BUSINESS PERFORMANCE MANAGEMENT: ONE TRUTH

The creation and execution of sound business strategy is essential to today's enterprise. Business Performance Management (BPM) offers organizations an IT-enabled approach to formulate, modify, and execute strategy effectively. This article describes Business Performance Management, presents a framework for BPM, and discusses the potential drivers, barriers, and critical success factors for a BPM implementation.

The successful execution of business strategy is a well-recognized requirement for an organization's survival in the hypercompetitive marketplace. However, most organizations continue to struggle with the management of strategic implementations. A simple and systematic approach to monitor and control the execution of strategic goals still eludes them. Business Performance Management (BPM) enables an organization to effectively monitor, control, and manage the implementation of strategic initiatives.

Business Performance Management is one of the hottest topics in industry today (Miranda 2004). Gartner forecasts that "70 percent of Fortune 500 companies will have implemented BPM solutions by the end of 2006 (Kelly 2005)." IDC estimates the overall market for BPM applications will grow at an annual compound rate of 10 percent per year until 2007.1

Nevertheless, much confusion remains as to what comprises BPM. Whereas some view BPM as a narrow concept that applies to planning, scheduling, and budgeting practices in business, others discuss it in the context of legislation such as the Sarbanes-Oxley Act. The issue is further compounded by the fact that BPM is also known and identified by other names, such as corporate performance management and enterprise performance management.

In an effort to provide clarity to the industry, a BPM standards group was established in 2003. They define BPM as a set of integrated, closed-loop management and analytical processes, supported by technologies, that address financial and operational activities. BPM helps businesses define strategic goals and measure and manage performance against those goals (Whiting 2004). Simply stated, BPM can be described as a series of business processes and applications designed to optimize both the development and the execution of business strategy (e.g., see Eckerson, 2004).

BPM involves an array of integrated operational and analytical processes that accomplish two sequential tasks (Iervolino 2004). First, it facilitates the creation of strategic goals by stipulating specific objectives and key performance indicators that are meaningful to the organization. Second, it supports the subsequent management of the performance to those goals. The objectives and indicators are then associated with operational metrics and linked to performance incentives, which lead to effective strategy execution throughout the organization.

The purpose of this article is to provide organizations with an understanding about BPM and its potential value. First, we introduce the historic background of BPM and differentiate
TABLE 1 The Historic Evolution in Decision Support

| Decision support system (DSS) | A computer-based support for management decision makers who are dealing with semistructured problems (Keen and Scott Morton, 1978) |
| Executive information system (EIS) | A computer-based system that serves the information needs of top executives (Turban, Aronson, and Liang, 2005) |
| Data warehouse (DW) | A subject-oriented, integrated, time-variant, and nonvolatile collection of data in support of decision making (Immon, 1992) |
| Business intelligence (BI) | A broad category of applications and technologies for gathering, storing, analyzing, and providing access to data to help enterprise users make better business decisions (Turban, Aronson, and Liang, 2005) |
| Business Performance Management (BPM) | A series of business processes and applications designed to optimize both the development and the execution of business strategy |

BPM from business intelligence. Next, a framework for BPM is described. Finally, the drivers, barriers and critical success factors for BPM are discussed.

HISTORIC BACKGROUND OF BPM

Similar to other past trends in information systems, BPM has evolved over several decades (see Table 1). Its roots can be traced to the introduction of decision support systems (DSS) in the early 1970s (Power, 2003). The first DSS was directed toward helping managers make key decisions. Since then, its functionality has been repackaged, new technology has become available, and DSS solutions are used to support decision making at any level within an organization.

Executive information systems (EIS) evolved from DSS to specifically address the needs of senior executives. EIS is an information delivery mechanism that utilizes both internal and external information sources to address the information requirements of senior management (Watson and Frolick, 1993). An EIS provides electronic dashboards, a graphical user interface that offers an intuitive arrangement of key measures customized for senior executive needs. Furthermore, it grants senior management the ability to drill down to the level of detailed data required.

However, gaining access to the rich data required to support dashboards and drill down functionality was challenging. Organizational data was contained mostly in disparate data sources that required coordination to provide a single integrated view of data in the enterprise. Implementing a data warehouse offered a solution to the data integration issues of an EIS. A data warehouse is a specially prepared, integrated repository of data for organizational decision making. Data warehousing along with online analytical processing (OLAP) began broadening the realm of EIS and enhanced access to and manipulation of rich data.

Concurrently, the amount of rich data required for decision making vastly increased with the dominance of the digital economy. Severe strains were placed on organizations’ information processing abilities to meet changing information demands. Business intelligence (BI), another phase in the progression of DSS, provided the needed technology to improve decision making. It includes the entire infrastructure (e.g., data warehouses) and analytical tools (e.g., OLAP) required to integrate and analyze the growing accumulation of organizational data.

Although BI offers the tools necessary to improve decision making within organizations, it provides no systematic means of planning, monitoring, controlling, and managing the implementation of strategic business objectives. BPM provides a means of combining business strategy and technological structure to direct the entire organization toward accomplishing common organizational objectives. At present, many organizations are embracing this concept of BPM as the next logical step in the evolution of DSS.

BI VERSUS BPM

Although many use the terms synonymously, Business Performance Management is distinctly different from business intelligence. As described previously, BI is the technological solution that enables a company to consolidate and leverage the vast masses of data in organizations to improve decision making (Clayton, 2005). Whereas BI provides the IT infrastructure and applications required to implement BPM, BPM includes a business process that leverages BI (Miranda, 2004).

The majority of past BI applications and BPM can be further differentiated in terms of
scope, type of data, type of decision support provided, and orientation of application. Most BI implementations have a narrow scope limited to one or more departments or functional areas (Kelly, 2005). BPM has a much broader scope that is focused on the entire enterprise. Because the data stored and analyzed is generally historical, most BI applications support strategic and tactical decision making. Alternatively, BPM solutions have timely data that provides support for operational decision making in addition to strategic and tactical decision making. As such, BPM solutions are proactive in helping organizations improve their ongoing business operations and processes, whereas BI solutions have a reactive orientation that facilitates decision making based on archived data. Although BI and BPM are two distinct concepts, vendors are blurring the lines of solutions that support them both. A framework for understanding the set of ideas, conditions, and assumptions that determine how to approach BPM is described next.

**THE BPM FRAMEWORK**

The BPM framework is composed of four core processes (see Figure 1). These four key steps are the foundation for designing, implementing, and managing BPM:

1. Strategize
2. Plan
3. Monitor and analyze
4. Take corrective action (BPM Standards Group, 2004)

The first two steps represent the formulation of business strategy, and the last two steps define how to modify and execute strategy. These four core processes form a closed loop that captures business strategy, which is then translated into strategically aligned business operations. Each of the four processes is described here.

**Strategize**

In the strategize step we identify what the organization wants to achieve. This step describes a course of action employed to identify business strategy: to discover key value drivers required to attain the strategy; and to generate metrics to measure business performance over time. For example, the establishment of a customer-centric business strategy may lead a company to identify high customer satisfaction as a key driver of business value. Consequently, a customer satisfaction index is a basic metric of customer satisfaction that would enable business performance assessment. This step is considered the “breakthrough” step to performance management, which creates performance metrics that are tied to business strategy.

However, generating performance measures that are tied to strategic value drivers can be challenging. Organizations often struggle to identify metrics that accurately capture progress on organizational goal attainment (Politano, 2005). The measures used to capture business value drivers are commonly known as key performance indicators (KPIs) (Moncla and Gregory, 2003). Strategy mapping is currently a popular method used to identify business value drivers, which leads to the discovery of the KPIs; both concepts will be described in the next section.

By establishing KPIs that are linked to business drivers and overall strategy, the strategize step defines and reaffirms the missions of the organization. It shapes the activities in each step of the BPM framework that follows and it is by far the most important step in any BPM initiative.

**Plan**

In the planning step we develop a program of action on how to carry out the business strategy. This step allows managers within different functional units to set goals, design projects, and develop budgets to support corporate strategy. A primary outcome of the planning process is a detailed plan or budget that specifies how resources will be allocated to carry out the organization’s goals.

Business functions create plans that target the achievement of key performance metrics established in step one. As such, plans describe how each unit will contribute to or influence
the attainment of corporate performance objectives. This requires each business unit to maintain an enterprisewide focus during the planning process and heed the influence of each unit’s plans for cross-functional operations. Units must work together in areas where they overlap to ensure that individual plans do not contradict each other. Key performance metrics enable functional units to uphold a corporatewide focus and avoid overlap during planning (Gregory, 2004).

**Monitor and Analyze**

Monitor and analyze is the third step of the BPM framework. The influence and benefits of a BPM implementation become more visible in this step. This step facilitates constant monitoring of performance results versus benchmark metrics. By providing a mix of operational and strategic reporting and analytics to all levels of the organization, this step helps evaluate individual and business unit performance. Additionally, it enables users to drill down to additional detailed information so that they can take appropriate action.

Both BI infrastructure and analytics support the course of action prescribed in this step. Historic and real-time data in multiple transaction processing systems are consolidated using data warehouse technologies. Applications that enable simple query and multidimensional data analysis provide a means of analyzing performance and comparing measures with actual performance. Currently, the biggest growth in operational BI infrastructure and analytics is in the BPM space (White, 2005).

**Take Corrective Action**

Taking corrective action is the fourth core process of the framework. This step constitutes taking timely, appropriate action to changes in performance uncovered during monitoring and analysis. In addition to alerting users about potential problems, activities in this step provide users with guidelines and suggestions on how to deal with problem situations that arise. Consequently, by taking corrective actions in an opportune timely manner, users are able to avoid problems escalating out of control.

In summary, BPM bridges the gap between strategy and execution. The first two steps present strategy and planning, whereas the last two involve strategy execution and action. With these four steps, the framework moves everyone in the organization in the same direction. It enables the organization to focus on the few core processes that drive business value. As a result, the organization can disregard the many processes that merely generate activity and do not contribute to the long-term health of the company. According to a survey conducted by the American Management Association, of 203 companies ranging in size from $27 million to $50 billion, “measurement-managed” companies consistently outperform their peers.

One of the biggest challenges to deploying BPM is selecting the appropriate measures to serve as key performance indicators. The following section discusses the challenges to developing metrics and presents one possible methodology for performance measurement.

**CHALLENGES AND METHODOLOGIES FOR PERFORMANCE MEASUREMENT**

Measurement provides a means of evaluating a company’s progress toward accomplishing its goals. Through performance measurement, an organization can assess how well its operations are aligned with business strategy. As a result, measurement plays a crucial role in translating business strategy into results.

Unfortunately, most measures that organizations evaluate provide a misperception of the state of the organization. They do not accurately capture the true nature of the organization’s progress. For example, a CEO may tally the number of vehicles in the company parking lot on weekends as a way to determine employee work commitment. Knowing this, employees may park their cars in the company lot and carpool to weekend ball games. As a result, the wrong process or activity is measured, providing misleading evidence of true accomplishment. Past studies suggest that close to 50 percent of executive managers place no confidence in the numbers presented to them (e.g., Lingle and Schieman, 1996). According to these authors, one of the main reasons is vague objectives, which lead companies to measure the wrong process or activity.

There are several different approaches to performance measurement. Many organizations measure what is easily accessible and simple, such as existing finance ratios that are not necessarily linked to business strategy. Over time, these measures become the company standard, providing a false sense of security and of progress made. Other organizations use a myriad of measures derived from bottom-up initiatives that do not consider the organization’s strategic objectives. They can measure
virtually everything. For example, a sales organization may compute the cost per sale per minute per employee as a percentage of non-discretionary income in a given city. When organizations are inundated with metrics, they become incapable of sifting through data to identify what is important to determining organizational progress. One of the best approaches to identifying the appropriate metrics (i.e., KPIs) is through the use of a methodology known as the Balanced Scorecard.

The Balanced Scorecard approach provides executives with a comprehensive framework that translates a corporation’s strategic objectives into a coherent set of performance measures. Kaplan and Norton (1992) expanded the existing view of performance metrics, which were then primarily financial, into four perspectives: (1) financial, (2) internal business, (3) customer, and (4) innovation and learning. The scope of this approach is the entire organization, and it is focused on giving users the ability to examine the totality of company operations along the four perspectives. It also provides an assessment of how well the company’s operations are strategically aligned (Bauer, 2004).

A strategy map is a powerful extension of the Balanced Scorecard framework that helps organizations effectively visualize corporate objectives within the four perspectives. The Balanced Scorecard process creates maps that define how strategic objectives interact to deliver desired results. Strategic mapping defines and communicates how strategy should be deployed and implemented in an organization by describing how to connect strategic objectives to operational initiatives (Kaplan and Norton, 2000). As a result, it provides a clear line of sight into how individual business unit activities are linked to the overall objectives of the organization. Accordingly, the metrics derived through this methodology represent KPIs that are tied to strategic objectives.

The Balanced Scorecard framework and strategy maps provide a top-down reflection of the company’s mission and strategy that are then manifested in KPIs. Traditional measures look at past accomplishments without indicating how managers might improve future performance. The KPIs resulting from the Balanced Scorecard framework enable the organization to have a forward-thinking outlook toward corporate performance assessment. It helps the organization focus on the few KPIs (i.e., usually 15 or 20 metrics) that are most important for the company.

Most typical BPM projects are implemented using a top-down approach. However, it is possible to implement a BPM initiative through a bottom-up method. An example of such a BPM project implementation is presented here.

A bottom-up BPM approach was taken by a distribution company with a sales team that calls upon a small number of specialty retailers. Products are then shipped to the retailers from a central distribution center.

The distribution company decided that it needed to get a better handle on its data. As such, it developed a data warehouse with retailer, customer, and product information. Once the data warehouse was operational, the company decided that it should measure a few KPIs. It was determined that the initial KPIs would be the total number of products sold and the total sales dollars. Transaction data was loaded into the data warehouse and a sales dashboard was created to reflect the KPI data.

After utilizing the dashboard for a few months, the company decided to introduce the concept of corporate objectives. The primary objective was determined to be growth; namely, 10 percent increased revenues. The dashboard was modified once again to reflect the new growth objective.

The organization then decided that a better way to work with the dashboard would be to highlight exceptions so that they would be easier to act upon. They utilized the standard traffic signal convention (red, yellow, green). The company continues to analyze and refine their KPIs to allow them to better meet the corporate objectives.

This company has developed a successful BPM initiative, although that is not what they initially set out to do. Executed carefully, the bottom-up approach can work very well.

**DRIVERS AND BARRIERS TO BPM**

Both external and internal challenges currently drive organizations to improve their performance management. One external force demanding improved BPM is the competitive business market. Specifically, the marketplace exerts pressure on organizations to be better at forecasting; it punishes organizations that cannot act on timely and effective forecasts to react faster to dynamic business conditions (Thomas, 2004). Consequently, the need for better strategic planning and forecasting to cope with competitive forces is leading companies to BPM.
Executive managers in the United States also face external pressure in the form of new accounting and regulatory standards. At present, company officers are required to certify the accuracy of corporate information presented to the public, with severe penalties for erroneous reporting. For instance, section 409 of the Sarbanes-Oxley Act requires organizations to provide real-time disclosure of material changes in financial conditions and operations that may affect performance (Nambiar, 2003). Regulations and other external pressures are driving organizations to require greater visibility into the organization to better monitor operations.

The need to consolidate disparate data sources to facilitate better coordination among cross-functional units is an internal need creating interest in BPM. Using a data warehouse infrastructure, BPM solutions integrate historic and operational data dispersed in an enterprise, leading the organization to a single version of “the truth.” As a result, in addition to better coordination of business units, BPM implementation helps organizations obtain more efficient processes that are continuously improved by evaluating KPIs. Organizations that own ineffective business processes look to BPM solutions for help to improve the execution of strategy throughout the organization.

Although BPM is a relatively new solution available in the market, both internal and external drivers are leading companies to explore its potential benefits. A recent survey conducted by the Meta Group (2004) revealed that most organizations are currently in the planning stage of BPM implementations (see Figure 2). Less than 20 percent of organizations have fully integrated, enterprisewide BPM solutions. Figure 2 suggests that the acceptance of BPM solutions has been relatively slow.

Experts suggest that the current growth rate in the BPM market is mainly fueled by the pressures of regulations, such as the Sarbanes-Oxley Act and the International Financial Reporting Standards, which require faster and more reliable management processes. However, many barriers impede the successful implementation of BPM solutions. Figure 3 presents the results of a Geac survey of 100 executives about barriers to BPM success (Hartlen, 2004). Almost 40 percent of those surveyed ranked organizational issues — defined as politics, mindset, no strategy, and bad processes — as the key barriers to BPM.

Three organizational issues in particular form the biggest pitfalls to any BPM initiative (Hartlen, 2004). The first organizational barrier is the perception that BPM implementations are technology driven. As described in the BPM framework, a fundamental objective of BPM is linking strategy to organizational processes. Although technology supports BPM, strategically aligned business processes drive it. The second challenge is discounting the impact of organizational resistance. BPM can change the existing power structures by introducing new or modified processes and systems, which makes information more transparent. The resulting resistance can hamper project implementation and adoption. Furthermore, erroneously assuming that the BPM project is completed once
the technology is installed can lead to another set of challenges to BPM. Overlooking the importance of training end users and dealing with lack of user confidence in the system are post-implementation people issues that can plague BPM efforts.

CRITICAL SUCCESS FACTORS OF BPM

The factors that are critical to the successful implementation of a BPM solution can be categorized as organizational, technical, and methodology related. Again, organizational factors are some of the most critical factors that facilitate an effective BPM implementation. For instance, strong executive sponsorship is essential for the life of a BPM project (Griffin, 2004). Sponsorship by C-level executives will provide effective leadership for the project. Consequently, these executives may also act as the champion of the project throughout the organization.

Management of resistance to BPM is another organizational factor that is critical to a project. Resistance often emerges in the management ranks (Hartlen, 2004). Awareness of such potential resistance enables an organization to deter a major obstacle by taking corrective action early. In addition, identifying corporate objectives and gaining consensus and buy-in from management early on in the effort can help establish legitimacy and visibility for the project through the organization. For instance, if driven by the CEO, this process generally moves quickly and smoothly.

On the technical side, a key factor essential to a BPM implementation is consolidation of dispersed silos of data. This is by far the most difficult undertaking to deploy successful BPM. The project team must establish an integrated repository of operational metrics aligned to corporate strategy, as well as one that cuts across functional boundaries. If data in the BPM system is contradicted by other reports and data in the organization, such data should be integrated into the system. In this manner, incorporating all data sources to the system will help ensure that the BPM solution is the only information source of the organization. Consequently, this can also help avoid post-implementation issues such as lack of user confidence in the system.

In summary, using timely and actionable KPIs is essential to BPM. Having an effective methodology to identify metrics that are linked to strategic business drivers is necessary for BPM success. Effective KPIs are generally easy to comprehend, provide context that shows the user what an acceptable level of performance is, and have standard measures. These key metrics must be reviewed on a periodic basis to ensure that they accurately reflect changing market conditions. Consequently, the BPM system must be equipped to adapt to continuous revisions in a seamless manner.

CONCLUSION

Business Performance Management is a consolidation of concepts that companies have been practicing for some time, such as data warehousing, business intelligence, and total quality management. This single integrated concept is focused on enhancing corporate performance. BPM provides an opportunity to align operations to organizational strategy and evaluates its progress over time toward goal attainment.

The BPM framework presented here is composed of four core processes: the first two support strategy formulation and the last two enable modification and execution of strategy. Organizational issues such as politics and resistance to change are key barriers to a BPM project. Strong sponsorship and support from upper management are among the main critical success factors of BPM.

Currently, most BPM initiatives are seen as solutions required to handle pressures to comply with regulations. In the next few years, we expect this to change to a strategic alignment focus that leads to enterprise wide solutions that raise business performance.

References


