



What You Can Measure, You Can Manage

Why Performance Measurement Works

What is performance measurement? Isn't it simply the calculation and statement of profitability? Well, the short answer is yes and no! Performance measurement is the ongoing study of an organization's overall health. More specifically, it is the study of both financial and non-financial measurement results. Financial performance measurements, such as financial statements, are historical in nature. Non-financial performance measurements, such as a customer satisfaction survey or a time-and-motion study, allow an organization to look at its performance in real time. This allows immediate adjustments to be made based on results yielded. The study of measurable performance indicators is essential for an organization to achieve its short-term objectives as well as its long-term, strategic goals.

How many times have you seen a corporation's stock take a plunge when its quarterly earnings missed Wall Street's expectations by just a small percentage? This obsession with quarter-over-quarter profits seems to encourage many managers to focus on short-term results at the expense of investing for the long term. In other words, to many corporations, everything is viewed in terms of the "bottom line." Opponents of this school of thought claim this is a one-dimensional view. That is, financial indicators alone provide an incomplete set of management tools to corporate decision makers. Professor Robert S. Kaplan of the Harvard Business School states: "...if senior managers place too much emphasis on managing by the financial numbers, the organization's long-term viability becomes threatened."

So, what are these non-financial performance indicators? Are they different for different industries? A joint industry-government Benchmarking Study Report on Performance Measurement from the late 1990s stated, "Regardless of size, sector or specialization, organizations tend to be interested in the same general aspects of performance. Attention to, and establishment of, measurements in these areas is thus a significant part of a successful performance system." These areas include:

- customer satisfaction
- employee satisfaction
- internal business operations
- shareholder satisfaction

Customer Satisfaction. When it comes to mapping performance, many of the blue-chip corporations rely on customer- and employee-based measurements. Achievements in these areas are considered to be just as important to the success of the corporation as revenues, profits and other financial measures. Customer satisfaction relates to the overall customer experience, including price, quality, delivery, service, warranty. The business objective is to establish real-time performance measures to determine customer satisfaction in those areas that are most important to the customer. Such performance measures might include survey responses, post sale contacts, complaint lists, market share analysis, warranty claims and other such data that may be unique to the industry or organization.

Before deciding on specific measures, an organization should identify and thoroughly understand the processes to be measured. Then, each key process should be taken apart and analyzed to ensure a thorough understanding, and to ascertain that an appropriate process is chosen. In most cases, targets, minimums and maximums should be set for each measure. In some instances, performance measurements of customer service have resulted in customer satisfaction improvements of up to 50 percent! You can quickly see how this performance measure can dramatically impact the bottom line.

CFO

Plus LLC

Partners In Growth

Our mission is to provide information and strategies to business owners and managers for improvement in the effectiveness of its business management so that key objectives can be realized.

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Why Performance Measurement Works (cont.)

Employee Satisfaction. Employee-oriented measurements are designed to encourage innovation, mutual trust, teamwork and diversity. This allows the corporation to focus on excellence in the human elements that contribute to their joint success. Human capital development is not about keeping score. It's about learning how to motivate people and how to link those performance measures with both financial and non-financial incentives. Blue-chip corporations generally set challenging long-term goals and link the compensation of their employees more closely to the completion of those goals. Without motivated human resources, an organization will not achieve its strategic goals. Performance measure improvements in this area have shown average increases of up to 15 percent.

Internal Business Operations. Internal performance measurement is a particularly fertile area for achieving improvement in the organization's long term viability. The sheer volume, variety and complexity of the production process for tangible goods gives rise to a long list of indicators that might be measured and controlled. Such a list might include time and motion studies, production line efficiencies or down-time, inventory levels, product life cycles. Similar performance measurement indicators should be devised for all operational and supporting areas. The goal of such measurements is to ensure that products move smoothly through the production cycle to meet quality standards and customer delivery schedules.

Expense control, regulatory compliance, and quality control falls within every business in every industry. In a study published by W.B. Abernathy, PhD, *Managing Without Supervising*, these areas showed an average improvement of 9 percent, 54.7 percent, and 30.6 percent respectively. Each industry can, with guidance, develop effective performance measures that will achieve key objectives.

Shareholder Satisfaction. Any organization is ultimately accountable to its shareholders. In the owner's mind, the principal measure of successful performance is usually profit. However, many owners take a longer term view of the organization's future potential. In this regard, they may be interested in non-financial performance measurements as a basis for comparison with other organizations.

Most blue-chip organizations use performance measurement systems to determine whether they are fulfilling their vision, achieving their short-term objectives and meeting their customer-focused strategic goals. The measures and goals are narrowly focused on a critical few. It is neither possible nor desirable to measure everything. The focus should be on achieving organizational goals via performance measures, and not the measures perse. If a particular measurement cannot be linked back to strategic planning, it should be eliminated to avoid data overload. According to William Apler of the Hay Group, "The top organizations create performance measures that focus on all the drivers of their businesses – financial performance, shareholder value, employees and customers."

Unlike historical financial information, non-financial performance measurements allow an organization to make ongoing changes in real time. This provides the tools to look ahead and adjust according to circumstances. Excellence in all performance areas will result in the "bottom line" taking care of itself. That is the true value of performance measurement. Remember, if you can measure it, you can manage it. To learn more about how you can use performance measures to boost your company's profits, give us a call today.