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# WHY THE NEED FOR PERFORMANCE MANAGEMENT AS A SYSTEM?

*"A man's mind stretched by a new idea can never go back to its original dimensions."*

—Oliver Wendell Holmes,
U.S. Supreme Court Justice, 1897[1]

Performance management (PM) is the process of managing the execution of an organization's strategy. It is how plans are translated into results. Think of PM as an umbrella concept that integrates familiar business improvement methodologies with technology. In short, the methodologies no longer need to be applied in isolation—they can be orchestrated.

PM is sometimes confused with human resources and personnel systems, but it is much more encompassing. PM comprises the methodologies, metrics, processes, software tools, and systems that manage the performance of an organization. PM is overarching, from the C-level executives cascading down through the organization and its processes. To sum up its benefit, it enhances broad cross-functional involvement in decision making and calculated risk taking by providing tremendously greater visibility with accurate, reliable, and relevant information—all aimed at executing an organization's strategy. But why is supporting strategy so key? Being operationally good is not enough. In the long run, good organizational effectiveness will never trump a mediocre or poor strategy.

But there is no single PM methodology, because PM spans the complete management planning and control cycle. Think of it as a broad, end-to-end union of solutions incorporating three major functions: collecting data, transforming and

modeling the data into information, and Web-reporting it to users. Many of PM's component methodologies have existed for decades, while others have become recently popular, such as the balanced scorecard. Some of PM's components, such as activity-based management (ABM), are partially or crudely implemented in many organizations, and PM refines them so that they work in better harmony with its other components. Early adopters have deployed parts of PM, but few have deployed its full vision. This book describes the full vision.

The term "knowledge management" is frequently mentioned in business articles. It sounds like something an organization needs, but the term is somewhat vague and does not offer any direction for improving decisions. In contrast, the main thrust of PM is to make better decisions that will be evidenced, and ultimately measured, by outputs and outcomes.

Many organizations seem to jump from improvement program to program, hoping that each one might provide that big, elusive competitive edge. Most managers, however, would acknowledge that pulling one lever for improvement rarely results in a substantial change—particularly a long-term, sustained change. The key to improving is integrating and balancing multiple improvement methodologies. You cannot simply implement one improvement program and exclude the other programs and initiatives. It would be nice to have a management cockpit with one dial and a simple steering mechanism, but managing an organization, a process, or a function is not that easy.

Some believe that implementing a balanced scorecard (described in Part Two as blending nonfinancial and financial measures for balanced emphasis) is the ultimate solution. However, evidence demonstrates that a balanced scorecard will fail unless it is linked with other management processes. "Balanced scorecard implementations often fail to deliver anticipated benefits because they are not integrated with PM processes, particularly those used at an operational level," says Frank Buytendijk, research vice president of Stamford, Connecticut–based Gartner, Inc. "We believe that 80 percent of enterprises that fail to integrate the balanced scorecard into PM methods and tools will drop the balanced scorecard and return to a less organized and less effective set of metrics."[2]

## SPOTLIGHT ON OBJECTIVES, OUTCOMES, CONFLICTS, CONSTRAINTS, AND TRADE-OFFS

Even with a clearly defined strategy, conflicts are a natural condition in organizations. For example, there will always be tension between competing customer service levels, process efficiencies, and budget or profit constraints. Managers and employee teams are constantly faced with conflicting objectives and no way

to resolve them, so they tend to focus their energies on their close-in situation and their personal concerns for how they might be affected. PM escalates the visibility of quantified outputs and outcomes—in other words, results. PM provides explicit linkage between strategic, operational, and financial objectives. It communicates these linkages to managers and employee teams in a way they can comprehend, thereby empowering employees to act rather than cautiously hesitate or wait for instructions from their managers. PM also quantitatively measures the impact of planned spending, using key performance indicators born from the strategy map and balanced scorecard.

Knowing these strategic objectives and their relative importance, managers and employee teams then use tools from the PM suite, such as activity-based costing data and customer relationship management information, to objectively evaluate the trade-offs. Everyone recognizes that employee teams are very knowledgeable in their own space. When management communicates to them what is wanted, employees can reply with an understanding of what initiatives it will take and how much it will cost. Internal politics and gaming are replaced by the preferable behavior of employees taking responsibility like independent business owners.

As problems constantly surface, the context for making trade-off decisions is framed. This applies to the ultimate value creators, the executive management team, who struggle with short-term versus long-term trade-offs. The CEO and CFO also wrestle with those conflicting cost and customer service objectives governing financial earnings that investors and hand-wringing stock analysts anxiously anticipate each quarter. Differentiating customer value from shareholder value is a tricky exercise, and PM brings objectivity and balance to the process of making spending and investment decisions. Budgeting becomes a profit-fostering funding mechanism rather than an accounting police control weapon. Prioritizing and coordinating begin to displace control.[3]

The appeal of PM is that it realizes there is no sun around which lesser improvement programs, management methodologies, or core processes orbit. PM is about sense-and-respond balancing, always striving for better organizational direction, traction, and speed. PM involves constructing powerful combinations linking software, such as business intelligence analytics, with core processes enhanced by improvement initiatives (e.g., lean and/or six sigma) to prioritize efforts and align an organization's work activities with its corporate strategy. If PM is properly implemented, it can produce an epidemic of common sense within an organization—and also probably with the trading partners (e.g., suppliers and customers) with whom it interacts. Maximizing everywhere is not equivalent to optimizing—it is suboptimizing. Optimizing acknowledges constraints. PM facilitates balancing conflicts.

What issues and circumstances have created the need for PM now? Let's explore them next. There are several, some involving pain and others opportunity, and their combination is compelling organizations to pursue PM.

## ACCELERATING TURNOVER AT THE TOP: WHY?

Surveys by the Chicago-based employee recruitment firm Challenger, Gray & Christmas, Inc., repeatedly reveal increasing rates of job turnover at the executive level compared to a decade ago.[4] It is almost as if when you accept a C-level job you also sign your undated resignation letter—what is omitted is your forced resignation date.

The primary cause for the executives' revolving door involves failed strategies. In my opinion, defining and adjusting strategy is the number one purpose of the CEO. However, despite their best formulated plans, when executives adjust their strategies, their major frustration is they cannot get their employees to execute the revised strategy. This is due in part to the fact that while new strategies may be planned, the performance measurement system is typically not changed to reflect the new emphasis on what is newly important or the reduced emphasis on what is less important. You get what you measure, so without changes in measurements, the organization's inertia keeps it plowing straight ahead in the same direction it had been going. In short, there is a big difference between formulating a strategy and executing it.

The balanced scorecard has been hailed by executives and management consultants as the new religion to resolve this frustration. It serves to communicate the executive strategy to employees and also to navigate direction by shaping alignment of people with strategy. The balanced scorecard resolves a nagging problem. There is a substantial gap between the raw data spewed out from business systems and the organization's strategy. Figure 1.1 illustrates an upside-down pyramid-shaped diagram with *strategy* located at the top and *operational and transaction-based systems and data* at the bottom. The systems at the bottom, such as enterprise resource planning (ERP) and general ledger accounting systems, are like plumbing—you need to have them, but they do not tell you what to do strategically or what risk-adjusted choices to make. The business intelligence of PM in the figure adds value on top of these operational systems that organizations have invested huge sums of money in. Ideally, daily operations should align with the strategy—but do they? That is, do the transactional systems consuming resources and spending at the bottom convert to value at the top? Not without a business and analytical intelligence layer. This is a senior management dilemma.

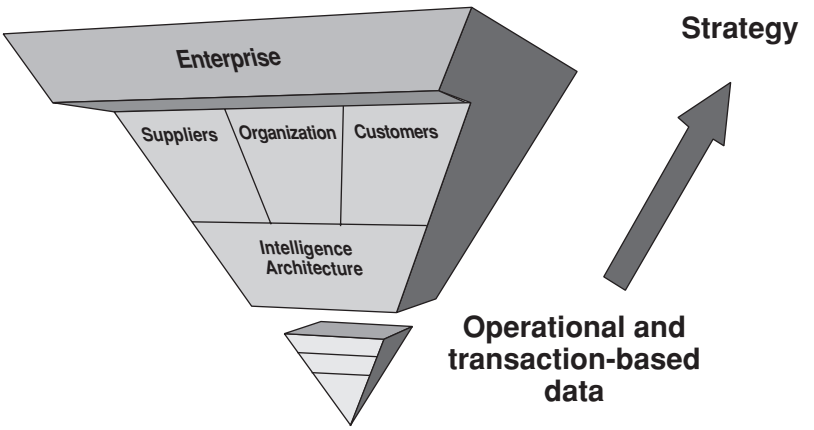


**Figure 1.1 Gap between Strategy and Transaction-Based Systems**

It is a tough time to be a chief executive. CEOs put out one fire, only to see another start to smolder. Top corporate officers have always been under intense pressure to meet earnings projections for Wall Street and improve profit margins in a turbulent economy. They are continually identifying and trying to realize cost-reduction opportunities. They are pressured to deliver short-term return on investment (ROI) without undermining long-term returns. They grapple with trading off responsibilities to increase shareholder wealth without compromising the spending and investments needed to respond to market forces. Unfortunately, the incessant drumbeat of security analysts and the capital markets, often too fixated on quarterly earnings per share (EPS) measures, pressures executives. Many of their executive compensation programs include EPS, as if it equates to adding economic value; so whether they want to or not, many executives discover they are running on a quarterly reporting earnings treadmill, and they do not know how to jump off.

## FALSE PROMISES OF INFORMATION TECHNOLOGIES

Now turn your attention to the bottom of Figure 1.1. This is where expensive operational and transaction-based information technology (IT) systems reside. Figure 1.2 magnifies the tip of the pyramid at the bottom of Figure 1.1. In a simplistic way, it depicts the IT data center's three layers of software:

1. The *IT infrastructure* systems at the bottom, such as for security or backup/recovery, to control, manage, and route the hardware and communications.

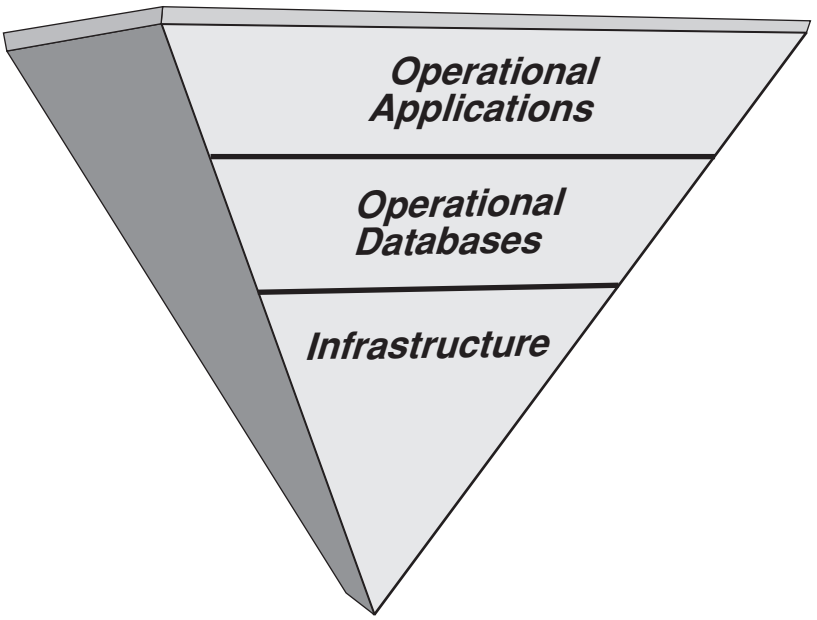


**Figure 1.2 Database Core**

2. The *operational databases* from which the operational software applications draw and deposit data.
3. The *operational applications* that process transactions and produce simple summary reports.

Regardless of what goes on near the bottom, value increases as this data is converted to support analysis and decisions. Organizations rely on operational and transaction-based IT systems, such as ERP or customer relationship management (CRM), to perform their day-to-day business functions. The improvement opportunity lies in analyzing the data from these systems.

Information technology (IT) continues to herald the next new wave of promise for organizations to allegedly drive execution and leapfrog competitors to leave them behind in a trail of dust. Application software vendors promote their systems as the keys that can open any lock. However, at best, these expensive IT systems have only helped maintain parity. At worst, they may have distracted resources. (And IT magazines and journals routinely chronicle failed implementations by large companies with lawsuits blaming the software vendors.) Few organizations have translated their IT system capabilities into sustained profit growth.

The truth is that ongoing improvements of IT systems are necessary but not sufficient. Without them, a company risks falling too far behind. Furthermore, as customers and service recipients enjoy an exceptional experience from a company, from its competitors, or from a different industry, their feel-good experience unforgettably raises a high-water-mark baseline for them. For example, once people have used an automated bank teller, they want similar self-service kiosks in other areas of business, such as to carry out hotel registrations. In the future, customers will judge and expect similarly exceptional experiences from the companies they patronize, and anything less will be a disappointment.

To complicate matters, in the 1990s an organization was happy if its business system simply recorded and reported transaction information. But today this is commonplace and expected. Transactional systems are effective at producing data but not at providing knowledge. So organizations may be deluged with data without necessarily getting any closer to what they need. They are data rich but information poor.

Figure 1.1 depicted a layer of software technology, described as intelligence architecture, that converts raw data from transactional systems into meaningful information for decision support. But technology simply supports the methodologies in which it operates.

Business systems should be more forward-looking. They should drive performance and operational excellence. They should provide predictive information. But do they? Or do our IT systems today simply report history and support existing methodologies?

Figure 1.3 displays the intelligence architecture on a timeline across which successful organizations will eventually pass. The vertical axis measures the power and ROI from leveraging data. Most organizations are mired in the lower left corner, hostage to standard reports and a little analytical capability provided by some tools selected for everyone by the IT department—sometimes as a compromise. The figure demonstrates that the upside potential is enormous to robustly analyze and understand one's own organization, its customers, suppliers, markets, competitors, and other external factors, from government regulators to the weather.

IT transactional systems may be good at reporting past outcomes, but they fall short on being predictive for good planning. Given a sound strategy, how does the organization know if its strategy is achievable? What if pursuing the strategy and its required new programs will cause negative cash flow or financial losses? Will resource requirements exceed the existing capacity?

Employees are creative, innovative, and driven if they know an objective or goal is obtainable. But too often, senior managers put forth unrealistic goals without having validated the fundamental financial, process, or resource

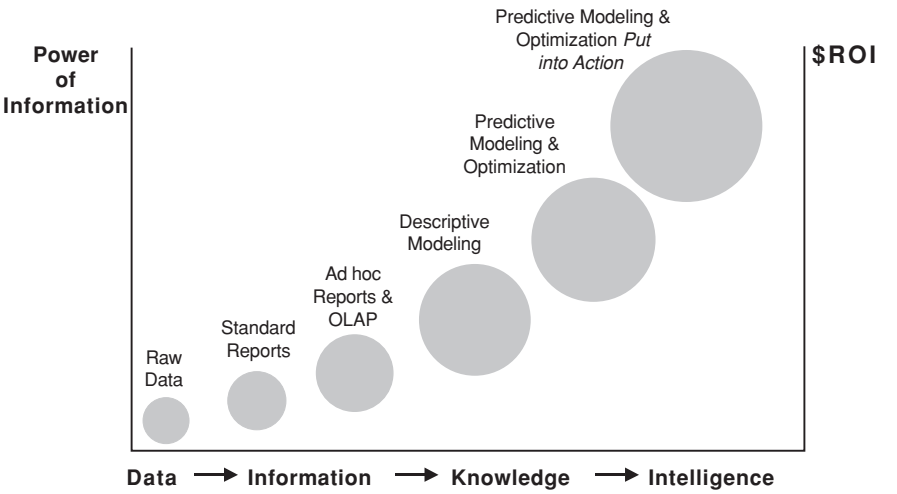


**Figure 1.3 Evolution of the Intelligence Architecture**

requirements needed to achieve them. Operational systems were designed with a different purpose thus contributing to their false promises as analytical solutions. In order to successfully set and reach goals, managers and employee teams must be able to create accurate, feasible plans and budgets that will support and drive goal achievement. (The large disconnect between the annual budget—a bookkeeping exercise administered by the accountants—and the strategic plan is discussed in Part Two.)

## A MAJOR POWER SHIFT IN THE VALUE CHAIN

Power is shifting irreversibly from suppliers to buyers. The cause is the Internet. Customers and consumers, including purchasing agents and buyers in businesses, now have access to powerful search engines to seek and compare offerings from suppliers of products and services as well as to gain education for more informed decisions. And the suppliers, in effect, aid the buyer's learning and shopping experience by adding increasingly useful information in their own Web sites and through industry trade exchanges.

In the last half of the 20th century in the United States, economic prosperity conveniently generated customer demand for goods and services, which led to a fair amount of arrogance. Organizations took their customers for granted. Some companies held the attitude that, essentially, "If the customer doesn't like our solutions, then they have the wrong problems." Those days are over.

The World Wide Web has forever changed the velocity of business and changed everything about how organizations interact internally and externally. The volatility of a Web-time and Web-speed world forces any organization relying on traditional Industrial Age business models to operate in a catch-up mode. The Web compresses business planning and decision cycles. Trends that were once tracked by quarters are now revealed to fluctuate weekly and daily. Should you react or stay the course? There are both perils and promises in now having access to immediate, real-time data.

Presuming that most organizations always operate with scarce resources, then financial language like the "return on customer" (a variant of return on investment) and "customer lifetime value" creeps in from the CFO function of the enterprise. Phrases like "customer satisfaction" and "customer for life" permeate the popular sales and marketing literature. Yet customers are not created equal in terms of how they contribute to profits. Discoveries from activity-based cost management systems reveal that a company's largest customers may be hardly profitable due to their high demands, high maintenance requirements, and persistent requests for customization. This adds another dimension for how to segment and differentiate customers beyond the traditional ones like gender, income level, or purchase frequency. A customer's sales volume cannot be considered a substitute for the customer's level of profit contribution. As a result, the CFO is increasingly servicing the chief marketing officer (CMO) and chief logistics officer (CLO) by providing mission-critical information. (CRM with marketing automation tools and value chain analysis and management are discussed in Part Four.)

## DISPLACEMENT OF TANGIBLE ASSETS BY INTANGIBLE ASSETS

PM is an effective way to understand value creation. *Value* is an ambiguous term. Does it refer to customer value or shareholder value? In the context of describing an organization's assets, I am referring to shareholder value—the monetary view. Sustained value creation is another task of the senior executives. But here again executives are running into a problem. The sources of value have been shifting. Ideas are taking the place of land and property in establishing value. Organizations are now much more knowledge-based. Working smart seems to beat working hard.

Statistics from the Balanced Scorecard Collaborative[5] provide evidence of this shift. In 1982, for every U.S. dollar of market capitalization (as measured by the Wall Street–like stock trade exchanges), 62 cents was attributed to tangible

assets. Tangible assets are buildings, machines, and inventories. A simple definition of long-term assets is things one purchases which *depreciate* as period expenses with time.

But in 2001, for every U.S. dollar of market capitalization, only 15 cents represented tangible assets. This means that 85 cents of investor-valued worth came in the form of brands, relationships, and employees. Employees are intangible assets. The knowledge of workers who go home each night and return in the morning is what produces value in many organizations today. A simple definition of this type of intangible asset, in contrast to a tangible asset, is something with potential that *grows* with time, rather than depreciates.

The sources of value creation are in people's know-how and their passion to perform. You don't supervise a product development engineer or advertising editor to create a better product or ad copy. Rather, they do it, given the right environment. PM powers an organization as an economic engine by recognizing that social systems are the fuel. This is not to say that the organization's mission is not fundamental—it is. It simply means that performance requires cooperation, teamwork, and people giving effort for the benefit of the whole. Value creation is central to the purpose of an organization. (Economic value management, aimed at decisions and actions to increase shareholder wealth rather than destroy it, is discussed in Part Four.)

Some publicly-traded corporations feel investor pressure to cut costs to meet earnings expectations, which usually translates into laying off employees. But right-sizing decisions based solely on head count and cost reductions can rob an organization of its key talent. Human resource systems need to acknowledge employees as valued intangible assets, each with unique skills and experiences. (Human capital management, with a focus on retaining better-performing employees, is also discussed in Part Four.) Inevitably management must come to grips with increasing bottom-line by getting more from its existing resources rather than removing them with layoffs. This imperative adds to the interest in performance management.

Despite this substantial shift toward valuing intangible assets, current accounting and performance measurement systems still reflect outdated industrial models. Recent accounting scandals, like Enron's sudden collapse, have alerted the general public that accounting practices have failed as early warning signals. The trio of accounting watchdogs—external auditing firms, boards of directors, and stock analysts—are failing to detect or report impending disasters. The solution is not to meddle with more accounting regulations. Rather than tweak the status quo, where each party likely has vested interests in preservation, the accounting industry should take an investor's

perspective. It should provide disclosure and financial transparency of operating processes. The performance of processes does not suddenly improve or degrade—it changes gradually.

## GENERATING INCREASING SHAREHOLDER VALUE INVOLVES TRADE-OFFS

A few paragraphs back it was stated that *value* is an ambiguous term. Customer value or shareholder value? There are always trade-offs because of natural conflicts, such as with higher costs for greater service; and a cornerstone of PM is providing the capability to make better trade-off decisions. For example, if products, features, and services for customers were expanded, would the additional spending increase or decrease shareholder wealth? It depends on many factors, but there can be a scenario where customers receive higher value while shareholder wealth declines.

As mentioned previously, taking an investor's perspective of value is a good course of action. A forward-looking value reporting system would reveal and quantify management decisions and expectations. Management and investors should be provided a better picture of how their companies are doing and what their prospects are. They both deserve reports on indicators about the company's business and intangible assets. Examples of such indicators are employee retention rates, customer turnover rates, product development cycle time, employee and customer acquisition costs, new product success rates, customer service levels by type of customer, and reject rates.

Forward-looking projections, where estimating capabilities are judged for accountability, should be greatly emphasized. To accomplish this, there is a need for a commonly accepted method to understand value, and changes in an organization's value, stated in financial terms. No rational businessperson would buy or sell a business solely on the basis of looking at historical financial statements. Determining value involves a lot more than EPS reporting. Economic value creation involves understanding the generation of free cash flow above one's cost of capital, not just historical revenues, costs, and accounting profits. It involves measuring economic profit.

An economy with intangible assets as its primary source of economic value creation requires new forms of strategic direction, measurement, decision analysis, and organization. The formalization of PM as a discipline is central to these new forms.

## WHAT IS MISSING? PERFORMANCE MANAGEMENT AS THE INTELLIGENCE BRIDGE

There has been too large a gap between high-end strategy and tactical operational systems to effectively achieve an organization's strategy, mission, and ultimate vision. In complex and overhead-intensive organizations, where constant redirection to a changing landscape is essential, the linkages between strategy and execution have been coming up short.

Michael Hammer, an early thought leader of the 1990s business process reengineering (BPR) movement, gives evidence to these problems of gaps and misalignment of goals with actions:

> In the real world, a company's measurement systems typically deliver a blizzard of nearly meaningless data that quantifies practically everything in sight, no matter how unimportant; that is devoid of any particular rhyme or reason; that is so voluminous as to be unusable; that is delivered so late as to be virtually useless; and that then languishes in printouts and briefing books without being put to any significant purpose. . . . In short, measurement is a mess.
>
> We use two percent of what we measure. The rest is CYA . . . We are masters of the micro. We measure paper clip acquisition times . . . The appearance of precision substitutes for substance . . . We measure far too much and get far too little for what we measure because we never articulated what we need to get better at, and our measures aren't tied together to support higher-level decision making.[6]

What is the answer for executives who need to expand their focus beyond cost control, into economic value creation, and toward more strategic directives? What's the answer for business strategists trying to navigate a more profitable course in turbulent seas? How do they regain control of the direction, traction, and speed for their enterprise?

More than ever, organizations need to align their customers, service recipients, suppliers, contractors, and their own organizations in one strategic direction. That direction must be based on a holistic view of interdependent variables and trade-offs across functions and organizational boundaries. Decision makers at all levels of the organization must be empowered to make effective decisions in rapidly reduced time frames. They need at-a-glance reporting to quickly key in on areas of their business operations in urgent need of attention. They need the equivalent of real-time bells or whistles in the form of "alert" messages to let them know if something is likely to happen that will exceed a threshold—before it happens. PM resolves these issues.

As mentioned earlier, there is a gap between the raw data that is spewed from

transaction-intensive production and operating systems and the required business information needed for making decisions. Unfortunately, most companies don't recognize this intelligence gap. ERP tools, for example, report raw data, but they do not enable workers to *actively* manage business drivers that result in outcomes. This gap or missing piece was depicted in Figure 1.1 as the arrow highlighting the linkage between operations and strategy—the PM suite of systems. Earlier it was noted that this gap is being filled with software tools collectively called the intelligence architecture. Examples of these tools are data management, data mining, analytics, forecasters, and optimizers.

An integrated suite of methodologies and tools—the PM solutions suite—provides the mechanism to bridge the intelligence gap. When orchestrated, this integrated tool suite supports executive management's strategy. By pulling together multiple management systems with a common strategic direction, PM provides the power to dig deeper and understand how to act, wherever the market takes you. PM correlates disparate information in a meaningful way and allows drill-down queries directly on hidden problem areas. It helps assess which strategies are yielding desired results without the need to wade through a mountain of raw data. Executives and employee teams need to be alerted to problems before they become "unfavorable variances" reported in financial statements and requiring explanation. PM aids employees and managers to *actively* manage change—and in the right direction. PM converts intangible assets—such as your brand, relationships, and knowledge—into your company's long-term success.

In summary, PM integrates operational and financial information into a single decision support and planning framework. What makes today's PM systems so effective is that *work activities*—what people, equipment, and assets do—are foundational to PM reporting, analysis, and planning. Work activities pursue the actions and projects essential to meet the strategic objectives constructed in strategy maps and the outcomes measured in scorecards. Work activities are central to ABM systems used to accurately measure output costs and customer profitability.

ABM also aids in understanding the drivers of work activities and their consumption of resource capacity (e.g., expenses). With that knowledge, organizations can test and validate future outcomes given different events (including a varying mix and volume of product/service demand). This helps managers and employee teams understand capacity constraints and see that cost behavior is rarely linear but is a complex blend of step-fixed input expenses relative to changes in outputs. Workloads are predicted in resource planning systems to select the best plans. PM combines the increasingly accepted strategic frameworks, such as the balanced scorecard, with intelligent software systems that span the enterprise to provide immediate feedback, in terms of alerts and traffic-lighting

signals to unplanned deviations from plans. PM provides managers and employee teams with the ability to act proactively, before events occur or proceed so far that they demand a reaction.

The purpose of this book is to present PM not just as an integrated set of decision support tools but also as a discipline intended to maintain a view of the larger picture and to understand how an organization is working as a whole. PM applies to managing any organization, whether a business, a hospital, a university, a government agency, or a military body—any entity that has employees and partners with a purpose, profit-driven or not. In short, PM is universally applicable.

## MANAGEMENT AS A "DISCIPLINE" IS AT AN EARLY EMBRYONIC STAGE

Have organizations neglected a formal approach to PM? To answer this question, recall that I defined PM as translating plans into results—execution. In this manner the important domain of strategy formulation is left outside of PM. It is actually a fuzzy boundary dividing strategy from execution, and there has been much already written on strategy.[7] PM is the process of managing the strategy.

Getting from the drawing board to value realization with high certainty involves execution. However, translating plans into results is no simple task. Execution may not be pretty and may not involve the highest paid employees. Execution is not a matter of following an instruction manual. It requires knowledge, reasoning, and prudence by all employees.

It may be helpful to step back and think about what managing an organization is all about. Of course, the existence of business schools, executive education programs, and MBA degrees implies that managing is a formal profession, but it is not nearly as formalized as fields such as engineering, law, or medicine. In those fields, there are well-documented bodies of knowledge and rules so that in successive decades those professions continually improve upon themselves. For example, bloodletting is, fortunately, a medical practice of the past, and great progress has been made since then. However, the development of how to manage organizations has not followed such a well-lit path of refinement. New management fads routinely surface, and managers quickly purchase the latest popular books heralding the newest fad as *the* solution.

We need better PM because we need better organizations. However, organizations are pretty well taken for granted because they just seem to happen. It wasn't always that way. Not long ago, people simply exchanged goods at the local market—cobblers could offer the shoes they had made in exchange for agricultural

produce from the farmers. Societal organizations for earning a living emerged from guilds and village craftspeople, based on economies of scale and specialization. Organizations evolved as a better way than an individual going it alone. Organizations are created to accomplish things that individuals cannot do on their own. Management makes organizations work—however, more effective management makes them work better. That is where we are today: trying to manage organizations more effectively.

The current dilemma is that not all managers are good managers. Some in fact are pretty poor. Ever work for one? Many managers get it wrong, not because they are incompetent but because they often simply do not have a complete grasp of what they are doing and how whatever they are doing aligns with their organization's objectives. Many workers have a false impression of what managing is, formed by their experiences of being managed by others. This is hardly the way to understand the true discipline of managing. By default, managing is learned through on-the-job apprenticeship and trial by fire. If you have a poor manager, you learn the wrong lessons.

There have been some popular thinkers about the discipline of managing, such as Peter Drucker, but I view their books and articles as only the beginning. There have also been popular thinkers in *specific* areas of management. Examples are Philip Kotler on marketing, Michael Porter on competitive strategy, and Robert S. Kaplan on managerial accounting and performance measurement. I view these popular contributors as the framers of the big ideas. But I keep returning to the observation that the ideas presented by such visionaries must be used and executed in an organizational context in order to be fully realized. This is what managing is about—and I contend that managing has yet to become a formal practice with a discipline or an organized body of knowledge.

Management today remains mostly silo-based and functional, despite all the business literature about process-based thinking. A physician would never take a component view of a patient when diagnosing an illness the way managers do of their businesses. Physicians recognize that a patient's lungs, heart, circulatory system, and other organs work as system. Organizations should similarly view organizational management as a system. In fact, I advocate that PM ups the ante to further transition from process-based thinking to an even higher level: systems thinking. By viewing an organization as a system—comparable to a living organism—its managers can comprehensively consider as manageable variables its strategies, measures, organization charts, processes, reward incentives, employee competencies, culture, and technologies.[8]

Do not misinterpret my stance as extremist or alarmist. I am not suggesting that people need a license of certification, like a CPA or an MD, to be a manager. Experience is more important than being book-smart or trained in education

courses. Managing is important to do, but difficult to do well. Further, there is no university degree in PM that I know of. It embraces many of the methods and techniques that are so fundamental: strategy, value creation, decision making, and performance monitoring. However, there are many unwritten rules, and PM, as described in this book, provides an overarching framework with badly needed rigor.

My intent is that readers of this book come to recognize PM as an important branch of general management. This book is intended as a way to appreciate how some of the big ideas of management thinking, like business process reengineering and customer relationship management, relate to one another. This book is not another set of broad platitudes or sloganeering. Rather, I describe with some rigor managerial techniques, such as strategy mapping, scorecarding, ABM, and customer relationship management, without overcomplicating them—keeping it simple but not simplistic. Some believe the KISS rule (keep it simple stupid) is mandatory, but there is the corollary LOVE rule (leave out virtually everything). The message is you must dig in a little bit.

## PERFORMANCE MANAGEMENT—MANAGING COMPLEXITIES OF PEOPLE, PROCESSES, PRODUCTS, AND CUSTOMERS

As organizations flatten and tilt 90 degrees from being hierarchical to more process-based and customer-focused, core processes replace the artificial boundaries of functional silos. Things get more complicated. Many employees multitask in two or more processes. This increases the need for matrixed management, implying that employees have at least two types of managers—one for the function and the other for the process. In addition, while process management is no longer a new concept, the definition and scope of process continues to broaden, in some cases extending across business-to-business supply chains.

Organizational charts divide the organization into work units. Although these organizational lines are drawn and constantly redrawn, the hierarchy will never disappear because individuals continue to need mentoring, coaching, career development counseling, and direction. *Functional managers* typically perform those roles. The emergence of process owners—such as one for sales order fulfillment, which can cover a spectrum from customer order placement to receipt of cash payments and many other functions—involves giving *process managers* fewer people but the all-important responsibility for the purse strings. That is, providing the process owner control over the functional managers' allocated resources resolves the thorny issue of matrixing employees with two or more

bosses. Hierarchical lines of authority are one matter; what is less visible but equally important is who gets to decide what.

A less obvious twist to managing with a flattened hierarchical chain of command involves the virtual worker. Employee teams are no longer working at a common physical location. Many on the team may work from remote home offices or field offices. There may be fewer managers, but this does not mean there will be less managing. In fact, it is just the opposite. PM is all about converting formulated strategies into execution, outcomes, and results. Executive managers may appear to be in charge, but they are finding that their direct control of employee performance is decreasing. This is why everyone needs to understand what defines achievement, how their work and decisions contribute toward it, and what is required to accomplish it.

As organizations experience an increasing diversity of products, service lines, types of channels, and types of customers, the level of complexity will only grow. As product differentiation shifts to service differentiation in order to seek competitive advantage, then expenses will likely increase. Organizations can try their best to standardize product and service line offerings, but this is against a strong head wind of mass customization to satisfy increasingly segmented customers. The increase in complexity and value-adding services is a driving force for the need for the discipline of PM.

In addition, not all customers are profitable. At some point shareholder value is destroyed due to inaction by management to deal with this situation. Optimizing value for both customers and shareholders involves a delicate balance between goals that can be in conflict. These conflicts require decisions with trade-offs that affect work activities. PM's wide span of information enables better trade-off analysis and deployment of resources (i.e., expenses).

An additional factor driving the need for PM is an increasing requirement for specially skilled workers and equipment. The presence of more skilled workers may give the illusion that workers are more self-directed without requiring supervision, but their breadth of skill in no way removes the interdependencies that collectively lead to productive organizational performance. Managers must harness the power and genius of people who ultimately are behaving as individuals.

In summary, rising specialization, complexity, and value-adding services cause the need for more, not less, PM. Despite the impact that technology and more flexible work practices and policies have on continuously changing organizational structures, without ongoing adaptation the correct work at acceptable service levels will not get done. It is true that so-called knowledge workers, not their supervisors, increasingly take charge of their own careers. All employees must have some grasp of managing for results. However, despite each worker's

responsibility to self-manage, somehow the collective performance must be coordinated. The organization's strategic objectives must be clearly communicated so that everyone pulls in the same direction, not opposite and conflicting ones, and so that their combined efforts produce success. A united and sustained performance is a challenging part of management. PM aids in accomplishing the necessary coordination.

## NOTES

1. Oliver Wendell Holmes, "The Path of Law" (1897), as quoted in George Seldes, *The Great Thoughts* (New York: Ballantine Books, 1985).
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5. See www.bscol.com.
6. Michael Hammer, *Agenda* (Three Rivers Press, 2003), p. 101.
7. Michael Porter, *Competitive Advantage* (Free Press, 1998).
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