Measurement Frameworks

The frameworks highlighted in this article guide organizations toward measurement that makes an impact

When measurement systems are developed appropriately, they become a business management model organizations can use to make sound decisions and improve performance. When successfully implemented, measures:

- focus the enterprise on what is important (desired behaviors and outcomes),
- link strategy and tactics,
- help assess performance against a baseline,
- provide feedback that guides change, and
- supply support for business cases.

Today, organizations seek to achieve the those successful characteristics by first establishing a measurement framework that links measures to strategy, goals, and objectives and cascades down the organization to align goals and anchor accountability at every level (Figure 1).

Performance Measurement Model (PMM)

PMM:	Becomes:	When applied to:
Strategy, Goals, and Objectives	Strategic	Organization Performance
	Operational	Group Performance
	Tactical	Individual Performance

Figure 1

Measurement frameworks are critical for linking organizational objectives to the business unit and individual levels. They ensure that everyone understands not only how roles align with organizational objectives, but also how each unit and individual contributes to the outcomes. The end result is a scorecard that provides a strategic framework, organizational alignment, and balanced measures that link to critical success factors and can be aggregated to draw meaningful conclusions.

Some measurement frameworks that can help organizations set up actionable and aligned measurement systems are the balanced scorecard, the family of measures concept, and APQC's

Input-Output Measurement Framework™ (Figure 2). Each of these measurement frameworks, whether used individually or in support of another, provides structure for organizational measurement. These frameworks enable an organization to focus its efforts; develop communication plans that use consistent definitions; choose an aligned set of performance targets based on validated, normalized data; and implement a collective, diagnostic tool to identify areas for improvement and set priorities.

BALANCED SCORECARD

Ideally, measures should be reflected in a balanced, cascading scorecard. A balanced scorecard helps to align measures with key strategies, enable progress tracking, assign accountability, capture gains already made, predict future movement, and connect current strategic and tactical improvement activities. Organizations can achieve this balance by establishing measures in four quadrants that reflect key objectives.

1. **Customers**—measures performance against expectations (e.g., satisfaction, loyalty, retention, acquisition, and profitability)
2. **Financial**—measures economic consequences of actions already taken (e.g., income, return on equity, return on investment, growth, and cash flow) and predicts future performance
3. **Operational**—measures effectiveness, adaptability, and efficiency of internal processes (Such measures may identify a need for new processes.)
4. **People**—measures employee skills, information exchange, and organizational procedure

The key is that organizations engage in thoughtful and thorough analysis to determine not only the best measures that truly affect these balanced domains, but also the weight and precedence assigned to each category based on organizational priorities.

FAMILY OF MEASURES

The family of measures framework focuses on a cluster of measures that should track at least four of the following process variables: productivity, quantity, quality, timeliness, cycle time, resource utilization, or costs. For each characteristic, condition, or variable (i.e., a critical success factor), a process measure can be identified as a reference standard for quantitative comparison. Two examples follow for the customer complaint handling process.

1. Category: Cost
   Critical success factor: Complaint handled efficiently
   Process measure: Cost per complaint, percentage of total budget, etc.
2. Category: Quality
   Critical success factor: Call resolution
   Process measure: Volume of calls resolved within first call or x timeframe from inception of call (durational)

APQC'S INPUT-OUTPUT MEASUREMENT FRAMEWORK

APQC's Input-Output Measurement Framework (Figure 2) is yet another means of presenting a snapshot of an organization's performance. It:

- provides strategic alignment throughout the organization,
- is based on a cluster of measures,
- has quadrants defined based on the organization's needs,
- converts inputs to outputs,
- identifies core processes,
- aligns with business outcomes, and
- balances internal and external focus.

APQC's Input-Output Measurement Framework

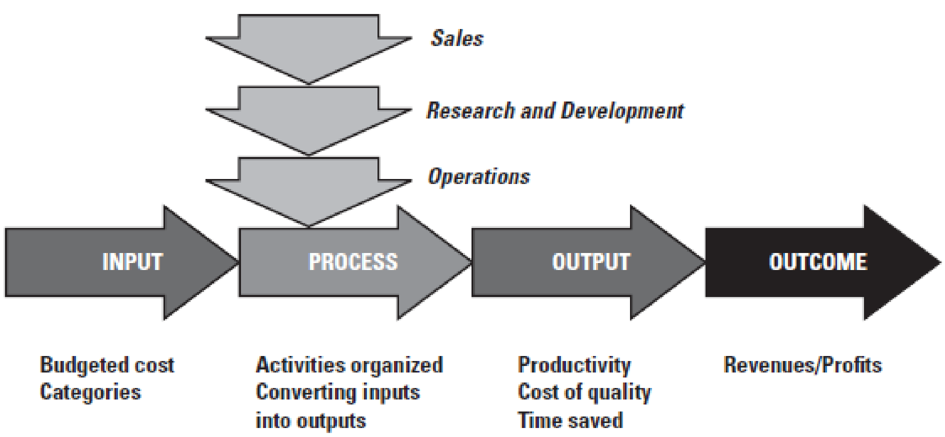

Figure 2

This model focuses on the core processes of an organization, which are linked to outcomes. It defines core processes that convert inputs to outputs by aligning the key activities with business outcomes. For example, in a sales process, the framework converts budgeted cost categories such as labor (input) into negotiating and closing sales (activities), which leads to closed sales (output) and increased revenue (outcome).

The bottom line is that organizations must select a measurement framework that presents a balanced picture of organizational performance. Mark Graham Brown—an APQC special adviser, former Baldrige examiner, and author of several books about Baldrige and the balanced scorecard—says, "The reason so many organizations have become interested in the balanced scorecard approach to measurement is that they have found that their traditional lagging indicators of financial performance do not provide an adequate view of the overall health of the enterprise. Companies have shut their doors with good sales and profits until the day they went out of business." Clearly, measuring earlier stages of processes is critical.

When asked to identify the type of performance management system that best describes those used in their organizations for a recent APQC survey, respondents most commonly reported employing a hybrid measurement framework, defined as "a custom mix of measurement practices designed to fit the specific needs of the organization" (Figure 3). Twenty-eight percent use a balanced scorecard, but a discouraging 24 percent are still stuck with traditional accounting/operational metrics.

Type of Performance Measurement System Used

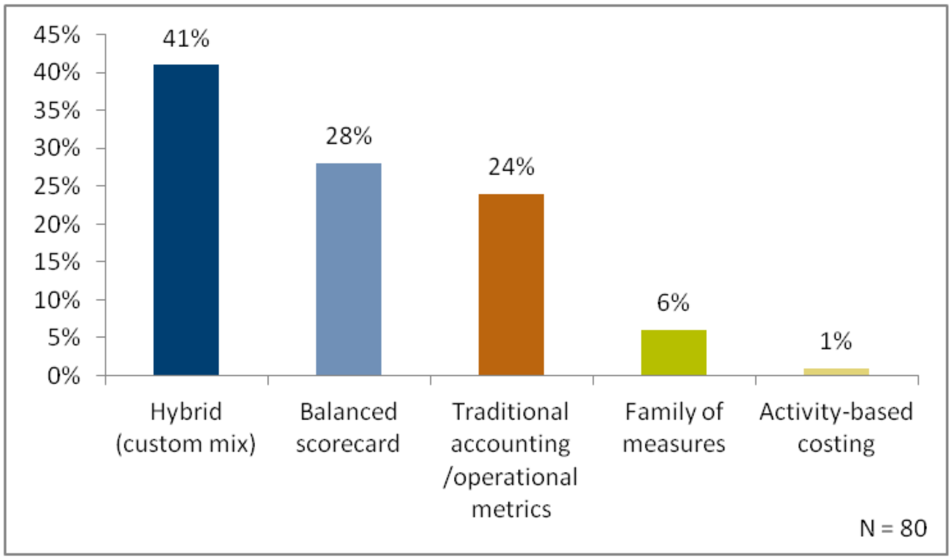

Figure 3

Forty-one percent of respondents reported that their current systems have been used for more than six years. Fifty-two percent indicated that they have plans to change or upgrade the current performance measurement system.

Importantly, when asked if their measurement systems are used in decision making, 70 percent of the survey respondents reported that "metric data is routinely used at the top of the organization in key decision making, both for routine reviews and special projects and investments." Ten percent said that "measures are used at the top level only in the event of major unplanned change."

For more information on measurement, read APQC's white paper Measurement: Best Practice Approaches for Informed Decision Making.

If not for routine use to understand and act upon business performance, then what is the basis for measuring? Measurement systems should be part of proactive efforts, not simply reactive response tools.

ABOUT APQC

APQC is the leading resource for performance analytics, best practices, process improvement, and knowledge management. The organization's research studies, benchmarking databases, and renowned Knowledge Base provide managers with intelligence to transform their organizations. A member-based nonprofit founded in 1977, APQC serves Global 1000, government, and nonprofit organizations. For information, visit www.apqc.org or call +1-713-681-4020.