

Knowledge 011

Implementing and improving performance management systems

- This briefing is for managers involved in designing or implementing performance management systems, and organisational leaders who require good performance management information to make effective decisions. Issues of performance improvement and performance management of other organisations are covered in other knowledge briefings in the Strategic Management Series.
- Performance management is a little like the law – necessary, but often a blunt instrument unless designed with great precision. It covers the setting of standards that define the principles of operation, targets for the delivery of services and instruments for setting out how these are measured, reported and used by all participants.
- The introduction of performance management systems is necessary in order to facilitate effective discussions of organisational performance, identify areas of strength and weakness, and ultimately provide the evidence base to drive improvements.
- No matter how elegant the performance management system that is designed, it will fail unless the underlying purpose of performance management as a tool for bringing about organisational change is recognised and an implementation strategy that reflects this is adopted.
- The implementation of a successful performance management system requires executive support, aligning the organisation to deliver strategic goals, developing a culture of performance management and integrating the system with other organisational processes, such as risk management.

Is this briefing worth 10 minutes of your time?

Yes, if you are a manager involved in designing or implementing performance management systems or if you are an organisational leader who requires good performance management information.

How can this briefing benefit you?

This briefing includes ideas on the overall design of performance management systems, criteria to ensure that performance management systems are fit for purpose and an overview of some of the available performance management tools.

The context of performance management

Managers in the public sector operate in an ever-changing environment. One of the most important changes in recent times has been the increasing expectation of measurement that indicates progress against a proliferating number of targets and standards. This is largely due to rising public expectations relating to the injection of extra funding based on the promise of service improvements and value for money. There is a consequent need for performance management systems that can define levels of performance, provide an evidence base for decision-making and facilitate the improvement of delivery. The term *performance management* therefore covers:

- national standards that define the principles of operation;
- national targets for the delivery of services;
- organisation-level strategies that establish internal performance targets;
- instruments setting out how targets are measured and reported; and
- review processes for ensuring that performance improves continuously.

Based on our extensive experience of working with national, regional and local organisations across the public sector we have been able to develop a model, set out below in Figure 1, which places performance management within its full operational context.

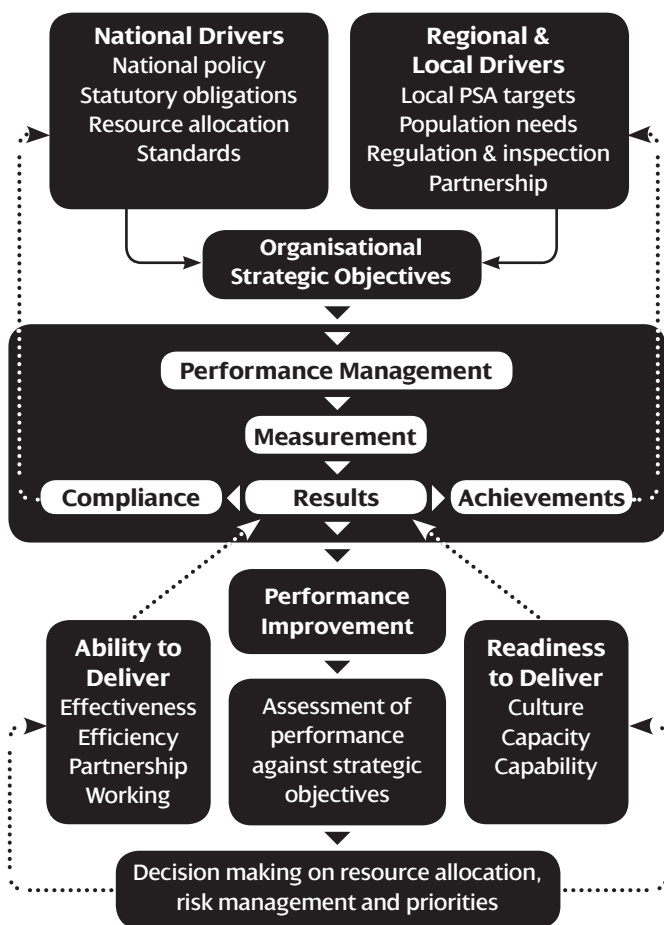


Figure 1: The Matrix approach to performance management and improvement

As can be seen from the model above the performance management system must 'fit' with the strategic vision of the organisation, its main activities and the operational environment. It therefore needs to be aligned with organisational strategy, differentiate achievement against intended outcomes from intended outputs, and integrated with other management

mechanisms for improving performance and managing risk. Based on a survey of 23 performance management systems of national, public sector bodies that Matrix carried out it is clear that organisations focus on inputs and outputs rather than attempting to measure whether they are achieving their intended impact, aligning the performance management system with strategy and managing risk.

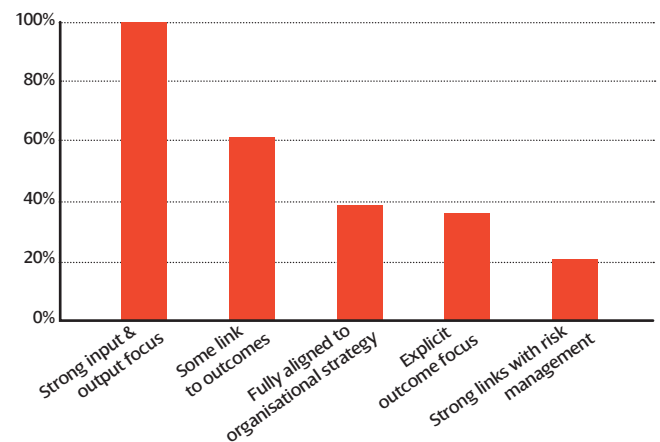


Figure 2: results of Matrix performance management survey

This briefing is primarily concerned with the process of performance management. The process of performance improvement and managing the performance of other organisations is examined in more detail in separate Matrix Knowledge briefings in the Strategic Management Series.

Designing better performance management systems

There is a substantial literature on developing performance management systems in the public sector relating to performance reporting, information and targets. Based on this guidance, it is possible to identify three overarching questions to ask when existing performance management systems are being assessed and new ones designed:

- **Framework:** what is the system within which performance is being assessed?
- **Measures:** are the measures of performance of good quality?
- **Presentation:** is performance being presented in a way that is conducive to interpretation and action?

The following sections present a summary of this literature.

Framework

The 2001 report, *Choosing the Right Fabric*¹, sets out the core properties that should apply to all good systems of performance information in order to produce high-quality information that can be used to measure an organisation's progress towards its objectives.

The framework of a performance management system

- Focused** on the organisation's strategy and objectives.
- Appropriate** to, and useful for, stakeholders.
- Balanced**, giving an overall picture of what the organisation is doing.
- Robust** in order to withstand organisational changes or changes in personnel.
- Integrated** into the organisation, being part of the business planning and management processes.
- Cost effective**, balancing the benefits of the information against the costs of producing it.

Measures

Any analysis of performance measures should consider how well the outcomes of the organisation are being achieved and how well the management, planning and delivery process is contributing to their achievement². The box below sets out criteria for assessing performance measures.

Criteria for assessing performance measures

Relevant to what the organisation is trying to achieve.
Attributable to the activity being measured.
Reliable and accurate enough for its intended use.
Well defined to ensure consistent data collection and analysis.
Timely, data should be produced regularly to enable progression to be tracked.
Comparable, to facilitate comparisons with past performance or similar organisations.
Verifiable, with clear evidence supporting the results produced.

It is also crucial to consider the following points:

- what exactly should be measured to give the required range and depth of organisational performance;
- how inputs, processes, outputs and outcomes will be differentiated and measured; and
- how the system will drive behaviour so that measures do not create perverse incentives.

Presentation

Performance management data need to be user-friendly or else risk being circumvented or not used. A number of good practice areas can be defined to guide the effective presentation of performance information³.

Presenting performance management information

Clarity: information should be presented in clear messages about the issue.
Timeliness: measures should enable the assessment of changes in performance over time using trend information to show whether an organisation is improving or declining.
Understanding: performance statements need to be underpinned by a shared understanding of the measures used and data quality levels in order to assist the user in evaluating the significance of what is presented.

Performance measurement tools

Many different tools are used to measure performance. The following section presents a few examples of tools that Matrix has found to be useful for public-sector organisations to incorporate as part of performance management systems.

The Balanced Scorecard

The Balanced Scorecard (BSC)⁴ is a tool that, used properly, can help meet all of the criteria for an effective performance management system set out above to produce a 'user friendly' and rounded picture of an organisation's performance. It achieves this through focusing on four or five different perspectives within the organisation. When working with public-sector clients we can modify this tool, which was originally private-sector focused, to reflect the key drivers of a public-sector organisation. See Figure 2 for an illustration.

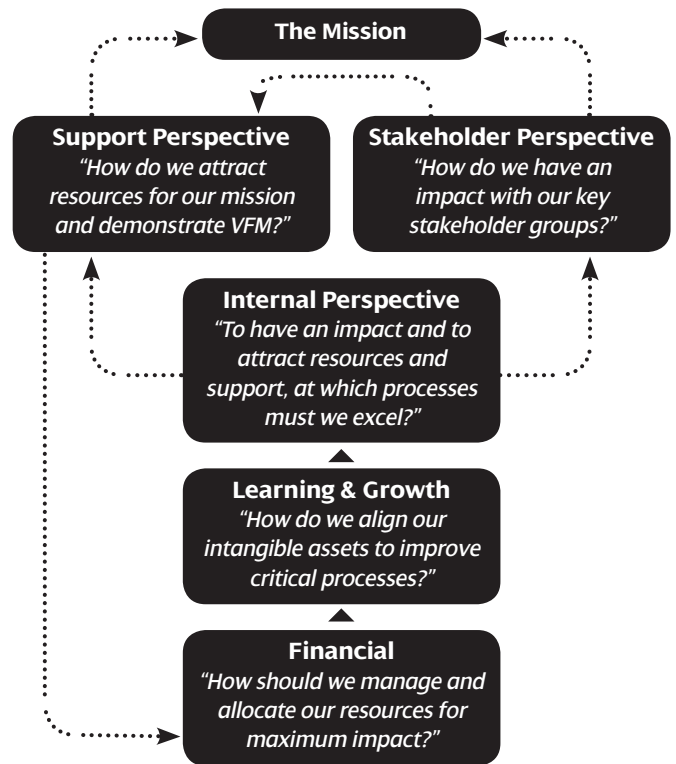


Figure 3: A public-sector BSC (based on Kaplan and Norton, 1996)

The BSC has been widely adopted because it focuses on a few factors critical to organisational success and examines the relationship between different areas of performance in the organisation.

The Performance Prism

An alternative to the BSC is the Performance Prism⁵, which places stakeholder relationships at the centre of its process of measurement. There are several different perspectives that create a link between value creation and performance management by investigating the organisational strategies, processes and capabilities needed to create value for stakeholders. With the increasing need to consider not only traditional accountability relationships but also consultation, partnership working across and within sectors, employee satisfaction, media profile and reputation, the focus on stakeholders has grown substantially in recent years. This performance measurement system is therefore highly suited to public-sector organisations that often have a wide and complex array of relationships to maintain. The system takes account not only of all stakeholder wants and needs (stakeholder satisfaction) but also the reciprocal organisational needs from its stakeholders (stakeholder contribution).

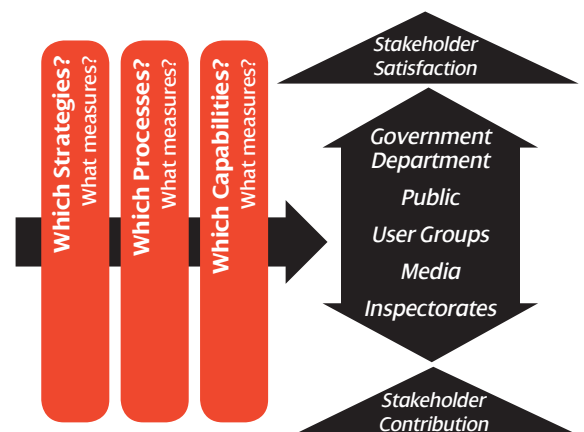


Figure 3: The performance Prism (based on Neely, Adams and Kennerley, 2002)

Further reading and references used

- 1 HM Treasury, Cabinet Office, National Audit Office, Audit Commission and Office for National Statistics (2001) *Choosing the Right Fabric: A Framework for Performance Information*, Stationery Office.
- 2 HM Treasury, Cabinet Office and National Audit Office (2003) *Setting Key Targets for Executive Agencies: A Guide*, Stationery Office.
- 3 National Audit Office (2000) *Good Practice in Performance Reporting in executive Agencies and Non-Departmental Public Bodies*, Stationery Office.
- 4 Kaplan and Norton (1996) *The Balance Scorecard*, Harvard Business School.
- 5 Neely, Adams and Kennerley (2002) *The Performance Prism: The Scorecard for measuring and managing business success*, Financial Times-Prentice Hall.
- 6 Niven (2003) *Balanced Scorecard: step by step for Government and not for profit agencies*, Wiley.

Implementing a performance management system

Performance management systems will not improve organisational performance unless they are implemented effectively. These systems need to be developed within the context in which they are to operate as there is no one-size-fits-all system with universal indicators. Progress towards or away from performance targets should be visible to the entire organisation, so simple visual indicators, such as traffic lights, are useful.

As well as creating improvements for organisations as a whole, the effective implementation of performance management systems can also have a positive effect on individuals, assisting them to understand how their own roles impact on the performance of the entire organisation.

Some of the key factors that should be taken into account when implementing a performance management system are set out below.

Anticipating resistance to change

Performance management is ultimately about getting individuals, teams and organisations to do things differently in order to improve the performance of an organisation. However, a lack of understanding and fear of personal risk may lead individuals to resist change, in this case a new performance management system. Therefore an implementation strategy that recognises the process of change required at an individual and organisational level will be crucial (see Matrix's knowledge briefing on organisational change). Implementation strategies designed to anticipate resistance to change might include:

- involving staff in the design and implementation process;

- stressing the potential 'win/win' scenarios brought about by a new performance management system (e.g. more freedom for staff to develop innovative means of achieving targets delegated to them); and
- using a progressive implementation to gain ownership of the process across the organisation.

Establishing a performance-based culture

Another important way to address this barrier is to develop a performance-based culture in tandem with the implementation of the system. The following factors are critical to establishing this and embedding performance management in the fabric of the organisation.

Executive Leadership: Senior management needs to be firmly committed to creating the conditions for effective performance management. This should be reflected in policies, systems and resource allocation.

Strategic direction: There must be a clear strategic direction that is communicated throughout the organisation. Individuals need to be able to visualise how their roles impact on performance, and activities need to be aligned to the delivery of objectives; otherwise the system is simply measuring processes without purpose.

Integration: The system should be firmly rooted in the management framework and integrated with key processes, such as risk management. It is therefore necessary that it is designed and operated by appropriately skilled individuals.

Systematic review: This enables members of an organisation to understand the value of change and of new measures. Defining roles and responsibilities as well as the mechanism and frequency of review are important in influencing the speed at which individuals learn and accept a new system.

Conclusions

Good performance management requires:

- Well designed and effectively implemented performance management systems are crucial for driving improvement.
- When designing a performance management system attention must be paid to the design of the framework, the selection of measures and the presentation of information.
- It is important for the organisation to understand the difference between measuring inputs, processes, outputs and outcomes, and not to create perverse incentives through its measurement system.
- Implementation must include anticipating resistance to change and ensuring that a performance-based culture is established.
- The system must be able to demonstrate progress against the objectives of the organisation and must therefore be aligned with its strategy.

Matrix specialises in providing independent, evidence-based solutions that form the cutting edge of the policy-making agenda.

Knowledge informing improvement

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