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Driving the performance of your business

Workbook

Performance Measurement



PITCHER PARTNERS
CONSULTING PTY LTD



PRODUCTIVITY
LEADERSHIP



Phillip Boyle
& Associates



PITCHER PARTNERS
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1. Introduction

This booklet builds on the driving business performance presentations delivered at the 2014 Bus Industry Confederation Conference. This is the second in the series of three guides. This guide focuses on ***driving the performance of your business*** and follows on from the topic of developing Business Strategy.

Having set a business strategy and made strategic decisions, the next step is to implement and execute those strategic decisions. Performance measurement will help you deliver on your strategy by measuring progress and whether those strategic decisions are having the results that were expected. Performance measurement is therefore a key component for achieving success and will assist you to manage and make adjustments to your strategy as you navigate your way forward.

So, your first step is to have developed your strategy and to have identified where you are going. The next step is to determine how you will measure the performance of your business, report on its progress, identify when you may need to take action to keep it on track and indeed to understand what that action will be.

In developing these performance measures you are also seeking to engage with everyone involved in your business to ensure that there is ownership and alignment, and that your entire organisation is moving in the same direction to deliver your strategic plan.

Not only should performance measurement support the execution of your strategy but it should also improve your performance. Those organisations who correctly measure performance achieve superior results than those that do not.

This guide outlines a process to help organisations identify the most relevant measures for delivering strategy and managing the performance of their businesses. It does this by focusing performance measurement around key strategic milestones and the critical success factors of the business.

Before outlining the process we will describe some of the key principles and concepts of performance measurement¹. We'll also look at some tips and watch outs on performance measurement as well as some specific financial measures that you should be focusing on to manage performance.

¹ In developing this workbook, the works of David Parmenter regarding Key Performance Indicators and Kaplan and Norton in 1992 for Balanced Scorecard have been used to guide the development of the performance measurement process.

2. Key Concepts

Described below are fundamental principles and concepts of performance measurement. They will assist you in thinking about the types of measures available and where you should be focusing performance measurement within your business.

These principles and concepts are also important to understand in order to complete the four-step process that is discussed later in this guide. This understanding will also greatly assist you to identify performance measures within your business.

The fundamental principles and concepts are:

1. Goal Achievement Plan

In developing your strategic business plan as outlined in guide one a goal achievement plan (GAP) should have been developed. The GAP details those tasks that should be completed to deliver on the various strategic objectives established in your strategic plan. A key performance measure must be the delivery of these tasks in accordance with the GAP.

2. Budgets and Expectations

The results that a business achieves are meaningless without a benchmark against which to measure those results. Two businesses may both make \$1m net profit however if one business had budgeted for a \$2m profit and the other \$500k profit then the result will have two very different meanings. Without pre-set budgets or expectations ('expectations') then performance measurement is unable to provide its full potential.

3. Key Results Indicators²

Key indicators can be categorised into two broad categories those that tend to look to the past and those that seek to look towards the future:

3.1 Key Results Indicators

Key Results Indicators (backward-looking measures also called lag indicators) are measures that focus on past performance. They tell you how well you have performed against expectations. Whilst they reflect performance against expectations they don't necessarily highlight what action is required to shift poor performance up to expectations or what has delivered a performance above expectations.

For a bus operator some examples of backward-looking measures are:

- *Cost per kilometre last month*
- *Bus hour cost last month*
- *Net profit to date*
- *Overtime hours last month*

² The terminology and definition for Key Results Indicators, Key Performance Indicators and critical success factors noted below, while common in use have been drawn from the work of David Parmenter "Key Performance Indicators", second edition.

3.2. Key Performance Indicators

Key Performance Indicators (forward-looking measures also called lead indicators) are measures that provide an indication as to whether you are on track to achieve expectations. Forward looking measures usually focus on key indicators of performance that are most critical for current and future success. They are almost always non-financial measures that reflect trends that will either lead to performance above or below expectation. They should be simple to understand but again may not clearly indicate what is giving rise to the measure. They are highlighting how that trend may impact future results.

For a bus operator some examples of forward-looking measures are:

- *Repairs and maintenance programme on track – if the measure reflects that the programme is well behind schedule it is a likely indicator of future equipment failure leading to reduced timetable performance and possibly higher capital cost in early replacement of plant and equipment*
- *Workplace health and safety record – an increasing incident of accidents above expectations may flag an increased risk of a major incident/accident and all the implications of that on the business*
- *Forward charter bookings – lower than expected bookings may flag a decline in future revenue*
- *Customer survey feedback – a trend of declining survey results may flag a level of increasing customer complaints and the breach of contractual performance benchmarks.*

4. Critical Success Factors

Critical success factors (CSFs) are those elements of the business that are most critical to the ongoing success of the business. There are many factors within a business that may impact on its success. Some of these will be more important than others and then there will be those that are critical. The challenge is to identify the few measures that are the most important, the CSFs. In your strategic business planning process you should have identified these CSFs as you determined how your business is going to compete effectively.

For a bus operator CSFs may include factors such as:

- *Driver training*
- *Fleet maintenance*
- *On-time running performance*
- *Occupational, Workplace Health and Safety*
- *Continuous Improvement*

For a supplier to the bus industry CSFs may include:

- *Manufacturing QA process*
- *Rate of product failure*
- *Product innovation*
- *Customer Service*
- *A Strong Sales force*

5. A Balanced Scorecard

The balanced scorecard was first made popular by Kaplan and Norton in 1992³ and is a framework that seeks to align business activities to the vision and strategy of the organisation through the setting of a series of integrated performance measures. The scorecard moves beyond the standard financial measures that the shareholders are focused on and balances these with other measures around the customer, internal operations and learning and growth. These four perspectives of the balanced scorecard provide a broader and integrated perspective on performance.

The four perspectives are set out as follows:

Financial:	Customer:
To satisfy our shareholders, what financial objectives must we accomplish?	To achieve our financial objectives, what customer needs must we serve?
Internal Operations:	Learning and Growth:
To satisfy our customers and shareholders, in which internal business processes must we excel?	To achieve our goals, how must our organisation learn and innovate?

Example

Some example measures for each of the different perspectives for a bus operator are listed below:

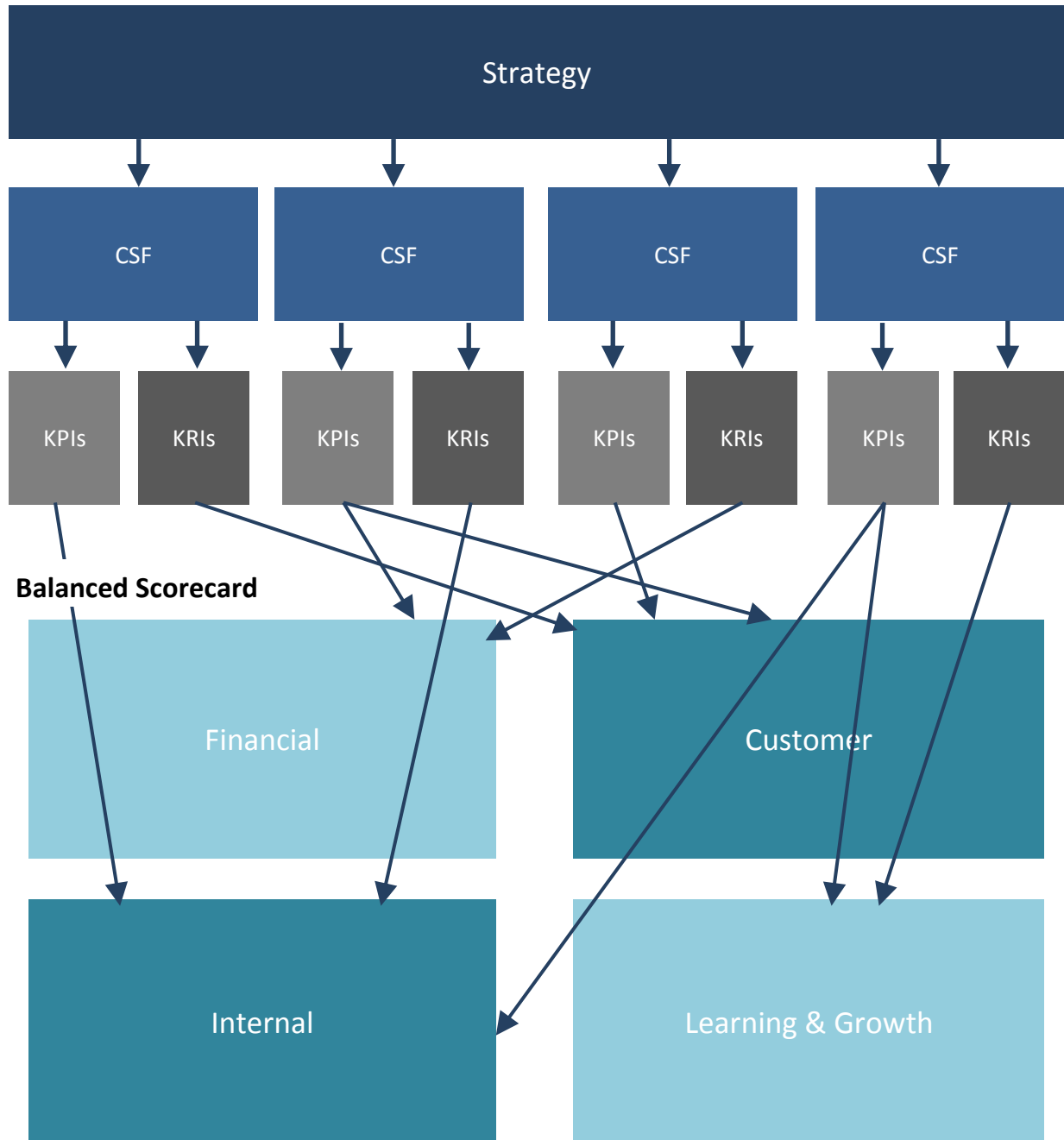
Balance Scorecard

Financial:	Customer:
<ul style="list-style-type: none"> • <i>Net profit</i> • <i>Cost per Bus Hour</i> • <i>Cost per Kilometre</i> 	<ul style="list-style-type: none"> • <i>On-time running</i> • <i>Customer complaints</i>
Internal Operations:	Learning and Growth:
<ul style="list-style-type: none"> • <i>Number of fleet defects</i> • <i>On-time running performance</i> • <i>Number of Workplace & Safety Incidents</i> 	<ul style="list-style-type: none"> • <i>Training sessions scheduled next month</i> • <i>Employee satisfaction</i> • <i>Staff turnover</i> • <i>Initiative identified through the staff suggestion programme</i>

³ Kaplan R.S and Norton D.P, *The Balanced Scorecard – Measures that Drive Performance*, Harvard Business Review Jan-Feb 1992

6. Bringing it all together.

The diagram below demonstrates the linkage between business strategy, critical success factors, performance measures and the balanced scorecard.



3. Four Steps to Identifying Performance Measures

INTRODUCTION

In this section we outline a four-step process to help you narrow down the most important performance measures in your organisations. The examples used in this section are based on a bus operation however the process is applicable to any business or industry.

The four steps in the process are:

1. Identify your Critical Success Factors
2. Test the Critical Success Factors
3. Breakdown the Aspects of each Critical Success Factor
4. Apply measures to each Aspect

STARTING YOUR PROCESS

How will the process be structured and facilitated?

Depending on the size and nature of your business, the degree of structure and formality required will vary. At one extreme this process may be completed by a few key people in an informal meeting. At the other extreme the process may be carried out over multiple workshops with an external facilitator.

When determining the appropriate setting and structure to go through the process, the following should be considered:

- Number of people attending
- Number of departments attending
- Commitment and alignment of different people and departments

An external facilitator can be useful when there are multiple departments and stakeholders involved, to maintain an impartial position and keep the conversation moving.

Who should be in the room?

Planning and implementing performance measures within an organisation requires engaging people with core knowledge of the organisation. When designing performance measures, different people within the organisation will have different understandings of the success factors of the organisation. They will also have different understanding of the relationships between success factors and how they are most effectively measured.

Designing an effective performance management system requires a thorough understanding of the different aspects of the organisation and will most likely involve people from operations, the workshop, the finance team, drivers and any other person or function that has a specific understanding of how the business functions.

Who will be accountable for driving the process?

An individual or team of individuals should be made accountable for undertaking the performance measurement setting process. This includes not only the coordination of the workshops but also following up on the agreed tasks and implementation of the performance measures.

THE FOUR STEPS IN THE PROCESS:

1. IDENTIFY YOUR CRITICAL SUCCESS FACTORS (“CSF”)

1.1 List down all success factors

The first step is to identify the critical success factors of the organisation. These are important for performance measurement as you will be building performance measures around these factors. You may well have identified some or all of these factors in your strategic planning process however the following process may be used to confirm your CSFs.

To do this, start thinking about all those factors, issues and aspects of your organisation that may impact on the success of your business. Some factors will be less important and some more important. You should consider your current business environment and how changes in that environment might impact on the success factors that are important for ongoing success. The following environmental factors could be considered:

- State of the economy
- Technological changes
- Political climate
- Consumer preferences
- Changing demographics

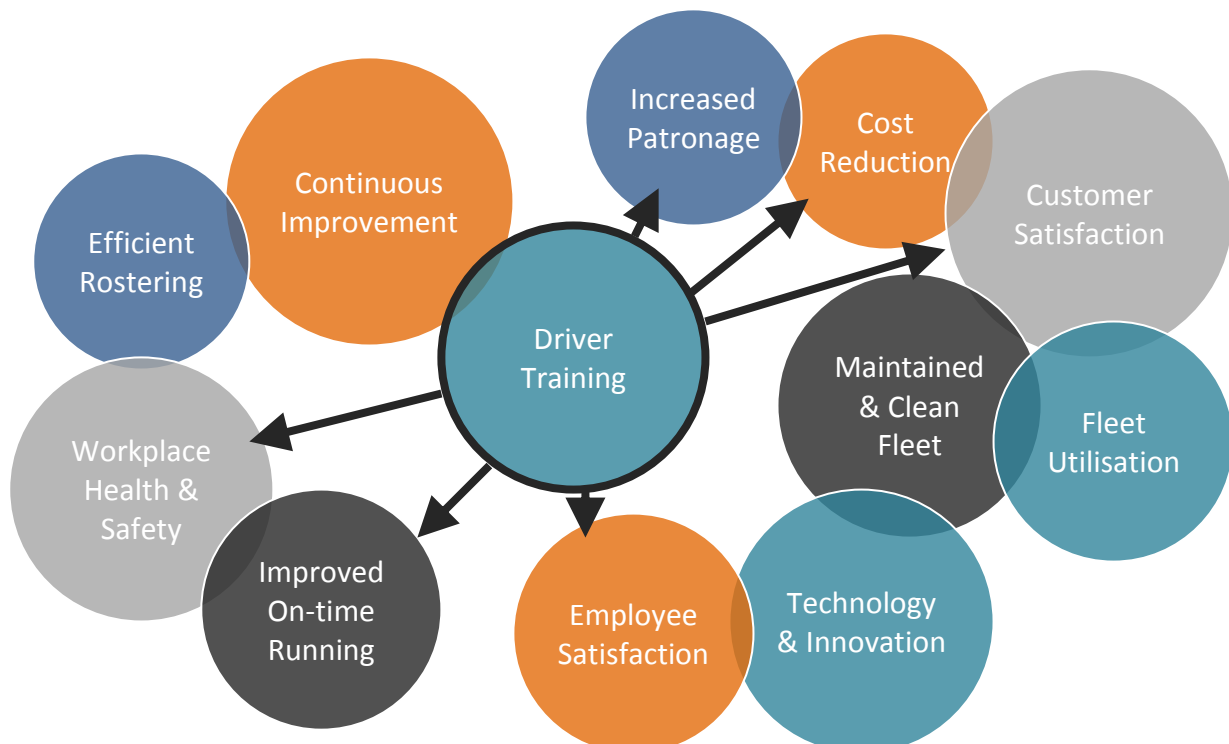
The listing of success factors may be captured on a whiteboard or butcher’s paper and a template that could be used is included at [Appendix One](#).

By way of example we might identify the following success factors for bus operators.



1.2 Map the relationships between success factors

Once all of these success factors have been captured, you then need to identify which of these factors are the critical success factors. One method for achieving this is to map the relationships among each of the factors in order to understand which factors impact most on other parts of the business.



Starting with a single success factor, draw arrows towards the other success factors that might be positively impacted if there was an improvement in the first success factor. This must be completed for each individual success factor and you may find that some success factors have arrows pointing in both directions between two success factors.

By way of example, in the above diagram we are looking at how improvements in the success factor of Driver Training might impact other success factors that have been identified. The arrows leading from Driver Training to some of the other success factors indicate that if you are able to make improvements in Driver Training, then you might expect to see improvements in some of these other areas.

This process can be completed by drawing out the relationships with arrows as discussed and demonstrated above. The same results can be achieved in a spreadsheet by listing all the success factors in a matrix and putting a 'one' in every cell for which a relationship exists. This will achieve the same result as drawing out all the relationships but will take less time and will be easier to edit and review in the future.

Mapping Success Factors

	Efficient Rostering	Workplace, Health and Safety	Continuous Improvement	On-time Running	Increased Patronage	Employee Satisfaction	Driver Training	Maintenance
Efficient Rostering			1	1	1			
Workplace, Health and Safety			1					
Continuous Improvement	1	1		1	1			
On-time Running	1	1	1		1			
Increased Patronage								
Employee Satisfaction		1		1	1			
Driver Training		1	1	1	1			
Maintenance		1	1	1	1			
Cost Reduction								
Technology and Innovation	1	1		1	1			
Customer Satisfaction					1			
Fleet Utilisation					1			

1.3 Identify the Critical Success Factors

Having mapped out all the relationships between the success factors, the next step is to identify those with the most relationships. These will be the critical success factors that are used as the basis for performance measurement. The number of CSFs will be specific to each individual organisation but as a guide you might expect between 4 and 8 CSFs.

2. TEST THE CRITICAL SUCCESS FACTORS

Once you have identified the critical success factors through the mapping process, you then need to test the CSFs. Testing allows a second check to ensure that the CSFs are the right factors to be focusing on and that you have not missed a CSF. One method of doing this is by checking off each CSF that you have identified against the four perspectives of the balanced scorecard.

Critical Success Factor	Financial	Customer Focus	Learning & Growth	Internal Process
Driver Training	✓	✓	✓	✓
Workplace Health & Safety	✓	✗	✓	✓
On-time Running	✓	✓	✓	✓
Continuous Improvement	✓	✓	✓	✓
Maintained & Clean Fleet	✓	✓	✗	✓

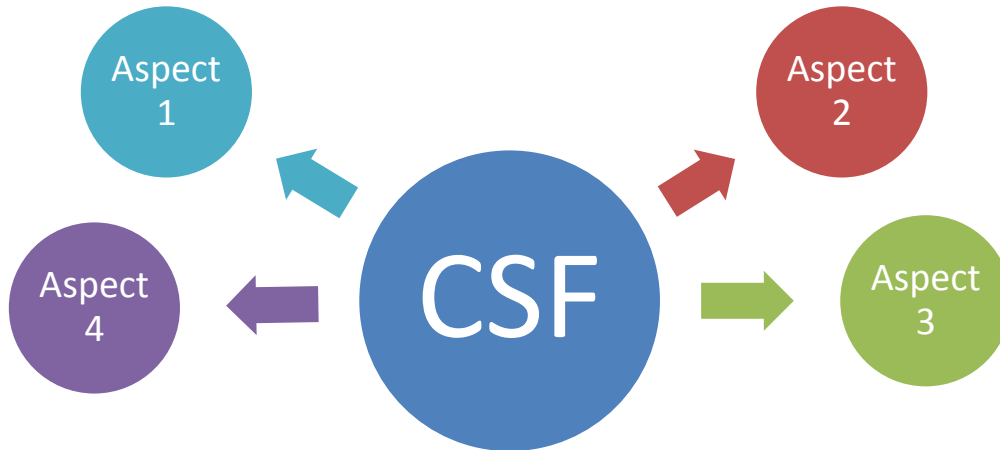
Using a table (like the one above), check off each of the critical success factors against the different perspectives of the balanced scorecard. An improvement in one of the critical success factors should impact on at least 2 or 3 of the different perspectives of the Balanced Scorecard ("BSC"). If this is not the case, then you need to question whether it is truly a critical success factor for the organisation.

Similarly, all perspectives of the BSC should be covered off adequately. If a perspective of the BSC has not been covered by the CSF's, then an additional critical success factor may need to be added.

This process is a structured way to check the CSF's before moving forward and brainstorming the required measures. A similar exercise could be performed to check the CSF's against the strategy of the organisation.

3. BREAKDOWN EACH SUCCESS FACTOR INTO MULTIPLE ASPECTS

Having identified and tested each of the critical success factors you need to move forward to brainstorming measures for these CSF's. To facilitate this process it is often easier to break each individual CSF down into small aspects. This makes the process of brainstorming performance measures more logical and focused. You may break each CSF down into numerous different aspects.



In the example below we have taken the CSF of on-time running performance and broken this down into two aspects being the driver and the bus. There may be other aspects of on-time running performance such as scheduling but for the purpose of this example we are simply going to use the bus and the driver.



4. BRAINSTORM PERFORMANCE MEASURES

During this step you are brainstorming different measures that may help you measure the performance of the particular aspects of the CSF that you have identified. You won't use all the brainstormed measures but rather use them as a list to refine the best measures.

It is important when brainstorming measures to consider not just the backwards looking measures that tell us how you have performed but also some forward looking measures which give us some indication of whether you are on track to improve performance.

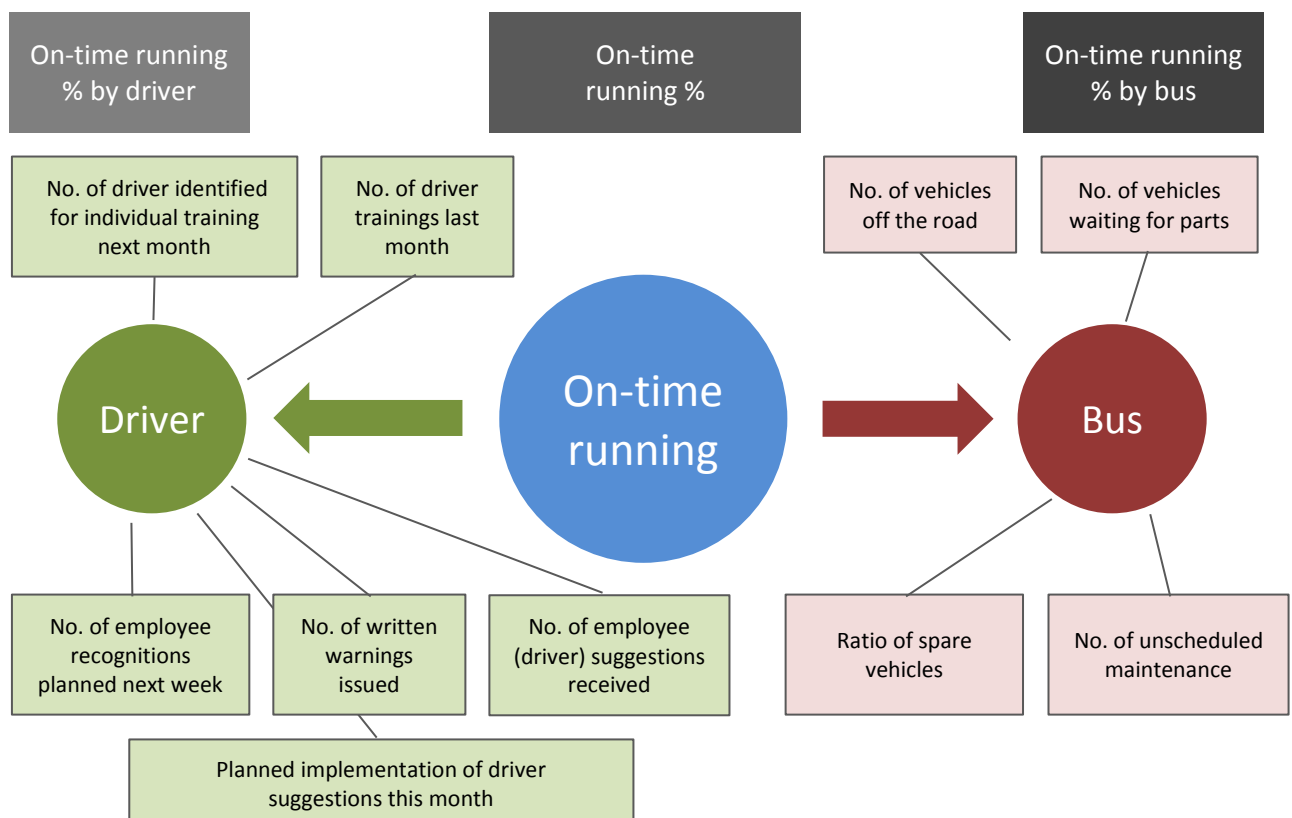
This is a more challenging part of the process and in particular you may find it more difficult to brainstorm the forward looking measures.

There are some questions than can help you draw out potential performance measures:

1. What do I need to be doing within the organisation in relation to those identified aspects of the CSF in order to maintain or improve on performance?
2. What is likely to stop or block me from sustaining or improving upon the performance of each aspect of the CSF?

The answers to the above questions can often provide the basis for meaningful performance measures.

Again we have taken the example of on-time running performance and begun to brainstorm some potential backwards and forward looking performance measures



5. COMPLETING THE PROCESS

Having defined the performance measures of the business, complete the below performance measurement plan to formally document all measures, set targets and make individuals accountable.

Performance Measurement Plan

Measure	Description	Accountability	Target	Result
<i>Driver trainings last month</i>	<i>Measure of driver upskilling</i>	<i>Driver manager</i>	<i>10% of total FTE drivers</i>	<i>Insert Result</i>

A template of the performance measurement plan is included at [Appendix Two](#).

Tips, Tricks & Watch Outs

Abundance of Measures and Data

Organisations capture and have access to more data now than they ever had before. Some organisations are using this data to better understand their customers and improve their operations while many others are overwhelmed by the mass of data and are unsure what to do with it. This is not dissimilar to the bus industry where we have more information available today from systems such as PTIPS. While some operators may be using this data to understand and try and improve upon their performance, there are other operators who are yet to make the most of the available data. The challenge for these businesses is to use the data that is available to understand how they are performing and what is driving their performance.

Focus on What is Important

Despite the abundance of data that is available and the hundreds of measures that could be used in our organisations, it is important to focus on those measures that matter most. We addressed this within the four-step process by building measures around the CSFs of the business. Focusing on the key measures that are most important to the organisation helps managers spend time on those things that really matter. If you can focus on performance measures that really matter, then you don't end up wasting your time on the measures that don't matter or that you cannot control.

Measures can have unexpected consequences

When implementing a particular measure there is often a focus on achieving a particular outcome or driving a particular behaviour. Occasionally though the measures you implement can drive other behaviours that were not intended or have a negative impact. This is particularly relevant when employee performance is linked to the particular measure.

Example: A bus operator may decide to measure fuel consumption by individual drivers in an effort to reduce consumption and costs. They may either report the consumption rates back to the drivers, reward them based on lower consumption or provide training for those with higher consumption rates. After a few weeks the driver may begin to focus too heavily on fuel consumption, they may not drive the vehicles as hard resulting in lower consumption but also result in slower run times. If the slower run times mean the drivers are just out on the road longer then perhaps the additional cost of the drivers being on the road longer is offsetting any savings in fuel efficiency.

It's important to consider any possible unintended behaviours that may be driven by the measures implemented within the organisation. It will not always be possible to identify these unintended behaviours at the outset so if they do occur, the performance measure should be adjusted to address the issue.

Performance Measurement is Not Set and Forget

Performance measures cannot be set and forgotten, nor can they be set and then measured indefinitely without consideration as to whether the measures are still relevant. Performance measurement must be reviewed periodically.

Performance measures require review for multiple reasons. It may be that unintended behaviours have crept into the organisation as a result of a particular performance measure. Perhaps you've seen significant improvements in a particular aspect of your business and can move on to focusing on the next big issue. As long as your business environment is changing, your success factors are likely to be changing and, through this change, performance measures need to be reviewed and re-considered.

Financial Measures for Bus Operators

The following table highlights some common financial measures for bus operators:

Area	Measure	Provides
General	Average kilometres per bus	Utilisation of assets / coverage of overheads
Drivers' Wages	Cost per bus hour	Measure to compare to budgets, benchmarks and prior periods. Understanding the different components such as normal time, overtime, on-costs and sick leave is also important.
Supporting measures to cost per bus hour	Unrostered Pay - Paid Hours / Rostered Hours Unrostered overtime - Paid EOH ⁴ / Rostered EOH Mix of Casual Wages - Casual hours / Total hours	Understanding of variations in above and provides direction for investigation
Mechanics' Labour Repairs and maintenance	Cost per kilometre	Measure to compare to budgets, benchmarks and prior periods.
Supporting measures to cost per kilometre	Number of defects Number of off road days	Provides an indication of the performance of the workshop. Also explains variances in repairs and maintenance costs.
Fuel	Cost per kilometre	Measure to compare to budgets, benchmarks and prior periods.
Supporting measures to cost per kilometre	Average consumption Average price for period	Understanding of variations in above and provides direction for investigation
Bus overheads (Insurance, Registration etc.)	Cost per bus	Measure to compare to budgets, benchmarks and prior periods.
Other overheads	Cost per bus	Measure to compare to budgets, benchmarks and prior periods. Looking for efficiencies as the business grows.
Finance	Total Monthly Fleet Revenue Versus Monthly Fleet Finance Payments	Understanding of any cash flow gap to be funded through operations
Finance	New Vehicles Funding Vs Finance	Understanding of any gap that will affect your earnings and cash flow
Fleet	Market value of fleet less outstanding lease liabilities	Equity value of your fleet

⁴ Equivalent Ordinary Hour

Appendix One – Critical Success Factor Worksheet

1		3	8	11
2	4		6	13
5		7	9	
	14		10	
		12		15
17		16	18	
21				19
		20	22	
23	24			

Appendix Two – Performance Measurement Plan

Measure	Description	Accountability	Target	Result

