

Unit 33: Small Business Enterprise

Presented by: Dwayne Cargill

Colbourne College

May 23, 2016

Learning Outcome 1

- LO1 Be able to investigate the performance of a selected small business enterprise
 - AC 1.1 produce a profile of a selected small business a identifying its strengths and weaknesses
 - AC 1.2 carry out an analysis of the business using comparative measures of performance

In this Session

- LO1 Be able to investigate the performance of a selected small business enterprise
 - AC 1.2 Carry out an analysis of the business using comparative measures of performance
- Further Readings
- Review Questions
- References

Performance Measurement Framework

A good performance measurement framework will focus on the customer and measure the right things. Performance measures must be:

- Meaningful, unambiguous and widely understood
- Owned and managed by the teams within the organisation
- Based on a high level of data integrity
- Such that data collection is embedded within the normal procedures
- Able to drive improvement
- Linked to critical goals and key drivers of the organisation

Performance Measurement Framework

- There are four key steps in a performance measurement framework:
 1. the strategic objectives of the organisation are converted into desired standards of performance,
 2. metrics are developed to compare the desired performance with the actual achieved standards,
 3. gaps are identified, and
 4. improvement actions initiated.

These steps are continuously implemented and reviewed:

Performance Measurement Framework

- Step 1: Focus on a few key goals that are critical to the success of the organisation or business, and ensure they are SMART (Specific, Measurable, Achievable; Relevant; Timely).
- Characteristics of Objectives:
 - Represent commitment to achieve *specific performance targets*
 - Spell-out *how much* of *what kind* of performance *by when*
 - Well-stated objectives are
 - *Quantifiable*
 - *Measurable*
 - Contain a *deadline* for achievement

Performance Measurement

- Step 2: Define the *outcome metrics* -what has to be measured to determine if these goals are being achieved.
- If it is difficult to define outcome metrics for a particular goal, it is possible that the goal is either not “SMART” or critical to the success of the business.
- For each outcome metric, brainstorm candidate *drivers* by answering the question, “*What measurable factors influence this outcome?*” Once the list is complete, select those with greatest impact, and these, the most important drivers, should have *driver metrics*, and be put in place first.
- Driver metrics at one level will be outcome metrics at the next level down.

Performance Measurement Framework

- Step 3: design a data collection/reporting process using the following steps:
 - Set up a system for collecting and reporting data

 - Write clear definitions
 - Agree method for establishing current performance (if not already determined)
 - List resources required to support the design
 - Agree data formats and classifications for aggregation and consolidation
 - Identify possible sources of benchmark data
 - Set reporting calendar
 - Establish roles and responsibilities
 - Detail training requirements
 - Validate with process stakeholders

Measuring Improvement

- One can measure an organisation's improvement using the following three areas:
 - Effectiveness
 - Efficiency
 - Productivity

Effectiveness vs. Efficiency

Efficiency vs. Effectiveness

		Strategic management	
		Effective	Ineffective
Operational management	Efficient	1 Thrive	2 Die slowly
	Inefficient	3 Survive	4 Die quickly

Performance Measurement Framework

- **Productivity = Outputs/Inputs**
 - This can be quoted as: Expected productivity = Expected output/Resources expected to be consumed
- or
- Actual productivity = Actual output/Resources actually consumed
 - Simple ratios, *e.g., tonnes per person-hour, computer output per operator day*, are used.

Comprehensive Performance Measures

- According to O'Connor (2015) in the global, technology-driven, decentralized environment, measuring financial performance, while important, is not adequate. Even if less than precise, other measures of performance are required. These measures should be capable of measuring multiple attributes of an organization
- Comprehensive performance measure must therefore include:
 1. .Financial performance
 2. Customer satisfaction
 3. Internal business process developments and
 4. Allow an organization to learn and grow.

Customer Related Measures

- We measure our success in customer satisfaction and loyalty through a Net Promoter Score (NPS) — an industry standard for measuring customer opinion. By collecting data on how well we are servicing the needs of our customers, we get a good indication of customer referral, loyalty and retention (read more at <http://www1.edc.ca/publications/2014/2013ar/en/6-3.shtml>).
- CPM has to rely on an adequate number **Customer Performance Indicators (CPIs)**, which can be defined as customer-related monetary or non-monetary criteria (measures, metrics, indices, figures or ratios) about customer performance. Examples of important CPIs are:
 - Customer value
 - Customer satisfaction
 - Customer loyalty and retention
 - Customer equity
 - Customer turnover, margins, profit, etc.
 - Further reading: https://diuf.unifr.ch/main/is/performance_measurement

Internal Business Process

- Savkin (2015) state that some believe that “Internal Business Processes” is one of the most important perspectives of a strategy map. The objectives from this perspective are related to the business systems that insure the operation and stability of any business.
- Companies need to be able to satisfy customer needs, and meet financial goals; specifically:
 - What **new business systems** does a company need to develop?
 - What **existing processes** does a company need to excel?
 - Further reading (<http://www.bscdesigner.com/internal-processes.htm>)

Learning and Growth Measure

- Learning and growth identifies the infrastructure an organization must build to create long-term growth and improvement.
- Growth comes from: people, systems and organizational procedures.
- This perspective serves to map some big learning goals; something that is relevant to the current business challenges. Having a separate learning perspective doesn't mean that the company should stop other learning processes; on the contrary, this perspective just works as a compass to focus on the most important learning efforts. Regular insights, improvements and learning should still be implemented in each business iteration (Savkin, 2015).

The Six Sigma

- According to O'Connor (2015) a business process that empowers companies to increase profits dramatically by streamlining operations, improving quality, and eliminating defects or mistakes in everything a company does.
- The objective is to change the process so that defects are never produced in the first place.
- Objectives includes:
 - To satisfy the customer by changing internal performance and processes.
 - To enable better performance by better design
 - To improve the quality of supplies and other operational processes
 - Manage the costs

Further Reading

- <http://www.bscdesigner.com/internal-processes.htm>
- <http://www1.edc.ca/publications/2014/2013ar/en/6-3.shtml>
- <http://www.bscdesigner.com/learning-and-growth.htm>

Review Questions

- What are the purpose and objective of learning and growth measures?
- What are some customer-based measures that organisations use?
- What measures can be used to assess internal business processes?
- How can financial performance be measured?

References

- EDC (2013) Turning The Corner on Trade, Annual Report retrieved from <http://www1.edc.ca/publications/2014/2013ar/en/6-3.shtml>
- Fry, Fred L., Stoner, Charles R., & Hattwick, Richard E. 2001, *Business: An Integrative Approach*, Irwin McGraw-Hill, New York
- Department of Informatic (2016) Customer Performance Measurement retrieved from https://diuf.unifr.ch/main/is/performance_measurement
- O'Connor, Donna (2015) Comparative Measures of Performance lecture notes, Colbourne College
- Savkin, Aleksey (2015) Internal Processes Perspective of the Balanced Scorecard retrieved from <http://www.bscdesigner.com/internal-processes.htm>
- Savkin, Aleksey (2015) Learning and Growth Perspective of the Balanced Scorecard retrieved from <http://www.bscdesigner.com/learning-and-growth.htm>