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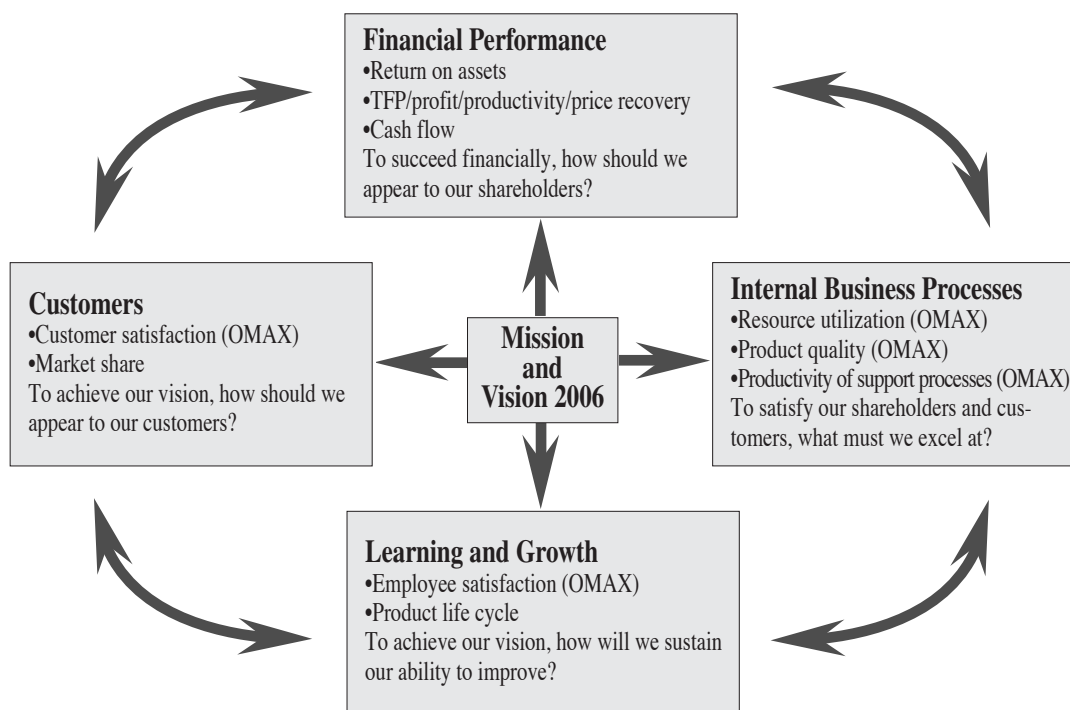
MONTHLY NEWSLETTER OF THE ASIAN PRODUCTIVITY ORGANIZATION

Strategy-Linked Performance Measurement in Mongolia

A Model Company Initiative

John Parsons & Nurmaa Shagdarsuren

In its second decade of promoting productivity, Mongolia's National Productivity & Development Center (NPDC) is now focusing on developing demonstration (model) companies that highlight the successful application of performance-enhancing approaches. The objective was to promote wider acceptance of productivity and performance measurement by demonstrating to the nation the benefits of using measurement to improve strategic decision-making and hence long-term performance. In support of this, a small group comprising representatives from the APO and NPDC was commissioned to create a model company for measurement in Mongolia. The company selected for the project was Erdenet Carpet Company. The goal was to build a strategy-linked performance measurement system that would monitor progress toward the organization's vision and be an integral part of productivity improvement programs.



Erdenet Carpet (Model Company) Balanced Scorecard

The project had four phases. The first was to set the criteria for selecting the model company and make a selection. Criteria included the quality of management, resources available within the organization, suitability of data, and corporate image. Phase 2 covered basic preparation of the model company: coaching, training, and agreeing on objectives. Phase 3 embraced the actual design and implementation of the measurement system, and Phase 4 allowed for reviewing and fine-tuning after an appropriate test period.

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“Good ideas are not adopted automatically. They must be driven into practice with courageous patience.”

Admiral Hyman Rickover

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The Measurement System

After being exposed to a bewildering array of possible measurement approaches, a representative measurement team adopted an imaginative combination of techniques around which to build a balanced scorecard (BSC). Because many of the key performance indicators (KPIs) chosen (e.g., customer satisfaction and the productivity of support processes) would not reduce to a single metric, the objectives matrix (OMAX) was used to combine several different criteria into a single index of performance. After wrestling with precise definitions, data problems, targets, and methods of portraying results, the measurement team was soon able to present to company management a BSC portraying company performance over four quarters of the financial year.

Ten carefully chosen KPIs covering return on investment to product quality, employee satisfaction to market share, and product life cycle to total factor productivity (TFP) made up the BSC. Each KPI had an "owner" as well as a back-up person drawn from within the team. Particular attention was given to measuring TFP because of its importance and the specific difficulties involved. Intense training was given in the concepts and practicalities of measuring TFP and how to use productivity accounting to ensure that a link was forged with "bottom line" profitability.

The management team was also given an appreciation of how strategic measurement systems worked. A systems review of the company was conducted to provide a common understanding of the entire value-adding process, and vision and strategy were revisited to ensure alignment before the KPIs were specified.


APO/NPDC consultants gave the measurement team feedback on both technical (i.e., measurement) and social (i.e., group process) aspects. The latter was designed to improve the way in which the team worked together. The opinions of the team and the executive management were surveyed to ascertain the extent to which these stakeholders believed that progress was being made. To promote broader acceptance, the BSC was built into a highly visible measurement system, a process that elicited both enthusiasm within the team and considerable attention from other employees.

Lessons

In designing and building the strategy-linked performance measurement system, we learned the following:

- Getting the measurement system right from a technical perspective does not automatically guarantee that it will be used for making better strategic decisions.

- The data demanded by such systems reveals deficiencies and inconsistencies in the organization's accounting and other information systems.
- Strategy-linked measurement systems can be introduced at any stage in the improvement process, although the company has to be clear about its strategy.
- Introducing such integrated systems requires collaboration and teamwork at all levels.
- Such systems will facilitate benchmarking and best practice endeavors.
- Properly deployed, strategy-linked performance measurement systems will motivate people throughout the organization.

Erdenet Carpet Company, the model company, has successfully negotiated a steep learning curve in the field of strategic performance measurement. This is largely due to the efforts of the core measurement team and the total commitment of the company's executive director. The team now meets every two weeks to review progress, debate responsibilities, consider new KPIs, and formulate action plans. After almost a year its job is by no means over, but it has made a wonderful beginning. 

John Parsons is the Chief Executive Officer of Resource Alternatives, Botswana, and Shagdarsuren Nurmaa is a staff member of NPDC Mongolia.