white paper

Fundamentals of Business Performance Management

Dr. Bob Frost, Author, Measurement International
Ken Forbes, CTO, Blue Pumpkin Software

ABSTRACT

Business Performance Management is the art and science of establishing systems to ensure you get the best overall performance from your enterprise. To achieve this, executives need to be informed as significant events and trends occur in their businesses. Frontline managers need business metrics that are aligned with corporate goals to assess the performance of their people and to identify areas of opportunity and concern. Employees need clear communication regarding performance expectations and consistent feedback regarding results.

Achieving business goals requires that many technologies and processes be managed effectively. This complexity can be either a roadblock to achieving goals or a source of pain that serves as a catalyst for initiatives to improve productivity across the enterprise, including revenue generation, cost savings, customer satisfaction and employee retention.

Key Issues Discussed:

- Each user community has different performance management needs
- Synchronizing technologies and processes
- The science behind performance management
- Where does the performance improvement come from?
- How comparatives help calibrate what's possible
- Why frequent feedback is better
- Criteria for a good performance management system

DIFFERENT USER COMMUNITIES—DIFFERENT NEEDS

Enterprise Performance Management links company long-term strategy to day-to-day decisions and work activities by establishing metrics that are aligned with business goals to assess and communicate performance results to all levels of the organization. The overriding challenge in performance management is establishing a tight, accurate linkage between business operations and informational outputs for the various user communities (e.g. executives, IT).

As illustrated in Figure 1 each user community has unique concerns and focuses their attention on different aspects of the business. Executives are focused on strategic issues such as financial performance, business growth, customer churn and increasing expenses. Operational managers are concerned with more tactical issues such as hiring and retaining skilled employees, productivity, and identifying and solving problems quickly. Employee associates are concerned with how they are measured and the resulting impact on income, while IT is concerned about how to limit the number of different technologies as they maintain high service levels to the enterprise.

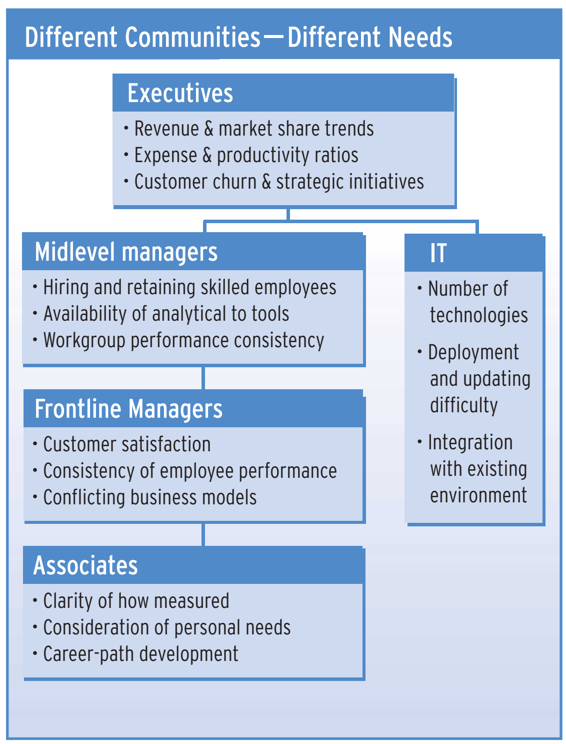


Figure 1: *Different User Communities—Different Needs*

MANY TECHNOLOGIES AND PROCESSES TO SYNCHRONIZE

Many performance management initiatives fail due to a lack of understanding and appreciation of the many technologies and processes that must be synchronized to manage effectively, as illustrated in Figure 2.

There are goal management tasks that are focused on developing a set of Key Performance Indicators (KPI) for each business unit and the corresponding quarterly target values that are all aligned with the enterprise level goals and objectives. This requires collection and careful analysis of historical information to set the proper target levels and the conditions that will generate alerts when a sufficient gap in performance occurs.

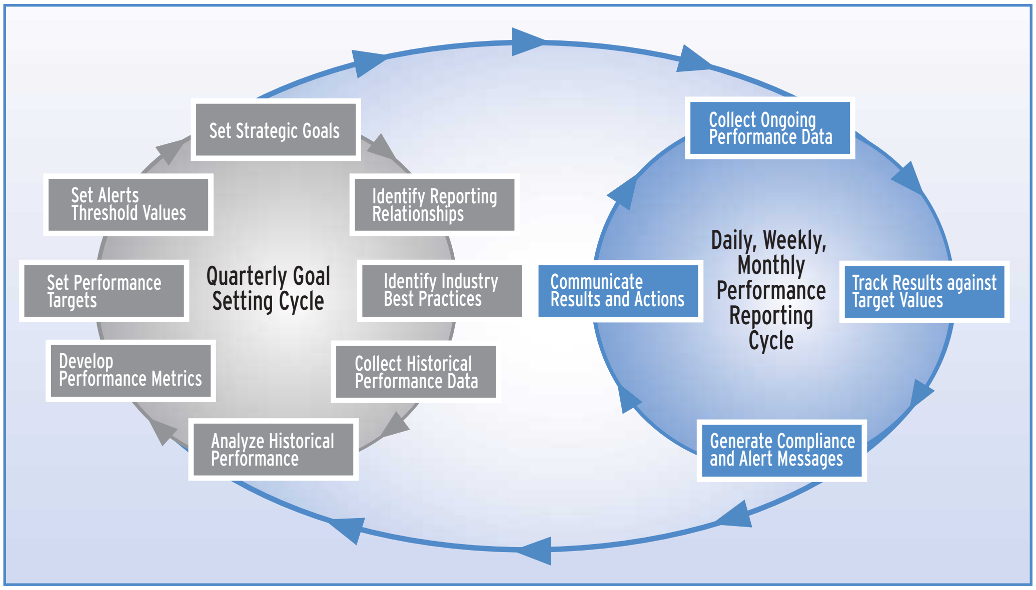


Figure 2: *Many Technologies and Processes Must Be Synchronized*

There is another set of processes associated with daily, weekly and/or monthly performance tracking and reporting cycles that provide the actionable tracking information used day to day in monitoring performance and making adjustments. These reporting cycles can utilize many of the same data collection technologies as activities in the Goal Setting Cycle; however, the timely generation and distribution of reports requires its own set of special processes.

THE SCIENCE BEHIND PERFORMANCE MANAGEMENT

Enterprise Performance Management is an emerging management discipline that incorporates topics from human behavioral and computer sciences.

The first thing to know about human performance and behavior is that it occurs naturally. Managers are growing in their awareness that they must either get involved to manage organizational performance or allow enterprise performance to find a level driven by external forces.

Consider the "Human Behavior Model" diagram shown in Figure 3. All employees have goals, which is to say they want things and are motivated to achieve certain results. Employees also hold expectations, for example, views and beliefs about the utility and appropriateness of certain behaviors in certain situations, how others will behave, and so on. In pursuit of their goals, and consistent with their values, beliefs, and expectations, employees act or behave in certain ways. Those behaviors bring about a certain level of performance, which results in certain consequences to the employee and the enterprise.

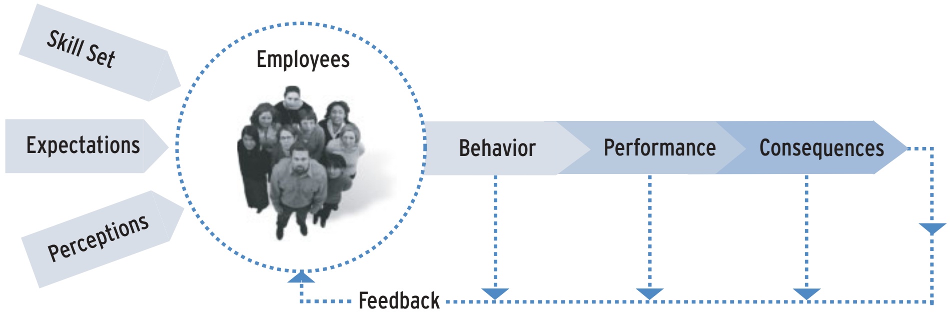


Figure 3: Human Behavior Model—Performance Drivers. © 2000 Fred Nickols.

From this simple model we can derive four key management practices known to drive human performance:

- Ensure goals and expectations are shared up front
- Focus on performance
- Make the consequences known
- Be specific about behavior and its effects

We can readily discern from this model that much of performance management is about where you put the management emphasis and how you get people to understand both the facts of performance and the consequences they bring—in short, communication.

WHERE DOES THE IMPROVEMENT COME FROM?

The Human Behavior Model describes the key to improving performance as consistent communication regarding individual and peer performance. Improvements are then achieved by providing frequent and consistent performance feedback to drive the low performers (shown as grey areas in Figure 4) to improve. This is true for all metrics, such as productivity, quality of service, expenses, retention, learning, and manufacturing waste.

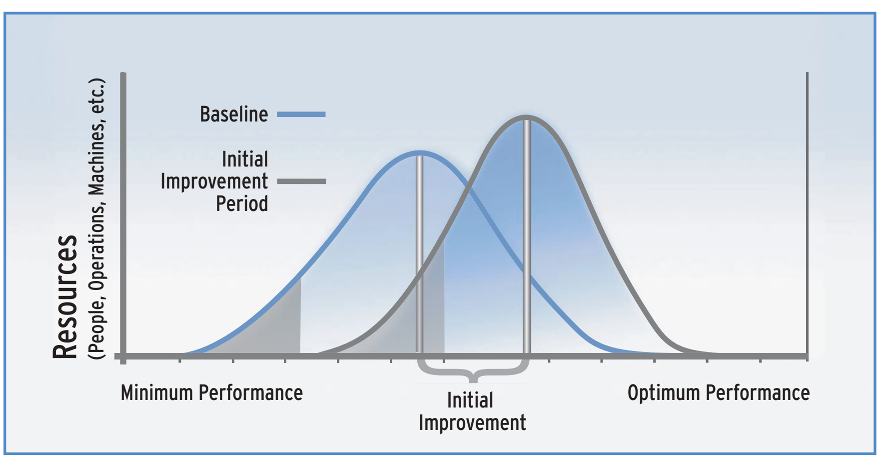


Figure 4: Feedback Drives Low-Performers To Improve

COMPARATIVES OR BENCHMARKS HELP CALIBRATE WHAT'S POSSIBLE

The effectiveness of performance management depends on many technical and semi-technical issues in measurement. One of the most significant of these issues is the proper selection and use of comparatives (i.e. benchmarks or anchors).

Providing a proper, satisfying answer to the question "How are you doing?" requires having two fundamental kinds of data in hand at the same time:

1. Current performance on the right key performance indicators and, equally important,
2. Anchors, comparatives, or benchmarks to help you gauge the "goodness" of the performance represented by the numbers.

You need comparatives as standards by which to judge what your indicators show. Studies on judgment and decision making confirm what we know from everyday experience—we are poor at evaluating things when they are out of context. Is a sales-first-call-close-rate of 53% good or bad? Comparatives help you determine whether there's a gap or difference between some known performance standard and the indicator value, and whether any gap is positive, negative or requires action.

Basically, there are two types of comparatives: internal and external. Internal comparatives, those most commonly used, contrast your present performance to other standards inside your organization. They might include your past performance, goals you've set, targets you are trying to reach, etc.

External comparatives, though not always completely relevant to your particular case, are of great value in a business sense. They might include the performance of competitors or vendors who perform similar services, industry benchmarks, peer group data, etc.

We've added comparatives to the charts in Figures 5 through 8 to illustrate how both internal and external comparatives might be used.

Figure 5: This call volume measure uses internal developed comparatives to show how current call volumes compare to "target" call volumes which are based on a historical analysis of seasonality trends.

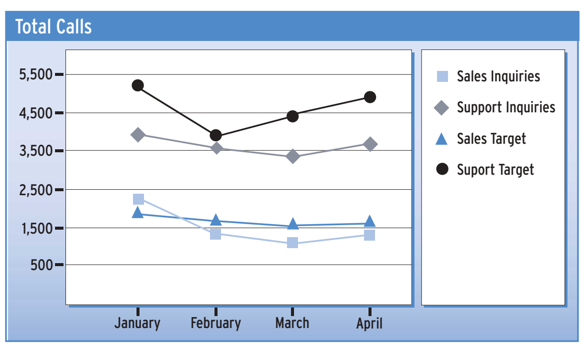


Figure 6: This revenue measure uses an internal comparative to measure the performance of revenue trends. A historical analysis of seasonality trends provided the basis, Target Revenue, for these comparatives.

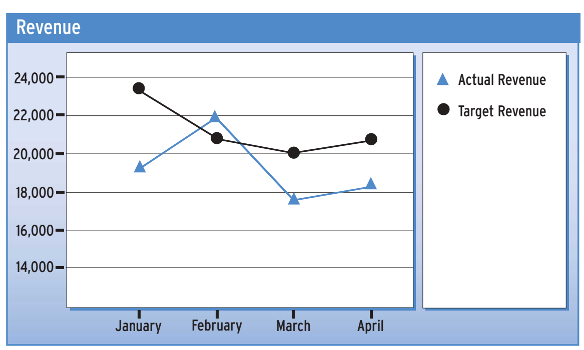


Figure 7: This Sales-first-call-close-rate measure uses an external comparative—an industry standard. There are many companies offering performance standards and benchmarks that are specific to particular vertical markets.

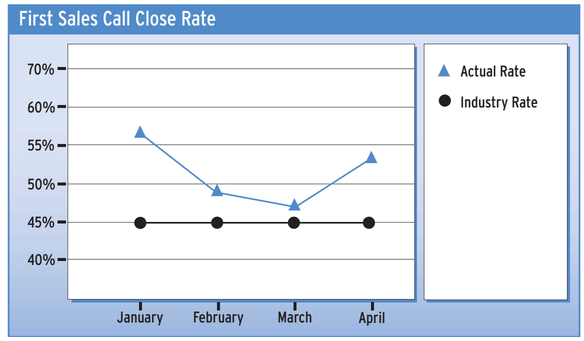
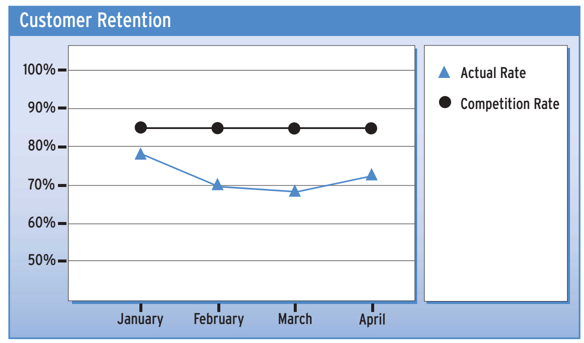


Figure 8: The Customer Retention measure also uses an external comparative. This comparative was developed by analyzing industry data provided by a vendor that offers customer satisfaction data on competitive companies.



Comparatives have an immense impact on the accuracy and fairness of your judgments about performance. Without them you are essentially managing by opinion, not managing by fact. Business Performance Management that is conducted on the basis of opinion is very seldom successful and quite often generates significant resentment and pushback. You need to consider the full range of comparatives and whether better comparatives might lead to better understanding of performance.

Combining comparatives allows you to paint richer pictures of performance. You might, for example, display a performance trend line and also show goals for each time period and external benchmarks—allowing current performance to be immediately, visually compared to past performance, a goal, and an external benchmark.

FREQUENT MEASUREMENT AND FEEDBACK IS BETTER

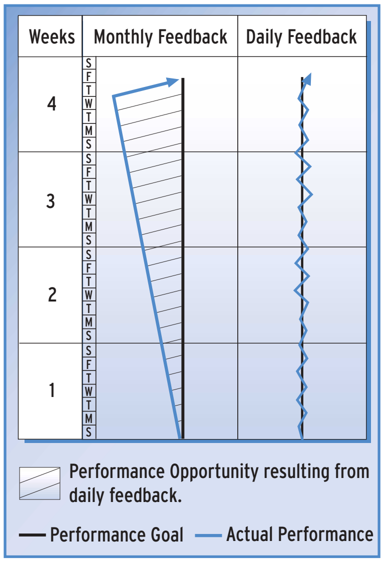


Figure 9: Lost Performance Opportunity

The frequency of reporting is also an important performance driver in managing business performance. The higher the measurement and reporting frequency, the more opportunities there are to take corrective action and for that action to be timely.

For example, Figure 9 illustrates the lost opportunity for improvement when reporting performance monthly is compared to reporting daily. At the beginning of the month the department is tracking to the goal. However, as the month continues, department performance starts to drift below the goal. With monthly reporting, it will be the end of the month before this situation is known and corrective action taken. Monthly reporting limits management's ability to take action as needed to bring the department back on track.

However, the right-side of Figure 9 indicates that with daily performance reporting, management can quickly take corrective action as necessary to ensure that the department's goals will be achieved.

CRITERIA FOR AN EFFECTIVE PERFORMANCE MANAGEMENT SYSTEM

So far, we've highlighted some of the challenges of business performance management as well as key principles that drive human performance. Our ultimate goal, however, is not individual performance, but organizational performance. So the process for communicating and managing individual performance must occur as part of a larger process of organizational performance management and be supported by well-synchronized measurement and reporting systems.

The complexity of the technologies and processes that must be synchronized and managed requires the use of good tools to improve performance across the enterprise. We are beginning to see the emergence of new software applications to address the enterprise performance management problem.

What are the criteria for a good performance management system? Here are 12 criteria that cover the management side and the systems side of Business Performance Management:

1. **Management**—Management processes should:
   - Translate business strategy into operational metrics
   - Align performance metrics with management processes
   - Personalize performance metrics
   - Use best practices to define metrics and target performance levels
   - Provide consistent performance feedback company-wide

2. **Systems**—Business Performance Management systems should:
   - Support integration with all enterprise data sources
   - Ensure alignment of performance metrics with corporate objectives
   - Report operational and competitive trends
   - Provide alerts and warning messages

- Identify off-performance measures
- Show comparatives to provide proper context
- Provide consistent communication across the enterprise

As the field of Business Performance Management has developed, astute leaders and organizations have learned that it is not best seen as a one-time management solution, set it and forget it. Rather, Business Performance Management is best seen as the daily practice of professional managers that spans the gap between Corporate objectives and everyday business results.

ABOUT BLUE PUMPKIN

Blue Pumpkin offers industry-leading workforce optimization solutions that improve the performance of a customer contact center's most important and valuable asset—its people. Our customers improve profitability, increase customer satisfaction, and raise employee productivity through the use of our innovative applications and best-practices professional services. Our solutions enable companies to establish measurable goals, develop long-term staffing plans, deploy resources, manage employee performance, evaluate the results, and implement on-going improvements. Blue Pumpkin has delivered proven value and high ROI to more than 1,000 organizations worldwide, including many Global 2000 corporations.

About the Authors

Bob Frost is an author and consultant who regularly advises leading organizations on strategy implementation, operational effectiveness, and performance management issues. For more on his books and papers, see www.MeasurementInternational.com.

Ken Forbes is CTO at Blue Pumpkin Software, a leading provider of Workforce Optimization solutions. Ken has over twenty years experience designing and implementing operations planning and control solutions to address complex business problems and has held executive positions with major public US corporations.

Further Reading

Measuring Performance: *Using the new metrics to deploy strategy and improve performance*, Dr. Bob Frost, Measurement International, ISBN: 0-9702471-1-7

The Balanced Scorecard, Robert S. Kaplan, David P. Norton, Harvard Business School Press, 1996

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Blue Pumpkin 884 Hermosa Court Sunnyvale, California 94085 U.S. & Canada: 877 257 6756 International: 408 830 5400 Fax: 408 830 5411
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