AMR Research

Building Performance Management
Centers of Excellence: Business Intelligence and Beyond

by Dave Kasabian

As the line between business intelligence and performance management continues to blur, the role of the center of excellence must expand from technical to business expertise. It must translate business initiatives into an application environment and analysis platform that supports business performance optimization.

Enterprise Strategies Report

Acronyms and Initialisms

BI	Business intelligence	PBN	Performance-driven business network
COE	Center of excellence	PM	Performance management
EAI	Enterprise application integration	ROI	Return on investment
ERP	Enterprise resource planning	SOA	Service-oriented architecture
P&L	Profit and loss		

Building Performance Management Centers of Excellence: Business Intelligence and Beyond

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As business intelligence (BI) and performance management (PM) become more pervasive throughout the organization, the center of excellence (COE) must expand from its technical focus to a more in-depth understanding of business performance drivers and related processes across the organization.

The Bottom Line

Executive Summary

BI COEs have been in existence for several years, but are not yet widely adopted. As the line between BI and PM continues to blur, the role of the COE must expand from technical to business expertise, with a specialization in the drivers and processes that impact business performance across the organization. It must become a PM COE.

The PM COE will need to translate corporate strategy, business requirements, process flow, collaboration, and information delivery into an application environment and analysis platform that supports business performance optimization, providing a prime opportunity for IT and the business to unite (see "IT and Business: Don't Align— Unite!"). By including PM processes and applications in addition to traditional BI functions, the value of the COE expands from providing historical information to enabling and supporting a forward-thinking, proactive, performance-driven business network (PBN). For more information, see "Performance-Driven Business Networks: Taking Competitive Capability to the Next Level."

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Traditional BI centers of excellence

Staffed by individuals with interrelated skills, knowledge, and experience, a BI COE can be a separate or virtual organization that shares the mantra of promoting and supporting the dissemination and use of relevant information throughout the organization. It's established to help BI progress from tactical deployments to strategic business initiatives with common definitions, policies, procedures, and resources for deployment within the organization. While the concept of the BI COE has been in place for a decade or so, the majority of companies have not yet embraced it. However, AMR Research believes that to have a truly global perspective of performance, a PM COE is essential, with a BI COE its foundation.

The purpose of the BI COE

The purpose of the BI COE is to provide value to the business by moving BI from disparate tactical deployments with inconsistent information toward consistent tools, standards, definitions, and policies that result in a trusted source of accurate and relevant information across all functions of the organization. Here are some attributes of a successful BI COE:

- **Acts as a liaison between IT and the business**—IT is often perceived as a barrier or bottleneck, and the COE should act as the liaison, with a stated goal of enabling business agility and optimization. This increases the probability the business will be receptive to COE standards and practices, rather than seeing it as an IT initiative.

- **Defines standards and policies**—The COE must have the authority to define and enforce standards and policies as well as prioritize initiatives in the best interest of the business.

- **Enforces BI strategy**—Another charter of the COE is evangelizing the BI strategy within the context of the overall corporate strategy. This must be done in a way that supports tactical business initiatives within the overall business strategy and established standards, providing advice, thought leadership, best practices, and coaching on how to use BI in the context of the business and its processes.
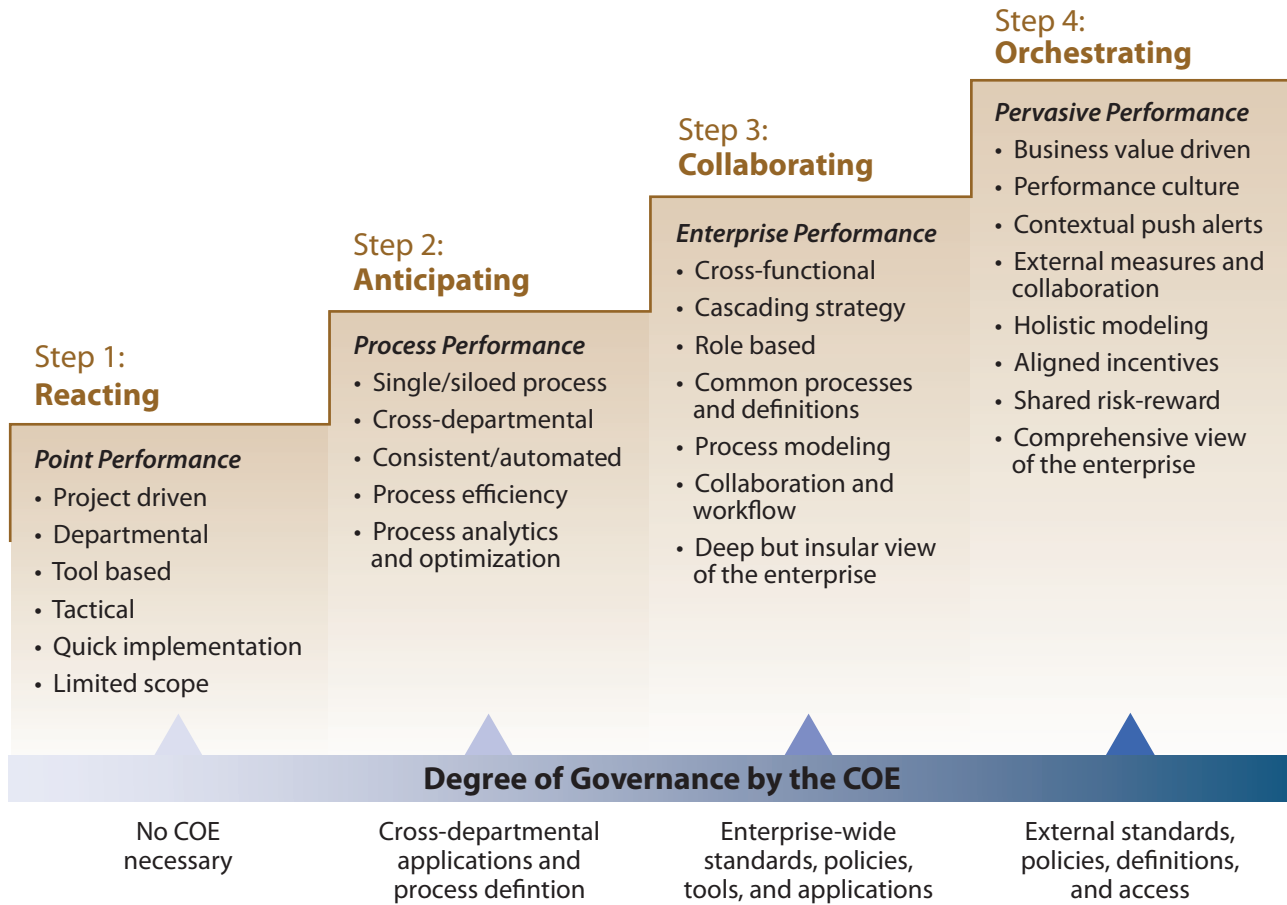
How is a PM COE different from a BI COE?

Historically, companies have had many disparate PM applications from different vendors, as well as a BI platform provided by yet another vendor. Creating a PM COE in that kind of decentralized environment is a fruitless effort. It's also the reason why the concept of a PM COE has not even been considered in the past. Now that market consolidation has affected the BI/PM market and traditional products have matured to the point where generic capabilities are virtually equivalent, clients are considering standards not only for BI platforms and tools, but also for PM applications and processes as part of their standardization efforts (see "The BI/PM Market Has Consolidated, Should I?"). The concept of a PM COE is now realistic.

Although vendors have been talking about integrated or unified BI and PM for years, we believe the market and technology have matured enough for clients to seriously evaluate the value of consolidating and standardizing their investments in both. Those that have already standardized BI report reduced cost and expanded usage in their organizations. We expect the same to happen with PM applications.

As companies progress in their PM maturity (see "Pervasive Performance Management: Getting Started on the Journey"), their PM footprint becomes wider and deeper, with the need for consistent governance becoming greater (see Figure 1). The COE provides the appropriate level of governance based on the maturity level of the organization. While a COE is not necessary at the lowest levels of maturity where the focus is on one specific finance process, it will be difficult to expand the breadth and depth of PM to other functional areas and processes without a strong governing body.

The fundamental concepts and value of the BI COE can be applied to the PM COE. However, the PM COE will have some intrinsic differences or expansions. Most notably, the focus must change from technology and tools to processes and performance.

Step 1:
Reacting

Point Performance
- Project driven
- Departmental
- Tool based
- Tactical
- Quick implementation
- Limited scope

Step 2:
Anticipating

Process Performance
- Single/siloed process
- Cross-departmental
- Consistent/automated
- Process efficiency
- Process analytics and optimization

Step 3:
Collaborating

Enterprise Performance
- Cross-functional
- Cascading strategy
- Role based
- Common processes and definitions
- Process modeling
- Collaboration and workflow
- Deep but insular view of the enterprise

Step 4:
Orchestrating

Pervasive Performance
- Business value driven
- Performance culture
- Contextual push alerts
- External measures and collaboration
- Holistic modeling
- Aligned incentives
- Shared risk-reward
- Comprehensive view of the enterprise

Degree of Governance by the COE

No COE necessary	Cross-departmental applications and process defintion	Enterprise-wide standards, policies, tools, and applications	External standards, policies, definitions, and access

Source: AMR Research, 2008

Business expert versus technical expert

IT will be an important contributor to the PM COE, but the key to success is the alignment of technology with delivery on business goals. The COE must bridge the gap between business and IT by including members from operations well versed in the challenges and pertinent processes, as well as how the applications in the PM suite can optimize them. A diverse team is needed to provide this expertise on the multiple processes covered. Understanding how the business uses or should use data, information, and processes to improve performance is the PM COE's essential ingredient.

Strategic versus tactical

Without a COE, both BI and PM tend to be siloed departmental or divisional initiatives. The business should have a unified BI/PM strategy with the PM COE as its champion, identifying new opportunities to empower execution on the corporate strategy. PM applications like business planning, strategic planning and modeling, profitability analysis, and predictive modeling empower more strategic thinking and action at multiple levels within the organization. The PM COE is a corporate asset, rather than an IT one, that can lead tactical execution across functions within the guidelines of the corporate strategy.

Process versus technology

To some extent, BI can be generic, so instead of applying generic technology and tools, a PM COE provides applications targeted at specific functions and processes. This means the COE must have deep knowledge of these specific processes and the standard PM applications that support them.

There are efficiencies to be gained from expanding PM application usage across an entire process. The key difference is that in a BI COE, the focus is on knowledge of the technology, whereas in a PM COE, process knowledge is a critical skill.

Predict versus report

Much of what BI delivers is historical—or, at best, real-time—information and trends, with the ability to investigate. The PM COE takes this to the next level by empowering the organization to be more forward thinking in order to budget, plan, forecast, model, and take action. This requires understanding the potential effect of actions across the business, which means the PM COE has to provide, through the combined expertise of its members, a mechanism to accomplish cross-functional workflow and collaboration across the organization and its applications.

Applications versus tools

BI provides accurate and consistent data and strong reporting, analysis, and dashboard tools to the masses. PM provides common applications and empowers their adoption and expansion to bring better performance to the business. The PM COE combines the understanding of business needs and the power of applications. It then marries them to deliver value to the organization. It's charged with understanding the technology and also how best to exploit its functionality to empower a performance-driven business. This necessitates a blend of IT and business resources on the PM COE team.

Educate versus provide

In the past, IT has been seen as the gatekeeper to all things BI, but often was a bottleneck to wider adoption because of resource constraints. The old adage "Give a man a fish and you have fed him for today. Teach a man to fish and you have fed him for a lifetime" is very apropos in the world of PM COEs. As the user community expands, it must be taught to be more self-sufficient. Otherwise, the overhead to support additional usage will be costly. Teaching and coaching users to be independent is the only way to make BI more pervasive in a cost-effective way.

One of the goals of a BI COE is to provide a more self-service environment where users can create their own reports and analyses intuitively with much less dependence on IT and power users. Another is to provide guided workflow in PM applications.

A PM COE takes this a step further. It determines standards not only for tools and applications, but also for processes, metrics, measures, and collaboration. The COE then educates users on how to incorporate this into their day jobs. Self-sufficiency and guided workflow become more important, since users will be interacting with multiple BI/PM applications in their roles. It's the responsibility of the PM COE to make this as seamless as possible.

To build a PM COE, start with a BI COE

The BI COE is the starting point for a PM COE that can eventually lead to a performance-driven business network. It is difficult to create a PBN if there are still debates about data accuracy and definitions, or if users are not accustomed to having quick and reliable access to relevant data in a manner that communicates past and present performance. By setting standards and policies, the BI COE prepares the organization to become performance driven. Once that is accomplished, the PM COE can deliver standard applications as well as common process and measurement standards to guide future performance.

If your company doesn't have a BI COE in place yet, it should. The following are some guidelines we have gathered that can help you build one:

Gain executive sponsorship

The COE is a strategic initiative that will fail without executive sponsorship. Our research indicates that while sponsorship for PM initiatives, including building a BI COE, may come from one of many C-level executives, it's more often the CIO that is responsible for execution.

We expect to see a trend toward the CFO, COO, or other operations executive becoming more responsible for strategy and execution, since these initiatives cross organizational boundaries and require dedication from both the business and IT

sides to be effective. Even now, other C-level executives account for 37% of strategy, compared to 31% CIOs and 32% CEOs. Regardless of the title, the sponsoring executive needs to wield influence over many parts of the organization, especially in a virtual COE structure.

Figure 2: C-level executive responsible for strategy and execution in PM initiatives
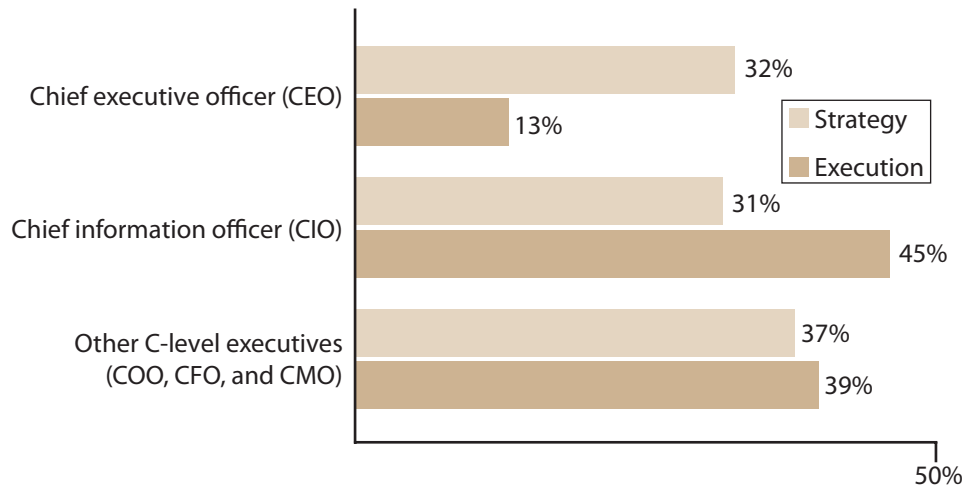
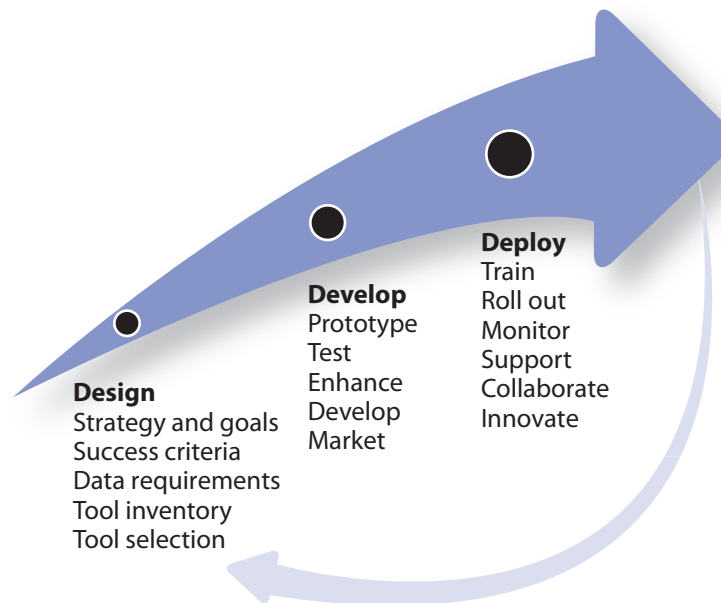*Percentage of companies, n=118*

Consider corporate culture

The organization's culture is an important factor in how to scope and structure the COE as well as in the strategy for enforcing standardization. A business that is more dynamic and conditioned to change will be more likely to embrace the concept and value of a COE. In a more decentralized organization, the business units may think they are self-sufficient already and be reticent to take on this standardization initiative and absorb new costs. This type of organization will require more of selling the value that the COE and standardization will bring to corporate and the business units. Documenting the cost savings to the business units in terms of license cost, development, and training is often necessary to garner support for the COE in a decentralized organization.

Define the methodology

Defining a methodology for implementing a BI strategy is a key responsibility of the COE. A design, develop, and deploy methodology ensures its deployment is consistent across the organization, taking into account corporate strategy and business needs. It should not be treated as an IT project with a fixed start and end date. The COE should take an iterative and ongoing approach to continuously refine, expand, and innovate the value delivered to the business.

- **Design**—The BI strategy must be defined, including how it will support the corporate strategy. The COE should build a business case and establish short- and long-term success criteria. The data and its sources and storage options need to be established, as well as any cleansing or mapping that will be necessary. Existing applications across the organization should be inventoried and evaluated as part of the selection process.

- **Develop**—Once the blueprint is established, either a proof of concept (typically during the selection process) or a prototype (often post selection) should be built and used as a training and testing tool in support of the wider rollout. Sufficient time should be allocated in the development plan to incorporate changes based on feedback during testing. This should also be used as a marketing tool to sell the value to other parts of the organization.

- **Deploy**—Training, support, and coaching are crucial during deployment to later expand adoption deeper and wider into the organization. The COE may even provide consulting services to the rest of the organization as part of the wider deployment. Metrics and measures that were established during the definition phase can now be monitored and analyzed by the user community via reporting and dashboard tools. Performance improvement options that cross functional or organizational boundaries are evaluated and collaborated on with other users, resulting in better and more informed decision making across the organization.

Figure 3: Design, develop, and deploy methodology

Design
Strategy and goals
Success criteria
Data requirements
Tool inventory
Tool selection

Develop
Prototype
Test
Enhance
Develop
Market

Deploy
Train
Roll out
Monitor
Support
Collaborate
Innovate

Source: AMR Research, 2008

Determine the structure

Once you define the methodology, you should determine the best way to structure the COE for your organization. There are several ways to do this, with the most common being departmental, decentralized, and virtual. Each structure has advantages and disadvantages that should be evaluated to determine the best fit for a given organization (see Table 1).

For a PM COE, we recommend a virtual structure, since it's better suited to garnering and retaining the necessary diversity of knowledge from the business without permanently poaching its resources. By rotating these resources from the business for tours of duty in the COE, the knowledge and expertise stays fresh.

Table 1: COE structures

Structure	Pros	Cons
Department **Physical department within IT or operations** **Reports to CIO, COO, or CFO organization**	Defined reporting structure Singular focus Direct accountability	Additional staff and overhead cost Resources poached from the business Disjointed from the business
Decentralized **Several COEs across the organization by business unit, function, or geography** **Each with responsibility for only their part of the organization**	Autonomy in business units Buy-in from operations Accountability in operations	Differing standards Diluted expertise Lack of global perspective
Virtual **Staffed with existing resources across the organization** **Resources retain their original reporting structure and are partially allocated to COE responsibilities** **Rotation program to keep skills and business acumen fresh**	No additional department structure Business involvement Skills development	Competing priorities Accountability to COE success Overburdening staff

Source: AMR Research, 2008

Consider a data stewardship team

Data quality is a key factor in the success of BI and PM. You can provide best-in-class information delivery tools with all the right bells and whistles, but if the underlying data is flawed, it will quickly derail momentum. An initial bad experience can have long-term effects on adoption and acceptance.

While crucial for BI and PM deployments, data stewardship and governance entails more than just BI and PM data. For this reason, many companies have a separate data stewardship team that establishes and oversees policy, as well as administers and sets data standards for definitions, data quality, and data governance across all systems, including BI and PM. This team interacts with all COEs to ensure exactly that.

ROI

There are many tangible and intangible measures of ROI for a COE (see Table 2). As an example of tangible ROI, one of our clients reported implementing a financial forecasting process across 50 countries during one planning cycle. The company felt it could not have been done without standard processes, data governance, and a planning application, as well as a COE to manage the development and rollout. For a separate example of putting value on the intangible ROI, one CFO we spoke with mentioned that decision quality times decision frequency is equal to increased sales.

Table 2: Tangible and intangible measures of ROI

Tangible	Intangible
• Cost of IT support • Ability to outsource • External consulting • Shared services • Hardware • Wider use of existing BI software investments • Improved negotiating with preferred vendor • Reduced maintenance and training costs	• Increasing value from transaction systems • Self-service reporting and analysis • Increasing productivity • Effective project and resource prioritization • Better insight into the business at multiple levels • Staff skill development and retention • Improving collaboration, communication, and training • Enhancing perceived value of IT to the business • Uniting IT and the business on common goals

Source: AMR Research, 2008

Funding the COE

There are several ways to fund a COE. Some businesses will initially fund it from the corporate budget to get initial buy-in from the business without the potential pushback on cost. This can result in more widespread adoption in the earlier stages, while establishing the value of the COE. A chargeback strategy is then typically employed to distribute the costs out to the business. However, there are other ways to fund a COE:

- **Overhead allocation**—This is an allocation of costs that follows a similar methodology to the allocation of general and administrative costs. This method ensures recovering full cost of the COE through 100% allocation. While this is often the easiest way to distribute, the value is not as apparent. Because of this, the COE may be underappreciated because usage levels are not always evident.

- **Pay as you play**—This is based on actual usage of the COE, resulting in a fair-share distribution of costs and business value of initiatives. However, it can limit initial growth and usage because of concerns about associated costs. P&L owners don't like costs that fluctuate period by period and find it difficult to budget them using this method.

- **Subscription**—This method is based on projected usage of the COE or number of users. It reduces the barrier to usage that the pay-as-you-play model may have. However, coming to agreement on the subscription cost can be difficult, especially in the early stages when the cost and value of the COE are not yet firmly established.

Clients we speak to run the gamut on these methods. However, most want to move to a subscription model, as this is easiest to maintain, while still being tied to usage. It's also in line with our recommendations.

Evolving to a PM COE if you already have a BI COE in place

It takes time to get a BI COE humming on all cylinders. Experienced clients tell us a company can tell its turned the corner when the COE is spending more time on enhancing and innovation than training and support. It's at this point that thoughts of expanding the COE to encompass PM begin to take hold.

Here are some considerations when expanding its breadth:

- **Is it part of the BI COE?**—It all boils down to the people responsible for process change within the organization. While BI requires the standardization of data definitions and policies, PM requires standardization of processes, metrics, and measures that cross the organization. If you thought agreeing on data definitions was difficult, try agreeing on performance metrics across and down into the organization. If it's not part of the BI COE, it must be a closely knitted adjunct, since there are many commonalities that should be utilized between the two.

- **Who is the sponsor?**—The COE should be funded from the business instead of IT to emphasize it's a business initiative, not a technological one. Because of this, the PM COE is often sponsored by the CFO or COO. This executive must be able to explain why standardization is important to the business, not just to IT or corporate.

- **What was learned from the BI COE experience?**—Take the time to do a post mortem on the BI COE experience. What bumps were hit along the way? What could have been done better?

- **What PM processes and applications are in place?**—There will be processes and technologies in place that are working well in parts of the organization. Compile an inventory. In many cases, it's not necessary to completely reinvent the wheel. Take advantage of existing processes, technologies, and skills where possible to gain from previous investments. This also helps with change management: the business sees existing processes and technology have been considered during standards definition.

- **Will the preferred BI vendor be the preferred PM vendor?**—While many vendors have recently acquired PM products, it doesn't mean they are tightly integrated with their BI platforms. If your company has a preferred BI vendor that offers PM applications, it should be given the opportunity to compete to be the PM standard as well. While the opportunity may be the vendor's to lose, a competitive gap analysis should be undertaken, including integration and data management analysis between the BI platform and PM applications.

- **What should be the initial scope?**—Standardization of financial planning is often first on the list because it establishes the benchmarks for other PM applications. The CFO is often the sponsor of the PM COE, and this is a process that is near and dear to her heart. Once consistency and agreement on the planning process is established, the COE scope can expand to lead the organization toward a pervasive PM environment.

- **How will exceptions be dealt with?**—Business units often say they are different from the rest of the organization and therefore can't comply with corporate standard processes. Where this occurs, the onus should be put on the business unit to prove why it needs to deviate. This should include a gap analysis between the requirement and what can be delivered via the standard. The COE then puts together a plan to bridge that gap through enrichment and customization to the standard application. Exceptions need to be approved by the sponsor.

- **What new skills will be required?**—PM requires business knowledge and the ability to translate business needs into technology applications. The COE needs the appropriate skills to push for this upfront information gathering. There are also different skills required for specific processes, such as developing a strategy map or planning application and creating a data definition or dashboard. With each new deployment, the COE's business and technical expertise should be reused, making the expanded usage more efficient to implement and more effective for the business.

- **Will consulting be part of the COE?**—There is significant efficiency in having the COE participate in the implementation of process and technology changes. However, there will be bandwidth challenges in resourcing and prioritizing across the organization, with always more work than available resources. The COE should lead the prioritization and manage the inclusion of third-party consulting services to ensure optimization of resources and a cohesive approach.

Expanding the COE ecosystem

BI and PM are not the only COE organizations deployed, with others on the horizon. The vast majority of enterprise application COEs starts with an ERP business process focus. This footprint often expands over time to include related applications and enabling technologies.

But this raises the inevitable question of how many COEs a company needs to maximize its considerable investment in IT. It doesn't make sense to have a COE for every piece of software, but we can identify the big areas where COEs are typically needed for most large companies.

Figure 4 shows the enterprise application COE, which often expands from the ERP backbone to include customer-facing and supply chain applications. This is particularly the case when these packaged applications come from the same vendor (for example, when a best-of-suite strategy is adopted). The COE may expand further to include support of website applications if they are tightly integrated.

Figure 4: Expanding the COE ecosystem
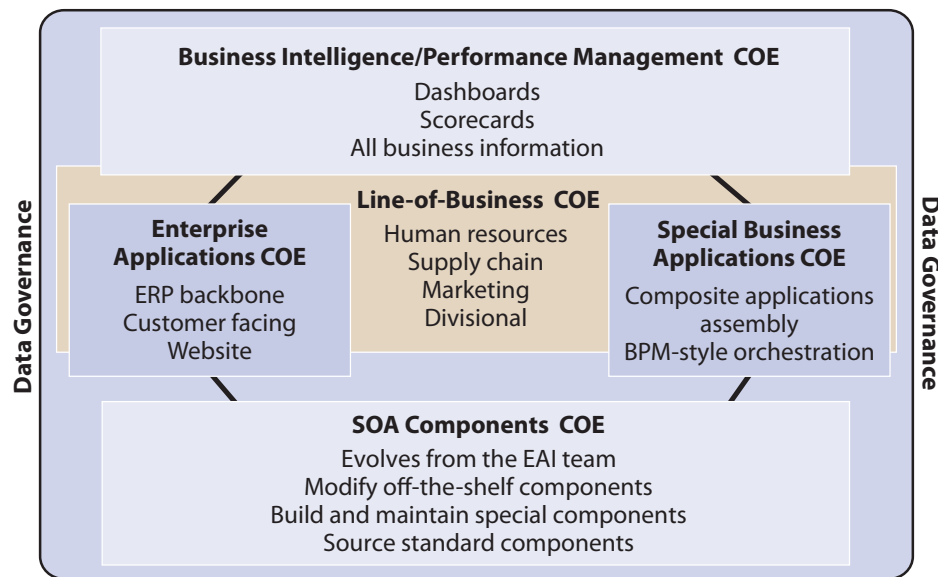
Source: AMR Research, 2008

The figure also shows that two other COEs will be needed in the future as companies move into the world of service-oriented architecture (SOA) (see "Best Practice Lifecycle Support of Enterprise Applications for more information on enterprise COEs").

Client experiences with COEs

Our clients are at various stages of BI and PM maturity as well as in their development of COEs for these areas. The following are examples of companies that have incorporated BI or PM COEs into their strategies.

Global manufacturer establishes interprocess collaboration

The BI COE at a global manufacturer established interprocess collaboration that included its suppliers in the process with internal sales, production, and distribution. Previously these were siloed processes. The manufacturer now understands the effect of price increases, material shortages, and late deliveries across its entire business network.

Born from bottom-up groundswell, not top-down edict

A global express delivery company chose a virtual structure for its BI COE, with the CIO having ultimate responsibility for its success. The CIO engaged senior sponsors from the business to ensure the virtual team would be effective.

A full chargeback funding model was selected, which included infrastructure costs. The business submitted requests to the COE that estimated the costs. It was the business sponsors that made the final decision before a project was initiated.

The usage of one-off BI applications had become more prevalent, and so the cost to the business units to purchase, implement, and support them became significant. Eventually, the delivery company moved to a subscription-based model to remove the cost barrier and increase usage. The cost effectiveness of the COE and standardization significantly reduced the use of departmental datamarts and one-off BI applications. Thus, the overall cost of supporting BI was reduced across the organization.

With the COE in place, the business units realized it was more expensive for the departments to do it themselves than to use the COE standards. The COE provided additional motivation by offering training and support on developed applications as well as advice and innovative ways to add additional value to the business.

Utility company uses balanced scorecards for integration

A multibillion-dollar utility company used balanced scorecards to integrate business processes and information access across business units. The PM COE held workshops to gather requirements and establish buy-in. The company now has an integrated view of the customer across the organization that enables profiling and targeting promotions more effectively. It chose a virtual structure, with the COE staff residing in the business units to gain and retain knowledge of how the organization works. It feels this structure has helped to break down the barriers between IT and the business.

High-tech firm improves sales force performance

A multibillion-dollar high-tech firm's goal was to improve sales force performance across the organization. In the past, finance and sales had differing sales and cost of sales numbers, and significant time and effort was spent reconciling the two versions of the truth. Inconsistent compensation calculations led to discrepancies in commission payments. There was also no ability to model the impact of proposed compensation plans on sales across the company.

It established a combined BI/PM COE to manage the deployment of BI and PM for common and consistent analysis of cost of sales and customer and channel profitability, as well as compensation planning via consistent definitions and compensation rules. It worked with both finance and sales to standardize the process, delivering tools and applications to provide a more automated sales analysis and planning process. The business and finance are now in agreement on the numbers and can make informed decisions more quickly without wasting effort on debating their validity.

Biotech company reduces and standardizes costs

A multibillion-dollar biotechnology company started its BI COE more than seven years ago, with the objective of standardizing and reducing licensing and development costs. It has achieved the cost reduction goals, but it's only now able to sunset the last of the legacy applications that were in place.

While the company stopped paying for maintenance or support of the legacy BI applications years ago, there was cultural pushback on replacing something that worked, according to some employees. The approach was to replace when a major upgrade was necessary or a major enhancement to a custom application requested. Because of its culture, it chose the carrot-versus-the-stick approach to standardization. Part of the challenge was that people had built careers on the legacy applications. There was a concerted effort to retrain these people and communicate the greater value they would have to the company as experts on the new established standard.

Over time, this was an effective strategy. While it has been successful in replacing legacy systems over time, there are still legitimate exceptions to the standard, most specifically with sophisticated statistical modeling and analytics the company doesn't intend to force onto the standard. Future plans include creating a separate but aligned PM COE to tackle predictive analytics, planning, scenario analysis, and other PM processes.

Conclusion

AMR Research believes more companies should embrace the concept of the COE for both BI and PM. With the recent consolidation in the BI/PM market, a great opportunity has been created to standardize on a preferred vendor and build a COE for its applications. There are certainly cost efficiencies in using standards, resources, and skills across the organization, but the driving force behind the PM COE should be the desire to create a more collaborative, process-oriented, performance-driven business.

It's also important to remember a PM COE is an ongoing strategic initiative, not a tactical IT project with a set start and end date. It requires a cross-functional team with both business acumen and technical expertise; it cannot be an IT-only group. Instead of seeing the blended team as a loss of control, IT should embrace the PM COE as an opportunity to drive additional business value from technology investments and team with the business to lead strategy execution.

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