

Are you underestimating the performance measurement effort?

Stacey Barr Pty Ltd
the Performance Measure Specialist

ABN 57 129 953 635

PO Box 422 Samford
Queensland 4520 Australia

Mobile: 0408 883 458

staceybarr@staceybarr.com

www.staceybarr.com



Are you underestimating the performance measurement effort?

most people only see the tip of the performance measurement iceberg - and that's why their measures fail

by Stacey Barr

introduction

Models like the Balanced Scorecard, the Performance Prism, Triple Bottom Line, and so on offer various approaches for measuring different aspects of business performance. You may or may not be one of the organisations that have successfully put such frameworks to good use, ending up with a collection of useful and useable performance measures that you regularly and easily use in your decision making.

If you *are* one of those organisations, this article will likely confirm what you already know to be true about successfully measuring performance. If, on the other hand, you *aren't* one of those organisations, this article will give you some clues about what's really involved in getting a collection of useful and useable performance measures.



essential activities of performance measurement

If you want a collection of useful and useable performance measures that lead to improvement of performance, then certain things must occur. You must:

1. decide on what you should measure and how you will measure it;
2. identify and collect the data for those measures;
3. make the data available to those people and systems that will analyse it;
4. summarise and analyse that data to turn it into performance information;
5. communicate that information to the people who will use it to make their decisions;
6. interpret that information so implications for the business are understood; and
7. use that information in deciding what actions to take to improve performance.

These seven activities describe the process that brings performance measures to life. How many of these activities have you been aware of in your business? Do you know who the departments and people are that contribute to these activities? Do you have a good idea about the kinds of resources that are needed to properly perform these activities? Do you appreciate how much time and effort is involved in properly performing these activities?

Performance measurement frameworks (such as the Balanced Scorecard) give you a hand with some of the first activity, deciding on what you should measure. But it's unlikely these frameworks would have even acknowledged any of the other six activities essential to bringing performance measures to life. Unless you already have processes, skills and resources allocated to the other six activities, these frameworks for selecting measures probably didn't get you any further than having a document that listed, and maybe defined, your 'Key Performance Indicators'. Hardly enough of a return on all the time and effort and money you invested with the expectation of having quality performance information to help you manage your business. But don't throw the towel in yet. If you have gotten this far, then whatever you have is a foundation for improvement. Improvement of your organisation's performance measurement process.

performance measurement is a process

The seven important phases of the performance measurement process all play a critical role in the value that performance measurement can bring to your organisation. These seven phases flow together in an ongoing cycle of measuring, monitoring and applying performance measures. PuMP® is the name for this system of seven phases of the performance measurement process, and each phase is explained below, along with the typical activities that are needed.

phase 1 SELECT: choose & define what's worth measuring

Choosing and defining what's worth measuring for your organisation involves:



- *Decide what specific results should be measured.* Usually these things are decided through the strategic and operational planning processes and end up being written as critical success factors, or objectives, or goals or priorities. The language will depend on your organisation.
- *Design measures that give the best evidence of those results.* Brainstorming, just seeing what you can do with the data you already have, measuring what you've always measured, benchmarking to find what others measure and hiring consultants to tell you what to measure are all approaches you want to avoid, at least until you have really thought through the kind of evidence that will let you know the degree to which your results have been achieved.
- *Define performance measures to specify the operational details of how to bring them to life.* For each measure, before you can bring it to life, you need to formulate how it is calculated, identify the data you need, decide its reporting methods, define its signals and agree how to take action, know who is best to own it.

phase 2 COLLECT: gather data which has integrity

The process of collecting performance data is critical to its integrity and can be very resource intensive. It's worth giving serious consideration to how you will go about it, so it you data can be "fit for purpose". This phase can often involve the following activities:

- *Define the data requirements for a collection of performance measures you want to report.* Extract from the measures' definitions the specific items of data, where the data is and how to extract it. It's like an action plan for gathering the data that will go into the performance report.
- *Design, improve and implement data collection systems to optimize data availability and integrity.* Not all the data you need for your measures will be available, and even if it is, it might not be accurate or reliable enough. Designing data collection systems is a fairly big task and to do it without great waste and cost, expert knowledge or assistance should be sought.

phase 3 STORE: manage the data so it's quick and easy to access

Where and how you store your data directly determines what data you can access, when and how quickly you can access it, how easy or difficult it is to access and how much cross-functional use you can get out of it. To avoid the pitfalls of assuming that data is easy to get your hands on, know that the following activities will likely be needed in bringing your measures to life:

- *Use a data referencing model to make data management cost effective & enable cross-functional use of data.* A data referencing model maps out how individual data items are named and organised in your database systems. Your organisation's IT department may already have a data referencing model, and if so, it will help you find and extract the data you need for your measures. If they don't have one, then you'll need to help them out by explaining your measure definitions to them, so they can get more information about how to design database systems that will better serve your information needs.
- *Extract, integrate and prepare data for analysis.* There are some business intelligence systems that can automate the calculation of your measure values for

you. However, most database systems are so complex that you can't just pull your performance measure values straight from them. You often need to extract the subset of data you need (e.g. by running queries), and organise this subset in a spreadsheet where you can create your measure values yourself. When you are bringing different sources of data together, a challenge can be no obvious way to link your data together (e.g. trying to link employee training records with their years of service without having a unique employee number to match the two sources).

phase 4 ANALYSE: turn the data into information

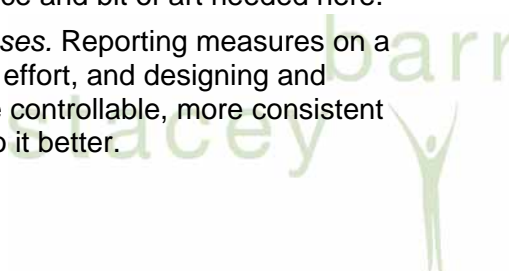
Analysis turns raw data into information. Make sure it's the most appropriate information by adopting the simplest analysis approach that can produce the information in the form required to answer your driving questions. Analysis activities usually include:

- *Choose analysis techniques that produce performance information that answers driving business questions.* You need to be able to clearly articulate the questions you designed your measures (in phase 1 SELECT) to help you answer, because that's the key to choosing the right analysis method. Don't create totals for each department of your organisation if your question is about change over time. Instead you'd need totals by week or month so you can examine the time series.
- *Apply analysis procedures to raw performance data.* Working again with your spreadsheet, this means summarizing your raw data into totals or averages or ratios for each time period, such as week or month. It might also mean performing some analysis on this summary data, such as a correlation analysis, trend analysis or statistical process control.

phase 5 PRESENT: effectively communicate the information

In communicating performance information, you are influencing which messages the audience focuses on. Take care to present performance measures in ways that provide simple, relevant, trustworthy and visual answers to their driving questions. Activities like the following are usually involved:

- *Design graphs that facilitate interpretation and decision making.* Spreadsheet software, like Microsoft Excel, doesn't really know what is the best thing to do with your performance measures. So its default charts are not something to take for granted. For example, use line charts for trend information, use bar charts for comparisons between things like departments, use Pareto charts to focus on the biggest reasons or causes.
- *Design and develop performance reports for the owners and audiences of performance measures.* Reports shouldn't just contain the measures. They need to contain all the information that the audience needs to understand the context of the measures, how to interpret what the measures are saying, and how to respond to what the measures are saying. There is a bit of science and bit of art needed here.
- *Design and implement performance reporting processes.* Reporting measures on a regular basis (like weekly or monthly) takes time and effort, and designing and mapping the process that does this can make it more controllable, more consistent and more able to be improved as you learn how to do it better.



phase 6 INTERPRET: translate the information into implication

Interpreting your performance measures means translating messages highlighted by performance information into conclusions about what's really going on. To turn information into implication, you must discern which messages are real messages (e.g. when a trend is really a trend). Two activities are important at this step in the performance measurement process:

- *Define guidelines that signal which differences in performance results are real and which are not.* Traditional approaches like comparing this month to last month are dangerous. They often lead to over-reacting to trends that just aren't there, or under-reacting to trends that are small but very significant.
- *Draw conclusions about performance results to decide if action is needed (or not).* Organisational protocols on how to prioritise which performance results need attention, and which need to be left alone, are very important to develop. Scarce resources and time quickly passing through the hourglass mean we have to be very deliberate and focused in how we spend our action.

phase 7 APPLY: decide how implication will become action

When you have worked out what is really going on with your organisation's performance, you are ready to make some decisions about what to improve, how much to improve it by and how to do that improving.

- *Design decision making processes which make effective use of performance measures.* If your decision process doesn't make obvious and effective use of performance information, then it needs some fixing.
- *Identify the root causes of performance results (getting deeper than the symptoms).* Having the skills and approaches and tools for root cause analysis is what will make the difference between reducing the symptoms of a problem that keeps recurring, or fixing the problem for good.
- *Set performance targets that encourage sustainable improvement.* Target setting is much more than just plucking a number from thin air (or any other place). The goals for improvement that you set need to motivate those that will do the improvement, need to be a worthwhile return on the effort and time that will be invested to achieve those goals, and need to be easy to maintain once the goals are reached.
- *Use performance measures to link the improvement cycle back to the planning cycle.* A feedback loop is needed, via using measures in decision making processes, to check if investments in improvement action are really working to achieve the results set out in your organisation's plans.

Lots of people don't realise that performance measurement is as complex as this, or that each of these activities really does affect the value that performance measures can bring to your decision making. But after all, it comes down to the last bullet point above – without performance measures that really work, you just can't get better at creating the results you really want to.

if you aren't treating performance measurement as a process...

If any of these activities is missing or not performed effectively in your performance measurement process, you're probably sacrificing one or more of the principles of excellent performance measurement:

- Without thinking carefully about which measures to select, you'll risk having measures that aren't relevant to your purpose or don't help you understand the causes of current performance results.
- Unless you carefully plan your data collection and storage, integrity of your performance measures is almost guaranteed to be compromised which can bias or derail your decision making.
- Inappropriate analysis leads to misinterpretation of the messages the data really contain, and therefore you won't be interpreting your performance measures well enough to get all the important information they can offer.
- Poor presentation can mislead or complicate decision making, resulting in more time spent on debating the information as opposed to understanding causes and identifying potential solutions.
- Unless you think about how the measure should be interpreted and acted upon, you might end up driving the wrong kinds of behaviours in staff and managers, encouraging them to manage the numbers as opposed to managing the outcomes.

The obstacles in your way of making performance measurement really work for you are buried in any or all of the seven activities of the performance measurement process. Getting better at measuring performance means looking at your own unique measurement process - as it is now - and searching for clues about what those obstacles are. They won't be the same for every organisation: we all have our own individual strengths and opportunities to improve. But no matter which organisation, these obstacles *will* be found in the activities of your measurement process.



about the author

Stacey Barr is a specialist in performance measurement, helping people to move their business or organisation's performance from where it is, to where they want it to be.

Sign up for Stacey's free email newsletter at www.staceybarr.com to receive your **complimentary copy of her e-book** "202 Tips for Performance Measurement".

