Business Performance Management Tools

1. Planning and budgeting

This is probably the most widely used BPM approach in businesses by which plan ahead and set budgets for the following year. This is traditionally done annually where organisation set goals for the next 12 months and negotiate a budget to achieve the goals.

Once agreed, companies then monitor spending and performance versus budget and goals. A major drawback is that this process can often be quite bureaucratic, rigid and inflexible.

Doing planning and budgeting well means not spending months doing it and creating a process by which the plans and budgets are revised more regularly (eg quarterly). The process should be used to ensure the most important opportunities or activities are funded at any given point in time and not used to monitor spending against out-dated targets and forecasts.

2. Key performance indicators (KPIs)

KPIs are the navigation instruments that companies use to understand whether they are on track or veering off the prosperous path.

They serve to reduce the complex nature of organisational performance to a small number of key indicators in order to make performance more understandable and digestible for us.

It is similar to what a doctor would to assess your health where she might measure blood pressure, cholesterol levels, heart rate and your body mass index as key indicators of your health. With KPIs we are trying to do the same in our organisations.

In practice, the word KPI is overused and often describes any metric in business, rather than the vital few. Good KPIs are clearly liked to the business strategy where they provide answers to key business performance questions.

3. Balanced scorecard (BSC)

The BSC is another popular management tool that has been designed to articulate the strategic objectives of a business and then align performance measures and action plans to these strategic objectives to ensure the strategy gets executed.

The BSC proposes that companies develop objectives in the following interrelated perspectives:

- Financial
- Customer
- Internal processes
- Learning and growth (people, culture, IT)

In practice, many BSC are less strategic management tools, and more metrics dashboards. In order to create an effective BSC, companies should start with creating a strategy map that depicts the strategic objectives and value drivers on a single-page cause and effect diagram.

Once this has been achieved, meaningful measures should be developed to monitor the strategy execution and action plans need to be designed for each objective to ensure the strategy is being implemented.

4. Benchmarking

Companies use benchmarking to compare their own performance with those of others. Benchmarking is traditionally seen as comparing your own performance with external best-practice performance (where best practice performance can come from outside the sector or industry a company operates in).

For example, banks might learn about customer service from hotels and hotels might lean from insurance companies about optimising back office processes.

Many organisations see benchmarking a bit like a target setting process by which they identify performance levels elsewhere and then use those as internal stretch targets. This can be dangerous without a proper understanding of why and where the underlying processesdiffer.

Done properly however, benchmarking entails analysing performance in detail to understand the context e.g. processes, cultures, skills, etc., to ensure companies don’t end up comparing apples with pears.

5. Business excellence model

The business excellence models come from the quality movement and have been developed by national bodies to assess quality standards in companies. There are various national standards that are often used as the basis for quality awards.

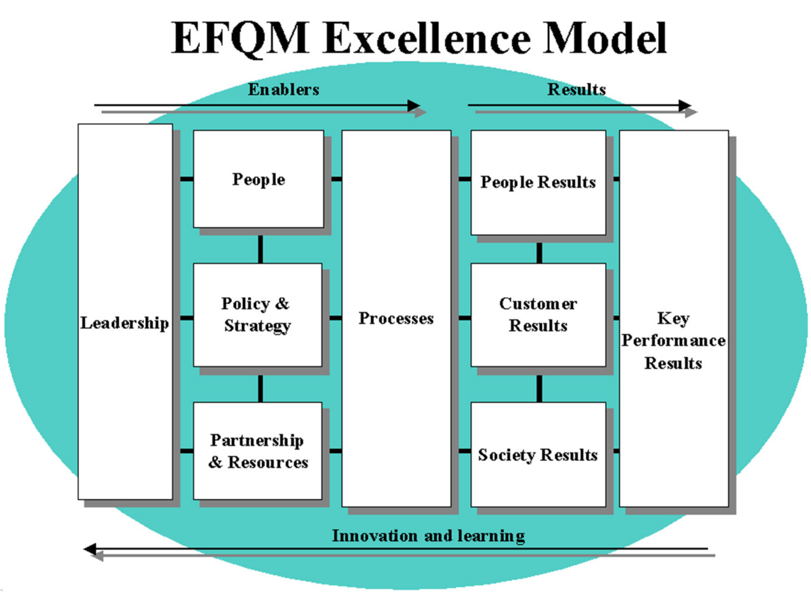
In Europe, the most popular tool is the EFQM model, which refers to "outstanding practices in managing the organization and achieving results, all based on a set of eight fundamental concepts."

These concepts are:

1. Achieving balanced results
2. Adding value for customers
3. Leading with vision, inspiration and integrity
4. Managing by processes
5. Succeeding through people
6. Nurturing creativity and innovation
7. Building partnerships
8. Taking responsibility for a sustainable future

While they were originally more focused on production quality they have now embraced most perspectives of business performance.

Using a self-assessment model, organisations can assess their performance against these different perspectives. If the excellence model is purely used to gain an award then this is a bit of a wasted opportunity. Companies can actually use these tools (similarly to a BSC) to identify goals, measure performance and manage action plans.



6. Enterprise risk management (ERM)

ERM represents a set of tools and approaches to identify, assess and manage corporate risks. While risk management started its life very much as an internal control back-room function, today it has moved up onto the boardroom agendas of most businesses.

Organisations realise that they are facing many business risks and if these are not managed and mitigated then we could see of corporate failures we have witnessed in recent years.

Done well, ERM should start with identifying the most important strategic risks the organisation is facing. Once mapped, the risks can then be prioritised and checked against the risk tolerance.

Finally, the action plans need to be put in place to manage or mitigate they key business risks. This is then usually followed by the creation of key risk indicators that function as early warning indicators and enable businesses to monitor the risk levels on an on-going basis.

7. Six sigma

The six sigma is a tool that was pioneered by Motorola in the late 1980s and later adopted very successfully by global giants such as General Electric and Honeywell as well as many other companies of various sizes.

Six sigma informs managers as to the stability and predictability of process results. The goal is that process defect or error rates will be no more 3.4 per one million opportunities.

As an analogy, consider a goalkeeper of a football team who plays 50 games in a season and who in each game faces 50 shots from the opposing team. If a defect is when the team scores, then a six sigma goalkeeper would concede one goal every 147 years!

As a methodology six sigma is based on the DMAIC principles.

- Define customer requirements (internal or external); that is their expectation of the process
- Measure the current performance; what is the frequency of defects?
- Analyse the data collected and map to determine cause and effect and opportunities for improvement; why, when and where the defects occur?
- Improve the target process by designing solutions to improve, fix or prevent problems
- Control the improvements to keep the process on the new course; how can we ensure that the process stays fixed?

DMAIC implementation is through an in-house team of six sigma certified employees, known as master black belts, black belts or green belts depending on their experience and levels of involvement.

In essence, the promise is that by reaching six sigma performance levels, customer dissatisfaction will decrease significantly and that, ultimately, superior and sustainable financial results will be achieved.

Six sigma are now also used in service organizations. It basically uses statistics to understand variations in performance levels. This then allows organisations to set much more precise quality targets, and understand:

- (a) what levels are acceptable, and
- (b) normal fluctuations in quality.

Tools such as statistical process control, six sigma, and other quality analytics are not just used to monitor an organisation's own performance, but also to design and measure performance contracts with suppliers using, for example, service level agreements.

8. Performance dashboards

Most organisations today are bursting with data, metrics, reports and analyses. Dashboards provide single-page at-a-glance overviews of areas of performance (eg corporate overview, sales, finance, HR, business units, etc).

They are designed to effectively communicate performance information using elements such as visuals, graphs, traffic lights and text.

Good dashboards make it easy for the reader to understand the key messages so they can concentrate on using the insights to make better-informed business decisions. Dashboards should be as effective as good newspaper front pages in communicating a story.

Some best-practice design principles are:

- Customise the dashboard for your audience
- Dashboards should be designed to answer specific business performance questions
- Dashboards (like newspaper front pages) should contain headlines
- Dashboards should contain meaningful graphs that make it easy to understand current performance levels
- Dashboards (again like newspaper front pages) should have short descriptive narrative and comments to provide context.
- Dashboards should not contain any distracting information, unnecessary graphics or decorations, or excessive detail.

9. Customer relationship management (CRM)

Most companies want to make sure they not only have satisfied customers but that they turn their customers into profitable and loyal customers.

CRM systems are used to manage a company's interactions and relationships with their existing or potential customers. It usually involves using technology and software applications to track and monitor any interactions with customers – from sales activities to customer service or customer support.

The most simple form of CRM is just tacking the various levels of interactions. More sophisticate approaches involve using CRM technology to measure conversion rates, identify opportunities to cross sell or up sell, creating early warning systems to identify customer that might want to leave, etc.

Mobile phone providers are among the most sophisticated users of CRM solutions, where they would use CRM technology to monitor customer interaction and use the insights to create models to measure customer lifetime value, propensity to call, and propensity to cancel contracts, etc.

10. Performance appraisals

Another popular performance management tools is the performance appraisal. It is basically a tool to assess job performance of individuals in a company.

Traditionally, performance appraisals are done annually by a line manager who discusses performance with their subordinate employees. The problem is that this type of appraisal can often be bureaucratic and has probably become one of the most-dreaded performance management practices of all leading to little actual improvements.

If performance appraisals are done right they can very well facilitate meaningful communication, ensure individual goals are aligned with the objectives of the business, motivate and engage employees, determine relevant development and training needs.

Many organisations now expand performance appraisal to 360-degree review where line-managers, colleagues and subordinates review an individual’s performance.

Organisations that report the most positive results from performance appraisals tend to:

- Focus on more regular and less formal dialogue
- Ensure that performance is reviewed in light of the company strategy
- Highlight positives and constructively discuss development needs
- Use automated systems to create an on-going track record of progress
- Use them in an open, engaging and constructive manner to create regular dialogue and to focus a high-performance culture.

Companies can use a number of these tools (or pick and choose the best elements of each of them) to create an integrated approach to managing and improving business performance.