



BPM and Predictability: Linking Business Execution to Business Strategy

Webster's dictionary defines predictable as, "to state, tell about, or make known in advance, especially on the basis of special knowledge." The last part of the definition, 'make known in advance, especially on the basis of special knowledge' sums up a main business benefit of a Business Performance Management (BPM) solution.

BPM is about enabling decision makers to gain a better understanding of how the business is performing by linking day-to-day individual activities to the overall corporate strategy. With this special knowledge, decision makers can then make decisions that drive success – improving their ability to predict company performance and meet strategic goals.

Operational Effectiveness vs. Strategy

Operational effectiveness is about achieving excellence in individual activities, strategy is about *combining* activities. Competitive advantage comes from the way your activities fit and reinforce one another, or how they link together. Achieving fit is difficult because it requires the integration of decisions and actions across many independent subunits. Companies with strong fit among their activities are rarely inviting targets. Their superiority in strategy and in execution only compounds their advantages and raises the hurdle for imitators.¹

How BPM Helps Create Competitive Advantage

BPM is about improving the way your activities fit and reinforce one another. What management defines as critical success factors at the strategic level must be clearly linked to the business process and activity level. Successfully linking the real drivers of business performance is a prerequisite to effective performance measurement.

BPM applications enable companies to improve the linkage of individual activities to strategic goals by delivering greater controls, more in-depth information for analysis, and improving the way people and departments collaborate or work together. Careful management of these linkages is often a powerful source of competitive advantage because of the difficulty rivals have in perceiving them and in resolving trade-offs across the organization.²

There are numerous examples of how BPM solutions can help companies. For the purpose of keeping the length of this article manageable, here are two problem areas where a BPM solution can make an immediate impact.



Problem Area #1 – Human Error

Running a Google search on spreadsheet errors returned 147,000 results. PricewaterhouseCoopers did a survey of large client spreadsheets and found that 90% contained significant errors. Moreover, the cost of these mistakes, according to a 1996 report (probably more today), is within the range of \$10,000 to \$100,000 per decision per month. This research becomes magnified when you realize 73% of mid-size companies utilize spreadsheets and manual processes for their budgeting, planning, and forecasting activities.³ So, how can human error affect the performance of your company?

- ❑ In 2003, TransAlta Corp. took a \$24 million charge to earnings after a bidding snafu landed it more contracts than it bargained for, at higher prices than it wanted to pay. The company's computer spreadsheet contained mismatched bids for the contracts. It was literally a cut-and-paste error in an Excel spreadsheet that they did not detect when they did their final sorting and ranking of bids prior to submission.⁴
- ❑ In May, 2004, The University of Toledo lost \$2.4 million in projected revenue. Official projections called for a 10 percent decline in graduate student enrollment, but an increase was mistakenly shown in a spreadsheet formula that led officials to overestimate enrollment and therefore revenue. Officials decided to pursue systemic changes to provide more safeguards in the future since continuing fiscal pressures had forced them to a level of staff support where there was little or no redundancy in their process.⁵

With an automated BPM budgeting & planning application end users can only change or alter the input data. The application itself is secure. The source code that makes up the application is essentially unalterable. You gain greater controls and audit trails. The user can only manipulate the input data to arrive at some desired output result.

In contrast a spreadsheet user has four options available

1. User can change the input
2. User can change the program logic
3. User can change the output directly
4. User can create any output desired without any program logic or functionality

Problem Area #2 – Visibility into the Business

In the face of soaring costs, changing regulations and constant reorganizations, Mercy Health Partners of Western Ohio wanted a way to better control and analyze their finances. They needed to contain costs while they expanded their network of care facilities.

The finance team knew they had to improve on their budgeting and planning processes (spreadsheet driven) to meet the strategic objectives. By implementing an automated budgeting and planning application, Mercy Health eliminated over 30 man-days from the budgeting process and allowed decision makers to analyze data to focus on cost containment and long-term planning.



The supply contract manager was better able to see his inventory, compare supply prices and understand the network's purchasing power. The information gave him a stronger position to negotiate from and an ability to better control his inventory – resulting in a potential cost reduction of \$1 million in operational expenses.

The new budgeting and planning application brought together people, processes, and information to ensure the day-to-day activities were supporting the strategic objectives of the company.⁶

Delivering a Tighter Linkage

Financial results are the ultimate measures, but not drivers, of business success. The linkage of day-to-day activities to financial results is necessary. Waiting for a fiscal month or quarter to close is too late for numbers that would appropriately influence day-to-day actions. Managers desperately need the right measurements and fast feedback to adjust, correct and guide an area of the company to be more inline with the overall business strategy. At the same time, this keeps near and long-term financial measures on course.

BPM systems enable managers to communicate performance expectations to employees so they know how the organization is really performing. Employees can then identify performance gaps and effectively make and support decisions regarding day-to-day activities.

A good BPM system benefits the entire organization by letting people know exactly what is needed and expected. This is accomplished by providing a way for individuals and teams to monitor their own performance and create their own feedback to identify areas for improvement. This fast feedback shortens decision and correction cycle times. The results are improved operating performance, competitive advantage, and from a financial perspective – better predictability.



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