Performance Management Terminology Guide

Regardless of what particular methodology you subscribe to, it is important to understand concepts central to the practice of performance management. Below is a guide to key performance management terminology and concepts.

Vision: Concise written statement defining the mid- and/or long-term direction of the organization. The vision is the summary statement of how the organization wants/intends to be perceived by the world. The statement is *externally/market-oriented*, brief (1-3 sentences), and stated in “visionary,” colorful terms.

> ***Example:*** “Become the respected leader in financial services with a focus on end-to-end customer relationships and satisfaction, resulting in optimized balance sheets for our partners.”

Mission: Concise, *internally-focused* statement of the results (usually financial-, process-, or customer service-oriented) sought by the organization over the mid-to-long term (3-5 years). The mission is often a statement that describes, in motivating and memorable terms, the top-level targets (see below) of the organization.

> ***Example:*** “To double revenues in three years through operations excellence, driven by an intense customer focus.”

Strategy: Strategy is the way an organization seeks to achieve its vision and mission. It is a forward-looking statement about an organization’s planned use of resources and deployment capabilities. Strategy becomes real when it is associated with: 1) a concrete set of goals and objectives; and 2) a method involving people, resources and processes.

> ***Example:*** The President’s Management Agenda is an example of how the government plans to achieve its vision of becoming more citizen-centered, market-based and results-focused. It establishes concrete objectives that every federal agency must meet within a specified period of time in order to achieve the overall vision.

Balanced Scorecard: The Balanced Scorecard is one of the more prevalent methodologies in use today. It was developed by two Harvard Business School professors, Robert Kaplan and David Norton. The Balanced Scorecard includes methodologies for defining strategy, objectives and goals and developing metrics to measure execution against the strategy. The approach is based on the idea that to understand performance, organizations need a balanced model that encompasses a range of key internal and external indicators, as well as the related performance drivers and outcome metrics that describe the cause-and-effect relationships behind the strategy. It gives a “balanced” view of performance against plan by offering a balance between short- and long-term objectives, desired outcomes and performance drivers, and “hard” and “soft” objective measures.

Strategy Plan: A visual representation of an organization’s strategy and the processes and systems necessary to implement that strategy. A strategy plan can be used to communicate, motivate and align the organization to ensure successful execution.

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Pathway: Descriptive statement representing a major component of a strategy, as articulated at the highest level in the vision. Pathways are most often drawn from an organization's internal processes or the customer value proposition, but may also be drawn from key financial goals. The key is that pathways represent vertically linked groupings of objectives across several scorecard perspectives (at a minimum, Customer and Internal perspectives). Pathways are often stated as catchy phrases or "buzz" words that are easy for the organization to remember and internalize.

> ***Examples:*** "Know Our Customers, Reach Our Customers"; "World-Class Customer Service"; "Access: Click, Call, Come In or Connect"; "World-Class Supply Chain"

Perspective: The various aspects of a business on which an organization needs to focus in order to execute against its strategy. Perspectives are categories of strategic objectives. These areas of focus together provide a holistic, *or* ***balanced,*** framework for telling the "story of the strategy" in cause-and-effect terms.

> ***Examples:*** Customer, Financial, Process, Skills & Capabilities, Product Performance, etc.

Objective: An objective is a concise statement associated with a particular perspective that describes a *specific, measurable* component of the organization's vision and mission. While the vision and mission describe the top-level, desired state — or *overarching* objective — of the organization, objectives are *critical, actionable, and measurable* components that must be met in order to fulfill the vision and mission. Whereas the vision and mission statements provide an organizing and mobilizing "rallying cry," objectives translate the vision and mission into measurable and actionable operational terms.

> ***Examples:*** Grow high-margin revenues, improve customer satisfaction, improve store efficiency, etc.

Measure or Key Performance Indicator: A measure is a gauge or indicator of performance explicitly linked to a particular objective. The standards against which success will be monitored and tracked, measures quantify success or failure against a strategic objective and allow tracking and trending over time. They are also the defining context for setting discrete strategic targets (see **Target** below). As quantifying agents, measures are stated in terms of discrete units (e.g., amount of revenue, headcount number, percentage increase, survey rating average, etc.). Other examples of measures include:

> ***Financial*:** profitability (dollars, percentage growth); economic earnings (dollars)
>
> ***Customer*:** comparative customer satisfaction rating (percentage ranking over competition); new customer acquisition rate (percentage increase)
>
> ***Internal*:** e-Skills Coverage Ratio (percentage trained and applying)
>
> ***Learning & Growth*:** Organizational Climate Survey (numerical rating, year-to-year increase)

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Target: A target is the defining standard of success, to be achieved over a specified time period, for the measure or measures associated with a particular strategic objective. Targets represent the organization's "stretch goals." For any given objective, the measurement target, minus the current baseline, equals the *"performance gap"* for that aspect of the strategy.

***Example*:** For the measure *Year-over-Year Sales*, targets might be:

Year 1: $30 million
Year 2: $35 million
Year 3: $38 million

Operational Programs or Initiatives: Initiatives are key projects or programs developed to achieve strategic objectives. They are often known as operational programs, projects, actions and activities. They differ from objectives in that they are more specific; have stated boundaries (a beginning and end date); have a person/team assigned to accomplish them; and have a budget. Several initiatives together may support a specific objective or pathway. It is important for an organization to define the parameters for initiatives, such as "all strategic projects over $500K in size." It is also important that initiatives be strategic in nature, rather than "operations-as-usual" or tactical projects, such as "Recruit a new sales representative."

***Examples*:** Develop Quality Management Program; Install ERP System; Revamp Supply Chain Process; Develop Competencies Model

