

Measuring Performance

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So if we agree that measurement is an indispensable activity for any organisation, why does it still require discussion? Why don't we just get on with it! But many companies continue to face problems and fail at this key activity.

Common problems include:

- No measurement culture within the organisation.
- A lack of consistency.
- Treating measurement as a discrete activity.
- Too many measurements
- Measuring the wrong things
- Measuring for the wrong reasons
- Lack of follow up

A successful outcome requires that your corporate values and culture support continuous measurement and improvement. Implementing a system of measurement and Key Performance Indicators (KPI's) in an environment where the establishment and allocation of blame is a key element, is likely to be seen as a threat and de-motivate staff. Visible senior level commitment and leadership is critical. The reasons for establishing a measurement regime must be clearly communicated and agreed by all. Measurement must be embedded in all the business processes of an organisation. All involved must be clear why measurement is taking place and the benefits clearly articulated. In many cases this will require significant attention be given to education and training.

Employees must believe that the introduction of a series of KPI's is not a stick with which to beat them. Senior staff must understand that a well constructed system of measurement, with the proper follow up and forming part of a programme of continuous improvement, will enable them to manage more effectively. Customers will then see the benefits in improved service and shareholders will see improved financial results.

There must be a consistency of approach. Similar operations should have the same set of KPI's. They must not be conflicting and there must be a direct linkage with strategy and the business drivers. For example, if the key strategic aim is to improve customer service and stock availability, concentrating measurement on cost reductions is unlikely to lead to success. Once KPI's are set they must be maintained and not changed arbitrarily in response to short term pressures or individual whim.

Establishing a meaningful set of KPI's requires that the relevant data is available in the first place. Within a warehousing environment, the warehouse management system should be capable of producing the statistics and management information necessary to measure performance across a wide area. Thus performance measurement becomes a relatively simple task. Data is easily accessible, transparent and available in a timely fashion. If measurement is not embedded in the system, the production of performance statistics becomes a manual task and often opens to individual interpretation. It then becomes a chore; figures are produced in an ad hoc fashion and often treated with an element of distrust.

Key Business Processes are a series of mutually dependent activities. Too often the processes are managed as a series of discrete activities. In an extreme case production is measured on its ability to produce products at the lowest possible cost. The output is then tossed across the wall to sales, which are charged with selling as much as possible at the best price. Logistics are then told to deliver it quickly, accurately and at the lowest cost. Often the aims of each activity are in conflict. As a consequence the KPI's successfully achieved in one area will reduce the ability of another to achieve theirs. Therefore considerable attention needs to be given to the overall process and the inter-relationships and linkages between the various areas and departments.

These days's companies are overrun with statistics. Within a warehouse there is a myriad of figures normally generated automatically by the warehouse management system.

- Productivity figures usually expressed in terms of units per man-hour by activity.
- Utilisation rates such as rack occupancy, units per pallet, pallets per load etc.
- Storage and throughput figures.
- Cost control figures such as cost per unit despatched, broken down by space and wage cost.
- Service figures including pick errors, on time despatches, stock dwell, and stock availability.

All of these can assist in the effective management of the operation, but not all should be the subject of KPI's and target setting. Companies should agree what success looks like for the long term and determine which KPI's should be used. There should be standardisation, while taking geographical/cultural differences into account. It is better to concentrate on the 'vital few' and not the 'trivial many'

KPI's are set against targets, these targets must be

- Specific
- Measurable
- Achievable
- Realistic
- Timebound

They must also be correctly used to measure, identify problems and implement remedial actions. Setting up a measurement programme and an associated set of KPI's is not an end to itself. What are you going to do with the results and who is going to benefit? There must be inherent flexibility to adapt to changing circumstances.

Consideration could also be given to setting up a Balanced Scorecard approach for high level measurement. Here there is a system of objectives and measures, which view organisational performance from a number of different perspectives:

- Financial** – e.g. how much profit are we making
- Operational** – e.g. measuring specific activities
- Improvement** – e.g. productivity
- Customer** – e.g. satisfaction and retention
- Supplier** – e.g. performance against targets
- Employee** –e.g. training, development

It is an interesting observation that companies, who employ third party suppliers to operate part of the supply chain, often take more care and attention to measuring the suppliers performance than they do their own in-house operations.

In summary the establishment of an integrated measurement programme requires ownership at all levels, good communications, a consistent approach, looking across processes and the associated linkages, focus on the key indicators, follow and a regime of continuous improvement.

Armed with accurate reporting based on specific measures, managers can improve their decision making, planning and targeting.

The benefits, particularly for large, complex organisations are:

- Consistent policy across business units and the comparison of like with like.
- Improved employee satisfaction, through objective measurements, more empowerment, and better leadership.
- Improved customer satisfaction, through better customer service, better measurement of their contribution & your performance, exception reporting & more proactive problem solving.
- Improved supplier performance against clear and agreed KPI's.
- Improved direction setting
- Improved management
- Continuous improvement
- Improves communication of strategy
- Ability to identify trends