

## STATE OF NIRVANA?

*Strong claims are being made for enterprise performance management technology. Professor Andy Neely and Dr Bassil Yaghi of Cranfield examine the reality.*

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**Andy Neely**

Enterprise performance management (EPM) has taken the world by storm. AMR Research estimates that \$57 billion will be spent on EPM and related applications in 2008, around \$26 billion of this in the US. Gartner surveys repeatedly rate enterprise performance management and business intelligence as the number one issue for CFOs and CIOs.

Gartner's most recent prediction is that the revenues for enterprise performance management and business intelligence will continue to grow at a compound annual growth rate of 8.6% until 2011. Meanwhile, Forrester reports that 5% of the queries it has received since 2007 have focused on EPM and BI specifically.

Meanwhile evidence suggests that EPM and BI thrive in tough economic times almost as well as in good times, not least because of the potential these technologies have to reduce organisational processing costs.



**Bassil Yaghi**

The promise of enterprise performance management is that it can help integrate disparate management information systems – ERP, planning & budgeting, forecasting, financial consolidation and statutory reporting, scorecarding and strategic performance management – into a seamless whole, delivering the right information and insights to the right people so they can make the right decisions at the right time.

In many ways, EPM is the information nirvana – it promises a world where duplicate data, conflicting information and meaningless reports are banished, only to be replaced by freely flowing, up-to-date insights that help organisations perform ever more efficiently and effectively.

So what is the reality – how close are organisations to achieving this state of information nirvana? The technology is available, but what about organisational practice?

After all, it was over 15 years ago that the *Harvard Business Review* published a provocatively entitled article – *The Performance Measurement Manifesto*. It proclaimed that: "Within the next five years every company will have to redesign how it measures its business performance." Surely organisations should have completed their performance measurement redesign efforts by now!

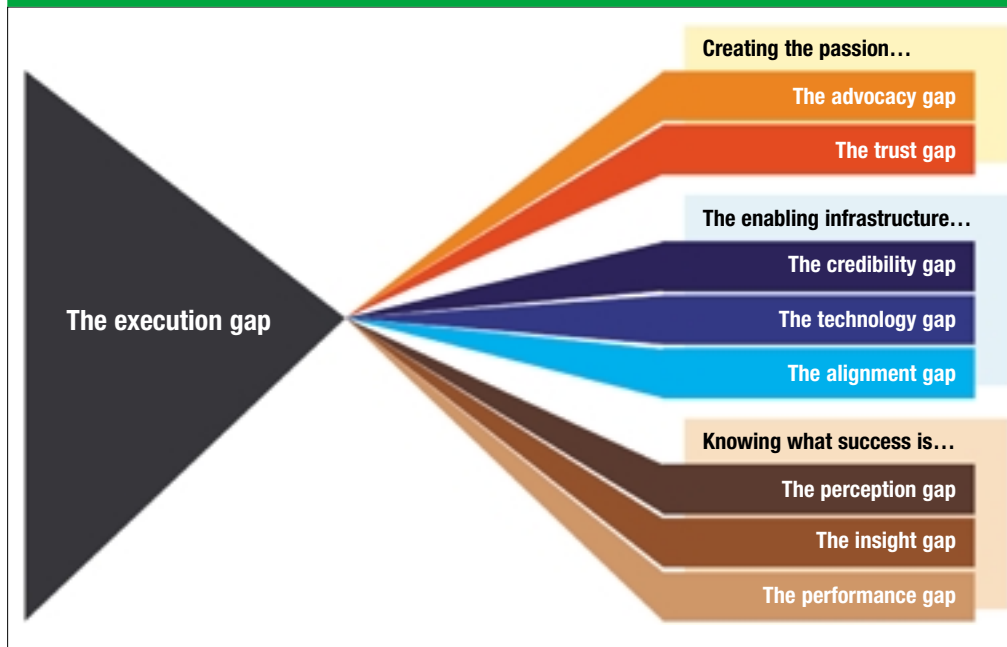
Our most recent research suggests that, sadly, this is not the case. The study, conducted jointly by Cranfield School of Management and Oracle, covers 633 companies in five separate countries – the UK, US, Australia, China and Japan. The data suggests that 15 years after *The Performance Measurement Manifesto* was published, companies are still redesigning how they measure their business performance – and we would argue that many are struggling to capitalise on the full value of enterprise performance management.

### Integration is key

EPM is an integrated approach to performance management, covering:

- Planning, budgeting, forecasting and resource allocation.
- Profitability and causal modelling.
- Scorecards and dashboards.
- Strategy translation and target setting.
- Management and operational reporting.
- Financial consolidation, financial and statutory reporting, compliance, stakeholder and value reporting.

FIGURE 1: The enterprise performance management gaps



And while the research suggests EPM delivers clear benefits, it identifies a number of enterprise performance management gaps which prevent companies from achieving full value from their EPM systems (see Figure 1).

The ultimate gap – the ‘execution gap’ – reflects the fact that many EPM systems are failing to live up to their full potential and do not achieve as much as they might in terms of enabling companies to deliver their strategy.

Key conclusions from the research include:

- Measurement is still tactical not strategic. Despite all the rhetoric about the importance of aligning measures and strategy, companies still see measurement as tactical.

In all the countries studied, the most important roles of measurement are identified as assessing performance, aligning employee behaviours and improving operational efficiency; while the least important roles are external reporting, validating strategy and strategic planning.

- Financial measures still dominate. For decades, commentators have been highlighting the shortcomings of financial measures. Yet despite all of the investment in new performance measurement frameworks, financial ones still dominate.

In every country, financial measures are the most frequently carried out and over half of those surveyed report that over 50% of their measures are financial.

- The broader agenda is coming – for some. Recent research by *CFO Europe Magazine* and Oracle suggests that the importance of non-financial measures is set to grow. Yet within this broad category of non-financial measures, there are some interesting country differences.

Generally, companies are still narrowly focus on the traditional non-financial measures – those relating to customers and employees. Relatively few companies have moved outside the boundaries of their own organisations – eg, focusing on supplier measures.

And if you measure what you care about, there are some interesting observations. China and the US list environmental measures among their least common; and in addition everyone except the US list regulatory measures among their least common.

- As outlined above, there is an 'execution gap' in delivering the vision of enterprise performance management.

In other words, there is clear evidence that EPM systems – when designed and implemented appropriately – deliver significant value; but while many companies buy into the EPM vision, they are having trouble executing it. As Figure 1 shows, the reasons for this cluster into three key areas:

1. Creating the passion.
2. The enabling infrastructure.
3. Knowing what success constitutes.

1. Creating the passion. Measurement is still seen as a top-down process. In four of the five countries we studied (the exception being Japan), senior management is listed as the primary audience for measurement data. And in every country, without exception, the level of advocacy for measurement decreases the further down the organisational hierarchy you go.

We call this the 'advocacy gap' – while senior managers are advocates of enterprise performance management, they find it difficult to garner the same level of advocacy across the organisation.

Nowhere is this clearer than in terms of the 'trust gap' – the phrase we use to refer to the fact that the biggest gaps in terms of people being advocates of enterprise performance management come between top management teams and senior managers (in Australia, Japan and the UK) and between senior managers and middle managers (in China and the US).

So while the passion to deliver enterprise performance management exists at the most senior levels, it is clear that more effort is required to instil this passion across the whole organisation.

2. The enabling infrastructure – or lack thereof – may be one reason why companies find it difficult to create organisation-wide passion for enterprise performance management.

As Figure 1 shows, three specific gaps underlie the enabling infrastructure. First, there's a credibility gap – 40% of those surveyed do not think that their performance measures are based on good-quality data. Second, there's the technology gap – one of the reasons for concerns about data quality is the lack of integrated technology. The spreadsheet remains the most widely used performance management application by some distance.

Third, there is the alignment gap. Organisations are still struggling to integrate their various operational and management systems – eg, planning & budgeting, financial consolidation, risk management, customer relationship management and project management. This results in shortcomings to the enabling infrastructure for enterprise performance management.

3. Knowing what success constitutes. As well as challenges in terms of infrastructure, organisations also face problems in terms of knowing what success constitutes and understanding how they can use their enterprise performance management systems.

Of particular concern is the insight gap – in two countries (Japan and the UK) only 35.4% and 49.8% of respondents respectively agree or strongly agree that their performance measures deliver insight. And almost half of Japanese companies and one third of UK companies claim to have an incomplete understanding of the causal relationships between their measures.

A further complication arises when one considers the performance gap. Enterprise performance management systems are seen to have the biggest impact on operational performance and key performance indicators and less impact on strategic performance, yet one could argue that strategic performance is where there is greatest potential.

Finally, in terms of knowing what success constitutes, there is a worrying trend in the data exemplified in the perception gap: companies are too confident in their own ability – relatively few think that their organisation's performance is worse than their competitors. For example, in Australia only 6.3% report that their performance is worse than their competitors', while in the US the figure is 10.7%.

One explanation for this over-confidence is an overly internal focus within organisations – previously alluded to when we

discussed which non-financial measures companies focus on and further emphasised by data which suggests a very limited use of external benchmarking.

### **EPM journey**

In summary, designing and deploying an enterprise performance management system is best conceived as a journey – and the research suggests that while organisations have made significant progress in some regards, they still have a long way to go in others.

Given the level of interest in enterprise performance management and its potential value, this journey is not one that companies can avoid embarking on, but it is important to understand it is not a journey to be embarked on lightly.

Understanding the gaps identified in the research and thinking through the strategy for addressing them, should help companies make progress more rapidly and more successfully than others.

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