

CHAPTER 8

WHY MANAGEMENT SYSTEMS GO WRONG

Introduction

A poor management system can seriously impair an organisation's ability to perform and improve, and it can also create a deeply dysfunctional culture.

To understand why, let's explore what can go wrong in the four key areas Dean Spitzer identified:

- Focus
- Integration
- Context
- Interactivity

Focus

Effective management relies on effective measurement, which means measuring:

1. The outcomes that matter most, and
2. The underlying factors that drive those outcomes

Figuring this out can be hard, painstaking work. Even when we've worked out what to measure, there's another set of challenges around figuring out how to measure it.

The only way is to work it out gradually by trial and error (i.e. over several PDCA cycles). Few at the top of organisations are able or willing to invest the time or

effort to take that particular journey, and so the measures many businesses end up with tend to be simplistic, based on outdated ideological assumptions about what *should* work rather than knowledge of what actually *does* work.

Here are just a few of the more prominent examples of how we can get the focus wrong:

- Measuring the wrong things (the biggest category)
- Unclear information
- Constantly shifting goalposts

Measuring the wrong things

Measuring the wrong things focuses attention on, and therefore prompts action on, the wrong thing. This arises when we fail to focus on the purpose of the business – to meet the needs of the customer profitably. It sounds unwise, but it happens. A lot. Here are just a few examples.

Activity measures

These highlight activity while telling us nothing about the value of that activity. Not all activity adds value: the wrong activities can destroy value.

For example, measuring how quickly calls are answered and how many calls are taken each hour can yield superficially impressive data, but tells us absolutely nothing about the achievement of the actual purpose of the system, which is first-time call resolution. Indeed, it may be serving to undermine the purpose, damage customer satisfaction and increase costs, because if the customer's query is not resolved first time, the customer is passed around or has to call back (sound familiar?). This creates what Seddon called 'failure demand' – an unnecessary demand created on time and resources due to a failure to get things right first time.

In short, activity measures can drive behaviours that destroy value rather than create it. Other examples of activity measures that tell us nothing about the achievement of purpose include home visits completed, inspections conducted, and sales calls made. Nothing about achievement of purpose there anywhere.

Productivity measures

These are a close cousin of activity measures. Productivity is often measured as some kind of ratio between what comes out and the resource that went in. Again,

however, it is not measuring whether the process is achieving value, or meeting customer needs right first time. For example, we could be (very productively) working on things that are not a priority for the customer, or making (highly efficiently) items that go into stock and might never be sold.

Examples of distortions introduced by productivity measures include:

- Producing something that is not immediately needed (and may never be needed) just to make the utilisation of people and resource look good
- Not putting enough labour hours on the job, so that the outputs-per-person looks good, but quality is poor and/or people are overworked
- Knowingly providing inadequate product, information, answers etc. to count a transaction as complete
- People working on the easy and quick tasks while the urgent but difficult work piles up (sometimes poetically described as 'parking and creaming')

'Look good' measures

These create an illusion of action and progress – but tell us nothing about things that really matter to the customer or business profitability (quality, cost and delivery). Indeed, they are sometimes chosen to divert attention away from difficult, underlying problems that really need to be highlighted, understood and solved if the business is to move forward and thrive long-term.

Examples include:

- Investment in technology – many investments in technology are not successful
- Staff qualifications – I have come across businesses that have trained large numbers of people in process-improvement skills and never give them a chance to use them
- Reorganisation – many reorganisations are counter-productive, as they cause disruption but often fail to address the real reasons for performance problems or poor teamwork, which are invariably process or management systems issues

Comparison measures

A comparison measure is where a data point is compared to a reference point; for example, a customer specification, an average or a management target. The conclusion is either 'It's okay' or 'Do something'. As Wheeler notes, this approach inevitably results in 'periods of benign neglect alternating with periods of intense

panic ... [an approach] completely antithetical to continual improvement.' That's bad enough. But comparison measures don't allow us to understand how natural variation in the process affects the outcomes, and so we risk:

- Misinterpreting and overreacting to certain results
- Failing to properly grasp the full picture of process performance, and missing real opportunities for sustainably improving it

Here's why:

- All processes (and therefore the results they produce) demonstrate some degree of variation
- A process is 'stable' (statistically speaking) if it consistently and repeatedly generates a set of results within certain limits (the upper control limit and lower control limit)
- The process may be stable, but not producing the desired results (for example, the control limits may fall outside the customer specifications), i.e. it is not 'capable'

If a process is stable but not capable, the process needs to be studied, understood and improved. This is because, in a stable process, the variation is created by 'common causes', i.e. factors inherent in the process. An example might be how temperature affects the behaviour of raw materials.

If a process is not stable (i.e. not consistently and predictably operating with certain limits), this suggests the presence of 'special' or 'assignable' causes which are destabilising the process – for example, machine breakdowns. A process has to be made stable, by identifying and removing these assignable causes, before it can be properly examined, understood, managed and improved, to enhance its capability.

If, however, the process is stable, to treat every divergence from the some notional ideal as a special cause is not only futile, but is actually likely to destabilise the process.

So, the problem with comparison data is that it completely misses the impact that process variation has on results, and creates the significant danger of demanding action on a result that is just due to the natural variation in a stable (if imperfect) process. Explanations may be demanded, but since no assignable cause actually exists, any resulting explanation is, as Wheeler observes, likely to be a 'work of fiction whose only purpose is to pretend that something is being done about a perceived problem'.

If the goal is beyond the capability of the system, the system will have to be changed by understanding and addressing the common causes. And to do this, we need to understand the Voice of the Process (VoP). Primitive and simplistic comparison data won't do.

(Control Charts and other measures provide more meaningful and accurate insight into the behaviour of the process and enable continuous improvement – but this is a complex topic in its own right and beyond the scope of the present book.)

Wrong time frame

As Bititci points out, short-term measures can act against the creation of sustainable long-term performance: 'In managing the performance of our business, it is quite easy to increase its value in the short-term by simply stripping away capability.' Goals need to balance short-term performance with the building of sustainable long-term capability.

Unclear information

Approaches to information gathering, analysis and presentation that may look impressive, but simply intimidate, bewilder and confuse, and provide little useful, actionable insight. This may include:

- **Volume of data:** Generating and gathering lots of data with no real pattern to it, or clear link to how it helps us understand or improve the system
- **Complex analytics** that provide little or no insight
- **Impressive scorecards**, dashboards and 'war rooms' that provide neither the information nor the environment for people to discuss and improve performance
- **Information unavailable to the people whose role it is to operate and improve the process.** As Michael Hammer pointed out: 'Measurement systems typically deliver a blizzard of nearly meaningless data that quantifies practically everything in sight, no matter how unimportant; that is devoid of any particular rhyme or reason; that is so voluminous as to be unusable; that is delivered so late as to be virtually useless; and then languishes in printouts and briefing books, without being put to any significant purpose ... in short, measurement is a mess.'

Constantly shifting goalposts

Asking for different data (or different configurations of the data) or 'special reports' depending on what the current crisis is, rather than having a stable, useful set of measures. Hugely distracting, time-consuming and confusing.

Integration

Focus is about picking the right core measures. Integration is about ensuring that measures are complete, connected and coherent enough to allow us to understand, manage and improve the whole system – as a system – rather than managing the business as a collection of dislocated parts and hoping that they will all, by some miracle, work together in a seamless, choreographed way.

Unfortunately, the outdated rationalist notion persists that if each component of a system is optimised, then the whole system will be optimised. This simplistic view overlooks the obvious: that the interdependencies between the components need to be recognised and managed if the whole system is to be optimised. What happens at the interfaces between sub-systems matters. Alignment between the different parts of the system matters. Without it, things don't flow, and costs, delays and quality problems increase.

The core problem that arises from a lack of integration is a lack of a clear understanding of how the business works as a complete system, serves its customers and adapts to changes in its markets and environment. As John Seddon highlighted, 'Most managers fail to develop even the most rudimentary theory that allows them to jointly, interactively predict cause and effect, and then test, learn and improve.'

The ensuing problems can all be summarised by one word: 'sub-optimisation'. The various manifestations of this include:

- Different functions working at cross-purposes to optimise their own numbers, rather than optimising the whole. For example, most businesses experience some tensions between sales teams whose bonuses depend on the revenue value of business won, and operations teams for whom the complexity, mix and timing of the work influences their ability to do it, and from a financial perspective the actual profitability of that work
- Focusing on cost reduction without considering its impact on short- and long-term quality, productivity and delivery. While cost always needs to be

understood and managed, there are dangers in the simplistic assumption that a cost reduction automatically improves either short- or long-term profitability. First, from a financial perspective, it is often better to focus effort on increasing profitable sales by providing quality products and service, rather than risk compromising the offering and losing customers. Second, there is the ever-present danger of false economies, where pursuing cost reduction without understanding the consequences in the value stream actually increases the cost of poor quality in the long term due to the expense of fixing the problems it creates, and the loss of reputation and repeat business incurred

- Loss of synergy and the creation of unnecessary operational conflicts as different functions protect their own finances, efficiencies and schedules when overall process-performance and customer satisfaction is better served by 'taking one for the team' and, for example, sharing resource or reprioritising
- Loss of synergy and the creation of unnecessary conflict around business improvement: people working passionately and hard on the wrong improvement priorities and in the wrong way. Ideas that sound good in principle, but whose impact on different parts of the value stream, and the end result, have not been fully thought through. The result is often 'push down-pop up' problem-solving; for example, sales secure work that cannot be delivered to the promised quality and timescales, causing operational problems, late delivery, customer dissatisfaction and poor colleague morale

Context

Context is about who measures, who decides what to measure, for what purpose, and what happens if performance problems are identified.

The context can range from control to empowerment. At the 'control' end of the spectrum, organisations set measures at the top, defining the purpose of measurement as upward reporting to allow senior managers to monitor and control performance. The response to performance problems is typically with criticism, directives and warnings of consequences if performance does not improve.

At the 'empowerment' end of the spectrum, the purpose is to enable colleagues to understand and improve process performance. Front-line managers and colleagues help to shape measures that allow them to do this. When problems occur, front-line people use the information to identify and remove root causes and improve the process. When done consistently well, this means that processes are both under control and continuously improving.

In the middle of the spectrum, where many organisations sit, there is a lack of clear purpose, focus discipline, and consistency around measurement, so they miss the potential benefits.

The context is less conducive to effective management and continuous improvement when:

- Measurement is used to monitor and control rather than engage and empower
- It is adversarial
- Goals are arbitrary and unrealistic

Let's explore this.

Using measurement to monitor and control rather than engage and empower

Monitoring and control is an important part of measurement. And there are different ways in which it can be achieved.

The Business Excellence approach focuses on control of the processes that generate the results, by using measures that enable front-line colleagues to understand and improve their processes.

The main alternative is to attempt to control people. This could include: ensuring compliance with set policies, processes and standards; ensuring that people follow directives (whether they make sense or not); or exhorting people to achieve goals by any means. Or all three! Control may be exercised through rewards (giving or withholding them) or through criticism, blame and formal discipline. The risk here is of fostering fear, defensiveness, resentment, and a reluctance to take responsibility.

Monitoring and control require upward reporting, and there are potential dangers here also.

Clearly, top-level managers need to understand what is happening in the business and take appropriate action in good time. However, when information is gathered, aggregated and sent upward for analysis and action (rather than using it immediately on the front line to make decisions and improve processes), there are risks, particularly in an adversarial context. These include:

- Filtered and skewed information which amplifies good news and suppresses bad

- Information that is too abstract to allow any kind of meaningful analysis, or to enable root causes to be identified; e.g. data aggregated across time periods or across several departments
- Information arriving too late to allow timely action, e.g. end-of-month reports

Gathering, analysing and presenting information carries a cost and distracts managers from their core responsibilities of engaging with people to manage and improve process performance. Many reporting processes are wasteful and inconsistent, and destroy rather than add value.

Adversarial approach

'When the relationship is adversarial, people will be motivated to outwit the control system.' (Leonard Greenhalgh)

Aside, of course, from lack of respect and emotional intelligence, choosing an adversarial approach to managing performance stems from the belief that goals are accomplished by effort alone (and that failure is due to individuals' motivation). There are two (often subconscious) aspects to this thinking.

The first is **management by results**. The assumption here is that all that is required to get results is to set a goal and rigorously monitor action and progress so that people work hard enough to achieve it. The strength of this approach is that it focuses attention, mobilises effort and mitigates against complacency. Where certain conditions are met, the effects can indeed be positive and powerful.

These conditions include the goal being achievable, and that people have effective processes, problem-solving tools and training, empowerment, time and useable information, and work in an atmosphere that supports innovation and improvement. These factors also make **management by means** possible, i.e. they enable people to figure out how the value-creating process works, continually enhance its capability, achieve breakthrough goals, and move toward Business Excellence.

When these conditions are not met, management by results descends into browbeating people into committing more time and effort; working harder, not smarter. In the long term, this is a recipe for conflict, inefficiency, mediocrity and stagnation.

The second concept in play here is what McGregor famously called Theory X – the assumption that most people are lazy, untrustworthy and self-interested and

have to be given a target, and then monitored, controlled, pressured, criticised and possibly intimidated into performing.

As Deming suggested, however, the reality is closer to McGregor's Theory Y – that most people do a good job if they have the right tools and resources, and that 94% of performance problems stem from process, not individual, failings. In other words, where people underperform, a responsible manager should look first at the process, information and resources people had, and at how they selected, inducted, trained, managed and coached their people.

And even if performance problems do come down to a person's attitudes or behaviour, this neither necessitates nor justifies an adversarial approach. It requires mature professional management.

Arbitrary and unrealistic goals

Goals set by senior managers are typically communicated with a sense of certainty and confidence intended to convey not only the necessity of achieving them, but also that they are also founded on solid information, rigorous rational analysis and watertight planning.

But such an impression is often misleading. Deming suggested from his experience that many targets were estimates which had no firmer basis than 'stargazing'. John Seddon went further, suggesting that no reliable method exists for setting a target and consequently, what we see is mostly guesswork, with many goals being spurious, and some 'outright deceptions'.

Problems typically arise when:

- A target is set without full consideration of system capability (and might thus overstretch it or underutilise it)
- There is a lack of flexibility in response to changing conditions (also potentially leading to overstretch or missed opportunities)
- The people who are tasked with achieving the target, and who are most familiar with the process and its capabilities, are not involved

Pursuing any poorly derived goal has negative consequences:

- **Operationally:** If there is a significant mismatch between capability and demand, this either overstretches and potentially destabilises the value stream (compromising quality, cost, delivery performance and long-term sustainability), or fails to use its full capability

- **Socially:** Working toward a target they can't meet, and constantly failing and being criticised, demoralises and disengages people. This also fosters disdain for their leaders' lack of insight, ability and integrity and creates the moral context that some feel legitimises 'gaming' – i.e. distorting processes or data to get the 'right number'. (This is discussed later)

Problems occur when the target number on some measure is arbitrary, and not set on the basis of an analysis of market strength and business capability. Reasons can include:

- An unrealistically high target set by a powerful stakeholder with a vested interest
- Lack of analysis. For example, the ubiquitous 'last year plus 10%' (why 10%)
- Departmental managers trying to set goals as low as possible, to reduce the risk of failure and increase the odds of exceeding target, looking good and being rewarded

Some targets go beyond just being poorly focused. They actually shift the focus away from achieving the system purpose (i.e. to serve the customer efficiently and well), to meeting the metrics, regardless of the actual impact on customers, profitability or long-term capability.

When we looked at focus, we saw how activity measures, productivity measures and look-good measures have the capacity to do this. In the contact centre example, the actual purpose is first-time call resolution, but where people are measured and managed on the volume of calls handled, and average call time, there is a greater incentive to get the customer off the phone fast rather than to take time to understand and solve the problem right first time. This results in the creation of failure demand. In this example, the demand on system resources (time, people, equipment, etc.) increases because the customer either bounces around other departments, or has to phone back, or both, each time using more time and resource as they re-explain the story, getting increasingly irate and dissatisfied. Performance looks good when assessed by the narrow and misleading call-volume metric and when factors such as customer satisfaction and cost of poor quality, which would provide a fuller and more balanced picture, are not measured.

It is also possible for the system purpose to be deliberately subverted; for example, where the emphasis is shifted from serving customers profitably to maximising profitability by any means.

Interactivity

The interactivity of measurement is the degree to which people are empowered to use the information from the measurement system to make changes to:

- Their work processes
- The measurement system itself

Unless they are able to use performance information to make changes to the things that are causing problems, if they are criticised and challenged on performance, people are likely to be frustrated, defensive or simply disengage. (Which, ironically, may invite further criticism of 'bad attitudes'.)

Where people are not able to influence the design of the measures and goals, they may conclude that measurement is just being used as an instrument of control rather than empowerment, and may view it with disdain.

Gaming

Brian Joiner observed that when people are pressured to meet a target, they can do three things:

- Work to improve the system
- Distort the system
- Distort the data

Where the context doesn't support the first of these, we are inviting problems. The ingenuity that should have been directed into problem-solving and innovation around processes gets directed into the dubious art of gaming, i.e. finding ways to present favourable numbers.

Rules get bent or broken. Short-cuts can be taken with (among other things) customer service, quality, and health and safety. From the predictable (e.g. cutting training budgets to reduce short-term costs) to the illegal (e.g. LIBOR fixing), to self-destructive institutionalised accounting fraud (e.g. Enron), examples are legion, with, as Spitzer observed, its more mundane manifestations played out daily in organisations around the globe. These manifestations include:

- Hiding unfinished work so that the backlog is not visible
- Falsifying outputs; for example, counting quality failures as completed work
- Fudging numbers:

- Premature revenue recognition
- Deferring expenses
- Use of special charges
- Capitalising operating costs

These can create the illusion of strong current performance, but run the significant risk of longer-term sub-optimisation and damage to results, trust, engagement and culture.

While most colleagues recognise these problems because they live with them every day, many senior managers are either unaware of, or unconcerned by, what is going on.

The challenges of changing the management system

Getting the management system right can be a messy, complex business: like trying to do a complex, three-dimensional, moving jigsaw, with too many pieces and no picture on the box. Worse, those trying to do this are often venturing into this area with people who don't understand the concepts, get the point, want to get involved, or even trust each other. Including, and often especially, at senior level, often with people who think they learned everything they needed to know about this 25 years ago.

Because of these challenges, and because, sadly, few senior managers fully appreciate the nature and significance of these challenges, fixing the management system is often put in the 'too difficult' tray and ducked completely. Instead, CEOs change structures, processes or roles, or adopt new technology, and generally rearrange the furniture. While creating (in some minds at least) the impression of decisive strategic action, this invariably just creates further disruption, mayhem and demoralisation.

'As a result of ignorance about performance measurement, many executives try to fix everything else in their organisations except measurement, and find that the problems are never solved – because the source of so many organisational problems is a defective measurement system.' (Dean Spitzer)

Transformation

Many challenges around colleague engagement and sustainable improvement are due to an almost subconscious reliance on limiting, traditional measures that keep us trapped at a level where we fail to properly illuminate, understand and solve problems, and just keep recreating them. No amount of tinkering will help. Fundamental assumptions need to be addressed.

The good news is that we can now recognise measurement dysfunction and understand the reasons for it. The further good news is that better alternatives are available. Transformation of measurement, and consequently of culture and performance, is possible.

The four categories Spitzer defined that helped us understand the problems also provide a structure to help us move forward:

- Create a positive **context** – one where measurement is used to drive improvement
- **Focus** – develop measures that:
 - Relate to the purpose of the system (the voice of the customer)
 - Help colleagues to discuss, understand and improve performance
 - Foster the building of long-term capability to underpin sustainable competitive advantage
- The **integration** of all measures into a coherent framework, that links measures:
 - Cross-functionally, to help integrate functions and enhance collaboration
 - To strategy and the development of long-term capability
- **Interactivity**: Developing, with people, measures that they trust and can use to improve