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Silo-Avoidance Metrics That Lead to the Three R's of Business

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Have you ever seen a person or an organization doing whatever it takes to achieve their measurement goals, even if their success would be detrimental to another department or the business as a whole? Most of us have observed or experienced this form of behavior. This conduct is an unintended consequence of the traditional methods for creating performance metrics in an organization.

With a classical methodology, measurements and goals follow the organizational chart structure where there are negotiations and a pass-down of metrics and goals. When accomplishing this, why should we be using the same organization chart that has created the silos within the organization? In order to avoid this problem, you must build metrics and set goals that are independent of the organizational chart. You need to focus on the business functions and the functional performance, not the organizational performance.

We would like for operational metrics to lead to the three R's of business—everyone doing the Right things, the Right way, at the Right time. With a three R's business measurement system, the most appropriate action or non-action is undertaken so that the business as a whole benefits. However, when operational metrics are initiated at the department level, for example, the business is not being viewed as a system of work-flow processes. This form of measurement reporting often leads to silo metrics, which can lead to very detrimental unintended consequences and/or needs revamping whenever there is a reorganization.

To illustrate how silo metrics can lead to unintended consequences, consider how the IT department in a major electronics company was directed to reduce the staffing overhead labor-rate metric. IT currently supported 15 different customer data warehouse systems. To meet the labor-rate metric goal, the IT function transitioned to a single integrated data warehouse with a single support group. This effort disrupted the entire company, increased training costs, and never provided the needed functionality. The IT organization met its numbers at the expense of the entire company's efficiency.

Another illustration is a fast-food company setting a primary franchise metric as "chicken efficiency," i.e., amount of chicken sold in a day divided by chicken cooked. When benchmarking the franchise that had the best efficiency metric, it was uncovered that this restaurant only cooked to order during the last one or two hours before closing time. During this cook-to-order timeframe customers would leave rather than wait 15 minutes for food; hence, franchise revenue was sacrificed to make the efficiency metric look good.

What organizations need is a naturally balanced, long-lasting scorecard system that bridges organizational silos. Goals for the functional metrics within this system need to be established so the enterprise as a whole benefits. With this approach, some organizations do not need to improve, while others, for example, should subordinate the efficiency of their processes in order to make a functional system constraint more effective, i.e., goals are set so that the system as a whole benefits. To accomplish a whole-enterprise-benefit objective, one first needs to describe the metrics that are important from an enterprise viewpoint.

From a high-level point of view, basic corporate operational functions maintain continuity over time. An enterprise's primary business flow might consist of: capture voice of the customer, develop product, market product, sell product, produce and deliver product, invoice and collect payment, and report financials. Organizations should then determine appropriate quality, cost, and time metrics for each of these functions, which would have a drill-down to their sub-processes. In addition, organizations need a framework for aligning process improvement activities to performance measurement improvement needs that have whole-system benefits.

The nine-step Integrated Enterprise Excellence (IEE) business management system, as shown in Figure 1, provides a framework for addressing these desires. With the IEE system, goals are set for critical metrics and structured improvement efforts are undertaken so that the business as a whole benefits when process enhancements are achieved.

The IEE value chain, as referenced in Step 2 of Figure 1 and illustrated in Figure 2, provides a means to present performance measurement with their aligned processes in an easy to understand for-

Figure 1—IEE Business Management System[1]

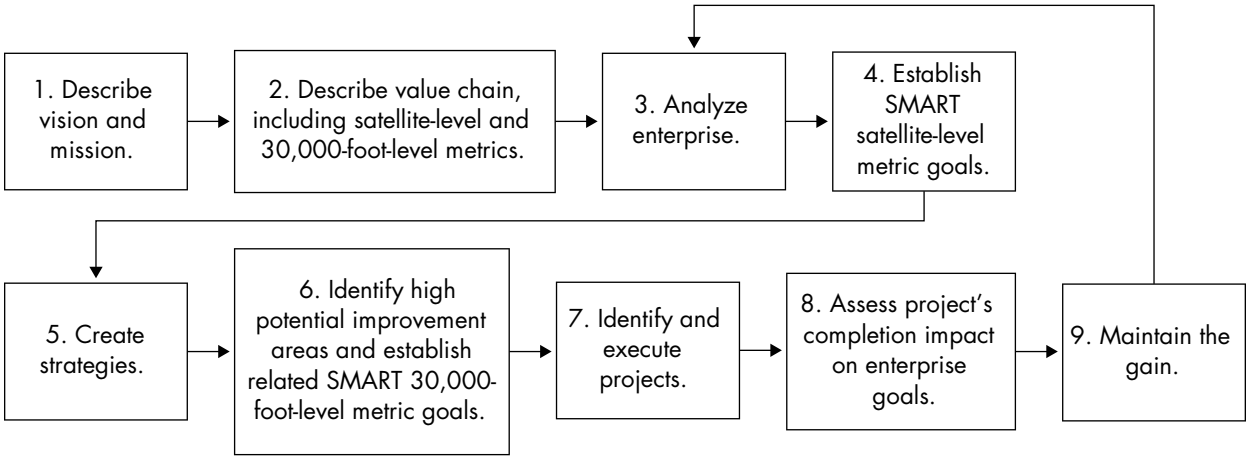
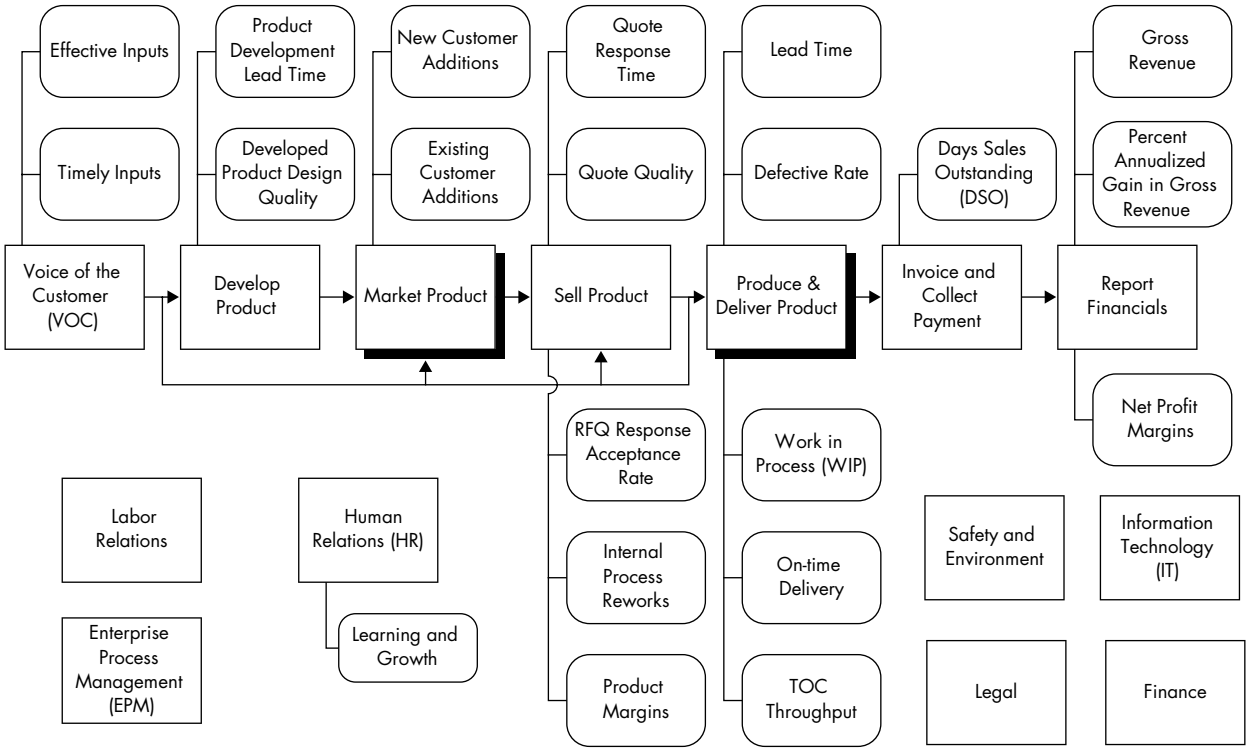


Figure 2—IEE Value Chain1



mat that can be instantly accessed throughout the organization. Within the IEE value chain, predictive metric statements are made, when appropriate, and can be automatically updated, e.g., daily from an ERP system or Web-accessible spreadsheets.

With this metric-creation approach, the organizational chart becomes subordinate to this business fundamental performance map so that changes in the organization would lead to metric ownership alterations, not fundamental measurement re-creations. You end up with the same metric for the same function no matter where it falls on the organizational chart.

IEE's non-silo metrics and improvement efforts provide a guiding light for organizations to bridge functional boundaries and move toward achievement of the three R's of business.

References

1. *Integrated Enterprise Excellence Volume II—Business Deployment: A Leaders' Guide for Going Beyond Lean Six Sigma and the Balanced Scorecard*, F. W. Breyfogle, Citius Publishing, Austin, TX, 2008.

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