Strategic Performance Measurement

Boost Your Organization’s Performance – By Measuring It!

GRAHAM KENNY
To my wife, Margaret,  
my children, Shaun and Joanne,  
and my daughter-in-law, Michelle —  
all of whom have been and remain  
a wonderfully positive force in my life.
BOOKS BY
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“All the good business leaders I know are maniacal about measuring things. They know their sales data and customer-satisfaction numbers, which divisions of their company are beating expectations and which are lagging behind. Some even analyze their calendars to make sure they’re spending time on the right priorities. (I admit I’m one of those.)

Measurement is a big part of mobilizing for impact. You set a goal, and then you use data to make sure you’re making progress toward it. This is crucial in business – and it’s just as important in the fight against poverty and disease.

As people gather in late September at the U.N. and at the Clinton Global Initiative to discuss ways to make the world better, there will be a lot of talk about future efforts and new strategies. I hope there will also be a lot of talk about measurement and evaluation. If you want a better world, you need to constantly take stock.

Consider what happened when the U.N. adopted the Millennium Development Goals (MDGs), a set of eight targets for improving health, education and other areas. Before the MDGs, there was no global consensus on the biggest problems in human development. Rich countries gave aid to poor ones, but without shared goals or
a common way to measure progress, they often worked at odds with one another.

The MDGs helped enormously. Governments, corporations and donors set targets for measuring progress. They could see which countries did well and which fell behind. This made it possible to target funding and effort where they would do the most good. The results were phenomenal. For example, deaths among children under age 5 have dropped more than 40% since 1990, the baseline year for the MDGs. That’s one of the biggest reductions in child mortality ever recorded.

If that’s not mobilizing for impact, what is?

In 2015, the current MDGs will expire and the U.N. will adopt new goals. Whatever they are, I hope the new MDGs will include clear, measurable targets. We can afford to make time for gathering data and crunching numbers. In fact, when it comes to saving lives, we can’t afford not to.”

“In the War on Disease, Measurement Matters,” Bill Gates, Founder and Chairman of Microsoft and Co-Chair of the Bill & Melinda Gates Foundation, Time, September 30, 2013.
My aim in this book is to empower all managers, be they CEOs or directors on boards, or in the rank-and-file, by making sense of performance measurement. This, I hope, will make their organization’s purpose clearer, their working lives easier, and their personal feelings of achievement just that much greater.

I’ve always found managers to be remarkably conscientious people. They give their all to achieve what’s expected of them. In the private sector they work extremely hard to produce returns for their company’s owners – without question. In the public sector they struggle with bureaucracy and, in spite of all the frustration that occurs, focus on the public interest. In the not-for-profit sector they endure all the ups and downs of funding uncertainty to produce the best results for their organization’s beneficiaries – without fail.

My heart goes out to managers when I see their efforts being misdirected. Give them a set of measures with targets, and they’ll do their darndest to meet those targets, even if the measures are trash. But, they think, it’s my responsibility. Sometimes they’re unaware that the measures are rubbish, so they press on. Even if they know they’re faulty, they often don’t have the power to improve them.
My interest in and involvement with performance measurement goes back more than 40 years. In 1970-71, I undertook a Master’s Degree in Management at the newly established Durham University Business School in England. There, a subject taught by Professor John Machin called “Management Control Systems,” truly fascinated me. I stayed on in the UK for a few months after completing my Master’s to work with a small team that John had assembled.

My engagement with performance measurement continued after that time but surged with the publication of several articles on the topic in the mid-1980s. I supervised the Master’s Degree thesis of a colleague of mine, Alan Dunk, while we were both academics at the University of Technology, Sydney. His Masters, undertaken at Macquarie University also in Sydney, was concerned with the weight placed on a set of measures derived from, and then assessed by, marketing and production managers. Alan was, until retirement, Professor of Accounting at the University of Canberra.

Performance measurement re-surfaced when I ventured into management consulting in 1989. It sits on top of the tree with CEOs and senior management teams as one of their uppermost priorities. My interest now was not academic, but practical. This required a major shift – from collecting data for the purpose of developing and proving or disproving theory to developing theory and method to improve practice. As an academic you start with theory, go to practice for data, and return to theory for conclusions. As a consultant, you start with practice (your client), go to theory (and method) to
make sense of it, and return to practice to provide assistance. As a management consultant, my focus was now clearly on “how to do it” and how to do it effectively.

As a result, over the last two decades I can say that my knowledge of performance measurement has deepened. Working with more than 5,000 clients and a diverse range of organizations has given me an even greater appreciation of the need for, and the problems connected with performance measurement. I’ve also clarified its definition and developed effective performance measures in practice.

Readers should find this book:

- **Practical.** It focuses on solutions to practical problems in the field.
- **Useful.** It provides numerous expositions, examples, descriptions and cases to illustrate the application of the framework on which the book is based.
- **Theoretically sound.** It anchors the content to the relevant theories and literature, referenced throughout.
- **Personal.** It speaks to the reader directly.
- **Interesting.** It provides first-hand accounts of my involvement with management teams and boards.

All the cases described in the book are real and many come from my client files. In most instances, I have changed the name of the organization.

This is, I hope, a book of rigor and relevance, one that will withstand critical scrutiny while at the same
time proving immediately useful to managers, CEOs and directors on boards – the whole range of people who need to know how to measure performance strategically, what performance measurement really is and how to develop effective performance measures.

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PART ONE

Foundations
Performance in a Nutshell

Practical Problem
- Arriving at a performance-measurement framework

We’ve all heard the comment: how is it that organizations full of smart people do dumb things? How did Treasury Wine Estates, for example, misplace $35 million dollars of bottled wine only for it to be found in warehouses and on supermarket shelves? But here’s another question: how is it that organizations full of average people manage to do some pretty spectacular things? Could it be that systems and methods are the difference.

PERFORMANCE MEASUREMENT STRIPPED BARE

At the beginning of my public seminars on performance measurement, I pose two questions to my assembled audience: “What is performance measurement?” I ask.
I stress the word “performance.” I then follow this with, “How should I measure my performance today?”

The seminar attendees look at me quizzically. So I proceed to lead them through both questions. “I could,” I explain, “measure many things today. I could, with a pedometer strapped to my side, measure the number of steps I take. I could measure the number of PowerPoint slides I employ. I could measure the number of times I use the whiteboard. I could measure how tired I feel at the end of the day. I could …” And so on.

“Are these performance measures?” I ask.

After some hesitation, “No,” some reply, with the rest of the audience remaining unsure – and unclear where this is heading.

“So what are they measures of?” I ask. Sometimes the audience is unsure of the term to use at this point. “Activity,” someone always ventures. And all the members of my audience nod in agreement.

“I can measure my activity easily,” I continue. “But outcomes are more difficult to measure, aren’t they? So who measures the outcomes for today?”

Now they’re sure. “We do.”

“So what is the measure of my performance today?” I probe.

“Whether we get something out of the day,” some say. “Whether we can use the ideas you give us,” declare others.

“That’s right,” I reply. “Absolutely. And today you are my …,” and I stop deliberately.

“Stakeholders,” several will respond.
At this point, I can see an OMG look across most of the faces in front of me. It’s a moment of truth. They realize in a rush, via this simple and present example, that:

- They never fully appreciated the difference between activity and outcome.
- They’d been developing measures of activity and calling them performance measures.
- The reason their organizations have so many measures is that they continually measure activities under the guise of measuring performance.

Having gotten to first base and achieved this ah-hah! moment, I move on to provide a twist to the story. “But is that the only measure of my performance today?”

Now my audience is really stumped. They thought they’d answered the question. So I continue, “What do I get out of today?”

Eventually someone will call out, “Repeat sales.” But from the rest of the audience I invariably get quizzical looks.

So I explain. “What I want out of today is for you to go away and recommend my seminar to others. That will happen,” I continue, “if you get out of today what you want.” This is really messing with their minds as they shift their thinking from them to me. So I go on. “To fully measure my performance I need to assess your satisfaction at the end of the day and track future sales of this seminar. Right?”

After a little time to absorb this new approach, the seminar attendees agree.
With two punches landed – two sets of outcomes: for them and me – I try for a third punch to bring it all together. “So measuring performance is measuring relationships,” I state. Having given my audience a moment to absorb this, I repeat with more emphasis, “Measuring performance is measuring relationships.” And just to make sure the concept sinks in, I follow this with, “And what we’re doing in management is growing and strengthening the relationships our organizations have with their key stakeholders.”

This needs clarifying, I can see. And there’s nothing better than a diagram for doing so. Figure 1.1, showing “my audience” and “me,” also illustrates the other terms we’ve been discussing. I then put a broken line down the middle of the two arrows and draw a pair of scissors at the base of the line. This is to point out that performance measures are found by exposing the content and details of the relationship shown by the arrows in the diagram.
My audience appears satisfied, even relaxed. While there is still much work to do, I have at least lessened their anxiety by permitting them to let go of the numerous “performance” measures in their organizations that don’t really measure performance.

**KEY PRINCIPLES FOR MEASUREMENT SUCCESS**

Although measuring performance has been with us for a long time, it still confounds. For many organizations it produces a real mess. My seminar delegates are but a small sample of the thousands of CEOs, managers, employees and board members who struggle with performance measurement, baffled by one idea or fad after another. Many just play the game by striving to meet their targets on measures they know to be meaningless.

Let’s see what basic terms and fundamental principles can be distilled from my experience.

*Entity.* When we measure performance we measure the performance of an entity. In the example above, I was the entity in focus. But we could shift our focus to the Bank of America as a whole, to the Customer Check-in Section of British Airways or to the receptionist at a Toyota Service Center. Here’s the point: No matter what the entity in focus, the method of developing performance measures is exactly the same.

*Stakeholders.* All effective performance measurement starts with identifying key stakeholders. In my case on that day, it was my audience. I stress “key” here because