Do You Listen to Your Performance Measures?

Performance measurement isn't about justification, it's about improvement.

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Overview

A management team distributes themselves around the board room table, the ritual of the monthly performance management meeting begins. Before too long, the first performance measure in the monthly report is under their scrutiny. It seems that supply costs have increased and now the procurement manager is under scrutiny. He deftly deflects the result with the explanation that a major supplier upped their prices. On to the next measure, and it shows that unfinished work is climbing. The operational manager takes his turn in the CYA game…

The typical organisational performance review meeting.

There is a selection of behaviours we often see in those meetings where an organisation's management teams will get together to review their performance results. Often amongst these behaviours you will see several of the following:

- relying on subjective information to conclude performance results e.g. "well I think costs really have improved because people are being more careful with their purchasing" or "our call centre is flat out at the moment, so sales must be up" or "a customer called just last week and raved about the outstanding service we gave her"
- the performance report lying closed in the pile of papers for the meeting, no time left to review it as (supposedly) higher priorities always come first. e.g. the financial profit and loss statement for the month, the progress of the very exciting and very expensive new IT system, a customer complaint that the Chairman of the Board or the Director General received and wants followed up as priority number one (or heads will roll)
- most of discussion centred on the explanation of individual points of data or the differences between individual points of data e.g. "costs are down this month from last month" or "compared to this month last year, our sales have dropped by 12%" or "what happened last quarter to make customer satisfaction drop by 3%?"
- explanations that usually place the reason or blame on what is outside of managers' control e.g. "well we had expensive equipment break down and we had to replace it" or "our competitors had a promotion that took sales away from us" or "recent stories in the media have put our industry in a bad light, so customers aren't as happy"
- actions to address performance shortfalls that most often revolve around either changing resource levels or educating people e.g. "we have to educate the sales people in how to convert more calls into sales" or "we have to put more money into the marketing budget"

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These behaviours have evolved over many decades, and have become the norm in too many organisations that have probably lost site of why they need performance review meetings in the first place.

The purpose of organisational performance review meetings.

Do we have performance review meetings to manage the performance of managers? To use the organisation's performance measures to seek out which managers are not pulling their weight and thus need to be humiliated, denigrated and reprimanded? I recall one manager I met years ago asked me to help him establish some performance measures for staff productivity so he could "put the wind up them" when staff weren't working hard enough. No prizes for guessing what kind of culture this creates in the management team: they are fearful, defensive, even to the point of distorting the data to prevent the pointing fingers from landing on them.

And what happens to the organisation? It slips into what Peter Senge (author of The Fifth Discipline: The Art and Practice of the Learning Organisation) would probably call a "shifting the burden" dynamic. The problems of organisational performance manifest symptoms like costs rising or revenue decreasing or profit becoming unstable. But because of the poor way in which performance results are interpreted and discussed and responded to (that is, misinterpreting the data, pointing the finger, choosing ineffective solutions), the symptoms are only improved in the short term. Costs might reduce for a little while as spending slows down, but start rising again later when inventory levels drop too low, or equipment starts wearing out and breaking down. Revenue might pop up for a couple of months following a training program to motivate the sales team, but returns to even lower levels than before when word gets out about the hard-sell tactics of the company. And chaotic patterns in profit ensue.

But it gets worse. The longer this dynamic stays, the worse things will get over the longer term. The root problems are never uncovered and therefore never properly solved. And the culture of misinterpretation of data, blame and denial perpetuates a growing pile of problems swept under the carpet, to worsen and manifest in organisational performance problems.

But do we really have performance review meetings to manage the performance of managers? Or is it that we have performance review meetings to manage the performance of the business, not the people? If performance data and information was used to evaluate organisational performance, and not the managers, what could happen?

The traditional organisational manager might first think "Well, managers would no longer be accountable for their results, and therefore they won't deliver the best results for the organisation!" But when performance data and information is used to hold managers accountable, we've already established that it is very likely that they won't deliver the best results for the organisation. They will more likely use performance data and information to justify their decisions and actions, and will be less likely to use it to show where the problems are that really need fixing.

The purpose of organisational performance review meetings has to be about finding out how to make organisational performance improve. That's the bottom line. It can't be about trying to show that whatever a manger is doing is the only thing he/she can do. The attention needs to come off the individual and needs to be firmly fixed on the true organisational results. Rather than manipulating the performance data and information to tell the story that will protect us, we need to listen to what the performance data and information is really trying to say about the organisation.

What performance measures are really trying to say.

One way of thinking about the kind of information that performance measures can give us – well designed performance measures, that is – is that they answer two fundamental questions:

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Question 1: are things getting better, worse, or staying the same?

Question 2: why?

The first question is about patterns of change over time. It is not about what happened this month compared to last month. It's about what shifts and trends and changes in variability have been occurring through time. Answering this question means discovering which organisational performance results really do need attention and action.

The second question is about the causes of those patterns of change over time. The root causes. The clues about what needs to be changed or fixed to produce a long-lasting improvement in the organisational performance result they causes are currently sabotaging.

To answer these questions, our performance measures do need to be relevant to and representative of the organisational results that matter most, they need to be graphed in a way that they can answer these questions validly, managers need to know what signals to look for to correctly interpret them, and the management team needs to be capable of discussing those results with a view to successfully fixing the root causes. And what would it look like, to be listening to what the performance data and information really have to say?

The constructive organisational performance review meeting.

When a management team is really listening to their performance measures, they adopt behaviours like:

- rather than relying on subjective information to conclude performance results, they are using objective performance information such as well-designed measures and rich qualitative analysis e.g. time series or run charts are used to display the shifts and trends in costs and sales, and market research which provides quantitative estimates of customer satisfaction and qualitative descriptions of the attributes that matter most to customers, from a random and representative sample

- rather than the performance report lying closed in the pile of papers for the meeting, the performance report dictates the structure of most of the meeting, setting the priorities for which initiatives and projects are most important to review
- rather than most of discussion being centred on the explanation of individual points of data, managers are focusing on noticing and understanding patterns e.g. "costs have been consistently declining over the past eight months, and we are expecting it to level out now at around $350,000 per month" or "sales typically vary between $1.2M and $1.7M per month, and this month shows no sign of change from this" or "customer satisfaction shows a numerical reduction of 3%, and the market research report explains that this is not a statistically significant difference"
- rather than placing blame or reason on what cannot be managed, discussion is about the causes of patterns of change, and the influence management can have on the effect of the root causes e.g. "costs have come down because we have taken rework and complexity out of our procurement process" or "sales aren't changing because the market feels our products are of poorer quality than our competitors" or "if we want customer satisfaction to improve, the market research says that our priorities are to shorten delivery cycle time and keep our customers better informed about their orders"
- rather than solutions revolving around either changing resource levels or educating people, actions are devised from openly exploring a range of potential solutions that directly relate to the root causes e.g. "training sales staff won't fix the root cause of the perceived poor quality of our products" or "in what ways could we potentially shorten our delivery cycle time?"

These behaviours are indicative and if you were to spend another ten minutes thinking about how your performance review meetings could improve, you'd no doubt be able to add some additional constructive behaviours to this list. But it should still come back to that basic reason of why you need performance review meetings in the first place: to improve organisational performance.

References and further reading.

"The Fifth Discipline: The Art and Practice of the Learning Organisation", Peter Senge, Random House Australian Pty Ltd, 1992

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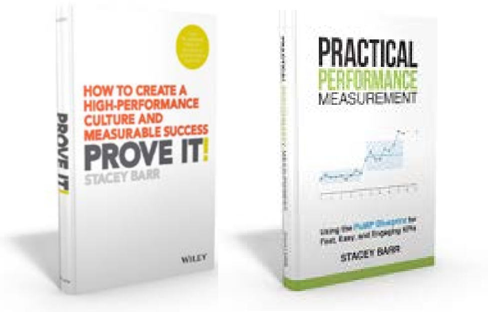
About the author

Stacey Barr

Stacey Barr is a globally recognised specialist in organisational performance measurement. She discovered that the struggles with measuring business performance are, surprisingly, universal. The biggest include hard-to-measure goals, trivial or meaningless measures, and no buy-in from people to measure and improve what matters. The root cause is a set of bad habits that have become common practice.

Stacey created PuMP®, a deliberate performance measurement methodology to replace the bad habits with techniques that make measuring performance faster, easier, engaging, and meaningful.



Stacey is author of Practical Performance Measurement and Prove It!, publisher of the Measure Up blog, and her content appears on Harvard Business Review's website and in their acclaimed ManageMentor Program.

Discover more about Stacey and practical performance measurement at www.staceybarr.com.

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