PERFORMANCE MANAGEMENT FOR CORPORATIONS

Every organization needs a performance management system that focuses regular attention on its success in achieving its goals. This tool shows how to build performance scorecards for a corporation or business. (See our related tool on Performance Management for Public Agencies.)

First, why is performance measurement so important?

1. Because organizations function much more effectively when their leaders define what is important and measure it regularly.

2. Because organizations need a system that infuses people with a sense of accountability.

3. Because leaders need to know what is working well – and what needs their attention.

4. Because boards of directors and senior leaders need to concentrate on “big picture” policy issues, rather than on micro-managing staff.

The vocabulary:

Experts on performance management often use the following vocabulary:

1. **Outcomes (goals):** Long-term results you’re trying to achieve, such as winning market share or improving profitability.
2. **Outputs (objectives):** The things you do in order to achieve those outcomes, such as improve sales processes or develop intellectual property.
3. **Core values:** The outcomes (results) that are essential to success.
4. **Key Performance Indicators:** The most important things to measure – typically the core values plus other important initiatives and outcomes.
5. **Performance management system:** The system you use to collect and organize the relevant information and monitor the results.
6. **Metrics:** The things that will be measured, such as level of customer satisfaction or percent of products meeting standards.
7. **Standards:** The desired level of performance for each metric.
8. **Targets:** The desired level of performance at a targeted point in time (on the way to achieving the standard).
9. **Monitoring frequency:** How often you monitor the performance.
10. **Scorecard:** A short-hand way to view the trends over time and identify trouble spots.

Scorecards should be developed first for the organization as a whole, and then for the departments or functional units within it.

Example:

A utility company's overall performance scorecard lists the following as its core values:

- Financial sustainability
- Reliability of service
- Customer satisfaction
- Employee quality
- Safety
- Environmental responsibility

Under reliability, it lists these metrics and targets:

Core value	Metric	Target
Reliability of service	average frequency of outages	16 or less per customer per year
	average duration of outages	less than 80.4 minutes per customer per year

These high-level performance measures drive a more detailed set of performance metrics and targets related to transmission line quality, circuit redundancy, and reserve power available. Individual department managers are responsible for working together to achieve these targets.

Success Factors:

What makes a performance management system successful? Research and experience shows these to be the important success factors:

1. **Start at the beginning.** A solid measurement process is built on the foundation of core values and key performance indicators. If these are not set with a great deal of thought and clarity, implementation can easily fall down. Once these are defined by senior management, staff should be responsible for defining performance expectations related to the programs and processes needed to achieve these results. Reversing the process results in confusion.

2. **Build focus and alignment.** It's important to focus on the most important outcomes. These should be identified in a strategic plan. Don't try to measure everything. Make sure people in all parts of the organization operate under a set of well-understood performance metrics and targets, not just some.

3. **Create a balanced scorecard.** A good scorecard provides a balanced look at all aspects of the organization. It also mixes different types of data. Financial performance is a "lagging" indicator of performance, since by the time it's measured, there's little you can do to change the results. Customer surveys frequently tip people off to performance issues that are just emerging, and thus are considered "leading" indicators.

4. **Champion the scorecard.** Make sure you have strong championship from the top. The performance scorecard must be highly visible and regularly reviewed. Just as the CEO makes sure the overall scorecard is visible throughout the entire organization, senior managers need to make sure their departments' performance scorecards are visible.

5. **Build "Learning loops."** A measuring system is nothing without the communication to generate shared understanding and ideas for improvement. The leadership team should model this by creating regular forums where they share performance data and discuss steps to improve performance. Mid-level managers should do the same.

6. **Invest in the system.** It will take resources to build the necessary data collection and information management systems. It will also take time to identify and train people to pull together the performance data into a useable scorecard.

7. **Instill clear roles and responsibilities.** Measuring performance creates powerful incentives for department managers to cooperate in order to achieve important outcomes. Make sure it's clear who's responsible for what.

8. **Prepare for a culture change.** When you start to measure performance consistently, it will trigger a change in the organization's culture. Sharing information about performance and adjusting behaviors accordingly requires a more open culture – one that is comfortable admitting what is going well, what is not going well, and deciding what to improve.

9. **Don't let the perfect be the enemy of the good.** No performance management system will be perfect. Data will be difficult to get. There won't be enough people with the skills to collect and synthesize the data. This is not a reason not to do it. All organizations should have performance measurement systems.

Measuring different outcomes:

Performance management systems are relatively easy to build when well-understood outcomes are in place. Developing outcomes is the responsibility of the senior management team. This chart shows some examples of outcomes and related ways to measure performance.

Outcomes	Typical Measures
Quality employees	Employee satisfaction surveys Peer group rankings
New customers	Return on investment of various lead generation strategies
Quality products	Customer satisfaction surveys Peer group benchmarking
Innovation	Number of successful new products launched
Competitive pricing	Peer group price comparisons