Foundation for Effective Performance Measurement System

A Technology & Business Quadrant Approach

K Srinivas Rao

Head Strategic Initiates (HR) Satyam Computer Services Ltd.
Research Scholar – XLRI Jamshedpur

Measurement Systems have evolved over a
period of time, but the battle for the effective one continues.
So what is a good and effective Measurement system? What are
constituents which are foundations of a good measurement system?
How do we align the ever growing needs of business and the
Complexities and compulsions of technology? These are some
of the questions which the paper has addressed.

Growth is back on agenda and with it the challenges of managing and sustaining it. Over the years CEO's have realized a robust system can not only facilitate growth but enable and sustain it. The question that arises is what the characteristics of this robust system are.

A robust system should be like an Advance Warning Systems. (Advance Warning Systems across the globe has successfully alerted us of the coming natural calamities and in many cases have even facilitated the gearing up for them proactively). Wakeup calls through advance warning systems are becoming very critical for damage control and disaster management as the stakes continue to get higher each day. The single point agenda / objective for a robust system is to enable business become FUTURE READY and also facilitate de-risking.

The Founding Pillars

Synergy between Business Orientation and Technology can enable any ordinary performance measurement to become effective. Since both of them have a spectrum scale (from 0 to 10) in terms of being Non Friendly and Complex to Friendly and Effective it becomes complex to ensure that the measurement system is oriented towards 10, 10.

Business Orientation is the ability of the measurement system to help CEO take decisions in complex situations because of simple and effective output. The scale spectrum of business orientation moves from Information (0) to Insight (10).

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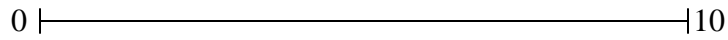
### Information   Insight

Scale 0 is where the Measurement System merely provides 'information' (current state) and nothing more than that, here the expectation is that the CEO would use his experience and exposure to analyze the information and derive meaning which will further enable him to take decisions. Whereas the other end of the spectrum is 'Insight' where in the measurement system analyzes the data and provides insights (trends, pattern etc.) which enable the CEO to take the right business decisions without detailed analysis from his/her side. The measurement system here is intelligent and self reliant and works as a data analysis body.

Technology is the other facet of the measurement system. Technology means both backend and front end for a measurement system. Backend is the algorithms and complex formulas which facilitate the analysis of the data and the front end is the way the data is represented either in terms of what kind of reports or how the reports should be displayed etc. It is this component of measurement system which produces output to help CEO take decisions in complex situations. The scale spectrum of Technology moves from Complex (0) to Simple (10).

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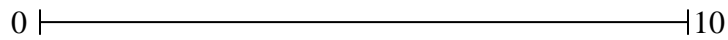
### Complex   Simple

Scale 0 is where the Measurement System is considered complex i.e. the system requires multiple manual interventions to feed in the data, the processing time is high and the results displayed are not user friendly at all, where the results displayed data needs further analysis and the biggest hindrance being that a specialist is required to operate this system. On the other end of the spectrum is Simple (Simplicity) where is system is user friendly and can be operated by anyone with minimum manual interventions. The output is simple to read and understand and enables up scaling or depth analysis based on needs.
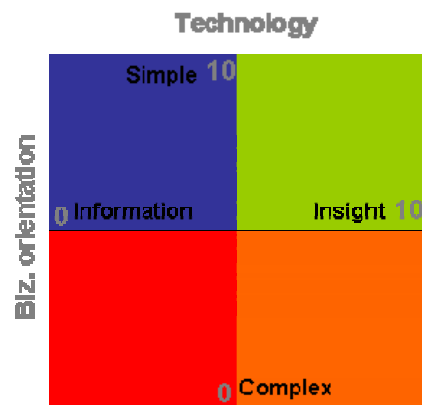
An integration of Business Orientation and Technology into 2x2 model will not help in identifying what will make a measurement effective but also help understand what could be the possible pitfalls. The four quadrants represent the four states of a measurement system. The (10, 10) state in the WoW Quadrant is the ideal state where the Technology is Simple and the measurement system provides insight to CEO's.

The other end of the spectrum would be (0, 0) state in the Drop Quadrant where the Technology is Complex and the measurement system only provides information. Such a situation doesn't help the CEO or the decision maker, this situation represents chaos and failure. The two situations which need improvements are (0, 10) and (10, 0). The (0, 10) situation i.e. the quadrants represent Simplicity in terms of Technology and Information in terms of Business orientation whereas the (10, 0) situation i.e. the quadrant represents Complexity in terms of Technology and Insight in terms of Business orientation.

When we view these quadrants from a CEO / End user perspective we can summarize the reactions in the following way. The (10, 10) is a Wow state for the CEO as the Technology is simple to use and the measurements facilitate in decision making as they provide the required Insights. The (0, 10) state is Improve for the CEO as the Technology is simple for the end user but the measurements merely provide the information and not insight. The (10, 0) state is Avoid even though the measurements provides Insight because the technology is very complex. This state can also be compared to the Improve state. The (0,0) state is best dropped because in here neither the technology facilitates as its complex nor does the output is effective as it is only information.

Technology

Improve	10	Wow
		10
Drop	0	Avoid

Biz. orientation
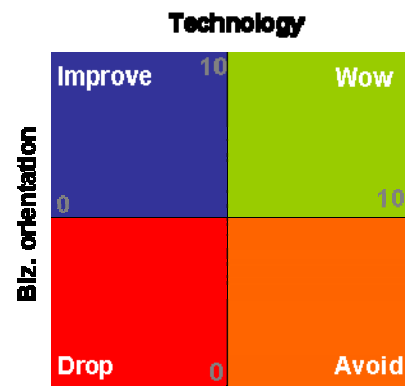
Any model would remain effective for a sustained period if it is founded on some strong basics / Principles. We explore 10 such dilemmas which can convert into principles.

- A Measurement System should **Reflect the Past or Prepare for the Future**

  A measurement system output (business orientation) should reflect the past alone (postmortem) or should be able to predict the trends of the future and prepare for it**.** Decision makers / CEO lay emphasis on the need to plan for the Future, analyzing the past is a need based activity and not a daily requirement.

So if a measurement system does more of Reflection of the past it would get mapped into the information quadrant whereas if it is tailored to prepare for the future it would get categorized in the Insight quadrant. Is it ok 2 slot past trends as information and not insights. For example, a measurement system should not alone give attrition data for the last 2 / 3 quarters but should be able to draw trends and provide insight into future attrition trends.

- A Measurement System should be **Detailed or Comprehensive**

One of the eternal battles has been whether a measurement system output (business orientation) should be detailed (few metrics but they are tracked in detail / depth even up to the tertiary level) or be comprehensive (wide scope / scale where multiple metrics are tracked and the same may not be tracked till the tertiary level). One way to best manage this situation is create a compendium of measures and then start attaching importance and urgency to each of these measures and thereby create a hierarchy, the top most being the critical ones.

A measurement system which focuses on the detailed component gets mapped to the Insight quadrant and the measurement system which is comprehensive in nature gets categorized into information quad.

- A Measurement System should be **Over Pessimist or Under Optimist**

Data can be represented multiple ways. It is a classic case of whether the measurement report states that the Glass is half empty and we should panic and sound high alert or the report states that the glass is half full and sends a cautious alert stating that there is a need to monitor that specific area.

A effective measurement is proactive by nature and should alert in advance. In such a scenario under optimism is better than over pessimism as under optimism creates a positive feel which facilitates radical thinking and leave room for exploration and experimentation where as in pessimism leads to reactive mode of thinking leaving little room for new thoughts and actions

- A Measurement System should be **Activity Measurement or Performance Measurement**

  What should get measured is very critical. Many a times the temptation to measure activities is high as they are easy to measure, the changes in their values is high and some regular flow of information is there. Where performance measurement requires complex work flows, detailed studies and lot of experience.

  An effective measurement should measure Performance and not activities. An activities measurement is the Information quadrant whereas Performance measurement is the Insight Quadrant.

- A Measurement System should measure **What I Want or what Business Demands**

  The measurement system should focus on immediate intermediaries (What I want) or should reflect and focus on What Business Demands (The long term strategic focus). An effective measurement system needs to focus on measures and trends demanded by business requirements than ones liked by the CEO.

  A measurement system with high focus on immediate intermediaries (What I want) and low focus on what business demands would represent the Information quadrant while the low focus on immediate intermediaries and high focus on what business demands would represent the Insight quadrant.

- A Measurement System should be **Self Driven / User Driven**

  Technology can be moulded in the shape we want. A technology that requires manual intervention (User Driven) is appreciative or the technology which runs by itself with minimum interference / participation. An effective measurement system is one which works on with minimum interference / participation i.e. Self Driven

  A measurement system which is Self Driven is easy to operate as it enables a non technologist also to be effective, thus reflecting the spirit of the Simple quadrant whereas the system which requires active participation moves into the complex quadrant. The measurement system should be effective to not just give information but provide insights with minimal user intervention.

- Technology of the Measurement System should accommodate **Too many for too few or Too few and too many (2 rephrase)**

Technology enables exploring any field to great lengths and thereby creating opportunities to learn about new facets and also creating threat of losing focus. To what extent technology should facilitate the drilling of data is something which will not only determine to what extent the base data needs to be collated but also will determine how many parties and applications need to be involved and integrated.

The greater the number of applications involved / integrated the Complex the measurement system would become leading it into the Complex technology Quadrant. In larger organizations this would become inventible but utmost care need to be taken to reduce the manual interventions and to ensure that the reliability and stability of one application doesn't impact the other one.

- Measures should be **Cast in stone or Dynamic**

Identifying measures is a tedious assignment as they need to be tested and validated from multiple stakeholders' perspective and an impact analysis of each one of them is mandatory. But once identified whether these measures remain in the measurement system as cast in stone or do they die after sometime like stars. Measure need to be dynamic in nature and should die and reborn based on the business requirement rather than be cast in stone.

An effective measurement system which is Insightful will have measures which are relevant to business.

- Measurement System should be **Technology driven or Methodology based**

Measurement systems which get trapped in technology and that are build to exploit the technology prowess more than the requirement of business often tend to become complex to operate. Measurement systems which sacrifice or ignore the methodology aspect to benefit technology also run into such trap besides making the system vulnerable by throwing up wrongful indicators.

Methodology should drive technology rather than vice versa is the secret of a sustained and effective measurement system. For eg. We can't compromise on methodology of

representing by pie-chart the shareholding of an individual and represent it by bar chart for technology reasons as the bar chart would not serve the insight needs of the user. Purely Technology driven system reflect the complex quadrant.

- Measures should be **Self Sufficient or Aligned**

Measures are self sufficient in themselves and many times provide great depth in understanding an problem. So is it necessary that we should create an alignment among these self sufficient measures or leave them alone as independent entities. An effective measurement system should create an environment of 'Collective independence' where in measures don't let go off their identity but at the same time converge to reflect the business goal.

An aligned convergent measurement system is effective as it provides comprehensive insights into the business which enables faster, quicker decision making for a CEO.

Conclusion

Collating all these factors into the four quadrants facilitates in building a check list for building a effective measurement system. Though this checklist may not be comprehensive enough it definitely highlights the core issues and also lays a path for future research and debates on this topic.

Technology

	10	• Prepare for the future
		• Detailed
		• Under Optimist
• Comprehensive		• Performance Measurement
• Over Pessimist		• What I Want
• What Business Demands		• Real Time
		• Too Few and Too Many
		• Dynamic
		• Methodology
0		• Aligned 10

Biz. orientation

• Reflect the Past	• Active
• Activity Measurement	• Too Many for Too few
• Cast in Stone	• Self Sufficient
• Technology Driven	
	0