Performance Measurement

6

Within the context of this book, the word "performance" refers to how well a person, a group of individuals, a machine, a system, etc. does a piece of work or an activity. In the previous chapter, we have illustrated that an enterprise intended strategy determines the intended purpose of the enterprise and provides the framework for decisions about people, leadership, customers or clients, risk, finance, resources, products, systems, technologies, location, competition, and time.

This chapter delves into the key characteristics and constituents of performance measurement necessary to take your enterprise business to the "Continuous Improvement" stage of maturity as described in a previous chapter.

In practice, an enterprise business intended strategy is realized to a lesser or greater extent. How well an enterprise business realizes its intended strategy defines the enterprise business performance. Implicit in this definition are a criterion of success and an actual measure of success.

6.1   Performance Measure

We define an enterprise business "performance measure" as "*a criterion of success stated in relation to the enterprise business realized strategy or in relation to its intended strategy.*"

Thus, the goal of a "performance measure" is to enable improvement. For example, a multi-national enterprise has this commitment in its intended strategy: "*Prepare the assembly business unit for the transition to a continuous improvement maturity stage by ensuring the executives at all levels understand their new responsibilities and accountabilities,*" the performance measures are:

1. Training is provided to executive managers across the assembly business unit.
2. A communications plan is created for the assembly business unit and is used to educate managers and employees on continuous improvement maturity
3. Assembly business unit executives are working to integrate HR planning into business planning

Dean Spitzer, in his breakthrough book "Transforming Performance Measurement" (Spitzer, 2007), written about performance measurement, presents an essential approach to performance measures for enterprise businesses to achieve effective transformational performance. He describes how performance measures, properly understood and implemented, can transform organizational performance by empowering and motivating individuals. Performance measures understood in this way moves beyond a traditional view of quick fixes and fads to sustainable processes that can be used successfully to coordinate decisions and actions uniformly throughout an enterprise business.

Dean R. Spitzer shows that – and we concur with this view – an enterprise performance measure is not primarily about the numbers, but about providing clearer perception and greater shared insight and knowledge within the enterprise business. Accordingly, an enterprise business "performance measure" should not be confused with an enterprise business "performance indicator," which we define as:

> *An actual specific measure (quantity or quality) of success stated in relation to the enterprise realized strategy or in relation to its intended strategy.*

For example, "improvement in customer satisfaction" is a standard performance measure for quality programs within enterprise businesses. The actual improvements that an enterprise business can make in satisfying its customers can be quantified with an indicator such as the "customer satisfaction index score."

As another example, "improvement in physical health" is a standard performance measure for exercise programs within training institutes. The actual improvements that customers of such institutes can make in their physical health can be quantified with indicators such as "blood pressure," "heart rate" and "stress test scores."

6.1.1 Major Functions of Performance Measures

Employees perceive, understand, and develop insight on the performance of the enterprise business through the enterprise business "performance measures." They are critical components for moving an enterprise business from its current maturity stage to a higher maturity stage, hence improving the enterprise business performance. Some of the major functions of "performance measures" within an enterprise are to (Spitzer, 2007):

1. Increase visibility of the enterprise business performance
2. Focus attention
3. Clarify expectations and get right to the point
4. Enable positive accountability
5. Improve execution
6. Promote consistency
7. Facilitate feedback
8. Enable strategic alignment
9. Improve decision making
10. Enable change and individual improvement

Increase visibility of the enterprise performance – Because most of what happens within an enterprise business (activities, processes, capabilities, and performance) is not directly visible, a performance measure then becomes "the enterprise eyes" so that activities, processes, capabilities, and performance can be effectively managed and improved.

Focus attention – Because employees are faced with so many competing demands on their time and resources, activities on which "performance measures" have been defined tend to get their attention.

Clarify expectations and get right to the point – One of the most important roles of enterprise business executives and managers is to communicate expectations to the workforce. Too often these are vague, resulting in considerable confusion.

Enable positive accountability – By positive accountability we mean an opportunity to perform and improve. An enterprise business "performance measure" will tell the employees how well they are performing against commitments. When employees can clearly see a performance measure in a way that is meaningful to them, they are much more likely to take positive action.

Improve execution – An enterprise business will not be able to realize its intended strategy without good execution. And it will not be able to execute well, consistently, without "performance measures." To synthesize Larry Bossidy and Ram Charan views, execution is a specific set of behaviors and techniques that companies need to master in order to have competitive advantage (Bossidy, Charan, & Burck 2002).

You cannot execute well without robust dialogue. Robust dialogue starts when people go in with open minds. They are not trapped by preconceptions or armed with a private agenda. They want to hear new information and choose the best alternatives, so they listen to all sides of the debate and make their own contributions. When people speak candidly, they express their real opinions, not those that will please the power players or maintain harmony.

Formality suppresses dialogue; informality encourages it. Formal conversations and presentations leave little room for debate. They suggest that everything is scripted and predetermined. Informal dialogue is open. It invites questions, encouraging spontaneity and critical thinking.

Informality gets the truth out. Finally, robust dialogue ends with closure. At the end of the meeting, people agree about what each person has to do and when. They have committed to it in an open forum; they are accountable for the outcomes.

Think about the meetings that you, as enterprise executive, manager, leader, or team member have attended – those that were a hopeless waste of time and those that produced energy and great results. What was the difference? . . . the difference was in the quality of the dialogue.

Robust dialogue alters the psychology of a group. It can either expand a group's capacity in executing tasks or shrink it. It can be energizing or energy-draining. It can create self-confidence and optimism, or it can produce pessimism. It can create unity, or it can create bitter factions. Robust dialogue

brings out reality, even when that reality makes people uncomfortable, because it has purpose and meaning.

Follow-through is the cornerstone of execution, and every individual who is good at executing follows through religiously. Never finish a meeting without clarifying what the follow-through will be, who will do it, when and how they will do it, what resources they will use, and how and when the next review will take place and with whom.

And never launch a performance measurement and management initiative unless you are personally committed to it and prepared to see it through until it is embedded in the culture of the enterprise business.

Promote consistency – Outstanding enterprise business performance is not about success in a quarter or year; it is about consistent success over the long-term − and this requires more than good luck.

Facilitate feedback – An enterprise business will not be able to perceive early warning signals, diagnose early problems, execute anything or realize its intended strategy consistently without good feedback. Feedback is the basic navigational or steering device of any individual or enterprise. Without a good "performance measure" the enterprise is flying blind, and it will take a lot of good luck to realize its intended strategy or continually close the gap between its realized strategy and its intended strategy. In this perspective and as Dean Spitzer conveys, we can think of an enterprise business performance measure as the lock, and feedback as the key to improvement. Without their interaction, the door to improvement will remain closed.

Enable strategic alignment – Consistent behavior and performance across any enterprise business is impossible without an alignment to its intended strategy. In fact, most enterprise businesses nowadays appear to be composed of a collection of functional silos that operate so independently that there seems to be little connection among them at all, although employees are trying to do perform their tasks at best by maximizing their own functional measures of success. The key to making self-interest coincide with enterprise interest is through a full-alignment with the enterprise business intended strategy. We will discuss how in a next chapter of this book.

Improve decision making – Taking good decisions and taking them faster and more consistently than the competition is a characteristic of highly effective enterprises.

Enable change and individual improvement – When individuals want to change, they commonly use performance measures to help them to do so. In fact, when individuals feel good about their performance potential, they tend to want as much information as possible about how they are performing. They realize that performance measures are the key to improvement of their status. In a relatively nonthreatening environment, "performance measures" help employees track their progress toward a defined commitment. Project team members work energetically to reach predefined milestone, while open-ended timeframes lead them inevitably to complacency and low energy.

6.2   Realizing Performance Measurement

Within an enterprise business, each one of these functions of "performance measures" can be experienced in a positive or a negative manner depending on the maturity stage of the enterprise business. For example, each and every function will be experienced quite differently in within an enterprise business at the first or at the second stage of maturity, where leaders dictate or a command-and-control environment prevails. If employees perceive that a performance measure is in place to help them to become more successful (rather than to monitor, judge, command and control them) and to empower them (rather than coerce, manipulate and control them), then the performance measure will become a powerfully positive force in the enterprise.

In the process of moving the enterprise as a whole (businesses and customers) from its current stage of maturity toward the "Continuous Improvement" stage of maturity, a critical the task of every employee assuming a leadership role (as defined in a previous chapter), is also to create an optimal environment for effective use of the enterprise business performance measures.

As Dean Spitzer indicates (Spitzer, 2007), also confirm through our experience with client organizations, most enterprise businesses are unable to establish the right environment for the effective use of performance measures. This aspect is very crucial to developing and implementing performance measures within an enterprise business. In the following sub-sections, we describe and synthesize, following the writings of Dean Spitzer, the keys necessary to establish the right environment and take advantage of at least some of the functionality that "performance measures" have to offer within an enterprise business.

We will discuss the technical aspects of performance indicators (collecting data, calculations, analyzing data, statistics, etc.) in our next book entitled "Handbook on Continuous Improvement Transformation: The Lean Six Sigma Framework and Systematic Methodology for Implementation."

The four determining factors to making progress on the development and implementation of performance measures, as articulated by Dean Spitzer and following extensive analysis of existing leading organizations are: Context, Focus, Integration, and Interactivity. The following sections synthesize Dean Spitzer's writings.

6.2.1   Create a Positive Context for "Performance Measures"

Context, here, refers to the circumstances that form the setting for events, statements, ideas, constraints, data, social climate, or human factors, and in terms of which it can be fully understood and assessed, and within which "Performance Measurement" are carried out. The context of a performance measure, as with any improvement initiative, sets the tone by presenting the purpose of a performance measure as either negative (when used to inspect, control, report, coerce, manipulate) or positive (when used to give feedback, learn, improve). It reflects how the

performance measure is perceived by employees and therefore how they respond emotionally to it. Furthermore, the context of a performance measure can make the difference between employees being energized by a performance measure or employees just minimally complying with it, and even using a performance measure for their own personal benefit. This is why the first determining factor in the development and implementation of performance measures is to create a positive context.

We have indicated in the section above that an enterprise business performance measure is not primarily about the numbers or the performance indicators, but about providing clearer perception and greater shared insight and knowledge within the enterprise business. A performance measure is implemented in a social, economic and environmental context within the enterprise, and has intended or unintended positive and/or negative impacts. As such, enterprise business executives, managers and leaders should consider a performance measure in its cultural and social environmental context, which largely determines its effectiveness. Several factors can affect this context, three of which strongly influence it. These are: the climate within the enterprise business, the measurement expectations, and the human factor.

The social climate within the enterprise business – It is the prevailing "atmosphere" within the enterprise business, the social-psychological environment that profoundly influences all behavior, and it is typically measured by employees' perceptions. The prevailing "atmosphere" is what best "defines" an enterprise business to employees. It reflects perceptions on a variety of dimensions, including, among others:

1. The extent of formality (hierarchical structure) versus informality
2. Trust versus distrust (and cynicism) of employees
3. Open versus closed communication
4. Controlling versus collaborative decision making
5. Inward-looking versus outward-looking
6. Past focus versus future focus
7. Task-focus versus people-focus
8. Change versus rigidity
9. Risk-taking versus risk aversion

Enterprise businesses at the "Continuous Improvement" stage of maturity are characterized by a prevailing "atmosphere" that is most conducive to the continuous development and improvement of performance measures. These enterprise businesses tend to be rated highly in such dimensions as openness, trust, honesty, collaboration, customer-focus, and flexibility.

The measurement expectations – Dean Spitzer propounded the view that the measurement expectations describe the performance measurement practices, and the "rules" of conduct relative to performance measures within the enterprise. Although not always explicitly documented, and often unwritten, these expectations tend to reflect the enterprise's assumptions, its deeply-held beliefs about performance measures. For example, expectations will prescribe what types of performance measures are most credible. In most organizations today, financial

measures are still much more highly valued than nonfinancial ones. In some organizations, nonfinancial measurement is still just an afterthought, or even actively resisted.

The Human Factor – This is the most critical component of the context of measurement. The ideas and inspirations that guide and improve performance measures within the enterprise businesses come from its people. Indicators of performance measures; i.e. the actual specific measures, are of no value without human involvement. It is people who will ultimately determine their effectiveness. It is human beings, not machines, who transform performance indicators into information, information into insight, insight into knowledge, and knowledge into wisdom. Without people, indicators of performance measures would just sit in a repository or in a report and be good for nothing. People bring attitudes, commitment, capabilities, skills, knowledge, and experience into their use of the performance measurement.

Within enterprise businesses at lower stage of maturity, initiatives on the development and implementation of performance measures are often viewed as managerial control devices and solely for the benefit of management. As a result, employees often tend to respond with distrust to the implementation of performance measures in their workplace. Performance measures can become a source of division and conflict between managers and their employees. It can even result in adverse results wherein employees circumvent intended outcomes.

To create a positive context for performance measures within enterprises at lower stage of maturity, enterprise business executives, managers and leaders must keep in mind that the purpose of a performance measure is to improve from the current of activities state toward a better state. The following are Dean Spitzer recommendations for creating a positive or improving the prevailing "atmosphere" within the enterprise business in relation to performance measures:

1. *Start on a small pilot scale*. Start the development and implementation of performance measures wherever possible. Of course it is desirable to be able develop and implement performance measures through the entire enterprise business, but when that is not possible, start from a secure position from which further progress may be made.
2. *Emphasize the improvement and learning purposes*. Ensure that those involved understand and absorb that the development and implementation of performance measures must be focused on improvement and learning purposes (which are the highest and most motivating purposes of a performance measure) to achieve the enterprise intended strategy, otherwise ulterior motives will take over.
3. *De-couple performance measures from judgment and rewards*. Make it clear that the development and implementation of performance measures will not be used to judge, or as the direct basis of rewards. Both are incompatible with the experimental attitude that is essential for the development and implementation of performance measures and receptivity to learning from the data.
4. *Emphasize the importance of honesty – even if the truth hurts*. Subjective performance measures, which do not have a direct impact on realizing the enterprise intended strategy, but are simply the product of a large number of

individual decisions more or less coordinated, are worthless unless respondents feel safe to be honest. After all, if you don't tell your doctor where it hurts, you are not fulfilling your responsibilities as a patient.

5. *Do not let the initiative devolve into another "report the metrics" exercise.* Old habits are difficult to break. There is always the possibility that the development and implementation of performance measures will revert back to another reporting exercise. Be vigilant, do not let that happen!

6.2.2   Focus: Select the Right "Performance Measures"

The second key to making progress on the development and implementation of performance measures is "Focus." It concentrates attention on what is important: aligning performance measures with the enterprise business intended strategy, and with what needs to be managed, relative to the opportunities, capacities, and skills at hand. Within an enterprise business, there is a variety of things on which performance measures that can be defined. But the right performance measures will provide focus and clarity to the management and the remaining employees. The purpose of focusing a "performance measure" is to differentiate between the critical few high leverage drivers of the most important outcome of the enterprise business intended strategy – if these outcome were only known – and the variety of other performance measures – the trivial many – that permeate every area of an enterprise business and keep the enterprise business running.

Defining and developing generic or standard industry-approved performance measures should not be sufficient as these generic performance measures are satisfactory for maintaining the status quo, keeping the enterprise business running, but not for taking the enterprise business to the next stage of maturity and differentiate itself from the competition. In today's highly competitive and increasingly services-oriented marketplace, it is vital that an enterprise business differentiates itself from the competition.

As performance measurement expert Dean Spitzer pointed out, the industry-approved performance measures "*are like your body's 'vital signs' – important, but they won't get you to the pinnacle of health; they are not differentiators (unless the enterprise intended strategy focuses on operational efficiency, and then certain generic performance measures can be highly strategic).*"

Of course, properly defining and developing generic or standard industry-approved performance measures is necessary for winning in the marketplace, but it is not sufficient for sustainable long-term performance.

For example, all companies need to define performance measures on revenue, cost, profit, and customer satisfaction; manufacturing companies need some way to define performance measures on raw materials' costs, productivity, and quality; insurance companies can't stay in business if they don't define a performance measure on risk; banks have to define performance measures on deposits and return on their investments. The list of important but generic performance measures is virtually endless.

In order to thrive – not just survive – and move to a higher stage of performance measurement maturity, enterprise business executives, managers and leaders need to focus attention on the few critical performance measures that matter most to really drive the enterprise business performance, and focus all employees' attention on those performance measures. The following are adapted Dean Spitzer's recommendations for defining and developing focused performance measures:

1. *Challenge old and outmoded assumptions*. Be willing to challenge the existing mental performance measures models. This requires that the implicit (and often hidden) assumptions behind existing performance measures be made explicit.
2. *Take time to understand the breakthrough desired*. There is no substitute for taking the time to understand the situation that has given rise to the need for new performance measures and what is expected of the new performance measures.
3. *Make sure any new performance measure is linked to the enterprise intended strategy*. All new performance measures must reflect the performance goals of the enterprise as a whole. They should be clearly related to what the enterprise wants to accomplish and how the enterprise does business. Determine how the new performance measure will help release more of the enterprise unused strategic potential.
4. *Make sure that the performance measures are doing what they are supposed to do*. Make sure they are yielding valuable knowledge, driving the right improvements, and not having negative side-effects.

6.2.3   Integration: Align "Performance Measures"

Integration addresses the flow of measured information throughout the enterprise business so that the co-variations of different performance measures can be observed relative to the overall value created. Focusing on isolated functional performance measures causes sub-optimization, which is improvement of isolated functions to the detriment of overall organizational effectiveness, and tends to build functional "silos"[1] that focus exclusively on their own self-serving measures. For example, too much focus on profitability can actually undermine customer loyalty, while too much emphasis on customer loyalty can undermine profitability.

This third key to making progress on the development and implementation of performance measures is the overall trade-offs and balance among several different factors to create an optimal configuration of performance measures across the enterprise business. The objective of integrating performance measure is to avoid cross-purposes operations within an enterprise business. Individual performance measures can be poorly used if they are not integrated into a larger "measurement framework" that shows how each performance measure is related to other important

---

[1] Term used to denote areas within an enterprise where managers occupy a privileged position in terms of resources and influence, and where they use this for their own, self-interested, functionally-oriented motives rather than for the wider benefit of the enterprise.

measures, and how the constructs (which the performance measures represent) combine to create value for the enterprise as a whole.

There are two types of integration: vertical and horizontal. Vertical integration involves the connection between an enterprise business intended strategy and performance measures up and down within the enterprise business units and/or departments. Horizontal integration is the connection of performance measures across the enterprise business units and/or departments. Aligning what employees are currently doing within the enterprise business is not the key to successful integrated performance measures, but aligning what employees should be doing – executing the enterprise business intended strategy – as we will illustrate in a next chapter.

6.2.4   Interactivity: Develop Dialog on "Performance Measures"

The fourth key to making progress on the development and implementation of performance measures is "Interactivity." Interactivity speaks to the inherently social nature of the purposes of performance measures, so that it embodies an alignment with the enterprise business model, intended strategy, and operational imperatives. It represents the social communicative aspects of "performance measures" which occurs through a search for shared meaning or understanding. Because performance measures need to be integrated across an enterprise business, functions and people affected by those performance measures within the enterprise business need be become more interactive through dialogue.

This interaction around them is what will turn the development and implementation of performance measures within the enterprise business into a changed and effective reality. Unfortunately, very few people are skilled at dialogue, and very few enterprises business currently have a strong capacity for dialogue. In fact, in most enterprise businesses dialogs are suppress in favor of debates, the more formal and adversarial processes which are antithetical to dialogues, because the purpose is for one individual to win an argument.

In order to take advantage of the interactivity that should occur at every stage of the development and implementation of performance measures, enterprise business executives, managers and leaders must endeavor to create a positive context of performance measures. Dialogue thrives on openness, honesty, and inviting multiple viewpoints. In dialogue, diversity of perspective is almost always good – whether it be functional, cross-functional, local, global, systemic, etc. The more perspectives involved, the richer the dialogue can be around performance measures. In relation to performance measures within an enterprise business, dialogue as interactivity should incorporate: learning, understanding, defining, listening, modeling, hypothesizing, balancing, linking, and integrating.

Although most enterprise businesses have a long way to go on the development and implementation of performance measures, enterprise businesses at the "Continuous Improvement" stage of maturity have been identified as being more effective than most in using performance measures. They have enviable records of

both financial and nonfinancial performance. These enterprise businesses at the "Continuous Improvement" stage of maturity are not more successful because they use isolated performance measures, but because of how much more effectively they use performance measures as a critical part of managing and doing work on a continuing basis.

6.3   Assessing Performance Measurement Maturation

Spitzer takes a developmental approach to measurement improvement, providing a Measurement Maturity Assessment. Clearly, the transformative potential of performance measurement is dependent on the maturational complexity of the context in which it is implemented. Spitzer outlines the ways in which each of the four keys plays into or hinders transformation and maturation. He also provides practical action plans and detailed guidelines.

Alternatively, the survey form in Table 6.1 can be used to assess the current status of performance measures maturation within an enterprise business.

Table 6.1 Enterprise performance measure context questionnaire

#	Observation	Rating
01	I am confident that that the most important factors for the present and future success of the enterprise are being effectively measured	
02	Performance measures are continuously aligned and re-aligned with the enterprise intended strategy	
03	The importance and value of performance measures are acknowledged throughout the enterprise?	
04	Employees in the enterprise proactively seek and welcome performance measurement-based feedback	
05	Employees have positive attitudes toward performance measures, trust it, and are confident that it will not be used against them	
06	Performance measures in the enterprise are timely and easy to understand	
07	Performance measures are being routinely converted into knowledge and insight for learning purposes	
08	Projects and initiatives in the enterprise are measured for effectiveness (not just for cost and timely completion)?	
09	The enterprise performance measures foster decisiveness, openness, transparency, and collaboration	
10	The enterprise performance measures foster cross-functional collaboration	
11	The enterprise stakeholders understand the cause-and effect relationships, dependencies, and trade-offs among key performance measures	
12	The enterprise stakeholders feel confident that the performance measures are providing the insight and foresight to guide high quality decision-making	
13	Significant progress is been made to integrate performance measures (especially those related to customers) to enable more decision making	
14	Continuous improvement of the performance measures framework and updating performance measures is an enterprise priority	
15	Progress is being made in setting performance measures on difficult-to-measure sources of intangible value (e.g., talent, knowledge, innovation)	
16	The enterprise is open to experimentation with new, innovative, and cross-functional performance measures	
17	There are frequent interactivity and positive dialogues about performance measures in staff and management meetings	
18	The enterprise performance measures framework is dynamic and flexible enough to adapt quickly to increasing complexity and changing circumstances	
19	Are performance measures used at least as frequently for improvement and learning as it is for monitoring, reporting, and rewarding	
20	There is a major effort in the enterprise to educate employees about performance measures	

Use the standard five-point rating scale:

5 = Strongly agree; 4 = Agree; 3 = Neither agree nor disagree; 2 = Disagree; 1 = Strongly disagree

Interpretation key:

Highest score is 100

High score range is 75–100. Your enterprise business is doing a good job on performance measures

Moderate score range is 50–75. Your enterprise business is making progress on performance measures

Low score is below 50. Performance measures framework in your enterprise business is still very much in need of improvement

Danger zone is below 25