



Performance Measurement

Performance Measurement is only as good as your understanding (accurate understanding) of which factors make the most difference in your business. These factors, often called success factors or Key Success Factors (KSF), vary widely by business sector, but are often similar from business to business within a sector, with only slight adjustments needed from business model to business model. This generality holds true unless a particular business within a sector does something disruptive.

The decisions you make regarding KSFs often fall into two broad categories: strategic level decisions and tactical level decisions. The strategic level decisions are high level decisions that you make on an infrequent basis, e.g.: What business to start, when to start, where to locate, capitalization decisions, product offering (category) decisions, target customer, etc. These decisions are typically very costly both in terms of time and finance, and are difficult to undo. Tactical Level decisions are typically associated with key activities you perform in your business on a regular basis and are made on a more frequent basis, and can be conceptualized as adjustments.

The better you (management) understand the KSFs associated with your business model the easier it will be for you to make decisions. As a manager you need to know what is most important: what are the *make or break* factors? (KSFs), You also need an indication of how you are doing with regards to what is most important (information, metrics, data, etc.).

Once you know what drives success in your business (KSFs) then you can figure out how to measure what you are doing, and which metrics are the most important. These important metrics are called key performance indicators (KPIs). The use of the term *metrics*, often scares business owners because it sounds complicated, and invokes images of complicated algorithms and endless spreadsheets. This need not be the case. In fact most of the time simple, clear KPIs are not that complicated to track.

Finally, we must not neglect execution! You can have a crystal clear understanding of your KSFs, the best strategy in the world, and detailed metrics based on well-defined KPIs, but if you fail to execute your strategy well in your day to day activities and processes you will not succeed. Therefore, the final key is key business activities (KBA).

To pull all these pieces together we could use the analogy from aviation. Imagine a pilot plotting a course to his or her final destination (Success). Along the way there are waypoints, places you must go to arrive at your destination. These waypoints are like KSFs. You know you have reached your waypoints, when you look out of your cockpit and see the waypoint, or when your instruments and GPS tell you so. These are Key Performance Indicators. Finally you have the controls in the airplane the buttons, yolks, levers, etc. that you can use to fly. These are your KBAs. Without any one of these you are lost. Without a clear goal or KSFs you can't plot a course. Without KPIs you won't know if you are

on track or off course. Without good execution at the controls you won't get where you need to go either.

In conclusion, clear thinking about these things will help you navigate a course to success.