

**A NEW SURVEY SHOWS THAT  
STRATEGIC PERFORMANCE  
MEASUREMENT SYSTEMS  
IMPROVE RISK MANAGEMENT.**

## The Connection between PERFORMANCE MEASUREMENT and RISK MANAGEMENT

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**C**onventional wisdom says that a strategic performance measurement system (SPMS) improves organizational performance and employee efficacy. But did you know it can also enhance your enterprise risk management (ERM) system?

An SPMS and ERM have several similar characteristics. First, both encourage a holistic view of the organization. For example, in an SPMS environment, managers will view the organization from multiple perspectives, such as those in the balanced scorecard: financial, customer, internal business, and learning and growth. At the same time, ERM assesses risk enterprise-wide. Second, when using an SPMS and ERM, it's important to establish a link to organizational strategy: an SPMS through performance measures and ERM through risk management. Finally, both an SPMS

and ERM educate employees about strategic objectives. The SPMS conveys corporate objectives to employees so they can choose actions consistent with organizational strategy. ERM uses internal communication to enlist everyone's participation in the risk management process.

### OUR STUDY

To better understand the benefits of an SPMS, we surveyed members of the Institute of Management Accountants' (IMA®) Controllers Council, one of the IMA's member interest groups. We received 283 replies, a 20% response rate. In the survey, we defined an SPMS as:

*A management tool, whereby a combination of financial and nonfinancial performance measures that are chosen to reflect organizational strategy are used to help evaluate organizational performance.*

We asked respondents whether or not their organization currently uses an SPMS. Based on the answer to this question, we separated the survey respondents into two subgroups: SPMS users (n=92) and nonusers (n=104). We excluded the remaining 87 respondents because their organizations were considering or implementing an SPMS.

SPMS users and nonusers report working at their present organization an average of 8.5 to nine years. Nonusers have 14 years of managerial experience com-

**Table 1: Industry Representation**

INDUSTRY	COUNT
Manufacturing—Other	63
Financial Services	13
Government and Nonprofit	13
Distribution/Retail	12
Professional Services	12
Electrical/Electronics	9
Food	9
Chemicals	8
Healthcare	8
Technology/Internet	7
Construction	7
Energy/Utilities	5
Industrial Goods	4
Transportation	4
Communications/Media	3
Pharmaceuticals	3
R&D	3
Other	10
Total	193*

\*Three respondents did not provide an industry group.

**Figure 1: Organization Size**

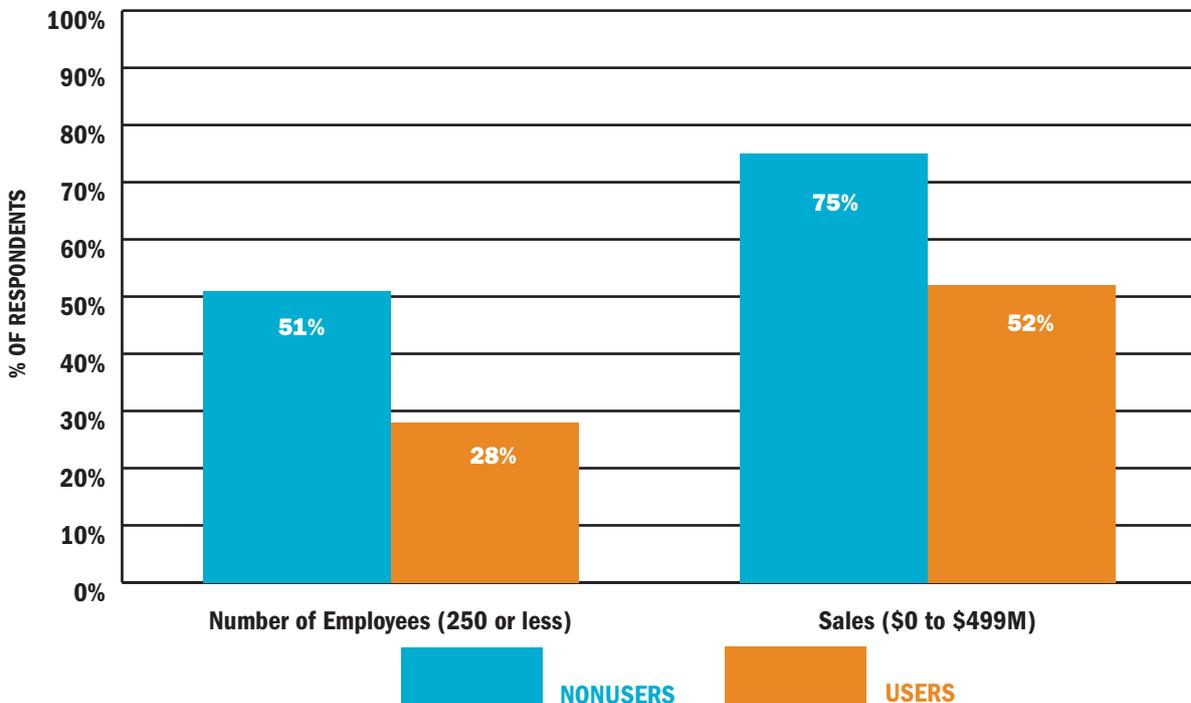
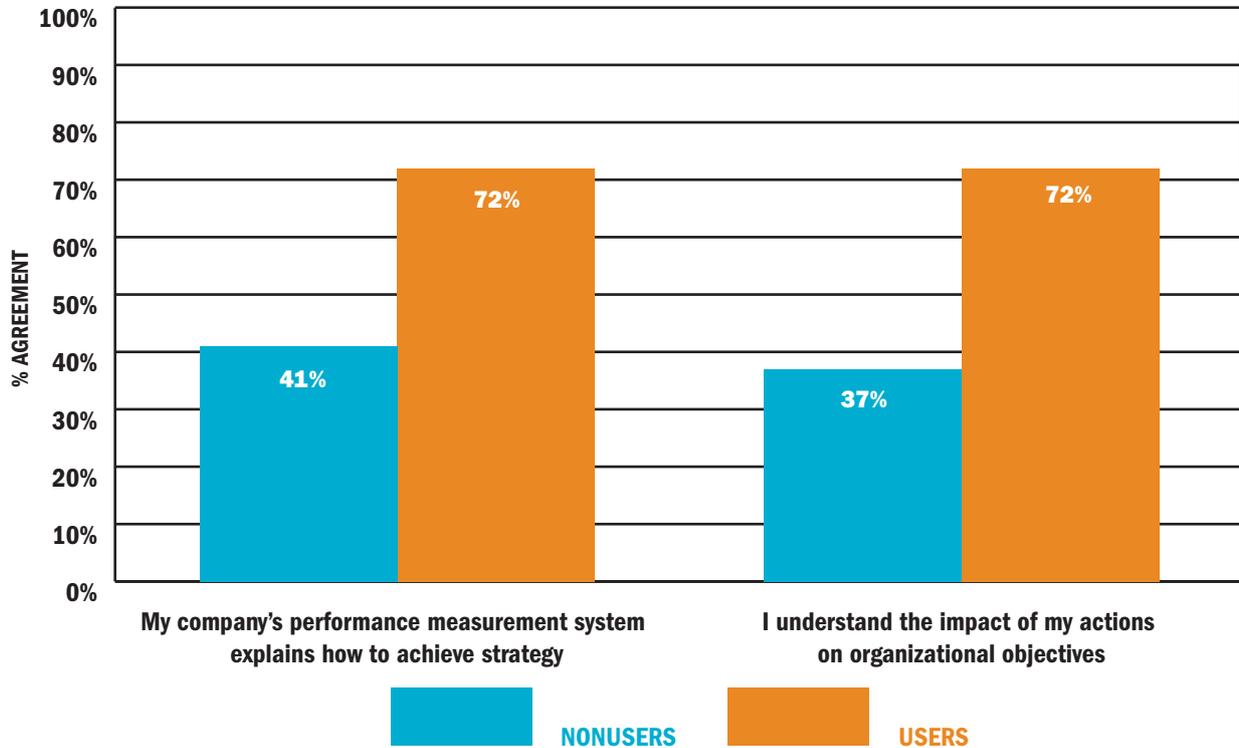


Figure 2: Organizational Outcomes



pared to 12 years for users. The respondents work in an array of manufacturing and service industries, as shown in Table 1. As expected, nonusers' organizations tend to be smaller in terms of the number of employees and sales than those of users, as depicted in Figure 1. This result seems reasonable because an SPMS is more complex than a traditional performance measurement system, often becoming cost prohibitive for small organizations. Besides being larger in terms of size, organizations that use an SPMS are also more likely to be global (45% for users vs. 23% for nonusers) and multidivisional (53% vs. 35%).

### ORGANIZATIONAL OUTCOMES

An SPMS should be designed to communicate strategy internally. In our study, 82% of SPMS users report that strategy drives the selection of performance measures at their organization, compared to 53% of nonusers. Selecting measures so they communicate strategy should also increase managers' awareness of the organization's strategy. In fact, 88% of users agree that they know their organization's strategy, while only 62% of nonusers believe they do.

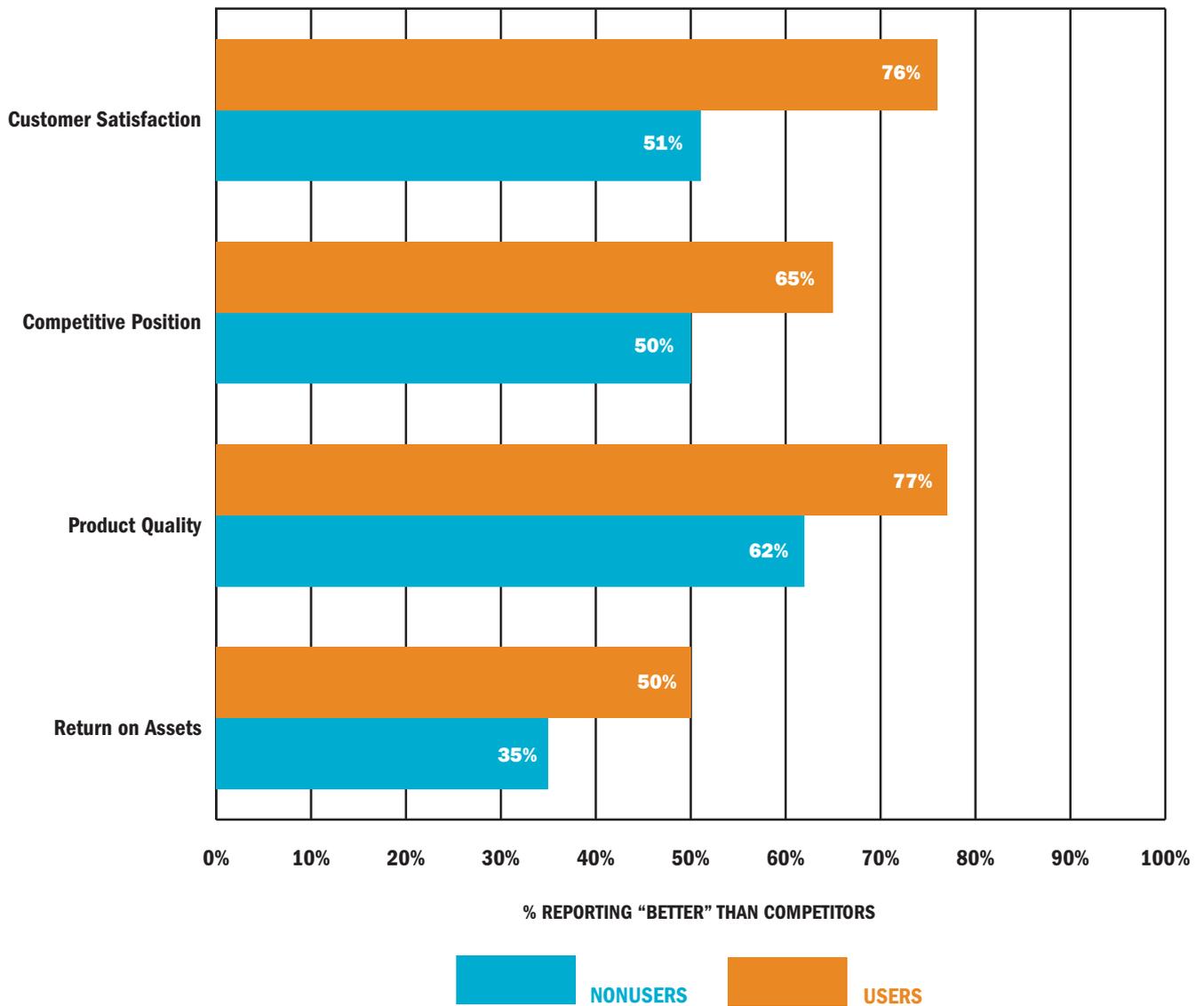
Furthermore, an SPMS should improve organizational performance by supplying managers with knowledge that will help them choose actions consistent with strategy. Almost three-fourths of users say their performance management system explains how to achieve strategy, compared to less than half of nonusers, as shown in Figure 2. And users are twice as likely as nonusers to understand how their actions influence organizational performance. If managers act on the knowledge gained from the SPMS, their organization's performance should improve. SPMS users report that their organization's performance is better than that of their competitors in four areas: return on assets, product quality, competitive position, and customer satisfaction, as shown in Figure 3.

Overall, SPMSs appear to effectively communicate strategy, enabling managers to make more informed decisions that lead to enhanced organizational performance.

### EMPLOYEE OUTCOMES

Organizational success depends on the collective actions of individuals, so a key benefit of using any management tool should be its positive impact on employees. An important question to ask is whether or not an SPMS

Figure 3: Organizational Performance



improves employees' commitment to goals, commitment to the organization, job satisfaction, and performance.

In our study, SPMS users say they are more committed to performance measurement goals than nonusers are (85% vs. 64%, respectively). Also, 75% of users believe these goals are good targets, although only 49% of nonusers agree. As for organizational commitment, 80% of SPMS users indicate that their values are aligned with those of their organization, compared to 63% of nonusers. Also, users think their organization inspires the very best job performance from them—77% vs. 56% of nonusers.

While 85% of users are generally satisfied with their job, so are 79% of nonusers. Both users and nonusers say

their work gives them a sense of accomplishment (90% and 81%, respectively). For individual performance, however, SPMS users are much more likely to agree that the system helps them better understand (1) their role in reaching organizational objectives (73% for users; 38% for nonusers) and (2) the financial consequences of their actions (81% for users; 50% for nonusers).

Interestingly, job satisfaction remains high regardless of the performance measurement system used. An SPMS, however, appears to significantly improve employees' commitment—both to their task and the organization as well as to their individual performance.

**Table 2: ERM Characteristics by SPMS Use**

SURVEY QUESTION	PERCENTAGE THAT AGREE	
	SPMS NONUSERS	SPMS USERS
My company has linked—or is pursuing the linkage of—its risk management program to its overall strategy.	34%	65%
My company automatically considers risk management when trying to make effective decisions.	42%	73%
My company's risk management information is easily accessible when corporate decisions need to be made.	30%	60%
Management in my company actively promotes company-wide participation in our risk management system.	34%	49%
My company includes individuals at all levels within the organization in the risk identification process.	27%	45%
Management in my organization monitors my work unit using relevant key performance indicators.	38%	76%
In my organization, we work to resolve risks once they are identified.	75%	92%

## SPMS AND ERM

Since SPMSs and ERM share some characteristics, we were interested to see if using an SPMS strengthens risk management. Our respondents indicate that it does. For instance, 62% of SPMS users, compared to only 36% of nonusers, believe their organization's risk management system is a valued function within their organization. Additionally, 63% of SPMS users say their organization encourages individuals to communicate urgent risks through their risk management system, while only 41% of nonusers agree. Proactively identifying risks that affect strategy occurs within 86% of SPMS user organizations but within only 63% of nonuser organizations.

Moreover, the survey responses reveal several other risk management benefits from SPMS use, as shown in Table 2. For instance, users generally believe that their risk management system is linked to organizational strategy, while most nonusers don't. Also, at a user's organization, effective decision making automatically includes risk management. Compared to nonusers, users can easily access risk management information for decision making. SPMS users indicate that their managers actively promote organization-wide participation in ERM across all levels and monitor an individual's work unit using key performance measures. In addition, almost all SPMS users agree

that their managers resolve risks once they're identified. Overall, these responses suggest that SPMS users gain extra benefits through improved risk management.

If you are already using an SPMS, you may be getting more benefits than you thought—not only improved organizational and individual outcomes, but better risk management also. If you're not using an SPMS, maybe it's time to reconsider. ■

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**Performance measurement is a topic at IMA's Annual Conference June 17–21. For details, visit [www.imaconference.org](http://www.imaconference.org).**