

Executive Summary

An Adaptive Performance Management System

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Results of a recent *BusinessWeek*–Boston Consulting Group survey show that 72% of the senior executives in the survey named innovation as one of their top three priorities [3]. But there is a big gap between wanting innovation and creating the environment in which innovation can flourish.

If we are ultimately to gain the benefits of agile project management and development and to grow truly agile, innovative organizations, then we will have to alter our performance management systems. Having a “system” that leads managers, and others, into valuing “conformance to plan” while delivering “scant business value” will seriously impede agility, whether in projects or the entire enterprise. Conforming to plans is a budget-driven mentality — a mentality in which the budget, or plan, is sacrosanct — never mind that the budget is months out of date, and the competitive situation has changed three times since the budget was developed.

We need a new system, an adaptive performance management system (APMS). An APMS has two key attributes: (1) to focus any enterprise group (team, project team, department, division, or company) on a set of desired strategic or tactical outcomes; and (2) to encourage those groups (project teams) to perform at high measures of output. (Download the complete report *An Adaptive Performance Management System* at [www.cutter.com/offers/
adaptiveperformancemgmt.html](http://www.cutter.com/offers/adaptiveperformancemgmt.html).)

I believe that to make the transition from a few agile project teams in an organization to a truly agile organization, the performance management systems we use must be overhauled. There are three measurement ideas critical to creating an adaptive organization:

1. We must acknowledge that our performance measurement system impacts agility.
2. We must alter our obsession with time to become an obsession for customer value.
3. We must separate the project performance management system from the team performance management system.

In the accompanying *Executive Report*, the adaptive performance management system is divided into two parts: (1) the project performance management system, which focuses on outcomes that generate customer value; and (2) the team performance management system, which focuses on informational metrics that teams can use to improve.

In looking for concepts on which to base an adaptive measurement system, two proved to be particularly useful: *Beyond Budgeting* [2] from Jeremy Hope and Robin Fraser and Cutter Fellow Rob Austin's views on performance measurement in organizations. Both have a distinctly agile or adaptive perspective, and both deal with measurement systems in general, not just software project management.

MEASUREMENT CONCEPTS

In *Beyond Budgeting*, Hope and Fraser outline a measurement system, and in fact an adaptive, decentralized management style, that fits with an adaptive, agile enterprise. It is unrealistic to assume that agility at lower levels in the organization can be fully implemented without a change, at the very top of an enterprise, in how performance is measured. Although Hope and Fraser discuss issues far beyond budgeting, they start with the issues surrounding traditional budgeting systems in organizations:

Budgets have since been hijacked by a generation of financial engineers that have used them as remote control devices to “manage by the numbers.” They have turned budgets into *fixed performance contracts* that force managers at all levels to commit to delivering specified financial outcomes, even though many of the variables underpinning those outcomes are beyond their control.

One of the primary benefits of managing without a plan or budget is that managers are able to focus all their attention on responding to changing events and providing value to customers and shareholders. [2]

Performance measurement and management has proven to be much more difficult than people expect. Anyone undertaking the design of a performance management system would do well to read Austin’s *Measuring and Managing Performance in Organizations* [1], a sobering look into why measurement systems can go so awry. Measurement “systems” are difficult, according to Austin, because “unlike mechanisms and organisms, organizations have subcomponents that realize they are being measured.” In his introduction, Austin states that “if there is a single message that comes from this book, it is that trust, honesty, and good intentions are more efficient in many social contexts than verification, guile, and self-interest.” It is the *intentions* of the managers who use the measurement system that ultimately determine its veracity.

Drawing from the ideas of Hope, Fraser, and Austin, the following were developed as guidelines for the adaptive performance measurement system presented in the report:

- Build the measurement system on a foundation of trust, honesty, and an intent to increase organizational value.
- Place the most emphasis on measuring outcomes, not inputs, even if the metrics are not as easy to obtain, nor as precise.
- Create outcome metrics whose constraints are as broad as possible (tolerance for variations) in order to encourage adaptation.
- Create informational metrics that support people’s innate internal motivation and provide them aggregate measures of overall, rather than individual, performance.

The ultimate key to a successful transition to an agile organization, project, or enterprise, is focusing on customer value rather than schedule, building collaborative project communities based on trust and honesty, and learning from good feedback systems.

As mentioned previously, the APMS focuses on two objectives: to focus any enterprise group (team, department, division, or company) on a set of desired strategic outcomes; and to encourage any enterprise group to perform at a high level. Hopefully, this APMS is a step in the right direction in achieving organizational agility.

REFERENCES

1. Austin, Robert D. *Measuring and Managing Performance in Organizations*. Dorset House, 1996.
2. Hope, Jeremy, and Robin Fraser. *Beyond Budgeting: How Managers Can Break Free from the Annual Performance Trap*. Harvard Business School Press, 2003.

3. McGregor, Jena. “The World’s Most Innovative Companies.” *BusinessWeek*, 24 April 2006, pp. 63-74.

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