# CHAPTER 4: ORGANISATIONAL PERFORMANCE MEASUREMENT

## 4.1 INTRODUCTION

Performance measurement is virtually always important in management, especially in highly competitive, dynamic, complex, and global environments where managers are expected to have a strong grasp on dozens of issues (Fleisher, 2003). This is particularly true in ensuring that organisations determine, implement and adapt organisational strategies successfully. An organisation's strategy is the rudder that steers the ship (Ross & Kami, in David, 2003:1). The performance measurement system is the glue that holds the strategy together by consistently evaluating the strategy's effectiveness amidst unpredictable external forces. Kaplan and Norton's (2001:2) philosophy, on creating a strategy-focused organisation, is quite simple: "*Measure the Strategy*!"

According to Kaplan and Norton (2004:10), an organisation's strategy describes how it intends to create value for its shareholders, customers, and stakeholders. Strategies are also the means by which long-term objectives are achieved (David, 2003:11). Essentially, the strategy should define a set of organisational activities / performances that have to be accomplished in order to move the organisation in the desired direction. Strategic organisational performance is thus the performance that the entire organisation endeavours into, to obtain its goal and vision. Robbins (1987:42) explains that wherever strategy changes, structure should follow and the structure should then typically encompass various organisational facets such as; the corporate vision (end goal), mission (statement of purpose), the various organisational departments or functions, the corporate culture as well as the organisational activities / performances (David, 2003:7-25). Considering the above, it would therefore only make sense to measure the impact or the success of the strategy.

By measuring the impact or success strategy, executives are able to see where the organisation is heading, how accurate the direction is and how quickly the organisation is moving towards that direction (Ritter, 2003:44). Performance measurement is like a speedometer, compass or mirror of a vehicle portraying information about past, current and expected positions of the organisation (Bititci *et al.,* 2004:28-30; Ritter, 2003:44-48;

Robson, 2005:138). Kaplan and Norton (2001:9-17) as well as Bititci *et al.* (2004:28) claim that measuring the strategy accomplishes seven fundamental principles:

- The ability to translate the strategy to operational terms;
- The ability to align and integrate the organisation to the strategy;
- The ability to make strategy everyone's daily job, increasing buy-in at all levels;
- The ability to make strategy a continual process;
- The ability to mobilise change through executive leadership;
- The ability to improve participative and consultative management styles; and,
- The ability to move the organisational culture towards an achievement culture.

The previous chapters have expanded extensively on the scientific approach to performance measurement in t*he general business management c*ontext. The age-old saying, "If you cannot measure it, you cannot manage it" (Total Quality Engineering, 2005), finds its origin and existence in the organisational context, where the Scientific Scholarship approach to inquiry, dominates. Due to this perception, society has structurally been conformed into believing that the manageability of an organisation is only achievable through the execution of quantitative performance measurement. However, if this is not achievable in a specific area of the organisation, the area in question is then typically perceived to be of lesser importance to management (Rensburg & Ferreira, 2004:21).

The meta-theoretical routes, in particular the nomothetic and practical theoretical approaches, highlight and stress this perception. Where the nomothetic theoretical approach is concerned with finding universal laws about behaviour and generalising it to make predictions, the practical theory is designed to capture the rich differences among situations and provide a set of understandings that allow alternative courses of action that can be taken (Littlejohn & Foss, 2005:19). The general and quantitative results are the tools that managers use to measure and adapt strategies. This chapter will therefore attempt to gain a deeper understanding of the scientific approach that governs the organisational context; by defining constructs related to performance measurement, investigating how intangible assets are measured, and examining scientific organisational performance measurement models and tools.

## 4.2 CLARIFYING THE CONCEPTS OF PERFORMANCE MEASUREMENT

Organisations across the world have realised the importance of measuring their performance, making this concept one of the most widely researched topics (Kaplan & Norton, 2001:1). Despite the increased level of interest, expressed in performance measurement and evaluation, a consensus surrounding the definitions of these terms, remains elusive (Fleisher, 2003). In addition, Watson and Noble (2005:17) indicate that the potential for confusion exists, especially because the terms are used interchangeably. The following section examines the definitions of evaluation and performance measurement in an attempt to clarify the differences.

### 4.2.1 Defining evaluation

Evaluation is the means of determining the relative effectiveness of a performance, programme / campaign, or strategy (Fleisher, 2003), normally done through measuring outputs and outcomes against a predetermined set of objectives (Macnamara, 2002:13). The most important objective of evaluation is that it should be part of a programme, which measures results and assesses its effectiveness (Watson & Noble, 2005:18). As mentioned in Chapter 3, these stages of a programme or campaign i.e. before, during or after, offer the ideal setting for evaluation research to be conducted (Grunig & Grunig, 2001:9).

The corporate communication discipline uses this term extensively to evaluate communication programmes and campaigns (Watson & Noble, 2005:17). Because the communication department does embark on various communication campaigns, evaluation can be utilised as an effective means to capture value, by determining the outcomes of the campaign. This is especially important for intangible assets and value generated over a long period. In addition, evaluation provides the ability to measure and benchmark campaigns repeated periodically, in order to make comparisons for continuous improvement. Understanding that evaluation is programme or campaign based; initiates the discussion to investigate the meaning of performance measurement.

Arguably, performance measurement should logically entail the measurement of a performance to determine its success. However, there are many different interpretations for this statement. The importance and necessity for a cohesive definition, will clarify the

purpose and nature of performance measurement. Identifying what and how something should be measured, forms an integral part of defining what performance measurement means to an organisation.

### 4.2.2 Defining performance measurement

Measurement is the process of assigning a specific quantitative or numerical indicator to an activity or process (Fleisher, 2003). Seang (2003:1) theoretically defines performance measurement as, "[t]he process of determining how successful organisations / individuals have been in attaining their objectives". This definition is an appropriate description, which most organisations could generally accept; however, a brief inspection into the understanding of this term, by industry as well as government, reflected the numerous customised definitions that do exist for performance measurement today. Comprehensive examination of all these definitions does not fall within the scope of this study; however, it will become evident how different organisations provide their own understanding of the term and reflect this in the type of performance measurement system implemented in their respective organisations.

Firstly, Interoperability Clearinghouse (2005) identifies performance measurement as the process of developing measurable / quantitative indicators tracked systematically, to assess progress made in achieving predetermined goals, and using such indicators to assess progress in achieving these goals. It is clear from the definition that this company's performance measurement system has a quantitative focus, revisited periodically over a predetermined time. This system follows the typical positivistic process of inquiry, neglecting valuable inputs otherwise captured through an interpretivistic / constructivist approach.

Secondly, Daimler Chrysler (2005) provides another industry perspective defining performance measurement to be, "[a] form of analysis that compares performance. It can be critically affected by the time period selected. Good performance measurement should include:

- An analysis of performance over a business cycle (typically 3-5 years);
- The guarantee that like is being compared with like; and,
- An analysis of the reason for any extreme out-or-under performance".

This definition highlights the importance of conducting performance measurement over a longer period for benchmarking purposes. It also warns against the tendency to compare variables that are not similar just for the sake of comparing them. Lastly and most importantly, it advises the investigation of extreme results for validation purposes.

The two definitions cited above, begin to colour the complexity of this concept. In addition, governmental views further expand performance measurement; for example, the United States Department of Transport (2005) defined it as the procedure that supports decision-making processes. This interpretation unlocks an entirely new dimension to the understanding of performance measurement. In this context, performance measurement is not only seen as the ability to determine whether tasks are being performed successfully, but also whether performance measurement contributes towards decision-making. Here performance measurement must provide valuable and insightful information that is not only universal but also comprehensive. Although governed by a nomothetic approach, this interpretation potentially reveals a gap for the practical theoretical approach, where there is a need for rich information that surpasses the need for generality.

The above differences in interpretation provide great insight into the way organisations view their performance measurement systems. However, four aspects can be deducted from these definitions:

- Performance measurement is used to provide information to decisions makers;
- Performance measurement is used to measure strategies and ensure that they remain effective;
- Performance measurement is used to measure continuous improvement; and,
- The indicators are generally quantitative or numerical in nature.

From the above it is evident that the most important function of performance measurement is to evaluate whether or not the organisational strategy is attained. It should also assist in implementing the strategy by actually measuring the strategy. This in turn fulfils other important roles of performance measurement such as providing information for decision-making purposes; creating competitive advantage; systematically integrating and aligning all levels within the organisation; enforcing continuous improvement; implementing best practices throughout the organisation as well as creating a performance culture (Robson, 2005:137-145; Seang, 2003:1-5; Zhang, 2003:613-615).

### 4.2.3 Differentiating between evaluation and performance measurement

The main difference between evaluation and performance measurement is their objectives. Where evaluation determines the success of a programme or campaign, performance measurement holistically guides and monitors the entire organisation's direction towards achieving the corporate strategy. Performance measurement is a daily measurement that takes place on every level of the organisation, and integrates the results to provide a bird's-eye view of what is going on. Performance measurement makes use of evaluation to contribute information, about programmes and campaigns designed, to achieve the strategy.

Where the communication discipline has extensively researched evaluation models (such as the best practice evaluation models), a need exists to integrate the information gained, from the evaluation models, into the larger organisational performance measurement model. In this way, the value generated by corporate communication can be captured and presented to the entire organisation. It is therefore necessary to investigate organisational performance measurement models in more detail. However, before attention is awarded to the various models implemented by organisations today, a discussion about how performance measurement has changed since its origin and what it should entail is provided.

### 4.2.4 The changing role of performance measurement

In the Traditional Management Theory, the dominant view is that all dimensions of performance can be measured, and all phenomena can be placed in numerical terms (De Waal, 2003:668; Fleisher, 2003). Fleisher (2003) explains that most measurement circles have developed from accounting systems originating a millennium ago and are, "[s]till being performed this way because it has always been done this way". Tangen (2004:726) supports this statement indicating that many companies still rely on the traditional quantitative financial performance measurement systems. Additionally the Goal-Attainment Approach (from the Organisation Theory) suggests that measuring the accomplishment of the end goal, known as the bottom line, is the only means to determining organisational effectiveness (Robbins, 1987:31). These traditional performance measurement theories have been criticised for narrowly focussing on financial figures, failing to capture organisational long-term business successes (Bititci *et al.*, 2004:29). Additionally, it has been said that these measures lack predicative power, reward the wrong behaviour, focus

on a single measure of performance, are inflexible, and do not identify key business changes until it is too late (Robson, 2005:141; Sim & Koh, 2001:18; Tangen, 2004:727). Du Plessis, Jooste and Strydom (2001:424) warn that financial measures prohibit the guidance and evaluation of an organisation's ability to create future value through investments in customers, suppliers, employees, processes, technology and innovation. Ritter (2003:45) expands that financial measures are like the rear-view mirror of a car, they reflect the impact of decisions adopted in the past, leaving the forward-looking aspect unattended.

Seang (2003:5) argues that the pressure for reporting on corporate performance today, has confronted the traditional managerial mindset of historical models for performance measurement, and has required them to be more innovative. De Waal (2003:669) supports the argument claiming that a human element should be included in performance measurement systems. This shift in mindset is illustrated in Table 4.1 where Seang (2003:5) provided a comparison between traditional and more recent performance measurement systems.

**Table 4.1: The changing focus of performance measurement systems**

| Traditional | Innovative |
|---|---|
| Based on cost / efficiency | Value-based |
| Performance orientated | Performance compatibility orientated |
| Profit-orientated | Customer-orientated |
| Short-term orientation | Long-term orientation |
| Prevalence of individual measures | Prevalence of team measures |
| Prevalence of functional measures | Prevalence of transversal measures |
| Comparison with standard | Improvement monitoring |
| Aim at evaluating | Aim at evaluating and involving |

Adapted from: Seang (2003:4)

Table 4.1 clearly indicates that performance measurement systems are moving towards a relationship-orientated understanding of how the organisation is performing. This view can be equated to the Systems Approach in the Organisation Theory, as a means to measuring organisational effectives. Here the end goal (financial) is not ignored, but treated as only one element in a more complex set of criteria (Robbins, 1987:31). The long-term survival of the organisation is emphasised as well as the organisation's ability to acquire resources, maintain them and interact successfully with its external environment

(Robbins, 1987:35). It can therefore be said that the means of achieving various end goals, become more important than focusing on one specific financial end goal. In the traditional performance measurement systems, the actual performance measurement system is used as a communication device, to admonish employees when financial goals are not achieved (De Waal, 2003:669). As mentioned earlier, a performance measurement system should be used to execute and monitor the corporate mission and strategy, rather than reprimand poor financial performance. There should also be a link between performance, interaction between systems, human nature, and various outcomes in the measurement system (De Waal, 2003:668), as there are after all people involved in the entire measurement process.

The move towards including innovation, relationships and the consideration of the human factor, might require the use of qualitative measures to capture in-depth information upon which to base accurate decisions. According to Henning (2004:3-4) the objectives of performance measurement can be accomplished with quantitative and qualitative means. Henning (2004:3) distinguishes the two paradigms as being the 'quest for the inquiry'. A quantitative technique centres on controlling the components (variables) of investigation. It also attempts to determine how the variables are related. Henning (2004:4) elucidates that the process of inquiry is shaped around the 'quantity of understanding' thus following a Scientific Scholarship. This technique allows researchers the ability to capture a population's characteristics and perceptions by making inferences from a sample of the population. An example of this would be investigating an entire stakeholder group's perceptions (such as clients), by drawing a smaller representation / sample from the entire client population. Generalisations are thus possible and are normally quite accurate. There are many additional benefits resulting from this nomothetic approach, which explains its popular appearance in organisational performance measurement systems.

Henning (2004:3) further clarifies that a qualitative technique usually evades controlling variables in an attempt to capture in-depth information. The term qualitative stems from the word 'quality', while Cooper and Schindler (2003:151-152) refer to quality as being the essential character or nature of something. Qualitative techniques involve the quality of the variables being investigated and can thus be equated to the Human Scholarship process of inquiry. The principal benefit to this approach lies in the depth and richness of

information collected. To continue with the above example of client perceptions, this practical approach can investigate why and how the perceptions are accruing over and above what they perceive.

Innovative performance measurement models, required to achieve competitive advantage in today's day and age, need crucial in-depth information, which can add immense value to understanding, justifying and predicting trends and behaviours. By combining quantitative and qualitative measures in the performance measurement models, further synergy is achievable.

The above discussion reveals that performance measurement systems and the corporate strategy need to be tightly interwoven. It should evaluate the progress of the strategy on a day-to-day basis, by means of financial and non-financial elements, and be measured with both a quantitative and qualitative process of inquiry. Another important element highlighted by Bititci *et al.* (2004:39) is that performance measurement systems should also assimilate cross-functional issues at all levels of the organisation.

### 4.2.5 Integrating staff and line functions into performance measurement models

Line functionaries are perceived as being essential to the organisation's survival and are titled 'line functions' due to their ability for influencing and making decisions that affect the organisation's bottom line (De Villiers & Crous in Marx *et al.*, 1998:347). Examples of line functions include Finance, Purchasing, Productions / Operations and Marketing and are more inclined to produce tangible outputs that are easily measured (De Villiers & Crous in Marx *et al.*, 1998:347). The tangible outputs that line functionaries produce ultimately result in what Fleisher (2003) terms *comparative economic* activities. These include market, commercial, and transaction exchange based metrics that translate into ROI, Internal Rate of Return (IRR), Product / Service Quality, Investment Intensity, Marketing Expenditures, and Economic Value Added (EVA) (Fleisher, 2003). All these measures are quantifiable and have a direct impact on the organisation's bottom line.

De Villiers and Crous (in Marx *et al.*, 1998:347) describe staff functionaries as the functions inside an organisation positioned to support the line functionaries. These

functions typically do not affect the bottom line of the organisation but provide support, in various forms, to assist line functions in achieving their tasks. Staff functionaries include functions such as HR, Corporate Communication and Information / Knowledge Management (Marx *et al.,* 1998:32). In the past, these functions were not part of strategic decision-making, presumably due to a lack of the ability to measure their performance (De Villiers & Crous in Marx *et al.*, 1998:347). Fleisher (2003), however, highlights the recent trend to report on *non-economic* perceptions placed upon organisations, by their stakeholders. These would include corporate image or reputation, community investment, CSR, and political influence (Fleisher, 2003). With the development of the triple bottom line, organisations wishing to achieve success have had to capture intangible values in their performance measurement systems. In so doing, the need to capture and integrate the contributions made by staff functionaries have become vital.

From the above, it is clear that the challenges organisations face today, call for new approaches in their performance measurement systems. However, in changing the performance measurement systems, transformations, to the business processes, management styles, and organisational structure, must also take place (Hyman, 2004:2). This is typical of the Systems Approach in the Organisation Theory, where synergy is achieved by making the boundaries of various systems permeable and interactive (Robbins, 1987:31). By allowing the staff and line functions to interact, the performance measurement model would naturally capture both the quantitative and qualitative contributions of both groups. The innovative performance measurement models have identified this need and have started including the human element, as a means to attain synergy (Sim & Koh, 2001:18). Attention is therefore awarded to way in which performance measurement systems can incorporate and influence the organisational culture to achieve competitive advantage.

### 4.2.6 Performance measurement and organisational culture

The design of performance measurement systems can either encourage a culture of high performance, or act as a barrier (Robson, 2005:145). Bititci *et al.* (2004:30) classify *drivers* of performance measurement implementations, to be the top management commitment as well as the perceived benefits arising from designing, implementing and using the performance measurement system. Sim and Koh (2001:18) state that a further driver of

the performance measurement system could also be the rewarding of behaviour that contributes to organisational success. Bititci *et al.* (2004:30) then reveal *blockers* of performance measurement implementations to be:

- The time and effort required;
- The difficulty of implementing the performance measurement systems;
- Constraints by the information available from the IT systems;
- Resistance to performance measurement systems; and,
- Whether or not it is a new parent organisational initiative.

When a performance measurement system is incorrectly designed, it can create the wrong behaviours (Tangen, 2004:728). The minute the performance measurement system makes employees feel, that they are 'being controlled' as opposed to being 'in control', rebellion takes place (Robson, 2005:141). De Waal (2003:696) builds on this, indicating that the behavioural factors employees want to see in managers, when implementing and using performance measurement systems, are those of encouragement and support rather than that of condescendence. Robson (2005:143) explains that developing a culture where performance measurement is highly regarded and well accepted requires psychological principles. Appealing to the employees' sense of pride, and encouraging everyone in the organisation to think smarter, rather than simply work harder are some examples of these principles. Bititci *et al.* (2004:28-41) discovered that implementing the correct performance management system, directly influences the management style, the buy-in from the whole organisation, and the establishment of an achievement culture.

Seang (2003:3-4) provides guidelines for best practice performance measurement systems. These guidelines created to serve specific purposes are most likely found in a high performing culture:

- Planning, control and evaluation: The process of analysing measurement in order to make decisions (evaluation) as well as making it central to the operation of an effective and efficient planning, control or evaluation systems;
- Managing change: The measures should support management initiatives, and the primary requirement should be to integrate measures vertically (across levels) and horizontally (across functions);

- Communication: The measurement system should increase constructive problem solving, increase influence, monitor progress, generate information sharing and feedback and reinforce behaviour with recognition and reward;
- Measurement and improvement: The reason for measuring should be to support improvement, and in the end provide the scorecard that reflects how well improvement efforts are working;
- Resource allocation: The measures should help an organisation to direct scarce resources towards the most attractive improvement activities;
- Measurement and motivation: The measurement systems should encourage improved performances by setting individuals achievable and challenging targets;
- Long-term focus: An appropriate performance measurement should ensure that managers adopt a long-term perspective.

Additional views on what best practice performance measures should entail are provided by Besterfield, Besterfield-Michna, Besterfield and Besterfield-Sacre (2003:169-170); Bititci, Turner and Begemann (2000:694); Sinclair and Zairi (1995:55); as well as Tangen (2004:727). Table 4.2 summarises these criteria:

**Table 4.2: Views of best practice performance measurement system and model**

| Tangen (2004:727-728) | Besterfield *et al.* (2003:169-170) TQM Framework | Bititci *et al.* (2000:694) | Sinclair and Zairi (1995:55) |
|---|---|---|---|
| Support strategic objectives | Be simple and understood by those who use them | Should be a dynamic system | Should reflect measures of inputs, process and outputs |
| Have appropriate balance to measuring criteria | Be few in number (where two or three be sufficient for a work group) distinguishing between important or unimportant measures | That monitors external and internal developments and changes | Have process measures monitor the activities of a process and motivate people within a process |
| Guard against creating unwanted behaviours | Be developed by users to ensure ownership and buy-in | Have a review system to use information for future objectives | Have output measures to report the results of a process and to control resources |
| Have a limited number of measures | Have relevance to customer (either internal or external) | Should maintain integrity by being agile and responsive | Should have a performance appraisal and management facet built in |
| Be easily accessible | Retain and promote the focus of improvement | Have an internal deployment system to implement revised objectives | The performance appraisal should be the process by which organisations establish measures and evaluate individual employees' behaviour and accomplishments |
| Have comprehensible specifications | Show costs and profits and include the costs of measurement | Differentiate between improvement and control measures | The performance management should be a systematic data-oriented approach to managing people at work on an on-going basis |
| | Visibly post measures facility-wide where everyone can see them | Need to have an IT automated support system | Should have KPIs to quantitatively assess performance against the CSFs |
| | Key result measures need to be guided and balanced by the | Provides alarm signals for early warning of potential | The KPI should be developed for strategic monitoring at the |

| | | | |
|---|---|---|---|
| | interests of all stakeholders | performance problems | organisational level by senior managers |
| | Align the measures to all activities with organisational goals | Monitors that gains made are maintained | |
| | Ensure that measures are done timeously | Be able to quantify the results | |

Organisations across the world face increasing competition; this is because of globalisation (Rensburg & Ferreira, 2004:1). To differentiate themselves, organisations are currently investigating innovative avenues that will provide them with some sort of competitive advantage over other organisations. Kaplan and Norton (2004:10) claim that organisations are currently creating sustainable value from leveraging their intangible assets. Additionally, Sim and Koh (2001:18) explain that strategically orientated organisational performance measurement models should report on resources such as intellectual capital, customer satisfaction, employee satisfaction or innovation. Marr, Schiuma and Neely (2004:551) agree, stating that the 'true' value of a organisation today can only be assessed by considering the intangible assets.

## 4.3 INCORPORATING INTANGIBLE ASSETS AS A MEANS FOR COMPETITIVE ADVANTAGE

Value is not tangible in nature, making it difficult to include in financial statements. Conversely, Brønn, Roberts and Breunig (2004:3) explain that when intangible assets are incorporated into financial accounting systems, competitive advantage increases. Competitive advantage provides incremental value when compared to other offerings (Dwyer & Tanner, 2002:23). This normally occurs in either one or a combination of marketing principles associated with the product, price, place or promotion (Dwyer & Tanner, 2002:23). Over the years, however, these principles have proved more difficult to differentiate, as competitors easily mimic features, price, distribution and various promotional efforts. In an attempt to gain competitive advantage, organisations are making efforts to measure these intangible assets, to provide objective information that management can use, to influence the business outcomes and behaviour of their shareholders, customers, and employees (Hartman, 2002:12).

Intangible assets include aspects such as human capital (the knowledge and expertise of employees), responsiveness, culture, customer relationships, customer loyalty, brand equity / value, quality, innovation capabilities, management capabilities, access to

networks, employee relations, environmental and community issues, databases and information systems, alliances, technology, high-quality business processes and intellectual property rights (Brønn *et al*., 2004:3; Hartman, 2002:17; Kaplan & Norton, 2004:10). Hamrefors' (2004:1) inclusion of an organisation's ability to communicate as an intangible asset is important to this study. These aspects, known as knowledge resources of the organisation, can provide considerable competitive advantage (Brønn *et al*., 2004:3). An organisation's intangible assets may easily represent more than 75% of its value (Kaplan & Norton, 2004:10), making the strategy formulation, execution and measurement crucial to the organisation.

When determining organisational direction, Dwyer and Tanner (2002:23) state that many organisations begin with a vision and a mission – the reason for creating the organisation. By realising the intangible value contained in these two crucial aspects, organisations are bound to achieve the quality that will ensure continuous organisation improvement (Rensburg & Ferreira, 2004:1). Developing a vision statement is the first step in strategic planning; answering the question, "What do we want to become?" (David, 2003:9). The mission statement is the enduring statement of purpose that distinguishes one business from other similar organisations (David, 2003:10), thus attempting to gain competitive advantage. The inclusion of intangible assets in this phase, simplifies the measurement of intangible assets (as well as the outcomes of staff functions) later on when organisations execute and measure their performance.

At the strategy formulation process, when the value creation from intangible assets is considered, Kaplan and Norton (2004:10) advise keeping in mind the following four principles for measuring purposes:

- Value creation is indirect: Improvements in intangible assets affect financial outcomes through chains of cause-and-effect relationships.
- Value is contextual: The value of an intangible asset depends on its alignment with the strategy. If endeavours are not aligned with the organisation's intentions, resources are wasted and top managers are frustrated with efforts.
- Value is potential: Intangible assets, like trained employees, have potential value, but not market value. Internal processes are required to transform the potential value of intangible assets into tangible value.

- Assets are bundled: The value from intangible assets arises when combined effectively with other assets, both tangible and intangible. Aligning the organisation's intangible assets with one another as well as with the organisation's tangible assets and strategy creates maximum value.

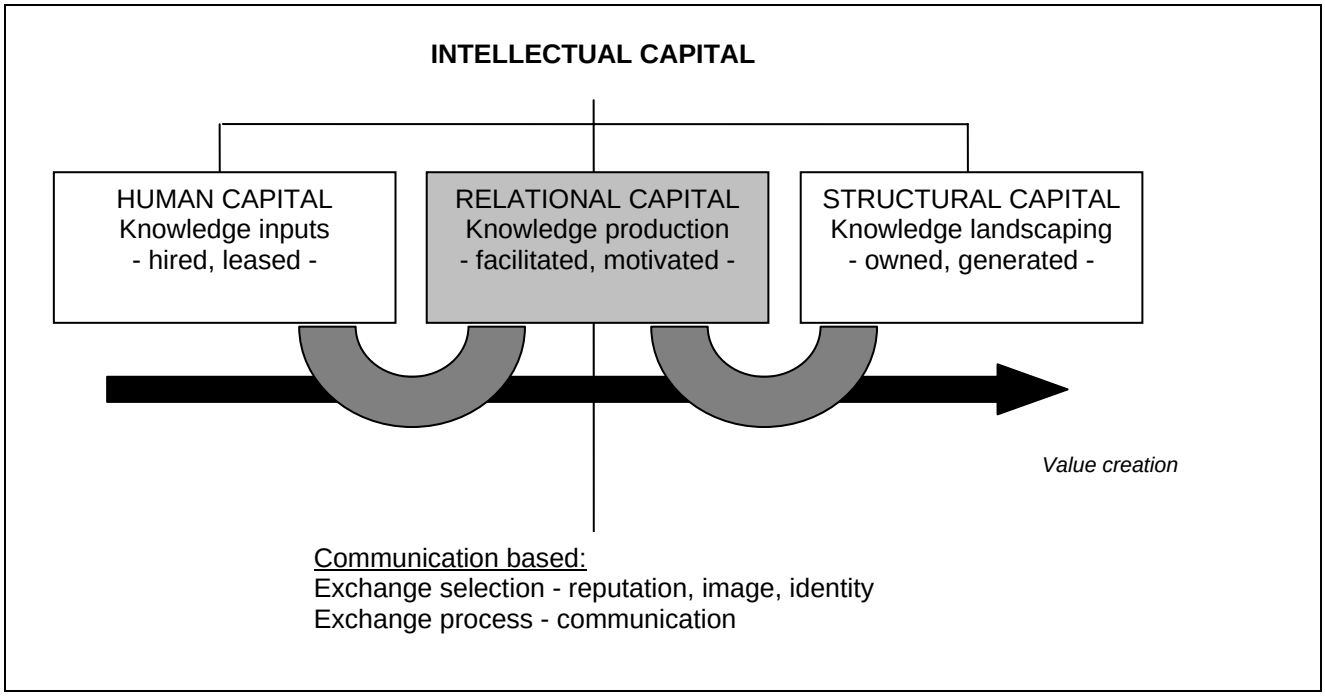
These principles have very important implications for measuring corporate communication as an intangible asset. Brønn *et al*. (2004:5-7) have explored one such example where corporate communication contributes to the intangible asset of the organisation's intellectual capital. Intellectual capital (otherwise known as 'knowledge transfer') consists of human capital, structural capital and relational capital (Brønn *et al*., 2004:5; Hamrefors, 2004:13). These authors explain that *human capital* includes both the collective knowledge of the organisation and the individual competencies, skills, and experience of people. *Structural capital* is the only part of intellectual capital that the organisation does own and consists of the 'hard assets'. *Relational capital* is what makes human capital succeed. It combines and relates people to each other, allowing them to exchange their knowledge, skills and insights in different situations.

According to Brønn *et al*. (2004:6) corporate communication predominantly features in an organisation's relational capital, as illustrated in Figure 4.1, because it exchanges information about an organisation's reputation, image and identity, and provides the communication support needed to build relationships. The real intangible value for communication lies in the knowledge exchange process (Hamrefors, 2004:13). Corporate communication can create knowledge, by communicating it from the information or tacit knowledge state (otherwise known as liberated information), into the explicit knowledge state (which is either communicated or captured information) (Brønn *et al*., 2004:10). This is achieved by firstly facilitating contact between the knowledge seeker and the source of knowledge and secondly, by facilitating other concerns during the transfer of perspectives between people (Hamrefors, 2004:13). This explicit knowledge is measurable, and the more knowledge an organisation has, the more intangible assets they have, resulting in increased competitive advantage (Brønn *et al*., 2004:11).

When measuring this explicit knowledge, Brønn *et al*. (2004:13) warn against simply measuring the amount of contact / exchange sessions that take place to assign a quantitative figure to this asset (e.g., the number of events hosted for a certain stakeholder

group). These authors also suggest that the measurement system should measure the quality of the contact / exchange. To achieve this, focussing on the venue where the exchange process takes place as well as the quality of the network (parties) involved, is essential.

**Figure 4.1: The composition of communications contribution to intellectual capital**




Adapted from: Brønn *et al.* (2004:12)

Apart from knowledge transfer, Hamrefors (2004:1) identifies other areas where communication strategically contributes towards intangible assets. Naturally, these need to be captured in the performance measurement system, and Hamrefors (2004:3) suggests that this measurement take place on an individual and organisational level. In measuring these intangible assets, Hamrefors (2004:9) centres on two factors namely the *focus* (clarity and penetration capability of message) and the *variability* (degree of interest) of the communication. Hamrefors (2004:9-15) mentions there are four areas where communication must be measured according to its focus and variability:

- Knowledge Transfer: The transfer of knowledge facilitated via the intranet and in meetings.
- Transparency: The use of the intranet, the organisation's policy statements, and the social climate, to provide a holistic understanding of the organisation, that will facilitate transparency.

- Motivation: Extrinsic and intrinsic motivations are the two areas where communication can facilitate the Human Resource function.
- Co-ordinating Logic: This facilitates the non-verbal communication such as processes related to how people work, and the way processes are organised in an organisation. The intranet is an extremely influential tool in this area.

Hartman (2002:12) provides another view on co-ordinating logic and proposes that an overlooked intangible asset is an organisation's physical environment. The physical environment and the messages it sends, should be measured in order to enhance and report it as an intangible asset or a contributor to social capital (employee relations). Hartman (2002:17) further recommends that the communication department should be responsible for the communication encompassing the physical environment, especially for the purposes of aligning the surroundings with the corporate culture, image, desirable behaviours, and expected outcomes. The actual measurement or data collection of this intangible asset may be done with a physical communication audit that raises awareness of how and what is communicated by the surroundings, and how these align with other perceptions of the organisation (Hartman, 2002:19).

The above-mentioned examples give an indication of the measurable intangible assets that corporate communication may bring to the organisation. It is not within the scope of this study to examine comprehensively all the communication intangible assets; however, what is of concern to this study, is identifying how these values may be captured in the greater organisational performance measurement system. This is the reason why the next section investigates various innovative performance measurement models used by organisations that incorporate KPIs.

## 4.4 IDENTIFYING PERFORMANCE MEASUREMENT MODELS

During the last decade, innovative organisational performance measurement models have shown a visible growth (Fleisher, 2003). Bititci *et al.* (2004:29) confirms that the past 15 years have seen significant research and development into the field of organisational performance measurement and assessment. This period saw the creation of numerous frameworks, models and tools that attempted to address all the new facets of performance measurement, but only a few of these were entirely implemented in organisations (Kaplan & Norton, 1996:2; Van Aken, Letens, Coleman, Farris & Van Goubergen, 2003:401).

Fleisher (2003) explains that these tools and models have reached varying degrees of popularity and usage. Table 4.2 presents frameworks, models, and tools identified by Bititci *et al.* (2000:693), Rensburg and Ferreira (2004:6), Seang (2003:4), Tangen (2004:729-735), Van Aken *et al.* (2003:402), as well as Wongrassamee, Gardiner and Simmons (2003:15). Important to this study, is the justification for omitting certain models from the discussion. Table 4.3 presents these motivations, which include explanations surrounding, the incapability of capturing intangible assets, the deficiency of implementation in organisations, and / or the inability to construct and utilise KPIs.

**Table 4.3: Performance measurement frameworks, models and tools not included in this study**

| Model name | Date developed | Developed by | Reason for omission |
|---|---|---|---|
| Activity-based costing | 1987 | Johnson & Kaplan | Does not incorporate non-financial or intangible assets. |
| Theory of constraints | mid 1980's | Goldratt | Does not provide a mechanism to identify KPIs and is considered to be too complex to be practically implement. |
| Sink & Tuttle model | 1989 | Sink & Tuttle | It is not a flexibility model that incorporates feedback as an intangible asset. It also neglects measuring the customer perspective totally. |
| Performance Pyramid / SMART system | 1992 | Cross & Lynch | Does not provide a mechanism to identify Key Performance Indicators. |
| Hierarchical Model | 1997 | Bititici, Carrie & McDevitt | Does provide a mechanism to identify KPIs but focuses on financial indicators and productivity. |
| IPMS - Integrated performance Measurement System | 1998 | Bititci & Turner | Does not have the ability to incorporate a communication aspect as an intangible asset; is also a very complex model to implement practically. |
| Medori & Steeple's framework | 2000 | Medori & Steeple | Does not provide a mechanism to identify KPIs. |
| Performance Prism | 2001 | Neely & Adams | Does not explain how performance measures are to be realised and does not provide a mechanism to identify KPIs. |
| ISO 9000<br>ISO 14000 | 1987<br>1996 | Various authors & institutions | Are standards and do not contain performance measurements models to measure those standards. |
| ISAT - Improvement System Assessment Tool | 2003 | Van Aken, Letens, Coleman, Farris & Van Goubergen | Does not have the ability to incorporate a communication aspect as an intangible asset; is also a very complex model to implement practically. |

Understanding the above parameters allows the discussion to elaborate on pertinent performance measurement models. Commencing with a theoretical perspective, a brief investigation into the Organisation Theory reveals fascinating thoughts appropriate to this subject. The theory comprises four measurement premises to organisational effectiveness. These premises (some were mentioned earlier in this chapter), include the Goal-Attainment Approach; the Systems Approach; the Strategic-Constituencies Approach; and

the Competing-Values Approach (Robbins, 1987:31-49). The Competing-Values Approach suggests interesting concepts on balancing financial and non-financial end goals and is therefore the starting point of this discussion.

### 4.4.1 Examining the Competing-Values Approach

The underlying factor of this approach is that the evaluators, of an organisation's effectiveness, assess the performance according to values that are important to them (Robbins, 1987:42). This approach assumes that these diverse preferences are consolidated and organised to combine sets of competing values, against which the organisation's performance is graphically plotted (Robbins, 1987:43):

- The first set of opposing values is *flexibility* (concerned with innovation, adaptation and change) versus *control* (favouring stability, order, and predictability).
- The second set of competing values includes the development and well-being of *people* in the organisation as opposed to the development of the *organisation* itself.
- The last set relates to the *means* (stressing internal processes and long-term survival) against the *ends* (final outcomes and short-term focus).

These sets are then further divided into eight criteria (or cells) as depicted in Table 4.4.

**Table 4.4: Eight cells of performance measurement in the Competing-Values Approach**

| Cells | Description | Definition |
|---|---|---|
| OFM | Flexibility | Able to adjust well to shifts in external conditions and demands. |
| OFE | Acquisition of resources | Able to increase external support and expand size of work force. |
| OCM | Planning | Goals are clear and well understood. |
| OCE | Productivity and efficiency | Volume of output is high; ratio of output to input is high. |
| PCM | Availability of information | Channels of communication facilitate informing people about things that affect their work. |
| PCE | Stability | Sense of order, continuity, and smooth functioning of operations. |
| PFM | Cohesive work force | Employees trust, respect and work well with each other. |
| PFE | Skilled work force | Employees have training, skills, and capacity to do their work properly. |

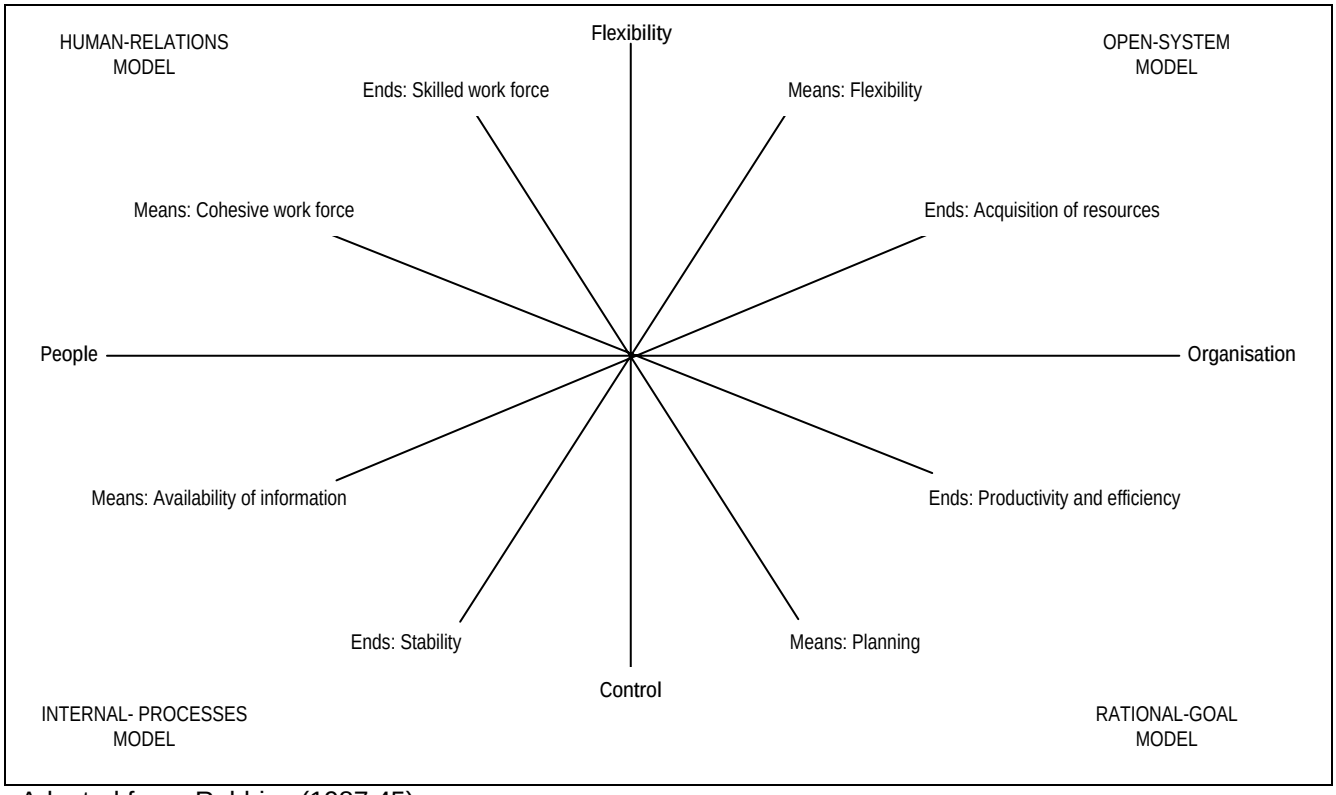
Source: Robbins (1987:44)

The eight criteria (cells) are then plotted to create a framework as illustrated in Figure 4.2. While the X- and Y-axes represent the first two sets of values, the means and ends are

represented within the quadrants. As depicted in this framework, the four quadrants are divided to identify four models of effectiveness values (Robbins, 1987:44).

The effectiveness values of an organisation clarify what is important to that organisation and where the organisation places emphasis. The Human-Relations model defines organisational effectiveness as being accomplishing a cohesive workforce (as a means) and believes in obtaining a skilled work force (as the ends), thus encompassing the PFM and PFE cells (as depicted in Figure 4.3). The Open-Systems model includes the OFM and OFE cells and values flexibility (as a means) and ability to acquire resources (as the end). The Rational-Goal model cherishes plans and goals (as a means) and high productivity and efficiency (as the end), with cells OCM and OCE. The last quadrant is the Internal-Process model and emphasises dissemination of information (as the means) and stability and order (as the ends) including cells PCM and PCE (Robbins, 1987:45).

**Figure 4.2: Four models of effectiveness values in the Competing-Values Approach**

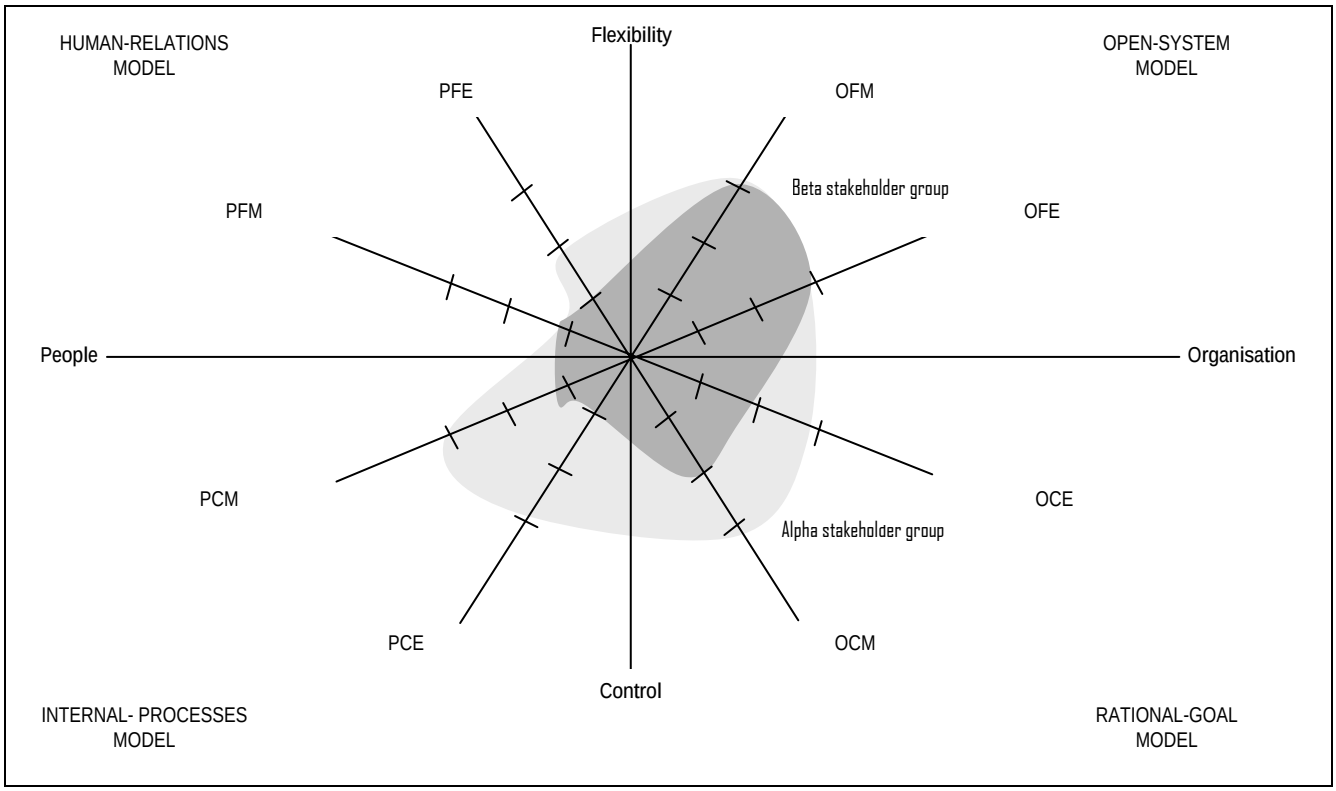



Adapted from: Robbins (1987:45)

To identify what values are important to the organisation and its strategic stakeholders, the strategic stakeholders are requested to rate the organisation's performance on a questionnaire. The eight criteria or cells (mentioned in Table 4.4) form the questions and the ratings are done on a scale of 1 to 3 where 1 is 'Do not agree', 2 is 'Somewhat agree',

and 3 is 'Strongly agree'. The answers are captured and plotted on the Four Models axis, as illustrated in Figure 4.3, this identifies graphically, where stakeholders agree or disagree and where perceptions need improvement (Robbins, 1987:46).

**Figure 4.3: Comparing the effectiveness in the Competing-Values Approach**




Adapted from: Robbins (1987:47)

As indicated in Figure 4.3, the two stakeholder groups (Alpha and Beta) have varying perceptions of the organisation, especially relating to the Internal-Process model concerning the sharing of information (PCM). Both stakeholder groups do, however, perceive the organisation to be flexible and in a position to acquire resources (seen in the OFM and OFE quadrant). An example will highlight the value of the above model. If the organisation's managers were group Alpha and the employees group Beta, the difference in perceived information sharing could indicate a lack of communication between managers and employees. Managers might think that employees are receiving communication, while the employees perceive it differently. The problem is compounded by the fact that both managers and employees believe that the company follows an Open-System Model, in which the company should be in a position of financial flexibility. Lastly, the low results obtained in the Human-Relations model for cohesive work forces indicate that the organisation values financial achievement over employee satisfaction. To

conclude, it would appear that this company focuses more on maintaining financial goals of acquisition and flexibility than on succeeding in other areas. This model can therefore visually portray different perceptions of stakeholders and allow comparison against internal and external perception. It is also useful for benchmarking, as a repeat of the survey would determine whether any improvement took place.

Robbins (1987:47) explains that the Competing-Values Approach overcomes the problem of being entirely goal orientated by including both the *means* and the *ends*. The author also commends it for acknowledging that there are multiple criteria (including intangible assets) and conflicting interests when measuring an organisation's performance and effectiveness. Additionally, the model has simplified many criteria into four conceptually clear organisational models. This theoretical approach provides wonderful insight into measuring balanced organisational performance, holistically. However, models of performance measurement used in industry, must receive attention.

As mentioned in Chapter 3, 'best practice' refers to executing actions that will achieve superior results or performance (Seang, 2003:1). This practice entails a belief that the management of an organisation conducts business in the best manner possible, to positively influence their shareholders, employees and other stakeholders. Hopefully continued positive influence will lead these stakeholders to demonstrate loyalty towards the organisation, thereby sustaining competitive advantage (Zhang, 2003:613-615). Although best practice is typically exercised in areas such as customer focus and service, corporate culture, structure, aligned goals and change strategies, Hyman (2004:3) emphasises the importance of also exercising best practice in performance measurement. With the notion of, "What you measure is what you get", Hyman (2004:4) explains that correctly measuring the right areas inside the organisation will provide the right information needed to make the right decisions. The concepts of *quality* and *excellence* have been a driving force from the 1980's serving as underlying factor for measuring according to best practice principles (Wongrassamee *et al.*, 2003:17). Examples of such best practice frameworks and models include the Total Quality Management; the Malcolm Baldrige National Quality Award; and the various Excellence Models (Marr *et al.,* 2004:551).

### 4.4.2 Examining the Total Quality Management Model

Total Quality Management (TQM) is a philosophy and set of guiding principles that represent the foundation of continuous improvement in an organisation. Besterfield *et al.* (2003:1) analyse the concept TQM as follows: *Total* stands for 'made up of the whole' implying the whole organisation; *Quality* is the degree of excellence a product or service provides; *Management* is the act, art, or manner of handling, controlling and directing. Therefore, TQM is a way of managing to improve the effectiveness, flexibility, and competitiveness of a business as a whole (Ho & Fung, 1994:24).

TQM was developed in the early 1980s, after managers, concerned with production (Ho & Fung, 1994:25), had made frequent trips to Japan to learn about the success the Japanese have in conducting business (Rensburg & Ferreira, 2004:6). At a time that only a few theoretical models had effectively been implemented, literature reveals several success cases where TQM guidelines were implemented and proved beneficial (Dayton, 2003:391; Ho & Fung, 1994:24; Zink, 1998:1). TQM requires six concepts that must be adhered to, before the approach can be implemented (Besterfield *et al.,* 2003:10); this might prove to be one of the reasons for its success:

- A committed and involved management is paramount, to provide long-term top-to-bottom organisational support;
- An unwavering focus on the customer is essential, both internally and externally;
- Effective involvement and utilisation must be obtained from the entire work force;
- A constant focus on the continuous improvement of the business and product processes, is vital;
- Suppliers must be treated as partners; and,
- Establishing performance measures for the different processes is crucial.

According to Ho and Fung (1994:25) the basic TQM principles to implementing quality, revolve around leadership, commitment, total customer satisfaction, continuous improvement, total involvement, training and education, ownership, reward and recognition, error preventions, as well as co-operation and teamwork. A study by Dayton (2003:391-396) tested the current relevance of these principles and discovered that they still hold true for professionals today. When executing TQM, each principle is looked at individually, by following a set of unique criteria specific to that principle. These criteria have to be implemented and measured in the policies and procedures. Although TQM

refers to various measurement tools and techniques for calculation purposes, the only form of organisational performance measurement model identified is the Malcolm Baldrige National Quality Award (MBNQA) (Besterfield *et al.,* 2003:191). This model as well as other Excellence Models is examined in further detail.

### 4.4.3 Examining the Excellence Models

As derived from the above, quality and excellence, find their roots in TQM where the MBNQA became the first means to measure the TQM guidelines (Besterfield *et al.,* 2003:10). The success of this model led to the creation of various similar models, called the Excellence Models (Rensburg & Ferreira, 2004:6). These models based on the TQM principles, vary in the criteria that are specific to the country it was designed for (Rensburg & Ferreira, 2004:7). Table 4.5 provides a summary of the different Excellence Models, the dates of creation and regions represented.

**Table 4.5: The establishment of Excellence Models**

| Date | Model name | County or region |
|---|---|---|
| 1951 | Deming prize | Japan |
| 1981 | Malcolm Baldrige National Quality Award (MBNQA) | USA |
| 1988 | Australian Quality Award | Australia |
| 1992 | European Foundation Quality Award (EFQM) | Europe |
| 1994 | United Kingdom Quality Award (UKQA) | United Kingdom |
| 1997 | South African Excellence Model (SAEM) | South Africa |

Adapted from: Rensburg and Ferreira (2004:7)

The Excellence Models help organisations to integrate key requirements, within a results-oriented, non-prescriptive framework (Rensburg & Ferreira, 2004:7; Wongrassamee *et al.,* 2003:16). The framework then creates a basis for action and feedback. The idea is to award organisations that have demonstrated excellence, in the management of quality, as the essential process for continuous improvement (Wongrassamee *et al.*, 2003:16). The models, worldwide, are based on fundamental criteria (which are embedded beliefs and behaviours found in high-performing organisations), but differ in the number of criteria suggested (Rensburg & Ferreira, 2004:7). A brief discussion of the MBNQA and EFNQA follows, due to their popularity and international acceptance and owing to the South African focus of this study, SAEM also receives referral.

The MBNQA consists of seven categories that include non-financial as well as financial facets (Wongrassamee *et al.,* 2003:16). Organisations are expected to evaluate their own performance in each criterion, and the organisations' examiners are given intense training to qualify them to conduct the evaluations (Besterfield *et al.,* 2003:196). The model is not prescriptive about the tools, techniques and systems, used to evaluate each criterion, as they are subject to the organisation's size, type, stage of development, employee capabilities and responsibilities (Besterfield *et al.,* 2003:192). The model and scoring sheet displayed in Figure 4.4 consist of the seven criteria, represented in the model, as well as its relevant sub criteria. Each criterion has a sub-total, which adds to a total score of 1000. The final figures in the scoring sheet provide benchmarks for competitive and industrial stretch goals (Edkildsen, Kristensen & Juhl, 2001:793), simultaneously and ultimately serving as improvement indicators for the organisation (Besterfield *et al.,* 2003:199).

**Figure 4.4: Baldrige criteria for performance excellence framework and scoring sheet**

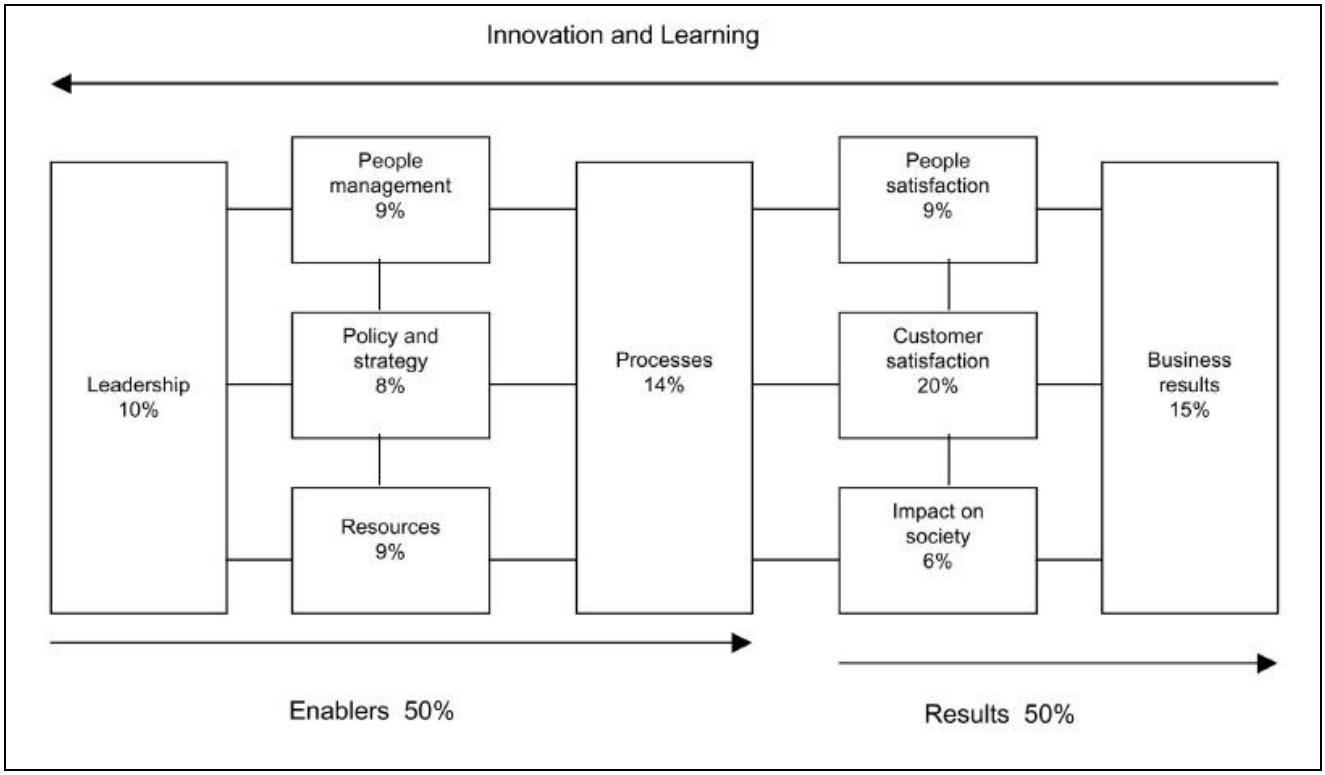
| AWARD CATEGORIES AND ITEM LISTING WITH POINT VALUES | | | | | |
|---|---|---|---|---|---|
| **1. Leadership** | | **110** | **5. Human Resource Focus** | | **100** |
| 1.1 Leadership System…….... | 80 | | 5.1 Work Systems…….... | 40 | |
| 1.2 Company Responsibility & Citizenship…….... | 30 | | 5.2 Employee Education, Training, & Development……. | 30 | |
| **2. Strategic Planning** | | **80** | 5.3 Employee Well-Being & Satisfaction…….. | 30 | |
| 2.1 Strategy Development Process…….. | 40 | | **6. Process Management** | | **100** |
| 2.2 Company Strategy……..... | 40 | | 6.1 Management of Product & Service Processes…… | 60 | |
| **3. Customer and Market Focus** | | **80** | 6.2 Management of Support Processes…….. | 20 | |
| 3.1 Customer & Market Knowledge…….. | 40 | | 6.3 Management of Supplier & Partnering Processes…. | 20 | |
| 3.2 Customer Satisfaction & Relationship Enhancement. | 40 | | **7. Business Results** | | **450** |
| **4. Information and Analysis** | | **80** | 7.1 Customer Satisfaction Results…….... | 125 | |
| 4.1 Selection & Use of Information & Data…..... | 25 | | 7.2 Financial and Market Results…….. | 125 | |
| 4.2 Selection & Use of Comparative Information & Data.. | 15 | | 7.3 Human Resource Results…….... | 50 | |
| 4.3 Analysis & Review of Company Performance…… | 40 | | 7.4 Supplier & Partner Results…….. | 25 | |
| | | | 7.5 Company-Specific Results…….. | 125 | |
| **TOTAL POINTS** | | | | | **1000** |

Adapted from: Besterfield *et al.* (2003:192,194)

The EFQM is a framework based on nine criteria for management practices, as illustrated in Figure 4.5 (Rensburg & Ferreira, 2004:7; Wongrassamee *et al.,* 2003:16). These criteria represent validated, leading-edge practices for achieving performance excellence and are divided into *enablers* (what the organisation does) and *results* (what the organisation achieves) (Rensburg & Ferreira, 2004:8; Wongrassamee *et al.*, 2003:17). The enablers therefore cause the results and are weighted against them (Vos & Schoemaker, 2004:2). Following a similar concept to the MBNQA, the criteria are weighted into percentages (as seen in Figure 4.5) and are also assessed using non-prescriptive methods, tools and

techniques. Wongrassamee *et al.* (2003:17) explains that enablers are scored, according to two factors, namely *approach* and *deployment*. The results factors are the degrees of excellence of the results, as well as the scope of the results achieved. The 'blue card' is the scoring sheet and works on a similar principle to the MBNQA.

**Figure 4.5: The EFQM Excellence Model**



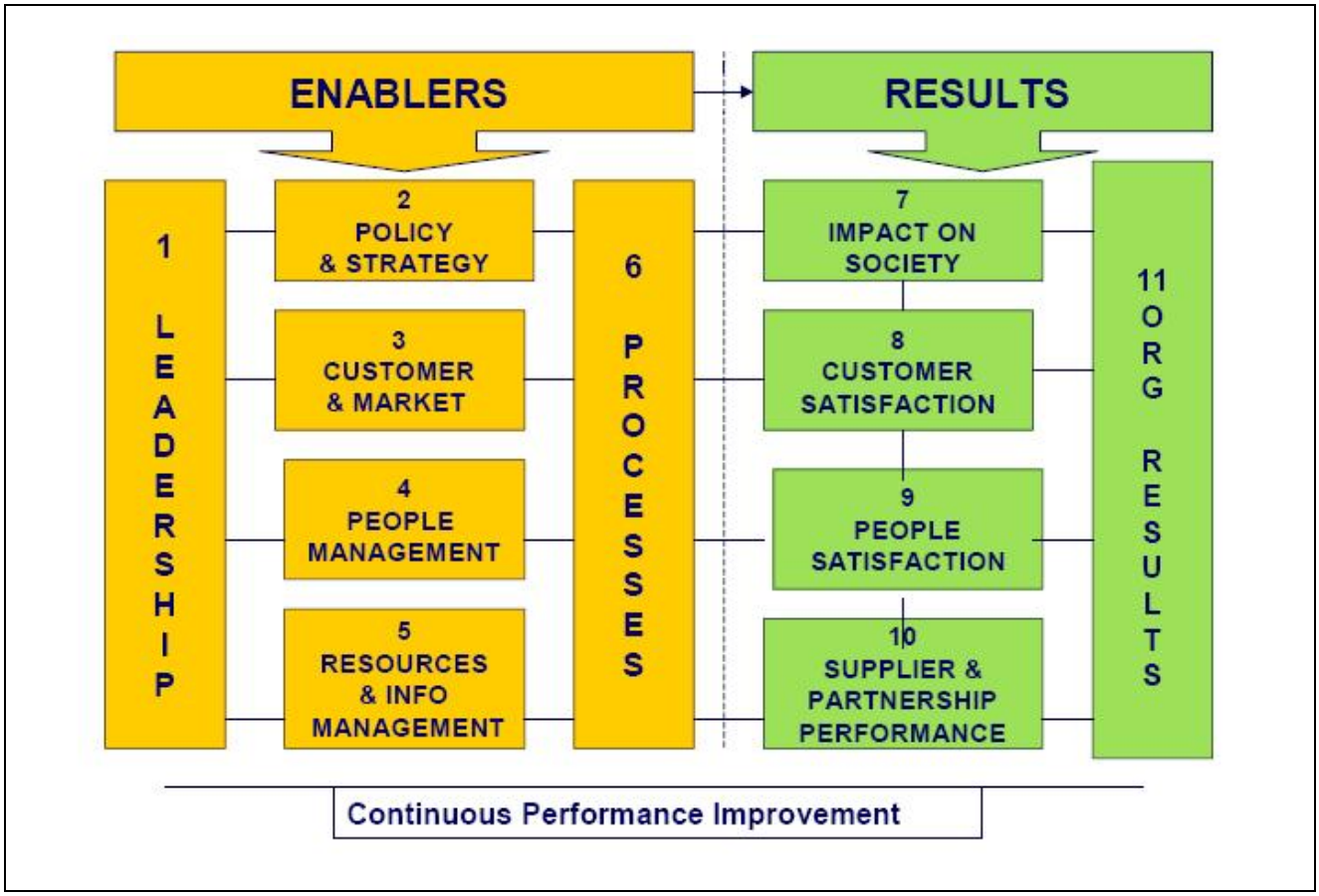

Source: Wongrassamee *et al.* (2003:16)

The SAEM, duly recognised by both the MBNQA and EFQM, incorporates, in accordance with South African priorities, eleven criteria that carry a local emphasis (Rensburg & Ferreira, 2004:11). Following the same non-predictive scoring approach as the EFQM, Figure 4.6 illustrates the criteria.

Various authors like Besterfield *et al.* (2003:199); Edkildsen *et al.* (2001:783); Rensburg and Ferreira (2004:10-11) as well as Wongrassamee *et al.* (2003:16) highly acclaim the Excellence Models. There is a range of advantages that these organisational performance measurement models present. Wongrassamee *et al.* (2003:21) shed light on some of these. Firstly, the models assist managers in making effective decisions, by indicating areas where managers should focus their change initiatives. Secondly, a further benefit is the focus on information flow. The results are direct feedback of the enablers, and are implemented in the following year's business improvement strategies and action plans.

Thirdly, an additional benefit is the non-predictive measurement tools and techniques. For organisations that already have performance measurement systems in place, this model can assist them in leveraging their prior investments.

**Figure 4.6: The South African Excellence Model**




Source: Rensburg and Ferreira (2004:9)

A downside to the models is that they do not suggest which strategies or plans should be adopted to achieve continuous improvement. In addition, the models do not advise which measurement methodologies are required to enable measuring the different criteria (Wongrassamee *et al.,* 2003:21). The fact that measurement methodologies are not prescribed, can be seen as an advantage (as explained above), however, it can also be seen as a great disadvantage where organisations are not sure how to implement and apply their performance measurement models. These models are vague and do not walk organisations through this journey.

Moreover, where the TQM principles still apply universally (Dayton, 2003:391-396), Edkildsen *et al.* (2001:793) discovered that the criteria for the EFQM do not align with the beliefs of all European organisations. One example indicates that Danish companies do

not consider enablers and results to be of equal importance (as with the EFQM), but have embraced enablers such as intangible assets as being more important than results (mostly considered as financial success). Considering Seang's (2003:4) explanation of evolving performance measurement systems (presented earlier in the chapter), it seems as if the Excellence Models have failed to adjust accordingly.

From a communication's perspective, the models do not refer to any form of communication. As a result, the need to communicate is not identified and the ownership of communication strategies and activities are not assigned. The measurement of communication therefore does not feature in these models.

The TQM and Excellence Model movement led to the development of the ISO 9000 and the ISO 14000 standards, where the ISO 9000 became the worldwide standard for a quality management system (Ho & Fung, 1994:25). The ISO 14000 later usurped this position as the worldwide standard for environmental management systems (Besterfield *et al.,* 2003:10). This study does not discuss these standards, as they merely prescribe a standard and do not actually measure the performance of the standard. Although authors like Ho and Fung (1994:28-30) make reference to the LETQMEX Model, that was developed by the Leicester Business School, to assist organisations with the implementation of the ISO 9000 standards, no mention is made of actually measuring performance in general in the model. Furthermore, Seang (2003:2) argues that developing KPIs from the ISO standards alone are not sufficient, because the ISO standards focus only on customer satisfaction.

Due to the non-prescriptive approach, adopted in the Excellence Models, organisations make use of an assortment of models to evaluate the organisation's progress towards excellence. Zink (1998:93-206) presents cases where organisations, entering the EFQM awards, make use of their own customised models to measure their performance in each criterion. Alternatively, Ritter (2003:48) explains that the Balanced Scorecard can be utilised as both a means to evaluate the EFQM and to convert strategy into action.

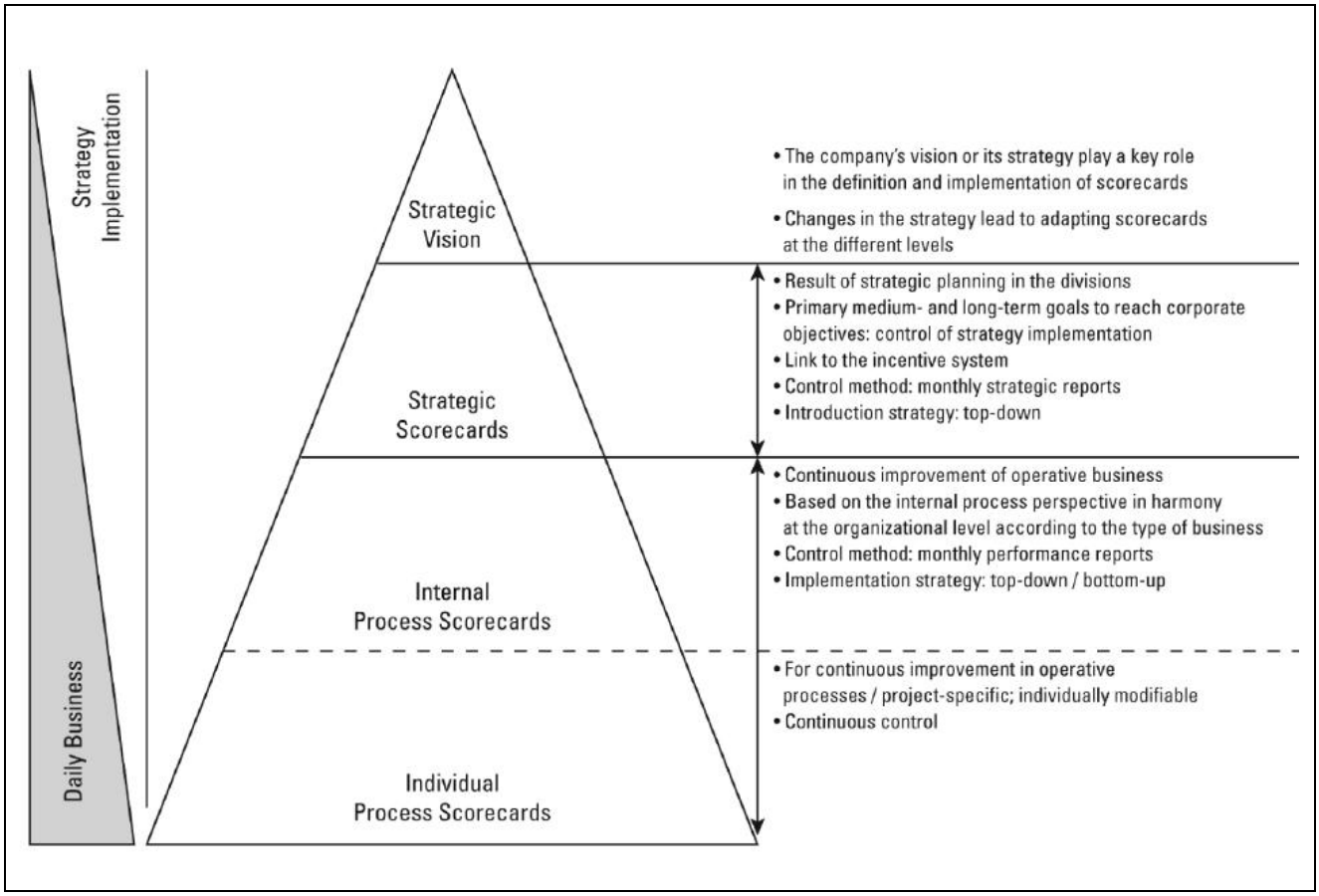
### 4.4.4 Examining the Balanced Scorecard

Kaplan and Norton introduced the Balanced Scorecard in 1992 as an organisational performance measurement model that links with the organisational strategy, by

communicating, implementing and measuring it (Du Plessis *et al.,* 2001:424; Wongrassamee *et al.,* 2003:19). The Balanced Scorecard is one of the most popular and widely used strategy implementation and measurement models globally (Hasan & Tibbits, 2000:440; Ritter, 2003:45; Seang, 2003:6). It aims to give managers a comprehensive view of the business and allows them to focus on the critical areas that drive the organisation's strategy forward (Wongrassamee *et al.,* 2003:18). It speaks a language that executives can apply to direct and prioritise their organisations. It is also a system of quality control that allows strategic measures to be viewed, not only as performance indicators in the four independent perspectives, but also as a series of cause-and-effect linkages among the objectives in the four Balanced Scorecard perspectives (Vos & Schoemaker, 2004:1). Seang (2003:8) explains that without a comprehensive description of a strategy, executives are unable to communicate the strategy amongst themselves as well as towards their employees. Without a shared understanding of the strategy, executives cannot create alignment around it. In addition, without alignment, neither can executives implement their new strategies for the changed environment, caused by global competition, deregulation, customer sovereignty, and advanced technology, nor can they determine the competitive advantage their company has derived from intangible assets as well as the human and information capital.

Kaplan and Norton (1996:7) identified two essential flaws in the Balanced Scorecard, which affect many measurement systems. The first is the failure to measure intangible assets, and the second, the inability to measure performance on all levels of the organisation, because the process of strategy and measurement starts at the most senior level of the organisation and cascades through all the business units and groups in an integrated fashion (Hasan & Tibbits, 2000:440). The Balanced Scorecard calls on managers to make a commitment, to introduce an array of financial as well as non-financial measures and to aid organisations, in obtaining its vision and strategy (Du Plessis *et al.*, 2001:425; Sim & Koh, 2001:18). Financial measures that indicate past performance are complemented by non-financial measures that drive future performance (Ritter, 2003:44-45). The model, depicted in Figure 4.7, links existing visions and strategies with the financial and non-financial measures, and implements them throughout the organisation, to extend to each employee's performance measurement model (Cullen, John, Hassall, & Broadbent, 2003:6).

**Figure 4.7: The different levels of the Balanced Scorecard**



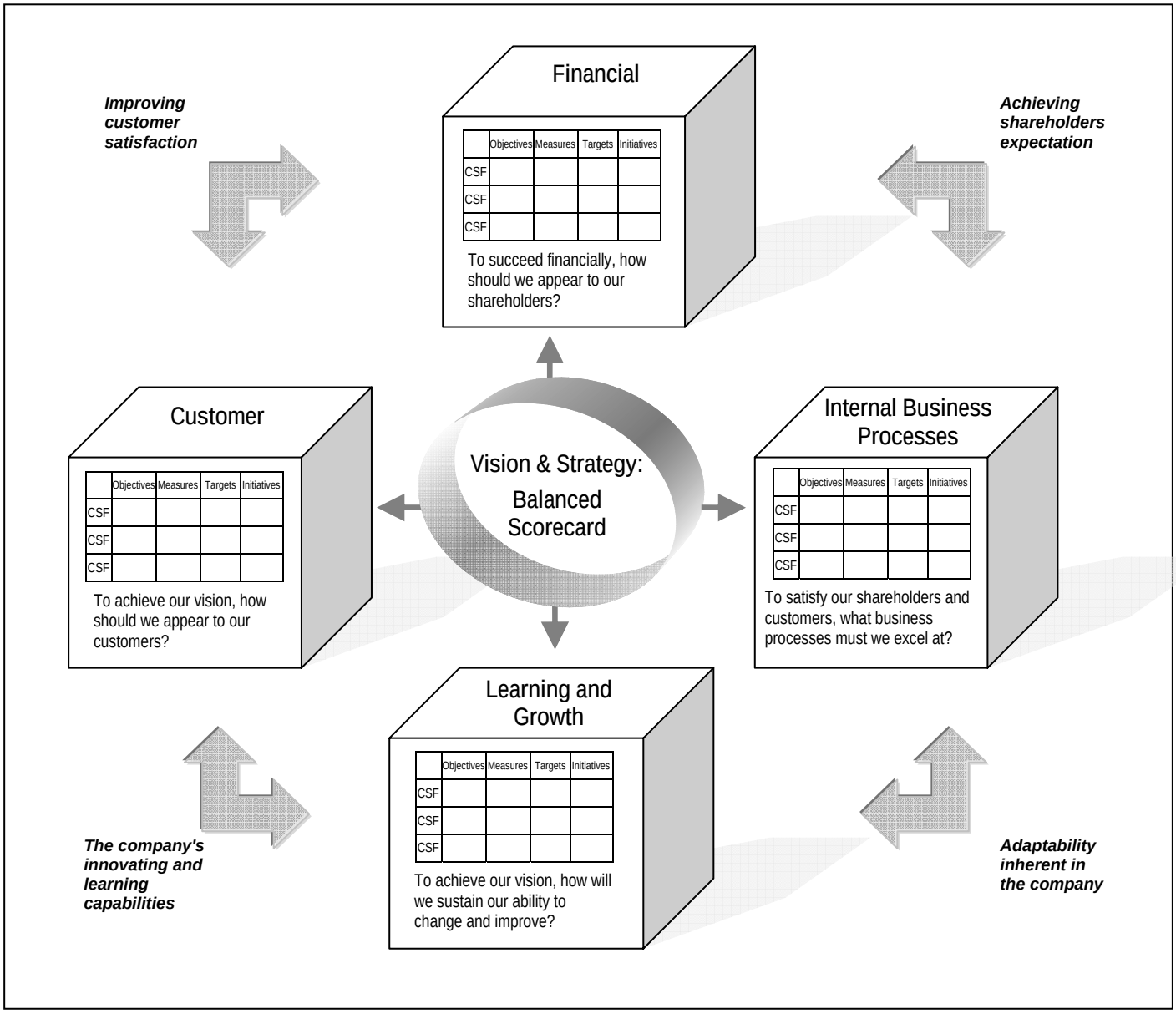

Source: Ritter (2003:46)

Furthermore, the Balanced Scorecard is set up to focus attention on matters of both internal and external concern to the organisation (Ritter, 2003:45). Bititci *et al.* (2004:28) note that organisations perform better if managed through formalised, balanced and integrated performance measures. The Balanced Scorecard therefore attracts managers because of its ability to balance measures between short-term and long-terms objectives; financial and non-financial measures; as well as lagging and leading indicators, and does so throughout the entire organisation (Hasan & Tibbits, 2000:440). Moreover, it is concerned with and about the organisation's internal and external performance and stakeholder perceptions.

The Balanced Scorecard addresses four areas where stakeholders' perceptions may take shape (Rensburg & Ferreira, 2003:5). These four areas, known as perspectives, are depicted in Figure 4.8 alongside the questions the organisation should ask itself in each of the four perspectives. These questions help identify KSFs or CSFs that the organisation should address, to achieve its vision and strategy (Ritter, 2003:47). CSFs are defined by Howe (2004:30-33) as those factors, if removed, or not done, that would inhibit the

achievement of the organisation's vision. Kaplan and Norton (2004:10) explain that the business strategies as well as its objectives, targets initiatives and measures flow from the CSF.

**Figure 4.8: The Balanced Scorecard**




Adapted from: Kaplan and Norton (1996:9)

Kaplan and Norton (2004:10) draw attention to the financial perspective and explain that the financial performance serves as a lag indicator that provides the ultimate definition of an organisation's success. The strategy surrounding this area would typically describe how an organisation intends to create sustainable growth, profitability and risk in shareholder value (Kaplan & Norton, 2001:23). This single measure captures the primary reason for the organisation's existence, as most profit organisations' visions and goals are to create,

sustain and develop profit. This perspective typically asks, “How do our shareholders view us?” and links the corporate strategy to their financial objectives (Du Plessis *et al.*, 2001:424-427).

Success with customers is a principal component for improved financial performance (Kaplan & Norton, 2004:10). In addition to measuring the lagging indicators, Kaplan and Norton (2004:10) explain that the customer perspective should also measure customer success areas, such as satisfaction, retention, and growth. This perspective defines the value proposition for customer segments; therefore, choosing the customer value proposition as the central element of this strategy, it questions, “How should our customers see us?” (Du Plessis *et al.*, 2001:424; Kaplan & Norton, 2004:10). Where a non-profit organisation employs the Balanced Scorecard, then this perspective becomes the primary driving force of the organisation (Kaplan & Norton, 2001:134-139).

The internal business processes perspective creates and delivers the value proposition for customers (Kaplan & Norton, 2004:10). Here managers can identify the CSFs within processes (such as innovation, operations and after-sales service) that they should excel at (Du Plessis *et al.*, 2001:428). According to Kaplan and Norton (2004:10), the performance of internal processes is a leading indicator of subsequent improvements in customer and financial outcomes.

In the last perspective, intangible assets are the ultimate source of sustainable value creation (Kaplan & Norton, 2004:10). Learning and growth objectives describe how the people, technology, and organisational climate combine to support the strategy. Improvements in ‘learning and growth’ measures are lead indicators for internal processes, customer, and financial performance. It thus identifies the importance of investing, for the future, in areas that are not traditional areas of investment (Du Plessis *et al.*, 2001:429; Kaplan & Norton, 2004:10). This perspective typically questions, “Can we improve what we do?” (Du Plessis *et al.*, 2001:428).

The Balanced Scorecard is concerned with balancing the four perspectives to achieve all-round success. Nevertheless, an additional weighting may be allocated to these perspectives, to address areas of the business that need greater improvement (Brackertz & Kenley, 2002:133). Senior management usually conduct this process of weighting, with

reference to strategic goals, which can be normalised to any figure ranging from 10-100. Hasan and Tibbits (2000:441) however caution against making one perspective more important than another. These authors name cases where organisations have made the financial perspective more prominent, because it is the easiest to measure. Moreover, Hasan and Tibbits (2000:441) argue that the whole point of the Balanced Scorecard is not to measure what is easy, but what really matters. The weighting should therefore be reflective of the importance of each of the four perspectives, in relation to the organisation's business aims (Brackertz & Kenley, 2002:134).

The criteria for the divisions may not always adhere to the above-mentioned four perspectives due to the role they play in the organisation, allowing them to adjust their own scorecard accordingly. In some cases, even the role of the organisation has resulted in the adaptation of the corporate scorecard. Ahn (2005:5) describes that a reasonable percentage of companies have faced problems with the restriction of the four perspectives and have had to derive their own perspectives, based on their mission and circumstances. Ahn (2005:7) provides a framework for developing perspectives based on the mission and strategies of the organisation. A case study of a pharmaceutical company is cited, where the four perspectives were expanded to five. These were an environmental perspective (that addressed their environmental responsibility); a quality perspective (that raised the level of quality); a HR perspective (that had to improve the skills of the employee); a financial perspective (that would raise contributions); and the customer perspective (that would increase customer satisfaction) (Ahn, 2005:9-10).

Another example is provided, as a case study, by Brackertz and Kenley (2002:127-135) where the Balanced Scorecard had been modified to measure a service delivery approach for an Australian local government authority. This scorecard reflected that facilities of the building proved a significant contribution to the service experience and thus became a perspective. The scorecard included the use of the usual financial perspective; a building perspective (the building perspective brought together several tangible aspects of facility performance); a services perspective (how well the facility delivered services to the community in line with the objectives); and a community / customer perspective (the accessibility to customers).

Apart from defining the correct perspectives, Kaplan and Norton (1996:333) also agree that many factors could prohibit the successful implementation of the Balanced Scorecard, and these normally relate to the lack of executive interest and support. Hasan and Tibbits (2000:442) therefore state that leaders often make use of IT software, to ease in the implementation of the Balanced Scorecard, because the process of performance measurement is captured, stored and automated in the IT system, which ensures that measures remain current, accurate and relevant. Not only is the sustainability of the Balanced Scorecard then increased, but the running of the scorecard is also kept up to date. Each scorecard on the organisational and departmental level includes an indication as to whether or not the objectives are achieved. A green, amber or red light, positioned with high visibility, portrays the progress (Kaplan & Norton, 1996:50).

A major strength of the Balanced Scorecard is the emphasis it places on linking performance measures with business strategies (Wongrassamee *et al.,* 2003:10). Capitalising on this strength, Kaplan and Norton (2001:70) introduced the Strategy Map, as a framework, to link the Balanced Scorecard with the management of the various corporate strategies. Motivation for the introduction of the Strategy Map is the fact that measurement itself creates the focus for the future, and this focus should be integrated into the management system. Kaplan and Norton (2001:9-60) further explain that the Strategy Map consists of five specific processes, referred to as the principles of a Strategy-Focused Organisation, and include:

- Principle 1: Clarifying and translating the strategy in operational terms: initiated by building a Balanced Scorecard that communicates the corporate strategy in all four perspectives.
- Principle 2: Aligning the organisation to the strategy: especially important for large organisations that have multiple divisions and business units; accomplished by transmitting strategic objectives in the scorecards of the divisions and business units.
- Principle 3: Making strategy everyone's day-to-day job: the scorecard is the bridge that translates the strategy at the top, into operational actions at the bottom: emphasis is placed on the fact that everyone in the organisation must understand the strategy and ensure their actions are in alignment with the strategy.
- Principle 4: Making strategy a continual process: entails reviewing the strategy at least once a year, for updates, to reflect new opportunities and competitive conditions.

- Principle 5: Mobilising change through executive leadership: in many cases, the Balanced Scorecard initiative is implemented with a lot of energy, but not sustained. Kaplan and Norton (2001:59) explain that non-involvement from the executive causes this subsidence.

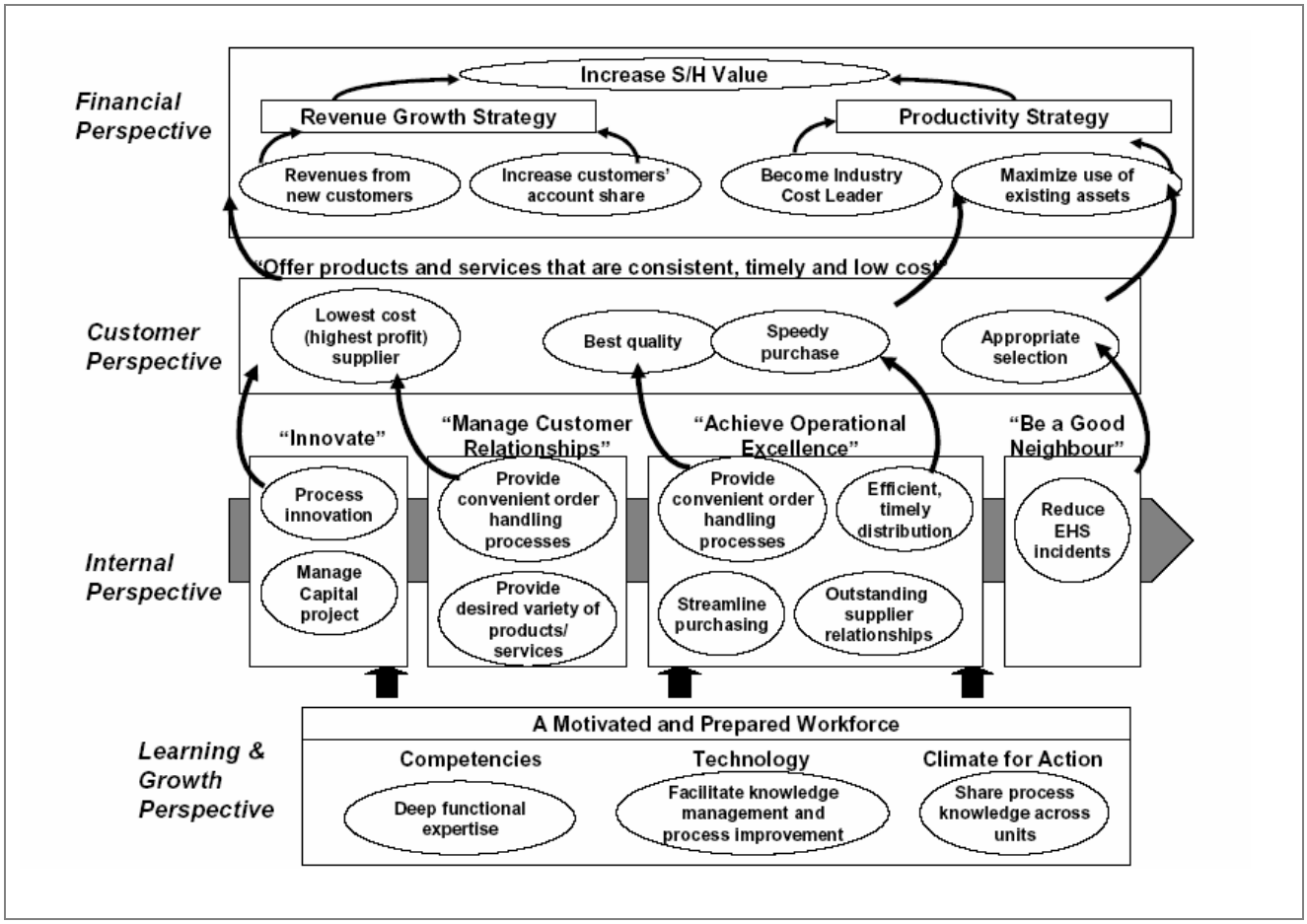
The power of the Balanced Scorecard is the ability to link the performance measures to the strategic intent of the organisation. The process of strategy mapping clarifies the relationships of the four perspectives in a strategic manner (Seang, 2003:6). Figure 4.9 depicts an example of a 'Value for Money' Strategy Map, and reflects the integration of vertical linkages from operational measures through to financial measures. The corporate objective is to increase the shareholders' value in the company. Revenue growth and productivity is of importance to shareholders. The customer wishes to obtain products / services of the highest quality at the lowest cost. The ability to satisfy the customers must result in the shareholders' value. The organisation needs an internal capability, to achieve the outcome perceived by customers as their value-for-money requirement. The development of this internal capability must be able to support the customer-related strategy. As the market is dynamic, the company must be able to maintain its ability to meet both future challenges as well as growth. Strategies to develop new internal competencies are necessary, for the continuing survival of the enterprise.

In the Strategy Map, of Figure 4.9, the circles represent the CSFs for each of the four perspectives. The arrows represent the strategic linkages between the CSFs (Kaplan & Norton, 2001:72). Each CSF needs at least a key performance measure to monitor and control the business. The process of strategy mapping, when adequately executed, will deliver KPIs, which are relevant, purposeful and useful for strategic monitoring as well as the management control of the business (Seang, 2003:6). The KPIs will in turn facilitate useful and crucial inputs for the strategic and management reviews of the business.

Sim and Koh (2001:19) determined that the Balanced Scorecard and Strategy Map were well accepted, because many big corporations implemented the Balanced Scorecard with varying levels of satisfaction. These authors' research into 83 North American companies proved that these companies' investment into the Balanced Scorecard, correlated directly with the phenomenal results they obtained after implementing the performance measurement model. Sim and Koh (2001:24) cite cases where results ranged from

financial and market share growth, to employee and stakeholder satisfaction, to name but a few.

**Figure 4.9: The Balanced Scorecard's Strategy Map**




Source: Seang (2003:6)

Nonetheless, the popularity of the Balanced Scorecard has also led to critique from various authors (Rensburg & Ferreira, 2004:17). Table 4.6 presents a synopsis for both positive and negative critique, received from the following authors: Active Management (2004); Du Plessis *et al.* (2001:429-430); Kaplan and Norton (2004:10); Ritter (2003:46-47); Hasan and Tibbits (2000:442); Seang (2003:8); Tangen (2004:731); Van Aken *et al.* (2003:402); as well as Wongrassamee *et al.* (2003:21).

Despite the varying opinions, this study incorporates the Balanced Scorecard because it forms a basis for the development of KPIs and is able to measure intangible assets (Seang, 2003:5-6). In addition, from a practical point of view, if corporate communication wishes to become part of an organisational performance measurement system, then models, that have successfully been implemented and maintained, are vitally important.

**Table 4.6: Benefits and shortcomings of the Balanced Scorecard**

| Benefits of the Balanced Scorecard | Shortcomings of the Balanced Scorecard |
|---|---|
| Translates strategic objectives into tangible goals and actions. | Time-consuming. |
| Places strategy and vision at the centre, not control. | Expensive to implement. |
| Measures designed to pull employees towards the overall vision. | Requires additional administrative workload. |
| Long-term objectives are made measurable. | Potentially complex. |
| Communicates and commits to organisational strategy. | Requires the participation and commitment of employees to succeed. |
| Facilitates effective management and focuses on improvement. | The four perspectives are not comprehensive enough. |
| Can integrate with existing management processes. | Considered too subjective. |
| Is applicable to not-for-profit as well as small, medium or large organisations. | Reward structures are not mentioned in detail. |
| Simple to understand and has a visual impact. | It has not always been implemented successfully in companies. |
| Increases transparency, being visible to all. | Implementation into divisions has not always been done successfully. |
| Provides timely and accurate feedback. | Change of top management greatly limits the effectiveness of the model. |
| Uses data, which is automatically collected as part of a process whenever possible. | Does not consider a competitor perspective. |
| It minimises information overload, by limiting the number of measurements considered. | Provides little guidance on how the appropriate measures can be identified. |
| Recognise the cause-and-effect relationships, identifying all activities that act as a trigger to reach established goals to correctly allocate resources. | The scorecard is a non-prescriptive template leaving companies to design their own models. |
| They facilitate top-down communication of objectives and the alignment of key processes to the strategy. | |
| Measurement parameters verify the success or failure of certain strategies. | |
| Has IT software to facilitate the automation of the measurement process. | |

The above section has examined influential organisational performance measurement models that incorporate intangible assets and form the basis for developing KPIs. This permits the discussion to investigate KPIs.

## 4.5 DEFINING KEY PERFORMANCE INDICATORS

Naturally, the act of simply measuring performance would not provide a proactive perception of goal and strategy achievement. Likewise, KPIs do not have meaning, unless they are linked to an evaluation system (Seang, 2003:1). An organisation's performance should be systematically tracked and interpreted through performance indicators (Bauer, 2004). These indicators need to assess the progress of performance, and provide reliable

information to decision makers. Furthermore, Hyman (2004:4) firmly links KPIs to effective performance management systems, arguing that by measuring correctly, managers will obtain the right information.

Most authors agree that KPIs are quantifiable measurements that gauge the outcome of a CSF, goal, objective or performance (Bauer, 2004; Eastern Kentucky University, 2003; Reh, 2005; University of Cape Town, 2001). Authors highlight that KPIs must also track and benchmark outcomes at all levels of the organisation over time, and that they become the focal point for organisation-wide standardisation, collaboration and co-ordination on a daily / weekly / monthly basis (Bauer, 2004; Howe, 2004:46). KPIs have long-term considerations and implications and should therefore not be subject to frequent change of definition and measurement (Reh, 2005).

Bauer (2004) and Reh (2005) expand that KPIs have to be developed and agreed upon, before activities are undertaken, because they reflect strategic value, rather than business activities and processes. Following the development and negotiations, KPIs are cascaded through all levels of the organisation, to create accountability (Bauer, 2004). It is important to take note that, as in the case of implementing an incorrect performance measurement system, the selection of wrong KPIs, could result in counterproductive behaviour and sub-optimised metrics (Bauer, 2004).

### 4.5.1 The purpose of Key Performance Indicators

As explained by the definition of KPIs, its main role is to measure outcomes. Harrison (2006a) simplifies this concept by explaining that KPIs describe the events if and when an employee, department or organisation fulfilled a particular role. Harrison (2006a) elicits that KPIs are therefore not an activity, but an outcome that needs to be measured, and that the outcome, irrespective of the level, should be business related. In other words, there must be a holistic set of integrated measures that are linked to the mission, objectives, vision and strategies (Seang, 2003:5-6).

Reh (2005) also refers to KPIs as Key Success Indicators (KSIs) which help an organisation define and measure progress towards organisational goals. Once the mission has been analysed, stakeholders identified, and goals defined, KPIs are set in place to

measure progress towards goals. KPIs will therefore differ, depending on the nature and requirements of the organisation.

### 4.5.2 Incorporating Key Performance Indicators into performance measurement models

Kaplan and Norton (2001:103) explain that KPI scorecards were founded when IT departments in organisations developed databases that supported the strategy; or when consulting organisations installed large IT systems. Therefore, Bauer (2004) explains that most software applications, such as Enterprise Resource Planning (ERP), Supply Chain Management (SCM), Business Intelligence (BI), Customer Relationship Management (CRM) and Business Process Management (BPM), offer standard KPIs built into their packages. Conversely, these KPIs might not truly represent the critical business drivers (Kaplan & Norton, 2004:10). According to Seang (2003:2) there are three distinct models for the creation of best practice KPIs. The first is the Hierarchical Model, which this study did not discuss, due to its lack of intangible asset focus. The second is the Balanced Scorecard and the third model is the value chain. Despite this, Seang (2003:2) does explain that KPIs may be incorporated in any structure as long as it was created on an effective performance measurement system or model, such as the Excellence Models or the aforementioned three models.

At this point in this discussion, the question arises, as to the necessity of KPIs for the measurement of corporate communication. Seang (2003:7-8) explains that it is not sufficient to know where you are headed (vision), but that the direction should be supported by the how (strategy), the what (objectives), the focus areas (CSFs), the action (key action initiatives), as well as the metrics (KPIs) to realise full actuation. Comprehensive and consistent alignment up and down the pyramid is essential. As previously stated, KPIs are known to feed directly from the vision and the strategy, measure various organisational levels and departments, and can be easily constructed to fit into the organisation's current performance measurement systems. By determining KPIs for corporate communication, the function’s alignment to the corporate vision, objectives, strategies, and CSFs are guaranteed.

### 4.5.3 Requirements for constructing Key Performance Indicators

According to Seang (2003:2) management must take into consideration three important aspects in the construction of KPIs:

- Productivity: Monitors the enterprise's performance in its resource utilisation to create values;
- Total quality: To monitor the organisation's continual self-improvement and ability to adjust to the changing environment; and,
- Competitiveness: To monitor the organisation's long-term attractiveness to its customers and its shareholders.

In addition, Bauer (2004) explains that KPIs should reflect the strategic drivers and question what should be measured to achieve this. The number of metrics and the frequency of measurement should be considered. Accountability has to be assigned and figures that can be benchmarked need to be allocated. It is important to establish the means of measurement (or collecting data), to determine if the outcome was actually achieved.

The most important criterion for developing KPIs, as mentioned before, is the need to be created from an effective performance measurement system or model. From their research, Kaplan and Norton (2001:103), highlight that those organisations, which failed to link KPIs to strategies, were unsuccessful, because the KPIs became a 'dangerous illusion' as CSF, linking to overall business objectives, which were not being appropriately measured. Cullen *et al.* (2003:7) agree, emphasising the importance of recognising that KPIs on their own can be dysfunctional, unless they are grounded within the culture of a strategy-focused organisation, which is maintained by an effective performance measurement system. Seang (2003:1) explains that best practice in KPIs, refers to the process of developing useful performance measures for an organisation. The process is good if it integrates the entire organisation. A given, is the fact that a performance measurement model provides the framework for strategy measurement and is refined by the KPIs. Useful and effective KPIs therefore have to come from a well-formalised performance measurement system or model. Kaplan and Norton (2001:103) as well as Seang (2003:1) emphasise that KPIs cannot be created, unless they are developed from an effective performance measurement system or model.

The second vital criterion for developing KPIs is that it should represent all levels of the organisation including individuals, teams, processes, departments and the organisation as a whole (Seang, 2003:2). In so doing, it should maintain a view of continuous improvement against organisational objectives. The KPIs are therefore outcomes that provide evidence about how successfully the organisation's objectives are being met. In this way, individuals understand what they need to do, to contribute to the higher-level goals of the organisation.

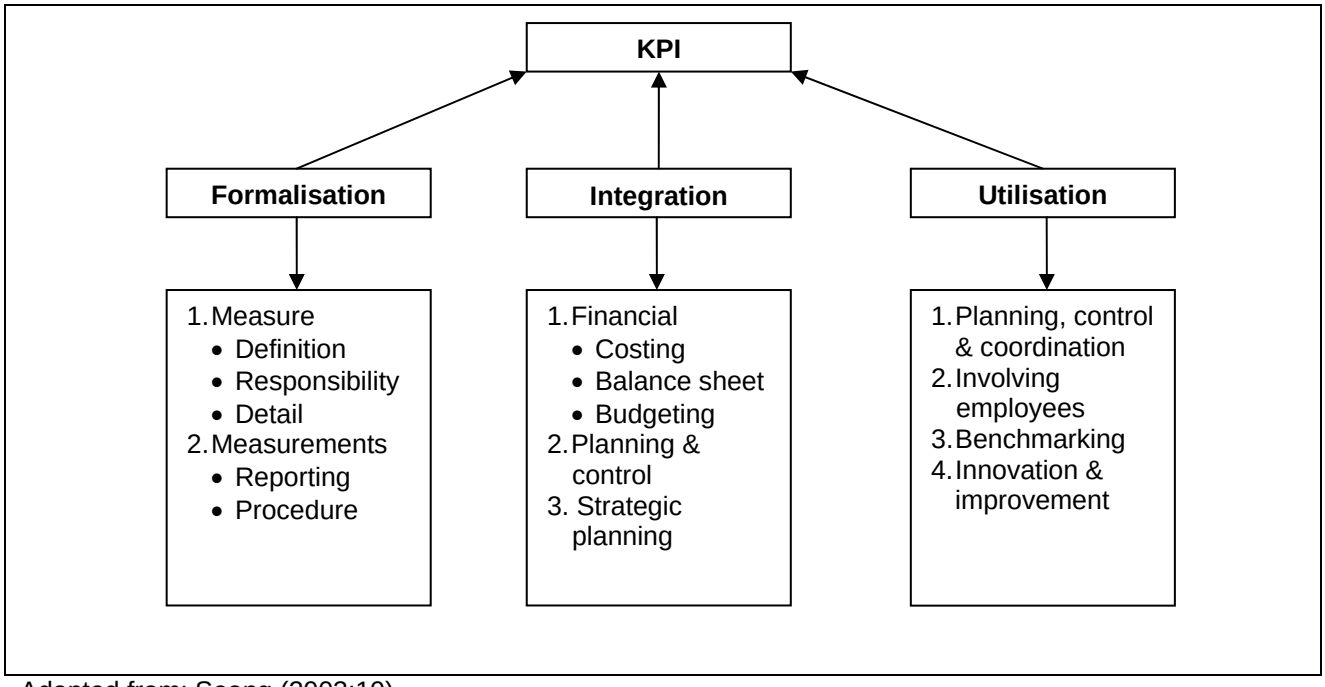
Apart from the above criterion, authors Harrison (2006a); Howe (2004:46); Neely, Richards, Mills, Platts and Bourne (1997:1140); Ritter (2003:45); Seang (2003:9); as well as Sinclair and Zairi (1995:55) provide requirements that KPIs should address:

- KPIs should have a title that explains what the measure is and why it is important.
- KPIs are developed from the strategy and are related to specific goals or targets.
- KPIs should have a purpose; therefore, the rationale underlying the measure has to be specified.
- KPIs are outcomes or will produce outcomes.
- KPIs should be limited to a maximum of five per level (or individual), otherwise it becomes impossible to fulfil. Should there be a requirement for additional KPIs, these are likely to be subsets of the 'larger KPI'.
- There should be at least one KPI for each CSF.
- Each department and individual; should set KPIs that are aligned with the organisation's KPIs.
- KPIs should stretch the organisation or department, but remain realistic and achievable.
- KPIs should be clear, concise and simple to understand.
- KPIs should be easily measured by an explicitly defined formula. The formula is important because the way performance is measured, affects how people behave. The right formula ensures the right behaviour.
- KPIs should provide timely and accurate feedback.
- KPIs can be weighted to prioritise importance and relevance for an organisational, departmental and individual level.

- KPIs should be a repeated activity for benchmarking purposes.
- KPIs should be measured from one period to the next.
- KPIs should have a predefined frequency of measurement and review.
- KPIs should define whom and by what means performance is going to be measured (the person who is to collect and report the data should be identified).
- KPIs should define who should take responsibility to act on the data received.
- KPIs should define what these individuals should do when taking responsibility for actions.
- KPIs should not be copied; they are dependant on the organisational context. However, the process of developing the KPIs may remain the same.

This development process of creating KPIs can be approached by focusing on three characteristics namely, formalisation, integration and utilisation. Figure 4.10 provides a graphical illustration.

**Figure 4.10: Constructing Key Performance Indicators**




Adapted from: Seang (2003:10)

According to Seang (2003:9), formalisation addresses the planning phase of KPIs, answering the questions, "What will be measured?" and "How will it be measured?" The

second characteristic refers to the ability that KPIs have to integrate various areas of the business (substantially elaborated on earlier in this chapter). In this context, the integration is expanded to include the planning, budgeting and controlling of KPIs. This not only ensures that each KPI integrates seamlessly with the rest of the organisation, but guarantees that KPIs obtain the relevant resources to be practically implemented. The third characteristic deals with the purpose of KPIs. KPIs should always be formulated for a specific reason. The most widespread intention is the ability to benchmark the organisation's own performance and to compare competitors' performance.

### 4.5.4 Practical examples of Key Performance Indicators

In providing examples of KPIs featuring in a performance measurement model, the following hypothetical simplistic scenario is described. Company XYZ employs the Balanced Scorecard, and has a corporate strategy, to increase and sustain high levels of awareness amongst prospective and current stakeholders. The strategic objective is, 'To generate positive awareness about the company and its brands', and the target is set for the following year (2008). The CSF for each perspective (that would contribute to the attainment of the strategic objective) is defined in its relevant perspective. At this stage the organisational KPIs (which is the ultimate outcome) is determined, which could be, 'To be the country's most talked about company of the year 2008'. This goal requires both the internal and external stakeholders to be measured, as both sides are affected. An external company, that does annual research in naming the countries' most talked about company for that year, can do the external measurement of this KPI. The internal measurement is made part of the performance appraisal process, or measured via an internal audit.

The achievement of this strategic objective has been identified as crucial to realising the vision of growth; therefore, senior managers have decided to assign a higher weighting than the other strategic objectives. Consequently, the CSF and KPIs, representing this strategic objective, will be weighted accordingly.

The next step is that the divisions / departments affected by the strategic objective and the organisational KPI, will have their own scorecards representing this. In the HR departmental scorecard, the CSF would generate internal excitement surrounding this strategic objective. A KPI could increase employee satisfaction that will generate positive 'Word of Mouth'. Various action plans are then established to ensure that this is achieved

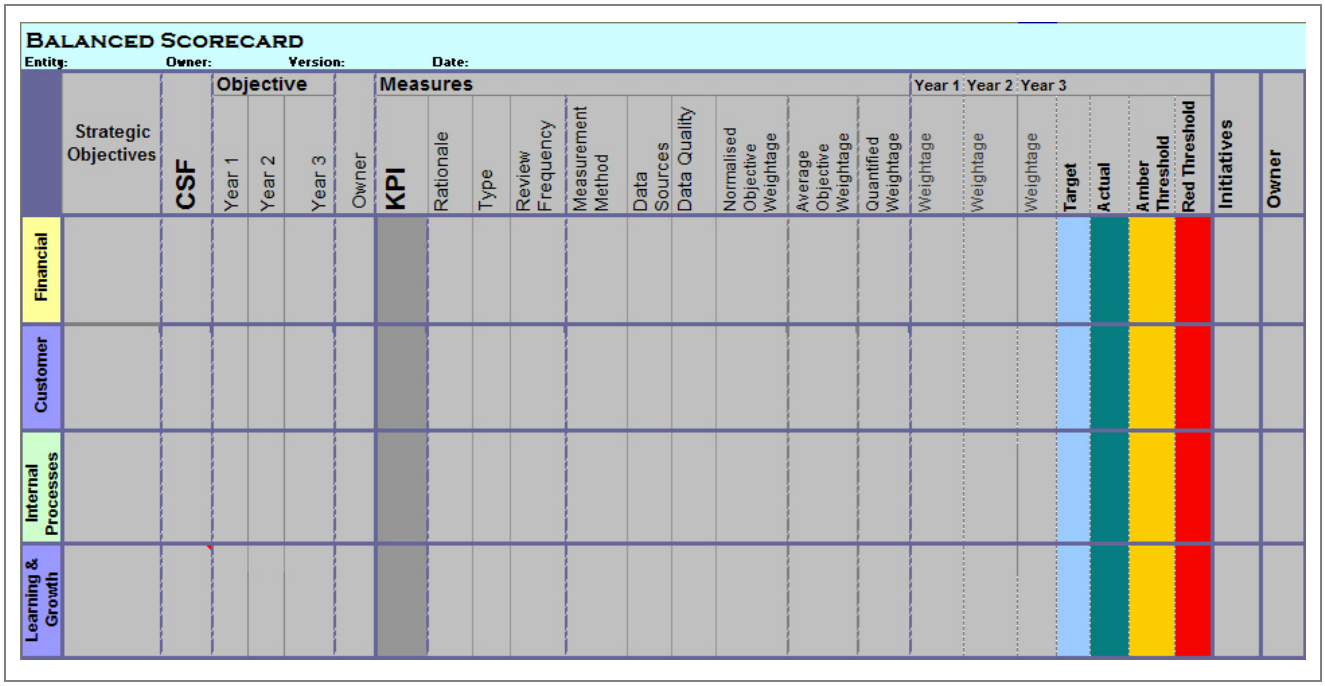
(Harrison, 2006a). The communication department's CSF could be to assist the HR department in generating internal satisfaction, by improving internal communication. A KPI would be the generated positive communication amongst employees. Action plans could be the creation of blogs or cafeteria campaigns, aimed at stimulating positive communication or 'Word of Mouth'. In this way, the strategic objective will cascade through other departments and the KPIs weighted accordingly.

On an individual level, satisfaction is determined by growth, remuneration and other variables. Therefore, the individual's KPIs could be, 'To ensure that skills are developed to remain competent'. An activity could be, to attend regular training that is relevant to the skills needed to perform the relevant job. A practitioner, who is responsible for sending newsletters to all stakeholders, might have to manage the database. An individual KPI would then be 'to learn how to operate Microsoft Access up to a competent level by 30th September 2008'. In the performance appraisal, the employee, his / her peers and manager rate the employee's skills on Microsoft Access. The total score is averaged and multiplied by the weighting. The weighted figures are extremely important, especially if the performance appraisal model is pay related. This score could contribute heavily toward the individual's bonus and thus provide a large incentive to achieve the KPIs.

This process continues for every employee in every department and the total score is then brought back to organisational level. As this KPI had a target of a year, the monitoring / tracking figures would occur every quarter when 'mini performance appraisals' are conducted. These tracking figures provide the data for the green, amber or red lights. By the end of the year, the internal and external KPI score, for the employer of choice, is reviewed. Depending on the results, new strategies might be developed to maintain or improve the KPIs and the weightings of those KPIs might be adjusted.

A schematic representation of Balanced Scorecard matrix has been created and is depicted in Figure 4.11. This matrix relays what the scorecard (known as a dashboard) may look like and ultimately presents the 'bird's eye view' of either the organisation or its divisions. This is a simplistic, framework of a department's scorecard and illustrates where KPIs feature and how the Balanced Scorecard is operated. This is where everything is represented from the four perspectives, to their CSF to the KPIs as well as the means of measurement.

**Figure 4.11: A framework for the Balanced Scorecard**




Considering Figure 4.11, the first column contains perspectives. The second column specifies the strategic objectives or CSF as defined in the corporate Balanced Scorecard or Strategy Map. The next column (Objective Weightage) defines the relative weightage of each CSF. This column is further divided to represent three years of weighting (useful for benchmarking and planning purposes). Depending on the organisation, the weighted score would be normalised to 100 to derive the performance metric. The following column indicates the role / person who will be responsible for monitoring and ensuring that the CSF is achieved. In most cases, this will be a senior manager. The next section represents how the strategic objectives will be measured. The first column represents the KPIs where the outcome is defined. The rational column presents reasons for the importance of the measure. This classifies the measure as a lead or lag indicator (where lag indicators inform of a past result, and lead indicators signify an emerging trend and serve as early indicators / warnings). There should be a mix of both. The frequency at which the review will be measured is then decided, followed by the calculation method. This column determines whether the measure will be a formula or a quantitative / qualitative measure. Once again, it is advised to make use of quantitative measures. To be able to determine the measure, the data source and quantity will also be specified. Next, the actual metrics occur, initiated with normalised, average and quantified weightings for year one, two and three. The targets are specified, followed by the green, amber and red indicators. The last section enumerates the initiatives or action plan that will contribute to the corresponding

strategic objectives. In addition, the owner of each task will subsequently follow up with the activity.

The above is merely one practical example of how KPIs might be constructed from the vision and strategy stage to the individual level of the organisation. Ritter (2003:44-59) provides another example in the development of the corporate communication scorecard. As discussed in Chapter 3, Ritter (2003:44-56) explained how to create a corporate communication scorecard and in so doing, determine the KPIs relevant to the scorecard. This chapter therefore awards attention to Ritter's (2003:48-59) actual KPIs created for the case study of Siemens in Argentina. These were developed from the company's EFQM model (completing steps of 1-5), the corporate communication Balanced Scorecard and strategy map.

From this point, Ritter (2003:44-59) explains how each perspective of the communication strategy map then incorporated a CSF and KPIs with defined measurement standards, methods and frequencies. These are listed in Table 4.7 where the financial perspective is listed first, then the customer perspective, followed by the innovation and learning perspective and lastly the internal processes perspective. What Ritter (2003:56-58) identified, is that there were KPIs for communication in every perspective which contributed to the overall vision and strategy of Siemens Argentina. Ritter (2003:56-58) provided the following guidelines:

- Construct the graphical scorecard or matrix to resemble the organisation's scorecard;
- Encourage simplicity and allow the scorecards to effortlessly indicate the current position, the trend predicted, and the target;
- Automate the creation of the scorecards; and,
- Ensure that it is easily maintained with user-friendly software applications throughout the entire organisation (e.g., Microsoft Office Excel).

**Table 4.7: Key Performance Indicators for corporate communication**

| KPI | Measurement standard | Measurement method | Updating frequency | Target |
|---|---|---|---|---|
| SSA image and reputation for stakeholders | Brand awareness Attributes | Image research | Every four years | |
| Ranking and prestige position | Ranking and scoring position | Publishing in the *Clarin* newspaper and *Negocios* ('Business') Magazine | Annual | |
| Resource management | R&CC express | SAP | Monthly | |
| | Advertising Investment | SAP | Annual | |
| | Billing / total advertising Investment rate | Company-owned | Annual | |
| | Negotiations of media fees | Company-owned | Monthly | |
| | Internal publication costs | SAP | In every issue | |
| Internal Communication | Relevance, credibility and timeliness of communication Staff | Working climate survey | Every 18 months | |
| | Communication attitude and behaviour towards third parties | "Mystery shopper" telephone survey | Every two years | |
| R&CC reputation as centralised sector that adds value to the business | Internal customers' satisfaction rate | Internal survey on satisfaction | Annual | |
| Efficiency and relevance of the management of institutional and community relations | Relative attributes | Image research | Every four years | |
| | SSA and community media impact | Management press report | Monthly | |
| Advertising management efficiency | Satisfaction rate | Internal survey on satisfaction | Annual | |
| Press management efficiency | Internal customers' satisfaction rate | Internal survey on satisfaction | Annual | |
| | Journalists' satisfaction rate | Survey on external customers' satisfaction (Journalists) | Every two years | |
| Efficiency of the internal publications *Nosotros* ("We") and *Liderando* ("Leading") | Reader's satisfaction rate | Readers' survey | Every three years | |
| Benchmark with LA branches | Staff / advertising budget rate | Statistics | Every three years | |
| | Staff / structure expenses rate | Statistics | Every three years | |
| Motivation | Satisfaction rate | Working climate survey | Every 18 months | |
| Skills / competencies | Requested / existing competencies rate | PAMD (planning, analysis and improvement programme for staff performance) | Every two years | |
| | Compensation / job responsibility rate, within the framework of the compensation overall policy | HAY level | Annual | |

| KPI | Measurement standard | Measurement method | Updating frequency | Target |
|---|---|---|---|---|
| Innovation/best practices | R&CC as benchmark/best in class | Awards and prizes, articles published EFQM programme | Annual | |
| | Productivity | Productivity rate per employee, according to advertising, press, PR and R&CC management | Annual | |
| Efficiency in the execution of large advertising projects | Project's satisfaction rate | After-project survey | After each case | |
| | Overall satisfaction rate | Internal survey on customers' satisfaction | Annual | |
| Efficiency when undertaking press activities | Number of lost opportunities to have articles written | Statistics | Annual | |
| | Reaction against urgent request and crisis events | Response time statistics | Annual | |
| | Overall satisfaction rate | Internal survey on customers' satisfaction | Annual | |
| Information management | Number of press releases sent and co-ordinated press interviews | Statistics | Annual | |
| | Number of advertising, promotion and PR projects undertaken | Statistics | Annual | |
| | Number of orders and invoices processed | Statistics | Annual | |
| Assessment of external need for information about Siemens | Qualitative | Image research (opinion leader segment) | Annual | |
| | Qualitative | Survey on external customers' satisfaction (Journalists) | Every four years | |
| Media positioning of SSA and its competitors | IMA and VAP index media portfolio | Management press report | Every two years | |
| Strategic positioning of competitors' advertising investment | Advertising portfolio | Olivera Bureau Report | Monthly | |
| Visits to the company's internet portal | Statistics on number of "unique users", most visited sites and length of visit | Comsat Report | Monthly | |

Adapted from: Ritter (2003:51-56)

The previous section has provided insight into what KPIs are and how they should be constructed, and examples of corporate communication KPIs were provided. Although the examples differ in operation, it is clear from the above discussion that literature recommends KPIs to be constructed from the vision and strategy phase, and be created within a performance measurement model that measures and monitors this strategy. It is also clear from the above discussion that every organisation should have a unique set of

KPIs that is relevant to their context and vision. It is important to understand that a set of KPIs cannot be prescribed to an organisation, as the process of creating KPIs should align all levels of the organisation. This unity is the reason for why performance measurements are successful. Additionally, it should involve individuals from senior management through to employees on all levels.

## 4.6 CONCLUSION

Although this chapter is by no means a comprehensive exploration into the field of organisational performance measurement and employee performance appraisal, the content does provide valuable insight into the requirements of a measurement system that measures the effectiveness of the entire organisation's abilities.

Understanding the difference between evaluation and performance measurement, and the way this has always been applied to the communication discipline, is important to this study. The discussion up-and-until now, sheds light on the problems faced by corporate communication and rationalises why frustration exists between CEOs and practitioners. The discussion identifies that when integrating corporate communication's contribution into the performance measurement model of the organisation, synergy is achieved amongst all the divisions of the organisation and corporate communication practitioners are able to 'speak the language of the CEO'.

A conclusion can be made that the evaluation techniques and models identified in Chapter 3, are essential in determining the success of various communication campaigns. However, where the evaluation techniques are narrowly focused on the activities of the campaign, the performance measurement model integrates the efforts of all the departments and provides a holistic picture. If corporate communication departments really wish to illustrate the intangible value they contribute, it must be built into the organisational performance measurement model. This is the reason why communication should be represented at a top management level, to ensure that the communication strategies, target, objectives, activities, KPIs and performance measurements are aligned to those of the organisation.

Furthermore, the discussion surrounding the changing role of performance measurement models, has illustrated the move to include non-financial measures. It is clear from the

various sources consulted that best practice performance measurement models need to be quantitative in nature for comparison and benchmarking purposes. The investigation into various performance measurement models, that capture intangible assets, has provided insight into identifying ways of capturing non-financial measures, and reporting them in quantitative means. It can therefore be concluded that the intangible value created by corporate communication can be captured and reported in quantitative ways.