

---

# ON THE ROAD TO NIRVANA

---



DR. ANDRÉ A. DE WAAL MBA

---

---





---

# CONTENTS

---

---

<b>Preface</b>	<b>4</b>
<b>Introduction: A Beautiful Sunset</b>	<b>5</b>
<b>Create a Performance-Driven Culture</b>	<b>7</b>
<b>Foster Performance Management Knowledge and Understanding</b>	<b>11</b>
<b>Integrate the Performance Management Processes</b>	<b>14</b>
<b>Increase Adaptiveness and Flexibility of the Organization</b>	<b>17</b>
<b>Increase Relevancy and Quality of Information</b>	<b>20</b>
<b>Install High-Quality Information and Communication Technology Systems</b>	<b>23</b>
<b>Epilogue</b>	<b>26</b>
<b>About the Author</b>	<b>27</b>

---

---

# PREFACE

---

In Spring 2003 I was asked by Hyperion Solutions to write a research paper on the future of the performance management cycle, consisting of the planning, budgeting, forecasting, measurement and rewarding processes. The aim was to describe an organization called Nirvana, where the performance management cycle is both efficient and effective, where everyone in the organization works towards the same goals, and where all employees are performance-driven. In short: the ideal organization.

In order to identify the characteristics of this ideal organization, I asked a fair number of people with 'hands-on' performance management experience the following question: 'What are, according to you, the three most important problems and issues with regard to the performance management cycle and the performance-drive of an organization that should be discussed in a paper about this subject?' Luckily, many people – academics, consultants and practitioners – responded enthusiastically to my request for input, either in writing or during discussions. This enabled me to make sure that the paper truly reflected state-of-the-art performance management in practice. I am very grateful for all the support I received and I would like to thank in particular the following persons:

P. van Alphen (Koninklijke KPN), I. Bauermann (Hyperion Solutions), R. Bieshaar (FiNext), F. Bloemers (Schiphol Group), L. Breevoort (Hyperion Solutions), R. Brokx (ALcontrol Laboratories), C. Dickmann (WE International), L. Driebeek (Van Leeuwen Buizen), R. de Fluiter Balledux (Martinair), S. Foster (Maastricht School of Management), H. Geerkens (Erasmus Universiteit), G. Heling (Maastricht School of Management), H. Heslinga (Essent), R. Hoekzema (Montblanc International), S. Hoenderop (Beckers Holding), S. Hogg (Manchester Metropolitan University Business School), P. Jansen (Vrije Universiteit Amsterdam), D. Karamat Ali (Novell), W. Kaydos (The Decision Group), A. de Koning (PricewaterhouseCoopers), M. van der Kooij (Hyperion Solutions), J. Koster (Holland Consulting Group), F. Kwakman (Holland Consulting Group), L. Larmuseau (DNV), M. Lebas (HEC School of Management), B. Marr (Cranfield School of Management), C. Marring (Wessanen), W. Mastenbroek (Holland Consulting Group), A. Meingast (Tempo-Team Group), H. Mollema (Hyperion Solutions), A. Neely (Cranfield School of Management), A. Olivier (Generali Verzekeringsgroep), D. Overkleef (De Nieuwe Beumer), B. Post (Van Wijnen Holding), C. van Rijn (Nutreco), R. Roelfs (Versatel), J. Roording (Nuon), W. Rosenboom (ALcontrol Laboratories), K. Rwegasira (Maastricht School of Management), A. Shaw (Hyperion Solutions), R. Siepman (formerly of Koninklijke

Vopak NV), R. Steenvoorden (Strukton), J.D. Thalen (KLM Royal Dutch Airlines), P. Toethuis (ING), G. Vergouw (Vergouw Consulting), G. Vesseur (Eneco), W. Vrakking (Holland Consulting Group), R. Wijnans (Kroymans Corporation), L. Wijngaarden (Postbank) and S. Zitteema (AVR Bedrijven). A very special thanks to Rob Beijleveld (Hyperion Solutions) without whom this white paper would not have been created.

I hope you will find this document interesting and maybe even a bit thought-provoking. Please keep in mind that this paper primarily goes into 'what' the ideal adaptive enterprise looks like, not 'how' it is achieved. This paper is a useful guideline as it contains many ideas about the elements which make up an adaptive enterprise. However, implementing the concept of the adaptive enterprise strongly depends on the situation of the organization and on the ideas of its management. A single 'how to guide' therefore would not suffice. It is up to organizations themselves to find out what concepts and techniques would fit best.

A suitable course of action after reading this white paper might be the following. First, you and your colleagues discuss which ideas described in this paper appeal to you. Secondly, you agree among yourselves whether your organization really wants to build an adaptive enterprise by means of performance management, and whether it is ready to accept the consequences. After that, you have to decide on which ideas you want to take up and you have to identify how to put these in practice. This decision is different for every organization, as it depends on the individual state the company is in and on its circumstances. Tailoring the ideas you have chosen for your organization will require a great deal of discussion. It is therefore advisable to use the collective knowledge of your company, read specialist literature on the subject, and invite knowledgeable people with whom you can exchange views. Make a realistic plan and reserve enough time for this important change. This is not a project for one year, but a process which probably will take you at least three years when done right. But it is well worth it.

I welcome any comments you have about the contents of this paper and about your experiences with implementing the ideas of the paper in practice. After all, the second white paper could be about the different ways organizations have implemented the real adaptive enterprise.

**André de Waal**  
**Leiden, August 2003**

**e-mail: [andredewaal@planet.nl](mailto:andredewaal@planet.nl)**  
**website: [www.andredewaal.nl](http://www.andredewaal.nl)**

---

---

## INTRODUCTION: A BEAUTIFUL SUNSET

---

Satisfied, Pete Mueller looked out of the window at the gorgeous sunset. In a blaze of glory, the burning sun disappeared beneath the horizon. It was the grand finale of a beautiful day, which mirrored Pete's mood perfectly. With a smile, he swiveled his chair back towards his desk. "Where were we?" he said, looking at the reporter who was interviewing him.

"Well sir," she replied, "you just told me how, after taking over as the chief executive officer, you started making changes to the performance management system of the company. You claim these changes helped improve the organization's results considerably, making the company number one in its industry."

Pete nodded. "That's right Tanya, that's what happened." Tanya continued. "I would appreciate it very much if you could tell me what those changes were. That way, I can make a well-founded article on performance management and the adaptive enterprise."

Pete tilted his chair and put his fingertips together. "The adaptive enterprise," he mumbled, "there is a concept if you have one."

Tanya looked questioningly at him. "How do you define the adaptive enterprise?" she asked.

Pete spoke louder. "It is the ability of all the people in the organization to anticipate, react and capitalize on changes that take place in the environment, regardless of the type, nature or content of those changes."

"Why was this so important to you?"

"Let me explain. At the time I took over this company, it wasn't doing very well." Pete grinned. "And you could call this the understatement of the day. At the same time, the concept of the adaptive enterprise really started to catch on, after it had been around for a few years. I believe ..."

Pete checked the diary on top of his large oak desk, which lay open on the date June 25, 2008.

"What a coincidence. Today exactly five years ago, I attended a seminar on how to create the real adaptive enterprise by means of performance management."

"Excuse me," Tanya interrupted him. "I thought that at that time the concept of corporate performance management was something of the fad of the day?"

Pete smiled, someone had clearly done her homework.

"I remember that. In itself corporate performance management was a very good idea but it unfortunately did not tackle all the problems of an organization, like automatically increasing the performance driven behavior of people and being aimed mostly at executives. We liked the idea of creating an adaptive enterprise, using business performance management, much more."

"What is the difference?"

"I'll get to that later. Anyway, the seminar was called the

way or the route to Nirvana. I recall I thought it was a silly name for a seminar but ... I did create a sort of Nirvana. I'm not boring you, am I?"

The reporter hastily assured Pete he was not and asked him to go on. Pete leaned back and began to tell his story.

"You know what the key is to the adaptive enterprise?" Pete asked.

Tanya shook her head.

"It's looking at an organization in an integrated way. Too many companies, too many consultants and too many software vendors have been trying to solve the performance problems of organizations in a piecemeal, isolated way. That is not how we approached it."

"What have you done, then?"

Instead of answering directly, Pete stood up and walked over to the whiteboard. He took a marker and started to write down a list. "There are six processes that need to be executed to create a real adaptive enterprise, by means of performance management."

The reporter eagerly took notes.

"The first thing a company has to do to create an adaptive enterprise is create a performance-driven culture. This means making sure that everybody in the organization is geared towards the same objectives and goals and strives for the best results and continuous improvement."

Tanya interrupted. "Continuous improvement, another one of those fads?"

"It could have been. But continuous improvement can really work, as I will show you later on. Let me first finish explaining the processes. The second process a company has to execute to create an adaptive enterprise is increasing people's knowledge and understanding about the planning & control cycle and the strategy of the organization."

"Why is that important?" the reporter asked.

"Because without this knowledge and understanding, people will never be able to see the overall picture. Consequently, they can never understand the impact of their actions on the rest of the company. More importantly, they cannot see how their activities fit in the overall picture of the organization's activities."

"I see."

"Okay. Moving on to the third and fourth processes. I shall discuss them together. A company should integrate its business processes while at the same time promoting adaptiveness and flexibility of its people. Can you see why?" the chief executive officer probed.

"I guess it is encapsulated in the term adaptive enterprise," Tanya said. "By definition you have to be adaptive and flexible in your processes and structure. But how does integration fit in there?"

"Isn't that obvious? If the various business processes of an organization are not integrated, it automatically implies there are a lot of transfer points between those processes. And you know as well as I do that transfer points result in loss of information, mistakes and delays in the process flow. Integrated processes, on the other hand, allow rapid response to new circumstances and reacting in a flexible way to opportunities and threats that occur. Which brings me to the fifth process: making sure that the reliability and relevance of information is high ..."

"... so it can support the business processes and the people who are applying them," Tanya finished the sentence.

"I see you are catching on quickly. Yes, a high-quality and efficient information supply is like the lifeline of an organization. Everybody always gets the right information at the right time."

"We're still one process short," Tanya remarked impatiently.

"Yes, we are, and it certainly is not the least of the six. A company has to install high-quality information and communication technology systems, because they need to support all the integrated and adaptive business processes in the enterprise."

Pete put the marker down, wiped his hands and went back to his chair. Tanya looked from the whiteboard to him and back.

"You look puzzled," Pete said.

Hesitantly she said, "It seems so simple, sir. Only six consecutive processes to which nobody in his right mind can object. My readers will certainly wonder why, if it is this simple and acceptable, hasn't every company created the adaptive enterprise?"

Pete laughed. "It looks deceptively simple but it isn't. Behind every one of the six processes lies a world of its own. There are quite a few things you have to do or achieve to turn the concept of the adaptive enterprise into reality. And they all have to be done properly, otherwise it will not work. By the way, the processes do not necessarily have to be done consecutively, in fact it is definitely better to execute them simultaneously. I will show you that later. The real bottleneck is that the organization has to accept the consequences and implications of being an adaptive enterprise."

"Such as?" the reporter inquired.

"An organization can no longer be too political. I know

it's in man's nature to behave politically but that political activity, valuable as it is in many ways, shouldn't become dysfunctional and damaging. Guarding information, turf wars and protecting one's own little kingdom are out of the question. And everyone has to face up to potential and real problems so that they can be dealt with."

"That all sounds good to me."

"There is more, Tanya. A noncommittal attitude is fundamentally forbidden in an adaptive enterprise. Waiting until problems go away or laying the blame at somebody else's doorstep isn't tolerated. Everyone has to act in an honest, open and committed way. This isn't easy, especially not during the transition. But believe me, all in all the struggle for change has really been worth it."

"In what way?" Tanya asked.

"Traditionally organizations have focussed too much on generating large amounts of mainly financial data and making this available to everybody in the organization. However, the real value comes from connecting this data, thus generating knowledge and gaining understanding of what is important in the company and in its dealings with the environment, and on acting on this in a quick and effective way."

"But how, then, does this adaptiveness of the organization pay off?"

Pete reached out and pushed the monitor of his personal assistant device towards Tanya. "Take a look at these figures."

He popped up a screen on his computer. "This chart shows the trend of the company's financial results since I took over and implemented a world-class performance management process. It is pretty impressive, don't you think?"

Tanya agreed.

"And that's not all. Look at these figures on customer satisfaction and product quality. They have been rising steadily the past years."

Pete leaned back. "I would say it was worth it."

"It sure looks like it. However ..." Tanya hesitated a bit. "I do not want to be blunt, but my readers really want to know what tangible things you did during these six processes you mentioned." She pointed at the whiteboard. "And this is still a bit too vague for me."

The chief executive officer looked at his watch. "I guess we could discuss some of these processes in more detail. Do you have to be somewhere early this evening?"

"Certainly not," the reporter exclaimed, "This is far too interesting."

"Fine. Let us start with the characteristics of the first process on the list, creating a performance-driven culture ..."

---

---

# CREATE A PERFORMANCE-DRIVEN CULTURE

---

“When it comes down to it, it is all about dealing with people,” the chief executive officer commenced, “no matter how many tools and techniques you implement, if you cannot motivate your people to use them and strive for the best, you will wind up with nothing at the end of the day.” “This is something I hear a lot during my interviews with top managers,” Tanya replied.

“I imagine so,” Pete said. “It is an issue we managers continuously wrestle with.”

“How have you dealt with this?” the reporter asked.

“By instilling in my managers that a strong focus on performance management is essential. This entails setting clear objectives and formulating corrective actions and a discipline on monitoring those actions closely. In order to prevent noncommittal attitudes, our managers hold their employees accountable for lagging results and for improving them. Of course, managers also regularly recognize and praise good results and improvements achieved by their people and frequently either talk about or discuss, not just talk and explain the benefits of performance management.” “It sounds as if your managers are some kind of super breed,” Tanya remarked. “Aren’t you asking too much of them?” “No, I’m not, because we have stopped looking for the impossible. We have given up on the silly notion that all our people have to be able to excel in everything they do and that all people are willing to go

along with all changes. This is unrealistic, we’re all human after all.”

Pete took a sip of his coffee and continued. “But success breeds success so we concentrate on that”.

“What do you mean?”

“Managers spend an inordinate amount of their valuable time on the things that go wrong. Instead, they should concentrate on the strong points of the organization, its people and themselves.

I try to instill confidence in my managers, who then instill confidence in their people.”

“What is the precondition for instilling this confidence?”

Tanya asked.

“To give people responsibility and accountability for achieving

the goals set. And you know what ...”

Pete leaned over towards the reporter to stress his point.

“The most important thing managers can do is be a strong role model for their people as to how to behave and act. By setting a clear example of what is and what isn’t important in this company, everybody knows what to focus on. Only when the managers show in their actual conduct that performance management is important to them, will people in the organization be willing to devote their time and energy to achieve the desired results. And this performance-driven behavior starts at the top, with me!”

## CHARACTERISTICS OF A PERFORMANCE-DRIVEN CULTURE

- The organization strongly encourages performance-driven behavior – Management and employees make clear arrangements about: the type of behavior that is required in the organization; how result-oriented coaching should be applied; how performance indicators and their targets will be set; how people will be held accountable for their results; how people can help each other; and how the organization can strive for continuous improvement. A new line of questioning is introduced as a means to support the required performance-driven behavior: What is the problem? What have you done to try to remedy the problem? How can I help you with this? People formulate their actions themselves and are responsible for executing them. They feel accountable for their results and the organization's results.
- The organization has clear and strong performance-driven values – There are regular meetings on: the values of the company; the desired and unacceptable types of behavior; methods to stimulate and encourage performance-driven behavior; ways to coach and help each other; how to act ethically; and how to increase the integrity of the organization and its people. The performance-driven values that are paramount in the organization are: people are allowed to make mistakes and to take risks; people communicate openly and honestly about the achieved results; managers use a management style which promotes taking responsibility and self-management; employees have the duty to promptly report deviations to their managers; people who are closest to the market provide feedback on trends and developments to the organization, so that it can adapt quickly; the entire company wishes to achieve results and to strive for continuous improvement; and, finally, there is a strong focus on knowledge transfer.
- The organization continuously emphasizes the importance of performance management - Management constantly emphasizes the importance of performance management for the success of the organization and its employees. The focus on performance management does not slacken through time or during difficult times. Performance management is not regarded as a project (with a start and end date) but as an ongoing concern, a crucial management technique which is part of day-to-day management. The organization does not tolerate behavior that is not performance-driven and people not using the performance management system. Positive behavior and use of the system is regularly rewarded, not only in a material way but also

in an immaterial way (pat on the back, compliments). Management visibly displays 'walk-the-talk' behavior - Management sets the right example by: consistently delivering on what was promised. This 'walk-the-talk' culture focuses on actions and follow-up on these actions. Management uses the performance management system frequently and visibly in dealings with employees and regularly communicates company results throughout the organization. This is done during formal management team meetings – where progress, problems and improvement actions are discussed – but also during informal dealings with employees when management takes interest in their progress and dealings. Management also visibly spends time on actions to improve the performance of the organization.

Management displays strong leadership skills - Since there will always be deviations from plans, budgets and forecasts, management is prepared to deal with these quickly and promptly. Stalling techniques such as the following are unacceptable: denial, 'don't shoot the messenger', rationalizing the situation to avoid making difficult decisions, doubting the reliability of disappointing information, and scapegoating. Management acts as a strong captain on the bridge, it withstands the conflicting pressures of top management, and lower management and employees. Once decisions have been taken, management either executes them to the best of its ability or takes the consequence and leaves.

- Members of the organization consistently follow up actions - Managers set clear objectives and goals, define actions to achieve them and follow up on these actions. This happens in a positive manner: if the results are not as expected, the focus is placed on how to achieve them in the near future. If, after analysis, it turns out targets are not met because of changing circumstances, managers immediately assess and evaluate the consequences of these changed conditions and adjust their goals, targets and actions accordingly. However, not achieving goals and targets because of not paying (enough) attention to them is unacceptable in the organization. People regularly get feedback on their actions and results, both from the performance management system and from their manager.
- The organization balances positive and negative focuses – The organization pays equal attention to the strong points and the weak points of the firm and its people, and to what is going right and wrong. People celebrate and learn from successes ('why did this



work, can we learn from it'), they correct and learn from ('why didn't this work, can we learn from it'). They further develop positive elements, investigate negative elements and correct or divest them.

- The organization balances organizational and individual focuses - People have a dual focus: their personal interest and that of the company. There is a culture of sharing and community, not of 'looking out for number one', and everybody shares in the rewards. This means that there is a balance between control and commitment: the organizational performance management cycle (aimed at achieving organizational goals) and the individual competency management cycle (aimed at achieving personal goals). The organization aims at attuning the two as much as possible, so that there is no or only little friction between them. In an adaptive enterprise it is not only about what the organization and its managers want, it is also about the needs of the employees.
- Positive attitudes are prevalent - Managers constantly seek for ways to get the best out of themselves, their colleagues and their people. Members of the organization are not treated as just another resource (a frequent occurrence in human resource management!), instead they are accepted for who they are. Management endeavors to motivate people to use performance management. They are put in charge of precisely those processes and projects they can excel at, where their strength lies. Members of the organization are encouraged to take further training and coaching, consequently developing new areas of competence. People ask and get help in areas they are less proficient in, without 'losing face'. Management helps employees to discover their strong and weak points, to get confidence and to take responsibility for their actions and results. Negative performance is not used to settle scores with people but seen as an opportunity for improvement. The focus is not on finding excuses for bad performance but on finding ways to improve results.
- Responsibility and accountability structures are clear and consistent – All members of the organization know their responsibilities and accountabilities as well as what is expected from them. Individual

responsibilities, targets and incentives are aligned with the strategic objectives of the organization. People participate in the process of developing the responsibility structure and setting targets, so that they can influence them and accept them more readily. Managers encourage people to think about their own responsibilities and influence mechanisms, and concentrate their communication with people on how to improve results.

The question 'Why did you get these bad results?' – which stimulates people to look for excuses in the external environment and to pass on the responsibility to other people and departments – is replaced by the question 'How are you going to improve this result?' It takes consistent behavior to build up trust in management. The responsibility structure is therefore applied consistently throughout the performance management process.

- There is real communication taking place – The entire organization encourages real communication. This entails: face-to-face contact, not merely e-mail messages; two-way traffic: the sender checks whether the receiver understands the message and also what the receiver thinks of the message; open discussion of awkward issues, without people using evasion, covering up or smoothing out techniques evaded; room to discuss not only the strong points but also the weak points of the organization and its management, management is not surrounded by yes-men; and clear communication of top management on the strategic direction of the organization and the results achieved, while at the same time organizational entities give an honest picture of their performance.
- The organization realizes that nobody and no system is perfect - Management realizes that performance management is a complex process whose execution very much depends on people. This means that the process of implementing performance management will never be without problems and flaws. Consequently, choosing a typical engineer's solution, in which one tries to make the system foolproof, will not work. It is better to accept that problems are likely to occur and deal with them in a flexible manner.

# CONSEQUENCES AND IMPLICATIONS

## CONSEQUENCES

- No room for political games.
- Conforming to required behavior.
- Need for 'walk-the-talk people'.
- Having to confront people (in a positive way).
- No covering of issues with the cloak of charity.
- Need for people with a strong self-drive.
- No blame culture.
- Real readiness to help.
- No 'freedom for all'.
- Taking oneself and others seriously.
- Regularly 'biting the bullet' (taking unpopular decisions).
- Need for a positive outlook.
- Showing vulnerability.

---

---

# FOSTER PERFORMANCE MANAGEMENT KNOWLEDGE AND UNDERSTANDING

---

“There is something I have never understood,” Tanya put forward.

“What’s that?” Pete asked bemused.

“As you know I write for a living but I’m not only driven by the paycheck at the end of the month. I am also curious, I really want to learn about the new subjects I encounter.”

“So?”

“So, why don’t many people share this passion?”

“What do you mean?”

Tanya threw her hands in the air, almost knocking over her coffee. “Do you know how many books on average an author of management literature sells?”

Pete shook his head.

“Not too many, I can tell you. And do you know why this is?”

Pete shook his head again.

“Because people do not keep up with professional literature, that’s why. And it’s not just about professional literature or books. Everybody should look at any possible means for continuous education. However, formal training programs are too often a one time experience and there are few people who truly make the effort to put the training into practice. It should be completely normal for people to keep improving.”

“I do,” Pete objected, pointing at the well-stocked bookcase at the far end of the room.

“Okay, I said many people, not all,” Tanya backed out a bit. Pete stood up and walked to the whiteboard. “I’m teasing you. In all fairness, I have to agree with you.” He tapped his finger on the board, on the second process. “That’s why we spend so much time on actively fostering learning. We are a real learning organization.”

Tanya leaned forward. “I would love to hear about that.”

“Have you ever noticed how we basically stop our formal learning after we begin our working life?” Pete asked.

“Yes, as you said many employees receive training several times a year but, and I agree with you on this, those are specific occasions where they learn a particular trade or management skill.”

“So you also see this as a problem?”

Pete strolled back to his chair and sat down. “I do. Let me give you an example. How often does it occur that we introduce a new management technique or method and then expect our people to immediately grasp the nuts and bolts? If they are really lucky they get a short introduction.” He gave Tanya a questioning look. “Were you able to ride your bike immediately when you got your first one?”

Tanya rubbed her knee, thinking back to that first time.

“No, I wasn’t.”

Pete raised his voice. “So why do we behave as if our people, both managers and employees, can use a new performance management system just like that? The complexity of such a system is underestimated. We expect managers to be able to handle it without being properly trained. Learning how to use a new system is as much about becoming proficient by doing as it is about acquiring knowledge by training!”

“Don’t get too worked up now,” Tanya soothed the agitated chief executive officer. “I’m on your side, remember I started this discussion. Tell me how you foster learning in your organization.”

Pete calmed down. “We do things like supporting users during the introduction of the new cycle. And by users I not only mean managers and employees but also top management. I’ll tell you in detail what we did when we introduced our new performance management process ...”

## CHARACTERISTICS OF STRONG PERFORMANCE MANAGEMENT KNOWLEDGE AND UNDERSTANDING

- Members of the organization completely understand the drivers of performance – People have a thorough and complete understanding of the business model of the organization: what drives the performance of the company and what its leading indicators of future performance are. The organization pays special attention to the intangibles and intellectual capital of the organization, such as knowledge, labels, innovative products and services and highly qualified personnel. This requires having absolute clarity about the organizational and financial structure of the company: profit-and-loss accounts match the organizational accountability structure and there is no discrepancy between business economic, financial, legal and fiscal structures. Knowledge of the mission, strategy and key value drivers of the organization is paramount for setting up relevant planning and measurement processes that adequately reflect reality. The measurement system provides a translation mechanism, it shows people what really matters in the organization.
- Members of the organization completely understand the planning and control cycle – People have a thorough and complete understanding of the planning-and-control cycle as a whole. Managers look beyond the individual parts of the cycle (e.g. planning, budgeting, monitoring, analyzing, forecasting or reporting) because they are involved in and get information about various parts of the cycle, irrespective of their job, role or place in the organizational hierarchy. In this way, putting contradictory systems in place is being prevented. Real performance-driven firms look at the planning-and-control cycle as a whole and synchronize planning, budgeting, monitoring, analyzing, forecasting and rewarding.
- The nature of performance management is clear to all members of the organization – People understand the meaning of the performance information and the performance indicators that are used, and have insight into what effects their activities are likely to have on the results of the organization. They understand the relation between business processes and performance indicators. They are able to influence the results on the indicators in such a way that the continuity of the organization is warranted. It is clear to them what benefits performance management has for them ('what's in it for me'). Management continuously pays attention to making sure that both organizational and individual levels benefit from the performance

management system. Organizational objectives are made tangible for everyone by translating them into departmental and individual objectives, and continuous reporting on the status of these. Management frequently discusses these status reports, to make sure the organization pays adequate attention to performance management.

- The organization encourages performance-driven thinking – Open discussions are held at regular intervals about how performance information should and could be used. Subjects are: How to interpret the collected data?  
How to analyze the results? How to develop action plans? How to manage and evaluate actions?  
How to make the use of performance information visible within the organization?  
How to safeguard the integrity and integration of the planning-and-control cycle? and How to foster performance-driven behavior in the management team?
- People in the organization actively search for answers – The focus of the organization increasingly shifts from collating data towards extracting insight: understanding what the data tells one about the organization and hence what actions should be taken. People concentrate on the 'story behind the figures': what does the data tell us about the current status of the company? The management team is no longer confronted with raw data and expected to make immediate sense of it. People's analyses of the data distil the most important points and insights from the information, and present these in an attractive and transparent manner. The management team then evaluates the quality of the analyses, and advises and/or decides on the course to be taken. Data is no longer regarded as a means in itself but as a tool to improve insight into the affairs of the organization.
- The organization actively promotes knowledge exchange – The organization has installed clear mechanisms which foster information and knowledge exchange between individuals, departments and organizational entities, such as knowledge management systems and regular knowledge sharing meetings where people get to meet physically. Co-operation between units is encouraged and rewarded. Best practices are discussed on a regular basis between the high performing and the lesser performing organizational entities. Best practices, analyses, underlying assumptions for business decisions and lessons learned are officially reported and distributed throughout the company, using the intranet.

Managers have performance indicators which have the standardized definitions, which makes it easy for them to interpret the results of other managers and learn from them. Results and analyses are openly communicated, so everyone is well-informed on the status of the organization and its entities and on where to go for help and support.

- The organization actively promotes continuous learning - It is socially accepted in the organization to spend time on learning. Learning is actively promoted to keep up with professional literature, of both the

discipline of immediate interest and other disciplines. Employees regularly visit other companies to learn from them. People are encouraged and rewarded for taking courses and participating in training. In addition they receive training on how to make better use of the performance management system. Three to four times a year, the enterprise organizes a special day to introduce employees to new concepts and ideas and to give them an opportunity to discuss whether the presented themes are worthwhile to implement in their organizational units.

## CONSEQUENCES AND IMPLICATIONS

# CONSEQUENCES

- No vagueness of organizational strategy and objectives.
- Complete transparency of information: no hiding of data.
- Openness in discussions: no clouding the issues.
- Looking and working across departmental borders.
- No longer a strict focus on financials.
- A broad mindset: focus on financials as well as nonfinancials and intangibles.
- Reacting immediately to changes: no room for delaying tactics and inactivity.
- Increase of training efforts.
- Searching for the real causes of problems and their solutions: no acceptance of facts on face value.

---

---

## INTEGRATE THE PERFORMANCE MANAGEMENT PROCESSES

---

“You know, in my opinion the traditional performance management cycle is based on a fairly limited and mechanical view,” Pete continued the conversation with Tanya the next day.

“What do you mean?” the inquisitive reporter asked.

“Well, it starts from the rather old-fashioned idea that performance management is a control cycle which encompasses agreements between management and employees on results to be achieved. Employees then achieve these results, simply because management use measurements, checks, controls and bonuses to check and reward them.”

“Doesn’t it work that way then?”

Pete sighed. “Of course not. First of all, in reality the various processes like strategy, budgeting and forecasting, are not integrated so they take an awful lot of time and effort. Secondly, people are not robots which you can control by simply pushing the right buttons. They’re opportunistic and sometimes try to get out of agreements when they can get a better deal elsewhere or when things do not go the way they want. Linking agreements to rewards particularly can cause adverse behavior.”

“It does sound like a problem. How can you remedy this?” Tanya exclaimed.

“Things are never as bad as they look,” the chief executive officer reassured her. “We’ve chosen to integrate the performance management process. It’s funny you mentioned corporate performance management earlier. That was indeed something of a hype, but the advocates were right about one thing: if you want to integrate the planning processes of an organization, they have to be linked up with each other perfectly. When I took over the helm, the company had already put into place reporting systems such as the balanced scorecard, yet after that it ran the budgeting system independently from these reporting systems and with a purely financial focus. On top of that, it ran the planning system while ignoring the balanced scorecard and the budget. Naturally, the reward system was based on totally different criteria than the performance measurement system. Real performance-driven firms loop upon the performance management process as a whole, and synchronize planning, budgeting, forecasting, measuring and rewarding in such a way that they are efficient, effective and do not go against the interests of the company.”

Tanya agreed. “It is a shame to see that a lot of companies are measuring things but forget to plan on them. Or they plan things but don’t measure them.”

## CHARACTERISTICS OF INTEGRATED PERFORMANCE MANAGEMENT PROCESSES

- The performance management system is kept simple – The organization designs a flexible performance management framework that gets and keeps the organization on the right track towards achieving its strategy and its goals. This framework integrates the planning process, control structure and control process in an uncomplicated way. It is flexible and can easily be adapted to the organization's situation, yet it clearly remains an undisputed guidance framework at all times, under the direct supervision of the chief executive officer. The framework is based on a limited number of strategic key value drivers, including lagging financial and leading non-financial performance indicators. These key value drivers, which members of the organization identify during the strategy development process, measure precisely those organizational elements that are critical to achieve success and create value. When additional performance indicators are needed, because of external reporting requirements, they are also incorporated during the planning and reporting processes. The strategic action plans of the company center around the key value drivers. Targets are set for each key value driver, for all the years of the strategic horizon. The drivers can be adjusted if the internal or external circumstances require this. The organization makes a financial budget for only the limited number of key financial drivers. There is no need for a full, detailed budget. The financial targets for year one of the strategic plan constitute the budget for the coming year. The organization allocates resources on the basis of justified needs during the year. The needs are backed up by clear and specific action plans. The company also defines contingency areas for each key value driver, in which managers are free to manage at their discretion. Management requires only information about the results and forecasts for the key value drivers, and strictly focuses on exceptional results (positive or negative). Additional information can be obtained, if necessary, by surfing on the intranet. Corrective and preventive actions are formulated for the exceptions. Managers are rewarded on the results they obtained for the key value drivers. A key benefit of focusing on key value drivers is that members of the organization are able to focus on those drivers that are under their control and of which they have the best understanding of. Business people can focus on market drivers (like volumes, customer adoption, prices etc.) and are not distracted by purely financial information. Ultimately everybody in the organization is working on what they

understand best and collectively they work on what drives company value.

- The planning and reporting processes are fully integrated - Strategic, tactical and operational planning, budgeting, forecasting and reporting processes form a single integrated process. The results of higher level planning are the basis for planning at underlying levels. The analysis of operational results is input for tactical and strategic planning. Marketing, sales, production, personnel and finance do not have separate planning cycles but are dealt with in this same single integrated process. The planning, budgeting and forecasting processes use the same data, supported by an integrated information system. The reporting of secondary (support) functions is integrated with that of the primary processes (integration of data), so that a total overview is created for management.
- Strategy is aligned throughout the organization - The strategy is aligned by using a common language to measure and manage value throughout the organization: the key value drivers. The objectives of all management levels are aligned with the mission and strategy of the organization and these objectives are translated into clear expectations regarding the performance of employees. Employees know how to fulfill the expectations as well as what kind of support they can expect from management. In order to be able to focus on the future and long-term value creation, non-financial leading value drivers become more important. The strategy is linked with operations by using financial and non-financial value drivers. Value-based management is used as the 'glue' that binds financial objectives, strategic plans and operational performance together into an integrated framework focused on value creation. This is achieved by linking the financial value tree indicators with the strategic and operational performance indicators and processes of the organization.
- Coordination of activities takes place across organizational boundaries – Coordination is not according to departmental budgets, but through causal relations across business units and processes. The consequences of the planning cycle results of one organizational unit on other units are always investigated and taken into account. The organization pays special attention to optimizing the synergy in the company. Senior managers continuously evaluate the organization's portfolio. During this process, they look at strategic initiatives and the accompanying risks from a different, higher-level perspective than local managers.

They help local managers to find best practices and synergy opportunities within the organization, and encourage the sharing of knowledge throughout the organization. The use of techniques such as the balanced scorecard and the implementation of knowledge and project management systems, provide support for building an organization-wide network. The performance management system explicitly provides information about the performance along the value chain and related processes, regardless of organizational boundaries. This provides the 'big picture' to management.

- Human resource tools are aligned with the organization's strategy – The things that are important to the organization, expressed in the strategy and the corresponding critical success factors and key performance indicators, manifest themselves in the training programs ('Do we teach members of the organization to excel in what is important?'), the recruitment process ('Do we have the skills and competencies required to achieve our goals?' 'If we did

not achieve our goals do we need to hire new employees with new skills?') and in the evaluation and reward systems ('Do we explicitly look at the results of the performance indicators and do these results stipulate – at least partly – the nature of the evaluation and the level of reward?'). Because the objectives of all management levels are aligned with each other, all employees know what is important for the organization and what is expected from them. They are rewarded for achieving these objectives. Because evaluation and reward criteria are clearly related to strategic objectives, human resource tools directly support achieving the strategy. The reward structure is in line with what is important to the organization: people are rewarded for the right behavior and for reaching organizational objectives and goals. This structure is a combination of individual and group rewards, which encourages cooperation across the organization. The objectives and goals are a mix of financial and non-financial ones.

## CONSEQUENCES AND IMPLICATIONS

# CONSEQUENCES

- Avoiding complexities in processes.
- Need for self-control.
- Not wanting to know every detail.
- Action-orientation.
- Change of the evaluation system.
- Not automatically putting personal interests before the organization's interests.



---

---

## INCREASE ADAPTIVENESS AND FLEXIBILITY OF THE ORGANIZATION

---

There was a knock at the door.

“Enter,” Pete called.

The door opened and a well-dressed man walked in briskly.

“Ah, hello Rob, I’m glad you could join us.

This is the journalist I told you about.”

Tanya stood up and shook Rob’s hand.

“Hello, how are you?”

“I’m very fine,” Rob replied, “How can I help you guys?”

“Take a seat, Rob,” Pete answered. He turned to Tanya.

“Let me introduce you to our chief performance officer.”

Tanya nodded. “I recall reading something about you launching this new role. So the CPO really exists.”

Rob grinned. “Alive and kicking, ma’am.”

“I don’t want to be insolent but what do you actually do?”

Tanya asked sharply.

This time the CPO laughed out loud. “I sometimes wonder myself. But seriously. In my job description, which we don’t use anymore by the way, you would find something like the person who makes it possible for the organization to deliver optimal results. This doesn’t mean I’m responsible for these results myself. I have to create the conditions for managers to perform at their best.”

“But how do you do that?”

Pete intervened. “Tanya, that’s just the reason I called Rob in. Rob, I’m telling our reporter here all about our performance management cycle and how it helped to make our company a real flexible and adaptive organization.”

Rob shot a glance at the whiteboard. “I can see that.

Fascinating, isn’t it?” he said to Tanya.

Pete continued. “We’ve reached the fourth process and I thought it would be a good idea if you tell Tanya about this, given how much you were involved.”

“Great idea. Where should I start?” Rob asked.

“Why don’t you tell her about the need for our managers to act flexibly and adaptively to changing circumstances and how we have instilled a proactive attitude in them.”

“It’ll be my pleasure,” Rob commented. He turned towards Tanya. “You know, it all boils down to three things. There’s a general focus on analysis of data, on understanding what the figures mean and what they tell us about the organization, and on acting on this analysis by formulating and executing corrective and preventive activities. Analysis

by paralysis, continuing with analyzing the figures without taking action, does not take place. Well thought-out actions are the basis for the activities of all your people. Let me tell you how we managed to achieve this ...”

But Tanya was not ready for this yet. “Hold on, I first want to ask you about something else.”

“Which is?” Rob asked bemused.

“As I understand it, creating an adaptive enterprise entails changes in the company’s structure, processes and behavior.”

Both men nodded.

“So what comes first in your opinion: changing the structure, changing the processes or changing the behavior?”

“We have found that this is an iterative process,” the CPO replied.

“How do you mean?”

Rob spread his hands. “Most of the time you don’t start on a greenfield. You have to work with what is already there. So often you have to make changes in the structure first, to make changes in the processes possible. After these changes, people in the organization can adapt their behavior and become more performance driven.”

“That is the beauty of it,” Pete added. “After a while you find that this changed behavior demands new changes in processes and structure, because people ask for these to be able to perform even better. In the end, the organization improves and becomes more adaptive all the time.”

“That sounds very nice, but can you give me an example to prove what you are claiming?” Tanya demanded.

“Certainly. We deliberately created small teams in the organization. Then, we made each team responsible for a specific process. Because people work in a small team, they have a sense of belonging, a feeling of unity. They are more involved and feel more committed to achieve the goals and results expected from the team. They are proud of the achievements of their team. After a pilot, we have changed the company’s structure to fit this new way of working. And then we had to adapt even more to give the teams the full responsibility they craved.”

“I see,” Tanya commented. “So, tell me more about this adaptiveness.”

# CHARACTERISTICS OF THE ADAPTIVE AND FLEXIBLE ABILITIES OF AN ORGANIZATION

- People solve problems quickly – Members of the organization display strong corrective action management, in which they energetically address problems so lagging results improve. People closely monitor performance data and analyze the results thoroughly but quickly to find the causes of problems. These problems are discussed in a positive way, i.e. the focus is not on who is to blame but on how to improve. Alternatives are identified and actions chosen. The execution of these actions is also monitored closely for timely planning and control. Actions are evaluated to identify the lessons learned.
- Rolling forecasts foster a forward-looking attitude - Rolling forecasts that look six quarters ahead are used to identify possible future issues. They are addressed immediately, before they actually become problems. Alternatives are identified and actions chosen. The organization closely monitors the execution of these actions for timely planning and control. Actions are evaluated to identify the lessons learned. The rolling forecast is an accurate update of the targets for the key value drivers of the organization. The update is based on results obtained so far, results of the company's main competitors, market developments, earlier forecasts and the company's plans. Rolling forecasts form the basis for looking beyond the year-end and for preventive action-taking. The quality of these forecasts is therefore monitored closely, by regularly comparing old forecasts with actual results and analyzing the differences between them.
- The organization implements only a limited number of initiatives to their full extent – It focuses on implementing a limited number of action plans in a swift and effective way, so that it achieves maximum return. Management assigns clear priorities, and only the most urgent plans and those with the biggest added value are executed. The company closely monitors the execution of these plans. There is only room for additional, earlier formulated initiatives if current plans have been fully implemented and all the deadlines and results have been achieved. During the year, the organization can opt to pursue newly identified opportunities, instead of earlier formulated initiatives.
- Scenario planning fosters a forward-looking attitude – The future of the organization is captured in regularly updated scenarios that show possible routes, directions and outcomes. In this way, managers frequently think about the long-term prospects of the company and are able to address possible issues that still lay ahead. The scenarios provide input for the strategic

planning process. Highly adaptive organizations manage to multiple, simultaneous scenarios. With this contingency planning, in an environment where the rate of change is accelerating, the constraining factor on responsiveness - the time it takes to reassign resources – is cut down dramatically.

- Long-term and the short-term focuses are balanced in the organization - The strategic plans are realized by translating them into tangible short-term targets and action plans. These action plans prevent the 'hockey-stick effect' (overoptimistic estimation of future results). The organization fosters an action-oriented attitude which focuses on achieving the projected targets for the key value drivers rather than stalling and trying to increase the accuracy of the figures. Members of the organization meet on a regular basis to discuss individual action plans and determine their effects on the intended results from the other plans. The aim is to reach consensus on the plans to be executed.
- The organization balances flexibility and stability – Members of the organization identify key value drivers that in all likelihood stay stable for a longer period of time. In this way, targets and actual results can be monitored and compared during a longer stretch of time, so they can act as frames of reference. Other value drivers are changed when changing circumstances require it.
- Relative and dynamic targets instill an adaptive attitude – The strategy of the organization aims at beating the competition and the market. It is relative success that matters. The targets for the key value drivers are therefore set in relation to the company's main competitors. They move up and down as they are governed by the economy, the market and the competitors. Budgets are flexible because they are based on relative and dynamic targets. Strategies are regularly updated, based on changing circumstances.
- The reward system functions independently of the budgeting and forecasting systems, so the organization is not restricted in its reaction to changing circumstances – Managers are rewarded at the end of the year for what they have achieved compared to what was, with hindsight, possible. This is done for example by measuring how the manager's return on assets compares to the company's overall cost of capital. Because managers are evaluated retrospectively, they do not have to play the 'budget game'. In other words, managers can react to changing circumstances that will alter the budget without their judgement being impaired by personal interests (their

reward). Forecasts are used to evaluate whether the execution of the strategy is still according to plan, and to take corrective action if necessary. Forecasts provide the management team insight into both current and the expected results of the organization, and enable them to make a year-end prognosis. Because managers are not rewarded on the outcome of the forecasting process, they give an honest and clear

picture of the expected results. Since the predicted results are not linked to the reward systems, small inaccuracies are allowed. The enterprise uses advanced forecasting systems that automatically calculate the consequences of changes in important variables, such as price and currency fluctuations, for the expected results of the company.

## CONSEQUENCES AND IMPLICATIONS

# CONSEQUENCES

- Development of problem-solving skills.
- Making clear choices and sticking to them.
- Need for curiosity  
(a drive for continuous learning).
- Change of the reward system.
- Dealing with ambiguity (looking into the future).
- Perseverance (quitting is not acceptable).
- Need for competitiveness.
- Taking painful short-term decisions  
(that are good for the company on the long term).

---

---

## INCREASE RELEVANCY AND QUALITY OF INFORMATION

---

Pete and Tanya took a breath of fresh air. They had decided to stretch their legs and take a short stroll in the garden. After a while, they sat down on a bench, underneath a blossom tree.

“We might as well address the next process,” Pete said.

“Aha, the one about increasing the quality and relevance of the management information,” Tanya reacted.

“That’s the one.”

“Isn’t this process more like a precondition, something which has to be in order anyway?” Tanya asked.

“You might think so,” Pete answered, “But it’s troubling to see how many organizations fail in this respect.

My company certainly hadn’t set the house in order at the time!”

“So what are the main things you did?”

the reporter inquired.

“We implemented what we call the high rating model.”

“Is that like the 7S-model from that famous consultancy firm, I forgot its name,” Tanya asked.

“Something like that but different,” Pete smiled.

“The high rating model stands for: high Relevancy, high Attention, highly Timely, high Insight, highly Neutral and highly urGent.”

“Can you elaborate on that?” the reporter said, typing busily on her notebook.

“Naturally. High-quality information is relevant when it enables management to have a dialogue about the results and the course of the organization. It directs the attention of management straight to exceptional results, both negative and positive, and incites them to take corrective action. Of course the information has to be on time, so management can act on it. It gives insight into underlying trends, developments and problems. In addition it’s neutral, in the sense that it’s always reliable and doesn’t blame anyone for lagging results, and makes it possible to analyze the problems and identify corrective actions. And finally, the information is urgent in that it urges management to improve itself and the company continuously.”

“Wow, I like your high rating model,” Tanya exclaimed,

“But tell me, shouldn’t the last letter be a U?”

“You’re right, but the high ratinu model doesn’t sound so good,” Pete laughed.

“I see. Can you tell me in more detail how you made this high rating model operational in the company?” the reporter urged.

# CHARACTERISTICS OF RELEVANT HIGH-QUALITY INFORMATION

- The organization safeguards the relevance of information at all times – The information from the performance management system is attuned to the responsibility areas of the members of the organization. This ensures that the information is relevant to the steering of these areas and people can feel accountable for the results of their responsibility areas. The organization regularly checks whether the performance information still adequately represents the activities and results of the responsibility area, and whether it has to be updated. In the latter case, updates are done promptly. The relevance check consists of asking every manager the following questions: What are your current activities? What are your current responsibilities? What are the most important processes in your responsibility area? On whom in the organization do you depend for achieving good results? Which authority do you currently have? Do the current critical success factors and key performance indicators monitor the responsibility area adequately? Are there differences between your indicators and those of your superior (i.e. is there a good performance alignment)?
- The organization monitors the level of influence at all times – Every manager can directly influence the performance indicators in his or her area of responsibility positively. In this way, swift action is taken on lagging results. The level of influence of each manager is regularly checked by asking the question: Does the manager have the resources at his or her disposal that are necessary to react to the performance information in an effective way? Higher management levels give the manager the authority and the resources to act in the desired way. Not all performance indicators can be influenced one hundred percent by one person. The company sees to it that people persevere in their commitment and effort to influence the performance indicators positively as much as possible. Deliberate choices are made whether responsibilities are assigned along functional or process lines.
- The organization aligns the performance management system and the organizational drivers of performance at all times - The performance management system has a clear focus: it specifically measures what is important to the organization. It stays relevant to managers because it has a clear internal control purpose and because only those stakeholders' interests are incorporated that are important to the company's success. The organization takes great care in defining the performance indica-

- tors. Every management level as well as the 'workfloor' have objectives and performance indicators which are aligned with the strategy of the organization. This is done by making sure the objectives, critical success factors and performance indicators are in line with each other at all levels. There is a clear link between the objectives and the financial consequences of fulfilling them. The reporting of intangibles is integrated with that of the tangible assets. In the balanced scorecard, non-financial leading indicators and financial lagging indicators are combined to get a balanced overview of the organization's performance and to check whether the organization's strategy execution is still on track. The balanced scorecard includes indicators which clearly indicate the results of activities and indicators which clearly indicate the critical effort that has to be performed to get the desired results. The organization can easily meet the external reporting requirements by extracting information from the performance management system. This process does not interfere with the internal reporting process.
- The organization takes into account external factors without using them as excuses for lagging performance – It identifies the factors that cannot be influenced by management, but which do affect the performance of the organization. These can be economical, social or industry factors. The organization eliminates external factors (negative and positive) during target setting, monitoring, reporting, judging performance and rewarding, so that managers get a clearer picture about their true performance. The organization realizes that the chance of performance indicators becoming one hundred percent objective is virtually zero.
  - The content of performance information is always of a high quality – Performance information is timely, open, transparent, and circulates fast. Management reporting is simple and transparent, so it can be used for daily planning and control purposes by management. People can depend on the reliability of information. Performance indicators are optimally objective. Because there are always reasons why certain indicators cannot be measured objectively all the time, managers do not mind subjective indicators. Members of the organization use lagging results on the performance indicators to detect that something is wrong and try to find out the reasons why. They do not regard the results as accomplished facts, but rather as information they can work with.
  - The organization uses standardized reporting items –

Reporting items are defined in the same, uniform way throughout the organization. This leads to less ambiguity, although the organization realizes people interpret information based on their own backgrounds and experiences. Because of the standardization, the exchange of data items between information systems is efficient, management information is reliable and consistent, and benchmarking between organizational units is a regular occurrence as data can easily be compared. The organization has introduced a uniform chart of accounts and implemented standardized planning and reporting processes. The target-setting process is homogeneous (which does not mean that the targets are the same for all managers). As a consequence, everyone in the enterprise is working towards the same performance goals. Strong data management prevents pollution of the operational systems, so the quality of management information is high.

- The organization prevents information overload - Managers focus on what is truly important: key value drivers that are crucial to the business, exceptional events or figures, analyzing financial and non-financial results, corrective action plans, and on the impact of those action plans. Only a limited number of strategic objectives is included in the reporting. The underlying idea is that it is better to pursue a small number of objectives effectively than a large number without results. The firm makes deliberate choices as to the desired level of detail: management reporting provides only broad outlines; activity and action plans are more detailed. This prevents overload of management information.
- All organizational units and all relevant information are represented in the performance management system – Managers from support and staff units have their own performance indicators, for which they are held accountable. They can check in the performance management system whether they are working on the

right priorities and they can prove their added value to the organization. The organization places a clear emphasis on the completeness of the management information, not in terms of historical results but in the sundry information generated and used by managers that encapsulates their assumptions and motivations. In the truly adaptive enterprise, a manager does not only have visibility about what has happened but also an insight into what his or her colleagues might do under certain circumstances. This is information that was traditionally held in spreadsheets, PowerPoints and Word documents, but now are scoped into the concept of management information.

- The organization puts a strong emphasis on analysis – Managers spend enough time on analyzing performance indicators to identify appropriate corrective and preventive actions. The emphasis is on ‘the story behind the figures’: Why are the results the way they are? What can the organization do to improve the situation? Results from different organizational units and processes are combined to discover patterns. Month-end closings of the (financial) books are delayed in order to perform required analyses. The results of the analyses are visualized in exception reports; the consequences of actions are shown in rolling forecasts. The results are also used to improve the quality of the business model, which in turn will improve the quality of future planning and forecasting.
- Enterprise intelligence provides relevant competitive information –In enterprise intelligence, information flows are combined to gain insight into trends. For example, enterprise intelligence data is used as input in scenario and what-if planning. In order to support the decision-making process, the organization systematically collects, analyzes, interprets and distributes internal and external data by using the enterprise intelligence function.

## CONSEQUENCES AND IMPLICATIONS

# CONSEQUENCES

- Having to face the facts (not fooling oneself about the actual status of the company).
- Creating one’s own kingdom, based on withholding data and information is not acceptable.
- Acting swiftly and deliberately on information.
- No problems with asking for help (no ‘macho management’).
- Trusting other people.
- No excuse culture.
- Dealing with subjectivity (keeping an open mind).
- No hiding in ‘the data is not reliable’ discussions.
- Conformance to standards.
- Development of analytical skills.

---

---

# INSTALL HIGH-QUALITY INFORMATION AND COMMUNICATION TECHNOLOGY SYSTEMS

---

When Pete and Tanya returned to the office, they found a woman waiting there for them.

“Tanya, I hope you don’t mind me inviting a specialist for our discussion about the last process,” Pete said. “Because I firmly believe that information and communication technology has been a key factor in us becoming an adaptive enterprise, and I expect it will continue to be, I asked Helen, our chief information officer, to give you a good overview.

“I don’t mind at all, on the contrary” Tanya replied. “The more information you can give me about this fascinating topic, the better,” she said to Helen.

“It’ll be my pleasure,” the chief information officer replied.

“Ah, watch out Tanya, remember our talk about information overload?” Pete chuckled.

“Hey Pete, at this stage I’m not afraid anymore” the reporter laughed.

Helen shifted in her seat and started. “Okay, let me first explain how our information and technology architecture is structured. We don’t have one big system, our architecture consists of several components.”

“Why is that?” Tanya interrupted.

“Greater flexibility and the possibility of best-of-breed,” Helen replied. She hastened to add, before the reporter could ask further, “best-of-breed is that you install the best package for a particular function or process. We have installed many enterprise resource planning systems but they aren’t doing a very good job in performance management reporting. So we installed dedicated, state-of-the-art applications, which by the way may come from many different vendors. In the old days, not so long ago actually, this was difficult because those packages hardly communicated with each other, so you had many costly and labor-intensive interfaces.” The chief information officer sighed. “But fortunately that is a thing of the past.” “Hooray,” Pete chipped in.

The chief information officer was not deterred. “The components I’m talking about, and I’m giving you the main features, are first of all the operational systems, which contain data from the primary processes. Think about enterprise resource planning systems, financial systems and human resource systems. In our case, the data from these operational systems go into data warehouses and data marts, which function as the collection point of relevant data. On top of them we use decision support systems and executive information systems.”

Tanya coughed. Helen put up her hands as if to fend off the next comment of the reporter. “I know, this is jargon but you can forget about all that. What is really key is our performance management portal.”

“A portal?”

“Yes. A portal makes relevant information contained by multiple systems accessible from one place. A user couldn’t care less where the information is coming from as long as it is relevant, reliable and timely. A portal makes this transparent by treating all information systems as one virtual performance system. With all the integration capabilities nowadays, organizations are not restricted to physically build one performance system. In my opinion, a performance management portal is a key requirement for an adaptive enterprise.”

Pete spoke up. “A one-stop shop, where we can access all relevant data in the organization, anytime we like, anyplace we are. It’s magnificent.”

“And from external sources also, like the Internet,” Helen added.

Pete turned towards his monitor. “Come over here Tanya, and let me show you.”

“Pete, before you do that, let me tell Tanya about the overriding principle behind our information architecture,” the chief information officer interrupted.

“Good idea, I almost forgot!” Pete exclaimed.

“You actually did,” Helen smiled, turning to the reporter.

“The principle is that we embrace information transparency. Making information transparent means that everyone, not only managers but also employees on the workforce, can get the information they need and are entitled to, when they want it, in the format that best suits them. In this way, everybody in the organization is at all times informed about the status and developments of the organization. Thus everybody can react fast and efficiently on warning signals.”

“That sounds great,” Tanya commented, “Does it actually work?”

“Yes, it does. Because the effort it takes to collect, report, access, process and digest information has gone down dramatically, it has created time for managers to perform added-value activities,” Helen replied proudly.

“It sure does sound like Nirvana,” the reporter sighed.

“And that concludes the interactive tour of our adaptive enterprise,” Pete joked, peeking at the clock on the wall.

# CHARACTERISTICS OF HIGH-QUALITY INFORMATION AND COMMUNICATION TECHNOLOGY SYSTEMS

- The ICT architecture is highly flexible – The strategy and objectives of the organization are changing regularly. The information and communication technology (ICT) systems have to provide the flexibility to deal with this. Organizational units can change, add or remove information items, information definitions, performance indicators, actions and lessons learned at will, as long as these confirm to the data-element standards and reporting elements standards agreed upon, and as long as the units make sure they are in line with the strategy and goals of the company. Organizational changes (e.g. of the organizational structure or business processes) are carried out effortlessly in the ICT systems. The ICT architecture displays the information (like the balanced scorecard) in all the formats required by individual users and allow for sharing of performance indicator definitions across the organization and unique definitions for individual organizational entities. It captures metrics from survey tools and ISO systems, and allows for publishing of reports from other systems that are needed to report from (including desktop OLAP tools, ERP systems, data warehouse, operational systems, legacy systems).
- The ICT architecture supports exception reporting, trend analysis and simulations - The ICT systems use tables, graphs and data series set out in time (actuals, budgets, forecasts) to quickly and transparently discover problems and show trends and developments. Rules for exception boundaries can be defined, both across the organization and specifically for each organizational entity, and traffic lighting is used based on the boundaries. In the systems, performance indicators can be calculated (ratios, percentages, etc) from source data. The ICT systems are also used to answer what-if questions and to calculate strategic, budget and forecasting scenarios.
- Information is easily accessible - Unlocking data from underlying operational systems is simple, so additional detailed data can easily be found. The ICT architecture allows 'drill-downs' (going to more detailed information) along the lines managers are interested in: organization hierarchy, products, customers, markets, distribution channels etc. Data, financial and non-financial, is standardized so their reliability and consistency is guaranteed. Much of the non-financial data is present in the ICT systems, but they can also be entered manually in these systems without effort. The operation of the ICT systems is easy to comprehend.
- The ICT architecture is safe, scalable and supports

- mobility - Information in the ICT systems is one hundred percent safeguarded. The ICT architecture is easy to implement and is scalable, to follow and support the growth of the company. At the same time, every organizational unit can tailor the ICT systems to its own needs and wishes. The performance information can be personalized by using for example individual balanced scorecards, performance indicators, presentation displays and actions. Members of the organization can access performance information irrespective of where they are, because they have a copy of the performance management system on their PCs, which is automatically synchronized when plugging into the system (at the office or remote through wireless broadband).
- A performance management portal makes information easy to access - The performance management portal provides a one-stop shop for performance information from multiple sources. In this way, performance information is distributed in a cost-efficient way throughout the organization and it is accessible to every manager at the time and place where they need it. The portal has the following characteristics: it delivers reports from all existing ICT systems; it catalogs reports and information in relation to strategy; it is easy to learn and use; it supports analysis of data; it supports workflow for requesting and improving the content of the information; it supports manual entry of data, analysis, actions and lessons learned. The portal makes management possible by surfing around on the management web : every manager is self-supporting in retrieving the required information from anywhere in the company.
  - Push and pull information lead to efficient information retrieval - Each management level requests from lower management levels a certain amount of data and information that is needed on a regular basis. The higher the management level, the less information is required. The data is standardized for all these lower levels and is pushed upwards. The other management information is not standardized. This means that the lower level organizational units are free to define the information items that are specific to them the way they like. The data is collected and consolidated in an efficient and timely manner. Precondition is a standard chart of accounts, which should not have too many accounts. Each management level is able to access, by itself and on an ad hoc basis, management information as well as nonstandard data from lower level organizational units. This information is pulled



out of the local systems at these lower levels.

- The organization makes sure information is transparent - Transparency of information is obtained by storing 'pushed up' information in a data warehouse, which is maintained by the management level that collects the information. Business intelligence tools (e.g. executive information systems) allow user-friendly drill-down and 'slice and dice' capabilities on the data in the warehouse, which makes it possible to view and analyze information from different perspectives. Management information is made available on the intranet and also, thanks to advanced security capabilities, on the Internet. A standard web browser provides access to management information at each organizational level, by providing access to standard homepages containing periodic management information such as balanced scorecards, financial (traffic light) reporting, rolling forecasts, analysis, action reporting and strategic plans. These homepages are standardized across the organization to create a common, consistent and thereby user-friendly view of periodic management information. Hyperlinks are added to the homepages to make links to other web pages on the Internet and intranet, thereby connecting related data and enhancing the overall value of the information. When information transparency is obtained, time is created for added-value activities. Because it takes users less time to 'hunt' for and collect the data they need, managers have more time to actually process the information and to take action.

- E-business applications make processes efficient – Relatively simple primary processes are executed by ICT systems. These systems are web-architected which means that they use web technology and the Internet to process transactions. The results are: less interfaces, more reliable data, shorter throughput time and lower cost per transaction. Processes which are handled this way are, amongst others, purchase to pay, order to cash, virtual close, risk and process management, e-reporting and e-performance. Through e-control there is a tight control on the safety of these e-based processes. Extensible markup language is used to exchange information between applications (internal but also external, with partners and customers). Extensible business reporting language is used for management reporting and for external reporting to shareholders, the stock exchange and regulatory agencies.
- The corporate intelligence-network timely provides managers with important information – The performance management portal makes it possible for managers to find needed information themselves. Next to this, there are dedicated employees who read and select available internal and external information on relevance and importance, and who put this information on the management web. Analysis of competitors and other business intelligence information is also made available this way. Ad hoc questions from managers are answered by these information providers and also placed on the Web.

## CONSEQUENCES AND IMPLICATIONS

# CONSEQUENCES

- Having to face the facts (not fooling oneself about the actual status of the company).
- Creating one's own kingdom, based on withholding data and information is not acceptable.
- Acting swiftly and deliberately on information.
- No problems with asking for help (no 'macho management').
- Trusting other people.
- No excuse culture.
- Dealing with subjectivity (keeping an open mind).
- No hiding in 'the data is not reliable' discussions.
- Conformance to standards.
- Development of analytical skills.

---

---

## EPILOGUE

---

“It still isn’t completely clear to me what your chief performance officer does exactly?” Tanya inquired, while Pete was escorting her to the elevator.

Pete stopped. “That is actually an interesting story. Initially we didn’t have a CPO, as we call him here. We started with performance analysts.”

“That sounds intriguing.”

“Oh, I’m afraid there is no mystery there. The performance analysts were responsible for processing and interpreting raw performance data to make it meaningful information. Then they had to present this information in such a way that managers could gain quick insight to the affairs of the company.”

“That sounds like a very useful job. Why did you replace them with a CPO?” Tanya commented.

“Who said anything about replacing the performance analysts?” Pete said in a mocking tone. “Rob, our CPO, used to be a performance analyst. So you can see how highly we value this function of providing information. But in all fairness, as managers were able to access the information themselves more and more, we had less need for analysts. Instead we now focus on creating optimal conditions for maximum performance. In our view, basically everyone should behave as a CPO.”

“I have one last question,” Tanya said.

Pete gave a mock sigh. “Shoot.”

“Last night you said that you liked the idea of business performance management. Am I correct in assuming the processes you told me about these last two days are all part of that idea?”

“Yes, you are right. I’m glad I was able to convey to you that business performance management is as much about processes as it is about data: how a performance management system orchestrates the required interactions between managers and their staff, stakeholders, customers, suppliers and partners. Business performance management

enables both managers and staff, throughout the entire organization, to improve their individual performance in ways that support the company to reach its strategy.”

They started walking towards the end of the hallway again. “Well, thanks very much for your time.” The reporter and the chief executive officer shook hands. Tanya stepped into the elevator. Just before the elevator closed, she gave a little cry and put her hands against the closing doors.

“What’s wrong?” Pete asked worriedly.

“You promised to tell me about what you did to actually put the adaptive enterprise in place, using performance management. Remember you told me yesterday that the six processes shouldn’t be executed consecutively?”

“That’s right,” Pete acknowledged. “I can tell you, it takes a lot of work to get to the stage where you can call yourself really adaptive and then to remain there. Most companies and chief executive officers don’t seem to have the stomach for it or the ability to make it work. We have therefore prepared a high-level activity plan which describes the actual activities a company should perform. I think it’ll be very useful to your readers.”

Tanya nodded eagerly. “Can I get that plan?”

Pete looked at his watch. “You certainly can, but now I’m running out of time unfortunately. Let’s make a new appointment to discuss this.”

The reporter looked a bit disappointed.

“Don’t despair,” Pete said with a grin. “I’ll make sure we’ll meet again shortly.”

Tanya stepped back into the elevator. “Thanks very much and see you soon?”

“It’s been my pleasure. And remember what the great management guru Peter Drucker once remarked,” Pete said while the elevator door was closing. “The purpose of information is not knowledge. It is being able to take the right action.”

---

# ABOUT HYPERION

---

Hyperion is the global leader in Business Performance Management software. More than 9,000 customers – including 91 of the Fortune 100 – rely on Hyperion software to translate strategies into plans, monitor execution and provide insight to improve financial and operational performance. Hyperion combines the most complete set of interoperable applications with the leading Business Intelligence platform to support and create Business Performance Management solutions. A network

of more than 600 partners provides the company's innovative and specialized solutions and services. Named one of the FORTUNE 100 Best Companies to Work For 2004, Hyperion employs approximately 2,500 people in 20 countries. Distributors represent Hyperion in an additional 25 countries. Headquartered in Sunnyvale, California, Hyperion generated annual revenues of \$622 million for the 12 months that ended June 30, 2004. Hyperion is traded under the Nasdaq symbol HYSL.

---

## ABOUT THE AUTHOR

---



Dr. André A. de Waal MBA was born in 1960 in Rotterdam, the Netherlands. He is management consultant and associate professor of Strategic Management at the Maastricht School of Management. André is also lecturer in Management Accounting at the University of Amsterdam and at the Erasmus University in Rotterdam. He holds an

MSc in chemistry from the University of Leiden (the Netherlands), an MBA from Northeastern University (Boston, USA), and a PhD in economics from the Vrije Universiteit Amsterdam (the Netherlands). His PhD thesis was on the topic of the role of behavioral aspects in the successful implementation and use of performance management systems.

André has seventeen years experience as a consultant and a partner with Arthur Andersen and Holland Consulting Group. He currently has his own consulting practice which

specializes in performance management, improvement of production, logistic, financial and management reporting processes, benchmark studies, and design of logistic concepts and management information system infrastructures. André has published over 85 articles and 15 books, including *Power of Performance Management*, *How Leading Companies Create Sustained Value* (John Wiley & Sons, 2001), *Presteren is Mensenwerk* (Kluwer, 2001), *Minder is Meer, competitief voordeel door beyond budgeting* (Holland Business Press, 2002), *Quest for Balance, the human element in performance management systems* (John Wiley & Sons, 2002), *Management Rages, 35 managementconcepten ontrafeld* (Kluwer, 2002), *Ontwikkelingen en Trends in de Financiële Functie* (Kluwer, 2003) and *Prestatiegericht Gedrag* (Kluwer, 2003). Many of his publications can be found on [www.andredewaal.nl](http://www.andredewaal.nl).

You can reach André by phone:  
+ 31 - 6 - 51 23 23 22, or by e-mail:  
[andredewaal@planet.nl](mailto:andredewaal@planet.nl).

---

### CONTACT

---

#### **Hyperion Solutions Nederland BV**

Savannahweg 71  
3542 AW Utrecht  
Tel: +31 (0)30-29 88 100  
Fax: +31 (0)30-29 88 101