Chapter 03: Section 01 and 2

# Introduction to performance management

# Section 01: financial and non-financial performance measures

# 1. Features of effective performance management system

1. **System Architecture:** measurement, alignment, feedback, and stakeholder engagement
2. **Strategic Alignment**
3. **Measurement Effectiveness:** selecting balanced portfolio of performance indicators. (Financial and non financial, lagging and leading)
4. **Organisational Coherence:** unite different departments and functions around shared objectives

# 2. SMART Features of Objectives



1. Specific
2. Measurable
3. Achievable
4. Relevant
5. Time-bound

- **Specific:** The focus will be on reducing fabric wastage costs.
- **Measurable:** The current fabric wastage cost is Rs. 500,000 per month. The goal is to reduce this by 10%.
- **Achievable:** A 10% reduction is considered challenging but possible with new cutting process controls.
- **Relevant:** Reducing costs directly contributes to BlueGem Textiles' overall profitability goal.
- **Time-bound:** The target should be achieved by the end of the next quarter (Q3).

# 3. Distinguishing KPI from standard matrix

A metric measures an activity; a KPI measures performance against a CSF. For example, a logistics company pursuing a strategy of Operational Excellence would identify ’Punctual and Accurate Delivery’ as a CSF.

- Metric: Total number of deliveries made.
- KPI: On-time, in-full delivery rate (target: 98.5%)

# 3. Building a balance kpi portfolio

- **Strategy: Cost Leadership (e.g., a budget airline)**
  - **CSF:** Asset Utilisation.
  - **KPI:** Aircraft turnaround time (target: < 25 minutes).
- **Strategy: Customer Intimacy (e.g., a luxury hotel)**
  - **CSF:** Personalised Guest Experience.
  - **KPI:** Percentage of repeat guests (target: 60%).
- **Strategy: Product Innovation (e.g., a tech company)**
  - **CSF:** Speed to Market.
  - **KPI:** Average time from concept to launch (target: < 9 months).

# Section 02: Balanced Scorecard as a Performance Management Technique

# 1. Balanced Scorecard



- **The Financial Perspective:** Examines the ultimate measures of shareholder value and financial outcomes.
- **The Customer Perspective:** Assesses the value proposition delivered to target markets and customer satisfaction.
- **The Internal Business Process Perspective:** Identifies the critical operational processes that deliver customer value.
- **The Learning and Growth Perspective:** Evaluates the foundational capabilities, skills, and systems that enable all other performance.

# Section 03: Performance Management Techniques, Linkages and Performance Improvement role

# 1. Types of benchmarking



- **Internal Benchmarking:** Comparing performance between departments or divisions within the same organization to identify and share existing best practices.
- **Operational and Generic Benchmarking:** Examining specific processes against best-in-class organizations regardless of their industry to enable cross-sector learning.
- **Competitive Benchmarking:** Directly comparing performance against key market rivals to assess competitive position and identify performance gaps.
- **Strategic Benchmarking:** Analysing the business models and high-level strategies of world-class organizations to guide major organizational transformation.

# 1. Types of benchmarking



| Benefits and Limitations of Internal Benchmarking | | |
|---|---|---|
| **Dimension** | **Benefits (Pros)** | **Limitations (Cons)** |
| High Data Availability | Data is readily accessible and definitions can be standardised, ensuring valid comparisons. | **Internally Focused:** Can lead to complacency if the best internal practice is still below the industry average. |
| Low Cost and Complexity | Relatively inexpensive and quick to implement compared to external methods. | **Limited Innovation:** Unlikely to lead to breakthrough improvements as it relies on existing knowledge. |
| Fosters Collaboration | Encourages knowledge sharing and breaks down internal silos. | **Risk of Stagnation:** May perpetuate inefficient, industry-wide practices without external challenge. |
| Easy Implementation | Findings are often easier to implement as they come from within the same organisational culture. | **Internal Politics:** Comparisons can create friction or unhealthy competition between departments. |

**Table 3.1.1:** Benefits and Limitations of Internal Benchmarking

# 1. Types of benchmarking



| Benefits and Limitations of Operational Benchmarking | | |
|---|---|---|
| **Dimension** | **Benefits (Pros)** | **Limitations (Cons)** |
| **High Potential for Innovation** | Introduces new ideas and challenges the "we've always done it this way" mindset. | **Difficulty in Transferability:** Practices from different industries may be difficult to adapt to a new context. |
| **Avoids Competitive Issues** | Partners are non-competitors, making them more willing to share detailed information. | **Finding Partners:** Identifying and securing cooperation from suitable best-in-class organisations can be challenging. |
| **Overcomes Industry Myopia** | Provides solutions to problems that an entire industry may be overlooking. | **Resource Intensive:** Requires significant effort to research partners, abstract principles, and manage adaptation. |
| **Focuses on Process Excellence** | Targets specific operational areas for significant, measurable improvement. | **Risk of Poor Comparison:** Comparing dissimilar processes ("apples and oranges") can lead to flawed conclusions. |

**Table 3.1.3:** Benefits and Limitations of Operational Benchmarking

# 1. Types of benchmarking



| Benefits and Limitations of Competitive Benchmarking | | |
|---|---|---|
| **Dimension** | **Benefits (Pros)** | **Limitations (Cons)** |
| **Provides Market Context** | Directly answers the question "Are we better or worse than our rivals?" | **Data Acquisition Challenges:** Competitor data is often confidential, incomplete, or difficult to obtain reliably. |
| **Identifies Competitive Gaps** | Clearly highlights areas of strategic strength and weakness relative to the market. | **Risk of "Copycat" Strategy:** Can lead to a reactive focus on matching competitors rather than innovating. |
| **Sets Realistic Targets** | Helps establish performance targets that are relevant to the competitive environment. | **Ethical and Legal Issues:** Data gathering must be conducted carefully to avoid illegal or unethical practices. |
| **Informs Strategic Positioning** | Provides essential data for decisions on pricing, product development, and market strategy. | **Can Be Expensive:** Purchasing third-party market research and competitive intelligence reports can be costly. |

**Table 3.1.4:** Benefits and Limitations of Competitive Benchmarking

# 1. Types of benchmarking



| Benefits and Limitations of Strategic Benchmarking | | |
|---|---|---|
| **Dimension** | **Benefits (Pros)** | **Limitations (Cons)** |
| **Transformative Potential** | Can lead to fundamental business model innovation and new sources of competitive advantage. | **Most Expensive and Complex:** Requires significant investment in time, resources, and senior management attention. |
| **Strategic Orientation** | Proactive and forward-looking; helps organisations anticipate and adapt to future market disruptions. | **Highly Conceptual:** Insights are high-level principles that are difficult to translate into concrete actions. |
| **Organisational Impact** | Challenges core assumptions and forces a fundamental rethink of the organisation's strategy and value proposition. | **Long Time Horizon:** The benefits of strategic transformation may take years to be fully realised. |
| **Strategic Breadth** | Broadens strategic options by introducing successful models from outside the industry's conventional wisdom. | **High Risk of Failure:** Implementing fundamental business model changes is inherently risky and complex. |

**Table 3.1.6:** Benefits and Limitations of Strategic Benchmarking