Performance Management and Benchmarking

By Chuck Griffin

When you reflect back about what was important to you as an individual and in your organization a few years ago, and compare that to today you know that you have changed the way in which you do business. So when was the last time your measurement system was changed? In most cases, you can't remember when it was. So how can you continue to move your organization forward, measuring the things that used to be important?

You need to establish from the start what constitutes success for your organization.

In this age of empowerment, where your staff has more autonomy, you must be sure to measure the results of the process and not measure the staff. If your organization is moving towards cross-functional teams, or if you are using cross-functional teams, the value of individual contributions is diminished, and the performance of the team becomes important. If the team manages a complete process, then they need to be measured on the total process output. Otherwise, you may get optimization of sub-processes to the detriment of the whole.

You need to be monitoring the activities that are important to the success of your organization. When people know what is being measured and they are rewarded in accordance with that, that is exactly the performance or behavior you will get. If you reward people on short-term results, you will get short-term strategies. So you can shape the destiny of your department, company and industry by what you measure.

But you only want to measure what is necessary. While performance measurement is important, it does not provide customer service or ship product out the door. It does provide operational information that can be used to improve the service delivery or product shipping, but performance measurement is a low value added activity in a maintenance organization. So, we need to select carefully what we measure. We want to assist our managers with information not swamp them with data!

The critical success factors need to reflect the mission of the corporation, the values that the corporation and the vision; In other words the Strategic Plan of the corporation.

The Strategic Plan of your organization should be reviewed to determine what is important to your success. It does not serve your purpose if you are trying to differentiate yourself from other firms, such as private sector companies, to use the same measurement criteria as they do, or your industry. While you need to review what your competition and your industry indicate are Critical Success Factors, you should not blindly follow them unless that is exactly what you are trying to become or compete with.

You need to also consider what your customers and strategic partners are saying about your service. What is it that your customer values when dealing with you. If it is your accuracy, then perhaps that is what should be measured. And you need to keep in mind that it can be different for each customer. You need to review your customer information and determine what is the underlying element that your customers value.

You also have strategic partners; suppliers, consultants, contractors all whom have a view of your business. Ask them what it is that keeps them dealing with you. Also, ask them about their perceptions of where the market place is moving to. Is there a new paradigm on the horizon that needs to be considered? All of this helps you establish what drives your business.

You need to determine how you are going to use this information to reinforce the appropriate results and behavior to obtain those results. You want to provide clear, concise information, so take a look at how it will be used.

One obvious use is in performance measurement of individuals, teams and the organization overall.

Bottom line fiscal control is also what critical success factors have typically been used for often either using an existing financial system or mirroring an existing system. You need to remember though that accountants and auditors to serve financial needs, developed the financial system. As managers, you need additional information to effectively run your business. A financial system would give you what has been spent, while you want to know your exposure (commitments and workplace liabilities).

The critical success factors that you measure must conform to the SMART cirteria.

They must be:

Specific: Specific factors are those that are clearly identified such that everyone in the organization understands what it is and what it means. When you say customer service, everyone has an image of what that means. But it could be quality of product, cost, schedule performance, or maybe it really means what is your attitude towards the customer. Make sure it is clear in your organization. No ambiguity.

Measurable: The factor needs to be able to be measured. We can measure whether we were late on our customer delivery, but how do we measure whether we had the correct attitude in dealing with the customer.

Attainable: The factors are used to set stretch goals for the organization. When we are measuring our progress towards that goal we need to ensure that everyone in the organization agrees that the goal is attainable.

Reliable: Everyone in the organization needs to be in agreement that what we are measuring and the way in which we are measuring is consistent, without ambiguity. That the measurement quality over time, does not degrade and continues to measure that which is important.

Timely: If we are expecting quarterly results, you need to provide feedback (measurement) monthly. If we are expecting monthly results, you need to provide information weekly, to give your managers a chance to correct the course that the measurements indicate they are on.

There needs to be a mix of factors that look backward as well as that look forward in time. Factors that look back in time are measuring what has happened. This is the traditional financial accounting approach. These factors tell you what has happened and provide an important piece of information in analyzing your organization. Some typical lag factors include:

- A return on investment. After you have invested in plant, training, or the purchase of a new computer system, has it improved your bottom line, turn around time, market position, etc.

- How much revenue per employee is being generated. Now earlier we said to not measure individuals. This is a process measurement of staffing levels based upon sales (or after sales profit), but the sale has been made, and the staff already exist to generate this measurement.

If you are shipping bad product, late, and invoicing double you will get customer complaints. The problem is that the product was already bad, the service delivery late, or the invoice in the mail. Perhaps we should have caught it earlier. We need the traditional approach because it provides benchmark information, traces our progress to the past, and can be analyzed in greater detail because we have more information, and the capability of obtaining additional information. However, we should also be looking to the future so in contrast to lag factors, lead factors try to predict the organization's performance. Instead of just reviewing the return on investment, which is a lag factor, also measure the time it is taking to develop new products to get a better idea of how the return on investment will look in the future.

As well as looking at revenue generated per employee, also look at the time that is being spent by each employee with key customers. If 20% of your customers are responsible for 80% of your business, then it makes sense to spend more time with those customers, understanding their needs today and in the future.

The number of customer complaints measures problems that have occurred. A predictor of the future could measure the % of on time service delivered based upon the customer's requested deadline. Or it could be the total cost of the project/work compared to the customer's budget or quoted price.

All of these factors are lead factors in that they are trying to anticipate organizational outcomes. The lead factors also offer another piece of very important information to us. Before the customer makes the judgement about our service or product, we have an opportunity, by anticipating the outcome, to rectify or turn around a potentially bad situation to effect a more favorable outcome. By measuring these lead factors, we can provide ourselves with a correction mechanism before the customer needs to decide if we exceeded their expectations or failed.

There are a number of places where we can look for our information:

¨ Your maintenance management system

¨ The financial information system.

¨ You can conduct surveys of your customers and significant partners. This will provide good information provided you are asking the right questions. The right questions being those that are strategic to your organization. For example a customer survey should not count the number of customer smiles, it should count the retention rate of your customers, the reorder rate, etc. Long term customers usually use your services more than first time customers. So how much is that worth?

¨ Focus groups are another technique for obtaining information. This is usually internal, however there some external examples such as a focus group with significant partners of the organization to find out what the external perception is of the service that you are concerned about.

You need all of these perspectives into your organization. You need to see it from all angles to make sure you are a high performance organization.

One of the things that need to be understood is that this is a continuous process. You need to establish the Critical Success Factors and measure your performance. The first time that you do this, we call that benchmarking. From there, you establish your goals for a specific period of time. You then measure those Critical Success Factors on a specific frequency, analyzing the information. You need to reward based upon that analysis and then assess if there is measurable progress towards the goals and an observable change in behavior. Depending upon what you measure over the next period, you continue the process. Should the indicators be that you are moving away from instead of towards your goals, then you need to go back to the beginning and look at whether you are measuring the right things in the right way. That is part of the continuous improvement process.