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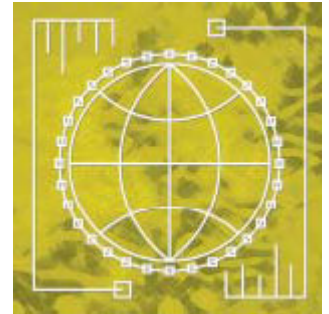
SUPPLY CHAIN VISIONS



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the 12 commandments of performance management English

PETER DRUCKER ONCE FAMOUSLY PRONOUNCED, “If you can’t measure it, you can’t manage it.” And if he intended to sell Corporate America on the importance of performance measurement, he’s certainly achieved his goal. But the execution hasn’t always lived up to expectations. Unfortunately, many well-intentioned CEOs have internalized the message as “Measurement is management.” They’ve rushed out to adopt performance metrics—whether it’s Scorecards, Dashboards or some other flavor-of-the-month metric program. Six months later, they’re crestfallen to realize they haven’t achieved the performance breakthroughs they expected



The problem almost always lies in unrealistic expectations. Performance metrics alone cannot deliver business results. What companies fail to understand is that using performance metrics is not the same as adopting a performance management program. As necessary as performance metrics may be to performance management, they simply can’t fill the bill as a stand-alone initiative.

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The 12 Commandments of Performance Management

- 1 Focus:** Know your goals
- 2 Balance:** Use a balanced approach
- 3 Involve:** Get employees engaged
- 4 Apply:** Be metrics “users,” not just “collectors” or “posters”
- 5 Beware:** Know the point of your metrics
- 6 Anticipate:** Use metrics as your headlights
- 7 Integrate:** Layer your metrics like an onion
- 8 Listen:** Pay attention to what your customer is saying

Performance metrics are merely the quantifiable measures—fill rate, market share, defective parts per million—used to evaluate various aspects of a company’s performance. Performance management, by contrast, entails acting on those measures to improve your business. The challenge facing business managers is to use the performance metrics to create a viable performance management process.

No two successful performance management programs are the same, but all successful performance management programs share common principals. To shed some light on what separates a good company from a great company with regard to performance management, DC VELOCITY will publish a column each month on one of the 12 Commandments of Performance Management. This month we will drill into the first commandment: Focus.

9 Benchmark!

10 Be flexible: There's no such thing as the holy grail of metrics

11 Lead: Practice what you preach

12 Be Patient: Crawl before you walk (or run!)

The First Commandment

Focus: Know your Goals

Yogi Berra is often quoted as saying, "If you don't know where you're going, you might end up someplace else." It's easy to laugh, but there's a lesson here for today's companies: You can't steer your business in the right direction unless you know where you want to be three, five, and even 10 years from now.

That strategic vision will dictate which metrics to use. Managers who know where they're going can select key performance indicators (KPIs) that let them monitor performance against those specific goals and objectives and act on what they learn. For example, a company like GE that strives to be number one or two in its market space undoubtedly measures market share. If a report arrives showing that one of the company's business units has slipped from the number one or two spot, managers take action, whether it's bringing in a new executive team or unloading the division. That may sound extreme, but that's the way a performance measurement program should work: You choose metrics based on the corporate strategy, analyze the results of your measurements and make decisions based on the findings.

Unfortunately, that's not what happens in most companies. Some fail to communicate the strategy to all employees. Others simply don't follow through with the plan: Recent research findings from the Balanced Scorecard Collaborative in Lincoln, Mass., indicate that nine out of 10 companies fail to execute the strategies they set for themselves. ¹ The consequence is that their employees fall into what we call the Activity Trap; that is, they wind up focusing on activities, not results.

Aligning the company's metrics to its strategy can help executives clarify the corporation's objectives for all levels of the organization. Indeed, the exercise of translating vision or strategy into measurable objectives alone forces specificity. And more to the point, it requires managers to link strategies, tactics and measures to best identify the appropriate levers that can improve business performance.

Choose wisely

Once the goals are set, the next challenge is figuring out which metrics to use. There's no shortage of measures to choose from: The Supply Chain Council has identified (and created industry standard definitions for) well over 100 operational and supply chain-related metrics. The trick is to sift through that and come up with the vital few. And we do mean few. Using too many measures practically guarantees information overload and confusion.

A simple rule of thumb for weeding out the non-critical metrics is to ask yourself: "Does knowing this measure help me achieve my company's goal?" If the answer is yes, use that measure. If it's no, drop it. For your purposes, that metric simply represents data, not a true performance measure. You may be surprised by what you find. Most managers who put their programs to this simple test find that their metrics report is more of a laundry list of nice-to-know data than a collection of true Key Performance Indicators.

1 Business Finance, "All the Right Moves," by Tad Leahy (April 2000)

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