



What is Performance Measurement?

Performance measurement is all around us. We see it in every facet of our lives. When we go to the doctor our vital signs are measured. Our cars have built-in performance monitoring technology to alert us of any impending problems. Many schools are now being funded based on the performance of the students. Even the government is using performance measurement as a means of eliminating the wasteful practice of “managing to a budget” rather than improving outcomes. Measuring and managing performance has become an integral part of our lives.

This trend is especially evident in business. With technology ever improving, we are gaining access to more timely, accurate, and relevant information than ever before. This is providing a significant competitive advantage for companies that understand and embrace performance measurement. Especially for companies that use performance measurement as a platform for continuous improvement and to establish the link between performance and compensation.

What are performance measures?

Performance measures serve as indicators of progress toward specific goals that are critical to the success of your company. The corollary between sports and business illustrate this point very well.

In football there are three levels of scoring:

- 1) Touchdowns represent how the team performs as a whole.
- 2) Offense/Defense – Specialty Teams reflect the unique efforts of select groups. (i.e. yards rushed, minutes of possessions, sacks, turnovers, 1st down conversions, etc.)
- 3) Individual performance measures serve as a yardstick of recruiting and training practices, coaching efforts, as well as each player’s ability to perform in their assigned position.

Rather than waiting until the game is over to review performance, coaches are constantly adjusting their strategy while the game is still in play. In addition to having better information to help manage the game, these various levels of performance measures also serve to motivate specific behavior since they are closely tied to advancement and compensation.

In much the same way, business has three corresponding levels of scoring:

- 1) Profit/Loss represents how the company performs as a whole.
- 2) Activity/Profit Centers drill down to the function or department level to assess performance of a select group. (i.e. sales, admin, human resources, etc.).
- 3) Individual performance measures serve as an indicator measuring the effectiveness of hiring and training practices, management efforts as well as each person’s ability to perform their given job.

Although most companies use performance measurement as a means of calculating compensation for their salespeople, very few extend that same approach to other activity centers. You don’t often see a shipping clerk, accounting manager, or shop floor supervisor reviewing their performance every day in anticipation of a performance bonus.

Generally speaking, real-time feedback is limited in business. Without the benefit of predictive indicators, business decisions are based solely on a historical management approach; in other words, looking to the past to manage the future as opposed to a real-time performance measurement system.

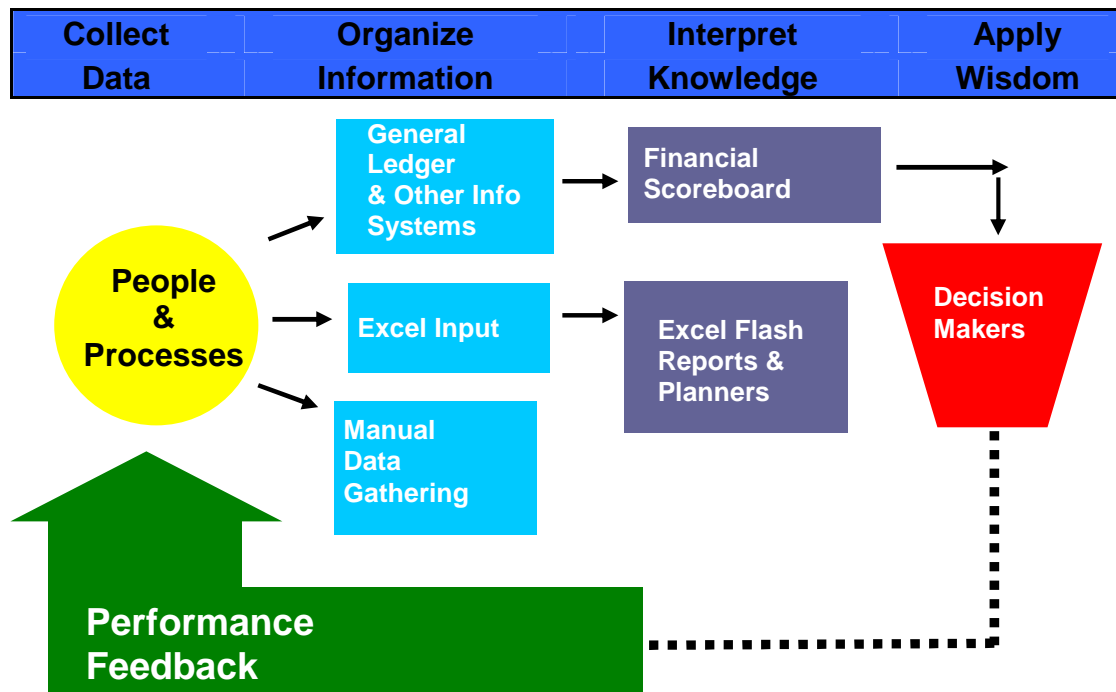
What is a performance measurement system?

A performance measurement system is a mechanism for capturing and reporting performance indicators on a real-time basis. Performance measurement systems range from low to very high tech.

There are two primary benefits of a performance measurement system:

- 1) To improve the availability and quality of information for decision makers.
- 2) To stimulate desired behavior by providing real-time performance feedback on activities that are most critical to company success.

Performance Feedback System



The model above provides a big picture view of the system. A performance measurement system has four evolutionary stages. In the first stage people and process are generating data to be collected. The data is fed into and organized by various information systems such as a general ledger, point of sale system, time and billing system and so on. Once the information is organized it is interpreted through the use of various analysis and modeling tools. At this stage we are looking to glean specific knowledge about how the people and systems are performing. Finally, that knowledge is paired with new strategies for improvement that are then applied to the business. Many companies stop there, only using the information to influence the decision making process. Although there is value in that, the real value of a performance measurement system lies in providing real-time feedback to those involved in the activities that generated the data in the first place.

Here's an interesting angle on the whole approach; often times the very act of providing feedback stimulates better performance without managers having to deploy any new strategies. Does this mean the employees themselves can apply their won wisdom to the work environment? Absolutely! In fact, one of the greatest benefits of a performance measurement system is how employees respond to feedback by taking ownership of their actions rather than always waiting to

be led by management. This is starting to sound a lot like what has come to be regarded as “nirvana in business” a.k.a. “participatory management.”

Returning to our sports analogy, players, like coaches, are just as interested in performance feedback. They want to know how they can add to the game so they can become an increasingly valuable member of the team. Imagine what it would be like if every one of your employees had that same attitude. Performance measurement provides a platform for real-time feedback that drives a value-adding attitude. When you think about it, it doesn't make sense to expect people to help us win the game if they don't even know what the score is.

Companies looking for a competitive edge need not look any further than their own backyard. It's a matter of identifying critical activities, assigning measures to them, and then providing feedback to those who have a direct impact on those critical activities. In human nature our need to feel needed and built-in competitiveness take over the drive the desired behavior. Remember, that which gets measured gets done.

So, ask yourself these questions:

- Are we reaching our financial goals?
- Are we as profitable as we should be?
- Do we have cash flow to match our profits?
- Are our employees results-oriented?

If you answered no to any of the above questions, Performance Measurement can help you change those answers to a resounding “Yes!”