BPR AND PERFORMANCE MEASUREMENT

Business Process Reengineering

by
Lampathaki F., Koussouris S., Psarras J.
Performance Measurement

• A performance measurement is a comparison of actual returns against a pre-specified benchmark

• A performance metric is a type of measurement used to quantify the performance of some component of an organization

• Various types of performance measures:
  • Key Result Indicators
  • Performance Indicators
  • Key Performance Indicators
Why measure performance?

“If you don’t measure results, you can’t tell success from failure...
If you can’t see success you can’t reward it...
If you can’t reward success, you’re probably rewarding failure...
If you can’t see success, you can’t learn from it...
If you can’t recognise failure, you can’t correct it...
If you can demonstrate results, you can win public support...
What gets measured gets done.”
Basic Rules for Developing Metrics

• Focus on desired outcomes

• Keep the metrics simple

• Involve all stakeholders

• Base metrics on organizational objectives and key processes

• Challenge employees to act immediately
KEY PERFORMANCE INDICATORS
Key Performance Indications

• An organization may use KPIs to evaluate its success in key areas (that affect its customers, suppliers, employees, shareholders, other stakeholders), or to evaluate the success of a particular activity in which it is engaged.

• Choosing the right KPIs relies upon a good understanding of what is important to the organization. 'What is important' often depends on the department measuring the performance.

• KPIs are routinely associated with 'performance improvement' and BPR initiatives.

• Key performance indicators define a set of values used to measure against and serve to reduce the complex nature of organizational performance to a small number of key indicators.
  • An “indicator” is a gauge or a measure that reports information.
  • “Performance” is the result or activity we are looking for that fits in to strategic goals.
  • “Key” means that this measure has been pinpointed so carefully that management knows precisely what to do.
KPIs vs Metrics

• A KPI is a metric, but a metric is not always a KPI

• Metrics are the detailed measures that feed and augment the KPIs

• KPIs reflect strategic value drivers while metrics may represent anything that is measurable
KPIs vs Critical Success Factors

• Critical success factors (CSF) are elements that are vital for a strategy to be successful. A critical success factor drives the strategy forward, it makes or breaks the success of the strategy.
  • Strategists should ask themselves 'Why would customers choose us?'. The answer is typically a critical success factor.

• KPIs, on the other hand, are measures that quantify management objectives, along with a target or threshold, and enable the measurement of strategic performance.

• An example:
  • KPI = Number of new customers. (Measurable, quantifiable) + Threshold = 10 per week [KPI reached if 10 or more new customers, failed if <10]
  • CSF = Installation of a call centre for providing superior customer service (and indirectly, influencing acquiring new customers through customer satisfaction).
**Types of KPIs**

- **Quantitative indicators** which can be presented with a number.
- **Qualitative indicators** which can't be presented as a number.
- **Leading indicators** which can predict the future outcome of a process.
- **Lagging indicators** which present the success or failure *post hoc*.
- **Input indicators** which measure the amount of resources consumed during the generation of the outcome.
- **Process indicators** which represent the efficiency or the productivity of the process.
- **Output indicators** which reflect the outcome or results of the process activities.
- **Practical indicators** that interface with existing company processes.
- **Directional indicators** specifying whether an organization is getting better or not.
- **Actionable indicators** are sufficiently in an organization's control to affect change.
- **Financial indicators** used in performance measurement and when looking at an operating index.
KPI Flow

Overall Business Strategy
What is the organization trying to accomplish?

Goals and Objectives
What are the short- and long-term objectives that will realize the strategy?

Key Business Objectives
What are the important actionable steps to meet the goals and objectives?

Key Performance Indicators
What measures of success are tied to the drivers?

Supporting Performance Metrics
What are the detailed measures that feed and augment the KPIs?
**KPIs Definition**

**Key Stages in KPIs Definition**
1. Having a pre-defined business process
2. Having requirements for the business process
3. Having a quantitative/qualitative measurement of the results and comparison with set goals
4. Investigating variances and tweaking processes or resources to achieve short-term goals
KPIs Development and Implementation

KPIs have a pivotal role in BPR

**7 Steps to the KPIs**
1. Decide what to measure
2. Collect Data
3. Calculate KPIs
4. Report the Result
5. Analyse the Result
6. Take Action
7. Measure Again

**Source:** Scottish Construction Forum (2007)
The Decalogue of a Good KPI

- A KPI reflects strategic value drivers
- A KPI is defined by management (executives), but has a dedicated owner
- A KPI cascades throughout the organization
- A KPI provides context, thresholds and targets
- A KPI creates meaning on all organizational levels
- A KPI is based on legitimate and valid data
- A KPI is easy to understand
- A KPI leads to (positive) action
- A KPI empowers stakeholders
- A KPI is measured frequently and compared over time
It’s all about perspective in KPIs...

- **Financial perspective**: Does implementation and execution of strategy contribute to the financial robustness?

- **Customer perspective**: What value proposition will the business apply to satisfy customers and thus generate more sales to the most profitable customer groups?

- **Internal process perspective**: concerned with the processes that create and deliver the customer value proposition – focuses on activities and key processes required in order for the company to excel at providing the value expected by the customers both productively and efficiently

- **Innovation and learning perspective**: focuses on the intangible assets of an organization, mainly on the internal skills and capabilities that are required to support the value-creating internal processes
Typical KPIs

- **Marketing**
  - New customers acquisition.
  - Turnover (i.e., revenue) generated by segments of the customer population
  - Outstanding balances held by segments of customers and terms of payment
  - Profitability of customers by demographic segments and segmentation of customers by profitability

- **Manufacturing**
  - Cycle Time – Cycle time is the total time from the beginning to the end of your process, as defined by you and your customer. Cycle time includes process time, during which a unit is acted upon to bring it closer to an output, and delay time, during which a unit of work is spent waiting to take the next action.
  - Cycle Time Ratio (CTR) – CTR = Standard Cycle Time / Real Cycle Time
  - Utilization
  - Rejection rate

- **IT**
  - Availability
  - Mean time between failure
  - Mean time to repair
  - Unplanned availability

- **Financial KPIs**
  - Net Operating Revenues Ratio
  - Return on Net Assets Ratio
  - Debt Burden Ratio

There may be 80 performance indicators, but KPIs should not exceed 10.
KPIs Orientation towards “SMART”

- **Specific** purpose for the business,

- **Measurable** to really get a value of the KPI

- The defined norms have to be **Achievable**

- The improvement of a KPI has to be **Relevant** to the success of the organization

- It must be **Time** phased, which means the value or outcomes are shown for a predefined and relevant period.
Common KPIs Problems

• KPIs not related to strategy

• Short-termist

• Backward looking

• Used to ‘punish’ rather than motivate and equip

• Too many measurements
BALANCED SCORECARDS
Four Barriers to Strategic Implementation

- **The People Barrier**: Only 25% of managers have incentives linked to strategy.
- **The Vision Barrier**: Only 5% of the workforce understands the strategy.
- **The Resource Barrier**: 60% of organizations don’t link budgets to strategy.
- **The Management Barrier**: 85% of executive teams spend less than one hour per month discussing strategy.

9 of 10 companies fail to execute strategy.

Today’s Management Systems Were Designed to Meet The Needs of Stable Industrial Organizations That We’re Changing Incrementally

You Can’t Manage Strategy With a System Designed for Tactics
Why Do We Need a Balanced Scorecard? To Implement Business Strategy!

“Business Strategy is now the single most important issue… and will remain so for the next five years”

Business Week

“Less than 10% of strategies effectively formulated are effectively executed”

Fortune
What is a Balanced Scorecard?

The balanced scorecard methodology developed by Drs. Kaplan and Norton extends beyond financial measures to link vision to action. The Harvard Business Review has acclaimed the balanced scorecard as one of the most influential ideas of the past 75 years.

Source: Gartner Group; 2009 Feature Article: Business Value of IT — Non-financial Measurements
The Balanced Scorecard Methodology: Making the strategy tangible, understood and shared

• At the highest level, the Balanced Scorecard is a framework that helps organizations to translate strategy into operational objectives that drive both behavior and performance.

  Source: Balanced Scorecard Collaborative/Palladium

• The BSC is a structured approach to performance measurement and performance management that links the organization’s strategic thinking to the activities necessary to achieve desired results

• The BSC is a vehicle for communicating an organization’s strategic direction and for measuring achievements towards these predetermined objectives

• The BSC clearly establishes linkage between strategic objectives, the measures for determining progress, the stretch targets established, and the focused initiatives needed to move the organization forward to meet those organizational goals

  Source: USA, Department of Energy Procurement System
The Balanced Scorecard Focuses on Factors that Create Long-Term Value

- Traditional financial reports look backward
  - Reflect only the past: spending incurred and revenues earned
  - Do not measure creation or destruction of future economic value
- The Balanced Scorecard identifies the factors that create long-term economic value in an organization, for example:
  - Customer Focus: satisfy, retain and acquire customers in targeted segments
  - Business Processes: deliver the value proposition to targeted customers
    - innovative products and services
    - high-quality, flexible, and responsive operating processes
    - excellent post-sales support
  - Organizational Learning & Growth:
    - develop skilled, motivated employees;
    - provide access to strategic information
    - align individuals and teams to business unit objectives
Translating Vision and Strategy: Four Perspectives

FINANCIAL

“To succeed financially, how should we appear to our shareholders?”

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CUSTOMER

“To achieve our vision, how should we appear to our customers?”

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LEARNING AND GROWTH

“To achieve our vision, how will we sustain our ability to change and improve?”

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INTERNAL BUSINESS PROCESS

“To satisfy our shareholders and customers, what business processes must we excel at?”

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Vision and Strategy
Government procurement service example

**CUSTOMER**
- Customer Satisfaction
- Effective Service/Partnership

**MISSION VISION STRATEGY**

**FINANCIAL**
- Optimum Cost Efficiency of Purchasing Operations;
  Cost Reasonableness of Actions

**INTERNAL BUSINESS PROCESSES**
- Acquisition Excellence
- Most Effective Use of Contracting Approaches
- Streamlined Processes
- On-Time Delivery
- Supplier Satisfaction
- Socio-economics

**LEARNING AND GROWTH**
- Access to Strategic Information
- Employee Satisfaction
- Organization Structured for Continuous Improvement
- Quality Workforce

Source: USA, Department of Energy Procurement System
The Four Perspectives Apply to Mission Driven As Well As Profit Driven Organizations

**Profit Driven**

- What must we do to satisfy our shareholders?
- What do our **customers** expect from us?
- What **internal processes** must we excel at to satisfy our shareholder and customer?
- How must our people learn and develop **skills to respond** to these and future challenges?

**Mission Driven**

- **Financial Perspective**
  - What must we do to satisfy our financial contributors?
  - What are our fiscal obligations?
  - **Who** is our customer?
  - What do our customers expect from us?

- **Customer Perspective**
  - What **internal processes** must we excel at to satisfy our fiscal obligations, our customers and the requirements of our mission?

- **Internal Perspective**

- **Learning & Growth Perspective**
  - How must our people learn and develop **skills to respond** to these and future challenges?

Answering these questions is the first step to develop a Balanced Scorecard.
The Ingredients of Highly Successful Balanced Scorecard Programs

1. Leadership From the Top
   - Create the Climate for Change
   - Create a Common Focus for Change Activities
   - Rationalize and Align the Organization

2. Make Strategy Everyone’s Job
   - Comprehensive Communication to Create Awareness
   - Align Goals and Incentives
   - Integrate Budgeting with Strategic Planning
   - Align Resources and Initiatives

3. Unlock and Focus Hidden Assets
   - Reengineer Work Processes
   - Create Knowledge Sharing Networks

4. Make Strategy a Continuous Process
   - Strategic Feedback That Encourages Learning
   - Executive Teams Manage Strategic Themes
   - Testing Hypotheses, Adapting, and Learning

Decision Support Systems Laboratory, NTUA
Business Process Reengineering 2013 - BPR and Performance Measurement
Balanced Scorecard Six Step Development Process

Step 1
Develop a Project Plan

Step 2
Build a Strategic Architecture

Step 3
Draft a Strategy Map With Linkages And Themes

Step 4
Determine Measures and Targets

Step 5
Select Strategic Initiatives

Step 6
Plan for implementation

Typically 8-12 Weeks
Some of the Indicators of Good Balanced Scorecard

1. **Executive Involvement**
   Strategic decision makers must validate and own the strategy and related measures

2. **Cause-and-Effect Relationships**
   Every objective selected should be part of a chain of cause and effect linkages that represent the strategy

3. **Balance between outcome and leading measures**
   There should be a balance of outcome measures and leading measures to facilitate anticipatory management

4. **Financial Linkage**
   Every objective can ultimately be related to financial results

5. **Linkage of Initiatives and Measures**
   Each initiative should be based on a gap between baseline and target.

Source: Balanced Scorecard Collaborative/Palladium
Making the strategy’s hypotheses explicit: the Strategy Map

“A strategy map for a Balanced Scorecard makes explicit the strategy’s hypotheses. Each measure of a Balanced Scorecard becomes embedded in a chain of cause-and-effect logic that connects the desired outcomes from the strategy with the drivers that will lead to the strategic outcomes.”

The Strategy-Focused Organization by Kaplan and Norton 2001
A Strategy Map Represents How the Organization Creates Value

Balanced Scorecard “Early Adaptors”

- Mobil: From #6 in profitability in 1993 to #1 in profitability in 1995-1997

- CIGNA: From $275M loss and Stock Price = $59 to $98M profit and Stock Price = $205 in 1997

- Brown & Root Engineering (Rockwater): From Losing money in 1993 to #1 in growth and profitability in 1996

- CHEMICAL (Retail Bank): From Profits = $x in 1993 to Profits = $19x in 1996
Balanced Scorecard & KPIs

• KPIs put to work by applying, adapting and tailoring the Balanced Scorecard methodology

• The BCS and KPIs approach is frequently used to:
  • Drive strategy execution
  • Clarify strategy and make strategy operational
  • Identify and align strategic initiatives
  • Link budget with strategy
  • Align the organization with strategy
  • Conduct periodic strategic performance reviews to learn about and improve strategy
  • Show what future performance will be
BSC Criticisms

• A balanced scorecard is by definition “balanced” – if an organization wishes to achieve quick business growth, then the inherent “balance” is of less value rather than an unbalanced focus on performance activities that grow the business

• Often used inappropriately – can an organization really use BSC to govern internal processes?

• Any effectiveness in operation is criticized as merely a placebo effect – any other management approach might work equally well
"What gets measured, gets managed &.. eventually optimized"
QUESTIONS?

bpr@epu.ntua.gr

Dr. Lampathaki F. - flamp@epu.ntua.gr
Dr. Koussouris S. - skous@mail.ntua.gr