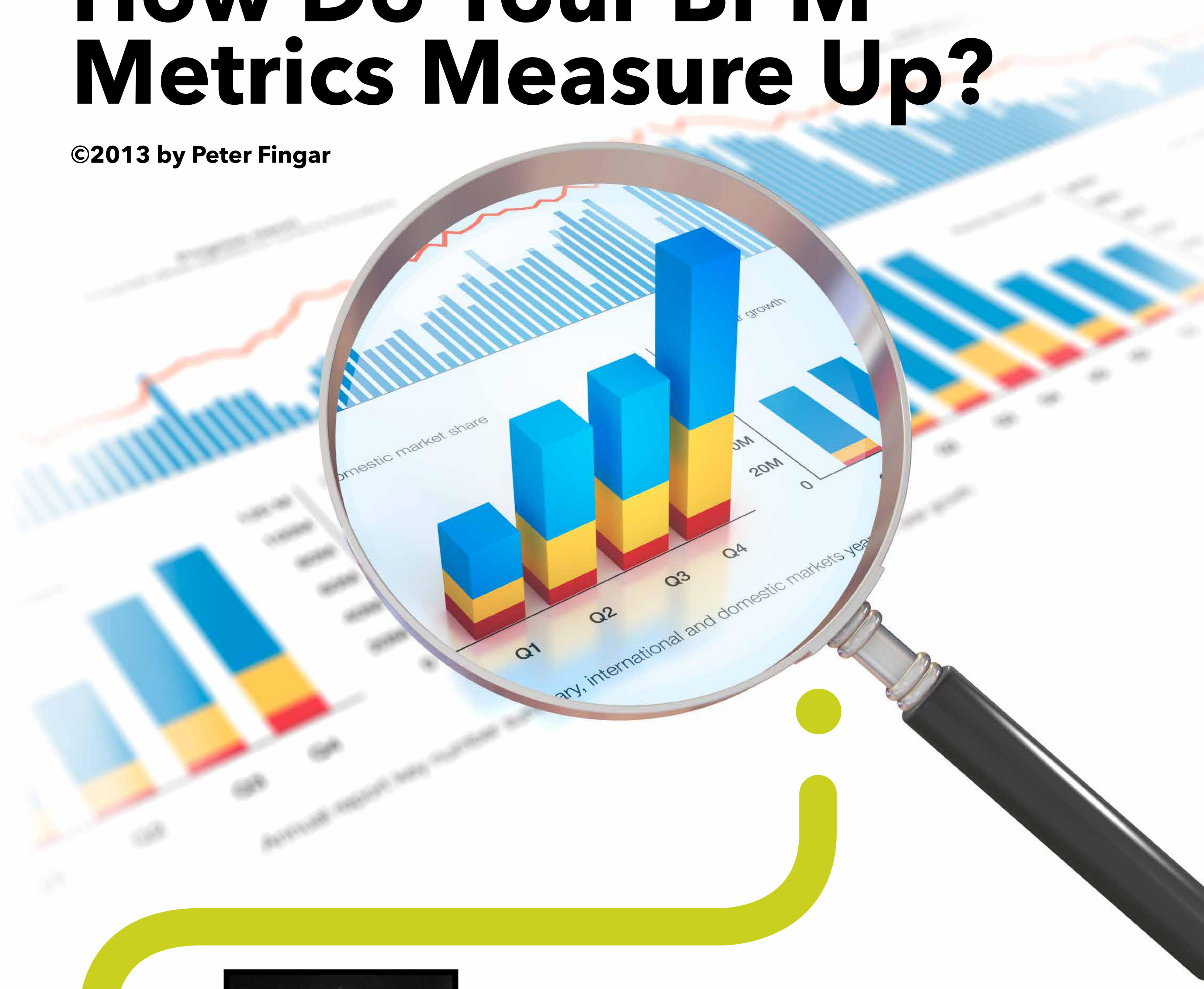
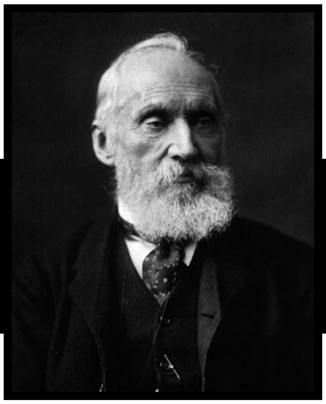
invensys

Skelta

How Do Your BPM Metrics Measure Up?





- *"If you cannot measure it, you cannot improve it." -- Lord Kelvin (1824 - 1907), Scottish mathematician and physicist*

Two Vital Business Questions and Their Corollaries.

Two Vital Business Questions:
Are we doing things right?
Are we doing the right things?

Corollaries:
Are we measuring things right?
Are we measuring the right things?

If your company operates a call center, you no doubt keep track of customer service representatives and how quickly they complete calls in order to reduce waiting time for other customers. But, oops. You might be measuring employee speediness and efficiency *right,* but are you measuring the *right things* – successful customer outcomes? While many business process metrics have been "inside-out," focused on efficiency, it's now time to pivot and also look at them from the "outside-in," focused on successful business outcomes.

John Dixon, a Gartner Inc. research director, sums up the matter this way: "BPM without metrics is just a shot in the dark." In fact, accurate, *relevant* metrics are becoming increasing important to companies seeking to make smarter, more agile business decisions. By the end of 2013, he predicts, "50% of all firms will embrace *end-to-end* performance metrics or lose their sense of control and become less competitive."

BPM success (and an organization's overall competitiveness), then, hinges on the company's ability to accurately measure its progress. But how do you measure success in an age where customers are no longer King; they are Dictators?

Businesses have evolved quickly from dictating products and services to providing products and services that customers demand – *pull* versus *push.* Organizations will have to continue to react to this basic change and will need to be proactive to intercept business patterns before they overwhelm an organization's ability to change. Changing business outcomes are going to be the norm, going forward. New business models will have to be considered and played out before changes are implemented. This adds a tremendous level of complexity in businesses.

In addition, the scope of process is going to widen beyond traditional and artificial organizational boundaries to large-scale *business networks.* The dynamic nature of these business networks will accelerate, thus contributing to the complexity that organizations will need to address. Add to all of this that the convergence and extension of technologies applied to BPM (social, mobile, big data, analytics, Cloud) is further complicating the alternatives for business process owners. There will be a big shift from purely reactive approaches, as we have seen for decades, to proactive behaviors that enable a more adaptive enterprise that can really manage change, sometimes centrally and sometimes at the point of local impact where customer "moments of truth" dictate real-time actions. To make such a shift, intelligent software will be essential, and that's where real-time business metrics and analytics come in. Strong customer experience metrics are useless if you can't respond to them in a timely manner, and so is enhanced productivity if it only results in producing out-of-date products or services faster.

With the advent of highly distributed Clouds of processing and the emergent Internet of Things, information systems based real-time metrics are inevitable, even though the tasks of conceiving, designing, and building related systems are not trivial. As we turn our attention to these tasks, we will benefit from keeping the fundamental question in mind, "How can we conceive, design, and build adaptive, multi-enterprise-scale information systems and business processes that delight customers?" An equally important question is "How do we measure our progress?" Especially when we consider Albert Einstein's remark, "Not everything that counts can be counted – and not everything that can be counted counts." Let's take a quick look at BPM metrics best practices.

BPM Metrics: Best Practices

Gartner analyst John Dixon has a simple formula for why it's important to gauge the success of BPM efforts: "No measures = No results = No justification." And ultimately: "No sustained improvement." i

In other words, if you can't quantify the business outcomes of your BPM projects, you're unlikely to reap long-term benefits from them – or gain support for future initiatives. So let's enumerate some best practices:

1. *Focus on outcomes.* Measure results delivered, not steps taken. Identify the most-valuable contributions. Make sure that all stakeholders concur on the definition of a good outcome.
2. *Limit the number of measures.* "Focus. Don't scatter your efforts," Dixon says. "Concentrate on the measures with the greatest impact." What's the right number? He recommends using just two or three.
3. *Set clear, specific goals.* For instance, rather than saying "improved customer service," set a specific goal and a timeline for meeting it. Make sure everyone understands these objectives.
4. *Measure current performance.* It's hard to prove how far you've come without knowing where you started. Establish an accurate, relevant baseline.
5. *Link metrics to strategy.* Show how BPM efforts align with business strategies and help meet high-level organizational goals.
6. *Look ahead, not just back.* "Metrics that predict results that you can leverage by timely action are better than recording history," Dixon says. Specifically, watch for economic, competitive or market behavior that might prompt a quick course change.
7. *Make metrics visible and accessible.* Metrics can motivate people—but only when they can see or find them. Expect some initial reluctance to change, Dixon warns, but keep in mind that being able to demonstrate positive results goes a long way toward gaining acceptance.

Gauging a BPM program's success begins with a key business objective that transforms the entire enterprise, not just the individual business units involved. "Many times, people will implement BPM within their department, and they make some improvements within the department. But those improvements get lost when you look at the bottom line," says Lisa W. Hershman, CEO of Hammer and Company.

Those tactical benefits make it difficult for executives to see the results or value of a truly strategic BPM initiative. For those reasons, formal efforts to measure BPM success must cross department boundaries, and multi-company value streams – it's all about end-to-end processes across a dynamic, multi-company business network that delivers value to ever-demanding customers.

Establishing A Baseline

"A common mistake is not creating a baseline" for existing processes, says the late Michael Hammer and Lisa Hershman, coauthors of Faster Cheaper Better: The 9 Levers for Transforming How Work Gets Done (Crown Business, 2010). "People get so excited and jump right into it," they say. But wait. "Take the time to understand the current state before you start designing to the future state." [ii]

Without a defined baseline, it's tough for an organization to quantify process improvements – much less innovations. Stakeholders involved with a given process may be able to attest that it's more efficient, more effective or otherwise better than before –but there's no reliable way to provide that to decision makers. Not having a clear current-state picture also makes it more difficult to decide about future improvements.

"Too often, what we see is that the organization can agree what the problem is – the process is inefficient – but how are they measuring efficiency? Where is it today, and what would be an improvement?" says Gartner Vice President and Distinguished Analyst Janelle Hill. "If that's not clear to everybody at the beginning, they struggle to make proposed changes."

Once you have a baseline, you can determine what constitutes success. "Know up front what the process improvement is that the organization wants," advises Hill. That involves setting clear definitions and goals for improvements, such as shorter cycle time, higher throughput or increased customer satisfaction.

"But don't limit your BPM program to operational improvements; think about using it to build business as well (business innovation!)." Says Hammer and Company's Lisa Hershman: "It's not just about cost-cutting and efficiencies. It's about growth, being easier to do business with, and focusing on the customer. A BPM program can really help enable business results."

Measure selectively. When it comes to determining what to assess, Hershman cautions against the temptation to measure everything. "If you measure too many things, you'll only focus on those you can hit," she says.

Instead, aim to strike a balance between business metrics and customer metrics. "When I go into companies, things are put into financial terms, but rarely put in terms of the customer," Hershman says. "Organizations should to learn to balance 'the voice of the business' with 'the voice of the customer,'" she says. She recommends considering these two critical questions: "What do we need to do to stay afloat financially, and what do our customers care about?"

Hill points out that process performance measures (PPMs) are different from traditional key performance indicators (KPIs). "A lot of our clients have KPIs that measure task-level performance – for instance, how many widgets were produced," she says. "But those aren't process performance measures. Most PPMs are rate-oriented. A rate or percentage gives the process view," she explains. "So rather than saying how many widgets the company produced, a PPM indicates how many more widgets were produced in the same amount of time."

Measuring BPM success is often just the beginning. "That's a bit of a problem –organizations thinking they've achieved success and don't need to keep going. Success suggests that it ends: You've achieved something and you're done," says Hill. "But maturity is an ongoing concept." Continuous process improvement becomes a way of life. "Companies that are mature see this as an ongoing effort. There is no one perfect way of doing any process for any organization so that if you get it right now, you can continue doing it that exact way for the next 10 or 20 years," Hill says. "You need to constantly monitor your processes to ensure that they are appropriate for your current circumstances."

High Impact – Look at the Key Business Outcomes (KBOs)

In **"KPIs VS. METRICS: WHAT'S THE DIFFERENCE?"** [iii] Jonathan D. Becher writes, "With so many metrics, how do you decide which ones are critical? The answer lies in distinguishing which metrics are actually key performance indicators (KPIs). KPIs are performance metrics explicitly linked to a strategic objective that help an organization translate strategy execution into quantifiable terms. Well-designed KPIs [Janelle Hill's PPMs above] provide quick insight into trends and summary information, while supporting drill-down into more detailed metrics. This allows an organization to see where it's doing well and where it requires improvements or course adjustments. Think of KPIs as the yardstick by which success and progress are measured; they are the measures most tightly linked to the organization's success or failure in executing strategy."

"All KPIs are metrics, but not all metrics are KPIs. An organization will have many metrics, but few KPIs. While metrics can be a measure of just about anything, KPIs are the measures that matter most. KPIs should also be actionable; if they are not actionable, how can they help you achieve your goals? In other words, don't measure something as a KPI that you can't change with specific actions."

Here are some lessons from process innovation luminary, Derek Miers. "Look at the Key Business Outcomes (KBOs) of the firm and assess whether an effective solution will produce a high return. This is a question of orientation. Processes that touch customers or suppliers are usually good candidates as they are often full of workarounds and inefficiency. Other clues are lack of management visibility or traceability of the work, where small errors can dramatically affect sales or profitability.

"Most successful firms already have a clear idea of their long-term objectives (their KBOs). What is sometimes less clear is the relationship between the measurement practices of the organization tied to the achievement of those objectives. As part of the business case development, it is a good idea to review the current approaches to measurement in the target area and develop a set of Key Performance Indicators (KPIs) that support the KBOs of the firm.

"Many organizations have far too many metrics. Often, there is a lack of proper alignment with the KBOs or strategy of the company. Having too many metrics creates a situation where people quickly loose sight of what is important, as there are simply too many goals to manage against. This leads to unnecessary confusion and complexity, increasing project risk. The key is to ensure that any metrics collected explicitly link back to KPIs that are, in turn, aligned with key business objectives.

"For example, a major retail bank in the UK found that they had literally hundreds of subtly different metrics (not to mention 130 different change programs that were leading to total confusion in the workforce). Breaking apart the overall set of metrics led to the identification of a relatively small set of metrics and benchmarks, allowing a rationalization of performance right across the firm. Most major organizations could tell a similar story – hundreds of different approaches to measurement, driven by a plethora of change initiatives (that may or may not still be in use) with the vast majority of them overlapping and largely irrelevant.

A review of performance metrics/benchmarks used will usually simplify the goals of the targeted BPM application considerably. If the overall objective of the pilot project is improved customer service, then focus on those measures that the customer really cares about, since they will make the most difference to overall performance. Once the project is complete, it is a good idea to review the measures used and develop a guide on the use of metrics within BPM projects generally.

Some useful questions to validate the effectiveness of a measure:

- What purpose will the measure serve? Who uses the measure? Does it tie back to the Key Business Objectives (KBOs)?
- How will data be gathered and used? How costly are the measures? What other measures should be eliminated or modified?
- Reward systems and behavior – does it reinforce the right behaviors? How much feedback goes to the employee?

For each measure, capture the reality of what is happening in the business at this point. Where possible, compare and contrast with the competitors. Establish realistic stretch targets for each of those metrics based on the reality of the current situation.

The importance of measurement and associated benchmarks cannot be stressed enough. When it comes to proving the benefits to the business later, base-line figures are essential to convince anyone doubting the merits of the project. The key point is to focus on the metrics that directly support the firm's KBOs. [iv]

Bottom Line of BPM Metrics: Business Agility.

Can you measure business agility in today's volatile global market of extreme competition? You'd better. And "agility" isn't some poster to display in the company break room. It's all about time-to-market for new products and services and adapting to (surprise) unexpected change. It's about meeting customer demands in real time at moments of truth. It's about outside-in versus inside-out process metrics and prescriptive analytics. But it's also about performance indicators that measure how well we can deliver on those moments of truth, and those metrics must reach all entities on the supply side, not just inside our enterprise alone-- end-to-end process measurement is vital. To repeat from the opening, strong customer experience metrics are useless if you can't respond to them in a timely manner, and so is enhanced productivity if it only results in producing out-of-date products or services faster.

One measure of agility is the ability to consistently earn profits that are 2 – 4% higher than the market average. Agility enables companies to earn an additional 2 – 4 % because they can make a hundred small adjustments every day to reduce operating costs and increase revenues. And sometimes agility enables you to earn even more by sensing and responding quickly to opportunities for new products or services, that for a while, have terrific profit margins.

So get out your carefully-chosen digital yard sticks, and use them for fact-based business innovation and transformation. Then you can determine if your BPM metrics measure up.

PETER FINGAR, independent analyst, author, management advisor, former college professor and CIO, has been providing leadership at the intersection of business and technology for over 40 years. Peter is widely known for helping to launch business process management (BPM) with his book, Business Process Management: The Third Wave. He is a sought-after keynote speaker and his latest of 13 books, Business Process Management: The Next Wave is about the use of distributed intelligence in business--in the Cloud. His forthcoming book is Smart Process Apps: The Next Breakout Business Advantage.
www.peterfingar.com

i. http://www.ebizq.net/topics/bpm_technology_implementation/features/13261.html
ii. http://www.ebizq.net/topics/bpm_technology_implementation/features/13262.html?&pp=1
iii. http://www.cutter.com/content-and-analysis/journals-and-reports/cutter-it-journal/sample/itj0604c.html
iv. http://www.bptrends.com/publicationfiles/01-06-ART-KeysToBPMProjSuccess-Miers.pdf
- http://en.wikipedia.org/wiki/William_Thomson,_1st_Baron_Kelvin

invensys
Skelta

Corporate Address
10900 Equity Drive, Houston
TX 77041 USA
USA : +1 678 306 4110
India : +91 80 4060 2600
sales@skelta.com | www.skelta.com