How do you **measure up?**

Continuing an exploration of key findings from his recently completed strategy execution research, **Dr Andrew MacLennan** explores the potency of performance measurement.

I'm lucky enough regularly to be allowed access to different organisations and explore their plans and activities in depth. To get my head round how things work - or don't work - I usually scoop up data from many sources. However, were you to ask what kind of information reveals most about strategy execution in any organisation, the answer would be easy - performance measures.

Curiously, the figures themselves typically offer limited insights. They can fluctuate for many reasons, are of limited significance without baselines or benchmarks and might be inaccurate or irrelevant. What really interests me is how organisations approach measurement. How are measures selected and designed? How is information collected and analysed? To whom, is it reported and how is it really used? What happens when measures tell an important story, be it good or bad? Performance measurement is hugely revealing about how organisations create and try to implement their strategies.

Measures always perform two roles in organisations - 'feedback' and 'feedforward'. Feedback tells us about past performance and can be used to inform decisions about the future. Feedforward is the effect that measures have on people's behaviour. As Peter Drucker and many others since have said, "What gets measured gets managed." Measures matter because they are extremely potent. It is remarkable that in the recent furore over executive bonuses, so little attention has been paid to the selection and design of the performance measures upon which these rewards depend. What is the point in tinkering with the mechanics and timing of bonuses if they reward the wrong outcomes?

At this point, a curious irony and serious threat deserves recognition. Feedback is much more effective in assisting strategy execution than feedforward, yet managers typically use the latter much more enthusiastically - a perverse imbalance that is set to increase. Exploring some detail illuminates why.

The principles about using measures for feedback are well-established. It is accepted that organisations should complement 'lagging' measures reflecting performance in terms of ultimate objectives, with 'leading' measures reflecting performance of indirect drivers of these objectives. This provides a more balanced, sustainable, forward-looking view of overall performance that acknowledges the need to invest in assets that create value indirectly.

Numerous strategic performance measurement systems have evolved, seeking to operationalise these principles, including the Balanced Scorecard and EFQM Excellence Model, for example. These frameworks prescribe that attention should be paid to particular categories of measures that reflect this notion of leading and lagging indicators. However such tools bring with them risks. Prescriptive lenses shape the way managers see their organisations and with such a potent force as measurement, it is crucial that these lenses are focused appropriately. There are several key points to consider to avoid the risks and forge a more customised and useful approach to strategic performance measurement.

First, the measurement tail should not wag the strategy dog. It is essential to establish strategic objectives and determine how they might best be achieved without being constrained by a prescriptive framework for performance measures. Using a measurement framework that is not built around a solid strategy designed for the unique situation and aims of the organisation is fraught with danger. It is impossible to be sure that the right measures are being used or that the emphasis naturally placed on them is driving the organisation in the right direction.

Such is the nature of measurement that the misalignments created can cause organisations to systematically 'march off cliffs'. Most HR practitioners will have seen this phenomenon in action. Many reward structures have encouraged sales people to jeopardise the regulatory compliance and reputations of their employers by mis-selling products. Financial services and energy firms are currently paying dearly for getting this wrong. Similarly, measures such as employee opinion survey return rates have been known to trigger bullying by managers keen to ensure high return rates - an ironic outcome from an initiative aimed at understanding and improving employee motivation.

In short, there is no reason why any given organisation's strategy should reflect the balanced scorecard's four categories, EFQM's nine criteria or any other prefabricated model. It is dangerous to design strategy around these and pointless categorising existing measures in such an arbitrary manner.

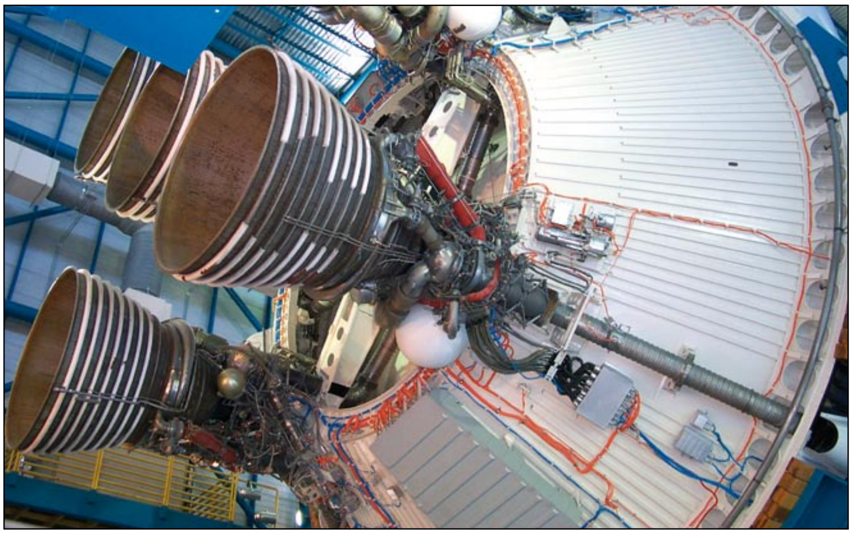
One of the attractions of most management tools is that they find neat ways around fundamental dilemmas. However this is also one of the greatest threats they pose. Use the Balanced Scorecard and you may feel you don't have to detail how activities will achieve strategic objectives, because the model implies that people-related initiatives positively impact internal process, in turn driving customer behaviour and financial outcomes. These assumptions are so conceptual and broad as to be meaningless.

Managers must not take this bait. There is no substitute for clearly breaking down strategic objectives into specific, concrete activities that will plausibly deliver them. Measures can then - and only then - be designed around the unique and ideally customised strategy framework developed. Critical means of achievement cannot be assumed away into convenient bundles of metrics and arbitrarily categorised for the illusion of control. The devil, as they say, is in the detail.

An issue generally overlooked by performance measurement gurus is how to design actual performance measures. Happy to focus on broad frameworks intended to help select indicators, they ignore the importance of critical measures being accurate and balanced.

This advice gap is perhaps matched by managers' reluctance to get into too much detail, believing complexity to be the enemy of progress. "Keep It Simple, Stupid" is oft-heard in discussions about measurement. It's sometimes appropriate, but subject to the importance of the performance variables being measured. It's baffling that 'KISS' should blindly be applied to critical strategic measures. Organisations are inherently complex systems - they need to be to survive and prosper in their complex environments. The Apollo Program, which put man on the moon, involved 400,000 people and 20,000 organisations in the design, manufacture, assembly and lift-off of more than five and a half million parts, all working together. The Apollo team probably applied 'KISS' often - but at the right moments and in the right way. Inherent complexity was managed rather than avoided.

It should be obvious that measures need to be accurate, yet often their design means they are unnecessarily blunt. Two key issues to consider are triangulation and timing. Triangulation means using a cluster of related measures that together paint a much more accurate picture of how a performance



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variable is changing over time. For example, employee opinion surveys say something about employee satisfaction, but combined with other measures such as absence, turnover, leaver survey data, grievances, staff suggestions, levels of volunteering for initiatives and so on, say much more. Similarly with timing (and time horizons), annual employee surveys conducted just after Christmas bonuses have been paid say one thing. Rolling surveys of samples of employees will produce more accurate and up-to-date data.

More accurate measures can enhance feedback hugely - making important decisions much better informed ones. They also help with feedforward. Imbalanced measures that focus attention too narrowly encourage self-interested trade-off decisions. If time to recruit is measured but the quality of candidates is not, it's natural for recruiters to focus on speed at the expense of quality. Targets and rewards, based on such measures, add rocket fuel to the mix and encourage even more ruthless focus on measured variables at all costs.

The fashionable drive towards clear accountability, though motivated by fair concerns about managing individual performance, in practice directly conflicts with balanced measurement. Clear accountability requires the identification of a limited range of performance variables over which individuals have delegated and reasonable control. It also requires measurement of these variables to drive performance evaluation and management. These are exactly the conditions that foster self-interested trade-off decisions and associated organisational conflict.

Of course, this emerging dilemma only increases the potency of measurement. Strategic performance measurement systems will have to be even more finely tuned to the specific needs of organisations. Both the selection and design of performance measures will become even more crucial tasks given the reliance placed upon them by stronger accountability. Measurement will have to become a lot more like rocket science. Until it does, managers would do well to remember two key things about how they use measures.

First, in terms of feedback, measures never tell all. Even the best designed performance measurement systems are constructed without perfect foresight, and cannot explain all performance variations. Situations change, people behave unpredictably and organisational systems clash in unintended ways. So, diagnosis remains a critical art and existing measures might best be seen as 'diagnostic triggers' - points of entry to deeper investigation of apparent problems or successes.

Second, in relation to feedforward, how leaders use measures is critical to how others view them. If all the technical principles described here are used to select and design a range of performance measures, but leaders pay attention to only a few financial results, the game is up. If people are punished as soon as a bad result appears or no effort is made to understand the dynamics underlying the problem, measurement is almost pointless. Wise leaders see measures as helping them ask the right questions rather than producing all the answers.

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