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H A N D B O O K O F

Corporate Performance Management



Handbook of Corporate Performance Management

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Contents

Preface	xi
Acknowledgements	xiii
Introduction	xv
1. Performance and the Role of Measurement	1
1.1 Introduction	1
1.2 What is good performance?	1
1.3 Whose perspective?	1
1.4 Making comparisons	2
1.5 Present success and future sustainability	3
1.6 How is performance delivered?	3
1.7 The roles of a performance measurement system	5
1.8 The focus of measurement	7
1.9 The role of management and leadership	9
1.10 In summary	10
Further reading	10
2. Practical Tools for Measuring Performance	13
2.1 Introduction	13
2.2 Elements of a performance measurement system	13
2.3 The Balanced Scorecard	15
2.4 The Performance Prism	19
2.5 Objectives and success maps	20
2.6 Designing measures	24
2.7 Summary	30
Further reading	31
3. Designing the System	33
3.1 Introduction	33
3.2 A four phase life cycle	33
3.3 Design	34
3.4 How is this done in practice?	34
3.5 The debate	35
3.6 Developing the success map	37
3.7 Developing the measures	39
3.8 The next stage	40
Further reading	40

4.	Managing Implementation	41
4.1	Introduction	41
4.2	Phases of implementation	41
4.3	Why does implementation succeed or fail?	41
4.4	Hurdles and blockers	45
4.5	Steps to successful implementation	46
4.6	Conclusion	48
	Further reading	48
5.	Assessing and Managing Change	51
5.1	Introduction	51
5.2	Change in context	51
5.3	Assessing resistance to change	53
5.4	Return on management	54
5.5	Assessing likelihood of implementation	55
5.6	Conclusion	58
	Further reading	58
6.	Target Setting	59
6.1	Introduction	59
6.2	Why do you set targets?	59
6.3	Ten common problems	60
6.4	The target setting wheel	62
6.5	Closing remark	65
	Further reading	65
7.	Linking Rewards to Performance	67
7.1	Introduction	67
7.2	Pitfalls	67
7.3	Linking rewards to performance	71
7.4	Examples	75
7.5	Summary	78
	Further reading	78
8.	Managing with Measures – Statistical Process Control	81
8.1	Introduction	81
8.2	Variation and our reaction	81
8.3	Statistical process control	83
8.4	Performance and performance improvement	91
	Further reading	92

9.	Using Measures – Performance Reviews	93
9.1	Introduction	93
9.2	The Performance planning value chain	93
9.3	Performance reviews	99
	Further reading	104
10.	Using Measures to Manage – Challenging Strategy	105
10.1	Introduction	105
10.2	Company examples	105
10.3	Testing success maps in practice	109
10.4	Testing in theory and practice	113
10.5	Behavioural issues	117
10.6	Conclusion	118
	Further reading	118
11.	Keeping Your Measurement Process up to Date	119
11.1	Introduction	119
11.2	Keeping the process up to date	119
11.3	When do you update targets?	119
11.4	Revising measures	122
11.5	Reviewing the measures in line with your success map	123
11.6	Reflecting on your strategy	124
11.7	Challenging strategy	125
11.8	Overcoming barriers to updating your system	126
11.9	Summary	133
	Further reading	133
12.	Measuring Performance of People	135
12.1	Introduction	135
12.2	Essential elements for high performance	135
12.3	Measuring employee satisfaction and engagement	136
12.4	Performance appraisals	141
12.5	HR performance measures	145
12.6	Acting on results	147
	Further reading and sources of information	147
13.	Measuring Customers	149
13.1	Introduction	149
13.2	What are you measuring?	149
13.3	Using customer feedback	157

13.4	Summary	160
	Further reading	161
14.	Measuring Process Performance	163
14.1	Introduction	163
14.2	A process framework	163
14.3	Process measurement	164
14.4	Key process measures	165
14.5	Summary	169
	Further reading	169
15.	Measuring Competence and Resource Development	171
15.1	Introduction	171
15.2	Defining terms	171
15.3	Why measure resource and competence development?	172
15.4	A framework for displaying the relationship between resources and competences	176
15.5	Conclusion	183
	Further reading	184
16.	Measuring Financial Performance	185
16.1	Introduction	185
16.2	A shareholder perspective	186
16.3	Key shareholder ratios	189
16.4	Accounting ratios	191
16.5	Management ratios	194
16.6	Conclusion	196
	Further reading	196
17.	Measuring Sustainability	197
17.1	Introduction	197
17.2	What are 'sustainability' and 'corporate responsibility'?	197
17.3	What are the benefits?	199
17.4	Building sustainability into your business	201
17.5	Conclusion	206
	Further reading and sources of information	206
18.	Creating a Culture of High Performance	209
18.1	Introduction	209
18.2	Creating the right environment	209

18.3	Creating the right culture	210
18.4	Recruiting the right people	212
18.5	What motivates?	214
18.6	Dealing with underperformers	215
18.7	Understanding your influence	216
18.8	Direction setting and engagement	217
18.9	Communication	218
18.10	Conclusion	219
	Further reading	219
19.	Leadership Vignettes	221
19.1	Introduction	221
19.2	Paul Woodward – Chief Executive, Sue Ryder Care	221
19.3	PY Gerbeau – Chief Executive, X-Leisure	223
19.4	Richard Boot OBE – IRC Global Executive Search Partners	225
19.5	David Child	227
19.6	Baroness Sally Greengross	229
19.7	Charles Carter	231
19.8	Nigel Bond – CEO, Domino Printing Sciences	232
19.9	Mark Lever – CEO, National Autistic Society	236
19.10	Mike Ophield	239
19.11	Andy Wood – Chief Executive, Adnams plc	242
20.	Bringing It All Together	245
20.1	Introduction	245
20.2	Performance measurement	245
20.3	Performance management	246
20.4	Performance leadership	248
	Further reading	251
Index		253

Preface

Measuring and managing performance has been an enduring topic of debate for decades with various theories gaining favour according to the sensibilities of the time. These have ranged from the “scientific” methods such as those proposed by Taylor to the more recent laissez-faire style. Our view is that each of these approaches has its place. It is important to have underpinning processes and methods but these are all but useless without the exercise of good judgement and good leadership.

Since our initial implementation of a performance measurement system 15 years ago we have worked with and studied the process of performance measurement and management in a wide variety of organisations from businesses to public sector and charities. We are now convinced it is the combination of the tools and processes with the people management and leadership that makes a difference. The blending of these two perspectives forms the basis for this book.

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Introduction

At first sight the concept of measuring and managing business performance is straightforward – not necessarily easy to do – but a logical process that is easy to define and understand. On deeper inspection that is not the case. Performance management and measurement is complex, reaching every level of the business from the development of strategy to the management of individual employees. The performance management process often raises fundamental questions about the purpose and direction of the business, questions senior managers do not always want to ask. It brings to the fore many grey areas and problems for which there are no easy answers but which may have been lying, untouchable, within the organisation and causing trouble for years. It involves a wide range of activities and skills from strategic thinking to detailed analysis and from facilitating discussions to gaining commitment to actions and just making sure things are happening. It is ultimately about getting the right things done.

Many businesses fall into the trap of treating their performance management process almost as a ‘tick box’ exercise, something that can support and run alongside the implementation of their strategy. In fact, if it is to be successful, it needs to be an intrinsic part of strategy formulation as well as being integrated into everyday business. It should involve a broad range of people with different skills and it should touch every employee. However, too many businesses waste substantial amounts of money, time and employees’ goodwill on half-hearted processes that do not work or cause more trouble because they lead the business in the wrong direction. The businesses that invest time and effort in getting their systems right can gain a considerable competitive advantage.

Although there are some golden rules, there is no single ‘correct way’ to manage and measure performance. You may already have processes and systems set up – most organisations have. The book is designed so you can dip into selected chapters and take from them what you feel is appropriate. In the interest of making the book readable, references have not been used in the body of the text in the academic tradition. Clearly all the ideas are not our own so we have included at the end of each chapter a set of further readings that capture both the original source of the ideas and more detail for people who want to investigate a particular subject further.

In the early chapters of this book (Chapters 1 to 7) we will look at what performance is, at the role of measurement within it and at what you can hope to achieve by setting up and implementing a corporate performance management system. We will look at the ‘toolkit’ – frameworks and processes you can use within your organisation

as part of your performance system. Then we will explain how you can use the toolkit to build a generic performance system that will add value and help you develop your business.

In the next four chapters (Chapters 8 to 11) we will explain how you can use performance measurement in the management of your business. Here we present a set of tools and processes for monitoring and reviewing performance, before explaining how you can use measurement to test your strategy and how you need to keep your measurement system up to date.

The next six chapters (Chapters 12 to 17) examine how you measure specific perspectives of your organisation – from measuring customers to measuring people. Each perspective has its own characteristics, so we have presented here examples of customer satisfaction measures, the different frameworks for processes and resources as well as a view on key financial ratios.

The final part of the book (Chapters 18 to 20) is about how you bring together and put to good use the results of your processes. The dictionary definition of ‘performance’ refers to executing commands and carrying into effect tasks, promises or operations. It is about ‘getting things done’. After all, even the best-crafted process is a waste of time if you do not make good use of it or if you cannot galvanise your employees to give their best. As the book is not specifically about management or leadership we are not going to cover those subjects in great detail, but the leadership and culture aspects should not be ignored. If you sow a seed on stony ground your yield will be less than if you plant it in fertile, well prepared soil. The same is true of your performance system. You have to create the right conditions for it to flourish. So the third section is about leadership and culture, the environment that you need to create to encourage high performance. We finish the book with a few vignettes and case studies of individuals from very different types of organisation who have all delivered amazing results.

Performance and the Role of Measurement

1.1 INTRODUCTION

In this chapter we will look at what good performance is and at the factors that combine to create good corporate performance. We will also set out what a good measurement process can do for your organisation, not only to help you track your progress but also to help you encourage and maintain better performance. You need to recognise that performance measurement is a tool to be used by management and we end this chapter by reflecting what good leaders need to do to ensure that the tool is used effectively in taking the organisation forward.

1.2 WHAT IS GOOD PERFORMANCE?

The answer to this question is simple – it is about achieving your objectives. Of course that is not the whole picture; it is far more complex than that. Objectives themselves do not remain constant; they usually change over time. The world moves on and if you do not keep reviewing what you are doing you will have a problem. How you achieve your objectives is also important – you may be successful in the short term at the expense of success in the longer term. Before launching into setting up a performance measurement system it is worth reflecting on the nature of good performance.

1.3 WHOSE PERSPECTIVE?

Any benchmark of business performance will depend on the definition of success for that business. In turn, the definition of success will depend on the view of particular groups of stakeholders.

Let us take an airline as an example. Someone going on holiday will be happy when there is plenty of room beside them because the next seat is empty, they are offered another portion of lunch because there is extra food on board and the cabin crew have plenty of time for individual attention. The airline's customer service manager may also be delighted with performance because there have been many emails praising the service. The airline's CEO, on the other hand, will probably be dissatisfied with performance because there are too many empty seats, money is being wasted on catering and the cabins are overstaffed, all of which contribute to unsatisfactory financial performance. Shareholders will be dissatisfied because they see a poor return on their investment.

Therefore, the definition of success and ‘good’ performance depends on perspective and that will vary within different sections of the organisation and according to the stakeholder group.

It is essential for employees, at the very least, to have a clear consensus, understanding of and commitment to the overall goals of the organisation. Once they understand the goals, they need to know what success looks like. When there is a clear sense of purpose at the top of the organisation, divisional, departmental and individual goals and measures can be fitted underneath the overall organisational goals so they contribute towards achieving them. There will, of course, always be conflicting requirements, as you can see from the example above, but a balance has to be struck and conflicts have to be resolved or at least acknowledged. Achieving clarity and commitment to overall goals of the organisation requires strong leadership.

1.4 MAKING COMPARISONS

Performance is not absolute; it can only be relative. Your company’s profitability has to be judged against peers in your industry sector and against your previous years’ results. So you need to consider performance relative to external comparisons and to internal benchmarks.

From an internal perspective, employees need to know what is expected of them. Quite simply: are they expected to process 10 claims an hour or 20? If the company receives 100 customer complaints in a year is that good or bad? It is also important to know whether progress is being made. Is your performance improving? (That applies both to the individual and to the overall company performance.) It is impossible to determine this if you do not have some form of consistent measurement process. Taking this a step further, it is important to know why you are not making progress because that could be the result of external factors such as a new competitor taking your market share rather than a failure of your employees to do their work.

A measure of performance is meaningless on its own. It makes sense only when viewed against either a standard, a previous measure or another comparable measure. Thus, a figure of, say, 6.5 for May means nothing, but when April’s figure was 10.5 and March, February and January were 11.5, 13 and 14 you are beginning to establish a trend. If you also discover your biggest competitor is measuring the same activity and their figures are 20, 23, 24, 25 and 26 you may be able to deduce something about your business and/or your market.

From an external perspective investors need to know how well the company is doing and what the expectations are for the future. External reporting is a subject of its own and does not form part of this book. However, the way an organisation (business or not-for-profit) looks to the outside world is important for its success. Stakeholders of any type (investors, employees, customers) need to have confidence in the organisation with which they have dealings and external reporting of performance is the mechanism for doing this.

1.5 PRESENT SUCCESS AND FUTURE SUSTAINABILITY

Factors contributing to performance (such as customer service and financial outcome in the example above) can be linked both positively and negatively. In the airline example, passengers may be delighted with the service they receive as a result of the empty seats on the aircraft and that may encourage them to book again with the same airline. This will lead to a perception of success in the short term as passenger numbers increase, but over time passengers will probably see a decline in service as seats fill up and they will start to book elsewhere. If the airline is not charging enough to cover the additional costs of the ‘deluxe’ service or attempting to secure loyalty among its passengers, it will ultimately face financial disaster.

It is interesting to note that sustainability and durability may come from factors that are not always apparent in short term performance indicators. In their book *Built to Last: Successful Habits of Visionary Companies*, James Collins and Jerry Porras spent six years researching business success. They identified 18 ‘visionary’ companies and examined what was special about them. What they found surprised even the authors. They deduced that success did not come from having great products and charismatic leaders but more from a dedicated devotion to a ‘core ideology’ or identity and a highly active indoctrination of employees into commitment to the company. These are not short term performance indicators.

No business is invincible. Names of once-successful businesses that are no more trip from the tongue – Rover, Enron, Arthur Anderson, Woolworths. Even if in their later stages they were flagging, at some point they were regarded as models of success. Success in present performance is important and is an indicator of future performance, but it may be fleeting unless the senior team is giving sufficient thought to the future. It is too easy to be motivated by current success and to do more of the same, spending all the time focusing on the needs of the present. Building indicators of future potential is an essential element in measuring and managing performance.

In establishing what good performance is, you must know what success looks like to different stakeholder groups, how your performance compares with other organisations and against internal benchmarks and whether today’s performance is sustainable into the future.

We will turn now to how you create good performance.

1.6 HOW IS PERFORMANCE DELIVERED?

The performance of a business is delivered through a mixture of people doing their best to achieve the right ‘things’, supported by effective processes and sufficient resources.

Getting people to work harder does raise performance levels and we will look at how you measure people’s performance in more detail in Chapter 12. But there is a limit to how much harder people can work and high levels of intensive work of any

type are rarely sustainable over time. Therefore, in a labour intensive business, while it is obviously important to ensure people are working to their full potential, if you go over the threshold of what is sustainable, performance will inevitably decline after an initial period of improvement. The other perspective on this is whether people are being *forced* to work harder or *want* to work harder. When people are forced to work harder they naturally resist and find ways around the system. However, if people engage in their task or in the aspiration of the organisation, then you achieve a better outcome.

Working harder can be simply the exertion of more effort. However, even from the origins of scientific management in the late nineteenth and early twentieth century (the work of Frederick Taylor), it was conceded that emphasis should be put on doing things better. Taylor's idea was that there was one best way for a worker to do a job. Workers should be given the right tools and then trained in the right approach. Once this happened, a rate could be set for the work that an individual could achieve over a normal day at a rate that was sustainable in the longer term. There is much to be said for the basic concepts of Taylor's scientific management, but it does suggest a very mechanistic conceptualisation of the organisation, and very few jobs these days are that simple. Understanding how a job should be done, giving people the correct tools to do the job and appropriate standards to achieve is a good start.

Real performance improvements come from changing the process. Here is a very simple example. One council in the UK was struggling to make its six week deadline on assessing building applications. When the process was examined, the planners were shown to be efficient at their work. The biggest issue was the delay between the monthly meeting at which the planning application was assessed and the next monthly meeting where the minutes of the previous meeting were approved and the decision was ratified. The solution was simple. A coffee break was held at the end of the planning meeting following which attendees came back immediately afterwards to approve the minutes. The planning process was speeded up by 30 days.

Performance measurement should focus the thinking on the outcomes to be achieved rather than just on numbers. It should encourage people to look for alternative ways of doing the job better. It is important, then, to emphasise and measure the achievement of goals and play down the process measures. If, in our example, the council had purely focused on improving the efficiency of individual planners, the target of reducing time taken for planning applications to be passed would never have been achieved. We will return to this theme again in Chapter 14.

At times of economic hardship companies often take the decision not to resource fully the activities of the business. While this can make sense in some cases, it is very important to think through the consequences of the decision not only for current levels of performance but also for what may happen in the future. There are many good examples of companies taking seemingly sensible decisions only to find they had unforeseen results. An IT company employed staff with specialist skills for writing user manuals. To save money they decided to make these people redundant and give

this task to their programmers. After a short while it became apparent that the user manuals were not user friendly any more as the programmers did not have the right skills for producing them. The company had to resort to using agency staff at higher costs than before.

Thus, performance is delivered through people, but they must have the right processes and resources at their disposal. They also need to be directed and focused in what they do, which is the role of the performance measurement system.

1.7 THE ROLES OF A PERFORMANCE MEASUREMENT SYSTEM

There are five basic roles of a performance measurement system: to establish position, communicate direction, influence behaviour, stimulate action and facilitate learning. We will explain these in more detail next.

1.7.1 Establishing your current position

This may seem obvious but many organisations rely too much on anecdotal evidence to establish their current position. Statements like ‘we value our employees’ or ‘we offer the fastest delivery times in our business’ become ingrained to the point that it is heresy for any senior manager to disagree. These statements may well have been true once but no longer stand up to close scrutiny in the face of the evidence. It can be a hard lesson, but establishing your true position is vital to avoid complacency and to understand what action is needed.

Unless you have some data to know where your starting point is, how will you establish progress, compare performance of similar departments or products or benchmark with competitors? You need to measure accurately and consistently from a solid base line.

1.7.2 Communicating direction

If you measure a particular activity you are indicating immediately and forcefully that this is an important activity. Therefore the very act of creating a performance measurement system communicates the new direction to the business. Let us take Tesco as an example of this. Their ethos is to keep things simple. They have used a measurement process which they call the ‘steering wheel’ based on a balanced scorecard (which we will describe in some detail in the next chapter). Through the steering wheel they are able to communicate very clearly to all employees what is important to the business. In 2006 they added a new category for measurement, reflecting the change in the environment in which the company was operating. They were aware

of the pressure from the media, government and from their customers on businesses to become more 'responsible'. Responding to this they added an array of actions and measures such as reducing packaging and reducing carbon emissions through the use of bio fuels and trucks carrying double loads. The act of measuring these factors showed very clearly how important they were.

1.7.3 Influencing behaviour

You should not underestimate the strength of influence generated by measuring something. That is why it is so important to measure the right things, in the right way, and to reward people against the right criteria. If you do not, you can encourage the wrong behaviour. For example, pure financial targets can create too much risk-taking in investment banks or too much focus on efficiency rather than customer responsiveness in a manufacturing plant. However, if you define your measures carefully you can influence people very significantly to achieve the goals you have set for the organisation. Not only have you set a clear direction, you have also motivated people and created a sense of purpose by showing the progress they are making.

1.7.4 Stimulating action in the most important areas for your business

Few organisations have unlimited resources, so the resources you have should be directed as efficiently as possible towards fulfilling the most important requirements of the business.

Firstly, the process of setting up a measurement system can help you to do that because it helps you to identify what the critical actions are for success in your business. It also makes you aware of what is not important. Here is an example. It was not until they started to discuss the structure of their performance processes that the senior management team in a training business realised just how much their business relied on freelance management trainers. These people were in direct contact with their clients and presented the face of their business. In the past they had assiduously measured the quality of the courses as seen by attendees but had not taken any action to engender loyalty in the freelance trainers or even to ensure they were up to date.

Secondly, the process of reviewing performance should stimulate action. When performance starts to deviate from what is planned, root cause analysis needs to be done and corrective actions made. Taking the training business example, after each programme the freelance management trainers were assessed through participants completing a questionnaire. Every trainer has an off day, but a declining trend immediately triggered a review and action.

1.7.5 Facilitating learning

Using a good set of measures should provoke debate about your business strategy and provide information for making better decisions. Two important questions are:

- Are the things you are doing being done in the right way?
- Are you doing the right things?

The first question should make you reflect on your corrective actions. Are the actions you are taking having the impact you expect? If not, are they being undertaken effectively? The second question is at a higher level; it asks whether the actions you are taking are the right actions to take. However, you have to ask both questions before you can come to a conclusion. The performance may not be improving because your actions have not been completed or done correctly. Alternatively, the actions may be completed correctly, but they turn out to be the wrong actions.

The greatest benefit of a measurement system is the opportunity it gives you to learn. Measurement systems are so often used to drive performance, but the value of understanding how your business works and the feedback a measurement system can give you is invaluable, especially if you can get everyone in the organisation to use it that way.

1.8 THE FOCUS OF MEASUREMENT

In the last section we explained the five roles of measurement; next we highlight three dimensions on which a performance measurement system should focus. These are the external environment, internal performance and strategy implementation.

1.8.1 External environment

With the sophisticated ERP and EPM systems (enterprise resource planning and enterprise performance management) available today, it is very easy to become internally focused. Every element of your business can be measured and reported. However a business only survives if it can compete effectively, so the most important information you need to track is in your environment.

We stated earlier that all performance is comparative. Understanding how you compare in terms of financial performance, brand preference, market share, customer satisfaction, product rating, cost base, process excellence, employee satisfaction and employer brand can give you a feel for how your competitive position is improving or declining. The more time you have to react to changes in the market place or competition the more successful you will be. Being caught by surprise can be both painful and costly.

1.8.2 Internal performance

Internal performance should be tracked too, but most companies are awash with internal performance information. You will need to focus on what is collected and reported. You should also consider the management process so that people at the relevant levels in your organisation receive the information they need and make appropriate and timely decisions.

1.8.3 Strategy implementation

By measuring your environment and monitoring your internal performance, you will have a good feel of how the organisation is performing, but there is one last step. You need to track that your strategy is being implemented so that you can assure the future of your business.

How many organisations spend time and money devising a strategy that then remains sitting on the shelf, known only to the elite few at the top of the organisation? Even if employees know what the key elements of the strategy are, how many of them understand what it means for their jobs and how their work contributes towards its success? We have visited companies where employees claim to understand what the strategy is, but are clearly not taking the actions that lead towards achieving it. In other words, the strategy exists but what is actually happening is something quite different. The reasons for this may be valid – those ‘at the sharp end’, close to the customer, perhaps, or with a very good understanding of a particular market – know the strategy will not work but are unwilling to put forward their case to more senior managers. They carry on doing what they believe to be necessary. On the other hand, the reason may simply be that people do not want change.

Crystallising the strategy into a set of measures can help to align action with the strategy. However, it is vital that the factors you measure really are those contributing towards your strategy. We cover how you create measures in more detail in Chapter 2, but it is worth including a small example here. A certain training business had two product lines – a programme of open courses that they marketed primarily to HR managers as a means of building relationships with them and encouraging them to buy from their second product line, the more expensive in company training. The open courses were profitable in themselves and they also acted as a showcase for the company’s services. The senior management team believed the company should be more profitable and agreed that moving towards the higher end of the market with more customised training would be the way to do this. They could charge a premium for the customisation and present their services as being a higher quality than most of their competitors. In setting measures, however, profitability became confused with volume. One measure set for the team running the open programme was ‘the number of delegates per course’. To meet their targets that team set up a programme of cheap and cheerful management skills courses, which attracted large numbers of attendees

by virtue of the price but which detracted enormously from the company's declared intention of moving upmarket. This action was directly opposed to the strategy and worked against it, but the managers of that section of the business were only doing what they could to achieve their target.

Performance measurement should make goals and objectives explicit and bring the strategy to life. If communicated in the right way, it should be possible to create a culture of achievement in which individuals no longer work in the dark but are clear about their roles and what their contribution is to be in creating a successful organisation. A good performance measurement system will act as a motivator, showing people what is expected of them and how they are progressing.

1.9 THE ROLE OF MANAGEMENT AND LEADERSHIP

Creating good performance is not an exact science. You can set out what needs to be done, agree standards and you can measure progress. You can have an excellent process in place but without good leadership you will not achieve sustainable results.

Leadership is about creating the culture and environment in which good performance is delivered. This includes setting the tone for the organisation. By this we mean the standards of behaviour expected from everyone working within it. It includes setting values – how staff, customers and suppliers will be treated. Finally, it includes setting the direction of the organisation and creating a vision of success.

In the first section we pointed out that the definition of success depends on your viewpoint. Leaders have to balance the often conflicting needs of various stakeholders, current demands and future success and they have to propose a way forward. This sometimes involves making difficult decisions and saying no to certain courses of action. Having done this they have to get commitment to their proposals, even from those whose personal interests may be adversely affected by the decisions made.

Leaders have to support management in their development and use of any performance measurement system. Performance measurement has to be at the heart of everything the organisation does and managers should be encouraged to use the system to evaluate performance and make decisions. We are not talking here particularly about the performance of individuals, but about the whole spread of information generated on how things are working. However, such a system can become too mechanistic and it is the job of leaders to ensure this does not happen. A performance system will provide data and information but it is up to the judgement of managers and leaders to decide what will be done with it.

One of the critical tests of a good leader is how they deal with failure, remembering that if you set stretching targets you must expect failure. An innovative organisation needs people who have ideas and take calculated risks, and inevitably some of these will fail, but the company still has to support the risk taking. Something may fail because the circumstances change and the target has simply become unattainable.

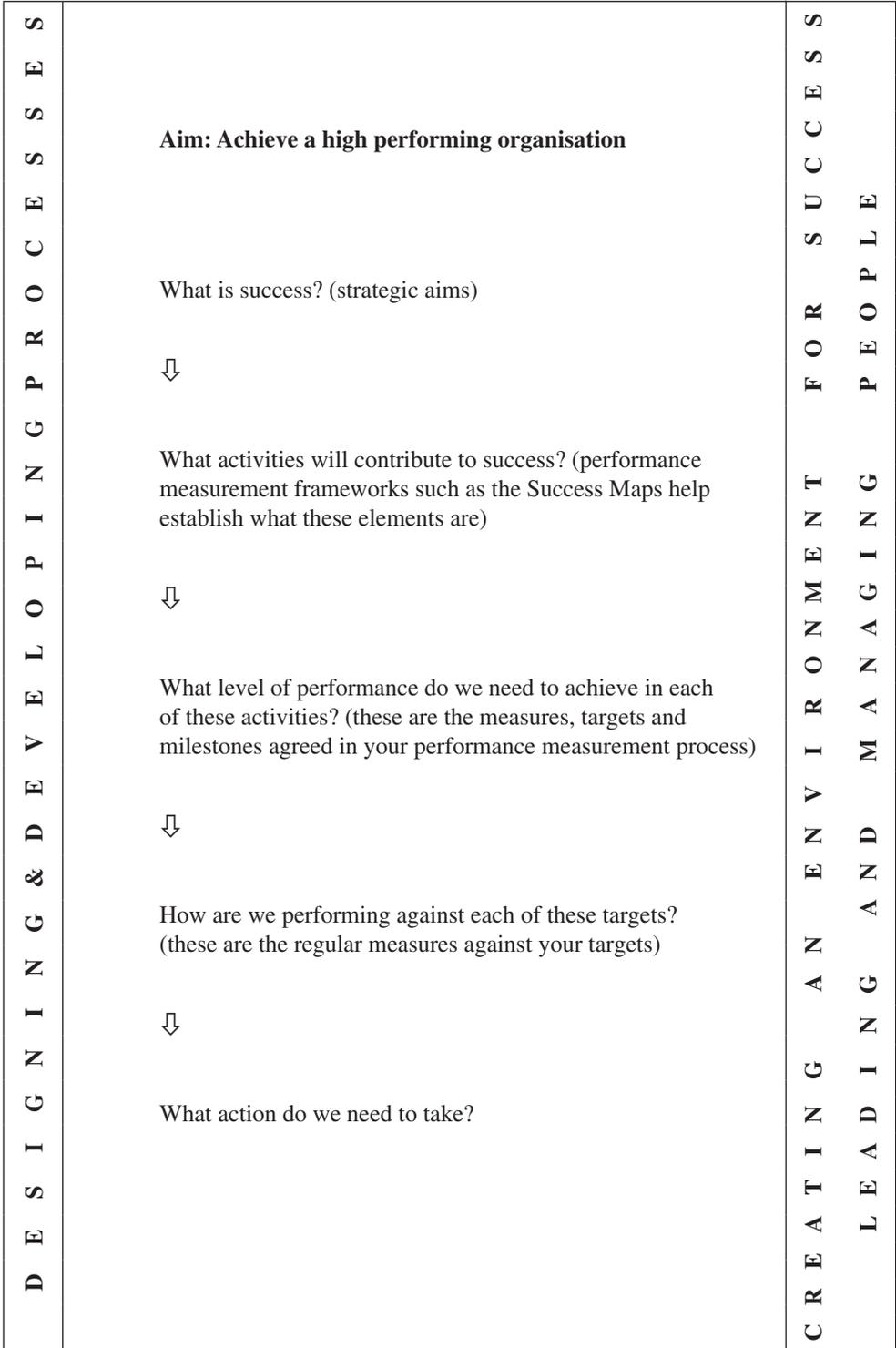


Figure 1.1 Performance measurement in context