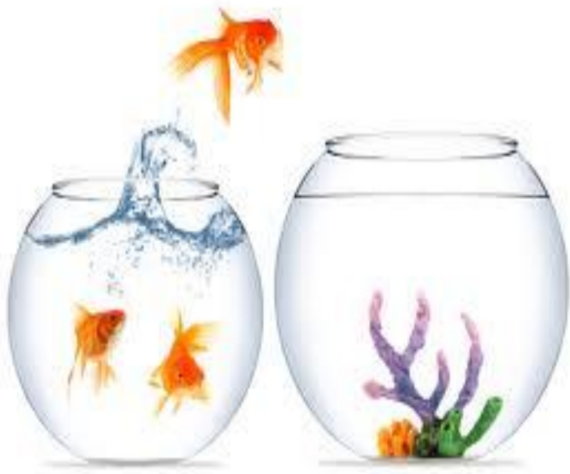
BUSINESS PERFORMANCE REVIEWS

UNDERSTANDING THIS ESSENTIAL MANAGEMENT TOOL



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The strategic management process in any enterprise is shaped by certain basic and essential questions that demands structural responses to issues of targeting, organizing and monitoring. Where are we? Where do we want to be in, say 10 years? How do we know if or when we get there? These are key strategic imperatives that occupy the minds of enterprise executives, whether private or public, profit or non-profit.

A key component of managing growth is the need to measure and monitor performance variables in Key Result Areas that enable corporate executives to form an opinion on progress rate and variance issues, as a reflection of market conditions. The utility of business performance review as a management tool therefore goes without saying. This notwithstanding, the statistics of enterprise failure from public to private concerns begs the question of management foresight. Did the managers of Ghana Airways, Pwalugu tomato factory, GIHOC distilleries, or even LEHMAN Brothers, not spot the precipice of fiscal descent from afar? The phenomena of corporate failure fortunately has benefitted copiously from literature that provides instruction and guidance on enterprise risk management and

management discipline in matters relating to performance measurement, monitoring and response strategies. Copious literature or not, many companies seem to be getting it wrong with business performance reviews, which when utilized well, could serve as a powerful tool for business progress and survival.

The focus of this article is to review the characteristics of an effective Business Performance Review (also Baseline Performance Review) session and highlight best practices and pitfalls related to this important management tool. The intended purpose is spur private sector management towards system

optimization and hopefully inspire a policy review in the public sector for managing parastatals and other public agencies.

BEFORE THE REVIEW

Performance review carry a certain implicit assumption of goal clarity. It stands to reason that one cannot review without having set or predetermined a measurement standard. Clarifying goals and expectations are therefore crucial elements in the strategy process. The old wise saying captures it better, “if you do not know where you are going, any road will take you there”. Most often than not, this is the very bane that disrupts the management flow within companies. Goal or agenda setting appears to be an elusive skill to those who require it the most. As a matter of fact, it has almost assume dimensions of conventional wisdom to confuse broadly defined wishy-washy statements of intentions (no matter how boldly articulated) with clear, specific and measurable goals that has timelines attached for tracking progress. Such could be referred to as diminutive branches of the corporate mission. Statements like “to grow our customer base overwhelmingly”, hardly lends itself to clear measurement and therefore remains ineffective in inspiring performance. It is not uncommon to hear such refrain in our body politic. “We are doing all we can to create an enabling environment for the private sector”, they say. The essential distinction to note is measurability and clarity. Measurability addresses management agreement on what constitutes success and what constitutes failure, while the former demands a rigorous regimen of metrics that would provide feedback on revenue/cost trajectory, risks and variance. In the case of public sector organizations, such metrics may include human development indices such as impact per 1000 citizens in the area of healthcare (child & maternal mortality) or education (enrolment data). Goal Clarity is so essential that measurement and monitoring is made nonsense by the lack of it.

Timeline Considerations

The question of review timelines may be a non-essential consideration for some companies but it is imperative to recognize that sufficient literature as

inspired by human psychology, sets a basis for what has come to represent best practice. Whilst some have good reason to institutionalize a per monthly schedule as appropriate review periods, others think quarterly periods provide better mileage and utility. There are certain constants that may inform management decision on choosing responsive timelines:

1. Organizational context – Public companies or government agencies may have 1 year budget cycles but a 4-year election term has a far more compelling effect on the president's prerogative to evaluate performance biennially, biannually or even reshuffle ministers without formal sector performance reviews. Private concerns however have annual reporting obligations to shareholders who are impatient to realize returns on their capital. Managers in private concerns therefore have greater pressure in terms of seeking performance feedback on regular basis, in their own interest. In this regard, monthly or quarterly reviews are a norm in the private sector.

2. Consequences for failure – Private companies in competitive markets need constant feedback to measure risk of margin losses and profit decline that may perhaps signal market shift or competitive weakness, in which case it becomes a change or die affair. This factor may partly explain why companies in the Ghanaian market are barley concerned with employee exits since the labor market is far from being competitive. Monopolies or enterprises in protected markets do not worry about such decisions as demand for their product or services may be inelastic. So, ECG or Ghana Water for example may not find the benefit in the discipline of rigorous self-examination at set periods, after all, the centre would absorb losses from the periphery.

Given these considerations, it is important to emphasize that the point of any such business review exercise is constructive feedback done in the spirit of

interactive inquiry. Corporate managers must therefore use this as the ultimate guiding principle to set broad timelines and shape other plug-in mechanisms that would give further enablement to this agenda.

Management Philosophy

So what is management philosophy and what does it have to do with this? It simply is management's core assumptions about people, talent management and motivation and it has everything to do with whether or not business performance reviews would become platforms for labor abuse or opportunity for positive reinforcement and training needs identification.

The core assumptions held by management about what motivates people and how to manage talent, without question may be the critical success factor for not just review sessions but for corporate survival. Management assumptions influence everything from the tone of interaction to reward system design. The manager or executive who assumes absolute validity of McGregor's theory X and Y to the exclusion of other influences such as Vroom's Instrumentality theory (1964) or even Alderfer's ERG theory, may be left bemused at end-of-year data on staff exits, questioning how it happened. Part of understanding the corporate culture environment requires management to carefully and rigorously articulate and document all assumptions that underlie key decisions relating to the company's key result areas or balanced scorecard measures. This discipline would enable management challenge accepted norms

and to refine certain cultural variables that bears on performance. Hence decisions about financial rewards, awards and other recognition schemes must flow from management's awareness of its people and what

motivates them in order to achieve maximum impact.

No other place in corporate management, is this point more relevant than the public sector. The history of media altercations in Ghana, literally, between the political elite and the bureaucracy through their unions, is a microcosmic reflection of this bigger problem. Weak or non-existent organizational performance review mechanisms leads to weak or non-existent individual performance review frameworks that in turn leads to low productivity.

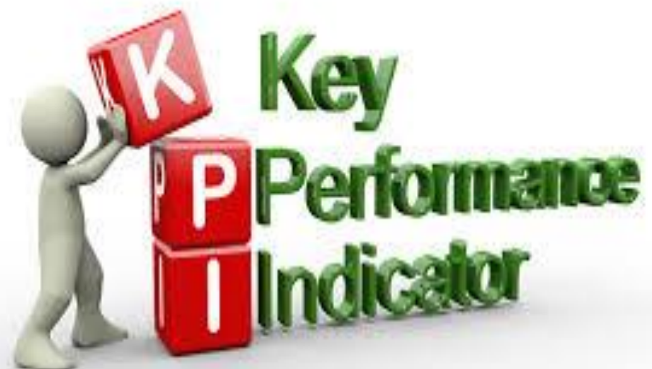
Decide What to Measure

Each organization has its priority areas, also known as Key Results Areas (KRA), which usually flow out of the corporate mission and agenda. The KRA provides broad themes within which management sets clear goals and priorities to track progress towards those shared goals.

Deciding what to measure largely depends on the organizational context as indicated, however it stands to reason that every organization is (or must be) interested in survival, hence designing metrics that measure financial performance (revenue, cost, cash flow etc.) is a non-negotiable issue. The challenge emanates from designing metrics for variables that are not easily amenable to quantitative manipulation, such as employee morale, supply chain risk etc. The following guiding principles may help in choosing which metrics to use:

1. Would it improve the quality of management decision-making?
2. Is data collection feasible and cost-effective?
3. Is there clear linkage between the measured activity and the broader strategic framework?
4. Are there any controls to help manage data credibility risk?

In the history of corporate development, convention has developed around the use of metrics related to revenue, cost and risks at all levels (liquidity, market and people risk), in order to gauge progress towards goal achievement.



THE WAY FORWARD

The search for “productivity” within the public space requires certain critical constructs in order to gain traction and lay foundation for growth. Political rhetoric and moral suasion makes for good politicking but unwise instruments for sound governance. Without clear legislative and regulatory frameworks, mechanisms for Baseline performance Reviews (BPR) and evaluation would remain a whim of decision-makers within the governance system in Ghana.

In 2010, the Government Performance and Results Modernization Act was enacted by the U.S government to revamp and streamline performance-monitoring rules for federal agencies. The framework introduced series of data-driven reviews that track Washington’s progress toward agency-specific and government-wide goals. Specifically, agencies and the Office of Management and Budget now had to conduct formal reviews of progress toward “priority” goals at least once a quarter.

This institutional mechanism, many have argued, have contributed immensely to improvement in corporate governance within public agencies such as The National Aeronautics and Space Administration (NASA), Internal Revenue Service (IRS), Federal Aviation Administration (FAA) and many more.

Clearly, the status quo within the Ghanaian governance environment is functioning at sub-optimal levels. The situation demands a new and creative policy approach to institutionalize a strong performance culture in the bureaucracy and within State Owned Enterprises (SOEs).

On the other end of the spectrum, improving the use of this essential management mechanism may foster a strong and competitive private sector to yield the following benefits:

1. Employment creation, GDP growth and higher export earnings.
2. Improvement of current account position through increase in export earnings.
3. Improved fiscal position for government due to a deeper tax pool arising out of better corporate sector performance.

The argument for adopting international best practice as far as Baseline or Business Performance Reviews are concerned, is a compelling one and a

strategic imperative for both private sector companies State-Owned Agencies.

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