

Performance management is the comprehensive set of activities followed to establish, implement and improve an enterprise business performance. It includes defining expectations and accountabilities, setting performance standards and performance measures, and assessing results. It is the centralized and coordinated management of performance measures to: obtain the benefits and control not available from managing them individually and, achieve the enterprise intended strategic objectives and benefits.

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## 7.1 Purpose of Performance Management

Performance management is build and developed within a “performance measures framework” that shows how each performance measure is related to other important measures within the enterprise. A performance measures framework itself is a more comprehensive hierarchical organization of performance measures that fit together according to a logical structure. A good performance measures framework provides enterprise business executives, managers, leaders and employees with visibility into how their local performance measures fit with the enterprise global performance measures. As such, it provides a “line of sight” that enables enterprise business executives, managers, leaders and employees to appreciate the linkages between what they are doing and what is important to the enterprise as a whole. A good performance measures framework also should not just depict the way an enterprise currently measures itself, but help predict future performance, so that better decisions can be made within the enterprise.

Within a performance measures framework, the purpose of performance management is not about filling out “template” scorecards. But it is about obtaining increasingly deeper understanding that will lead to progressively better actions to drive desired results, and then communicating that understanding throughout the enterprise through integrated performance measures so that everyone can execute in an integrated manner across the entire enterprise.

In other words, the purpose of performance management is to achieve continuously better (and deeper) understanding of how the enterprise intended strategy translates into desired outcomes and drivers of these outcomes, and then to find the best mix of performance measures that conveys strategic intent and integrates the organization to execute that intended strategy. Finding the best mix of performance measures is achieved through tradeoffs decisions. With an overall performance measures framework that shows the relationships between performance measures, it is easier to make the proper trade-off decisions, so that more optimal decisions can be made.

There is no single right way to develop and implement a performances measures framework. Commonly used performances measures frameworks are based on the “strategy map” approach, the four perspectives (Financial, Customer, Internal, Learning and Growth) of the balanced scorecard approach, or on the “performance prism” approach.

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## 7.2 The Balanced Scorecard

The origins of the balanced scorecard go back to a research project at the beginning of the 1990s carried out by Kaplan and Norton (1996). The aim of the project was to describe the essential ingredients of business success by developing a tool that would display, quantify and communicate all the performance measures which are important to a company’s success.

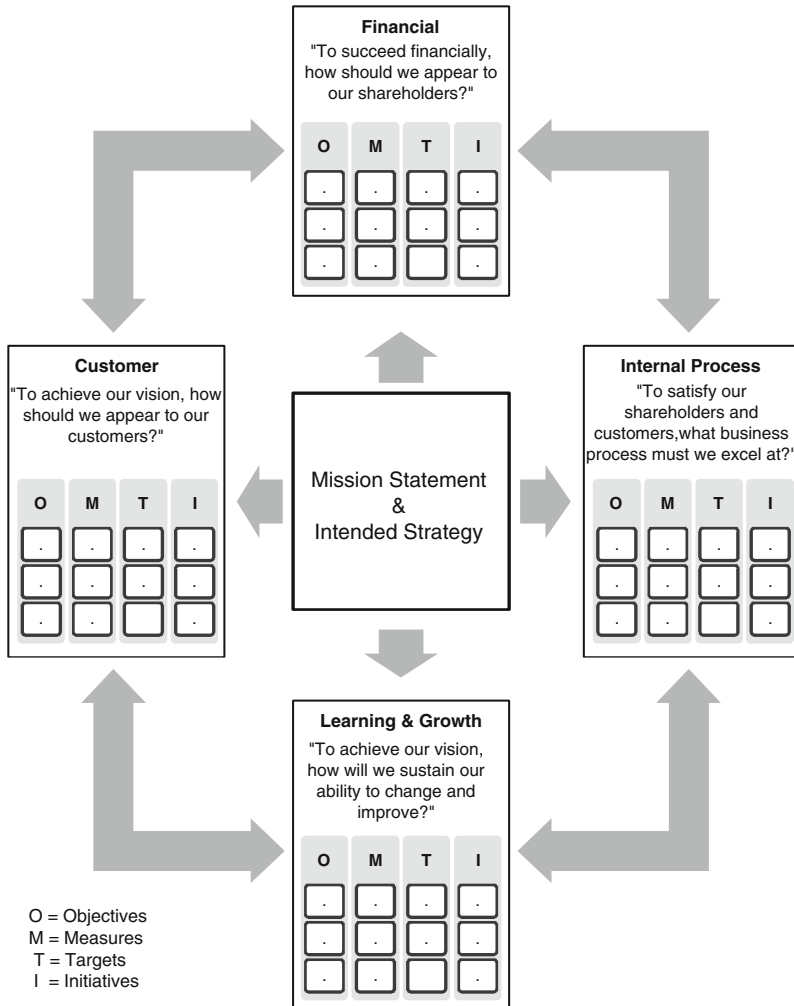
The tool developed, labeled the balance scorecard – which achieve widespread acceptance, is a set of performance measures that is balanced by having multiple perspectives or dimensions, including both financial and nonfinancial performance measures within an enterprise. As shown in Fig. 7.1, it balances the financial perspective with customer, internal, and learning and growth perspectives.

*Customer Perspective:* This perspective is concerned with performance measures which represent the customer expectation. When choosing performance measures for the Customer perspective of the Scorecard, a set of critical and challenging questions must be answered, amongst other:

1. Who are the enterprise business target customers?
2. What is the enterprise business intended strategy in serving them?
3. What do the enterprise business customers value, and what are they willing to pay for?
4. How do we know if we are truly delivering value to our customers?
5. How do we know if we are hitting the mark and dealing with problems before they become customer complaints?

The Customer perspective will normally include attributes of performance measures widely used today: customer satisfaction, customer loyalty, market share, and customer acquisition, for example.

*Internal Process Perspective:* This perspective of the Scorecard is concerned with performance measures related to the enterprise key processes and activities



**Fig. 7.1** Kaplan & Norton Balance Scorecard's four perspectives

that ultimately drive customer and financial performance. Key processes and activities, which are those having the biggest influence on customer satisfaction and the achievement of the enterprise intended strategy, often include: product development, production, manufacturing, delivery and support. The performance measures here focus on existing operations and will normally include attributes related to increase efficiency, quality, productivity, and reduce cost, and cycle time.

*Learning and Growth Perspective:* This perspective is concerned with the performance measures related to the capabilities and knowledge that the enterprise must built up to achieve the objectives stated in both customer and internal process perspectives. The performance measures in this perspective are the enablers of the

Customer and Internal Process perspectives. They are the foundation on which this entire Balanced Scorecard is built. Once performance measures and related initiatives in the enterprise Customer and Internal Process perspectives have been identified, there will certainly appear some gaps between the enterprise current organizational infrastructure of employee skills and information systems, and the level necessary to achieve the intended strategy. The performance measures defined in this “Learning & Growth” perspective must be developed to close the gaps and ensure sustainable performance for the future. Attributes of performance measures in this perspective often include: improve employee skills, increase employee satisfaction, and increase availability of information.

*Financial Perspective:* The financial perspective is concerned with performance measures related to the enterprise financial objectives. If an enterprise correctly implements the customer, the internal process, and the learning and growth perspectives, then the financial perspective will ultimately makes plain the economic consequences of enterprise activities by showing how well the expectations of equity holders are being met in terms of growth in profits, improvements in productivity or return on investment.

While many organizations have used a combination of financial and non-financial measures in the past, what sets the Balanced Scorecard apart is the concept of cause and effect linkages. The four perspectives of the scorecard are supposed to be causally related. Performance measures in the Financial and Customer perspectives are criteria of success on the outcomes that an enterprise wants to achieve; Performance measures in the Internal and Learning and Growth perspectives are criteria of success on how the organization intends to achieve these outcomes. While performance measures on financial outcomes measure the desired “final result,” the key is to use the drivers in the other perspectives to move the financials in the right direction.