

THE MEASURE NETWORK

DEVELOPING MANAGERS THROUGH PERFORMANCE MEASUREMENT

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Editors' Note: Greg Reilly is cocreator of the Measure Network, a framework and process for analyzing, assessing, and improving performance measurement. He writes regularly for the *Journal*. The Measure Network method has been described in detail in a previously published article, "Using A Measure Network to Understand and Deliver Value," which appeared in the November/December 2000 issue (Volume 14, Number 6).

Performance measurement systems can help develop management skills. The process of building a measurement system can yield parallel growth in managers' understanding of how to

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maximize value for stakeholders; appreciation for cross-functional activities; insight into strategic options; and identification of process improvement opportunities. InfoTech Enterprises, Inc. discovered this double benefit stream when it implemented the Measure Network.

The benefits of possessing a state-of-the-art performance measurement system in a business organization have been widely discussed in business literature. The availability of timely performance feedback, the alignment of business activities toward common goals, and insights into the big-picture relevance of each person's job are just a few of the obvious benefits of using an effective performance measurement system. An aspect not as widely recognized or discussed are the additional benefits gained simply by going through the process of developing a performance measurement system. Using a case in which the Measure Network was the system of choice, this column explores these potential benefits.

InfoTech Enterprises, Inc. is an information technology company that is based in northern Virginia and was established in 1992 to provide information technology solutions and services to government and commercial clients. Among the company's technological capabilities is a specialization in combining computer-aided design (CAD) and geographic information systems (GIS) for such applications as allowing utility crews to access GIS databases from their repair trucks. InfoTech realized the importance of measuring its performance in these areas and, in May 2001, began developing a Measure Network.

As a first step, the management team set out to understand more clearly how its company creates value. The team identified InfoTech stakeholders and the goods, information, services, money, and intangibles that are delivered to each stakeholder. The most critical attributes (e.g., accuracy, speed) were identified for each of these deliverables and a measure was created for each attribute to

capture company performance on that component's value delivery.

Next, managers from each part of the company documented internal business processes in detail and, again, identified the most critical attribute of success for each process. After creating measures for each attribute of process performance, the InfoTech team documented the cause-and-effect linkages (i.e., value paths) between process and stakeholder attributes, thereby linking everyday activities to actual value creation for the firm's stakeholders.

VALUE-BASED THINKING

After completing this initial work, InfoTech's management team observed a parallel benefit that resulted from constructing the measurement system. Team members noticed that using the Measure Network's process for developing their performance system also created a deeper understanding of how to maximize value creation. Thus, their managerial decisions began to benefit from this enhanced context.

During the past 10 years, value-based thinking has moved from the chalkboards of academe to the boardrooms of many companies. Managers now recognize that business success is defined as value creation for customers, employees, investors, and other key stakeholders. Lasting value creation is, however, the result of performance, not intentions. The manager's task is to initiate and implement strategies, plans, and decisions that provide sufficient net benefit to satisfy the stakeholders.

Customers appreciate value creation from products and services only when they realize greater discounted net benefit than that provided by competi-

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tors. Investors realize value creation when the returns they receive from the common stock of an organization exceed the standard set by other companies operating in the same risk class. The greater the understanding of exactly how each stakeholder defines value, the more likely the company is to engage in those activities that result in value being created.

FOCUS ON STAKEHOLDER DELIVERABLES

During the development of the Measure Network, InfoTech's management team focused heavily on the character of the deliverables provided to each stakeholder. Managers recognized that customers needed to understand comparative advantage when selecting suppliers. This understanding requires detailing the attributes of the services, not just the functionalities of the services.

Consequently, InfoTech's managers identified the following key deliverable attributes for customers:

- Reliability of software products.
- Cost of technical support.
- Depth of service capabilities.

When managers regarded employees as stakeholders, they observed that InfoTech provides more appealing job opportunities than alternative employers. Previously, though employment superiority had been assumed, it had been neither articulated nor measured. Managers specified the ex-

act dimensions of the company's competitiveness in the following employee deliverables:

- Diversity of job tasks.
- Competitiveness of benefits.
- Quality of work culture.

This brief list did not appear immediately. The discovery process required analyzing and setting priorities for employee deliverable attributes, listing attribute possibilities, weighing their relative importance, and deciding which ones were sufficiently important to deserve ongoing management attention. The effort resulted in useful input to the development of the Measure Network, and it also represented a more explicit statement and communication of the firm's value-creation intentions for employees. This had not been done before.

VALUE PATHS

After specifying the most important stakeholder deliverable attributes, the InfoTech managers linked their day-to-day activities to value creation by developing value paths. The purpose of the paths is to link daily process activities to desired outcomes expressed in the stakeholder deliverable attributes. These value paths clarify the relationships between what companies actually do and what they are trying to accomplish.

Not only did the InfoTech managers see their own value paths more clearly, they also gained greater appreciation for the activities of others and saw the interaction of processes supporting the same stakeholder deliverable attributes. They believe that the resulting ability to focus on value should help encourage the firm's effectiveness and efficiency in crossfunctional activities, thereby

leading to improved performance of the firm as a whole.

SHARED CORPORATE STRATEGY

The creation of a corporate strategy is something that most companies attempt with varying degrees of intensity and formality and with or without wide employee participation. In some cases, a company's strategic development process is pulled along by one or a few executives who have little interest in receiving input from the rest of the organization or obtaining consensus for the resulting strategy. In many other cases, executives make a significant effort to be inclusive in the development of strategy, but employees can lack an understanding of strategic concepts and language; therefore, employees may be unable to contribute effectively to the process.

The development of the Measure Network at InfoTech provided a clear framework for the strategy planning process and used everyday operations language for strategic concepts. When the InfoTech development team completed identifying all the stakeholder deliverable attributes that the firm provides, a complete picture of current strategic possibilities was made available to managers.

As the team members set priorities for their options in terms of relative importance to the company, their discussion shed light on each manager's undocumented, underlying strategic assumptions about which markets the company should serve and how they should serve them. Instead of unclear strategic concepts that may have led to unintentional conflict, InfoTech now had an agreed-on set of stakeholder deliverable attributes set in order of

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priority. In addition, because managers from a wide range of departments participated in the development process, a greater commitment is likely to be made to the strategy throughout the organization.

PROCESS IMPROVEMENT OPPORTUNITIES

As a result of the quality and reengineering movements of the past 20 years, a continuous improvement mind-set has become relatively commonplace in today's business world. InfoTech Enterprises, like many other companies, has used the pursuit and achievement of ISO certification to more fully understand, control, and, ultimately, improve its business processes. Like many of its peers, however, InfoTech's process documentation and streamlining activities have primarily focused on demand fulfillment processes, such as providing services and creating software products.

In developing the Measure Network, InfoTech's business development managers had the opportunity to analyze, document, and scrutinize their marketing and sales activities. From this effort, they identified several improvements in their processes of determining market segments and identifying, qualifying, and tracking business opportunities. They committed the resources and scheduled the changes to be implemented immediately.

In building their performance measurement system, InfoTech managers also began to view process improvement from a broader managerial perspective. Changes were proposed because of their impact across processes or their link to a key aspect of value creation, not simply because of some minor inefficiencies or inconsequential quality flaws. Going forward, InfoTech's managers expect the use of the Measure Network to keep process understanding current by providing an ongoing mechanism for periodic process review and revision.

INDIVIDUAL MANAGER DEVELOPMENT

In summary, any activity that pulls managers away from their daily routine to think carefully about value creation, strategic development, and process improvement is likely to have a positive impact on the development of individual managerial capabilities. Simply being selected to participate in the development of the Measure Network gave InfoTech managers the sense that they were participating in an important development within the firm.

In addition, because measurement development must be cross-functional and stakeholder oriented, team members had an unusual level of exposure to other managers' ideas and were therefore able to think about parts of the business that were not usually their concern. Aiding this cross-pollination of ideas was the common language that results from developing the Measure Network. The structured language InfoTech employees learned to use is self-explanatory and, therefore, enhances willingness to communicate about complex systems and relationships.

Identifying value drivers, key attributes, and effective measures clearly required the creativity of the InfoTech management team. And because members recognize that they are being encouraged to use their experience to find new ways to describe activities and objectives and to exert discipline over desired results, more creative approaches to management are, in general, likely to result.

At the end of the first phase of the Measure Network's implementation, the InfoTech management team knew that its business and measurement improvement work and its resulting benefits had only just begun. Nonetheless, the team was excited about the tangible benefits it had already realized during the eight-week course of development. The team had gained an increased appreciation

for value-based decision making, laid the foundation for a shared corporate strategy, documented opportunities to improve business processes, and enhanced management skills that are crucial for individual and company success. With these benefits in hand, team members were ready to continue with the Measure Network and to use it to monitor and manage their business. ■