INTRODUCING PERFORMANCE MEASUREMENT.

Checklist 129

Performance measures are used to assist in tracking organisational performance against objectives. It is vital that any system of performance measurement is fully aligned with organisational mission, strategy and values and that it is integrated into the overall system of performance management which sets and monitors the achievement of organisational, departmental, team and individual objectives. For this reason this checklist should be read in conjunction with our related checklist on Performance Management. (See Additional resources below).

To evaluate the performance of an organisation or department, credible and reliable measures need to be in place. This checklist outlines principles to help managers introduce or improve performance measurement in their organisation and considers questions such as what to measure, how to measure it, what targets to set, how to gather, record and analyse performance information and how to take action on the results.

Effective performance measurement can identify areas for improvement, help to keep performance on track and alert the organisation to potential problems or threats. It can also enable managers to make decisions based on reliable results rather than on instinct alone. The generation of meaningful and actionable data can be a powerful tool for influencing behaviour and keeping one step ahead of the competition. To establish successful performance measurement processes, time, resources and planning are required.

Measuring performance has many advantages and enables an organisation to:

› understand the current position
› predict future financial performance
› maintain a record of past performance
› identify strengths and weaknesses
› determine whether improvements have actually taken place
› establish a programme to benchmark against competitors, other organisations or previous results.

The financial metrics traditionally used as a means of performance accounting are now more commonly balanced with non-financial measures such as customer satisfaction and on-time delivery to gain a more rounded picture of overall performance.

» **DEFINITION**

A performance measurement system is an organised means of defining measures of performance, and gathering, recording and analysing information in order to monitor performance against objectives, identify

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areas for improvement and take action to improve performance as necessary.

A key performance indicator (KPI) is a measure against which the management of any activity can be assessed. Measurement against the indicator enables managers to assess how efficiently, effectively or cost-effectively the operation is performing. Variation in the value of the indicator should result in variation of business performance.

Performance measures provide a quantitative answer to whether you are reaching or exceeding targets. To provide measures, raw data must be collected and converted into a numerical unit by means of a formula. For example a target may have been set to reduce the proportion of customer complaints from 10% of total sales to 5% (the indicator). A formula to see whether this has been achieved would look like this:

$$\frac{\text{total number of complaints}}{\text{total number of sales}} \times 100 = \text{\% of complaints}$$

» ACTION CHECKLIST

1. Designate those responsible for the performance measurement system

This should include members drawn from all levels and areas of the organisation, who will be responsible for the design, implementation, management and review of performance measures. Appoint a coordinator (someone with project management experience who commands respect and can get things done) to oversee the system.

2. Ensure the support of employees

It is fundamental that senior management fully support the system from the outset. Without their support it will be more difficult to instigate change, and influence decision-making based upon the results of the measures.

It is equally important to win the support and cooperation of all other employees. Achieve this by explaining clearly why a performance measurement system is being introduced and the reasons for doing so. Highlight the benefits effective measurements will bring, emphasising it as a positive exercise. Show employees, for example, how performance measurement will help the organisation remain competitive and sustainable, and how the health of the organisation is linked to staff well-being. Be prepared, however, for negative reactions from some employees who may view performance measurement as a form of personal monitoring. Allay anxiety by communicating clearly, openly and honestly about the entire process, so as to gain buy-in from its inception. Provide an opportunity for employees to raise any concerns they may have.

3. Identify the activities to be measured

The selection of the right measures is crucial as the relevance of the results will depend on what is measured.

Questions which should be considered when deciding what and how to measure performance include:

› What do we do?
› How do we do it?
› What products or services do we provide?
› Who are our customers and stakeholders (internal and external)?
› What do our customers and stakeholders value?

Think about the activities which contribute to the achievement of organisational goals and are vital for success. Resist the temptation to focus solely on measures where you know that the organisation will score highly.

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The number of activities to be measured will vary but as a guide the key performance areas typically cover: finance; market; environment; operations; people; and adaptability. Avoid measuring too many activities for the sake of it – this will be time consuming and will simply create an overwhelming volume of results which could cause confusion and will be difficult to analyse and act upon. It is helpful to place activities in order of priority to ensure that the key drivers of success are acted upon first.

4.   Establish Key Performance Indicators (KPIs)

Once the activities to be measured have been defined it is necessary to identify what information is required in relation to each one. Consider what success actually looks like and decide what level of performance needs to be achieved. Consider the indicators that will best reflect the key success factors. It is necessary to establish a key performance indicator (KPI) for each of the critical activities selected for measurement

Good performance indicators are:

› realistic - they do not require unreasonable effort to meet
› understandable - they should be expressed in simple and clear terms
› adaptable - they can be changed if conditions change
› economic - the cost of setting and administering should be low in relation to the activity covered
› legitimate - they should be in line with or exceed legislative requirements
› measurable – so that they can be communicated with precision.

A period of observation may be appropriate if it is the first time an indicator for an activity is being established. Additionally, organisations similar to your own may be prepared to offer information on the targets they set - this can then be used to establish your own indicators. Once the indicators have been set, you will be able to identify the data that needs to be collected.

5.   Provide a 'balanced' set of measures

Linking measures to key success factors is critical to effective performance measurement, and introducing a balance of financial and non-financial metrics offers the flexibility to achieve this. A company's success is often judged by how it performs financially and traditional financial metrics are a valuable measure for senior managers and external stakeholders. However, it is not easy to capture some aspects of performance using financial measures alone. These include customer satisfaction, product quality and delivery times. For many employees, it is also easier to align personal objectives with operational and non-financial measures than with financial metrics, so this should help to gain valuable employee support for performance measurement. Use measures of both types to gain a complete picture of overall performance.

6.   Collect the data

Once the measures have been decided and agreed, the next step is to determine how the data will be collected and by whom. Ask yourself:

› What am I trying to measure?
› When and where will the measurement be taken?
› How accurate and precise must the measurements be?
› How often do I need to take the measurement?

For activities that are undertaken frequently it may be feasible to take a sample measure, say at every eighth event. In many cases the data required for performance measurement will already exist. There will be instances where an automated data collection system can or should be used to provide accurate data without the need for human intervention.

As appropriate, inform individuals when they should start collecting data and in what format it should be presented, e.g. in graphs, tables, datasheets or spreadsheets. All data should be passed to those responsible for analysis.

7. Implement the system with care

The introduction and launch of new performance measures is a major operation. To ensure a smooth launch and to minimise disruption make sure that adequate time and resources are provided and that detailed plans are made in advance. Communicate implementation timescales widely and ensure that everyone is fully aware of what is required. Carrying out a pilot or 'soft' launch can help to identify potential problems.

8. Analyse the data

There is little point collecting data unless it is analysed and acted on. It is vital that the data are analysed by people with the knowledge and skills to carry out the task accurately and effectively. Before drawing conclusions from the data, verify that:

› the data appear to answer the questions that were originally asked
› there is no evidence of bias in the collection process
› there are sufficient data to draw meaningful conclusions.

Once the data have been verified the required performance measurements can be formulated. This may involve the use of a spreadsheet if there is a large amount of data. The results of the performance measures should be compared to the indicator set for each activity.

9. Consider whether the indicators need to be adjusted

Once the indicators have been analysed consider whether any of the following apply:

› the activity is under-performing - the indicator should be left as it is, and the reasons for failure should be identified and action to remedy the situation should be taken
› variance is not significant - a higher indicator should be set to achieve continuous improvement
› the indicator is easily achieved - if indicators are not challenging, then continuous improvement is unlikely to be encouraged.

Consider how to adjust the indicators in order to gather meaningful data and put the necessary amendments in place.

10. Communicate the results

Summarise the data and prepare a report by following these steps:

› categorise the data and use graphs to show trends
› compare the findings with goals and standards
› ensure all performance measurements start and end on the same month or year
› adopt a standard format by using the same size sheets and charts
› add basic conclusions.

Share the findings of the report widely with internal employees as well as external stakeholders. Don't be tempted to gloss over negative results or worse still, ignore them. Communication needs to be consistent, timely, accurate and unbiased. Only then will performance measurement become credible and useful.

Choose the most appropriate communication channel to suit the audience – email, Intranet, newsletter, formal presentation or meeting, for example. Consider communicating positive results to suppliers or customers too

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as a promotional tool, e.g. 99% of customers rate the products as excellent. It may be beneficial to follow up on the distribution of data with a workshop to ensure that everyone understands the implications of the results.

11.   Take action

Identify areas for improvement and consider what steps may be needed to achieve it. Negative results may raise awareness of issues that may have been largely unknown, or confirm what was suspected. Positive results can also be built on to produce further improvements. Even good practice can be improved upon, so avoid complacency and utilise the results to continue to make innovative improvements. Discuss the need for changes with relevant individuals and groups, assign responsibility for actions, and monitor recommended improvements. Consider appointing champions or establishing small projects to bring about the improvements required. Equip employees with the tools and resources they need to achieve improvements, and consider whether training or development is needed.

12.   Continue measuring performance and evaluating the performance measures

The process of collecting data and analysing performance should be continuous. Goals and standards should be increased as performance improves, or adjusted as activities change. Measures will only be relevant for as long as the activity being measured remains the same. Aim to review each set of measures at least on an annual basis to ensure that they remain relevant. Consistency in the testing and measurement of different activities will help to track performance over time.

» POTENTIAL PITFALLS

Managers should avoid:

› failing to align performance measures with organisation strategy and objectives
› setting performance measures in stone - modify them as processes and activities change
› failing to act on the results of performance measurement
› underestimating the resources (staff and time) that measuring performance will consume
› introducing too many measures.

» ADDITIONAL RESOURCES

BOOKS

Measurement madness: recognising and avoiding the pitfalls of performance measurement, Dina Gray, Pietro Micheli and Andrey Pavlov,
Chichester: John Wiley, 2015

Six figure management method: how to grow your business with the only 6 KPIs you'll ever need,
Patrick M Georges
London: Kogan Page, 2013
This book is available as an e-book.

Beyond performance management, Jeremy Hope and Steve Player,
Boston Mass.: Harvard Business Review Press, 2012

Key performance indicators: the 75 measures every manager needs to know, Bernard Marr
Harlow: Pearson Education, 2012

Handbook of corporate performance management, Michael Bourne, Phillippa Bourne
Chichester: John Wiley, 2011
This book is also available as an e-book.

Delivering results: managing what matters, Lawrence P Carr, Alfred A Nanni
Dordrecht, The Netherlands: Springer: 2009

Key performance indicators: developing, implementing and using winning KPIs, David Parmenter
Hoboken NJ: John Wiley, 2007

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JOURNAL ARTICLES

Unearthing the sources of value hiding in your corporate portfolio, Marc Goedhart; Sven Smit and Alexander Veldhuijzen
McKinsey Quarterly, no 1, 2014, pp 127-131

Gauging performance in the service industry, Rajesh Tyagi and Praveen Gupta,
Journal of Business Strategy, vol 34 no 3, 2013, pp 4-15

Performance measurement and management systems: state of the art, guidelines for design and challenges, Paolo Taticchi, Kashi Balachandran and Flavio Tonelli,
Measuring Business Excellence, vol 16 no 2, 2012, pp 41-54
Checking up on people, Gareth Chick,
Training Journal, October 2012, pp 32-35

Strategic dashboards: designing and deploying them to improve implementation, Michael K Allio
Strategy and Leadership, vol 40 no 5, 2012, pp 34-31

Case study: ten thousand strong, Jeri Eckhart-Queenan, Jeri and Matthew Forti,
Business Strategy Review, Summer vol 22 no 2, 2011, pp 36-39

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RELATED CHECKLISTS

154   Implementing the balanced scorecard
180   Performance management

ORGANISATIONS

Centre for Business Performance
Cranfield School of Management, Cranfield, Bedford MK43 0AL
Tel: 01234 751122 Web: http://www.som.cranfield.ac.uk/som/cbp

Performance Measurement Association
Institute for Manufacturing, University of Cambridge, 17 Charles Babbage Road, Cambridge, CB3 0FS
Email pma@performanceportal.org Web: www.performanceportal.org

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»   NATIONAL OCCUPATIONAL STANDARDS FOR MANAGEMENT & LEADERSHIP

This checklist has relevance for the following standards:

- › Unit CA1 Identify and evaluate opportunities for innovation and improvement
- › Unit FE5 Manage continuous improvement

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