Why Measure Performance?

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Responses to performance measurement?

Why do we measure performance? The answer to this question often depends on who you ask. Let's start with some stereotypical examples.

If you ask a chief executive then the answer is often about "driving people to perform". The CFO will probably talk about control; "let us not allow people to do things they shouldn't or without the right authority". In the public sector there is a great focus on "making people accountable". These are the types of response from those using measurement to motivate, manage and control others.

But if you ask people being measured there is often a much more mixed response. Some will talk about "having a goal or a target to meet and strive for" which is really positive. But in many organisations the response can be "this is a stick to beat us with" and "the measures just get in the way of us doing a good job".

So, the first thing to remember is that those measuring enjoy the experience far more than those being measured and that has consequences.

One simple exercise which we ask people to do (and you could do now) is as follows.

- Close your eyes and think about what it is like to be measured? What is your experience of this? How does that experience feel to you in your organisation?
- Then think about your measurement of others. What is your experience of this? How does that feel to you in your organisation?
- And then finally, think about how you measure yourself? How is that different to the way you are measured by others? How is that different to the way you measure the people who work for you?

Our experience is that most people have ways of assessing their own performance which are different from the ways the organisation measures performance. Often managers don't like the way they, themselves, are measured and evaluated, but they still take the same approach to passing on goals, measures and targets to their staff.

So, the second thing to remember is that the way people feel about performance measurement influences how they respond.

The way you think about *why* you measure performance depends on your mental model of the organisation you are trying to influence. If you have an engineering mind-set then performance measurement would be about the levers of control. Measures give you hard feedback on the level of performance achieved and all you have to do is find the right mechanisms to focus people and make them do what needs to be done.

If you have an accounting mind-set then the emphasis could well be on controlling decisions; how do you assure that financial decisions are made by the people qualified to make them? How do you prevent some people taking decisions they shouldn't be taking? How do you encourage the right decisions?

If you have a nurturing mind-set then you may see performance totally differently. You may think about how you nurture performance and create the right environment for performance to emerge and be delivered.

If you have a sociological mind-set you may think about behaviours and the types of games people will play with the measures and measurement system. From this perspective, nothing is hard- wired and you will understand that pulling a lever could create the exact opposite of what was expected.

The third thing to remember is that performance measurement is simply a tool used to try to manage a complex system. How you use the tool makes a real difference to what happens.

Too many people think performance measurement is a simple tool and that putting in a performance measurement system is an answer to all the organisation's problems. Reality is not so clear cut. Performance measurement can be very useful and it is important to keep it simple. But you have to be subtle in the way you introduce performance measurement systems, you have to engage with people in the organisation and you have to use the system constructively if you are to get the results you require. In the next section we will outline the five reasons why we think you should measure performance.

Why we measure performance?

In order to implement your strategy successfully you need to be able both to manage and to measure performance. Many people think management is the most important of the two – but without measuring the current level of performance and analysing what is working and what isn't, it is very difficult to manage. So both are equally important.

Setting up and maintaining a performance measurement and management system can be an expensive process both in terms of cost and time and, if not handled appropriately, it can also demotivate staff. So how can you do it effectively and make it worth the effort?

Our research shows performance measurement helps you to:

Establish position – you need to know where you are, without any measurement you are operating in the dark. How do you compare to your competitors? Are you as effective as other organisations who do what you do? How do you know whether you are improving or not?

Communicate direction – you need to communicate to everyone in the organisation where you are going. What does the road to success look like? By measuring a particular activity you are signaling that it is important. It tells people what you are trying to achieve and how that achievement will be measured.

Influence behaviour – people respond to specific measures, so in measuring something, you are influencing behaviour. Measuring performance throws a spotlight onto a particular area of the organisation's work and as a result that's where people will focus their attention. This is about encouraging the right behaviour and discouraging inappropriate actions. Measures that are correctly devised can motivate people to achieve the organisation's goals.

Stimulate action – measurement is expensive, so you have to act on the insights it provides or you are wasting your money. You need to act on your measures to change direction of travel, be that to correct something that isn't working or to change direction towards a new goal. In effect you are helping to ensure energy and resources are concentrated on the most important areas

Facilitate learning – by looking at the analysis of your measurement of activity and by holding discussions about what is happening you will learn more about the dynamics of the organisation; what is working and what isn't and what needs to change. Are you doing things right? Are you doing the right things? Reflecting on what your measures are telling you should help you and the organisation learn. If you don't learn, then don't expect your organisation to survive.

So, implementing a performance measurement system should have far reaching effects helping you to decide what the key drivers of performance are, refocussing and stimulating activity in those areas, creating a culture of achievement and noticing in advance any trends affecting the organisation so that changes can be made in good time.

The good, the bad and the ugly

Let's look at a few examples.

Establishing position

What does establishing position mean for you? What should you focus on?

Marks and Spencer was, believe it or not, once Europe's most profitable retailer. Shortly afterwards they suffered a major setback as sales and profits fell, which impacted significantly on their share price. How do you establish position? Financial results are often looking backwards, how you performed last period or last year. For M&S this looked fine. Other measures didn't look so good, however. Customer satisfaction was falling and employee satisfaction was similarly declining, but from insider accounts, no one told the Board. Not knowing this meant they were trying to react after the event. So, the lesson here is to ensure you are looking at the whole picture when establishing position, not part of it.

Here's another example. A university benchmarked its executive education programmes with other competitor providers. What it didn't realise was that some of these included accommodation fees and some didn't, totally distorting the comparison. Make sure you are comparing apples with apples!

Communicating Direction

Focus really does matter and measurement can deliver this. Here are two examples.

The authority policing the coastal and inland waterways of a US state for many years had as their most important KPI the number of boat owners fined for not complying with the regulations in force. During this period, they were suffering about 80 to 90 deaths a year in coastal water and on inland waterways. Some bright spark suggested that the KPI should be changed. So they made their KPI the number of deaths in their area of responsibility. The following year they focused on this new KPI and the death toll dropped to 44.

A county police force came to a workshop on designing KPIs. When asked to develop a KPI which was really important for their organisation they decided to focus on reducing the murder rate. This wasn't a KPI at the time, as the most important KPI was reducing the number of crimes committed. Which meant in numerical terms, a mobile phone theft was one crime, a murder another crime, so if you added them together you had two crimes. They created a KPI and set a target of reducing the murder rate by 30% by the end of the year. When challenged on whether or not this was achievable, the consensus was that it could be easily achieved through focusing on situations of domestic violence. So thinking through this KPI focussed attention on where effort and resources should be directed.

Influencing Behaviour

Do you really know how you want people to behave?

Sales people are often only measured against sales targets, when what you need are behaviours consistent with longer term goals and relationship building. In the last recession one Japanese technology company took out all their sales targets and gave their sales team one goal. That was to get closer to the customer. Their thinking was that without this change their sales people might push customers into buying products they didn't need and customers wouldn't forget that when the economic climate changed. They also believed that if they got close to their customers, those relationships would benefit them when the economic climate improved.

UK universities are evaluated every 5 years on their research and one major component of this is the number and quality of publications. Although the scoring is done by reviewers reading every paper, many universities use journal rankings as a proxy for quality of the paper. If you publish a paper in a good journal it must be a good paper! This kind of assessment happens in other European countries too. One savvy academic has a high quality journal and produces some 12 issues a year. Each of these issues has a short editorial that he writes and he (and his university) count each of these as a high quality output because of where it is published.

Stimulating Action

A colleague attended a series of board meetings to observe what happened at the request of the Chairman of a large company. After the third board meeting the Chairman asked what he thought. “Well” came the reply, “you have discussed the same issue now at three consecutive board meetings in a row and every time you have asked for more information. When are you actually going to do something about this issue?”

The company revised its board meetings to focus on answering questions and looking at the real performance behind what the KPIs were telling them. They extended their quarterly board meetings in length to a day and a half each quarter so they could do this properly. But at the end of the meetings they still had a long list of actions. To ensure focus they only took forward those actions that were both important and needed the focus of the board. The others were either delegated or ignored. In this way they focused on making sure a few key actions were completed and didn’t dissipate their energy over too many action points.

Facilitating Learning

Looking at the results of your measures gives you an insight into the dynamics of the organisation and provides an opportunity for competitive advantage.

Work done with an airline found that when aircraft left late, customer service was better, customer satisfaction was higher and financial performance improved. So, do you delay all your planes? When this was investigated in more depth it showed that the delay allowed the cabin crew more time to interact with passengers and encouraged the captain to communicate more too. So understanding what changed allowed the airline to look at more effective ways of improving their performance.

A Canadian convenience retailer was concerned about its competition from the big supermarket chains so decided to invest in a customer engagement campaign that had at its core getting staff to smile and engage with customers. The results were mixed so the senior management investigated further and found that this engagement and smiling didn’t happen in some very successful stores. At key times in the day, early morning, lunch time and going home from work time, these shops simply focused on serving the customers who invariably were in a hurry. The senior management then realised that the behaviour had to be appropriate to the customers' circumstances, so they made some subtle changes to the training which had a great effect on performance.

A police force decided to imitate a successful American initiative that used a computer to schedule a police car to spend considerable time patrolling places where crimes had recently occurred. But the numbers didn't show a significant reduction in crime in the patrol area after the initiative was implemented. Given the success in the US, the local force was a little surprised until they looked behind the numbers. What they found was that the scheduled police car was spending less than 30% of its time on patrolling duty. The reason was that this vehicle was always free to be called away when a 999 call came in, so it wasn't surprising that the experiment wasn't delivering the expected results.

In conclusion

So in conclusion, here some questions to ask yourself about your performance measurement system.

1. Are you using the right measures and comparisons to determine how well you are performing?
2. Do your KPIs truly reflect your strategic intent and are they being updated when your strategy changes?
3. Do your performance measures encourage the types of behaviours you want or do they get in the way of people doing their job?
4. Do you act on your measures?
5. Do you use the insights from the measurement system to reflect on performance and learn?