teasel

holistic performance management

a teasel white paper

Managing the performance of complex organisations in today's intense business environment requires considerable skill and agility. The speed, power and pervasive nature of enterprise computer systems; integrated distribution networks; just-in-time inventory management; and communications systems that offer 24/7 connectivity present operational management teams with a significant challenge simply to keep pace.

Since Kaplan and Norton's pioneering work in the early 1990s, the balanced scorecard has become the cornerstone of enterprise performance management in many companies. The original concept was strikingly simple. It implied that something in the order of 15-40 measures would be sufficient to understand organisational performance. However, despite the continued widespread use of scorecards, we have seen an explosion in the use of performance targets and ever more costly management information systems deployed simply to 'keep score'.

In this White paper we review the context in which the performance of customer delivery operations needs to be understood. We explore whether scorecards, targets and other mechanisms for performance management are the most effective means of supporting and informing managers in high-intensity operational situations and suggest some alternatives.

High intensity operations

'High intensity operations' means those organisational units that handle large volumes of customer interaction or production events on a daily basis. Examples include contact centres, out bound telemarketing, high volume production and distribution/logistics. We have focused the discussion in this way because this is where business success is primarily won and lost on a daily basis. What happens at the interface between the business and its customers has a material impact on long term sustainable growth. Examples include: managing to an acceptable call queue length; matching capacity to the volume generated by marketing activity; producing the right mix of product to meet demand; and having the right goods on the shelf. In many businesses it is the area most likely to be governed by strict procedural control and cost management and yet, paradoxically, it is also the place where organisations need the highest capability to respond and adapt rapidly to changing circumstances.

Many business-to-consumer organisations now manage a multi-channel model of customer interaction. At the very least these require the integration of online services and contact centres, although in many cases these channels are also supplemented with a physical network of branches, or physical and online content distribution. The specific channel a customer may use at any given time depends on several factors. For example, a technical enquiry about a complex product such as a personal pension is likely to require a face-to-face discussion, or a telephone conversation with a highly experienced agent for all but the most financially sophisticated customers.

The ability to predict the channels through which the customer will seek access for assistance with specific types of enquiry presents significant challenges even if channel performance management is undertaken as an integrated activity. However, many organisations continue to operate separate, disconnected channels and spend too much time and money trying to work out what has gone wrong rather than planning for high performance at the outset.

Self-imposed performance limitations

In many business settings, performance is defined in terms of achievement against pre-determined targets. In contact centres, for example, a fairly standard set of key performance indicators are used. These metrics cover areas such as average speed to answer, abandoned rates, call loading vs forecast and adherence to the staffing schedule.

Targets are, by their nature, not susceptible to frequent change and adaptation in line with changes in the operating environment. Furthermore, targets can, unless thought through carefully, provide little more than a 'lowest common denominator' approach to performance management. In this case, the best performing centres or teams are insufficiently stretched whilst others consistently under-perform.

The core difficulty with an over dependence on performance targets as the primary means of performance management is that they tend to bear little relationship to either the capability inherent in the operation, or the need for daily, and perhaps hourly, changes in emphasis. There are examples from both private and public sectors testifying to the performance-limiting effects of targets. Dysfunctional behaviour usually results where meeting arbitrary targets is perceived to be of greater importance than doing the right thing in the circumstances. The government's 48 hour target for advance appointments at GP surgeries are a case in point and illustrate that good intentions do not always result in good behaviour.

A further way in which performance targets can limit operational delivery is the length of the target setting, measurement and review cycle. Many businesses struggle with the challenge of identifying and exploiting their high performing teams as the basis of performance improvement activity across the organisation. However, this is not the key issue. The use of targets as the primary means of calibrating performance requires a cycle of activity: target setting; operational delivery and measurement; performance reporting against targets; and review. In front-line operations, assessment against target values for aspects such as calls answered, hand-offs or schedule variances is a continuous activity. But these measures often reveal little to senior management about the real areas in need of performance improvement.

At senior management level, performance reports tend to be little more than weekly or monthly roll-ups of performance against the various targets set for the period. Where problems have occurred it is likely that they may have remained below senior management radar for some time. By the time the performance reports are published, the deviation is either shown to be the result of a one-off set of circumstances which have self corrected, or has become embedded. Either way, organisational effort and cost is then used to determine the root causes from which remedial activity can be designed and implemented. This process may require additional ad hoc performance analysis, and will certainly take some time. The net result is an eight to ten week cycle before the impact of any change is felt in terms of performance against target. In high intensity customer contact and servicing operations this is too long.

However, responsiveness is not the primary limiting effect of target-driven performance management. Many performance management systems fail to draw a distinction between the needs of operational managers to deliver improvements over time in what are, essentially, recursive activities versus the needs of executive managers to seek ways to improve the overall performance capability of the operation.

Removing this limitation means developing a performance management system that recognises the different needs of front-line and executive management. A starting point for this is to think differently about the nature of performance, and to move towards a more holistic approach.

Contrasting capability and effectiveness

In their enthusiasm to measure performance through ever more granular sets of targets, many businesses have started to lose sight of what really matters. At the extreme, it means targets can be set without a detailed appreciation of what the organisation is actually capable of achieving. The result is that either the target understates what is possible, or sets the bar at a level that simply cannot be attained.

What is needed is a reappraisal of the nature of performance, and in particular a fresh understanding of the relationship between capability and effectiveness.

Capability

Capability simply defines what the organisation can do – what it is capable of. The first thing to recognise is that capability is not absolute. It has limits which can be changed. In complex customer servicing organisations, several variables combine to determine capability. In some cases, capability in one variable will place limits on the capability of others. For example, if one machine in a production line has a maximum output capacity of 10 units per hour, it is irrelevant that a machine further down the line has an operating capacity of 15 units per hour since it can only ever receive 10. Another way of looking at this is that 33% of the second machine's capacity is redundant, and will remain so unless an investment is made to increase capability earlier in the production cycle. Similar relationships exist between the process stages in customer servicing operations. In some cases they are more difficult to identify because they cross departmental or functional boundaries but they still place real performance limitations on the operation.

For example, the ability of marketing campaigns to generate customer interest and enquiry, and the capability of contact centres to handle the number of calls generated is often mis-aligned. As a result, customers soon become dissatisfied and disillusioned as call queues lengthen; insufficient numbers of properly trained agents are available and abandon rates increase. Clearing the backlog then becomes a matter of customer service recovery as well as new revenue generation.

The second thing to think about in terms of capability is that it has three key dimensions:

- Ability: the ability of staff and management is critical to all businesses, but in operations that are highly dependent on people, such as contact centres or branch networks, it can be a primary determinant of performance capability. The number of staff available, the training they have received, length of time in the job and overall experience all combine to define the performance capability of the enterprise. The operational model and technology deployed is also a factor in understanding ability. The ability to handle a specific number of calls; the ability to provide agents with access to relevant data about customers and prospects; and the ability of the system to maintain contact histories all contribute.
- Technology: The overall capability of the technical infrastructure depends firstly on the specific applications and systems deployed, and secondly on how they are integrated and configured. IVR configuration, CTI deployment, desktop integration and any link to customer

profiling applications combine to determine what the infrastructure is capable of. And bear in mind that once integrated, all applications are likely to be operating at somewhere below 100% of their potential.

- Responsiveness: this defines how good the operation is at responding to the needs of the external environment

Effectiveness

The second component in understanding overall performance is effectiveness. Measures of effectiveness arise from the way in which the different elements of capability are integrated and deployed in response to changing circumstances, as well as how systemic and/or temporary weaknesses are compensated for.

An analogy can be helpful in illustrating this. Professional tennis players require a mix of capabilities that include physical strength; agility; stamina; hand/eye coordination; technique; balance and anticipation. However, these capabilities alone are insufficient to guarantee match wins every time. To be effective, and therefore win the game, the player must adapt to the circumstances prevailing on the day. These include: the playing surface; knowledge of the opponent's game and its strengths and weaknesses; wind conditions; and any current injuries - both their own and their opponent's. The most successful players are capable of reading the situation they find themselves in and adapting their response accordingly to combine their capabilities in the most effective way. Equally, anticipating where the ball will be placed on each return is key and enables the player to adopt the most advantageous position whilst retaining the ability to make last minute adjustments if required.

The table at Fig. 1 is not exhaustive, but illustrates some of the internal capabilities needed in a contact centre, contrasted with some of the external factors that may prevail from time to time. On a day to day basis, the most effective centres are those that are capable of adjusting their behaviour in response to the circumstances. An over-dependence on targets designed to measure performance against internal capabilities frequently limits the room for manoeuvre.

Internal Capabilities	External Factors influencing performance
The technical infrastructure and how it is configured	Full or partial failure of the communications network
Number of agents rostered vs the number available	Full or partial failure of specific infrastructure components
Agent skill mix	Unexpected call surges in response to PR or marketing activity
Agent and supervisor competence as a factor of training received and length of time in role	Absence and attrition rates
Supervisory and management skills, especially motivation and operational management	Unexpected changes in call volume by type
Responsiveness to external events	

Fig.1

Holistic performance model

As an alternative to the burgeoning use of ever-more granular targets, a model that helps management teams think about performance effectiveness in a holistic way may be more helpful in identifying and directing performance improvement effort.

Put simply, the model has three layers, and is discussed at greater length in the Teasel white paper *reappraising the use of performance targets*:

- Visionary performance goals: what the organisation is seeking to achieve in terms of performance in the medium term;
- Capability: what the organisation is capable of achieving, given the constraints in which it operates: and
- Achieved performance: how well the organisation performed against its capability in any given time period.

Targets remain as part of the overall mix, but they are given context by a clear understanding of know capability.

However, whilst the ability to place actual performance in context is significant, it is the ability of the model to provide relevant output to both operational and executive management that gives it its real distinctiveness. The analytical framework is summarised at Figure 2.

It recognises that there are fundamental differences between the types of decisions made by operational and executive management and seeks to overcome the difficulty of many traditional MI systems in which essentially the same data is deployed in both instances.

The model enables operational managers to understand what is driving the gap between

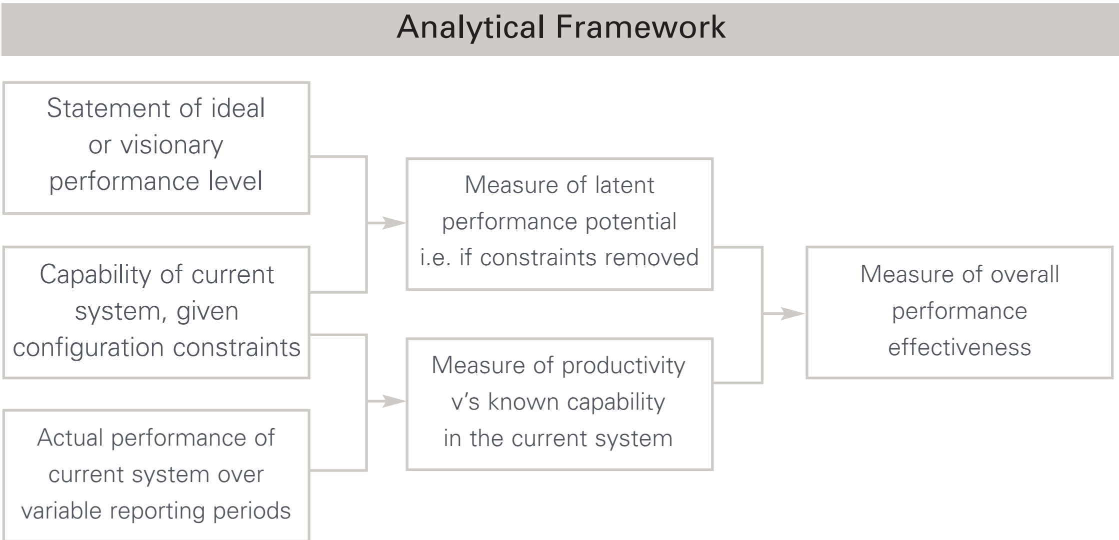

Fig.2

actual performance and current capability. Equipped with this, they can focus on taking those actions that have the greatest impact on bringing actual performance closer to known capability.

Equally, executive managers no longer need to attempt to understand the underlying strategic issues affecting performance via an unwieldy extrapolation or ad hoc analysis of large volumes of detailed measures. By understanding which constraints have the greatest limiting effect on overall performance capability, they become better equipped to evaluate options for investment designed to raise the bar of capability.

By deploying a model such as this, organisations can expect a number of benefits:

- Reduced cost of operational MI provision since performance related MI is refocused back onto ‘what really matters’;
- Greater clarity about the key issues affecting both actual performance and capability;
- Output tailored to the specific needs of both operational and executive management; and
- Improved ability to model the potential impacts of alternative improvement initiatives.

About Teasel

We are specialists in operational performance management. The focus of our work is on the management information framework required to support management decision-making at both operational and executive levels.

Our goal is to help our clients save money on the cost of operational MI provision while getting more effective performance from existing customer delivery operations. Operational MI means the performance information required to support business activity in the following areas:

- Revenue generation and sales
- Customer management and service delivery
- Core cost-base management

Within this, we offer 4 services:

- Consulting
- MI solution design
- Managed services
- Benchmarking

For more information or to discuss how Teasel could benefit your business, please contact:

Tim Burfoot
Managing Director

t/01223 370184
m/07966 293352
tim.burfoot@teaselpm.com

www.teaselpm.com

Teasel Performance Management Limited
Sheraton House
Castle Park
Cambridge
CB3 0AX