Introduction

Welcome to this workshop on Managing Performance. We have set ourselves the following learning objectives. As a result of this session you will be able to:

- Understand what is meant by performance and performance improvement
- Set performance objectives and establish performance measures for your organisation
- Be aware of at least one quality model to help you adopt a continuous improvement approach to performance management

Performance Improvement

The context in which performance improvement takes place must be underpinned with a sound strategy. The logic is that the organisation is clear about what it wants to achieve and it communicates this in explicit ways, bringing the strategy to life and making it clear to everyone what needs to be done. A good measurement system will: - establish current position; communicate direction; stimulate action; facilitate learning and influence behaviour.

Since the mid 1980's there has been increasing emphasis on organisational performance improvement. This is closely liked to increasing customer demand for improved products and services. While organisations approach the business of effecting improvements in different ways, the basic underlying philosophy and methods are similar. The initiatives that are currently popular derive from the Total Quality Management (TQM) movement, but the interest in TQM has moved on to a more results-oriented focus and it has evolved into a Business Excellence process.

The ultimate aim of a performance measurement system is to improve the performance of the organisation – and there is evidence to show that it works. Research has shown that measure-managed businesses are considered industry leaders, gain higher financial returns and are more adept at managing change.

Continuous improvement implies incremental improvement: - the process of making something better through the accumulation of small improvements, one at a time. This approach improves on customer value due to improvements in productivity (quality and output) initiated by the general workforce. For this to happen the workforce must be motivated to promote change and their efforts supported.

The key features associated with an organisation that promotes continuous improvement are that it:

- Uses flexibility as a major competitive strategy
- Achieves flexibility through a cross-functional workforce and flexible working
- Produces a constant stream of improvements across all areas of the business.

"Achieving good performance is a journey, not a destination"

There are many different measures of performance in relation to business: profitability; turnover; return on investment; net worth; cash flow; customer satisfaction; employee retention; sales or transactions per employee etc.

We should however distinguish between what are methods of measuring performance and performance itself.

"Performance is the achievement or output from our effort."

Before developing ways of measuring performance we should first establish what it is we are seeking to achieve: - ends, not means. To measure performance is a means of ensuring that we are achieving our goals *e.g. we may be prepared to accept a lower level of performance in one area if we can still achieve our objective by performing well in another.*

Using the following exercises, identify your role in the organisation and what you have to achieve to be considered successful in this role. What do you consider to be the key performance indicators for your area of responsibility within the organisation?

What is my role in the organisation, terms of performance?

What do I need to achieve to be considered successful?

1

2

3

4

Performance is measured in a number of different ways and as we move through different departments within an organisation the measures may change. We have already mentioned a number of performance indicators e.g. turnover, profit, customer satisfaction, however, the only real measures of performance are those which are based on and contribute to achieving the objectives of the organisation.

In performance measurement we look for:-

- Objectives
- Indicators and
- Targets

Before we go into more detail about ways of measuring performance, examine the ways in which you measure operational performance at present.

List the performance indicators that you currently measure (or are measured against) and the way that you measure those indicators.

	Performance Indicator	Method of Measurement
1		
2		

Most organisations use a number of different performance indicators. The following table outlines a number of those indicators and the advantages and disadvantages of each.

It is one thing to have an indicator, but can it be measured and have you set a target against it?

Choice of Measures

	Advantage	Disadvantage
Profitability	- Easy to calculate - Universally accepted and understood - Useful for spotting trends	- Not cash based - Difficult for comparison - Often not detailed - Does not give solvency position - It is historical
Achievement of Objectives	- Only if objectives are clear - Easy to monitor - Determined by the organisation	- Difficult to measure high level objectives/outcomes - Are they the right objectives?
Return on Investment	- Allows for comparison with other investment options - Useful at strategic level - Useful for monitoring trends	- Depends on level of investment - Not relevant due to limited options - It is historical
Cash Position	- Easy to gather information - Useful for assessing immediate situation - Important for monitoring bank position	- Does not t ve broader picture - Changes continually - Focus on cash can limit growth
Net Worth	- Gives current picture - It is easy to calculate - It can identify trends	- It does not tell a full story - It is relative to investment etc
Customer Satisfaction/Retention	- Indicates satisfaction - Reduces cost of replacing customers	- It does not give reasons for retention - May say more about competitors - Not easy to measure
Order Books	- Easy to monitor - Customer and stocking implications	- May not be relevant - High levels may be acceptable depending on industry

Setting Objectives

One of the most effective ways of monitoring performance is to set objectives for a range of performance areas and measure your achievements against them. In this section we will set some specific objectives for your organisation or a department/section within it.

At the highest planning level, setting a goal for your organisation is to set one super ordinate objective that states the ultimate measure of success. All other strategic objectives, performance objectives and targets are subordinate to the goal. The planning process seeks to establish a cascade of inter linked relationships so everyone within an organisation is clear about their role i.e. what part they play, what is expected of them and what they need to do next.

What are Objectives?

Objectives are measurable statements of what you want to achieve within a specific period of time. They can be completed for a short, medium or long term and they should meet the following criterion:

SMART Objectives	
Specific	Relate to a specific area or activity
Measurable	Be quantified and be capable of being measured
Achievable	Be reasonable given previous performance and the company strategy
Relevant	They should fit in with the company aims and the personal objectives of the owner
Timebound	A timescale must be set for every objective

Your strategic objectives are in effect what are called Key Performance Indicators (K.P.I.s).

Start with a clear expression of your ultimate goal. Can you express it in a measurable way, for a given period of time?

What is your overall goal?

Effective Objective Setting

The way in which you set objectives strongly impacts on their effectiveness. The following broad guidelines apply to setting effective objectives:

- ***Keep objectives aligned to your goal(s)***

  Set objectives that are manageable and achievable. Incremental objectives give more opportunities for reward. At whatever level you set objectives, be sure that they can be traced back to your goal. If some thing does not contribute to your goal, why are you doing it?

- ***Be positive***

  Express your objectives positively: 'achieve a net profit of 5%' is a much better objective than 'reduce our costs'

- ***Be precise***

  If you set a precise objective, putting in dates, times and amounts so that achievement can be measured, then you know the exact objective to be achieved, and can take complete satisfaction from having completely achieved it

- ***Set priorities***

  Where you have several objectives, give each a priority. This helps you to avoid feeling overwhelmed by too many, and helps to direct your attention to the most important ones

- ***Write objectives down***

  To avoid confusion and give them more force

- **Specific, not general aspirations**

  Take care to set objectives over which you have as much control as possible. Objectives based on general aspirations may be prone to failure because of things beyond your control e.g. poor economic performance, poor judgement by others or just plain bad luck

- **Be realistic**

  Set objectives so that they are slightly out of your immediate grasp, but not so far that there is no hope of achieving them

- **Challenge yourself**

  At the same time make sure that your objective is a challenge to you - beware of setting objectives so low that you can comfortably achieve them

Where Objective Setting Can Go Wrong

Objective setting can go wrong for a number of reasons:

- Aspirational or outcome objectives can be set instead of performance based objectives. Where you are using outcome objectives, and you fail to achieve the objective for reasons outside your control, this can be very dispiriting and can lead to loss of enthusiasm and feelings of failure
- Objectives can be set unrealistically high. When an objective is perceived to be unreachable, no effort will be made to achieve it
- Conversely objectives can be set so low that you feel no challenge or benefit in achieving the objective. Setting objectives has been a waste of time
- Objectives can be so vague that they are virtually useless: - it will be difficult to know whether or not vague objectives have been achieved. If achievement cannot be measured then it is difficult to know when to intervene, to change things or to recognise good work.
- Objective setting can be unsystematic, sporadic and disorganised. Here objectives will be forgotten, achievement will not be measured and there will be no feedback to inform future decisions
- Too many unprioritised objectives may be set, leading to a feeling of overload. Remember that you should be able identify when you have done enough and use this to allow yourself the time you deserve to relax and enjoy life.

On a personal level too, remember that your goal(s) can change as you change - adjust them regularly to reflect this. If goals do not hold any attraction for you or are no longer relevant, then let them go - objective setting is your servant, not your master - it should bring you real satisfaction and a sense of achievement.

SMART Objectives/KPIs

Have a go at setting some new objectives for the next year?

Your SMART Objectives/KPIs for Next Year

What Impacts on Performance

There are a number of strategies - decisions about action to take – that can impact on the performance of any organisation. Depending on your objective (i.e. what you want to achieve) you will need to be careful in deciding which course of action to pursue. There are often unintended consequences.

Even the most clear-cut strategy can have both negative and positive impacts, depending on the circumstances. The following table gives some examples of the potential consequences or impact arising from typical actions taken to improve performance.

Strategy/Action	Positive Impact	Negative Impact
Increasing Sales	♦ Adds to profitability ♦ Reduces cost through increased purchasing ♦ Increases market dominance ♦ Increases margins	♦ Increases cash requirement ♦ Reduces customer service ♦ Reduces control
Reducing direct costs	♦ Adds to profitability ♦ Improves efficiency	♦ Reduces customer service ♦ Takes focus away from sales ♦ Poorer quality product
Increasing Prices	♦ Adds to profitability ♦ Improves cash position ♦ Re positions company	♦ Reduces sales ♦ Changes customer base ♦ Gives competitors advantage ♦ Can impact on objectives
Reducing Staff costs	♦ Adds to profitability ♦ Improves efficiency	♦ Causes stress for other staff ♦ Focus on cost savings rather than growth ♦ Poorer customer service
Improved Debtor Control	♦ Reduces borrowings ♦ Improves efficiency ♦ Increases number of potential clients	♦ Puts customers under pressure ♦ Changes profile of customers
Pay staff based on performance	♦ Improves efficiency ♦ Reduces wastage ♦ Reduces staff costs ♦ Increases output	♦ Causes stress for staff ♦ Can reduce quality ♦ Change customer focus ♦ Can cause friction

You will need to be careful not to encourage **unintended consequences**, as a result of unwanted behaviour encouraged by a poor choice of performance measures. Remember, **what gets measured gets done**!

Identify three things that you could do to improve performance in your organisation. List both the positive and negative impacts that could arise.

	Strategy/Action Taken	+	-
1			
2			
3			

Range of Quality/Continuous Improvement Models

There are a range of quality/continuous improvement models available to organisations. Some of the most popular at present are:-

- Balanced Scorecard
- EFQM Excellence Model
- Investors in People
- ISO 9000 series
- TQM
- Six Sigma.

One of the most popular and straightforward is the US-dominated Balanced Scorecard.

The Balanced Scorecard (BSC)

The Balanced Scorecard can be used as a way of setting and monitoring performance it was developed in the early 1990's by Robert Kaplan (Harvard Business School) and David Norton (Balanced Scorecard Collaborative). It is a ***management system*** (not only a measurement system) that enables organisations to clarify their vision and strategy and translate them into action. Kaplan and Norton describe the innovation of the balanced scorecard as follows:

> "The balanced scorecard retains traditional financial measures. But financial measures tell the story of past events, an adequate story for industrial age companies for which investments in long-term capabilities and customer relationships were not critical for success. These financial measures are inadequate, however, for guiding and evaluating the journey that information age companies must make to create future value through investment in customers, suppliers, employees, processes, technology, and innovation."

Four Perspectives

The balanced scorecard suggests viewing the organisation from four perspectives as indicated in the table below.

Perspective		What this Means…
Financial		How do we present ourselves to our owners and investors in order to be considered a financial success and attractive investment?
Customer		What is the Customer Value Proposition that will create the financial rewards we are seeking?
Internal Processes		In what activities must we excel in order to deliver our value proposition and reach our financial objectives?
Innovation & Growth		What do we need to change in our infrastructure or intellectual capital in order to achieve our internal processes objectives?

Cause and Effect

The BSC system promotes the idea of cause and effect: - the interdependent relationship that exists between measures within and across each perspective. Kaplan and Norton describe this as:

> If we improve employee access to customer information and provide our employees with more training (**Innovation & Growth Perspective**), then our employees will have a better understanding of customer needs and be able to offer customised products and service to meet those needs (**Internal Process Perspective**).
>
> As a result, customers will be more satisfied and purchase a wider range of services from us (**Customer Perspective**)
>
> which will broaden our revenue base and make us more profitable (**Financial Perspective**).

Creating a Balanced Scorecard

The decision to undertake development of a BSC is a decision to undertake a journey, not work on a project. The process must start with assessment or analysis using environmental scanning techniques such as PEST and SWOT. As with any strategic planning exercise you will need to challenge your core beliefs and value base, assess market opportunities, understand your customers and gather intelligence on your competition. You will need to start with mission, vision, and long-term goals.

A typical BSC is built around six steps as indicated below:

- Assessment of the organisation and its environment
- Overall strategy – our game plan
- Objectives:- the building blocks of strategy
- Strategic Map:- using cause and effect linkages
- Performance Measures:- indicators and targets to track strategic and operational progress
- Initiatives: - leading to action that will impact on the measures.

Other steps are then required to ensure that you manage the strategy and the BSC process. These include communication/cascade and monitoring, evaluation, and reporting on progress.

Applying the Balanced Scorecard

Plan for a Plan:

Overall Mission, Vision and Goal:

Business Strategy – Our Game Plan

What is to be our area of focus? What is our competitive strategy? Think about the Critical Success factors for your organisation. Set strategic objectives around these. These will then be placed in the appropriate scorecard perspectives to identify the cause and effect linkages between them.

Four Perspectives: - Objectives and Measures

What do we need to excel at from each perspective? Define your critical success factors as measures, making sure that they are in some way aligned to your goals. Define the measure precisely (use a measurement record sheet) and ensure that each measure is supporting at least one of the organisation's top line objectives.

Using cause and effect linkages, place your objectives in the appropriate scorecard perspectives. The idea is to chart the path top successful end outcomes as seen through the eyes of customers and stakeholders (especially business owners).

A Strategic Map will show how one objective (effect) is dependent on another objective (cause) and how taken together they form a strategic thread to desired end outcomes and the overall goal.

Set Objectives and Measures from the Four Perspectives:

Financial ____

Customer ____

Internal Processes ____

Innovation and Learning ____

For each objective we look for the few performance measures - indicators and targets – that are critical to and will drive success. The idea is to get the measures that matter most, measure them and use the information to improve decision making. Be careful not to choose too many as the burden of data collection and reporting can quickly become overwhelming.

Listed below are some measures which may be relevant in the production of a basic scorecard for your organisation. Fill in (estimating where necessary) the appropriate figure for each measure, adding in additional measures which are directly relevant to your organisation. Try and identify where cause and effect relationships are most significant.

List Performance Indicators (with Targets) Relevant to Your Organisation

Financial	**Year 1**	**Year 2**
Turnover (£m)		
Gross Profitability		
Operating Profitability		
Shareholder Return on Investment		
Revenue Growth		
Revenue per Employee		

Customer	**Year 1**	**Year 2**
Market Share with Target Customers		
Percent Growth of Business with Existing Customers		
Customer Profitability		
Defect Rates/Complaints		
Time taken in handling queries/complaints		
Success in handling queries/complaints		

Internal Processes	Year 1	Year 2
Percent of sales from new products		
Product Cycle Time		
Administrative Management		

Innovation & Growth	Year 1	Year 2
Employee Satisfaction		
Revenue per Employee		
%of Employees receiving annual retraining/development		
% of Employees with Personal Performance Goals/Plans		
Suggestions per employee		

Initiatives and Action Plan

Take any one of your objectives (and associated targets) and list the initiatives and actions needed to ensure that they achieve.

Initiatives/Action Plan	Key Date	Person Responsible

And Finally

Don’t forget the need to involve people in the BSC process and regularly update and display the results as a performance-based scorecard. And above all else, make sure positive and appropriate action is taken if you want to see a step-change in performance.