StrategyDriven.com

Organizational Performance Measures

Selection

StrategyDriven.com

Organizational Performance Measures

Selection

Business Execution Series...

Authored by:

Nathan A. Ives MBA, CMC, PMP
Founder
StrategyDriven.com

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 and 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
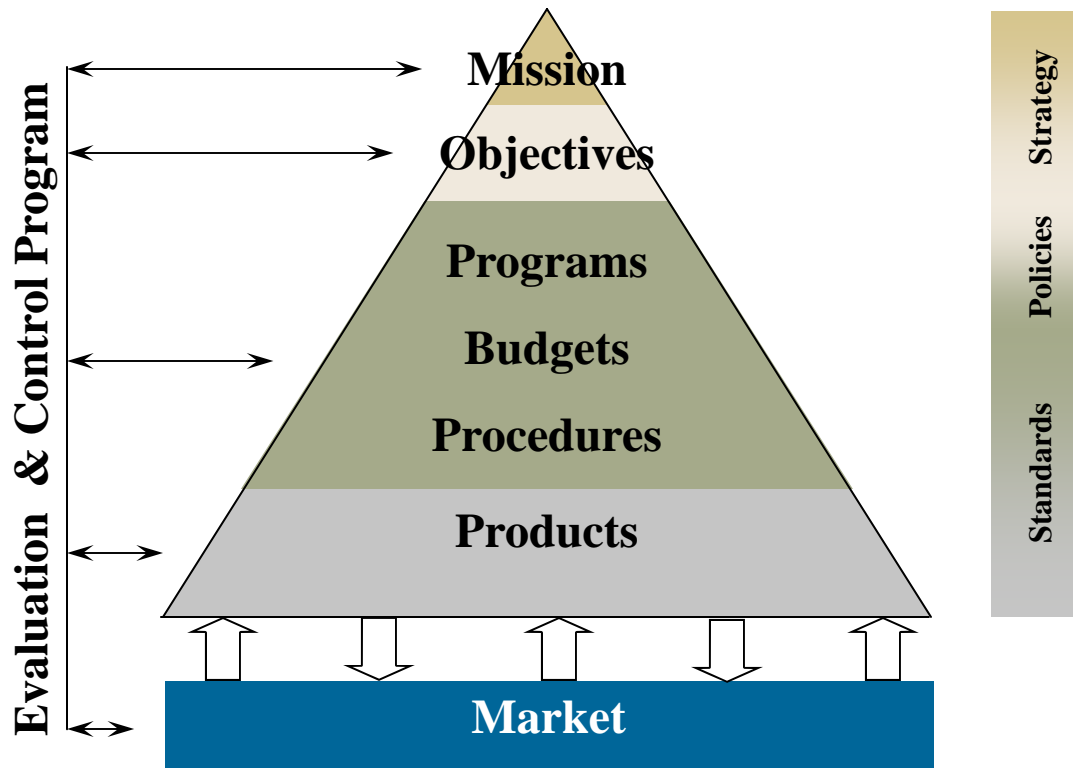
Organizational Performance Measure Selection

Performance measures serve as one of the most powerful drivers of organizational behavior. People respond to performance measures because they clearly establish standards and goals, provide routine and often public feedback, and are both generally and specifically consequential. A properly structured measurement system aligns management decisions and workforce actions to the achievement of the organization's mission. Structured improperly, performance measures become one of the most destructive forces a company unknowingly unleashes upon itself.

Performance measure selection is a critical process because its outcome ultimately defines what executives, managers, and employees will work toward. To ensure members at all levels the organization work toward the same objectives, performance measures should vertically cascade from one hierarchical tier to the next. Similarly, horizontally shared performance measures facilitate cross organization collaboration a comparison focused on enhancing overall organization performance.

vertical cascading...

The first and most critical step in creating a performance measurement system is defining the one goal representing the organization's mission. All other measures within the system will be derived from this single point, thus establishing the organization's singular performance focus and drive.

At a high level, identifying the body of performance measures comprising the organizational system involves the five simply stated steps listed below:

- Step 1: quantitatively define the organization's mission, ideally by one measure

- Step 2: identify all significant, measurable contributors to the organization's mission measure

- Step 3: assign a weighting factor to each contributing measure such that the total weighting equals 1.0 or 100 percent

- Step 4: repeat Steps 2 and 3 for each subsequently identified measure until the measures identified are directly attributable to the lowest level workgroup or individual contributor

- Step 5: examine the cumulative impact of each leg of the performance measure system; eliminating those that have low overall influence on the achievement of the organization's mission

While easy to state, these steps are far more difficult to implement. The following discussion elaborates on the methods for implementing this process.

Step 1: *quantitatively define the organization's mission, ideally by one measure*

The quantitatively defined organization mission becomes the anchor point from which all other goals are cascaded. Because it is exceedingly difficult to serve multiple masters, it is always best to have a single measure representing organizational success. Therefore, when examining the mission statement, break it into logical pieces and define a goal for each segment. Then when performing Step 2, identify instances where some of these goals contribute to another such that one of the defined mission goals stands out as the singular measure of organizational success.

If after performing this analysis there is a compelling need to use more than one measure to define the organization's mission, then no more than three prioritized measures should be used. Organizational success is then defined as a function of the weighted combination of these three measures. The following weighting rules are suggested to create adequate goal separation for improved decision-making:

- total weighing point value of 10 points

- highest priority measure assigned 5 or more points

- at least one point difference in weighting exists between the second and third priority measures

Step 2: *identify all significant, measurable contributors to the organization's mission measure*

Identification of contributing factors begins the cascading process. During this step, the selection team examines the definition of the parent measure(s) as well as brainstorming activities and events, based on experience, to identify the contributors and influencers of the parent measure. All identified contributors and influencers are recorded at this stage of the process.

When considering the broad range of contributors and influencers, the selection team may find it helpful to consider the following categories as described by Robert S. Kaplan and David P. Norton in their book *The Balanced Scorecard*:

- financial

- customer

- learning and growth

- process

Step 3: *assign a weighting factor to each contributing measure such that the total weighting equals 1.0 or 100 percent*

Assigning weighting factors to each contributing measure can be both a quantitative and a qualitative process. Where historical data is available, the mathematical correlations between parent and child measures can be identified and weighting assigned based on the relative strength of the correlation. If historical data is unavailable from within the organization, the selection team should seek correlation data between similar measures from external sources. In the absence of any relatable data, experience-based judgment will need to be used when assigning measure weighting.

Step 4: *repeat Steps 2 and 3 for each subsequently identified measure until the measures identified are directly attributable to the lowest level workgroup or individual contributor*

Repeating the process extends the cascading of measures throughout the organization. Continue the process until it is clear the lowest tiered measures defined are directly influenced by the decisions and actions of the lowest level workgroup or personnel within the organization.

Step 5: *examine the cumulative impact of each leg of the performance measure system; eliminating those that have low overall influence on the achievement of the organization's mission*

All measures are not created equally. Too many measures represents both an administrative burden and creates undesired noise through which decision-makers must filter to recognize those conditions truly impacting the organization. Too few measures limit management's vision into organizational performance thereby hindering decision-making. It is critical that the balance between too many measures and a complete performance picture that supports managerial decision-making be achieved.

During this step, measures monitoring those items having a low overall contribution to the mission of the organization are eliminated. Starting at the lowest measurement tier, identify those measures having the lowest weighting as candidates for elimination. Similarly examine the next levels of measures identifying candidates for elimination. With the entire pyramid of measures visually represented and starting with the lowest measurement tiers, remove the identified low value measures ensuring a complete picture of performance remains. If the selection team believes decision-making will be hindered by the absence of a given measure, then that measure should remain. This becomes even more important at higher tiers of the measurement pyramid as removal there eliminates all child measures which could greatly alter the overall performance picture.

The selection team repeats this process until the balance is achieved.

completeness considerations...

The process of vertical cascading can leave gaps in the performance picture created by the measurement system. At this point in the selection process, the overall set of measures should be evaluated against the following two perspectives:

- managerial decision-making

- workforce performance drivers

- organizational level alignment

<u>Managerial Decision-Making</u>

By their very nature, performance measures drive decisions; executive decisions regarding organizational direction, manager decisions between actionable alternatives, and employee decisions about effective behaviors. To support these decisions, the measurement system must provide a complete, timely, accurate picture of performance outcomes and drivers. Lacking one or more of these qualities could result in the following consequences:

- *incomplete*: failure to identify a condition requiring action, thereby precluding action resulting in the realization of adverse consequences

- *late*: delay recognition of the need for action which in turn delays action resulting in the realization of undesired outcomes

- *inaccurate*: drives inappropriate action or fails to prompt needed action either of which adversely impacts the organization or individual

Workforce Performance Drivers

Performance measures are a powerful management tool that drives employee behavior because they:

- clearly communicating results – based performance expectations

- routinely reinforcing progress toward achieving established performance expectations

- periodically providing a realistic, comparative performance picture between workgroups

If not constructed correctly, however, performance measure systems can have an extremely adverse impact on the organization. This typically occurs when well-meaning employees assume poor behaviors in order to realize positive performance measurement and instead create other more severe problems.

To avoid this outcome, the selection team should for each low tiered performance measure:

- identify the behaviors employees might assume to achieve a favorable measured result

- brainstorm any undesired outcomes those behaviors may cause

- develop countering performance measures monitoring for the undesired outcomes

In many cases, these countering performance measures will already exist within the system. It then becomes important to ensure these measures are not eliminated during any one of the streamlining processes.

Finally, the selection team should review the performance measure system for the inclusion of measures that would reinforce mission critical behaviors. While many performance expectations are well served by managerial observation and feedback, some behaviors are needed for critically important results such as worker, environment, and equipment safety. Although these measures should already exist within the system, it is important to review the complete measurement set for their existence at all applicable levels again.

Organizational Level Alignment

To have relevant meaning to a member of the organization, a performance measure's outcome must be responsive to that individual's decisions and actions. If an individual is unable to influence a measure's outcome, he or she won't alter their behavior because of a lack of perceived value in doing so.

Once performance measures are vertically cascaded, the system should then be logically divided and assigned to the appropriate hierarchical tiers within the organization. Figure 2 highlights the organizational responsibilities (activities and resulting products) of individuals at various organizational levels. Note that these responsibilities foster organizational alignment as does a well constructed set of performance measures.

horizontally shared…

Having completed the vertical cascading portion of the performance measurement system development process, the selection team should now transition to assigning the measures throughout the organization. This process

Figure 2: Strategic Organizational Alignment Creation

<u>Organization Level</u>	<u>Action and Result</u>
Leadership (Board of Directors and Executive Team)	• defines the company's mission • identifies measurable objectives supporting achievement of the company's mission • establishes the strategy and policies by which the company will achieve its mission and objectives
Management (Senior and Line Managers)	• understands and internalizes corporate objectives, strategy, and policies • establishes programs, budgets, and procedures to achieve corporate objectives within established policy guidelines • establishes work standards which are broadly communicated and reinforced • decisions visibly support corporate objectives
Policies, Practices, and Procedures	• activities, methodologies, and performance standards are defined and documented • evaluation and control systems measure effectiveness of program, budget, and procedure implementation as well as enhance organizational learning • training systems are established
Workforce	• executes company programs and procedures within defined standards

The figure above shows activities and resulting products created at various levels within an organization that foster strategic organizational alignment.

begins with the identification of the various divisions, departments, and work groups for which the measure is relevant such that the measure can be horizontally shared across the organization.

When examining the complete set of cascaded performance measures, it should become obvious that a few core measures are applicable to all business units or persons within the organization. These core measures often include items such as overhead and production costs, personnel staffing and retention, and the many project and production related measures that reveal the value contribution of the particular business unit, product, or activity. In cases where a measure is not broadly applicable, it assigned to all business units for which it is logically associated.

Completion of this process establishes the horizontal sharing of performance measures and the comparative basis for assessing the relative value between business units, products/services, and people.

final pass through…

The ramifications to decision-making caused by omissions in the performance measurement system are usually more costly than administrative burden of having a few too many indicators. Therefore, the selection team should conduct a final pass through of the system to assess the completeness of the performance picture. Any gaps identified are then filled by appropriate measures and logically tied to the vertically cascaded matrix. Finally, horizontal sharing of the measures is considered and additional assignments made where appropriate.

Summary

The critical role performance measures serve makes their selection immeasurably important. These tools will shape the organization's behaviors and decisions which, in turn, will ultimately define its future.   Those involved in the selection process will undoubtedly find it to be one of the most challenging and impactful assignments of their careers.

About the Author

Nathan A. Ives MBA, CMC, PMP
Founder
StrategyDriven.com

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:

ContactUs@StrategyDriven.com