

# HOW CORPORATE CULTURE AFFECTS PERFORMANCE MANAGEMENT

**By Raef Lawson, CMA, CPA, CFA; Toby Hatch; and Denis Desroches**

Every progressive organization needs a management system that enables it to formulate its strategy, to implement processes that support operations, to provide performance evaluation and operational control, and to learn and change. Such corporate performance management (CPM) systems consist of metrics, methodologies, processes, and systems to manage performance at the corporate level.

These systems can provide organizations with a wide variety of strategic and operational benefits. Examples of strategic benefits include:

- ◆ All parts of an organization can focus on the same corporate goals;
- ◆ Staff can understand how their choices, when combined with those of other business units, will better achieve organizational goals;
- ◆ An organization can increase its ability to respond to changes in the external operating environment;
- ◆ Interests of all stakeholders are aligned;
- ◆ The workforce is more capable and motivated; and
- ◆ An organization can better allocate resources.

**Table 1: Performance Culture Maturity Model**

	ALIGNMENT WITH MISSION	TRANSPARENCY AND ACCOUNTABILITY	ACTION ON INSIGHTS	CONFLICT RESOLUTION	COMMON TRUST IN DATA	AVAILABILITY AND CURRENCY OF INFORMATION
<b>LEVEL 4: Performance-Directed Culture Realized</b>	Actionable and embraced mission (supported, informed, and reinforced by metrics)	General transparency and accountability accepted as cultural tenets	Closed-loop” processes ensure timely, concerted action	Established and effective mechanisms for resolving conflicts	Data as truth: Common application of data, filters, rules, and semantics	Currency of metrics/data matches rhythm of business
<b>LEVEL 3: Performance-Directed Culture Emerging</b>	Actionable mission supported by “top-down” metrics	Limited transparency and accountability; multiple functions collaborate	Ad hoc (informal) action on insights across functions	When identified, conflicts resolved on an impromptu basis	Common data: Provincial views and semantics used to support specific positions	Enterprise availability, uneven currency of information
<b>LEVEL 2: Departmental Optimization</b>	Alignment with discrete functional goals, not enterprise mission	Fragmented transparency and accountability within discrete functions	Uncoordinated/parochial action (sometimes at the expense of others)	Appearance of cooperation, “opportunistic reconciliation”	Conflicting, functional views of data cause confusion, disagreement	Availability and currency directed by departmental sources
<b>LEVEL 1: Chaos Reigns</b>	Mission not actionable, not communicated, and/or not understood	Arbitrary accountability, general opacity	Insights rarely leveraged	Conflicting, redundant, and competing efforts are the norm	Data and information generally unreliable and distrusted	Multiple, inconsistent data sources, conflicting semantics

Source: *Profiles in Performance: Business Intelligence Journeys and the Roadmap for Change*, Howard Dresner, John Wiley & Sons, 2010, p. 150.

Examples of operational benefits include:

- ◆ Tedious tasks can be eliminated so employees can devote more time to high-value ones;
- ◆ Organizations can have standard, defined, repeatable processes around the management of financial data, which ensures the data’s accuracy, believability, relevance, and timeliness;
- ◆ Companies can deliver targeted best practices and methodologies into the hands of business users where they can be employed most effectively;
- ◆ Employees will have timely information on which to base critical decisions;
- ◆ Companies increase employee accountability and visibility;
- ◆ Organizations can leverage customer resource management (CRM) information;
- ◆ Organizations can leverage enterprise resource planning (ERP) data;
- ◆ Employees are more satisfied as they become more involved;
- ◆ Companies have better control of operations;
- ◆ Organizations increase their ability to listen to the “voice of the customer”; and
- ◆ Organizations increase their efficiency and adaptability.

The effectiveness of CPM systems varies widely from one organization to the next. Some successful organiza-

tions have systems that are good at aligning employees’ efforts with organizational goals and providing them with the feedback necessary to enhance their performance; others don’t.

What factors contribute to the effectiveness of these systems? Technology supports system effectiveness, but a performance-oriented culture—one that values people, performance, transparency, and accountability—is key to system effectiveness. Technology is important for a successful CPM implementation as an enabler of people—not the other way around.

Companies vary greatly in their ability to support a performance-directed culture. Howard Dresner, chief research officer of Dresner Advisory Services, LLC, and an authority and author in the areas of business intelligence and performance management, wrote about this in his January/February 2010 article, “Building a Performance-Directed Culture,” in *Balanced Scorecard Report*. He noted that “at the highest level, a performance-directed culture is one in which everyone is actively aligned with the organization’s mission; transparency and accountability [are] at the norm, new insights are acted on in unison, and conflicts are resolved positively and effectively.”

Dresner also says there are six critical measurement criteria that organizations must keep in mind when

attempting to foster a performance-directed culture:

1. Alignment with Mission,
2. Transparency and Accountability,
3. Action on Insights,
4. Conflict Resolution,
5. Common Trust in Data, and
6. Availability and Currency of Information.

In this article we'll examine the impact of each of these criteria on the ability of organizations to achieve benefits from their CPM systems.

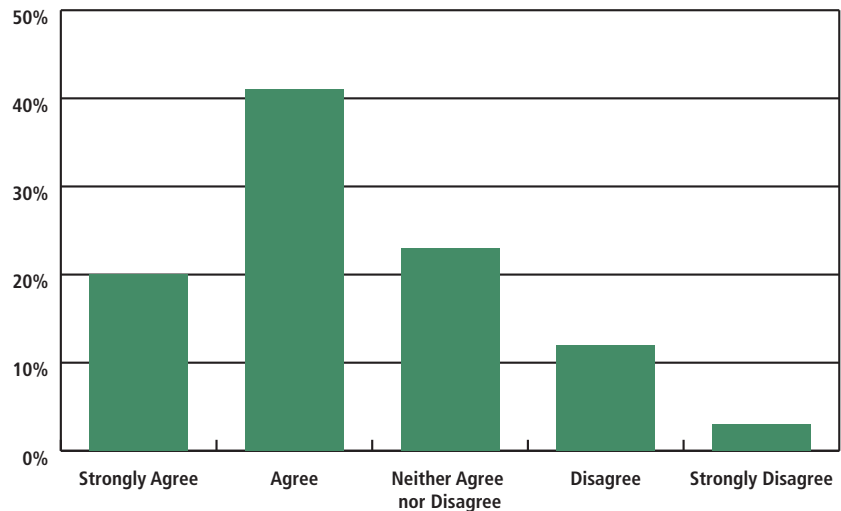
## Maturity Modeling

One technique to improve the effectiveness of a CPM system involves the use of maturity modeling, a tool designed to help organizations manage change. It has two components: measurement criteria and the maturity index. Measurement criteria are the dimensions that the organization thinks are relevant. The maturity index lists increasingly desirable organizational characteristics for each measurement criterion. Finally, a maturity matrix uses a two-dimensional representation to combine the measurement criteria and the maturity index, ultimately showing the features that an organization typically would demonstrate for each criterion depending on where it falls in the maturity index. A key to success in using maturity modeling is to include a comprehensive set of measurement criteria.

Dresner's Performance Culture Maturity Model (see Table 1) identifies four maturity levels for each of his six performance-directed-culture criteria. At the least desirable level of this model—"Chaos Reigns"—fragmentation and disorganization prevail. At the next level, which is "Departmental Optimization," there's little work across department boundaries. The next level is "Performance-Directed Culture Emerging." At this level, departments start to work cross-functionally and begin to focus on a common organizational mission. Finally, at the highest level of performance—"Performance-Directed Culture Realized"—an organization is thinking, strategizing, planning, analyzing, and executing as a single, cohesive unit.

Organizations can use maturity models in several ways: as a benchmarking tool to compare themselves with their peers or to facilitate comparison of internal segments, as

**Figure 1: Realization of Significant Benefits from CPM Systems**



a framework for prioritizing actions, to define what improvement means, and to evaluate their progress toward fostering a performance-directed culture.

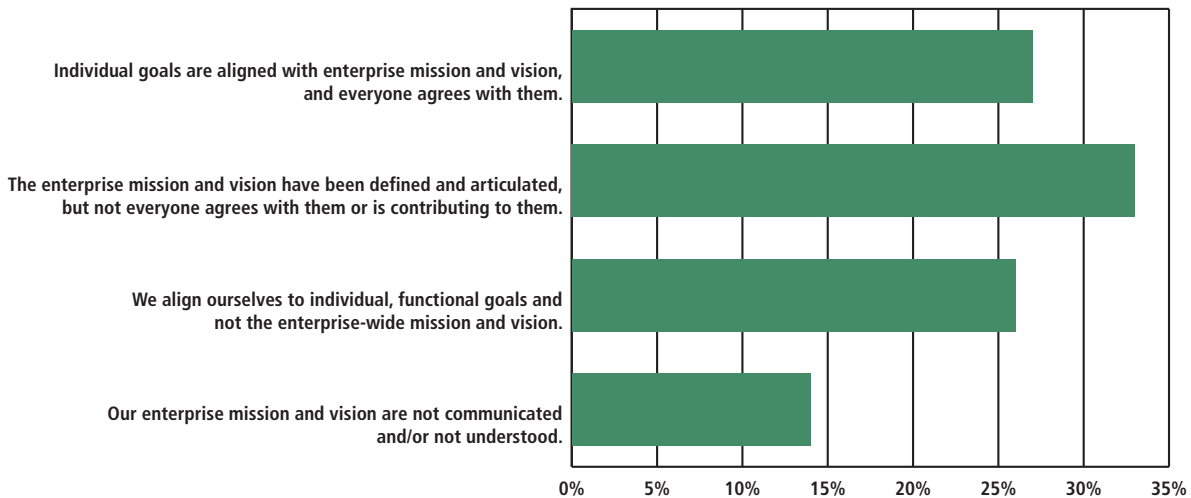
## Survey Background

Our Business Research and Analysis Group (BRAG) has been exploring the attributes of effective CPM systems, and Dresner's six criteria in the Performance Culture Maturity Model illustrate a way to categorize those attributes. Though much of the model makes intuitive sense, we wanted to test its validity as part of our study. We had to answer the following questions:

- ◆ Do the performance aspects included in the model reflect the key attributes that are necessary for enhanced performance management?
- ◆ Does the performance level described at each stage of maturity appropriately describe the sequence of higher performance levels that are necessary at each level?

To answer these questions, we conducted a Web-based survey in which we explored the benefits of CPM systems and how organizational culture, structure, and systems influence success. We obtained survey participants through various professional associations and Web-based business social network groups. They included IMA®, the Chartered Institute of Management Accountants (CIMA), the American Institute of Certified Public Accountants (AICPA), the Society of Management Accountants of Canada (CMA Canada), Oracle, LinkedIn Business Intelligence Group, and LinkedIn IE Group.

Slightly less than half of the 286 survey respondents work for organizations based in North America, but a substantial number are from Europe and the Middle East.

**Figure 2: Maturity of Companies with Respect to Alignment with Mission**

Approximately half are from the service sector, slightly more than a quarter are from manufacturing, and most of the rest are from the nonprofit sector. Though respondents work for companies of all sizes, 41.4% are from large companies (those with operating budgets greater than \$500 million), and 39.5% are from small companies (operating budgets of under \$100 million).

## Benefits of CPM Systems

We asked survey respondents if their organizations had realized significant benefits from their CPM systems. Approximately 60% of respondents agreed, at least to some extent, that their organization had realized significant benefits from their current CPM system (see Figure 1).

While it's encouraging that the majority of companies believe they've garnered significant benefits, it's troubling that a considerable number don't agree that they have received significant benefits from their CPM systems. What factors are contributing to the success (and failure) of CPM systems in these organizations? To address this issue, we examine the impact of Dresner's six performance-directed-culture criteria on the effectiveness of CPM systems.

## Alignment with Mission and Vision

An organization's mission and vision should be clear so contributors understand how their actions support or detract from them. Some organizations create enterprise

**Table 2: Relationship between Alignment with Mission and Vision and Receiving Benefits from CPM Systems**

Which statement BEST describes how your organization aligns with its mission and vision?	RECEIVING BENEFITS FROM CPM SYSTEMS					% STRONGLY AGREE OR AGREE
	% STRONGLY AGREE	% AGREE	% NEITHER AGREE NOR DISAGREE	% DISAGREE	% STRONGLY DISAGREE	
Our enterprise mission and vision are not communicated and/or not understood.	10%	38%	24%	14%	14%	48%
We align ourselves to individual, functional goals and not the enterprise-wide mission and vision.	7%	36%	27%	21%	9%	43%
The enterprise mission and vision have been defined and articulated, but not everyone agrees with them or is contributing to them.	21%	37%	22%	19%	1%	57%
Individual goals are aligned with enterprise mission and vision, and everyone agrees with them.	40%	43%	14%	3%	0%	83%

**Table 3: Relationship between Transparency and Accountability and Receiving Benefits from CPM Systems**

Which statement BEST describes your organization's transparency and accountability?	RECEIVING BENEFITS FROM CPM SYSTEMS					
	% STRONGLY AGREE	% AGREE	% NEITHER AGREE NOR DISAGREE	% DISAGREE	% STRONGLY DISAGREE	% STRONGLY AGREE OR AGREE
We do not have transparency and accountability in our organization.	11%	19%	22%	30%	19%	30%
There are transparency and accountability within specific, functional areas.	10%	44%	30%	16%	0%	54%
There are transparency and accountability across many functional areas that collaborate well.	33%	33%	27%	3%	3%	66%
There are general transparency and accountability throughout the organization; these are accepted as cultural tenets.	38%	45%	8%	8%	3%	83%

goals to help them realize their vision and, in a coordinated effort, create goals for successive parts of the organization—sometimes even for individuals—to help them align with the enterprise goals. Others allow individual parts of the organization to create their own goals that will align with the mission and vision. Sometimes this works well; sometimes it doesn't.

We asked our survey respondents which of four maturity levels existed in their organizations with respect to alignment of mission and vision. Figure 2 shows that organization maturity varies greatly, but the highest percentage of organizations is at level 3: Their enterprise mission and vision have been defined and articulated, but not everyone agrees with or is contributing to them.

Table 2 shows the extent to which respondents' organizations at each maturity level of alignment of mission and vision believe they're receiving benefits from their CPM system. Our results support the idea that as organizations increasingly align to their mission and vision, especially at the enterprise-wide level, they're increasingly likely to agree that they receive benefits from their CPM systems.

## Transparency and Accountability

To foster a performance culture, companies need enhanced transparency and accountability within their organization. This entails having full, accurate, and timely disclosure of information within each area and throughout the company. Accompanying this is the need for managers to report, explain, and be answerable for the consequences of their actions.

The results of our survey indicate that there's limited

transparency in many organizations: 21% of the respondents believe their organization has no transparency or accountability, 40% believe there's transparency within functional areas but not across the organization, 17% say there are transparency and accountability across many functional areas that collaborate well, and 22% say there are general transparency and accountability throughout the organization and that they are accepted as cultural tenets.

Is the level of organizational maturity with respect to accountability and transparency related to the benefits organizations receive from their CPM systems? Table 3 shows that the answer is "yes." The greater the accountability and transparency within an organization, the more likely the entity is to agree that it's receiving benefits.

## Action on Insights

Businesses often achieve insight by examining data and information gathered through internal systems (often CPM systems) and feedback from customers. But such insight is of no value unless someone acts on it. If a company designs a new toy and determines that a certain demographic group will greatly demand the toy (insight), unless the company takes action on the insight (marketing and selling to the demographic), it won't benefit from the insight (increased sales). Organizations that successfully complete this cycle regularly are referred to as "learning organizations."

To better understand the relationship between acting on insights and receiving benefits from CPM systems, we asked survey respondents how their organizations respond to new information. An important prerequisite

**Table 4: Relationship between Acting on Insights and Benefits from CPM Systems**

Which statement BEST describes how your organization responds to new information?	RECEIVING BENEFITS FROM CPM SYSTEMS					
	% STRONGLY AGREE	% AGREE	% NEITHER AGREE NOR DISAGREE	% DISAGREE	% STRONGLY DISAGREE	% STRONGLY AGREE OR AGREE
We rarely respond to new information, or we act only when told to do so and in an uncoordinated manner.	7%	29%	29%	29%	7%	36%
New information is considered in isolation without regard to the impact on other functions.	9%	34%	20%	31%	6%	43%
We have formal processes that consider cross-functional impact, but they are not universally followed.	12%	35%	42%	0%	12%	46%
We are guided by good, formal processes, and everyone follows them.	44%	44%	6%	0%	6%	88%

for attaining benefits from insights is the ability of an organization to learn from new information and adjust its plans and operations based on that information. Table 4 confirms the importance of this ability.

Clearly, the greater the extent to which companies have formal guidelines regarding how to respond to new information and the greater the extent to which they follow the guidelines, the more likely they are to say they receive benefits from their CPM system. To what extent does this state exist in the real world? Table 5 indicates a mixed situation. Approximately 50% of the companies surveyed have formal processes, and about 50% don't.

## Conflict Resolution

Dresner's fourth criterion for a performance-directed culture concerns conflict resolution. Effective conflict resolution requires the identification of issues, consideration of all factors involved, and the resolution of the conflict on a fair and reasonable basis. Unfortunately, effective conflict resolution is the exception rather than the norm. For example, 15% of our respondents say that conflicting and competing efforts are the norm in their companies; 40% say employees put on the appearance of cooperation but are often guided by their own self-interests; 28% say that when conflicts are identified they are resolved on an impromptu, but fair, basis; and 17% say their companies have established effective mechanisms for resolving conflicts.

Why is this important? Table 6 shows that there's a very strong, positive relationship between having effective conflict resolution procedures in an organization and its achieving benefits from a CPM system.

## Common Trust in Data

In many organizations, there's more than one version of "the truth" because of multiple, competing sources of data. There may be several ERP systems that define and track data elements differently, or individual data may be extracted from an ERP system at different points in time. The lack of a single, consistent set of data can lead people to distrust it. Our respondents seem to be split: 10% say that data is universally distrusted at their companies, 31% say data is generally distrusted, 50% say data is generally trusted, and 9% say it's universally trusted.

A lack of trust in data is important because it can impact decision making negatively. We examined if there seemed to be a relationship between those organizations that expressed trust in data and those that expressed benefits from a CPM system. In this case, we asked the respondents how strongly they trust their data and examined the relationship of this trust to benefits attained from the system.

We got mixed results with regard to having a common trust in data and achieving benefits. Organizations in which there are multiple competing sources of data are less likely to report benefits from their CPM system than those in which there's a universal mistrust of data, and organizations in which data is trusted are more likely to see benefits from their CPM systems (see Table 7).

Organizations that express at least a general trust in their data are much more likely to report benefits from their CPM system than those that indicated they don't trust their data. One explanation for this finding could be that if the data that underpins the CPM system isn't trusted, then the results from the CPM system would

**Table 5: Response to New Information**

Which statement BEST describes how your organization responds to new information?	Percentage
We rarely respond to new information, or we act only when told to do so and in an uncoordinated manner.	14%
New information is considered in isolation without regard to the impact on other functions.	37%
We have formal processes that consider cross-functional impact, but they are not universally followed.	30%
We are guided by good, formal processes, and everyone follows them.	19%

**Table 6: Relationship between Conflict Resolution and Benefits from CPM Systems**

Which statement BEST describes the resolution of conflict within your organization?	RECEIVING BENEFITS FROM CPM SYSTEMS					% STRONGLY AGREE OR AGREE
	% STRONGLY AGREE	% AGREE	% NEITHER AGREE NOR DISAGREE	% DISAGREE	% STRONGLY DISAGREE	
Conflicting and competing efforts are the norm.	13%	25%	25%	25%	13%	38%
We put on the appearance of cooperation but are often guided by our own self-interests.	8%	40%	17%	25%	10%	48%
When identified, conflicts are resolved on an impromptu, but fair, basis.	15%	38%	35%	12%	0%	54%
There are established and effective mechanisms for resolving conflicts.	33%	53%	13%	0%	0%	87%

**Table 7: Relationship between Trust in Data and Benefits from CPM Systems**

Which statement BEST describes your organization's trust in its data?	RECEIVING BENEFITS FROM CPM SYSTEMS					% STRONGLY AGREE OR AGREE
	% STRONGLY AGREE	% AGREE	% NEITHER AGREE NOR DISAGREE	% DISAGREE	% STRONGLY DISAGREE	
Data is universally distrusted.	22%	28%	22%	28%	0%	50%
Data is generally distrusted.	2%	38%	33%	18%	10%	39%
Data is generally trusted.	23%	46%	16%	13%	2%	69%
Data is universally trusted.	56%	25%	13%	0%	6%	81%

likely be viewed as flawed. This explanation holds for the next category where data was universally trusted and 81% of the respondents indicated they had received benefits.

### Availability and Currency of Information

Availability and currency of information is the ability to easily retrieve up-to-date information when you need it. For companies to make good business decisions in a timely manner, data must be available to the CPM system in a time frame that's appropriate for the organization and the decision context. For some, this is near real-time; for others, it may be daily, weekly, or even less frequently.

We found a generally positive relationship between

having available, current, accurate information and organizations achieving benefits from their CPM system (see Table 8). The greater the accessibility to current, accurate information, the more likely an organization is to report benefits from its CPM system.

### How Significant Are the Six Criteria?

Even though Tables 2 through 8 depict the relationship between each of the six criteria in the performance maturity model and benefits achieved from CPM systems, it may be difficult to understand the significance of those relationships. To show this significance, we performed an analysis of variance with the degree of agreement regarding the achievement of significant benefits as the dependent variable and the six criteria in the maturity model as



**Table 8: Relationship between Having Current, Accurate Information Available and Benefits from CPM Systems**

Which statement BEST describes your organization's availability of information?	RECEIVING BENEFITS FROM CPM SYSTEMS					
	% STRONGLY AGREE	% AGREE	% NEITHER AGREE NOR DISAGREE	% DISAGREE	% STRONGLY DISAGREE	% STRONGLY AGREE OR AGREE
It's largely unavailable, but when it's available it tends to be out-of-date.	5%	33%	33%	24%	5%	38%
Some functional areas have access to current and accurate information.	14%	37%	22%	20%	8%	51%
Information is available enterprise-wide, but it isn't necessarily current.	18%	43%	25%	9%	5%	61%
Current, accurate information is readily available.	36%	44%	13%	7%	0%	80%

the independent variables.

We found that three of the six criteria are very significant: alignment of an organization with its mission and vision, the presence of transparency and accountability, and the ability of an organization to resolve conflict effectively. Less significant criteria were action on insights, common trust in data, and availability and currency of information.

We also found that, in general, companies are doing a poor job of achieving organizational maturity in those areas that have the greatest impact on achieving benefits. For the three most significant criteria, companies, on average, are only at the second level of maturity on the model for two of the dimensions (transparency and accountability and conflict resolution) and at the third maturity level for the final dimension (alignment with mission). On the other hand, the only attribute on which organizations, on average, reached the highest (fourth) level of maturity (availability and currency of information) was the one considered the least significant.

When an organization is implementing a new CPM system or improving an existing one, its culture plays a pivotal role in its achieving benefits from the system. Therefore, it's important that the organization understands its culture and how to direct it. It's also important for a company to know its maturity level on each of the performance-directed-culture criteria and focus on the areas where improvement can yield the greatest benefits. If they understand these factors and how to act on them, organizations can foster a performance-directed culture and achieve benefits from their corporate performance management systems. Management accountants, who typically have a pivotal role in the design of CPM systems, can

incorporate an understanding of the key attributes described in this article to help their companies implement such systems successfully. **SF**

*Authors' Note:* In order to study current business practices, we formed the Business Research and Analysis Group. This is a volunteer research group, and all sponsors are non-financial in nature. To participate in our current study on best practices in strategy implementation, visit [www.bragstudies.com](http://www.bragstudies.com).

*Raef A. Lawson, CMA, CPA, CFA, Ph.D., is Professor-in-Residence and vice president of research at IMA and is a member of IMA's North Jersey Shore Chapter. He has written extensively in the areas of sustainability, performance scorecards, activity-based costing, and cost and performance management. You can reach him at [rlawson@imanet.org](mailto:rlawson@imanet.org).*

*Toby Hatch is a senior principal for Enterprise Performance Management Applications with Oracle Corporation and is involved with research, writing, and speaking about Enterprise Performance Management topics. She also has been involved with supporting and implementing business scorecards and activity-based management solutions in companies around the world. You can reach her at [toby.hatch@oracle.com](mailto:toby.hatch@oracle.com).*

*Denis Desroches is a director of Enterprise Performance Management Financial Applications with The Hackett Group. Since 1993, he has supported organizations with the selection and implementation of scorecard, performance management, and activity-based management solutions. You can reach him at [d-desroches@thehackettgroup.com](mailto:d-desroches@thehackettgroup.com).*