

**PERFORMANCE INDICATORS****Group Work of IFIP W.G. 5.7**

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**INTRODUCTION**

A central element in benchmarking is measurement and comparison. Companies must measure the performance of their business processes and practices to be able to compare themselves to others and to identify benchmark partners who are better than themselves. Furthermore, in order to recognize improvement based on benchmarking, the benchmarking company must be able to track performance over time. Therefore, good performance indicators are an essential ingredient of successful benchmarking. What follows is a summary of a group discussion on the topic of performance indicators which we hope provides a useful framework for performance measurement in benchmarking. This summary represents the collective thoughts of the 13 members of the group.<sup>1</sup>

The discussion is organized around questions frequently asked about performance measurement in benchmarking:

- What should I measure?
- What units of measurement have others successfully used?
- With whom should I compare myself?
- Who should do the measuring?

The dangers of over-focusing on the quantitative aspects of benchmarking are highlighted at the close of this discussion. We conclude with a check list to help you in choosing the right performance indicators to benchmark for continuous improvement.

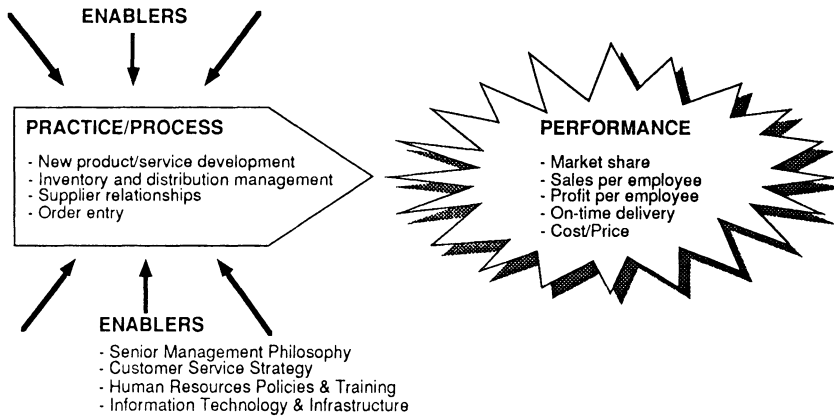
**WHAT SHOULD I MEASURE?**

One way to think about what is useful to measure is to consider three groups of indicators: performance; practice/process; and, enablers. As depicted in Figure 1, performance is the result of work practices and processes which in turn are influenced by enablers such as leadership style, information technology infrastructure, human resources policies, etc. While more difficult to quantify, what separates average from world class companies is often the enabling elements. Benchmarking as a tool for taking action to improve performance, must therefore consider all three types of data. For any given company, what to measure in each category

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<sup>1</sup> A special thanks to Bill Baker of Texas Instruments who contributed to the group's discussion from his experience in helping select and manage the use of global benchmark measures at TI.

depends on the company's business strategy and the areas most in need of improvement.



*Fig. 1 Performance, Practice and Enablers - Examples What To Measure*

#### WHAT UNITS OF MEASUREMENT HAVE OTHERS SUCCESSFULLY USED?

Since what to measure depends on a company's business strategy, the right units of measure will also be company specific. The case of Texas Instruments illustrates by example how to decide on the right measures and units of measure.

At the highest level, Texas Instrument's (TI) business strategy is "Customer Focus Through Total Quality." In deciding on the right performance indicators to benchmark the questions they asked themselves were:

1. What is our business strategy?
2. How can we measure if we are succeeding?
3. Since it is important that everyone in the company help implement the strategy, what measures apply to everyone?
4. What few global measures can everyone "buy into," help put into practice and use to drive improvement?

Senior managers at TI agreed that given the business strategy three areas were critical to measure: people involvement; customer satisfaction; and, continuous improvement. Agreeing on what to measure was more difficult. Data on over 25 performance indicators was initially collected.

Seeing how time consuming it was to collect and use the information, senior managers worked until they agreed on four performance indicators:

#### *People Involvement*

- Hours of training (average and minimum)

#### *Customer Satisfaction*

- On-Time and Complete Deliveries (delivery of all components, including paperwork, to the right location at the right time)

#### *Continuous Improvement*

- Quality (6 sigma, defects in parts per million)
- Cycle Time

The above measures apply to support/service functions as well as to manufacturing. TI collects the information internally and uses it for internal and external benchmarking. In the area of training, for example, TI compares the average and minimum hours of training its employees receive with the level of training employees at other companies receive. TI expects every employee to receive a minimum of 32 hours of training per year and holds managers accountable for selecting the right training along with each employee and seeing that their employees devote the time to complete the training selected. One of the key criteria for selecting a performance indicator for a large organization is that the measure be easy to aggregate by level and department on a regular basis.

### **WITH WHOM SHOULD I COMPARE MYSELF?**

Who to use as points of reference or benchmarks depends on the your reason or objective for benchmarking. If establishing an early warning system is the objective, focus your attention on the competition and on how well you are meeting your customers' expectations. If you want to create a sense of urgency for improvement, benchmark the impressions non-customers (e.g., recently lost accounts) have of you versus other suppliers. Have senior managers conduct the interviews. If you have selected a business process to improve and what to fuel the creativity of a team of employees involved in the redesign effort, look to companies with similar processes who are the best in the world at that particular process. The following is a framework for helping decide who to benchmark depending on your reason for benchmarking.

## Whom To Benchmark

<u>Objective</u>	<u>Reference Points</u>
• Early Warning System	• Customers • Competitors
• Create Sense of Urgency	• Non-customers • Suppliers
• Process Re-Design	• Best in Class/World
• Find Benchmark Partner	• Benchmarking Conferences, Roundtables, Centers
• Continuous Improvement	• Own processes/practices, performance results and enablers

### WHO SHOULD DO THE MEASURING?

The most successful benchmarking efforts are strategically driven with support from the top of the organization and involvement in benchmarking and performance improvement throughout the company. By level in the organization there is a hierarchy of measures that support one another:

<u>What</u>	<u>Who</u>
1. Strategic goal	• Senior Management
2. Core business processes	• Senior and Middle Managers
3. Process data	• Those closest to the process in question

As depicted in Figure 2 each of the above levels of data collection should be logically nested in each other. The right process data to collect depends on which processes are most important to the business, which depends on the business's strategy and strategic goals. Involving the right people at the right level of the organization in deciding what to benchmark goes a long way in creating support to collect benchmark data and convert the findings into action.

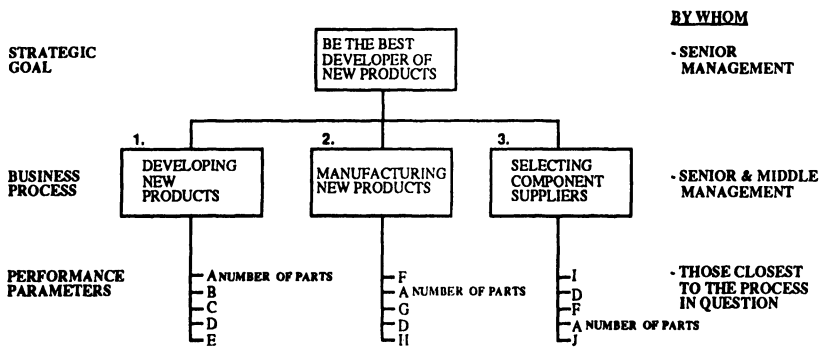


Fig. 2 Example of Hierarchy of Benchmark Measures

## DANGERS IN IMPLEMENTING PERFORMANCE INDICATORS FOR BENCHMARKING

In deciding what to measure and how, do not lose sight of the spirit of benchmarking: *to gain information that will help the organization take action and improve its performance.* Avoid the temptation to use benchmarking to control, reward or punish performance. Information is power and the real power of benchmarking is in sparking people's enthusiasm to learn and improve.

## CONCLUSION

Benchmarking as a tool for taking action to improve performance must consider three groups of indicators: performance; practice/process; and, enablers. What to measure depends on a company's business strategy and the right units of measurement are determined accordingly. In driving continuous improvement a number of criteria should be considered in selecting measures, ease of understanding and simplicity of data collection should be high on the list (see Figure 3). It may be appropriate to gather benchmark data on competitors, from customers, non-customers or those best in the world in performing a process that is strategically important to you. To determine with whom and what to benchmark get senior managers, middle managers and those closest to key processes involved in determining strategic goals, selecting core business processes and collecting/monitoring acting on performance data. Keep in mind that information is power and the real power of benchmarking is in sparking people's enthusiasm to learn and improve.

- **ARE THE PERFORMANCE INDICATORS (PI) CONNECTED TO THE STRATEGY?**
- **WILL THE PI's ENCOURAGE CONTINUOUS IMPROVEMENT?**
- **ARE THE PI's EASY TO UNDERSTAND?**
- **IS IT EASY TO COLLECT THE DATA YOU NEED?**
- **CAN THE PI's BE AGGREGATED EASILY "ROLLED-UP" ON A PERIODIC BASIS?**
- **WILL THE PI MEASURES LEAD TO ACTION?**

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*Fig. 3 Performance Indicators - A Checklist*