

ONLINE FILE W3.2

Effective Performance Measurement

Neely et al. (2002) provided a good overview of the major processes involved in creating an effective performance measurement system. Included among the processes are the following steps:

- 1. Design.** This involves the definition and selection of measures. The key is to measure what is right, not what is easy.
- 2. Plan and build.** This encompasses the planning of the support systems (including data collection and presentation) and the introduction of the measures and the system into the organization. This stage requires organizational change and overcoming organizational inertia.
- 3. Implement and operate.** This involves actual management by fact, using measures to monitor and analyze what is going on in the organization and its environment.
- 4. Refresh.** This involves the ongoing refinement of the measurement system to ensure that the measures remain relevant with the organization's strategic direction.

Although the first step is supposedly the easiest, it may be the most crucial. If the measures are poor, then the remaining steps will be ineffective. Toward this end, Neely et al. (2002) provided a template that can be used to define the measures. The template is reproduced in Table W3.2.1.

After a measure has been defined, it can be judged against a set of criteria to determine whether it is good. Several lists of criteria are available for this purpose. Harbour (1997) coined the acronym *SMART*—for specific, measurable, action-oriented, relevant, and timely—to represent his list of criteria. Neely et al. (2002) offered a “ten measures design test” against which a measure could be compared. The tests were truth, focus, relevancy, consistency, access, clarity, so-what, timeliness, cost, and gaming.

TABLE W3.2.1 Measurement Template

| Measurement Property | Explanation |
|------------------------------|---|
| Name | What is it called, and is it understandable? |
| Purpose | Why is it being used, and what actions is it encouraging? |
| Relates to | What strategies does it support, and what other measures is it linked to? |
| Metric/formula | What is the actual measurement? |
| Target level(s) | What is the desirable level of performance? |
| Frequency | How often is the measurement made and reported? |
| Source of data | Where do the data come from? |
| Who measures | What are the name and function of the person responsible for collecting, collating, and analyzing the data? |
| Who acts on the data (owner) | Who—name and function—is responsible for ensuring the performance levels? |
| What do they do | How will the owner use the data, and what actions can he or she take to improve performance? |
| Notes/comments | |

Source: A. Neely et al., *The Performance Prism: The Scorecard for Measuring and Managing Business Success*, Financial Times Prentice Hall, London, 2002, p. 37.

References

Harbour, J. (1997). *The Basics of Performance Measurement*. New York: Quality Resources Press.

Neely, A., C. Adams, and M. Kennerley. (2002). *The Performance Prism: The Scorecard for Measuring and Managing*

Business Success. London: Financial Times Prentice Hall.