Business Performance Measurements & Goals: Setting the Rules of the Road

The next step in the business transformation process is to define a set of business performance measurements to use as opportunities are achieved through various projects.

In my first three blogs of the Business Transformation Journey Series, I discussed the importance of identifying the many opportunities your team will have identified during the business process improvement and enterprise software selection phases of your project.

I covered the need to prioritize opportunities based on their potential financial impact and difficulty to implement. Next, I discussed the need to charter an ongoing continuous improvement team to manage the process of implementing solutions to these opportunities and some details around the make-up and operation of the team.

Defining Business Performance Measurements

To define business performance measurements, I like to look to the book *The Balanced Scorecard* by Kaplan and Norton. They recommend a balanced scorecard will consist of performance measures that cover the following categories:

- Customer measures
- Financial measures
- Internal measures
- Innovation measures

There is no doubt your firm has defined a set of corporate business performance measurements, then cascaded them down to functional performance measures for each of your departments. This is a good place to start.

By whatever process your team used, you have identified projects to be implemented now. Other projects have been relegated to a backlog status until capacity becomes available to work on them.

For these active projects, you should first identify the existing internal performance metrics that will be affected by the implementation of the project addressing a specific opportunity. If the existing metric is defined in such a way, it may be sufficient to just use it as-is.

Granular Measures

However, oftentimes these existing business performance measurements will be operating at a level that is too high to be useful. In this case, a more granular version of the same metric may be required.

Granular performance measures are commonly:

- Directly related to your manufacturing strategy – for example, is your goal to be a least cost producer or a highly responsive producer? Perhaps production innovation is your goal. In each of these strategies, performance metrics may take on a different look.
- Established without financial measures
- Varied between locations
- Altered over time as needs and goals change
- Simple to understand and easy-to-use
- Communicative in terms of immediate feedback to team members and managers
- Improvement-driven, instead of just monitoring performance

Two Simple Performance Measures

Two simple yet effective performance measures are **process cycle time** and **first pass yield**. Think about this: measuring the cycle time of a process provides insight into how long it takes for a deliverable to be produced, an order to be processed and entered, or an invoice to be sent and payment received. This is an important concept.

Minimizing the amount of time required to complete a process replicated throughout all the business processes in an organization will result in significant reductions in the lead time required to satisfy a customer request. This will hold true no matter the product, service or process.

I think you can see the enormous potential that exists with this concept. However, speed itself is not the entire story. If increasing the speed of a process just results in more errors, then any required rework will consume any reductions in lead time.

In this case, a corollary measure is first pass yield, or how often processes are able to produce a product or service completely to specification on the first attempt.

Depending on your manufacturing strategy, many more business performance measurements exist. If flexibility is important, then perhaps measuring the number of unique products produced each day is helpful.

If cost is a driving factor, then a productivity measure is needed. For companies with high cost inventory, a measure of inventory turns will be critical.

There are many good books written on the subject. One of my favorites is *Performance Measurement for World Class Manufacturing* by Brian Maskell.

Setting Goals

Most manufacturing companies set goals based on historical performance. For example, it is common to take last year's actual performance and increase revenue by 10% or reduce costs by 8%. In a relatively stable environment, this seems like a reasonable approach.

Your team members can come to work each day and do their normal jobs, perhaps with a few small process improvements or perhaps by doing them a bit faster. This is a mode that most of us operate in from day-to-day.

The result will be output somewhere in the 4-8% range over a year. This is better than moving backward, but hardly world class. In fact, most of us can achieve this level of business performance improvement while sleep walking through our days.

So, what is a Business Transformation Lead Team to do?

As an old saying goes, "If you don't know where you're going, any road will get you there." I would add, if you don't know where you are, then the situation is even more problematic. The worst case is finding yourself expending significant energy and not knowing how effectively you're moving the performance needle.

If you're in a strong position in an industry, you may be able to survive and even prosper for a while. But when a serious competitor joins the ranks, you could find yourself struggling just to survive.

Identifying Your Baseline

Begin by clearly identifying your current performance as a baseline. This can be an average over the past 6 months or even 12 months for businesses with significant seasonality.

This can be a fixed level of performance or even a rising or falling level, when seasonality is considered. The important consideration is to be honest and don't try to create an artificially low baseline to make for easy wins going forward.

Create a Stretch Goal

Next create a stretch goal. This goal should represent a 30-50% improvement over baseline. Setting such a goal has two effects.

First, the individuals affected may think you are crazy. But after settling down, they will realize the goal cannot be achieved through normal or traditional means. That is, to achieve this goal, you will need to utilize the tools at hand in new and much more innovative ways.

The stretch goal should significantly exceed the budget/financial plan goal. It should be clearly communicated to the team that making the budgeted goals is non-negotiable. This must happen. Making a stretch goal is the type of achievement that will earn you bonus.

You've implemented a new enterprise software system and identified the many opportunities it can address and the resulting business process improvements. You've formed a team to manage this process and created performance measures and goals to guide the journey.

In our final blog in this series we'll bring everything together so you can be well on your way to a successful business transformation journey.

To learn more about business transformation, read a previous blog in the series on the business planning process.