From Measures to Earnings. . . Connect the Dots

A Performance Perspectives Paper by Dr. Bob Frost

The new performance measures help you implement strategy over the long term, but they can also help you improve earnings NOW. How exactly do they do that?

The new strategic performance measures, including balanced scorecards and other designs, can be used to create wide-ranging improvements in your enterprise, especially when it comes to driving new strategic initiatives. They focus attention on strategic goals that are often overlooked in the press of everyday business.

But what if you need tangible financial results *now*, rather than later? Can the new measures, structured into a scorecard of performance indicators, help produce better financial results right away? I believe so, and so do most of the Fortune 500, judging by how they are pursuing performance measures and performance management.

"Show Me the Money." But the question remains, where exactly should we look for near-term financial benefits from performance metrics? Where's the money? Let me suggest four places to look:

1) Accountability
2) Alignment
3) Processes
4) Suppliers

Accountability. Knowing who is accountable for what helps people focus on what is important, and that saves time and money. Measures are the most specific, objective way for people to understand exactly what is expected on the job. At every level in the enterprise, they help you know at who has achieved and who has merely tried.

Of course, managing performance is not as simple as checking a few performance indicators. You have to communicate expectations, choose the right indicators, provide rewards, and so forth. But measures are the critical component; you are lost in this process if you do not have an objective, measure-driven base for gauging performance.

Where's the link to financial benefits? If each job is properly designed to generate value to the business, improved accountability for performance on each job translates directly into more value to the business.

Alignment. As accountability does for individuals, alignment helps groups of people focus on the right things. And that saves time and money. There's a strong tendency within every organization for various functions and departments to take on lives of their own—including their own objectives, values, and activities. This is good if you want each part of the enterprise to believe in what it's doing and operate independently to achieve goals. But you also want those goals to be derived from the goals of the larger organization, not the prevailing sub-culture in a function or department.

That's what alignment is all about—making sure that each part of the organization has priorities and activities that align with the whole and optimally serve the enterprise. Actions not pointed in the right direction generate waste, can promote duplication of effort and, in the worst cases, can even work against the overall direction of the enterprise.

Achieving alignment is largely about communicating direction without micro-managing. Well-developed performance measures, cascaded from enterprise to function and department levels, are one of the most effective tools to achieve this special kind of communication. Your top-level enterprise measures become a guide for the level below in setting its measures—and so forth down the organizational structure. Done properly, this produces the alignment you need.

Processes. Accountability and alignment are the basic elements of getting your enterprise in order and focused on its true work. Is that all there is to it? Getting everyone accountable and working hard on the right things? Not quite. Your people may be working with dull tools.

Improving how the work is done is the third place to look for direct financial benefits from better performance measures. Appropriate measures of work processes (sometimes including throughput, cycle time, response time, waste, errors, rework, and similar variables) allow you to redesign and improve how work is done and know whether you are making any progress with these changes.

Practitioners of work process improvement say it can be applied to *every* kind of work, though not always in the same way. And the financial gains can be remarkable. By improving work processes, you produce more value for the same or less input cost. And your gains apply not merely to today's output, but to all future days on which you use the improved process. That's the power of work process improvement—rather than incremental 10% improvements, you can sometimes target 50%-100% improvements right away.

Suppliers. The fourth potential source of immediate benefit from stronger performance measures is suppliers. Supplier performance is perhaps the easiest place to apply performance measures to get more value for the same or less cost. And, with outsourcing on the increase, the ability to measure and manage value received will only increase in financial importance. Far too many firms measure only the cost side of a supplier's services and do not track the value received.

Of course, many vendors provide performance measures with their products or services. But, these measures are generally easy to collect, based on the activities performed by the vendor and, frankly, designed to make the vendor look good. In short, they may suit the vendor, but are seldom related your priorities and the *value* your business receives from the vendor. Would you be in a position to negotiate for more value and hold vendors accountable for performance if you had objective measures based on what you value in their performance? Of course. Would this bring a direct financial benefit? You bet.

Summing up. There are many places to look for direct connections between earnings and strong performance measures. The four we've outlined here can help you realize some of the strongest immediate financial returns.

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