. Take telecommunications, for example. It's taken years for firms in that sector to get religion on WiFi, otherwise known as wireless fidelity. Yet today you can't enter a coffeehouse, restaurant, or airport without being surrounded by people sipping a latte and tapping away at the keys. Now, says one industry CEO, his firm is using EPM to stave off such competitive threats before they fully materialize, "...EPM allows (our firm) to respond to market shifts and to 'turn on a dime' (by) integrating various external sources of information."

The issue, says the COO of an office equipment manufacturer, is timing. Unlike earlier technology-driven processes, EPM is holistic—it covers every department, every employee. And that makes it fast, "...I expect real-time performance monitoring across the extended enterprise to enable rapid reaction."

But it isn't just about real-time. Another key to performance management success is the ability to gather data from different sources into a cohesive whole, eliminating the task of defining what's really important in the data. And it also provides context. Users can see not just the change in the metrics, but other factors that may impact the decisions being made. In fact, everything is exposed—from who is connected to the project to every shred of analysis that has been completed. Continued the COO, "EPM will ensure business success factors are timely and transparent."



### **Forget Wall Street**

For some, that makes EPM sound like an attractive platform for short-term fine-tuning. And it is. But playing to the short-term expectations of the Street has destroyed perfectly legitimate businesses. That siren call can sometimes move a manager to take his eye off the ball. And it's even easier to do when there's no performance management infrastructure in place. But when there is, say respondents, it's easier to see the long-term damage caused by short-term thinking. Says the CIO of one financial firm, "...(EPM will allow a) shift in mentality from short-term savings and hitting the revenue figure for the quarter to more timely feedback and longer-term expectations." Think of it as the strategy equivalent of staying on message. Indeed, over the long-term, clarity of strategy and direction when mapped back to daily, weekly, and quarterly activity streamlines the message and makes it actionable. And that gets people doing the right things, at the right time, all of the time.

# Vision Five: EPM Will Change the Way CEOs Think of Strategy



## The Shifting Sands of Strategy

It's a historical truth: strategy has been the du jour topic of business schools for decades. And new theorems and models appear every year. But each and every one has one thing in common—they all propose business and employee alignment. Until the arrival of performance management as an enterprise focus, however, there's been no way to measure that. Now that it's here, respondents say they think those occupying the lofty C-suites will rethink how they craft and measure corporate strategy. Among other things, long-range planning—that is, five years or more—may become a thing of the past.

## Five Years? How About 12 Months?

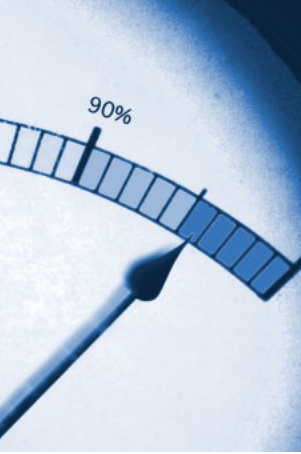
The CFO of a health services organization says the biggest impact of EPM will be flexibility, leading to managers thinking in compressed timeframes. Specifically, EPM will enable "...simple, measurable goals which align with the stakeholders and which combine tactical and strategic elements, promulgate those goals, and compensate managers in a 12-to-15 month period to meet those goals."

In this sense, performance management is a classic oxymoron. On the one hand, it eliminates the need to think short-term and, thereby, abide by the Street's short-term demands. But, on the other, in an era where competitive pressure changes almost daily, the only strategy that matters is short-term. But, in that environment, management and employee alignment—with a measurable, well-defined understanding of everyone's role—is absolutely critical. EPM, say respondents, is the first process towards make this possible.

## The EPM-Enabled Employee

Managers operating in the confines of an EPM-powered organization will also, for the first time, need to understand employees will have all the tools necessary to measure and tune their own performance. They'll view their jobs differently, but they'll also expect more from their superiors. Maybe even a lot more. Says the CIO of an office equipment firm, "I think the most important development (with the advent of EPM) will be a change in the behavior of individuals in the organization about how they see the business and their role in the overall operation."

He's not alone. Respondents in general say the long-term hope with performance management is that CEOs will make strategy formulation a bottom-up exercise where all employees are not only encouraged, but required to participate. When that happens—and there is among respondents an inevitability to this idea—EPM will make strategy a shared responsibility and bury it deeply into corporate DNA.



### **A “Performance State of Mind”**

In the end, EPM is rapidly changing how managers are thinking of performance. It’s helped to transcend classic GAAP (generally accepted accounting principles) thinking. Once exposed to EPM, CEOs should no longer manage just to per-share earnings, but also to metrics. The CEO of a financial services firm puts it best, “...the key will be to get all senior management to buy in and get to a performance state of mind.”

# Conclusion



## **EPM: Here and Now**

The overarching lesson of the BusinessWeek Research Services interviews is organizations around the globe are adopting performance management strategies. If you're not among them, look out, because your competitors probably are.

That's because EPM isn't some product of the future. The process has been slowly stewing over the course of years. The technology to extend dashboards, scorecards, forecasts, and plans to all users at all levels is available today. From planning, forecasting, and business intelligence to analytics, dashboards, and scorecards, the elements have been put in place. The difference is now performance management and measurement is a CEO and board level issue and organizations of all sizes are moving aggressively to enable the performance optimized enterprise.

More importantly, performance is everyone's business. It's personal. And now, with EPM, it's increasingly transparent. With competition going global and moving faster than ever before, that's a good thing. It's also necessary. Any break point in an organization can impact profit. And even a penny in lost earnings per share can create billions in market value destruction.

Conversely, performance management is only now scaling a 90-degree upward trajectory. Those firms that are quick to embrace performance management holistically and completely have the opportunity to win. And win big. The time for EPM has finally arrived. There's no turning back.







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