



Examine today for tomorrow

by Scott Hodge

Principles and myths when implementing effective performance measures

EVER WONDER IF you're meeting the needs and expectations of your clients? Have the changes to your processes resulted in any improvements in cycle times or reduced the amount of rework? How have your operating costs varied over the last three years? How effective is the training you and your colleagues have attended? Are you achieving the goals and objectives set out in your strategic and business plans? Many people are asking these types of questions about their operations. To find the answers, you need to develop a strategic performance measurement system for your operation.

This process is critical to the overall success of any organization including material management, mail operations, finance and administration, or facilities management. The aim of the system is to provide a greater understanding of the organization through a holistic overview of the organization's performance vis-a-vis its vision. Through the analysis of these measures, you are better able to understand your organization and where it's going. Continual analysis over time allows you to track your movement towards realizing your vision or aim.

Developed within an integrated framework, the system provides new ways of interpreting organizational performance. The framework is designed to ensure that measures are congruent with the goals and strategy of the organization. Attention should be directed to information that will create and promote an environment of continuous improvement.

To follow: 10 key principles

Principle 1 – *The measurement system must be tied to the strategic objectives of the organization.* Its aim and purpose is to gauge the organization's performance and to ensure the organization is moving in the right direction to realize its strategic objectives.

Principle 2 – *The measures must be balanced (comprised of financial and non-financial data).* Measures must reflect all aspects of the organization or they will not effectively reflect the organization's overall performance. The component measures must maintain a variety of financial and non-financial elements that reflect not only the results of the system but the processes themselves.

Principle 3 – *Measures should focus on a mix of process data and outcome, or impact, data taken over time.* The measurement system must reflect all programs and activities the organization conducts, both internal and external, including past results and what the processes generate on an on-going basis. Process data in order by time reflects the organization's operational efficiency, while detailing the outcomes or impacts achieved by policies and programs reflects the organization's effectiveness in pursuing its mandate.

Principle 4 – *Measures must be based on operational definitions.* Good measures are based on an organization-wide common language with clear and concise definitions of key organizational policies and terms. Commonality in the use and interpretation of the key terms must be attained before

effective organizational performance measures can be established.

Principle 5 – *The measures must be within the organization's sphere of influence.* The measures must reflect the activities undertaken by the organization. Although it may be useful to measure pertinent issues outside the organization's domain, they do not assist in determining how the organization is performing.

Principle 6 – *Measures must be dynamic, relevant and timely.* As your knowledge of the organization grows, each of the measures will need to be revised or changed to incorporate this new knowledge and understanding. Continual review of performance indicators is essential to redefine aims and improve knowledge in a changing environment. The measurement system should provide meaningful, relevant and timely information. Dynamic measures serve as indicators of current performance and assist in the prediction of future performance.

Principle 7 – *Measures must be interconnected (i.e., always reported collectively, never singly).* The measurement system is a report card of the organization's performance highlighting various aspects of the organization and their interaction. If measures are analyzed individually, you lose the understanding of the interactions between systems and the improvement potential inherent in improved coordination. This is why many organizations have established "performance dashboards" (reporting tools, typically with the aid of specialized software, that allow all the key measures to be displayed at the same time so the mana-

ger can get a sense of the “big picture”) for analyzing and reporting purposes.

Principle 8 – Measures must be limited in number but still provide a holistic view.

Establish enough key measures (generally 20-25) to effectively reflect all facets of the organization. If you develop too many, you run the risk of focusing too much attention on the measures and not enough on the systems.

Principle 9 – Senior management is accountable for the measures. Senior management is responsible and accountable for the analysis of all the measures collectively, and the incorporation of the knowledge gained into the decision-making process. Accountability for the performance of the organization lies with the senior leadership. Employees, however, are responsible for data collection and administration of individual measures.

Principle 10 – Measures must be communicated and documented. Employees from every level of the organization should be able to study the measures for themselves to determine how the organization is performing. It is not enough to simply communicate the results; employees must be able to use the knowledge learned from the measures for policy and program changes and for their continuous process improvement efforts.

Not to follow: A few myths

There are a few myths in developing performance measures that are often discussed and mistaken as guiding principles. Be cautious of:

Myth 1 – What is measured is what gets done. One of the most common myths about the benefit of a strong performance measurement system is that it will direct staff to focus energy on the important activities. However, by focusing only on one to three measures of activity, too often management and staff develop a myopic view of their operation. For instance, if a goal is to reduce the number of purchase requisitions processed, materiel management may delay purchasing in order to “double up” purchases. This will reduce the number of purchase requisitions – goal achieved – but this has the potential to impact clients who do not receive their requested goods in a timely fashion.

Myth 2 – Just do it! Although many practitioners recommend the best ap-

proach is to jump right in and establish a series of measures and then over time go back and reevaluate them, an effective performance measurement system is built on a solid organization-wide education about its purpose and intent. The implementation of the system is really an organizational change initiative, and as such, if the staff is not informed of the new system's intended role, it will often be met with fear and cynicism. Building a shared understanding of what is to be accomplished is the first step to defining performance indicators.

Myth 3 – A performance measurement system is an ideal way to rank and rate the performance of individuals. This is not the intent of performance measurement. The focus of the performance measurement system is the performance of the organization, not the individuals within the organization. When a measurement system is used for ranking and rating co-workers, it causes more detrimental effects than positive outcomes. It will destroy teamwork, eliminate collaboration and the sharing of innovative ideas and foster antagonism, just to name a few.

Myth 4 – Company ‘X’ has a proven and successful performance measurement system. We will implement their framework in our organization. If you are searching for a magic silver bullet that could be exported out of a particular organization, be prepared for frustration and probable failure. That is not an appropriate approach to introducing an effective performance measurement system. The system has to be constructed from within and be customized for the context and culture of your organization.

A successful measurement system should really raise more questions than it answers. Performance measures supply you with detailed information about the performance of the organization, adding to your learning opportunities. Through this learning, you build your knowledge of the organization, which allows you to revise your theories, which then leads to more questions about how you may further improve the performance of the organization. ~~~

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