Business Performance Management

Getting smarter about dealing with cause and effect

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As markets become more complex and dynamic, is the traditional periodic and retrospective management reporting approach adequate for running the business, or do we need a rethink? This question is considered based on in-depth interviews with senior business managers from the rapidly moving and evolving financial services sector.

KEY FINDINGS

Continuous innovation and real time steering are needed in the face of change
Regulatory evolution and widespread automation have impacted together to drive a dramatic increase in the pace of business and the transparency with which it is carried out. Clients demand greater value and the level of competition has increased. Against this background, real world insights from 52 senior financial services professionals confirm that constant change in the way business is executed is now a given, and that continuous innovation and a more real-time approach to steering the business are increasingly required to compete effectively.

Cause and effect: a need to manage business drivers as well as financial outcomes
Today, monitoring and managing at the level of overall financial performance is considered to be most important. Significantly less emphasis is placed on tracking granular profitability measures at a client and product level. Furthermore, monitoring of operational drivers and external factors such as performance against the competition is particularly patchy across the financial services industry. However, the general consensus within the business management community is that firms must get smarter about dealing with the lower level drivers that impact higher level outcomes.

Yet smarter management is hampered by information availability and access issues
The challenge is that organisations are not geared up to provide the information required for granular monitoring and management of underlying performance drivers. Problems exist with the accuracy and completeness of information at a product, service, client, partner and competitive level, with the frequency and timeliness with which management information is delivered also being an issue. Senior business managers find it hard to cope with data fragmentation and many are drowning in superfluous detail while being starved of the relevant information they really need.

Information technology is both the cause of many problems and an important enabler
While technology may lie at the root of many of the issues explored, it can also provide a lot of the answers. The evidence is clear that capabilities such as dashboards, real-time alerts, exception reporting, interactive analysis tools and collaboration facilities have an important part to play.

But there is a clear imperative for business and IT professionals to collaborate further
While IT departments are considered to be performing well in general, business managers say they often fall short in delivering against management information needs. Both business and IT are responsible for closing this gap. Only by working together will genuine success be achieved in allowing real-time management of the business by controlling causes as well as effects.

The research upon which this report is based was independently designed and executed by Freeform Dynamics. During the study, which was sponsored by IBM, feedback was gathered from 52 senior business managers from the investment and insurance community in the City of London.

Introduction

The health of a company may only partially be determined by analysing its financial status. Real insights into performance come from understanding the drivers behind the overall financial picture. When assessing a company for investment purposes, it is therefore important to determine whether those responsible for the business have these factors under control.

Obvious, perhaps, to any financial services professional, but against this background, it is interesting to consider how well financial services organisations themselves are geared up to steering and managing their own businesses.

The research presented in this report examines the current state of play in the area of business performance monitoring and management within the investment and insurance community of the City of London. Intelligence was gathered from 52 senior business managers within medium to large financial services organisations. The job titles of those interviewed are listed in Appendix A.

The results tell us that while the industry appears to be doing well in some areas, it is struggling in others. Our analysis highlights a number of behaviours and capabilities associated with business performance monitoring that are common to those who say they are achieving success.

Industry context

The past decade has seen significant changes, not least as a result of regulatory evolution and widespread automation, which have driven a dramatic increase in the pace of business and the transparency with which it is carried out. The senior managers interviewed clearly see the impact of this change and recognise some key resulting trends (Figure 1).

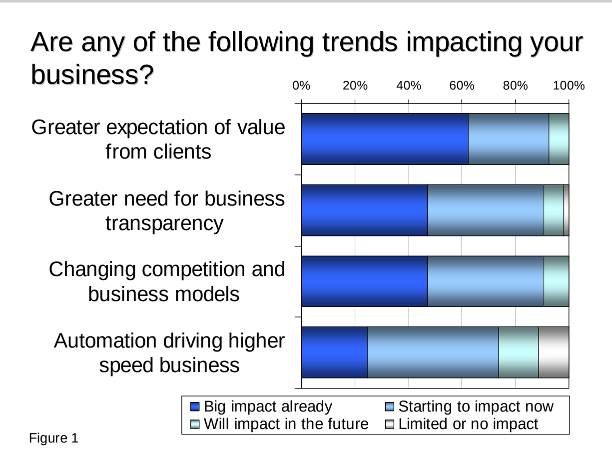

Figure 1

Change is impacting or will impact across many aspects of the business, it is just a matter of timing

These trends are inter-related. Increases in transparency, almost ubiquitous Internet access, 24x7 news media, and improved communications have led to clients becoming more informed and demanding. Simultaneously, advances in technology coupled with greater visibility of incumbent activity have reduced barriers to entry in pretty much every aspect of the market. Competition has been further fuelled by new business and execution models, often disrupting decades of status quo.

As a result of these dynamics, the financial services professionals interviewed in our study recognise that change is accelerating and here to stay. The evidence suggests, however, that this won't be a one-time transformation to a state of stability, and our respondents highlight the following impacts of a continuously changing business environment:

- The way we execute will need to change significantly
- There will be a continuous need for us to innovate into the future
- More 'real-time' steering of the business will be required

The last imperative is particularly pertinent to the core theme of this paper. While the need for more real-time management is easy to appreciate, it quickly translates to some serious requirements for making sure that those doing the managing receive information in the right way and at the right time.

Before getting into this, though, we need to look at an important shift that is taking place with regard to one of the other points raised, that of steering the business on a more real time basis.

Shift to managing 'cause' as well as 'effect'

Given the dynamic nature of the financial services sector, we might expect a great deal of sophistication in terms of how business performance is managed. This is not what we find, however. The management approach that prevails today appears to be relatively unsophisticated, focused primarily on monitoring the bottom line (Figure 2).

How important are the following factors when managing the business and how is this changing?

Management factor	*Importance today*	
Overall financial performance	High	
Overall operational performance	Medium	
Product / service line profitability	Low	☆
Client profitability	Low	☆
Client acquisition and retention	Low	☆
Delivery of profit / value to clients	Low	
Performance of partnerships	Low	☆
Performance relative to competition	Low	☆
Individual employee performance	Low	

Figure 2 ☆ **= Highlighted by the majority as becoming more important**

Business managers focus primarily on the bottom line, with relatively little regard for underlying drivers.

With the relative lack of attention being paid to underlying drivers of overall performance that is so apparent from this picture, there is a significant risk of organisations being "caught out" by past trends or events that take time to impact the financial figures. Examples here include:

- Failure to deliver adequate value to clients leading to customer retention issues that are only discovered when someone investigates why a periodic financial target has been missed.
- Poor execution by a trading partner leading to extended transaction completion times that only come to light when a key client complains of poor service or defects to the competition
- Excessive costs associated with delivering a new service that only become apparent when someone drills into product margins having spotted a drift in overall profitability

These are examples of 'causes' that take time to have an 'effect' on overall financial and operational performance measures. The obvious problem here is that by the time damaging incidents or undesirable trends are identified, it is often too late to do anything about them.

The good news is that many appear to have acknowledged this problem. As we can see from the above figure, most say they will be putting more emphasis on explicitly managing factors such as product and client profitability, client acquisition and retention, and more outwardly looking measures such as the performance of partners and achievement relative to the competition.

An interesting omission from this list, however, is the delivery of value to clients. Few take explicit account of this during the management process today and it does not seem to have been generally identified as a particular area of focus for future improvement. There is perhaps a wakeup call here for the 90% plus of respondents who identified "Greater expectation of value from clients" as a key industry trend impacting their business, as we saw previously in Figure 1.

Nevertheless, the general intention to shift to a more holistic management approach looking at cause as well as effect seems to be there. But what are the practicalities associated with this shift?

The information gap

While interviewing the senior managers that took part in the study, we asked them about the accuracy, completeness and timeliness of the information they need to do their jobs. Not surprisingly, most of them told us they are able to get hold of solid financial performance data at an overall level, albeit not always as quickly as they would like. The message we got back loud and clear, however, was that the accuracy and completeness of other types of performance data is generally very patchy, with timeliness of delivery or availability being a general problem across the board (Figure 3).

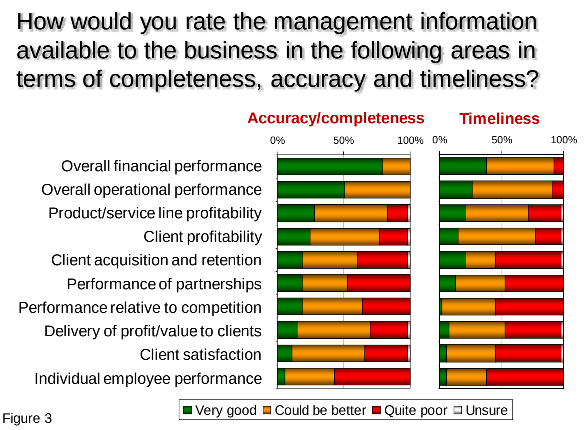

Figure 3

The information gap is very apparent. Accurate and complete information at lower levels is generally scarce, and timeliness is an issue across the board.

There is clearly some work to be done in order to achieve the shift we have been discussing with respect to monitoring and managing causes as well as effects. In order to understand where to start when looking to drive improvements, however, we need to take a look at some of the practices and mechanics in place at the moment, and what appears to be working or otherwise.

Performance monitoring in more detail

A particularly encouraging finding from the research is that financial services organisations are generally very familiar with structured performance monitoring techniques (Figure 4).

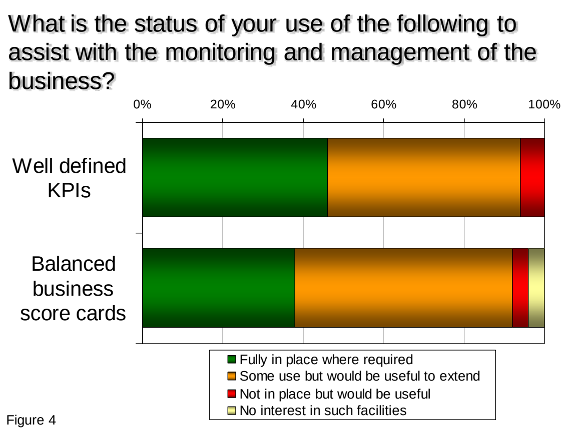

Figure 4

Financial services organisations are generally very familiar with structured performance monitoring techniques.

Around 4 in 10 business managers are confident that techniques such as key performance indicator (KPI) tracking and balanced business scorecards are fully in place where required, with most of the remainder indicating some use, with a desire to extend.

Of course it is possible to provide good information without using such structured techniques, but when we look at where KPIs are used, they do tend to map onto largely the same areas that were identified earlier as being better served from an information accuracy and completeness perspective (Figure 5).

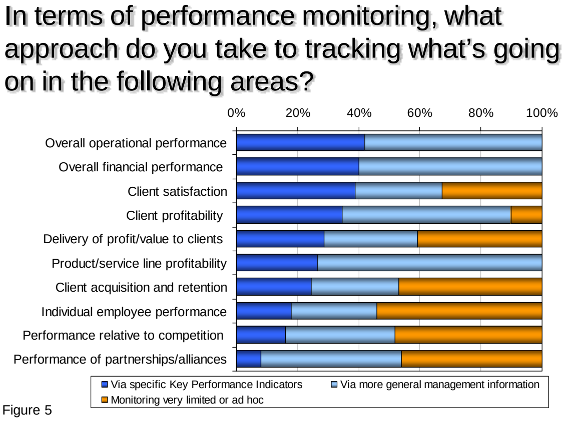

Figure 5

Use of KPIs is generally consistent with the perception of available information being accurate and complete.

Given this mapping between more formal monitoring and perceptions of accuracy and completeness, the obvious suggestion we can make is to extend the use of formal techniques into areas in which they are currently not used. While easy to say in theory, however, a look at some of the practical challenges associated with information availability and access highlights that moving forward in practice may not be that straightforward.

Current challenges

One of the challenges is that the underlying data necessary to derive performance measures is not always captured, and around 40% of business managers identify this as an issue. Quite tellingly, though, over twice as many say the problem is more to do with not being able to find and access information in a suitable manner that they know to be there (Figure 6).

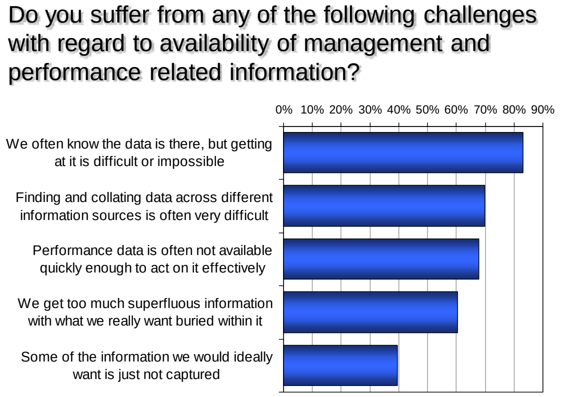

Figure 6

It's not that the data isn't there …

A big part of the problem is information fragmentation. As IT systems have proliferated, so too have the underlying data stores, which has directly led to many of the challenges listed above. Other challenges relate to information not being held in the right format or at the right level for management information purposes. Resultant delays as information is reworked are a significant contributing factor to the timeliness issues we saw earlier. At the other extreme, business managers are often swamped with high volumes of superfluous detail that further hampers their ability to find what they really need.

The changing role of IT

While many of the challenges discussed above are caused by the way in which IT systems have been implemented in the past, IT also has to be part of the solution looking forward, as effective performance monitoring is dependent on visualisation of high level indicators and trends derived from huge volumes of underlying data. This can only be enabled through technology. The obvious question in an environment where IT is already so pervasive, however, is what kind of technology?

We can form a view of this by looking at what organisations are doing today and mapping IT practices and capabilities onto business manager perceptions of how well their information needs are being met. So let's start with an overall picture of current IT related capabilities (Figure 7).

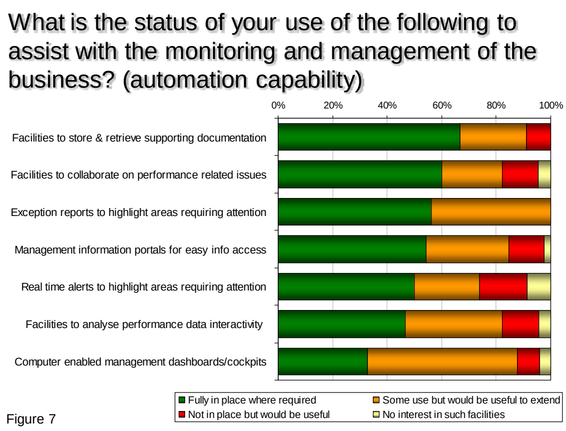

Figure 7

Some obvious gaps and areas for improvement

This picture tells us that while the basics are well covered, there is a clear desire for facilities to support a more holistic and real-time view of business performance, which fits with the sentiments we have been hearing at a business level. In terms of important gaps, one of the widest is associated with the concept of computer enabled management dashboards and cockpits. The majority (over 60%) of business managers see a need to either extend or enable this kind of solution.

Another important observation is the growing importance of real time capabilities. There are two aspects to this in practice. Firstly, populating delivery mechanisms with the latest version of the truth based on live or at least very "fresh" information to enable real-time alerting mechanisms that proactively draw attention to areas that need management focus.

There is then the collaborative element; colleagues working together to assess and act upon management information (Figure 8).

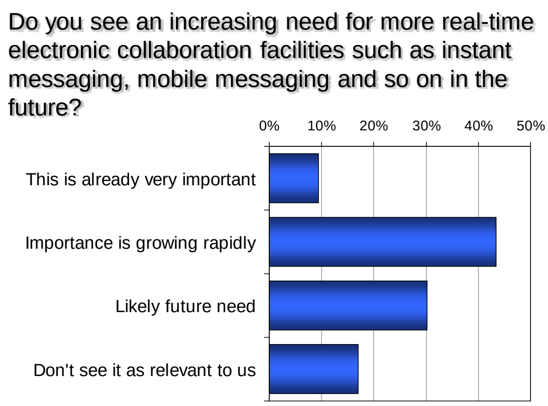

Figure 8

Regardless of current position, most recognise the importance of real-time collaboration

These business manager needs, wishes and desires, along with the associated gaps, mean that while IT is considered to be doing a good job in general, it is often viewed as falling short when it comes to the specific area of serving the organisation’s information requirements (Figure 9).

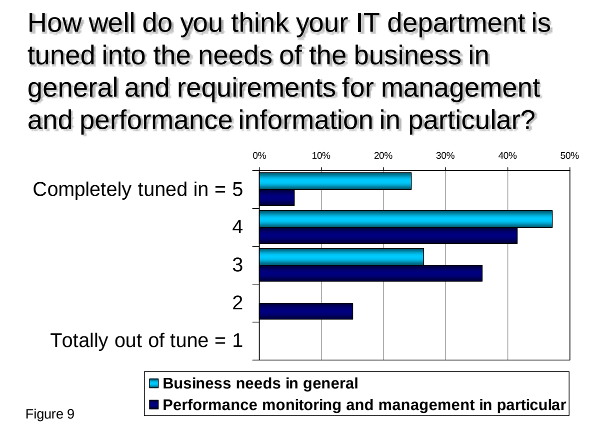

Figure 9

IT departments seem to be pretty well in tune with the business in general, but significantly less in tune with the specific requirements for management and performance information

Ratings of 4 or 5 on this kind of scale are generally perceived to be positive, whereas a 2 or 3 rating suggests significant room for improvement. But do those within each group have anything in common? The answer is yes, and by comparing them, we can identify the capabilities that impact user satisfaction the most and, by implication, deliver the most incremental value (Figure 10).

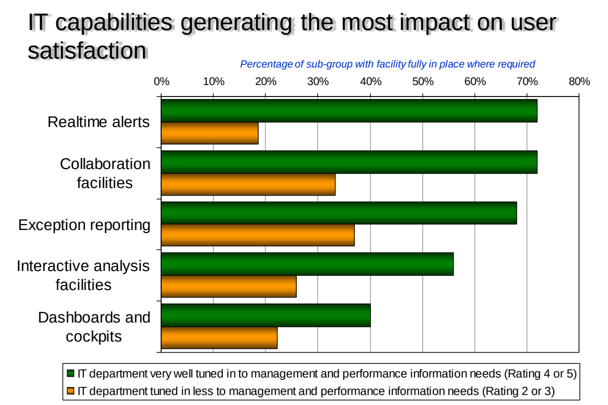

Figure 10

IT departments considered well tuned in to management and performance information needs are those delivering real-time alerts, collaboration capability, exception reporting and interactive analysis facilities.

There are some valuable lessons here for boosting IT-business alignment in this very important area, though we must be careful not to trivialise the practicalities involved.

Practical considerations for driving improvement

For business managers reading this paper, it is important to appreciate that implementing the IT solutions necessary to deliver against the requirements highlighted is not just a case of procuring the latest tools and applications given the often fragmented nature of the source systems in which information resides. Working with IT colleagues to prioritise requirements is therefore vital.

Equally importantly, the heightened need for an understanding of the business by IT people further underlines the imperative for mutual collaboration. Second guessing from either side will not achieve success in this area.

Beyond these basic considerations, we can identify a range of suggested actions for those who recognise some of the challenges highlighted in this report. These are summarised below.

Management optimisation imperatives

The observations and conclusion presented in this paper highlight a range of imperatives at an industry level as follows:

- **Create a culture of real-time business management**
  Business managers must better embrace the concept of 'cause and effect' in their management activities. This may seem a bit like teaching grandmothers to suck eggs, but the evidence suggests that current management inputs are far too oriented towards retrospective monitoring of bottom-line performance to allow effective real-time steering of the business.

- **Get IT and the business communicating and working together effectively**
  Business managers need to be very clear about their requirements for information. Formal techniques such as KPI definition and business scorecard construction are confirmed to be a key enabler here. Where necessary, the business must then work with IT to develop an improvement plan, taking both business priorities and the cost and practicality of implementation into account. It may not be possible to deliver against the total business manager 'wish list' immediately, but the finding from the research that access difficulties across fragmented systems are more prevalent than lack of raw source data *per se* suggests a great deal of scope for some valuable quick wins. We cannot stress the importance of working together enough, however, as in this area more than most, a collaborative approach between IT and the business is vital to success.

- **Do your homework on technology options**
  In preparation for such discussions, IT departments must make sure they are fully up to speed on the latest technologies and solutions available to help. While there are no 'magic bullets' in the form of turn-key products that may be implemented straight off the shelf, developments in portal and integration technologies, service oriented architecture, collaboration and messaging systems, cockpits and dashboards, and so on, have been rapid in recent times. If it is more than six months since you investigated what the IT industry has been up to in this space, a review of what's on offer is probably recommended. And as a tip, you may be surprised at how willing IT vendors are to deliver genuinely useful education and insights as part of their sales process, typically for no charge and no obligation.

On this last point, whether you get up to speed by engaging vendors, industry analysts, consultants or through some other mechanism, it is important to appreciate that problems we may not have considered cost effective to solve even two years ago can now be addressed through a combination of the right technologies and the right approach. Some of the organisations interviewed as part of this study are already achieving results. We hope the insights and analysis contained in this report will help others as they optimise their business management activities.

Acknowledgements

We would like to thank the 52 participants in our study who took time out from their extremely busy lives running the business to talk to us about this extremely important topic. Your views and insight are invaluable in helping the broader community as they continue to sharpen their management strategies and approaches.

Appendix A

Study Design and Execution

The research upon which this report is based was independently designed and executed by Freeform Dynamics Ltd. During the study, which was sponsored by IBM under the Freeform Dynamics community research programme, feedback was gathered from 52 senior business managers from the investment and insurance community in the City of London.

The job titles of those interviewed are as follows:

Participant job titles

Chief Accountant	Financial Director	Institution Markets Manager
Chief Finance Officer	Financial Director	Marketing & Strategy Manager
Client Service Director	Financial Manager	Marketing Director
Client Business Manager	Financial Services Products Mgr	Marketing Manager
Client Services Director	Foreign Exchange Dept	Marketing Manager
Client Services Manager	Fund Manager	Media & Marketing Manager
Client Services Manager	Growth Fund Manager	Manager, Global Institutional
Commercial Manager	Head of Equity Administration	Operations Director
Director of Client Marketing	Head of Finance	Operations Director
Director of Marketing	Head of Finance	Operations Director
Divisional Director	Head of Infrastructure Funds	Part of CEO policy team
Finance Controller	Head of Investment Unit	Sales & Marketing Director
Finance Director	Head of Loan & Trading Ops	Senior Client Manager
Finance Manager	Head of Marketing	Senior Director
Financial Controller	Head of Operations	Senior Mgr of Reconciliation
Financial Controller	Head of Operations	UK Equity Fund Manager
Financial Controller	Head of Private Banking	
Financial Controller	Information Manager	***52 Total Participants***

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