How to Succeed with a Performance Measurement System

With a bigger pressure on corporations and organizations to operate under greater and greater efficiency. The ability to measure the performance of operations can be seen as an important prerequisite for improvement and for the daily business cadence, but how does one succeed in doing so?

The purpose and objective of this thesis is to explore the complexities of performance measurement within organizations and to develop a robust framework for creating an effective performance measurement system (PMS) at a case company. This by finding the underlying logics that make certain PMS succeed, as no PMS can be copied as each organization is unique.

While the benefits of performance measurement systems are plenty, the establishment and purpose of a PMS is often done ad-hoc and informally, primarily relying on personal experience or gut feeling. This approach may lack consistency, thoroughness, and alignment with organizational objectives. Consequently, there is a significant opportunity to enhance the effectiveness and efficiency of PMS implementation through a more systematic approach.

Measuring and analysing organizational performance is crucial for translating organizational goals into reality. Performance evaluation typically involves estimating qualitative and quantitative performance indicators. It is imperative for a company to identify relevant indicators, understand their correlation with formulated company goals, and recognize their dependence on performed activities. From the research conducted, the following guiding principles for establishing a PMS was staked out. Which can be summarized as the 5 A´s of KPI relevance; Audience: Who is using the information? Application: How is the information being used? Alignment: Why is the information important and how does it connect? Accountability: Who has responsibility?

Action-taking: What will done based on the results?

Then, in the chosen case company, the current condition and its aspirations regarding its PMS were mapped. To help build the bridge from the current condition to the mapped aspirations and goals, the 5 A's of KPI relevance laid the groundwork.

From this groundwork the framework was built up that was going to act as the bridge. The framework can be said to consist of two main concepts. With the first one being *reporting chapters*, emphasizing the use of flexible chapter structures to present KPIs tailored to specific segments of the business or groups. By organizing KPIs into chapters, such as regions, segments, strategic pillars, and company specific models, this approach enhances relevance and facilitates connected action-taking. Each chapter serves as a dedicated subsection containing KPIs pertinent to its respective domain. This should provide stakeholders with a focused insight that is aligned with their areas of responsibility and strategic focus. This concept effectively addresses the A's of Audience, Application, Accountability, and Action-taking by ensuring that KPIs are targeted, actionable, and accessible to relevant stakeholders, thereby promoting informed decision-making and driving accountability for performance outcomes.

However, while this concept effectively addresses several aspects of the 5 A's, it falls short in achieving alignment. Although each reporting chapter is tailored to specific segments or groups within the organization, the lack of explicit alignment across chapters

may hinder the holistic understanding of organizational objectives and priorities. Without a cohesive framework that integrates and aligns reporting chapters with overarching strategic goals, there is a risk of fragmentation and sub-optimization in performance management efforts. Therefore, while the reporting chapters concept enhances granularity and relevance, achieving alignment across all levels and dimensions of the organization requires a more integrated approach.

Key concept two introduces the idea of KPI "trees," employing hierarchical branches of KPIs anchored by top organizational outcome KPI "roots." This structure facilitates cascading by clearly delineating relational mapping, ensuring that every KPI is linked to an overarching strategic objective. This forces prioritization and aligns measurement efforts with key organizational goals. As KPIs descend through the levels, their proximity to the root indicates their position as either lagging or leading indicators, with lagging indicators closer to the root and leading indicators further away. By encompassing accountability, action-taking, and alignment from the 5 A's, this concept ensures a holistic approach to performance management, covering all aspects of the 5 As in a comprehensive manner.

These two concepts summarize the new PMS foundation at the case company. Though it may not provide a conclusive "best" method, the framework offers inspiration and a systematic approach, steering organizations away from relying solely on intuition or gut feeling. it offers valuable insights into the initial strategic synthesis of a performance management system, serving as a roadmap for achieving organizational aspirations through systematic implementation and refinement. By using this framework as guidance for a structured methodology, organizations can navigate the complexities of PMS implementation with greater clarity and purpose, ultimately improving their ability to measure and manage performance effectively.
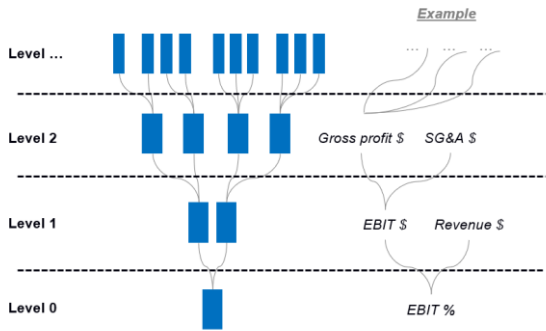

Figure 1: Example of the logic of how hierarchical KPI trees are structured (Created by author and case company).