

# Performance and the Role of Measurement

## 1.1 INTRODUCTION

In this chapter we will look at what good performance is and at the factors that combine to create good corporate performance. We will also set out what a good measurement process can do for your organisation, not only to help you track your progress but also to help you encourage and maintain better performance. You need to recognise that performance measurement is a tool to be used by management and we end this chapter by reflecting what good leaders need to do to ensure that the tool is used effectively in taking the organisation forward.

## 1.2 WHAT IS GOOD PERFORMANCE?

The answer to this question is simple – it is about achieving your objectives. Of course that is not the whole picture; it is far more complex than that. Objectives themselves do not remain constant; they usually change over time. The world moves on and if you do not keep reviewing what you are doing you will have a problem. How you achieve your objectives is also important – you may be successful in the short term at the expense of success in the longer term. Before launching into setting up a performance measurement system it is worth reflecting on the nature of good performance.

## 1.3 WHOSE PERSPECTIVE?

Any benchmark of business performance will depend on the definition of success for that business. In turn, the definition of success will depend on the view of particular groups of stakeholders.

Let us take an airline as an example. Someone going on holiday will be happy when there is plenty of room beside them because the next seat is empty, they are offered another portion of lunch because there is extra food on board and the cabin crew have plenty of time for individual attention. The airline's customer service manager may also be delighted with performance because there have been many emails praising the service. The airline's CEO, on the other hand, will probably be dissatisfied with performance because there are too many empty seats, money is being wasted on catering and the cabins are overstaffed, all of which contribute to unsatisfactory financial performance. Shareholders will be dissatisfied because they see a poor return on their investment.

Therefore, the definition of success and ‘good’ performance depends on perspective and that will vary within different sections of the organisation and according to the stakeholder group.

It is essential for employees, at the very least, to have a clear consensus, understanding of and commitment to the overall goals of the organisation. Once they understand the goals, they need to know what success looks like. When there is a clear sense of purpose at the top of the organisation, divisional, departmental and individual goals and measures can be fitted underneath the overall organisational goals so they contribute towards achieving them. There will, of course, always be conflicting requirements, as you can see from the example above, but a balance has to be struck and conflicts have to be resolved or at least acknowledged. Achieving clarity and commitment to overall goals of the organisation requires strong leadership.

## **1.4 MAKING COMPARISONS**

Performance is not absolute; it can only be relative. Your company’s profitability has to be judged against peers in your industry sector and against your previous years’ results. So you need to consider performance relative to external comparisons and to internal benchmarks.

From an internal perspective, employees need to know what is expected of them. Quite simply: are they expected to process 10 claims an hour or 20? If the company receives 100 customer complaints in a year is that good or bad? It is also important to know whether progress is being made. Is your performance improving? (That applies both to the individual and to the overall company performance.) It is impossible to determine this if you do not have some form of consistent measurement process. Taking this a step further, it is important to know why you are not making progress because that could be the result of external factors such as a new competitor taking your market share rather than a failure of your employees to do their work.

A measure of performance is meaningless on its own. It makes sense only when viewed against either a standard, a previous measure or another comparable measure. Thus, a figure of, say, 6.5 for May means nothing, but when April’s figure was 10.5 and March, February and January were 11.5, 13 and 14 you are beginning to establish a trend. If you also discover your biggest competitor is measuring the same activity and their figures are 20, 23, 24, 25 and 26 you may be able to deduce something about your business and/or your market.

From an external perspective investors need to know how well the company is doing and what the expectations are for the future. External reporting is a subject of its own and does not form part of this book. However, the way an organisation (business or not-for-profit) looks to the outside world is important for its success. Stakeholders of any type (investors, employees, customers) need to have confidence in the organisation with which they have dealings and external reporting of performance is the mechanism for doing this.

## 1.5 PRESENT SUCCESS AND FUTURE SUSTAINABILITY

Factors contributing to performance (such as customer service and financial outcome in the example above) can be linked both positively and negatively. In the airline example, passengers may be delighted with the service they receive as a result of the empty seats on the aircraft and that may encourage them to book again with the same airline. This will lead to a perception of success in the short term as passenger numbers increase, but over time passengers will probably see a decline in service as seats fill up and they will start to book elsewhere. If the airline is not charging enough to cover the additional costs of the ‘deluxe’ service or attempting to secure loyalty among its passengers, it will ultimately face financial disaster.

It is interesting to note that sustainability and durability may come from factors that are not always apparent in short term performance indicators. In their book *Built to Last: Successful Habits of Visionary Companies*, James Collins and Jerry Porras spent six years researching business success. They identified 18 ‘visionary’ companies and examined what was special about them. What they found surprised even the authors. They deduced that success did not come from having great products and charismatic leaders but more from a dedicated devotion to a ‘core ideology’ or identity and a highly active indoctrination of employees into commitment to the company. These are not short term performance indicators.

No business is invincible. Names of once-successful businesses that are no more trip from the tongue – Rover, Enron, Arthur Anderson, Woolworths. Even if in their later stages they were flagging, at some point they were regarded as models of success. Success in present performance is important and is an indicator of future performance, but it may be fleeting unless the senior team is giving sufficient thought to the future. It is too easy to be motivated by current success and to do more of the same, spending all the time focusing on the needs of the present. Building indicators of future potential is an essential element in measuring and managing performance.

In establishing what good performance is, you must know what success looks like to different stakeholder groups, how your performance compares with other organisations and against internal benchmarks and whether today’s performance is sustainable into the future.

We will turn now to how you create good performance.

## 1.6 HOW IS PERFORMANCE DELIVERED?

The performance of a business is delivered through a mixture of people doing their best to achieve the right ‘things’, supported by effective processes and sufficient resources.

Getting people to work harder does raise performance levels and we will look at how you measure people’s performance in more detail in Chapter 12. But there is a limit to how much harder people can work and high levels of intensive work of any

type are rarely sustainable over time. Therefore, in a labour intensive business, while it is obviously important to ensure people are working to their full potential, if you go over the threshold of what is sustainable, performance will inevitably decline after an initial period of improvement. The other perspective on this is whether people are being *forced* to work harder or *want* to work harder. When people are forced to work harder they naturally resist and find ways around the system. However, if people engage in their task or in the aspiration of the organisation, then you achieve a better outcome.

Working harder can be simply the exertion of more effort. However, even from the origins of scientific management in the late nineteenth and early twentieth century (the work of Frederick Taylor), it was conceded that emphasis should be put on doing things better. Taylor's idea was that there was one best way for a worker to do a job. Workers should be given the right tools and then trained in the right approach. Once this happened, a rate could be set for the work that an individual could achieve over a normal day at a rate that was sustainable in the longer term. There is much to be said for the basic concepts of Taylor's scientific management, but it does suggest a very mechanistic conceptualisation of the organisation, and very few jobs these days are that simple. Understanding how a job should be done, giving people the correct tools to do the job and appropriate standards to achieve is a good start.

Real performance improvements come from changing the process. Here is a very simple example. One council in the UK was struggling to make its six week deadline on assessing building applications. When the process was examined, the planners were shown to be efficient at their work. The biggest issue was the delay between the monthly meeting at which the planning application was assessed and the next monthly meeting where the minutes of the previous meeting were approved and the decision was ratified. The solution was simple. A coffee break was held at the end of the planning meeting following which attendees came back immediately afterwards to approve the minutes. The planning process was speeded up by 30 days.

Performance measurement should focus the thinking on the outcomes to be achieved rather than just on numbers. It should encourage people to look for alternative ways of doing the job better. It is important, then, to emphasise and measure the achievement of goals and play down the process measures. If, in our example, the council had purely focused on improving the efficiency of individual planners, the target of reducing time taken for planning applications to be passed would never have been achieved. We will return to this theme again in Chapter 14.

At times of economic hardship companies often take the decision not to resource fully the activities of the business. While this can make sense in some cases, it is very important to think through the consequences of the decision not only for current levels of performance but also for what may happen in the future. There are many good examples of companies taking seemingly sensible decisions only to find they had unforeseen results. An IT company employed staff with specialist skills for writing user manuals. To save money they decided to make these people redundant and give

this task to their programmers. After a short while it became apparent that the user manuals were not user friendly any more as the programmers did not have the right skills for producing them. The company had to resort to using agency staff at higher costs than before.

Thus, performance is delivered through people, but they must have the right processes and resources at their disposal. They also need to be directed and focused in what they do, which is the role of the performance measurement system.

## **1.7 THE ROLES OF A PERFORMANCE MEASUREMENT SYSTEM**

There are five basic roles of a performance measurement system: to establish position, communicate direction, influence behaviour, stimulate action and facilitate learning. We will explain these in more detail next.

### **1.7.1 Establishing your current position**

This may seem obvious but many organisations rely too much on anecdotal evidence to establish their current position. Statements like ‘we value our employees’ or ‘we offer the fastest delivery times in our business’ become ingrained to the point that it is heresy for any senior manager to disagree. These statements may well have been true once but no longer stand up to close scrutiny in the face of the evidence. It can be a hard lesson, but establishing your true position is vital to avoid complacency and to understand what action is needed.

Unless you have some data to know where your starting point is, how will you establish progress, compare performance of similar departments or products or benchmark with competitors? You need to measure accurately and consistently from a solid base line.

### **1.7.2 Communicating direction**

If you measure a particular activity you are indicating immediately and forcefully that this is an important activity. Therefore the very act of creating a performance measurement system communicates the new direction to the business. Let us take Tesco as an example of this. Their ethos is to keep things simple. They have used a measurement process which they call the ‘steering wheel’ based on a balanced scorecard (which we will describe in some detail in the next chapter). Through the steering wheel they are able to communicate very clearly to all employees what is important to the business. In 2006 they added a new category for measurement, reflecting the change in the environment in which the company was operating. They were aware

of the pressure from the media, government and from their customers on businesses to become more 'responsible'. Responding to this they added an array of actions and measures such as reducing packaging and reducing carbon emissions through the use of bio fuels and trucks carrying double loads. The act of measuring these factors showed very clearly how important they were.

### **1.7.3 Influencing behaviour**

You should not underestimate the strength of influence generated by measuring something. That is why it is so important to measure the right things, in the right way, and to reward people against the right criteria. If you do not, you can encourage the wrong behaviour. For example, pure financial targets can create too much risk-taking in investment banks or too much focus on efficiency rather than customer responsiveness in a manufacturing plant. However, if you define your measures carefully you can influence people very significantly to achieve the goals you have set for the organisation. Not only have you set a clear direction, you have also motivated people and created a sense of purpose by showing the progress they are making.

### **1.7.4 Stimulating action in the most important areas for your business**

Few organisations have unlimited resources, so the resources you have should be directed as efficiently as possible towards fulfilling the most important requirements of the business.

Firstly, the process of setting up a measurement system can help you to do that because it helps you to identify what the critical actions are for success in your business. It also makes you aware of what is not important. Here is an example. It was not until they started to discuss the structure of their performance processes that the senior management team in a training business realised just how much their business relied on freelance management trainers. These people were in direct contact with their clients and presented the face of their business. In the past they had assiduously measured the quality of the courses as seen by attendees but had not taken any action to engender loyalty in the freelance trainers or even to ensure they were up to date.

Secondly, the process of reviewing performance should stimulate action. When performance starts to deviate from what is planned, root cause analysis needs to be done and corrective actions made. Taking the training business example, after each programme the freelance management trainers were assessed through participants completing a questionnaire. Every trainer has an off day, but a declining trend immediately triggered a review and action.

### 1.7.5 Facilitating learning

Using a good set of measures should provoke debate about your business strategy and provide information for making better decisions. Two important questions are:

- Are the things you are doing being done in the right way?
- Are you doing the right things?

The first question should make you reflect on your corrective actions. Are the actions you are taking having the impact you expect? If not, are they being undertaken effectively? The second question is at a higher level; it asks whether the actions you are taking are the right actions to take. However, you have to ask both questions before you can come to a conclusion. The performance may not be improving because your actions have not been completed or done correctly. Alternatively, the actions may be completed correctly, but they turn out to be the wrong actions.

The greatest benefit of a measurement system is the opportunity it gives you to learn. Measurement systems are so often used to drive performance, but the value of understanding how your business works and the feedback a measurement system can give you is invaluable, especially if you can get everyone in the organisation to use it that way.

## 1.8 THE FOCUS OF MEASUREMENT

In the last section we explained the five roles of measurement; next we highlight three dimensions on which a performance measurement system should focus. These are the external environment, internal performance and strategy implementation.

### 1.8.1 External environment

With the sophisticated ERP and EPM systems (enterprise resource planning and enterprise performance management) available today, it is very easy to become internally focused. Every element of your business can be measured and reported. However a business only survives if it can compete effectively, so the most important information you need to track is in your environment.

We stated earlier that all performance is comparative. Understanding how you compare in terms of financial performance, brand preference, market share, customer satisfaction, product rating, cost base, process excellence, employee satisfaction and employer brand can give you a feel for how your competitive position is improving or declining. The more time you have to react to changes in the market place or competition the more successful you will be. Being caught by surprise can be both painful and costly.



## **1.8.2 Internal performance**

Internal performance should be tracked too, but most companies are awash with internal performance information. You will need to focus on what is collected and reported. You should also consider the management process so that people at the relevant levels in your organisation receive the information they need and make appropriate and timely decisions.

## **1.8.3 Strategy implementation**

By measuring your environment and monitoring your internal performance, you will have a good feel of how the organisation is performing, but there is one last step. You need to track that your strategy is being implemented so that you can assure the future of your business.

How many organisations spend time and money devising a strategy that then remains sitting on the shelf, known only to the elite few at the top of the organisation? Even if employees know what the key elements of the strategy are, how many of them understand what it means for their jobs and how their work contributes towards its success? We have visited companies where employees claim to understand what the strategy is, but are clearly not taking the actions that lead towards achieving it. In other words, the strategy exists but what is actually happening is something quite different. The reasons for this may be valid – those ‘at the sharp end’, close to the customer, perhaps, or with a very good understanding of a particular market – know the strategy will not work but are unwilling to put forward their case to more senior managers. They carry on doing what they believe to be necessary. On the other hand, the reason may simply be that people do not want change.

Crystallising the strategy into a set of measures can help to align action with the strategy. However, it is vital that the factors you measure really are those contributing towards your strategy. We cover how you create measures in more detail in Chapter 2, but it is worth including a small example here. A certain training business had two product lines – a programme of open courses that they marketed primarily to HR managers as a means of building relationships with them and encouraging them to buy from their second product line, the more expensive in company training. The open courses were profitable in themselves and they also acted as a showcase for the company’s services. The senior management team believed the company should be more profitable and agreed that moving towards the higher end of the market with more customised training would be the way to do this. They could charge a premium for the customisation and present their services as being a higher quality than most of their competitors. In setting measures, however, profitability became confused with volume. One measure set for the team running the open programme was ‘the number of delegates per course’. To meet their targets that team set up a programme of cheap and cheerful management skills courses, which attracted large numbers of attendees



by virtue of the price but which detracted enormously from the company's declared intention of moving upmarket. This action was directly opposed to the strategy and worked against it, but the managers of that section of the business were only doing what they could to achieve their target.

Performance measurement should make goals and objectives explicit and bring the strategy to life. If communicated in the right way, it should be possible to create a culture of achievement in which individuals no longer work in the dark but are clear about their roles and what their contribution is to be in creating a successful organisation. A good performance measurement system will act as a motivator, showing people what is expected of them and how they are progressing.

## 1.9 THE ROLE OF MANAGEMENT AND LEADERSHIP

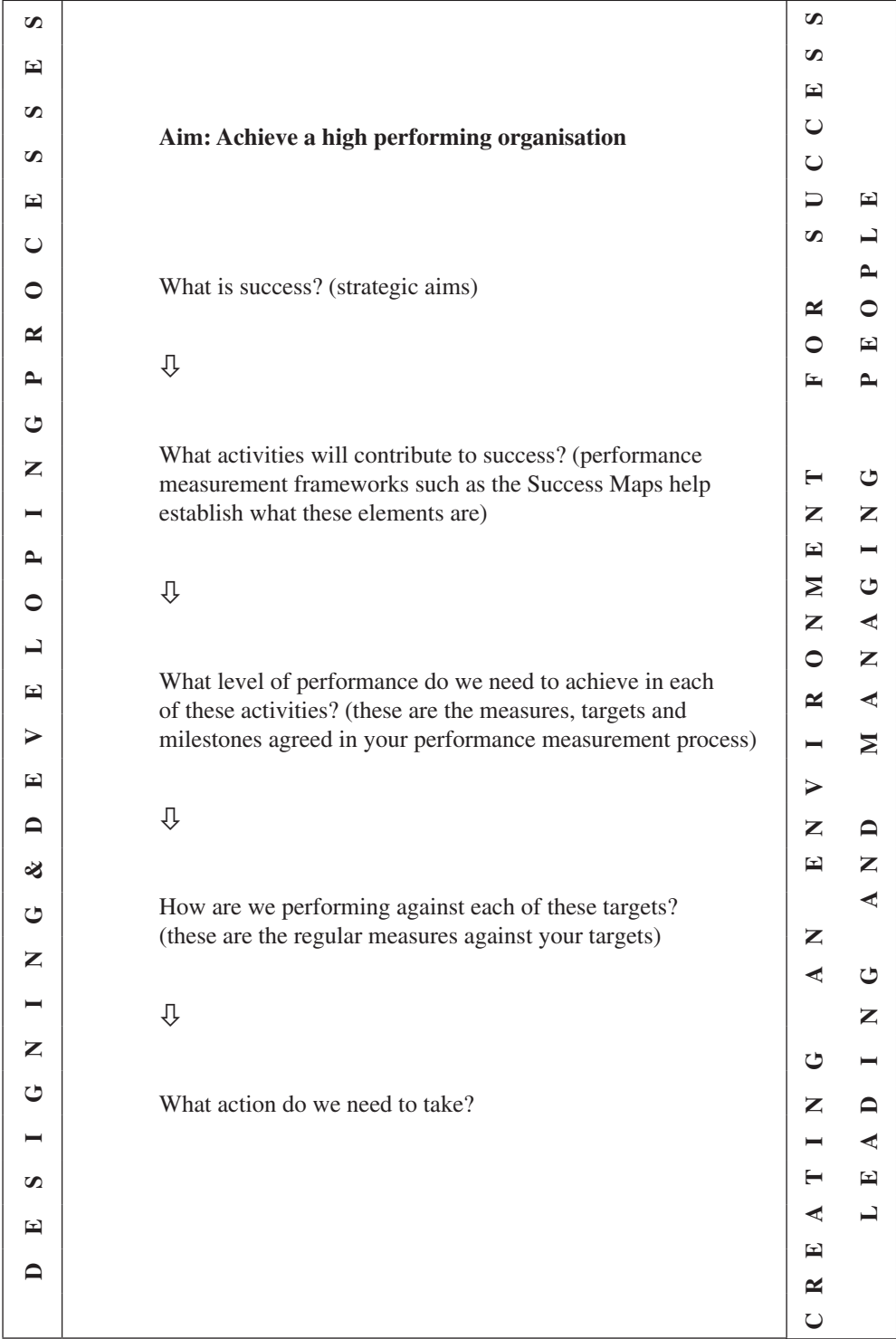
Creating good performance is not an exact science. You can set out what needs to be done, agree standards and you can measure progress. You can have an excellent process in place but without good leadership you will not achieve sustainable results.

Leadership is about creating the culture and environment in which good performance is delivered. This includes setting the tone for the organisation. By this we mean the standards of behaviour expected from everyone working within it. It includes setting values – how staff, customers and suppliers will be treated. Finally, it includes setting the direction of the organisation and creating a vision of success.

In the first section we pointed out that the definition of success depends on your viewpoint. Leaders have to balance the often conflicting needs of various stakeholders, current demands and future success and they have to propose a way forward. This sometimes involves making difficult decisions and saying no to certain courses of action. Having done this they have to get commitment to their proposals, even from those whose personal interests may be adversely affected by the decisions made.

Leaders have to support management in their development and use of any performance measurement system. Performance measurement has to be at the heart of everything the organisation does and managers should be encouraged to use the system to evaluate performance and make decisions. We are not talking here particularly about the performance of individuals, but about the whole spread of information generated on how things are working. However, such a system can become too mechanistic and it is the job of leaders to ensure this does not happen. A performance system will provide data and information but it is up to the judgement of managers and leaders to decide what will be done with it.

One of the critical tests of a good leader is how they deal with failure, remembering that if you set stretching targets you must expect failure. An innovative organisation needs people who have ideas and take calculated risks, and inevitably some of these will fail, but the company still has to support the risk taking. Something may fail because the circumstances change and the target has simply become unattainable.



**Figure 1.1** Performance measurement in context

A good leader should recognise this and act accordingly. Failure can be caused by processes not working or projects being underresourced and a good leader should be able to judge if this has happened. Finally, failure can be caused by an individual through lack of experience, capability or application. A leader needs to judge which of these is the case and what action should be taken.

Leaders need to see the wider picture and not just react to the simplistic logic coming from what the measures are telling them. Good leaders consider the decisions they make in the wider context and in particular they think about the message the decision sends externally and to the rest of the organisation. One business services company decided not to deal with clients whose behaviour was unacceptable to their staff, although in some cases these were lucrative contracts. This sent a clear message about the way leaders in that company valued their employees. A window producer, Kayplan, had the policy of only selling through builders' merchants and so no matter how large the incentive to win an order by selling directly to a customer, this was never done. This created a great deal of loyalty from builders' merchant customers.

A performance management process is only ever that - a process. It is a very useful tool to help leaders run their businesses. However, how they use it will determine whether the system is seen as a bureaucratic impediment to performance or as a mechanism for guiding action and gaining employee commitment to achieving the goals of the business.

## 1.10 IN SUMMARY

In this chapter we have given an overview of what performance is and of the benefits of setting up a performance measurement and management process. We have looked at the role of leadership and management in that process. The diagram (Figure 1.1) is a straightforward summary of the thinking process. In the next chapter we will look in detail at some of the frameworks and tools you can use.

## FURTHER READING

Collins, J., and Porras, J. (2005) *Built to Last: Successful Habits of Visionary Companies*, Random House Business Books, London.

