PERFORMANCE LEADERSHIP SERIES

MEASUREMENT DRIVES BEHAVIOR

PERFORMANCE LEADERSHIP SERIES
FROM BEST PRACTICES TO NEXT PRACTICES:
INTRODUCTION TO A FOUR PART SERIES

by Frank Buytendijk, Beingfrank Research

September 2012

SPONSORED BY:

tableau SOFTWARE

ABOUT THE SERIES

In a series of papers, author and industry expert Frank Buytendijk examines the people side of business performance and business intelligence. How does measurement affect human behavior? How does organizational culture contribute to business intelligence? What does a rational decision making process look like? Which number games do we recognize in business? What is the best methodology to manage business performance? In this introduction paper, Frank discusses how measurement drives behavior.

ABOUT THE AUTHOR

Frank Buytendijk (Beingfrank Research) is a well-known industry expert specialized in strategy, performance management and organizational behavior. He is an exceptional speaker at conferences all over the world, known for his out-of-the-box, entertaining and slightly provocative style. Frank is also a TDWI fellow, a visiting fellow at Cranfield University School of Management, and author of various books, including "Performance Leadership" (McGraw–Hill, September 2008), "Dealing with Dilemmas" (Wiley & Sons, August 2010) and "Socrates Reloaded: The Case of Ethics in Business and Technology" (Beingfrank Publications, September 2012). Follow Frank on Twitter at @FrankBuytendijk or visit www.frankbuytendijk.com.

ABOUT TABLEAU

Tableau Software helps people see and understand data. Ranked by Gartner and IDC in 2011 as the world's fastest growing business intelligence company, Tableau helps anyone quickly and easily analyze, visualize and share information. More than 9,000 companies get rapid results with Tableau in the office and on-the-go. And tens of thousands of people use Tableau Public to share data in their blogs and websites. See how Tableau can help you by downloading the free trial at www.tableausoftware.com/trial.

[1]The content of this paper is based on Buytendijk, F.A., 2010, "Performance Leadership," McGraw-Hill, United States

Measurement impacts our personal lives every single day. If we want to lose some weight, we start by standing on the scale. Based on the outcome, we decide how much weight we need to lose, and every other day we check our progress. If there is enough progress, we become encouraged to lose more, and if we are disappointed, we're driven to add even more effort in order to achieve our goal. In short, measurement drives our behavior. It can be witnessed in countless ways in our private lives. In fact, it is an important principle in the social sciences, often called the Hawthorne effect.

In the business world this is no different; measurement also drives our professional behavior. Once your business starts measuring the results of a certain process, your employees will start focusing on it. There are numerous examples: If the CFO starts tracking the days-sales-outstanding (DSO—i.e., the average number of days it takes customers to pay their bills) on a daily basis, instead of assuming that customers will pay within 14 days or so, the people in the accounts receivable departments are more likely to pay attention and exert greater effort to make collections. If hotel managers and their front desk staff are held accountable for the percentage of guests that fill out the customer satisfaction survey, they will be more likely to remind guests of the survey.

Measurement helps us not only to focus on our goals and objectives, but also to balance our actions. If you measure production speed alone in a manufacturing process, it is likely that quality issues will arise. For balance, you also need to measure how many produced units need rework. If a procurement department is only measured on how much additional discount it can squeeze out of contract manufacturers, it becomes hard to avoid unethical practices, such as the use of child labor in low-wage countries and the use of cheaper and environmentally unfriendly materials and production processes. Procurement departments need to identify a balanced set of metrics that includes ethical issues as well as price.

> “Measurement helps us not only to focus on our goals and objectives, but also to balance our actions.”

In each of the functional disciplines within an organization—finance, sales, marketing, logistics, manufacturing, procurement, human resources (HR) or information technology (IT)—measurement is a key element of management, and ultimately of bottom-line performance.

THE HAWTHORNE EFFECT

The Hawthorne effect refers to experiments between 1924 and 1933 conducted in the Hawthorne works of the Western Electric Company in Chicago.[3] One of the experiments dealt with the relationship between the illumination in the factories and worker productivity. When the illumination levels were increased, it was no surprise to see that productivity went up. However, when the illumination levels were decreased, productivity went up again. That was unanticipated. Even stranger, productivity went up in the control group as well, where there was no change in the illumination levels. This was puzzling. It was Professor Elton Mayo from Harvard Business School who came up with a widely accepted explanation. It wasn't the illumination process that improved productivity; it was the fact that productivity was being measured. One can speculate about the reasons—perhaps people felt a positive impact because the company paid attention to working conditions. Or it could be a negative driver—the people on the work floor were afraid the experiments would lead to further rationalization and layoffs, and therefore they worked harder. Whatever the reason, measurement affected performance.

I am not suggesting that measurement is the only driver of performance: Business processes are crucial in creating an efficient organization that makes few mistakes and makes optimal use of resources. Leadership is important in order to create a culture in which people feel motivated to give their best. And a good overall strategy is needed to distinguish a company from the competition. However, measurement cannot be ignored, even if it is only to check if the other drivers for performance are doing the job.

FINANCE AND IT

However, most measurement best practices are deeply rooted in the domain of management accounting and control, typically the responsibility of finance. And many implementations of measurement systems, often called “business intelligence systems,” are very much IT driven. Finance and IT are usually not seen as the most empathic business functions.

> “Measurement drives behavior, and if we don’t understand how, it drives behaviors in mysterious ways.”

Business intelligence usually is a top-down process. Most “best practices” point out that it is important to start by understanding the corporate strategy and to translate that into objectives or goals. Then, key performance indicators (KPIs) need to be put in place to track progress, and a program of improvement activities needs to be created to make sure the goals are achieved. Lastly, a process in which managers are made responsible for these goals, KPIs, and any improvement activities is set in place and linked to the managers’ compensation plans.

Unfortunately, the top-down way of implementation often does not take people’s behaviors into account, in other words, how people will react when confronted with performance indicators. Measurement drives behavior, and if we don’t understand how, it drives behaviors in mysterious ways.

We act surprised and shocked when we discover all the unwanted behaviors I have mentioned happening, although I am sure you have witnessed them time and again, just as I have. We blame it on the people and their opportunistic, political behavior. However, measurement should drive the right behaviors, and we should be able to predict the dysfunctional ones so that we can counter those behaviors. Business intelligence is there to support performance, not hinder it. The top-down approach to measures, aimed at management, focuses on goals, objectives, and objective measures—it simply doesn’t take human behavior into account. Business intelligence should draw from the experience in the social sciences, particularly organizational behavior.

I heard one management coach put it very eloquently. He said it is time we let go of the “soft, intangible side” of measurement, with managers typing in numbers in spreadsheets that do not mean anything. Instead we should focus on the “hard and tangible side” of performance management: human behaviors. After all, people either do something or they don’t.

WHAT CAN YOU DO?

There are multiple things you can do in order to be more successful with your KPI’s, dashboards, BI initiatives and “big data” aspirations. These suggestions will each be the topic of a next paper.

1 First, it is important to realize that if you aim to do decision support, one of the most important things is to understand decision-making processes. Sometimes these are rational, sometimes they are not. Seldom are they based on “letting the numbers speak for themselves,” which is a well-known saying in finance. Between absorbing information, quantitatively and qualitatively, through formal systems or informal conversations, and taking an actual decision, there are multiple steps in between. Offering users to analyze information in any which way they want is not enough. Decision-makers need to

understand which mental model of the business they have, by being aware of the assumptions they use in their decision making process. These conditions need to be tested and questioned. Decision-makers each have different styles. Some are very analytic of nature and come to strategic decisions independently, others are more inclusive of nature and facilitate a consensus-based decision making process. However, each would go through a number of steps, that are described in Toulmin's (1922-2009) model for argumentation.

2 Second, once on the topic of models and methodologies, we need to understand what the many frameworks in measurement do for us. Some have a background in finance and control, like DuPont ratio analysis, value-based management and budgeting. Others are rooted in operations, like activity-based management and six-sigma. Critical success factors (CSF), the Balanced Scorecard and Performance Prism come from the field of strategy. For every successful implementation there are at least two other stories that point out how the implementation completely failed. How do you determine what an appropriate methodology is for you? Is there such a thing as the best methodology? What drives the success of any performance measurement implementation?

3 Third, we need to understand what can go wrong. We have all seen managers play all kinds of numbers games. It seems the creativity managers have to circumvent accountability is nearly endless. They find all kinds of ways to affect the numbers so they look favorable to them. There is a reason why getting to the one version of the truth is often so difficult. Not because it is so hard to achieve from an analytical point of view or from a system's implementation angle, but because it is often not in the best interest of the users to have a single version of the truth. It would limit their capabilities to choose the version that fits them best. At the same time, there are many performance indicators that drive dysfunctional behaviors. Remember, what gets measured, gets done. If you measure the wrong things, you will get the wrong results. Take for instance the practice of providing high discounts at the end of a quarter. Dates are not really business events from an operations point of view. At the end of the quarter there is no higher need for resources to produce products or services, nor does it take more or less time. Quarterly targets are aimed at providing a regular "drum beat" to business, but often lead to lower margins because of excessive discounts. What number games can we distinguish? How can we predict the dysfunctional behaviors are drive the right behaviors?

4 Lastly, we need to get more grip on what many intuitively believe is the most important factor in a business being successful; it's culture. However, particularly in finance and IT, culture is seen as soft and intangible. Hardly something that you can model or shape. But in fact, you can. One of the social business sciences, intercultural management, has understanding and affecting culture as the main object of study. The volume of research in this field is astounding. It's just that most business intelligence professionals are not aware of intercultural management. Using various techniques from intercultural management it becomes fairly straightforward to map out a business culture and infer what performance indicators would be needed in this particular situation, how to deal with information transparency and how to link performance indicators to compensation. Different organizations have different cultures, there is no one-size-fits-all approach to implementing business intelligence.