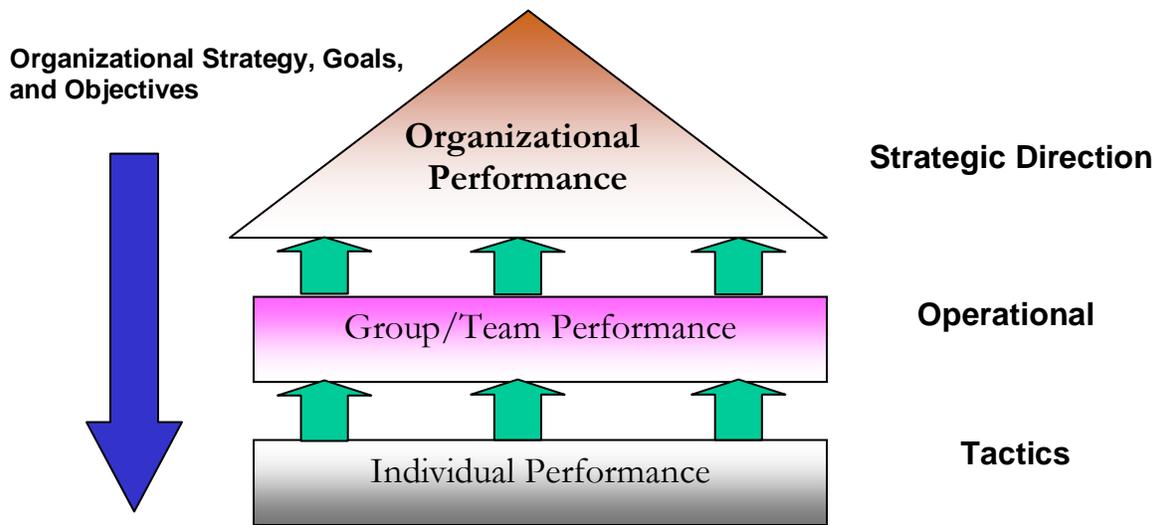


Performance Measurement Systems Building an Effective Structure

Whether your business is manufacturing, service, or otherwise, measuring your business initiatives against your current and future performance is critical for business survival. Measurement systems have the information we need to focus attention on desired behaviors and results. Unfortunately, many organizations do an inadequate job in identifying what processes to measure, and what that measurement can accomplish to improve customer satisfaction and business performance.

The following is one definition of measurement: “The key to developing effective measures is to identify those measures that directly will help in achieving the desired results. These results must get to the right people at the right time.”

This definition sounds simple however, in order to know what measures achieve desired results and what people should receive them, we must view performance measurement as a strategic system.

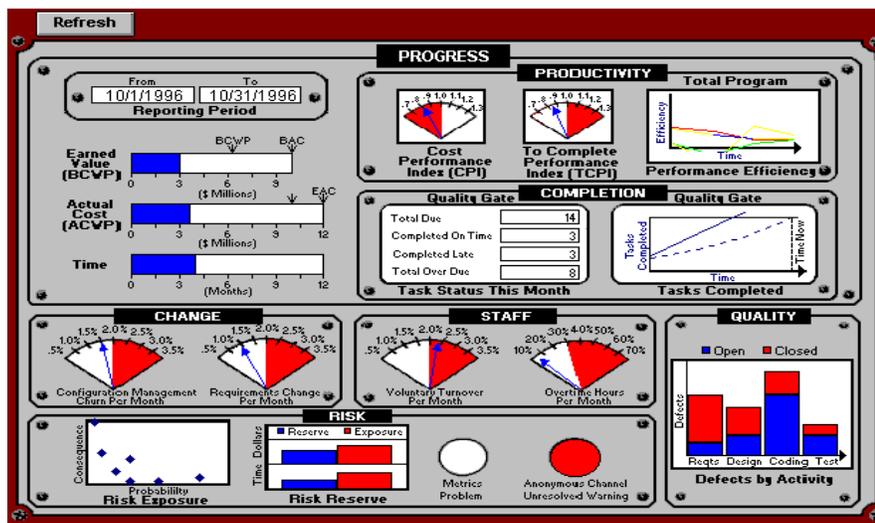


Effective performance measurement should focus on strategic alignment and be linked to organizational strategy, goals, and objectives. Measures must link to responsible programs and be able to respond to the multiple priorities of the organization. Contributing employees at all levels need information that is sufficiently complete, accurate, and consistent in order to demonstrate results and be given the ability to focus on outcomes.

Performance (Process) Scorecards

The difference between identifying your current level of performance and determining your ideal level of performance is known as the “performance gap.” The ideal level of performance can be based upon information such as customer input, capability of the process, and/or product, service warranty.

A method of determining and measuring performance gaps is with what is known as a Process Scorecard (sometimes referred to as a dashboard).



Some companies have numerous measures that produce what is known as “data rich, information poor systems.” The above graphic is a simple illustration showing a group of performance measures that relate to certain categories, but do not show cause and effect relationships, or express a specific family of measures which bring together internal and external relationships.

All business processes have specific drivers, and enablers that produce a category (cost, quality, cycle time, safety). These drivers must be identified and possess a “clear line of sight” that enable the organization to link like processes that are consistent and measurable at all levels of the organization.

Let’s look at an example of a process scorecard with a “family of measures”:

Process Scorecard Attributes

Category: Cost
Critical Success Factor: Characteristics, conditions, or variables with <u>direct influence</u> on customer satisfaction <u>with a specific process</u> – Customer Complaint Process
Major Business Process: Determine and agree on the <u>one-two major business processes</u> that have a direct impact on meeting the critical success factor requirements – Corrective Action System
Process Measure: A reference, standard, or sample used for quantitative comparison, an evaluation or a basis of comparison - \$ per complaint / % of total budget

The following are further examples of sources for process scorecard metrics we have defined and utilized to improve our clients business performance:

	People	Machines	Materials	Methods
Value/Cost (dollars)	<ul style="list-style-type: none"> • Sales per employee • Revenue per employee • Training cost • Overtime cost • Recruiting cost 	<ul style="list-style-type: none"> • Added value per hour • Equipment cost • Repair cost • Operating cost 	<ul style="list-style-type: none"> • Material cost • Rework cost • Scrap cost • Inventory cost • Waste disposal cost 	<ul style="list-style-type: none"> • Job setup cost • Activity-based cost • Engineering cost • Inspection cost
Time (minutes, hours, days)	<ul style="list-style-type: none"> • Time to close action items • Time to resolve complaints • Time to process requests • Time spent on value-adding tasks 	<ul style="list-style-type: none"> • Process cycle time • Machine lifetime • Maintenance time • Repair time • Setup time • Time to enter customer in system 	<ul style="list-style-type: none"> • On-time shipments • Back orders • Material shortages • Rework time • Processing time per part • Cost of urgent shipments 	<ul style="list-style-type: none"> • Contract review time • Inspection time • Time to close complaints • Response time to requests • Value-adding employee hours
Quality of Work Results (good/bad)	<ul style="list-style-type: none"> • Employee turnover • Employee output/productivity • Training hours per employee • Number of errors • Number of requests handled 	<ul style="list-style-type: none"> • Machine capability • Pieces per hour • Setup time • Unscheduled downtime • Number of rejected parts per hour • Computer uptime 	<ul style="list-style-type: none"> • Reject/scrap rate (ppm) • Number of nonconformities • Customer returns • Supplier quality 	<ul style="list-style-type: none"> • Engineering changes • Number of closed action items • Undesirable side products • Number of students passing exam • Success rate of surgery



Process Scorecards produce measures that:

- ❑ Create a diagnostic tool to identify areas for improvement and set priorities
- ❑ Linked to strategy, goals, and objectives
- ❑ Demonstrate results, and focus on outcomes
- ❑ Encourage improvements in operations
- ❑ Provide a complete and accurate picture of performance
- ❑ Blend leading and lagging indicators

We have briefly discussed building an effective structure for performance measurement. The question that every organization must ask itself is:

“Does your company use the process of measurement to control the performance of processes, tasks, and job activities?”

If not, your competition is certainly doing it!

Features of effective performance measures:

- ❑ Purpose- is it worth collecting and answers a question to support decision-making?
- ❑ Validity- measures what it claims to measure.
- ❑ Precision- returns consistent value with each measurement.
- ❑ Accuracy- matches the true value of the attribute.
- ❑ Costly- cost of measurement exceeds the value.

If you would like more information on what performance measurement systems and process scorecard methods can do for your business, please contact us.

Toll Free Phone: (888) 572-9642

E-mail us: admin@sustainingedge.com

www.sustainingedge.com