

Crown Corporations Council
A Manitoba Crown Corporation

Corporate Performance Measurement and Reporting

A Crown Corporations Council Project

APRIL, 2001

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Chapter

1

EXECUTIVE SUMMARY

Council developed a framework of key components that form an effective corporate performance measurement and reporting system based on best practices. Discussions were also conducted with the Crown Corporations. Members of Council approved the framework of components set out below as the consistent and effective criteria that Crowns should consider adopting and that will be used to assess each Crown. Council staff will facilitate the adoption of the criteria by presentations to Boards of Directors, sharing the study with the Executive and assessing adoption by Crowns.

The Crown Corporations Council is required as part of its mandate and corporate strategy, to ensure that Crowns under its purview monitor progress against plans and measure performance through consistent and effective criteria. A comprehensive study on best practices and the current states of selected Crowns had not been undertaken, until this project.

Council has devised a matrix of fifteen key components critical to an effective, functional and valuable corporate performance measurement and reporting system, as it pertains to Crown Corporations. These components are:

- (1) Public policy goals should be the basis for the strategic plan and performance measurement and reporting.
- (2) Performance measurement should be linked to strategic planning processes and its cycles.
- (3) Corporate mission, vision and goals should be clearly stated at a high-level with a long-term focus.
- (4) The system should show a clear cause-and-effect control loop to provide accountability and usefulness to the measures and outcomes.
- (5) Strategic corporate, business unit and individual plans and measures should be translated and communicated internally (horizontal and vertical). This includes:
 - (5a) Cascade and hierarchy of strategic plans and measures;

- (5b) Communication of strategic plans and measures; and
- (5c) Accountability and empowerment of the workforce.
- (6) Measures should be prioritized and short-listed to 8 to 15 key corporate measures.
- (7) Measures should comprise a balanced set of components for:
 - (7a) Outcome, output and input measures; and
 - (7b) Financial and non-financial measures.
- (8) Measures should fulfill best practices.
- (9) Measures should have targets in place to measure progress against, as well as stated actions to achieve goals or sustain the target level.
- (10) The performance management system should be continuously reviewed, modified, evolved and implemented every planning period.
- (11) Results should be benchmarked against industry-related corporations (private or public) with acknowledged best practices.
- (12) Performance goals, measures, targets, actions and outcomes should regularly be reported in an integrated simplified format, like a dashboard or brochure.
- (13) Results should be regularly reported to the Crown Corporation's Board of Directors and used to monitor the corporation's performance.
- (14) Results should be regularly reported to the Crown's Minister Responsible and the Legislative Assembly with proper feedback provided to complete the communication loop. Finally,
- (15) The results should be regularly reported to the public.

These components formed a framework upon which each selected Crown's existing measurement and reporting was assessed. The components comprise the key findings for best practices and consequently also encompass the overall recommendation to which the Crown Corporations should consider. Flexibility is given to the unique business and corporate environments to which each Crown is subject. The comparison of the results of assessment is shown on page V, following this summary.

Manitoba Hydro's performance measurement system is extensively integrated within its management processes. The foundation, linkages and culture solidly support performance measurement and allow it to be used as a valuable company tool. Improvements are being planned on public reporting and feedback from government – both concluding stages of the cycle. Nevertheless, the system in place sufficiently meets most of the key components identified for an effective system. This is an important tool Hydro has implemented to assist in ensuring it sustains its successful performance.

Manitoba Liquor Control Commission's is currently proceeding to improve its corporate performance measurement and reporting. It is establishing a system that coordinates its strategic planning and corporate performance measurement functions with strong linkages. The conceptual framework chosen, the Balanced Scorecard, is well suited and provides a clear structure for the Crown to follow.

Manitoba Lotteries Corporation has been reorganizing and has contracted an external consultant to redevelop its strategic planning and governance framework. As part of the project, a performance measurement and reporting function that complements the

improved system is also being redeveloped and is expected to be delivered. MLC will receive the key components matrix and Chapter 3 to assist their challenging undertaking.

In addition to more specific findings pertaining to each Crown reviewed, several general conclusions were reached. Based on the key component criteria derived by the Council in this report, each Crown Corporation is in a unique state, pertaining to its corporate performance measurement and reporting. While there is not one best framework for all corporations, the 15 key components outlined and explained in Chapter 3 provides a guideline for the Crowns to consider in customizing a system to their own distinctive needs. Several general suggestions should be emphasized.

Decisions regarding improvements for the systems would usually originate from central or higher officials. The quicker direction is provided, the more promptly execution and completion of improvements can be made. The Government should clearly articulate its public policy goals to each Crown Corporation, as this is the foundation of effective strategic planning and performance measurement and reporting.

Mainly, Crown Corporations should strive to develop and continually evolve its performance measurement system, especially its indicators. The continuous nature of this process is due to the changing environment and increasing (often conflicting) expectations that are encountered by Crowns. A greater need for transparency in the public sector is in demand; therefore, the reporting of performance measures should be done publicly. Public accountability meetings provide an opportunity in this area. Incidentally, this is the aspect of the matrix on which most of the Crowns require improvement. In reporting outcomes to the public, the effect that Crowns have on the citizens' lives become apparent. Difficult as it may be to implement, outcome reporting is required.

Outcomes and performance against the plan cannot be accurately determined if there is a lack of linkages between the overall vision, goals and objectives and the tools for measurement (indicators, targets, corrective actions, feedback, etc.). A more holistic and long-term perspective should be adopted, in which the connection between seemingly disparate processes is immediately recognized beyond just the next few years (i.e. multi-year rolling plans). An interesting suggestion to enforce the totality of a performance measurement system: any new proposals should include information that indicate: how this project supports the government's and Crown's strategic directions; a clear statement of its objectives related to the corporate level; a multi-year business plan with indicators and accountability description.

Moreover, the representation of stakeholders, as many as feasible contingent on the situation, is linked to higher-performing corporations. In addition, a driven leadership is required to coordinate the efforts of possibly conflicting stakeholder issues. This leadership is also delegated downwards to empower the whole corporation – especially important for public sector bodies, which undergo change of political, and possibly operational leadership.

Finally, Crowns should aim to develop their own customized approach, since they are aware of their own unique needs and expectations to meet. A Crown should know its business and accountabilities better than anyone else should. An organization's performance measurement system should complement its own culture, history, mission, vision, goals, organizational structure and objectives.

A COMPARISON MATRIX: Key Components behind an Effective Performance Measurement and Reporting System

Stage	KEY COMPONENTS
Public Policy Goals	1: Public policy goals should be the basis for the strategic plan and performance measurement and reporting system.
Strategic Planning and Performance Measurement System	2: Performance measurement should be linked to strategic planning processes and its cycles.
	3: Corporate mission, vision and goals should be stated at a high-level clearly with a long-term focus.
	4: The system should show a clear cause-and-effect control loop to provide accountability and usefulness to the measures and outcomes.
	5: Strategic corporate, business unit and individual plans and measures should be translated and communicated internally (horizontal and vertical).
	5a: Cascade and hierarchy of strategic plans and measures.
	5b: Communication of strategic plans and measures.
	5c: Accountability and empowerment of the workforce.
Components of Performance Measurement System	6: Measures should be prioritized and short-listed to 8 to 15 key corporate measures.
	7: Measures should comprise a balanced set of components.
	7a: Outcome, output and input measures.
	7b: Financial and non-financial measures.
	8: Measures should fulfill best practices.
Analysis, Implementation & Use	10: The performance measurement system should be continuously reviewed, modified, evolved and implemented every planning period.
	11: Results should be benchmarked against industry-related corporations (private or public) with acknowledged best practices.
Performance Reporting and Accountability	12: Performance goals, measures, targets, actions and outcomes should regularly be reported in an integrated simplified format, like a dashboard or brochure.
	13: Results should be regularly reported to the Crown Corporation's Board of Directors and used to monitor the corporation's performance.
	14: Results should be regularly reported to the Crown's Minister Responsible and the Legislative Assembly with proper feedback provided to complete the communication loop.
	15: Results should be regularly reported to public.

INTRODUCTION

OBJECTIVE

The moment that managers start measuring performance, it will improve. As soon as performance is reported, it improves further. We know that measuring and reporting performance will save a great deal of money and improve service.¹

The objective of this project was to assess the Corporate Performance Measurement and Reporting System of selected Crown Corporations and to facilitate the development of a guideline for all the Crowns that would employ non-financial performance measures similar to a Balanced Scorecard (BSC) approach. Specific best practice conclusions and recommendations, as garnered from literature research and discussions with the Crown corporations, are highlighted in this report. The project emphasized the underlying principles behind establishing a comprehensive and measurable performance measurement foundation – corporate strategies, goals, objectives, measures, targets and actions for Crown Corporations.

This project anticipates that Crowns equipped with an efficient and customized performance measurement system can encounter greater congruency in the achievement of its actual versus planned corporate goals. The project provides supplementary information that can assist Crowns in the development of a system into a value-added management tool. Moreover, it supports the Council's ongoing monitoring duties by facilitating the development of a more transparent accountability system behind the activities of the Crowns.

Performance measurement is the practice of gauging progress towards declared targets or objectives. In its very essence, its intention is not that of a reward/punishment nature. Instead, in its most effective form, performance measurement is a management and communication tool. Through the system, the public becomes aware of what government deems to be important for the corporation and therefore influences how success should be judged, based on what it hopes to achieve. Corporate performance measurement is not a new concept. However, recent trends indicate the increasing importance of shifting focus from the amount of resources allocated (inputs) and the amount of work completed (outputs) to the actual results achieved from the corporate processes (outcomes), as compared to the intended results.

"An effective measurement approach may help your organization pinpoint strategic areas to monitor progress and manage through chaos."² Therefore, business strategy is clearly and succinctly translated to its results and level of accomplishment. The simple logic states that without measuring and tracking outcomes, the effectiveness of a firm's strategy cannot be determined. Performance measurement allows the establishment of "targets for accomplishing strategic objectives and public policy goals and then track

¹ Alberta Treasury. "Measuring Performance: A Reference Guide" September 1996.

² Lingle, John H. and William A. Schiemann, "From Balanced Scorecard to Strategic Gauges: Is Measurement Worth It?" Management Review, March 1996.

progress relative to these targets.”³ Finally, better reporting information is made available to all the corporation’s stakeholders. In the case of Manitoba’s Crown Corporations, this would include its Board of Directors, Minister Responsible, the Legislative Assembly, its product and/or service consumer and finally, the public.

MANDATE

Corporate Performance Measurement and Reporting is an essential component of Crown Corporations Council’s mandate. Under Section 6(1) of The Crown Corporations Public Review and Accountability Act, the Council is required to “facilitate, in cooperation with each corporation, the development of **consistent and effective criteria** for measuring the corporation’s performance.”⁴

Likewise, Council’s strategic plan states as an objective: “to determine that each corporation measures performance.”⁵ However, a comprehensive analysis of the state of corporate performance measurement and reporting in the major Crown Corporations has never been undertaken and engaged fully until this project.

IMPORTANCE OF PERFORMANCE MEASUREMENT IN PUBLIC SECTOR

Inherent in the Crown Corporation model is a divergence between its commercial success, and public policy responsibilities. Policy decisions that meet the needs of the Government, Minister responsible and legislation, may require the Crown to be competitive in an industry marketplace, financially viable, while also pursuing social and economic objectives; thereby creating a complex balancing situation. In addition to the numerous stakeholders, Crown Corporations’ services are usually a monopoly. Hence, it is not an easy task to measure its performance. However, the reasons for why it is not an easy task to measure its performance and accountabilities are the same reasons why performance measurement is important.

The impetus behind the development of performance measurement systems for Crown Corporations is to assist the Province to accomplish its public policy goals by their translation and incorporation into the Crown Corporations’ strategic objectives. Furthermore, such a system enables the government and Crown Boards and management to measure the progress accomplished in comparison to the established high-level goals. As a result of a comprehensible and transparent performance measurement system, the Crown Corporation can develop or modify corporate and fiscal policies and targets, make informed operational and strategic decisions, and report its progress on these initiatives and performance to the legislative assembly, public and other key stakeholders. Compliance between the key elements of government performance (operational, financial and legal) must be balanced by a Crown Corporation as a public sector body.

In response to the growing public demand for better corporate governance, there is a focus on both the effectiveness (if the Crowns are achieving its stated goals) and efficiency (if the Crowns are using appropriate resource levels to do so) of programs.

³ Auditor General of British Columbia “Enhancing Accountability for Performance: A Framework and an Implementation Plan (Second Joint Report): Assessing Progress Against the Plan”, Deputy Minister’s Council, April 1996.

⁴ Crown Corporations Public Review and Accountability Act, 1989. The enabling legislation behind the Council’s inception. 1989.

⁵ Crown Corporations Council Strategic Plan 2000-2004.

Furthermore, good governance has been linked to long-term success. In fact, the Auditor General of Canada Award for Excellence in Annual Reporting by Crown Corporations indicates the use of performance information for managing to improve sustainable results and success.⁶ Likewise, starting in fiscal 1996/97, the Auditor General of British Columbia has implemented a formal performance measurement, planning and reporting system for its Ministries and Crowns.⁷

BALANCED SCORECARD APPROACH

Balanced Scorecard for government can offer a framework for clearly evaluating all aspects of an organization including budgeting, resource allocation, program and policy initiatives. When used with traditional methods, the Balanced Scorecard becomes a powerful tool with which to manage, monitor and measure the organizations' performance indicators. More importantly, the agency's Balanced Scorecard can become a communications mechanism for implementing strategic plans and establishing performance budgets.⁸

The majority of the available literature, and thereby research included in the project, involved the Balanced Scorecard approach, as detailed in Norton and Kaplan's Harvard Business Review papers in the early 1990s. Although Norton and Kaplan's studies mainly concentrated on private sector corporations, the Balanced Scorecard has seemingly greater implications when applied to the public sector. Government agencies or Crown-owned enterprises (such as Crown Corporations) have an inherent responsibility to anticipate and meet the needs of all its stakeholders, which occasionally pose a conflict. Moreover, the Crowns are required to adhere to their enabling legislation and governing mandate. With numerous accountabilities to balance, a framework in which they can set their priorities to determine which strategies and goals are important to achieve its public policy goals, while maintaining commercial success and social responsibility – all within a limited allocation of resources. Likewise, a responsive government crucially demands continuous check-and-balance loops and a well-integrated reporting system, especially in today's ever-changing public sector.

A Balanced Scorecard translates a company's strategic vision into a "tangible coherent measure of performance"⁹ using four perspectives: financial, customer, internal business processes, and learning/growth. The latter perspectives are considered as leading drivers of future performance complement traditional lagging financial indicators. The system can enable improved public sector management in its application perhaps to a greater degree than in the private sector. It accounts for the different stakeholders, the need to adhere to mandates (hence specified goals), compliments the financial perspective (which may be subject to financial implications due to costs associated with public policy objectives) and focuses on its customers (the public). The balanced scorecard has also been attributed to proactively preventing rather than detecting problems, an advantage from a risk perspective. In the scorecard's ability to identify gaps between what is desired and what is actually done, the vision is promptly translated into action. Crown Corporations

⁶ "Crown Corporations: Making Performance Measurement Work" 1997 Report of the Auditor General of Canada, December, Ch. 22.

⁷ Shaw, Alastair. "A Guide to Performance Measurement and Non-Financial Indicators", The Foundation for Performance Measurement (Mattison Public Relations), 1999.

⁸ Whitaker, Debrah. "The Balanced Scorecard: Application to both Private and Public Sector", Renaissance Government Solutions [available online: www.balancedscorecard.com/userforum/research/private_public.asp].

⁹ Kowalchuk, Kevin. "Book Review: The Balanced Scorecard: Translating Strategy into Action", Public Policy Forum Newsletter Insights #8 [available online: www.pforum.com/NewsLetters/issue_8/english/review.html].

can benefit from the Balanced Scorecard approach as a medium in translating its mandate to clear corporate objectives that are consequently converted to a performance measurement system, which “effectively communicates a powerful, forward-looking, strategic focus to the entire organization.”¹⁰

A good balanced scorecard should tell the true story of a corporation’s unique strategy. It feeds information into a management system that is empowered to drive sustainable performance success. It does so by utilizing a causal system in which accountability lines are clear. This capability is where the true strategic payoff of the balanced scorecard approach for a Crown Corporation can be delivered.

Reflecting back on the long history of federal service, I never saw any single measure which could adequately describe an agency’s performance. Use of the ‘scorecard’, because it balances both internal and external stakeholder concerns, gives us a much more comprehensive, and balanced, picture of how we are doing. The measures we traditionally used tended to focus almost exclusively on internal processes. They also failed to measure three major areas: the real cost of doing business, the impact of the processes on the veteran-customer, and their impact on employees. Use of the scorecard balances our measures because it looks at both external and internal measures. They keep the organization focused on the vision and our stakeholders: veteran-customers, employees and taxpayers. The scorecard measures provide a ‘line of sight’ for every employee to see their contribution to organizational results.¹¹

PROJECT SUMMARY

Regarding the project’s scope, Council embarked upon a literature research concerning performance measurement and reporting. The research incorporated existing theories, methodologies, best practices and current progress in performance measurement and reporting in the public and private sectors. Further research was conducted, through discussions with each of the Crowns, regarding their current performance measurement and reporting methodologies and how this incorporates public policy, strategic planning and public accountability, as well as their benchmarking efforts. A fair representation of each Crown’s methodologies and status emerged from these meetings and research. In addition, the presentation of performance information for each Crown was considered. This included their annual reports, strategic plans and websites.

CROWN FOCUS

The project focused on the three larger Crowns: Manitoba Hydro-Electric Board, Manitoba Liquor Control Commission and Manitoba Lotteries Corporation. Collectively, the assets of the three Crowns total \$8.0 billion¹².

¹⁰ Renaissance Worldwide Strategy Group. “The Balanced Scorecard – An Overview”, Renaissance Worldwide Inc. White Papers [available online: www.rens.com/viewpoint/papers/scorecard.html].

¹¹ National Partnership for Reinventing Management. “Balancing Measures: Best Practices in Performance Management”, August 1999.

¹² Crown Corporations Council Annual Report 1999. “10 years: a look back, a look ahead”

PROJECT PHASES

1. The current performance measurement system in place for each Crown was reviewed.
2. "Best practices" methods for performance measurement and outcome reporting were reviewed.
3. Public policy goals that have been established and their linkages (or lack thereof) to the Crowns' strategic plans and outcome goals were identified.
4. Areas of improvement for the accountability process and reporting were identified.

Chapter 3, which follows, is intended to serve as a resource guide for all the Crowns under Council's purview. The matrix reflects the foundation for the framework of key components developed to assess each Crown, and accordingly should be present for effective performance measurement and reporting.

BEST PRACTICES IN PERFORMANCE MEASUREMENT & REPORTING

Measurement plays a crucial role in translating business strategy into results. In fact, we have found that organizations which are tops in their industry, stellar financial performers and adept change leaders, distinguish themselves by the following characteristics: having agreed-upon measures that managers understand; balancing financial and nonfinancial measurement; linking strategic measures to operational ones; updating their strategic scorecard regularly; and clearly communicating measures and progress to all employees.¹³

As can be seen above, there are definitely recurring key components uncovered through intensive literature research on performance measurement and reporting systems. Crown Corporations Council considered these factors and identified which ones are essential requirements to be included as effective performance measurement and reporting system criteria for a Manitoba Crown Corporation. Fifteen elements are presented in an integrated matrix to allow comparison of the system of each Crown.

Stage 1: Public Policy Goals

KEY COMPONENT 1: PUBLIC POLICY GOALS FOR CROWNS

Public policy goals should be the basis for the strategic plan and performance measurement and reporting system.

A good performance measurement system begins with clear objectives and strategies. For a Manitoba Crown Corporation, the public policy goals should be clearly communicated and stated by the current provincial government's platform and mandate. Public policy goals are the intended purpose that the government wishes to accomplish through its specific Crowns. Through the transmission of public policy goals, the Crown gains a perspective on what results it is expected to deliver. Likewise, if corporate objectives and strategies are unclear, a Crown should be able to retrace its purpose through its legislative mandate. Public policy goals should be incorporated into a Crown Corporations strategic planning process and therefore its performance measurement system.

¹³ Lingle, John H. and William A. Schieman, "From Balanced Scorecard to Strategic Gauges: Is Measurement Worth It?" Management Review, March 1996.

Crown Corporations are public policy vehicles. As a medium for the province's economy and socio-economic development, Crown Corporation investments and operations should result in benefits to the public, as stated in its jurisdiction. This can include appropriate levels of return, social responsibility, client-focused actions, etc. A Crown Corporation's performance measurement system should be an accurate representation of the impact the firm has on Manitobans and their quality of life, in alignment with a strategic plan of the province.

Private sector organizations typically use the traditional profit measure as its explicit gauge of performance success, since competition theory dictates that good performance is linked to industry survival. On the other hand, the complex accountabilities of a public sector company require performance to be examined beyond profit as a single measure. Hence, to judge its success, a governmental body needs to incorporate its public policy goals as well as its financial performance.

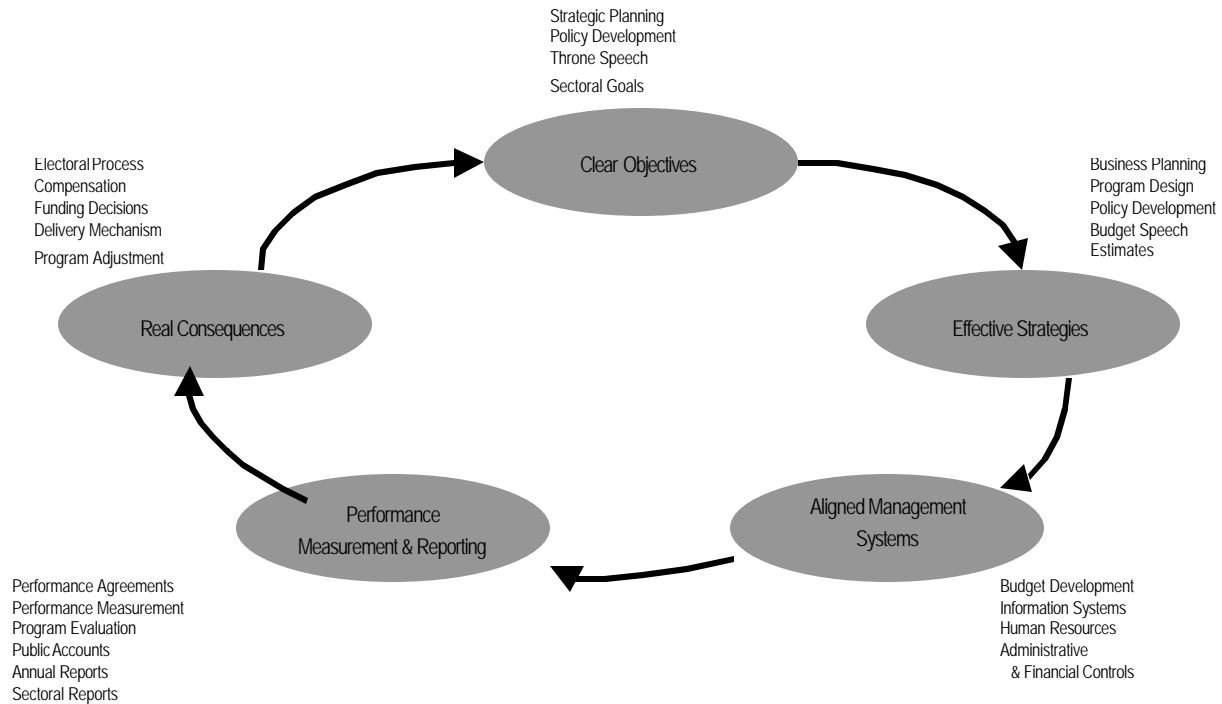
In the private sector, the principal measure of successful performance is profit. Public agencies, on the other hand, have no such universal and widely accepted performance measure of success. For public sector organizations, performance must be judged against the goals of their programs and whether the desired results and outcomes have been achieved. Success is often viewed from the distinct perspectives of various stakeholders, such as legislatures, regulators, other governmental bodies, vendors and suppliers, customers, and the general public. Therefore, it is extremely important that the measures of performance used by a public organization be created with as much input and consultation from these constituencies as is feasible, so as to reach as much consensus as is possible regarding what is expected of the organization¹⁴

Stage 2: Strategic Planning and Performance Measurement System

KEY COMPONENT 2: STRATEGIC PLANNING & PERFORMANCE MEASUREMENT

Performance measurement should be linked to strategic planning processes and its cycles.

¹⁴ National Performance Review. "Serving the American Public: Best Practices in Performance Measurement: Benchmarking Study Report" June 1997.



Source: Auditor General of British Columbia "Enhancing Accountability for Performance: A Framework and an Implementation Plan (Second Joint Report): Assessing Progress Against the Plan", Deputy Minister's Council, April 1996.

The most common thread among the organizations benchmarked was the linkage/alignment between their corporate strategy and their performance measurement system. One participant noted that this linkage allowed his company to operate with very optimistic "stretch" performance goals and measures. We also found that partners with a vibrant linkage between corporate goals and performance plans were easily able to align the contributions of customers, external partners, stakeholders, and in one case, even volunteers.¹⁵

An effective performance measurement system should fully complement and be integrated as a key part of the larger strategic and business planning function of the Crown Corporation. If performance measurement initiatives are not linked to the strategic plan (the intended direction), business plan (the operational means to accomplish the strategy) and budget allocation (the resources to function) processes, then the performance measurement system may not be as effective. Without these linkages, there may be limited value attached to the performance measurement by the people affected by it (i.e. internal employees, customers). A fully integrated strategic management framework directs the company on a consistent mission and identical aspirations. In making the system internally useful, the performance measurement system is accepted as a value-added management tool, instead of the restricted conventional view of a punitive reward-punishment system. This fulfills the intrinsic purpose of an effective measurement system: to improve organizational and stakeholder value.

¹⁵ National Performance Review. "Serving the American Public: Best Practices in Performance Measurement: Benchmarking Study Report" June 1997.

To attach value to a performance measurement system, it must provide meaningful information as a management tool, not simply as a means to compile numbers and data. Performance measurement related to strategy describes organizational performance and accomplishments. A clear and plausible cause-and-effect linkage should be apparent:

Vision -> Goals -> Objectives -> Measures -> Targets -> Actions -> Outcomes

The following elements should be included in the validation of each corporate goal.

Goals	Define ministry's goals and how they contribute to achieving its mission.
Definition	State what is being measured.
Rationale	State why the measure selected is an appropriate indicator. If the measure is a proxy, state why it is a good proxy.
Methodology	State how the measure was derived or calculated.
Data Source	State from where the information was gathered.
Target	State what the target is and why it has been selected. If the target has not been achieved, explain why and how performance will be improved.
Past Performance	State what the ministry's performance for that measure has been to date.
External Factors	State what external factors may affect the outcome and the extent to which the ministry has "control" over the outcome.

Source: Alberta Treasury. "Measuring Performance: A Reference Guide" September 1996.

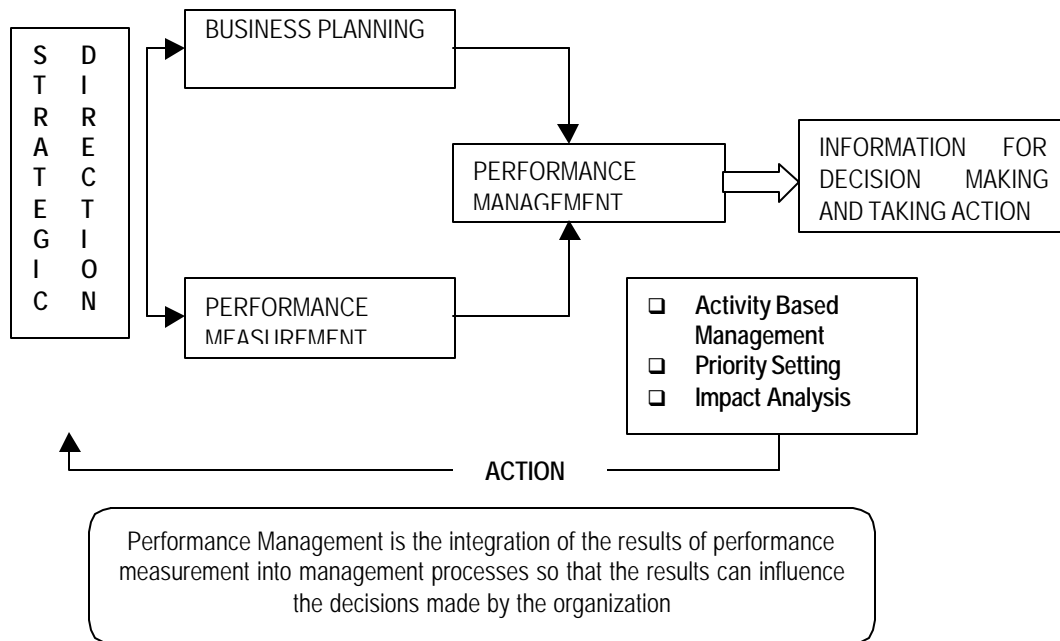
In a well-integrated system, the timeframe cycles are also synchronized, since one process's outputs are ideally utilized by another process as inputs. A completely synchronized system's information flows without lag and completes the full system within the fiscal year. In this regard, performance measurement is not an end, but a tool in the strategic and budgeting process.

"Organizational control is the process where an organization ensures that it is pursuing strategies and actions which will enable it to achieve its goals."¹⁶ Without full integration, the strategic plan's identified organizational vision is difficult to link to its daily activities. However, the incorporation of the performance measurement system determines if performed actions and activities support the corporate objectives and vision.

Performance measurement is a vital component of performance management, though the two terms are commonly used interchangeably.¹⁷ Performance management allows performance measurement information to be utilized in strategic planning by reporting the necessary high-level, broad measures and results. Traditional methods are limited with a short-term focus that is difficult to link to forward-looking strategy.

¹⁶ Shaw, Alastair. "A Guide to Performance Measurement and Non-Financial Indicators", The Foundation for Performance Measurement (Mattison Public Relations), 1999.

¹⁷ "Performance Measurement is the process of collecting, analyzing, evaluating, and communicating information relative to an organization's performance and results. Performance Management is the integration of the results of performance measurement into management processes so that the results can influence the decisions made by the organization." from "A comprehensive Approach for Performance Management" Sept 29, 1999. PowerPoint Presentation. Deloitte and Touche Management Solutions.



Source: Deloitte and Touche Management Solutions. "A Comprehensive Approach for Performance Management" PowerPoint Presentation, September 29, 1999.

Performance measurement also opposes the "strategy dilution" phenomenon¹⁸ by developing a measurement framework that cascades down through the organization, which allows the results to be built bottom-up. By linking performance directly to strategy, organizational understanding is increased and strategy dilution reduced.

A popular Japanese management quality planning tool *hoshin kanri* (or policy deployment) "employs strategic policy planning to link organizational strategy with individual goal setting and performance measurement"¹⁹. The collaborative endeavor strives to create a corporate environment where individual performance flawlessly supports corporate strategy "like iron filings surrounding a magnet." Each employee's activities are planned, measured and fine-tuned to eliminate variances between the individual and corporate strategy.

Best practice research has also alluded to the linkage of performance measurement system to budget and resource allocation. From quantified performance information, a corporation can determine the value that an indicator or process has towards the corporate objectives – as part of the focus-shift to non-financial outcomes. Therefore, the allocation of scarce resources is done through evidence-based decision-making, wherein the budget reflects support for activities that sustain the desired outcomes. Although "spending money is no guarantee of results,"²⁰ performance measurement determines and provides for those actions that highly correlate to results.

¹⁸ "Strategy dilution: gradual erosion of understanding of strategy and direction the lower in the organization you go" from "A comprehensive Approach for Performance Management" Sept 29, 1999. PowerPoint Presentation. Deloitte and Touche Management Solutions.

¹⁹ Best Practices LLC Online Resource. "Linking Measurement to Corporate and Individual Goals – Pt 1 and 2." [available online: www.best-in-class.com].

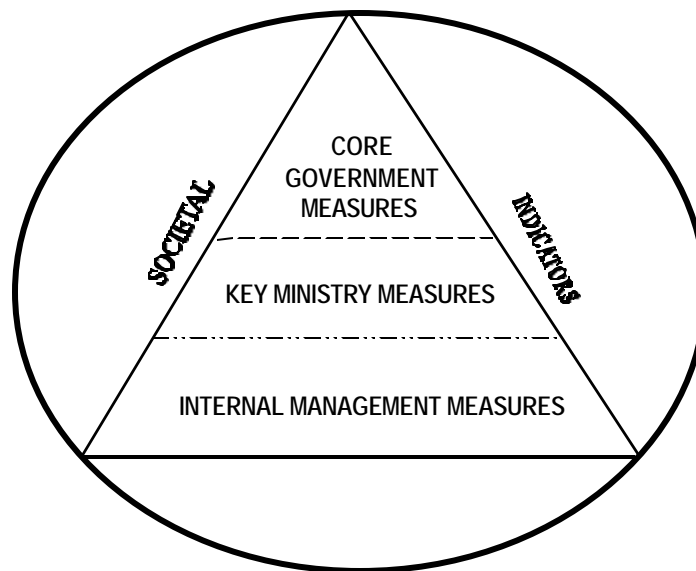
²⁰ Alberta Treasury. "Measuring Performance: A Reference Guide" September 1996.

KEY COMPONENT 3: HIGH CORPORATE-LEVEL, LONG-TERM STRATEGY

Corporate mission, vision and goals should be stated at a high-level clearly with a long-term focus.

A Crown Corporation's strategy should include high-corporate level objectives with a long-term perspective, especially in relation to its performance measurement system. While internal operational measures are important, it is vital that the health of an organization can be determined through the accomplishment of its broad and high-level mission, vision and goals. Likewise, the clarity of these goals and objectives are of utmost importance. In order to measure progress against these goals, it must be defined with unambiguous precision.

A good model to illustrate the need for high-level goals is that of Alberta's provincial "Measuring Up" program which has a 3-tier structure (See illustration below).²¹ A performance measurement system is most concerned with the second level – the macro level view of the ministries or Crown Corporations. This highlights the output, services and outcome effects on clients. Through this model, one can see the linkage of the high-level objectives to the 1st tier (governmental public policy and province-wide goals) and 3rd tier (micro level internal management measures, program specific and administrative indicators). The 2nd tier measures indicate success in achieving goals outlined in the Crowns' business plans. It is directed to a broader audience and has greater practical application. These macro level performance information feeds into the core government measures



Source: Alberta Treasury. "Measuring Performance: A Reference Guide" September 1996.

²¹ Ibid.

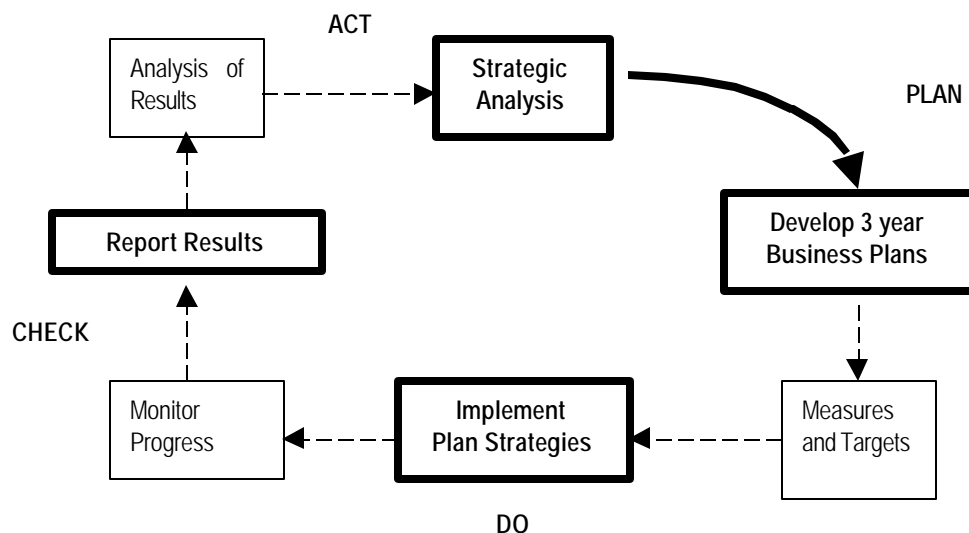
Aside from the formation of high-level corporate goals, it is imperative that there is a corporate consensus over the chosen strategic objectives. Translating strategy to measurable objectives requires that a corporation be specific about its goals. Therefore, agreement on strategy is paramount.

KEY COMPONENT 4: PLAN-DO-STUDY-ACT CONTINUOUS LINKAGE

The system should show a clear cause-and-effect control loop to provide accountability and usefulness to the measures and outcomes.

A commonly used control system to ensure the proper delivery of desired outcomes is the Plan-Do-Study-Act (PDSA) cycle derived from Total Quality Management. In ensuring that plans are executed as expected, it is the basis of an effective performance measurement system. Actions are planned, then executed. Its results are then studied. In the event that variance exists between actual and expected results, the system is fine-tuned and a new action is planned and deployed through the cycle. The most critical element of the loop is the regular and systematic review of the interim results, which ideally is comprised of two types²²:

- (a) Monthly reviews with a focus on micro-operational level process outcomes. The plan execution is studied. Accountable parties present the results in a standardized document format.
- (b) Quarterly reviews with a focus on macro-strategic level. The relationship between high-level performance indicators and the strategic objectives are studied.



Source: Alberta Treasury. "Measuring Performance: A Reference Guide" September 1996.

²² Hacker, Maria E. and Paul A. Brotherton. "Designing and Installing Effective Performance Measurement Systems", IIE Solutions Magazine (Institute of Industrial Engineers), August 1998.

The PDSA system's cyclical demonstration is fundamental in understanding the true value of performance measurement. Tracing the reasoning behind action plans are occasionally complex, but can be simplified. Corporate vision and mission is the corporation's long-term desired destination and are achieved through high-level goals and objectives. To assess progress against the plan, high-level measures and targets are developed. Once outcome results are collected, analyzed and reported, any variance is rationalized through cause-and effect. Finally, after feedback is received from the different corporate levels, actions are implemented to close the identified gaps at the proper stage.

Measuring performance is not an independent activity, but an integral part of the overall corporate planning/strategic management process. Planning/management should not be regarded as a linear production line process, with a start and finish, but rather as an ongoing continuous cycle. Previous attempts to measure performance or use business planning have failed due to a lack of integration of the component, and not *Acting* after *Checking* what happened.²³

KEY COMPONENT 5: INTERNAL COMMUNICATION AND TRANSLATION

Strategic corporate, business unit and individual plans and measures should be translated and communicated internally (horizontal and vertical).

There are three elements involved in the internal translation of the strategic and performance measurement system:

- (a) cascade and hierarchy of strategic plans and measures from the corporate-level, business units to individual employees
- (b) communication of strategic plans and measures to all employees
- (c) accountability and empowerment of the workforce

Alignment with strategic direction. Performance measurement systems succeed when the organization's strategic and business performance measures are related to, that is, are in alignment with overall organizational goals. Top leaders convey the organization's vision, mission and strategic direction to employees and external customers clearly, concisely and repeatedly. Moreover, organizational objectives are shared with employees in several different formats, both visual and verbal. For example, one partner published and distributed a booklet to show each employee what matters at the corporate level, what affects the division level, and how everything aligns within the corporation. This information sets the stage for the development of useful performance measures, since the more clearly goals are communicated, the easier it is for employees to see and decide on what needs to be accomplished.²⁴

CASCADE AND HIERARCHY OF STRATEGIC PLANS AND MEASURES

A hierarchy of strategic plans and measures should be in place that cascades from the corporate level to the business unit levels and finally down to the

²³ Alberta Treasury. "Measuring Performance: A Reference Guide" September 1996.

²⁴ National Performance Review. "Serving the American Public: Best Practices in Performance Measurement: Benchmarking Study Report" June 1997.

individual employee. This translation provides for clear and visible targets throughout the organization. To execute this properly, the corporate level goals and measures are analyzed and translated to how each business unit and individual can contribute. A few operational activities (3 to 4) at each level are linked to these top corporate priorities. Goals are ideally kept quantitative to facilitate measurement. While strategy and activities are linked top-down, the results and measures are reviewed bottom-up from individual results and are linked up to business units and finally in alignment with the strategic performance expected for the entire company. Reviews are completed monthly to deal with any variance and to continually establish the linkage. By aligning strategy with individual effort, performance is improved through the application of goal theory in which the "goals focus activity toward relevant goals and influence persistence in reaching goals."²⁵

This alignment of effort ensures that the corporate strategy is carried throughout, right to tactics and individual performance measures.²⁶

However, it is crucial that the linkages are multidirectional, running horizontally across divisions within the organization, in addition to vertical integration. These horizontal alignment efforts are effective in organically integrating the different units to support a solitary company strategy and each other. In bringing together different departments that traditionally perform their strategic planning independently, the linkage acts as a catalyst for synergies. This corporate-wide initiative fosters the need for interdependence. Likewise, a common performance measurement system horizontally across business units provides a common language, thereby contributing to corporate culture.

However, it is important to remember that in the vertical translation of goals and measures, as the distance between those controlling and carrying out the action increases, the PDSA cycle becomes more detached and corrective action can be difficult to ascertain. Hence, empowerment of employees becomes increasingly important (as discussed below).

COMMUNICATION OF STRATEGIC PLANS AND MEASURES

To complete the alignment of the performance measurement system, the strategic plans, measures and, most importantly, causal linkages should be known and understood by both employees and customers. External customers eventually judge the actual achievement of the set goals, while internal employees need to know what actions are necessary to achieve these objectives. For these reasons, effective external and internal communication are imperative for a successful performance measurement system.

Clarity of communication is a definite success builder, and likewise, lack thereof is a measurement obstacle. "A real gap between the strategy and

²⁵ Hacker, Maria E. and Paul A. Brotherton. "Designing and Installing Effective Performance Measurement Systems", IIE Solutions Magazine (Institute of Industrial Engineers), August 1998.

²⁶ Lingle, John H. and William A. Schieman, "From Balanced Scorecard to Strategic Gauges: Is Measurement Worth It?" Management Review, March 1996.

what it meant on a day-to-day operational basis ... left employees uncertain about how they could contribute."²⁷

A critical element of communication is the feedback element involved through regular management reporting and reviews. These evaluations demonstrate the importance of the indicators and make the corporate strategic plan (CSP) operational. Moreover, if the strategic and performance measurement system is intended to motivate, then it should relate and have meaning to the employees, define them as a unit and convey what they believe their program/activities are all about. Employees should know how progress is measured.

The CSP, with its performance indicators, should be widespread through the corporation through interactive team mechanisms (group brainstorming sessions), print materials (brochure), computer technology (email and Intranet) and highly visible progress charts in appropriate work areas.

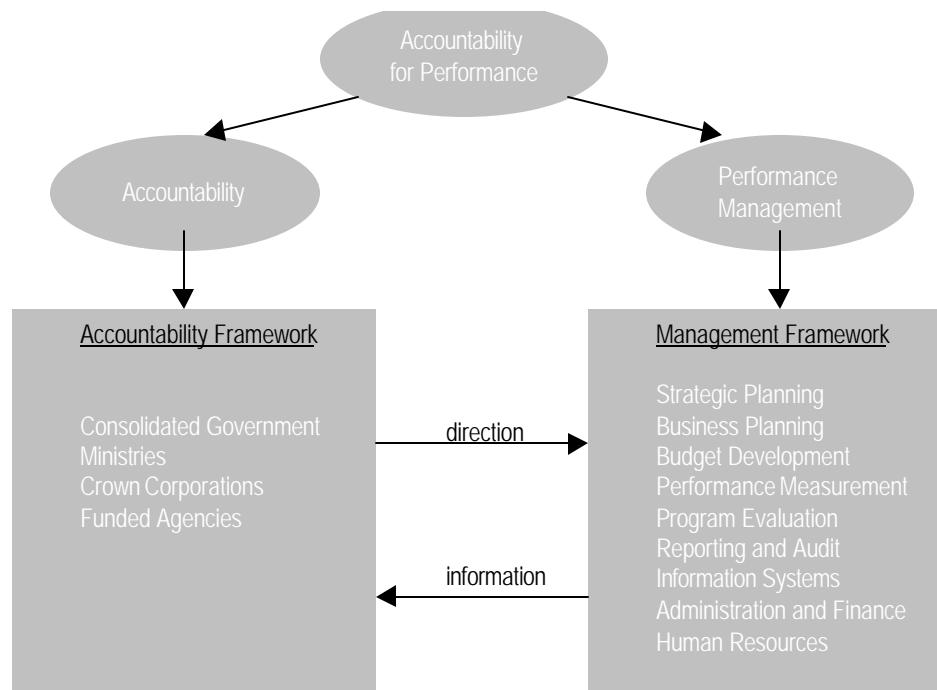
ACCOUNTABILITY AND EMPOWERMENT OF THE WORKFORCE

Awareness of the corporate objectives and progress indicators alone is ineffective if the employees are not given the flexibility, authority and responsibility to make decisions and execute plans to meet the established performance objectives for which they are accountable. If employees are not accountable or within control to affect the results of their actions, then the lack of power to change outcomes implicates a strategic plan of no value.

Ownership, development, analysis and accountability for specific measures confer the proactive responsibility of meeting and reporting on a performance target to an individual (or team). Ownership identification should be known to all employees (i.e. resident expert). "Accountability for results must be clearly assigned and well-understood."²⁸ The system should be closed loop, accountability results from authority over performance, since accountability and performance complement each other (See illustration below). An employee can only held accountable if they possess control. Employee involvement is highly regarded as a key success factor in performance measurement systems.

²⁷ Ibid.

²⁸ National Performance Review. "Serving the American Public: Best Practices in Performance Measurement: Benchmarking Study Report" June 1997.



Source: Auditor General of British Columbia "Enhancing Accountability for Performance: A Framework and an Implementation Plan (Second Joint Report): Assessing Progress Against the Plan", Deputy Minister's Council, April 1996.

Measurement-managed companies tend to involve the workforce in developing measures Teams not only help determine specific performance measures, but determine how results will be tracked and reported. This ensures broad commitment to the measurement process.²⁹

Stage 3: Components of the Performance Measurement System

KEY COMPONENT 6: SHORT LIST OF COMPLETE MEASURES

Measures should be prioritized and short-listed to 8 to 15 key corporate measures.

Measuring everything that can be measured is a common mistake encountered by corporations. Instead, based on its corporate objectives, a short list of key indicators should be able to provide a snapshot of the corporation's performance in its core businesses. These short list of complete measures (a maximum of 15) should convey what the corporation deems to be important – its priorities. One of the most valuable features of the balanced scorecard is its ability to highlight a few metrics for management to get a quick yet complete assessment of an organization's health on diverse areas of performance.

In neglecting to narrow down the indicators, a Crown Corporation risks being judged based on everything it is measuring. In trying to be "everything to everyone," a

²⁹ Lingle, John H. and William A. Schieman, "From Balanced Scorecard to Strategic Gauges: Is Measurement Worth It?" Management Review, March 1996.

corporation does not narrow down the key priorities it hopes to achieve. At the high corporate level, executive management need macro-level trend information, instead of the deluge of day-to-day operational details. An excess of indicators results in “measurement disintegration”³⁰ wherein the process is weakened, as managers waste valuable resources pursuing superfluous measures simultaneously – all the while overlooking the few key priorities.

The activity trap. Too many measures trivialize the effort. This occurs when companies focus on measuring activities, not results. “If you’re measuring for measurement sake and do not use the data for fine-tuning the organization, or for spurring it on to achieve significant results, then you are going through wasted efforts”³¹

KEY COMPONENT 7: BALANCE OF MEASURES

Measures should comprise a balanced set of components.

A balanced family of measures addresses the different goals of the corporation, different stakeholders and information needs. Each organization should formulate its customized variety of indicators, adapted to its unique strategy, culture and objectives. A range of performance indicators is desired to represent the numerous accountabilities and facets of a Crown Corporation. Although multiple measures are difficult to design and interrelate, it is a prerequisite to complement the complex frameworks of today’s corporations.

A proper balance should be delicately crafted from all the critical success factors, as undesired behaviours might unintentionally be induced from an unbalanced collection of measures. A performance measurement system must encourage and promote desired behaviours that lead to the ideal outcomes.

A proper balance is needed between:

- (a) outcome, output and input measures
- (b) financial and non-financial measures

OUTCOME, OUTPUT AND INPUT MEASURES

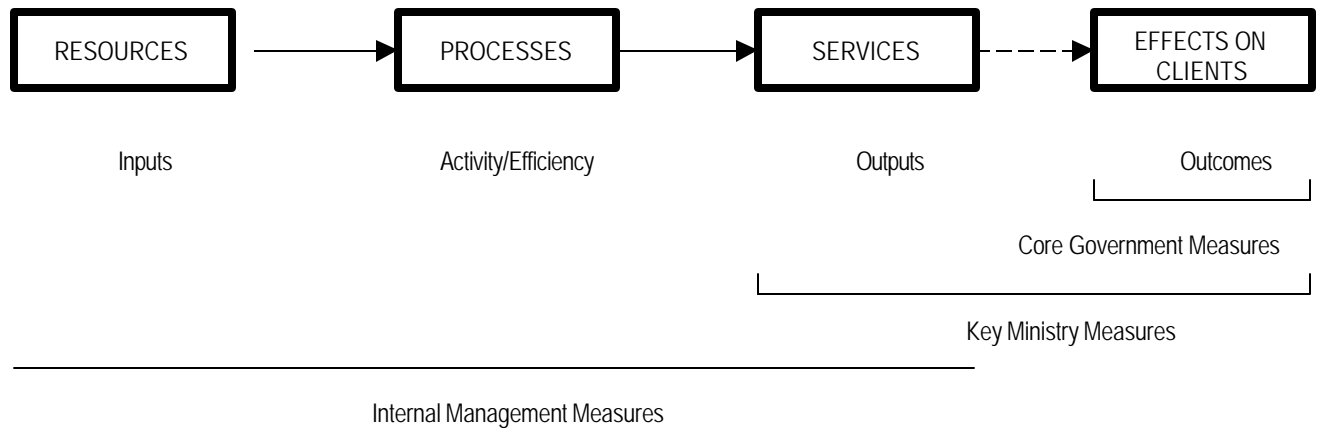
A perfectly executed process is a waste of time and money if it fails to achieve the outcomes desired.³²

³⁰ Ittner, Christopher and David Larcker. “Non-financial Performance Measures: What Works and What Doesn’t”, Financial Times’ Mastering Management Series (Wharton Research Program on Value Creation in Organizations: a series of studies on the key drivers of value creation (University of Pennsylvania and Ernst & Young)), 16 October 2000.

³¹ Lingle, John H. and William A. Schiemann, “From Balanced Scorecard to Strategic Gauges: Is Measurement Worth It?” Management Review, March 1996.

³² Alberta Treasury. “Measuring Performance: A Reference Guide” September 1996.

Developments in performance measurement systems have shifted the focus from inputs (amount of allocated resources), process (level of activity and efficiency) and outputs (amount of service provided) to measuring and reporting outcomes (desired high-level results of government action). Crown Corporations, like Ministries, should be concerned mostly with outcomes and outputs for their key measures, while only emphasizing inputs and process measures in their internal measurement (See illustration below).



Source: Alberta Treasury. "Measuring Performance: A Reference Guide" September 1996.

Why focus on results? Outcomes are especially important for government to measure success, since government activities are judged based on the achievement of its desired results – most often reflecting the effect of a government's program or service on the citizens' lives (its mandate). Public policy is the very reason for the creation of Crown Corporations. Therefore, outcome measures possess greater significance in determining a Crown's effects instead of a simple tally of what has been used or produced. However, input, process and output measures still possess some value in performance measurement, because of its ease of measurement. Not only is it easier to measure process and activities than results and outcomes, it is also often difficult to show a direct linkage between operational activities and outcomes. The end-results of most projects are not known for years. To overcome this challenge, intermediate outcomes, proxy outcomes or service quality results are used. The current client-focused initiatives also lend to outcome reporting, since most results lead to the customer service philosophy of reliability, responsiveness and credibility.

To use outcome performance information, the key determinants of success and their correlation to outcome were identified and evaluated. From this assessment, appropriate strategies are designed to achieve the desired outcome. Reallocation and adjustment are key to an effective and efficient outcome reporting.

FINANCIAL AND NON-FINANCIAL MEASURES

A strategy is a shared understanding about how a goal is to be reached. Balancing measures allows management to translate the strategy into a clear set of objectives. These objectives are then further

translated into a system of performance measures that effectively communicates a powerful, forward-looking, strategic focus to the entire organization. In contrast with traditional, financially based measurement systems, the balanced measures approach solidifies an organization's focus on future success by setting objectives and measuring performance from distinct perspectives. The old method of management, which focused only on the bottomline, no longer works. If the customer, stakeholder and employee are not part of the solution, they will forever be part of the problem.³³

Financial indicators are frequently referred to as lagging indicators, because they report on a corporation's past performance. Financial indicators may typically focus on the short-term health of an organization. On the other hand, non-financial indicators are labeled as leading indicators, because they are drivers of future performance. Therefore, they represent a long-term focus. The traditional categories of non-financial measures, as taken from Norton and Kaplan's Balanced Scorecard, are customer-focus, internal business processes and learning & growth perspective.

A balanced set of measures must have a combination of both in order to balance the conflict between short and long term, as well as past and future success. A balance between the two is especially important to Crown Corporations' performance measurement systems, because of the Crowns' role as public policy vehicles in the social, environmental and economy of the province – employing both financial and non-financial information.

Using non-financial indicators in performance measurement requires that the system's developers understand its own corporation's functions and its competitive, legal and market environment. "The less you understand the business, the more you rely on accounting numbers."³⁴

Financial data is widely understood but, when used solely as measures of corporate performance, may be limiting, especially in the public sector where other important objectives must be met, therefore, presenting an incomplete set of measurement tools. Crown Corporations' successes encompass a broad spectrum that cannot be represented simply in financial terms. In any case, if a Crown's system of governance is targeted to achieve excellence in its key success drivers, then the financial performance should consequentially follow.

Measurement of financial performance and financial reporting is an essential part of the framework of stewardship within which all companies operate. But this type of measurement is not enough to assess whether a business is truly successful in meeting its goals. Measuring profit alone is not intended, nor is it able, to provide signals for assessing the likely long-term success of any business, large or small.³⁵

In fact, as further evidence of the inadequacy of measuring conventional financial information alone, several companies in technology industries have shown disparity between its market value and accounting value. A

³³ National Partnership for Reinventing Management. "Balancing Measures: Best Practices in Performance Management", August 1999.

³⁴ Shaw, Alastair. "A Guide to Performance Measurement and Non-Financial Indicators", The Foundation for Performance Measurement (Mattison Public Relations), 1999.

³⁵ Willis, Alan. "For Good Measure: Tracking Corporate Performance Moves Beyond Financial Statements to Recognize the Environment and Human Well-Being", CA Magazine, December 1994.

corporation's most accurate assessment is related to a combination of both its intangible and physical assets. In fact, several approaches, such as Intangible Assets Monitor and the Balanced Scorecard, provide approaches to gauging these intangible factors. Aside from the classic Norton and Kaplan perspectives of financial, customer, innovation & growth and internal business practices, some literature has suggested the added perspective of employee and community/environmental welfare.

Non-financial measures are more closely linked to long-term organizational strategy and future competitive sustainability, thus indirectly estimating the proportional true value of a company. In addition, intangible indicators often provide data on the quality of measurement and are not as vulnerably to uncontrollable external factors (such as market conditions).

However, given the value of non-financial indicators, financial indicators provide the balance and still have essential value, because of its ease of measurement – unlike intangibles that require valuable resources to establish a well-developed tracking system. In addition, the validity of non-financial measures is questioned more, because of the lack of standard practice, similar to the Generally Accepted Accounting Principles for financial data.

A successful performance measurement system balances the achievement of results on often competing non-financial and financial demands to provide a wider perspective on the company's position and operations. This is key in creating a high-performance organization.

This balanced approach to performance planning, measurement, and management is helping government agencies achieve results Americans – whether customers, stakeholders, employees or other – actually care about.³⁶

KEY COMPONENT 8: QUALITY OF MEASURES

Measures should fulfill best practices.

Performance measures are indicators of meaningful information regarding a Crown Corporation's performance on its critical success factors, which is monitored regularly and compared to create value. The development of good measures that complement and represent the strategic vision and objectives clearly is a challenging and lengthy process.

Appropriate to a particular company, selection [of indicators] made in light of company's strategic intentions formed to suit the competitive environment in which it operates and the kind of business that it is.³⁷

³⁶ National Performance Review. "Serving the American Public: Best Practices in Performance Measurement: Benchmarking Study Report" June 1997.

³⁷ Shaw, Alastair. "A Guide to Performance Measurement and Non-Financial Indicators", The Foundation for Performance Measurement (Mattison Public Relations), 1999.

Although measures are meant to evolve, an appropriate foundation of initial performance indicators is still valuable and achieved through:

- (a) Clarifying a Crown Corporation's objectives and goals through its public policy goals,
- (b) Recognizing critical success factors and activities that encourage these goals,
- (c) Classifying corporate-level key measures,
- (d) Determining appropriate targets to measure these indicators' progress (via benchmarking, regulatory accepted figures or stretch forecasts),
- (e) Rationalizing the choice of indicators and validate the method of data collection,
- (f) Translating measures vertically through the corporation.

According to a survey³⁸, only 17% of companies surveyed are satisfied with their performance management efforts. Moreover, the majority of the reasons for this discontent refers to the quality of the measures chosen (i.e. too much info, collecting useless information, not tied together for high-level decision-making, measuring wrong things, employees do not see their value, no strategic congruence, focus on internal operations, etc.)

The Office of the Auditor General of Canada prepared "Audit Criteria for the Assessment of the Fairness and Reliability of Performance Information" in June 2000. The criteria discusses the requisites for fair and reliable reporting as:

- (a) Relevant: logical relationship demonstrates how well the objectives are being accomplished; preferably a balance between quantitative and qualitative measures to gain significance; focused on outcomes and reported timely.

Our study partners concentrate their measurement efforts on items that can be traced through business unit performance plans to the entity's strategic vision. If a measure and its corresponding data requirements cannot be linked back to strategic planning, they are immediately considered for deemphasis or elimination. This frees organizations from "rescue initiatives" in areas that produce little value and equally importantly avoids data overload.³⁹

- (b) Meaningful: shows a clear, simple and understandable performance story, benchmarked for comparability (including discussion and analysis of variance), rationale for measures are based on top-level corporate mandate, accepted and meaningful to customers. Measuring the right thing is central to success by having minimum and maximum targets in place for each measure.
- (c) Attributable: a strong linkage between the outputs and outcomes should be seen. As well, its contribution to corporate success should be discussed, as well as the effects of external factors.

³⁸ Deloitte and Touche Management Solutions. "A Comprehensive Approach for Performance Management" PowerPoint Presentation, Sept 29, 1999.

³⁹ National Performance Review. "Serving the American Public: Best Practices in Performance Measurement: Benchmarking Study Report" June 1997.

- (d) Accurate: measures are fair and valid, cost-effective collection methods, explanation and definition of measures, information source and their limitations.
- (e) Balanced: present a complete non-misleading picture, representing all the critical components of a particular company's success, supported by strong evidence and support system. It is critical to promote desired behaviours without reinforcing undesirable ones.

Goals and objectives, the requirement for data (sources and frequency of measurement), calculation methodology (equations and key term definitions), reporting and graphic deliverables and other rationales are included in the definition of a measure.

Avoid the "what we do can't be measured" syndrome, as well as the "if it moves, measure it," as both these extremes lack strategic focus. Also, one should note that there is an observed drop in performance when a new set of measures are put into place, as a result of the company recalibrating itself to the new system. Finally, measurement must be a means (gauge), not an end: "focus on the goal, measure the end results, and don't focus on the measurement."⁴⁰

KEY COMPONENT 9: TARGETS AND ACTIONS

Measures should have targets in place to measure progress against, as well as stated actions to achieve goals or sustain the target level.

In developing a performance measurement system, much focus is placed on the enhancement of its choice of measures. However, equal importance should be appointed on the targets that are used to measure progress and the corrective or sustaining actions that are assigned to each goal and measure. It is important to keep in mind that performance indicators are mere yardsticks for performance. Accurate examination and choice of targets, as well as managing decisions to find remedial actions, are paramount.

A performance measurement system only has value when its resulting data is analyzed and used to track progress against goals, through its trend movement, improvement or deterioration level and gap analysis between the intended and achieved goals.

Even the best performance information is of limited value if it is not used to identify performance gaps, set improvement targets and improve results. Comparing actual performance to what was planned will indicate our progress and provide information upon which to base our future actions.⁴¹

In collecting and investigate performance data, the significance and cause-and-effect linkage must be considered with perspective. For example, executive management would assign greater value to high-level performance trends, instead of minor day-to-day details on operations. A Crown's senior management requires a few vital measures, targets and actions that are critical to their responsibilities to drive the corporation's

⁴⁰ Ibid.

⁴¹ Alberta Treasury. "Measuring Performance: A Reference Guide" September 1996.

success. On the other hand, individual business unit managers would concern themselves with targets and activities that relate to their own activities, as aligned with the overall strategic plan. Finally, those targets and actions that involve their operations and process performance, which should still be translated vertically to the high-level corporate plan, affect individual employees.

A fundamental part of performance measurement is the desire for corporate continuous improvement. After the system derives performance information, management should involve all levels of the company in participating and developing action plans and timelines to correct variances detected.

Stage 4: Analysis, Implementation and Use

KEY COMPONENT 10: CONTINUOUS LONG-TERM IMPLEMENTATION

The performance measurement system should be continuously reviewed, modified, evolved and implemented every planning period.

Strategic and performance management is an uninterrupted cyclical process that incorporates planning, measuring, collection, monitoring, analysis and feedback, with the overall purpose of deriving continuous improvement.

Treat performance measurement as an ongoing process. Performance measurement is an iterative process that progresses but has no end. An organization's commitment to performance measurement is a tacit agreement to continually build, change and improve.⁴²

The process of reconsidering the key indicators used in the performance measurement system is never-ending. A corporation should regularly assess the validity, quality and appropriateness of its choice of measures, as it is imperative that the right measures are used or the system is rendered worthless. Upon review, if an indicator is pronounced unsuitable, then it should be replaced by a proper one or deleted. Such developments are caused by several circumstances, such as the need to narrow down the number of measures, a shift in the corporation's position and priorities, a change in its competitive or regulatory environment or a modification of the government's public policy goals for the Crown Corporation. In fact going through the evolution of measures can give more insight to determining the key priorities of a Crown.

The ongoing implementation of a performance measurement system customarily takes approximately five years to reach steady state. In addition, the shift in focus to outcome reporting further places importance on long-term implementation, because the achievement of a program's ultimate outcomes is frequently seen over many years.

⁴² National Performance Review. "Serving the American Public: Best Practices in Performance Measurement: Benchmarking Study Report" June 1997.

Performance measurement is a dynamic ever-changing process, and is even more appropriate today as strategies and the competitive environments in which Crown Corporations function evolve.

KEY COMPONENT 11: BENCHMARKED RESULTS

Results should be benchmarked against industry-related corporations (private or public) with acknowledged best practices.

Benchmarking is the methodical procedure of investigating best practices, innovative and effective systems, and adapting these processes to a Crown Corporation's own strategic and corporate plans with the intention of continuously improving performance on these plans. Although seemingly well-developed, a Crown's performance measurement system further benefits from a community of knowledge that is collected through comparisons to other corporations' systems that are recognized as employing best practices – within and across jurisdictions, industries and sectors.

...a comparison of projected performance versus competitors and key benchmarks.... This projection/comparison is intended to encourage companies to improve their ability to understand and track dynamic, competitive performance factors. Through this tracking process, companies should be better prepared to take into account their rates of improvement relative to competitors as a diagnostic management tool.⁴³

Benchmarking drives the improvements of a Crown Corporation's planning and competitive performance, while still taking into account changing business, legislative and regulatory needs. According the Malcolm Baldrige National Quality Award criteria⁴⁴, the major premises behind benchmarking are:

- (a) The need to identify the corporation's position in relation to best standards and competition.
- (b) The information provided by benchmarking information imparts impetus for substantial improvement and forewarns of the business environment's threats and emerging practices.
- (c) The requirement of understanding a Crown's own operations before it can efficiently compare performance levels with best practices.

There are three acknowledged classifications of benchmarking:

- (a) Process benchmarking focuses on separate operational level processes with a short-term focus.
- (b) Performance benchmarking focuses on products and service contrasts to assess its competitive standing.

⁴³ "Malcolm Baldrige National Quality Award 1997 Criteria"

⁴⁴ "Malcolm Baldrige National Quality Award 1997 Criteria"

- (c) Strategic benchmarking focuses on the macroscopic level of competition. It is rarely focuses on a single industry, as it is the fundamental lessons that are important for the long-term application.

Strategic benchmarking is the principal category that relates to this project, as it has the most effect on the strategic determination and performance measurement implementation, as a catalyst for driving success.

Stage 5: Performance Reporting and Accountability

KEY COMPONENT 12: INTEGRATED AND USEFUL REPORTING FORMAT

Performance goals, measures, targets, actions and outcomes should regularly be reported in an integrated simplified format, like a dashboard or brochure.

Good reporting practices is a fundamental of good measurement. Baseline data, explanation of results and analysis of variance should be provided to enable proper comparison. Input from accountable parties, leadership, sound strategies and knowledge of the core competencies of the Crown are paramount.

Reporting, evaluating and using performance information starts with the simple dissemination of performance results. However, the provision of corrective actions and feedback completes the value-added cycle given the following stipulations:

- (a) Reporting should be prompt and timely through proactively distribution via company Intranets and the Internet, written reports, newsletters, scorecard charts, email, publications, videoconferencing.
- (b) The results should be evaluated regularly depending on the corporation's needs. The flow of information should determine corrective actions through gap analysis and root cause analysis. Once a solid cause-effect rationale is understood, then recommendations for countermeasures and assignment of accountability can be completed. Finally, studying the efficiency of the appointed countermeasures to close the identified gaps, the allocated resources and the improvement predictions increases the usefulness of the reporting system.
- (c) Reporting should be applied in resource allocation, employee and management evaluation, gap analysis, re-engineering, benchmarking, process improvement, goal adjustment and improvement of the performance measurement system of a Crown.

Among all these indicators exists a complex system of linkages, which poses a degree of difficulty in analysis. This is a good reason to present these indicators as a set of dashboard or cockpit indicators – to clarify the relationships between the difference components.

Think of the balanced scorecard as the dials and indicators in an airplane cockpit. For the complex task of navigating and flying an airplane, pilots need detailed information about many aspects of the flight. They

need information on fuel, air speed, altitude, bearing, destination, and other indicators that summarize the current and predicted environment. Reliance on one instrument can be fatal. Similarly, the complexity of managing an organization today requires that managers be able to view performance in several areas simultaneously. The balanced scorecard allows managers to look at the business from ... important perspectives.⁴⁵

In this instrument panel analogy, using a one-page monitor assembles the essential indicators of a Crown's outcome performance. In addition, by using visual aids like graphs and bars that indicate target versus actual performance, outcome reporting provide obvious and enhanced impact on its many audiences and stakeholders. There are additional methods of reporting aside from an integrated dashboard, such as the inclusion of performance information in a Crown's annual report, strategic plans, corporate website. However, the important thing to consider is that the form may change, but the substance should meet the general components of an efficient report to convey the success, plans and culture of an organization⁴⁶:

- (a) Timely and updated information that focus on future strategy and positioning.
- (b) Coverage of outcomes and some outputs, which requires a long-term view.
- (c) Simple, direct yet attention-grabbing impact and quality of disclosure.
- (d) Avoiding inefficiently layering too much information, as auxiliary information can be provided for reference, if needed.
- (e) Use of the Internet for its immediate accessibility and ability to provide comprehensive information. However, one should keep in mind its demands: technical aptitude, limited distribution to those with access, high-level images and need for constant updating. However, again, it is simply a different distribution medium.

General reporting trends are the reduction in size, simplicity of approach, credible information, and most importantly the recognition that the report is only functional if it generates understanding.

KEY COMPONENT 13: REPORTING TO CROWN BOARD OF DIRECTORS

Results should be regularly reported to the Crown Corporation's Board of Directors and used to monitor the corporation's performance.

A Crown Corporation's corporate governance and accountability lines include flow of information through the Crown's senior management, Board of Directors, Minister Responsible, Legislative Assembly and the public. However, central to competent corporate governance is the Board of Directors' performance measurement obligation. The ability of the Board of Directors to efficiently perform its role in monitoring corporate performance is proportional to the availability of relevant information, such as strategic

⁴⁵ Robert S. Kaplan and David P. Norton. "The Balanced Scorecard – Measures that Drive Performance" Harvard Business Review, January – February 1992.

⁴⁶ Blunn, Ron. "Five Annual Report Trends for the Next Millennium" presentation at the First Annual Conference of the Canadian Society of Corporate Secretaries, CCH Canadian Limited, 21 October 1999.

goals, performance relative to the goals, management performance, external stakeholder expectations and corrective initiatives. "Boards need quantitative and qualitative information beyond that which is historical if effective control is to be achieved."⁴⁷ Most importantly, in order for its Board of Directors to monitor a Crown's accountability and performance, it must understand the information they receive to exert influence on the outcomes. Hence, a high-level corporate document highlighting key performance outcomes and trends is useful in conveying an accurate picture of a Crown's current state.

The effective Board of Directors will seek information that looks at other performance factors such as customer satisfaction, product and service quality, market share, market reaction, environment performance and so on.⁴⁸

In the May 2000 Conference Board of Canada's paper "Planning to Prevail: A Practical Guide to the Board's role in Strategic Planning and Performance Measurement", the biggest mistake that Board of Directors can commit in monitoring a corporation's performance is micro-management, as it should be concerning itself with high-level strategy to move the corporation forward. The second mistake is not to impart sufficient guidance to management. Therefore, there is a challenge to balance the empowerment of management with the retention of strategic control.

Integrated strategic leadership involves the Board's role in imparting continuous learning and growth by: developing a sensible strategic plan; instilling a complementary culture; reviewing progress through performance measurement reports; benchmarking internally and externally; and regularly reviewing the public policy goals, values and corporate mandates.

KEY COMPONENT 14: REPORTING TO GOVERNMENT

Results should be regularly reported to the Crown's Minister Responsible and the Legislative Assembly with proper feedback provided to complete the communication loop.

According to the December 2000 Report of the Auditor General of Canada on the Corporate Governance of Crown Corporations, the management has improved since the 1984 Financial Administration Act. However, the strategic planning and performance measurement framework still needs strengthening. The report suggests that in addition to clarification of the Board of Directors and audit committee's roles and skill requirements, the government should enhance its existing inadequate capability to assess and challenge a Crown Corporation's strategic plan – the cornerstone of its accountability.

The 1996 Annual Report to Parliament by the President of the Treasury Board suggests that according to a Canadian public survey, the highest ranked method of improving governance is to improve the information available to Parliament for better

⁴⁷ Willis, Alan. "For Good Measure: Tracking Corporate Performance Moves Beyond Financial Statements to Recognize the Environment and Human Well-Being", CA Magazine, December 1994.

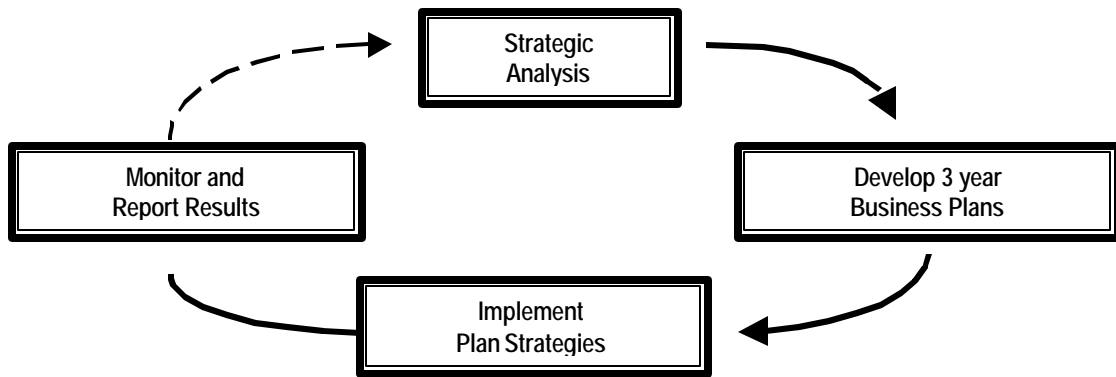
⁴⁸ Ibid.

accountability. Not only should Crowns report on the variance between planned and actual performance, but the rationale behind the gap should also be reported to the Minister Responsible and consequently the Legislative Assembly. The high-quality information received by the government is irrelevant if it is not used to provide feedback. If no review and commentary are provided from the government, the alignment of expectations between all accountable parties is disoriented.

The results from departments are formulated primarily as part of their business planning process which factors in government policy direction, as well as Program Review and Budget decisions.⁴⁹

An important responsibility of the government is approving a Crown’s corporate plan, ensuring its relevance to the mandate and balancing its public policy goals and commercial objectives. Government business plans should be updated annually with an additional year added every cycle. For existent leadership from the top, the information from reports should be used, commented upon and incorporated into new business plans.

According to the September 1996 Alberta Treasury report “Measuring Performance: A Reference Guide,” one of the Auditor General’s role in the improvement of performance measurement is to be ascertain the validity, impartiality and accuracy of the reports submitted and methodology employed. The measures chosen should be reviewed for their relevance, reliability, objectivity and understandability. In the future, it would be advantageous to legally require performance measurement information to be included in Crown Corporations’ annual reports and corporate strategic plans (See illustration below of the ideal “Government Business Plan Cycle”).



Source: Alberta Treasury. “Measuring Performance: A Reference Guide” September 1996.

Aside from being a corporate communication tool, a Crown Corporation’s annual report is an essential accountability document, providing the interaction of accountability bodies: the corporation’s management, Board of Directors, central agencies, Minister Responsible, Parliament and the public. Clear articulation of a Crown’s objectives and a well-implemented performance measurement system critically connects the accountability network. In the October 1996 Annual Report to Parliament, the President of the Treasury Board emphasizes that Parliament’s access to a systematic flow of timely

⁴⁹ Treasury Board of Canada Secretariat, “Getting Government Right: Improving Results Measurement and Accountability” Annual Report to Parliament by the President of the Treasury Board, October 1996.

and pertinent information allows it to decide whether government bodies have met their stated objectives for each planning period.⁵⁰

KEY COMPONENT 15: REPORTING TO PUBLIC

Results should be regularly reported to public.

The overpowering motive in executing a performance measurement and reporting system is to increase the transparency of government to the public. There is an increasing demand to observe the value that public tax dollars have in enhancing and increasing the citizens' quality of life. This is imperative: progress information towards goals and objectives to which Crown Corporations has committed should be openly shared with its key stakeholders – the ultimate one being the public.

We must equip ourselves with better systems for evaluating the actions of government so that we can genuinely answer for our actions, first and foremost to our fellow citizens who are both clients and taxpayers. This is the only way our government can evaluate and debate the merits of the decisions we make everyday on the public's behalf.⁵¹

⁵⁰ Treasury Board of Canada Secretariat, "Getting Government Right: Improving Results Measurement and Accountability" Annual Report to Parliament by the President of the Treasury Board, October 1996.

⁵¹ Ibid.

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