Param Pujya Dr. Babasaheb Ambedkar Smarak Samiti's

Dr. Ambedkar Institute of Management Studies & Research

Deeksha Bhoomi, Nagpur - 440010 (Maharashtra State) INDIA

NAAC Accredited with 'A' Grade

Tel: +91 712 6521204, 6521203 ,6501379
Email: info@daimsr.in

DAIMSR

Business Performance Management (BPM)

Programme Educational Objectives

- *Our program will create graduates who:*

- *1. Will be recognized as a creative and an enterprising team leader.*

- *2. Will be a flexible, adaptable and an ethical individual.*

- *3. Will have a holistic approach to problem solving in the dynamic business environment.*

Business Communication & Information Systems Course Outcomes

- CO1-Given the circumstances, student manager will be able to ascertain the barriers to communication and also propose measures to overcome these barriers.

- CO2 In a given situation, student manager will be able to identify essentials parameters of effective communication and will also be able to justify the same.

- CO3 For given situation student manager should be able to draft Business letter for an organization.

- CO4 Given the circumstances, student manager will be able to draft E-mail to concerned authority/person.

- CO5 Given the circumstances, student manager will be able to gather data and make an informed decision based on it.

- CO6 Student manager will be able to identify & explain modern trends in information system.

Business Performance Management (BPM) Overview

- Business Performance Management (BPM) is…

  A real-time system that alert managers to potential opportunities, impending problems, and threats, and then empowers them to react through models and collaboration.

- Also called, corporate performance management (CPM by Gartner Group), enterprise performance management (EPM by Oracle), strategic enterprise management (SEM by SAP)

Business Performance Management (BPM) Overview

- BPM refers to the business processes, methodologies, metrics, and technologies used by enterprises to measure, monitor, and manage business performance.

- BPM encompasses three key components
  - A set of integrated, closed-loop management and analytic processes, supported by technology
  - Tools for businesses to define strategic goals and then measure/manage performance against them
  - Methods and tools for monitoring key performance indicators (KPIs), linked to organizational strategy

BPM versus BI

- BPM is an outgrowth of BI and incorporates many of its technologies, applications, and techniques.
  - The same companies market and sell them.
  - BI has evolved so that many of the original differences between the two no longer exist (e.g., BI used to be focused on departmental rather than enterprise-wide projects).
  - BI is a crucial element of BPM.

- BPM = BI + Planning (a unified solution)

A Closed-loop Process to Optimize Business Performance
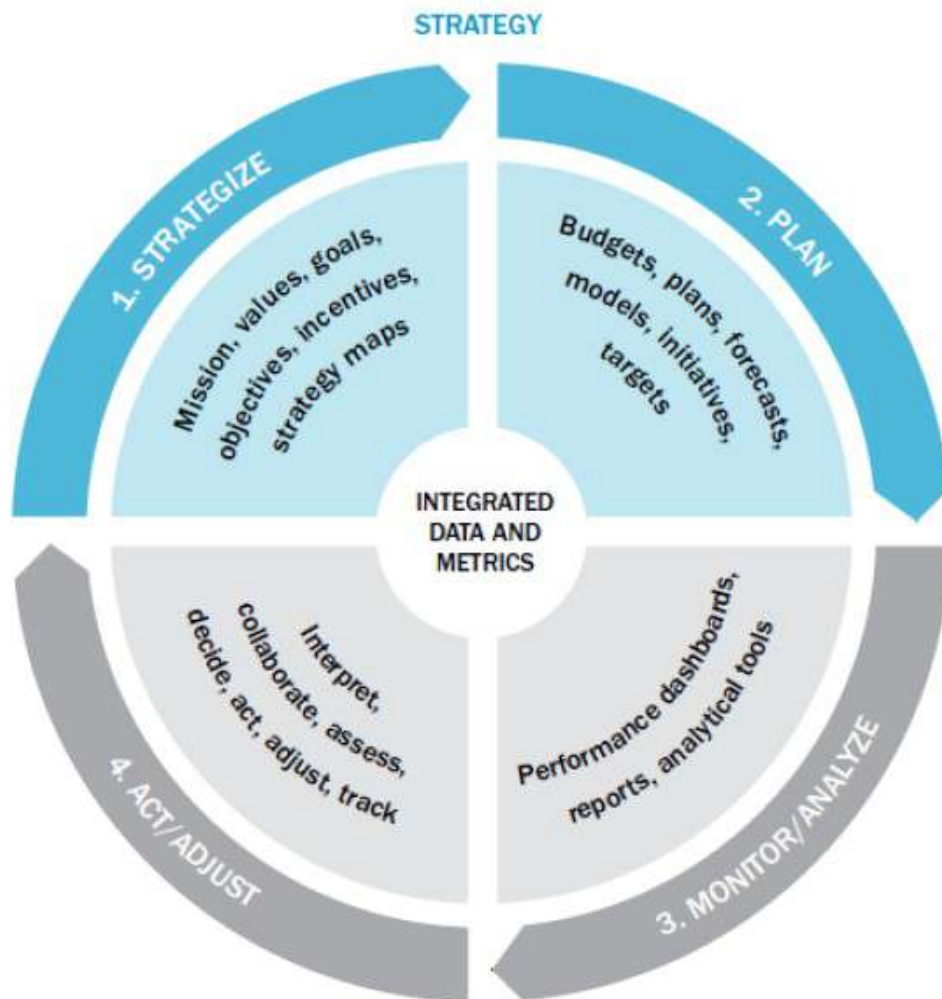
Process Steps

1. Strategize
2. Plan
3. Monitor/analyze
4. Act/adjust

Each with its own process steps…

Strategize:
Where Do We Want to Go?

- Strategic planning
  - Common tasks for the strategic planning process:
    1. Conduct a current situation analysis
    2. Determine the planning horizon
    3. Conduct an environment scan
    4. Identify critical success factors
    5. Complete a gap analysis
    6. Create a strategic vision
    7. Develop a business strategy
    8. Identify strategic objectives and goals

Strategize:
Where Do We Want to Go?

- Strategic objective

  A broad statement or general course of action prescribing targeted directions for an organization

- Strategic goal

  A quantified objective with a designated time period

- Strategic vision

  A picture or mental image of what the organization should look like in the future

- Critical success factors (CSF)

  Key factors that delineate the things that an organization must excel at to be successful

Strategize:
Where Do We Want to Go?

"90 percent of organizations fail to execute their strategies"

- The strategy gap
  - Four sources for the gap between strategy and execution:
    1. Communication (enterprise-wide)
    2. Alignment of rewards and incentives
    3. Focus (concentrating on the core elements)
    4. Resources

Plan:
How Do We Get There?

- Operational planning
  - Operational plan: plan that translates an organization's strategic objectives and goals into a set of well-defined tactics and initiatives, resources requirements, and expected results for some future time period (usually a year).
- Operational planning can be
  - Tactic-centric (operationally focused)
  - Budget-centric (financially focused)

Plan:
How Do We Get There?

- Financial planning and budgeting
  - An organization's strategic objectives and key metrics should serve as top-down drivers for the allocation of an organization's tangible and intangible assets
  - Resource allocations should be carefully aligned with the organization's strategic objectives and tactics in order to achieve strategic success
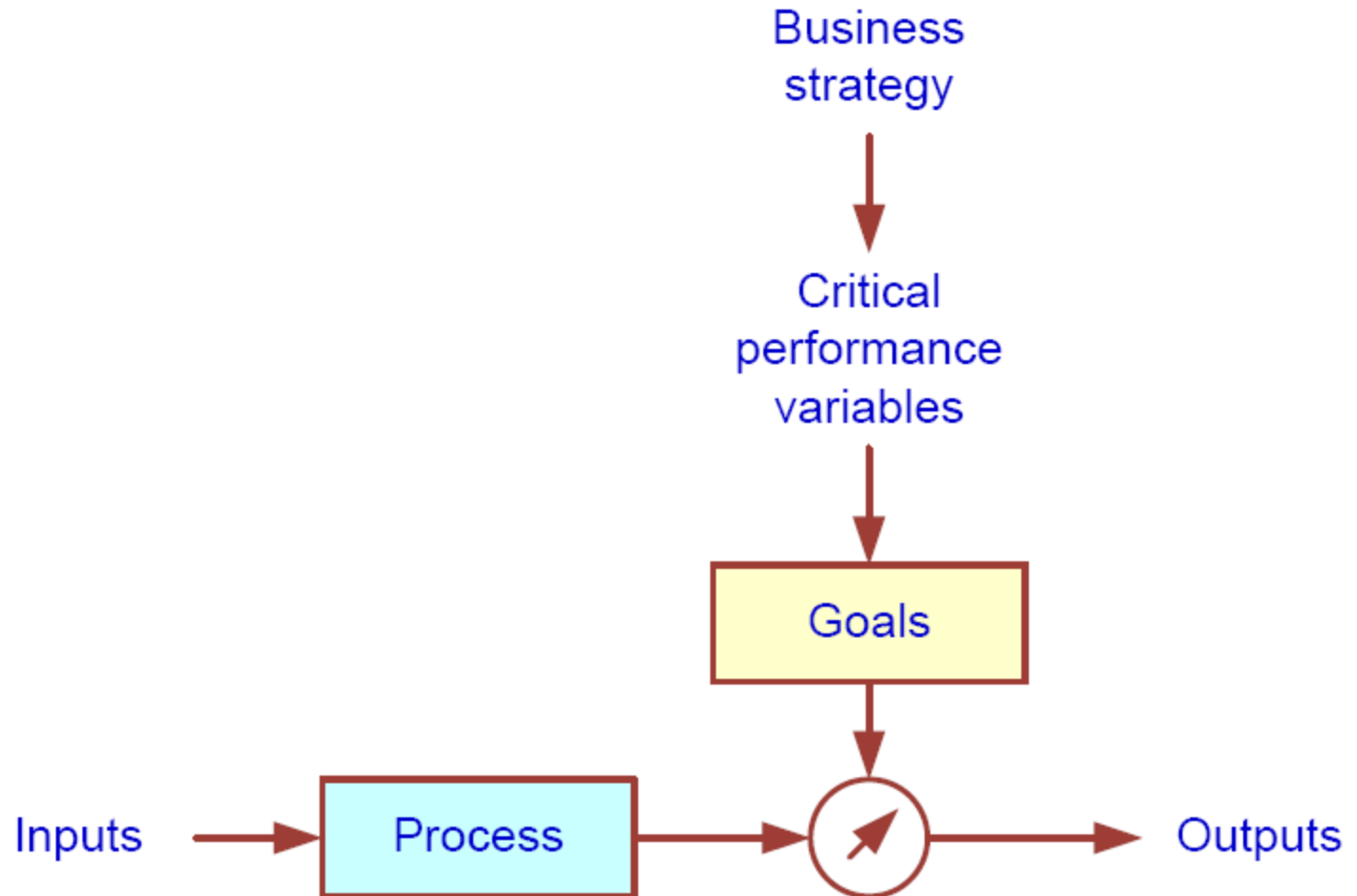
Monitor:
How Are We Doing?

- A comprehensive framework for monitoring performance should address two key issues:
  - What to monitor
    - Critical success factors
    - Strategic goals and targets
  - How to monitor

Monitor:
How Are We Doing?

- Diagnostic

A cybernetic sy
process for
into outputs
benchmark
the outputs,
to allow info
between the
standard to
acted upon

Business
strategy

↓

Critical
performance
variables

↓

Goals

↓

Inputs → Process → ⊙ → Outputs

Monitor:
How Are We Doing?

- Pitfalls of variance analysis
  - The vast majority of the exception analysis focuses on negative variances when functional groups or departments fail to meet their targets
  - Rarely are positive variances reviewed for potential opportunities, and rarely does the analysis focus on assumptions underlying the variance patterns

Monitor:
How Are We Doing?
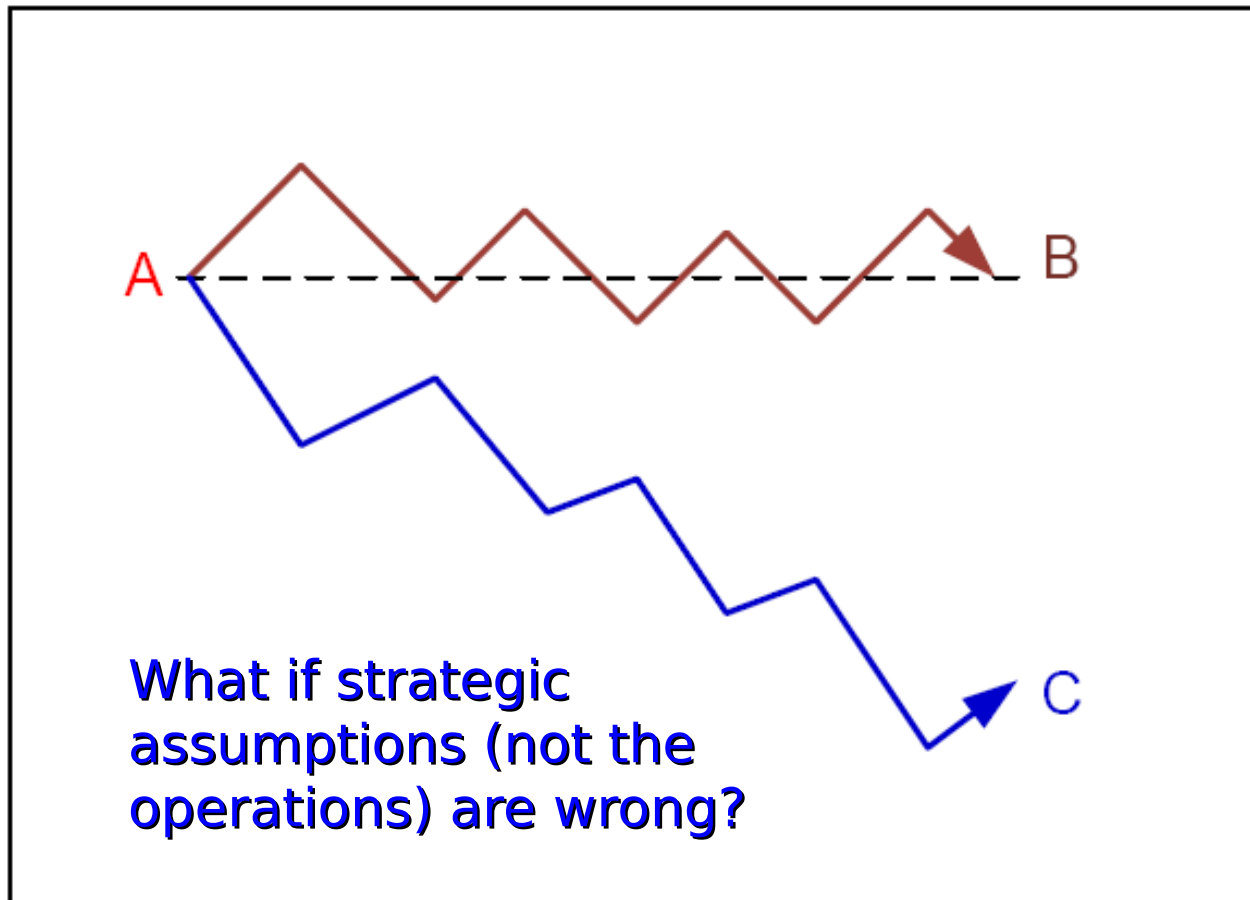
A

B

What if strategic assumptions (not the operations) are wrong?

C

Act and Adjust:
What Do We Need to Do Differently?

- Success (or mere survival) depends on new projects: creating new products, entering new markets, acquiring new customers (or businesses), or streamlining some process.

- Most new projects and ventures fail!
  - Hollywood movies: 60% chance of failure
  - Mergers and acquisitions: 60%
  - IT projects (large-scale): 70%
  - New food products: 80%
  - New pharmaceutical products: 90% …

Act and Adjust:
What Do We Need to Do Differently?

Harrah's Closed-Loop Marketing Model
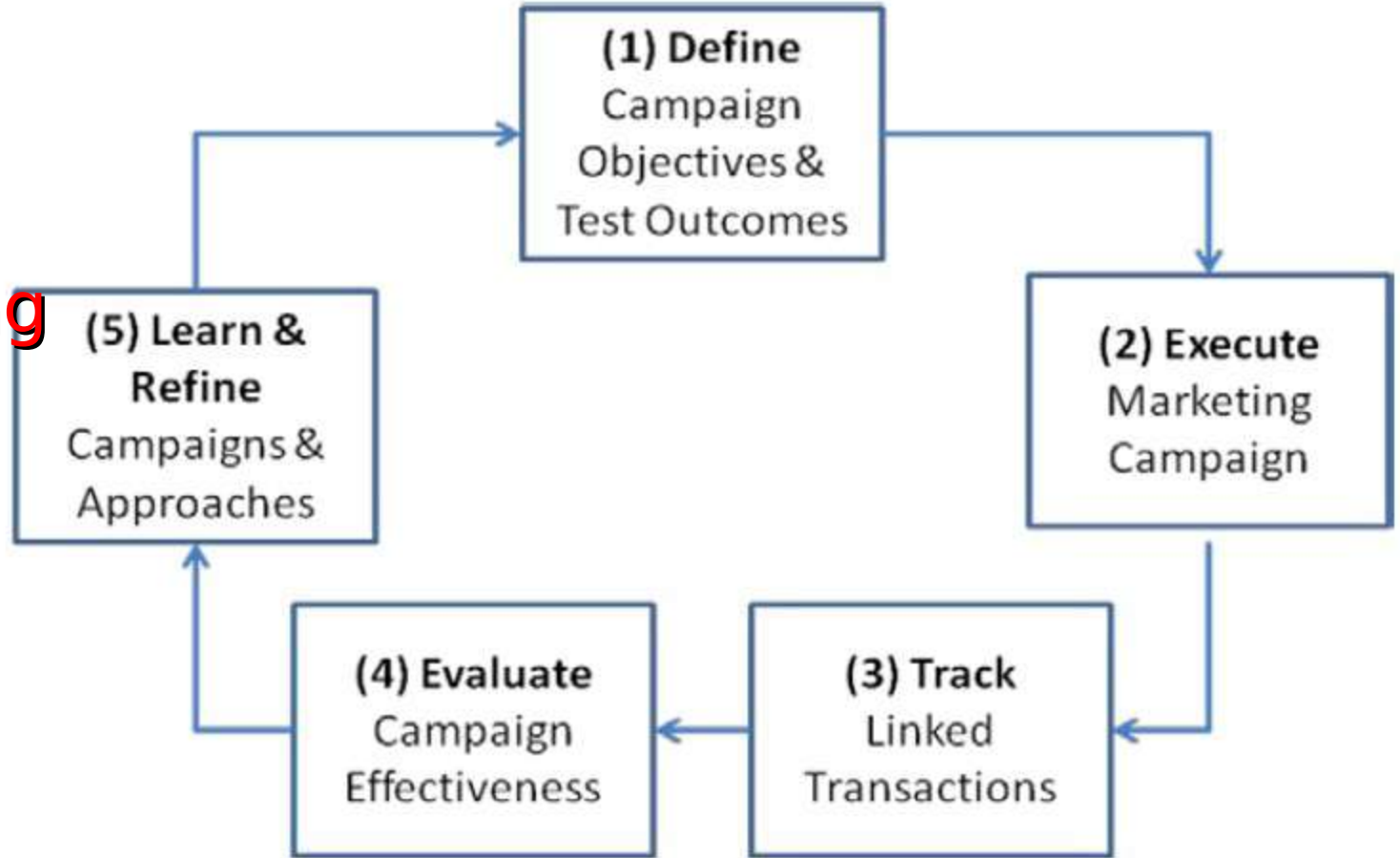
(1) Define Campaign Objectives & Test Outcomes

(2) Execute Marketing Campaign

(3) Track Linked Transactions

(4) Evaluate Campaign Effectiveness

(5) Learn & Refine Campaigns & Approaches

Act and Adjust:
What Do We Need to Do Differently?

- Saxon Group's findings:
  - Only 20 percent of the organizations utilized an integrated performance management system
  - Fewer than 3 out of 10 companies developed plans that clearly identified the expected results of major projects or initiatives
  - More than 75 percent of the information reported to management was historic and internally focused; less than 25 percent was predictive of the future
  - The average knowledge worker spent less than 20 percent of his or her time focused on the so-called higher-value analytical and decision support tasks

Performance Measurement

- **Performance measurement system**

  A system that assists managers in tracking the implementations of business strategy by comparing actual results against strategic goals and objectives

  - Comprises systematic comparative methods that indicate progress (or lack thereof) against goals

Performance Measurement
KPIs and Operational Metrics

- **Key performance indicator (KPI)**

  A KPI represents a strategic objective and metric that measures performance against a goal

- Distinguishing features of KPIs

  - Strategy
  - Targets
  - Ranges

  - Encodings
  - Time frames
  - Benchmarks

Performance Measurement

- **Key performance indicator (KPI)**

  Outcome KPIs   vs.   Driver KPIs

  (lagging indicators   (leading indicators

   e.g., revenues)   e.g., sales leads)

- Operational areas covered by driver KPIs
  - Customer performance
  - Service performance
  - Sales operations
  - Sales plan/forecast

Performance Measurement

- Problems with existing performance measurement systems
  - The most popular system in use is some variant of the balanced scorecard (BSC)
    - 50-90% of all companies implemented BSC
  - BSC methodology is a holistic vision of a measurement system tied to the strategic direction of the organization and based on a four-perspective view of the world:
    - Financial measures supported by customer, internal process, and learning and growth metrics

Performance Measurement

- The drawbacks of using financial data as the core of a performance measurement:
  - Financial measures are usually reported by organizational structures and not by the processes that produced them
  - Financial measures are lagging indicators, telling us what happened, not why it happened or what is likely to happen in the future
  - Financial measures are often the product of allocations that are not related to the underlying processes that generated them
  - Financial measures are focused on the short term returns

"Financial myopia"

Performance Measurement

- Good performance measures should:
  - Be focused on key factors.
  - Be a mix of past, present, and future.
  - Balance the needs of all stakeholders (shareholders, employees, partners, suppliers, etc.).
  - Start at the top and trickle down to the bottom.
  - Have targets that are based on research and reality rather than be arbitrary.

BPM Methodologies

- An effective performance measurement system should help:
  - Align top-level strategic objectives and bottom-level initiatives.
  - Identify opportunities and problems in a timely fashion.
  - Determine priorities and allocate resources accordingly.
  - Change measurements when the underlying processes and strategies change.
  - Delineate responsibilities, understand actual performance relative to responsibilities, and reward and recognize accomplishments.
  - Take action to improve processes and procedures when the data warrant it.
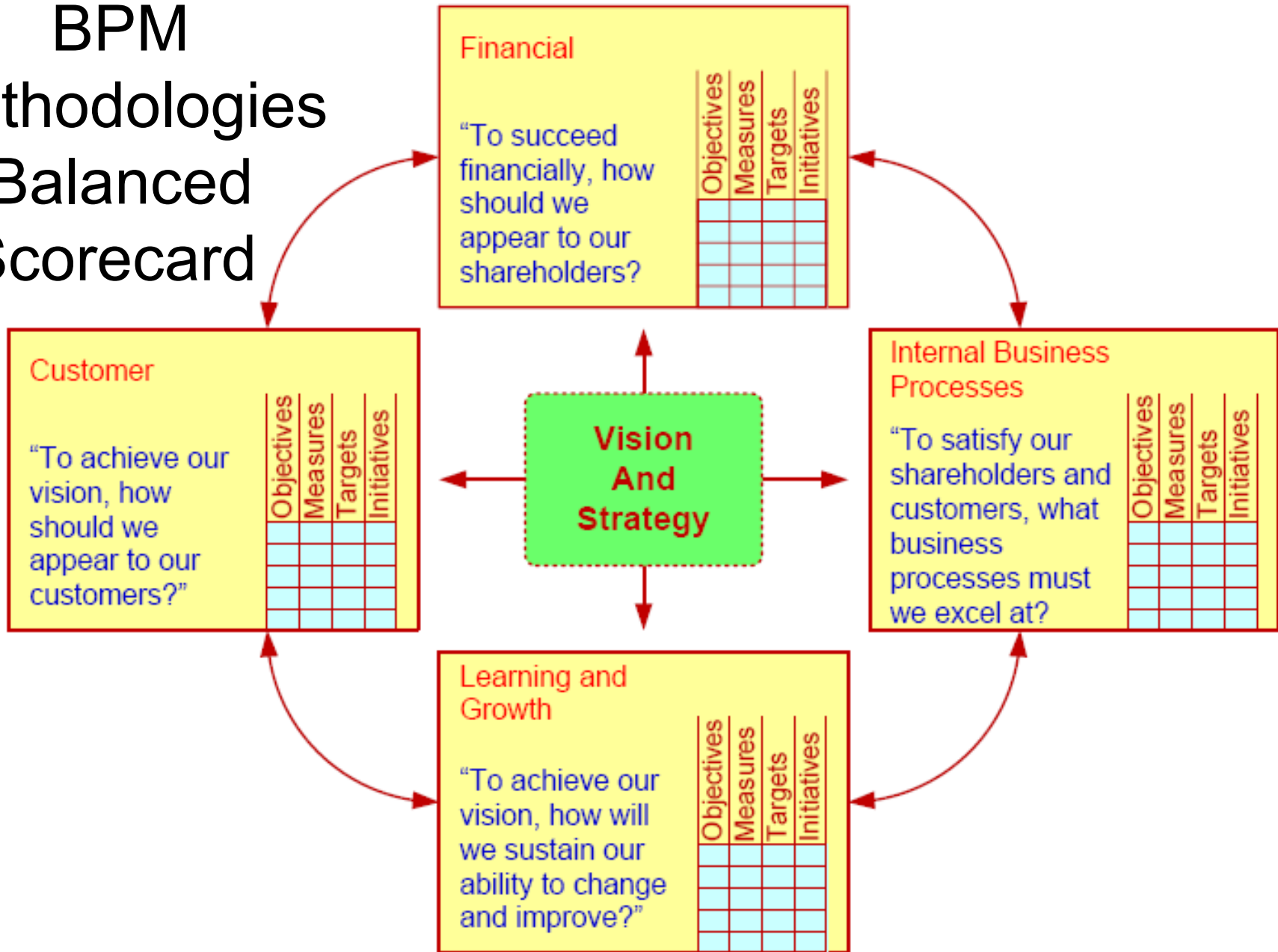 - Plan and forecast in a more reliable and timely fashion.

BPM Methodologies

- **Balanced scorecard (BSC)**

  A performance measurement and management methodology that helps <u>translate</u> an organization's financials, customer, internal process, and learning and growth objectives and targets into a set of actionable initiatives

- "The Balanced Scorecard: Measures That Drive Performance"   *(HBR, 1992)*

BPM Methodologies Balanced Scorecard

Financial
"To succeed financially, how should we appear to our shareholders?"

Objectives	Measures	Targets	Initiatives

Customer
"To achieve our vision, how should we appear to our customers?"

Objectives	Measures	Targets	Initiatives

Vision And Strategy

Internal Business Processes
"To satisfy our shareholders and customers, what business processes must we excel at?"

Objectives	Measures	Targets	Initiatives

Learning and Growth
"To achieve our vision, how will we sustain our ability to change and improve?"

Objectives	Measures	Targets	Initiatives

For Internal Circulation and Academic Purpose Only

BPM Methodologies

- The meaning of "balance"
  - BSC is designed to overcome the limitations of systems that are financially focused
  - Nonfinancial objectives fall into one of three perspectives:
    1. Customer
    2. Internal business process
    3. Learning and growth

BPM Methodologies

- In BSC, the term "balance" arises because the combined set of measures are supposed to encompass indicators that are:
  - Financial and nonfinancial
  - Leading and lagging
  - Internal and external
  - Quantitative and qualitative
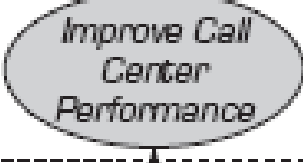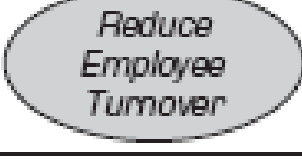 - Short term and long term

BPM Methodologies

- Aligning strategies and actions
- A six-step process
    1. Developing and formulating a strategy
    2. Planning the strategy
    3. Aligning the organization
    4. Planning the operations
    5. Monitoring and learning
    6. Testing and adapting the strategy

BPM Methodologies

Strategy map

A visual display that delineates the relationships among the key organizational objectives for all four BSC perspectives

	Strategy Map: Linked Objectives	Balanced Scorecard: Measures and Targets		Strategic Initiatives: Action Plans
Financial	Increase Net Income	Net income growth	Increase 25%	
Customer	Increase Customer Retention	Maintenance retention rate	Increase 15%	Change licensing and maintenance contracts
Process	Improve Call Center Performance	Issue turnaround time	Improve 30%	Standardized call center processes
Learning and Growth	Reduce Employee Turnover	Voluntary turnover rate	Reduce 25%	Salary and bonus upgrade

BPM Methodologies

- **Six Sigma**

  A performance management methodology aimed at reducing the number of defects in a business process to as close to zero defects per million opportunities (DPMO) as possible

BPM Methodologies

- **Six Sigma**

  - The DMAIC performance model

    A closed-loop business improvement model that encompasses the steps of defining, measuring, analyzing, improving, and controlling a process

  - Lean Six Sigma

    - Lean manufacturing / lean production

    - Lean production versus Six Sigma (see Table 3.2 for a comparison)

BPM Methodologies

- **How to Succeed in Six Sigma**
  - Six Sigma is integrated with business strategy
  - Six Sigma supports business objectives
  - Key executives are engaged in the process
  - Project selection is based on value potential
  - There is a critical mass of projects and resources
  - Projects-in-process are actively managed
  - Team leadership skills are emphasized
  - Results are rigorously tracked
- BSC + Six Sigma = Success (see Tech. Ins. 9.3)

BPM Methodologies

- Integrating Six Sigma with BSC by
  - Translating their strategy into quantifiable objectives
  - Cascading objectives through the organization
  - Setting targets based on the voice of the customer
  - Implementing strategic projects using Six Sigma
  - Executing processes in a consistent fashion to deliver business results
  - See Table 3.3 for a comparison of balanced scorecard and Six Sigma

BPM Technologies and Applications

- BPM architecture
    - The logical and physical design of a system
    - BPM systems consist of three logical parts:
        1. BPM Applications
        2. Information Hub
        3. Source Systems
    - BPM systems consist of three physical parts:
        1. Database tier
        2. Application tier
        3. Client or user interface

BPM Architecture and Applications

- **BPM applications**
  1. Strategy management
  2. Budgeting, planning, and forecasting
  3. Financial consolidation
  4. Profitability modeling and optimization
  5. Financial, statutory, and management reporting

BPM Applications
Budgeting, Planning, Forecasting, Modeling, Optimization, Strategy Management, Reporting ...

Information Hub

Source Systems
ERP, CRM, SCM, Legacy, Spreadsheets, Analytical Apps, External Data ...

BPM Architecture and Applications

- Leading BPM Application Suits/Vendors
  - SAP Business Objects Enterprise Performance Management
  - Oracle Hyperion Performance Management
  - IBM Cognos BI and Financial Performance Management
  - Microstrategy, Microsoft

  - BPM Market versus BI Market?

Performance Dashboards

- Dashboards and scorecards both provide visual displays of important information that is consolidated and arranged on a single screen so that information can be digested at a single glance and easily explored

Performance Dashboards

Performance Dashboards

- Dashboards versus scorecards
  - **Performance dashboards**

    Visual display used to monitor operational performance (free form)
  - **Performance scorecards**

    Visual display used to chart progress against strategic and tactical goals and targets (predetermined measures)

Performance Dashboards

- Dashboards versus scorecards
  - Performance dashboard is a multilayered application built on a business intelligence and data integration infrastructure that enables organizations to measure, monitor, and manage business performance more effectively

    - Eckerson

- Three types of performance dashboards:
  1. Operational dashboards
  2. Tactical dashboards
  3. Strategic dashboards

Performance Dashboards

- Dashboard design
  - "The fundamental challenge of dashboard design is to display all the required information on a single screen, clearly and without distraction, in a manner that can be assimilated quickly"

  (Few, 2005)

Performance Dashboards

- What to look for in a dashboard
  - Use of visual components (e.g., charts, performance bars, spark lines, gauges, meters, stoplights) to highlight, at a glance, the data and exceptions that require action
  - Transparent to the user, meaning that it requires minimal training and is extremely easy to use
  - Combines data from a variety of systems into a single, summarized, unified view of the business
  - Enables drill-down or drill-through to underlying data sources or reports
  - Presents a dynamic, real-world view with timely data updates
  - Requires little, if any, customized coding to implement, deploy, and maintain

Reference

- Goyal D. P. Management Information Systems, Managerial Perspectives, Macmillan India Ltd. Second Edition 2008

- Oka, M. M. Management information System14th Edition, Everest Publication.

- Sadagopan. S. Management information System, PHI publication