



Successful Performance Measurement: A Checklist

by Karen Carney

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Successful Performance Measurement: A Checklist

RARE IS the company that doesn't sport some kind of performance-measurement program. Organizations of all sorts track and assess the output of business units, departments, managers, even individual employees. They benchmark performance against preestablished goals; they pay bonuses to employees or units who reach their objectives.

But *successful* measurement systems—systems that energize employees and so actually do what they're supposed to do, which is boost performance—are harder to find. Too often, employees don't buy into the system, so it doesn't affect their behavior. If they get a bonus for reaching some objective they don't understand or haven't worked toward, the extra money just seems like a random reward.

How does your own company's system stack up? Do a little performance measurement of your own: assess it against this checklist.

- ☐ **Our system starts with big-picture goals—and everyone knows what they are.**

Any manager can set performance goals for work groups or individuals, but those immediate targets will always seem arbitrary unless people understand how they tie into big-picture objectives. Does your company or business unit have clear, well-understood objectives? Are they widely publicized?

At United Ad Label (UAL), a Los Angeles-based label manufacturer for the health-care industry, the leadership team held a three-day retreat last year to develop a "Y2K balanced scorecard" spelling out the company's overall

business strategy and mission, with supporting objectives in key areas such as business processes and marketplace presence. A separate scorecard spells out numerical goals related to performance in each area. For example, UAL wants X% of sales to come from new products and markets by the close of 1999. It wants Y new strategic alliances in place. It has targets for EBIT/sales and return on capital. These objectives are posted around the company's facility for all to see. "Knowing what we're trying to accomplish as a company helps people at every level make more informed decisions everyday," says Valerie Poole, manager of human resources.

- ☐ **Every group has performance drivers linked to the big-picture objectives.**

How do people's jobs tie in to those overall goals? Usually departments need specific objectives that are tied to the company's. Given a certain growth target and historical data about turnover, for instance, an HR department should know how many new hires it will be responsible for—and should assess its performance in delivering these new people in a timely fashion.

At UAL, shop-floor employees focus on reducing cycle time and minimizing returns and allowances, both of which affect operating income. ("We do custom work, and if we don't get it right the first time or if the shipment arrives late, we know it's going to cost us," says Poole.) Customer-service team members know that to reach the com-

pany's market-share objectives, they'll need reorders from 70% of existing customers. They monitor not just that number but all the activities that contribute to it, such as customer satisfaction rates, abandoned-call rates, and on-time mailing of brochures.

- ☐ **Individual and work-group performance objectives are clear—and reasonable.**

Targets for performance can be set in units shipped, dollars of revenue or expense, defect rates, customer satisfaction rates, or any other metric that makes sense. In some cases, job-specific goals—meetings held with customers, calls answered by the second ring—can be helpful, so long as the individuals involved are also part of a group with larger objectives.

Even people whose work isn't easily quantifiable should be held accountable for performance objectives (see box). If the performance targets aren't reasonable or are perceived as unfair, of course, employees will dismiss them out of hand. On the other hand, you may want to develop stretch goals for the quarter or the year in case your unit blows past the "reasonable" targets.

- ☐ **We educate and coach employees continually.**

It happens often: companies launch a performance-measurement system with plenty of hoopla and plenty of training. A year later, employees have forgotten what most of the measurements mean—and new employees are utterly mystified. A particularly important task: communicating the connections between work-group and big-picture goals, which in large companies are likely to be obscure. Leaders at Amoco Canada (Calgary, Alta.), for example, make a point of taking business units' income statements and showing each job group—engineering,

One powerful tool: "scoreboards" on the wall—or on people's computer screens.

Performance Measurement...

finance, administration, operations, and so on—the costs they can control and how they can affect different facets of the overall financial goals. “If you say to them, ‘Look, that vehicle cost number ties into our area number, which ties into our total operations number,’ then people can really start to see that cascading effect of the numbers,” says Fred Plummer, progress coordinator for Amoco’s liquids business unit. “And, more important, how they can make a difference.”

☐ **We have a clear and simple system that tracks progress toward our goals.**

Most companies have well-developed systems for tracking financial performance, but not many have equally sophisticated methods of tracking progress in customer satisfaction, time-to-market, or other strategically important objectives. What is tracked, of course, must be communicated in such a way that employees see and can follow the results. One powerful tool:

“scoreboards” that are literally on office walls or employees’ computer screens.

At Civco Medical Instruments (Kaloma, Iowa), for example, the primary scoreboard is an abbreviated income statement that shows the company’s sales-and-expense figures by month and by year-to-date, both compared to plan. The figures, which are updated weekly and projected out six months, are posted throughout the company’s facilities for all to see. Companion scorecards detail line-by-line expenses related to sales and marketing, G&A, and product development. Other graphs and charts illustrate trends in key metrics such as historical and projected sales by customer, international sales, incentive-compensation results, and telemarketing efforts.

—KAREN CARNEY

Measuring the Soft Stuff

What about “soft” metrics—measurement and assessment of work that doesn’t lend itself to easy quantification? There are three keys to effective performance measurement of this kind of job:

1 Involve people in determining their own measurement criteria.

Jack Zigon of Zigon Performance Group suggests several methods. Ask them, “If you weren’t on this team, what wouldn’t get done?” Hand out a list of unit or company goals and ask them which ones they can affect. Get people brainstorming about who their internal and external customers are, and what they can do to delight these customers. Nearly all work can be evaluated using a combination of descriptive terms and behavioral objectives. An IT service technician, for instance, can be prompt and friendly or slow and abrasive in delivering assistance. A marketing team can be imaginative and creative or uninspired and stodgy.

2 Find qualified judges to assess people’s performance according to these criteria.

Judges can be employees, customers, suppliers, business partners, or anyone else who can determine if a result or behavior meets, exceeds, or falls short of expectations. As in diving or figure skating, it’s the judges’ ratings that gauge performance.

3 Combine hard and soft metrics as appropriate.

At McMurtry Publishing, in Phoenix, associates receive generous bonuses based on the bottom-line results of their business units. Salary increases, however, are based on assessments of behavior. Once a year, managers endure a four-hour performance evaluation that rates them on how fully they embody McMurtry’s eight core values (among them: *does the right thing*, *delivers raving customer service*, and *always produces quality*) and how well they use those values to guide associates. Raters are encouraged to talk with at least five people who work closely with the manager being reviewed. Subsequently, managers score associates on a scale of 1 to 5 on how well they follow key operating strategies, such as *makes decisions quickly*, *accepts responsibility*, and *pursues growth aggressively*. The entire process and the relevant measurements are spelled out in McMurtry’s employee handbook.

If you want to learn more...

The Balanced Scorecard: Translating Strategy into Action by Robert S. Kaplan and David P. Norton (1996, Harvard Business School Press, 336 pp., \$29.95, Tel. 800-545-7685 or 617-783-7819). This book provides a rationale and framework for developing measures that link what people do on their jobs to the company’s strategy.

Balanced Scorecard Report, a bimonthly newsletter published by Harvard Business School Publishing and The Balanced Scorecard Collaborative, features new writing by Kaplan and Norton along with detailed accounts of balanced-scorecard implementation efforts. To subscribe, call 800-668-6705 or (outside the U.S.) 617-783-7474.

Make Success Measurable: A Mindbook-Workbook for Setting Goals and Taking Action by Douglas K. Smith (1999, John Wiley & Sons, 244 pp., \$29.95, Tel. 800-225-5945 or 732-469-4400)

www.zigonperf.com. The Zigon Performance Group’s Web site includes many how-to articles on individual and work-team performance measurement and a free searchable database of sample performance measures and standards for more than 70 different job functions. Zigon Performance Group, Wallingford, Pa., Tel. 610-891-9599.