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CORPORATE PERFORMANCE MANAGEMENT FOR COMPETITIVE ADVANTAGE

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INTRODUCTION

Corporate Performance Management (CPM) helps companies to identify and address areas of their business that are performing well and those that are not. Accurate, Actionable, Accessible profit information is a key component of any Executive Dashboard. The business world is moving in a more analytical direction with regard to corporate performance management (CPM). Still many companies allow poor communication and weak collaboration capabilities to hamper their strategy, decision making and execution process.
As more and more companies become able to capitalize on their information assets, the cost associated with faulty data, data assumptions and controlling performance are rising. Historically, organisations have largely confined their CPM activities to reporting, whether annually, monthly or in the form of ad-hoc, drill down reports. But with the help of technology, organisations are beginning to move toward analytical reporting. The goal of analytical reporting is to gain a quantitative understanding of how nonfinancial performance factors – intangibles such as customer retention, brand equity, innovation, or employee engagement – actually drive revenue and profit, which ultimately determine a company's share price. Using Analytics for performance management will become a key strategic platform for a large number of organisations.

What is CPM?

Corporate performance management (CPM) is the area of business intelligence involved with monitoring and managing an organization's performance, according to key performance indicators (KPIs) such as revenue, return on investment (ROI), overhead, and operational costs. For online businesses, CPM includes additional factors such as page views, server load, network traffic and transactions per second. CPM is also known as business performance management (BPM) or enterprise performance management (EPM) .

Components of CPM include all the practices, technologies, methodologies and metrics used to gather and apply relevant information. CPM software includes forecasting, budgeting and planning functions, as well as graphical scorecards and dashboards to display and deliver corporate information. A CPM interface usually displays figures for key performance indicators so that employees can track individual and project performance relative to corporate goals and strategies. Some companies use established management methodologies with their CPM systems, such as balanced scorecard or Six Sigma.

Historically used within finance departments, CPM software is now designed to be used enterprise-wide, often as a complement to business intelligence systems. Gartner predicts that by 2010, BI and CPM will have converged.

Two types :

CPM is best understood in two parts:
1. Operational CPM and
2. Analytical CPM.

Operational CPM addresses the business process needs of executives and financial managers.

Analytical CPM addresses the reporting and analysis needs of executives, managers and staff through all levels of an organization, as well as vendors, suppliers and partners.

Five Stages of Analytical Competition:

Step 1:
Analytically impaired. No performance management. Inaccurate, late financial reports. No interest in analytics on the part of senior executives.

Step 2:
Localised analytics. Financial reports are accurate and timely, but provide little qualitative analysis about how different performance factors relate.

Step 3:
Analytical aspirations. A Balanced scorecard with nonfinancial and financial measures is presented in an appealing, easy to understand way.

Step 4:
Analytical companies. A strategy map that examines the logical relationships among nonfinancial variables and financial performance.

Step 5:
Analytical Competitors. Understanding the statistical relationships among nonfinancial and financial measures is the ultimate goal. Once these relationships are understood, analytical competitors are able to apply analytics in new and exciting ways, such as linking customer retention to revenue, customer spending budgets to share price, and employee engagement to operating income.

Financial executives should not be content with traditional, report oriented CPM, and should instead lead their organisations into the future by championing the use of CPM with forecasting and predictive modeling to optimize and control performance.
CPM is frequently associated with management methodologies, such as Balanced Scorecard, Six Sigma, and Activity Based Management. Many enterprises embrace these methodologies or rely on internally developed methodologies.

Six steps towards Analytical Reporting:
Davenport recommends the following six steps for better CPM.

1. Define intangibles:
Agree on metrics for nonfinancial variables. This is not as easy as it sounds. Eg: Innovation, brand equity etc.,

2. Maintain common information:
Establish one version of key metrics and information that is common across the organisation. An enterprise approach to managing analytics is key and senior executive management must demonstrate a passion for and commitment to leadership via fact-based decision-making and measurement of the entire organisation.

3. Draft a strategy map:
This involves formulating a hypothesis of what the logical relations among variables might be.

4. Run and refine:
Gather enough quality data to create and refine a statistical path/model that will start to show what these relationships are.

5. Conduct a unit comparison:
Evaluate and compare business units on key metrics.

6. Formulate a quantitative approach:
To measure the performance scorecard. Display and report the variables that matter to performance; not just the levels of the key metrics, but what their relationships are, who is responsible, their incentives.

CONCLUSION:

In order to remain competitive in today's market, strategy must drive the organisation, plans and budgets must be tied to strategy and costs and profits modeled so that profit can be optimized. In short, organisations need to effectively execute on strategy and adapt as necessary to control performance. Traditional CPM implementations are too fragmented to build reliable, real-time decision models that truly connect the finance function with the rest of the organisation and strategic goals. Wwhen working with Excel and disconnected models, organisations often are not able to change the plan as quickly as needed. A holistic, integrated CPM system allows for plans to be changed dynamically so that strategy and tactics can be refined as appropriate.

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