Enhancing your business performance

Globally, organizations are facing multiple challenges around managing the complex issue of business performance. They are rethinking their business performance management (BPM) framework to mitigate challenges such as insufficient actionable information, poor linkages between strategic and operational objectives, and inconsistency in financial & operational KPIs across different businesses. Organizations are looking for innovative methods/techniques to help predict near-term business performance. To understand how organizations can leverage the BPM framework for strategic planning and execution, EY undertook a high-level research on BPM practices across leading global organizations.

BPM is a framework that aims to provide focused information about the performance of an organization by enabling access to actionable and reliable information via financial and non-financial metrics. This information is then used to effectively link strategic planning, annual planning, business performance reporting and decision analytics.

Organizations, today, are realigning themselves to a decentralized set-up that allows the CEO to take up a more strategic role. The CEO provides the overall guiding principles and goals for the organization, reinforcing an organization’s willingness to delegate more operational independence & strategic freedom to business units. There is a clear distinction between the role of corporate office and business unit. The corporate office drives performance management & sets the overall strategic direction of the organization.

Consequently, the decision making at the group level focuses on funding, capital management, executive recruitment and taxation matters. Indeed, the group should be involved in decisions with a material impact on the overall strategy and characterized by long-range impact horizon. The centre is gradually getting involved in harnessing synergy. We believe that fostering a culture of innovation and accountability in an organization is instrumental in unlocking synergies. Interrelations between business units have to be planned thoroughly and must follow a well-defined strategy. While informal synergy management is prevalent in most organizations, there seems to be an agreement that some aspects of formalized exchange of best practices is required to increase the competitiveness of the group.

With the centre taking on a more strategic and visionary role, organizations need to ensure that they use a well-designed BPM to significantly enable execution and monitoring of the strategy and decisions of the organization as required by the business leaders. Our research suggests that most organizations leverage the Balanced Scorecard (BSC) or similar approach (encapsulating both financial and non financial metrics) in their BPM framework. Typically, a BPM framework will include outcome metrics that define measures of success of an organization’s strategy (say market share/market price). It is critical to link BPM framework to the group and business strategy.
This can be achieved by adopting a ‘driver based approach’ which includes developing specific value driver trees for strategically significant focus areas that reflect the underlying strategy of the respective business.

As a best practice, the strategy and long range plan generally translate into an annual plan with monthly forecasts throughout the year. Adopting a driver based approach allows organizations to go to the most granular level of details of a business to understand what exactly impacts the strategic objectives. A thorough understanding of the organization enables identification of metrics & dimensions that provide the right linkages amongst different facets of the business and help translate the long range plan into measurable outcome metrics. Key Performance Indicators (KPIs) may be accordingly identified for the leadership team and be cascaded across the organization to create a robust performance management system, aligning the entire organization with overall goals and strategy.

Identifying a common set of drivers also allows for sensitivity analysis at different levels of planning and facilitates ‘what if’ & scenario analysis. A BPM framework facilitates strategy execution since it is built to enable decision making that makes the organization’s strategy a reality.

Organizations are increasing using standardized and integrated IT systems to automate BPM processes, allowing them to further automate dashboards up to the level of the group CEO. However, organizations still do a part of their reporting through an integrated IT system, which is mainly used to download core financial information. Important aspects of the reporting are done manually as the reports are customized for an ad-hoc analysis. But there is a visible shift from the traditional financial reporting to a more integrated view on strategy execution. Organizations are combining financial, operational and external performance information to gauge their performance & feed the insights back into the system to develop strategy. Adopting a driver based approach identifies drivers that operate across dimensions and enable creation of flexible reports and...
dashboards. Dimensions allow operational and financial users to create custom views by various reporting attributes by leveraging consistent base data. These dimensions can represent hierarchies and support flexible and adaptive driver tree reporting.

Organizations continue to face challenges in aligning & customizing the BPM framework to their strategic/business needs and are unable to use BPM to its full potential.

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