Executive Summary:

Performance Management Software Market Report

A Review Of The Performance Management Software Market, Key Vendor Selection Criteria, and The Solution Value Proposition

By: Business Performance Partners

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The analysis and recommendations presented in this report are based on a number of inputs: conversations with a number of software vendors interested or currently participating in the Performance Management (PM) market, a broad review of available vendor information and professional publications, and conversations with representative users of Performance Management products and users of the Balanced Scorecard methodology. As the intent of this report is to provide a general market overview, readers would be well advised to conduct more detailed market research as the basis for decision making.

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1   What Is Performance Management?

Performance Management is a new focus by management teams on ways to achieve improvement in performance of the enterprise through better alignment of employee activities with corporate goals and strategies. Although several methodologies exist for developing a "performance management" discipline and culture, the Balanced Scorecard perhaps best represents this new approach.

This Executive Summary is provided as a sample of the contents included in the Performance Management Market Report offered by Business Performance Partners. The intent of this Executive Summary is to provide management with an understanding of the Performance Management topic, the types of software vendors providing Performance Management solutions, and a framework for assessing such vendor solutions.   Business Performance Partners provides assistance in establishing a Performance Management program and in selecting and implementing an appropriate software solution.

1.1   The Emergence of Performance Management

Companies have long been interested in measuring and improving performance. In the past, company executives typically focused mostly on the financial measures of performance. In 1992 Dr. Robert Kaplan and Dr. David Norton published an article in the Harvard Business Review entitled "The Balanced Scorecard."   In this article the authors encouraged company executives to adopt a broader range of company performance measures by identifying key metrics in each of the following four areas:

o   Financial Perspective
o   Customer Perspective
o   Internal Business Process Perspective
o   Learning and Growth Perspective

Kaplan and Norton proposed that companies would have greater success in achieving their strategic objectives by developing and managing the organization with a "Balanced Scorecard."

Since 1992 use of the Balanced Scorecard framework has grown rapidly in popularity. It has been reported that the Balanced Scorecard has been used by 80% of the Fortune 1000 corporations, and is used widely throughout business and public sector organizations of all sizes. Today the Balanced Scorecard framework has become a broader methodology for "strategy execution" through the alignment of goals throughout the enterprise to the business strategy. This enterprise-wide application of the Balanced Scorecard framework has created the need for software applications to manage the growing amount of information needed to track performance at all levels of the enterprise.

Independent of the Balanced Scorecard framework yet directly in line with its recommendations, several other recent management trends have influenced the movement toward a performance management approach. These trends include:

o A growth in *customer focus* – Highlighting the second perspective of the Balanced Scorecard, companies recognized the need to get closer to their customers and improve customer interactions. This gave rise to a rapid growth in software solutions for Customer Relationship Management. Today, application software is available to automate a wide range of customer-facing activities.

o A growth in *process focus* – The popularity of "business process improvement" during the mid 90's was based on a growing recognition of the importance of managing business processes. This is equivalent to the Balanced Scorecard's third perspective – Internal Business Process Perspective. Companies recognized that they could not be effective at implementing business strategy without improving how they performed the work. Leading companies such as Dell and WalMart emerged as examples of how to focus on performing key processes in a manner superior to competitors can enable differentiation and market success.

o An expanded focus on *human capital* – With the growth in jobs described as "knowledge workers," and the increased challenges in managing the workforce, company managers are recognizing the need to focus on managing human capital. Partly driven by technology changes such as the growth in use of the Internet, there has recently been a rapid growth in application solutions for a wide range of HRMS and human capital management functions. With a greater awareness by management that business success comes through its people, there is increasing interest in new tools and techniques for measuring, aligning, and motivating the performance of people.

1.2 Software Industry's Response

The above factors have contributed to the growing interest in managing enterprise performance. In addition, the current economic conditions have added importance to a focus on results from improvement initiatives. Software vendors from several solution categories have responded to the expanded interest in Performance Management.

o A host of niche solutions vendors have emerged in the Human Resource Management System (HRMS) category offering "best of breed" functionality for new processes related to Performance Management, such as:
  o Employee performance reviews
  o Multi-rater or 360° reviews
  o Development planning and training
  o Talent management/succession planning
  o Incentive management
  o Goal cascading and alignment

Such niche vendors focus on employee performance and related processes.

o Vendors of business analytical applications have built additional applications or acquired software companies to deliver Performance Management capability on top of their Business Intelligence (BI) platform. This helps BI vendors sell a more robust solution to a broader range of users within the enterprise. Niche vendors of analytical solutions are targeting corporate executives with new applications in strategy and financial analytical areas such as:
  o Strategic planning process mapping
  o Portfolio/project management for strategic initiatives
  o Executive "dashboard"
  o Business consolidation
  o Process management
  o Budget process management

These vendors focus on corporate performance and related processes.

o Several of the enterprise application vendors have responded with new products, enhanced functionality, acquisitions, and have even coined new solutions categories names. These vendors are describing their Performance Management strategy as including both the employee and corporate perspectives.

o Vendors from other software categories such as Learning Management are beginning to address Performance Management as well. One leading Learning Management vendor has developed Performance Management functionality through the offering of a Balanced Scorecard type solution.

1.3 Performance Management Solution Classification

Vendors and industry analysts use different names to refer to solutions in the emerging category for Performance Management based on their particular perspective, solutions heritage, and product direction or positioning. These category names can be confusing and overlapping. In order to facilitate a reasonable comparison of vendor functionality and positioning, this report provides a framework for classifying Performance Management solutions into three categories:

1. Workforce Performance Management (WPM) – focusing on niche solutions around HR processes such as assessing employee performance, succession planning, development planning, etc.
2. Corporate Performance Management (CPM) – focusing on an executive audience with solutions for strategy and planning, budgeting, portfolio management, performance scorecarding, etc.
3. Enterprise Performance Management (EPM) – providing solutions in both WPR and CPM categories to target the broadest user base within enterprises.

1.3.1 WPM – Workforce Performance Management Solutions

Workforce Performance Management solutions focus more on the individual employee and a wide range of processes such as performance review processes, succession planning, 360° or multi-rater reviews, development planning, talent management,

succession planning, time and attendance, incentive management and some other HR processes. This report is not specifically referring to the traditional HRMS solutions such as benefits management, payroll, personnel administration, etc. since these applications are not necessarily related to the "performance" paradigm. The intent of this category is to refer to the newer workforce application solutions.

This category of vendors targets the automation of what have traditionally been managed with manual, forms-based processes or simple template approaches to the process. The problem with the manual approach is twofold: 1) it is very labor intensive and thus costly, and 2) the data is not available in a database for analysis, reporting, ensuring compliance, and supporting the more strategic uses of this performance information. For these reasons, solutions in this category are currently selling well into mid-market and large enterprises. Although solutions in this category are not necessarily ensuring alignment with business strategy or fulfilling a need of corporate executives, they are hitting the mark with HR executives and enabling more comprehensive reporting than was feasible before.

1.3.2 CPM – Corporate Performance Management Solutions

Gartner and Aberdeen define Corporate Performance Management (CPM) as the methodologies, metrics, processes and solutions used to monitor and manage the business performance of an enterprise. Solutions in this category focus on the processes and needs of the executive office including: strategic planning, operational planning and budgeting, enterprise-wide consolidation of actual results, management reporting for communicating performance, and analysis of enterprise performance to goals. Solutions in this category provide innovative ways of improving strategy execution and the overall performance of the enterprise. Because of the great potential savings from improving a company's ability to execute its strategic objectives, company executives are beginning to adopt CPM solutions.

1.3.3 EPM – Enterprise Performance Management

Enterprise Performance Management (EPM) as a term is used by Forrester Research, AMR, and Aberdeen to refer to planning and modeling to help set strategies and goals, and to manage goals and performance throughout the enterprise. This definition is similar to the category of Corporate Performance Management as discussed above, since certainly the above vendors can apply their performance management product to the full enterprise. However, some vendors are now offering both CPM and WPR solutions in an attempt to target the broadest user base within the enterprise. Therefore this report defines the Enterprise Performance Management (EPM) category as the superset of both WPR and CPM solutions. Other solutions like Learning Management and Collaboration are sometimes included by such vendors as well, but are not considered essential to the category definition at this time.

2 Tips For Effective Software Selection
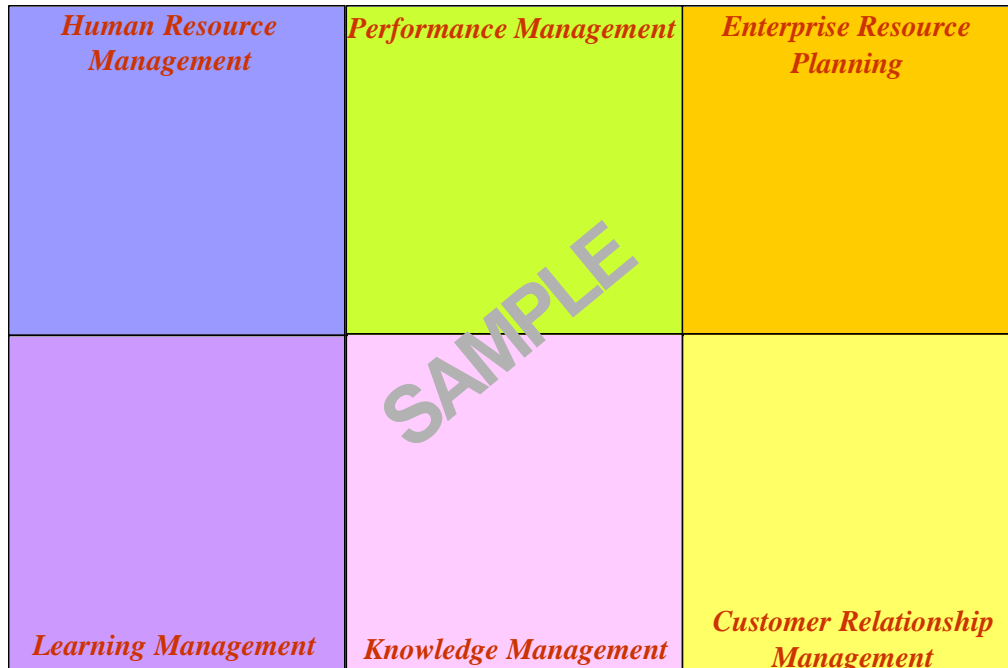
2.1 Assessing Vendor Solutions

The Performance Management software category is still relatively new, and there is little published information comparing vendor solutions. Therefore, the task of selecting an appropriate vendor is more difficult unless an appropriate software selection approach is used. The Performance Management Market Report provides a detailed discussion of PM vendor positioning, applications solutions, and selection approach to aid in this process. Selecting a Performance Management vendor requires an assessment of multiple factors, such as:

1. Defining your organization's goals and desired benefits from a Performance Management solution
2. Determining which solutions category the PM Vendor is targeting
3. Understanding the vendor strategy within this solutions category and whether this will be successful
4. Defining your enterprise's requirements for a PM solution
5. Identifying which subset of vendors to review out of the 30+ leading vendors in this solutions category
6. Understanding the detailed questions to ask vendors to understand their strengths and weaknesses
7. Assessing the degree of fit with requirements for selected PM vendors
8. Defining critical functional requirements – "must haves"
9. Assessing the PM vendor's capability to delivery and support the solution
10. Developing an implementation plan that addresses business, organizational, as well as technical issues

2.1.1 Historical Vendor Positioning

In selecting a Performance Management vendor, it is important to understand the heritage of the vendor's solution since this gives information about their perspective, strengths, and weaknesses. The Performance Management Market Report describes the historical vendor positioning by locating each vendor within the solutions category which represents their solution's heritage. A sample of the classification chart presented in the Performance Management Market Report is shown below.

Historical Vendor Positioning

Human Resource Management	Performance Management	Enterprise Resource Planning
Learning Management	Knowledge Management	Customer Relationship Management

2.1.2 Competitor Capability

In addition to understanding the historical perspective for Performance Management vendor solutions, it is essential to understand the vendor's current positioning and capability. The Performance Management Market Report describes the current positioning and capability of Performance Management vendors with a chart that compares vendors on two important dime nsions:

o Breadth of Solutions Coverage
o Progress of Delivery

A sample of the vendor positioning chart presented in the Performance Management Market Report is shown below. This chart offers valuable insight in selecting a subset of vendors for further review and assessment.

Functionality Desired by Customer Segment

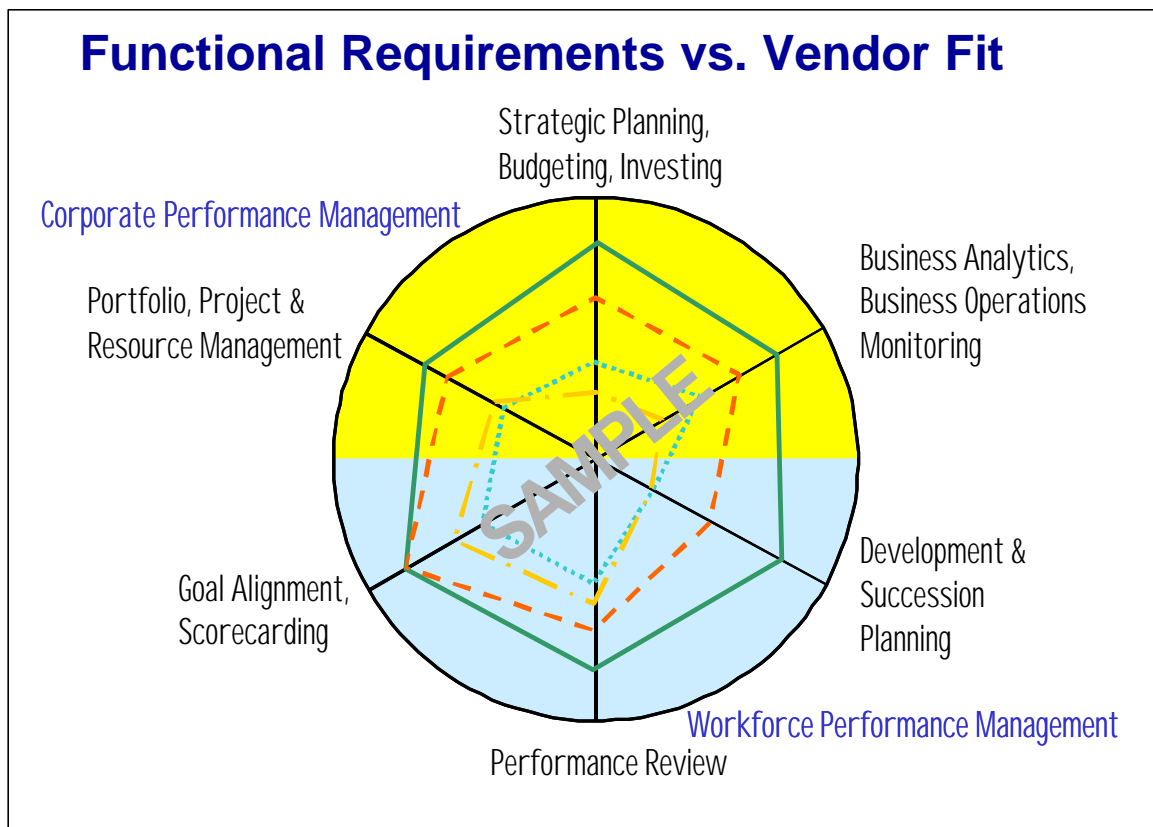| Functionality Desired	Corporate Executives	Strategy Officers	HR Executives	Business Unit Management
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SAMPLE

2.2 Key Product Requirements

When selecting a Performance Management solution, it is important to identify the requirements of all user groups within the enterprise. Performance Management solutions are frequently used by corporate executives, strategy officers, HR professionals, business unit managers, and sometimes all employees of the enterprise. Each user group will have different needs in a Performance Management solution. The Performance Management Market Report identifies some of the common requirements for each of these user groups. In addition to this baseline, the selection team should identify the additional requirements that are important for their enterprise, industry, and intended use of the solution. These requirements should be further classified as critical vs. desired for each user group category.

A sample of the requirements classification provided in the Performance Management Market Report is shown below:

2.3 Functionality Desired By Market Segment

The Performance Management Market Report suggests a framework for assessing the fit of Performance Management solutions to the main categories of requirements for the enterprise. An example of this assessment framework is shown in the chart below. Each enterprise will have a different level of interest in the various categories of functionality from PM solutions. For each category of functionality, additional detailed requirements must be articulated by the appropriate user groups. A sample of the functional fit analysis framework described in the Performance Management Market Report is shown below.

Functional Requirements vs. Vendor Fit

Strategic Planning, Budgeting, Investing

Corporate Performance Management

Portfolio, Project & Resource Management

Business Analytics, Business Operations Monitoring

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Development & Succession Planning

Goal Alignment, Scorecarding

Workforce Performance Management

Performance Review

2.4 Additional Selection Criteria

Some additional criteria that are important in the selection process include the following:

- o Methodologies supported (e.g., Balanced Scorecard, Six Sigma, and others)
- o Ability to integrate with enterprise systems (e.g., ERP or CRM systems)
- o Method of delivering analytical processing capabilities
- o Platform
- o Scalability
- o Workflow capability
- o Vendor support capability
- o Vendor viability
- o Pricing

o   Implementation effort and timeframe
o   Return on investment

These additional criteria must be included as part of a comprehensive selection methodology.

3   Assessing Return On Investment

It is important to determining the return on investment from any project. However, some organizations will have difficulty in establishing an appropriate means for valuing the return from a Performance Management solution. For example, it has traditionally been difficult to identify tangible savings from projects that focus on providing better management information, such as Business Intelligence solutions. To some extent this issue applies to Performance Management solutions. However, since PM solutions provide the capability to track performance toward goal achievement over time, these tools themselves can be set up to track certain measures of savings or ROI. Consultants from Business Performance Partners provide clients with direction on how to establish such tracking mechanisms.

The potential savings from Performance Management solutions is large. It is important to determine savings or ROI based on the type of solution being implemented and the way in which the enterprise will use the solution. For example, if the enterprise is implementing a Workforce Performance Management solution, the benefits may be realized primarily in the area of process savings related employee performance review processes. The following table summarizes some of the typical range of tangible savings for enterprises with 1,000 or more employees.

Example Savings For Workforce Performance Management Solutions

Category of Benefits	Range of Annual Benefits
1. Labor savings – employee performance review processes	$250K – $800K
2. Labor savings – annual performance review and talent summary	$50K – 300K
3. EEO reporting savings, risk reduction	$50K – $500K
4. Benefits from compliance, e.g., reduction in turnover	$100K – $500K
5. Productivity gains from goal alignment	$500K – $1,000K
6. Additional intangible benefits	TBD (customer specific)

Calculating savings from Corporate Performance Management solutions may be more challenging since the savings are derived from improvements in the business as a result of aligning employee activities and projects with corporate strategy and goals. However, there are also some areas of direct process savings related to CPM solutions. The following is an example of the range of benefits that an enterprise with 1,000 or more employees may achieve from implementing CPM solutions.

Example Savings For Corporate Performance Management Solutions

Category of Benefits	Range of Annual Benefits
1. Labor savings – strategy and budgeting process	$250K – $1,000K
2. Labor savings – process of aligning goals throughout the enterprise	$150K – 300K
3. Labor savings – portfolio/project management for strategic initiatives	$250K – $1,000K
4. Labor savings – custom and ad hoc reporting	$250K – $1,000K
5. Productivity gains from goal alignment	$500K – $2,000K
6. Additional intangible benefits	TBD (customer specific)

It is clear that significant savings are available from the implementation of Performance Management solutions. However defining and implementing a successful measurement program requires a comprehensive approach to the project. Business Performance Partners utilizes a proven framework for working with executives to define the Performance Management program.

4 Contact Information

Additional information on Performance Management software is available in the full Performance Management report available at www.businessperformancepartners.com. In addition, consulting services are available to assist with software selection and implementation. You may contact Business Performance Partners at 781-275-7139 or at info@businessperformancepartners.com.

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