Seven Principles for Performance Measurement

What is excellent performance measurement really based on?
Overview

There are seven principles which are the criteria that define excellence for performance measurement. By aiming to achieve them as outcomes of your performance measurement system, you’ll ensure that the information you create for managing your business will be truly useful.
Performance measurement needs to be based on principles.

Principles are beliefs, codes or morals used to guide behaviour. Principles bring consistency and predictability to whatever they are applied to. They are not rules, they are not prescriptive actions and they are not truths. They give you a direction and an intent. The actions for heading in that direction or fulfilling that intent are up to you.

The seven principles of performance measurement describe qualities that performance measures should have if they are honestly going to be useful:

1. have a clear purpose
2. think systemically
3. align with processes
4. drive the right behaviour
5. build in integrity
6. understand variation
7. integrate with decision making

Without these principles, performance measurement systems often end up with limitations and problems like these (do you recognise any?):

- a financial bias that does not reflect all of the important areas of business performance and therefore little capability to manage proactively;
- giving you “too late to act now” information that tells you what has already happened rather than preparing you for what is yet to happen;
- encouraging you to tamper with performance, to make hasty, ad hoc and localised changes to your business processes based on insignificant changes in performance measure values and trends that aren’t really there;
Seven Principles for Performance Measurement
WHAT IS EXCELLENT PERFORMANCE MEASUREMENT REALLY BASED ON?

- leading you down a sub-optimisation path of achieving performance improvements in a few small areas which end up sabotaging the success of your business as a whole;
- driving the wrong kind of behaviour in employees and suppliers by encouraging them to meet local and meaningless targets instead of striving to achieve, sustain and elevate business success;
- with measures that lack integrity as a result of poor quality data, inappropriate analysis, misleading presentation or invalid interpretation;
- with measures that never take an active role in the actual decision making they were intended for (if they do take an active role, it’s usually to kick butts or to put the wind up someone or to make heads roll).

While you take a closer look at these seven principles, you may like to ponder the degree to which your own existing performance measures emulate them.

Principle 1: Have a clear purpose.

Use performance measures to give you objective evidence of the results that either define or lead to success for your business so your attention can effectively stay on what matters most in achieving, sustaining and elevating that success.

Performance measurement, like any other management activity, consumes resources. Having a clear purpose is the first and foremost principle to apply if you want a measurement system that is both fit for your purpose and gives you an acceptable return on the resources you invest in building it, maintaining it and using it.

In addition, having a clear purpose for each performance measure you create sends a strong message to everyone about the priorities for managing the success of the business.

An excellent performance measurement system will directly describe the purpose of your business in the language of observable results. Observable results are the things that you, or other stakeholders, can see, hear or feel as evidence of what is really happening in the business.
You may have expressed your business's most important results through the following elements of your business plan:

- vision, mission and values;
- current priorities;
- objectives and goals;
- critical success factors;
- customer expectations;
- employee expectations;
- shareholder expectations;
- supplier relationships; and
- values of the wider community.

As so many have said already, **you are what you measure.** The corollary: measure what matters.

**Principle 2: Think systemically.**

When you create, interpret or use a performance measure, think carefully about the unintended consequences that could result from using it, such as impacts on other areas of performance and especially for the success of your business as a whole.

When you make a change in your business with a particular result in mind, you often find that other results are affected as well. Sometimes these other results are also undesirable, such as inadvertently increasing vehicle breakdowns as a result of trying to maximise vehicle service availability – when a vehicle is made more available for service, it is essentially made less available for routine maintenance.

Other times, these other results could have been exploited to get even greater gains for your business, like discovering that increasing productivity could also have been an opportunity to take on some innovation projects instead of making experienced and knowledgeable people redundant or giving them ‘the sack’.
And then there are the times when, with a particular result in mind, you establish targets for achieving that outcome without really knowing what you are capable of achieving. You can end up wasting a lot of time, enthusiasm and money chasing performance targets unless you understand your system’s performance capability and specifically what needs to change to increase that capability to the targeted level.

Unless you are thinking systemically when you choose and use your performance measures, it’s on the cards that you will:

- waste resources;
- cause long term problems for the sake of some short term gains;
- throw other areas of performance into chaos;
- unnecessarily limit your performance potential because of sub-optimisation;
- not end up with the net performance result you wanted.

Systems thinking is important when you want to understand how to change the capability of a system that is governed by such a multitude of complex interactions. Systems do not function in a linear way, where “this causes that and that’s that”, so linear (or logical) thinking is effective only up to a point.

In a business system, for every decision you make or action you take, there is an effect on the whole system, however slight or insignificant or however monumental. This effect will influence the area of performance you are making the decision about. It will also influence related areas of performance and the outcomes of your business as a whole.

By appreciating the dynamic (i.e. active, not static) interconnections among performance results when you choose and use performance measures, you can avoid unintended outcomes and effectively manage your business to get all the performance results you want. You will have holistic performance measures.
Principle 3: Align with processes.

Use your business processes as the framework for defining measures so you can translate your desired performance results into direct and appropriate action.

If you’re measuring performance because you want to know what and when to improve, then you may also be interested in exactly where to make improvements. It’s fine to know that you need to reduce cycle time, but unless you know exactly where in your business you can get the most leverage to reduce cycle time, your measures are only partly useful. However, if your measurement system is based around your business and work processes, all you have to do is follow the linkages between your performance measures until you arrive at the interactions, activities or decisions that offer you that leverage.

Processes give dynamic energy to your business system. They are the flows that bring to life the multiplicity of interconnections of the functions of your business. Processes are the key to understanding where overall system performance must be improved. Without aligning your performance measures to processes, you’ll probably find that:

- performance measures have no apparent or clear linkages to one another (therefore they are used independently of one another – with unintended consequences the result!);
- you don’t know where to start doing performance improvements (or you use only gut feel, intuition or your own experiences in deciding where to make improvements);
- people will be “covering their bums” because poor performance means a kick in the hind quarters;
- ad hoc investments and changes that seem like the most obvious way to solve performance problems often end up delivering far less than anticipated;
- reorganisation and downsizing seem like the best options for improving bottom line business results;
- reorganisation and downsizing don’t seem to deliver the improvements expected.

With the concept of process measures comes the concept of lead and lag measures. Lag measures tell you whether you are achieving your desired performance outcomes by measuring the outcomes of a process (also called “after the event” measures). Lead
measures give you clues about what is likely to happen before it does. Lead measures do this “prediction” by measuring the factors or activities that significantly influence process outcomes (and therefore the lag measures).

The closer you get to measuring the root cause of performance results, the better your lead measures will be. You may already realise that a lag measure from one process (such as a measure of customer satisfaction from a repair service process) can be a lead measure for another process (such as a measure of market share resulting from the marketing process).

Principle 4: Drive the right behaviour.

Create measures that will encourage the kind of behaviour that improves business performance, rather than just the numeric value of the measure, by showing people how they can control or influence performance by managing the driving factors.

People know that many business decisions are driven by performance measures. Because their lives are affected by these decisions, people will make choices in what they do and how they do it to influence the numerical values of performance measures, irrespective of how other things might be affected. They will behave in a way that they believe will get them rewards (or avoid punishment), either by working hard to influence the performance measures or by influencing the data that generates the performance measures. What you punish and reward powerfully determines the results you end up with.

And it doesn’t matter whether you’re talking about employees, managers, customers or suppliers – we’re all people and we can all be involved in the development or use of performance measures.

Measures can drive a lot of different kinds of behaviours from the people that are affected by them. In response to performance measures, people might:

- ignore them completely and go about business as usual (because “it’s just another one of management’s wasted attempts to change everything”);
Seven Principles for Performance Measurement
WHAT IS EXCELLENT PERFORMANCE MEASUREMENT REALLY BASED ON?

- be selective about the data they collect and report on (e.g. filtering out the really bad stuff or the problems that they fixed at the point when it happened);
- analyse the data to death until it tells the story it “should” tell;
- present the data in ways that distort the picture to look better or worse than it really is;
- work really hard on their process or procedure to make the performance measure data trend in the right direction, even to the expense of other processes or procedures or performance results;
- seek to understand the purpose of the measure and related areas of performance in order to make improvements to the whole process.

The performance measures you choose would ideally encourage the last behaviour, because this is the only behaviour that will ensure your performance measure’s purpose is fulfilled (i.e. performance improvement). Unfortunately it is all too easy to develop measures that encourage all the others.

If you want to drive the right behaviour, then you have to behave right first.

Principle 5: Build in integrity.

Ensure that your data and measures are valid (both intuitively and statistically) by being unbiased, accurate enough and clearly defined for your purpose.

You depend on the quality of data and information to provide a stable foundation for your decision making. Decision making often involves responding to something, so you need your data to validly describe what your are responding to so that you choose the right responses.

Unless you take the time to build integrity into the collecting, analysing and presenting of your performance measurement data, you run the risk of drawing conclusions that are not valid. The consequences of drawing invalid conclusions are many and varied:
Seven Principles for Performance Measurement
WHAT IS EXCELLENT PERFORMANCE MEASUREMENT REALLY BASED ON?

- losing the commitment of the people “on the front line” that see what really goes on and how the business is really performing;
- making your decision making complex and confusing;
- risking your credibility with your peers (both inside and outside your organisation) because of the inconsistent results you get from the decisions you make;
- wasting resources fixing things that ain’t broke, or not investing resources where they are really needed; and
- virtually never achieving the outcomes you really want to achieve.

Whether your data is quantitative (based on numbers) or qualitative (based on perceptions), it’s integrity depends on five widely recognised qualities:

<table>
<thead>
<tr>
<th>Quality</th>
<th>Description</th>
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<tbody>
<tr>
<td>relevant</td>
<td>the data you have selected is directly appropriate to the purpose of the measure for which it is collected (i.e. it answers the right question)</td>
</tr>
<tr>
<td>representative</td>
<td>the collected data are observable events or characteristics that describe the full scope of what the measure is supposed to be measuring (i.e. it is unbiased)</td>
</tr>
<tr>
<td>reliable</td>
<td>the level of accuracy and precision of the data is fit for purpose and remains this way as you continue to collect, store and analyse the data over time</td>
</tr>
<tr>
<td>readable</td>
<td>the presented data is clearly defined, makes sense to its user and they can easily interpret it</td>
</tr>
<tr>
<td>realistic</td>
<td>the data is relevant, representative, reliable and readable within reason (i.e. the value you get from using it is greater than the effort you invested in getting it)</td>
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Principle 6: Understand variation.

Take account of all the variation in performance levels when you interpret your measures to decide if and when you need to do something about it (as opposed to reacting to changes and trends that aren’t really there).

Unless we have a good grasp on what variation is, we run a very high risk of misinterpreting our measures. The result is over-reacting or under-reacting to changes in performance. Particularly when it comes to predicting the most likely future levels of performance, an understanding of variation is nothing short of essential.

In general, not understanding and effectively managing variation leads to:

- concluding a trend exists when in fact there really isn’t one;
- not seeing a trend that is actually there;
- wasting resources on “poor performance” which is actually still within the range of normal performance;
- performance worsening as a result of not taking action when it really was needed (and therefore having to spend more resources because the problem is now harder to fix);
- increasing variation in performance by constantly changing things in a desperate attempt to control performance (therefore increasing chaotic behaviour and decreasing predictability).

Variation is used as a statistical term to mean uncertainty, a natural phenomenon that affects all areas of performance (and our lives). The factors which drive statistical variation in performance are the factors you need to control in order to improve performance. If you don’t understand what causes the ongoing variation in your performance, then you really don’t know how to control performance. In fact, you may end up tampering with performance in a way that increases variation.

Tampering is a name for the process of reacting to short term or phantom trends or differences. If performance goes down this month from last month, you will assume things
have gotten worse and you will act. If performance goes up this month from last month, you will assume things have improved and you won’t act.

Tampering basically means that you are messing around with your business, wasting resources and making performance worse without realising it.

- over-reacting by interpreting a trend that isn’t really there
- under-reacting by not seeing a pattern that actually is there

Tampering actually increases variation because you end up constantly changing the inputs in an attempt to control something that is actually happening pretty much at random. With your inputs going all over the place, what else could your outputs do but vary even more?

The exclusive use of “% variances” will ensure that tampering continues to dominate the method of management in your business. On the other hand, if you measure statistical variation, you can distinguish the times to act from the times to leave well enough alone. When you can distinguish which variation to respond to, you can then identify the critical few factors to manage so you can get control over your performance without wasting resources.

Principle 7: Integrate with decision making.

Design your measurement process so that it provides the most useful information in the most useful way to explore questions, analyse options and make decisions.

A measure is meaningless unless it is used to make some kind of improvement or change. Performance doesn’t always change just because you are monitoring it. You often have to do something with the information, such as make decisions about what, when and where to improve, and who will do it and how.

Without integrating performance measurement into your decision processes, you could end up:
Seven Principles for Performance Measurement

WHAT IS EXCELLENT PERFORMANCE MEASUREMENT REALLY BASED ON?

- doing nothing toward improving your business success;
- rationalising and making excuses for performance results (i.e. disproving performance rather than improving);
- protecting your bum from some executive’s glossy black shoe;
- missing out on improvement opportunities.

Decision making is both art and science, involving many different skills, talents and techniques. John Adair, in his book Effective Decision Making, puts forward a simple but timeless model for making decisions:

Figure 3.8: John Adair’s decision-making model

Measures of performance take a very strong role in the steps of sense effects, collect information, evaluate and decide, and monitor consequences.

So to make sure the performance measurement rubber hits the road in your organisation, you need to have a decision process for reviewing and improving business performance, and be very clear how performance measures are used in that process.
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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