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Business Execution Series...

Organizational Performance Measures



Alignment

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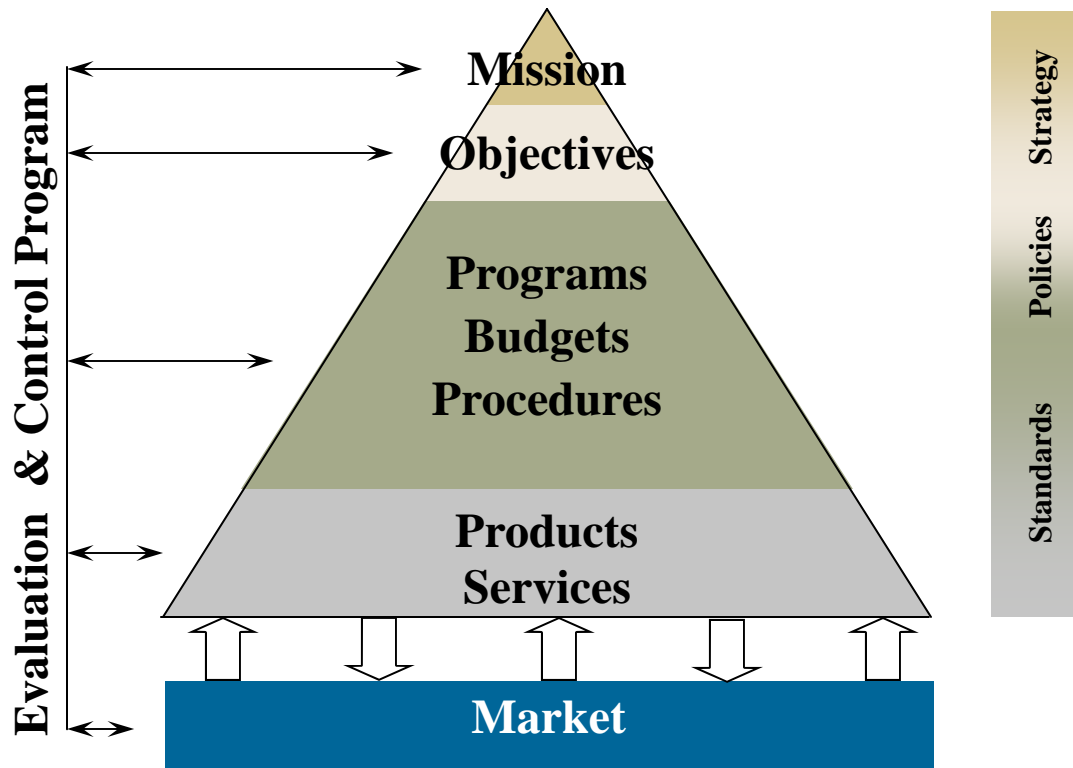
Organizational Performance Measures

Performance measures serve to align an organization's efforts to the achievement of its mission. As part of a company's evaluation and control program (see Figure 1), they quantifiably monitor important characteristics of the company's products and services and the performance of the individuals and processes creating them. Performance measures support managerial decision-making by providing useful information regarding:

- how efficient and effective are the company's processes and the individuals implementing them
- if product or service improvements are necessary
- if the company's customers and stakeholders are satisfied
- if the company is meeting its stated goals (corporate, divisional, operating unit, department, and individual levels)

Performance measures best serve an organization when they are understandable, broadly applicable, uniformly interpreted, and economic to apply. They should cascade through an organization's hierarchy such that achievement of lower tiered performance goals support higher tiered goals that in turn ultimately support achievement of the company's mission.

Figure 1: Strategic Pyramid



Performance Measure Alignment

Effective organizational performance measures are organizationally relevant and operationally complete; providing a clear picture of company performance relative to its mission. A well constructed performance measurement system helps drive organizational alignment and provides managers with timely information about adverse conditions so action can be taken to prevent undesirable consequences.

characteristics...

Organizational performance measures should fundamentally serve to drive organizational alignment to the achievement of the business's mission. As such, organizational performance measures should cascade from the corporate to the individual level; becoming more specific with each descending organizational tier. Because each successive level of goals supports achievement of the next higher level of organizational objectives, organizational performance measures must share a common set of characteristics including:

- *organizationally relevant*: having a clear relationship to the effective, efficient achievement of the organization's mission
- *consistent units of measure*: enabling direct correlation between higher and lower tiered performance measures and across the organization (between individual business units)
- *uniformly and precisely interpretable*: holding a common meaning for personnel at all levels of the organization

In truly aligned organizations, performance and decisions are driven by a common purpose. Companies having performance measures that are organizationally relevant, use consistent units of measure, and are uniformly and precisely interpretable are better positioned to achieve the vertical and horizontal alignment needed to achieve its mission.

A vertically cascaded performance measurement system that is organizationally relevant clearly communicates and routinely reinforces performance and behavioral expectations to every member of the organization. Individuals at each

organizational level assume responsibility for the measures which their actions and decisions effect. Over time, the measures reveal the impact of each individual's performance at their level of the organization. As these measures are rolled-up, the individual's contributions, both positive and negative, to higher tiered goals and ultimately the success of the company become evident.

Horizontally shared performance measures having consistent units of measure that are uniformly and precisely interpretable enable comparison between products and services, divisions, departments, and individuals. Possessing these qualities and being cascaded from the organization's mission, the contribution of each monitored item to the bottom line becomes evident. This arms executives and managers with the critical information needed to make decisions relative to existing and new products as well as individuals.

decision-making...

A company's leadership team makes product and service decisions to maximize value and minimize cost. All products and services uniquely contribute to the organization's bottom line while at the same time consuming valuable personnel and financial resources, including important management time and attention. Subsequently, performance analysis aids in answering many questions including:

- Does a product contribute enough to the bottom line to warrant its cost in both resources and management attention?
- Under limiting resource conditions, which products should be continued and which should be eliminated?

- When considering development of new products, which offering represents the greater reward potential and should subsequently be pursued?
- When considering development of new products, are the potential rewards sufficient when compared to existing offerings such that they should be pursued?

In the case of personnel, vertically cascaded, horizontally shared performance measures support leaders in holding individuals accountable for superior and inferior performance. First, measures help fulfill three key performance management functions including:

- clearly communicating results – based performance expectations
- routinely reinforcing progress toward achieving established performance expectations
- periodically providing a realistic, comparative performance picture between workgroups

Next, the comparative performance information provides an information basis for rewarding top and appropriately addressing poor performers. Finally, performance data supports creation of teams with individuals having complimentary strengths and weaknesses.

Summary

Organizations achieve breakthrough success when they focus their products, workgroups, and individuals to the singular purpose of fulfilling the mission. A vertically cascaded, horizontally shared system of performance measures is a key contributor to this alignment. Additionally, they provide leaders with the information basis needed to make timely decisions regarding which value adding projects and individuals to pursue and develop and which to eliminate. Ultimately, it is through this alignment and these decisions that an organization will be able to deliver maximum value to its stakeholders.

About the Author

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Nathan A. Ives is a highly successful manager with over fourteen years of energy industry and consulting experience. During that time, he has served as a trusted advisor to senior managers at numerous Fortune 500 companies; helping them define organizational needs and develop and manage the complex, mission critical projects needed to improve operational effectiveness and lower costs. Mr. Ives is currently responsible for development and execution monitoring of a mid-size consulting firm's long-range and annual business plans, annual budget, and resource and project management programs.

Previously, Mr. Ives held the position of manager, strategy and operations at a big four consulting firm. During his tenure, he lead teams of experienced utility professionals at Fortune 500 and mid-sized, regional utilities in the design of integrated fleet asset management processes including strategic asset and resource planning, online and outage work management, engineering change and configuration management, document and records management, and corrective action programs. Prior to this role, Mr. Ives served as a trusted advisor to numerous Fortune 500 companies providing senior managers with actionable recommendations in the areas of organizational alignment, managerial decision-making, plant operations, and risk management.

Mr. Ives attended the United States Naval Academy in Annapolis, Maryland; earning a bachelor of science degree in physics. Later, he received a master of

business administration degree from Kennesaw State University and was elected to membership in the Beta Gamma Sigma and Phi Kappa Phi honor societies.

Mr. Ives served on the Nuclear Energy Institute's New Nuclear Plant Executive Taskforce and the Graduate Student Advisory Board at Kennesaw State University's Coles College of Business. He is a member of the Project Management Institute and the American Management Association.

Mr. Ives received national recognition for business planning including the AT&T *Best Use of the Internet* award in 2003.

questions...

For questions regarding this topic, please contact Mr. Ives at:

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