

Measuring Performance: What You Need To Know?

Author: Milton Jack . November 2020

Performance management is an ongoing process of communication between a supervisor and an employee that occurs throughout the year, in support of accomplishing the strategic objectives of the organization. The communication process includes clarifying expectations, setting objectives, identifying goals, providing feedback, and reviewing results. From the definition alone one can pick out an advantage in that performance management is an ongoing process thus it can address the shortcomings of RBM in that it allows for flexibility and adaptability when it comes to task execution and goal achieving, unlike RBM which waits to measure results at the end of a project.

Thus if there are changes because of the VUCA environment performance management allows for quick response and adaptability. Therefore overseeing performance and providing feedback is not an isolated event, focused on an annual performance review. It is an ongoing process that takes place throughout the year. The Performance Management process is a [cycle](#), with discussions varying year-to-year based on changing objectives.

MEASURING PERFORMANCE

Knowing how the different areas of a business are performing can help one to assess where their business is strong, where it is weaker and factors one can change for the better. This should help individuals to manage their performance proactively and efficiently.

- Its customers – for example, how many you have, how often they use you, and how many customers you have lost or gained
- customer service – for example waiting times for assistance, complaints, or reasons customers have complained
- market share – for example, whether your share of the market increased or decreased against competitors
- Its staff – for example, satisfaction levels, work quality, or attendance records

What is performance measurement?

Performance measurement is the process of collecting, analyzing, and/or reporting information regarding the performance of an individual, group, organization, system, or component (Behn, 2003). Moullin (2002), defines the term with a forward-looking organizational focus—"the process of evaluating how well organizations are managed and the value they deliver for customers and other stakeholders". Neely et al. (2002), use a more operational retrospective focus: "the process of quantifying the efficiency and effectiveness of past actions".

1. *Measuring your financial performance*

Business success can depend on developing and implementing sound financial and management systems. Many businesses fail because of poor financial management or planning. A review of organizational financial performance can help reassess its business goals and plan effectively for improving the business. When conducting a financial review of a business, one might want to consider the following:

- **Cashflow** - this is the balance of all of the money flowing in and out of your business. You should ensure that your forecast is regularly reviewed and updated.
- **Working capital** - have your requirements changed? If so, research the reasons for this movement and assess how this compares to the industry standard. If necessary, take steps to source additional capital.
- **Cost base** - keep your costs under constant review. Make sure that your costs are covered in your sale price - but don't expect your customers to pay for any business inefficiencies.
- **Borrowing** - what is the position of any overdrafts or loans? Are there more appropriate or cheaper forms of finance you could use?
- **Growth** - do you have plans in place to adapt your financing to accommodate your business' changing needs and growth?

1. Performance measurement and your customers

Finding and retaining customers is a crucial task for every business. So when looking for areas of a business to start measuring and analyzing, it's worth asking oneself if you know as much as possible about your customers.

Customer feedback is essential - the more you know about what your customers think and want, the easier it will be to handle increased numbers of customers. One needs to look for as many ways of capturing this information as possible, including:

- **sales data** - what your customers choose to buy (or not to buy) provides the clearest indication of their preferences
- **complaints** - but remember that many customers will simply switch suppliers before making a complaint
- **questionnaires and comment cards** - a very useful source of information, so consider using incentives to encourage more customers to complete them
- **mystery shopping** - having someone pose as a customer for research purposes can give a very clear sense of how well you are performing
- **social media** - this is a useful way of gaining customers' feedback. However, if you receive negative feedback from a customer, it can work in your favor if you deal with the customer's comments. It shows that you care about your customers.

Asking customers for feedback helps to identify where improvements can be made to your products or services, your staffing levels, or your business procedures.

1. Performance measurement and your employees

As businesses grow, the number of people it employs is likely to increase. To keep on top of how the staff is doing, there is a need to find more formal ways of measuring their performance.

1. Measuring through meetings and appraisals

Informal meetings and more formal appraisals provide a very practical and direct way of monitoring and encouraging the progress of individual employees. They allow frank exchanges of views by both sides and they can also be used to drive up productivity and performance through setting employee targets and measuring progress towards achieving them.

Organizations should consider annual employee appraisals to monitor how an employee is developing and to get feedback on their opinions of the business. Regular staff meetings can also be a very useful way of keeping tabs on wider developments across a business. These meetings often give an early indicator of important concerns or developments that might otherwise take some time to come to the attention of the management team.

1. Quantitative measurement of employee performance

Looking at employee performance from a financial perspective can be a very valuable management tool. At the level of reporting for the overall business, the most commonly-used measures are sales per employee, contribution per employee, and profit per employee. These measures shouldn't be thought of as an alternative to the broader appraisals outlined above but can flag up issues that might later be explored in more detail in those meetings.

Expressing employee performance quantitatively is easier for some sectors and some types of workers. For example, it should be quite easy to see what kind of sales an individual salesperson has generated, or how many units manufacturing employees produce per hour at work. But with a bit more effort, these kinds of measures can be applied in almost any business or sector. For example, using timesheets to assess how many hours an employee devotes each month to different projects or customers under their responsibility gives you a way of assessing what the most profitable use of their time is.

1. *Benchmarking your business performance*

Benchmarking is a valuable way of improving the understanding of a business's performance and potential by making comparisons with other businesses. It is usually helpful to compare yourself against businesses in the same sector. However, your market position and your objectives, among other things, will affect the specific comparisons you want to make. You can also benchmark internally within your business. For example, comparing absenteeism rates between departments may enable you to spread good working practices from the best-performing areas of your business.

In general, the same rule applies to benchmarking as to choosing which performance measures to use. An organization should focus on those areas that drive business success in its sector - its key drivers. Benchmarking data should be used in the same way as any other performance measurement data generated - to drive improvement in the way a business operates.

TOOLS FOR MEASURING PERFORMANCE

There are many, many performance management tools designed to make the process easier and more effective. Below are some of the most common tools:

1. Key performance indicators (KPIs) and metrics

KPIs and metrics provide a way to measure how well companies, business units, projects, or individuals are performing in relation to their strategic goals and objectives (Bernard Marr, 2020). But the primary value of KPIs is not in measurement per se, but in enabling rich data-driven performance conversations and better decision making. Measuring everything that moves provides little more than an illusion that performance is being managed. Instead, it's important to ask, "What goal will this KPI help my organization achieve, or what problem will it resolve?" and "What decisions will the KPI help drive?" Well-designed KPIs should be vital navigational instruments, giving a clear picture of current levels of performance and whether the business is where it needs to be (Boris & Kopczynski, 2013).

1. Performance appraisals

Alongside KPIs, performance appraisals are probably the most commonly used performance management tool. When used properly, performance appraisals are incredibly powerful for aligning the goals of individuals with the strategic aims of the organization. To get the most out of this tool, however, employees must feel that the appraisal process is a regular, honest, fair, and constructive two-way conversation. If not, appraisals can be a powerful de-motivator, leading to a decline in performance (Boris & Kopczynski, 2013).

1. 360-degree feedback

This tool is all about answering the question, "How well are our people performing in the eyes of those who have a stake in their performance?" It provides individuals with a broad assessment of their performance based on the views of those around them, including their supervisor or manager, direct reports, peers, customers, suppliers, and so on (Boris & Kopczynski, 2013). Results are confidentially tallied and presented to the employee, usually by a manager. The insights from 360-degree feedback are typically used in employee training and development. Done well, 360-degree feedback helps to democratize the review process, by weighing the opinions of many people, instead of just the individual's line manager.

1. Management by objectives (MBO)

MBO is the process of defining specific objectives and then setting out how to achieve each objective (Neely, Adams and Kennerley, 2002). It's particularly powerful for specific work that needs to be done one step at a time and is a great way to create a culture of working towards common goals (Neely, Adams and Kennerley, 2002). The idea is that, as each objective is achieved, those within the organization are aware of their achievements, which, in turn, boost morale and motivation. MBO involves measuring individual performance and comparing it with standards that have been set.

1. Performance management frameworks

Without a doubt, one of the most popular and best-known management frameworks is the Balanced Scorecard (BSC). Voted one of the most influential business ideas ever presented in the Harvard Business Review, the BSC has been massively popular over the last 20 years. The BSC is a strategy execution tool that helps companies to 1) clarify their strategy and communicate their business priorities and objectives; 2) monitor progress by measuring to what extent priorities and objectives are being delivered; and 3) define and manage action plans to ensure initiatives are in place to deliver the business's priorities and strategic objectives (Kaplan and Norton, September 1993).

1. Reward and recognition programs

When employees feel that good performance goes unrecognized and unrewarded, motivation plummets, and people disengage from the company's overall mission (Boris & Kopczynski, 2013). Reward and recognition programs are therefore an important part of any thorough performance management system, creating a method for celebrating those who are high performers (Boris & Kopczynski, 2013). For many companies, this means dishing out financial rewards, such as bonuses, but simple praise and recognition of a job well done is just as important for maintaining morale and continued high performance.

1. Personal development plans (PDP)

A PDP is effectively a tailored action plan that is based on reflection and awareness of an individual's performance and needs, setting out goals for future performance and actions that will support personal development (Neely, Adams and Kennerley, 2002). PDPs are often used to identify specific training and development needs and create an action plan for meeting those needs (for example, through specific courses or shadowing other employees). It helps individuals set out how they want to grow, and what actions they can take to achieve that growth. This not only helps the individual feel more invested in the company, and the role they play in its success, it also identifies concrete steps that can help drive individual performance in the future (Neely, Adams and Kennerley, 2002).

Conclusion

Performance measurement is not an end in itself. As part of an organization's overall management strategy, management can use performance measures to evaluate, control, budget, motivate, promote, celebrate, learn, and improve within the organization. Investing in or developing performance management tools, techniques, and processes like those mentioned in this article is an important part of creating a culture of high performance. And that is exactly what every business, regardless of size, in every industry, should be aiming for – strong performance at every single level of the organization.

Milton Jack is a Business Consultant at Industrial Psychology Consultants (Pvt) Ltd, a business management and human resources consulting firm.

LinkedIn: [linkedin.com/in/milton-jack-9798b966](https://www.linkedin.com/in/milton-jack-9798b966)

Phone: +263 242 481946-48/481950

Mobile: +263 774 730 913

Email: milton@ipccconsultants.com

Main Website: www.ipccconsultants.com

<https://thehumancapitalhub.com/articles/Measuring-Performance-What-You-Need-To-Know>