Marking the scorecard

Companies are starting to shift their attention from issues of survival and stabilisation to higher performance and growth. But, asks Iwona Tokc-Wilde, are they using the right tools to measure and improve their results?

ILLUSTRATION: GORAN FACTORY

Business performance management (BPM) has come a long way since the introduction of the Balanced Scorecard in 1992. Managers today have more data available to them than they know what to do with, as well as a plethora of reporting tools to help them measure financial and operational performance. In turn, they respond to this information by implementing adjustments so the business delivers on its targets and goals.

At least, that's the theory. In reality, 20% of businesses do not collect performance data in a systematic and coordinated way, according to a global survey by the Advanced Performance Institute (API). Those that do often struggle to derive value from it and 12% get only "limited insights," while 36% get "some useful insights". In fact, only about a third of companies collect data in a coordinated fashion and use it for improved operational and strategic decision-making. Of these, only 14% use performance data for strategic foresight and to make predictions.

This begs the question: how do the rest arrive at their operational and strategic decisions? Predictably, up to 40% use gut feeling and judgement, an Accenture survey has found. "There's nothing wrong with gut feel, intuition and experience - you need them to make sense of your metrics," says Bernard Marr, chief executive of the API. But experience and gut feeling alone are not enough to compete with the level of insight that can be derived from data. Increasingly, we even see data on its own outperforming experience. "Just think of Amazon's recommendations - they no longer need someone with experience to say that whoever buys a novel about clowns on Mars is also likely to buy a specific hand-held vacuum cleaner," says Marr.

Companies that use BPM choose their BPM methods depending on the nature and strategy of their business. "They decide what's really important and then select the best tools for the job," says Rick Payne, manager at ICAEW's Finance and Management Faculty. "In a given business, benchmarking may be best for measuring performance itself, and the Balanced Scorecard for implementing a plan of action," he says.

Size matters, too, and a micro-business may only require Excel. "A very small business might not need formal BPM tools because they can pretty much see everything that's going on, but when they get to medium size or to a stage where they manage the business at some sort of a distance, they may need several," says Payne.

"There is no one-size-fits-all BPM," adds Dan Burrows, account director at Waterstons, a business and IT consultancy. "A complex small business with high-value products may need a wider range of tools than a large-volume, low-margin business that operates a very simple model."

As for how many tools businesses use, two-thirds of the companies surveyed by the API use three or more while just

under half use five or more. The most common tool is Key Performance Indicators (KPIs), used by over two-thirds of companies, although Marr says the actual number may be higher as some respondents stated they use management dashboards (the fourth most popular tool), benchmarking (used by 41% of companies) or the Balanced Scorecard (38%), but these usually require KPIs too. Other popular tools include lean management and Six Sigma, reward and recognition systems, rolling forecasts and enterprise risk management.

"Adoption rates of the Balanced Scorecard are going up; in fact, it's the number one management tool in Europe, Middle East and Africa," says Marr. He believes that tools and management approaches come in and out of fashion, but that the basic principle will stay the same - we need better data to answer our most important business questions. "Companies are increasingly combining traditional KPIs with Big Data analytics," says Marr. "It would be foolish to only rely on traditional KPIs, although at the same time all the Big Data is worth nothing without the key business metrics," he adds.

In the API survey, employee appraisals are the second most widely-used performance management tool after KPIs, but one day they may become obsolete in some organisations. "Adobe has already done away with them because they were spending all their time arguing with individuals about their performance and not focusing on the company's targets," says Mike Bourne, professor of business performance at Cranfield School of Management. "If you use annual employee reviews as a BPM tool, be careful that these are aligned to organisational measurement and performance," warns Bourne.

Implementing a BPM initiative does not guarantee the business will benefit from it. In fact, according to the API survey, 37% of companies are somewhat, mostly or completely unsatisfied with their BPM activities. Given the sheer volume of information that companies can now generate, why are so many disappointed with BPM?

"Because 90% of metrics companies collect, analyse and report aren't relevant to what they need," says Marr. "Instead of figuring out critical business questions and then designing metrics that help answer them, most companies simply measure everything that is easy to measure, the KPIs everyone is tracking, or the indicators a regulator told them to collect," he says. They fail to align their BPM initiative with their overarching corporate strategy and suffer from a classic case of data overload. "Our members are also saying there are too many versions of data and that data becomes obsolete very quickly," adds Emma Riddell, who oversees ICAEW's BPM Community (see box, right).

Sometimes BPM tools are used incorrectly. Take KPIs, for example, of which there are thousands. Measuring organisations with too many KPIs, or failure to find the right KPIs, is an issue. "Ordinarily, you're probably looking at a maximum of 10 KPIs that are meaningful, that support business strategy and that you can act on," says Payne. Measuring with KPIs can be problematic when the measure is linked to incentives because this can drive undesirable behaviour, Payne adds, citing mis-selling in financial services as an example.

The Balanced Scorecard is only as effective as the effort that goes into creating and using it, and there is no such thing as a "dashboard for everything", says Burrows. "Operational users prefer a more granular, more narrowly focused visualisation, whereas executives care more about the big picture and rarely have time to assimilate information presented as more than a handful of indicators," he adds.

BPM tools and methods have inherent weaknesses, too. Predictive analytics and data mining are used for analysing marketing campaigns and generating customer recommendations based on the premise that, given a large enough data set, nearly everything and everyone is wholly predictable. By deploying predictive business performance analytics, companies can boost their profits by up to 20%, says

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IT firm Gartner. But can you really predict everything? "Data mining finds relationships between data, but sometimes these relationships come about by chance or they are driven by something else and unless you understand that something else, you may take a wrong action," says Bourne. He says many, even large, organisations do not data mine, citing Tesco with its Clubcard.

With Customer Relationship Management (CRM), you never get to know everything about the customer as both the quantity and the quality of the information they give you depends on whether or not they want a relationship with you. For this reason, Bourne says, a bank is more likely to have success with CRM than a business selling coffee. "A customer may not want to have a relationship with their bank but has to have it as it affects things such as their credit score."

Six Sigma focuses on reducing process variation so that fewer and fewer defects are produced. "It's a very powerful tool if you're running repetitive processes, but perhaps not that useful if you're making one ship a year," says Bourne. "Also, you could just focus on that continuous improvement and not make the big jump - you won't say 'let's stop making the car out of steel and make it out of aluminium'. Those big leaps that organisations have to make from time to time don't come out of Six Sigma," Bourne says.

BPM also fails because of resistance to change, often from people who used to be the guardians of information and who told others how well or how badly they were doing. "When you put BPM in an organisation, these people suddenly lose some of their power because the information is now in the BPM system and much more visible to all," says Bourne. Riddell adds that BPM can get crowded out by other financial controller roles: "People are spending a lot of their time on financial reporting, regulation and control issues and this reduces the time they can spend on BPM, so this is a big issue as well."

Bourne believes companies also struggle with how to effectively performance-manage research and development, a business perspective that is not so easy to measure. "How do you know if you've reached a stage when you've got a new, winning product? Only once you've got the breakthrough, for example a new drug, which you put into manufacturing, can you use Six Sigma for continuous improvement. In practice, you end up having to performance-manage different parts of your organisation in different ways and some companies find this quite hard."

When done right, BPM should enable well-informed and insightful business decisions, but how often it actually happens is an open question. "It depends on whether the finance team has the right skills to communicate the right information, at the right time, and whether it's actually acted upon by the management," says Riddell.

The management have to have the right skills too, to understand the information in front of them. "A lot of people compare this month's sales with last month's but that's not the right way of looking at the numbers," says Bourne, who makes the point that there is a difference between a statistically significant trend and a natural variation. "If the sales are down and it's just variation, if you interfere by giving people hell the figures will go up and down more but they won't necessarily get better over time." Managers need to have a deep understanding of what is driving the measures and the performance or they will interfere inappropriately: "Is the drop statistically significant and what drives it? Is the product coming to the end of its life? Have the competitors reduced their price and we've not responded? What is the real thing behind the drop?"

The decisions will also only be good if they are aligned with the overall business strategy prevailing at a given time. "The type of data and information managers are using today may not be appropriate in a year's time when the business has grown and evolved," says Burrows. "It cannot be underestimated how critically important it is to regularly revisit your BPM alongside your business strategy to ensure BPM stays current and effective.

"We must not forget the role of uncertainty in BPM," adds Payne. "Some of these measurement systems are designed around the view that organisations operate like machines, that you can specify cause and effect and that you can measure something and, therefore, improve its performance," he says. However in the real world, certain environments can only be measured to the best of our ability before we have to react. "It's not a nice, linear process, it's an adaptive system that you need to implement," he adds.

Finally, while there is a lot of potential for many more decisions to become automated, plenty will continue to be made by humans. As Payne says, "On certain decisions there's quite a good argument that a human decision is better, but on the other hand humans are full of biases, they get tired and they are also really good at post-rationalising their decisions whereas a computer can't."

TOO MANY KPIs?

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