John Beechey
Senior Lecturer of Management Accounting
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Evaluation – measuring your performance to plan & evaluate the effectiveness of your measurement tools
AGENDA:

Linking Strategy & Performance

**Day One**

8.30 Registration

9.00 Opening remarks from the Chairperson

Chad Wilkie
Partner, Deloitte Touche Tohmatsu

9.10 Developing effective performance measurement processes in strategic management

*Wayne Cartwright, Principal Consultant, M & B Consulting*

• Morning Tea will be served at 10.20am

11.10 Foresight & scenario planning

*Malcolm Menzies, Business Development Manager, Victoria Link Ltd*

12.00 Lunch

12.50 Implementing strategic performance measurement

*Mike Sheedy, Account Executive, Ernst & Young*

1.40 Developing & aligning operational business plans with the strategic plan

*Allan Carvell, Evaluation Manager, Transpower New Zealand*

2.30 Afternoon Tea

2.50 Strategy implementation – translating the strategic vision and plan into action

*Ken Humphrey, Strategy Director, Fletcher Challenge Energy*

3.40 Getting the most out of the finance function to assist the organisation to achieve its objectives

*Dr William Maguire, Senior Lecturer, Management Accounting, University of Auckland*

4.25 Close of Day One
Day Two

9.00 Formulating the strategic plan
Jeremy Livingstone, National Sales, Operations & Logistics Director, Lion Breweries

9.50 Strategy and finance – what is the right framework?
Joseph Healy, Director, Corporate Finance, ANZ Investment Bank

10.40 Morning Tea

11.00 Developing and implementing a strategic management system
– A case study of Merck Sharp & Dohme
Andrea Grant, Human Resources Director, Merck Sharp & Dohme (New Zealand) Ltd

11.50 Integrating strategy and finance – the financial analysts toolkit
Bevan Wallace, Principal, Wallace & Associates Limited

12.40 Lunch

1.40 How to use the Balanced Scorecard as a strategic management tool
Sarah Adam-Gedge, Partner, Management Consulting Service, PricewaterhouseCoopers

2.30 Systems thinking and modelling for strategy
Bob Cavana, Director, Master of Management Studies in Decision Sciences, Victoria University, and Kambiz Maani, Head of Management Science & Information Systems, University of Auckland

3.20 Afternoon Tea

3.40 Evaluation – measuring your performance to plan & evaluate the effectiveness of your measurement tools
John Beechey, Senior Lecturer of Management Accounting, UNITEC Institute of Technology

4.30 Close of Conference
EVALUATION

Measuring your performance to plan & evaluate the effectiveness of your measurement tools

Does your planning and measuring evolve with your organisational needs?
- Addressing cultural and behavioural challenges and resistance to change
- Relevance of measures to your strategic objectives – tracking and reacting to change

John A Beechey, Senior Lecturer of Management Accounting,
UNITEC Institute of Technology, Auckland

1.0 Introduction

Performance measurement and management is one of the most significant developments in the sphere of people management. Within organisations, it has become a key business process. It is viewed as a major lever for achieving the culture change needed to enable organisations to respond to the challenges of the business environment of the 1990s.

Performance measurement and management is a set of processes for developing a shared understanding among employees of what needs to be done to enable an organisation to achieve its strategic goals. These processes include developing appropriate performance measures, and managing and developing people using approaches that are likely to produce continued success.

Performance measurement and management is about the "how" as well as the "what" of performance. It is not about "quick fixes" and "panaceas". It is about developing a culture of confidence and trust among all employees, which reinforces both team and individual achievement. Success stems from demonstrable commitment from the organisation's senior level and from investment - of time and resources - into developing and training employees to deliver good performance.

Most organisations have some sort of process or framework to help measure and manage the performance of their employees. There is a growing awareness of the need to move away from the retrospective top-down annual appraisals to a forward-looking and two-way approach to communicating objectives, and so delivering performance for the business by valuing the contribution of all staff irrespective of status or job title.

The design of any performance measurement system should reflect the basic operating assumption of the organisations it supports. If the organisation changes and the measurement system doesn't, the latter will be at least ineffective or, more likely, counter productive. Traditional measurement systems tell an organisation where it stands in its efforts to achieve goals but not how it got there or, even more important, what it should do differently.
The challenge is to raise awareness of, and encourage dialogue about, performance as part of the daily business of an organisation. It is a matter not of only defining, measuring and managing performance, but of planning development activity and developing problem solving approaches to meet objectives. This approach relies on the ability of all employees to work as a team to common objectives and with a common sense of ownership and success.

2.0 Managerial Style

Managerial style can be defined as the patterns of behaviour which a manager adopts in order to plan, organise, motivate and control.

It relates to the extent to which she/he:
- listens,
- sets goals and standards,
- develops action plans (short and long term),
- directs others,
- gives feedback,
- rewards and punishes,
- develops employees, and
- establishes personal relationships with employees.

There is no right or wrong management style. The style depends on the task, people, and situation to be managed. Managerial style is a function of:
- individual personal characteristics (e.g. values, ethics, motives),
- style used by mentors, and other managers,
- values espoused in the organisation of the "right way to manage",
- specific management situations and people with whom managers interact with.

3.0 Coaching

Coaching is the continuous process in which a manager and employee informally evaluate past performance, reinforce behaviours, and guide future performance. Coaching helps to show behaviour and narrow the gap between expected and actual performance.

Coaching should:
- Be continuous and not limited to formal discussions about how an employee is doing.
- Clarify and reinforce mutual understanding of both objectives and competency expectations.
- Motivate people to deliver enhanced performance.
- Make feedback and direction participative, helping employees feel involved and committed to the process.
- Address both the "what" (results), and the "how" (competencies) of performance so that employees understand how to improve.
- Be timely, with specific guidance provided when it is needed, or as soon after as possible.

4.0 Reengineer the Managerial Style
Shedding the traditional “command and control” management style for one of “lead, enable, and empower” is a difficult transition for most managers. Managerial style must soften, remaining open to finding solutions to seeming paradoxes and contradictions. Successful managers will be masters at getting people to work effectively together, managing conflict and being effective coaches. Knowledge of content is no longer the overriding requisite for promotion. As work becomes self-managed, managers will need new tools - performance measures, incentives - for steering the ship.

In an empowered organisation, what is important is what is measured. Measures must track employee’s contribution to the team and the team’s contribution to the success of the reengineered process. Managers must shift their focus from watching the numbers to measuring the performance of critical business processes. The new scorecard for managers should be process performance - what percentage of customers are we retaining? How fast are we filling orders? How many prospects are we converting to customers. A blinding focus on financials is to treat the symptoms of organisational distress, not the causes.

5.0 Organisational Culture

Culture is about employee’s perception of what factors make it easier or more difficult to achieve their goals. Culture can be defined as "the atmosphere of the workplace". It is a mixture of employee’s perceptions and expectations and organisational policies and procedures.

Culture has the following features:

- **Clarity** - the extent to which employees are clear about procedures, expectations, and plans for the work group or organisation.

- **Standards** - the extent to which employees perceive the way management sets high standards and challenging goals and pushes people to improve their performance.

- **Responsibility** - the extent to which employees feel free to make decisions on their own about how they will do their jobs, and the extent to which calculated risk taking is encouraged.

- **Rewards** - the extent to which reward is perceived to be based on performance, and the extent to which recognition and praise outweighs threats and criticism.

- **Flexibility** - the extent to which unnecessary procedures, policies and formality are minimised, and the extent to which employees feel encouraged to develop new ideas and approaches.

- **Team commitment** - the extent to which co-workers like and trust one another and cooperate with each other and share information and resources, and the extent to which employees contribute extra effort when needed and the extent to which they feel proud to belong to the organisation.
6.0 Development of a Performance Measurement System

Traditionally, there has been a major focus placed on financial performance indicators as a means of measuring and tracking the performance of business. Although financial measures are important in determining the performance of a business, a much broader view is now being taken by those who view business as being more than just dollars and cents. Eccles identifies this broader view in the following quote:

"For several years, senior executives have been rethinking how to measure the performance of their business. They have recognised that new strategies and competitive realities demand new measurement systems. Now they are deeply engaged in defining and developing those systems for their companies."

At the heart of this revolution lies a radical decision: to shift from treating financial figures as the foundation for performance measurement to treating them as one among a broader set of measures."

Hyndman argues that in order to manage and to improve reporting, there is a need for more relevant, more timely and more comprehensive information on all aspects of performance. In order to improve performance, businesses need to do the right things right. The difficulty, however, is that for many organisations their measuring system prevents or hinders this learning. Performance measures must provide all levels of management with feedback on how well the strategies and objectives of business are being met. They must provide focus on critical processes, enable proactive problem identification and correction, and promote continuous improvement.

The main thrust of performance measurement is, therefore, to support the sustainability of the business enterprise in whatever direction it chooses to take. Kaplan supports this by stating that the “choice of appropriate [performance] measures is an art that must be practiced in conjunction with the strategic goals of the firm and in close communication with the rapid changes occurring in the firms’ processes.”

Performance measurement is a key part of business infrastructure. It encompasses the set of organisational policies, systems and practices that coordinates actions and transfers information in support of the entire business management cycle.

This cycle is made up of four stages:

1. formulating strategies,
2. communicating those strategies throughout the business,
3. developing and carrying out tactics to implement the strategies, and
4. developing and implementing controls to monitor the success of the implementation steps and hence success in meeting strategic objectives.

By developing performance measurement systems, it is then possible to communicate the strategic direction of the business to the entire organisation.

Performance measurement constantly realigns strategy, actions and measurement. Measurement is also used to guide the execution of strategy through actions, but it is also used to evaluate strategy in terms of the results of taking the actions.
7.0 Objectives of a Performance Measurement System

The development of a performance measurement system should address the following key objectives:

**Identify the strategic objectives.**

It is essential that the key strategic objectives are identified. There should be integration of corporate and senior management strategic objectives with the more specific and operational objectives for departments, work teams and individuals. Equally essential is that performance on these objectives is monitored and communicated.

**Focus on core processes**

Recognise the importance of core processes and their contribution to the success of the organisation. These processes should be aligned across the organisation so that the sequence of activities which comprise a process are coordinated.

Performance measures must recognise the dimensions of these processes. (e.g. rate of new product development)

**Focus on critical success factors**

Identify the critical success factors that are important for the organisation. The focus should be on fewer, rather than more performance measures. Financial and non financial performance measures should be integrated in a usable way. There needs to be a balance between internal and external, and between long term and short term performance measures.

Appropriate performance indicators should be developed to satisfy the above criteria.

**Signal where performance is headed**

Do not simply report actual performance against a target. Performance measures should assist with identifying trends and potential problems. Identify which critical success factors require attention by sifting out the "exceptions".

**Provide a basis for reward**

Performance measures should be designed to make a positive contribution to achieving success. Those responsible for achieving targeted performance may be rewarded.

8.0 Components of a Performance Measurement System

The dimensions for a performance measurement system are as follows;

**Segmentation.**
What do we want to measure the performance of?
Segmentation focuses on defining how the organisation may be vertically or horizontally segmented to establish the dimensions for performance measurement.

**Performance Measures**
How do we measure it?
Performance measures focuses on what should be measured for each segment

**Information Characteristics**
What information do we measure?
Information characteristics focuses on defining the characteristics of the information in relation to the decisions to be made. These include:
- scope of information
- external/internal focus
- quantitative/qualitative
- time frame
- degree of detail
- frequency
- accuracy Vs precision
- timeliness

9.0 Developing from Objectives to Performance Indicators

All performance measures should have their foundation in the strategy, goals and objectives of the organisation (or the segment) whose performance is being measured. Specific objectives flow from an overall defined and accepted vision and strategy. Without this vision and strategy, specific objectives will not be robust.

The critical success factors that determine the achievement of objectives assist in focusing attention on a few key performance measures.

The performance measures describe the specific dimensions of performance that will be measured and the performance indicators describe the standard of performance that is expected.

10.0 Selection of the Optimum Measurement Package

The reporting system should capture indicators which are good predictors of long term success. This may necessitate a preference for non-financial measures over traditional ones.

The array of performance measures is deliberately wide ranging, embracing production, marketing, and customer orientation aspects. The precise combination of performance measures appropriate will be organisation specific and strategy specific. This is the result of the need to identify the critical success factors in the provision of a particular product or service and to ensure that those indicators selected for monitoring reflect the degree to which strategic objectives are being met.

However, the potential exists for inappropriate choices of non-financial indicators and inaccurate and unreliable measurement. Weaknesses must be considered and behavioural implications evaluated prior to effective implementation.
The human factor in terms of both data accuracy and manipulation opportunities is central to the successful selection, implementation, measurement and reporting of non financial performance indicators. This factor remains the greatest area of concern but also that with the greatest potential payoff from the implementation of an optimum measurement package. Given this proviso, attention should be directed to the common measurement areas - product, market, employee and customer. It may be that a selected few of non-financial measures will be sufficient to provide management with the 'feel' that it requires for a status report on its current position with respect to its mission. This selection can provide an opportunity to communicate and compare like measures throughout the organisation and motivate employers and employees towards the achievement of the organisation's goals.

With today's focus on competing aggressively for market share, satisfying customers, ensuring quality, and maintaining healthy relationships with employees, regulators and suppliers, managing performance requires considerable information. This information must be designed and communicated in a way that will influence the best possible behaviour. Managing performance is, therefore, highly dependent on the availability of a well designed performance measurement system which provides clear linkages between strategy and human behaviour.

The new competitive environment demands more accurate cost and performance information on the organisation's activities, processes, products, services. In the new competitive environment employers and employees must have timely and accurate information.

11.0 Concluding Comments

An integrated performance measurement and management framework encompasses actions that are undertaken to achieve the needs of other constituencies such as customers, employees and suppliers. These actions require different operational measures. Improved performance is about people doing things differently. People react to the measures by which their performance is judged. Therefore, if you wish to have positive performance, you must have a positive measurement system.
Bibliography


