Are You Winning The Performance Wars?

TOP PERFORMANCE IS NO LONGER AN OPTION

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The Performance War

There is a war out there…

It has been raging for a while, and the fight is not getting any prettier. Companies and people are competing for market, revenue, customer wallets and ultimately, growth. Less and less companies remain private beyond a size that lowers continuously, and those that are not public are often under the control of an equity or financial firm. Our global economy is getting so much inter-dependent that just living well and keeping your market share no longer suffice to please shareholders, investors or analysts, wherever you are and whichever business you do. Even employees are exerting pressure through their 401K and investment portfolios, in a twisted poetic justice.

Facing the choice of being on top and staying there, companies and their leaders must go by the same playbook, where winners likely take all. Most organizations and executives are together ill-prepared for the continuous strive for higher performance, focused as they are on building and growing the business. Until the brutal wake-up call of an investor starting to show muscle, or when a market contraction forces the weakest down or out.

High performers take it all because they are what all aspire to be: leading their domain or technology, attracting the most desirable clients, partners and employees; getting the best deals from banking and financial advisors; the ones mentioned in the press or the media when something important happens; the models that all followers try to emulate. Followers are fighting between themselves for the leftovers, in the process undermining their chances to win and become a leader in their own right.

Organizations can have a hard time stepping back to look at the big picture, such as the Total Spend approach of their own business. Specialization has the perverse effect of blind-siding leaders and preventing them to get a good grasp at the root causes of good and bad results, unless they have the right tools and the right mindset. The endemic lack of alignment between functions and business units within the same corporation create more silos, aggravated by chronic cultural gaps (think IT and Business, or Sales and Marketing). Benchmarks are not frequently used as a dynamic point of reference, and when they do, they are not calibrated to the specifics of the organization such as sector, size, spread, structure. Although they are both car manufacturers, would the same benchmark be used with General Motors and Tesla? Between Bank of America and Union Planters Bank of Memphis?

Line managers are reporting the performance of their activities, creating a vertical alignment on activities and operational processes. Nothing wrong with it, if the activity based monitoring is complemented with target-based performance analysis or variance-rich dashboards. The lack of the latter keeps executives in a comfortable numbness regarding the actual performance of the enterprise a whole, focusing instead on micro-management interventions. Leaders, executives and Boards hardly know the cost/ benefit of their decisions any longer, and mostly operate on unsubstantiated assumptions to make operational, sometimes even strategic decisions.

Companies need to embrace the culture of performance as a new state of mind, not just a programmatic target that will be soon forgotten. From executives to employees, from directors to line managers, all need to operate using the same playbook, where the overall enterprise performance is key. Many tools exist that can be leveraged, but there really is no magic bullet: a high performing organization is a complex organism that needs nurturing when created, continuous attention to be kept alive and relevant.

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The Total Spend Approach

A consequence of the accrued rigor at managing costs and financial results is the tendency to focus on each business unit, department, LOB to monitor and analyze those results. Thanks to modern accounting and financial systems, the performance data is aggregated and recalculated up to the final enterprise-level income statement or other balance sheet or cash flow report. As each data string used in the overall calculation is based on units' actual numbers, the system works well and produces predictable statements.

When trying to optimize the performance of a given part of the business, the common knowledge is that so much can be gained by optimizing a domain / sub-process alone, when the end-to-end expansion of the scope provides exponential benefits. Optimizing the Data Entry part of the Underwriting process for an insurance company without linking it to the rest of the Underwriting steps, possibly to the Policy Administration would only provide a fraction of the total benefits. Automating the capture of patient information at the front desk of the Doctor's office is only meaningful if the patient does not need to enter the same information again, and again.
The same goes for enterprise performance. Optimizing the supply chain, or a specific Line of Business can certainly provide immediate benefits; there is likely a greater game to play however: looking at all the interfaces, processes and systems to identify where optimization steps can be leveraged or expanded. It is not realistic to expect high overall performances from an organization without taking an end-to-end view at the Total Performance.

Another benefit of taking an enterprise holistic approach of performances is the creation along the way of a true, natural alignment between departments and functions. The analysis of the end-to-end processes with all the direct and indirect contributing organizations and factors highlights how marketing contributes to sales; how sales contributes to production; how technology contributes to operations; how Talent Management contributes to Innovation. Every crossover connection established is a new communication and collaboration step towards increasing the overall performance.

The biggest roadblock in establishing a high performance culture is not the hostility or indifference of people, but their lack of knowledge and empowerment. Give a project team a crisp sense of what the users of their artifacts do, how they do it and what makes a difference between a good and a bad performance to them, and most likely their final product is going to be more effective. An executive charter or a change effort to entice inter-departmental communication helps too, as even with the best will, staff will experience the difficulties and frustrations of a dialog between two foreign languages and no interpreter.

Global companies have sometimes an advantage here, being able to identify and in general resolve cultural barriers to enable practical collaboration. Any experience at managing multi-national teams has included at a moment or another an intervention to resolve a cultural issue or conflict. The same is true between specialized departments: who was not part of a contentious conversation, when an accounting specialist is trying (and failing) to make somebody understand why the revenue entry into the books was marked with a negative sign, instead of a positive one? When a store manager tries to explain to a sales person why it is better to discount, possibly sell at a loss articles which have been on a rack for longer than anticipated? We all have such examples in our recent past, testimonies of the intra-enterprise cultural divide. Aiming at making these departments collaborate requires to master the language differences, at least for those directly involved into the joint effort.

An early issue with an enterprise performance program is how to define what makes a good performance, and what is the data that substantiates it. Anybody can come up with stretch goals and performance targets, would it be the usual last-period's performance with an additional notch. Initially thought as a safe bet, especially when the notch is merely the same or a ratio of last period's improvement, this approach is both incorrect and pointless. Incorrect because just like a pricing based on a cost-plus approach will not indicate what the effective market price of a product is, the "last-period-plus" ignores both the dynamics of performance management such as plateaus and scalability thresholds, making the linear projection more a management fantasy than a business endeavor. The chances for the ratio of net improvement have a sly change to match the reality of the business, although line managers might try or pretend to make it, shuffling things around or re-interpreting the data points. Pointless because the issue is not to improve the performance, but to achieve a competitive performance. What is the point of gaining 2 points of performance overall when you start the race 15 points behind? The true measure of performance has to be related to the market and its associated competitive forces.

Benchmarks are often used to calibrate the performance and provide a point of reference for the newcomer to the performance wars. Specialized companies offer benchmark data that in many cases are a precious tool at establishing a detailed benchmark for the baseline performance. A caution however is on the aggregate nature of benchmark data: the more input into the benchmark data, the more precise the metrics, and the more generic they become. In this dilemma, both sides are right, but some work is required to assemble a useful final product. The aggregation of a large number of samples usually means that they cover a slightly broader range of companies and businesses.

The ratio of headcount to revenue, or technology spend to income for instance, will vary within the range of an industry's micro-segment, based on factors such as the size of the company or its organizational model (centralized versus distributed). To be genuinely effective, the benchmark data require additional work in almost every case, to refine its assumptions and possible re-calibrate the data. In the process, the data might lose some depth (sample size) but will definitely help understand the dynamics behind some of the numbers.

Now, is a benchmark across the industry sufficient to set meaningful performance targets? Unfortunately, not yet; the competitive position is a critical component of such determination. Unless an organization is an absolute market leader with no real competition, there will be likely some companies ahead or at an equal level, and then some which are just behind in the market competition, and are working hard to get into the leading pool. A sensible benchmark should include, in addition to the industry segment data described above, a panel of competitive benchmarks representing the companies ahead, those on the same level and those just below this level, whenever there are such entities. Competitors with similar performances are the clear and immediate attention, as this is where the market battle is taking place every day. Picking them all of a selection of the most representatives allows to compare data points a lot more meaningful than across the entire industry, because they all start with the same performance and the same market: their future performance is going to be primarily the result of their management decisions and comparable market dynamics.

This is a precious sample to keep and observe, as here lay the immediate performance and market gains. The companies ahead are the second key panel, as they represent the desirable goal, the place to be. Understanding how they fare in front of the same market dynamics, how they benefit or suffer from their own decisions can provide invaluable strategic insights. Bettering them in their own field is another measure of snatching a part of their market share and closing the gap with them. Comparing the companies ahead to each other provides also precious information on how they fare in front of the same market dynamics and economic factors. Reconciling this view with the performance-alike bucket we just discussed can highlight what makes a fundamental difference between the leaders and their followers.

The last group is of those competitors not matching your performance yet, but close or getting closer. These are competitors to watch, as their gain will be your loss. Here is the silver lining: for every dent they put into your market equity, for every performance indicator they best you at, pooling them into a benchmark panel will give you the understanding of how they did it, hence how you can match or outgun them. Once again, fine tuning the initial benchmark and giving it depth by competitive layers for each of your business segments requires more work; but the result is a much greater capacity to become a top performer where and when you choose it.

"If you know the enemy and know yourself, you need not fear the result of a hundred battles. If you know yourself but not the enemy, for every victory gained you will also suffer a defeat. If you know neither the enemy nor yourself, you will succumb in every battle." (Sun Tzu, The Art of War).

Activity versus Performance

The data collection at the business unit level has done wonders with the Activity Based Costing (ABC) approach, but reaches a limit when it comes to Enterprise performance: a business unit is in practical terms not operating stand-alone, and its throughput and outcome performances are directly related to those of units and functions preceding it, or (even more so) following it in the execution of end-to-end processes. A track and field athlete can run a perfect timing during a relay, but if the baton is passed late, even a perfect performance might not be enough. The only true measure of the performance is the end result for the team: which step of the podium will they climb to when the race is over.

The business world continuously fights the same battles for market share and profit. The true measure of success of performance is the growth or sustenance of the market share, the net profit and their associated ratios. When Nike launches a new sneaker or piece of apparel, they have a clear target value for how many will be sold in which time and for which markets. All the analysis comes down to this: how many units have been moved, how much net profit has been generated. Business plans include a lot more details and activities to be successfully undertaken than the total free cash flow to be generated by the end of the fiscal year. These details are important, but can become the erroneous focus of the leadership, hindering its capacity to make the right decisions at the right time.

The measure of activities is a great measure of costs, efforts and of the overall engagement of the employees. It will enable a precise management of the direct costs, while forcing the organization to re-assess continuously what tasks and functions are really critical or simply contributing to the business. Activity based metrics are however a poor indicator of productivity and throughput, or value created. A model is necessary to translate activities into outcomes, from which the annual plan will be derived. Strategic Planning work sessions usually include the cost equation in relation to the outcome (revenue) dimension. This is what the leadership should focus on. Most organization include line managers and senior leadership or executives. The job of line managers is to manage the production engines at their optimal, and in particular to play by the annual targets. Senior leadership is chartered with defining the longer term course, and to review its execution in big picture terms. Executives should therefore spend most of their time and efforts reviewing the actual performance of those under their purview, to ensure that they stick to the plan, or that a deviation to the plan is corrected swiftly before it becomes too painful.

When a performance target is missed, they should jump in to promptly get a root cause analysis and determine if this was an accidental bump or a heavy trend emerging. Regardless whether the variance is positive or negative, it must be analyzed. Positive variances are nuggets to be replicated at a larger scale, and negative variances are situations that require mitigation and prevention. Both can be seen as exceptions to the plan or model, which then is at the risk of becoming less accurate.

Instead, many executives relish in the micro-analysis of activities, regardless the actual performance. This often drives to making the wrong call, probably not solving the real problem, often making it worse over time. A shortfall in sales can be low individual productivity from the sales teams, new market conditions shrinking the total sales volume for everybody, or a mismatch between the marketing mix and the market demands. The response to each situation is not helping solve another root cause issue, and a knee-jerk reactive decision could create more damage, while not addressing the real issue.

Analyzing the sales performance would give precious information on the individual versus collective pattern of performance, the market conditions and the latest benchmarked values, or the erosion by offering mix segment. Individual sales performance for instance, can be characterized with a low volume of interactions or actions onto the market or a lower ratio of conversion. Confirmed by data on comparable companies' sales performances in the same time and conditions, it could indicate a sales team issue. If all sales persons are experiencing the same pattern, it likely is a systemic problem emerging, such as fatigue or bad leads, not an individual shortcoming.

Not only should executives focus on performance management rather than activity based management, but their focus on activities also undermines the effective management of the teams and processes by the line managers. Besides spending too much time preparing and justifying reports on activities, they are denied their primary value: to manage the operations / effectiveness of their department. The continuous interference just adds to the daily chores, likely taking precious time away from actual supervision of activities. This is not to say that executives should not dive into the activities side of management; they should just do it by exception, driven by their circumstantial decision or by the emergence of a variance in their direct reports' performance reports.

Besides limiting the number of cooks in the kitchen, the focus on performance indicators empowers line managers at doing their jobs and creates a culture of end to end performance that goes a long way in building a market leadership.

Fueling the Growth Ahead

An improved overall performance creates more wealth, naturally. Matching or exceeding the performance of the best companies in the segment translates into more successes, better margins, better process cycle times, less rejects and higher customer satisfaction, to name a few. Through the mechanics of the enterprise business engine, these turn into enhanced net profit, market share and individual competencies. Performance calls performance, and once a high performance momentum has been established, it can become sustainable at a much lower investment level, as keeping a momentum is less consuming than getting the initial impetus.

Although the reverse effect is similar in dynamics and correlated effect, let's just observe the benefits of a higher performance for the Enterprise.

Before it translates into market gains, higher performance is the result of optimized processes and organization, requiring less time and effort to produce the same amount of value. It improves the operating margin by creating a higher ratio of cash flow, eventually. This measure alone can provide multiple benefits, such as more money to invest into the business engine, more growth to be organically funded, the improvement of financial ratios, and other measures of net productivity of a business. This operating margin improvement will in turn also harden the organization to take on a greater range of adverse economic and market conditions before having to take exit strategy or conservation measures.

Being more profitable and more resilient, a business will be perceived by potential customers in a more favorable way. Adding a position under a market leader would even create an underdog position enticing people to help and support it, not unlike Apple Computer during its rebirth. Brand equity gains will drive more customers, which will be offered an enhanced value proposition (better product or services, lower costs or price, higher satisfaction overall). Analysts will see the improved ratios and the market gains, which together create a positive market dynamics for the brand, and will carry on their analysis, further strengthening the positive impact. Better performance will create more business, naturally.

The Brand Equity will not just improve for customers and market analysts, but also with internal and external talent. Employees and in particular high end specialist and managers will have a renewed appreciation

working for a company with a positive performance momentum. Everybody works better, faster with higher quality, and this is an internal momentum that will likely create the next performance threshold to be passed. For prospective employees seeking a job or looking out at the key players, the high performance will be a sign that this is a great place to work, but also a great time to join in and be part of the growth. The best people working together with a solid business growth will have more career opportunities, collaborate with more skilled co-workers and the best candidates will be easier to convince. Through various mechanisms, the overall culture of the enterprise is morphing into a culture of performance and success, carrying its own new set of standards of individual and collective performances and behaviors.

An interesting consideration is that many businesses are the result of a combination of enterprise processes and value creation with an entire supply and correlated chain of partners and alliances. The best product in the market would not succeed without a solid marketing and sales strategy, which in turn will call many small and large companies to contribute to the end result. As the enterprise holistic view can improve performances more than the sum of each of its units' best efforts, the expansion of the performance effort to strategic and tactical partners, suppliers and distributors can bring similar performance improvements. This is an important point as the end-customer is often unaware or uninterested in the details of the go-to-market or production processes. Had Apple decided to distribute its new iPhone exclusively through the Circuit City channel, the mobile market would certainly different. Had they opted for manufacturing everything in-house, hence limiting the access and response to the market demands. But how effective is the distribution chain? The extended supply chain? Effective here means much more than just-on-time: scalability or each component of the chain, profitability for all involved, resilience of the end-to-end process… Being an integrated business model can have its advantages, if you want to look at the integration as a potential competitive performance differentiator.

Altogether, these multiple strings of competitive and performance momentum create a higher market performance, with fresh opportunities, higher win or sales rate and greater brand equity. A winning team has a easier time to convince a prospect that they are to be chosen, would it only be through the number of other prospects who did the same choice, increased references and a greater familiarity with winning best practices. Each above factor contributes to the higher business growth and performance, and together they exacerbate the trends to create an even higher performance momentum. Enterprise Performance Momentum: a gift that keeps giving.

Measure it to Know It

A performance improvement effort cannot be undertaken without a comprehensive metrics discipline and framework. As seen earlier, the measurement of the performance should be split between the operational unit level of activity based metrics, and the enterprise strategic and executive focus on performance metrics. This makes both line managers and their leadership equally uncomfortable, as it implies a rather brutal cultural change.

Line managers will continue and expand their management of activities and throughput performance at their own level, but will now have to engage into collaborative performance efforts with their peers and possibly external providers or partners. The internal territorial walls are tumbling down, as the view of the departments must expand to new territories, populated with people speaking a slightly different and confusing language. Most line managers are unprepared for such expansion, and require help and support from their own management. Culture based changes do not happen by force, but through nurturing and supporting, over time.

The leadership team is having its own challenges with this model. For executives raised from the ranks, it will cut them off the comfort zone of the historical and first-hand knowledge of how things work within the business. In lieu of the old activity reports, they will now have to analyze and review performance reports that refer to the annual and multi-annual plans, to the enterprise strategy and to market dynamics and economic conditions. Decisions made at this level will be directly correlated to future economic value, cash flow and competitive position. Homegrown leaders will no longer have the support of "knowing it all", while market-sourced executives will no longer have the support of knowing "how it is done elsewhere" either. Both will be walking the fine line where mistakes are visible and the pain from missteps is no longer filtered.

Both line managers and leadership will have to rely on each other, their peers and their colleagues to be effective at their jobs, making the enterprise internal eco-system more interdependent but also stronger.

The broader business eco-system brings in another layer with the correlated exchanges with partners and providers. The entire business chain is another integrated system, where the performance of one can hurt the overall performance of the product or service and how it fares against the competition. Here too the goal is not to have a company look into another one's internal performance, but to define the operating metrics and performance metrics that are contributing to the overall market performance. An insurance company cannot ignore the performance of its network of brokers-dealers, as it relates to its market presence and ultimately, to its own performance. The inter-connected process of underwriting a new insurance policy will require both carrier and broker to work together for satisfying the end customer. With a drop (abandonment) rate linked directly to the cycle time of the underwriting process, both have skin in the game and win or lose in the same time.

The building of a performance based system of metrics, as well as the related management by variance, implies the creation of a business performance model. In the same way a project plan or a roadmap determines milestones and time-bound achievements, a business performance model establishes the parameters of a desirable, mediocre or excellent performance. Because the model is built at the enterprise (organic) level, the potential correlations between performance metrics are either well known or relatively easy to model.

Elementary reverse engineering of some of the business processes might be required, but eventually the end-to-end chain that services a given market can be mapped and its critical performance metrics identified, organically or at the eco-system level. The annual or multi-annual plans (e.g.: 3 years horizon plan) provide the end game definition, from which the interim values can be generated. A goal to move the operating margin up two points over two years can be broken down into a forecasting model slowly building up to the targeted improvement. This will become the target baseline performance against which each monthly performance will be compared and reported.

Measuring and analyzing the performances and the potential variances against the current targets provides both an opportunity to fine-tune the model and to quickly get to the root cause. It also allows a prompt course correction before the performance gap becomes too wide and requires more effort to get back on track. Early signals through variances can be precursors of broader impacts to come, along with a better chance to pinpoint the actual source of the under-performance.

Once the organic performance has been set and is being measured, the next frontier is the competitive performance. Given the same exact market and economic conditions, how is the performance of the key competitors, followers and overall market leaders? If there is a material difference with their performance and adjustments to changing market conditions for instance, what is the reason for it? All things being equal, they should perform according to the model, otherwise the model needs retuning, or something happened that made them experience another outcome. If the variance is positive, there is a lesson to learn in order to be better prepared; if their performance is worse, it could be an early sign of a higher competitive strength achieved against them. In both cases, the analysis can be loaded with potentially precious future competitive value.

The High Performance Enterprise

A high performance enterprise can be characterized with sustained, consistent excellence in key performance areas. This higher performance keeps providing the business with more success, more profit, better resources and a greater appeal to customers and investors. It also establishes the foundation for a high performance culture, where excellence is the norm at all levels, expanding the internal and external performance through continuous attention and fine-tuning.

Along the way, many obstacles will rise, whether the internal resistance to the new model, the inadequacy of the chart of accounts structure and granularity, or the reluctance of departments to genuinely collaborate or engage into fruitful conversations with their partner channel.

Tackling such ambitious initiative can also be a daunting task to launch, even for the transformation stalwarts. Here comes the good news: you do not have to take it all on at once. A comprehensive Enterprise Performance initiative is definitely the place to start, as there is a natural complexity in taking the fine-tuning of the enterprise business engine end to end. But taking one line of business, one product space first allows to experiment with the early approach and be prepared for rolling out the model across the organization. An early success at the first “pilot” effort will drive the confidence of the followers, in the same time it will already cover cross-departmental aspects which will be necessary moving forward, in the process making the future steps a bit lighter.

A direct and expected impact however will be the emergence of an enterprise culture of performance. Not only desirable and an absolute condition to success, this culture will drive performance efforts into unexpected places and likely will create unintended results. This is a good thing, as the first successful effort self-generated by the cross-culture of high performance will signal that the organization has outgrown the original effort, and that the culture is now established and sustained.

Enterprise Performance Momentum: the gift that keeps giving.