

# Discover how analytics makes the difference between managing and improving performance

## IMPROVE PERFORMANCE THROUGH STRATEGIC INSIGHT AND PREDICTIVE PERFORMANCE MANAGEMENT

There is a big difference between formulating a strategy and executing it. Executives set objectives and devise reasonable strategies to achieve them, but more times than not, implementing them proves problematic.

An estimated 90 percent of companies fail to fully implement their strategies.<sup>1</sup> Although many contributing factors intervene, such as changing priorities and cultural issues, one consistently recurring flaw is the misapplication or lack of information key to implementing effectual performance management.

To communicate and cascade their strategies to managers and employee teams, executive teams use strategy maps, balanced scorecards and dashboards. By leveraging analytics, scorecarding can enable a company to gain strategic insight and foresight by validating cause-and-effect relationships among the executives' defined strategic objectives.

Predictive performance management takes this target setting and its feedback to a higher level by modeling, forecasting and simulating potential outcomes. Predictive performance management is for companies that embrace test-and-learn as a way to evaluate alternatives rather than simply reacting and hoping for the best.

<sup>1</sup> Dr. David Norton, co-author of *The Balanced Scorecard: Translating Strategy into Action* at the Balanced Collaborative Summit on Nov. 7, 2006.


### Gain focus; increase precision

Many companies have measured the same key performance indicators (KPIs) for years, which are not necessarily the measures that reflect the time-sensitive strategic intent of the executive team. In fact, they often aren't aware of how their key drivers should be adjusted for their current business environment.

As a first performance management step, companies should make a critical analysis of the projects and initiatives that will achieve their current strategic objectives and then assess the validity of the company metrics. Do the metrics enable progress toward the strategic initiatives? What is being measured – the critical contributing factors or the easily identified factors? The metrics selected as KPIs should be strictly limited to those that can be used to evaluate, shape and reshape the business strategy.

Beyond basic reporting, a dashboard or scorecard supported by analytics focuses efforts by identifying causal links between business metrics and KPIs. And it helps identify how performance improvements in one area can affect – negatively or positively – other seemingly unrelated initiatives or metrics.

Analytics doesn't just determine whether or not a correlation exists but how strong that correlation is. If a KPI of a customer satisfaction index is lagging, then how much would leading KPIs



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such as “customer wait time” and “rate increases” have influenced the drop? Correlation and regression analyses help surface deeper insights into the way business is really conducted, so that the metrics selected are the ones that matter and irrelevant ones are eliminated. KPI thresholds – the outer limits of “normal” – and the alerts they are tied to are all too often erroneous.

Analytics not only informs which metrics matter and how they influence each other and the strategy, but it can help executives establish the appropriate thresholds to better manage underperformance and focus improvement strategies.

### **Anticipate change**

Business opportunities and threats come swiftly and require an equally swift response. The sheer volume of events to be predicted is increasing, and forecasting is no longer limited to demand and supply planning. But a dashboard without any intelligence behind it is simply deficient for tactical recovery of change.

Two different types of performance measures exist: those of current performance and those that predict future performance. The former after-the-fact measures often are highlighted by financial reports and are used for troubleshooting to help determine how an organization got to where it is now. What is more

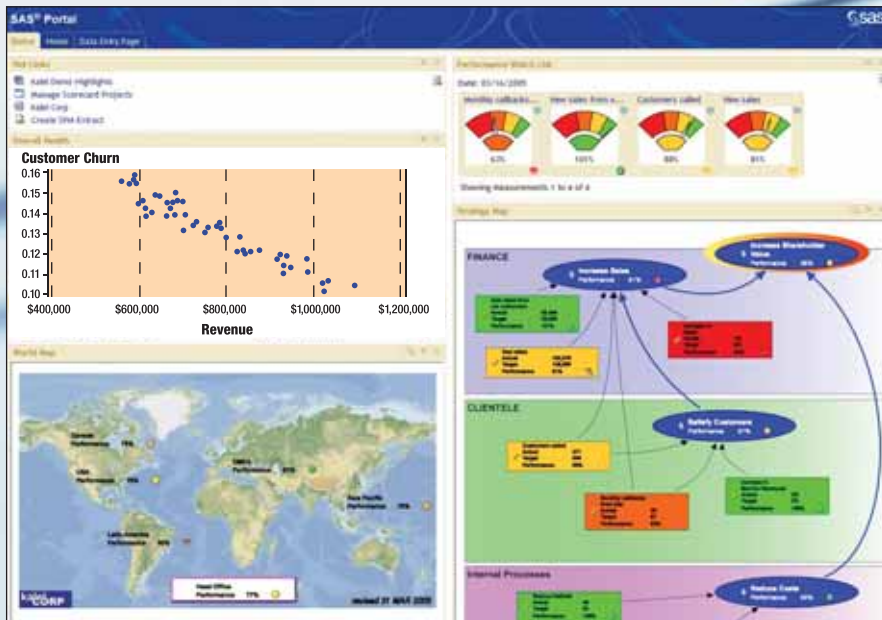
desirable is to know why an organization is where it is now and what improvements to make next to grow efficiency and profitability. Analytics contributes to that understanding through root-cause analysis.

Companies must focus on the best possible course of action as quickly as possible, possess the perceptive abilities to spot upcoming obstacles and be agile enough to change course exactly when needed. Forecasting helps companies detect trends and understand what lies ahead. In the course of an organization’s planning cycle, forecasting and what-if scenarios are critical to accurately adjusting pricing, inventory levels and customer interactions and to ensuring continued operational efficiency.

Armed with this knowledge, executives and managers can wisely direct actions by setting policies to best implement their strategies with a higher probability for success. Predictive analytics embedded into the scorecarding process empower organizations to learn from their past by seeing where they have been and why, and then to determine the best strategic actions for decision making today and in the future.

Without analytical techniques and their resulting structured guidance, companies that do not use analytics and predictive performance management will never know just how much they could

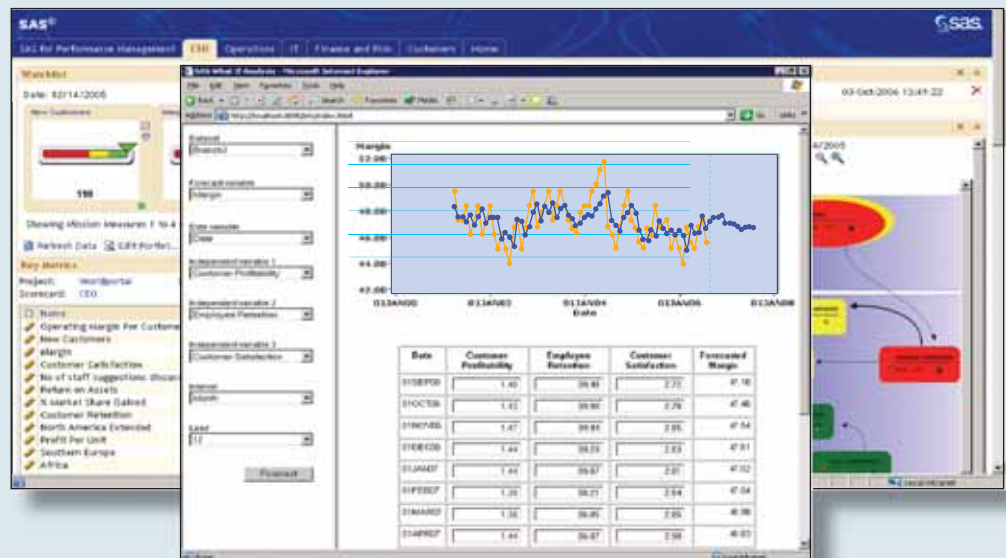
## SAMPLE OUTCOMES OF ANALYSIS: EXAMPLE 1



Example 1: **Correlation analysis** can reveal previously unknown relationships between metrics, making it clear which metrics are important and where to set thresholds. This analysis shows a tight correlation between customer churn and total revenue. Once **cause-and-effect relationships** are determined and validated, their relationship to one another and the strengths of the relationships can be displayed. Users can better predict potential outcomes based on achieving certain results.

Example 2: **Forecasting** and “**what-if analysis**” help you model scenarios to determine the best course of action. Change the values for one or more variables to see the effect on the forecasted margin.

## EXAMPLE 2



have improved their performance by carrying out different action plans. Predictive performance management empowers executives, managers and employee teams to see outcomes sooner, set direction, focus, track performance and change course quickly to improve overall performance effectively and efficiently and, most importantly, gain the competitive advantage. ■

## BIOS

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## ONLINE

Download a complimentary copy of the new SAS white paper – *Predictive Performance Management: Continually improve performance by applying the power of analytics*: [www.sas.com/pmsupp-ppmpaper](http://www.sas.com/pmsupp-ppmpaper)

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