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PERFORMANCE MEASUREMENT

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Embracing performance management

Johnny Gifford, Research Adviser at the CIPD – the professional body for HR and people development, gives thought to the complex factors involved in achieving performance management with purpose...

Few things are solved by a silver bullet, but performance management stands out in this regard. Even a revolver full of silver bullets wouldn't guarantee you'd got it covered.

The purpose of performance management has been described as establishing 'shared understanding about what is to be achieved and... ensure that it is achieved'.[1] Sound all encompassing and slightly nebulous? It can be. It's certainly far broader than a line manager running through an annual appraisal form, or even taking a member of staff to one side to discuss their under-performance.

Instinctively, we know this is true. We don't expect an organisation's performance to be sorted simply by virtue of a discrete management system. We need processes in place to help employees develop the right capabilities and get them to buy in to the vision of the organisation. Line managers need sufficient time and resources to support their teams and ideally, should be given the authority to ensure they are realistic. If not, performance runs the risk of being short lived, as systems crack and individuals buckle under pressure.

Performance management has a lot in common with employee engagement, an increasingly common focus of people management. The notion of engagement describes employees who are not only willing to go the extra mile, but have the physical well-being and energy to be able to do this and – equally important from a performance lens – are going the extra mile in the right direction. In other words, as the MacLeod Report[2] puts it, they see the 'line of sight' between their role and the organisation's purpose and strategy.

But while there is no simple answer for how to 'do' performance management, I would single out the following guiding principles.

The opportunity to discuss aims and targets is important not only to develop shared understanding but also to help shape them. This may be a question of avoiding unrealistic targets that set you up for failure, but equally it can be a way of stretching targets and being more ambitious. If teams and individuals are given ownership of targets by being involved in setting them, they take more responsibility for their performance and often aim higher.

Focus on leadership at all levels

Leadership development should not be the sole preserve of a selected few at the top of the organisation. At any level of the organisation, people managers should not be dishing out orders, so much as helping their reports live and breathe the overall aims and deliver on their personal objectives.

A holistic approach

We should recognise that performance management is not an isolated activity that can be clearly delineated. The implications are far reaching, affecting our day-to-day conversations and business planning, as well as the more obvious aspects like appraisals. We also need an integrated approach, as pulling a lever in one area can affect performance elsewhere. This can be the case either negatively, with unintended consequences, or positively, taking the opportunity to build shared purpose or cross-departmental collaboration that benefits different aspects of the organisation.

Performance management systems are undoubtedly an important strand, for example, helping ensure poor performance is picked up and addressed. Well constructed systems will also include support both for line managers (for example, training on giving feedback on performance) and reports (for example, stress management courses). But no matter how good the design, we also need to recognise that performance management relies upon regular interactions, not just periodic reviews of targets.

There is a perennial temptation in performance management to fall back on what Douglas McGregor called a 'Theory X' view of the world, adopting a do/tell, command-and-control style of leadership.3 For most employees in most situations, we are far better working to the 'Theory Y' assumption that the role of managers is to inspire and support, rather than dictate. This does not deny the existence of certain non-negotiable objectives, or the need to hold people to account. But in today's climate, employers are invariably looking to do more with less and get employees to contribute more widely to the performance of the organisation. It is hard to see how this will be done sustainably if people are treated like robots. ∎

[1] ARMSTRONG, M. and BARON, A. (2004) Managing performance: performance management in action. London: Chartered Institute of Personnel and Development.

[2] See: www.engageforsuccess.org/ideas-tools/employee-engagement-the-macleod-report/#.U2zWEdtwbow

[3] Douglas McGregor (1960) The human side of enterprise.

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PERFORMANCE MEASUREMENT

'Not another change initiative but a way of recognising achievement, managing risk and motivating employees to succeed.'

INTRODUCTION

It is a fact that *"what you cannot measure you cannot manage"*, however it is also true that a poor implementation of a measurement system can be demotivating for those involved, promote the wrong behaviour and in many cases sub-optimise business performance.
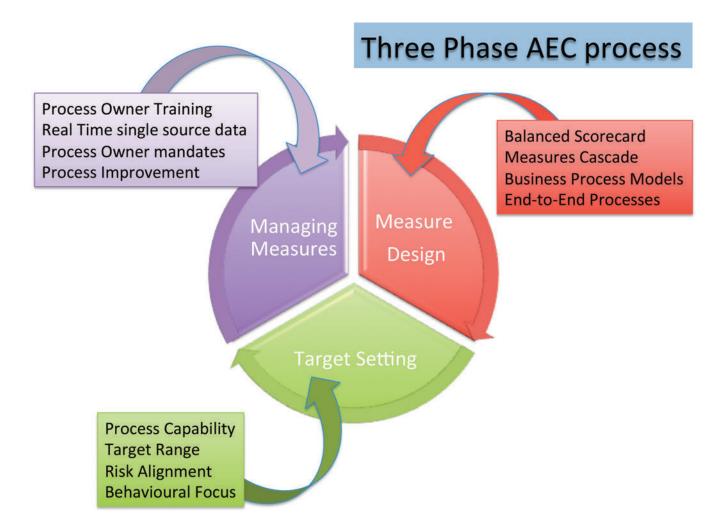
We can all point to areas in our lives where being measured incorrectly was not conducive to driving the right behaviour to improve both our own performance and that of the business. The reason for this is the psychology of Performance Measurement. While striving to achieve the measure, if the measure is wrong and it creates in appropriate behaviour, it demotivates us as a result and business performance dips.

By not considering the overall holistic business process model a business can miss the fact that measures need to be addressed from a cross-functional process point of view. It is easy to design a system that is both too complex and focuses on the silo measures under departmental or management control rather than overall end-to-end process control. A classic example of this would be procurement, which in all businesses, local government and private sector is an end-to-end process across all departments irrespective of their role inside the business. Starting with suppliers, sourcing and negotiating prices and services, receiving goods and services and paying a supplier, normally at least 3 or 4 departments are involved in this process. For example you can measure the performance of finance based on cash flow, by measuring

increasing the number of days before you pay a suppliers invoice. Optimising this measure inside finance, accounts payable can be completely counter-productive to purchasing negotiating new rates, costs and service delivery performance with suppliers who are now being paid later; let alone build win-win supplier relations.

Even before designing and implementing systems, understand performance in behaviour terms. From a human perspective there are three elements to performance; two of them relate to knowledge, the first relates to the basic business context, the second relates to your specific job knowledge and how you apply your personal skills to developing and implementing that within the business.

The third element that defines performance is motivation, which is seen in three areas; the expenditure of effort, the level of effort and the persistence of effort. Combining these with the knowledge you have of the business and your specific skills, defines your performance. What we need to understand when designing measurement systems is how measures can trigger the correct level of behaviour within the staff being measured. Measures must be designed so they identify where problems might arise within the performance of a specific task or process so that improvements can be made to the process, aligned to an ability and mandate to make improvements to the process can be seen to drive very positive behaviour, which includes adopting new skills and strong teamwork.

Three Phase AEC process

Process Owner Training
Real Time single source data
Process Owner mandates
Process Improvement

Balanced Scorecard
Measures Cascade
Business Process Models
End-to-End Processes

Managing Measures

Measure Design

Target Setting

Process Capability
Target Range
Risk Alignment
Behavioural Focus

When considering the design and implementation of an effective performance measurement system and referencing the key literature, the process above shows how to apply both best practice and present wisdom into a practical three step process, titled AEC – Alignment, Engagement, Coaching.

Within each of these phases, key activities need to be undertaken to ensure a successful outcome. The first of these is designing the measures; the second is setting performance targets and finally day-to-day implementation and improvement. Within each of the sections the discussion is summarised with a list of DO's and DON'Ts.

DESIGN THE MEASURE

A *– Alignment of process, people and resources with business strategy, organisational culture and leadership values. Alignment will result in performance*

It is now an accepted principle of management, that measures need to support and drive the business strategy and that this is best defined by a form of Balanced Scorecard, initially described by Kaplan/Norton. This tool enables a business to communicate the strategy in a map of how all the components of the business will be harnessed to move it forward.

The map defines four areas of strategy and therefore measurement as Finance, Customers, Processes plus Learning and Growth. The measures need to ensure the correct outcomes for each of these so that the resulting perform-ance achieves the strategy and point to where improvements are required to ensure success.

Measures in two of these areas are outcomes from the Process, Customers and Finance, and will be driven by the delivery of processes enacted and improved by employees and managers. Performance measures therefore related to outcomes, customers and finance can be more aspirational and targets can be set for where the business would like to be in the future. They will be summarised outcomes from actions taken at the process level.

Process measures can be designed with a more personal alignment and is a key to engagement. This can be achieved through monetary, respon-sibility or promotional reward; and have link to

the final group of measures Learning and Growth. These measures create demand for better systems and additional training.

Learning and Growth, is more a corporate activity, driven by strategic objective, where actions taken help to develop both the human capital of the business through training and coaching and the organisational capital through knowledge base, learning and development of the culture of the organisation. But its success will be achieved by satisfying a demand from staff operating processes as they strive to improve process performance and reach their targets.

At the process level understanding the need cross-functional measures is a pre-requisite to designing departmental based ones. Ideally a business model that enables us to fully under-stand how the business operates from strategy level right down to individual tasks conducted by the staff will make this task easier. This model will include roles and process timings enabling us not only identify what measure is appropriate but also what targets are sensible if improvements can be made to remove waste. This modelling will begin with end-to-end processes that cross departmental boundaries to enable the delivery of goods and services.

The traditional organogram does not show these cross-functional processes. This means they are not formally managed leaving nobody responsible for the setting and the measurement of the processes. Therefore as part of the design of effective performance measurement system process owners are required for these cross-

functional processes to ensure that the measures are correctly managed.

The business process model enables staff at all levels to understand how these processes deliver the businesses services and how they relate to the delivery of the overall business strategy.

The final part of good design is the structure of the measures and how they are reported and managed throughout the business. The Balanced Scorecard will provide a reference point for the measures against the strategy, now we need to align these measures with the appropriate decision makers in the organisation. This cascade of performance measures will recognise the different requirements at Board, Operating Management and Departmental Levels. They are linked so that changes at each level are reflected in that level's measure but ensuring that the decisions and improvement actions can be taken at the right level.

One of our assignments involved installing new systems at a secure printer and during the process it became apparent that there was no link between the desired IT solution and the business strategy. Our work involved facilitating senior management through design measures that linked, for example, sales and the 'delivery promise' to the complexity of production scheduling of manufacturing. Instead of only measuring missed delivery dates the measure ensured that the promised date was identified and that 'promises' made inside the available lead-time were flagged. Mitigating actions then performed 2 actions, training of sales staff in

the meaning and impact of 'lead times' and more informed discussions with customers on the need for better forward vsisibility.

Good design will ensure that measures are reported or debated at more than one level, that actions to correct 'off target' processes are discussed and the impacts are debated and additional actions taken to mitigate the risk.

Some key DOs:

• Relate measures to the strategic objectives

• Ensure that you measure the end-to-end processes and link to departmental measures

• Appoint owners for these cross-functional measures

• Use a business process model to fully understand the process impacts

And key DON'Ts:

• Rely only on departmental measures

• Ignore the qualitative measures

• Only measure outcomes

• Create too many measures that confuse

SETTING MEASURE TARGETS

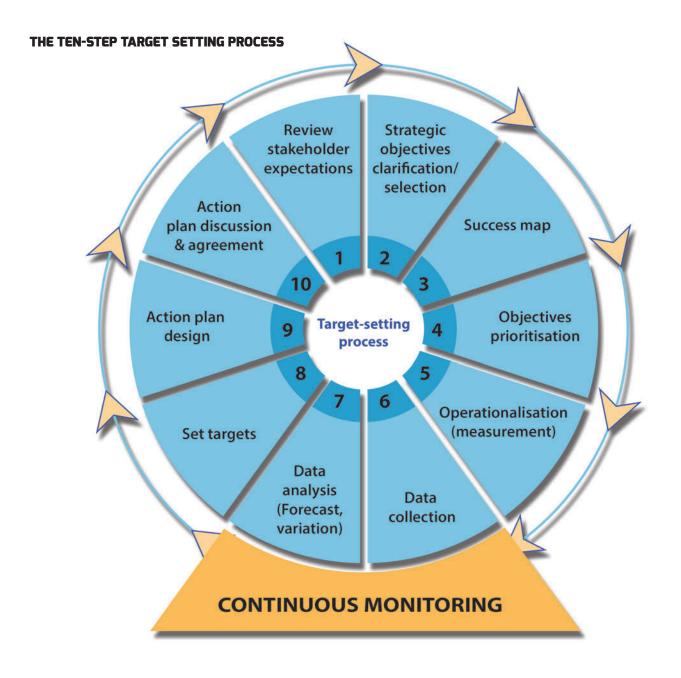*E* – *Engagement* *of people, process and resources in a measurable and mutually meaningful way.*

Engagement means the two-way participation of those being measured in the development of the measure and the targets, ensuring their ownership in its delivery. Measures can have a corporate and personal component, and should address all 3 elements of motivation (head-heart-gut ability). However, measures can only be fully embraced if the owner has the mandate to modify the process and develop the measure as improvements are made.

As part of target setting must ensure our aspirational targets, the *customer voice* represented by performance measures within the customer part of the balanced scorecard is aligned to the *process capability voice*, which identifies the processes that impact the customer outcomes, and ensures that the targets set are appropriate to the business strategy and are reachable.

The context for performance measurement can be an inhibitor or accelerator, so the reason for performance measurement should not only be clearly linked to the strategy for performance but also be aligned with the motives for action of those who are being measured. This means spending time to understand individuals' values and belief and inspiring them to perform. Excellence, let alone high performance, rarely occurs without risk taking and everyone accepting a degree of discomfort (than is normally tolerated) should be accepted and not delegated.

Therefore spending time with those who are performing the tasks to be measured can create a strong sense of win:win , especially if the emphasis is more about support as well as progress e.g. "how can I support you to achieve the target?" rather than monitor evaluator "how are you getting on?" / "how are you going to ensure you hit the target?". It is also extremely beneficial that communication is done (as much as possible) via face-to-face; both before and throughout the measurement period. The style and quality of communications are a critical success factor.

Listening, supporting and encouraging others involved in achieving the performance measurement will reap better results than emailing, progress chasing and de-personalising the monitoring and review aspects of performance measurement. Similarly leadership styles such as command and control or fear are unlikely to yield the level of performance required and are more likely to induce behaviour of minimal risk taking and energy. Leadership style in meetings is a common destabiliser if not a de-motivator of people's performance and willingness to contribute openly and fully. All of which makes performance monitoring let alone measurement less meaningful and can lead to anticipation of problems being diminished.

With a properly defined strategy and objectives an organisation then needs to drive the behaviours to support them. Communication is a major influencer on behaviours; both positively and negatively. As already mentioned earlier in the book Key Performance Indicators (KPIs) can be

THE TEN-STEP TARGET SETTING PROCESS

communicated in a cascaded form via The Balance Scorecard. Kaplan & Norton established the Balance Scorecard to enable there to be non-financial measures to drive improvements and so influence organisations. A complementary performance measure, especially when a number of different functions or groups of people are involved, is Service Level Agreements (SLA). SLA's can have a very positive influence if those involved, on all sides, are empowered to set the service levels as opposed to having them delegated. Empowerment brings with it a sense of ownership and 'will' to achieve what has personally been committed to. In other

words the performance measures are the service levels.

Therefore although there can be a natural tendency to use performance measurement to achieve strategic desired outcomes consideration should also be given to what behaviours will be needed to bring about the performance change and then sustain and/or continuously improve upon the desired performance.

An effective tool for contextualising and so creating the motive for action is through face-to-face discussion using the Target Setting Wheel[1].

In combination with a coaching / mentoring approach

1. **Review stakeholder expectations:** Beginning with a review of the organisation's stakeholder expectations will determine the critical areas that the organisation needs to address in order to be perceived as successful.

2. **Strategic objectives clarification/selection:** Having identified the stakeholders' expectations these then need to be identified and expressed as strategic objectives in clear statements of what the organisation needs to achieve.

3. **Success map:** A success map is a very simple visual tool that links the range of objectives from higher level to attainment of lower level objectives. The success map also forms a 'story board' for explaining the goals to the whole organisation, and the importance of interconnections between the various functions and teams to achieving these goals.

4. **Objectives prioritisation:** Forecast to succeed not fail means prioritising what objectively can be done to achieve the goals rather than forecasting what would like to be achieved. Therefore, prioritisation is essential and a critical success factor.

5. **Operationalisation:** This requires designing appropriate performance measures. How you define the measure will drive behaviour therefore ensure that the measures i) reflect the goals the organisation needs to achieve and ii) encourage the right behaviour from

those responsible for delivering the goals.

6. **Data collection:** It is important not to overlook this step. Data is never perfect - consistency reliability of data are more of a key that absolute accuracy, so ensuring data is fit for purpose is another valuable success factor.

7. **Data analysis:** Fundamental questions (i) Are the processes capable of delivering the forecast? and (ii) what is the data telling us about the past (learning), present (adjustment) and future (anticipation)?

8. **Set targets:** Only now should targets be set, that way previous perceptions do not obscure the real targets (reality). Based on the previous seven steps, this is the point you set the target.

9. **Action plan design:** An action plan should specify all the projects and activities that are required to achieve the target i.e. implementing the plan has a direct impact on meeting the targets.

   Action plan discussion and agreement: Prior to the 'launch' if the Performance Measurement Plan communicates the plan to the whole organisation and tries to do so in an inclusive style rather than an instructive one. Then follow this up with regular (team) meetings where the objectives are restated, goals outlined, plans and progress discussed.

Target setting is not a science; it is a difficult and challenging (literally!) process where human behaviours are a critical success factor.

Invariably, leadership will suggest the risk of not achieving the performance targets will be serious which can have the effect of delegating the sense of risk. However if we look beyond the process and consider the people and their behaviour as well as the resource and associated limits then the real risk of getting something wrong is high yet if the complexity is addressed at the outcome forming and subsequent planning stage then achievement of forecasted performance is more likely and sustainable. Therefore when setting performance measures be mindful of:

• Having a balanced allocation of measures (targets) which are integrated and synchronised appropriately across individuals and teams;

• Measures (targets) being formed from rigorous data analysis that takes into consideration more than just past performance; e.g. condition, variability, efficiency

• The frequency, method and desired outcome of reviews;

• Creating an achievable, meaningful and well-supported action plan.

At this stage it is useful to reflect on the seven fatal flaws of performance Measurement as stated by Castellano, Young & Roehm[2]

1. Ignoring the performance contributions of interactive system elements

2. Misunderstanding variation

3. Confusing signal with noise

4. Misunderstanding Psychology

5. Confusing the voice of the customer with the voice of the process

6. Failure to support a process view

7. Misunderstanding the real role of measurements

The likelihood is if the 7 flaws are not considered as you go through the 10 step target setting process, then the performance targets you set will not serve as an effective management process for you or your business.

The setting of performance measures and targets may now seem like a lot of hard work, however if the consequences are considered in terms of having ineffective processes, under-performing people and underutilised resources. Worse still, de-moralised organisation that could impact the business for years and then the 'up front preparation and support effort' will become an essential part of delivering successful performance.

A typical example of poor target setting was in a leading pottery company; one of their manufacturing plants had a simple measure of total pieces per week. Now when you consider that the factory made everything from saucers and plates to cups, sauce boats and teapots, it quickly became apparent why there was always an imbalance between flat and more complex pieces and why when you needed complete

sets for the Mayfair shop, that dealt with foreign customers, it was difficult to compile complete sets in under 8 weeks.

Some key DOs:

• Engage with the measure owners to set the targets

• Agree 3 targets a minimum, ideal and stretch

• Ensure that there is coherence between the individual process measure and the cross-functional measure

• Agree the periodicity of measure and relate to the variability of the process

And key DON'Ts:

• Set targets that go beyond the need of the strategy

• Set targets that are unachievable within the capability of the process

• Align with owners/reporters of measures where they have no control of outcomes

• Rely only on transactional measures

DAY-TO-DAY MANAGEMENT

C *– Coaching of behaviour, thinking and performance to achieve desired outcome. Mentoring for success*

What drives performance behaviour? Simply stated it is 'our motive for action'.

The final piece of our framework refers to the day-to-day management of the Performance Measures, which includes reporting, defining corrective/improvement action to mitigate any risks and developing the organisational capability to becoming more agile whilst retaining the direction of travel defined by the strategy.

The first 2 elements of the framework are more of a 'consultative' intervention whilst this last element is more focused on coaching. By engaging our staff during the setting of the targets and refining the measures what is needed is the correct environment in which to report and manage the measures.

By coaching management in the 'best practice' in the reporting and management of measures; the traditional this confrontational process can be avoided which also drives defensive behaviour from 'measure owners' producing excuses for missing targets. Improving this situation begins by ensuring that each departmental manager understands the business strategy how they contribute to it and therefore how the measures monitor progress. They will have been part of the target setting so will be aware of the range of measures and any process variability.

To successfully implement the measures the manager must encourage ownership by the process owner and facilitate an approach that focuses on mitigation actions not result presentation. In some cases this will require a review of options and managers need to ensure consensus with the process owner. Additionally traditional behaviour as described above usually results in the presentation of 'alternative', off system data; this must be discouraged and if the process owner believes system-based information is wrong they must correct not present contradictory evidence.

For this to be successful both managers and process owners will need to be able to handle conflict to get to a successful result.

Some key DOs:

• Ensure that Performance Measures are retrievable from a single source of information and use 'near real time' data

• Train staff in the key skills of analysis and decision making to enable them to present clear and concise actions

• Ensure that the risks associated with which measure are fully understood in terms of impact, response time and process variability

• Respond positively to requests for further personal development as they arise

• Celebrate successes, and recognise personal investment and development

And key DON'Ts:

• Ask someone to manage/report on a measure that they cannot control or influence; a classic example would be don't ask the passenger to manage the car's speed if they have no throttle or brake

• Accept the failure to reach a target to be just be reported without reference to mitigating actions

• Expect staff to report or define actions that have not be trained to do so

• Make the environment so hostile that reporting the truth is avoided, and we get lies, dammed lies and statistics

• Accept measures reporting from different sources

Our final real life example relates to the introduction into the 'hostile' management environment of automotive. In this case a strong set of measures that related to the plant strategy had been developed and were used in the monthly operations board meeting. The measures were designed around data from the system; but old habits meant the some managers produced their own information that invariably contradicted the system-based information. Our role was to encourage managers to only base decisions on system based information and to refuse to debate alternative forms; when told the 'system is wrong' to respond with 'get it right then'. On the other side it drove training of managers to abstract data from the system rather than personal spread sheets.

Consulting-Coaching Interventions

Coaching

Communication

Up Skilling

Mentoring

Target Reviewing

Consulting

Strategy Mapping

Process Assessment

Target Setting

CONCLUSION

We believe that the engine for successful Performance Measurement systems is shown in the diagram above.

A subtle blend of consulting and coaching skills that is in a continuous loop of feedback and improvement. The consulting intervention supports the strategic thinking, measurement design and target setting and during the setting phase begins to hand over to a coaching focused approach that leads with communication and then drives forward with individual and team mentoring which provides feedback to redesign and improve the measures.

[1] *Target setting by Professor Mike Bourne & Dr Monica Franco-Santos, Cranfield University*

[2] *Joseph F. Castellano, Saul Young, and Harper A. Roehm, University of Dayton, Ohio, USA*

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Rod Horrocks

Rod has over 40 years consulting to a wide range of industries both large and small, in the public and private sectors. His role is facilitating senior management teams and their staff to align their business strategy through business processes to systems. These systems are then implemented alongside an improvement program, with robust and appropriate performance measures that ensures the systems support the business achieve its' strategic objectives.

Rod also regularly mentors management teams and directors, helping them to create robust strategic plans and his facilitation skills allow him to drive discussions and challenge thinking.

Clive Steeper

Clive Steeper is an executive coach, performance consultant and facilitator, working globally with many organisations ranging from international corporations to fast-growth businesses.

Clive has been a business leader for over 25 years. His executive career includes several roles as Managing Director in the UK, USA and Asia. Central to his success has been Clive's ability to help individuals understand how performance is as much about mindset as it is about activity.

Having excelled in motorsport, as an Engineer and Team Manager, today he enjoys competing in a UK Championship for sports prototypes. Clive is co-author of *Motivating People*, *The Personality Workbook*, *Cope with Change at Work and a forthcoming title on Risk.*

We focus on the 'people' side of change programmes.

We employ industry best practice, with many key tools.

We'll help you innovate your organisational structure.

Taking your business to a better place

At H3 Partners, we provide Business Change Programmes using Organisational Change Management frameworks to help transform a business from within.

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