Measurement and culture

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Measurement is probably the most significant influence on management behaviour and thinking. While managers may strive to empower people such that they act on their initiative, the issues with measurement represent a tougher problem for them. Measurement is an insidious feature of an organisation's culture.

It is the foundation of people's thinking as it represents the means for producing the facts which get accepted as the organisational realities. The growth of information systems over the last two decades has enabled us to track and report performance information (e.g. revenues, costs, utilisation) at functions, departmental and even team or individual levels. The availability of this information leads people naturally to the assumption that they are dealing with reality (which they are, of a sort) and are thus in a position to manage things more productively (which is not true). Such actions often undermine performance.

Traditional thinking about measurement leads to behaviour which is counter-productive - things get worse not better.

To make the argument in a different way: waste in organisations is an inevitable consequence of functional measurement. For example, measuring a repairs unit on its efficiency encourages people to repair whatever they can do quickest and hence will build inventory rather than focusing on repairing what customers need. Using revenues as targets encourages any behaviour that gets the numbers regardless of the consequences in terms of credit notes or other (what would have been) unnecessary activities. Using measures as standards encourages mediocrity and thus ensures sub-optimal performance. While the belief amongst managers is that their use of such measure improves their control, in fact they are only creating waste and maintaining sub-optimal performance. Functional measures are a barrier to improvement.

Measurement is essential to any change, otherwise how will you know whether things are improving? But to understand how measures can help in managing change necessitates a change in thinking - getting away from the cost accountant's view of the world and thinking differently - sometimes using different measures and sometimes using measures differently.

But word of recognition for the accountants, lest you feel we're saying its all their fault - it is not. When working with organisations and helping them change their use of measures we never find ourselves being disagreed with by the accountants. We have come to the view that accountants have taught managers enough about cost accounting to make them dangerous - it is the managers (or more correctly the way they think and behave) who are at fault.

Using measurements differently

- Avoid functional efficiency

Managers tend to equate productivity with efficiency. The relationship only holds up when one can actually do more with less. It is not necessarily true that reductions in cost mean improvements in productivity. Goldratt and Cox show how gaining efficiencies in one part of a process actually add to the cost of the whole process and serve to reduce productivity. When thinking about efficiency, managers should avoid thinking about the efficiency of functional units and be concerned instead with the efficiency of whole processes or systems. For example, in engineering service organisations, managers often concentrate on the efficiency of their engineers. In practice, the engineers' efficiency is inextricably linked with the performance of call despatch and spares activities.

Another problem is that the measurement of any function's efficiency gives priority to output rather than means (which is why people cheat). Only by measuring the productivity of all personnel involved in a process can one take a realistic view of productivity or efficiency. For example, one could measure output divided by total headcount - it will serve as a benchmark from which to gauge improvement. It also allows easier comparison between units. More specific analysis is only realistic if a process is entirely independent.

- Avoid standards

Standards limit performance. People only worry about getting to the standard and hence opportunities for learning and improvement are lost. The focus, instead, should be on how high any level of performance can become. Variation in performance is a source of learning. Individuals, teams, branches and any other comparable units will perform differently. Variation within processes should be reduced. Typically we rationalise such differences as due to external forces rather than look at the evidence.

A sales organisation in the construction industry had a branch in Newcastle which out-performed all other branches. In a market recession which was affecting the whole country people put the branch's performance down to the luck of local conditions. In fact, their performance was higher than others because of the way they sold, but no-one ever thought to go beyond opinion and prejudice when discussing differences in branch sales performance.