SMF Singapore Innovation & Productivity Institute

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Performance Measurement

WHY MEASURE PERFORMANCE?

You cannot manage what you cannot measure
~Lord Kelvin

A good performance measurement system can change your entire organization. However your organization must be willing to accept change. If upper level management supports long term improvement and your company is receptive to change, then a performance measurement system needs to be considered. A performance measurement system is based on measuring areas that are critical to your future success.

In the cycle of never ending improvement, performance measurement plays an important role in:

- Identify & tracking progress against organizational goals
- Identify opportunities for improvement
- Company performance against both internal and external standards.

A good performance measurement system strikes the right balance or mix of key performance indicators. Therefore, it is important to properly identify those things that need to be measured on an enterprise wide basis. The mix of performance indicators should not be so extensive that your system will be overly complicated. It is advisable to keep indicators to 4 or 5 main areas; such as customer service, market share, innovation & development and financial performance

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- Importance of Measure Phase in Lean Six Sigma DMAIC

Performance measurement is a process for collecting and reporting information regarding the performance of an individual, group or organizations. It can involve looking at process/strategies in place, as well as whether outcomes are in line with what was intended or should have been achieved.

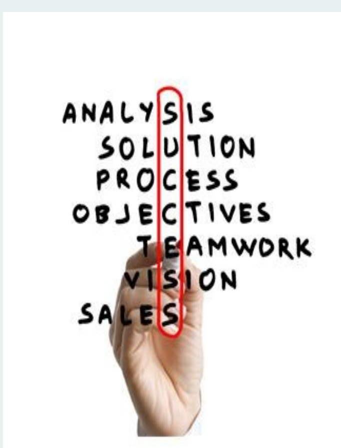
Sources : http://en.wikipedia.org/wiki/Performance_measurement

Critical Success Factors

These are things that the organization must do right if you expect to survive in the future. These critical areas require constant care and attention on the part of management.

According to John F. Rockart in the Harvard Business Review : " Critical Success Factors for any business are the limited number of areas in which results, if they are satisfactory , will ensure successful competitive performance for the organization."

Therefore, critical success factors represent performance areas that must meet expectations if the organization is to flourish. Measurements are used to track performance in each critical success area. Critical success factors are both internal and external. E.g. comparison of budgets to actual would be internal while percent of market share would be external.

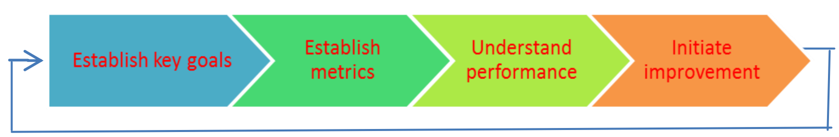


SETTING THE RIGHT KEY PERFORMANCE INDICATORS

A good performance measurement framework will focus on the customer and measure the right things. Performance measures must be:

- Meaningful, unambiguous and widely understood
- Owned and managed by the teams within the organization
- Based on a high level of data integrity
- Able to drive improvement
- Linked to critical goals and key drivers of the organization

There are four key steps in a performance measurement framework – strategic objectives of the organization are converted into desired standards of performance, metrics are developed to compare the desired performance with the actual achieved standards, gaps are identified and improvement



Initially focus on a few key goals that are critical to the success of the organization or business and ensure they are SMART, i.e.

Specific, Measureable, Achievable, Relevant, Timely

To successfully measure the performance of the business, we need to identify and focus on the correct areas of the business. It is a good idea to find out the areas which make your business successful and then decide how best to measure performance in those areas.

In most businesses, the employees represent both an organization's biggest expense and its most valuable asset. This means the company productivity and ultimately its profitability depend on making sure all of it workers perform up to, if not exceed their full potential.

Source: http://www.businesslink.gov.uk

LEAD VS LAG INDICATORS

There are 2 types of key performance indicators in the business: Leading and Lagging. Kaplan and Norton call these "Performance Drivers' and 'Outcome Measures'. The idea is that Lagging Indicators without Leading indicators tell you nothing how the outcomes will be achieved, nor can you have any early warnings about being on track to achieve the strategic goals.

Similarly, Leading Indicators without lagging indicators may enable you to focus on short term performance, but you will not be able to confirm that broader organizational outcomes have been achieved. Leading indicators should enable you to take pre-emptive actions to improve your chances of achieving strategic goals.

Implicit in the design of any balanced performance management framework, such as the Balanced Scorecard (BSC), is the cause and effect chain of goals and strategies. So investing in organizational capability leads to efficient and effective processes which deliver the products and services that satisfy customers. Ultimately lead to profit in the private sector or positive stakeholders/funders in the public sector. Examples of indicators for specific measurement areas per table listed below:

Measurement Area	**Key Performance Indicators (KPI)**
Customer Service (Price, Delivery, Support, Satisfactory)	• Price comparisons to competition • Number of on time delivery • Response time • Customer complaints • Number of product returns • Customer survey results • Service award, etc
Internal operations (Efficiency, costs, production and inventories)	• Cycle time • Inventory turnover • Defect rates • Plant utilization • Target met • Overhead trends, etc
Innovation (New products, technology, R&D)	• Number of new products • Number of patents • New technologies adopted • System improvements implemented, etc
Financial (Profitability, Growth, Value)	• Return on equity • Growth rate compared to industry growth • EVA • Level of operating cash flow, etc

The ultimate purpose of KPIs is to drive future performance. The balanced scorecard provide the framework for capturing and reporting this performance.

Source : www.balancedscorecard.org

POINT OF INTEREST

Importance of Measure phase in Lean Six Sigma DMAIC

The Measure phase of the DMAIC improvement process in Lean Six Sigma is where the rubber meets the road. When you talk about the path of continuous improvement, or even breakthrough improvement, the starting line must be established. How can improvements be quantified if we haven't establish a baseline before changes are implement?

How often have you developed a great idea for improvement that when tried turns out not to work? If the baseline performance of a process has been established you have the ability to determine if a change makes a positive improvement or not.

Having the ability to course correct if an improvement doesn't work is crucial if your organization is serious about sustaining improvements. Without the baseline clearly established in the Measure phase of DMAIC you can't determine if a change makes a difference or not. Surely we wouldn't want to make the process worse and not able to determine that the changes actually failed instead of making things better.

For more information on Innovation & Productivity resources, Lean Six Sigma project coaching and implementation, research and benchmarking and seminars, please contact :

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