



## TDWI's Business Intelligence Journal

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### BI Experts' Perspective: Developing a BPM System

Amanda Arnold is the BI director at Eldon, a midsize manufacturing firm. Senior management has asked Amanda to take the lead in developing an enterprisewide business performance management (BPM) system. The system will involve performance dashboards with carefully selected metrics. The system goals include:

- Support the strategic business objectives
- Help the organization perform as an integrated whole
- Motivate business units and employees to meet their objectives
- Evaluate business units and employee performance
- Identify where problems are occurring

This isn't Amanda's first experience with BPM. Several years ago (at a previous employer) she was involved in a similar initiative that wasn't successful. The problems were not with the technical implementation—that went well. Rather, she encountered negative reactions to the metrics used.

Some business units and employees tried to “game” the system by attempting to have metrics and benchmarks that would show that they were performing well. Rather than bringing the organization together in the pursuit of common goals, business units and employees tried to optimize their individual positions. When performance wasn't good, the system was often used to attach blame.

Because of this experience, Amanda knows that the selection of metrics is critical to the system's ultimate success. Please help Amanda answer the following questions:

1. Who should be involved in setting the metrics?
2. What processes should be used in setting the metrics?
3. How can suboptimization (“gaming the system”) be avoided?
4. How should fair and appropriate metrics be determined?
5. What are the best ways for the organization to get buy-in from participants?
6. How can the blame game be avoided?

#### CRAIG SCHIFF

The challenge that Amanda Arnold is facing is a common one for companies implementing business performance management. With BPM, sometimes the business challenges are greater than the technology ones, as she apparently already understands. Developing the right metrics, with the appropriate level of accountability and ownership, is critical for performance management success.

The first step is probably the most difficult: you need to get senior executive participation. What's needed here is a cross-functional team with managers from each major functional area of the company (finance, IT, HR, services, sales, marketing, R&D, etc.). You also need representation from the top of the company: the CEO, president, or COO, at least initially. Without it, the team will just be guessing at the right metrics. In many cases, as people move to a BPM system, they tend to just place key ratios from the current set of monthly reports on a dashboard. These may be metrics, but are probably not the company's key performance indicators (KPIs). To get at the KPIs, you need to start at the top.

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At the first meeting, the most senior executive present needs to align the group around the company's strategy. This is accomplished by clearly stating the company's key goals. While most members of this group should be familiar with the strategy, they may have outdated or partial information about certain aspects. This is a good time to get everyone on the same page. For example, the team may know that the company is seeking to grow, but they may not know how quickly, at what cost, and whether the desire is to grow organically or by acquisition. Once this strategy is understood and internalized, the process of developing KPIs for the BPM dashboard can begin.

With the strategy in hand, the team needs to go through the following analysis:

- **Goals and objectives.** What are the short- and long-term objectives required to achieve the goals of the corporate strategy?
- **Key business drivers.** What are the specific execution steps to meet these goals and objectives?
- **Key performance indicators.** What measures of success are tied to the drivers?
- **Supporting metrics.** What are the detailed measures that feed and augment the KPIs?

This top-down approach to developing KPIs and metrics has many benefits. First and foremost, it assures that the KPIs are, in fact, tied back to the corporate strategy, which is key. Second, it reduces the likelihood of measures being included for political or ego reasons.

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Finally, since the KPIs have been developed in a collaborative fashion by a team with broad representation, this helps generate buy-in and acceptance across the company.

There are several additional tasks the team must perform before they are ready to populate their corporate dashboard. They need to determine if they want to utilize a particular methodology. The Kaplan-Norton Balanced Scorecard is the most common, and it helps to ensure the right mix of measures (financial, customer, employee, and internal process). While some companies, particularly larger ones, choose this path and the investment in time and money it requires to do properly, others elect to follow a custom approach.

Regardless of the approach taken, team needs to look at the following items as it finalizes its list of KPI candidates:

- **Inclusion of financial measures.** Financials are often the best measure of success in achieving the company's strategy. Most teams have no problem including these because they are most comfortable and familiar with the measures and the data sources.
- **Inclusion of non-financial measures.** While the financial measures are lagging indicators that look at the past (last quarter, last month, last week, etc.), non-financials can serve as leading indicators of future results. For example, declining customer satisfaction may ultimately impact renewals and maintenance revenue as well as new sales. Many teams struggle with including these kinds of measures because they are not as trusted as the financial results and the data may not be readily available. It is important, however, to make sure there is a mix of financial and non-financial measures, even if some of the data comes from a spreadsheet or via manual input.
- **Make sure the KPIs are actionable.** While it might be interesting to watch the price of oil rise, for example, there is little you can do about it. However, if you watched the profitability of your trucking routes (which are affected by the price of oil), you might choose to drop certain routes or run them less frequently and with fuller loads.
- **Total number of KPIs.** It is difficult to focus on too many equally important things. That is why it is generally recommended you have 12–25 KPIs. You can have many more supporting metrics, but keep the KPIs high-level and focused.

Once the KPIs have been agreed upon, some important and potentially difficult decisions must be made: Who is responsible for each KPI, and what are the general action plans for emergencies? Now is the time to assign ownership and responsibility—not when you are sitting in a management meeting looking at KPIs that are in the “red zone.” Next, the KPI owners should develop a framework for action to take when their KPIs are underperforming. Hasty decisions might be made in crisis mode if there is not already an action plan in place.

With these tasks completed, the lead representative from each functional area can now work with his or her own team to develop departmental dashboards that tie back to and support the corporate one just developed. This series of cascading dashboards across the company will help generate strategic alignment, provide increased relevancy, and push ownership and accountability further down into the organization. The end result will be the beginnings of a true performance culture.

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