

## How to measure and track performance trends (A People view)

### Introduction

This paper looks at how to measure and track performance trends with a strong emphasis on non-financial measures, the power of behavioural approaches to measurement, and predicting performance rather than merely waiting to see what happened after the event.

It describes a systematic method of choosing and designing measures and when to get rid of them. First of all it reviews the common problems with measures and performance management systems, too many, too financial, no message, too late, and then set out what effective measures of performance should do.

Then it looks at three levels of performance management, measurement and tracking:

- Organisational performance – Are we achieving the strategy?
- Process, team or functional performance – Are we making our contribution?
- Individual performance – Where do I fit in?

It will consider the four main areas of measuring performance and how the simple relationship between them can create a powerful view of what drives organisational performance. This is based upon the Balanced Scorecard approach. These areas are:

- Financial measures
- Customer measures
- Process measures
- Learning & growth measures

Through the discussion will look at examples of how to anticipate what the performance *will be*, rather than discover, after the event, that something has gone wrong. This will look at both subjective and objective measures to achieve this.

### Problems with measures

When I run a measures workshop with teams I usually start by getting them to brainstorm measures that will be useful to them. For instance, a group of engineers were asked to think of effective measures for managing their design projects. Within 2 minutes I had over 30 measures. Within 5 minutes they had filled two flipcharts and were moving onto a third.

I called a halt at this point and took just *one* measure from the vast array on offer. It was a project quality measure, but any would have done. "So this looks like an interesting measure. Why do you think this will be helpful?" I asked. They debated that one measure for 5 mins and could have continued for another 30 minutes at least. At this point I again called a halt to the debate.

What quickly becomes clear is that it is easy to create measures and that there are literally hundreds available. However, if you start using them "willy-nilly" as this group enthusiastically did, you create a whole pile of measures. Each costs money to implement and track. Each sends a different message to the organisation about what is required. Everyone becomes accountable to every measure – the net effect of which is no one is actually responsible. As a set, the measures fail to tell a coherent story – apart from "This is an organisation that likes measures".

The easiest measures to find and implement are often financial. However these often only tell you, after the event, if problems are occurring. At least they are liked for being objective. Yet, that is not always true – ask anyone involved in Enron.

What is required is a systematic approach to selecting measures. An approach that helps you determine why a measure is should be used and when to get rid of it. This leads to :

**Point 1: Never create a measure unless you first know why you are measuring it.**

The key to effective measures is designing them. Before you do anything with measures ask: What am I trying to achieve? What is my objective? What behaviours am I trying to encourage? What outcomes do I want to achieve? Only once you have got this clear, can you then ask: “What would be a good way to measure progress towards these objectives?”

**What would make effective measures**

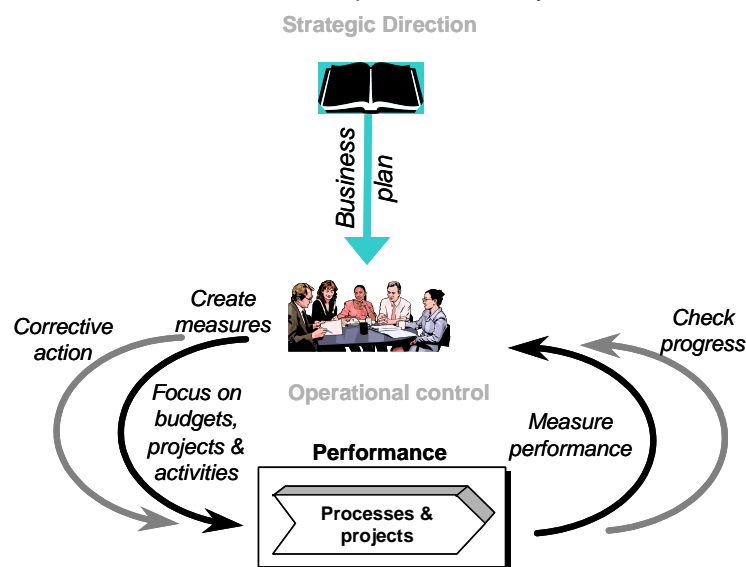
I will argue that effective measures:

- Explain the strategy
- Motivate
- Tell you the required end result
- Encourage the behaviours to achieve it
- Create a simple overall message
- Provide reliable, quality information about progress
- Look across the characteristics of the organisation

Before we look at this, lets take several steps back and look at how organisations can use measures for performance management.

**Organisational performance and learning**

Most organisations look at performance as a control system. They develop the strategy and business plans. They set financial targets to be achieved for sales and costs, and process targets such as quality and service. They then ensure that the business runs and achieves these targets. As shown below, this is a simple command system.



The system runs with – “Here are the targets. Are you achieving them?” If not then, “Here is some corrective action”. In other words there is no discussion over whether the targets are realistic, the approach correct or the environment has changed. The strategy and business plan is a given and the system should deliver it.

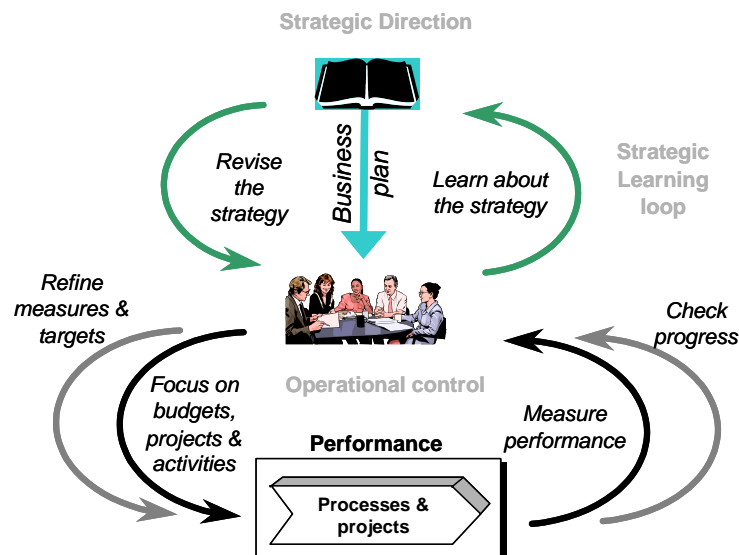
Now consider what happens when the results are not being achieved. What else could be going wrong? At the simplest level the answer could be:

- They do not get the message – so we need to change it
- The targets were not appropriate
- There was not enough investment to achieve the target

At a higher level the problem could be

- We are pulling the wrong levers and encouraging the wrong behaviours
- The environment has changed
- The strategy is flawed and this approach is not going to work

At this level the management team are looking at the feedback from the process and asking, "Did we get it right?" They are learning, not just about the simple control but also about whether their assumptions are correct. See below.



They are doing what is known as double loop learning. They are listening to the feedback and asking whether their strategy is correct. They are doing strategic learning.

So measures perform two critical functions:

- Motivation
- Learning whether the strategy is working

### Point 2: Measures motivate

Organisational motivation

- This is where we want to go
- This is how we expect to get there
- Is the message clearly understood?
- Are we achieving the objectives?

### Point 3: Measures can help you learn about the strategy

Learning about the strategy

- Did we set the correct course?
- Are our assumptions correct?
- Has the environment changed around us?
- Do we need to change the strategy?

Now the performance management system has become part of a living beast. It is the nervous system that senses the body and the outside world and reacts to it. When it senses an obstruction it can choose to push harder, or slip to the side and step around it. It has become much more like the living organism organisations really are.

### Performance in different dimensions

As we said earlier, organisations tend to create financial measures. They are not only easier to measure but whole parts of the organisation are set up to track them.

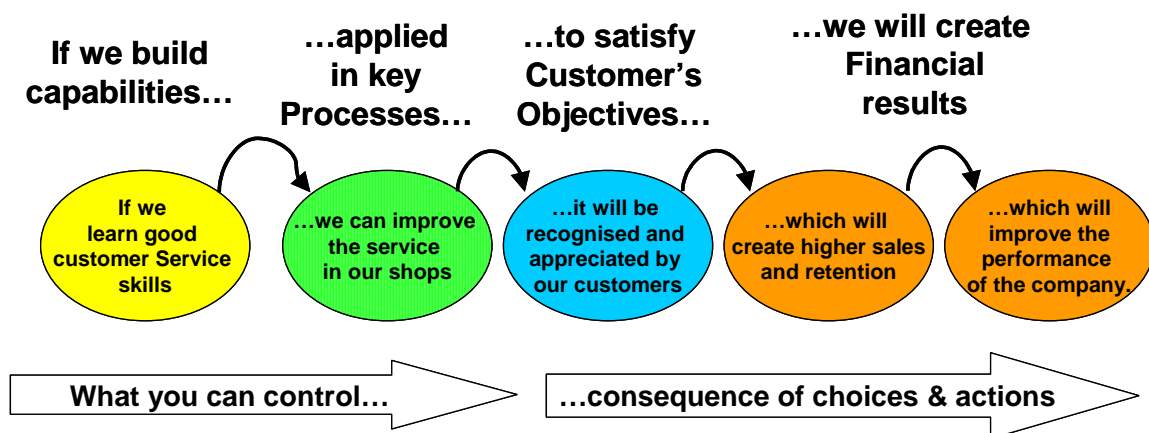
We all know that organisations are far more than the cash flow and financial transactions they support. They react with customers, they have people who work in teams and complete tasks and activities, they have individuals and groups who learn things, they have technology infrastructures, they collect data that grows into information and builds knowledge. They have core values and working ethics. They all affect the performance of the organisation.

#### Point 4: You need a variety of measures – a balanced perspective

So have performance management systems that reflect this: A balance of characteristics that tell you about the whole organisation? We will look at four classes of measures:

- Financial
- Customer
- Internal processes
- Learning and growth

If you had not already realised, these are the categories in the Balanced Scorecard. They create a cause and effect chain which pictorially looks like this.



#### Financial measures

It is worth looking briefly at financial measures. Result orientated measures such as profit, sales and costs are most common. However, there are useful leading indicators of financial positions that help. Accrual accounting looks at committed costs rather than spent costs: Before the cash leaves the business. Some metrics such as cost per employee or sales per square foot are also useful, but few are predictors of success. So what else would be useful?

#### Your Customers' needs

A good strategy relies on knowing what your customers are looking for and how you will provide satisfy them. However, so often the measures employed by companies to look at customers are their own reflection of what the customer wants rather than actually asking the customer.

Let us take a retail example. If you look at how your shop is laid out and measure its aisle widths and amount of stock on shelves it is an internal measure. It is your perception of what the customer wants in a shop. They are the results of the store refurbishment process and stocking policy, not the customer's perception of your shop.

If you use mystery shoppers who visit stores and score how well they were served, it is again *your* view of what the customer wants. You are judging what the customer would like to have happen. (It might be based upon information about your customer's needs, but it is still second hand and potentially out of date).

If you ask real customers who have just left the store what their experience was, you gather information from the customer about *their* perceptions. Have you addressed their needs? If

you ask customers in the street, or in focus groups, whether they visit the store and what they are looking for, again you get *their* needs.

### Point 5: Always state customer needs from their perspective, in their words

Don't project your desires onto their needs – ask customers what they think.

The emphasis is to ensure you understand their needs. So when considering how to measure how well you satisfy your customer's needs start with the customer's statement of what they want, "I am looking for value for money and style in my baby's clothes", "I want the project team to warn me of problems in advance", "I want to feel proud wearing those clothes".

### Your operational processes

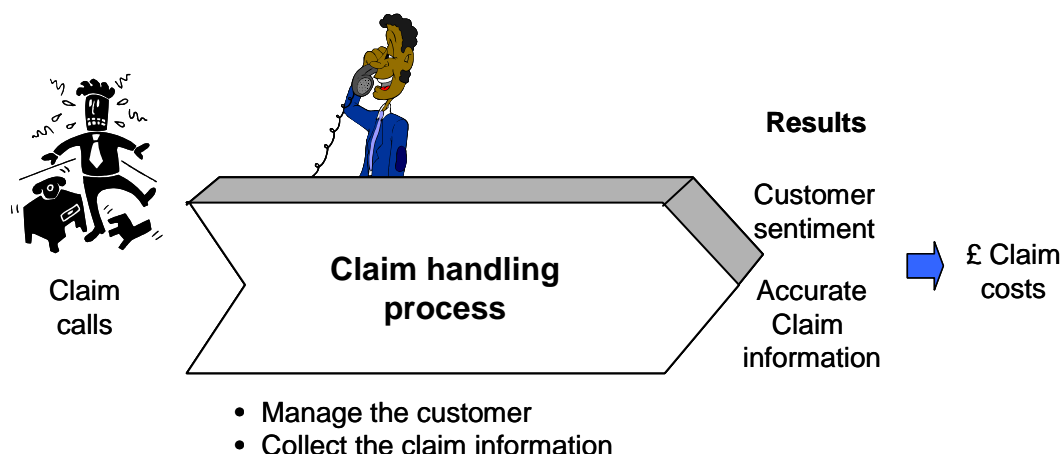
Operational processes are a good point to explain how lead and lag measures work. Let us take a simple example. You run a call centre servicing insurance policy claims. You know that customers often ring up in an agitated state. To be effective you know that you have to gather the facts as accurately as possible to reduce your costs of processing the claims. If you can also manage the client's emotions in a calm confident manner, you have discovered they will feel better about the quality of claim service that you provide and are more likely to renew.

So the outputs that are critical for you from the process are:

- Accurate claim forms
- Calm, re-assured customers

You have discovered that by keeping to a strict script you get accuracy but lose the ability to calm the clients down. Also by making a note of how pleased/relieved the client sounds at the end of the first call you have an idea of the number of calls they are likely to make overall and therefore the overall cost of administering the claim. In other words if you can create a calm client, you improve your cost of doing business and the client is more satisfied overall.

Pictorially it looks like this.



So what we have is a process where the final measure could be financial (cost per claim) but we will leave that as a financial measure. We have two indications of how well claim administration is going. How happy clients are when they put the phone down at the end of the call, and the completeness of the claim forms.

This is an excellent example where we have the choice of objective and subjective leading indicators for how well the process is operating. We could measure the amount of information missing from the forms. Very analytical but in reality subject to some interpretation as there could be information provided that was incomplete or inaccurate.

Alternatively we could ask the call centre operators to flag, on a subjective scale, how calm and happy the client was at the end of the conversation. (I have not made this up by the way, I first saw this arrangement in use over 10 years ago.) This relies on the operator's honesty and judgement about the state of the clients. However if accurately recorded is probably the better indicator of the administration costs.

**Point 6: Subjective measures are often more effective than apparently objective ones.**

A subjective leading indicator can be more accurate than an objective analytical one in predicting the final measure – how much the call centre costs to operate.

The interesting feature of the subjective approach is that it also allows you to look at where you have to train and develop your staff to improve their ability to handle difficult customers. That takes us nicely onto Organisational Capability measures.

**Your organisational capabilities:**

The organisational capabilities, or learning and growth, perspective of the Balanced Scorecard is designed to capture organisational objectives that represent where the core capabilities of the organisation will have to be developed. Where the organisation has to learn and grow. This can include building market knowledge, developing skills in people, recruiting new capabilities, changing attitudes and values, building new technology, creating research & development capability, or focussing on an aspect of the culture.

These are all aspects of organisations that are rarely or reluctantly measured, or measured with difficulty.

**Point 7: Measures should be equally divided between the four perspectives.**

In other words, to be effective, there should be as many objectives and measures in this organisational capability perspective as in the financial one. That way you are sensitive to each perspective.

Why have so many in this perspective? Because this perspective drives the success of all the others. If the organisation is to move forward it must achieve the objectives it has set in this perspective. If it fails, it will fail to change the organisational processes, will therefore fail to meet the client's needs and so the financial objectives will not be met. In other words, these objectives drive the future success of the organisation. For this reason measuring progress with these objectives is vital.

In the insurance example above, it is clear that the success of the call centre relies on the ability of the staff to handle frustrated and potentially anguished customers. For this example, there may be two core competencies or capabilities that need developing:

- Having staff who are good at calming customers down and reassuring them
- Having the technology to ensure that calls are answered quickly so that customers are not frustrated whilst hanging on the phone waiting for an operator.

Therefore it makes sense to have objectives, and therefore measures, for, say:

- The depth and quality of the staff in handling the clients and their reactions. This may be:
  - The extent to which they are trained.
  - How well knowledge is shared to encourage members of staff to share experiences of clients and how they handled them well.
- The quality of support for the call centre technology. This may be
  - The morale of the call centre support team
  - The quality of service from call centre suppliers if parts are outsourced
  - Availability of data to monitor call centre statistics and fine-tune it.

Note that we are not measuring the quality of the call centre technology to handle calls, i.e. how long people hang on. That is an operational measure and if important will be measured in the operational processes. We are measuring the capability of the staff to delivery excellent call centre technology and keep it up to date.

You have to be really clear what critical aspects of the capability will drive performance of the processes. It is all too easy to get vague and put the drivers as broad categories such as morale, skills or technology that will influence everything. What is needed is sharp focus about which aspects of these will drive the improvements to the processes. Then design measures that track their progress.

**Point 8: This makes the up-front thinking of measure design harder, but the choice of measures becomes much simpler.**

In every case, if you short cut the process and jump straight to measures you save time now, but create a lack of clarity over why the measures are in place. Thus, if they are not working they are harder to change and the thinking has to be done all over again.

**Conclusion**

Measures come last in the search for good performance systems. Measuring and tracking performance is about having a clear idea of what you are trying to achieve and why. Get the causal relationship clear and understand what are the critical drivers of this company's success.

Think through what message you want to communicate, and the effect on behaviour of the correct choice of measures.

Be radical. Throw out the hundreds of old measures and start afresh. You can then see the wood *and* the trees. People can relate to measures that they understand: That give them feedback on their progress and, eventually, tell them when they have achieved their objectives.

It is about having a balance. A balance of what is measured, of leading indicators and results, of motivators and measures that give you feedback on the strategy.

But most of all its about how people react to those measures. And the only way to do that is to think through *why* before you decide *what* to measure.

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