

A Brief Guide for Determining Performance Measures



ALIDADE INC

Developing a Performance Management Process

start with, break down and translate strategy into meaningful objectives

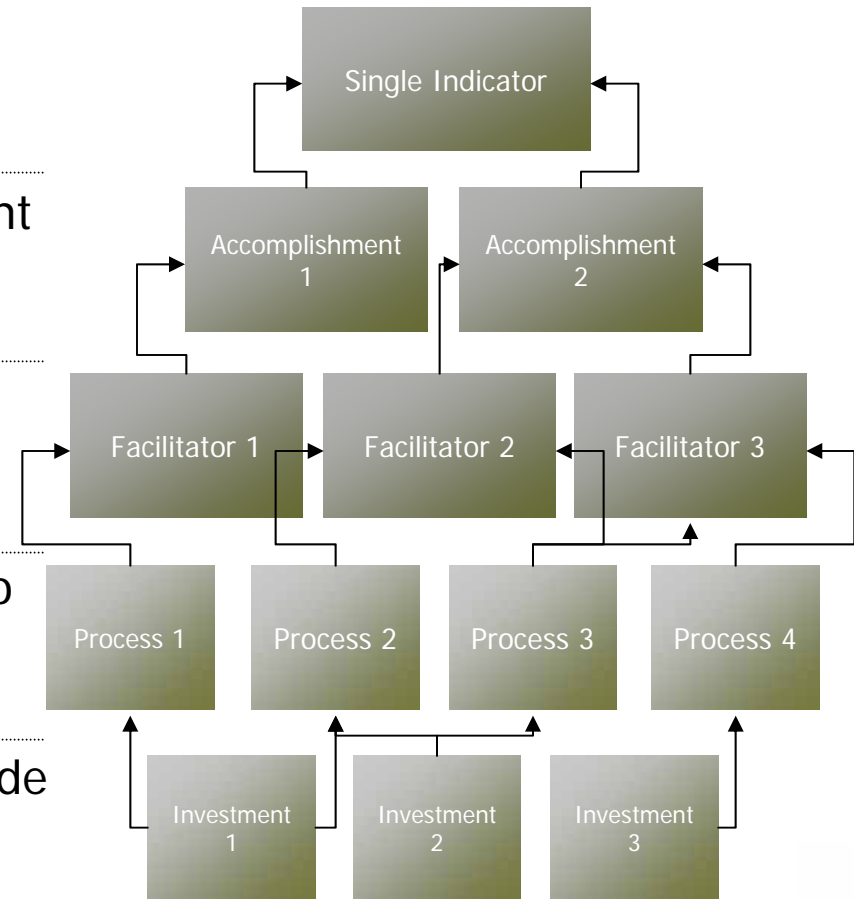
What is the single long-term indicator of achievement of strategy?

What will be the most important accomplishments in achieving strategy? Why?

How will the organization facilitate these? How will it compete?

What processes are required to allow the organization to implement strategy?

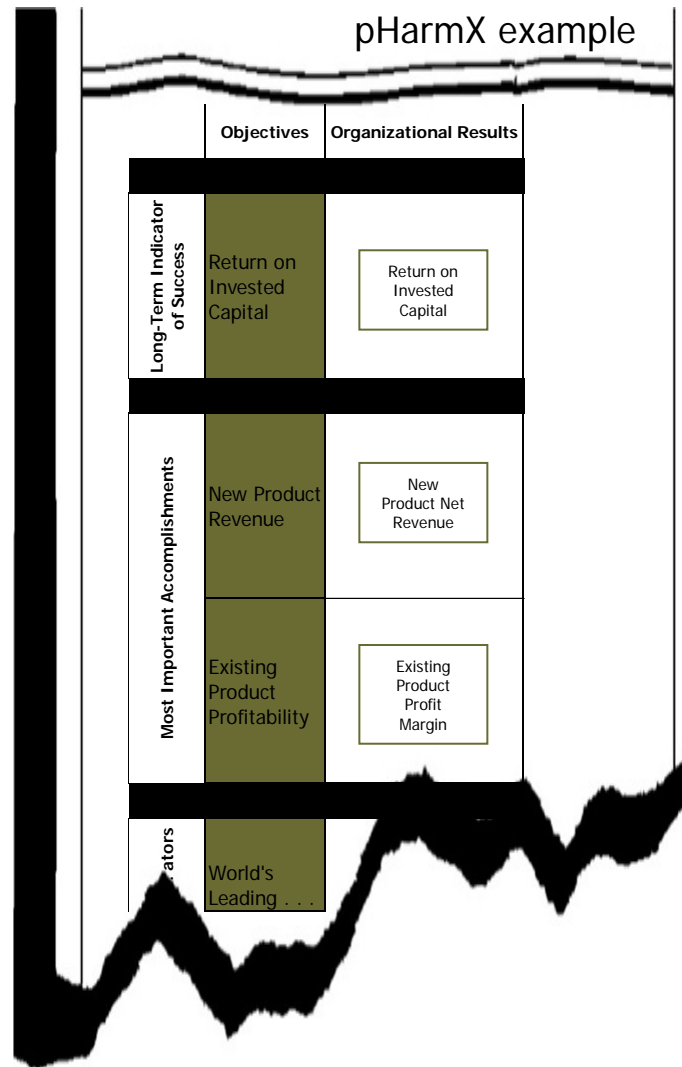
What investments must be made to implement strategy (skills, technology, operations)?



Developing a Performance Management Process

determine how achievement of each objective will be measured

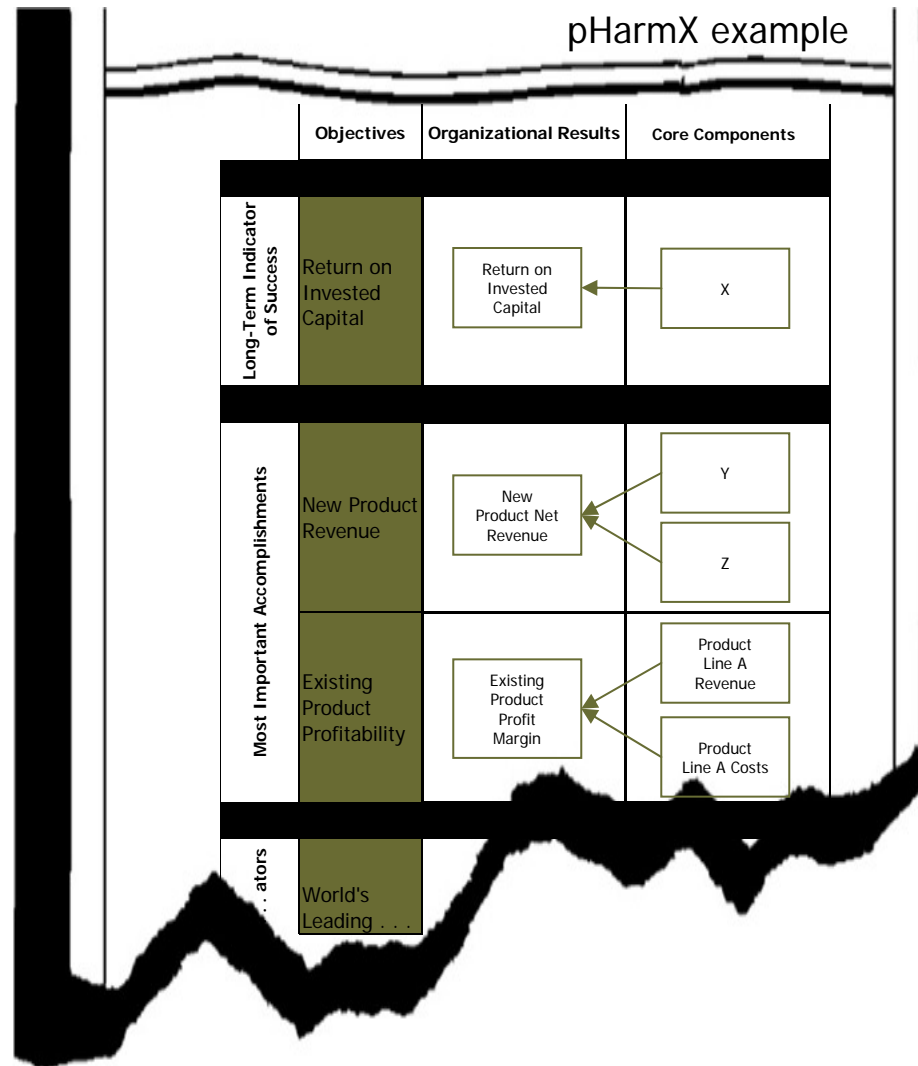
- **Organizational Results**
 - Key indicators of how well the organization is meeting its objectives.
- **Guidelines**
 - Best gauge of achievement of objective
 - Measurable
 - High level and overarching
 - Difficult to manipulate
 - Cross-functional
 - Few in number.
- Foundation for “cascading” measures throughout the organization.



Developing a Performance Management Process

define the unique components of organizational results

- **Core Components**
 - Controllable indicators of how the organization's functions contribute to results.
- **Guidelines**
 - Instrumental components of organization results
 - Beyond day-to-day operation
 - Integrate across organizational structure and functions, representing key interactions
 - Measurable, where feasible quantitative.
- **Foundation for group/team measures.**



Developing a Performance Management Process

define the impact of groups/teams on core components

- **Group/Team Impact**
 - The effect an organizational unit has in achieving core components.
- **Guidelines**
 - Direct
 - Outcome cannot be achieved without the unit's contribution.
 - Supporting
 - The unit has indirect impact on the outcome.
- **Basis for group/team performance accountability.**

pHarmX example

	Objectives	Core Components	Group/Team Impact (include all)		
			New Product Sales	Product'n Floor	Purch'ng
Long-Term Indicator of Success	Return on Invested Capital	x			
Most Important Accomplishments	New Product Revenue	y			
		z			
	Existing Product Profitability	Product Line A Revenue	○	○	○
		Product Line A Costs	○	●	●
Leaders	World's Leading . . .				



Developing a Performance Management Process

determine how each group/team's impact will be assessed

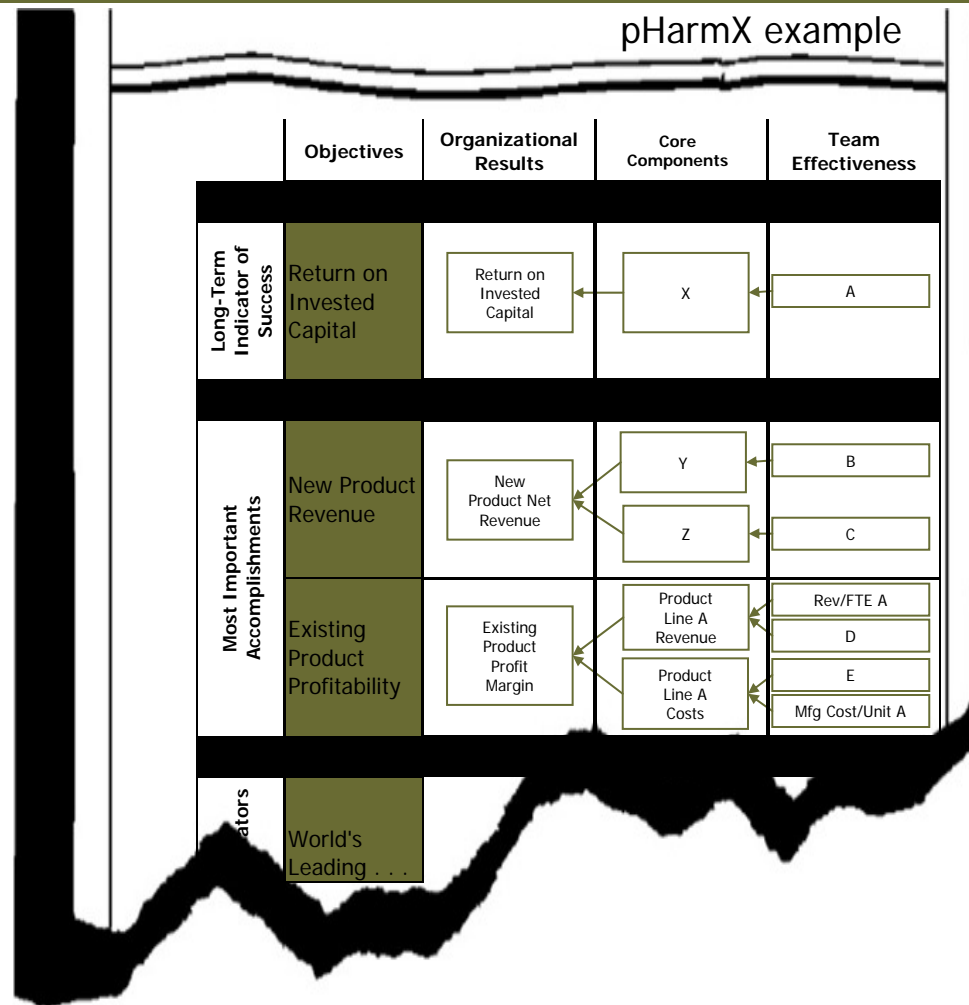
- Team **Effectiveness**

- Indicators of how well the group/team's processes and resources support the function's core components.

- Guidelines

- Gauge effectiveness or efficiency of process
- Establish or improve processes or programs
- Integrate where groups/teams cross accountability
- Quantitative or qualitative; clear and observable.

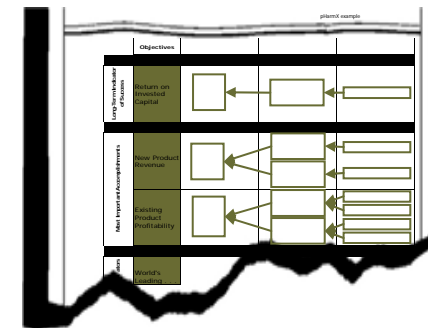
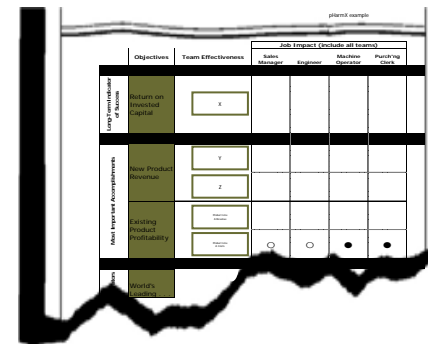
- Foundation for job measures.



Developing a Performance Management Process

define the impact of jobs on team effectiveness and determine how to assess it

- **Job Productivity**
 - The outputs and productivity expected from a given job to drive the effectiveness of the organization’s resources and processes.
- **Guidelines**
 - Gauge how jobs contribute to performance
 - Focus on significant improvement opportunity and important issues
 - Above and beyond normal job duties
 - Be consistent across like jobs
 - Objective, clear and observable.
- Defines common measures for like jobs.
- Basis for determining individual accountability.



Developing a Performance Management Process

set goals

- Goals are set from the top down. Start with organizational results and move through to job productivity systematically.
- Successful goals:
 - Require stretch performance, yet are attainable
 - Minimize the effects of the budgeting process (relative or market standards)
 - Are specific and accurate
 - Should not be changed lightly once set and agreed to for a given period
 - Reflect varying levels of attainment (i.e., threshold, target, outstanding).

pHarmX example

Results				Goals		
	Objectives	Organizational Results		Threshold	Target	Outstanding
Long-Term Indicator of Success	Return on Invested Capital	Return On Invested Capital [Net Income + Interest Expense] / [Funded Debt + Equity]		9%	11%	13%
Most Important Accomplishments	New Product Revenue	New Product Net Revenues	Gross Revenue from New Products - Bad Debt Expense from New Products	\$ 11,778,400	\$ 14,723,000	\$ 17,667,600
	Existing Product Profitability	Existing Product Profit Margin	[Existing Product Revenue - Existing Product Expenses] / Existing Product Revenue	12%	15%	18%
Facilitators	World's Leading Pharmaceutical					

Components				Effectiveness				Productivity					
	Objectives	Organizational Results		Threshold	Target	Outstanding		Objectives	Organizational Results		Threshold	Target	Outstanding
Long-Term Indicator of Success	Return on Invested Capital						Long-Term Indicator of Success	Return on Invested Capital					
Most Important Accomplishments	New Product Revenue						Most Important Accomplishments	New Product Revenue					
	Existing Product Profitability							Existing Product Profitability					
Facilitators	World's Leading Pharmaceutical						Facilitators	World's Leading Pharmaceutical					



Developing a Performance Management Process

determine individual accountability and goals

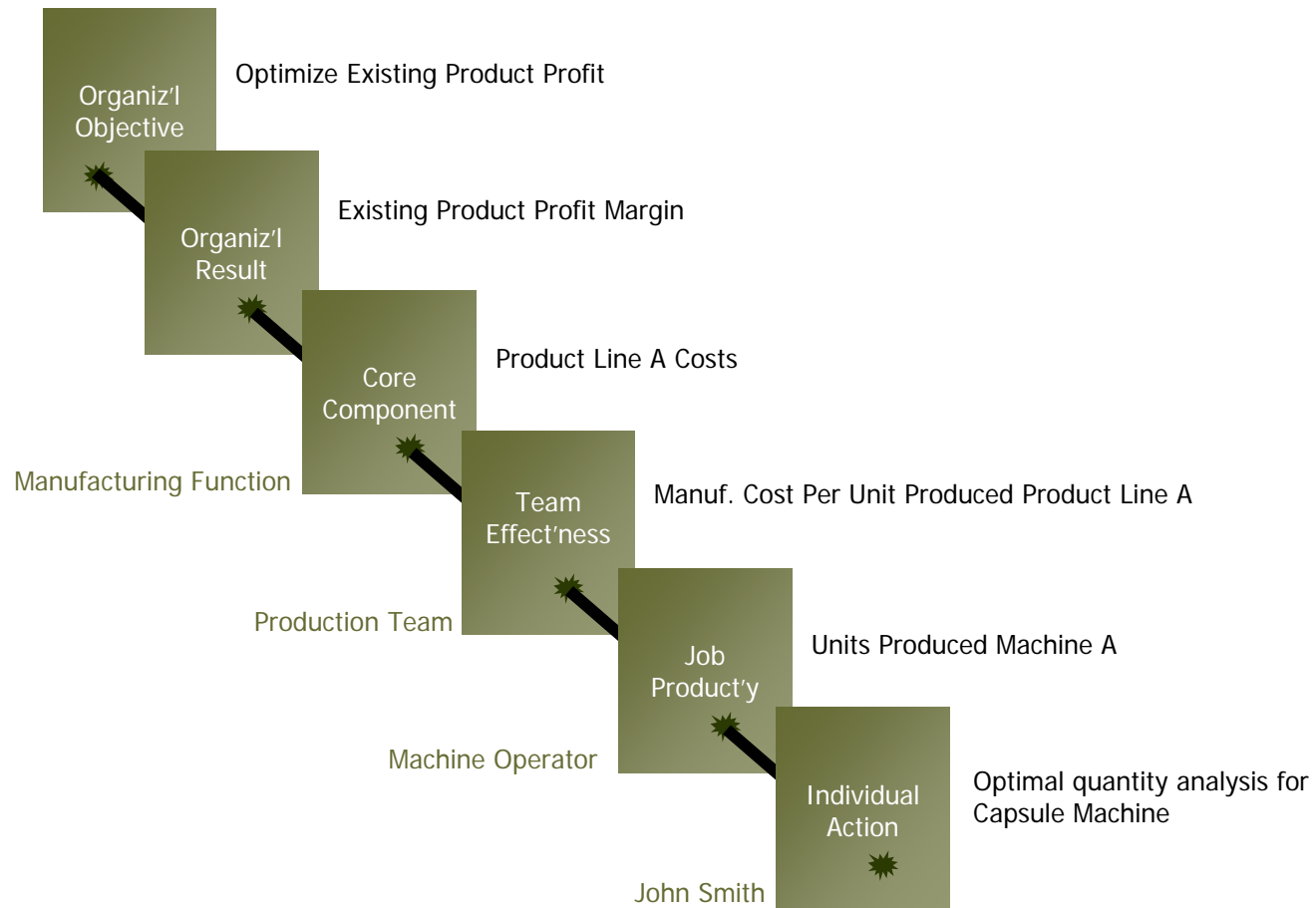
- **Individual Actions**
 - The accomplishments individuals must make to achieve desired outputs/productivity.
- **Guidelines**
 - Be clearly defined
 - Be within the employee's control
 - Have clear action plans for achievement.

pHarmX example

Objectives	Actions	Goals		
		Threshold	Target	Outstanding
Individual Accountability				
Existing Product Profitability	Optimal quantity analysis for capsule machine	July-05	May-05	March-05
Objective	ABC	X	Y	Z
Objective	DEF	1	2	3



Developing a Performance Management Process cascading at pHarmX



Developing a Performance Management Process

align processes and resources

- All organizational processes and resources must be coordinated to achieve the defined strategy, objectives, measures and goals.
 - From budgeting to production planning to staffing to retirement plans, programs and processes should be designed or redesigned in order to achieve desired results.
- Determine what initiatives are required to achieve desired results.
 - Are all current initiatives aligned with measures?
 - Eliminate non-strategic initiatives
 - Do all measures have associated initiatives?
 - Develop missing initiatives
- Prioritize initiatives for funding based on:
 - Importance to strategy
 - Cost/benefit
 - People requirements
 - Dependencies with other initiatives.



Developing a Performance Management Process

continuously communicate, hold accountable, and provide feedback

- Success is dependent upon:
 - Thorough understanding
 - Continuing to educate and update
 - Real-time access to information at all levels
 - Applying the process consistently
 - Holding everyone accountable for their role
 - Giving everyone a stake in the organization's success (compensation and benefit programs, career opportunities)
 - Using feedback from the system to adjust strategy, objectives, measures and goals.

