teasel

reappraising the use of performance targets

a teasel white paper

Scarcely any field of human activity is now immune from the use of performance targets. Achievement against them has become the primary means by which success is measured. They are not only used widely in commercial organisations, but also affect many areas of public service such as education, health care and policing.

In this Whitepaper, we discuss some of the ways in which an over-use of targets to drive organisational performance can result in dysfunctional behaviour and, in some cases, how the lack of integration between targets can act to limit performance.

We are not suggesting that targets per se are intrinsically bad, simply that their excessive and disconnected use can produce unintended and unwanted effects. Having discussed some of the issues, we suggest an alternative way of thinking about organisational performance which provides a different context for target-setting.

Setting the scene

Virtually every aspect of business activity is significantly more complex than it was fifty years ago. Customers have become more sophisticated and exercise much greater sensitivity to service values than they once did. Choice has multiplied and, especially with the arrival of the internet, access to information has enabled customer knowledge and expectation to increase. Operational models have moved away from the vertical integration so common in the 20th Century, to mixed infrastructures involving complex networks of intra, and inter-company relationships. Outsourcing and offshoring on the scale seen in the last five years has added a further layer of complexity.

The ability to move at pace and respond to the environment in real time are now seen as critical characteristics of successful organisations and individuals. Wireless technologies such as 3G data cards in laptops, mobile phones and the ubiquitous Blackberry leave few opportunities to offer being 'out of the office' as a reason for not taking rapid action on the issue of the day. Not only is communication 'always on', but there's a growing sense that a significant number of people are always 'available to work', even if not actually at work.

As operational models increased in complexity, so the range of activities that could be measured also grew. And, of course, if something can be measured, it can also attract a target. The net result is that targets are set at ever more granular levels across every aspect of organisational performance. In our view, the idea that the volume of operational performance MI used to measure whether or not targets are being achieved must increase exponentially, in parallel with increased operational complexity, is unsustainable.

Not only does the huge volume of measures and targets make it ever more difficult to keep on top of the reporting cycle, but it also tends to mean that the 'organic' or cross-functional nature of actual performance gets lost in the noise. Huge costs are now embedded in many organisations simply to

1. The immeasurable damage of our measuring systems. Alan Mitchell, Marketing Week 3 March 2005

generate internal MI and other performance reports. Alan Mitchell writing in Marketing Week in March 2005 noted that Ford spend in the order of £626m annually on formal reporting procedures. He also pointed to a 2002 IBM survey indicating that 89% of marketing managers did not understand how their measures aligned to business objectives.[1]

Planes, cars and the England football team

Planes, cars and the England football team provide some useful analogies in thinking about the impact of too many targets and measures on actual performance. It is self-evident that both the aeroplane and motor car of today is technically many times more complex than their counterparts of fifty years ago. Even quite modest light aircraft today are equipped with GPS and a range of radio navigation aids, as well as sophisticated transponders and other flight safety equipment. Some even have state-of-the-art glass cockpits. Likewise, today's car is rich in computer technology monitoring the various systems: brakes, transmission, engine and so forth. Servicing often begins with the technician connecting the vehicle to computerised diagnostics in order to trace abnormalities that may not yet be affecting the driver's perception of overall performance. However, despite these advances, the primary instruments used to manage the performance of both planes and cars in normal use are the same today as they were in 1955. We have not attempted to increase the volume of core performance data reaching the pilot or driver in line with increasing complexity in the machines themselves, even though more data could readily be made available. The most important performance management skill in flying and driving is to interpret the core data in the context of the surrounding environment in order to optimise performance through a continuous process of adjustment. The additional performance monitoring capability only becomes relevant to the operator if specific functions move outside pre-defined target ranges.

The problem with so many business targets is their inflexibility to changes in the operating environment and their insensitivity to cross-functional impacts. Year-end appraisals and bonus calculations are often fraught with difficulty as individuals and departments seek to have failure to achieve targets disregarded on the grounds that circumstances changed during the reporting period in such a way that the target ceased to be achieveable. The cost of this effort is not trivial. Moreover, managers lacking in self confidence tend to feel safer the more performance data they surround themselves with, even though 80% remains static month after month.

Alternatively, imagine that every member of the England football team had a set of personal and collective targets to achieve at the start of every game. And assume that a sophisticated algorithm had been developed to define these in terms of the precise things that needed to happen in order to win. Individual targets might include number of passes, accuracy of passes, one-touch control of the ball, number of headers, time spent in opposition penalty area, corners conceded/won etc. Collective targets might include specific measures for groups of players in different positions - defence, attack, mid-field. As soon as the players were forced to spend more time concentrating on their individual and collective targets, the less time they would have available to think about the game itself. In all liklihood it would constrain performance. At the extreme, the team members could meet all their individual targets and still lose the game.

If that sounds a bit far fetched, it's worth asking ourselves how many times we place operational staff in exactly that position. In other words, where the targets themselves force operational units to get better and better at doing the wrong things, or to focus

on the target itself rather than the appropriate customer or business outcome. School meals are a relevant case in point. By focusing on the cost-per-plate target both nutritional value and choice have diminished. The effects on children's afternoon behaviour are well documented. In addition, core food preparation and cooking skills have all but disappeared from school kitchens. Increasing the per-plate cost to 57p is helpful, but will now require additional investment in staff skills and capabilities before this new 'target' becomes achieveable.

What we can draw from this is that targets should be few in number, appropriate to nature of the business activity being undertaken and relevant to the external context. One way to do this is to focus targets on a primary purpose rather than a myriad of contributory activities. In addition, the longer a company spends measuring and targeting the wrong things, the more challenging it is to take the necessary remedial action.

The challenge of technology

IT systems provide critical infrastructure to almost all businesses, and certainly to those of any scale. Multiple systems are integrated in complex architectures. Large data volumes are typically transferred between different systems as a normal part of day to day business activity. As a result, data is frequently held in multiple data warehouses and data marts and is subject to a wide range of analysis and interpretation.

In performance management terms, complex IT infrastructures present something of a two-edged sword. On one hand they can provide information at a highly granular level to assist in understanding how a business is performing. On the other, they tend to generate huge quanities of event-based data as a by-product of their core purpose. In many businesses this huge volume of data finds its way into the performance management process and feeds supplementary management information systems.

In many situations the data volume is so great that separate teams are required to produce and deliver MI reports drawing on data from multiple systems. Even in sophisticated organisations this frequently results in high levels of manual intervention and locally developed spreadsheets. This approach gives rise to a number of issues. For example, MI is typically produced at a functional level rather than a process level. In practice this means that the performance dependencies between different parts of the business are not incorporated so while, say, marketing might exceed its 'target' for responses to a specific campaign, the customer service or contact centre might fail to achieve theirs because customer response exceeds operational capacity.

For many specialist IT consultancies and software vendors the answer is frequently more investment in infrastructure and applications. There are examples of new enterprise data warehouses being built exclusively to support management reporting. Not only does this further complicate the IT infrastructure, but it also adds to the complexity of managing data quality, integrity and governance. Furthermore, software vendors have deliberately blurred the boundary between analytics and reporting to the extent that MI is regarded as an extension of analytics.

Simply because IT systems are capable of producing huge quantities of event-based operational data does not mean it is helpful in performance management terms not least because more and more resources are required to produce and study the output to determine what, if anything, of significance is going on.

An alternative approach

We believe that the design and provision of MI should get back to first principles and provide outputs that assist different levels of management fulfil their roles in the organisation. Partly, this means drawing a distinction between those business activities that genuinely require exploration and investigation using sophisticated data mining and analytical tools, and those activities that are concerned with overall business outcomes. In our view, operational MI should help managers understand what the business has done to achieve a particular outcome and provide guidance on where to focus attention in order to improve the outcome next time. Approaching MI as though it were akin to investigation, or, alternatively, as little more than keeping score against a multitude of targets is missing the point about the value it could be delivering. Moreover, it is costly to deliver on this basis and produces an indigestible volume of reports, many of which contain rarely changing data, as noted earlier.

Our approach is designed to provide relevant MI to both operational and executive managers within a single analytical framework. It enables users to identify potential issues quickly and to drill down into greater detail where required.

The framework identifies two separate benchmarks against which actual performance can be measured:

Ideal, or 'visionary' performance

This is a statement of an organisation's strategic performance goals. We have found that most businesses, or key operational divisions, can define the performance levels to which they aspire. The frameworks we use are designed to ensure that the key performance dimensions are identified and quantified. When applied at an enterprise level it has similar characteristics to a balanced scorecard, although it is particularly applicable to those organisational units that have direct impact on customer delivery such as contact centres, marketing, production or distribution. Put another way, it defines what best performance looks like from any given organisational or customer perspective.

Current capability

This is a statement of an organisation's maximum performance capability given the constraints under which it operates. Most organisations experience a gap between their performance aspiration and what they are actually capable of achieving. Many factors combine to constrain performance. In contact centres, for example, these can include the way in which the IVR is deployed and configured, the functionality available to the agent via the desktop or the number and skill mix of agents available at any given time.

With definitions for each of these components in place, actual performance can be measured against what the operational configuration is known to be capable of achieving, rather than against arbitrary targets. This does not mean targets, or target ranges are not set for specific time periods and activities, but they are set against the context of known capability. Moreover, where simulation capability is also deployed as part of the MI solution it can be used as an integral part of target setting to ensure that dependencies between functions or departments are incorporated.

By thinking about operational MI in this way the outputs can be used to support management decision-making at both operational and executive levels.

Operational Management

By understanding what is driving the gap between actual performance and current capability, operational managers can focus on taking those actions with the greatest impact on bringing actual performance closer to known capability.

Executive Management

Once it becomes clear which constraints have the greatest limiting effect on overall performance capability, executive management are better equipped to evaluate options for investment in order to improve capability. Understanding the relationship between the impact on capability vs cost of implementation can assist with business case development and the prioritisation of alternative capability improvement projects.

The goal of this framework is to support both operational and executive management in maintaining focus on those issues that are material to overall performance improvement. Whilst the ability to drill down into areas of concern remains, it differs from MI systems that provide little more than a backward-looking catalogue of business events.

Experience across diverse industries and operational areas has shown that this framework is extremely powerful in providing the right focus to different managerial levels. Targets still have a valuable role to play, but they cease to be the universal means of establishing organisational effectiveness.

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:

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