

# **National Assembly ELI: Performance Management**

**NATIONAL ASSEMBLY OF HEALTH AND HUMAN  
SERVICE ORGANIZATIONS**

**Presentation document  
November 14, 2003**

## **BACKGROUND TO PERFORMANCE MANAGEMENT MATERIALS**

**The following materials were prepared by McKinsey & Company to facilitate a session on performance management for the National Assembly's Executive Leadership Institute. Materials are based on the results of surveys and interviews with members of the National Assembly as well as input from McKinsey teams serving nonprofit organizations on this topic.**

**The materials represent one perspective on the complex subject of performance management. Specifically, the materials cover:**

- Benefits of performance management**
- Implementation challenges**
- Potential solutions**

**The document is intended as an input into the discussion on effective performance management. Specifically, the materials are designed to:**

- Provide actionable ideas for improving performance of your organization**
- Increase your return on measuring performance**

# CONTENTS

- **Performance management overview**
- **Survey and interview results**
- **Details on performance management framework**

## WHAT IS PERFORMANCE MANAGEMENT?

All nonprofits measure performance to some degree, but we are interested in performance management systems that have some key features

### Performance management is . . .

- A process that is **explicitly tied to the organization's mission, vision, and strategic goals**
- A process driven by incorporating results to improve performance
- A formal, rigorous and established process in an organization
- A system that assesses multiple key areas of an organization
- A process that includes both objective data (e.g., financial and program statistics) and subjective data (e.g., surveys, interviews)

### Performance management is not . . .

- A process used to show numbers to the board one or twice per year, **without seeking to take action** based on the results
- A process that includes measures not tied to consequences or actions
- An informal check-in by management on a few metrics
- A subjective opinion of management or program officers about the performance of certain divisions
- An assessment of purely financial metrics
- A boiler plate process that looks the same across all organizations

## THERE ARE 4 MAJOR DRIVERS OF EFFECTIVE PERFORMANCE MANAGEMENT

- Clear process, systems and responsibilities for measurement
- Measures taken in timely interval
- Paperwork/ bureaucracy kept to minimum



- Measures tied to concrete organizational goals (mission-driven)
- “Nice-to-have” measures kept to minimum
- Measures cover all parts of organization (program, financial, capacity, people)

- Targets and consequences of performance results known throughout organization
- Timely and transparent response to performance results

- Performance management mindset pervasive in organization and network

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## OVERVIEW OF SURVEY RESPONSES

ESTIMATES

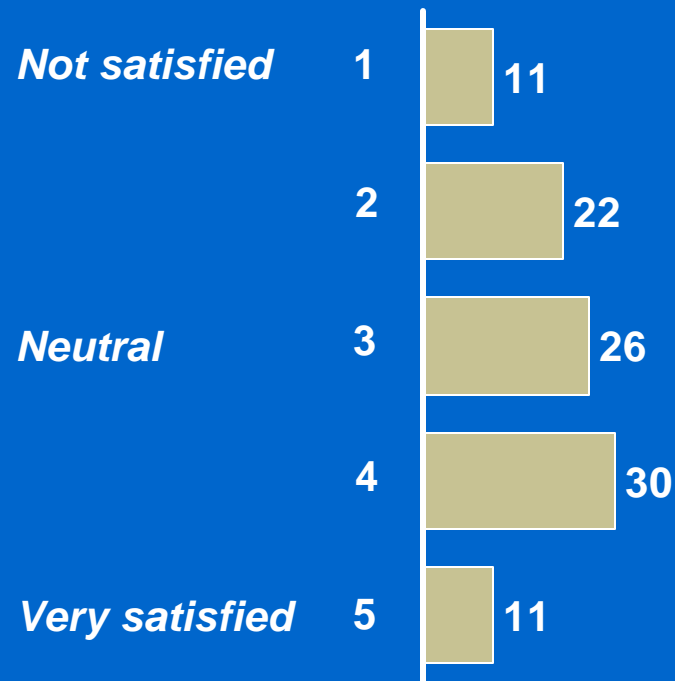
### Who responded . . .

- E-mailed electronic survey to 70 member organizations
- 27 responded – a 39% responses rate
- 17 had affiliates (63% of respondents)
  - Average = 462 affiliates (min. of 5, max. of 3300)
  - Median = 300 affiliates
- Budget of organizations who responded
  - National organization / headquarters
    - Average = \$30 million
    - Median = \$5.8 million
  - Network (including affiliates)
    - Average = \$600 million
    - Median = \$158 million
- Aggregate budget of organizations who responded (including affiliates): \$12.6 billion
- Conducted phone interviews with nine member organizations

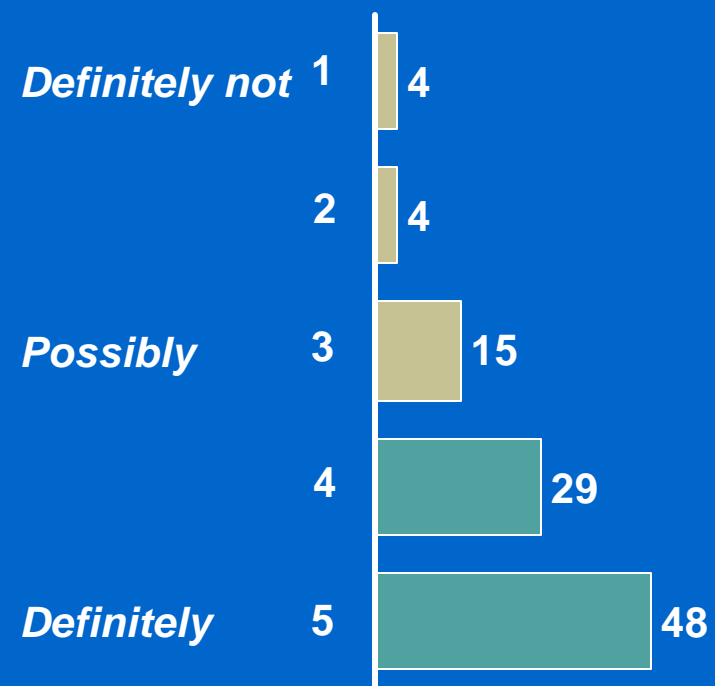
# FEW MEMBERS ARE *HIGHLY* SATISFIED AND MOST INDICATE PERFORMANCE MEASUREMENT WILL BE A NEAR-TERM PRIORITY



**Level of satisfaction with current performance measurement process**  
Percent of respondents (n = 27)



**Likelihood that performance measurement will be a near-term priority (next 1-2 years)**  
Percent of total respondents (n = 27)



## MEMBERS HAVE INCREASED FOCUS ON PERFORMANCE MANAGEMENT AND WOULD LIKE TO IMPROVE FURTHER



### *Increased focus on performance management in recent years . . .*

“We’ve put more attention on performance measurement in the last few years . . . historically we just used raw, simple numbers”

“We’re moving in the right direction. We’ve made a lot of progress in the past 2 years”

“We are at the start of implementing a new performance measurement system”

### *. . . and some report satisfaction with progress to date and the guidance it has provided*

“Overall, our system has worked well for us. It has given us good guidance and helped us set overall, department, and individual goals. On the other hand, we are always looking for ways to improve”

“I feel like we’re way behind on this, like we’re a wayward performer, yet when I talk to peers...I realize that we’re actually quite advanced!”

### *. . . and nearly all report room for improvement and a desire to make progress*

“We’re driving towards the perfect balanced scorecard, but we’re not there yet!”

“We need to continue to improve at every level in the organization”

“We are just skimming the surface . . . and have only begun to look at the issue systematically rather than in an ad hoc way”

## MEMBERS MENTIONED A BROAD SET OF MOTIVATIONS FOR PERFORMANCE MANAGEMENT



*Organizations acknowledge many reasons to measure performance . . .*

“In order to verify impact to our stakeholders, we need to focus on this”

“Performance measurement is in the air now . . . funders, regulatory scandals, the general public, budget pressure from the economic downturn, unsavory behavior in the sector...all are converging to make this a highly discussed topic”

*. . . there is recognition of the value of performance management and an internal desire to improve was a common theme . . .*

“Performance measurement keeps nonprofits on track towards their mission and specific goals”

“The very process of measuring performance causes people and programs to focus on their performance, which accomplishes something in and of itself!”

“Conducting reviews allows management to learn if their techniques are working”

“Getting organizational support hasn’t been a challenge . . . there is no resistance! Everyone thinks its a good idea to measure these things”

*. . . the Board is generally involved, but not a key driver of performance management*

“We have to drive our board to focus on what we should be reporting to them...they don’t seem concerned”

“The board has indicated this is a topic they’re interested in. Management will develop the metrics, and then we’ll iterate together once we’re further along the way”

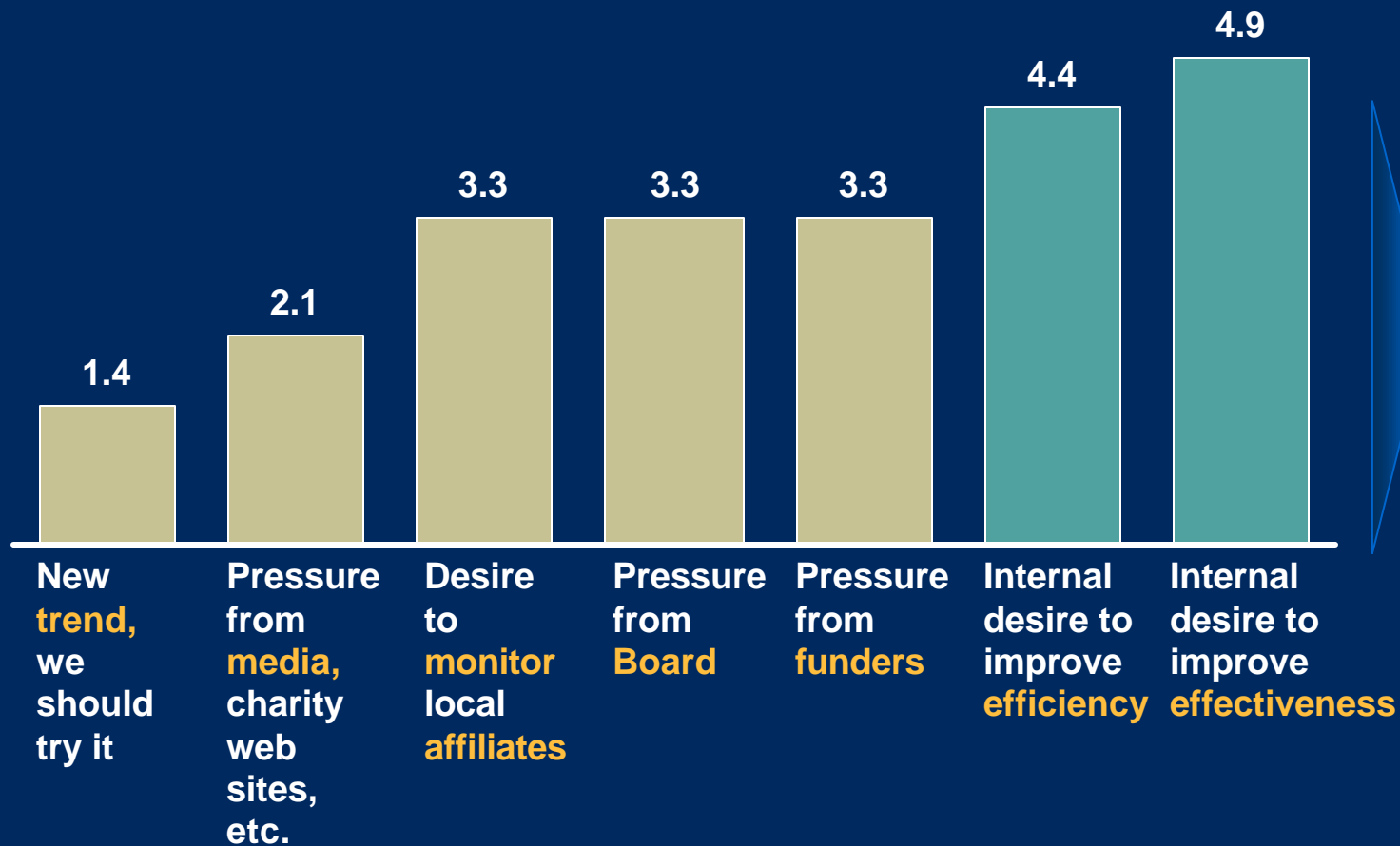
# MEMBERS ARE MOTIVATED TO MEASURE PERFORMANCE PRIMARILY BY AN INTERNAL DESIRE TO IMPROVE



## Importance of each factor as a motivation for performance measurement

Average score of respondents (n = 27);

1 = not important, 3 = somewhat important, 5 = very important



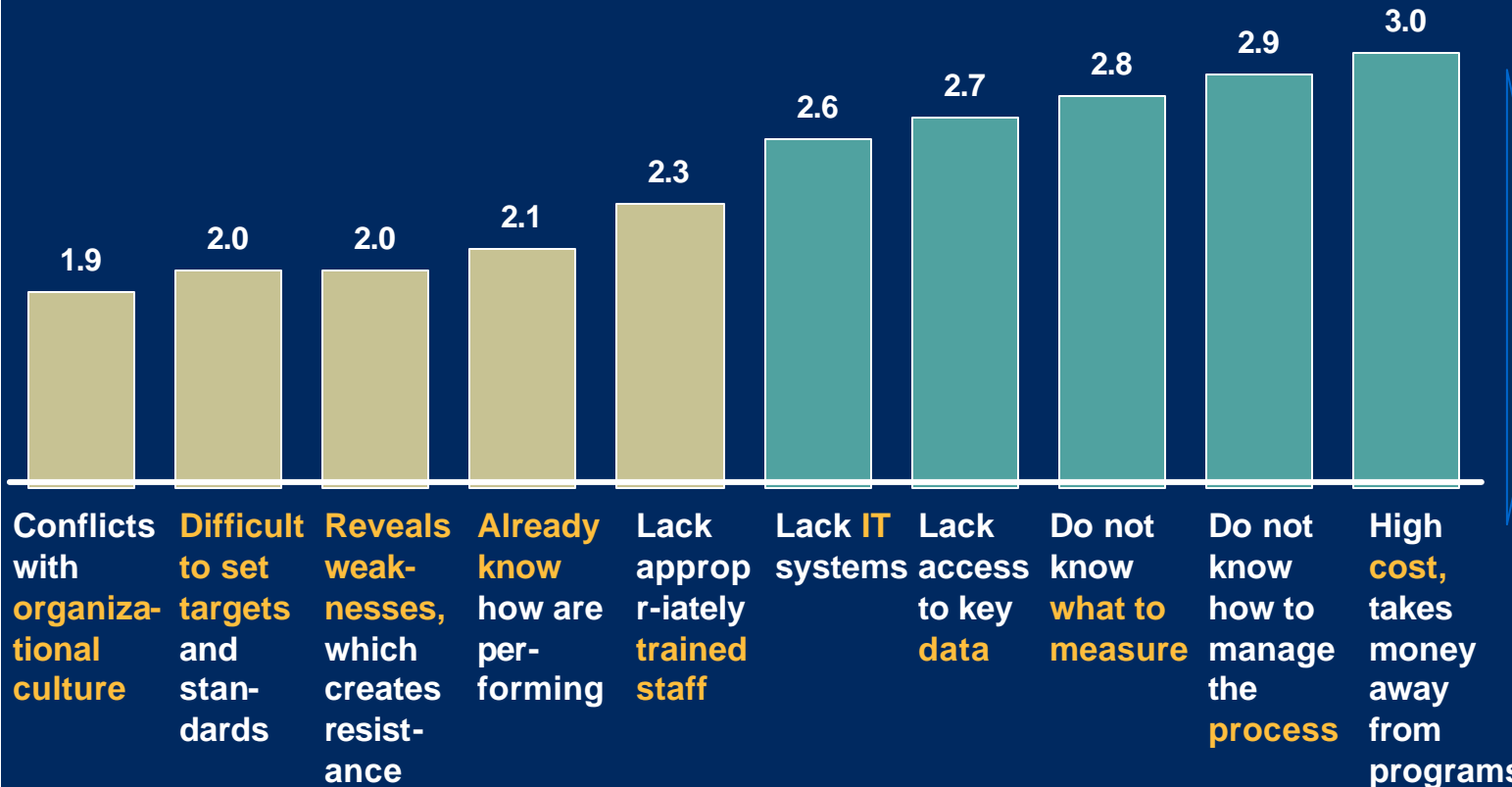
- Internal desire to be more effective is the largest motivation
- Pressure from outside sources is only a moderate motivation (e.g., funders, media)

# MEMBERS FACE MANY CHALLENGES TO PERFORMANCE MANAGEMENT



## Significance of challenges in gaining support for performance measurement

Average score of respondents (n = 27); 1 = not a challenge, 3 = moderate, 5 = very significant



- There are a variety of common challenges which members face
- No specific challenge, however, was consistently described as **significant** by **most** members

# NOT ALL MEMBERS HAVE MEANINGFUL METRICS



Interviews revealed a mixed level of sophistication among members . . .

“We recently defined a new set of performance metrics, but we haven’t begun to collect them all yet”

“We primarily measure the quantity and quality of what we do . . . we measure quality based on how many people attend training”

“We’ve captured whether we’re a good business, but I’m not sure if we’ve captured whether we are achieving our mission”

“We have good indicators and we’re getting closer to measuring what really matters”

. . . and survey results reveal that many do not regularly measure outcomes

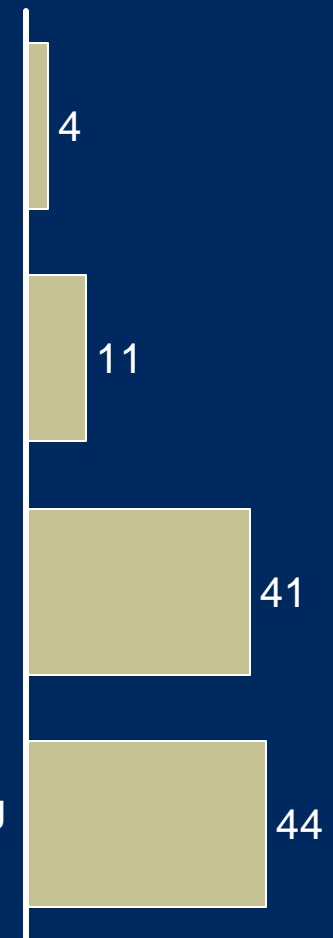
**Type of information collected**  
Percent of survey respondents (n = 27)

**None**, aside from information required for statutory reporting (i.e. form 990)

Measure primarily **based on qualitative group discussions**; no explicit performance metrics

Primarily measure **finances, costs/efficiency and outputs**; **occasionally measure outcomes** through surveys or discussions

Measure **most inputs, outcomes, staff quality, satisfaction, and org capacity**; use **surveys, extensive databases, focus groups**

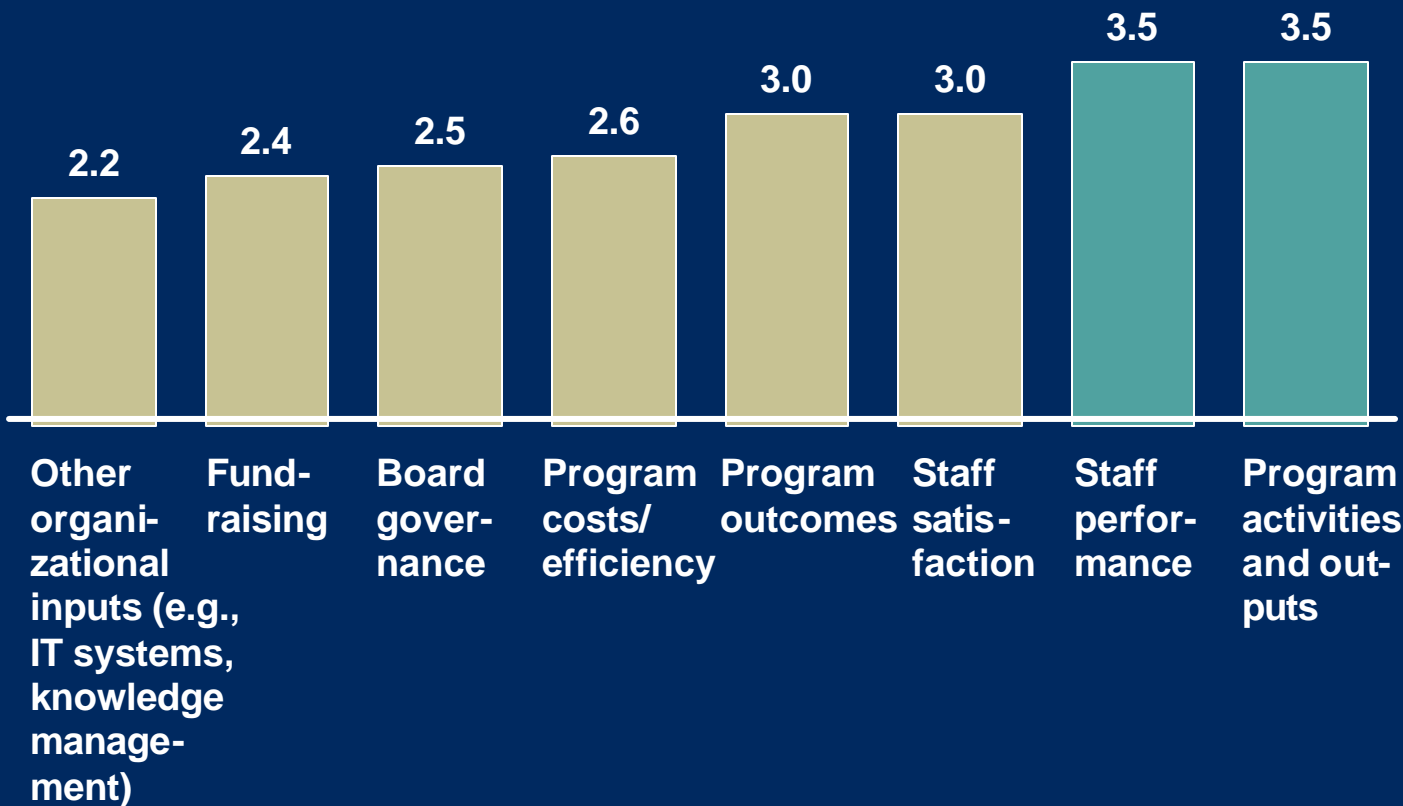


# MEMBERS MEASURE SOME AREAS OF ORGANIZATIONAL PERFORMANCE MORE THOROUGHLY THAN OTHERS



## Survey results regarding what members measure in each category

Average score of respondents (n = 27); 1 = do not measure,\* 4 = measure very robustly\*



- Measure program activities/ outputs and staff performance the most robustly
- Measure program outcomes, program costs, fundraising, and board governance less robustly

# PERFORMANCE MANAGEMENT PROCESSES ALSO VARY



Survey data indicates room to improve current process in many organizations . . .

. . . and interviews support the finding that members have progress to make

## Performance measurement process description Percent of survey respondents (n = 26)

**Informal process, but specific aspects are not explicitly defined** (e.g., no person responsible, steps not outlined, no specific time cycle)

23

“We don’t profess to have a high performing performance measurement system”

**Established process but can be unclear** (e.g., not always certain how to collect data, analyze results and discuss findings)

42

“We’re in the beginning phases of performance measurement, we haven’t gone through a full cycle”

**Clearly defined formal process** to collect information, analyze results, and review them at scheduled meetings

35

“The key questions we’re facing now are how to get better data and interpret the data”

“We’re driving towards the perfect Balanced Scorecard, but we’re not there yet”

## AFFILIATE PERFORMANCE MANAGEMENT REPRESENTS A UNIQUE CHALLENGE FOR MANY MEMBERS



### *Many measure aspects of affiliate performance . . .*

“We measure the performance of our affiliates on a rotating basis, ensuring they are all reviewed over a four year cycle”

“Affiliate performance is assessed against a set of standards which they must meet in order to keep their charters”

### *. . . some provide tools and assistance to help affiliates measure . . .*

“We provide our affiliates with a form/tool, on CD, to help them complete their own performance assessments”

“We provide a qualified volunteer to help each affiliate with the review process”

“We provide tools for our affiliates to measure some of their programs, but not for all programs”

### *. . . yet many face challenges and inconsistency in affiliate performance measurement*

“Our affiliates don’t have to set their own goals. Some do, some don’t”

“Our affiliates only use the tools sporadically”

“We don’t track outcomes at a national level, because all of our affiliates don’t measure outcomes and it’s hard to compare and roll-up data at a national level because affiliate programs are different”

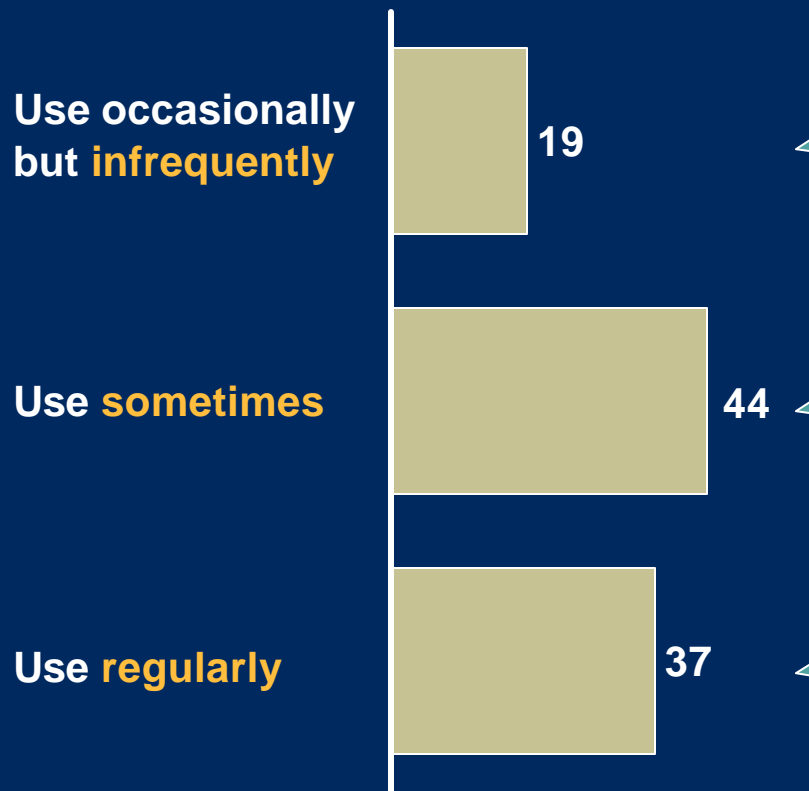
## CONSEQUENCES AND USES OF FEEDBACK ARE NOT ALWAYS CLEAR

Survey indicates most members do not *regularly* use performance feedback . . .

. . . but interviews did reveal examples of how members have used feedback

### Frequency of uses of performance feedback

Percent of survey respondents (n = 27)



“Over time we’ve informally adjusted our programs based on feedback, but we’ve never dropped a program”

“We discovered a program wasn’t having the desired impact. Further investigation revealed why, and we were able to change the focus our programs accordingly”

“When our targets weren’t met, we had to figure out why – we discovered our marketing plan and events weren’t working, so we adjusted them based on feedback”

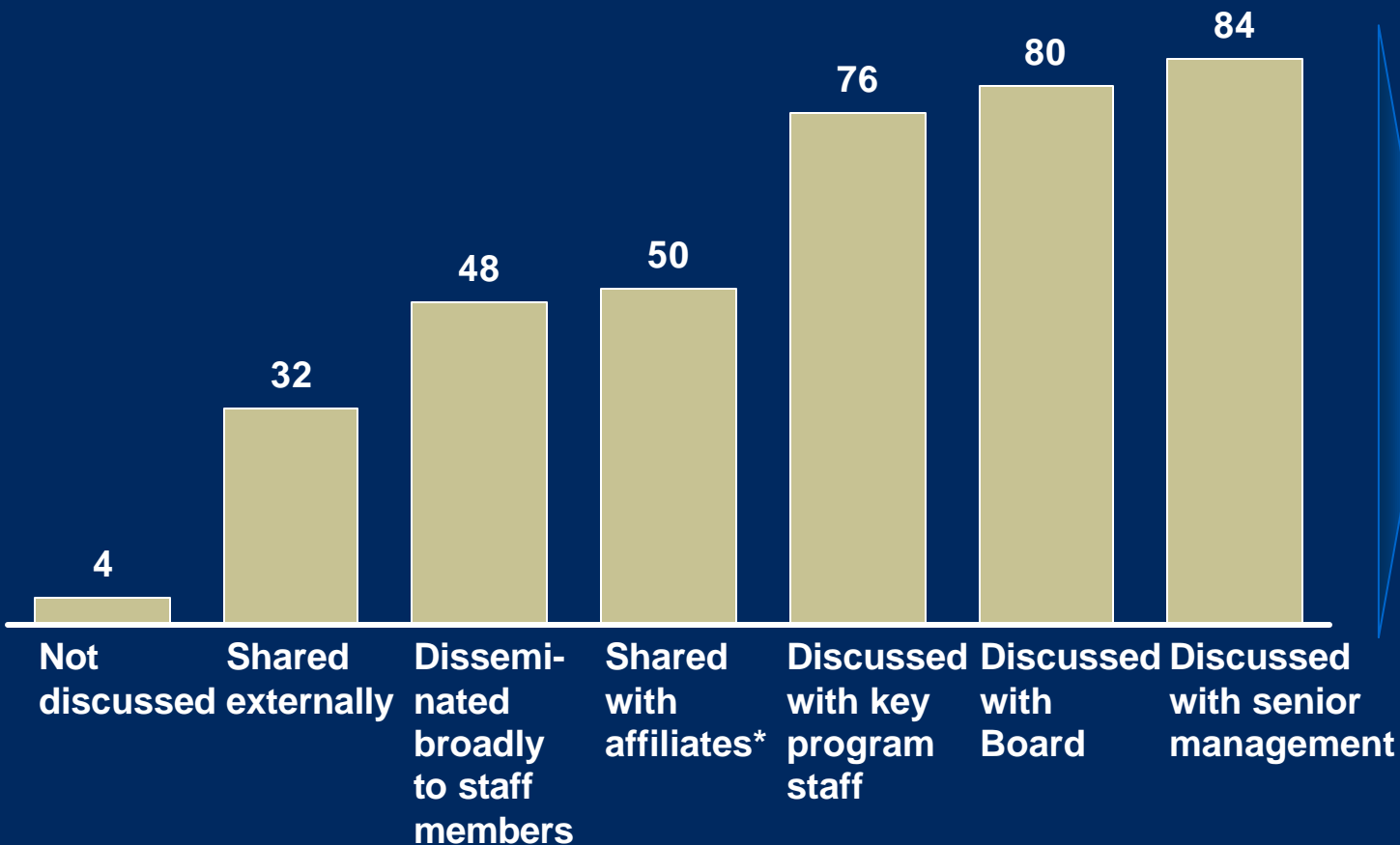
“We give individual pay raises based on performance reviews – individual scores are based on a combination of individual, department and organizational performance”

# PERFORMANCE RESULTS ARE DISCUSSED AND DISSEMINATED BROADLY BY MANY, BUT NOT ALL, MEMBERS



Survey responses regarding discussion and dissemination of performance results

Percent of respondents (n = 25); multiple responses allowed



- Results are frequently discussed with Board and senior staff members
- Half of organizations do not share results broadly with affiliates or staff members
- Roughly 70% of organizations do not share results externally

# SYNTHESIS OF SURVEY AND INTERVIEW RESULTS

Area	Good start . . .	. . . but room and desire to improve
Broad commitment	<ul style="list-style-type: none"><li>• Most organizations recognize value of and need for performance management</li></ul>	<ul style="list-style-type: none"><li>• Senior management has higher level of “buy-in” than affiliates and staff more broadly</li></ul>
Meaningful measures	<ul style="list-style-type: none"><li>• Most members measure some aspects of programs, people, funding and organizational capacity</li></ul>	<ul style="list-style-type: none"><li>• Struggle to select the most meaningful and relevant metrics in each area</li><li>• Difficult to define impact and select appropriate impact measures (particularly for long-term impact)</li></ul>
Efficient processes	<ul style="list-style-type: none"><li>• Many have 1 or 2 full-time staff who lead the process, with additional staff assisting in data collection and reporting for their specific departments</li></ul>	<ul style="list-style-type: none"><li>• Processes in different areas are not sufficiently integrated to provide a holistic perspective of performance</li></ul>
Clear consequences	<ul style="list-style-type: none"><li>• Most discuss performance with the board and senior management</li></ul>	<ul style="list-style-type: none"><li>• Consequences of reporting to board or others are often unclear</li><li>• Programs and strategies are changed on an ad hoc basis; systematic, consistent feedback-loops are not in place</li></ul>

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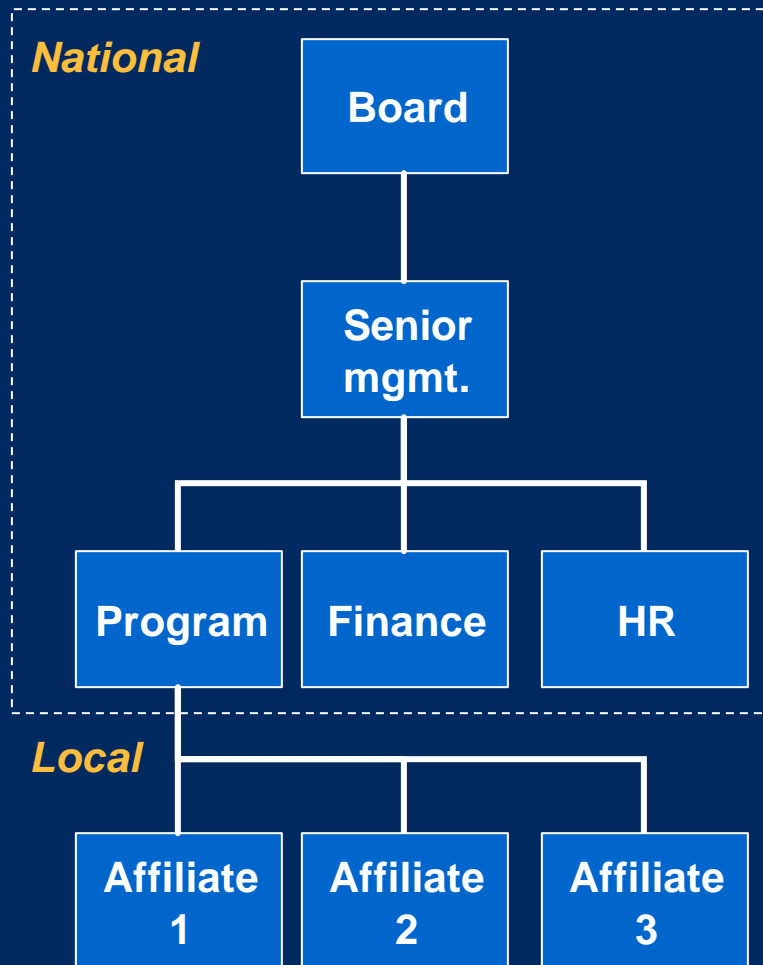
- Performance management mindset pervasive in organization and network

# DEVELOPING BROAD COMMITMENT IS THE CORNERSTONE OF EFFECTIVE PERFORMANCE MANAGEMENT



## Key enablers . . .

- **Managers at all levels** communicate importance of performance measurement
- Create transparent link between performance management and organizational change/improvement
- Develop incentives to encourage commitment and buy-in



## . . . lead to necessary commitment at all levels

- Commit to make tough decisions based on results
- Guard against abdication of duty for performance management
- Exemplify performance management
- Encourage feedback
- Communicate strategy
- Have clear connection between day-to-day activities and ultimate performance against mission
- Aligned with National in beliefs about performance management
- Provide relevant inputs and act on feedback

# MEANINGFUL METRICS ARE TIED TO ORGANIZATIONAL VISION AND MISSION, AND MEASURE KEY ENABLERS OF ACHIEVING THEM



Based on mission and vision . . .

. . . define desired outcomes . . .

. . . then ensure program activities and outputs lead to desired outcomes . . .

. . . and maintain the necessary funding, people and support systems

## Mission

- How it hopes the world will be
- Reason for existence

## Vision

- What it hopes to do and achieve
- Role in making the mission a reality



Bridging this gap by a process of rigorous, logical inquiry is the first and most important step



**Programs** that, when executed according to plan, will lead to the desired outcomes

The amount and stability of **funds** necessary for consistent support of the program size and type

The number, quality and productivity of **people** necessary to execute the program and sustain the organization

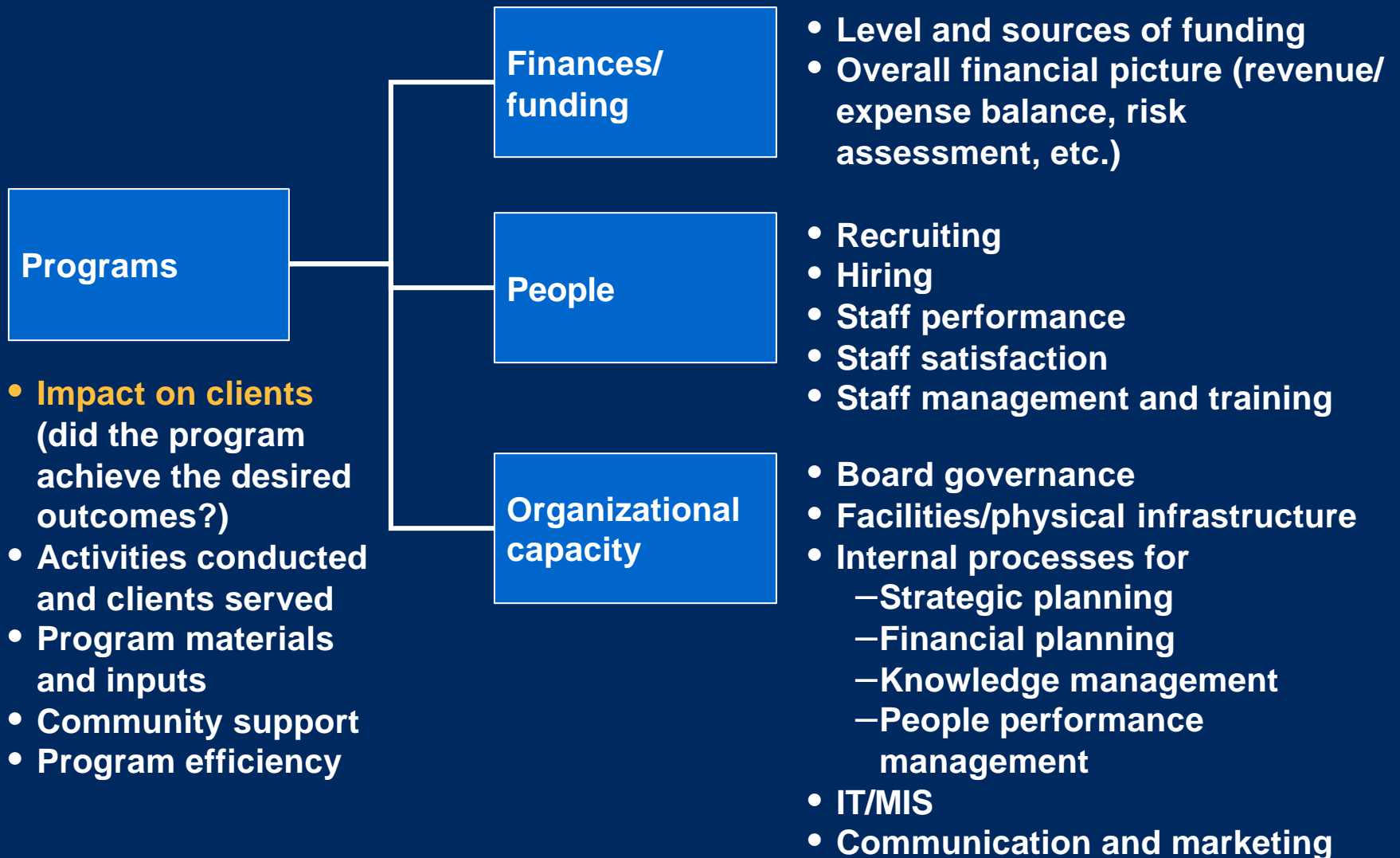
The **support systems** that allow people to use funds to efficiently run the programs and organization

# EACH AREA OF THE ORGANIZATION REPRESENTS AN IMPORTANT PIECE TO MEASURE

ILLUSTRATIVE



Sub-components of organizational areas (not exhaustive)

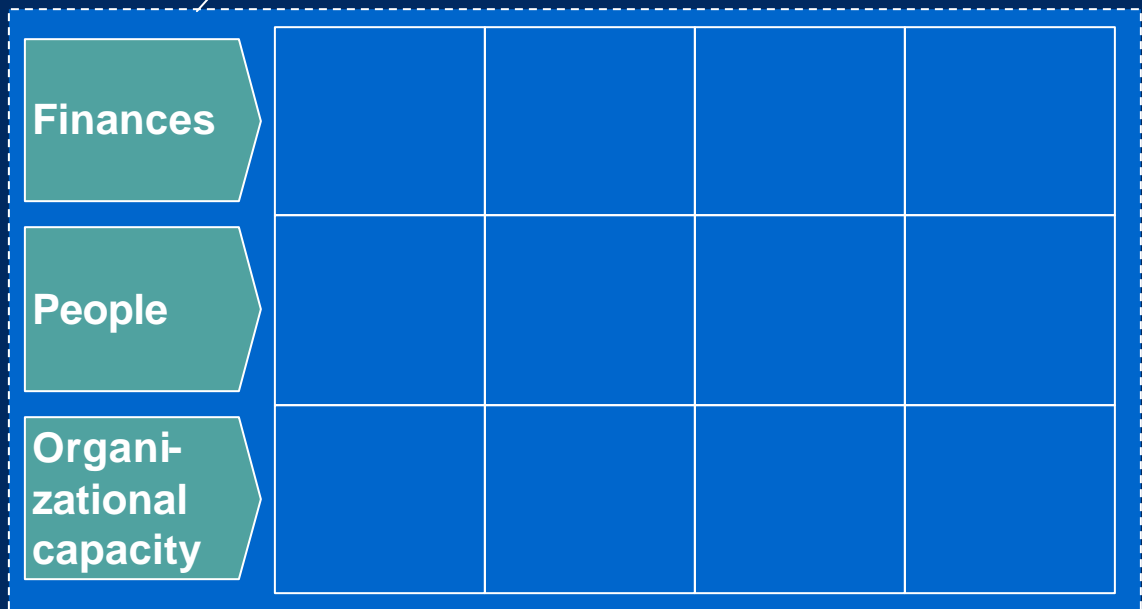


# EACH AREA CAN BE ASSESSED IN TERMS OF INPUTS, ACTIVITIES, OUTPUTS AND OUTCOMES



## Comments

- Assess programs in terms of inputs, activities, outputs and outcomes – often referred to as **logic modeling**
- Focus on outcomes, but also measure key process steps



- The term “outcome” does not apply as well these categories, but most will still be measured on outputs and outcomes (achievement of goals), and on crucial inputs and activities
- **Do not** measure items in **every** subcategory – **select** only the **key metrics** that drive performance and achievement of goals (this page represents the landscape of metric options)


# AT ALL STAGES, ENSURE THE QUALITY OF PERFORMANCE METRICS



## Criteria for metrics

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<b>Relevant</b>	Truly important metric whose outcome ultimately affects overarching goals (in terms of both efficiency and effectiveness)
<b>Valid</b>	Measures what it is supposed to (and thus promotes correct behavior)
<b>Reliable</b>	Easy to measure, not susceptible to gross systematic errors
<b>Simple</b>	Easy to explain and understand
<b>Can be influenced/ permit accountability</b>	The relevant division, department, or individual exerts large degrees of influence over and can be held accountable for the measure



Perfection will never be possible. Create a set of guidelines for the organization's work and be prepared to revise metrics, especially in the early stages of measurement

# EFFICIENT PROCESSES ARE REQUIRED TO ENSURE THAT PERFORMANCE INFORMATION IS COLLECTED AND REVIEWED



## Key elements of a successful performance management process

<b>Key element</b>	<b>Description</b>
<b>Investment</b>	<ul style="list-style-type: none"><li>• Investment in necessary organizational capacity, including<ul style="list-style-type: none"><li>– Performance management budget and staff</li><li>– IT and MIS systems for tracking and reporting</li></ul></li></ul>
<b>Metrics cascaded throughout organization</b>	<ul style="list-style-type: none"><li>• Metrics that are cascaded to all levels of organization, keeping clear links to overall organizational metrics</li></ul>
<b>Tools that work</b>	<ul style="list-style-type: none"><li>• Tools that work likely include both quantitative and qualitative tools; ensure tools are as automated as possible</li></ul>
<b>Clear accountability</b>	<ul style="list-style-type: none"><li>• Explicit accountability for data collection, synthesis and reporting; systems for translating metrics into pieces of data and ensuring they are collected</li></ul>
<b>Established meetings</b>	<ul style="list-style-type: none"><li>• Regularly established meetings/forums to review performance results (not ad hoc meetings)</li></ul>

# CLEAR CONSEQUENCES HELP PERFORMANCE MANAGEMENT LEAD TO PERFORMANCE IMPROVEMENT



Element	Description
Establish goals and consequences	<ul style="list-style-type: none"><li>• Set clear, concrete <b>standards and targets</b><ul style="list-style-type: none"><li>– Standards should ensure basic quality and performance</li><li>– Targets should be achievable, yet challenging</li></ul></li><li>• Develop concrete <b>positive and negative incentives</b> (consequences) at the organizational, departmental and individual level</li></ul>
Set expectations	<ul style="list-style-type: none"><li>• <b>Communicate expectations</b> (standards and targets) <b>and incentives</b> upfront (not after the fact)</li><li>• Explicitly link individual and department goals/targets to overall organizational goals/targets</li></ul>
Provide frequent feedback	<ul style="list-style-type: none"><li>• Provide <b>frequent feedback</b> and check-ins (not just at formal review meetings)</li><li>• Create opportunities and plans to <b>help under-performing</b> departments and people improve performance</li></ul>
Follow through and act on feedback	<ul style="list-style-type: none"><li>• Provide <b>visible rewards</b> to individuals and teams for meeting or exceeding targets; celebrate and publicize positive results</li><li>• <b>Address missed targets</b><ul style="list-style-type: none"><li>– Understand why targets were not met</li><li>– Develop <b>action plans</b> to improve performance</li><li>– Consider phasing out consistently under-performing programs/staff</li></ul></li><li>• <b>Adjust</b> metrics, targets, processes and strategy as needed</li></ul>