Using performance measurement to improve business operations

A research report by Corven Consulting
What are performance measures?

Performance measures fall within the wider realm of Management Information (MI) – the all-encompassing term for information about a business. MI is of many kinds, typically including regulatory, financial and operational measures. Much MI is local, and so only relevant to a small number of managers.

Performance measures form a subset of MI that is chosen because they enable staff to understand and make a difference to operational performance. They define the historical effectiveness and efficiency of processes and outputs, and influence forward-looking decisions and approach. To ensure that performance is improved in the most appropriate areas, performance measures must align to the organisation’s strategy.

Not all measures are absolutes. Some are Indicators of how things are going, where what matters are the trends: are things going up or down? For example, do staff feel more motivated? Indicators are not necessarily directly related to the business’ performance. Lead indicators flag approaching conditions that may require action now to achieve future goals. Lag indicators reveal the impact of past actions – have they produced the desired effect? We recommend mastering Lag indicators before addressing Lead indicators.

The Key Performance Indicators (KPIs) are those that show progress in achieving the organisation’s major goals. They should be kept to a minimum, ideally no more than eight.
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Leading companies are spending time, effort and money on addressing performance measurement because they recognise that it can make a big difference to company performance. You have to measure performance to be able to improve it. Without measurement, there is no link between strategic intent and operations to alert you to under performance against your organisation’s major goals; you cannot identify where performance could be improved; and you may waste resources striving for marginal improvements in areas where your performance is already good.

Yet most organisations lack a consistent and effective approach to performance measurement and as a consequence companies have mixed success with performance management. In our research we found that many organisations’ measurement systems were not designed but have just evolved. Too often, the measurements that are taken do not provide insights, do not lead to actions, and even provoke dysfunctional behaviour.

Ultimately, improving performance is about changing behaviours, and performance measurement can help to achieve this. In some areas particular measures or measurement systems are being widely adopted, but no single best-practice approach has yet emerged. Our research found that what matters is not the measurement technique or framework that you use, but what measurements you make and how you act on what they reveal. Despite the lack of an accepted best-practice approach, there are three features in common wherever organisations are successfully using performance measurement to improve their operational performance:

- well-aligned measures focused on improving operational performance
- clear and enforced visible accountabilities
- appropriate action taken as a consequence of the insights from the measures.

Do these three things well, and you will see changed behaviour, in both individuals and in the organisation, that leads to improved operational performance.

Our research for this paper included analysis of over 50 responses to an online survey and detailed interviews with large, complex organisations including BAE Systems, BP, EDF Energy, GSK, HMRC, National Grid, South West Water, Thames Water, UBS and Unilever. Input also came from a seminar attended by delegates from these and other businesses. The quotes in this paper are taken from that seminar.
Design measures that align with the business strategy and focus on improving operational performance.

Aligning your performance measures with your business strategy is the most important factor in achieving operational improvements through measurement. If you do not align your performance measures with your business strategy, you risk squandering resources addressing areas that will not help you achieve your desired business performance.

Designing aligned performance measures is a top-down activity that must be linked to strategy and business planning. We recommend forming a centralised team of experts to work with the management team, to ensure that this linkage exists, and that the suggested measures can be created and used effectively. For example, at Shell Distribution such a team defines standards for creating measures and sourcing performance data.

The benefits of centralisation include increased standardisation, improved efficiency, and the application of specialist knowledge and skills in measurement and analysis. However, you must take steps to ensure that the skilled, central performance measurement team is perceived as an enabler whose expertise helps but does not replace line managers and front-line staff, who must be involved to ensure a high level of ownership of the performance measures.

The leadership must prioritise the KPIs at this early stage – aiming for a maximum of eight. South West Water’s ‘Service+’ programme to deliver improved customer service at lower cost has just three: how many customer problems are resolved on the first call; how many calls customers have to make before a problem is resolved; and the number of customer complaint letters – to monitor whether the desired step change has happened. Discussing what are, and what are not, KPIs is a very valuable part of the process. Everyone gets the chance to argue the case for their preferred KPIs, and understands the reasons for the final selection.

Ideally, keep performance measures stable for at least a whole financial year, to provide a constant base line. But if the market changes, the strategy changes or a process changes, it is likely that the measures will have to change too. To keep your measures up to date, review them annually to introduce improvements – and to delete the measures that have become unnecessary. New performance measures get added to the list far more easily than old ones get deleted.

“While there are established standard metrics for manufacturing and production processes (such as OTIF – on time in full – and OEE – overall equipment effectiveness), measuring services is more difficult and less advanced, and requires a range of different types of measures. Figure 1 shows an approach to devising appropriate measures.
First, you must understand what your customers value, and aim to measure that. A service function is about meeting the needs of the (internal or external) customer. Any activity that does not add value as perceived by the customer is at best a waste of time and resources. At worst it may alienate customers and cause them to take their business elsewhere. Your customers’ expectations are likely to be complex, involving a combination of issues such as cost, ease of use, quality, and satisfaction with the order-to-fulfilment process – in such terms as speed of response and the number of times they have to contact you.

Perhaps your systems are not capable of delivering these measurements, or the value may be impossible to measure directly, forcing you to use proxy measures (such as the time taken to pick up calls in the call centre) or to measure failure (the number of complaints). But does answering calls in less than 20 seconds really mean your customers are getting what they want? Are you perhaps receiving fewer complaints because your customers have gone elsewhere? Any proxy measures must be as directly aligned and relevant as possible, and validated using direct customer feedback and/or surveys, as well as operational data.

When measuring services, it is also important to qualify quantitative performance measures with additional measures that indicate their quality or reliability. For example, as well as measuring what percentage of customers were billed on time, you might also measure:

- How many were billed from actual readings and not estimated
- How many required rework
- How many billing complaints/enquiries were received.
“In the energy industry, we are moving from selling product to providing a service (and many businesses are becoming more service-oriented, like FMCG and retail). We have to move away from the assumption that we must make more money and from looking at profitability per therm or kilowatt. We need to find appropriate measures for efficiency rather than the top-down imposition of profitability measures.”

An increasing number of organisations are seeking to measure end-to-end processes, though our research indicates that few have achieved this. Most organisations measure sub-processes, but this can hide the impact that each sub-process could have on the others. For example, handling one part of the process quickly, but not well, can cause both re-work later in the process and customer dissatisfaction (and more work) after delivery. You need true end-to-end process measures. For example, in an order process, you should measure order request to order fulfilment, in terms of value to the customer, such as speed of response and number of contacts required to complete.

Adherence to process is another potentially very useful performance measurement that organisations are looking to implement, since case based reasoning tells us performance will improve if the process is adhered to. It has the added advantage of helping to improve the process, as deviations are uncovered and resolved.

“When our field staff became more process oriented, they realised that if they spent some time improving the scripts for the frontline service staff, they would eliminate some of their own problems.”
Establish clear and visible accountabilities, and enforce them

The second key to successful performance measurement is to understand and make visible who does what, and name the process owners who are responsible at every stage. Our research showed that genuine performance improvement seldom occurs unless an individual takes responsibility for it and that this is clearly visible to the rest of the organisation.

Figure 2 Four progressive models

We found that accountability for performance investigation and for action falls into one of four models, as shown in the illustration. In model 1, the central performance measurement team measures performance but line management is entirely responsible for acting on the findings – for example, BAE Systems has centralised metrics that are reported from all businesses, but all issues are taken up by the line. Model 2 organisations have a clearly defined central performance measurement team, but a number of options for assessing and addressing performance. In model 3, the central performance measurement team works jointly with the line managers to analyse the measures and investigate performance issues. (This is the case at Shell Distribution, as described earlier.) In the model 4 approach, the central performance measurement team is solely responsible for analysing the measurements, designing and implementing fixes.

We cannot recommend model 2 as accountability is often vague and the variety of different approaches obscures responsibilities. We also cannot recommend model 4, as designing solutions without involving those who actually do the work leads to sub-optimal solutions and a lack of ownership for their adoption and success.

The difference between models 1 and 3 shows up in they way they handle the tension between getting at the root causes for problems revealed by performance measurements, and the more immediate challenge of getting things running better for today. Model 1 is likely to favour fixing the symptoms because the line managers responsible for improvements will want a fast response. It will need good management to also address root causes. We recommend model 3, where the central performance measurement team works jointly with the line managers and can ensure that there is focus on identifying the deeper root causes and designing solutions to prevent them recurring.
A practice widely used in manufacturing plants, and now moving into the back office and service sectors, is to make front line staff responsible for investigating and improving their own performance. With this approach, teams typically display their performance measures prominently and usually update them themselves with a frequency aligned to the ‘heartbeat’ of their work – typically daily targets, set and reviewed in brief, daily team meetings.

“We review performance metrics daily/weekly/monthly and this works well; the only issues that get escalated are the ones that we don’t have the capability or influence to control. The goals and objectives come down, but ownership is lower down.”
Ensure your measurements will lead to action

The third feature common to organisations that are successfully using performance measurement to improve their operational performance, is that they ensure that staff are equipped to act on the insights they gain from measurement. If they do not have the right skills and tools, the people designing performance improvements will be less effective and probably frustrated, and the process will be unnecessarily slow and sub-optimal.

Traditionally, teams waited for their managers to tell them where and how to make improvements. Giving staff ownership of their own performance and tools and procedures that empower them to act creates behaviour that seeks continuous improvement and gets to the root causes of problems – behaviour that delivers fast, robust solutions and sustained performance improvements. Front-line staff are likely to react faster and create better solutions than managers who are not so close to the problem.

Teams will need practical training in analysis techniques such as brainstorming, five ‘Why’ s, and cause/effect diagramming, and in designing solutions. They need to be given the time away from their normal operational duties to work on fixing the root causes of problems. (The time required is less than most expect.) Teams must also be given access to advice from centralised operational excellence teams, who provide deep skills in analysis and help with techniques to solve problems, as well as suggesting best practice from (say) other regions. Although front-line teams are designing solutions, we recommend that managers retain the ‘go/no-go’ decision on implementing the improvements since they are ultimately responsible for the teams’ performance.

There may be cultural barriers. The managers will need coaching, to adjust to this major change in behaviours. Front-line staff will need to be convinced of the benefits, and that this is not just a way for management to load more work on to them. At South West Water, implementing the ‘Service+’ programme took 18 months in total, including the ‘hearts and minds’ training of 400 people. It is important to realise that performance measurement and accountability for performance does not mean there has to be a culture of blame. Instead, measurement should be seen as a way of improving operations rather than just controlling them. Similarly, performance league tables (at business unit/factory level or between teams) are a useful way to share best practice and set targets. At South West Water, operational performance data is shared among contracting partners; and at an individual level, all employees earn a bonus related to the status of 11 ‘smiley faces’ covering cost, quality, regulatory compliance, service and environmental elements. Thus everyone in the company is motivated to contribute to performance improvement.

“We’ve changed the way we train people, to try to empower people and help to facilitate doing things better. We tell them it can be OK to divert from the script – for example, if someone reports a leak at a neighbour who’s not in, it’s OK to call that neighbour, or intervene, even where the script say we only deal with household incidents when the registered occupier calls.”
Conclusion

Organisations must measure their performance in order to improve it, but best practice is still evolving to cover emerging areas of business and new approaches in established ones. However, our research discovered three steps that successful organisations are taking to improve their performance through measurement.

- First, they align their measurements with their business objectives, usually by using a skilled, central team to design the measurement system.

- Second, they define and enforce visible accountability both for measuring performance and for acting on the findings – clearly identifying how responsibilities are shared between management and the front-line.

- Third, through training, resources and empowerment, they ensure that action is taken as a consequence of measurement.

We recommend every organisation to take these three steps in the use of performance measures to improve operational performance.

Figure 3 – Ultimately, improved performance is about

- Performance measures
- Help
- Aligned objectives
- Drive
- Guide
- Individual accountability
- Clarifies
- Inform
- Appropriate action
- Demonstrates
- The right ‘existing’ behaviours
- The change towards the new desired behaviours
- Deliver
- Improved operational performance
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