they should measure the effectiveness of the business and its processes in meeting the organisation’s objectives in order to link to the overall strategy;

- they should measure the efficiency of resource utilisation within the organisation;

- they should contain internal and external measures of performance;

- they should comprise a mix of financial and non-financial (quantitative and qualitative) methods;

- they will require to make clear the different dimensions of performance so that judgements on trade-offs between them are explicit (e.g. quality and cost);

- they will link to the targets set for employee motivation;

- they should cover both the short-term (Profit) and long-term (Customer impression) performance of the organisation;

- They should be flexible in order to respond to changes in the business environment.

The key performance indicators (KPIs) at XYZ fail to have many of these key features. The KPIs at present are purely focused on financial performance and do not address issues of quality, customer service and product innovation which are all mentioned in the mission statement. The KPIs have no strong external features such as customer satisfaction or share price performance. It is unclear how they will link to employee motivation and indeed, the board recognise this fact and intend to use the performance pyramid in order to address it. The overall picture of the performance measurement system is a traditional one which will lack the flexibility to address the concerns of the key stakeholders of XYZ.

**The driving forces, according to Lynch and Cross** that are appropriate to meeting an organisation’s objectives are customer satisfaction, flexibility and productivity. At present XYZ’s KPIs do not address these as they lack any mention of areas of customer satisfaction (quality and service
standards), flexibility (innovation and the ability to adapt to change in the external business environment) and productivity (efficiency and waste). It could be argued that some of these are more appropriate at the tactical and operational levels of the management hierarchy but the existing measures have only a weak link to them and hence the board is right to be concerned by the current KPI system.