Performance measurement and control

- The control process – what and when to measure
- Human perspectives on control
- Control strategies

1. The control process

Control is the process of monitoring activities to ensure that results are in line with plan, and acting to correct significant deviations.

Then the process of control is intended to support the achievement of objectives at any level, from the individual to the company.

1. The control process

Managers design control systems for different organizational activities.

The process of control incorporates the activities shown in Figure.

Stages of control

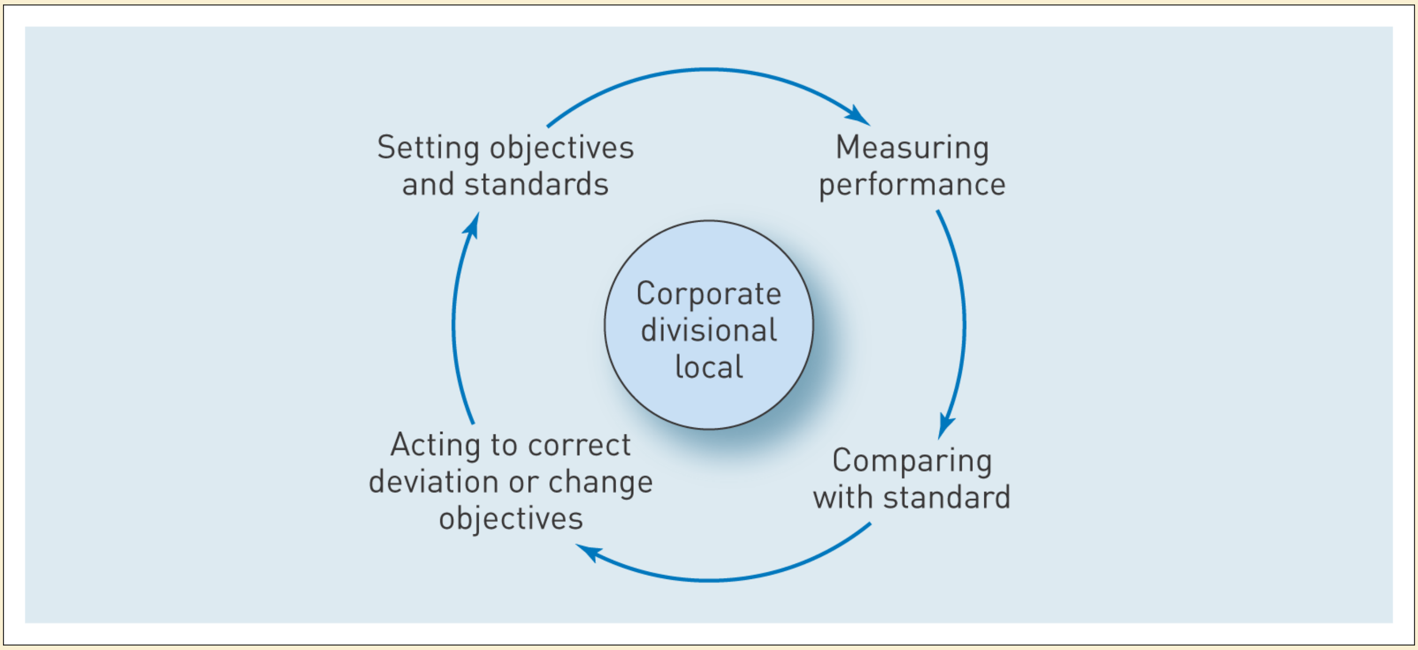

Figure 18.1 The control process

1. The control process

1.1. Setting objectives – what and when to measure

Objectives provide direction and a standard of performance to aim for. The standard will itself have an effect on its achievement – standards that are too high will be ignored as unattainable, while standards that are too low will artificially lower performance.

1. The control process

1.2. Measuring – the tools of control

Control requires that performance can be measured against a target.

Common sources of information for measuring performance: personal observation, oral reports, written reports and online information systems (combining them can give a more reliable picture of performance).

1. The control process

1.3. Comparing

This step shows the variation between actual and planned performance. There is bound to be some variation from the plan, so before taking action manager needs to know the acceptable range of variation (see figure).

Comparing

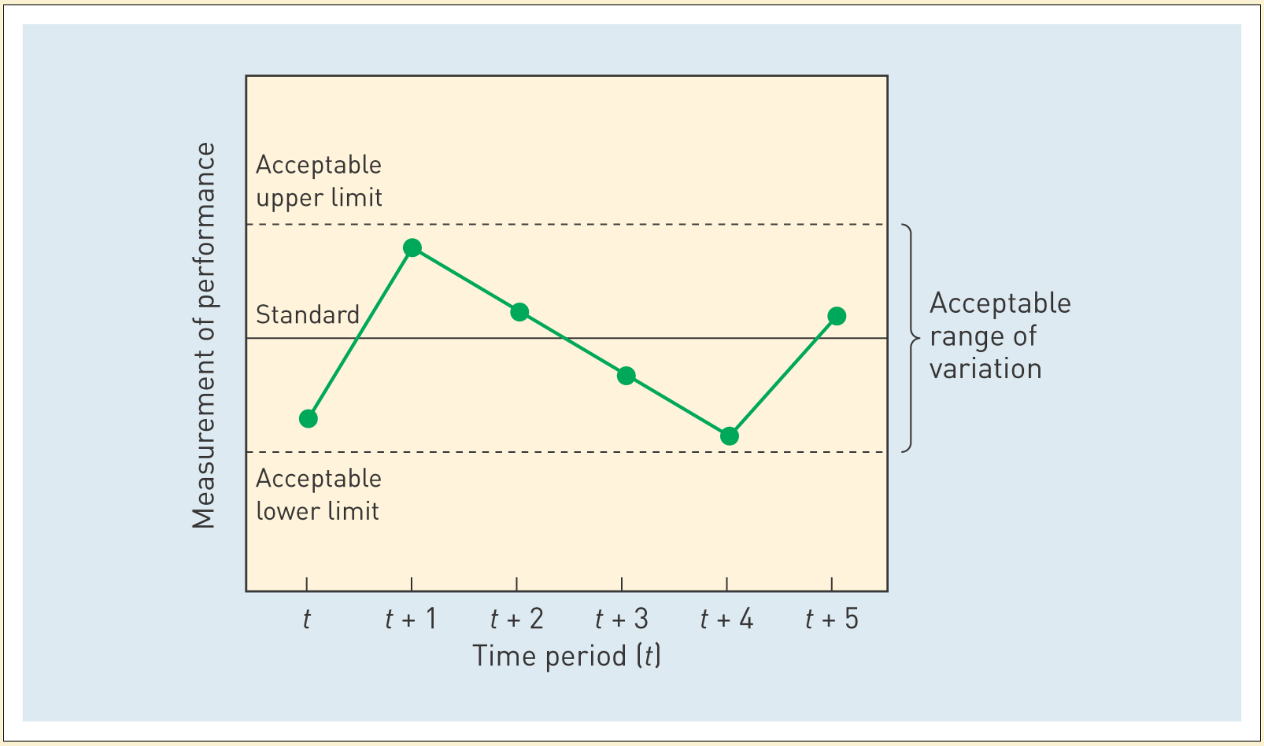

Figure 18.2 Defining the acceptable range of variation

1. The control process

1.3. Comparing

This step also implies searching for the causes of a significant variation, to increase the chance of an appropriate response.

1. The control process

1.4. Correcting

The final step is to act on significant variations from the plan – either to correct future performance or to revise the standard.

In this step it is possible to take some immediate corrective action that aims to correct problems at once to get performance back on track.

1. The control process

1.4. Correcting

It is also possible to take a basic corrective action that aims to understand the deeper source of performance failure, and tries to correct them.

Correcting

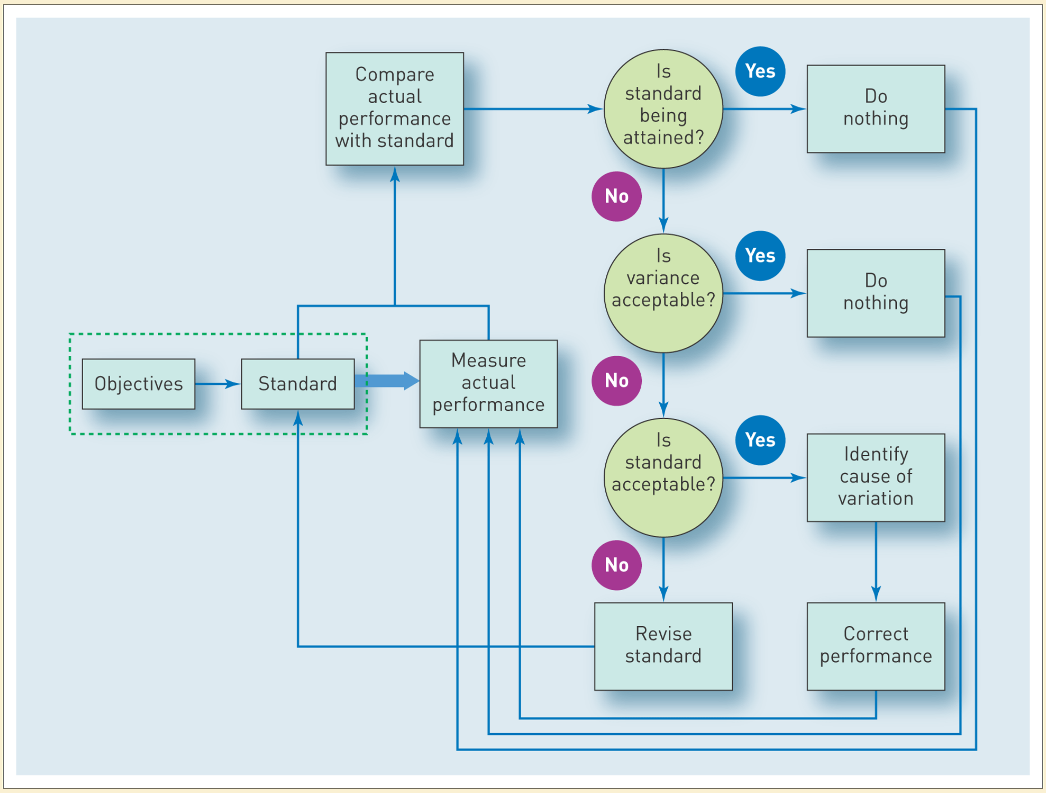

Figure 18.3 Managerial decisions in the control process

Source: ROBBINS, STEPHEN P., COULTER, MARY, MANAGEMENT, 8th Edition, © 2005, p.460. Electronically reproduced by permission of Pearson Education, Inc., Upper Saddle River, NJ.

2. What and when to measure

Senior managers typically set objectives and performance standards for the company as a whole for the following period, which others then use to set consistent objectives and standards for successively lower levels of the organization.

2. What and when to measure

A generic issue in control is to ensure that the measures chosen are consistent with the situation of the unit being measured.

Controls are likely to reflect strategy. Example, a company engaging a low-cost strategy will focus on different aspects of performance than one engaging a differentiation strategy.

2. What and when to measure

Choosing control measures reflects the manager's theory about those that are most suitable for the circumstances.

The most important model in this domain is Balanced Scorecard

2. What and when to measure

2.1. Balanced Scorecard

Kaplan and Norton (1992) noted that while traditional financial performance measures worked well for industrial era, they are out of step with the skills and competencies companies are trying to master today.

2. What and when to measure

2.1. Balanced Scorecard

Kaplan and Norton (1992) developed a research that enabled them to devise a balanced scorecard. This has a set of measures that gives managers a fast but a comprehensive view of the business.

2. What and when to measure

2.1. Balanced Scorecard

It includes financial measures that tell the results of actions already taken, and complements these with operational measures on customer satisfaction, internal processes and innovation and learning.

These measures drive future financial performance.

2. What and when to measure

2.1. Balanced Scorecard

It allows managers to view performance in several areas simultaneously, by providing answer to four questions:

1. How do customers see us? (customer perspective)
2. What must we excel at? (internal perspective)

2. What and when to measure

2.1. Balanced Scorecard

3. Can we continue to improve and create value? (innovation and learning perspective)
4. How do we look to shareholders? (financial perspective)

What to measure?

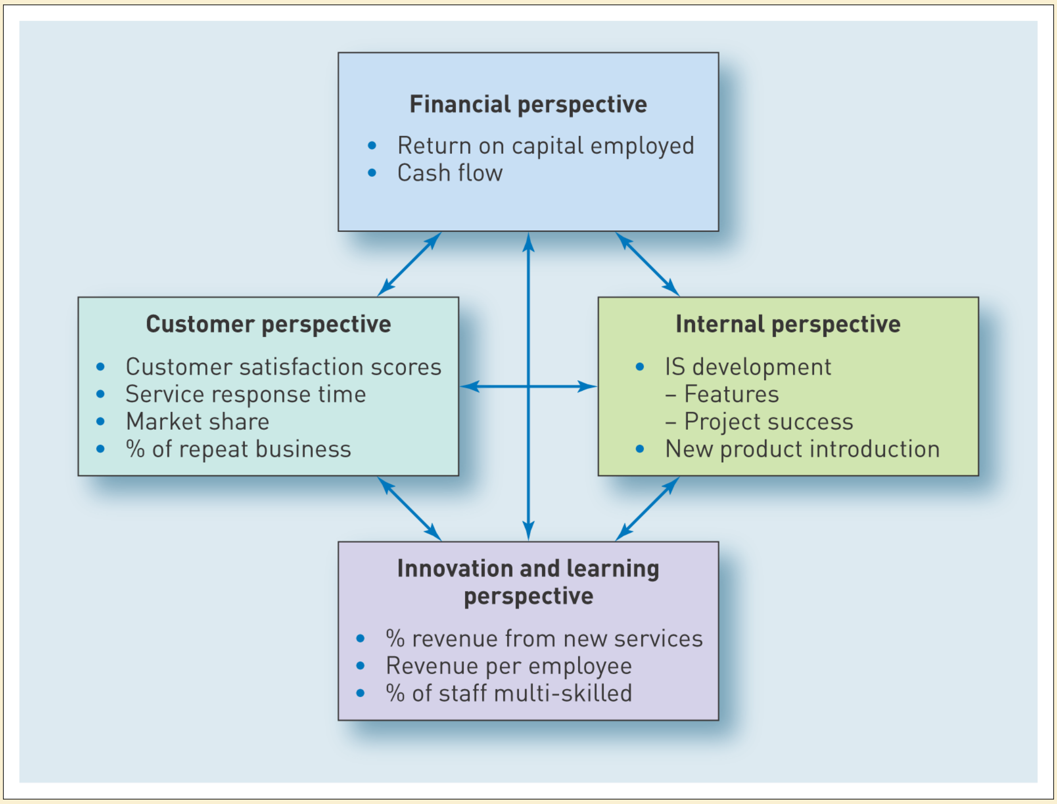

Figure 18.4 The balanced scorecard – an example

2. What and when to measure

2.1. Balanced Scorecard

It allows managers to view performance in several areas simultaneously, by providing answer to four questions:

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2. What and when to measure

2.1. Balanced Scorecard

3. Can we continue to improve and create value? (innovation and learning perspective)
4. How do we look to shareholders? (financial perspective)

2. What and when to measure

2.1. Balanced Scorecard

The Financial perspective is the strategy for growth and profitability viewed from the shareholders perspective, it congregates the efforts and results from each perspective, meaning that every indicator present in the BSC constitutes a cause-and-effect relationship whose ultimate impact is to improve the financial performance and attaining shareholder's interests.

2. What and when to measure

2.1. Balanced Scorecard

In the Customer Perspective, organizations define the strategic approach to reach the customers and markets, identifying how they want be recognized in the market and how they will deliver value to the customer.

2. What and when to measure

2.1. Balanced Scorecard

The Internal Process perspective is the area where managers focus their attention on the activities and critical internal process required to satisfy the customer and to achieve the financial objectives to satisfy the shareholders.

2. What and when to measure

2.1. Balanced Scorecard

The objectives established in the financial, customer, and internal business process perspectives identify where an organization must excel to achieve breakdown performance. The objectives in the learning and growth perspective provide the infrastructure to enable ambitious objectives in the other three perspectives to be achieved

2. What and when to measure

2.1. Balanced Scorecard

Kaplan and Norton (1993) advocate that companies spend time identifying, for each of the four measures, the external and internal factors which are important to them, and developing suitable measures of performance for these.

2. What and when to measure

2.1. Balanced Scorecard

For example, under the customer heading, they may believe that customers are concerned about time, quality performance, service and cost. They should therefore articulate goals for each factor, and then translate these goals into specific measures.