Corporate Performance Management – why CPM matters for organizations and aspects of CPM discipline

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DOI: 10.20470/jsi.v6i3.237

Abstract: This paper is devoted to the topic of Corporate Performance Management (CPM). We discuss the role and need for CPM in enterprise environment and benefits that are bound to CPM practice. We propose structured approach when deciding and describing CPM discipline in enterprise environment. We define basic structure of CPM and major topics in each area. We also provide implementation approach based on integration of well-known CPM resources that can be used for CPM implementation project verification.

Key words: Corporate Performance Management, Model, Object, Company, Information Communication Technologies

1 Introduction

Current economic situation with persisting apparent elements of the economic crisis, managers require, more than ever, exact information about the economic situation of their business (Zinkeviciute 2007). They require good-quality information not only about the business as a whole but also about individual departments, divisions and activities, i.e. about business informatics as well. In order to evaluate the profit or loss of the activities connected with business informatics, i.e. in particular in Information systems and information and communication technologies (IS/ICT), it is necessary to the first identify the economic dimensions of such activities and to set up the procedures of measuring their efficiency.

If a business wants to be successful and competitive not only in the present but also in the future, it must accept and adequately respond to the trends in IS/ICT development and management.

Cost allocation, pricing, and profitability is growing in importance, especially in periods when the company are undergoing a negative economic development. It is in such periods that managers demand detailed, accurate and up-to-date information about all individual parts of the company. (Kral, 2010) Key activities and goals according to (Dimon, 2013; Lomerson, Tuten 2009; Turban, Leidner, McLean, Wetherbe 2007; Maryska, Novotny, 2013; Maryska, Wagner, 2013) include at present:

• Companies try to minimize or eliminate activities and processes which do not generate the required value.

• Measuring and managing a company as a whole and company informatics as one of its parts is a phenomenon being closely monitored.

• Proving that investments are warranted (for example, in ICT) and proving the achievement of expected or required results.

All activities involved in the identification and keeping records of costs and earnings are closely related to financial and management accounting and its methods, such as ABC (Activity Based Costing) and these are part of CPM. Practicing Corporate Performance Management (CPM) discipline can help organizations to measure and achieve goals and succeed in market environment. CPM focuses on support for solving managers’ key tasks. (Dimon, 2013; Cookins 2009). Measuring of performance, effectiveness and effectiveness is not a topic actual only for private sector but also for government and public agencies.
2 Problem Formulation

Business environment these days is highly competitive and does not provide room for error. Technical and also business innovations are usually quickly copied or imitated and markets tend to be open, transparent and regulated for competitive boost. This environment creates high demand for methodology that allows company to measure its effectiveness and efficiency.

CPM discipline must be balanced and performed well. Organizations should aim to measure performance of whole enterprise and try not to omit any aspects of business performance. Skewing CPM to any area or aspect will create risks for organization from not showing performance problems in uncovered areas. Balance must be maintained between:

- Measuring all business areas.
- Measuring all relevant aspects, e.g. financial, technical, processes, customers, business specific etc.
- Measuring if organization is doing the right things (effectivity) vs measuring if organization is doing things the right way (efficiency).
- Measuring how good organization performs (successes) vs measuring how bad organization performs (losses).
- Measuring lacking indicators vs measuring leading indicators.

This paper describes CPM aspects and structure in enterprise environment. CPM is a complex discipline that overlaps with many other business disciplines. We describe aspects that must be considered and covered in order to CPM success in business environment.

3 Methodology

During preparation of this paper we used critical analysis of lessons learned in terms of work defined objectives and their subsequent synthesis based on the available sources, personal experience and opinion of authors. An important factor for achieving the objectives of this work was to respect the current trends of development in Corporate Performance Management topic and Business Intelligence as well as taking into account trends in other areas of science such as accounting, management accounting, etc.

The most important methods used during preparation of this paper were analysis, synthesis, deduction and analogy.

4 Discussion - CPM Aspects and Reasons for Implementation

Purpose of CPM is to enable monitoring and management of business performance. When organization considers implementing CPM to its environment, there usually already exists some sort of performance measurement. At least financial performance is always measured and evaluated.

CPM is discipline from broader family of performance management systems. Gartner definition (Geischeckeber; Rayner, 2001) defines CPM as an umbrella term used to describe the methodologies, metrics, processes and systems used to monitor and manage the business performance of an Enterprise. This definition can be decomposed and each part analyzed separately. There is also the aspect of objects that are measured by CPM. CPM definition includes Enterprise as basic object of CPM but Enterprise is a broad term. Enterprise can be described as (TOGAF, 2011) any collection of organizations that has a common set of goals. For example, an enterprise could be a government agency, a whole corporation, a division of a corporation, a single department, or a chain of geographically distant organizations linked together by common ownership. Enterprise definition can also include public sector and measurement of public sector performance is one of topics that can be solved by CPM (Hrabé, 2013).

The most important objectives that have to be fulfilled by CPM:

- Transparency of approach and applied techniques.
- Output accuracy and exactness.
- Output relevancy.
- Output information value.
- Output delivery in time.
• Output comparability.
• Continuity of metric evaluation in time.

Content of CPM is defined broadly as processes (how will be performance measured?), methodologies (why we measure and partly what is measured), metrics (main part of what is measured) and systems used (with what tools we measure). We think that definition omits one important part of CPM and that is organization structure and roles relevant to CPM.

Enterprises should build CPM model before CPM implementation so they can define target state for CPM discipline in organization. CPM model can be standardized and structured way how to describe current and target states of CPM discipline in organization environment.

4.1 Core CPM aspects and components

Based on the decomposition described above, CPM basic aspects and structure consists of:

• Vision, goal and purpose of CPM in organization environment.
• Objects of CPM and CPM architecture.
• CPM Processes.
• Organization structure and roles.
• Tools and methodologies used.
• Metrics evaluated and data sources.

CPM can be described using CPM model. CPM model is a tool that allows organization to define its approach to CPM implementation, expected benefits and form a baseline to start CPM processes. This model should include description of all basic CPM aspects and key requirements that are bound to each area.

4.1.1 Vision, goal and purpose of CPM in organization environment

Main CPM goal is according to definition to allow monitoring and management of enterprise performance. Enterprise is a broad term and CPM can be defined also on organizational units level in large Enterprises.

CPM can serve as one of basic tools used by management to govern and direct company. CPM ability to strongly bond with disciplines like controlling, planning and budgeting can leverage CPM to be a foundation for enterprise governance in Enterprises with non-trivial organization structure. Enterprise architecture must also be an aspect that has impact on CPM architecture in organization. CPM architecture is comprised of basic CPM objects and their relations. Basic principles for CPM execution on different organization levels must be integral part of CPM architecture.

Good common technique for goal definition is to use SMART (Doran, 1981) criteria for defined goals. Goals should be Specific, Measurability, Achievable, Relevant and Time-bound. This of course applies also for CPM goals.

Usual applications of CPM in organization are (Voříšek, 2010):

• Budgeting, planning and forecasting.
• Performance modelling and optimization.
• Strategic management.
• Financial consolidation.
• Financial, regulatory and management reporting.

CPM goal is fulfilled by providing or supporting business functions. Following model illustrates high-level relationship between supported business functions and underlying layers of CPM tools and data:
CPM in general should not be bound to only part of enterprise. In reality CPM processes also external data that can be used for benchmarking or implementation of industry best practice.

4.1.2 Objects of CPM and CPM architecture

All objects, which performance can be measured and evaluated, are relevant to CPM. Usually these objects are Enterprise as a whole, country branches, single companies, organizational units and project structures. Basic measured dimensions are finance (costs and profits separately), customers and products, processes, resource allocation (technical, human) and business specific dimensions. Generally, Enterprise and all its parts is object of CPM concern.

CPM must take into consideration and respect organization architecture and specifics. Organization structures with possible impact on CPM:

- Independent company divisions – separation of CPM on division level and on corporate level.
- Financial holding structure – different level of independence and freedom for companies grouped in holding, possibility to shared services usage and evaluation.
- Multinational companies with national branches – comparison of performance between different states.
- Different level of company integration in one holding – companies in holding core vs companies on the edge of holding structures.

Organization specifics and governance setup must be considered and respected by CPM discipline.

CPM can also be influenced by dynamic characteristics of company environment, e.g. frequency and breadth of organization changes or mergers, acquisition and divestment projects. Key top level requirement is to provide consolidated overview of performance metrics and comparability of results in all Enterprise organizational units.

CPM architecture can be considered from two viewpoints. First viewpoint of CPM architecture is architecture of Enterprise units, their goals and CPM outputs in relation to different level of governance and management (strategic, tactical, operational etc.). Second viewpoint is CPM discipline architecture, i.e. relations between CPM objects like measured attributes, metrics used, source systems for performance data, CPM metadata and tools used for CPM support.
4.1.3 CPM Processes

There are more CPM processes described in relevant resources, e.g. (Frolick, Ariyachandra, 2006), PriceWaterhouseCoopers process (PWC, 2008) or process according to (Paladino, 2007).

Figure 2 - CPM process definition by PriceWaterhouseCoopers, Source: (PWC, 2008)

CPM is defined as an iterative process with a closed loop characteristic in all above mentioned CPM processes. We think that there should be strong distinction between governance and management part of CPM processes. Separation of both aspects is able to express situation where governance is executed in significantly other organization units than management processes. This is the case of companies that are managed by majority owners or national branches are responsible to multinational company headquarters. Common CPM processes described above do not split governance and management side of CPM process.

4.1.4 Organization structure and roles

Basic CPM according to (Geischecker, Rayner, 2001) definition is not addressing one of CPM aspects that must be taken into consideration. This aspect is organization side of CPM, i.e. organization units and roles that are responsible for each part of CPM. Governance must also be discussed together with organization because usually governance layer should have clear vision and strategy for discipline execution. CPM organization should define basic roles and their responsibilities in typical CPM environment. Roles should also have mapped activities that are performed by them. Responsibility in CPM should be noted with link to governance.

We think that CPM should be business driven discipline that is closely supported by information technology. This is also one of the benefits of defining structured CPM model, when it is used as a tool to facilitate communication between business and IT. CPM model can describe business expectation for CPM and IT can provide information about attainability of wanted metrics.

Key roles in CPM process implementation project:

- Business sponsor responsible for activity outcomes. His main role is to actively influence design and realization of activity and to demonstrate project its support. Business sponsor also provides funding for activity. Sponsor role is usually dedicated to CFO or CEO of organization.

- Implementation process owner responsible for governance of implementation project. He is responsible to business sponsor. Implementation process owner strategically governs and coordinates ongoing projects in organization environment. Implementation process owner is usually dedicated to portfolio or program manager.

- Implementation leader responsible for activity management on daily basis. Implementation leader is in direct contact with people implementing processes and he is responsible for
integration with other organization components. Implementation leader role is usually performed by project manager.

- Key business users participating on requirement definition and definition of solution outputs.

Additional roles are introduced when enterprise is running CPM process on daily basis:

- CPM process owner that is responsible for process execution and CPM output creation in enterprise environment. This role is usually bound to dedicated department governed by CFO or CEO.
- Supplier of CPM tools that is responsible for operation and development of IT tools used by CPM process and users. Usually occupied by IT service provider.

4.1.5 Tools and methodologies used

CPM is commonly supported by combination of data warehousing and business intelligence environment together with transaction applications. CPM execution level (strategic, tactic, operational) has impact on tools used to support CPM. Transaction systems or application reporting usually support CPM on operational level. On tactical and strategic levels CPM is supported with DWH/BI systems and specialized applications. Specialized applications are for example financial consolidation or budgeting applications.

CPM position in enterprise application landscape is described by following model.

![Figure 3 - CPM position in enterprise application landscape](image)

Data Warehouse / Business Intelligence environment includes:

- Source information systems.
- ETL/ELT and integration.
- Data warehouse layer and other components like operational datastore, Big Data platform etc.
- Business Intelligence and analytics layer.
- Access layer.

Environment must provide following functions across all layers:

- Metadata management.
- Data quality and business rules validation.
- Security.
- Requirements management.
- Infrastructure service, SW and HW management, operations.

4.1.6 Metrics evaluated and data sources

One of CPM main part is performance indicators and metrics used for performance measurement in CPM. Some of issues with performance indicators and metrics will be described in theoretic thesis part. Metrics are usually divided according to (Parmenter, 2010) on KRI – Key Result Indicators, KPI – Key Performance Indicators, PI – Performance Indicators.

Different characteristics must be considered when designing metrics and performance parameters to be measured:

- Performance metric types – (Key Result Indicators KRI, Performance Indicators PI, Key Performance Indicators KPI).
- Performance metric dimensions (e.g. according to balanced scorecard (BSC) customer / financial / processes / learning and growth, more dimensions can be considered in general scorecard approach, e.g. safety, security, risk and compliance dimension).
- Performance metric decomposition (holding / company / division / department, holding / country / area).
- Performance metric relations (e.g. customer churn / cross sell / up sell rate influences product revenues and profit, new products influences cross sell and up sell etc.).
- Ability to express non-financial and hard to measure metrics (e.g. customer satisfaction, market position).
- Outlook direction (leading and lagging indicators, measurement of past and measurement of future position).
- Time frame they cover (D-1 / week / month / quarter / year).
- Seasonal aspects that may influence their value.
- Importance qualification.

Dependencies between defined metrics can be systematically analysed and identified dependencies can be used for metric value prediction (Wetzstein, Zengin, Kazhamiakin, Marconi, Pistore, Karastoyanova, Leymann, 2012). When deciding on metrics, we must deal also with issue, from which source and for which purpose we want to measure metric's value. We should consider if the indicator is related to whole organization or only to business unit, if indicator values are legal or regulator bound. Good metric design is a major success factor that has an influence on CPM quality.

4.1.7 Lifecycle of CPM model

CPM model has its own lifecycle. CPM activity sponsor should define vision for CPM practice in an organization but achieving this vision takes time and must be managed. CPM should be delivered in phases because experience with definition and implementation of performance measurement greatly helps with expectation management and goals definition. This leads to requirement that the CPM model is built and developed as an artefact during CPM discipline practice. Iterative nature of CPM process leads to iterative development of CPM model, verification of value added creation and alignment of CPM vision and CPM states and development activities.

4.2 Reasons for CPM implementation

We described above structure and aspects of CPM. We also provided possible guideline for CPM implementation. There are many reasons why organization should implement CPM solution. Three main reasons for Performance Management are:

- Value and benefits linked with business and support areas must be measured.
- Effectivity and efficiency of activities must be managed.
- Organization must plan its evolution and development that complies with resource and other constraints.
All reasons above can be covered with proper implementation and execution of CPM in organization environment.

Other important reasons for CPM implementation that should be noted:

- Organization vision, mission and goal definition and communication inside and outside of organization environment.
- Tool for resource integration leveraging synergic effects and organization growth.
- Tool for measuring and improving efficiency and effectivity.
- Management practice improvement.
- Communication and human relation improvement.
- Strength and weaknesses identification, areas for improvement definition.
- Monitoring of company activities.
- Feedback provisioning.

Benefits linked to CPM implementation are also reason why organization should implement CPM discipline. Some of possible benefits of performance management are (De Boer, 2002):

- Applying a focus on the realization of strategic, financial and non-financial goals.
- Making KPIs explicit and measurable.
- The management of prognosis and action oriented reports.
- The availability of consistent management information on strategic, tactical and operational level (drill down).
- Using the results as a guideline for intra organizational communication.
- Fostering a result-oriented culture/climate.
- The possibility to benchmark the organization.

5 Conclusions

We encourage enterprises to implement CPM because of value and capabilities it can provide for enterprise environment. We think that every enterprise needs to implement CPM discipline that provides tools and capabilities of measuring enterprise performance. We propose for enterprises considering CPM implementation to use structured approach to CPM implementation and define key aspects of CPM:

- Vision, goal and purpose of CPM in organization environment
- Objects of CPM and CPM architecture
- CPM processes
- Organization structure and roles
- Tools and methodologies used
- Metrics evaluated and data sources used

Description and definition of these aspects can be defined as a CPM model in enterprise environment. Enterprise should then implement iterative process responsible for CPM execution in enterprise environment.

Implementation of CPM should be based on proven practices and we provide reference to one integrated approach to CPM implementation. We provide one possible approach that integrates some of widely used resources of Performance management. Output of this approach is CPM implementation process that can be used for validation of project approach to CPM implementation.

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**JEL Classification:** G31, M15