



Sustainability via Effective Business Performance Management

Convert Stakeholder value into a drive for the creation of sustainable business value

Contemporary v Traditional

Every business, even not-for-profit organisations, are concerned about their performance and the value they both add and create; particularly performance levels which establishes sustainable value in an increasingly challenging and dynamic environment.

Historically, in the traditional approach to business management, too often 'performance' and 'value' gets immediately translated into financial terms and metrics with an annualised budget, P&L and Balance Sheet, dictating management decision making. This process of rapid conversion completely misses the point and strips out the non-financial key value drivers at the heart of achieving breakthrough into sustainability.

Of course financial metrics are an important measure of performance with financial value creation a key determinant of success. However, this is the **OUTCOME** of a largely non-financial process.

Contemporary business performance management focuses on the key value drivers associated with a wide range of stakeholders (eg staff, suppliers, customers, etc.) which consists of a disparate range of metrics. These value drivers are based upon non-financial 'assets' such as, IPR, client relationships/mix, value-added support delivery, quality, brand/image, knowledge, etc., management of which converts them into financial gain. Managing these assets with continuous improvement embedded into the process is vital for enabling the stakeholder loyalty and commitment which translates into sustainability.

Such an approach requires a fundamental change in the management process; away from traditional financial dominance which forces short term decision making, to a more contemporary, yet proven, methodology of balanced asset management using both non-financial and financial metrics to provide equally balanced decision making for both short and long term objectives.

Whilst this approach challenges the organisation to align itself to the key value drivers in the delivery of sustainable stakeholder value, this process of change need not be complicated. Indeed, simplicity and common sense should be the check and balance for this process of change.

This leaflet is therefore intended as a basic introduction into a best practice approach to business performance management; enabling your enterprise to be **'fit for your future'**.

..... Making a Difference!



Figure 1 illustrates the performance management process in context with its enterprise environment and properly aligned to the enterprise Vision and its supporting strategic business plan. The strategic business planning process is explained in more detail in our Vision to Value (V2V) papers.

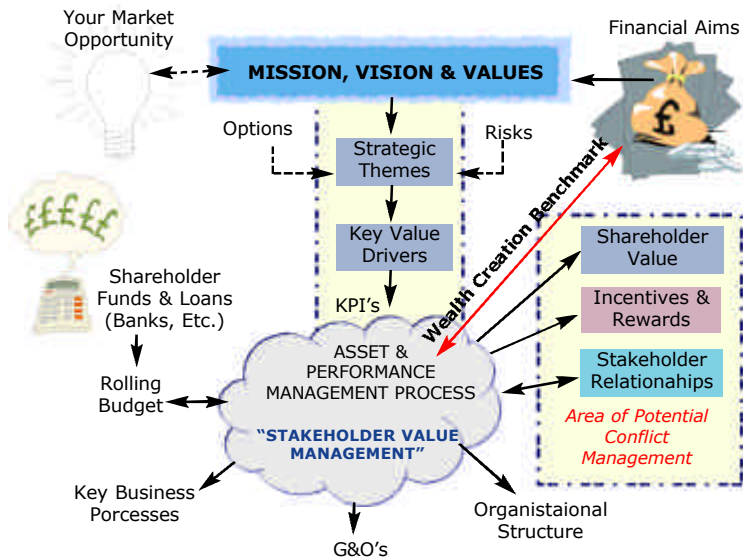
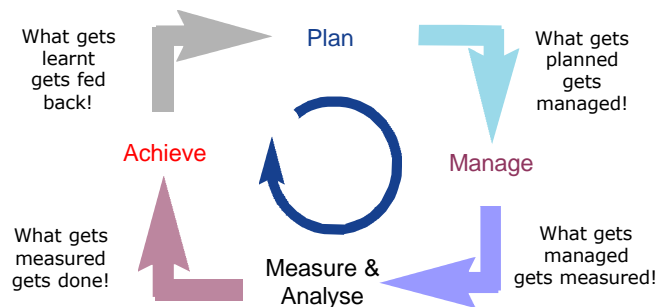


Figure 1: Managing for Sustainable Value

The diagram also highlights the importance of understanding the dynamics involved in managing the areas of potential conflict between the disparate needs of the various stakeholder groups. This enables a more considered approach for informed decision making based upon full appreciation of the cause-effect and risk interaction between these groups. The fundamental point is that, whilst shareholder value IS the prime directive for private enterprise, shareholders are best served by the management of 'value' to the other stakeholder groups as opposed to being financially driven by shareholder value as the prime mover for decision making. This concept will be explained in more detail as we progress through this leaflet.

Before getting into performance management in more detail, it is appropriate to consider the context for this process in a little more detail. Figure 2 is a development from Demming's Plan, Do, Check, (Analyse), Act cycle. The achievement cycle above is based upon the following principles:

- A plan is essential for longer term achievement and sustainability
- The plan establishes the benchmarks and focus for managing decision making
- Decisions must be monitored and analysed for both risk and outcome
- The outcome is often imperfect and provide lessons for future improvement
- These lessons of continuous improvement are fed back to keep the plan 'live' for the next iterative cycle.



It won't happen if you don't plan for it!

Figure 2: Achievement Cycle

All too often business plans, even if they exist, after expending a lot of time, effort and money, collect dust on a shelf or reside in a locked cabinet; what a waste! A properly structured business plan provides direction, purpose and is the strategic route map over time towards achieving the company's long term goals and ambitions. There is no way that this plan can be perfect and it should not be expected to be so. Therefore keeping the plan as a 'live' desk-top document and managing the process of change via an efficient and effective performance management process is vital to achieving your aims as well as establishing sustainability. Without such a process in place, an enterprise will 'evolve' and find it very difficult, if not impossible, to deliver on these aims.



To facilitate this process of performance management, informed decision making based on the best assumptions and available information must be employed. Figure 3 illustrates the cycle of conversion that basic data has to go through to achieve an acceptable level of influence over your future. This is the cycle of conversion for efficient and effective performance management.

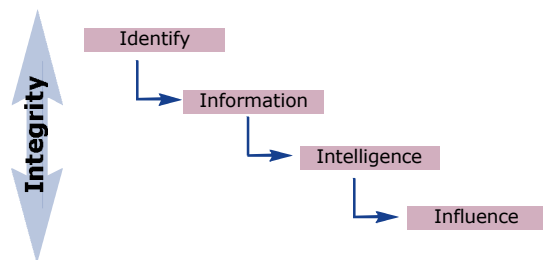


Figure 3: The 5 'eyes' of Business Intelligence

Organisations are rich in raw data contained both within departmental systems (eg sales, finance, operations, etc.) as well as within individual's brains. It is vital to consolidate all this data into information, analyse it and convert it into intelligent 'bytes' so as to improve the informed decision making process. The higher up the decision making ladder one goes, the less certainty about the outcome and the more risk will be attached to the decision. Uncertainty and risk breeds procrastination, yet by sitting on the fence and delaying your decision is a decision in itself ... and the worst decision you can make. The best one can hope for, therefore, is to maximise the influence the decision will have on the outcome. Particularly regarding strategic decisions based upon longer term outcomes, where a higher degree of uncertainty related to issues outside of the organisations direct control become a major factor. Furthermore, cause-effect relationships attached to the decisions must also be taken into account when considering likely outcomes. Assumptions therefore have to be made in predicting likely outcomes and the decisions made within the defined 'risk appetite' of the enterprise and then the outcome managed for 'best-fit' with lessons learnt for the continuous improvement process.

Business Performance Management (BPM):

To remain competitive and create sustainable value, the following criteria must be set for the performance management process:

- Avoid data overload; relevant data and information ONLY must be considered
- The information must be accurate and timely
- It must enable quick and insightful understanding
- It must provide perspective and an appreciation of its relevance and impact on the wider enterprise
- It must be properly aligned and enable simple drill down and audit
- It must enable quick determination of cause-effect impact of strategic change
- It MUST facilitate quick decision making.
- It must provide an appreciation of associated risk

The challenge is therefore to see the wood from the trees and provide a secure knowledge based information system, aligned and cascaded throughout the enterprise, which provides critical information relevant to the users domain of influence. ALSO, this must be achieved WITHOUT the need for an expensive and complex IT infrastructure and overhead.

Business performance management needs can therefore be defined from Figure 3 as;

- Identify relevant data from disparate systems
- Present it on a user friendly interface to enable access to this data for assimilation and conversion into information
- Provide a toolset to customise this interface to analyse the information for conversion into intelligence
- Enable informed decision making based upon this intelligence to create a positive influence on the outcome
- Generate targeted reports to facilitate efficient and effective communication
- Ensure discipline and integrity of the audit trail

Within any business time is the enemy; or at least, not enough of it! Therefore time taken up in meetings can impede productivity. It is sometimes



worth considering how much senior management time is taken up by meetings and considering the cost as well as the time lost. However, some meetings are vital for proper debate and considered decision making with appropriate buy-in and consensus achieved. The performance management review process is one such meeting. The key is to make the meetings themselves timely, productive and efficient. The following list highlights meeting rules which can be used to facilitate efficient and effective BPM meetings:

1. Publish agenda, in advance, to all attendees
2. Publish minutes with clear actions and responsibilities
3. Ensure everyone prepares properly for the meeting
4. Limit meeting attendees to those with relevance only
5. Ensure relevant, timely and accurate information is available in a format that everyone can relate to and understand
6. Ensure clarity of cause-effect and decision making priority areas with visibility of predicted outcome and associated risk factors

The first 4 of these points are common sense disciplines, however, the last 2 are much more difficult to achieve. Very often, companies will start their performance measurement using spreadsheets such as Excel. This is fine at start-up or even continuing at basic user level for some information. Enhanced tools also now provide dashboard type representation for ease of presentation. However, this approach becomes cumbersome, complex and even high risk when integrated on a cross-functional basis and cascaded down through an expanding organisation. Macro's, formulae, assumptions, even purpose, etc., get lost over time and via transfer, presenting massive risk to the enterprise if data integrity is lost or compromised. Not only in the 'result' of the error and its related outcome, but also in traceability, accountability, ownership and corrective action. A potentially catastrophic scenario which can even transfer power, influence and/or control to IT specialist(s) rather than the management team!

BPM Tools and Processes:

Figure 4 highlights what is known as a strategy map; developed using the Balanced Scorecard technique.

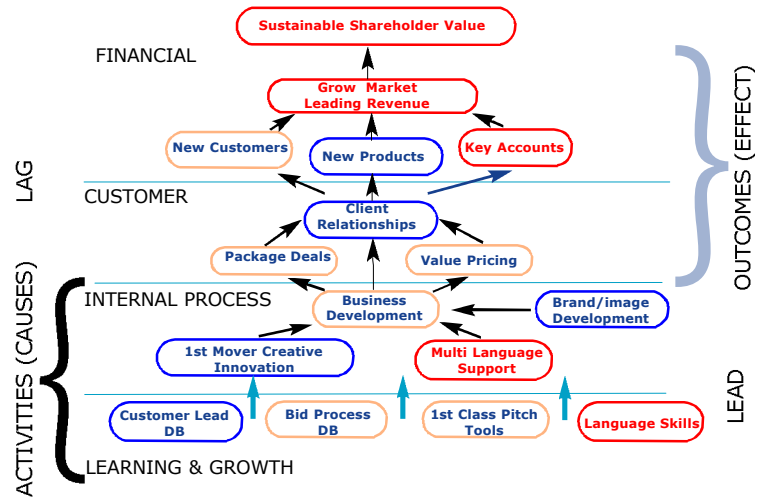


Figure 4: Top level Strategy Map

This 'map' is developed from the company strategy and is complementary with the V2V process mentioned earlier. It employs a 'traffic light' approach to highlight areas of concern/under-performance for further examination. It also is a simple way in which to identify cause-effect relationships and ensure integrity of alignment of activities to key value drivers and strategic purpose.

The 'map' illustrated here is the Board level map which provides at a simple glance a complete understanding of performance in the strategic areas of the business. This leaflet is not intended to go into this process in detail (a separate white paper is available from ISDS on that topic). Rather, it is used here to illustrate a simple tool which is fully compatible with the strategic business planning process and which makes it simple to present, understand and focus on performance management

NB: Such maps can be cascaded down through the organisation at each major level.

'Drilling down' into a red indicator 'bubble' on the map will take you into a scorecard, an example of which is illustrated in Figure 5 below.



Red-Zone KPI Scorecard (top level)

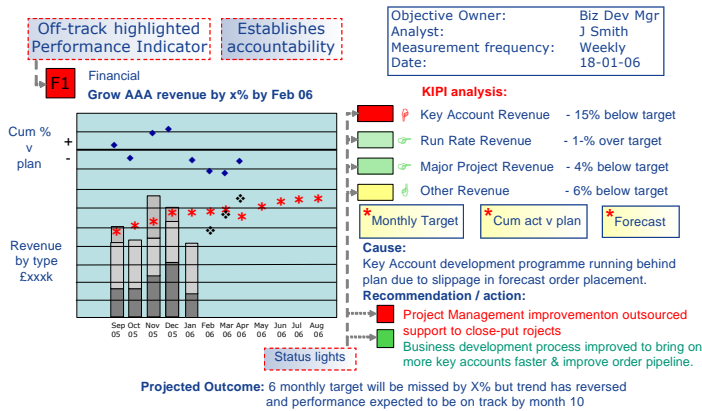


Figure 5: KPI Scorecard

This scorecard contains, on a single page, much of the relevant information management requires to identify cross functional interaction and cause-effect relationships which impact on required performance. In this example, revenue is behind plan due to below par key account revenue being impeded by tardy outsourced support causing delay in close out of active projects already on the order book. At a glance it is easy to see areas of performance, trends, corrective actions, projected outcome and responsibilities. A scorecard would be available for each bubble and drill down into supporting elements also available for further interrogation if required.

One other impediment in the meeting process is ensuring that all relevant people are available for the meeting and then waiting for the forum to convene to consider the information as presented and make their decisions. Whilst the senior management (and Board) forum is vital for key strategic performance reviews and decision making, very often, decisions are required to (and very often can) be made immediately. Why then wait for the forum to convene? The key to this efficiency is in ensuring relevant information is available in the correct format and shared properly between disparate groups to enable risk, cause-effect and change to be properly considered by each group to enable the required outcome to be properly vetted. Buy-in and consensus is thereby enabled and at the very least, relevant parties understand the decision and appreciate its cause-effect impact on their own domain.

Conformance via Sustainable Performance:

This approach requires data to be collated into homogeneous groups from disparate business areas and then presented in a format which the individual finds most appropriate for their understanding and value. Figure 6 below illustrates a dashboard style presentation format, which enable the MD/CEO to see, again at a glance, his own customised site for various stakeholder value and operational performance metrics. When information is shared on a common platform in this way and the individual is allowed to customise their own 'site', then it becomes much easier to share information real time and enable on-line decision making. This in turn, facilitates a much quicker and thereby more efficient and effective performance management review meeting; enabling it to concentrate on the more strategic change, risk and predictive analysis relevant to appropriate short and long term balance.

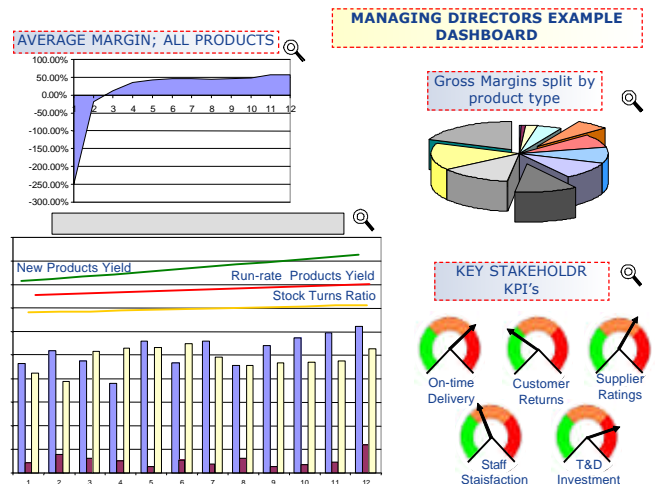


Figure 6: MD/CEO Dashboard example

Being fully compatible with the principles outlined in this leaflet, a holistic benefit of this process and approach is that Board meetings are also furnished with information which facilitates improved understanding of strategic progress, risk and change thereby facilitating improved governance and director fiduciary performance.



This also means that an inherent benefit of this approach is that the audit process, both financial and strategic, is facilitated with full integrity implicit in the system.

Historically, the major hurdle to achieving and implementing this approach, has been the cost of tools/systems and the IT infrastructure required to support it. However, recent advances in technology, processes and tools make this cost-effectively available to even small SME-type companies. These barriers to entry have therefore been effectively removed. However, there is a BUT! It does require a fundamental shift away from the traditional management approach, whereby financial metrics dominate as well as a preparedness to change and adapt to a more strategic approach to 'live' business planning whereby financials are considered as outcomes to business performance metrics.

I make one qualification to this approach and that is that 'cash is king'! Therefore cashflow remains a key metric up front and within the performance management focus. Most SME's are resource limited and cash is often a part of this limitation. Therefore cashflow and its associated dynamics are vital 'lead' indicators within the BPM process.

Fit for your Future:

This performance management leaflet has been written to introduce you to a contemporary approach to achieving breakthrough into sustainable value and the process and tools now available to assist with this approach. It is also intended to whet your appetite for pro-active change in addressing the challenges facing your business in a dynamic and competitive global environment.

Change is a constant and managing that change for enterprise benefit is now a business imperative; a pre-requisite for survival..... let alone for establishing sustainable value

Potential benefits from rising to these challenges; particularly for enterprises looking to achieve that breakthrough into sustainability and/or realise their value in some way are:

- Easily integrated with existing and/or disparate departmental management systems
- Easily customised information interface to satisfy the individual, senior manager and/or board director's needs.
- Fully compliant with best practice current and emerging trends in Corporate Governance
- Highlights cross-functional cause-effect models and alignment of actions, purpose and outcomes.
- Facilitates efficient and effective informed decision making and productive management meetings
- Maintains discipline and integrity of audit trail and process for verification, provenance, conformance and simplified due-diligence.

For further information on BPM and its related issues, visit ISDS at www.perfmgmt.co.uk