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Dashboards & Enterprise Performance Management

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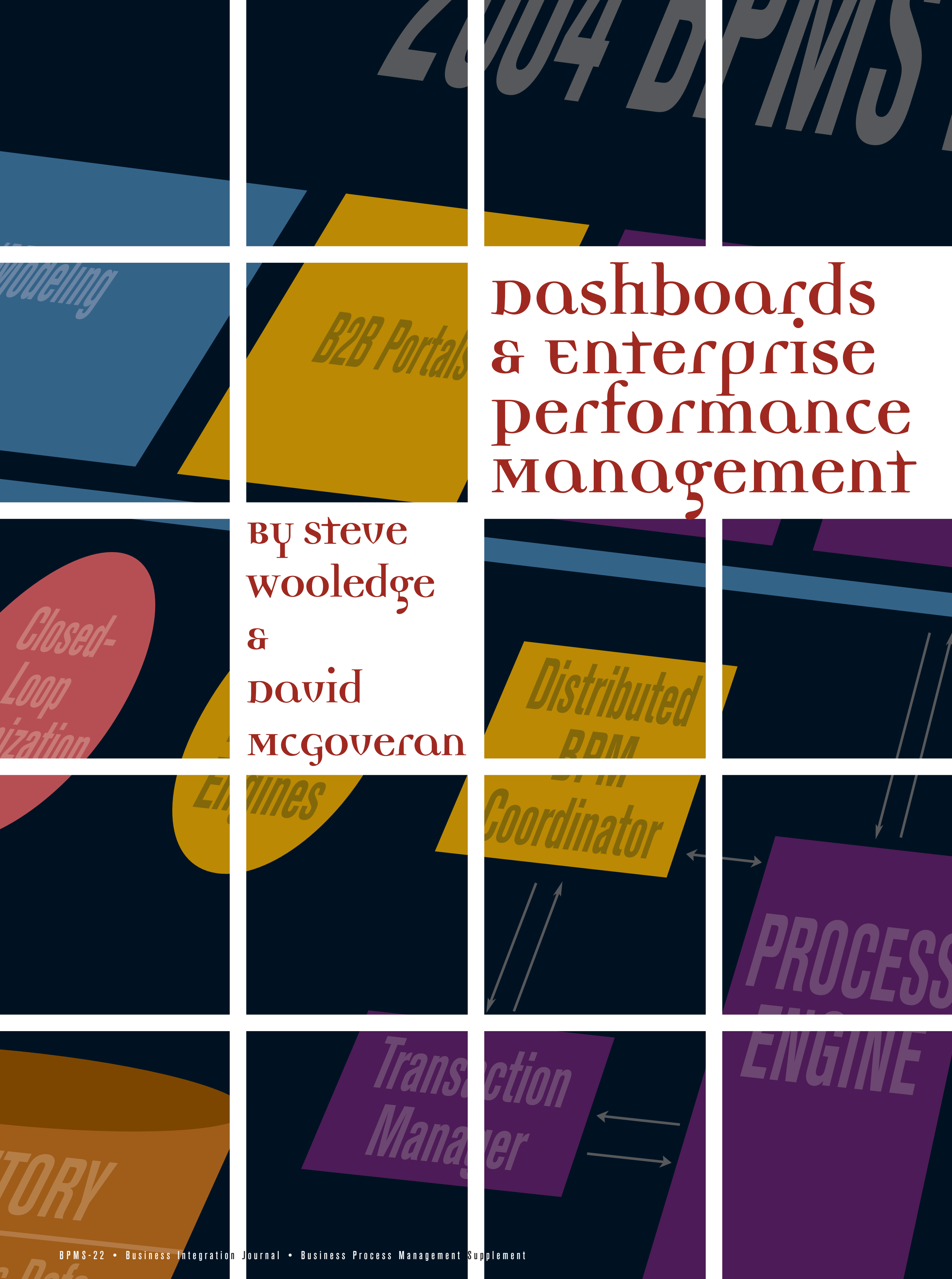

Enterprise performance management (EPM) is informally defined as "a systematic, data-oriented approach to managing people at work that relies on positive reinforcement as the major way to maximize performance." EPM is enabled by data and technology that give people access to enterprise performance metrics, or key performance indicators, to measure and improve the speed and effectiveness of organizational operations.

Organizations from every industry face similar challenges: increased competition, fewer resources, and less time to react to changing market conditions. Increased transparency to external forces has increased the scrutiny on organizations, while simultaneously lowering barriers to entry for competition. Often, companies become so worried about these external forces that they get preoccupied with pleasing investors and auditors while fending off competition. They then neglect the assets that matter most: the people, processes, and goals that drive their organization's performance.

When organizations fail, it's often not because of a flawed strategy, but their inability to effectively communicate and execute the strategy. By implementing EPM processes and tools, you can give people dashboards that provide the information necessary to track progress against goals (see Figure 1). Aligning people with goals, metrics, and processes helps the organization overcome challenges and maintain competitive advantage.

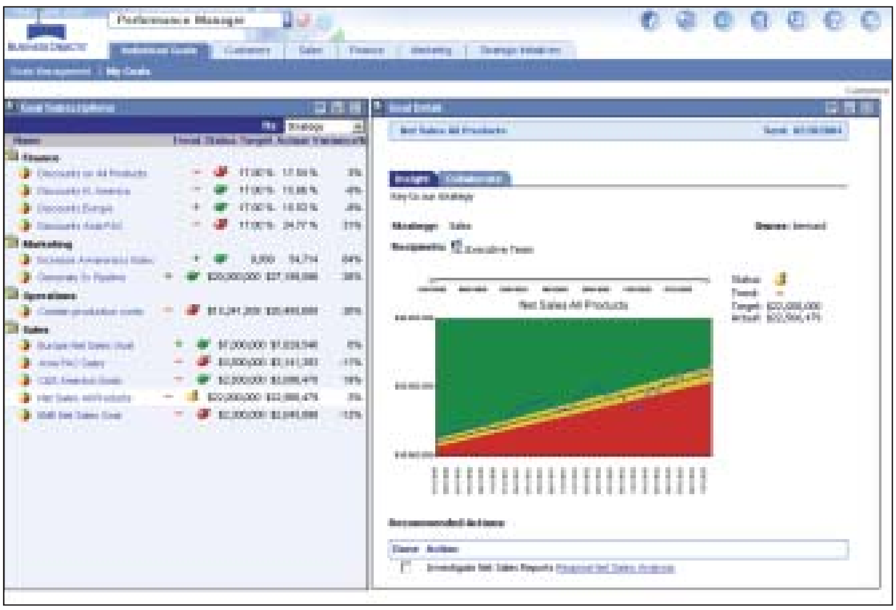

Figure 1: EPM Dashboard With Goals Management

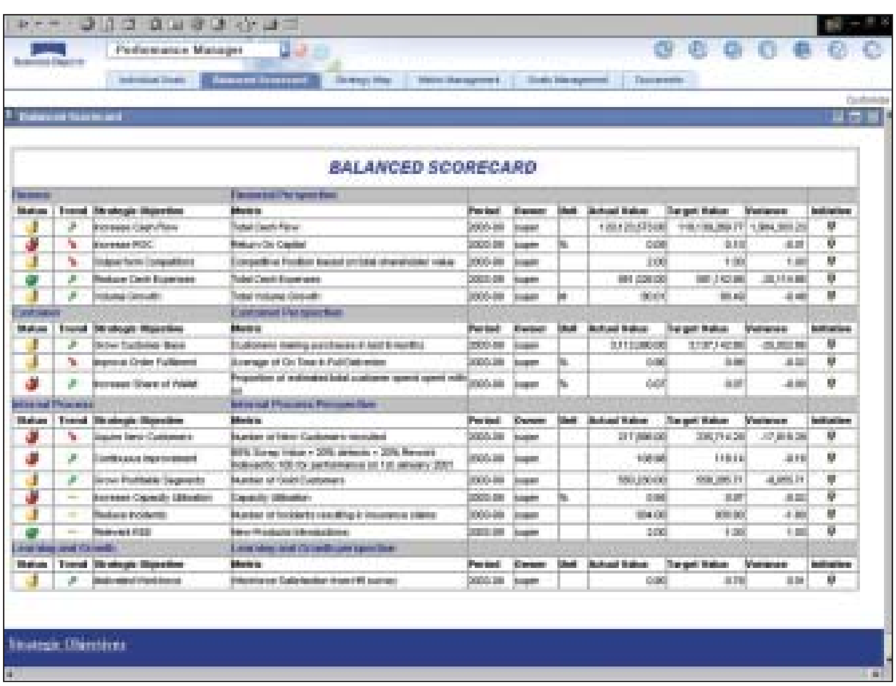

Figure 2: EPM Dashboard With Balanced Scorecard

An EPM solution gives every person in the organization, regardless of title or responsibility, access to a dashboard to help them track, understand, and manage their daily business. Its primary goal is to achieve organizational accountability and control. We'll explain how an EPM solution helps achieve this goal. As you'll see, EPM helps personnel become accountable, motivated, measured, and appropriately rewarded. We'll also explain how EPM is related to both business process management (BPM) and business activity monitoring (BAM).

The Problem

What happens after leaders and managers deliberate and decide the best strategy to win in the market? Do they lock it up in an annual report, or post a bulletin board in hallways, hoping their staff will rally around the cause? Unfortunately, "yes" is a typical answer. It seems like the perfect "Dilbert" cartoon. The employees wander around, wondering what to do, when suddenly Dilbert sees the new corporate strategy displayed next to the coffee machine: "Delight the customer, be number one in market share, and lower costs through 'operational excellence.'" Dilbert would say, "Aha! That's what I need to do! Lower costs! I'll throw this coffee machine out the window to decrease our variable costs for coffee beans." The ramifications of such responses would be inappropriate and ultimately devastating.

EPM provides a way to give every employee a view of the business on their computer through a personalized, but corporate dashboard, often with a balanced scorecard display (see Figure 2). Examples of balanced scorecard tools include:

- Strategy maps, which connect desired outcomes to drivers via cause-effect chains (see Figure 3)
- Metric trees, which provide decomposition of key performance indicators into source measures (see Figure 4).

With balanced scorecard displays, you can communicate strategic objectives and how everyone affects them. But effectively communicating the strategy and goals of the organization isn't enough. There must also be accountability to ensure that people act congruently to support top-line goals and strategies.

Can this be achieved through allocating budgets for departmental resources and reallocating based on actual vs. planned achievement? Well, sometimes. But many goals aren't as measurable as net income. For example, simply increasing the sales department budget doesn't ensure increased revenues or market share. Additionally, most budgets are set on an annual basis. What happens when market conditions change monthly or weekly? The need for a flexible EPM system that takes all the organization's goals into account is paramount, whether those goals are quantitative financial measures or qualitative measures such as "customer loyalty." This makes everyone accountable by assigning them specific, measurable goals, whether they have a budget or not.

Through a dashboard, people can be alerted when any goal isn't being met. They can then analyze trends and discover root causes. Moreover, an innovative EPM system lets users analyze the business, collaborate with co-workers, and take action to get operations back on track. Flexibility is required because no two organizations are identical and neither are the processes or systems that help them succeed. Your business processes shouldn't have to follow a technology vendor's definition of operational excellence! The dashboards created for your users need to be easily configurable to achieve organizational fit. They should support changes easily as new conditions warrant.

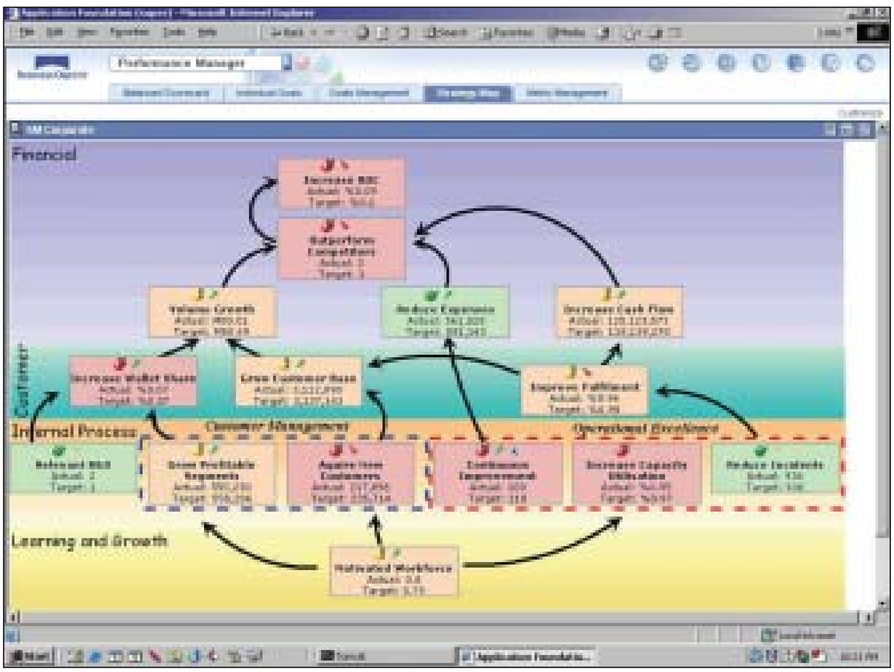

Figure 3: Strategy Map

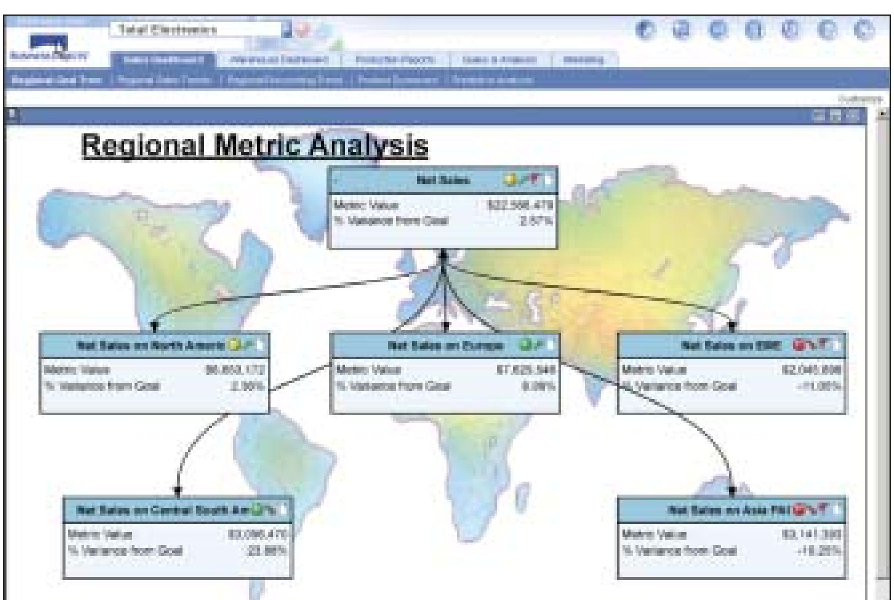

Figure 4: Metrics Tree

Achieving Strategic Performance

EPM sounds easy enough, but where should you start? There may be thousands of people in your organization, each with varying roles and responsibilities, with each depending on one another to accomplish many goals that are cross-functional and globally dispersed. Tying each person's performance to organizational goals sounds challenging and expensive, like boiling the ocean, but it really doesn't need to be that difficult.

The first step is to realize that performance management can be applied to any business process within the organization where there's a need to view and analyze all the points of measure, or measured objects, that define enterprise performance, productivity, and profitability.

A "measured object" is an identifier for a person, place, or thing the performance of which can be measured and displayed in a dashboard. Tracking performance of each measured object requires "metrics." A metric is defined as a measurement over time of a variable that's meaningful in judging the performance of something. Most important, metrics must have goals associated with them that benchmark performance and act as a grading scale to give the metrics meaning relative to top-line strategies.

You can then take the following five-step methodology and apply it to any process:

1. Identify a specific business pain and determine the associated causes deterring success. This can be phrased in terms of a strategy to achieve an objective and impediments to that strategy. For example, if the organization's strategy is to gain widget market share by having the lowest costs on its manufactured parts, giving pricing power and com-

petitive advantage in the market, start by determining the reasons for not achieving this low-cost approach.

2. Determine the operational goals that must be set to get operations aligned with this strategy. For example, a goal may be to lower widget raw material costs by 10 percent over 12 months and a simultaneous goal may be to lower production variable costs by 5 percent over six different months.

   Once the operational goals are determined, you must determine the objects to measure, their associated metrics, and the frequency of measurement. It's much easier to hold someone accountable if they can track their individual performance in a dashboard and where they stand relative to peers. For example, if lower raw material costs is the goal, what can you measure that affects this goal? Perhaps there are 12 buyers in different regions, each buying the same part from different suppliers. Is it enough to have a "widget monthly spend" metric, or would it be more meaningful to show each buyer's monthly spend per unit and compare this to the goal for each buyer?

3. Different objects may be measured with differing frequencies. For example, cost per unit may only be measured monthly, whereas production efficiency may be measured daily. Given this variability, an EPM dashboard should have metrics that are flexible enough to accommodate an organization's individual needs.

4. Identify business rules, or thresholds, for immediate action. As the EPM initiative grows in scope and complexity, there will be terabytes of performance data generated. It's an overwhelming task to manually monitor all this activity. The solution is "management by exception," or automatically detecting when a metric isn't in compliance and providing notification through the dashboard. Knowing the business rules that trigger alerts and a need for action is critical in focusing efforts on areas that need it most. The EPM system must be able to monitor metrics and proactively notify users when a threshold is reached.

5. Determine who needs to act, and what recommended actions should be taken. This brings us back to accountability. You may be measuring raw material costs and realize your spending is out of control in the eastern region. What steps should be taken to diagnose the situation and who is responsible for taking action? By giving employees an EPM dashboard that's integrated with a business intelligence (BI) information infrastructure, you can easily guide users to the data and reports they need to analyze the root cause of the situation and take action to get operations back on track.

A primary goal of an EPM solution is to achieve organizational accountability and control.

Moreover, once misalignment between performance and goal has been addressed, the accountable party is likely to have discovered some key lessons. Perhaps the "pricing report" they were guided to in their dashboard lacked the necessary information to really diagnose the problem. Perhaps they learned a more efficient way to tackle the problem. Whatever the case, the ability to measure the efficiency of the business process or individuals involved helps you identify opportunities for improvement. Refined best practices can then be re-established and easily implemented, becoming the recommended actions the next time this situation arises. This iterative approach enables optimization of the business processes used to manage performance.

As this five-step methodology is applied throughout the business, and supported using an EPM tool flexible enough to meet your needs, the puzzle pieces begin to come together. A clear view of how to achieve your performance goals will develop. Strategic alignment can be achieved by using dashboards and other tools to communicate strategies and goals throughout the organization and to define common metrics.

Closing the Loop: EPM, BAM, and BPM

EPM uses data-centric monitoring of performance metrics to detect and report exception events via dashboards, enabling the analysis of causes and recommending actions for improving performance. Both EPM and BAM require monitoring large amounts of data, sophisticated analytical techniques, and dashboards for notification. By contrast with EPM, BAM focuses not so much on accountability and strategic performance improvement based on the relationships between objectives and trends, as on business improvement through real-time detection and response to operational events. Both approaches are clearly complementary, compatible management techniques.

Keeping in mind that every business process and activity is defined as having at least one measurable objective, it's easy to see that BPM and EPM converge when the EPM metrics tree is aligned with business process. This can be achieved either by overlaying the process hierarchy (decomposed by function and responsibility) with the metrics tree, or by bottom-up composition from performance measures of process activities. When this is accomplished, the strategic performance improvement capabilities of EPM become integrated with BPM.

Closing the loop between strategies, goals, and individuals with an EPM architecture lets you assign accountability, monitor progress toward goals, and take action to get operations back on track with objectives in the event of a miscue. Capturing best practices of high-performance individuals and sharing these throughout the organization help align performance across all areas of the business. EPM isn't just another "buzz" term surrounded by empty promises or a new topic of ridicule in a "Dilbert" cartoon. It can and should be a pragmatic approach to aligning an organization's people and business processes with strategic objectives through dashboards, enabling organizational vision to become reality. **bij**

About the Authors

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