INTEGRATED PERFORMANCE MEASUREMENT : THE ANTIDOTE TO INITIATIVITIS

Richard Watkins

Many people in companies today are to be found complaining about a new disease. The statistics are not available for how many are suffering from this, but the symptoms are clear. A sense of lack of direction, coupled with a sensation of tiredness, and serious mental confusion, often accompanied by a feeling of being bombarded by many simultaneous ideas. Its name is initiativitis – or too many initiatives!

This is made worse in companies, which are based on a functional structure, where each function is measured separately. Each function is desperate to achieve and improve its own level of performance, sometimes at the expense of other departments. 'A sales and marketing success is manufacturing's disaster'. They often also suffer from performance measures that conflict with each other – only making the situation worse. Examples of these are as follows:

Budget = 100. Actual Sales = 120 : Salesman is perceived to have been a hero.

Budget = 100. Actual Sales = 80 : Salesman is heading for the career advisory unit.

Measurement of Actual versus budget in this way only encourages the sales and marketing function to understate their forecasts. The consequence is that manufacturing under-plan, and then get the blame when they fail to respond. Profits go down.

At the same time, manufacturing is measured on the basis of efficiency – measured as number of hours produced divided by number of hours available. This only means that manufacturing is encouraged to make products that will maximise output and minimise set ups. They are driven to producing high volumes, rather than meet the schedule for the customer. This is sometimes given the name OEE or Operational Equipment Effectiveness.

Meanwhile, purchasing is measured by purchase price variance, which means that they are driven to buy large quantities and marginal quality levels. If that means more inventory, then that is not their responsibility – manufacturing will have to count it, love it and store it. If the marginal quality means more overtime in manufacturing, then that will appear in the manufacturing variance numbers.

At the end of each quarter, even worse year end, the struggle to meet the financial 'targets' means that companies attempt to invoice products not delivered, or flood the supply chain with product that is not wanted by offering special deals, discounts or whatever. All to meet the unrealistic corporate targets 'agreed' to by the reluctant victims of the annual budgetary process.

Add to this the fact that most financial measures are historical in context, which means they are about as useful as driving on the motorway, while only looking in the rear view mirror.

The concept behind the 'Balanced Scorecard' from Kaplan and Norton showed that organisations need to reduce the emphasis on traditional financial measures, and balance these with measures of customer service, learning and innovation, and measures of internal processes. These measures should then be linked to the overall vision and objectives of the organisation.

However, to get to this stage, there is often a need for companies to start from scratch with their Performance Measures, and for them to clear away today's measures in the process. This is where companies, bound up in traditional profit and loss accounts and actual versus budget routines, find it difficult to break free.

Starting 'from the top' a company needs to have a goal or vision. This needs to be supported by objectives, and these objectives need to be supported by measurable targets, which are quantified, and maybe supported by milestones on the road to achieving the targets.

Taking a real life example of this approach, one Managing Director defined his job as being in charge of customer service, but the key idea that he saw was that, if products were to be delivered on time to the customer, then there was a need to make them on time. Making them on time for the customer in a batch environment may have meant sacrificing efficiency, so the old efficiency measure was made redundant. Measuring set-up times also focussed the shop-floor on increasing flexibility.

Making on time meant that the right quality had to be delivered on time from suppliers. Reducing the total cost of acquisition was made the important measure for purchasing. The old purchasing price variance measure was made redundant.

To bring this all together, they needed a good plan, so they measured the planner on having the right capacity, and on the stability of the plan, but to ensure that you got a stable plan meant that you needed an accurate forecast – which became the measure of sales and marketing – and not actual versus budget So the sales and marketing director was measured monthly (not once a year) on the accuracy of their forecast.

To meet the growth objectives of the organisation, they needed to have a certain number of new products delivered each quarter on time and in full, so technical development were measured against these criteria.

The final part of this process was to make sure that all of these measures were in peoples' job descriptions and that they were reviewed against them on a regular basis. The financial reports were consigned to an Appendix in their Performance Measures report. He then developed a formal 'Integrated Enterprise Planning' process, so that these measures could be reviewed in line with whether the plans, which were reviewed monthly, were being achieved.

The results? Market share climbed, so that they got to being number one in the market place in 2 years from being number 4. Profitability went up in the midst of a recession. The financial numbers, by which many people run the business, improved without even looking at them. The key conclusion was that the good financial results came as a by-product of focusing on the right things.

Measure the processes which give rise to the results, rather than measure the results. 20% Return on Capital Employed is the result of 99% customer service, 99% on time delivery from suppliers etc.

So how does this relate to initiativitis? Companies that adopt this approach, have a common long–term goal, with a common set of objectives. The people in the company sense that they are constantly working to the same aim, not different aims driven this way and that by the latest idea for improving performance.

Without this, for instance, one minute a company can be driven to reduce inventory, the next to increase it to improve customer service, the next minute to take on another quality programme etc. If the focus is on the long-term future of the company, then the company will not be driven this way and that by the latest fad – Six Sigma, ERPII or Lean Manufacturing for instance. The captain in charge of the ship is focussed on the far horizon, not the latest change in the wind.

Is this all unrealistic? No. Many companies are going down this route. The only real challenge is for companies to recognise that they need to start off with a clean sheet for developing their performance measures, and for them then to set about developing an integrated set to replace the existing ones. They need to be clear on their vision and their proposition to the market place so that they can be clear on whether they have succeeded. That in turn can require a major cultural change exercise – particularly in getting away from the focus on financial measures, and 'manipulation' of the profit figures. Without all of this long-term focus, then company survival becomes a headache and can lead to initiativitis.

The key to all of this is that improvement in performance comes from changing behaviours. Changing behaviours results from changing the measures. Using the software tools in an organisation to measure the processes, to encourage right behaviours will in turn bring about that change in performance.

There are many instances where companies have invested in Enterprise Resource Planning systems, full of glowing hopes that this adventure will improve the organisation's performance. They are delighted when – after many millions has been spent – it is then working. In getting it working they have reviewed their processes, and mapped their processes into the new system. Unfortunately in doing that they have also embedded their old behaviours and culture. It is no surprise that the performance improvement is not as much as they thought it would be.

What would be good is if the organisation started from the point of 'what behaviours do we need, and hence what measures do we need' and hence to the way the software will be configured. If organisations don't, then implementing the software is just another one of those initiatives!

About the author

Since 1991 **Richard Watkins**, MIOM has operated his own education and consulting firm, which specialises in the understanding and implementation of Integrated Enterprise Planning. He has helped a large number of companies improve their planning processes, and the performance measures that support them.

He was associated with Mike Salmon's MRP Ltd 1990-98 and more recently with the Oliver Wight Group of companies, where he taught the Sales and Operations Planning, Five-day Overview, Master Scheduling, Sales Forecasting and Performance Measures courses.

Richard's experience with Business Excellence in manufacturing industries started in 1986, when the ICI Agrochemicals' business started the first global implementation of an Integrated Supply Chain planning system of which Richard was a member of the core Project Team. Prior to joining ICI, Richard had gained an MBA from the London Business School, where he specialised in Product Management, Operations Management and Finance. Richard Watkins is a member of the Institute.