Performance Measurement & Management – Key Considerations

dr Łukasz Sienkiewicz

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“Anything can be measured. If a thing can be observed in any way at all, it lends itself to some type of measurement method. No matter how “fuzzy” the measurement is, it is still a measurement if it tells you more than you knew before. And those very things most likely to be seen as immeasurable are, virtually always, solved by relatively simple measurement methods”.

Rationale for performance measurement & management

„So tell me again: why do you want to measure?”

• “What cannot be measured – cannot be managed”

• Process of decision-making can be significantly hampered by the lack of adequate information sources being at the disposal of the organization.

• Needed for informed decisions about the allocation of resources, setting the standards for expected performance, recognize the high performance and provide feedback (Fitz-enz, 2009).
Key elements of the performance management

- Measurement system
  - Measurement logic
  - Measures / metrics
  - Reporting & interpretation

- Decision making processes
  - Reactive / proactive approach
  - Procedures / regulations
  - Management mindset

Business model
Organisational strategy
Environment
Performance measurement „system”

Input

Process

Output

Cost

Quantity

Time

Quality

Income
The creation of the measurement system should include considerations of:

- the object of measurement (i.e. what is being measured?)
- the method of measurement (i.e. manner of approaching the measurement of particular factors?)
- the tools of measurement (i.e. exactly what information and data are gathered and in what way?)
- the algorithms of measurement and analysis of particular factors (i.e. what is the method of calculating and analysing the collected information?)
- possible interpretations of the outcomes of measurements (i.e. what does the given outcome stand for?)
- possible correcting actions (i.e. what needs to be done in order to enhance not only the outcome itself but also the influencing factors?).
Determining „reference points” for performance measurement

How well are we performing?

Standards?
Available?
At what level: sectoral / regional/ other?

Benchmarks?
Key competitors?
Availability of information?

Expectations?
Shareholders / owners?
Managers?
Customers?
Limitations of performance measurement & management

Operational measures

Benchmarks

Data systems & portals

Scorecards

- Strategic impact
- Organisational change
- Causal relationships

Limitations of performance measurement & management

- Certain measures also have their own limitations (e.g. measures based on income/employment (FTE) ratio)
- Measurement effort (time, cost, etc.) vs utility should also be considered...

YOU SHOULD DO A COST-BENEFIT ANALYSIS.

THE COST OF DOING A COST-BENEFIT ANALYSIS...

...EXCEEDS THE BENEFIT.
Balance Scorecard (BSC) perspective

Strategy map and management practices

1. Which objectives (strategic results) are most important?
2. Which vehicles of effectiveness support achieving each of these goals?
3. How do you measure progress towards achieving these goals?
4. What behaviors should be manifested by employees in order for the company to achieve its goals?
5. Which management practices will reinforce these behaviors?
Balanced Scorecard (BSC) approach

FINANCIAL
“To succeed financially, how should we appear to our shareholders?”

CUSTOMER
“To achieve our vision, how should we appear to our customers?”

INTERNAL BUSINESS PROCESSES
“To satisfy our shareholders and customers, what business processes must we excel at?”

LEARNING AND GROWTH
“To achieve our vision, how will we sustain our ability to change and improve?”

VISION AND STRATEGY

Objectives
Measures
Target
Initiatives

Objectives
Measures
Target
Initiatives

Objectives
Measures
Target
Initiatives

Objectives
Measures
Target
Initiatives
Time series and trends analysis for performance measurement

- Descriptive
- Prescriptive
- Predictive

Future performance?
Conclusions and discussion

• The importance of performance measurement & management is unquestionable – the question is how to do it best?

• Importance of building a comprehensive system, providing intelligence for making informed decisions.

• More comprehensive means including not only quantitative but also qualitative measures, that explain also WHY we are performing/underperforming.

• The credibility of measurements, ability to interpret the data & make informed decisions and a balance between the efforts put into the gathering of data and the usefulness of given measures are the basic conditions for measurement effectiveness.
Thank you for your attention!

dr Łukasz Sienkiewicz

lukasz.sienkiewicz@sgh.waw.pl