



Dynamic Technologies Ltd

From Chaos to Control

Winning the Game - Outrageous Performance Improvement from Empowering, Focused Information

Andrew Wright, Dynamic Technologies Ltd

Businesses need to focus information on desired business outcomes

Many organisations, particularly those with long and illustrious histories, have grown, developed and prospered with poor and fragmented management information (MI), as there hasn't been the competitive pressure to demand highly performance-focused management. Many companies have no experience or vision of what can be achieved with good quality MI; the enterprise is run on 'bucket economics', balancing what goes in against what comes out. The result is volatile business results and missed opportunities.

Over recent years, organisations have come under enormous pressure to improve their performance; globalisation and take-overs have become almost a mania, as organisations strive to survive by outgrowing their competitors and achieving economies of scale. An effective form of defence is to achieve those economies anyway and stay one step ahead of the predators, but this requires continuous improvement. It also requires that bucket economics be cast aside and management by focused performance measures be adopted.

How can a skilled management team switch to continuously improving business results, using MI based on focused performance measures?

Target management information on the desired business outcomes, collect the right data about your business, then transform and present it in the right way. The goal is the accurate and timely delivery of the right information to accountable, empowered people making critical business decisions.

This paper explains our approach to designing and implementing effective management information processing from data collection to business exploitation. The goal is simple; to enable the business to dramatically and continuously improve performance through well-informed decisions based on accurate focused management information.

1 How can improving management information dramatically improve business performance?

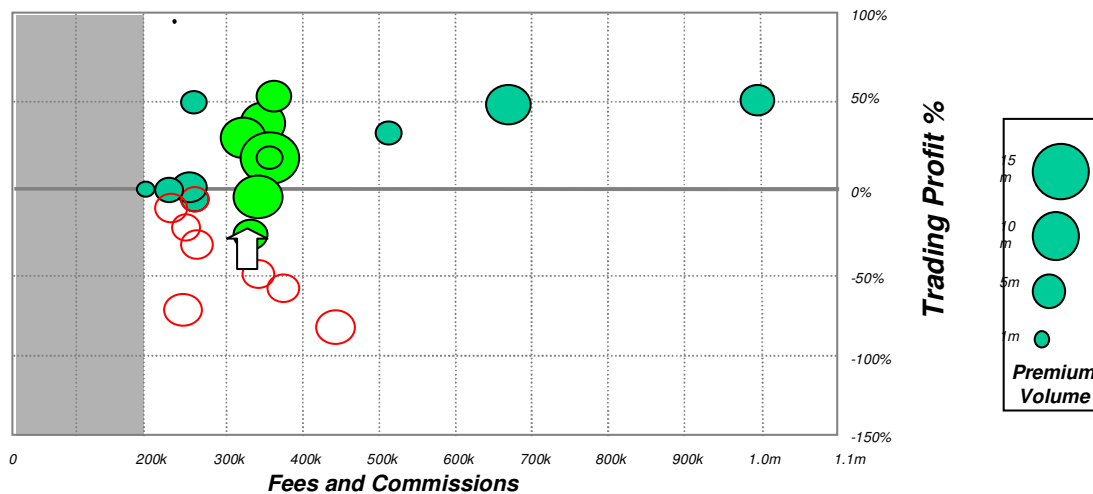
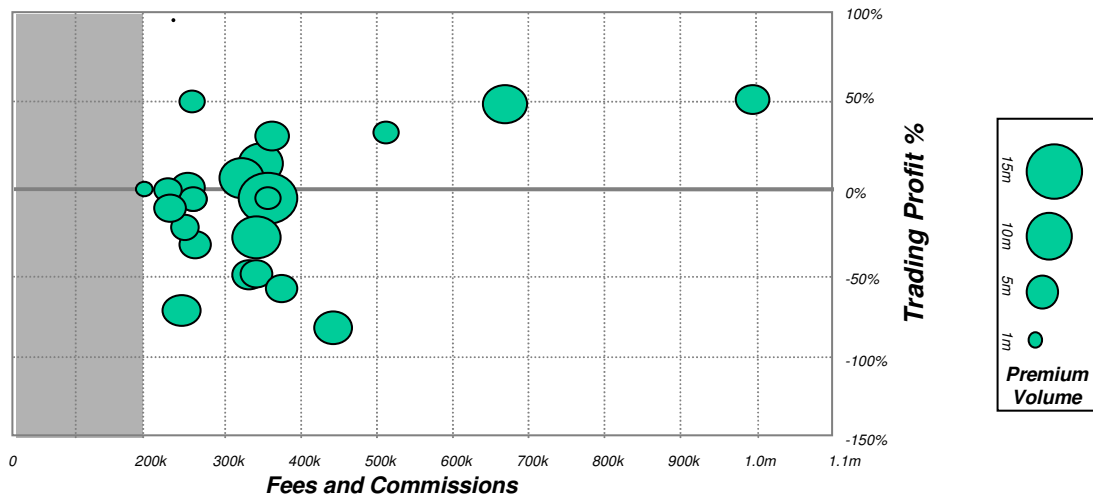
If you can't measure something, how can you objectively assess whether it is getting better or worse?

The first step in using management information is to create objective measures of the aspects of the business that need to change. If improved customer satisfaction is a desired outcome, for instance, then customer satisfaction must be measured realistically so the improvement can be monitored with no ambiguities.

Companies often have voluminous reports of management information that are:

- Largely redundant because it is too difficult and time consuming for managers to find the information they really need
- Difficult and time consuming to change
- Hard to justify changes, because "Management Information doesn't make a profit, does it?"

These factors mean that their MI obscures, rather than illuminates, their true performance. This financial services example shows the alternative:



Implementing a new MI system revealed that much of the business was detracting from, not contributing to, profitability (upper figure). In this case, eliminating the most unprofitable business, redeploying staff efforts and raising the profitability of the core business by 25% transforms the picture dramatically (lower figure). The business unit involved became the top-performing unit in the group and the model for the rest.

Establishing the true set of key performance indicators (KPIs) for a business is not trivial, as measuring some of them may incur real cost. More importantly they will require a culture change, because management initiatives will be targeted and success measured clearly against the KPIs, with no 'fudge factors'. Nevertheless, they have proven to be successful time after time, and are much more effective than simple accountancy measures such as turnover and profit after tax.

- We need to focus in on the performance measures really needed, rather than those already available

A business transformation programme will aim to achieve a number of distinct performance improvements, and there should be a KPI that independently measures the success of each activity.

- Which performance measures are relevant for your business?

The KPIs you should select are not generic, but are specific to your problems. There is a battery of KPIs used in commerce - only a few will be directly relevant to your aspirations, though they can be used for guidance.

- How do we compare your use of performance measures with industry best practice?

What is important is that KPIs are focused on the changes you want to make, and that these measure directly what you want to happen, for objectively assessing the degree of your success.

- We must aim for year on year improvement, not merely a one-off.

The competitive threat is constantly changing, and the rate of change in business has never been faster. It is becoming essential to run just to stay in the same place.

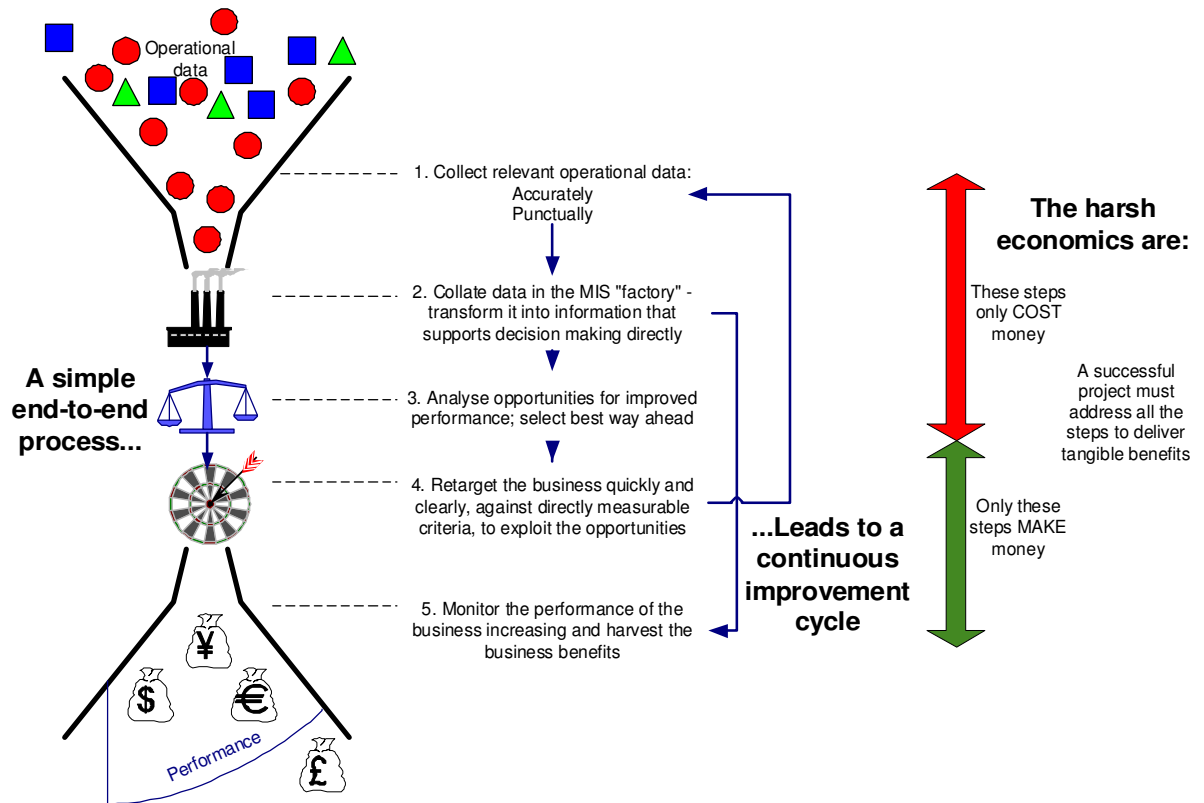
- We need to tie performance improvement targets and personal incentives directly to performance measures.

To motivate the culture change, simple and clear targets and rewards must be linked to the KPIs.

The key principles for success are:

1. Focus on delivering real business benefits through targeted improvements in KPIs that the business is committed to.
2. Phase the programme, with the delivery of benefits at the earliest possible opportunity to prove that the whole programme will be successful.
3. A single integrated programme that is end-to-end, from collecting data to delivering business performance enhancement.
4. Bridge the business/IS divide, working closely with the business to understand their requirements but also to add value in offering future possibilities e.g. collect historic data for trend analysis, modelling, data mining etc
5. Tool selection is NOT a real issue, and must never be the starting point.

The following figure summarises how our approach delivers management information processing in the form of a **pipeline**, which supports a performance improvement cycle.



The analysis of costs in the figure above shows that to justify new management information systems, a robust business case should be based on the full end-to-end process and include the benefits of the targeted performance improvements.

2 How do we collect the right data for performance improvement?

Effective decisions rely on the right decision support information; this in turn relies on measuring the right things accurately enough. There are three basic tenets in collecting the right data:

- Data must support the performance measures needed

Further to this, consistency with operational systems is more important than absolute accuracy; where there are inaccuracies in the operational data, correcting them within the MI introduces discrepancies between the day to day data and the MI. The result is confusion and argument.

- All data to support the main measures must be collected

Even if it is painful, all required data must be collected unless valid approximations can be made. If client profitability is the KPI, there is no point collecting revenue figures for clients accurately if costs are not collected against clients also, because the KPI cannot be calculated without both. The temptation is to decide that it is too hard to collect the costs, and drop profitability in favour of revenue as the KPI, but this could easily reduce profitability.

- Garbage in, Garbage out – data collected must be of adequate quality

Much collected data is irrelevant, inconsistent, incomplete or inaccurate - such data will not support continuous improvement through correct decisions, so the key data must be made of appropriate quality.

Collecting quality data can be problematic, and in most instances is a cultural issue i.e. everyone must record time etc accurately if the data is to be valid. This relies on personal motivation, so clear visibility of the goals is essential. There are often hidden agenda items associated with cost recording in particular, as costs being hidden can make the difference between loss and profit. This may require confidentiality in filling in the data, and a promise of "no punishments" for accurate declarations.

3 How can we deliver this empowering information in a way that's easy to exploit?

3.1 Ease of use by the managers who need the information

There is a wide range of tools available; the key to success is in choosing the right tools to suit the intended audience. Typically they can be grouped into power users, IT-literate users and users without extensive IT experience.

A tool set must be selected that is matched to the needs and capabilities of the users. All too often there is an assumption that a single tool must be selected to meet all requirements, resulting in a choice that is over complex for most if not all users.

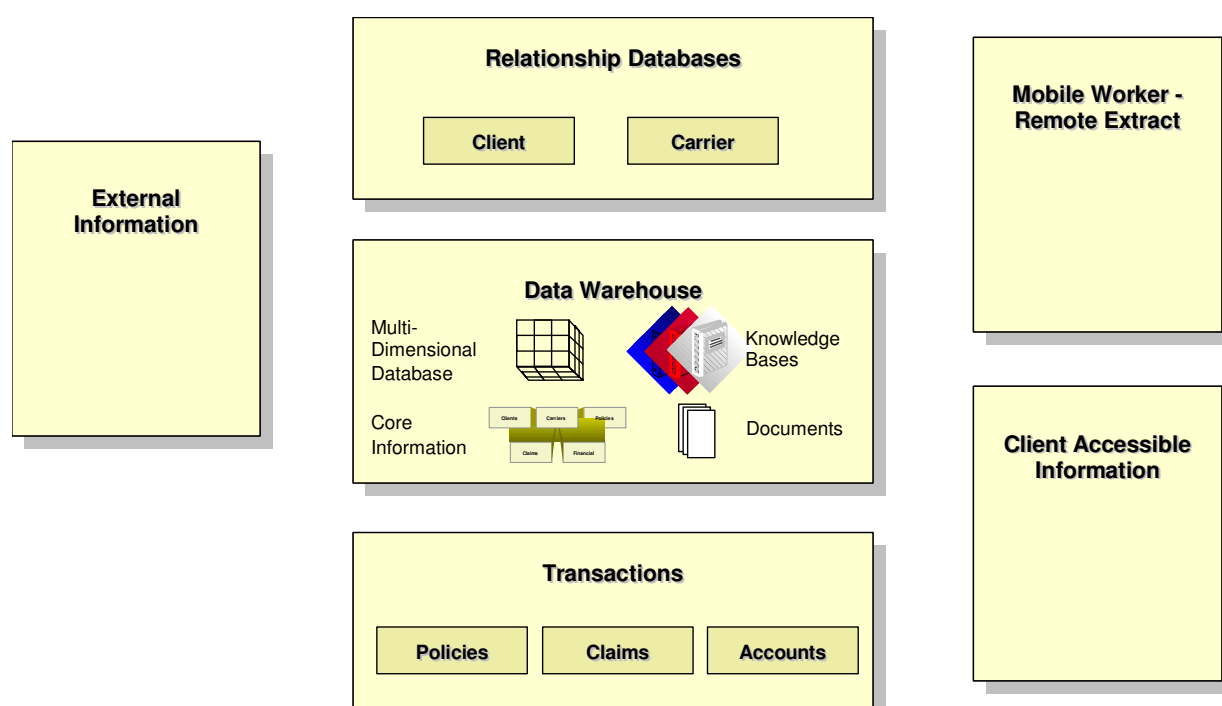
3.2 Flexible response to changing requirements

A common reason for poor MI is that the response of IT departments to requests for changes has been so sluggish that the business has given up. This situation cannot be allowed to continue into this New World of focused performance information. The MI must be rapidly responsive to the following:

- Business changes
- Performance measure changes
- Target changes
- Market changes
- Changing user needs.

3.3 The role of the Management Information Data Warehouse

The following diagram shows a schematic architecture for a company in the insurance sector that has adopted an information warehouse as the source of its performance information.



4 What are the benefits?

The prizes to be won are:

- Substantially enhanced business performance
- A culture change, recognising that change is essential to competing
- Implementing a strategic IT capability directly geared to delivering business performance improvements, forging a stronger and more effective relationship between the business and IT
- Embedding a performance orientated culture that takes responsibility and ownership for delivering results.

Failure to achieve the goal:

- Seriously compromises the medium term viability of the business
- Disengages the business at a time when IT may be the only hope of a bright future, aggravating any divide between the business and IT
- Perpetuates the cycle of IT non-delivery of competitive advantage

Our approach isn't rocket science: the problem is that MI projects usually **start** by technology assessment then use the selected tool's capability to illustrate the potential of existing data i.e. start with step 3, then ignore step 2 and poorly address step 1. Unsurprisingly, such MI projects usually disappoint.

5 Achieving the result

Our approach is to design the use of MI with **business value** and **outcomes** as the overarching goal supported by:

- Clear and unequivocal business sponsorship founded on mutual respect and sound business acumen
- Excellent programme management and change management disciplines
- Information architectures that complement the applications architecture and guide decision making
- Technical architectures that seamlessly support the business model and characteristics
- Communication that creates desired behaviours
- Delivering to promise and making it happen, realising the targeted outcomes.

The method is simple in principle (though the practice can be more complex):

1. Address MI exploitation, data gathering and IT, in that order
2. Three threads of work, but one integrated team
3. Phase the implementation to deliver business benefit at the earliest opportunity
4. Feed back successes to people contributing to improved data collection to boost their quality consciousness

Then prepare to develop further as success breeds enthusiasm.