

Creating a Performance Management Culture

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Summary

This paper describes two elements of implementing an Organizational Performance Management System (OPMS): the system itself and the leadership required to successfully change an organization.

The Organizational Performance Management System is founded on the Deming or Shewhart cycle of: Plan, Do, Study, Act (six sigma describes this cycle as Define, Measure, Analyze, Improve and Control). This paper describes specific steps to create a routine of performance management within the organization. Steps include the creation of a stakeholder matrix, a value chain, a scorecard and individual statistical process behavior charts (often called process control charts) and the implementation of regular performance reviews where performance is reviewed with stakeholders, actions are identified and the success of previous actions are assessed.

Change leadership is based on an understanding of how people differ in their capacity to accept change and the steps they go through to adopt a change. This paper suggests a targeted approach to change that is based on identifying the individuals within the organization who are enthusiastic about change, supporting them through their success and communicating that success which in-turn creates more enthusiasm for change.

Introduction

We live in a world of continual change and rising expectations. These expectations come from all sorts of perspectives including customers, suppliers, organizational membership, the local community and in many regards the world at large. How can an organization hope to meet the diverse expectations of these disparate groups?

The implementation of an Organizational Performance Management System (OPMS) is essential to meeting stakeholder expectations. Organizational Performance Management is the ongoing process of quantifying and monitoring organizational performance, and aligning that performance to the needs of the many stakeholders of the organization.

This paper describes an approach to Organizational Performance Management that is based on simple concepts for the creation of a holistic and quantifiable view of organizational performance. This approach has been applied to whole organizations, segments of organizations, for-profit and not-for-profit organizations.

The critical success factor of an Organizational Performance Management System (OPMS) is leadership. So, in addition to describing the OPMS, this paper begins and ends with leadership; strategic leadership and leading organizational change.

Strategic Leadership

Effective organizations have clearly defined intentions that drive the activities within the organization. These intentions are communicated through an organization's values, vision, mission, and stated objectives (see Figure 1). It is essential that all employees are able to relate what they do to the organization's intentions.

Clearly linking individual tasks to the organization's intentions can be accomplished through the development of cascading measurements. Cascading measurements are a hierarchy of measurements that monitor the organization's performance from corporate measurements to team level measurements.

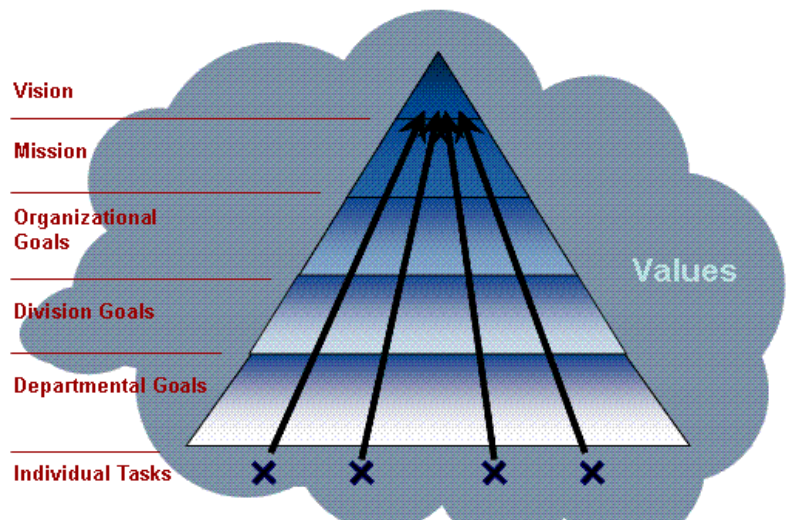


Figure 1 - The Intentional Organization

Figure 2 shows an example of cascading measurements. At the highest level of the organization, revenue is measured. Divisional measurements that contribute to revenue are the number of new clients acquired and the amount of up-selling dollar sales. At the departmental level, acquiring clients is accomplished through the number of leads and the rate of closing sales.

By decomposing the measurements, individuals within a department can focus on those behaviors that contribute to the organization's overall success. Leadership must explicitly link performance measurement to the higher level goals and overarching intentions of the organization.

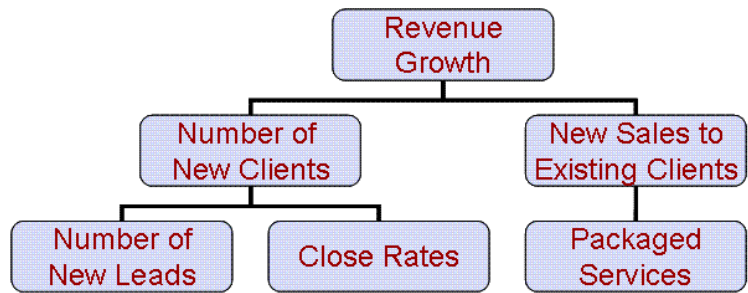


Figure 2- Cascading Measurements

Organizational Performance Management System (OPMS)

The OPMS is a cyclical approach to defining delivery processes, defining and monitoring measurements, and improving performance. This approach encourages continual re-evaluation and enhancement of the effectiveness and efficiency of business processes. While there are many performance management cycles, this paper uses the Shewhart or Deming cycle made up of the steps: Plan, Do, Study, Act (see Figure 3).

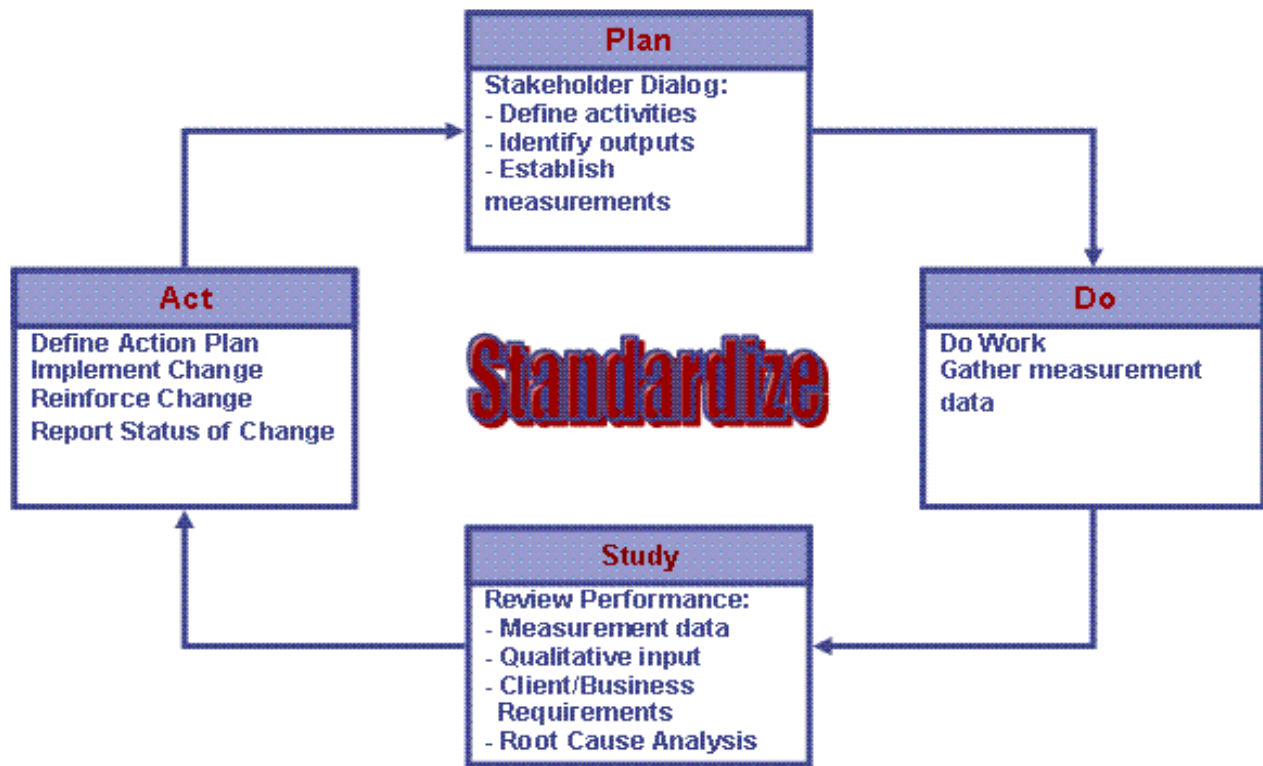


Figure 3 – Shewhart or Deming Cycle

Plan

The planning step is where stakeholders are identified, the value chain is described and measurements are determined. Each of these topics are describe in some detail below.

Stakeholders

Many entities have a stake in the operation and effectiveness of the organization. Table 1 below is a stakeholder matrix that represents the varied interests in and expectations of an organization, including the consumers, suppliers, staff, and senior leadership. Creating a stakeholder matrix is the essential first step in creating a performance management system that reflects the many perspectives of performance for the organization.

Producer Function	Owner	Accountable to	Contributors	Suppliers	Consumers
Widget International	CEO	Shareholders, Board,	Employees	Community, Raw Materials	Widget Users
Manufacturing	COO	CEO	Line Workers	Raw Materials, Equipment Vendors,	Distribution, Warehouse, Call Center
Call Center	Director of Customer Service	COO	Call Reps	Manufacturing, Facilities, Training	Widget User, Potential Widget User

Table 1- Stakeholder Matrix

Value Chain

In order to implement an OPMS, the organization must define what it does to deliver value to its consumers. A value chain depicts the series of activities performed that result in delivered value to the consumer.

Each activity in the value chain has controls such as policies and procedures and output(s) (new account opened or an order created) that are used in a subsequent activity (See Figure 4). In addition, most activities require inputs, as well as support mechanisms including training and application software. Measurements are used to control the behavior of the activity and determine the 'goodness' of the output.

The chain allows each producer to focus on the consumer of their activity's output. Through collaborative meetings between a producer and their immediate consumers, expectations and measurements are established and agreed upon.

A key concept of the value chain (represented in Figure 5) is that the output produced in one activity is consumed in a subsequent activity, forming a chain of producers and consumers that ends with the ultimate consumer, the customer.

By understanding what an organization does, effective measurements can be put in place to monitor and improve outputs. The degree of activity breakdown of the value chain is dependent on the level of detail required to gain a common understanding and agreement among stakeholders and implement improvements.

The value chain is used to refine the stakeholder matrix.

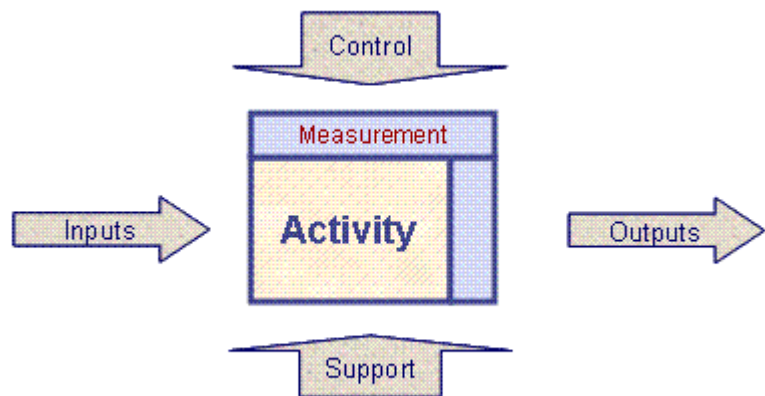


Figure 4 – Activity in the Value Chain

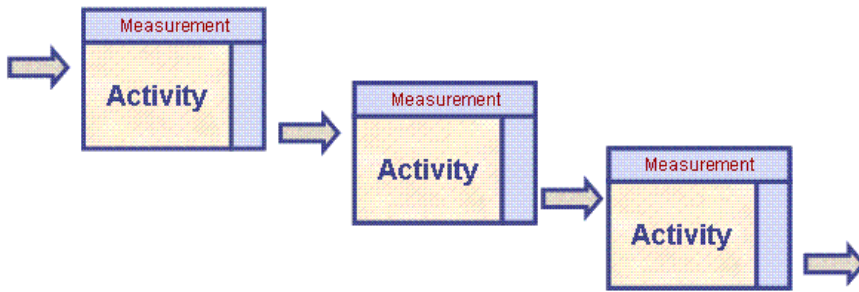


Figure 5 - The Value Chain

Defining Measurements

The many stakeholder perspectives are used to brainstorm a list of measurements. Each measurement is then evaluated based on its overall value to the organization, the ease of gathering the information and the potential negative consequence of the measurement. (For example, if billable development hours are measured, developers may neglect internal objectives in favor of client billing.) Once measurements are identified, process behavior charts, sometimes referred to as control charts, are created.

Each organization's measurements are then put into a scorecard. One way to depict a scorecard is using the radar chart in Microsoft Excel. Below, Figure 6 shows a radar chart that represents a set of measurements for a specific client's call center. In the radar chart the green line depicts the target. A result – shown by the blue line – that is inside the green line is under performing and a result outside the green line is over performing. The usefulness of displaying all measurements together is that the stakeholders can determine if the organization is over focused and over performing in one area to the detriment of other performance elements. Based on the scorecard depicted in Figure 6 one could posit that the organization is over focused on quickly answering the phone calls to the detriment of the quality of the call.

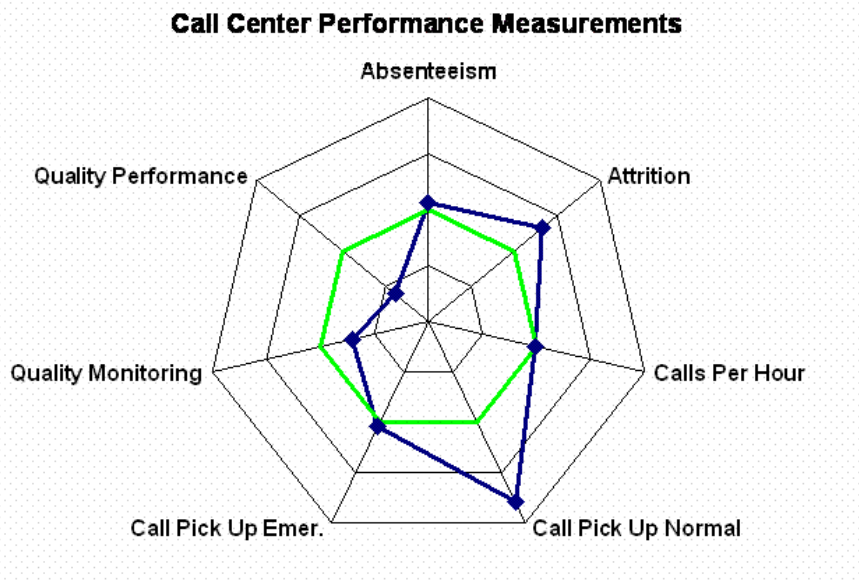


Figure 6 - Call Center Radar Chart

When a measurement's value for a specific point-in-time is below target or far above the target, the associated process behavior chart is reviewed to determine if the variation is statistically significant. Figure 7 shows the process behavior chart for one of the measurements in the radar chart.

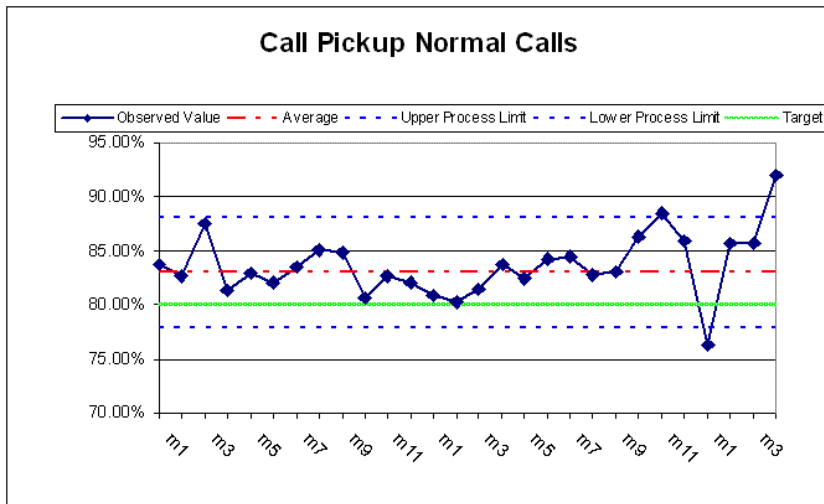


Figure 7 - Process Behavior Chart, Linked to the Call Center Radar Chart

Do

The Do step is the ongoing operation of the organization. During this step data are collected from the organization's operations. It is important that measurements be defined that require little to no additional effort to collect the data. When first deploying the OPMS, use the measurement data that are readily available, avoiding the creation of new or overly complex measurements.

One measurement a call center may want to employ is the percent of customer issues that are resolved in one call. While this is valuable information, gaining agreement on how to measure the performance may be problematic. Instead, use readily available information such as calls per hour, average call time and call quality assessments. As the organization becomes mature in the use of the OPMS more complex measurements can be added, while some of the simpler measurements may be removed.

Study

The study step involves regular review of the performance measurements and qualitative performance assessments with the stakeholders. A broad range of stakeholders participate in Progress Reviews where measurement data and qualitative information gathered from stakeholders are analyzed.

Analysis of process behavior charts is based on the concepts of a normal bell-shaped curve. All process behavior charts include the observed values, average and process boundaries. The boundaries are calculated at three standard deviations above and below the average value. For more information on the creation and interpretation of the process behavior chart, see *Understanding Variation – the Key to Managing Chaos* by Donald J. Wheeler.¹

During analysis, the characteristics of the process behavior chart are reviewed to identify possible process changes or breakdowns. If there is a noticeable pattern to the observed values (such as a cluster of observations all above or below the average) or an observed value is outside one of the boundaries, the process is not behaving normally and further investigation into the cause of the abnormal behavior is warranted.

The outcomes of the study step are action items to:

- ✓ Improve performance
- ✓ Change targets
- ✓ Add new measurements or delete existing measurements that are no longer useful.

Act

The Act step is where changes identified during the Study step are implemented. The survival of the OPMS is dependent on the organization's commitment to act.

One mechanism to ensure follow up is to distribute an action plan status report each quarter. In the status report actions are identified as completed with measurable impact, completed with measurable impact pending, in process or stalled

and needing attention. Senior management reviews the status and takes action to celebrate the successes and eliminate barriers for the in process and stalled action items.

It is important to note that some improvement actions will not have the desired effect. These ‘failures’ should also be celebrated as a lesson learned. As Thomas Edison said, “If I find 10,000 ways something won’t work, I haven’t failed. I am not discouraged, because every wrong attempt discarded is often a step forward.”

Standardize

When process performance is effective the process is standardized. Standardized processes continue to be measured and reviewed to ensure the level of performance is maintained. However, the Study, Act and Plan steps of the OPMS are minimized for standardized performance until it is determined that the performance can benefit from further improvement actions.

Leading Organizational Change

Implementing an OPMS in an organization requires significant changes in attitudes and behaviors. It is essential that measurements are used to improve the organization’s processes and not for monitoring individual performance. The great majority of the organization membership wants to do a good job and it is important that they see measurement as a way to do their jobs better. One reason we keep score at golf or bowling is so we know if we are improving.

Over fifty years ago W. Edwards Deming described fourteen principles of management, two of which are, “drive out fear so that everyone may work effectively for the company,” and, “put everybody in the company to work to accomplish the transformation.”ⁱⁱⁱ Both of these principles require effective leadership, and effective leadership requires an understanding of how people react to change and how to create lasting change.

People and Change

Change Acceptance

Every organization has individuals whose appetite – or tolerance – for change differs from others (See Figure 8). There are people who welcome change and adopt it readily, and those who resist and actually struggle with change. Neither is good nor bad. In fact, each of us is more or less receptive to change, depending on what the change is. I may eagerly accept a new technology that will simplify how I work, but resist when my 16-year old daughter begins to date. It is incumbent on leaders to recognize that people have different levels of acceptance to change.

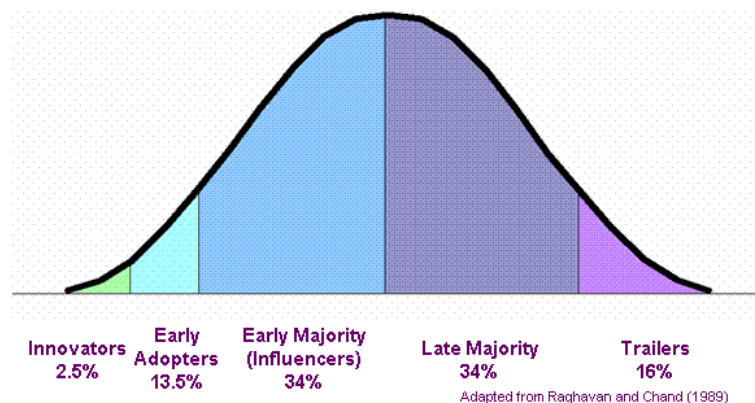


Figure 8- Change Acceptance

Adopting Change

It takes time for individuals and organizations to adopt change. The diagram in Figure 9 shows the steps involved in building commitment to change. As an individual moves up the commitment curve, the leader must use different types of interaction, from initial communication, education and coaching to the final step of reinforcement. It is important to recognize that individuals progress up the commitment curve at different rates, and that the leader must adjust how and what is communicated to match the current commitment level of the individual.

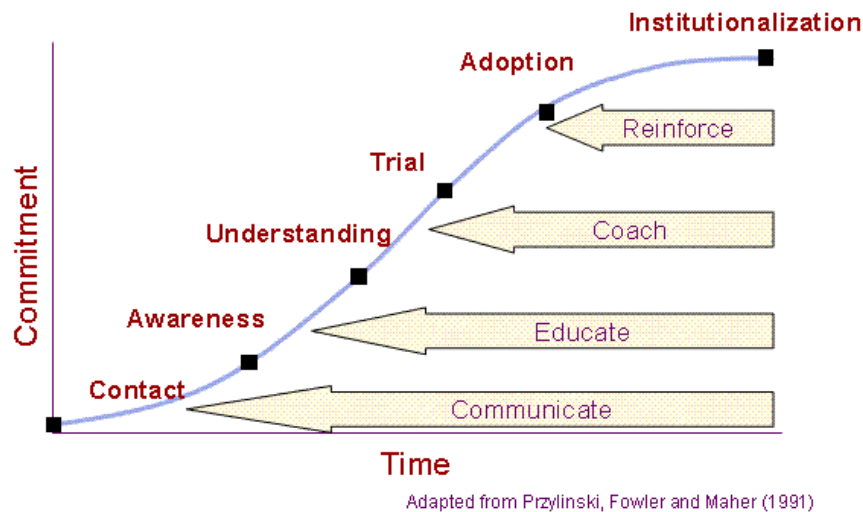


Figure 9 - Commitment Curve

Engaging the Organization

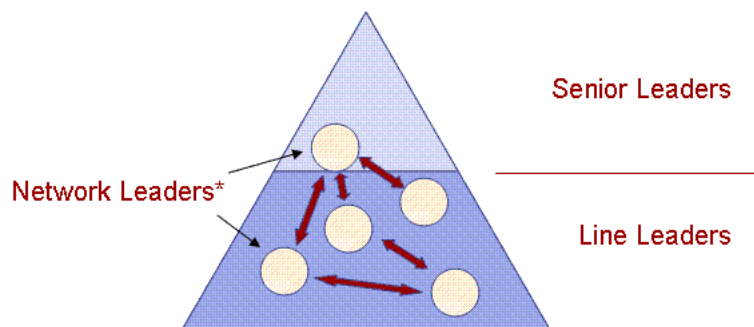
Change initiatives are often pushed down from the top of the organization with little regard for individual acceptance or commitment to the change. Typically the senior leadership team has spent considerable time deciding about the change and moving up their personal commitment curve. During implementation of the change, the membership is often not given time to develop a commitment to the change. This approach is like pushing a rope – it just isn't effective. Change must be flexible. The change sponsor must formulate the vision for the change and then allow the membership to create the details to fit the local environment.

Target Change

Instead of pushing changes down through the organization, change should be targeted. Once the senior leadership team has formulated the change vision, network leaders are identified. Peter Senge describes Network Leaders in his book *The Dance of Change*. "Many studies of the diffusion of innovative practices show the importance of the informal networks through which new ideas and innovative practices spread organically in and across the organization."ⁱⁱⁱ

Network leaders nurture alliances across the organization and assist line managers by bringing ideas, providing support, and connecting them with other personnel that can provide assistance. Network leaders also help senior leadership to understand what support the first line leaders require to institutionalize the change initiative. Network leaders can be internal consultants, or people in training or leader development departments. They can also be individual performers who participate in organizational communities. Figure 10 depicts a network approach to change.

Through the utilization of network leaders, change adopters are identified and supported as they move up the commitment curve. It is critical that successes are communicated to the



* Adapted from Peter Senge "The Dance of Change"

Figure 10 – Network Led Change

entire organization with explicit links to the change initiative. As success is achieved more 'Early Majority' people will adopt the change. The network leaders continually look for change adopters. Figure 11 displays the targeted change cycle.

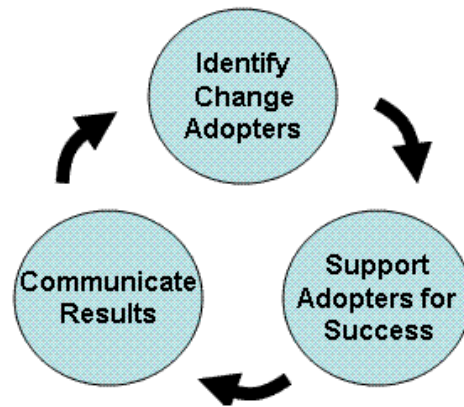


Figure 11 - Targeted Change

Conclusion

There are many quality system models, including those based on TQM and Six Sigma. The choice of the model is not as important as the recognition that organizational change takes time and must consider the memberships' adaptability and commitment to the change.

To be successful at continually improving performance, all members of an organization must be engaged in performance management. Performance management even extends beyond the boundaries of the organization to include suppliers, oversight boards, consumers and the community. To ensure that measurements reflect all the stakeholders' perspectives and interests, regular interactions with stakeholders concerning measurement and the organization's performance are essential.

A performance management change initiative, like other organizational change initiatives, must take advantage of the personal networks within an organization. By targeting change through network leaders, the most enthusiastic members are supported to succeed. Communicating that success to the organization at large, in turn, generates additional enthusiastic members.

With commitment to involve all stakeholders in the Organizational Performance Management System, the organization's leadership will learn what the expectations of their diverse stakeholders are and ultimately drive performance that not only meets but exceeds those expectations.

"The timid and the fainthearted, and the people that expect quick results, are doomed to disappointment" ~ W. Edwards Deming, Out of the Crisis

References

ⁱ Wheeler, Donald J. *Understanding Variation – the Key to Managing Chaos*, Second Edition. SPC Press, Knoxville, TN, 2000 (First Edition, 1993)

ⁱⁱ Deming, W. Edwards. *Out of the Crisis*. MIT Press, 1982

ⁱⁱⁱ Senge, Peter, Kleiner, Art, Roberts, Charlotte, Ross, Richard, Roth, George, Smith, Bryan. *The Dance of Change – The Challenges of Sustaining Momentum in Learning Organizations*. Doubleday, a division of Random House, Inc., NY NY, 1999, p. 17.