Business Performance Management
for board directors

How to deploy your Corporate Governance assignment

Corporate Governance

Our business environment has changed dramatically over the last three decades. In earlier years, companies found themselves in an environment that often allowed continuous growth and success with limited changes in their products and services over time. From a management perspective little change was needed in terms of marketing, technology, process or people management to ensure continuous success of the organization. Board directors executed their responsibility for monitoring the health, success and integrity of the company, through regular review of the financial results of the organization and through interaction with top management whenever questions or issues arose.

Today we face a whole new ball game. Our present business environment evolves rapidly and constantly, making companies far more vulnerable than they used to be. Depending on the market and industry we move in, market and customer expectations and prerequisites can change practically overnight.

Hence, whenever challenges and threats occur in the business environment, both for management and board directors, steering today's organization on financial information alone is insufficient for timely action to be taken. Due to our fast evolving business environment, when financial indicators go red, the damage is usually already done.

Furthermore, modern organizations have to cope with a growing self awareness of their people and the need for an active use of fast evolving technology and methods to support their business processes efficiently. Last but not least, multiple changes in law and regulations over the last decades impose the need for additional quality information, proving compliance with those laws and regulations.

Specifically, ongoing changes in laws and regulations make many organizations think that Corporate Governance is merely a compliance issue, while in reality our mission, values and strategic objectives should in the first place draw the boundaries for responsible management…

In short, management and board directors need more timely and leading information about the organization, a transparent insight into it's performance and risks, in order to be able to ensure continuous growth and success. That is in reality what Corporate Governance is about and Business Performance Management (BPM) is the ultimate vehicle to achieve this goal.

BPM, the strategic driver for your organization

BPM can best be described as the forming of intuitive management into a structured approach, providing clear and timely management information in those key areas that are identified through an in depth analysis of our company strategy, our strengths, weaknesses, opportunities and threats.

Rather than being some kind of Holy Grail, BPM is simply about translating our mission, vision and strategy into a practical management information framework, where the design process is in the first place led by common sense.

Designing a suitable BPM framework, starting from our vision and strategy, and implementing it in such a way that timely accurate information will enable management to anticipate changes and challenges in their environment, requires dedication, commitment, personal management involvement, resources and yes, money…

The paradox of BPM is that companies that are doing well today, usually have the necessary resources and funding available to implement it, but at the same time often suffer from a lack of 'sense of urgency'. Contrary to this, companies that are facing tough times usually do have this sense of urgency and recognize the need for change, but the required resources and funding for BPM are often not readily available.

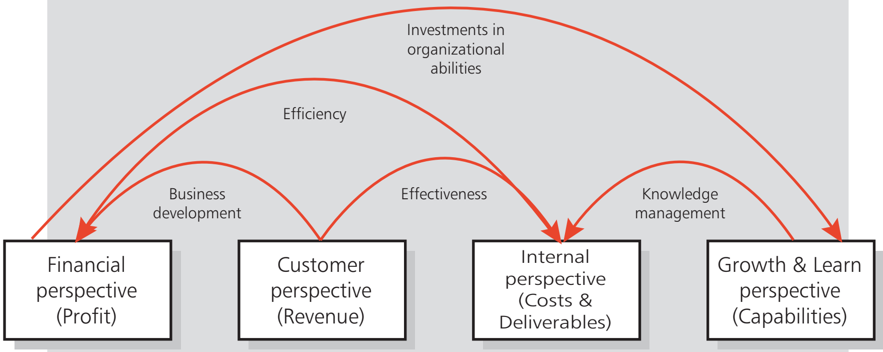
To overcome this paradox, board directors should regard the influencing and support of top management to invest in Business Performance Management as an important part of their assignment, in the process sharing responsibility for desired business outcomes.

This whitepaper aims to clarify how board directors can, in close cooperation with the organization's top management, use the concept and methodology of Business Performance Management to actively facilitate a proactive and risk based steering of the organization.

In order to understand the concept of BPM, we need to start from the bottom line goals of the organization. For the sake of this exercise we will focus on profit organizations, considering financial results as the bottom line expectation.

Any 'profit' organization is established and maintained to generate profits, not to employ people, or to be the biggest or brightest star on the market, and so on. The latter components are merely drivers to achieve the bottom line results we expect.

Using the framework of the Balanced Scorecard, as shown in the graphic that follows, we can easily visualize the basic relationship between the performance drivers and the desired outcomes in any profit organization.



The above graphic is of course a simplified business model; however, it illustrates very clearly the basics of managing cause and effect relations in performance management:

- The bottom line financial result, profit, is generated with two basic components, being revenue and costs.
- Revenue is sustained and increased by meeting, exceeding and anticipating the market and customer expectations.
- In order to obtain market share as well as loyal and satisfied customers, the business processes of the organization need to yield the desired results (products & services) within the constraints of the market and customer expectations and needs. By establishing efficient business processes, the organization controls the cost factor that influences the operational profit.
- To run effective and efficient business processes, one needs organizational capabilities in terms of people, technology, innovation, knowledge management, and so on. To maintain and build these capabilities we need money, preferably from our own organization's profit.

To design our BPM framework, each of the above perspectives needs to be broken down into a number of key performance areas, subsequently identifying the cause and effect relations between those strategic areas of attention within and across perspectives. Using a generic set of key performance areas for each of the four above perspectives will however not yield the desired results, for two reasons:

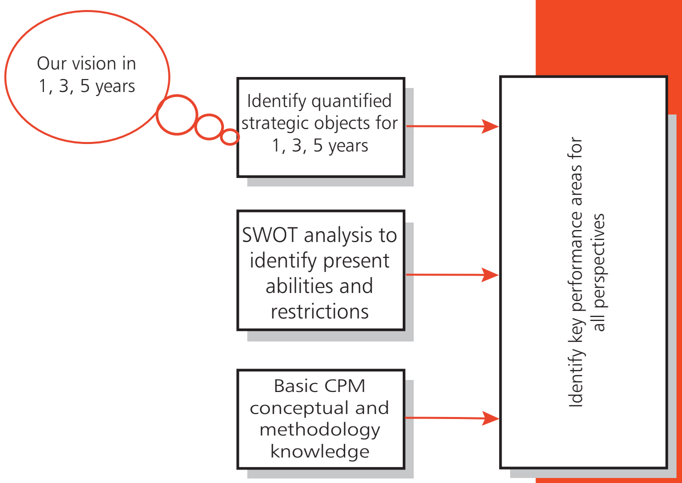
- A generic framework will never identify the few strategic key performance areas that are essential for our company, in terms of challenges and timing.
- Managing, and investing in, a large number of generic key performance areas is not economically feasible.

So, we need to find a way to identify those key performance areas that are important for our company within clear timing constraints.

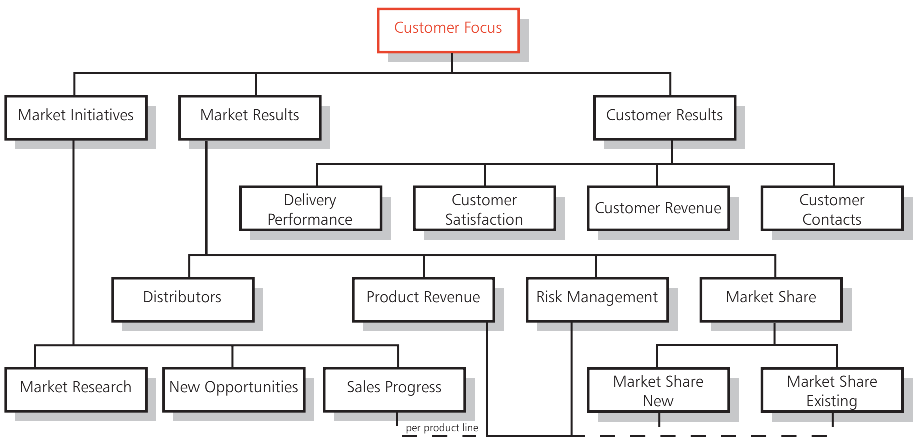
Starting from our present situation (and its perceived abilities), by running an in depth SWOT analysis, together with a quantified image of our future vision in consecutive time spans, we can identify a set of key performance areas for each of the main perspectives of our performance framework.

In other words, as represented in the illustration below, based on our vision, strategy and present abilities, we select those areas we need to closely monitor and improve in order to accomplish our future goals.

To cope with ongoing changes in our business environment, the above strategic design process needs to be updated regularly. Whenever our capabilities or influences from and challenges in our business environment evolve, we need to adapt our set of key performance areas accordingly.

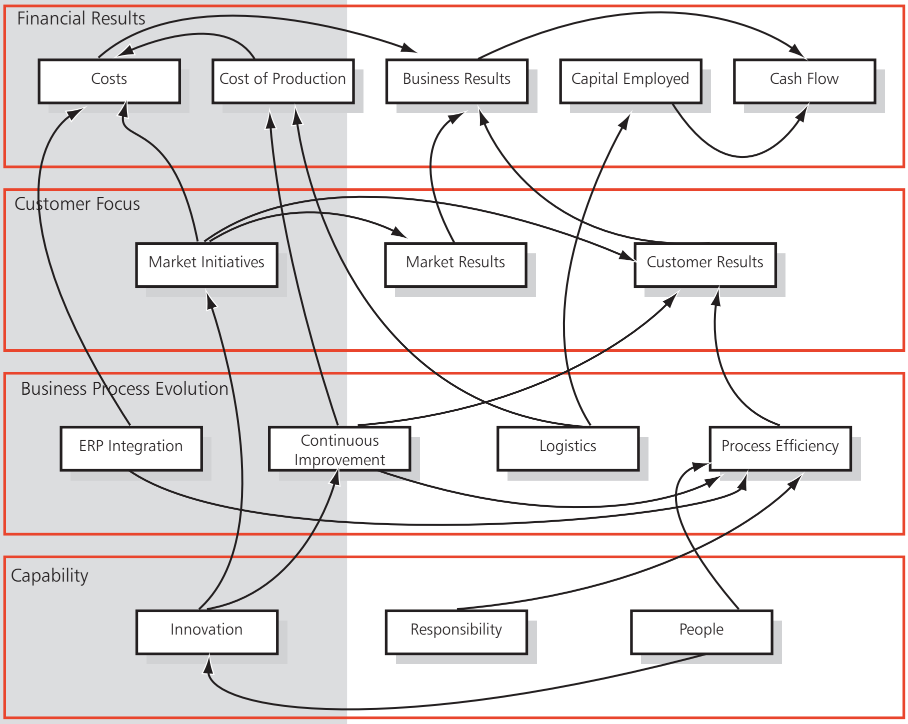


The graphic below illustrates a practical design example for the customer perspective of our BPM framework. Having completed similar design results for our other perspectives we can proceed with the next step in our design process.

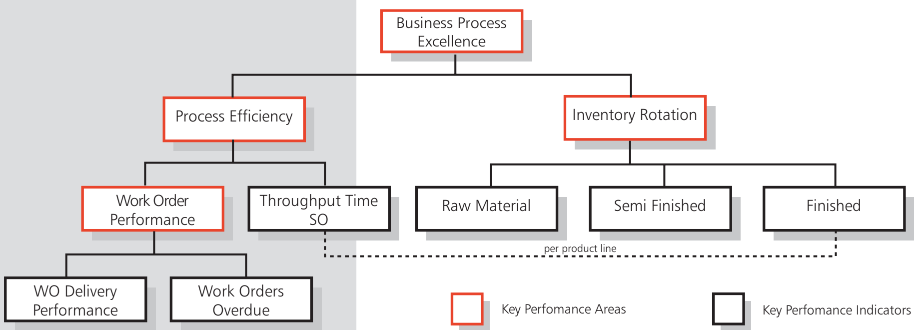


Since managing the relations between drivers and results in our strategic framework is paramount for a successful use of BPM, the next step in the process is to frame the most important key performance areas in a strategy map, visualizing their influences on each other, as shown in the next illustration.

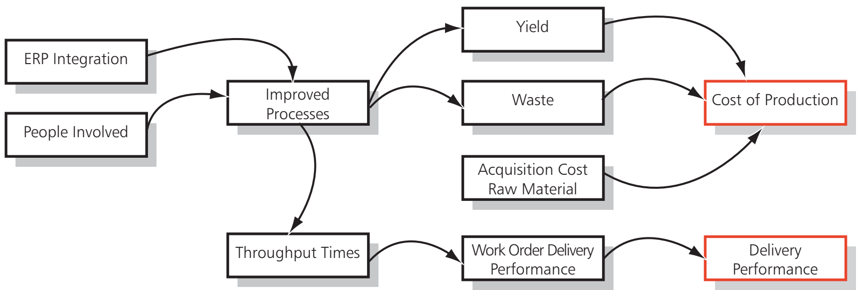
The strategy map allows for high level management of cause and effect relationships, driving performance towards the accomplishment of our strategic objectives. It will also serve as a model for designing operational cause and effect maps at a later stage.



Once the framework of key performance areas and our strategy map are completed, the final design step can be initiated. At this point we will involve other people in the organization to map the key performance areas with each business process. As a result, each key performance area in each of the perspectives is populated with key performance indicators as shown in the simplified example below for the business process excellence perspective.



Last but not least, similar to the design of the strategy map, a number of critical key performance indicators can be placed in cause and effect maps, illustrating the relationship between driver and result indicators in our BPM framework, as shown in the example below.



Finally, all key performance indicators can be populated with actual and comparative data (preferably by using state of the art technology), ownership of BPM components can be spread in the organization and day to day use of the BPM platform can be initiated.

Assessing the validity of our assumptions regarding cause and effect relations in our strategic framework, combined with the performance results of our individual indicators, performance areas and related action plans, allows us to make the shift from reactive to proactive strategic performance management.

Using a professional software solution for the roll out of our BPM framework, provides the organization with the necessary tools to produce strategic information on the spot.

Using BPM on a board level

It is, of course, not intended for the board to take over management responsibilities. Hence, when BPM is successfully implemented in the organization, the board should avoid zooming in on all the information available in the organization's BPM platform. It should rather focus on a subset of indicators and the causal relations that cover the critical areas of strategic attention at any time.

A BPM solution that highlights key areas for attention in a dynamic way, depending on the evolution of your organizational abilities and challenges, will enable management to inform the board of issues or opportunities in a timely manner and, at the same time, allow the board to engage in an effective deployment of their Corporate Governance obligations.

Next to the more conservative financial figures, the strategic information from your BPM platform will allow board members to provide focused support to the management of the organization, consequently minimizing the risk of unpleasant surprises and driving the company to future sustainable growth and success.

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