PERFORMANCE MEASURES[1]

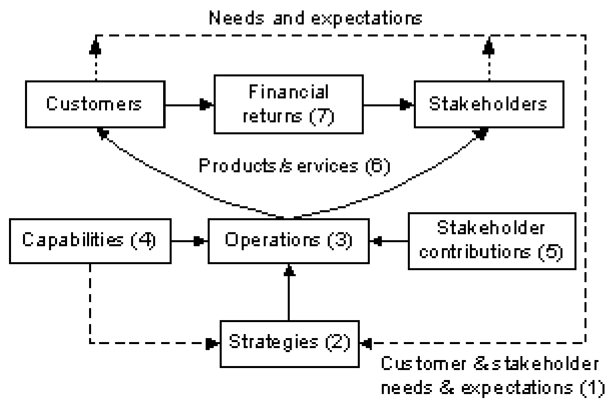
KEY PERFORMANCE INDICATORS

USED IN THE BALANCED SCORECARD METHODOLOGY

[1] This article does not constitute "advice". Care should be taken when applying the principles espoused and should not be done without consulting your financial and legal advisers. It is important to realise that individual and specific circumstances will need to be taken into account and accordingly the writer is not to be held responsible for any actions taken as a result of this article.

Measurement frameworks

Combining elements of various measurement frameworks yields the measurement model below. It works as follows:



1. The needs and expectations of customers and stakeholders are the primary drivers of strategies. Stakeholders include shareholders and employees, but suppliers, the community, government entities and other organisations could also be important stakeholders.

2. Strategy consists of defining your intended customers and how you are going to compete for them. A company's strategy is made up of individual strategies, which are the key actions a company must take to achieve its vision and goals. When developing strategies, all other elements of the model must be considered.

3. Operations include all direct and support business activities that execute strategies and produce products and services for customers and stakeholders.

4. The capabilities of a company's organisation and infrastructure enable its operations to efficiently satisfy customer and stakeholder requirements. Stakeholder capabilities may also be important to a company's operations. In the

short-term, capabilities can limit what strategies are feasible; in the long-term they may need to be developed to implement certain strategies.

5. Stakeholder contributions include products or services that are essential to operations. For example, suppliers may provide critical technical support for designing products.

6. Products and services provided to customers create financial returns (7) for shareholders and perhaps other stakeholders as well.

Note: For public sector organisations, the model is similar, but customer and stakeholder satisfaction become the primary desired outcome, not financial returns.

Critical questions executives must answer

Using this model, we can develop the critical questions executives must be able to answer about their company and the performance measures that apply to each question.

CUSTOMERS

1. Are we satisfying our customers?
    - Customer satisfaction and dissatisfaction
    - Customer retention and behavior

STAKEHOLDERS

2. Are we satisfying our shareholders?
    - Financial returns to shareholders

3. Are we satisfying our other stakeholders?
    - Stakeholder satisfaction and dissatisfaction
    - Stakeholder retention and behavior

STRATEGIES

4. What is happening to our customer base?
    - Market potential
    - Market growth rate

5. Is our company strategy working?
    - Market share
    - Customer acquisition
    - Customer profitability
    - Product/service profitability
    - External factors that affect customers

6. Are our individual strategies being properly executed?
    - Strategic goals and the objectives necessary to achieve them.

OPERATIONS

7. Are we serving our customers and stakeholders effectively?
    - Product and service quality

8. Are we operating efficiently?
    - Process quality and capability
    - Productivity
    - Waste
    - Product and service costs

STAKEHOLDER CONTRIBUTIONS

9. Are stakeholders contributing what they should?
    - Stakeholder resource contribution
    - Stakeholder contribution quality

CAPABILITIES

10. Are we developing the abilities we need to execute our strategies?
    - Organisational capabilities

- Infrastructure capabilities
- Stakeholder capabilities

This is a simplified picture of what should be measured at the executive level of any company. There are some overlaps among the questions and measures as well as many finer points that won't be discussed here, but this overview is consistent with what leading companies are measuring.

Cascading measures

Corporate level measures are very important, but they aren't going to have much impact unless they are cascaded all they way down to front-line employees. The case for cascading is simple: Do you want 10% of your employees working toward company objectives or 100%?

With some exceptions, such as market share, what you measure at the top is what must be measured at all levels. However, the specific measures will change with every function and organisational level because managers doing different jobs need different information to make different decisions.

The same methodologies used to develop measures at the corporate level can be used to cascade the measures down to front-line managers, supervisors, and employees. However, as you go down the organisation chart, the focus is on operations or processes. Strategy is incorporated into operational measures by giving more weight to the measures that are strategically important. This communicates strategy to all employees by translating it into operational terms - a primary objective of the Balanced Scorecard.

Implementing performance measures

Determining what to measure can take considerable effort, but it will probably be less than one-third of the total effort required to implement an efficient and effective measurement system. Data collection and processing systems will have to be implemented to produce the measures; everyone will have to be trained in using the systems and measures; and as the measures are used, some problems are sure to be identified that will require changes to the system.

Perhaps the greatest challenge faced when implementing performance measurement systems is changing an organisation's culture. Using performance measures requires managers and employees to change the way they think and act. For most people, this is relatively easy, but for some, changing old beliefs and habits is very difficult.

Overcoming such problems requires strong leadership to provide appropriate direction and support. The best measurement system in the world will yield few benefits if the right knowledge, skills, abilities, and values are not developed in a company. An organisation doesn't just interface with a measurement system; it is part of the system.

Developing and implementing effective measurement systems requires leadership, commitment, and hard work. Some investment is required, but it is small relative to the key benefits of a well-designed and implemented measurement system:

- The ability to determine if sales and profit problems are caused by strategies, operations, or both;
- Early identification of problems and opportunities;
- Increased productivity, quality, and customer service;
- A clear understanding of what drives financial and operational performance so resources can be allocated to the areas of greatest return; and
- A cohesive organisation working toward common goals.

No matter what approach you use to develop performance measures, bear in mind that the objective is not to have a Balanced Scorecard itself but to have the measures in place that will enable managers at all levels to answer the ten key questions given earlier.

If all of your managers can readily answer those questions about their areas of responsibility **and support their answers with objective numbers**, your company has the performance measures it needs. If they can't, some of the "good" decisions they are making are undoubtedly not very effective - and they may even be harmful.