BEST PRACTICE

Aligning your business strategy with operational goals

by **Joseph Raynus, Principal Consultant,** ShareDynamics, Inc.

An 8-Step Framework to Execute on Your Business Management Strategy

To succeed in today's unforgiving business environment, enterprises need to develop the ability to use operational data to measure, balance, and manage performance.

However, business process management (BPM) practices are often deployed tentatively or inadequately. Those sporadic and uncoordinated efforts reflect the members of the executive team's ignorance of the strategic importance of performance management and a likely lack of consensus on priorities. Obtaining hard data that measures a wider array of business activities and outcomes is becoming increasingly complex and more important than ever to a business strategy. But it's also imperative that companies connect this information to their business success.

Establish an Internal Framework to Act on Strategic Data

Various applications in the market help organizations manage the data pertaining to their strategic planning. For example, with the introduction of the SAP Strategic Enterprise Management (SAP SEM) application that comes standard with SAP ERP, SAP customers can link strategic planning and simulation with enterprise planning. This solution is a useful tool for enterprises in deriving the data for their next course of action. However, every company still needs an internal framework to act on this information: They use these findings to then align corporate goals with people, strategy and business initiatives, key performance indicators (KPIs), and tasks. Companies that undertake this kind of strategic planning without a clearly defined, structured framework that specifies KPIs and metrics from the bottom up will find it difficult to drive strategy down and across the organization.

Using BPM data in conjunction with a structured framework, enterprises can not only integrate strategic and operational information, but also align organizational strategy and operational goals. Small, medium, and large businesses alike — down to each organizational unit and even to the individual level — can understand the KPIs that they control and have responsibility for, and they understand their relationship to the overall success of their organization. According to this framework, organizational strategy and goals should cascade from the top down — where each level of the organization derives its performance goals based on the strategic objective of the level above it.

A Focused Approach to Prioritizing Business Process Improvement

After working with a number of customers who were struggling in the BPM area, I realized that they could benefit from a framework that would focus on corporate management's ability to:

- Align strategy with business operations in the hierarchy of organizations
- Achieve common goals with well-defined success criteria
- Monitor progress using standardized measures
- Bridge the gap between high-level strategy requirements, technical issues, and operational risks

With these objectives in mind, I developed the Quantitative Business Process Management (QBPM) framework.

Enterprises will have useful tools for strategic planning, but every company still needs an internal framework to act on and manage this information.

The QBPM methodology enables strategic decision-making by using process-driven management scorecards and provides a structured framework for developing effective metrics and KPIs. This framework allows organizations to consistently monitor their progress to maturity and helps them prioritize process improvement efforts by identifying and focusing on the activities with the highest impact on the bottom line.

QBPM is all about creating a framework and an actionable effort aimed at configuring, coordinating, and aligning business processes to achieve the goals of the organization. Following the QBPM methodology, enterprises adopt a corporate philosophy that addresses the measurement of an organization, allows feedback, and facilitates communication between all management levels.

Execute on 8 Simple Steps

The QBPM framework is a step-by-step methodology that allows enterprises to use this quantitative information and improve management control over the execution and prioritization of business strategy. The process follows these clearly delineated steps:

1. **Develop and refine an overall strategy.** To know what to measure strategically, you have to start with the mission or vision – the overarching goal for the growth of the business as a whole. Every business unit's strategy and goals need to be aligned with overall company strategy but have its own mission and success criteria. Begin by stating a clear company-wide strategy

with quantifiable targets for each level of the organization – every functional department and its key processes should have a strategy and measurable targets that directly relate to the overall strategy. An example of a company-wide target would be to *increase revenue*.

2. **Identify critical success factors.** Critical success factors (CSFs) are the elements or activities necessary for ensuring a successful business. Once a company identifies its CSFs, it can set out to design strategies around them (or decide whether it can build the requirements necessary to meet them). To go along with the *increase revenue* target, an example of a CSF would be *sales management involvement and support*.

3. **Define and quantify strategic business goals.** Strategic goals are operational requirements from which an organization can derive more detailed goals and activities for achieving its vision. They lay the foundation for this planning and help outline the approach. Companies need to understand how their business goals relate to their business processes. Following the example, a strategic goal would be *increase sales in the overseas divisions*.

   Because these strategic goals are purposely at a high level of abstraction, it is necessary to derive subgoals. For the most part, a successful subgoal articulates a quantitative component and possibly an element of timing; for example, *increase sales by 15% in the next fiscal year*. To truly benefit from this framework, the organization should prioritize these subgoals and develop a meaningful and efficient strategy for achieving them rather than trying to achieve every one independently of the others and at random.

4. **Define KPIs.** After companies define strategic goals, they need to define KPIs to support them and to show how individuals are performing — whether they are achieving the goals or deviating from them. KPIs help to allocate and put priorities on resources and provide information about the need to change current policies or directions to meet predefined goals. *Sales frequency* would be an appropriate KPI for the example.

   KPIs, usually defined as a measure or combination of measures that provides insight into a process, project, or product, may be classified mainly in one of three ways:

   - **Success:** Determines if the goals are met
   - **Progress:** Tracks the progress and execution of the defined tasks
   - **Analysis:** Assists in analyzing the output of each task

5. **Establish metrics.** The term "metrics" means a quantitative measure of the degree to which a system, component, or process possesses a given attribute. Metrics provide quantitative insight into KPIs, and they result from a continuous

Strategic Goals vs. Subgoals

In this example of a **strategic goal**, *increase customer satisfaction to get a bigger market share*, there are dependencies within the goal statement itself, which make the statement seem like two distinct goals. This is often the case: one strategic goal statement combines concepts from more than one goal. Here, the company aims to *increase customer satisfaction*. But the second part is also a goal that has a quantitative expression of achievement: *to get a bigger market share.* **Subgoals** are like functional requirements that a business must plan and implement to satisfy its strategic goals. Subgoals stem from strategic goals and often articulate more specific elements, such as timing. For example, *increase market share by 15% in the next fiscal year* is a subgoal that could possibly come from the above stated overarching strategic goal.

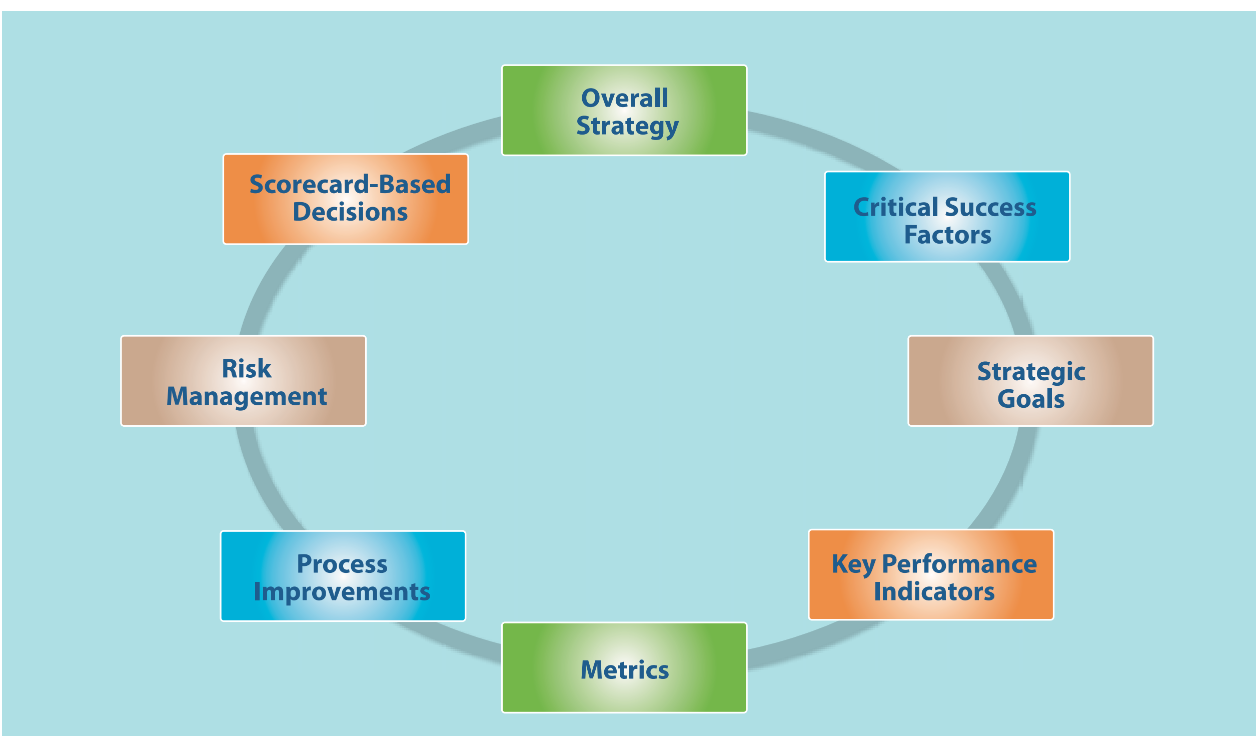
measurement process throughout all steps of the QBPM framework. If organizations don't align metrics with their business goals, they could waste precious time and company resources taking measurements and gathering data that they really don't need. Measurements help you answer questions like: Are we on track? Are there risks? Are we getting to our goals? *Sales growth* is an example of a metric that would give insight into the *sales frequency* KPI.

6. **Continuously improve processes.** Improve and fix only the parts of the process that are influencing or contributing to goal deviation. To accomplish this, organizations can apply different methodologies such as Six Sigma or Lean Sigma. Organizations must take great care in selecting which processes to improve – keeping in mind that the improvement project should be focused and support CSFs.

7. **Prioritize and manage enterprise risk.** You must manage risks associated with failing on CSFs and identified strategic goals. Risk management is the practice of systematically selecting cost-effective approaches to minimize the probabilities of not meeting predefined goals. By following the previous framework steps, companies can prioritize risk based on the quantitative information already at hand.

8. **Make scorecard-based decisions.** A scorecard enables a company to translate its mission and strategy into a coherent set of forward-looking performance measures that can be automated, linked at all levels of the organization, and tied to the company's business drivers. This method of measuring performance assesses progress toward achieving predefined, specific, and measurable goals and is an important component for efficient management.

Each organizational level has its specific role with different performance measurements. A balanced scorecard links KPIs to individual goals, and this mapping ensures management attention to the business processes that contribute to strategic success. With a scorecard, efforts involving these business processes will no longer be rigid and disconnected. Applying a balanced scorecard to a QBPM framework can significantly affect how value flows through the organization.



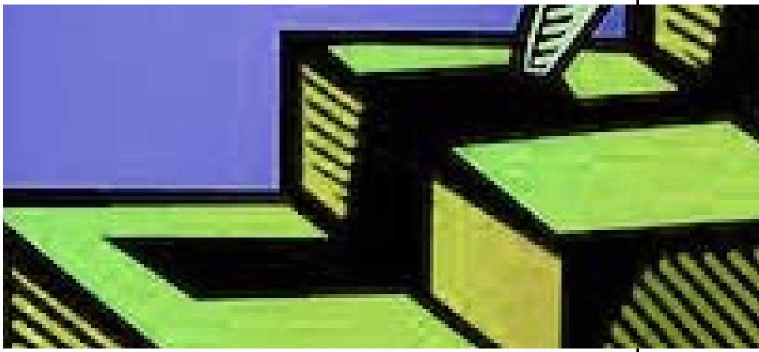
A Closer Look at the Scorecard

Perhaps the most widely used piece of the QBPM framework is the balanced scorecard, which has been around for over 15 years and has found widespread adoption in Fortune 1000 companies.

The information the scorecard provides helps to establish changes in organizational processes and culture. A balanced scorecard benefits a company in the following ways:

- Communicates a clear and accepted strategic vision that is tied to the CSFs and goals
- Permits departments and individuals to make decisions based on KPIs
- Ensures data integrity, as companies can collect the right information to monitor progress toward their goals
- Helps management establish agreed-upon performance goals and shares results of goal achievement
- Allocates and puts priority on resources
- Provides information about the need to change current policy or directions to meet predefined goals

Two tenets of business process management are to respond quickly and decisively to changes in the business environment and to know you are working on the right set of activities. Balanced scorecards help organizations immediately respond to, reprioritize, and shift goals and targets as



needed – not when some schedule says they should. Static reviews, whether annual, quarterly, or even monthly, do not reflect the real pace of business and will not enable companies to act quickly.

Using a balanced scorecard, companies can respond with both agility and the certainty that their actions and decisions are the right ones, which decreases the likelihood that they will underperform or be outdone by their competitors.

The balanced scorecard helps businesses immediately respond to, reprioritize, and shift goals and targets as needed.

In most cases, the balanced scorecard is broken down into four perspectives:

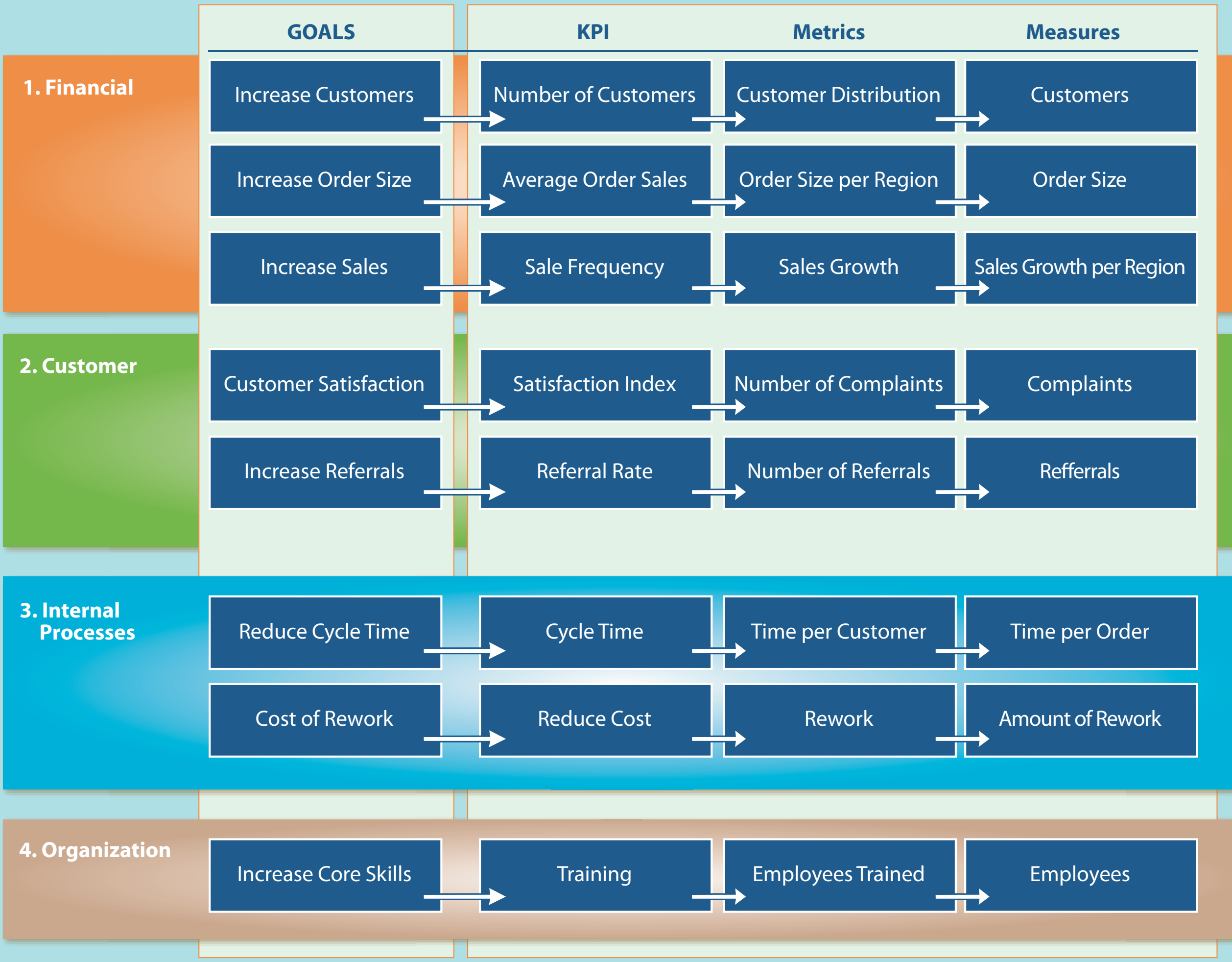
- **Financial:** The strategy for growth, profitability, and risk from the shareholder perspective

Core Processes vs. Enabling Processes

Processes are either core processes or enabling processes. **Core processes** directly relate to generating revenue, providing products or services to a revenue-generating customer, or creating a strategic advantage for the company.

Core processes include financial and operational planning, consolidation and reporting, modeling, analysis, and monitoring of KPIs linked to organizational strategy. Typically, there are only four to six core processes in a company (e.g., sales and marketing, manufacturing/fulfillment, design engineering, order entry and processing), and they are made up of various major processes and sub-processes.

Enabling processes do not touch or directly affect the external customer. They exist to enable and support the execution of the core processes. A core process could not sustain itself without the support and services the enabling processes provide. Examples of typical enabling processes are information technology, human resources, finance, legal, and documentation.



An example of a balanced scorecard

- **Customer:** The strategy for creating value and differentiation from the customer perspective
- **Internal business:** The strategic priorities for various business processes that create customer and shareholder satisfaction
- **Learning and growth:** The priorities to create a climate that supports organizational change, innovation, and growth

A balance of measures across these four perspectives defines the balanced scorecard. However, the measures that make up a scorecard do not exist in isolation from each other. They relate to a set of goals derived from the CSFs.

To sum it up in the simplest terms, you create a balanced scorecard as follows: The company's business management clarifies its overall mission statement; from this, each organizational unit derives a set of strategic goals and subgoals; the business manager tasked with generating the scorecard then maps the subgoals to each quadrant, defining the success KPIs and metrics for each.

Management implements the scorecards as part of the company's enterprise reporting suite, which is based on data reported directly from BI systems and other available sources of operational data.

Do You Accept the Challenge?

For companies to survive in the global economy and ensure they are delivering the best possible value to their customers, they must look to improve their business process management practices.

Not only must companies develop comprehensive goal-reaching strategies that address every level of the organization from the bottom up, but also they must constantly monitor and alter each goal as changes or problems arise.

While it's hard enough just to identify ways to improve operational efficiency, the greatest challenge may be to vigilantly keep track of all of the company's goals once they are determined.

Management needs more insight into how the organization interacts with its internal and external environment, and the only way to gain that insight is to better manage business processes. Once business process strategies align with a hierarchical set of goals, companies will finally be on their way to operational excellence. NWM

Joseph Raynus has extensive experience providing vision and strategic direction in the areas of Corporate Quality, Program Management, Software Lifecycle Management, and Process Performance Management, with an emphasis on defining and implementing innovative processes methodologies. He provides education, training, and mentoring and is a frequent speaker on all aspects of Quantitative Business Process Management at a number of professional organizations and conferences. Joe has written a book titled *Software Process Improvement with CMM* and is currently working on a new book titled *Challenge, Change, and Dashboard* due out in the spring of 2009.