



Killer KPIs for Leadership

Service Compass: Charting the Course to Professional Service Excellence

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Service Performance Insight

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PSA solutions deliver a significant ROI

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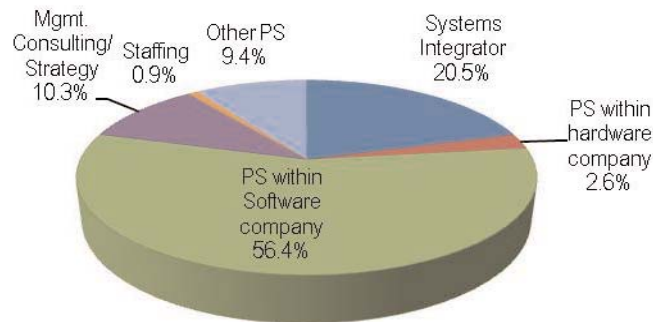


INTRODUCTION

We all know that best in class professional service organizations (PSOs) are based on exceptional consultants. We also know that it takes effective leadership to inspire organizations to achieve greatness. But what we haven't known until now is the absolute monetary effect of professional service (PS) leadership on the bottom line. In this whitepaper we are publishing for the first time the "Killer KPI's" (Key Performance Indicators) for leadership. We think you will be as astounded as we were to discover that great...or poor leadership permeates every facet of professional service organizational performance.

This SPI Research White Paper analyzes data from the upcoming PS Maturity Model 2009 benchmark report based on responses from over 170 professional service organizations. The surveys were completed in October and November of 2008. Demographics for the responding organizations are shown below:

Figure 1: Demographics for the 2009 PS Maturity Benchmark



Source: Service Performance Insight, January 2009

SERVICE PERFORMANCE PILLARS AND THE SERVICE MATURITY MODEL

In 2007 Service Performance Insight introduced the original version of the "The Professional Service Maturity Model", which benchmarks the correlation between professional service organizational performance and the adoption of "best practices" and business process maturity. In early 2009, SPI Research will publish its latest version of this research.

The study focuses on professional service excellence across five Service Performance Pillars.

Figure 2: The Five Service Performance Pillars

1. Vision, Strategy, Leadership and Culture
2. Finance and Operations
3. Human Capital Alignment
4. Service Execution
5. Client Relationships



Source: Service Performance Insight, January 2009

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SPI Research developed a model that segments and analyzes a PSO into five distinct areas of performance that are both logical and functional.

- 1. Vision, Strategy and Culture:** (CEO) A unique view of the future and the role the service organization will play in shaping it. A clear and compelling strategy provides a focus for the organization and galvanizes action. Effective strategies focus on target customers, their business problems, and how a solution solves those problems differently, uniquely, or better than its competitors. For a service strategy to be effective, the role and charter of the service organization must be defined, embraced and supported throughout the company. Depending on whether the service strategy is to primarily support the sale of product or to drive service revenue and margin; service organization goals and measurements will vary.
- 2. Finance and Operations:** (CFO) The ability to manage services profit and loss—to generate revenue and profit while developing repeatable operating processes. Elements of this pillar provide long-term financial stability, which enables PSOs to manage growth and provide an acceptable level of return to shareholders.
- 3. Human Capital Alignment:** (HR) The ability to attract, hire, retain and motivate employees. With changing workforce demographics, human capital strategy has increased in importance. As executives work to manage costs, they must assure clients have the best/cost-effective personnel working on projects. As PSOs adopt new staffing models designed to achieve these goals, they must also be diligent to keep their best people on-board and motivated.
- 4. Service Execution:** (Engagement/Delivery) the methodologies, processes and tools to effectively schedule, deploy and measure the quality of the service delivery process. Service execution involves a number of factors: from assuring utilization rates remain high, to delivering services in a predictable and acceptable time frame, to reducing cost while improving project quality and harvesting knowledge.
- 5. Client Relationships:** (Sales and Marketing) the ability to effectively communicate with employees, partners and customers to generate and close business and win deals. Effective client management involves improving relationships to better understand client needs, while ensuring clients will continue to buy and provide references and testimonials.

Within each of the Service Performance Pillars, SPI Research developed guidelines for process maturity. These guidelines cut across the five service dimensions to illustrate examples of business process maturity. This study has been developed to measure the correlation between process maturity and service performance excellence.

This model is built on the same foundation as the Carnegie Mellon Capability Maturity Model (CMM), which has been adopted for software development; but is specifically targeted toward billable PSOs, that either exclusively sell and execute professional services, or complement the sale of products with services to optimize a product's use. The five maturity levels include:

- **Level 1—Initiated:** At maturity Level 1, processes are ad hoc and fluid. The business environment is chaotic and opportunistic, and the focus for a PSO is primarily on new client acquisition and reference building. Often professional service employees at this level are chameleons—able to provide presales support one day and develop interfaces and product workarounds the next. Success depends on the competence and heroics of people in the organization, and not on the use of proven processes, methods or tools.

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- **Level 2 — Piloted:** At maturity Level 2, processes have started to become repeatable. Best practices may be demonstrated in discrete functional areas or geographies but they are not yet documented and codified for the entire organization. Basic processes have been established for the five Professional Services Performance Pillars but they may not be universally embraced.
- **Level 3 — Deployed:** At maturity Level 3, the PSO has created a set of standard processes and operating principles for all major service performance pillars but renegades and “hold-outs” may still exist. Management has established and started to enforce financial and quality objectives on a global basis.
- **Level 4 — Institutionalized:** At maturity Level 4, management uses precise measurements, metrics and controls, to effectively control the PSO. Each service performance pillar contains a detailed set of operating principles, tools and measurements. Organizations at this level set quantitative and qualitative goals for customer acquisition, retention and penetration, in addition to a complete set of financial and operating controls and measurements.
- **Level 5 — Optimized:** Maturity Level 5 focuses on continual improvement of all elements of the five performance pillars. A disciplined, controlled process is in place to measure and optimize performance through both incremental and innovative technological improvements. Quantitative process-improvement objectives for the organization are established. They are continually revised to reflect changing business objectives, and used as criteria in managing process improvement. New initiatives for quality, cost control or client acquisition are in place to ensure optimum performance. The rough edges between disciplines, functions, and specialties have been smoothed to ensure unique problems can be addressed quickly without excessive bureaucracy or functional silos.

With this information SPI Research was able to construct a Service Maturity Model that determines a PSO’s organizational maturity — by pillar — and provides a roadmap for performance improvements.

In the past year, over 500 PS organizations have adopted the PS Maturity Model and are using the concepts and key performance indicators to pinpoint their organization’s current maturity and develop improvement plans to advance lagging areas. A critical aspect of developing a Service Maturity model is to deploy professional service automation solutions that provide visibility to the critical data required to run a PSO. Many responding organizations had a difficult time in acquiring key performance information, as it existed in many formats and was not centrally located. Significant performance improvements can only be made when executives have real-time information on ongoing operations.

LEADERSHIP STYLES

In the 2008 survey, SPI Research asked a series of questions regarding various aspects of professional services leadership. These questions were part of the Vision, Strategy, and Culture performance pillar.

Survey respondents were asked how well various aspects of their organization operated (using a 1–10 scale), with 1 being “not very well” to 10 “very well”. The following sections analyze four main areas, and show how various aspects of leadership impact key performance throughout the organization.

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Confidence in Leadership

Respondents were asked whether they had confidence in PS leadership. Table 1 shows how important confidence in leadership really is. The survey showed that two-thirds of the respondents said that they had faith in PS leadership (rated 8 out of 10 or higher), whereas only 5% stated that they did not have confidence in PS leadership (less than 4 out of 10).

Table 1: Confidence in PS Leadership

| Attribute | High Confidence (>7 out of 10) | Low Confidence (<4 out of 10) |
|----------------------------|----------------------------------|---------------------------------|
| Revenue Growth | 15.9% | 11.3% |
| Contribution Margin | 23.4% | 10.4% |
| Attrition | 5.5% | 20.0% |
| Projects delivered on time | 75.5% | 44.2% |

Source: Service Performance Insight, January 2009

A lack of confidence in leadership is a cancer that requires a radical cure, in most cases, removal. SPI Research discovered every critical KPI worsens as confidence in leadership diminishes. According to the survey results, no other factor has the same profound impact on the overall health and well-being of the service organization. We discovered poor leadership creates a negative spiral effect—poor human capital results (high attrition, low morale, poor employee satisfaction) which in turn lead to even poorer financial performance. Because professional service organizations are based solely on the quality of their consulting staff, poor leadership produces an immediate and long-lasting downward effect. Fortunately, once the leader is removed, professional service organizations exhibit amazing resiliency and are able to heal and regenerate themselves rapidly. In fact, extremely rapid turnarounds are a hallmark of changes in professional service leadership.

Organizational Vision, Mission & Strategy

Survey participants were asked whether “The vision, mission and strategy of the PS organization is well-understood and clearly communicated”. This aspect appears to be an extremely critical success factor in terms of how the organization maximizes the utilization of its people, processes and capital. Table 2 quantifies just how important it is to effectively set strategy and clearly communicate the organization’s direction and goals.

Table 2: Organizational Vision, Mission and Strategy Clarity

| Attribute | High (>7 out of 10) | Low (<4 out of 10) |
|----------------------------|-----------------------|----------------------|
| Revenue Growth | 16.9% | 11.0% |
| Contribution Margin | 23.8% | 14.4% |
| Attrition | 6.5% | 9.0% |
| Projects delivered on time | 79.3% | 55.4% |

Source: Service Performance Insight, January 2009

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Other areas that were negatively impacted by a lack of strategy, vision and mission clarity also included utilization (18% lower when there is no clarity) and revenue leakage doubled. Clear leadership direction and effective bi-directional communication are critical factors for success. Poor internal communications is another area that can quickly sink a firm.

Employees who lack an understanding of the service mission, vision and strategy have no ability to work toward achieving it. Because the majority of respondents were from embedded service organizations within software firms, the service mission is often schizophrenic for these organizations. Embedded service organizations must continually walk a mission tight rope — pulled between driving product revenue, customer success and service profit. In worst case scenarios, the service organization is set up to fail because these three goals are treated as mutually exclusive.

In best-case scenarios, the Executive Leadership team of the company creates an overall “Business Blueprint” (Figure 3) based on a finite set of measurable goals and develops mutually supportive measurements and key performance targets to drive functional alignment.

In this representative “Business Blueprint”, the organization created a primary set of four key operating goals to support and drive the mission and vision:

- Delight our customers
- Provide a great place to work
- Deliver shareholder value
- Focus on precision execution

To ensure alignment, cross-functional key performance measurements (objectives) were developed. Members of the executive team were assigned as “owners” of the key goals and developed supporting cross-functional initiative teams to drive improvement.

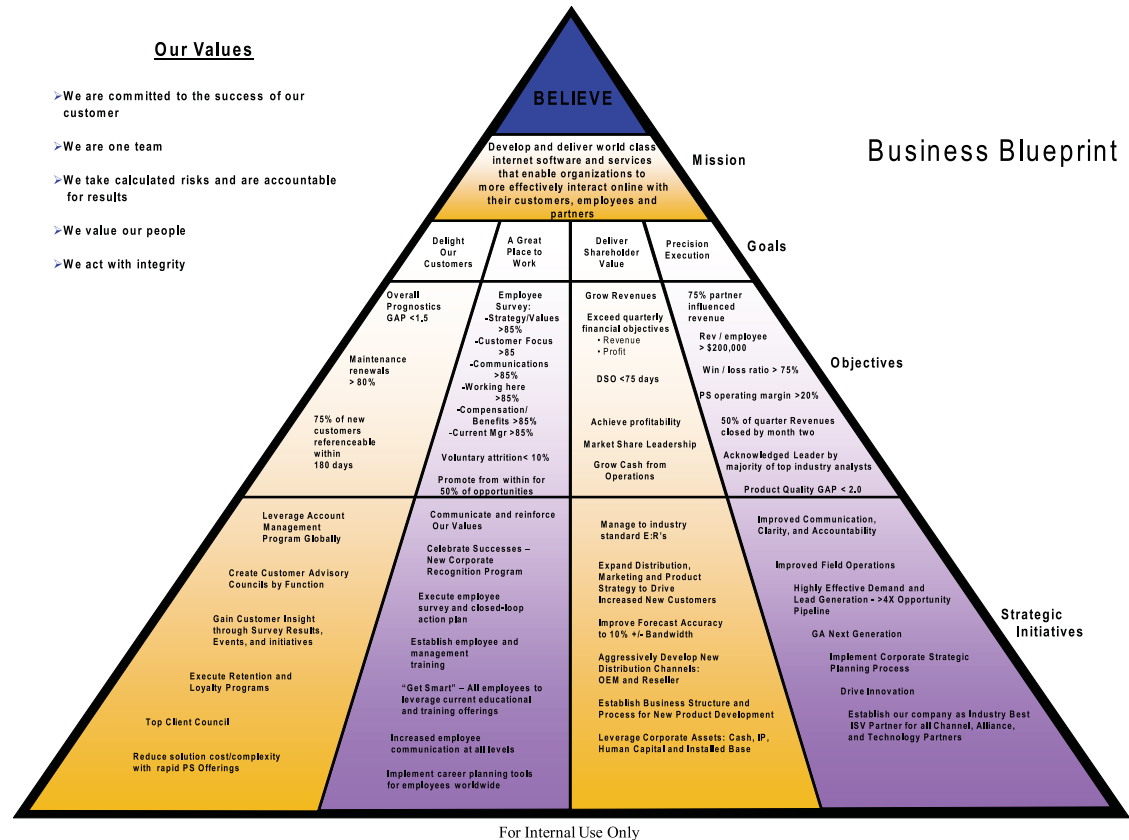
This blueprint example highlights the role of effective leadership:

- By crafting a clear mission and vision, leadership teams can powerfully communicate their intentions and motivate the team to realize an attractive and inspiring common vision of the future. For employees, it gives direction about how they are expected to behave and inspires them to give their best. Shared with customers, it shapes customer’s understanding of why they should work with the organization.
- By creating executive team “owners” to develop and lead cross-functional improvement initiative teams, the organization ensures cross-functional alignment focused on clear objectives while breaking down functional silos.
- By publishing and communicating the company’s vision, mission, values and goals and facilitating cross-functional participation in improvement initiatives, the leadership team reinforces what the company stands for, the market value it provides and how success is measured.

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Figure 3: Business Blueprint Pyramid



Source: Service Performance Insight, January 2009

Superior Professional Service leaders operate as valued cross-functional team members. They transcend the role of delivering “projects” and quarterly financial results to become the voice of the customer for the executive team. In turn, the executive team recognizes and acknowledges the true value of providing exceptional customer engagements and does not tolerate losing “deals” that “throw the service organization under the bus” based on impossible timelines, functionality or cost.

Ease of “Getting Things Done”

SPI Research asked participants whether it was easy to get things done within their organization, meaning minimal red tape, few problems receiving approval to do work, and avoiding as much bureaucracy as humanly possible. Table 3 shows that organizations that provide an infrastructure that allows people to be productive really does contribute to both employee satisfaction and financial success.

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Table 3: Ease of “Getting things done” in PS

| Attribute | High (>7 out of 10) | Low (<4 out of 10) |
|----------------------------|-----------------------|----------------------|
| Revenue Growth | 17.2% | 15.6% |
| Contribution Margin | 22.0% | 11.9% |
| Attrition | 4.5% | 21.3% |
| Projects delivered on time | 78.4% | 42.2% |

Source: Service Performance Insight, January 2009

Perhaps driving the almost doubling of contribution margin is the fact that work is completed on time in a majority of projects. This shows that management is focused on winning the “right” projects and ensuring employees are provided an effective project delivery framework to ensure projects are completed on time and budget.

Goal-Measurement Alignment

SPI Research then asked survey participants whether their goals were properly aligned with their measurements. This question was also very important in terms of its relation to organizational performance. Table 4 highlights some of the differences in the key performance indicators when respondents felt goals and measurements were in alignment, as opposed to those that were not.

Table 4: Goals and Measurement Alignment

| Attribute | High (>7 out of 10) | Low (<4 out of 10) |
|----------------------------|-----------------------|----------------------|
| Revenue Growth | 17.3% | 12.8% |
| Contribution Margin | 22.6% | 19.4% |
| Attrition | 6.2% | 9.1% |
| Projects delivered on time | 78.6% | 61.7% |

Source: Service Performance Insight, January 2009

KPIs were consistently higher as the amount of alignment increased. Revenue leakage was almost double (5.5% versus 10.0%) when goals and measurements were out of alignment. This question highlights the importance for Professional Service executives to “get a seat” at the cross-functional leadership table and to ensure the entire corporation understands and supports the role of the service organization. When the role of the Professional Service organization is unclear and goals don’t support alignment with other functions, employees become demoralized and confused. A clear strategy provides a compass for performance and provides the foundation for employee achievement.

Effective bi-directional communication provides the fuel for employee knowledge and understanding of the norms and expectations. Many young service organizations have not developed effective human capital alignment frameworks which include creating clear roles, goals and a supporting reward system. The most effective organizations provide multiple formal and informal communication channels. Employees are publicly recognized for teamwork, contributions to the practice and superior customer outcomes. SPI Research believes that communication is one of the most critical aspects of leadership within “people-driven” organizations.

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CONCLUSIONS

Every PSO has its own unique culture, typically reflecting the executive leadership style and values. As the organization matures, people that stay take on aspects of the culture and accept it as the standard. Effective leaders model the values and behavior they expect from their employees. They work with their cross-functional counterparts to develop a shared vision of the future and the role the service organization will play in achieving that vision. They then create clear goals and measurements that drive alignment and allow employees to act and measure their performance. And finally, they provide clear and open communication to empower employees to speak up and become part of the solution rather than the problem. Effective leaders create an environment of continual learning and celebrate success.

Service Performance Insight's recent research has shown that leadership and culture are extremely important for the overall success of PSOs. While this statement makes logical sense, our recent benchmark provides the data to show just how important leadership and culture really are.

SPI Research can now quantify the effects of employee confidence in leadership, effective organizational communication, the removal of barriers to success, and the alignment of goals and measurements on bottom-line performance. PS executives who develop and implement plans around these four areas are certain to improve organizational alignment and be better-prepared to face the challenges in both the near-and long-term.

About Service Performance Insight



Jeanne Urich, Service Performance Insight Managing Director, is a management consultant specializing in Service organization improvement and transformation for small to large technology companies. Her focus areas include Vision and Strategy, Finance and Operations, Human Capital Alignment, Service Operations and Service Sales and Marketing. She has been a corporate officer and leader of the Worldwide Service organizations of Vignette, Blue Martini and Clarify, responsible for leading the growth of their Professional Services, Education, Account Management and Alliances organizations. She has a Bachelor's Degree in Math and Computer Science from Vanderbilt University. She serves on the Advisory Board of www.psvillage.com, a preeminent on-line community for Services executives and is a Contributing Author of Tips from the Trenches: the Collective Wisdom of over 100 Professional Service Leaders. She is also co-author of the ground-breaking new 2008 benchmark "The New Professional Service Maturity Model" www.spiresearch.com

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Hofferberth's background also includes the management of application development teams and analytical tool development to support business decision-making processes. Hofferberth earned an MBA from Duke University and a BS in Industrial Engineering from the University of Tennessee. He is also a licensed Professional Engineer (PE).

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About Service Performance Insight

Service Performance Insight (SPI Research) is a globally-focused research and consulting firm specializing in the services sector. The firm closely follows professional services organizations (PSOs)—both Embedded and Consultants/Systems Integrators—and the independent software vendors (ISVs) that develop business solutions to make people more productive and profitable. SPI Research pays particular attention to the integration of the three key assets of a PSO: its people, (business) processes and capital, and how technology can help optimize their use. SPI Research has developed the definitive business model that shows how PSOs can improve organizational performance by improving five core aspects of their business. They include: 1) Strategy, Vision and Culture; 2) Finance and Operations; 3) Human Capital Alignment; 4) Service Execution; and 5) Client Relationships.

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