

# COACHING *for* LEADERS

## **Practical Performance Measurement: Using the PuMP Blueprint for Fast, Easy, and Engaging KPIs**

*by Stacey Barr*

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### **Dave's Reading Highlights**

Frustratingly, there isn't a single universally accepted definition of any of the multiple terms used in the performance measurement field, which include 'KPI', 'performance indicator', 'performance metric', 'performance measure', 'lead indicator', and 'lag indicator'. Because there probably won't ever be an accepted definition of any of these terms, let's not waste our time worrying about their varying meanings. I almost always use the term 'performance measure'. To many, 'KPI' has become the friendly nickname for a performance measure, so depending on my audience I will sometimes use the term 'KPI'. Getting my message out about how to do performance measurement properly is more important to me than finding and using perfect terminology. For me, understanding what a performance measure is matters more than what we call it.

One challenge of using the word 'measure' is that it has two different meanings in the English language: Meaning 1: We will take measures to improve customer loyalty. Meaning 2: We will measure how much customer loyalty we have. We could easily replace the word 'measures' with 'initiatives' in the first statement, but not the second.

I've often wondered if this double meaning is the reason why so many people think that initiatives, projects, strategies, or ideas to improve performance are what belong in the performance measures column, next to their plan goals.

Initiatives are not performance measures in the same way that budgets are not profits and actions are not results. Yes, we need initiatives, actions, or strategies that we will implement to improve performance. But they are not evidence that our goal is reached. A university library might redesign the floor layout to provide more study space for students who are dissatisfied about the number of times they can't find a space when they need it. The initiative would be a floor layout redesign project. The performance measure could be something like Average Student Satisfaction with the Ease of Finding Study Spaces, or Percentage of Students Entering the Library to Study Who Find a Study Space Immediately.

Monitoring milestones is project management; monitoring results is performance management. Events or milestones fail to give us good performance feedback because they tell us only whether or not we implemented the actions that we've chosen to improve performance.

Performance is about how well we achieve a result, not what we do to achieve that result. Direct evidence of a result is essential to properly test our hypotheses about how to achieve that result.

Measures should be designed before data is selected for the same reasons that a house should be designed before building materials are selected. If we start with the data, we risk ending up with the wrong measures and missing out on getting the data we really need for the right measures. Or we risk ending up arguing about exactly how to use the data to decide whether our goals are being achieved or not. Neither of these outcomes gives us a true measure of performance.

You don't have a performance measure until you can describe how to calculate its values as a count, sum, percentage, average or ratio. Vague two- or three-word names do not make good performance

measures. Every measure needs to have a name that makes it easy to refer to, but if that name is not widely and consistently understood we ought to accompany it with a short description that explains what the measure is. For example, a possible description for a livestock association's measure called Market Acceptance might be 'the percentage of consumer lamb purchases that are from our breed'.

One thing that often comes up when I talk about essential features of performance measures is the 'SMART' acronym. 'SMART' stands for 'Specific, Measurable, Achievable, Relevant and Time-bound'. It's a very good framework to test that our goals are well-formulated. But it's most certainly not a framework for making sure our performance measures are well-formulated. Rather, well-formulated performance measures are the 'M' ('Measurable') element of SMART. Well-formulated performance measures have these qualities: \* A method of comparison that we can use to tell whether performance is good or not \* A base of objective evidence that gives a reasonably accurate and reliable picture of current performance \* A sufficient degree of granularity to detect small but important changes in performance to which we should respond \* Relevance to the organisation's priorities \* The ability to show changes in performance levels over time, giving us enough context to avoid short-sightedness

A single number can never be a performance measure because there's nothing to which we can compare it in order to decide whether the number is good or bad, on or off target, or in what direction it's changing. We need to be able to compare actual performance with an ideal or desired level of performance, historic performance or, in the best of all possible worlds, both.

Performance measures don't need to have perfect integrity. They need only to be accurate and reliable enough to be trusted as information that will lead to a better decision than no decision or an uninformed decision.

The way we design our performance measures can affect the granularity—or sensitivity to change—that those measures are capable of showing. Just think about two very common performance

measures for customer satisfaction: the Percentage of Customers Satisfied and the Average Customer Satisfaction Rating. Both measures can come from the same set of data, which might be customers' responses to a question about how satisfied they are on a 10-point rating scale. The Percentage of Customers Satisfied measure could be calculated as the percentage of customers who gave a rating higher than 5 on the 10-point scale. The Average Customer Satisfaction Rating is simply the average of all the ratings that customers gave. Imagine the situation where satisfied customers are becoming less satisfied and therefore rating their experience lower on the 10-point scale. The percentage measure would not pick up this shift nearly as well as the average measure because customers whose ratings dropped from 8 to 6 out of 10 would still be classified as 'satisfied'.

Performance measures are a subset of measures that track the results related to our organisation's biggest priorities right now. And the decision about which results are the biggest priorities is influenced mostly by the organisation's strategic planning process, and partly by our knowledge about performance results that might not be in the strategic plan but are still mission critical or too important to ignore.

If the organisation tracks their performance measures only annually, the management will find out the answers to these questions too late, at the end of the year when they calculate the measures for the year and compare them to the targets. Unless we design measures that give us regular feedback over time, we'll be faced with too little information too late. We won't get the information that will help us fine-tune our strategies (the activities, initiatives, projects, and so on that are supposed to make performance better) to ensure that they actually produce the improved results they were supposed to produce. Performance measurement shouldn't be a post mortem; it should be a health plan.

So here's a definition that brings all of these features into conscious awareness to help us recognise and create truly well-formulated performance measures that will directly serve the purpose of

providing feedback for performance improvement: A performance measure is a comparison that provides objective evidence of the degree to which a performance result is occurring over time.

An organisation's renewal process has three parts, just like the renewal process of a living organism: the planning process to set goals, the performance measurement process to provide continual feedback about gaps between its current capability and the goal, and the improvement process to close the gaps.

The role of performance measures in the improvement process is to focus attention on what most needs improving, and to guide the improvement efforts by testing which actions are causing as-is performance to move closer to to-be performance and which aren't.

One of the starkest lessons I had in the social aspects of performance measurement was the day I showed a fabulous time-series graph of a safety measure (I can't remember which one; it might have been train derailments, or trains running through red signals) at a safety committee meeting. The safety manager took one look at the graph and literally yelled at me that I had no idea what I was doing, and that the graph was useless. Actually, the graph was saying that he had managed to achieve absolutely no improvement in that area of safety performance during the previous two years. While I was mopping up tears in the ladies' bathroom and feeling a bit sorry for myself, I realised that I hadn't actually shown a graph that would enable him to recognise or think about how to improve the problem. Instead, I'd shown the rest of the safety committee a graph revealing that he was incompetent. Ouch. However good the quality of the information I presented, it was not likely to be well received or used without buy-in from the person responsible for the problem.

The steps in the PuMP approach to performance measurement are both technical and social, and that's why it creates good measures, good measurement processes, good performance management and a strong performance culture. If we want a collection of meaningful and engaging performance measures that align to our strategy, and make it easier to execute that strategy and improve organisational or

company performance, then certain things have to happen. These things are both technical and social, and they weave together to make up our performance measurement process. The technical things are to do with: \* How we articulate our strategy so that it's measurable \* How we choose performance measures that meaningfully align with that strategy \* How we implement those performance measures, from data collection to analysis and reporting \* How we interpret and use the measures to successfully improve organisational performance.

The social things are to do with: \* How we frame the purpose of performance measurement to people who are cynical and skeptical about it \* How we engage people in choosing the performance measures so they feel ownership of them \* How we bring performance measures to life without people whining about how it's taking their time away from 'real work' \* How we encourage people to use performance measures to take actions that improve organisational performance, as opposed to knee-jerk reacting to every change every month, or just making the numbers look good.

Where the Balanced Scorecard focuses on the shareholder view as the ultimate outcome for companies (or the customer view for non-profit organisations), the Performance Prism takes a multi-stakeholder view, including shareholders, customers, employees, suppliers/partners, and regulatory and other communities. The Performance Prism's perspectives start with stakeholder satisfaction and contribution, and also include strategies, processes and capabilities.