

Performance management matters*

Sustaining superior results in a global economy

Executive summary

Published in association with



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With increasing demands on their time, management teams must prioritize effectively and focus maximum attention on activities that drive superior performance. To assist with this, many organizations have implemented a wide variety of performance management (PM) practices, but there have been varying degrees of success. This has caused some to question whether or not a strong PM approach has sufficient payback to merit a significant degree of management focus.

In addition, all organizations are currently being challenged to manage effectively through the current economic recession brought on by the global financial crisis. As a result, the importance of effective PM practices has been heightened even further.

We therefore set out to obtain the answers to some very fundamental questions:

- Do effective PM practices play a significant role in driving superior performance?
- If so, what aspects of PM contribute the most value to these results?
- Do these practices contribute equally in both good times and downturns?
- Is PM the same for everyone or does it need to respond to unique issues in different sectors or sizes of organization?
- What do you need to do from a very practical, pragmatic perspective to implement an effective PM program?

While there have been many studies that define “best practices” in managing certain aspects of performance, there has been limited research that looks at PM in a comprehensive and integrated way and correlates specific practices with superior strategic, competitive, operational and financial outcomes. Our objective was to fill this gap.

To accomplish this objective, we conducted a comprehensive online survey of over 400 senior leaders in both the public and private sector. We followed this up with 12 in-depth interviews to explore certain key issues in more detail. The survey was conducted in late 2008, as the global financial crisis created an unprecedented sell-off in stock markets around the world, and the interviews were conducted in early 2009 in the midst of the global recession.

What emerged were clear conclusions that we believe represent a call to action for all organizations, regardless of their current level of performance, or whether the economy is thriving or in a financial crisis.

Key conclusions

01 Effective PM practices drive superior performance

We segregated our survey responses into high, medium and low performers. While we defined high performance in terms of financial performance versus the competition, we found that this group also outperformed low performers by 54% on average across seven different key objectives. For example, the high performers were:

- 67% more successful in entering new markets;
- 61% more successful in generating growth through innovation; and
- 51% more successful in introducing new products.

To understand what was driving this success, we compared the PM approach within the high and low performer groups. In order to conduct this comparison, we asked survey respondents to evaluate the effectiveness of various PM practices within their organizations. We then analyzed the correlation between these practices and various strategic, operational and financial outcomes.

We found that high performers were 26% more effective on average across 46 specific leading practices related to planning, analytics, performance measurement, talent management and use of technology. While low performers were employing or attempting to employ similar strategies, they were not as effective. But we also found that some of these 46 practices were contributing more value than others, and it was therefore possible to create a profile of high performance organizations. This is discussed further in our second key conclusion.

Not only are high performers executing more effectively on their PM practices, they are achieving much greater benefit from these efforts. High performers rated the contribution of these practices 31% higher on average across 11 different strategic, competitive, operational and financial outcomes. The focus on effective PM practices is a key driver in generating these superior outcomes.

Executive summary

02 High performance is driven by seven key PM practices

In analyzing the high and low performer groups in greater detail, we were able to identify seven key practices that contribute the most value in terms of creating a successful PM program that drives superior results. These include:

Taking a broad, holistic approach: High performers look at their business from a broader perspective than low performers, and build their PM programs to respond to this more holistic view. They place greater focus on issues such as evaluating management and staff performance, creating brand image and loyalty, generating employee satisfaction and improving service quality and customer satisfaction. The only area where high and low performers were comparable was in core issues such as competitive pricing and reducing the cost structure. In today's world, these are "table stakes" that in and of themselves will not create a sustainable competitive advantage in the marketplace.

Creating linkages, integration and alignment: High performers were 16% more effective in overcoming challenges related to linkages and integration across their PM practices. In addition, despite their focus on a broader array of business drivers, they were 25% more effective in aligning their measurement and reporting systems with the key business drivers most relevant to them. We also noted that high performers are 44% more effective in "cascading" accountability for these business drivers through the use of relevant and controllable performance metrics at all levels of the organization. Through these linkages, high performers are better able to drive organization-wide focus on achieving overall strategic and operational objectives.

Building broad support for the PM effort: Cultural resistance is often cited as one of the key barriers to a successful PM program, and our research supported this view. High performing organizations were on average 13% more effective in obtaining senior management support, building consensus and buy-in, overcoming cultural resistance and the fear of change, and breaking down internal silos to achieve agreement on what needs to be done. Without this broad base of support, counterproductive "pockets of resistance" can easily form.

Adopting high value planning practices: We identified three specific planning practices where high performers reported 31% greater effectiveness overall. These included value stream mapping, vision, mission and values statements, and environmental or social responsibility plans. In a world of rapid change characterized by "disruptors" such as technology breakthroughs, demographic shifts and macroeconomic events such as major currency and commodity price fluctuations, these tools assist high performers in remaining relevant and competitive, and in driving brand value.

Turning analytics into a competitive advantage: High performers are 43% more effective in their use of alerts or warning systems, driver-based forecasting and data mining. These techniques enable them to manage by exception and be proactive rather than reactive to emerging issues and opportunities.

Developing advanced PM technology capabilities: While basic spreadsheet tools are still predominant across all groups, high performing organizations report 23% greater effectiveness in their implementation and use of some of the more advanced forms of PM technology, such as dashboards and business intelligence tools that enable them to turn analytics into a competitive advantage.

Avoid making it too complicated: While high performing organizations employ a wide variety of advanced practices and tools, part of the reason they are successful is that they avoid the potential pitfall of overcomplicating things. For example, they are 12% more effective in avoiding the "analysis paralysis" pitfall, largely through a focus on managing by exception through effective metrics and dashboards, rather than producing monthly or quarterly packages of information that answer virtually every question that could be asked.

03 A PM program is equally critical in both good times and downturns

Organizations with weaker PM programs are more inwardly focused and more concerned about yesterday's results than on the future direction of the organization. As a result, they are less likely to identify emerging opportunities or threats and less able to react in a sound fact-based manner. In addition, they are more likely to react to situations, such as the current downturn, with a "knee-jerk" approach to slashing costs, which may compromise future success in better times.

In contrast, organizations with strong PM programs are better equipped to forecast emerging risks and manage more proactively to mitigate the impact. For example, one organization interviewed for our study was able to leverage its "worst-case scenario" planning capability to quickly and nimbly reposition its focus to a lower risk area as the current downturn unfolded. Another organization was able to take advantage of the downturn by upgrading its talent pool in a way that further improved long-term prospects.

In addition, organizations with strong PM programs are better equipped to manage costs strategically, and when required, make difficult choices in a way that minimizes the impact on the long term. For example, by using effective scenario modelling techniques, one organization was better able to prioritize and focus scarce resources on the areas that would drive the greatest benefit.

04 Effective PM programs are similar (but not the same) across multiple industries

We analyzed our high performer group by industry sector, broken out into manufacturing, financial services, information and communication technology, professional services, natural resources and “all other”.

We found that the seven leading practices identified in our second conclusion apply consistently across all major industry sectors in our analysis. This suggests that while there will be differences in the execution, these leading practices are “universal truths” about what is important, regardless of industry. For example, certain key business drivers will vary in relative importance across different industries; however, the need to effectively measure these drivers and to cascade accountability via relevant and controllable metrics is a consistent hallmark of high performing organizations in all industries.

05 PM challenges are greatest in large, complex organizations

We also analyzed our high performer group by size (revenue tier based on the US dollar being regarded as the common currency for comparison purposes). As with the breakout by industry, we found that our leading practices held regardless of the size of the organization; however, we also noted that large organizations face much greater challenges than small ones in maintaining overall effectiveness of their PM programs. For example:

- Measurement capabilities improve with size, but not fast enough to keep pace with the increasing complexity of the business. While large organizations are 11% more effective in their measurement of key business drivers, the gap between the importance of these drivers and the effectiveness of these measures is actually 37% worse in large organizations.
- Large size creates greater challenges in building a broad-based consensus, as “silos” begin to appear across the organization.

We also noted that as organizations grow and evolve, they reach certain “tipping points” where significant overhauls of the PM program are required to keep them relevant and in-line with leading practices. For example, we found that organizations with revenues between \$100 million and \$1 billion were the most challenged in driving benefits from their PM programs. Often, these organizations experience profound transition as they grow and mature from a small organization that can be effectively managed by a close-knit group of individuals to a larger more complex business model requiring wholesale changes in their approach to PM.

06 PM in the public sector – not as different as you might think

Our survey questions were modified for public sector respondents to reflect key differences in the primary objectives and motivation of such organizations as compared with the private sector. However, many of the same concepts still hold—public sector organizations have strategies and plans, they must execute effectively against those plans, they measure and report on performance, and they need to attract and retain good people to help them achieve their goals.

As such, we found that many of the characteristics of high performing public sector organizations were similar to high performing private sector companies. For example, we found a high degree of correlation between high performance in the public sector and certain key PM practices, such as:

- Effective linkage between strategy, plans and budgets;
- Effective use of certain high value planning practices such as vision, mission and values statements and environmental or social responsibility plans;
- Effective use of advanced analytical techniques such as alerts, data mining and driver-based forecasting; and
- Effective use of advanced PM technologies such as dashboards and business intelligence tools.

07 Canadian PM practices are less robust than in the rest of the world (RoW), but Canada is better at overcoming potential barriers

When comparing only high performance organizations, Canada lags the RoW in terms of the effectiveness of their PM practices in a number of the areas we identified as contributing the greatest value to the overall PM program. These include:

- **Taking a broad, holistic approach** – RoW high performers placed 14% greater importance overall on a broad array of business drivers, and in addition, reported 5% higher overall effectiveness of their performance measures and management reporting related to these drivers.
- **Adopting high value planning practices** – Canada lags by 8% overall, with the largest gaps noted in use of value stream mapping and environmental or social responsibility plans;
- **Turning analytics into a competitive advantage** – Canada lags by 3% in this area; and
- **Developing advanced PM technology capabilities** – Canada lags by 8% in this area.

Executive summary

This lack of technological adoption is not unique to PM applications alone, and has a demonstrated impact on the nation's productivity levels overall. The Conference Board of Canada grades Canada as a "C", ranking 8 out of 17 countries in labour productivity growth¹.

On the other hand, Canadian high performers were more effective than RoW high performers in the following key areas:

- **Creating linkages, alignment and integration** – Canadian high performers outperformed RoW high performers by 3% in terms of ability to overcome barriers in this area;
- **Building broad support for the PM effort** – Canada outperformed RoW by 11% overall in this area, most notably in the area of senior management support for the PM effort; and
- **Avoid making it too complicated** – Canada outperformed RoW by 12% in terms of avoiding this potential barrier to success.

These findings suggest that there is further room for improvement in the high performer groups in both Canada and the RoW.

A call to action

There is a clear correlation between effective PM practices and superior performance versus the competition. Low and average performing organizations therefore should examine their overall PM approach, particularly in the seven key practices we identified as having the greatest impact. However, our analysis indicates that there are still considerable opportunities for even high performing organizations to improve overall performance through further improvement in PM practices.

Making it real: guidance on implementation

A practical, pragmatic approach is to start by defining a clear vision that describes how performance will be managed within a realistically achievable timeframe (i.e. one to three years depending on the size and complexity of the organization), and then identifying the gap between this vision and the current state of the PM approach. A sound implementation is typically based on a step-by-step approach to closing the gap in smaller, manageable components that deliver new capabilities and value on a regular basis every two to three months. The first few steps in this journey should focus on addressing the gaps related to the seven key PM practices that drive the greatest overall value.

This systematic, step-by-step approach to implementation delivers short-term value and clearly establishes the return of investment (ROI). In addition, it builds momentum and consensus across the organization, and makes it easier as each step is taken. Organizations that attempt to do it all with a single "mega" project ending in a "big bang" of change often end up with a costly and ineffective result.

It is also important to note that the "vision" is not a fixed destination. As the organization grows and changes, the details of the PM approach need to evolve with it and a continuous improvement effort is necessary. Many organizations have responded by implementing a chief performance officer (CPO) role to provide guidance on the ongoing evolution, and to ensure that each component of the program, in all parts of the organization, is properly aligned and integrated with all others.

1. http://www.conferenceboard.ca/HCP/Details/Economy/measuring-productivity-canada.aspx#Reduce_gap

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