CHAPTER 1

What's Broken and What's Possible

> "Finding what's wrong and fixing it" versus "seeing what's possible and going for it" give two very different lives.
>
> —Tony Mayo

We are in the middle of an information deluge and an insight glut.[1]

Our systems, processes, and information are still struggling to escape silos when the economy is crying out for collaboration, efficiency, and better results.

Folks are constantly reinventing the wheel at work and some lament "if only people in our company knew what everyone in our company knows!"[2] Many companies can barely agree on the definition of a customer, an employee, or sales figures, let alone agree on how to improve them.

With all this technology and information at our fingertips, we are still making decisions in the dark and relying on our best guesses.

Certainly some organizations are doing better than others when it comes to closed-loop, fact-based decision-making, but the opportunity to take advantage of all this data we have is barely being exploited.

Strategy-Execution Gap

What is it that thwarts a rigorous process of sustainably executing an organization's strategy? As shown in Figure 1.1, some of the barriers include those capabilities that are the responsibility of managers and leaders in the organization.

In March 2010, *Harvard Business Review* (HBR) surveyed 1,075 HBR readers about strategy and execution in their organizations.[3] Only 37% said their companies are "very good" or "excellent" at execution.

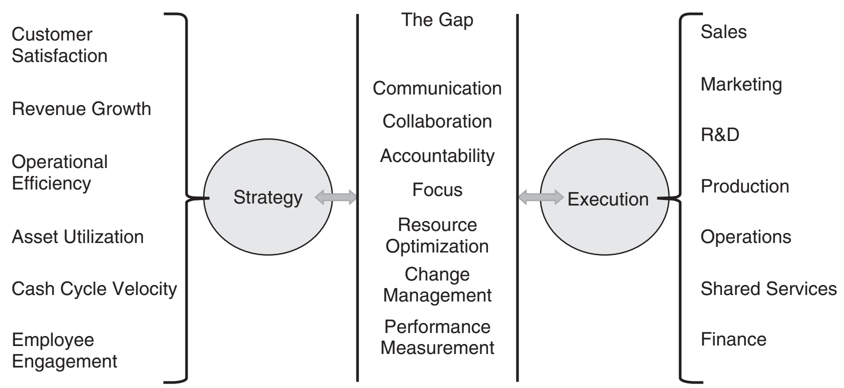

Figure 1.1 Barriers in the Strategy-Execution Gap

The HBR survey found that the top barriers to strategy-execution were:

- Making the strategy meaningful to front-liners
- Poor communication of strategy
- Lack of accountability
- Lack of clear and decisive leadership
- Too much focus on short-term results
- Everyone is too busy/not enough resources
- Resistance to change
- Strategy goals remain vague and pointless:
  - Leadership actions are inconsistent with strategy
  - Inability to measure impact
  - Business units with competing agendas
  - Too much uncertainty

In my consulting work, and being an employee for small, medium, and large organizations, I've seen some of the barriers to effective strategy execution including the following:

- No vetting of the strategy to see if it's actually doable (do we have the right capital, right products, right markets, right people?), and little debate to refine the strategy.
- Low agreement on what the strategy actually is—even among the C-suite executives (it's always a surprise to see this).
- Low connection between the corporate financial and operational business models (made in the vetting debate) and budgets, plans, and forecasts.

- Low buy-in to the budgets, plans, and forecasts (usually due to management overrides after a bottoms-up exercise), resulting in low buy-in to the strategy from lower levels in the organization.
- Low agreement on what the right measures are to see how well we're doing, and no visible connection between those measures and strategic objectives.
- Low belief that the numbers seen are accurate (or at least the same version), as well as a lot of manual effort to get at the numbers.
- Low understanding of the root causes as to why the company achieves, underachieves, or overachieves results.
- Little connection between root-cause analysis and tweaking the strategy ("hey, we are losing money on product X, and it's not a loss-leader, should we be in that business?").
- Low accountability for results. Some organizations don't have targets or owners for their key objectives.

When it does work, I've seen things like accounts receivable associates having a Business Intelligence (BI) dashboard that shows how they have a daily impact on days sales outstanding and cash collections which directly impacts strategic objectives like profitable revenue growth.

According to Roger Martin, Dean of the Rotman School of Management at the University of Toronto, in his article "The Execution Trap,"[4] as operational and front-line employees have to make decisions every day involving customers and operations, they become de facto strategists. Or, in my view, at least de facto strategy executioners, and I don't mean they have to kill the strategy!

Imagine if your number-one strategic objective is "profitable revenue growth," and the target is 10% year-over-year improvement in both revenue and operating margin. Also imagine that every employee knows this—they even have it written on a laminated card they carry around in their wallets and purses. And then one of your customer service reps gets a phone call from an irate customer. Typically, the customer service rep is measured on customer satisfaction including low call time, low time-to-resolution, high-marks on the net promoter score scale for each interaction, and so on. But what if the phone call from the irate customer was accompanied by a dashboard that automatically popped up on the customer service rep's screen that showed:

- Customer lifetime value (CLV) (how much the customers company had spent on your products and services) was 50% lower than the average CLV.
- Cost to serve (the amount spent on support, maintenance, returns, and so on) was 50% higher than the average cost to serve.

- Overall customer profitability was ranked in the bottom 10% (this customer was very good at negotiating deep discounts on prices during the end-of-quarter sales cycle).

What would your customer service rep do? Would you want them to treat the irate customer as any other customer and invest the time and money to solve their problem or concern? Or would you want the customer service rep to forward the customer call on to a special help desk that, in line with your number one strategic objective, would "fire" this customer?

We need a better management process because business-as-usual is over. In its place we have a faster-paced, rapidly changing world, including:

- A need to be more agile, more responsive, and more tolerant of uncertainty
- Better-informed customers
- Changing market and business models
- Structural changes in the economics of business
- Regulatory revolution
- Growth through acquisition as the normal course of business
- Redefining asset values
- Changing delivery channels
- Vast new information sources
- Compressed cycle times

And those compressed cycle times impact the entire business:

- Time to market for new products and services (concept to realization)
- Time to deliver to the customer
- Time to close the books
- Time to hire new staff
- Time to deploy new staff (on-boarding)
- Time for new staff to reach full productivity
- Time to make key decisions
- Time to complete major business transactions
- Time to obsolescence for equipment and products
- Time to integrate acquisitions
- Time to respond to competitive actions
- Time to return on investment (ROI) (especially for new technology investments)
- Time to enter a new market[5]

EPM was designed to fill this strategy to execution gap. It's the new approach to management that makes strategy everyone's job, that gives them the tools and processes to execute based on focus, alignment, and accountability.

Buckets of Pain

In working with my clients across a wide spectrum of business sizes, industries, and geographies, when it comes to EPM, there are some "buckets" of pain I have found common to them all:

- More time is spent on assembling the numbers than on analyzing them—all this manual effort makes us inefficient and not very scalable.
- People show up to meetings with "their" numbers, and we don't know how they got those numbers—there is not a lot of confidence.
- Some people aren't getting the reports or analyses we're sending out—it either gets lost in their email or the right people aren't on the distribution list (or they're ignoring it).
- There is little alignment across functions (Sales, Marketing, Development, HR).
- People aren't following the prescribed processes, especially for submitting their plans and forecasts—they make different assumptions and interpret what we want differently.
- The right people don't have access to the right information, at the right time.
- Sometimes the data is just plain wrong—it doesn't include the latest numbers or it's an old version, or it's missing parts.
- There is a frustrating amount of "reinventing the wheel" and lack of coordination across teams—a group will create a process or system without knowing that there's already one in place.
- The reports are static and users can't interact with them—there's no depth (drill-down) or slice-and-dice.
- Sometimes their reports, plans, analyses, and models are just too complex to understand or believe—rules and transformations have been added on over the years unchecked and unauditable.
- Some of their key measures don't even have targets, so how will they know how they're doing? And where they do know, they're not sure who's responsible for the variance.

- People are working off of different definitions (of customer, of employee, of revenue) and different formulas making it difficult to compare apples to apples.
- They have data timing problems (e.g., daily sales, monthly expenses).
- They are living in "spreadsheet hell."

These buckets of pain can be further summarized as a lack of foundational business elements as shown in Table 1.1.

Addressing this pain and implementing these foundations can be difficult. Some of the top barriers to EPM adoption include:

- Getting at, and believing in, the data. Too many managers still "torture" the data until it fits their needs, so that its credibility is lost.
- Getting managers to take action based on the data.
- The political will at the top to embrace and adopt EPM: Sometimes successful EPM implementations make careers, sometimes they break them.
- Knowing only the cost, and not the value of the effort and capital it will take to be an EPM-centric organization.
- Being complacent with some of the silo or point-solutions, like having a good planning tool and stopping there.
- Conflicting priorities and limited resources mean many managers are focused on short-term fire drills and don't spend the time to fix the root cause.

Table 1.1 A Summary of the Buckets of Pain

A lack of . . .	
Believability	I don't trust the numbers, also known as "one version of the truth" or data quality issues.
Visibility	I can't get to the numbers I need, when I need them, at the right level of detail, or they aren't fresh enough.
Focus	I have too much data and not enough actionable information.
Alignment	We are not on the same page regarding the drivers of the business.
Efficiency	Too much time spent manually extracting numbers, or on manual tie-out, or on reinventing reports and analysis that already exist.
Definitions	We don't agree on what numbers mean (e.g., Revenue—is that booked? recognized? commissionable?)
Accountability	No one is "on the hook" for the number, or the targets don't exist or are meaningless. There is no closed-loop from decision to result: Was it a good decision; did we achieve the return we imagined?

The Promise of EPM

Back in 2001, Gartner Inc. coined the term Corporate Performance Management (CPM) which promised to address these concerns with a unified management system.

What's happened since 2001?

Somehow, EPM lost its way. And it's been subverted to mean many things. Some take it to mean:

- BI
- Enterprise planning
- Connecting reporting and planning
- Balanced Scorecards

The promise was to close the loop from plan to result, from insight to action the reality is that CPM became business performance management (BPM) now EPM and really consists of three silos:

1. Enterprise planning (budgeting, planning, and forecasting),
2. Statutory consolidation, close and reporting, and
3. Business Analytics.

Yet it's much more than that.

What Enterprise/Corporate/Business Performance Management Is Not

We still see confusion at client sites, in the press, on the Web, and from vendors and consultants as to just what is EPM, CPM, BPM, or integrated performance management (IPM). No wonder there's confusion, we still can't even agree on what to call it! There are too many solutions that don't tie back to the vision and definition of EPM. Yet there are a number of good working definitions; let's look at two of them.

Lee Geishecker's original definition in 2001 (when she was with Gartner) was that CPM "is an umbrella term describing the methodologies, metrics, processes and systems used to monitor and manage an enterprise's business performance."[6]

"Monitor" is clearly in the domain of BI. It's the "manage" which has been open to interpretation. So let's look at an updated definition from David Axson:

> [BPM] encompasses all the processes, information, and systems used by managers to set strategy, develop plans, monitor execution,

forecast performance, and report results with a view to achieving sustainable success no matter how success may be defined.[7]

More encompassing, but still not embracing the key point. The real purpose of EPM is to *interconnect* each of those areas (and a few more) that Axson points out in order to align strategy with *sustainable* execution. So EPM answers the questions: "What should we do, and how should we do it," and "How did we do and why did it happen?" And it interrelates those answers.

Let's have a quick look at what EPM is not:

- It's not Balanced Scorecards. Bob Paladino's book *Five Key Principles of Corporate Performance Management* is essentially a scorecard book. There is valuable information in that book about scorecards, and while scorecards are certainly an ingredient of EPM, there is more to EPM than scorecards.
- It's not Enterprise Budgeting, Planning and Forecasting as most EPM case studies will have you believe. Although Enterprise Planning is considered the cornerstone of EPM, it alone is not EPM.
- It is not BI 2.0, and the primary components of BI are encompassed in EPM.
- It's not BPM or Enterprise Project Management. These are just unfortunate collisions of acronyms.
- It's not KPIs. But, of course, there are KPIs in EPM.
- It's not management reporting. Just another ingredient. Same for financial consolidation and statutory reporting.
- It is not the HR process of performance reviews and compensation generally referred to as performance management, they just got the *PM* acronym first.

I'll talk more about the key interconnections that truly deliver on the promise of EPM in Chapter 2.

This book shows a way to get back on track to the original vision of EPM and to use it for competitive advantage and better business results.

I was delighted to be involved in the early conversations about forming BPM at Hyperion Solutions, and was fortunate enough to be included in writing and editing one of the first books on the subject, *On the Up and Up*.[8] Table 1.2 revisits the nine tenets of a performance-accountable organization from that book to see where things stand.[9]

Table 1.2 Nine Tenets of a Performance-Accountable Organization

The Aspiration in 2004	Where We Are Today
Finds truth in numbers—A single version of the truth guides performance at all levels of the organization.	There is still a constant struggle in organizations to determine ''whose numbers are right?'' This problem gets worse as it gets easier to spin-off your own ''spread mart'' or database. Perhaps, as Frank Buytendijk says, we need to focus on one context of the truth.[10]
Sets accurate expectations—Every part of the business is directed by a shared commitment to strategic goals.	Much work has been done to communicate targets internally, yet the trend for publicly traded companies is to shy away from external guidance.
Anticipates results—A thorough understanding of business drivers and performance indicators leads to an ability to anticipate results.	More businesses are adapting driver-based planning and are focusing on the top dozen KPIs, not hundreds of metrics.
Plans with impact—Insight and dynamic processes produce actionable plans that continually guide the organization to success in changing conditions.	Rolling forecasts and more frequent planning cycles are in place at many companies. Operational and Financial planning are coming together.
Achieves on-demand visibility—A system that combines data from existing transactional systems across the enterprise gives managers transparent access to performance information anytime, anywhere.	BI has taken off, yet there is much more to be done for user adoption. Mobile BI is helping that.
Delivers continuous improvement—A commitment to knowledge and understanding produces insight that drives continuous performance improvement.	This is the ripest area for exploitation in EPM. Feedback from the planning cycle sometimes makes its way into models and scenarios, but, as one client says, ''corporate has no memory.''
Reports with confidence—Detailed, integrated and accessible financial and operational information enables executives to personally certify business results.	Sarbanes-Oxley attestation requirements have done much to propel external reporting standards. Yet fraud, waste, and abuse abound!
Executes with conviction—Truth, clarity, and confidence forge a powerful link between strategy, plans, and execution.	Fact-based decision-making is on the rise.[11]
Stands up to scrutiny—A comprehensive approach to Business Performance Management meets the highest standards of accountability and confidence.	There is even more demand for transparency.

Think of ERP as "run the business," and EPM as "manage the business" as shown in Figure 1.2.

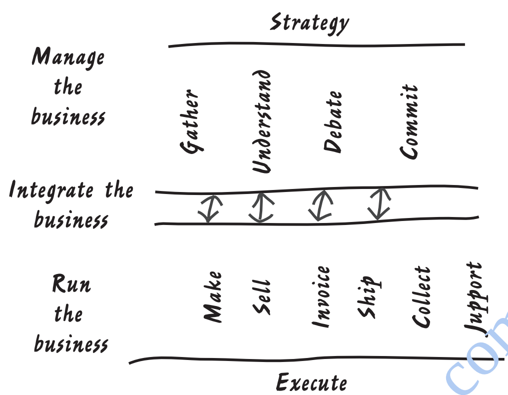

Figure 1.2 Manage the Business versus Run the Business

You run the business with all of the day-to-day transactions and processes your company performs including:

- Order to cash
- Procure to pay
- Request to resolution/service to satisfaction
- Plan to stock
- Concept to product
- Acquire to retire (fixed assets)
- Hire to retire (human resources)

You have probably invested a lot of time, energy, and money in "run the business" with myriad transactional systems, including:

- ERP including general ledgers, accounts receivable, accounts payable, fixed assets and so on
- Customer relationship management (CRM)
- Supply chain management (SCM)
- Sales force automation (SFA)
- Human resource information systems (HRIS)
- Product lifecycle management (PLM)

And usually many more legacy or custom transactions systems to track everything from contracts to commissions.

And on top of them all—I say "on top" to mean at a level of abstraction above the details—are the decisions, processes, and information needed to manage the business (see Table 1.3).

Table 1.3 Differences between ''Run the Business'' and ''Manage the Business''

Run the Business	Manage the Business
Transactional	Consolidated
Detailed	Summarized
Real time	Periodic (weekly/monthly)
Tactical	Strategic
Front lines/back office	Managers/executives

Having the distinction between run the business and manage the business allows your organization, especially IT, to focus on the different processes, technologies, and information that need to belong in both domains.

But why bother? What difference does EPM make in your business? You can look at the benefits of EPM in different ways:

1. **Management Efficiency.** EPM enables standard management processes that every company must do well:
   - Budgeting, planning and forecasting
   - Financial consolidation and statutory reporting
   - Management reporting and business intelligence
   - Profitability analysis, and
   - Other financial and operational modeling, planning, analysis, and reporting

   EPM leverages the investment you have already made in Enterprise Resource Management, Customer Relationship Management, Supply Chain Management, Sales Force Automation, and other transactional systems.

2. **Executing Strategy.** EPM can help close the loop between what you want to happen in the business (and how), and what actually happened (and why):
   - Records and documents business model assumptions, constraints, and drivers
   - Connects those models into your annual operating plans, budgets, and forecasts
   - Monitors and alerts exceptional variances from actual to plan
   - Helps you understand the root causes of variance and plug that corporate knowledge back into the business model and strategy
   - Ties it all together with a common business language and common master data to improve visibility, focus, and alignment
   - Giving more stakeholder alignment

3. **Improving Performance.** EPM can have a material impact on the top and bottom line, on the balance sheet, and on overall return on capital:
   - It can improve visibility into the key drivers of value in the business.
   - It can show the cause and effect relationship of operational metrics on financial performance.
   - It helps you focus on the right things in the business.
   - It can bring agility to business models and organizational structures.

   Giving better business decisions that are based on more timely information

4. **Reducing Risk.** By improving transparency and the right access to information, managers can see for themselves where the business is and can test operational and financial models to help make the best resource deployment decisions:
   - Global governance and compliance of data and reporting
   - It adds a level of accountability for results
   - Better preparation for change, increased predictability
   - Fewer surprises through better collaboration and communication
5. **Competitive Advantage.** Organizations that get EPM right are more nimble than those who don't:
   - Better strategy formulation and planning
   - Less complexity and lower costs by unifying management information
   - Increased organizational flexibility (mergers and acquisitions, organizational changes)

"Business Intelligence with a Purpose"

This was the phrase that Howard Dresner used to help describe EPM in the early days.

Since BI is more prevalent in the vernacular of CIOs and business managers, it's a good term to use to help enroll people in the idea of decision support, analytics, and reporting.

Some people that think EPM is really BI "plus" (the plus is usually Planning), and some think BI is independent of EPM. Vendor product strategies also ended up driving the definition of EPM: Those that have a BI offering include it in the definition, those that don't, well, don't. Yet I don't think it matters what it's called. What matters is the value it delivers, whatever it's called. As a business manager or technologist, if calling EPM "BI" helps enroll others in your organization about the possibility of using information for better fact-based decisions, resource utilization and accountability, then by all means use that term. However, I would suggest that once you have enrolled them in the term, make sure they understand your point of view, which, if this book does its job, will include a closed-loop management process and the components of EPM in that vision.

If I were on an elevator[12] with an executive of the company I worked at, and was asked what I was working on, here's what I would say:

> I'm working on building a common business process we can all use to execute our strategy. So we can agree on the results we're getting, who's on the hook, and tying that together with our plans so we can all focus on the right things, rowing in the same direction.

What would you say?

Notes

1. "Data, Data Everywhere," *The Economist*, February 25, 2010, www.economist.com/node/15557443, retrieved October 16, 2012.
2. I first heard this expression from Godfrey Sullivan, then CEO of Hyperion Solutions. It's meant to express the frustration of information silos and the longing to unlock the value of shared intelligence. For example, when pursuing a new prospect, wouldn't it be good to know how employees in your company may be connected to employees in the prospect company?
3. "How Hierarchy Can Hurt Strategy Execution," *Harvard Business Review*, July 2010, http://hbr.org/2010/07/how-hierarchy-can-hurt-strategy-execution/ar/1, retrieved October 16, 2012.
4. Roger L. Martin, "The Execution Trap," *Harvard Business Review*, July–August 2010, http://hbr.org/2010/07/the-execution-trap/ar/1, retrieved November 16, 2012.
5. David Axson, *Best Practices in Planning and Performance Management*, John Wiley & Sons, 2007.
6. Lee Geishecker and Nigel Rayner, *Corporate Performance Management: BI Collides With ERP*, Research Note SPA-14-9282, Gartner, Inc., December 17, 2001.
7. David Axson, *Best Practices in Planning and Performance Management*, John Wiley & Sons, 2007, p. 24.
8. Kathi Fox, Jeff Rodek, et al., *On the Up and Up*, Hyperion, 2004.
9. Ibid. p. 111.
10. Frank Buytendijk, *Performance Leadership*, McGraw-Hill, 2008, Chapter 6.
11. Tom Davenport and Jeanne Harris, *Competing on Analytics: The New Science of Winning*, Harvard Business School, 2007.
12. I was once on the elevator with my client, the director of Financial Planning and Analysis, who was in charge of EPM projects at a major health care company in Los Angeles. Lo and behold, the CEO walks in to the elevator, notices her—and me with her—and he asks her what she's working on. Here's her chance to elevate the EPM conversation to the strategic import it deserves, to get the attention of the perfect EPM champion, and to ensure her future EPM projects are supported and well-funded. To my shock and dismay, her reply was: "Nothing."