

Electronic Performance Management
HRD Software
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Performance Management

Performance Goals and the Balanced Scorecard Elements

How does your organisation measure its performance? Is there a link between individual performance and organisational performance? The balanced scorecard approach encourages performance management across a broader dimension than the historical bottom line approach. There are four elements that form part of a balanced scorecard approach. These are Financial, Operational, Customer and Growth and Development. The idea is that your organisational performance is measured across all four of these elements rather than just the financial element. This approach combines all the organisational doctrines of the past.

We have been through the era when bottom line financial results were all that mattered. Then there was the era of operational excellence, re-engineering and value chain optimisation. We have been through the period where human resource and participative management was the flavour of the year. The focus on customer has also dominated management literature over the past twenty years. The balanced scorecard does not discount any of these critical focus areas but rather ensures focus on all four simultaneously.

One way on ensuring that there is a focus on the four elements is to link each individual goal for each employee to one of the four elements. When the individual performance review takes place the scores for all goals linked to a specific scorecard element are aggregated into a total performance score for that element.

Generally the organisation uses a five or six point descriptor scale of performance. Each of these descriptors carries a score value. Often individual goals are weighted as well either by using a 1, 2 or 3 weighting of performance or a 100% total weighting system where the total weighting of all individual goals cannot exceed 100%. In either method a score is arrived at by multiplying the descriptor value by the weighting. All the scores for a particular scorecard element are aggregated and you have a score per element.

The benefit of this method is that you now know how your organisation is performing across all four elements. You can also see if any divisions or regions are performing better or worse in a particular element. Individual performance can also be analysed from a more balanced perspective

Key Principles

Individual accountability for performance through customised objectives for each person

Linking the objectives to elements of the balanced scorecard i.e. not just Financial but other measures allows for a balanced approach to performance.

Comparisons of group performance to individual performance

Format for Goal Setting

Individual Contracts of Objectives & Outputs with specific measurable criteria against which performance can be judged.

e.g.

<u>Objective</u>	<u>Measures</u>
Manage Budget	<ul style="list-style-type: none">• Negative variances approved and justified• Forecasts submitted quarterly• General Ledger detail reviewed to ensure correct account allocation• Accruals managed

Weighting

Allows for certain goals to be prioritised on a scale (Recommended between 1 and 3) means that an objective with a weighting of 3 contributes more towards the overall rating than an objective weighted at 1

<u>Objective</u>	<u>Measures</u>	<u>Weighting</u>
Manage Budget	<ul style="list-style-type: none">• Negative variances approved and justified• Forecasts submitted quarterly• General Ledger detail reviewed to ensure correct account allocation• Accruals managed	3

Rating:

Normally a 5 or 6 point descriptor scale that distinguishes performance. These typically are:

Does not meet requirements	1
Sometimes meets requirements	2
Meets Requirements	3
Sometimes Exceeds Requirements	4
Always Exceeds Requirements	5

How the Score is Computed

For Each Objectives the actual score is the number that equates to the descriptor e.g.

3 = Meets Requirements

Multiplied by the Weighting e.g. 3

= 9

Out of:

Total Possible Score e.g. on a 5 point scale = 5 X weighting e.g.3

=15

Score for that objective = 9/15 =60%

Total Percentage

The total weighted actual divided by the total weighted possible equals the overall percentage

	Weighting	Actual	Possible	Weighted Actual	Weighted Possible
Objective 1	1	3	5	3	5
Objective 2	2	3	5	6	10
Objective 3	2	2	5	4	10
Objective 4	3	4	5	12	15
Objective 5	1	4	5	4	5
				29	45

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64.4%

Allows Performance measures that include:

- Financial
- Customer
- Operations
- Growth and Development (People)

Each Objective is linked to an Element of the Balanced Scorecard

	PSC Category	Weighting	Actual	Possible	Weighted Actual	Weighted Possible
Objective 1	Finance	1	3	5	3	5
Objective 2	Operations	2	3	5	6	10
Objective 3	Customer	2	2	5	4	10
Objective 4	Growth & Development	3	4	5	12	15
Objective 5	Finance	1	4	5	4	5
					29	45

This means that not only is a score available for all the objectives but also for the 4 elements of the Balanced Scorecard.

		Total Possible	%
	Total Actual		

Finance	7	10	70.0%
Operations	6	10	60.0%
Customer	4	10	40.0%
G r o w t h & Development	12	15	80.0%

Overall Score e.g. 64.4% can be linked back to an overall descriptor.

- 0-25% Does not meet requirements
- 26-40% Sometimes meets requirements
- 41%-60% Meets Requirements
- 61%-75% Sometimes Exceeds Requirements
- 76%+ Always Exceeds Requirements