

# Integrated Performance Management: A critical lever, but not as easy as it looks

Many companies today are using integrated performance management (IPM) to drive strategy execution and achieve significant shareholder value. On November 28, 2007, Deloitte\* presented a webcast aimed at addressing why IPM is such a hot topic in the marketplace, including how it has gained so much market traction recently and what tools and techniques webcast participants should consider to expand the value of IPM in their enterprises. Two experienced Deloitte consultants, Matt Schwenderman, a Deloitte Consulting Principal in the financial management service line and leader of the IPM service offering, and Amy Winsor, also a Deloitte Consulting Principal in the financial management service line with a strong background in finance transformation issues, led the discussion. A key thrust of their presentation was that IPM might seem totally logical and clearly helpful, but is not so easily implemented. An online poll of the webcast audience indicated that IPM was a new or uncertain concept to more than two-thirds of them.

Schwenderman opened the webinar by defining IPM as a structured approach for translating strategic objectives into operational results with a focus on value creation. He said there really are three key components to an effective IPM process—planning (deciding what you want to be and how to get there), monitoring (checking how you're doing against objectives), and improving (continually assessing and realigning strategies to achieve better results). IPM is extraordinarily important today, he noted, due to competitive pressures and market demands running at all time highs, as well as increased need for companies to differentiate themselves and to generate sustained and

predictable value. Yet many enterprises remain challenged by no clear articulation of their strategy—or disconnects between strategy and actions. In addition, many organizations have a lot of performance measurement *information*, but not much *insight* about what needs to get done or changed. A number of companies suffer, he said, from an inability to adapt to changing business conditions or fail to effectively link performance and reward. So what separates organizations that boost shareholder value from those who try but fail to make significant impact?

Schwenderman described the results of a survey Deloitte conducted with CFO Research Services to get answers to this question. The study looked at the top quartile of companies in each industry in terms of total shareholder return over the last five years. When senior finance executives at those companies were interviewed, they each talked about their approach to performance management as being one of the primary reasons for being able to execute on their strategy and understand the impact of the decisions they made and to hold others accountable for progress.

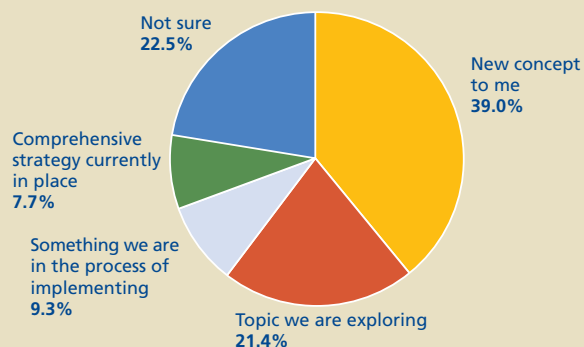
Deloitte took the results of that survey and boiled them down to these key messages about what top companies are doing:

- Creating a spotlight on value creation for investors and customers
- Establishing accountability based on performance targets that are cascaded throughout the organization
- Leveraging finance to drive performance across finance and operational goals
- Developing tailored reward schemes to link employees' performance with their ability to achieve and deliver results

"Throughout these organizations," Schwenderman said, "there was understanding about what created value as well as clear accountability for meeting targets. Everybody had a role in driving value and rewards were linked to results. Finance was a key player in driving performance and in setting up the performance management structure."

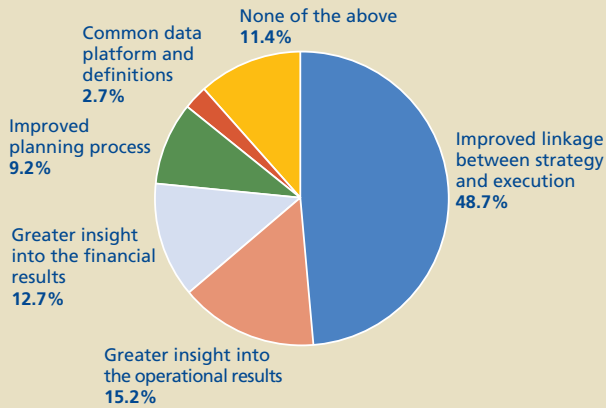
Webcast participants overwhelmingly view improved linkage between strategy and execution as the primary benefit of IPM. Winsor said this result was not surprising, because most organizations know what they want to achieve, they just fail to make the leap between setting the strategy and being able to effectively execute it on a day to day basis. "IPM can help," she said, "because it can help a company put the right focus on adapting necessary information and changes, aligning operational behavior with strategic intent, and enabling effective controls, which produce greater transparency and visibility into the key metrics."

**Figure 1. What is your organization's experience with Integrated Performance Management?** (Votes received: 569)



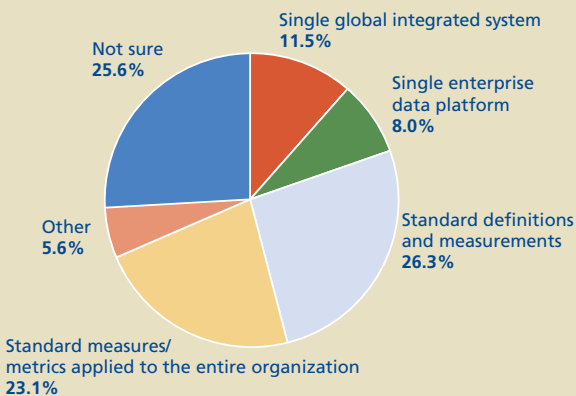
\*As used in this document, "Deloitte" means Deloitte LLP. Please see [www.deloitte.com/us/about](http://www.deloitte.com/us/about) for a detailed description of the legal structure of Deloitte LLP and its subsidiaries.

**Figure 2. What is the primary benefit you are seeking from performance management?** (Votes received: 597)



According to Winsor, an effective IPM approach starts with building a culture of performance, which means behavior will have to change. This will require cross-functional championing of IPM, getting everyone focused on the true value drivers of the strategy. "Get everybody aligned," she said, "measure what matters and what is actionable, seamlessly integrate all the components, and reward on the basis of contribution to adding value."

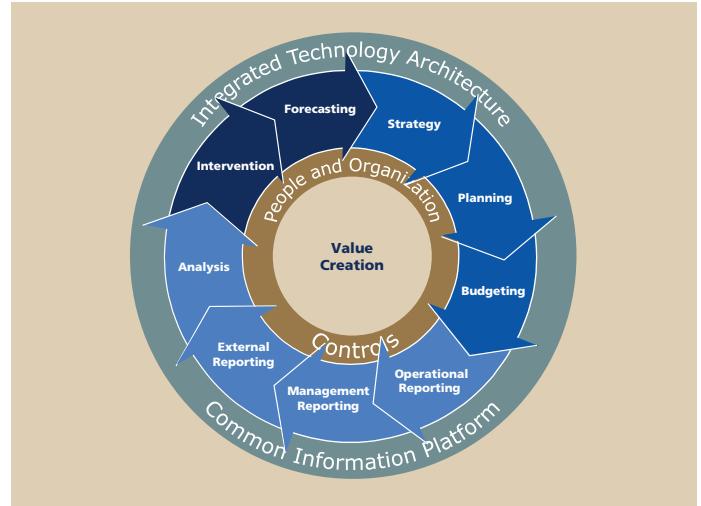
**Figure 3. What does "One Version of the Truth" mean in your business environment?** (Votes received: 590)



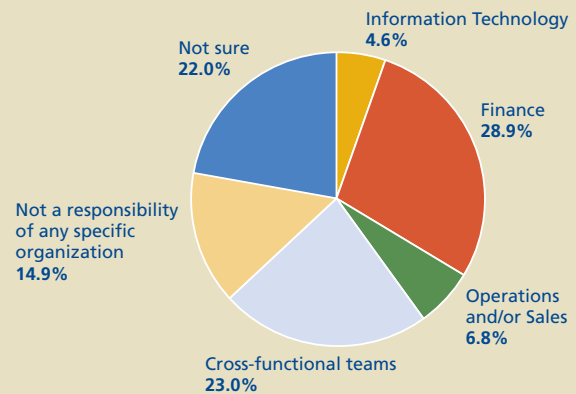
Schwenderman was glad to see that the largest number of respondents to a polling question about what "One Version of the Truth" means in their organization chose standard definitions and measurements as their answer. "It really is about consistent language and definitions throughout the organization, not about having the same measure for all situations," he said. "It means there is an owner for each data element who makes sure that consistency is maintained and that there is some level of cross-functional governance. Many companies focus solely on building a single, globally unified ERP or data platform and do not address common and consistent measurement definitions—it should be about information, not toolsets."

Schwenderman and Winsor said if one takes all that they've discussed and put it in a framework (see chart below), it comprises interlinked processes across strategy development, financial and operational plans, measurements, and realigning of objectives as needed. "This graphic depicts how we bring together all the learnings that we have around IPM, including attracting the benefits and avoiding the pitfalls, forming an operational IPM cycle," Schwenderman explained.

The last key element to cover, Winsor noted, is how do financially oriented executives get involved in the IPM process and help make



**Figure 4. Who is leading the Performance Management deployment in your organization?** (Votes received: 560)



it effective? In an online poll, 29% of webcast participants said that finance leads IPM deployment in their organization. "As CFO responsibilities expand to include not only the traditional operational and stewardship roles but also the role of strategist in setting direction and that of catalyst in achieving strategic objectives, the CFO clearly needs to take a lead in certain areas, while playing a supporting role in others. It's a careful balancing act, but it is important that they are at the forefront of linking strategy to the key value drivers and then continually challenging whether or not the results are being achieved and whether the drivers are still valid," she concluded.

## Driving Enterprise Value

To learn more about issues concerning enterprise value, visit the [Driving Enterprise Value](#) site on [Deloitte.com](#). You'll find tools, articles, newsletters, and books with practical approaches to help create value for your consideration. Or register for an [upcoming Webcast](#) in this Driving Enterprise Value series.

The information contained herein is based on the experiences of our Deloitte Consulting LLP professionals.

This publication contains general information only and Deloitte Consulting LLP is not, by means of this publication, rendering business, financial, investment, or other professional advice or services. This publication is not a substitute for such professional advice or services, nor should it be used as a basis for any decision or action that may affect your business. Before making any decision or taking any action that may affect your business, you should consult a qualified professional advisor. Deloitte Consulting LLP, its affiliates, and related entities shall not be responsible for any loss sustained by any person who relies on this publication.

### About Deloitte

Deloitte refers to one or more of Deloitte Touche Tohmatsu, a Swiss Verein, and its network of member firms, each of which is a legally separate and independent entity. Please see [www.deloitte.com/about](#) for a detailed description of the legal structure of Deloitte Touche Tohmatsu and its member firms. Please see [www.deloitte.com/us/about](#) for a detailed description of the legal structure of Deloitte LLP and its subsidiaries.

Copyright © 2008 Deloitte Development LLC. All rights reserved.

Member of **Deloitte Touche Tohmatsu**