

Do your Performance Measures tell the true story of the success of your Strategy?



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When you ask companies what they want to achieve by measuring performance their answers fall into three different categories:

1. Drive employees to higher levels of performance
2. Provide performance feedback
3. Focus employees on the right things

But what really matters is to measure whether your Strategy is successful, by linking the strategy to Objectives and Performance Measures, which are cascaded down through the organization in a structured Performance Management system. By doing this you will be able to deploy the Strategy throughout the organization, by explaining the reasons behind the overall Objectives of the company, and how each unit in the organization can support these Objectives by achieving defined targets of cascaded Performance Measures with clear and defined links to the Objectives, and thereby also the Strategy.

First of all, lets get some definitions in place!

What is Performance Management? Def: The use of one or several Performance Measures for management purposes such as target setting, decision making, control, or communication.

Ok, but what is a Performance Measure? Def: The quantitative

value which informs about the economic status quo or the development of an entity in an aggregated manner.

Most companies today have Performance Measures or KPI's which are being monitored on a weekly or monthly basis, but very few are able to link these Performance Measures to the Strategy, and explain the correlations between Performance Measures, Objectives and Strategy. So how can a company achieve this alignment?

Mapping the Strategy

First step is to provide clarity of the Strategy. This clarity can be achieved by creating a Strategy map. The purpose of the Strategy map is to illustrate the Corporate Objectives and show how they are interlinked across four dimensions; Financial, Customer, Process, and Learning and Growth, see figure 1. This structure is based on the Balanced Scorecard introduced by Kaplan & Norton in 1992.

When the Company's Objectives has been agreed for each of the four dimensions, then Perfor-

mance Measures and targets can be defined to measure the baseline, and track the development of each of these Performance Measures.

Aligning the Organization

Next, the Company's Objectives and Performance Measures have to be cascaded from the Corporate level to Business and Regional Units, and further on to Departments and to Teams & Individuals. The purpose of this cascading is to ensure that Objectives and Performance Measures are integrated and reinforce each other.

The cascading is often done by managements intuition without any scientific approach. There are tools like the Hoshin Kanri X-matrix which could be useful in the cascading process, but the most important one is *"common sense with a structured approach!"*. The cascading structure can be achieved by using the Objective Tree method outlined in Figure 2. When moving from one level to the next, it is important that the goals are MECE – Mutually Exclusive and Collectively Exhaustive. This simply means that every-

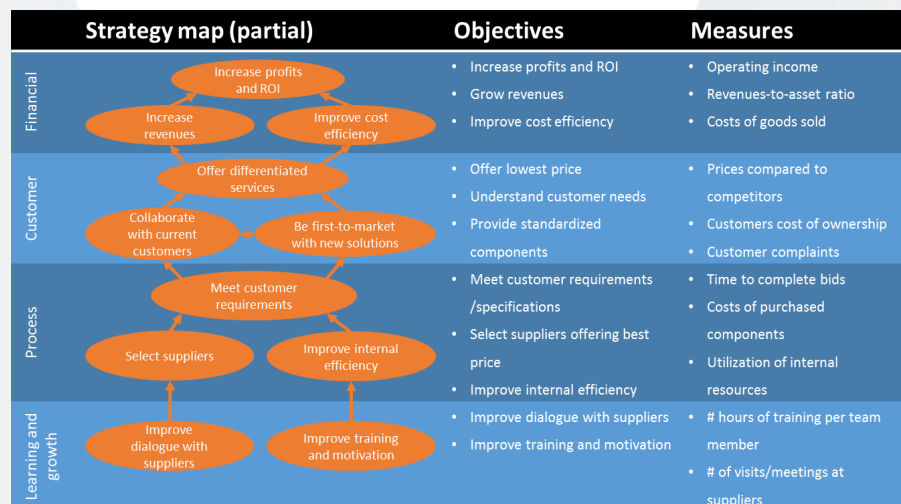


Figure 1—Strategy map example

thing from the level below (strategy, initiatives, objectives, etc.) should add up exactly to the level above, without any overlaps. This may sound logical and easy, but practice shows that many companies have difficulties linking levels correctly.

A very important design decision is how many performance measures to use? As a rule of thumb, individuals should be accountable for no more measures than they can recall from memory. *Working memory capacity is around 7 "chunks" (likely less) (Miller, 1956).* This means that you should be very cautious when designing your performance management system. Try to keep the number of measurements as low as possible while still measure enough to track the success of your strategy, and to diagnose any misalignments or symptoms of nonconformance as early as possible!

When designing your performance management system it is also important to make sure that all relevant dimensions are included. Measurement dimensions are; Input, Process, and Output. Types of performance measures in each dimension is described below.

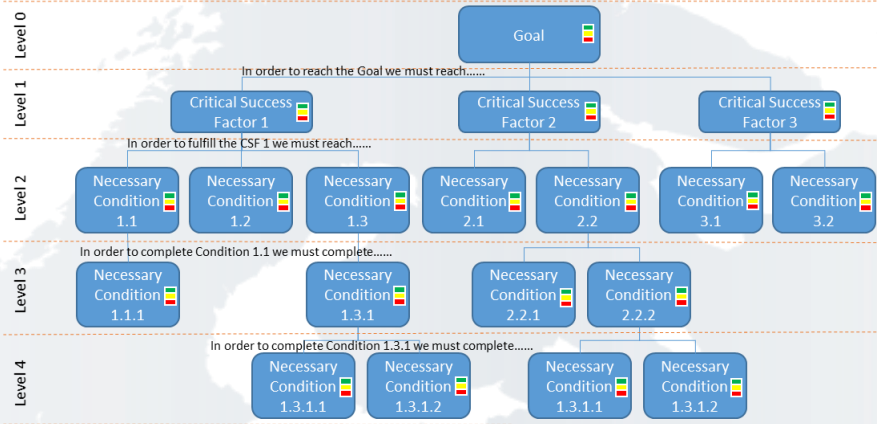


Figure 2—Objective tree method

Input measures

All resources that contribute to the production and delivery of outputs such as

- Labor time
- Customer visits
- Equipment and assets

Process measures

Inputs and outcomes that can be measured within a process such as

- Cycle time in manufacturing
- Order winning probabilities
- Quality at different stages

Output measures

Outcomes/outputs generated by the value-creation process of the firm such as

- Finished products in manufacturing
- Sales
- Revenues

When the Performance Management system has been designed and is ready for implementation, it should be reminded that at Performance Measurement project is a **change** project, so the 3 most important parameters to consider in the roll-out are; *Communication, Communication, and Communication!*

Other Pitfalls when introducing the Performance Management system:

1. Senior management is not committed, but delegates the project to middle management team.
2. Performance measure responsibilities are not cascaded down and communicated to lower level employees.
3. The solution is overdesigned, or

QUESTION: WHAT IS THE CURRENT STATUS OF PERFORMANCE MANAGEMENT IN YOUR ORGANIZATION?

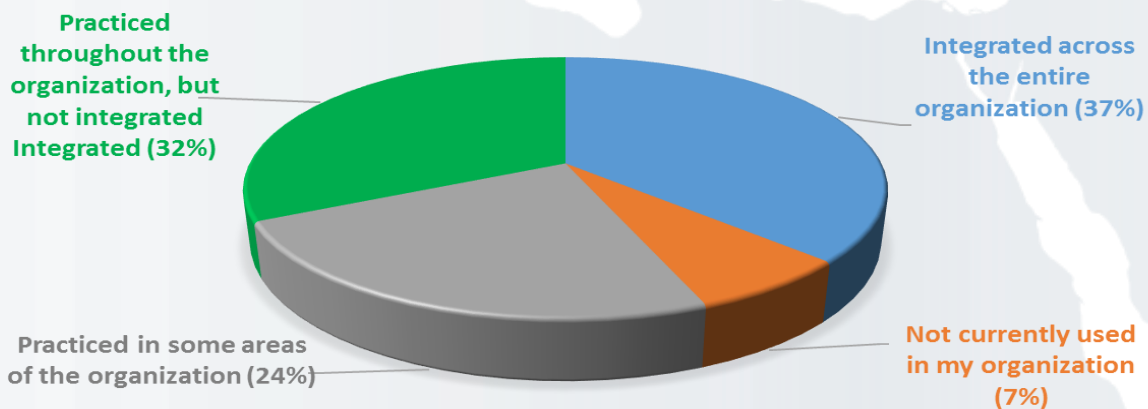


Figure 3—Status of Performance Management in Organizations, Source: Thomas H. Davenport, The Rise of Analytical Performance Management

the Performance Measures are treated as a one-time event.

4. The Performance Management system is treated as a IT project rather than as a Change project.

Testing and Adapting the Strategy, Objectives and Measures

Aligning the Strategy, Objectives and Measures to the daily operations, incentives and actions throughout the entire organization is not an easy task, and there are not many companies who have achieved this with success! Figure 3 shows how 2500 managers in large companies perceive the current status of their Performance Management system.

Figure 4 shows a Development Stage model for driving the maturity level of your Performance Management system forward. Reaching Stage 2 requires the addition of non-financial measures to support the financial goals, and measure this in fixed intervals. To reach Stage 3; the links between mission, vision and value proposition must be included when defining performance measures, which represents the true drivers of the business performance. In reaching Stage 4; a statistical model is built which

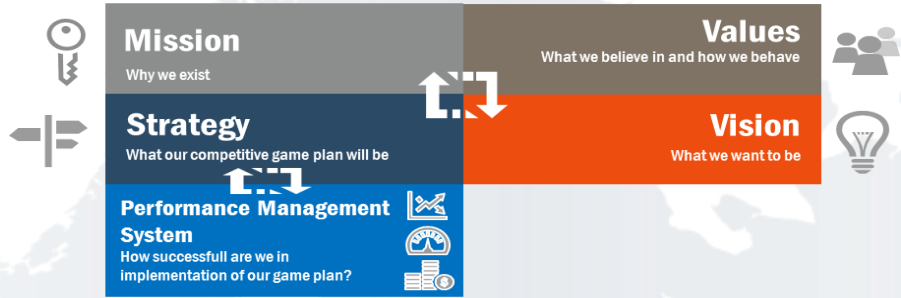


Figure 5— Linking Mission, Values, Vision, Strategy, and Performance Management

translates the Strategy Map into hypothesis regarding how the goals and Performance Measures correlate. The model is used to test these hypothesis and adjust the Performance Management system to ensure that there are clear and true relationships between the Performance measures at all levels.

Reaching Stage 5; in the model requires a lot of effort and maturation of the Performance Management model, and it is not done overnight. At Stage 5 companies educate their managers and employees about the relationships in the model and apply the model's results and implications to decisions and actions. This approach will to a much larger extent ensure that all employees know how their role and actions will impact the performance measures all the way to the top,

by understanding how the Company's Mission, Values, Vision, Strategy and Performance Management system are interlinked as illustrated in Figure 5.

*"The sooner you start measuring what **REALLY** matters, the sooner you will be able to see and utilize the full potential of your Company!"*

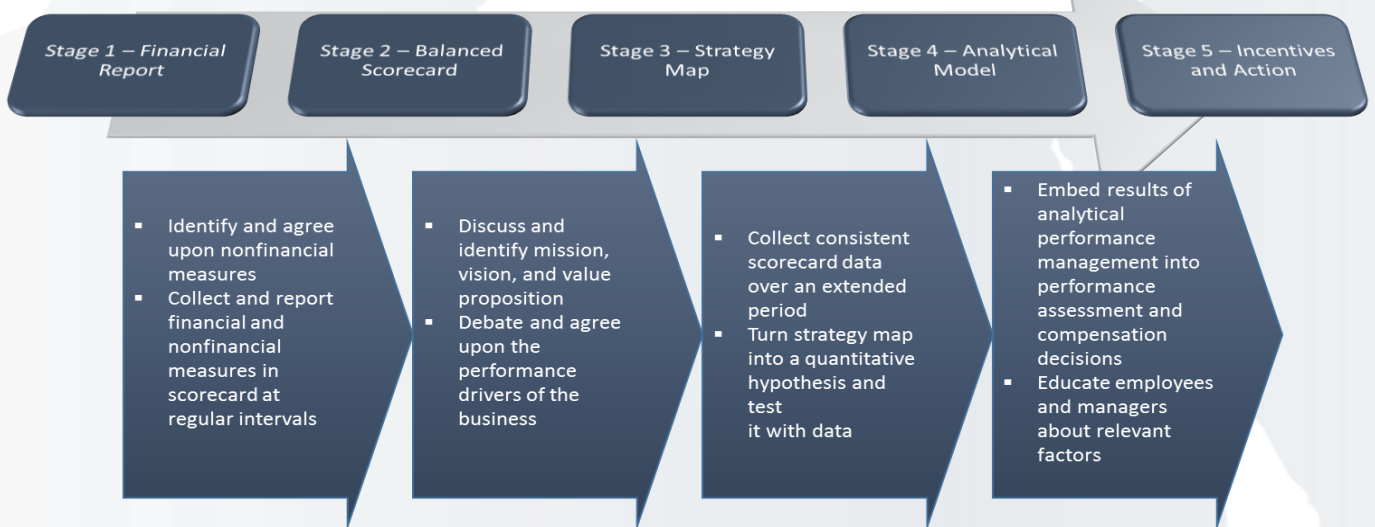


Figure 4— Development stages of Analytical Performance Management