



How Performance Management Solutions Drive Profits for Enterprise Level Businesses

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Salient Corporation has spent 19 years helping customers understand how to tie behavior to results to maximize profits. The Margin Minder® family of products is designed to bring all the information required to make meaningful profit decisions into a centralized, searchable, scaleable, easy-to-use format.

There is a fundamental difference between small and big companies. Small companies can see more immediately how value is created. Owners/investors are more directly connected to profit, cost and growth drivers. Individual customers, products, assets and performers are more tangibly related to financial results. Executives can measure cause and effect and capture opportunity before it passes.

As they grow, however, businesses need to departmentalize and stratify responsibility. Departmentalization funnels business processes (and the data that goes with them) into managerial silos. Stratification separates authority from information. Monitoring value creation consumes time. Time consumes opportunity. Productivity declines.

This paper outlines an approach to restoring small company flexibility and speed to large businesses. It is based on a re-imagining of the value creating potential of individual persons, products and assets. And it proposes a method for reversing the isolating value-losing effect of large organizations.

What are the Challenges?

Every enterprise has a strategy for profit and growth. It may be formal or informal, written or simply understood. Every associate affects strategic objectives, as does every supplier, product and asset - the question of whether this impact is positive or negative can be elusive.

Managing value creation - profit -- is a matter of understanding the cause and effect between discrete behaviors (decision making) and results (value added) in context.

Every person, product, customer and asset has a strategic purpose. These purposes are expressed in job descriptions, purchase or development rationale, contracts, and everyday policies and procedures.

Senior executives, managers, and individual performers need to know:

- How does activity relate to value-add... exactly?
- How can I see better which people, places, things are growing my business?
- Can I find a way to improve results in the current business cycle?

The answers to these basic questions would seem simple enough on the surface, and they have become a holy grail pursuit for companies as they labor against shrinking margins, sharp competition and hard-to-track cost drivers.

Put simply, value-add is the sum of positive and negative impacts on the bottom line. It can be measured for every person, place, item and activity of the organization.

Profit used to be a simple pursuit, the value equation was straightforward: "sell more, do better". Not anymore! Costs-of goods move north and south quickly. Prices shift among channels, areas, types of customers. Off invoice costs and recoveries raise the number of variables still further, compounding the equation and obscuring the view of sources of profit and loss.



Much of this data is captured in silos and scattered about the organization. At Salient, we call this the Humpty Dumpty effect - all the pieces are there, but it is seemingly impossible to gather them up to form a complete picture.

In larger companies, the problem is compounded further by extension of the organizational command/communication chain, where strategic insight is distorted on its way down to everyday decision-makers, and knowledge gained by everyday field experience is lost on its way up to strategic officers. Growth itself becomes a primary growth inhibitor.

What to do? At Salient Corporation, we have made our life's work about solving these compounding inhibitors to profit. Our solutions center on these principles:

- [Connect everyday behavior to strategy.](#)
- [Use results to motivate performance continuously.](#)
- [Pay for play.](#)

Connect Behavior to Strategy

Strategy is a company's organizing vision for profit and growth. It is usually expressed in mission statements, job descriptions, investment rationale and policy documents for product, vendor and customer retention. Careful analysis of these documents enables management to measure the strategic efficiency of individual roles, customers, products, suppliers, assets and events. We call these measures individual value indicators (IVIs).

Developing IVIs is a disciplined, bottom-up exercise designed to align everyday decision making with strategy.

IVIs are the quantifiable expectations of performance that are drawn from job descriptions and various rationales for customer/supplier retention and asset acquisition (such as ROI documents). They differ from key productivity indicators (KPI) in that they are specific and updated on operational - as opposed to financial - cycles.

For example:

[The strategy is to grow through deployment of certain capital assets at customer sites. Specific funding decisions are based on local managers' assessments of customer growth potential. KPI might be the incremental corporate return on capital. IVIs would be the local manager's net change in profitability and growth of the customer sites under his or her care.](#)

Tracking IVIs is usually a matter of bringing data together from several discrete processes and information sources. A statement of one customer's net value may draw data from sales (orders), various services (work orders), distribution (invoices and delivery records) and marketing (survey or syndicated data).

Salient draws IVI data from different silos and knits them together to present a clear, multi-dimensional picture of value-add for each customer, product, associate, asset and event.



Use Real Results to Motivate

After an organization has created a reliable source of detailed performance information, a clear picture of value-add can be communicated to every element in the value chain.

Productivity is about people. People will perform best when they have appropriate knowledge about the value (results) of their work, the ability to act on information to create greater value and a clear and measurable stake in the result.

In the past, it was problematic to empower local decision makers or to compensate for actual contribution. Information was unavailable to verify activities and decisions in a timely manner. Frequently, transactional information was stored independent of the main data base and results were easily and frequently arguable.

Today, however, Salient's capability to track the relationship between an individual's work and their results gives management and the individual an ability to audit specific performance, thus eliminating the most important barrier, trust in the numbers. At last, every piece of information is clear and unimpeachable - it creates a common ground and common terms from which everyone can operate.

The other key to optimizing performance is shortening the period between curiosity and results. We live in a fast-paced world. Business decisions are made quickly by necessity. Only when information is available at-will can decisions be made on facts, with the goals of the organization in the forefront. Gut-based decisions made in the absence of accurate information are a luxury of a very different business environment.

With the combination of a powerful source of information and a responsive repository for understanding detailed information about each element of the business, a powerful motivational tool has emerged. Organizations and users become keenly tuned to how everyday activities are affecting bottom-line results.

Activities can be fine-tuned and adjusted in the current business cycle to ensure that goals are met and exceeded - no more need to wait for the end of the week, month, quarter or year. This continuous, relevant feedback loop is critical to success.

Pay for Play

Profit comes from people doing things better. Many organizations have used this performance optimization approach to enhance their compensation model. When individuals have trusted information, and they have a complete understanding of the organizational goals and the ability to use it to make more profit, they can be measured and paid on their overall contribution to the organization. Every individual in the organization becomes keenly vested in the enterprise and can be fairly compensated according to contribution.

This is the ultimate expression of making a big company function like a small one: giving the information and power to each contributor to act as a mini-owner and work in the best interests of both themselves and the company.

The discussion above has been about developing the knowledge necessary to maximize efficiency. As W. E. Deming proved, however, knowledge only becomes productive when it is driven into the process, when people are empowered to act on it and when they have a vested interest in results. The good news is that, with advances in multi-dimensional information technology, like Salient Corporations' Margin Minder, you can have it both ways: you can vest your people with knowledge while fully governing your business.



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