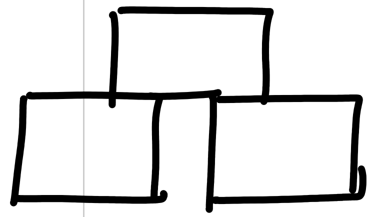

Building Block Model

- Developed by Fitzgerald & Moon
- Performance measurement System
- Non-Financial performance indicators specifically for service industries

There are 3 aspects to build performance measurement system

First Aspect	Dimensions	Deciding goals on which performance shall be measured
Determinants (The things that are important to get results)	1. Innovation	Number of New products
	2. Quality	Product Reliability, Product Friendliness
	3. Resource Utilisation	Good Productivity & Efficiency (Less wastage, Less time to produce)
	4. Flexibility	Ease in change in Specification,
Results	5. Competitive Performance	Sales Growth, Relative Market Share Growth
	6. Financial Performance	Good Profitability, Return on Capital Employed, Optimum Liquidity

- Getting the Top 4 correct will lead to strong financial & competitive performance.
- These are insured at Board Level
- They are further broken in multiple targets for divisional managers so that someone is responsible to ensure that Each target is achieved.

Second Aspect	Standards Key Performance Indicators	Deciding what the company wants / desires
KPIs	1. Ownership	Who is responsible to achieve standards
	2. Achievability	How difficult are standards
	3. Equity	All managers should be given equally

100 Mark - 180 Min.

1 Mark - 1.80 Min.

20 marks - 36 Min.

		challenging standards

Third Aspect	Rewards	Deciding what the managers will receive
	1. Clarity	Targets should be very very clear e.g. innovate one new product within every 3 monthss
	2. Motivation	Rewards should itself motivate managers to achieve standards
	3. Controllability	Reward should be based on non-financial elements also.

Case Study

1. A Fast Food Making Partnership Firm (5 Partners) wants to grow its business hence wants to develop performance measurement system.
2. It is earning good profit at present due to its quality of products.

Problems Faced

1. The fast food option which it provides are not healthy options. People want more healthy options without compromising of taste & presentation.
2. Manual order taking system – Note order on paper – Give to Kitchen – Then delivers to customers – Creating problems – Cold Food, Items not in kitchen but Orders taken
3. Cash Payment system – Now debit card, credit card, wallet options desired by customer
4. Cannot calculate overall revenue of all fast food industry.

Goals

1. Wants to have new branches in city & franchisees but without bringing new partners – Bank Loan may be considered
2. Wishes to maintain high quality standards – External certificates from fast food inspector
3. Wishes to give product quality & service quality

4. Better pay & reward system – Chef – New dishes – Ordering & delivering staff – require people management skill
5. Desired Return on equity is 25%. (Net Income / Capital)

Advise

1. How BBM should be implemented

Building Block Model

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There are 3 aspects to build performance measurement system

First Aspect	Dimensions	Deciding goals on which performance shall be measured
Determinants (The things that are important to get results)	1. Innovation	Management must Review Number of new dishes which should be introduced in menu, regularity of new introductions every month & customer feedback on the same.
	2. Quality	Management should ensure food quality, good taste & better presentation. Management should ensure that quality standards are met across all branches and non-compliance should be reviewed immediately.
	3. Resource Utilisation	Proper co-ordination between ordering staff, kitchen staff & delivery staff. Reduce material wastage rate & high table occupancy rate
	4. Flexibility	Management should ensure high flexibility e.g. Hire staff quickly, cater seasonal customer's demand quickly

Grab & go

Results	5. Competitive Performance	Company should introduce healthier food choices, take customer feedback, open more franchisees etc.
	6. Financial Performance	Partners want 25% return on capital employed. They don't want external funding or to go to public. They can take loan from bank. Hence they need more ample cash reserve to expand their business. They should track on profitability ratios i.e. Gross profit ratio, Net profit ratio, operating margin ratio across all branches.

cash Reserve

- Getting the Top 4 correct will lead to strong financial & competitive performance.
- These are insured at Board Level
- They are further broken in multiple targets for divisional managers so that someone is responsible to ensure that Each target is achieved.

Second Aspect	Standards Key Performance Indicators	Deciding what the company wants / desires
	1. Ownership	Who is responsible to achieve standard. At branch level, managers will be responsible for operations of each branch & franchisee. Chief chef will be responsible for quality of food. Head of order taking department shall be responsible for waiting time of customers.
	2. Achievability	Benchmarks & targets shall be helpful only if they are achievable. Zero waiting time of customer shall demotivate order taking staff. Quality of food shall be checked according to feedback of many customers. At single customer complaint, Chef should not be fired.
	3. Equity	Benchmarking should be equally challenging for all e.g. kitchen staff,

		order taking staff, delivery staff, advertising staff etc. waiting time to meet customer's order would be relevant for kitchen, ordering & delivery staff. Popularity of advertisement jingle would be relevant for advertisement staff.

Third Aspect	Rewards	Deciding what the managers will receive
	1. Clarity	Targets and reward package should be clearly defined to staff. Each employee should be told how they will be evaluated & reward amount shall be decided. If organization incurs loss due to defective pricing policy then chef may not get deserved bonus. This is not a good reward system.
	2. Motivation	Rewards should itself motivate managers to achieve standards. Bonus of advertising staff should be aligned to sales generated, chefs should be rewarded based on sales, bonus should be distributed to each employee. Employee of the month
	3. Controllability	Reward should be based on non-financial elements also. Non-financial reward e.g. employee f the month, chef can come up with popular menu,

CS-21 (S.M.)

THE BUILDING BLOCK MODEL

Grab and Go is a fast food joint operating in a very competitive business environment. It is a profitable business with very good prospects for growth. A strategy development meeting is underway to chalk out a plan to improve business growth in a very systematic measurable manner.

The following information is given to you:

Grab and Go has the following mission statement *"Derive strength to grow in scale using our passion for the craft of cooking and service that will satisfy our customers, employees and other stakeholders."* Grab and Go is a closely held partnership firm with five partners. It started at a scale of operations that catered to the local demand within a locality. Reputation for good quality food and service has help it scale up its operations in the recent years. Most of the key decisions relating to operations like decision about the menu and its method of preparation, product pricing, finance, marketing, administration etc. are centralized. Skilled chefs, managers for various functions and the firm's partners are part of this core team.

A general survey published in a food trade magazine highlighted people's perception about fast food diet. Predominant opinion was that the current food platter available in food joints across the town were not healthy option. People want healthier choices in the menu when they dine out. At the same time, they do not want to compromise on taste or presentation of the food item. The other focal point for improvement was the order taking system. In most food joints, the current system is manual where the order taking staff note down a customer's order on paper, send it to the kitchen and then delivers the order on intimation from the kitchen, which is also done manually by the kitchen staff. This system has problems like errors in taking down orders, most times delivery staff are unaware of the content in an item or its availability, delays in delivery leading to customers complaining about food served cold etc. This problem takes away the pleasure of dining out and is leaving customers dissatisfied. Another scope for improvement is that customers want more payment options other than cash to settle their bills. With the advent of plastic money and mobile e wallet payments carrying cash around has become cumbersome for most of them.

The partners have decided to use this as an opportunity to develop Grab and Go as the niche food joint addressing the customer's concerns, while managing to remain profitable. Consequently, Grab and Go plans to expand by providing more choices along with its regular menu to health-conscious customers. Also, revamping its ordering, delivery and payment system would improve customer experience. A reasonable return at the overall firm level would be a return on equity (Net Income / Total Partnership Capital) of 25% each year. Capital structure will remain unchanged. The partners are not interested in diluting their share by bringing in new partners or take external funding with ownership stake. They may however utilize bank financing for expansion, but only if required.

Expansion of business will entail opening new branches in other localities as well as forging franchise with other stakeholders. However, Grab and Go is not clear how to measure market share since the fast food industry market is not entirely an organized sector. There is no clear information about the overall revenue of the whole sector.

In the past, it was quality of its products that drove growth. The management wishes to maintain high quality standards across branches and franchisee. Therefore, an internal quality control department may be established to look into the same. External certifications from government food inspectors and other recognized agencies would also be required to be met. Quality refers to both product quality and service quality, in this case, service being an inherent part of customer experience.

The staff at Grab and Go are also excited at this opportunity. Expansion of the food joint would present a more dynamic work culture. Chefs would have the opportunity to enhance their skill by trying out various ways to cater to the consumer's palate. Ordering and delivery staff would have the opportunity to enhance their people management skills. This learning opportunity would definitely be an impetus for their career growth. With expansion chances of promotion within the organization increase. Financially, better business leads to the expectation of better pay and reward system.

Consequently, the management is intent on developing a performance management system that tracks performance across the organization. Among the different models, the Building Block Model is being considered.

Required

ADVISE the partners how the Building Block Model at Grab and Go could be implemented.

Solution

Performance management using the Building Block Model poses three questions based on which the performance measurement system is developed:

What dimensions of performance should the company measure?

Dimensions are the goals that the company wants to achieve based on its overall strategy, those goals that define its success.

How to set the standards (benchmarks) for those measures?

What are the rewards needed to motivate employees to achieve these standards?

Dimensions

Dimensions (goals) include financial and non-financial goals. Dimensions are further categorized as into results and determinants. Results are tracked as (a) financial performance and (b) competitive performance. Determinants are tracked as (a) quality, (b) flexibility, (c) innovation, and (d) resource utilization. Determinants influence results.

Results

(a) Financial Performance: Grab and Go is a closely held partnership with 5 partners. Partners are interested in earning profits that have been benchmarked at an overall return on equity of 25% each year. This can be derived from periodic financial statements that get prepared as part of the accounting function. Partners want to retain the current capital structure. This implies that they do not have any plans to go public or have other external funding with ownership stake. They may take loans from banks for funding their expansion.

Consequently, if they want to expand, the firm has to make sufficient profits that will yield ample cash reserves. Therefore, Grab and Go's financial performance dimensions should also include profitability ratios like gross profit ratio, net profit ratio, operating margin, return of capital employed (if bank loans are taken) etc. Cash profit and changes in cash reserves may also be included as dimensions of performance. These measures should be tracked at the firm's overall level as well at the individual branch/franchisee level.

(b) Competitive Performance: Grab and Go was to be a niche joint in a highly competitive segment. However, to measure how it compares with its peers there is a limitation in terms of availability of information due to the unorganized nature of the fast food industry. All the same, one of the measures that can be helpful are the number of branches / franchisees the firm is able to open.

Grab and Go is also likely to have a competitive edge because it is foraying into providing healthier food choices along with its regular menu. Since this is unique among its segment, it will retain a competitive edge until its peers start replicating the same. Therefore, one other measure for competitive performance could be the spread and uniqueness of Grab and Go's menu as compared to its peers. Information for this could be gathered from published / researched sources like trade magazines as well as informal sources like customer feedback / word of mouth.

Determinants

(a) Quality: Quality drove past performance and it will continue to drive performance even after expansion. For product quality, the management should track if internal quality checks and external certifications are met periodically. Quality control should cover all branches and franchisees. Non-compliance may require immediate attention of the management. For service quality, periodic training programs can be initiated to educate the staff with people management skills. Therefore, Grab and Go should determine parameters that the management would be interested in ensuring that quality standards are met and how non-compliance should be reviewed.

(b) Innovation: Innovation involves experimenting with the appropriate inputs which make them healthy. At the same time, the healthier option should satisfy the taste and presentation preference of customers. This requires innovative efforts from qualified and skilled chefs. This will give the competitive edge to Grab and Go. Innovation has to be constant and not a onetime exercise. Therefore, management may review the number of new variants that have been introduced in the menu, regularity of these introductions and customer feedback of the same.

(c) Flexibility: Growth in scale of operations combined with a competitive business environment implies that Grab and Go should have some flexibility in its operations. This could mean ability to hire staff quickly, cater to seasonal surges in customer's demand etc.

(d) Resource utilization: Better utilization of resources help business function efficiently. Revamping the order, delivery and payment system would improve the way resources (kitchen, ordering and delivery staff) operate. Lesser errors and delays would increase capacity utilization, freeing up time to cater to more customers. Consequently, pressure on resources decreases. Therefore, some indicators to be tracked can be overtime / idle time of kitchen, ordering and delivery staff, turnaround time in these functions, table occupancy rate, breakage, or wastage of material etc. Again here, the management should chart out the appropriate dimensions that will help them track resource utilization.

Standards

Standards are the benchmarks or targets related to the performance metric that is being tracked under each dimension. To be useful, standards should have the following characteristics:

(a) Ownership: It is important to establish who in the organization structure is responsible for achievement which performance metric. Grab and Go has to consider this very carefully. As explained in the problem, many key management functions like decisions about the menu and its preparation are determined by a core team. Similarly, the centralized core team is handling finance and marketing. However, at the branch level, managers of various operational functions can be held accountable for performance of that specific process. For example, the chief at a particular branch can be held accountable for the quality of food prepared in that branch (Dimension: Quality). Similarly, the head of the order taking staff at a particular branch can be held accountable for the overtime that the staff at putting in at that branch (Dimension: Resource utilization).

(b) Achievability: Benchmarks and targets will be useful only if they are achievable. The managers who have ownership for the achievement of performance metric have to be involved in setting benchmarks or targets. They should be clearly defined, preferably quantifiable. At the same time, they should be in line with the firm's overall strategy. If the target is set very high staff can get de-motivated. If set too low, will not raise the bar for performance. If not in line with the firm's overall strategy, there will be discord or gap between the firm's performance and what it wants to achieve.

(c) Equity: Benchmarks should be equally challenging for all parts of the business. Grab and Go should customize its performance measure for each function like kitchen staff, order and delivery staff, finance staff, advertising staff etc. For example, while turnaround time to meet a customer's order would be relevant metric to the kitchen, ordering and delivery staff, popularity of the advertisement jingle for Grab and Go would be the relevant metric for the advertisement department. The rigor of the target should be uniform across departments. Otherwise the staff would view the benchmark system as being biased towards select functions within the firm.

Rewards

This relates to the reward structure within the firm that includes compensation package, bonus, rewards, awards, facilities provided to employees etc. Proper reward system is required for achievement of standards while maintaining costs at optimum levels. Grab and Go should have a well-defined HR policy for compensation, bonus, promotion and reward. A good system should have the following characteristics:

(a) Motivation: Does the reward system drive the people to achieve targets and standards? A low reward system would not induce staff to work towards the goal. Goal clarity and participation in target/benchmark setting can motivate staff to achieve standards.

While some part of compensation may be fixed, other parts can be made variable. For example, bonus of the advertising staff can be aligned to the sales generated, Chefs can be rewarded bonus based on sales as well quality measures etc. Better job prospects in a growing environment would also be a good motivator. Grab and Go's management should track various metric in this regard. Some of them could be percentage of bonus paid to the overall compensation package categorized staff cadre, attrition rate, internal promotions, cross training programs etc.

(b) Clarity: The reward package should be clearly communicated to the staff. It should be understood by the staff concerned. They should be told what kind of performance will be rewarded and how their performance will be measured. Grab and Go may consider having a dedicated HR team for this purpose.

(c) Controllability: Unlike the traditional understanding, rewards need not be based only on the financial element that the staff can control. There may be other non-financial elements for which rewards can be given. Both aspects however need to be controllable by the staff concerned. For example, the chef can come up with a popular menu. If the pricing of the product, managed by the central core team, is such that it results in a loss to Grab and Go, the chef may not get the much-deserved bonus. This is not a good reward system and might lead to attrition.

Grab and Go can design its performance measurement system along the above lines.