

Enterprise Performance Management: The Global State of the Art



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The Authors would like to acknowledge the work carried out by the following contributors in their respective countries to collect and code their local data so they could be used in our analysis of the global data.

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Additional reports are available for each individual country that participated in this study.

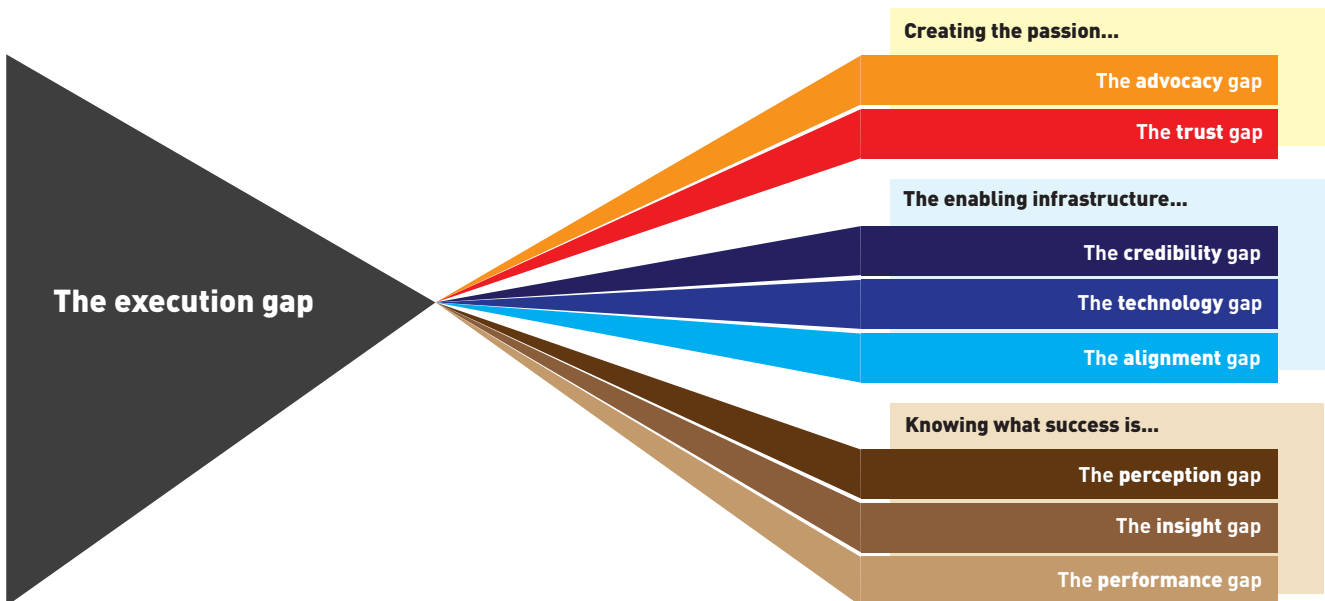
Introduction

Over 15 years ago the Harvard Business Review published a provocatively entitled article - "The Performance Measurement Manifesto"¹. It proclaimed that "within the next five years every company will have to redesign how it measures its business performance". This report presents data gathered in 2007 from 633 companies in five separate countries - Australia, China, Japan, UK and the USA. Our data suggest that 15 years after "The Performance Measurement Manifesto" was published companies continue to redesign how they measure their business performance and we would argue that many are struggling to capitalise on the full value of enterprise performance management.

Although enterprise performance management delivers clear benefits, there are nine EPM GAPS which prevent companies from achieving the full value of their enterprise performance management systems. The ultimate gap - the execution gap - reflects the fact that many enterprise performance management 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. Eight contributory gaps underlie the execution gap. These are grouped into three broad categories: [i] creating the passion - the advocacy and trust gaps; [ii] infrastructure to enable success - the technology, credibility and alignment gaps; and [iii] knowing what success constitutes - the perception, insight and performance gaps.

Appropriately designed and implemented enterprise performance management systems can overcome all of these gaps and deliver significant value. However, as the data gathered during this study show, the journey to a world-class enterprise performance management system is neither simple nor straightforward and it is a journey we are likely to see companies continue to pursue for some years to come.

Fig.1: What drives the execution gap in EPM



¹Eccles, R.G. "The Performance Measurement Manifesto", Harvard Business Review, January-February, 131-137.

Executive Summary

In 2007 Oracle joined forces with Cranfield School of Management and four other Universities around the world to undertake a global study of enterprise performance management. Using data from 633 companies in five separate countries – Australia, China, Japan, UK and the USA – we conclude:

1. 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 were identified as assessing performance, aligning employee behaviours and improving operational efficiency, while the least important roles were identified as external reporting, validating strategy and strategic planning.

2. Financial measures still dominate...

For decades commentators have been highlighting the shortcomings of financial measures². Yet, in spite of all of the investment in new performance measurement frameworks³, financial measures still dominate. In every country, financial measures are the most frequently measured and over half of those surveyed report that over 50 percent of their measures are financial.

3. 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 grow⁴. Yet within the broad category “non-financial measures”, there are some interesting country differences. Generally companies are still narrowly focused on the traditional non-financial measures – those relating to customers and employees. Relatively few companies have moved outside the boundaries of their own organisations – e.g. focussing on supplier measures. And if you measure what you care about then there are some interesting observations. China and the USA list environmental measures among their least common and in addition everyone, except the USA, lists regulatory measures among their least common.

4. Delivering the vision of enterprise performance management: The execution gap...

While there is clear evidence that enterprise performance management systems, when designed and implemented appropriately, deliver significant value, many companies report an execution gap. They buy the vision, but are having trouble executing it, for eight specific reasons, which cluster into three broad categories:

- [i] creating the passion
- [ii] the enabling infrastructure
- [iii] knowing what success constitutes.

5. 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 was listed as the primary audience for measurement data. In every country, without exception, the level of advocacy for measurement decreased the further down the organisational hierarchy we went – we call this the advocacy gap, while senior managers are advocates of enterprise

² Kaplan, R.S. and Norton, D.P. The Balanced Scorecard Measures That Drive Performance, Harvard Business Review, 70, 71-79, 1992.

³ Neely, A.D., Adams, C.A. and Kennerley, M. The Performance Prism: The Scorecard for Measuring and Managing Stakeholder Success, London: Financial Times/Prentice Hall, 2002.

⁴ CFO Europe Research Services, The story behind the numbers CFOs are under pressure to provide insight and analysis in financial reporting. London, CFO Europe Magazine, 2007

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 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 USA). While the passion to deliver enterprise performance management exists at the most senior levels it is clear that more effort is required to instill this passion across the whole organisation.

6. The enabling infrastructure...

The enabling infrastructure - or lack thereof - might be one reason why companies find it difficult to create organisation wide passion for enterprise performance management. Three specific gaps underlie the enabling infrastructure. First, the credibility gap - 40 percent of those surveyed do not think that their performance measures are based on good quality data. Second, the technology gap - one of the reasons for concerns about data quality is the lack of integrated technology. Still, the spreadsheet is the most widely used performance management application by some distance. Third, organisations are still struggling to integrate their various operational and management systems - e.g. planning and budgeting, financial consolidation, risk management, customer relationship management and project management. This integration gap results in shortcomings to the enabling infrastructure for enterprise performance management.

7. Knowing what success constitutes...

As well as challenges in terms of infrastructure, organisations also face challenges 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 35.35 percent and 49.75 percent of respondents respectively agree or strongly agree that their performance measures deliver insight. And almost half Japanese companies (48.51 percent) and one third of UK companies (31.46 percent) 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 6.25 percent report that their performance is worse than their competitors, while in the USA the figure is 10.68 percent). One explanation for this over-confidence is an overly internal focus within organisations, previously alluded to when we discussed which non-financial measures companies focussed on and further emphasised by data which suggests a very limited use of external benchmarking.

8. The EPM journey...

Remember designing and deploying an enterprise performance management system is best conceived as a journey. The data we have gathered in this study suggest that organisations have made significant progress in some regards, but 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 nine gaps identified in this report and thinking through the strategy for addressing them should help companies make progress more rapidly and more successfully than others.

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 were identified as assessing performance, aligning employee behaviours and improving operational efficiency, while the least important roles were identified as external reporting, validating strategy and strategic planning. As Table 1 shows, there is remarkable consistency across all countries about these core purposes of measurement, with the most notable exception being Japan, where the more strategic roles of measurement are recognised.

Table 1: The tactical roles for EPM dominate the strategic

Australia	China	Japan	UK	US
Performance Assessment (64.4 %)	Performance Assessment (77.6 %)	Aligning Employee Behaviours (53.4 %)	Performance Assessment (58.8 %)	Aligning Employee Behaviours (36.6 %)
Aligning Employee Behaviours (59.8 %)	Aligning Employee Behaviours (35.7 %)	Performance Assessment (44.7 %)	Improve Operational Efficiency (52.9 %)	Improve Operational Efficiency (35.0 %)
Improve Operational Efficiency (56.3 %)	Improve Operational Efficiency (35.7 %)	Improve Strategic Decision Making (43.7 %)	Aligning Employee Behaviours (43.4 %)	Performance Assessment (34.2 %)
Compensation and Reward (35.6 %)	Improve Strategic Decision Making (31.6 %)	Validating Strategy (40.8 %)	Financial Control (39.8 %)	Compensation and Reward (22.8 %)
Improve Strategic Decision Making (33.3 %)	Compensation and Reward (29.6 %)	Strategic Planning (37.9 %)	Improve Strategic Decision Making (35.9 %)	Improve Strategic Decision Making (21.1 %)
Financial Control (32.2 %)	Strategic Planning (28.6 %)	Financial Control (29.1 %)	External Reporting (32.9 %)	Financial Control (19.5 %)
Strategic Planning (26.4 %)	Financial Control (20.4 %)	Improve Operational Efficiency (25.2 %)	Strategic Planning (30.8 %)	External Reporting (14.6 %)
External Reporting (20.7 %)	Validating Strategy (17.4 %)	External Reporting (22.3 %)	Compensation and Reward (24.2 %)	Validating Strategy (13.8 %)
Validating Strategy (18.4 %)	External Reporting (16.3 %)	Compensation and Reward (22.3 %)	Validating Strategy (19.0 %)	Strategic Planning (13.0 %)

Financial measures still dominate

For decades commentators have been highlighting the shortcomings of financial measures. Yet, in spite of all of the investment in new performance measurement frameworks, financial measures still dominate. In every country, financial measures are the most frequently measured and over 50 percent of those surveyed report that over 50 percent of their measures are financial (see Figure 2).

The broader agenda is coming, for some

Recent research by Oracle suggests that the importance of non-financial measures is set to grow. Yet within the broad category “non-financial measures”, there are some interesting country differences. Generally companies are still narrowly focused on the traditional non-financial measures – those relating to customers and employees. Relatively few companies have moved outside the boundaries of their own organisations – e.g. focussing on supplier measures. And if you measure what you care about then there are some interesting observations for China and the USA. China and the USA are the only two countries to list environmental measures among their least common. And everyone, except the USA, lists regulatory measures among their least common (see Figure 3).

Delivering the vision of enterprise performance management: The execution gap

While there is clear evidence that enterprise performance management systems, when designed and implemented appropriately, deliver significant value, many companies report an execution gap. They buy the vision, but are having trouble executing it, for eight specific reasons, which cluster into three broad categories – [i] creating the passion, [ii] the enabling infrastructure and [iii] knowing what success constitutes (see Figure 4).

Fig.2: What proportion of your performance measures are financial?

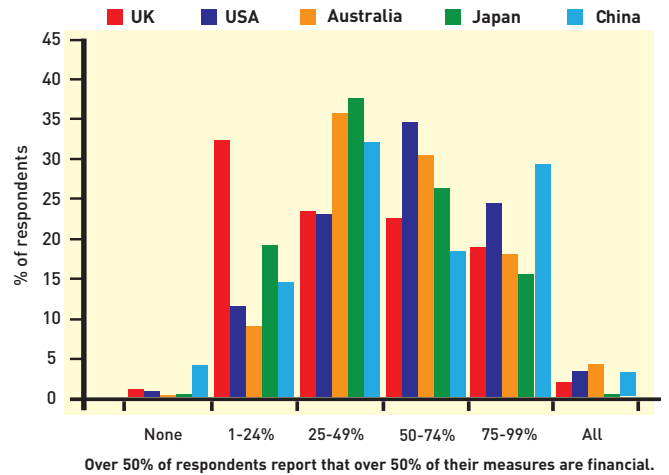


Fig.3: What do you measure?

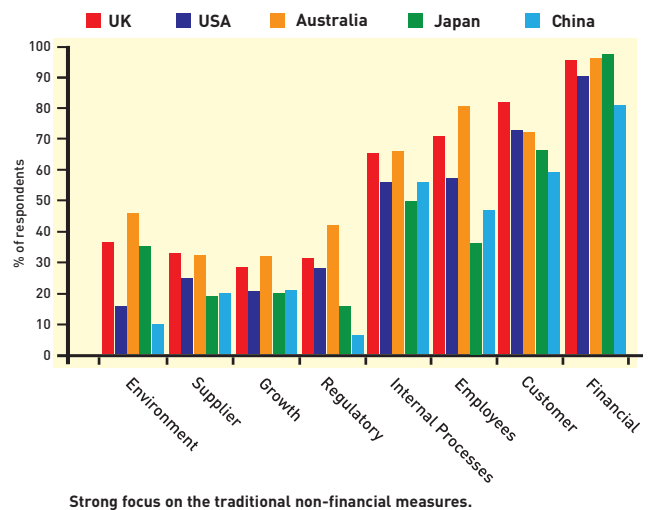


Fig.4: The Enterprise Performance Management gaps

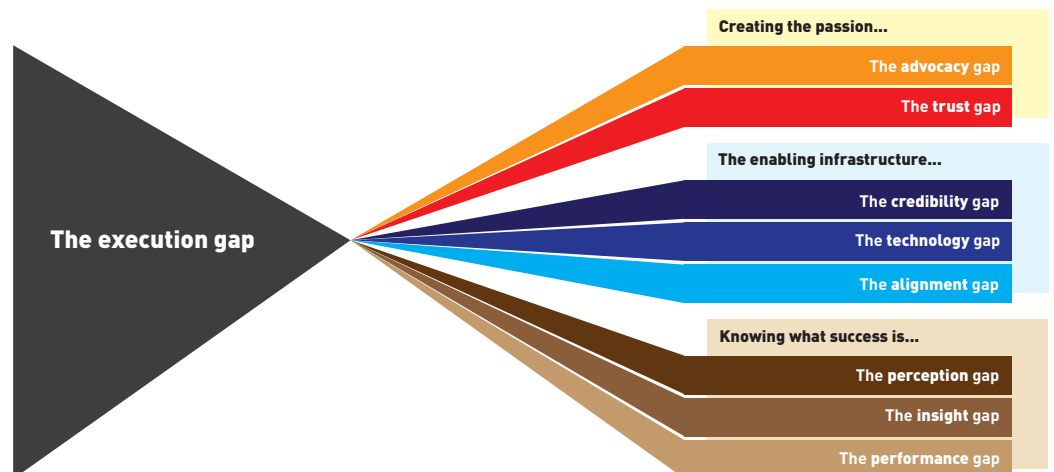
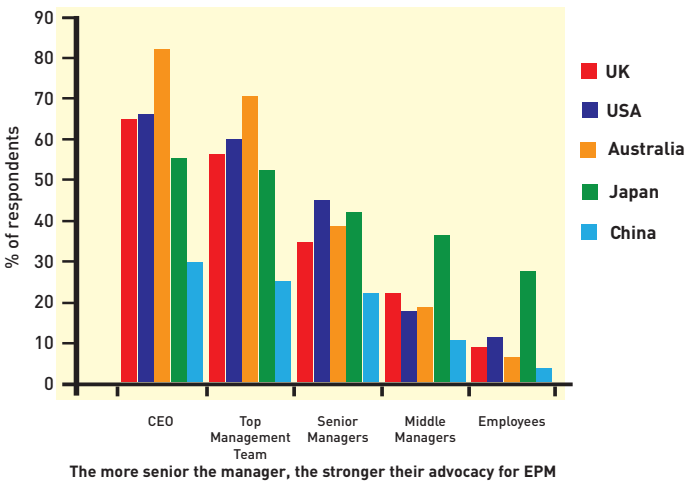


Fig.5: The Advocacy Gap

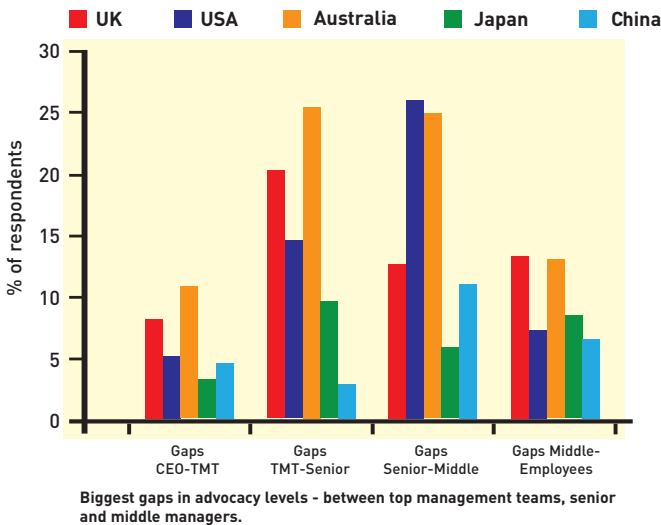


Creating the passion

Measurement is still seen as a top-down process. In four of the five countries we studied (the exception being Japan) senior management was listed as the primary audience for measurement data. In every country, without exception, the level of advocacy for measurement decreased the further down the organisational hierarchy you went – 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 (see Figure 5).

Nowhere is this clearer than in terms of the trust gap - the phrase we use to refer to the fact that biggest gaps in terms of people being advocates of enterprise performance management come between top management teams (TMT) and senior managers (in Australia, Japan and the UK) and between senior managers and middle managers (in China and the USA). While the passion to deliver enterprise performance management exists at the most senior levels it is clear that more effort is required to instill this passion across the organisation (see Figure 6).

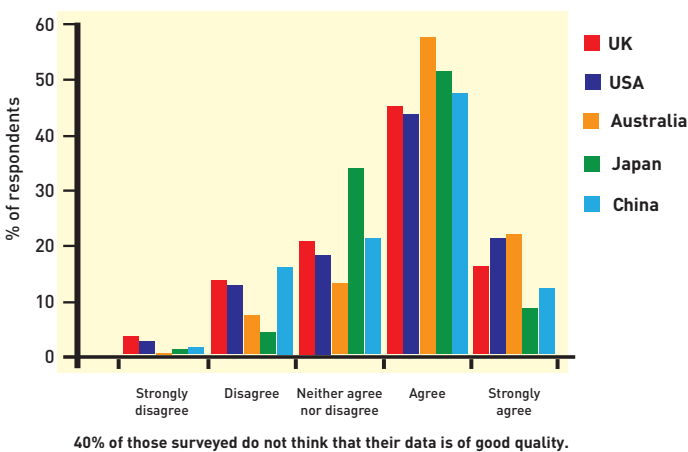
Fig.6: The Trust Gap



The enabling infrastructure

The enabling infrastructure – or lack thereof – might be one reason why companies find it difficult to create organisational wide passion for enterprise performance management. Three specific gaps underlie the enabling infrastructure. First, the credibility gap – 40 percent of those surveyed do not think that their performance measures are based on good quality data (see Figure 7).

Fig.7: The Credibility Gap - How good is your data?



Second, the technology gap – one of the reasons for concerns about data quality is the lack of integrated technology. Still, the spreadsheet is the most widely used performance management application by some distance (see Figure 8).

Third, organisations are still struggling to integrate their various management systems – e.g. planning and budgeting, financial consolidation, risk management, customer relationship management and project management. This integration gap results in shortcomings to the enabling infrastructure for enterprise performance management (see Table 2).

Fig.8: The Technology Gap

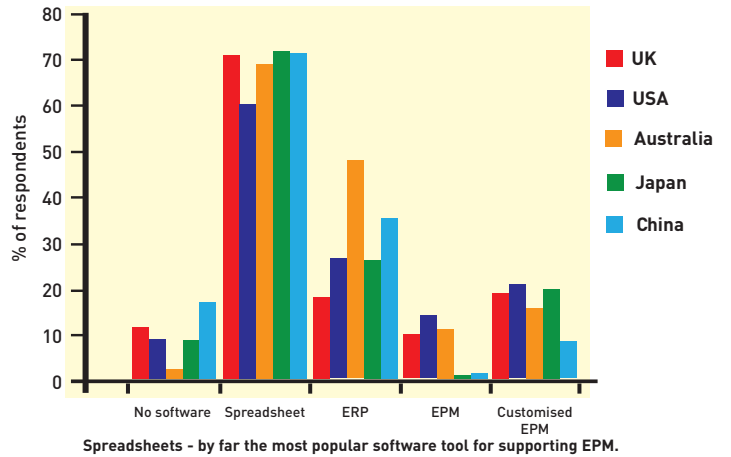


Table 2: The Integration Gap - percent reporting strong alignment

	Australia	China	Japan	UK	US
EPM aligned with CRM	38.7%	62.6%	23.3%	50.3%	44.4%
EPM aligned with Financial Reporting	88.1%	81.1%	81.0%	78.5%	84.0%
EPM aligned with Forecasting	70.2%	61.3%	44.1%	63.2%	64.4%
EPM aligned with Management Reporting	92.9%	79.8%	57.6%	87.6%	89.2%
EPM aligned with Planning and Budgeting	90.5%	76.8%	94.1%	81.8%	81.47%
EPM aligned with Project Management	46.3%	73.1%	37.8%	43.9%	39.6%
EPM aligned with Reward System	66.7%	73.7%	58.7%	53.4%	70.3%
EPM aligned with Risk Management	54.3%	45.7%	44.4%	50.6%	40.6%

Knowing what success is

As well as challenges in terms of infrastructure, organisations also face challenges 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 35.35 percent and 49.75 percent of respondents respectively agree or strongly agree that their performance measures deliver insight (see Figure 9). And almost half Japanese companies (48.51 percent) and one third of UK companies (31.46 percent) claim to have an incomplete understanding of the causal relationships between their measures.

Fig.9: The Insight Gap - EPM delivering insight

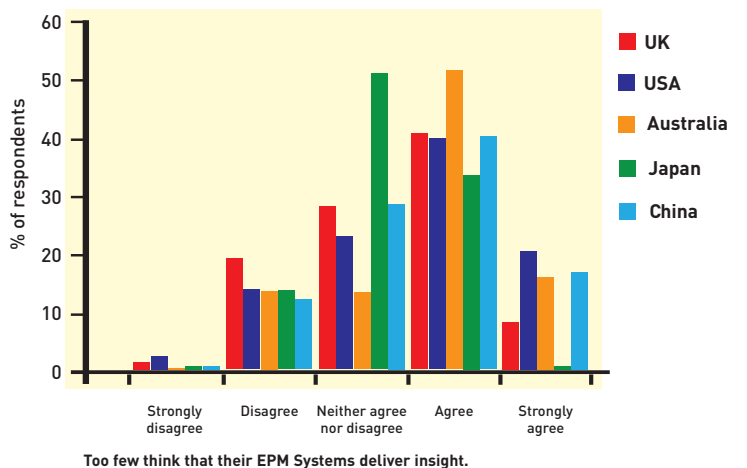
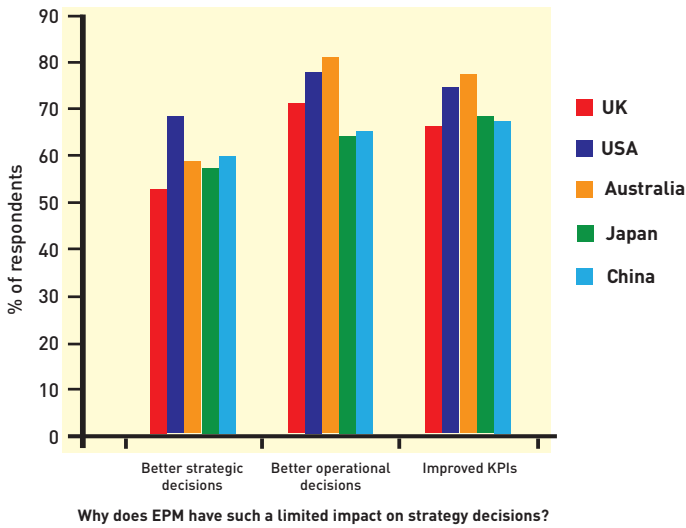


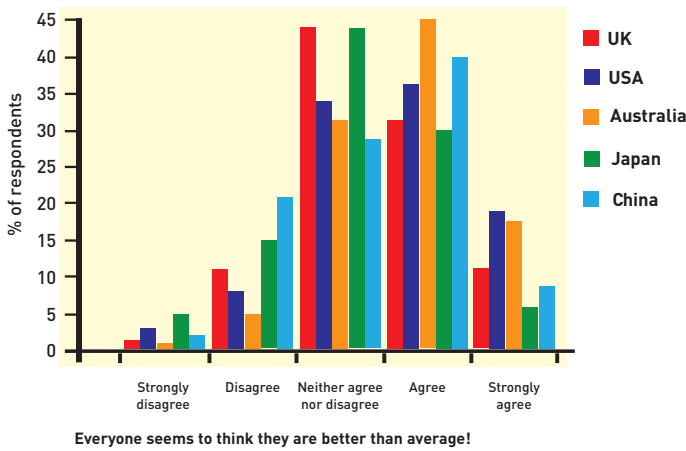
Fig.10: The Performance Gap



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 (see Figure 10).

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 they think their organisation's performance is worse than their competitors (for example, in Australia only 6.25 percent report that their performance is worse than their competitors, while in the USA the figure is 10.68 percent). One explanation for this over-confidence is an overly internal focus in organisations, previously alluded to when we discussed which non-financial measures companies focussed on and further emphasised by data which suggests a very limited use of external benchmarking (see Figure 11).

Fig.11: The Perception Gap



The EPM journey

Remember designing and deploying an enterprise performance management system is best conceived as a journey. The data we have gathered in this study suggest that organisations have made significant progress in some regards, but 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 nine gaps identified in this report and thinking through the strategy for addressing them should help companies to make progress more rapidly and more successfully than others.

About the study

The web and postal based survey used in this global study was developed by the Centre for Business Performance at Cranfield School of Management and Oracle. It was piloted with academics and practitioners before it was administered in UK, USA, Japan, Australia, and China. The data in the UK was collected by Centre for Business Performance at Cranfield School of Management, in the USA by the Center for Business Performance Management at Fisher College of Business, Ohio State University, in Japan by Graduate School of Accountancy at Waseda University, in Australia by Macquarie Graduate School of Management, and in China by Guanghua-Oracle BPM Research Institute at Peking University. All participants were assured that their responses would be kept confidential. The survey stated that only aggregates would be used for the research and that no individual company would be linked to specific responses.

The global sample contained 5606 organizations. A total of 744 responses were received of which 633 responses were usable, resulting in a response rate of 11.3 percent [see Table 3].

Fig.12: Respondents by sector

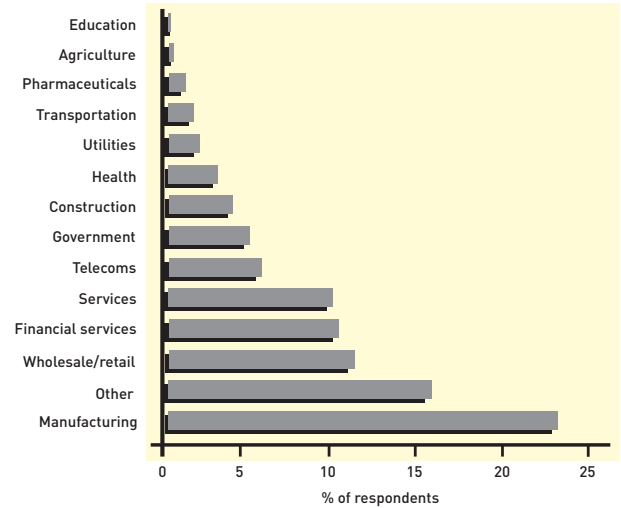
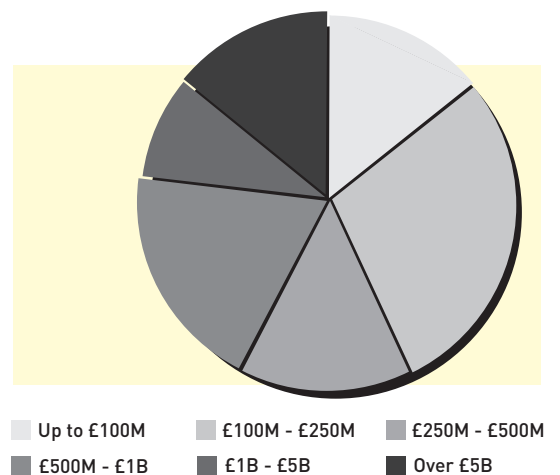


Table 3: Sample and response rates by country

Country	Sample	Received	Usable	Response Rate	Percentage
UK	2000	287	221	11.1%	34.9%
USA	1500	155	123	8.2%	19.4%
Australia	1000	94	87	8.7%	13.7%
Japan	580	103	103	17.8%	16.3%
China	526	105	99	18.8%	15.6%
TOTAL	5606	744	633	11.3%	100.0%

The respondents were from all sectors of the economy [see Figure 12]. Manufacturing companies accounted for 23.5 percent of the respondents and 47.5 percent of the companies were publicly held. About 31.5 percent of the respondents reported that their revenues were between £100M and £250M [see Figure 13].

Fig.13: Respondents by revenues



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