Measurement and management
John Seddon (1999)

How many people have said: "Our organisations are being run by accountants"? Don't get me wrong, as an owner of a small business I care about cash flow, margins and sustainability. But financial measures are no more than 'keeping score'. They are dangerous when used to manage:

A customer service organisation's policy was to reduce the cost of call-handling in its European service operations. It was easy to compare the costs of call handling in different locations and the decision was made to move all call handling to the cheapest location. The decision ignored what was happening between the organisation and its customers. Regional differences in customers, their demands and language only surfaced when the calls were re-routed. Service got worse, fire-fighting ensued, costs rose.

Managing costs can lead to poor decisions because costs don't account for what's going on; they only tell you what happened and then only from a particular and unhelpful point of view.

What do most managers do if their call-handling is getting lousy service ratings? Set new targets. "Answer the 'phones in x seconds", "Take more calls per man per day". Would these admonitions lead to improvement? It is unlikely. The people who do the work, who know more about what is going on still have the same work to do. To survive in such an environment, people learn to 'cheat', to do anything they have to do to make their numbers and avoid being paid attention to.

By translating measures into targets managers frequently make things worse. Furthermore, when managers manage with budgets they do not learn and thus performance does not improve. It is not that cost accounting data are wrong or incorrect, it is that they are used for purposes they can never satisfy; they are insufficient for the performance of the management's task. And it is management who must shoulder the blame, their people being governed by the measures management pay attention to:

People do what you count, not necessarily what counts

A high-tech organisation had a repair shop. The performance of the people who worked there was measured by the volume of completed work. What did they do? They repaired the easy things first - anything to achieve good measures.

The repaired equipment was shipped to branches, where management performance was measured by profit. As equipment on the shelves represented a cost to them, they would scrap all the repaired items they could see no need for. The cost of unnecessary repairs was extraordinary.

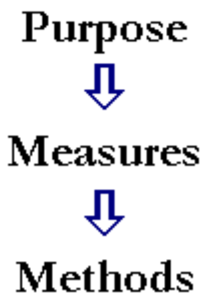
But the measurement system stopped anybody looking at it this way. What was the purpose of this repair shop? Make their numbers. What should have been the purpose? Repair what customers need. If they had only repaired what would be used, and did so 'just in time', costs would have fallen and service would have improved.

Why do we use accounting data? Because we believe that managers need to be able to plan, provide financial reports to give feedback versus the plan and thus be in control. You may be getting the impression that such numbers don't lead to much control at all. This is true.

Management by the numbers leads to sub-optimisation

Managers should be cautioned against 'managing by the numbers'. It leads to three forms of sub-optimisation: higher costs, worse service and lower morale. It is true that without financial resources an organisation cannot work but the debate managers need to have is whether or not management by the numbers creates value in terms of decision-making.

Managing by the numbers leads to ***management of costs*** without understanding the ***causes of costs***. While financial measures are necessary - you have to know the score - the better measures for managing are those that tell you about the costs of end-to-end processes and the causes of costs. To make a start, we encourage managers to establish measures that relate to purpose.



What should have been the purpose of the repair shop? Provide spares 'just in time' to field engineers. Measuring this would have ensured that only those items needed for customers were repaired and, consequently, there would have been less waste. To optimise the repair shop managers needed to be able to predict the demand for spares (by type of spare) and then work to cut time between demand and supply.

What should have been the purpose of call handling? To respond to customers' demands. Any call-handling organisation should be thought about in terms of helping the customer 'pull value' from the organisation. If and when that is achieved, service improves and costs fall. To make a start, managers need reliable measures of the types of customer calls coming in. Next they need to work on what the 'value' is for the customer for each type of call and then they can get into understanding how their organisation currently responds to each type. When managers learn to strip away unnecessary work, only doing the 'value' work, service improves and costs fall.

Cost-based measures are incompatible with quality, 'just-in-time' and world class operations. Measurement must support ever-increasing excellence. Excellence begins with being able to distinguish between traditional thinking and world class thinking:

Traditional thinking		World class thinking
Top-down	Perspective	Outside-in
Targets and standards; related to budget	Measures	Value, process and flow; related to purpose
Separated from work	Decision-making	Integrated with work

Decision-making and control

In most organisations budgetary measures are an instrument of management to control and evaluate people who work for them. Measures are turned into targets or standards that people are told to meet, regardless of whether the organisation is capable of meeting them. When the measure is beyond the organisation's capability, people will do anything they can to avoid grief. This is not bad behaviour, it is survival. If the measure is well within or below the organisation's capability, people are encouraged to relax - it is sometimes dangerous to be seen to be over target.

The paradox is that managers gain greater control of their organisations when they give up managing with financial measures and instead ensure that people who do the work have measures related to purpose in their hands. The measures must make sense to the people who do the work, such that they are valued and can be acted upon. Measurement is an essential pre-requisite of improvement and innovation. Without measures, people act in a vacuum; with measures, they can be freed to experiment and learn. As quality improves, productivity improves.

In world class organisations, managers spend less time reporting and more time leading action. Measures driven by the requirement for periodic reports become less relevant to promoting long-term organisational health.

Management effectiveness depends on integration of purpose, methods and measures, the foundations for learning and improvement. It starts with being prepared to change the way you think.