

# There's No Such Thing As The Performance Measure Stork!

After you've conceived your measures, there's actually some unavoidable labour needed to bring them into the world.

STACEY BARR

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AFTER YOU'VE CONCEIVED YOUR MEASURES, THERE'S ACTUALLY SOME UNAVOIDABLE LABOUR NEEDED TO BRING THEM INTO THE WORLD.

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## Overview

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In my early years as a performance measurement practitioner, before Kaplan and Norton's Balanced Scorecard was published and only just as organisations were waking up to the realisation they needed more performance information than the profit and loss statement, the most common way to choose performance measures was to hire the big consultancies to research and write a "this is what you need to measure" report. Even after sifting through the hundreds of performance measure ideas to select the most critical to the business, very few of these measures ever made it into performance reports (let alone performance discussions).

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### Waiting patiently for the performance measure stork.

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One of the biggest influences on my personal path with performance measurement is an experience I had on repeated occasions working with a large transport company. Time and time again I'd see inch-thick (and expensive) consultant reports recommending what the company should measure. I asked a manager who had commissioned such a report what he did with the recommended measures. He sheepishly replied "Nothing." It sat on his shelf while he unconsciously waited for the magic that would bring them to life.

It would be an understatement to say that half of the organisations I have worked with have performance measures listed against their business goals and objectives that, even a good 12 months after signing off those goals and objectives, have never reported those measures. They have never had the measures available as feedback or evidence to evaluate progress of those goals and objectives. These organisations allow the time to choose the measures during the planning process, but they don't allow the time to bring those measures to life so they can inform all the subsequent progress evaluation processes (do you evaluate progress against all your plans?).

Most performance measurement activity in organisations is selecting measures to fill the KPI column in the business plan – managers fail to resource adequately the logical next step to bring those measures to life (and essential next step if their reasons for choosing measures were anything more than just looking like they are trying to be accountable). If managers do expect their conceived performance measures to one day inform their decision making, they certainly have to do more than nothing to deliver these measures into the world. There is no performance measure stork!

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## Are we still waiting?

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There's a story a client of mine enjoys telling about his experience with bringing to life performance measures. Patrick is the manager of Strategic Sourcing in his company, and when "cost rationalization" was a corporate priority, he went about designing a procurement strategy that would save the organisation as much as possible, without sacrificing the reliability or availability of the services and materials the organisation needed to do its core work. Needless to say (or is it?), he also designed and developed a set of fantastic performance measures to track his new procurement strategy.

One of the measures was Procurement Overhead, which was the cost of running the procurement activities for the company – different to the cost of the services and materials procured. Because one of the major overhead costs was the manual ordering of stock for inventory, Patrick was keen to get as much of inventory ordered automatically through a stock management system in combination with long term purchasing arrangements with suppliers. So, he asked the Inventory Manager, Simon, to start measuring the percentage of inventory on auto-order and set his target at 80%.

Time passed, as time does, and there soon came a day when Simon proudly announced to Patrick that he had achieved 80% of inventory on auto-order. To Simon's dismay, Patrick was not impressed but instead confused and somewhat suspicious. He hadn't noticed the magnitude of reduction in Procurement Overhead that he had expected to result when most of the time and effort in manually ordering inventory was no longer spent. How could it be? And a thought occurred to him.

Patrick asked Simon how he was calculating the percentage of inventory on auto-order. Simon replied, by adding up the *value* of items that the inventory managing system automatically orders and dividing that by the *value* of items in total held in inventory. He was adding up the dollar value, not the number. So having managed to get a handful of some multi-million dollar value inventory items on auto-order – which represented only a fraction of a percent of the total number of types of items held in inventory – Simon felt he had achieved the target. But those items were not costly to order, because they were ordered infrequently and in small quantities. Simon's behaviour was not geared toward reducing overheads at all! Patrick needed at least 80% of the *number* of items in inventory on auto-

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order – the superfluity of nuts and bolts and screws and nails and other items that were ordered regularly. The problem was that Patrick had not clearly defined the details of the measure he wanted Simon to track and improve. Simon automatically assumed what Patrick was after, and neither questioned this assumption.

Now this happened in 2003, a long time past the inception of non-financial performance measurement. And it's not an isolated case. You too can probably think of similar examples in your own organisation of the problems with bringing performance measures to life. Why do we still struggle with this?

## Why so many undelivered measures?

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One of the easiest assumptions to make when we attempt to measure performance is that once we have named the measure, everyone will automatically define it the same way we do. It was obvious to us, it should be obvious to everyone else. But the truth is, there are usually several different ways to calculate any specific measure.

Take 'on-time performance' for example. What defines 'on-time'? A transport company measured this with unwavering commitment for many years, being one of the most important performance attributes to its customers. But even when the measure was tracking well, customers were still complaining about late deliveries. Why did the measure contradict the customers' feedback? Well, it depends on how 'on-time' is defined and by whom, in this particular case. The freight company defined it as the arrival of the transport vehicle to the destination terminal. The customer defined it as when they could actually get access to their freight from the destination terminal. The trend of on-time arrival of the transport vehicle at the terminal can be vastly different from the trend of on-time delivery into the customer's hands.

Another reason for the ambiguity in how we bring our measures to life is that most decision makers, the people that choose the measures in the first place, have little appreciation for the activities that bring measures to life. They often have no realistic concept of the processes of data collection, capture, analysis and reporting. Without a working knowledge

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of this, is it any wonder they fail to specify the nitty-gritty of how they expect their measures to be calculated?

Many managers, for example, want measures of customer satisfaction or perception of value, without realizing just how much effort can be required to design and administer a valid way of collecting and analyzing customer data to produce such measures. They resort to counting complaints instead, or basing their measures on data from voluntary mail-out surveys that just can't provide representative and reliable enough data for the kinds of decisions they are trying to make.

In general, a lot of effort is wasted – either in the time spent to select measures that are never brought to life, or in the time spent bringing measures to life in the wrong way – when measures are not clearly defined from the outset. Think of a performance measure definition as a specification that communicates very clearly exactly how a measure should be calculated, graphed, reported and interpreted.

## The truth about where measures come from.

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Like everything else brought into this world, bringing performance measures to life is not without some labour. And the labour is in both preparation and delivery. The preparation for bringing a performance measure to life (once you have chosen one) is to flesh out the specifics of its calculation, presentation, interpretation and more:

- The formulae for calculating the values of the measure is written out, expressed in so much detail that each piece of required data is identified.
- The timeframe or frequency over which the value of the measure is calculated is chosen, such as weekly, monthly or quarterly.
- Each individual data item pinpointed by the formula is listed, and its availability and source – including a data item for the frequency, such as week, month or quarter.

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- The signal types the measure should announce (such as upward or downward shift) are defined and the appropriate response to each signal is described.
- The method of presenting the measure so it is capable of announcing the pertinent signals is selected, such as a time series graph for a measure that should announce signals to do with changes over time.
- Other information or measures it relates to which can be used for further analysis to explain and understand the reasons for any signals that it announces.

Fleshing out these details creates a specification for how to bring a measure to life, taking the ambiguity out of sourcing the data, analyzing and reporting the data, and using it to answer questions about the performance result it tracks. It therefore stops time from being wasted in trying to figure out which data to source, in sourcing the wrong data, in performing the wrong analysis, in misinterpreting the measure and subsequently making the wrong decision from this.

The second type of labour in bringing measures to life is in the delivery. This is the labour of extracting data from systems, or collecting data that isn't currently available, of analysing the data to create the performance measure values, of carefully graphing and presenting the measure so it can announce the relevant signals clearly:

- Surveys or operational data collection processes are designed and implemented to collect any performance measure data items that are not currently available.
- Existing data is extracted from one or more database systems, using semi-automated queries or manual copying and pasting of data.
- All the performance measure data is collated and organised into a single location for analysis, such as a spreadsheet or data warehouse.
- The data is prepared for analysis by removing outliers, correcting data entry errors and anomalies, calculating ratios or extra data fields needed for the measure values.
- The performance measure values are calculated from the prepared data.
- The performance measure values are graphed, and the graphs are quickly interpreted for any signals the measures may announce, and additional formatting (such as using colour to highlight a trend) is applied to make interpretation easier.
- Further data extraction, collation, organisation, cleansing, analysis and graphing may be performed to explain any signals announced by the measure.

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- Reports are generated for a set of related measures, and additional commentary for interpretation, explanation and implication of the results are included.
- Reports are disseminated to their audiences, to be used in their decision processes.

This labour is called the performance reporting process, and it happens manually through the efforts of researchers, information technology people, statisticians and business analysts, at least until a business intelligence system can automate their process (if it is worth the cost, of course). When this performance reporting process is well designed, deliberately resourced and diligently implemented, performance measures can really come to life!



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## About the author

### Stacey Barr

Stacey Barr is a globally recognised specialist in organisational performance measurement. She discovered that the struggles with measuring business performance are, surprisingly, universal. The biggest include hard-to-measure goals, trivial or meaningless measures, and no buy-in from people to measure and improve what matters. The root cause is a set of bad habits that have become common practice.

Stacey created PuMP®, a deliberate performance measurement methodology to replace the bad habits with techniques that make measuring performance faster, easier, engaging, and meaningful.

Stacey is author of [Practical Performance Measurement](#) and [Prove It!](#), publisher of the [Measure Up](#) blog, and her content appears on [Harvard Business Review's website](#) and in their acclaimed ManageMentor Program.

Discover more about Stacey and practical performance measurement at [www.staceybarr.com](http://www.staceybarr.com).



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