Performance Management in Financial Services Isn't Only for Executives

Improving Operations and Sharing Strategy throughout the Enterprise

RESEARCH PERSPECTIVE

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Aligning Financial Services Performance

Performance management is a strategy and a set of methodologies and processes that can be used for managing performance in financial services organizations. Its purpose is to achieve a common set of goals and objectives in the most efficient manner. Functionally, performance management is about aligning day-to-day processes and activities with organizational strategy. This makes it of obvious value to financial services executives and professionals for several reasons: It communicates to all stakeholders an agreed-upon strategy and helps align the organization around it. It provides the framework for measuring results and taking corrective action when necessary. And it both increases visibility and mitigates risk, two characteristics often lacking in management of a financial services organization's performance.

Our benchmark research into business intelligence and performance management shows that performance management in financial services organization can be improved: Only a small percentage of financial services organizations (5%) told us they feel completely confident about their technology for performance management. Many of those performance management efforts began with business intelligence (BI), but while BI is an important capability for measuring performance, it alone is insufficient. That's because most business intelligence processes are historically focused. In addition, business intelligence often focuses on individual processes while performance management aligns processes with strategy and goals. In fact, according to our research financial services organizations rank strategy management (72%) and goals and objectives tools (64%) as the two most important supplements to BI. Balanced scorecards and strategy maps also are common tools for managing performance in financial services organizations.

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To accomplish the streamlining that the performance management of financial services organizations yields it is important to integrate BI and analytics with planning and forecasting processes and applications. Doing so enables the establishment of key performance indicators (KPIs), which are components of performance management. Managing performance involves setting targets for those KPIs, creating metrics to track them and regularly measuring progress toward those targets down into and across the departments.

Beyond the Executive Suite

Since the performance to be managed is defined by an organization's strategy, performance management often is deployed to executives. However, extending its processes and techniques into lines of business such as customer service, operations and finance makes sense. There is value for a company in letting people know what they are working toward and how they are being measured and evaluated; confining performance management to the executive level deprives line employees of feedback and guidance that will enable them to focus more sharply and contribute optimally to the organization's goals. Our business intelligence and performance management benchmark research shows there is interest in performance management across eight different line-of-business functions in financial services organizations, with at least half of the participants telling us they are improving performance management deployments, deploying new systems or tools or planning to make improvements to performance management projects.

While the typical approach of enabling performance management from the top down makes sense in some situations, in other cases performance management can begin at the bottom, starting with a set of individual KPIs that are developed with an awareness of the higher-level organizational strategy. Once developed at one level or in one business unit, the performance management framework, processes and technology are transferable across the entire financial services organization.

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The tools used for performance management matter. Only about a third (36%) of financial services organizations participating in our benchmark research on business intelligence and performance management reported being satisfied with their performance management efforts. In order to support performance management effectively in the lines of business, evaluate any existing processes and tools being used to manage performance. If a variety of tools are found, consider reducing their number and standardizing those that remain. In any case, move away from spreadsheets for performance management as they can introduce errors and inaccuracies, found very often by more than half (53%) of financial services organizations and the cause of significant delays. Instead, choose tools designed to support performance management that are easy to use and reliable and will provide the robust infrastructure and manageability, adaptability and reliability required of enterprise IT initiatives.

Defining the right types of metrics is essential. Develop rich performance measures such as customer satisfaction and process efficiency rates rather than simple aggregates. Effective metrics are often expressed as ratios such as transactions completed in a given time period. Consider also KPIs for process efficiency, compliance, risk management, governance and sustainability; all these elements are increasingly important to enterprise strategies. Our research finds these additional types of indicators are important to almost half of financial services organizations.

The structure of each KPI should include a measure and the associated target for the metric expressed as a range. In evaluating and reporting on KPIs, the range will help users understand not only if the value is acceptable but whether it is closer to the low end or the high end of the range, and thus where financial services performance fits on the scale of excellence. The reporting of KPIs also should indicate the trend vs. prior periods. If a KPI is at the low end of acceptable and is trending downward over time, it could be a cause for concern even though it is good enough at the moment. Strategy maps, another essential element of performance management, provide context to these KPIs. They help users understand which metrics support which financial services objectives and the relationships among KPIs. But note that strategy maps work best when they're periodically revalidated to ensure that they are in fact focused properly.

Financial services organizations can derive the most value from performance management by applying it broadly. Identify a champion to promote it to the lines of business to encourage broad adoption, which will maximize its value. Equipped with the proper KPIs and tools to help construct, manage and report on KPIs, all parts of the organization can understand their performance continuously and how it aligns with the overall strategy. Look for technology that will be easy to use, as our research shows this was viewed as the most important technology evaluation criterion by 84 percent of financial services organizations. Also, ensure that the technology chosen does not require significant resources – the lack of those resources is the largest barrier to successful deployment for a fifth of financial services organizations.

While performance management often finds a home in the executive suite in financial services organizations, don't restrict your deployments to those functions. Use the information in this research perspective to help your organization understand and apply performance management across the entire enterprise.

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