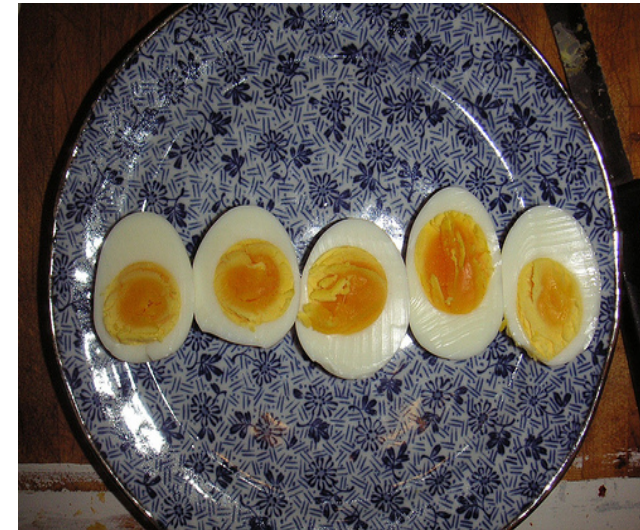


The Connected Performance Framework: Beyond Technology to Superior Performance

Professor Andy Neely

Introducing the connected world...



*Billions of sensors and systems tracking
billions of transactions, activities and people*

What does the connected world mean for performance systems?

- Access to significant volumes of new data – especially operational data...
- Leading to new opportunities for performance monitoring and management...
- And potentially new service businesses...
- But also potential for abuse (management control) and in all likelihood the usual dysfunctional consequences...

The enduring challenges of measurement

Three enduring challenges

The desire to quantify:

- “There is a strong tendency to state numerically as many as possible of the variables with which management must deal” - Dysfunctional Consequences of Performance Measurements, V.F. Ridgway, 1956.

Unanticipated consequences:

- “We feed the machines all the easy orders at the end of the month to meet our quota” - The Impact of Budgets on People, Chris Argyris, New York, 1952.

The need for balance:

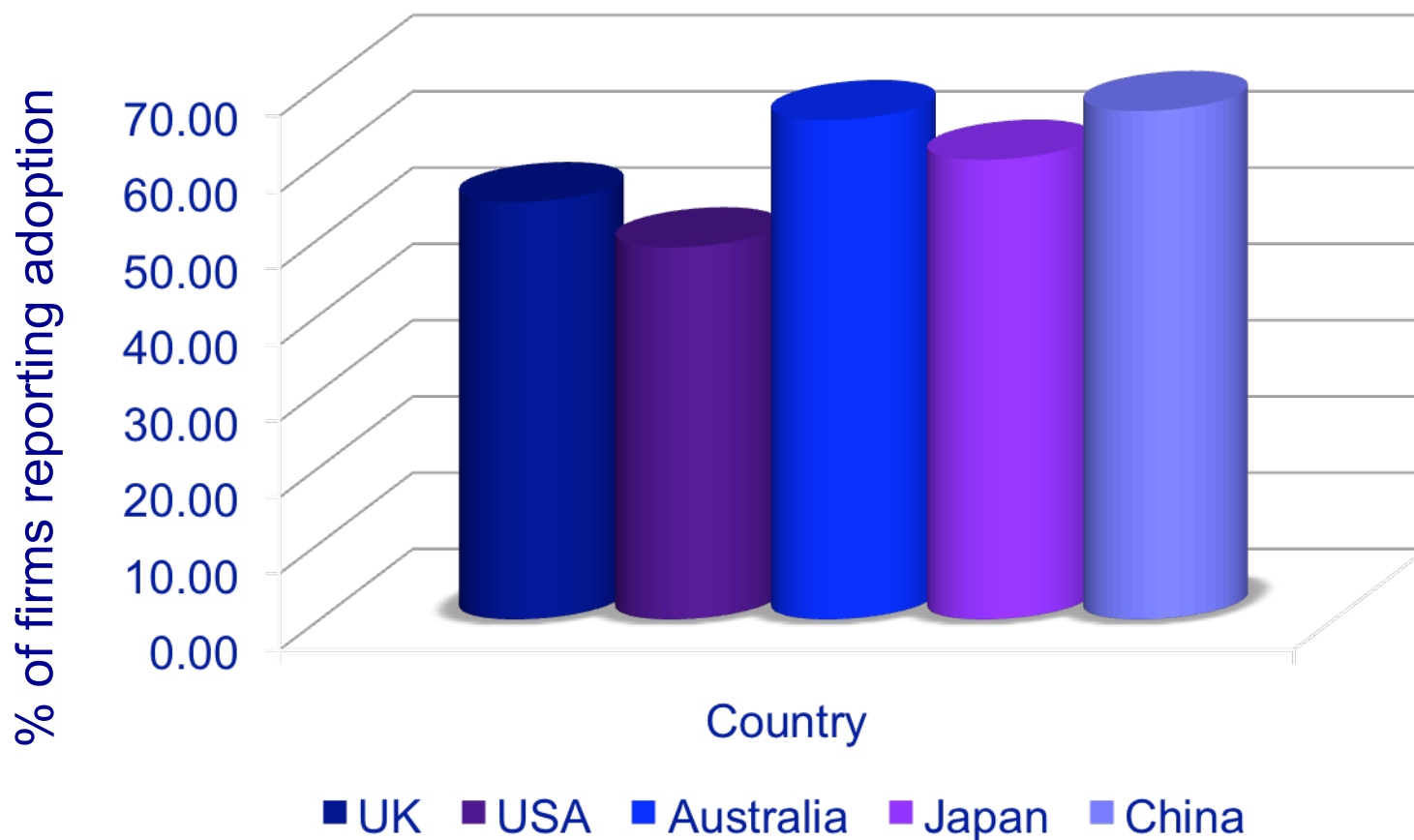
- “Market standing, innovation, productivity, physical and financial resources, profitability, manager performance and development, worker performance and attitude, and public responsibility as appropriate performance criteria” The Practice of Management, Peter Drucker, New York, 1954.

How have we responded to enduring challenges?

A plethora of measurement frameworks

- **Beyond Budgeting (Hope and Fraser, 2003)**
- **Performance Prism (Neely et al, 2002)**
- **Activity Based Profitability Accounting (Meyer, 2002)**
- **Balanced Scorecard (Kaplan and Norton, 1992)**
- **EFQM – Excellence Model (EFQM, 1992)**
- **Results-determinants matrix (Fitzgerald et al, 1991)**
- **Economic Value Added (Stewart, 1991)**
- **Performance pyramid (Lynch and Cross, 1991)**
- **Performance measurement matrix (Keegan et al, 1989)**
- **Shareholder Value (Rappaport, 1998)**
- **Activity Based Costing (Cooper and Kaplan, 1988)**
- **Throughput accounting (Goldratt and Cox, 1986)**
- **Baldrige Award (US Congress, 1987)**
- **ROI and DuPont pyramid of financial ratios**
- **Etc, etc...**

With widespread adoption...

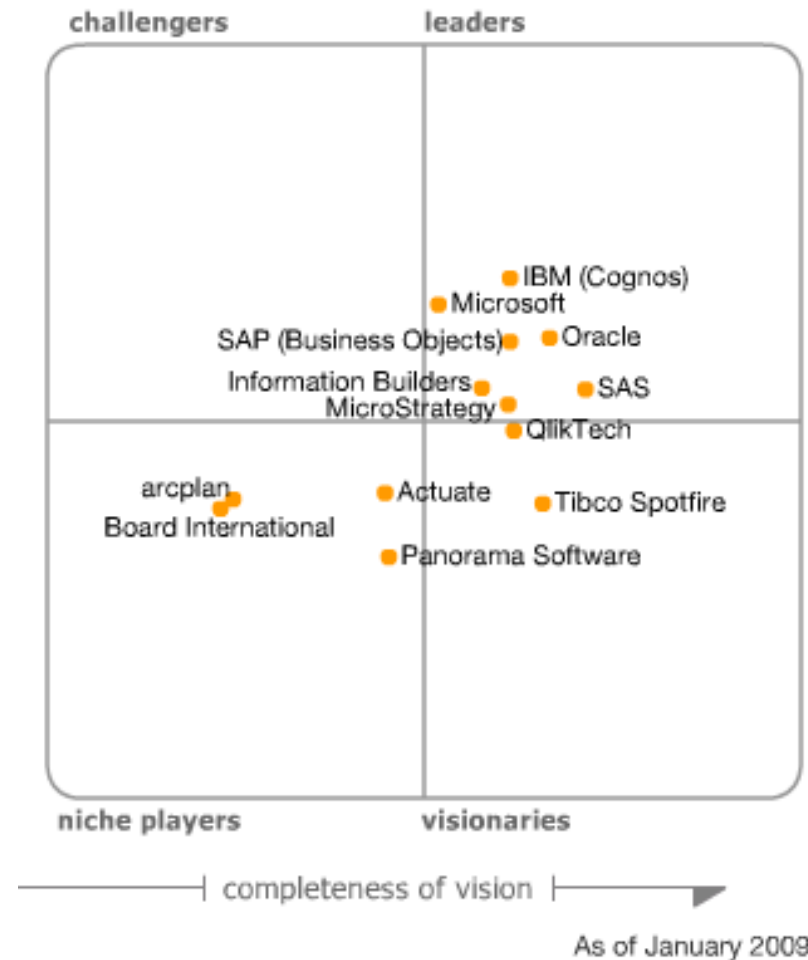
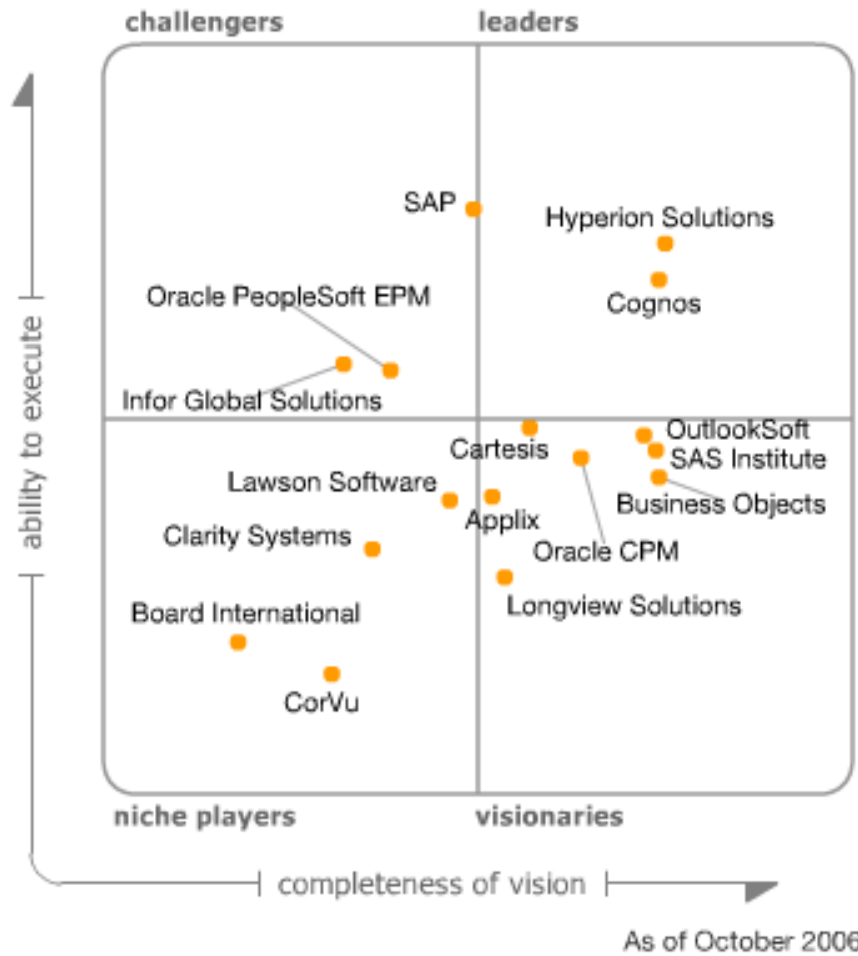


Survey of the state of the art in EPM conducted in 2007. Survey covered 744 companies in five countries - Australia, China, Japan, UK and US.

Fuelled by promises of glory...

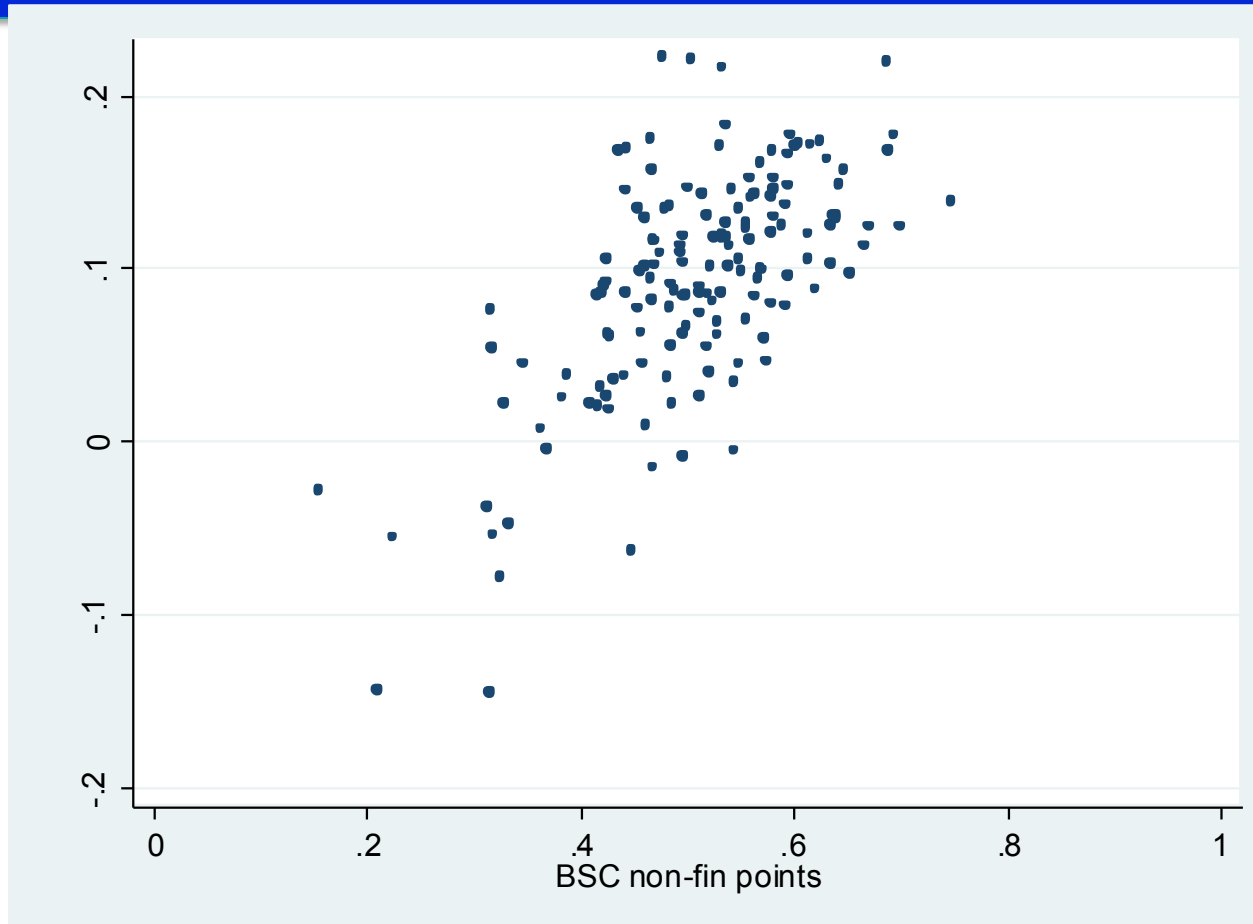


Supported technology in a competitive and consolidating market



(From "Magic Quadrant for CPM Suites")

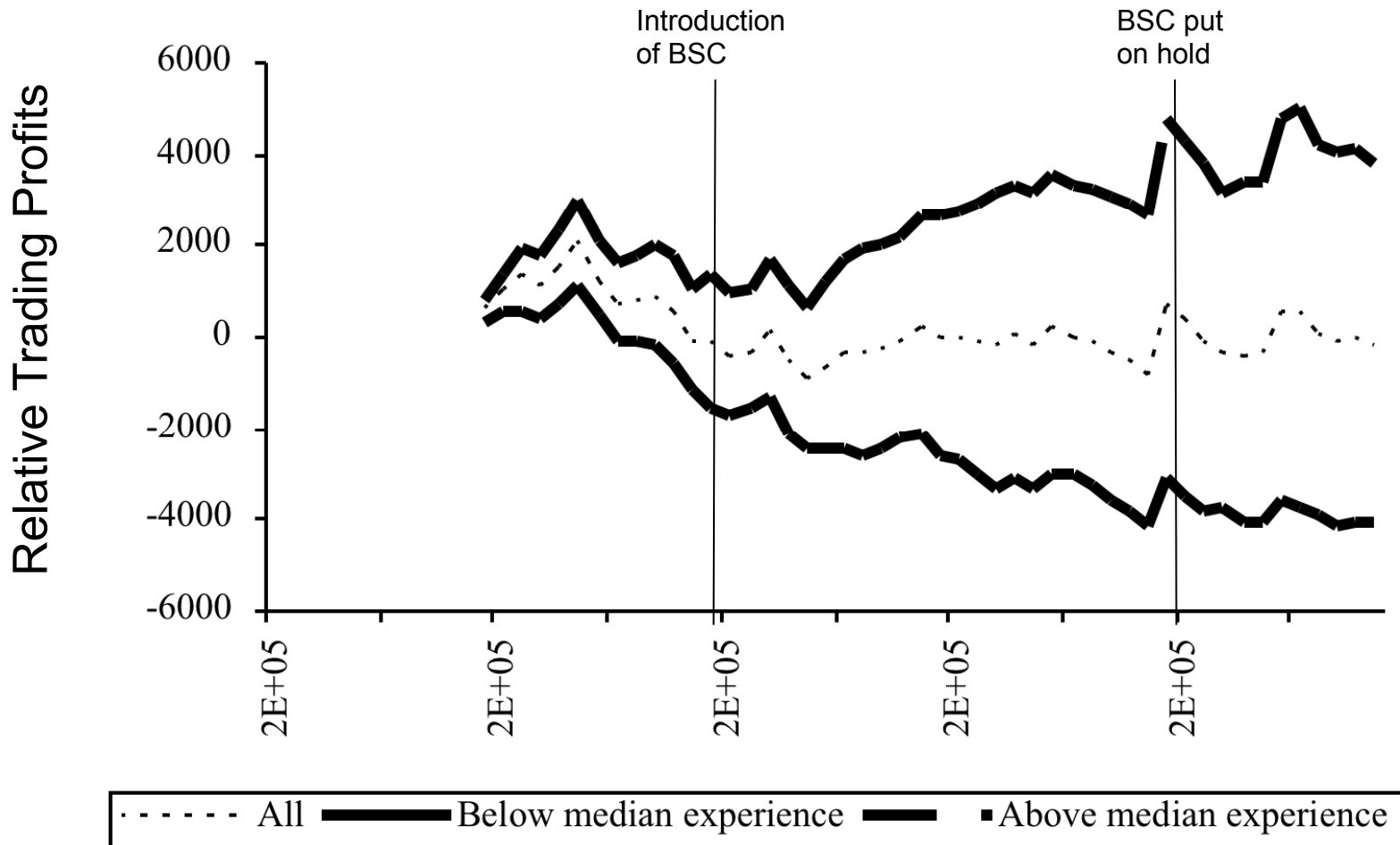
Empirical support for measurement...



Notes: 156 observations (one for each Division 1 Brand A branch); x-axis is the share that each branch earned of the total points they could have earned on the non-financial BSC measures (customer, internal, people and supplier) over the period August 2002 - July 2004; y-axis is the average value of trading profits over sales for each branch over the period August 2002 - July 2004.

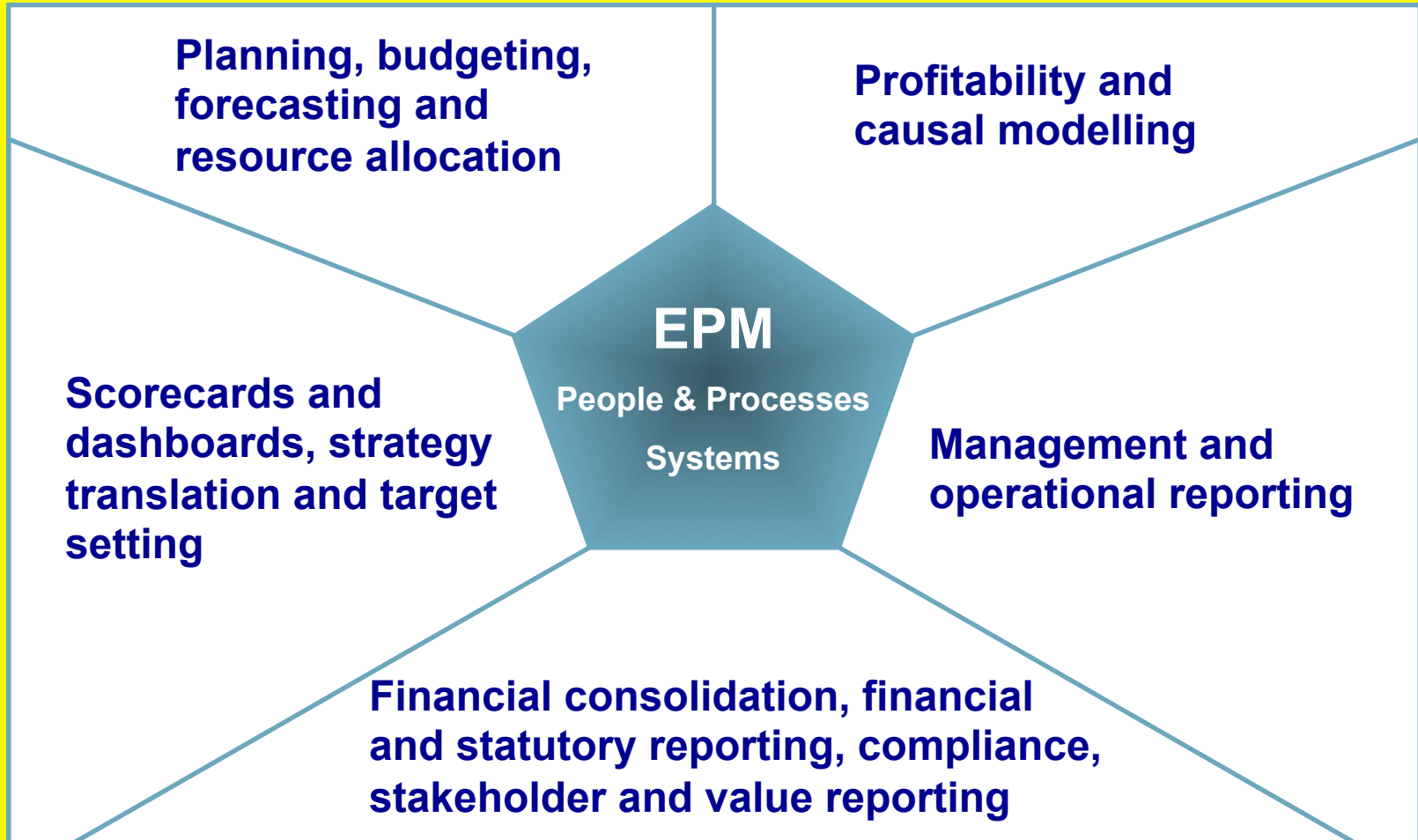
Although not a straightforward picture

Trading profits in Build relative to Plumb



Picture will become more complex!

Enterprise performance management is an integrated approach to performance management enabled by information and communications technologies, covering:



The reality: measurement is a mess...

- “We use 2% of what we measure, the rest is CYA”.
- “We measure the wrong things, to four decimal places of accuracy”.
- “If you want to know what my inventory levels are today, come back in six weeks”.
- “We are masters of the micro. We measure paper clip acquisition times”.

Why do we measure everything that walks and moves, but nothing that matters?

In both the public and private sectors...

$$A = \frac{\sum_{js} QASAS_{js} \times W_{js}^S + \sum_{jL} QATAS_{jL} \times W_{jL}^T + \sum_{kL} QATAS_{kL} \times W_{kL}^T}{\sum_{js} W_{js}^S + \sum_{jL} W_{jL}^T + \sum_{kL} W_{kL}^T}$$

**Just one of the 3,000 key performance
Indicators proposed for the London Underground**

Put bluntly – measurement is a mess

The information house of cards

Drowning in data, yet thirsting for insight

Poor data – data not trusted by the majority of executives

Ill designed measurement systems

We measure the wrong things.

We measure only the easy to measure.

We don't measure the true drivers of value.

We end up measuring too much.

And the information we have arrives too late.

Inconsistent information architecture

We have multiple, fragmented databases.

We have multiple definitions of the same measure.

We have no co-ordinated data model for the business and hence no comparability across products, customers or geographies.

Disconnected management processes

We have separate planning and budgeting, financial consolidation, capital allocation and strategy management systems.

Our incentive and individual performance management systems are not aligned with our management systems.

We have no clear governance structures to manage data and system integration.

Some fundamental challenges with measurement

The positive - we're making progress...

Measurement frameworks

Deliver alignment

Translate strategy into action

Enable strategy challenge

Methodologies

Measures selection

Measures design

Performance visualisation

Technologies

Consistent data
– one version of the truth

Enabling people to focus on data analysis not capture

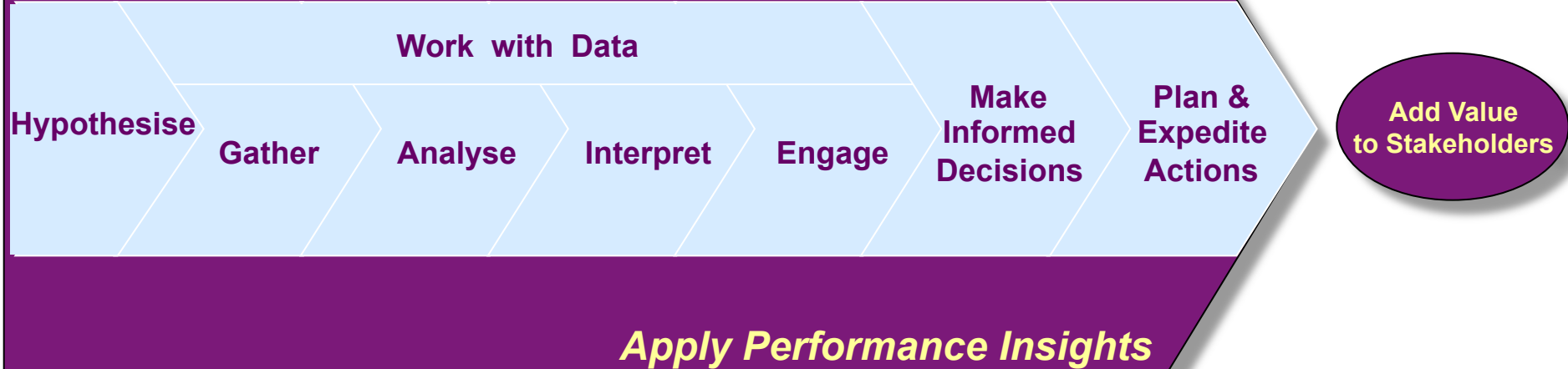
Increasing integration and consolidation



But let's go back to basics...

Managing the development and communication of performance insights

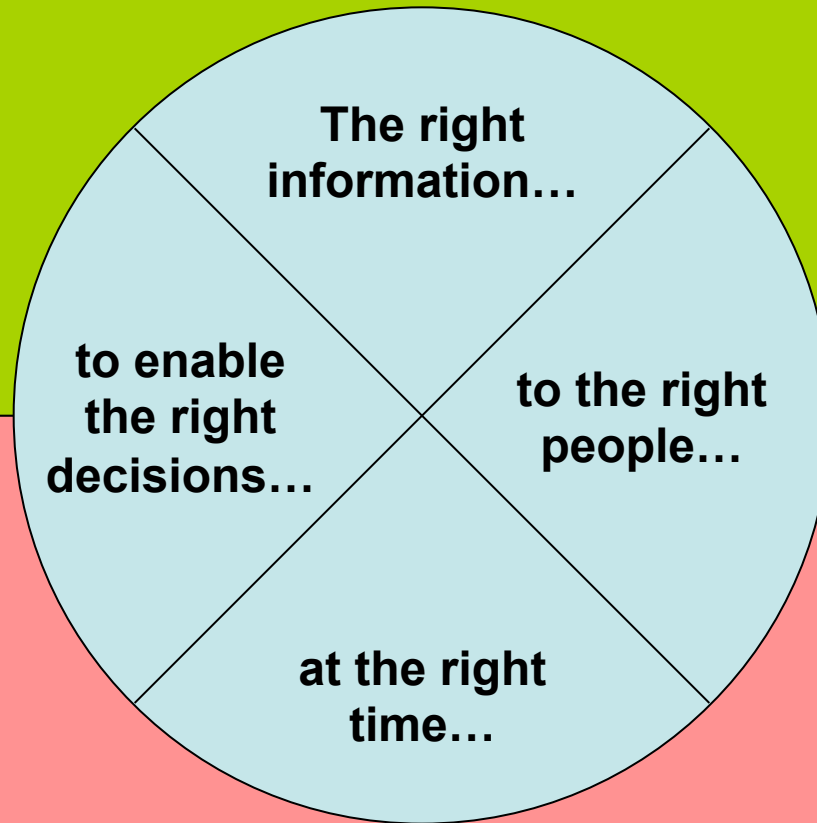
Develop Performance Insights



*Extract insight from data to uncover
the story in a connected world*

Fundamentally... It's R⁴IPTD

New organisational context – the connected world



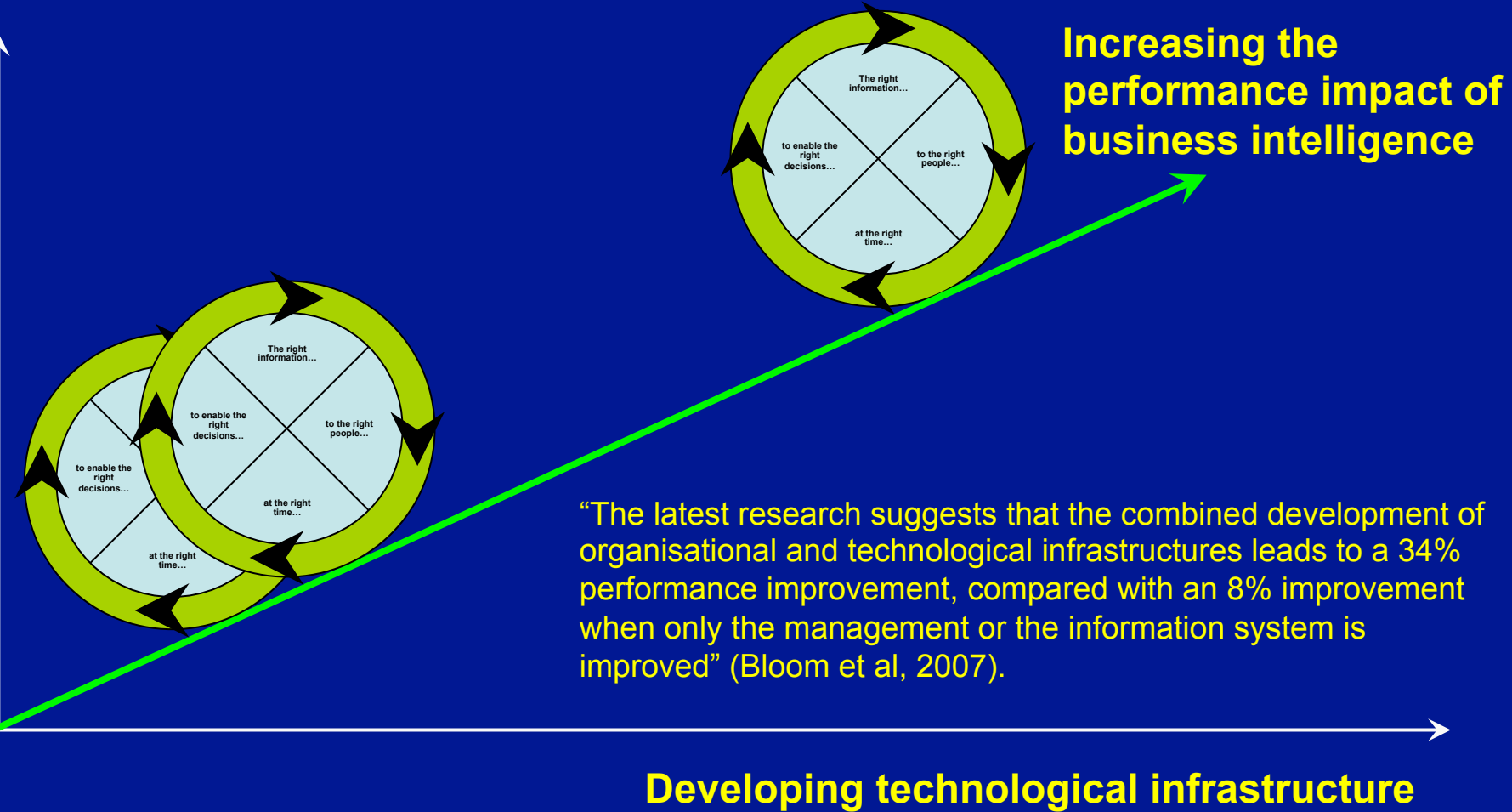
Technological infrastructure

Organisational infrastructure

Enabling infrastructure

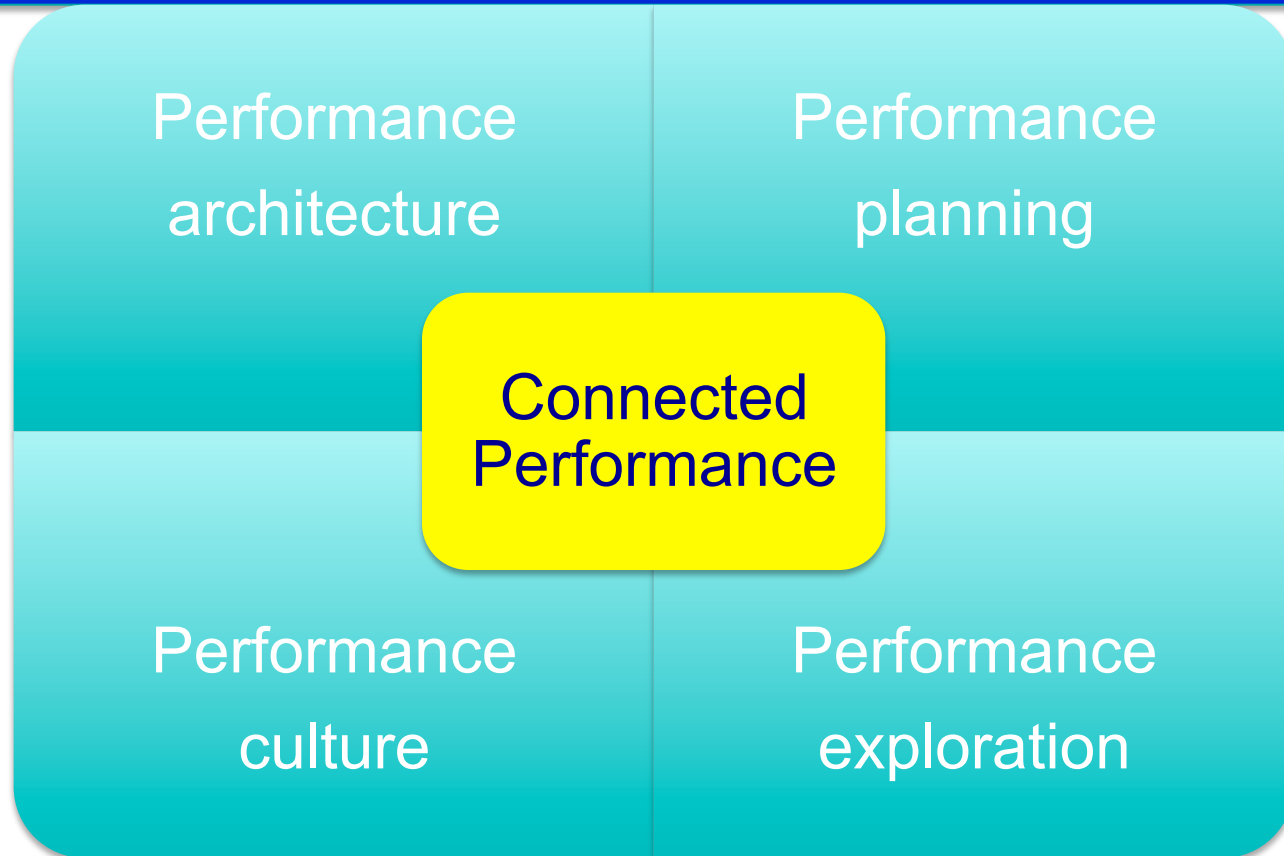
The theory of complementarities...

Developing organisational infrastructure



We have spent too much time and effort on the technological infrastructure.

What is organisational infrastructure?



Thinking in terms of Connected Performance

Performance architecture

1. Have you specified who in your organisation needs to come together to look at what and why?
2. Have you specified clear decisions rights, that conform with the ABC principles?
3. Have you specified the frequency and scheduling of performance planning meetings?
4. Have you ensured alignment across the organisation (horizontally and vertically) in terms of performance priorities?

Four key questions to ask of your architecture

Performance planning

1. Do your discussions focus on how are we going to get to where we want to be, rather than why are we where we are?
2. Does the necessary preparation take place prior to your performance planning meetings so you can deliver actionable insights?
3. Have you moved beyond excel and into the realm of visualisation when exploring your performance data?
4. Have you established clear rules and principles for the escalation of performance challenges?

Four key questions to ask of performance planning

Performance exploration

1. Do your performance planning meetings deliver regular “ah-ha’s” for you and your customers?
2. Have you created the infrastructure you need to explore performance information quickly and interactively?
3. Are actions implemented and evaluated quickly – are you learning through performance?
4. Is management by fact the dominant driving force in your organisation?

Four key questions for performance exploration

Performance culture

1. Is performance planning role modeled throughout your organisation?
2. Do people exercise their authority to act, when the action is beneficial and compliant (ABC)?
3. Is there a hunger for performance insights in the organisation?
4. Is your performance system having a demonstrable difference to the way you do things?

Four testing questions of your performance culture

Some closing observations...

- **The connected world opens up some new opportunities – both for businesses and performance management...**
- **While we've made progress in our journey to date – with frameworks, methodologies and technologies – we still have work to do on our organisational infrastructures...**
- **A useful way of thinking about organisational infrastructures is the Connected Performance framework – four elements: performance architecture, performance planning, performance exploration and performance culture.**
- **The 16 questions (four per perspective) offer you a useful way of auditing your own approach to Connected Performance.**

For further information...

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