

“Tell me how you measure me!”



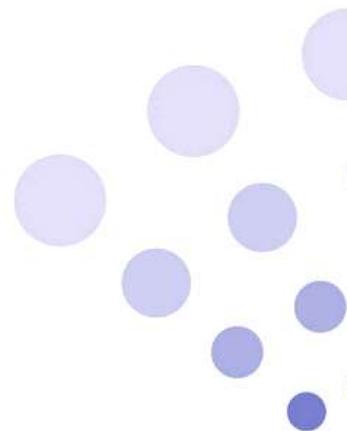
By Martin Powell and Daniel Baker

Strategy and Behaviours

Every organisation has a strategy – sometimes this is well recorded and thought out. Sometimes it is not – it is intuitively understood and followed by senior management. Sometimes it is imposed from outside and managers are required to follow it. Usually it includes elements of growth and profitability (or working within budget).

In order to pursue the strategy – whatever it is – senior management need to induce the behaviours in its workforce that will deliver to this strategy. Since growth is far more challenging for senior management and the organisation than the profit or cost side of the equation, then often there is considerable focus and attention placed on controlling spend and cutting the large costs the organisation incurs. The inevitable result is that behaviours become aligned with the cost world.

There needs to be some recognition that this thinking and the resultant behaviours fuel the problem and are not aligned with the organisation's need for growth and that some significant work must be done to bridge the gap.



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Bridging the Gap

In order to bridge the gap, the current downward spiral of cost cutting must be examined and altered:

Downward spiral

IF the current mode of operation is to reduce Operating Costs
AND labour is the largest contributor to Operating Costs
THEN headcount will be continuously reduced

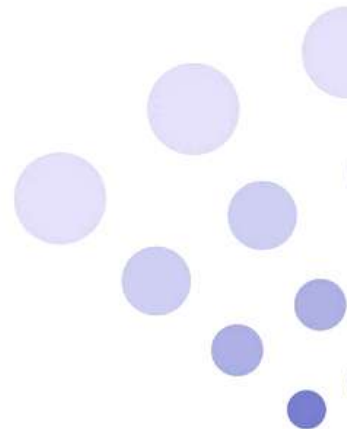
IF headcount will be continuously reduced
THEN at some point protective capacity will be reduced

IF at some point protective capacity will be reduced
AND a level of protective capacity is necessary to simultaneously guarantee service and grow sales
THEN current sales will be in jeopardy and new business opportunities will be difficult to realise

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THEN there will be further pressure to reduce Operating Costs to meet Net Profit targets.

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THEN headcount will be continuously reduced

This spiral shows that the current mode of operation will never allow for the growth and the high quality of service necessary to grow the business successfully.



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Behaviours:

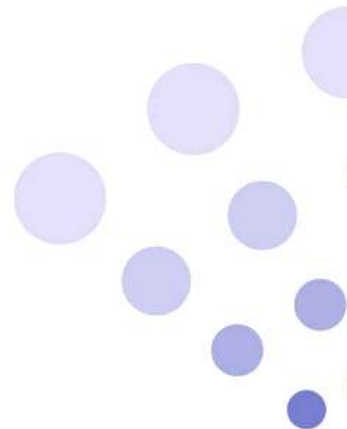
To successfully grow the business, we must align thinking and its related behaviours with a growth strategy. This requires promoting thinking and behaviours which fuel an upward growth spiral and removing or reducing thinking and behaviours which fuel the downward spiral.

Thinking/Behaviours we have that fuel the downward spiral:

- Fear to release/show current protective capacity (due to fear of headcount/budget reduction).
- Fear to generate significant extra capacity through improvements (due to fear of headcount/budget reduction).
- Protective capacity is seen as a waste and a liability.
- Focus on local service levels – ignoring the extent that this impacts the global performance (disrupting downstream performance).
- Disconnect between what we can deliver and what we are selling.

Thinking/Behaviours we want to create an upward spiral:

- View protective capacity as an asset
- Uncover/generate extra capacity
- Focus on service
- Focus on growth
- Focus on improving elements that limit our sales across all business functions
- Identifying a decisive competitive advantage



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Measurements

In order to generate the desired behaviours in an organisation, the first question that must be asked is: *What are the primary influencers of human behaviour within an organisation?*

An organisation’s measurements are a primary influencer of human behaviour. Yes, people are influenced by the behaviour of their managers or thought leaders but what influences them – the measurements! Yes, people are influenced by the culture but what influences the culture – the measurements!

“Tell me how you measure me and I will tell you how I will behave!”

Measurements are introduced into an organisation to hold people accountable for a level of performance. These measures drive people to take actions that have a positive impact on that level of performance. In order to examine the impact of measures on an organisation we must understand the level of influence they have and the behaviours they generate.

Fig 1.1 shows the behavioural influence model which details how strongly a measure can influence behaviour.

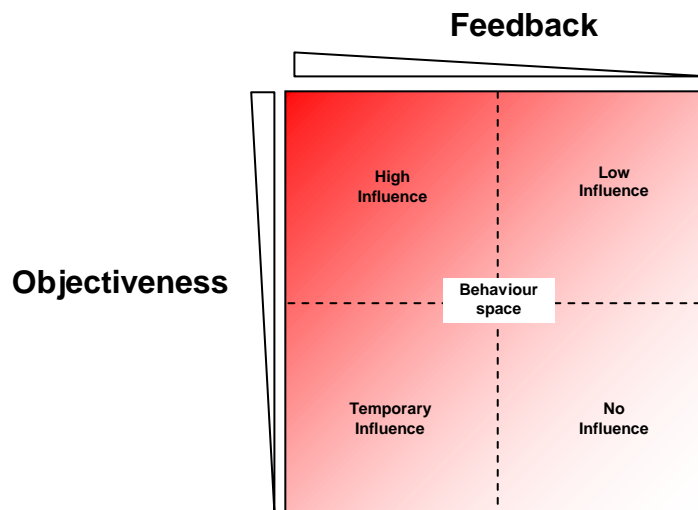


Fig 1.1 – Powell Baker Behavioural Influence Model

There are two factors which determine the magnitude of the impact a measure has on behaviour. Feedback – the response an individual experiences in relation to the performance against the measure; and Objectiveness – how well an individual can relate to the measure.

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Feedback

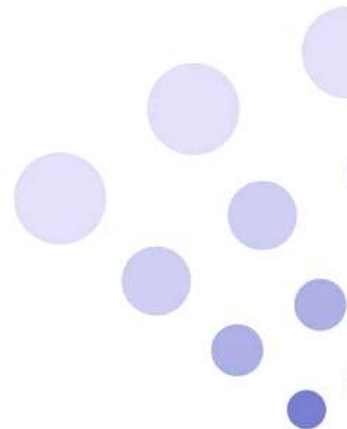
There are a number of factors to consider within feedback:

- **Speed of measurement feedback:** From the action of the individual or group (department) to the feedback of the performance. The faster the feedback the stronger the influence of the measure.
- **Exposure of measure:** The exposure of the measure to peers as this supports competitive and egotistical needs; also the exposure to career influencers is an important factor. The greater the exposure of the feedback the stronger the influence of the measure.
- **Directness of communication:** The method of communication is also important; a manager personally delivering the result is much stronger than a line which is lost in some large report.
- **Cause and effect link:** Another factor is the clarity of the cause and effect link between the action of an individual and the performance of the measure. The fewer influences outside of the individual's responsibility/control, the better the impact, there are fewer opportunities to blame other factors.

Objectiveness

The level of objectivity: A measure such as a monetary value is both very objective and people can relate to it very well. Whereas a percentage value or ratio based measure is slightly less objective and more abstract.

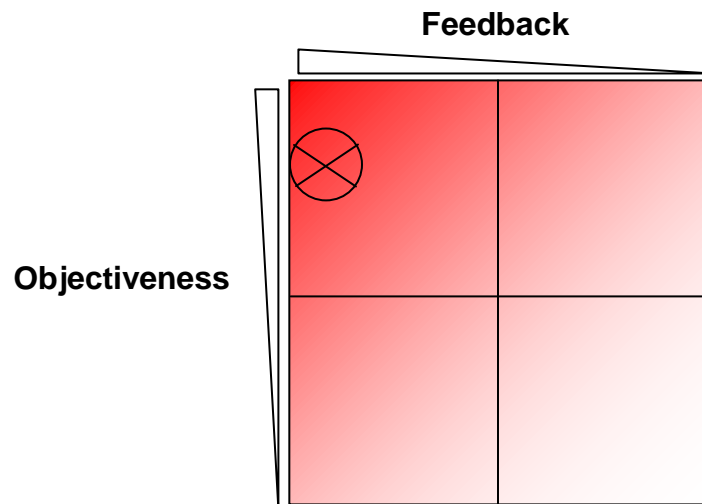
A manager's assessment score on an appraisal is highly subjective and for most people is completely abstract or even subject to significant bias. If the feedback on these more subjective measures is done quickly – close to the demonstration of the behaviour – good or bad – it does have a significant influence in the short term but fades quickly with time. So generally subjective or non numeric measures are very weak in terms of their effect on the consistent behaviour needed to support the strategy.



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Some Examples of High Influence Measures

- 1) **Clearance** – a numerical number of failures to clear all items of mail from a mail processing centre. Measured daily and performance communicated daily.



Desirable behaviours:

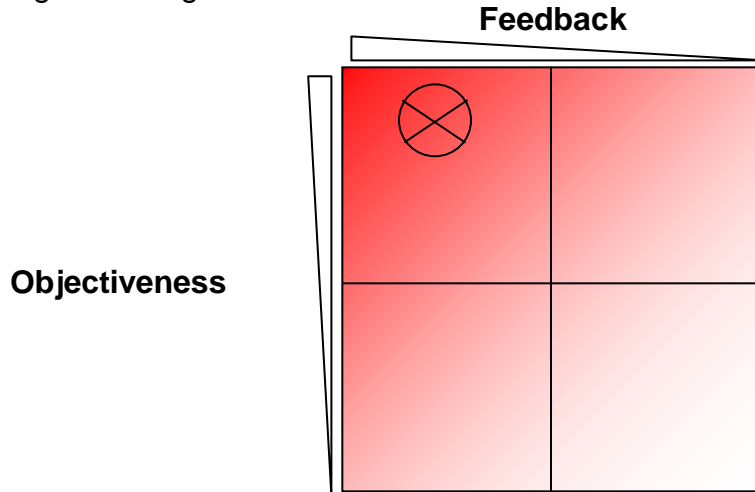
- Focus on delivery – helps keep service levels high.

Undesirable behaviours:

- Encourages a negative approach to an increase in sales – higher sales mean higher volumes which increases the likelihood of failure to clear.
- Overspend – the necessity to clear everything each day puts large pressure on managers to add overtime to ensure zero failures.
- Quality Issues – the huge pressure to clear each day can cause operators to pay less attention to accuracy and more on volume.
- Slow down – the knowledge that clearance is a must can drive the behaviour to lower the rate of throughput to ensure the potential for overtime work and revenue.

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- 2) **Operational Financial plan** – weekly report on spend measured against budget.



Desirable behaviours:

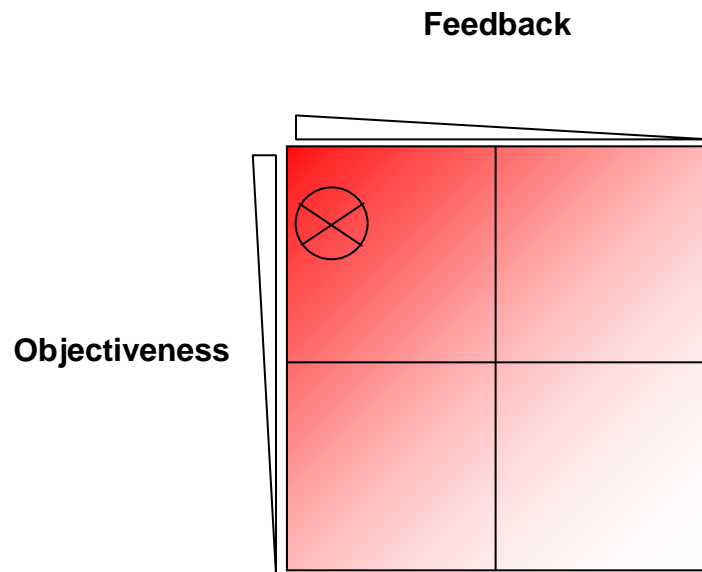
- Cost control – awareness of budget ensures that spend does not escalate out of control.

Undesirable behaviours:

- Investments – all investments to operational processes come out of the single financial plan budget. Budgets are tight and so there is a reluctance to invest in improvements to processes.
- Growth limitation – current pressure is to reduce the headcount and thus the capacity. Any suggested growth is regarded as bad because it is viewed that any increase in volume will not be manageable and so service levels will decrease.
- Threat to service levels – with a fixed budget, the amount of overtime and additional labour is under more and more pressure to be reduced. When the demand peaks higher than available capacity, it is difficult for managers to justify extra manpower and this threatens service.
- Hidden capacity – the current attention on headcount reduction has delivered the message that extra capacity will be removed. Operators are reluctant to show any hidden capacity left in the system as this will equal redundancies.
- Improvements – the current attention on headcount reduction has delivered the message that extra capacity will be removed. This offers operators no incentive to improve the processes as it may well lead to their redundancy.

***“Tell me how you measure me*!”**

- 3) **Number of weighted Items per Core Worked hour** – Numerical measure of items per hour as a measure of efficiency. Performance measured daily.



Desirable behaviours:

- Focus on output – attention on volume will have a positive effect on service levels.

Undesirable behaviours:

- Non Core hours – measure gives us no information about the productivity during ‘off-peak’ times. These are times for which we are paying overtime.
- Quality issues – the focus on volume causes operators to pay less attention to accuracy and more on the number shipped.
- Supply chain – the sole measure of volume encourages each node to push as much product out of the door as possible. This forces work to downstream nodes in large quantities that are difficult to deal with, and so increases lead time.

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What to Change to....

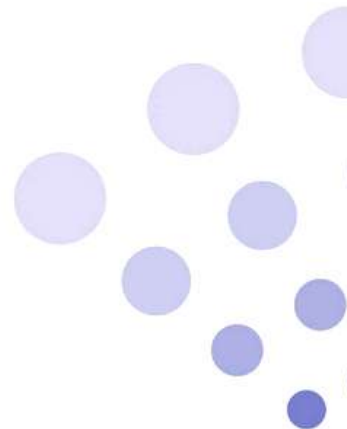
There are four options that can be undertaken once a decision is made to review measurements:

- 1) **Removal** – If a measure is identified as promoting predominately negative behaviour, the decision can be made to no longer use that measure.
- 2) **Addition** – If no current measure promotes the behaviours that have been identified as desirable, a new measure can be designed and introduced.
- 3) **Promotion** – If a current measure exists that does drive desirable behaviour but does not have a strong enough impact on it, actions can be taken to increase its objectiveness and its feedback in order for it to affect behaviour more strongly.
- 4) **Protection** – Some measures can drive both good and bad behaviour. In order to take advantage of the good behaviour and limit the bad, policies and disciplines can be introduced to remove/reduce the negative effects.

Solution criteria

To successfully succeed in an organisation-wide behavioural change, to support profitable growth, any solution must meet the following criteria:

- Full senior management and workforce consensus on the growth strategy, the transformation approach and implementation tactics.
- Simultaneously increase sales and service levels while controlling operating expenses and investments.
- Provide sustainable net profit growth.
- Must identify and resolve the core causes of the wrong behaviours.
- Promote correct behaviours and reward exceptional performance.



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Implementation challenges and pitfalls

Designing the new measures and policies is a relatively simple exercise when the right tools are applied. Implementing these measures to ensure the organisation's behaviours are in line with them is the real challenge.

There are a number of key groups of implementation issues that will need to be addressed:

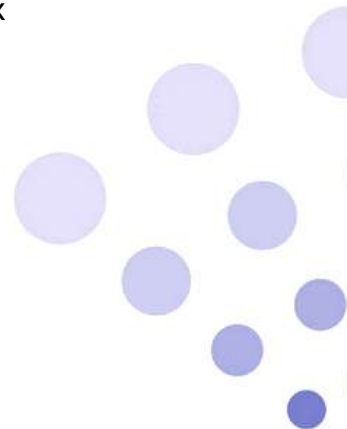
- Acceptance of the new measures – The acceptance of new measures must be driven from the top management down through the business in order to achieve true buy in.
- Timing and sequencing – there are a series of necessary logical steps that must be taken in order to ensure correct delivery of the implementation.
- Trust – the introduction of a new measure can only be successful if it is trusted by the people using it. If a behaviour promoted by the new measure causes negative feedback, the measure will not be trusted.
- Overcoming inertia – being comfortable with the status quo is one of the hardest obstacles to overcome. A successful implementation will need to include the motivation of those involved

The Benefits

An organisation undergoing an implementation to align its measures and behaviours with the company's growth strategy can expect to see tremendous results quickly.

A typical implementation should begin with the top management coming together to fully understand the current situation and the cause and effect relationships between existing measures and current undesirable performance. The solution is designed and agreed and rolled out to the appropriate areas. Communication is key and a full is solution is developed as each layer of the organisation understands the ramification of the implementation and adds appropriate detail to the roll out to ensure success.

A successful implementation must quickly interrupt the downward spiral and will show a significant improvement to Net Profit and Growth within the first six months.



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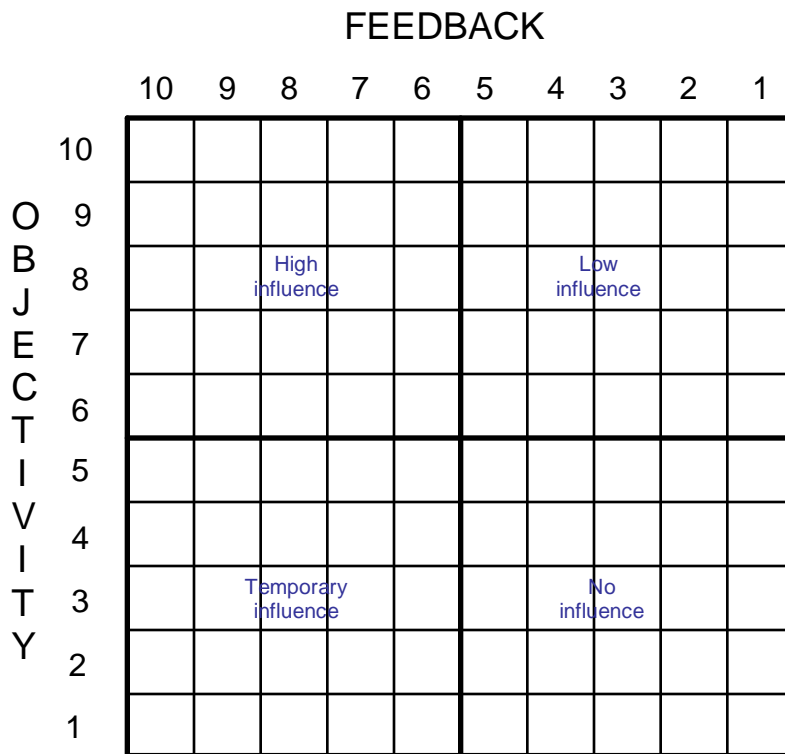
“Tell me how you measure me..” – A Health Check

List each metric that you currently use to measure the performance of an individual, department or group.

For each metric:

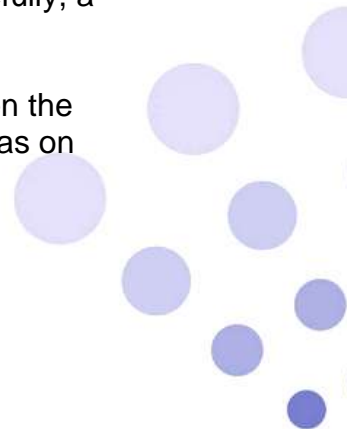
- Score – on a scale of 1- 10 the metric for Objectivity [10] / Subjectivity [1]
- Score – on a scale of 1- 10 the metric for rapid/exposed/directly communicated feedback [10] slow/hidden/indirect feedback [1]

Plot on the chart below:



This classifies the degree of impact of each metric on behaviour. If you have very few “high influence” metrics then you need to re-design, very carefully, a revised metric set.

If you do have most of your metrics in the “high influence” category then the next step is to record the positive and negative behaviours that each has on growth and costs/profitability, using the table below.



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Behavioural effects table of high influence metrics:

Metric	+ve -ve	Behaviour
number of failures to clear all items of mail from a mail processing centre. Measured daily and performance communicated daily	+ve	Focus on delivery – helps keep service levels high.
	-ve	Encourages a negative approach to an increase in sales – higher sales mean higher volumes which increases the likelihood of failure to clear.
	-ve	Overspend – the necessity to clear everything each day puts large pressure on managers to add overtime to ensure zero failures.
	-ve	Quality Issues – the huge pressure to clear each day can cause operators to pay less attention to accuracy and more on volume.
	-ve	Slow down – the knowledge that clearance is a must can drive the behaviour to lower the rate of throughput to ensure the potential for overtime work and revenue.

The above analysis will highlight those measures and effects that need to be addressed.

We have found that adopting the measurements outlined within Dr Goldratt’s Theory of Constraints (TOC) corrects most of the issues relating to aligning individual, department and group behaviours with the strategic goals of the organisation.

Note:

This paper is based on observation and experience of the interaction of measures and human behaviours in change initiatives, many of them based on TOC, over the past 16 years

Daniel Baker is a partner in Levee LLP – a TOC consulting firm based in the UK

Martin Powell is a member of Goldratt Schools – the educational division of Goldratt Group, a partner in Goldratt UK and a consultant with Levee LLP.

