

Six Basic Problems with Business Performance Metrics

from our good friend Michael Bremer

Many people inside your organization would say, "We have the best performance measurement system; we learn so much from it!" Or might they say something else? Consider the popular expression, "What you measure is what you get." As my four-year old son once said, "Is dis true?" It is to some degree, but not in the way most people think. In the paragraphs below, we do three things:

1. List six basic problems with performance metrics in the world of Business Process Improvement
2. Suggest a few actions you can take to address measurement problems, and
3. Ask you a question about performance metrics.

1. Many metrics are simply irrelevant to the work being done. Information gets gathered, but no action is taken. Take a look at the performance metrics in your business and ask yourself, "When was the last time we took an action, based on this number?" In many administrative and professional business processes the metrics don't even exist.

2. Measures are used as a weapon. Dr. W. Edwards Deming often said, "We need to drive fear out of the workplace." Many performance measurement systems do exactly the opposite. When management does act on a metric, they don't look at the business process. Instead they focus on someone, some (other department) or some outside factor to "blame" causing people to game the system and to point their fingers elsewhere when problems arise.

3. The metrics selected are too general or high a level to provide information that someone can take timely action to address. An important result gets looked at, but it is impacted by so many variables it is difficult to know which one moved the dial. Is a three percent decrease in the rate of hospital patient infections due to improvements in the process or due to variability in the measurement system?

4. The metrics shows a result, but it comes too late to make a corrective action. This is a problem with output-based metrics like: on-time deliveries, total production, total transactions processed, etc. By the time a problem is discovered, it is too late to do anything about it. We are not saying output metrics are irrelevant, but they are not very useful for timely improvement.

5. The wrong information is gathered, and the resulting changes that get made to the process are at best neutral and likely do more harm than good. A classic example of this is "Earned Hours" in many manufacturing operations. In a desire to keep people busy, earned hours leads them to stay busy making something, rather than focusing on key customer needs.

6. Finally, **metrics don't start with the customer** in mind. These problems undermine the credibility of the entire business performance measurement process.

So what can you do about it?

Where Lean
Thoughts
can become
Reality

"Unless you try to do something beyond what you have already mastered, you will never grow."

Ronald. E. Osborn

Lean Thoughts

Actions You Can Take to Address Business Metrics

Here are a couple ideas. The list could be longer and in different organizations you may need to start elsewhere, so alternative approaches exist.

Start with the Customer

Business performance improvement metrics need to start with the customer in mind. No real surprise here. The surprising thing is how often this does not happen. The “Voice of the Customer” is a basic element of most Six Sigma initiatives. The improvement opportunities here are so large, that this does not typically require an exhaustive or expensive customer study to identify meaningful issues. Just using a few metrics focused on meaningful customer issues can drive behavioral change and reallocation of resources.

Focus on Process Drivers

Second metrics need more focus on “process” drivers, if they are going to influence timely corrective action. Consider the model:

InputsProcess..... Process..... Process..... Process..... Outputs

Most business performance metrics focus on process outputs, not the actual process itself. For example: Late deliveries is an output metric for the Delivery Process. An item is either delivered late or on-time (assuming early is not a factor). Process drivers are not “Universal Truths” at different times certain drivers will impact a process more than others. Consider the 80/20 Rule, twenty percent of the process performance drivers probably have the major impact at any given point in time. Output metrics are not going to go away. They are the easiest to compare on a period-to-period basis. But, give thought ahead of time to the key performance drivers that impact the critical output metrics.

Keep the Metric System Dynamic

Organizations need to realize that process metrics are iterative and that the organization needs to focus on what is important to improve given the current situation. An effective measurement system should be dynamic enough to rotate different drivers onto the radar screen to monitor process health if something begins to slip out of alignment; simply dig down into the next level of detail to provide more useful information in terms of addressing the key process issues. The drivers may be looked at for a three month, six month or twelve month period. After the process has stabilized the process drivermetrics on the radar screen should change, to address new issues.

Realize that every number cannot be maximized

While it may feel comforting to say that all metrics need to be maximized, it is simply not the real world. Trade-off's exist. Customer service levels vs. inventory levels; on-time delivery vs. resources to make it happen; responding to customer needs to customize offering vs. process capabilities or resources to accomplish the task. And depending on the level of the organization and the ultimate connections between processes the definitions of output vs. process can change. Just look at the above example of late deliveries. In the delivery process this is a process output, with a related set of process drivers sitting underneath. From a customer satisfaction perspective, on-time deliveries may itself be a process performance driver. This is why it is so important for the leadership team to agree, on what is most important to improve. This has a profound impact on the proper or improper allocation of resources focused on improvement. Measurement is relatively simple, but selecting the right metrics is not easy. The metrics used to manage your business last year or three years ago, might not be the metrics that should be looked at today.

Lean Thoughts