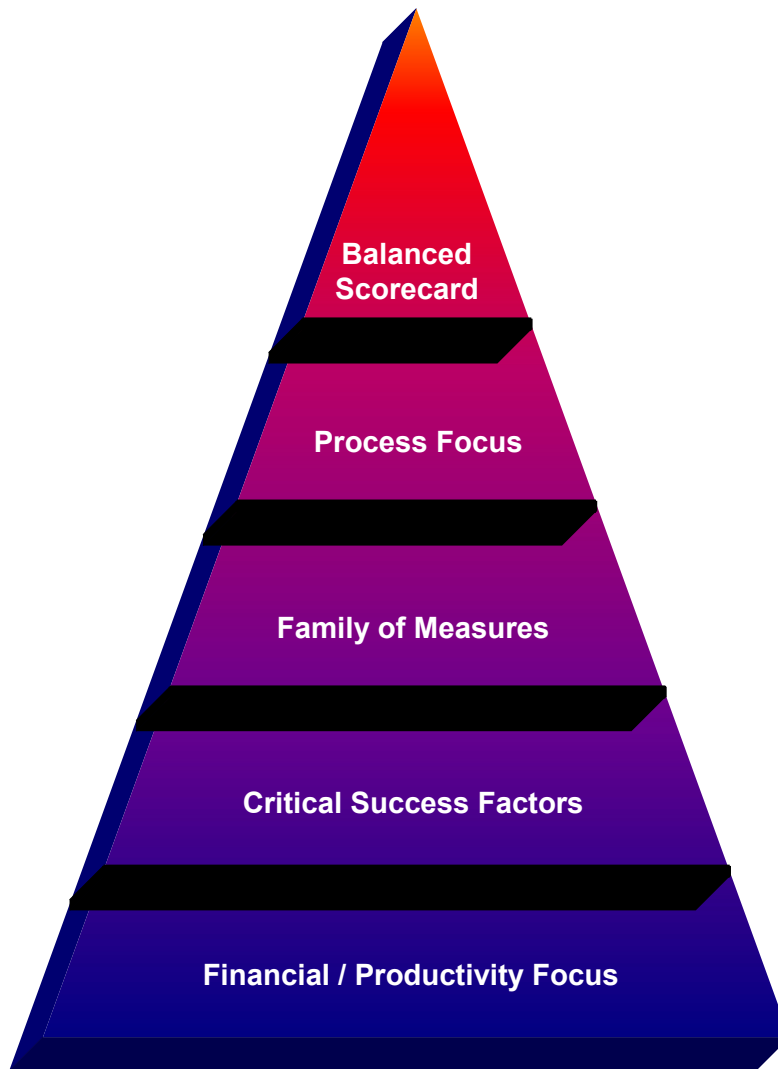


A New View of Measurement Approaches

*A White Paper on Choosing and Using the Right Approach
for your Organization*

The Hierarchy



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MEASUREMENT: THE HEART OF THE MANAGEMENT SYSTEM

Leaders everywhere know that measurement of their organization's performance is pivotal to its success and vitality. They know it is intimately tied to leadership and keeping their hands on the controls. Therefore, leaders make a great investment in developing the measures they believe indicate best value for their firms. What they often do not know is how to use the measures well. Since most still see measures as primarily a results tracking function, weak measurement approaches and poorly designed systems abound.

Leaders in the Total Quality Management era found that all the effort spent installing new or refined processes and measuring results meant nothing if the people of the organization did not understand and use the key measures as daily decision making tools. So, too, merely maintaining measures as a control mechanism (rather than a dynamic and motivational system component) thwarted the opportunity to align everyone in the organization toward specific goal attainment. .

Even today, many senior managers still do not see clearly the need to focus on fully deploying, then integrating and linking, measurement efforts with business strategy and other key management systems. Thus, they miss the opportunity to create a clear, cohesive performance management system that can drive the organization and its people toward its vision.

As a result, people become discouraged by the sincerely hard work that went into the selection of measures and the resulting poor use of them once they were in place. If we know measurement can be a key driver of success, why hasn't it worked better as a critical management tool? We contend that it is because a strategic approach that includes a well-thought out use of a sound measurement system was lacking.

HOW TO MAKE MEASUREMENT WORK

"What is measured matters" is a common phrase heard in management conversation and seen in the behaviors of the people of the organization, as they focus their activities on the things they know count. In fact, their behaviors align with their perception of what counts, whether it is formally measured or not. Therefore, it is very important to determine not only what measures are important, but also how the organization is going to approach measurement with its people, its stakeholders and its suppliers. All stakeholders need to drive toward the same vision. The measurement approach can make the pathway concrete and tangible.

The measurement system offered here narrows the scope to the vital few measures, assumes broad communication, links the measures and their use so that they align with other management systems and move the organization to improvement as a way of life.

Our system has eight steps that begin with choosing the appropriate measurement approach and leads to improvement and results review.

Measurement System Steps



While a brief overview of the eight steps is offered below for your understanding, the focus of this paper is on Step One, Choose/Adapt Approach.

Step One: Five common, but increasingly complex, approaches are considered with one being selected as most appropriate for the firm.

Step Two: The “vital few” measures are identified to help focus people on what matters most. Then, the “vital few” can act as a catalyst for positive action.

Step Three: Highly visible measures focus people on results; management systems are built to reinforce the movement to results. Early integration is necessary.

Step Four: A communication strategy reinforces what is important and why.

Step Five: Monitoring progress helps deploy expectations, thereby aligning people throughout the organization.

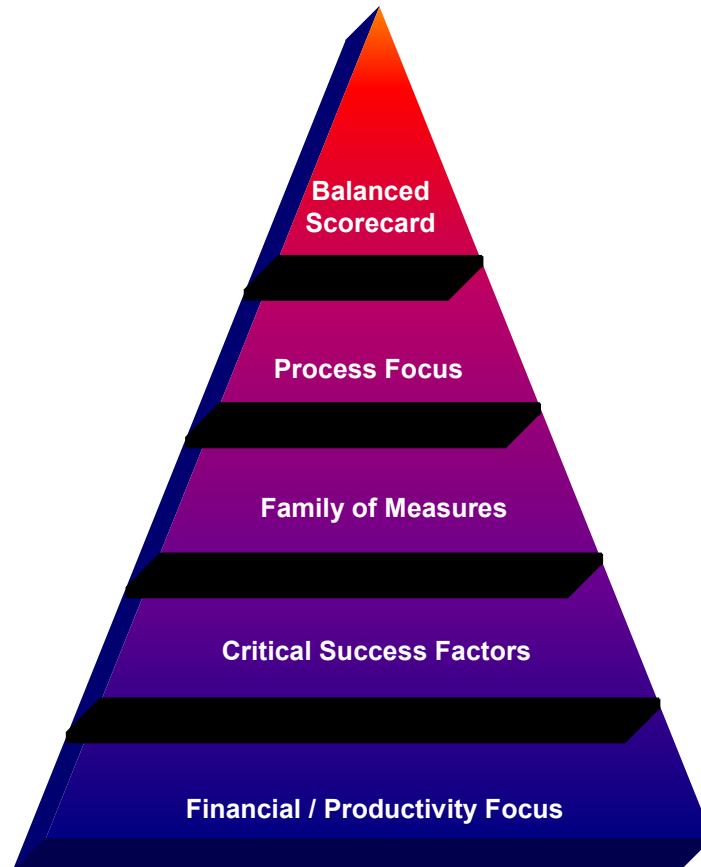
Step Six: Knowing where results are (or are not) being achieved leads a firm to identify and prioritize improvement initiatives that have great payback.

Step Seven: Execute selected improvement initiatives.

Step Eight: It is imperative that leaders review results. They are the barometer that lets the firm know that it is headed toward its destination. Also important is the need to identify how well the system is working and whether the organization is taking the right approach.

CHOOSING YOUR MEASUREMENT APPROACH

The hierarchy below displays five measurement approaches with the simplest at the bottom, building up to the more complex. Which approach will be best depends on your organization's readiness and measurement history.



Most organizations today have moved beyond the traditional use of financial and productivity measures. Managers have realized that this approach can lead to a cost cutting, not an optimization strategy. Since most of the world is beyond this stage, we have chosen to move right up to the next level of measurement sophistication in the model.

CRITICAL SUCCESS FACTORS

Second in our hierarchy is the Critical Success Factor approach. Based on established strategic planning principles, this approach is more widely used today than the three above it. It certainly has value, for it requires senior managers to think about what is most crucial to the firm's prosperity.

Critical success factors are "those areas in which the firm must succeed in order to prosper". In fact, critical success factors that are too generic may not assist organizations in sustaining competitive advantage. For example, what organization does not want 'satisfied customers'? The differentiator, we have learned the past few years, is that 'loyal customers' may be a truer indicator of success.

An example of a set of critical success factors used effectively by one of our clients as key decision criteria in many different situations includes:

- Retained customers
- Retained, developed employees
- Leading market share
- Highest net profit
- Strong management system that sustains growth

Family of Measures

As we move up the pyramid, the Family of Measures approach introduces the issue of balance to the measurement world. In the 80's, most organizations had an internal perspective on what was important. Correspondingly, measures lacked the external customer focus needed to be truly competitive. And, at least in the case of the United States, business results were declining.

The Family of Measures screen offered firms the opportunity to place their measures in the matrix by type as well in order to find gaps that could end up being an 'Achilles heel'. Quality measures, for example, were lacking at the same time as the consumer was becoming more educated and demanding in the marketplace.

Four types of measures are somewhat standard. They are:

- Productivity
- Quality
- Financial
- Other

Below is an example depicting samples of common measures and where they fit in the screen.

Family of Measures Screen

Measurement Type	Internal Perspective (E.g. - Management)	External Perspective (E.g. – Customer)
Productivity	Yield/Volume	
Quality		Errors Cycle time
Financial	Net revenue Unit cost	Revenue growth
Other	Safety	

Process Focus

During the latter half of the 80's, organizations adopted an understanding of and appreciation for core business processes. As this level of sophistication became embedded in firms around the world, measures based on process performance became meaningful.

Recognizing which core processes resulted in product and service delivery vs. those processes that supported the organization's effectiveness led to a firm's ability to measure both leading and lagging indicators from the basis of the work activity of the organization. Excellence began

to be benchmarked and significant leaps in performance realized. Activity-based cost analysis become commonplace, and people began to see where they fit into the business strategy.

By harnessing the energy of the people toward improving their processes, they understood that their baseline performance is just that – a place where they reside presently, to be surpassed continuously. Incremental and even breakthrough improvements were expected. Keeping people’s scopes aimed at the process’ performance through measures added power to measurement as a potent management tool.

A list of process categories generally found in private industry firms is offered for comparison to your organization.

Core Business Processes	Supporting Processes
Market / Customer Knowledge Acquisition	Human Resources
Vision / Strategy Development	Information Management
Product / Service Design	Financial and Physical Resources
Sales and Marketing	Environmental Management
Production / Delivery	External Relations Management
Invoicing and Service after Sale	Organizational Improvement and Learning

Imagine an organization that is focused enough to measure all of the primary work activities underpinning each of the above process categories. The firms that choose this approach have the information needed to communicate and encourage increasingly improving results.

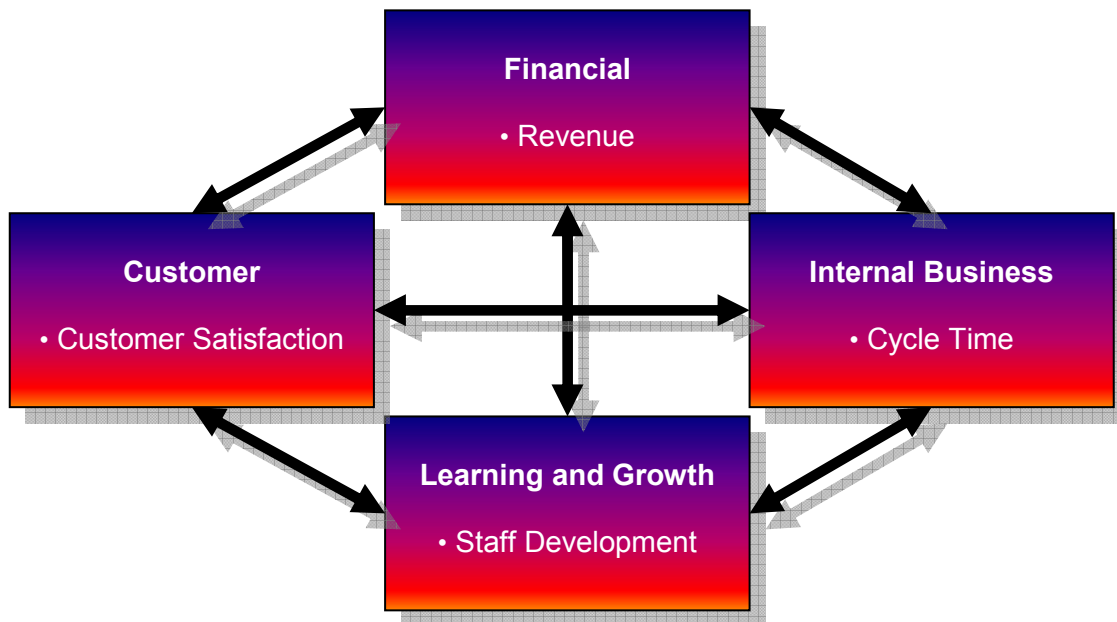
BALANCED SCORECARD

The Balanced Scorecard made its way into the hearts of management in the mid-90’s. This approach takes the concept of balance a step further and links the measures to the organization’s business strategies to support the end results determined most important overall. It also provides a means to see the interrelationship between key perspectives of endeavor, resulting in the profound knowledge that if an improvement in results occurs in one arena, it can impact the results in key others.

In this approach, four perspectives are held to be vital to understanding how they impact each other and result in optimum performance. Those four, and the key questions that they answer, are:

Perspective	Key Questions
Financial	How should we look to shareholders?
Customer	How should the customers see us?
Internal Business	What business processes must we excel at?
Learning and Growth	How will we sustain our ability to change and grow?

Scorecards often graphically display four to six critical measures in each perspective. The following graphic, while containing only one per perspective, is meant to illustrate how the scorecard can be used as a powerful communications tool, offering employees and other stakeholders a bull's eye view of what counts.



USING MEASUREMENT WELL

Once the approach is selected, the measures developed, the tracking system set up, it is important to determine two things:

How your organization is going to use the measures, and
How the measures will act as a checkpoint for action in relation to other management systems, for example, the budgeting system.

As implied earlier, we believe in many uses of measures. In this paper, we have addressed three already – determining results, taking improvement action and communicating importance. Some other uses, beyond determining results and taking improvement action, that need to be considered include determining customer value, setting performance targets, celebrating/recognizing results, impacting decision making, delegating responsibility, clarifying accountability, rewarding performance, promoting high performers and motivating the organization to high performance.

While space constraints do not allow us to describe the steps to take for each of these uses here, the list of uses reveals the immense opportunity for measures to be a prime motivational catalyst.

Finally, using the measurement system itself as the center of the organization's management system helps the firm achieve its strategic and key operational goals and objectives. This occurs not just at the senior level, but all work group levels. It aligns the people of the organization – even in their individual job expectations – with what is important to optimize current and future performance excellence.

CONCLUDING THOUGHTS

While selecting your approach should not be “What's In Vogue Now?”, many senior managers read the latest Harvard Business Review and determine they want to implement a new strategy or approach in their organization. As you consider the options covered in this white paper, it is important to take your history and organizational readiness into account. It is important to remember that we have worked with and conducted research in all the approaches discussed, so we can support the move to any of them, based on your organization's needs, sophistication and proclivity regarding measurement.

Lessons learned in best practice organizations do show an increasing sophistication and broadened use of measurement approaches. But they also point out the challenges facing those brave-hearted enough to build a motivational, effective system. Excellence in measurement is hard work, but work that results in a huge pay-off to the organization and its people if designed and implemented well.

The concepts discussed throughout this white paper are more fully developed in our new and practical guide Making Measurement Work, available at our website www.CenterforChangeExcellence.com.