C-Suite: The Need to Re-think our Business System's Strategic Planning, Scorecard Creation, and Process Improvement Efforts

Forrest W. Breyfogle III
CEO and President, Smarter Solutions, Inc.
www.SmarterSolutions.com

Abstract

These challenging times provide C-Suite leadership an opportunity to determine what can be done to enhance its current business management system. This paper elaborates on the following enhancement opportunities:

- The creation of strategies should not be an intuitive exercise but should instead target the specific gaps revealed after the business is analytically/innovatively assessed and understood; e.g., step five of the nine-step business management system described in this paper.
- Businesses need to define and target improvement efforts to their value chain, which describes cross-functional business functional flow and metrics, where the organization chart is subordinate to the non-siloed value chain.
- Scorecards need to be tied to value chain functions and reported so that the metrics assess process predictability and provide a prediction statement, when appropriate.
- Organizations need to analyze their value chain as a whole to determine where operational goals should be established so that improvement efforts are made in areas that have linkage to providing the most benefit to the enterprise financials.

Nine-Step Business Management Governance System

Organizational leaders often openly discuss the growth in business environment complexity; however, at the same time it seems what is being desired is a basic management system that is at the level of *Who Moved My Cheese?* by Spencer Johnson. This book is very good; however, does it make sense to believe that our past, somewhat simplistic, management system of creating a strategy and setting goals throughout the organization can address our current business complexities?

Executive leadership needs to assess its business system, especially in times of economic challenge, to determine if its current management system can handle this complexity. What organizations need is an enhanced methodology that provides the framework for leadership to systematically understand and manage its organization through an ever-changing environment. Such a system is described in Figure 1.
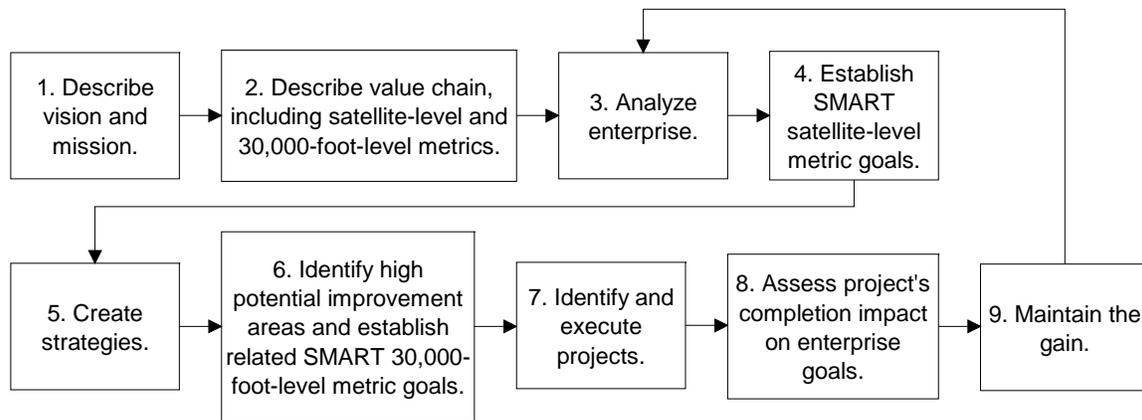
Figure 1: The Integrated Enterprise Excellence System

From Figure 3.6 *The Integrated Enterprise Excellence System: An Enhanced, Unified Approach to Balanced Scorecards, Strategic Planning and Business Improvement*, Forrest W. Breyfogle III, Bridgeway Books, 2008.

The business governance system graphically described in this figure provides a roadmap for systematically addressing current management challenges head on[1]. Provided is a business system, not just a problem-solving-project-execution system such as Lean Six Sigma or Lean kaizen events. Because this system is different from traditional methods, it needs a name. I will refer to this system as Integrated Enterprise Excellence.

Most of the nine steps in this business-system process are self explanatory; however, it needs to be highlighted that the last-step feedback loop does not return to step one but instead step three. The implication of this type of feedback is that a long-lasting management system front end is provided, which can remain structurally constant over time even through leadership, organizational, and strategy changes.

All steps of this 9-step system are important; however, in this paper, I will focus on the creation of organizational metrics (step 2) and strategy creation (step 5).

Step Two: Value Chain Creation

In many businesses today, the enterprise is not viewed as a system of non-siloed processes with performance measurements. Instead, organizations often report metrics in their area of the business for how things are going every week, month, or quarter relative to goals. This form of goal-setting reporting can lead to much firefighting and, in extreme cases, a meet-the-numbers-or-else culture that is fatal; e.g., Enron at the turn of the century and many companies in our current economic crisis. These issues can be overcome when organizations view their enterprise procedures and their metrics from a value chain point of view, where the organizational chart is subordinate to the value chain.

Step 2 of the 9-step business management system shown in Figure 1 states: "Describe value chain, including satellite-level (financial) and 30,000-foot-level (operational) metrics." I will now elaborate on the value chain portion of this step.

An organization's value chain, as illustrated in Figure 2, describes what the enterprise does (rectangles in the figure) and its performance measures of success (ovals in the figure), from a customer and business point of view; i.e., cost, quality, and time. In this value chain, the

rectangular boxes provide clickable access to process steps, functional value streams, and procedural documents. The center series of rectangular-box-specified functions describe the primary business flow, and the rectangular boxes that are not in this series describe other support functions; e.g., legal and finance.
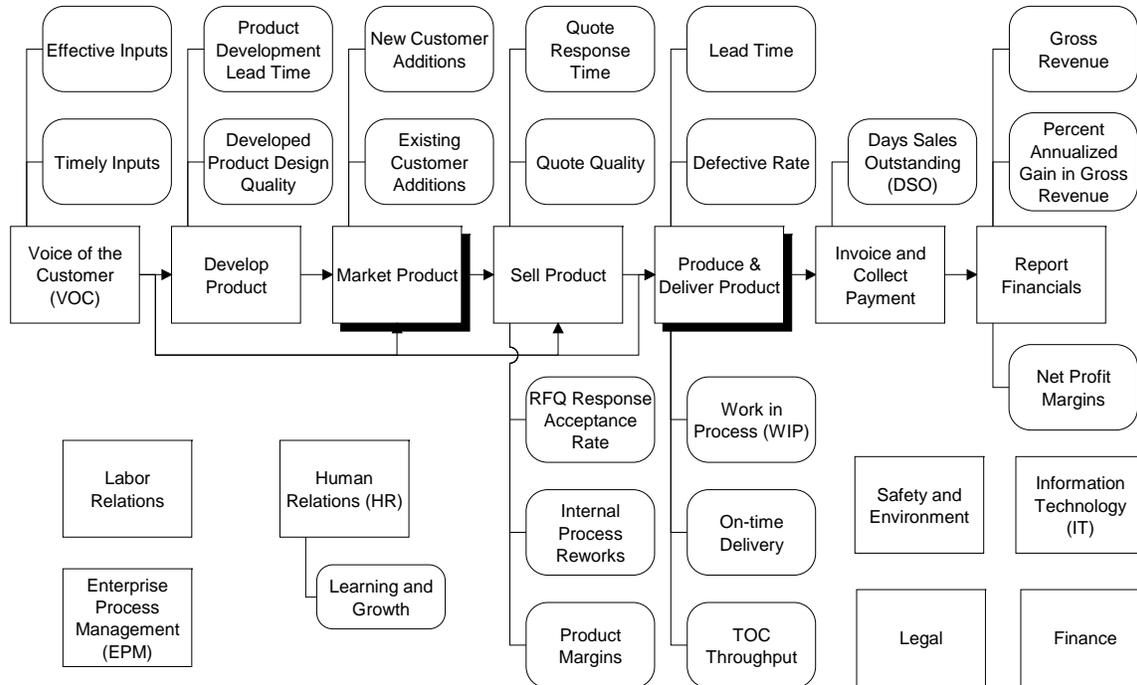

Figure 2: Value chain with scorecard/dashboard metrics. Shaded areas designate processes that have subprocess drill-downs.

From Figure 7.3 *The Integrated Enterprise Excellence System: An Enhanced, Unified Approach to Balanced Scorecards, Strategic Planning and Business Improvement*, Forrest W. Breyfogle III, Bridgeway Books, 2008.

With this approach to describing the enterprise, the organization chart is subordinate to the value chain. The value chain is long-lasting even through organization changes, where process functional procedures and their metrics can change over time.

Metrics within a value chain are to have alignment to how the business is conducted. This is in contrast to creating metrics around the organization chart or strategic plan objectives, where both can significantly change over time. In addition, it is important not only to determine what should be measured but also to have a reporting methodology that leads to healthy behavior so that the organization as a whole benefits.

Creating Good Metrics

Good metrics provide decision-making insight that leads to the most appropriate conclusion and action or non-action[2]. The objective is the creation of an entity that is measurable, auditable, sustainable, and consistent. Organizations can achieve significant benefits and reduce much wasted effort when a process for metric creation and improvement addresses the following:

- Long-lasting metric creation that originates from an assessment of what measurements provide the most appropriate quantification of organizational value chain functional outputs in the area of cost, quality, and time.
- Metrics that maintain basic continuity over time and are fundamentally independent from changes in leadership, strategies, and organizational structure.
- Metrics need to be reported in a format so that they can provide predictive statements when there is a recent region of stability.
- Metrics need to have peer-to-peer comparability. That is, one person does not provide a process-response output using a pie chart while another uses a stacked bar chart, noting that these forms of reporting provide no information about process stability or the ability to make predictive statements.
- The organization chart needs to be subordinate to the functional value-chain-created metrics. When there is an organizational change, metric ownership can change but the basic organizational metric structure and reporting format maintains consistency.
- Metrics from a corporate value chain can be drilled down throughout the organization.
- $Y=F(X)$; i.e., the output of a process is a function of the process' inputs and its steps. Dr. Lloyd S. Nelson stated, "If you can improve productivity, or sales, or quality, or anything else, by 5 percent next year without a rational plan for improvement, then why were you not doing it last year?" The simple setting of goals for metrics does not make it happen; this could be considered management by hope. Organizations need to have a system to analyze their metrics collectively so that they can establish goals for value-chain metrics that benefit the business as a whole.
- Process improvement goals for value-chain functional metrics are to be established from an analytical-enterprise, whole-business assessment, evaluating, among other things, business constraints. For example, such an assessment could lead to a marketing and sales metric-improvement focus rather than manufacturing-waste reduction, if the organization has excessive capacity and there is a financial goal to grow the business.
- Include a value-chain-predictive metrics assessment when blending analytics with innovation to determine strategies that lead to targeted projects for financial goal achievement. These targeted strategies would then lead to functional value-chain metric improvement goals and improvement/design projects that, when completed, truly impact the financial goals of the whole business. With this system, value-chain-metric improvement goals pull for projects that are most beneficial for the business in its entirety. This approach is in contrast to Lean Six Sigma's traditional approach of listing potential projects and then prioritizing these projects for improvement efforts. This traditional approach to project selection appears attractive; however, it often leads to process sub-optimizations, where benefits are in silos, and the business as a whole does not benefit from these project improvement efforts.

Predictive Metrics

Organizations often report performance using a table of numbers, stack bar chart, or red-yellow-green report-outs, where red indicates that a goal/specification is not being met, and green indicates that current performance is satisfactory. These reporting formats describe what has occurred in the past for some time interval but do not provide predictive statements and can lead to firefighting behaviors. These limitations are overcome with a 30,000-foot-level reporting system.

In 30,000-foot-level reporting, there are no calendar boundaries and a prediction statement can be made, when appropriate. For example, one might report that a current metric performance level is predictable since the process has been stable for the last 17 weeks and there is an estimated non-conformance rate of 2.2%. For predictable processes, we expect that this same level of non-conformance would occur in the future unless something was done to improve either the process inputs or the process-step-by-step execution itself.

With this form of reporting, common-cause variability is separated from special-cause events at a high-level. With this 30,000-foot-level business perspective, typical variability from process input differences is considered common-cause input variability that should not be reacted to as though it were special cause variability; e.g., variation from raw material lot-to-lot, day-of-the-week, people-to-people, and machine-to-machine differences.

Often, current metric reporting and management practices of determining what happened today by sending someone to "fix the problem" can lead to much firefighting. For this type of situation there are, more often than not, minimal improvements made from these firefighting activities; i.e., common-cause variability issues were treated as though they were special cause. Red-yellow-green scorecards, where there is a tracking to goals throughout an organization, can sound attractive but can lead to much firefighting.

<u>Traditional Performance Reporting Example – Red-Yellow-Green Scorecard</u>

	Targets	Aug'04	Sep'04	Oct'04	Nov'04	Dec'04	Jan'05	Feb'05	Mar'05	Apr'05	May'05	Jun'05	Jul'05	Aug'05
Finance Metric B		2.10	2.25	2.35	2.21	2.32	2.21	2.16	2.49	2.51	2.16	2.17	2.29	2.14
Yellow if equal to or higher than	2.20	2.20	2.20	2.20	2.20	2.20	2.20	2.20	2.20	2.20	2.20	2.20	2.20	2.20
Green if equal to or higher than	2.25	2.25	2.25	2.25	2.25	2.25	2.25	2.25	2.25	2.25	2.25	2.25	2.25	2.25

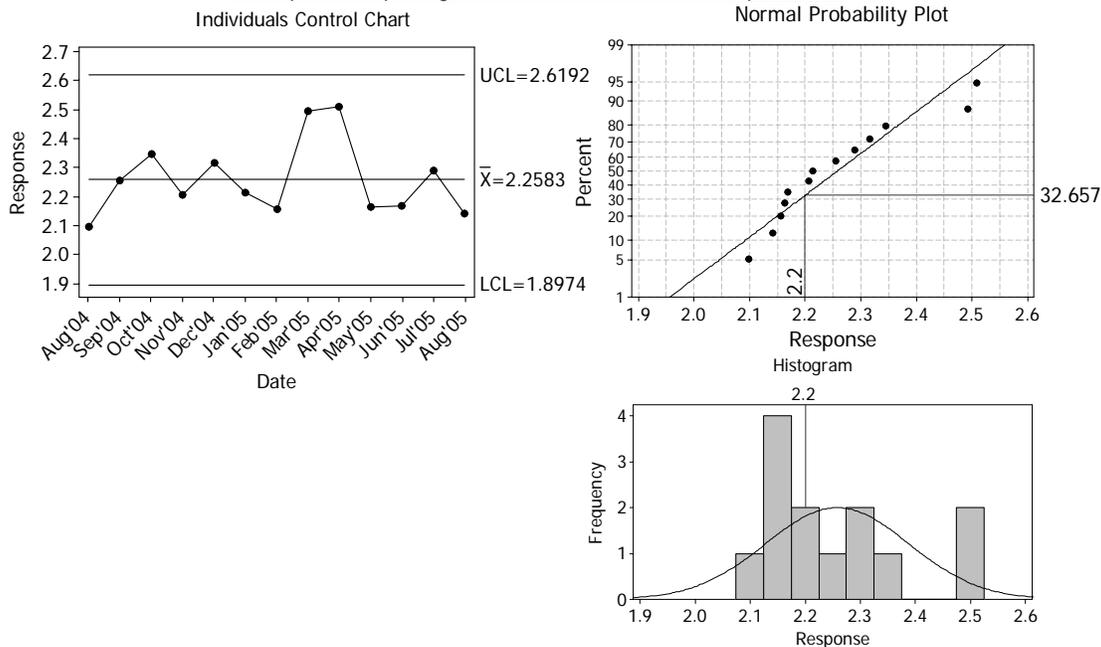<u>IEE Improved Reporting for Process Assessment and Improvement</u>

Figure 3: Comparison of a red-yellow-green scorecard to 30,000-foot-level predictive measurement reporting (Histogram included for illustrative purposes only).

From Figure 6.2 *The Integrated Enterprise Excellence System: An Enhanced, Unified Approach to Balanced Scorecards, Strategic Planning and Business Improvement*, Forrest W. Breyfogle III, Bridgeway Books, 2008.

To illustrate this point, consider the red-yellow-green scorecard shown at the top of Figure 3, which is from a corporation's actual scorecard system, and its comparison to a 30,000-foot-level scorecard reporting system.

This metric reporting system has two steps. The first step of this process is to analyze for predictability. The second step is the formulation of a prediction statement, when the process is considered predictable.

To determine predictability, the process is assessed for statistical stability using a 30,000-foot-level individuals control chart, which can detect if the process response has changed over time and/or if it is stable.

When there is a current region of stability, data from this last region can be considered a random sample of the future. For this example, note how the 30,000-foot-level control chart in Figure 3 indicates that nothing fundamental in the process has changed, even though a traditional red-yellow-green scorecard showed the metric frequently transitioned among red, yellow, and green. For the traditional scorecard, the performance level was red 5 out of the 13 recorded times.

Included in this figure is a probability plot that can be used to make a prediction statement. Much can be learned about a process through a probability plot. Let's next examine some of these probability-plot-benefit characteristics.

The x-axis in this probability plot is the magnitude of a process response over the region of stability, while the y-axis is percent less than. A very important advantage of probability plotting is that data do not need to be normally distributed for a prediction statement to be made. The y-axis scale is dependent upon the distribution type; e.g., normal or log-normal distribution.

If the data on a probability closely follow a straight line, we act as though the data are from the distribution that is represented by the probability plot coordinate system. Estimated population percentages below a specification limit can be made by simply examining the y-axis percentage value, as shown in Figure 3. For this case, we estimate that about 33% of the time, now and in the future, we will be below our 2.2 specified criterion or goal.

There is a certain amount of technical training needed to create 30,000-foot-level metrics[10]; however, the interpretation of the chart is quite simple. In this reporting format, a box should be included below the chart that makes a statement about the process. For this chart we can say that the process is predictable with an approximate non-conformance rate of 32.8%. That is, using the current process, the metric response will be below the goal of 2.2 about 1/3 of the time.

Regarding business-management policy, red-yellow-green versus this form of reporting can lead to very different behaviors. For this example, a red-yellow-green reporting policy would lead to fighting fires about 33% of the time because every time the metric turned red, management would ask the questions, "What just occurred? Why is our performance level now red?" while in actuality the

> *I don't know where we would be right now (because of the economy) if we had not invested time and energy into our efficiencies and learning to look at our business at a much higher level.*
> Dawn DeArmond
> CEO, Kansas Big Brothers Big Sisters

process was performing within its predictable bounds. Red-yellow-green scorecards can result in counter-productive initiatives, 24/7 firefighting, the blame game, and proliferation of fanciful stories about why goals were not met. In addition, these scorecards convey nothing about the future.

With this form of performance metric reporting, we gain the understanding that the variation in this example is from common-cause process variability and that the only way to improve performance is through improving the process itself. With this system, someone would be assigned to work on improving the process that is associated with this metric. This assumes that

this metric improvement need is where efforts should be made to improve business performance as a whole.

In organizations, the value-chain functions and metrics should maintain basic continuity through acquisitions and leadership change. The value chain with its 30,000-foot-level metric reporting can become the long-lasting front end of a system and baseline assessment from which strategies can be created and improvements made.

Strategic Planning and Business Improvement

Consider how, with a traditional approach, organization-wide communicated developed strategic statements can be very difficult to translate into specific employee actions. There was one organization which communicated an "expansion of production capacity" strategy. Should this strategy be applied to all produced products? For most situations, this would not be the case.

The balanced scorecard[3, 4] utilizes strategy mapping to cascade executive strategies throughout the organization utilizing strategy mapping. Hoshin kanri is another tool to cascade strategies throughout the organization, using a technique called catchball.

In addition, annually-developed-executive-retreat-created strategies can significantly change over time and with leadership changes. It is important to have strategies; however, is it best to have strategy-building as step one from which organizational metrics and operational goals are determined?

With the Integrated Enterprise Excellence approach, strategies are analytically/innovatively determined in step five of the 9-step business-management-system, as shown in Figure 1. The well-defined strategies created with this enhanced management system lead to targeted improvement or design projects that benefit the enterprise as a whole.

Executive Recommendations

To be competitive in an ever changing environment, businesses need a working environment that leads to the 3 Rs of business; i.e., everyone doing the Right things, and doing them Right, at the Right time. The CEO and/or President need to be intimately involved in the creation, orchestration, and refinement of their enterprise system for accomplishing these business objectives; i.e., this is not something that should be delegated with no, or minimal, later involvement.

This executive-developed and -orchestrated system needs to integrate scorecards, strategic planning, business improvements, and control so that the enterprise as a whole benefits. The described 9-step Integrated Enterprise Excellence business management governance system provides a solution for achieving these objectives and for avoiding common shortcomings of current business systems.

By shifting strategic planning from step one to step five of the business system framework, organizations can integrate leadership intuition with an analytically/innovative system, providing a guiding light for achievement of the three Rs of business. With this system, we have the ability to ensure that all efforts throughout the organization are driving improvements at the top so that the strategic plans and metrics are actually achievable with clear direction throughout the organization.

This business management governance system provides the framework and roadmaps for implementing Edwards Deming's philosophy[5] and Jim Collins' *Good to Great*[6] principles.

Organizations can use this system as a foundation for achievement of the Malcolm Baldrige National Quality Award and Shingo Prize.

Additional Information and Resources

The above-described methodology goes beyond traditional business systems, Lean Six Sigma, and the Balanced Scorecard[3, 4]. The Integrated Enterprise Excellence system is described at various levels of detail in a 4 book-volume series, which is available from book resellers such as Amazon.com. Two of the books provide a description of the overall system[7, 8]. Volume II[9] of the series walks step-by-step through the business aspects of the system, while Volume III [10] provides the details of improvement project roadmap execution, where Lean and Six Sigma tools are truly integrated. A resource library is also available that contains more than 100 articles on this and related topics[11].

A case study for the implementation of this system is described in an American Management Association article[12] and a video[13]. Executives can also attend a one-day workshop, Achieving Enterprise Excellence[14], held throughout the world, to hear further detail about the system and to determine if it is right for their organization.

References

1. Breyfogle, F. W. (2009) "The Elephant in the Room – Corporate Performance Management Issues and its Reinvention: Going Beyond Lean Six Sigma and the Balanced Scorecard," Smarter Solutions, Inc.
2. Breyfogle, F.W. (2009) "Creation of Effective Organizational Predictive Metrics that Lead to the 3 Rs of Business" Smarter Solutions, Inc.
3. Kaplan, R. S. and Norton, D. P. (1992), "The Balanced Scorecard – Measures that Drive Performance," *Harvard Business Review,* Jan.-Feb.
4. Kaplan, R. S. and Norton, D. P. (2006), *Alignment: Using the Balanced Scorecard to Create Corporate Synergies,* Harvard Business School Press, Boston, MA.
5. Deming, W. E. (1986), *Out of the Crisis*, Massachusetts Institute of Technology, Cambridge, MA.
6. Collins, Jim (2001), *Good to Great: Why Some Companies Make the Leap... and Others Don't*, HarperCollins Publishers Inc., New York, NY.
7. Breyfogle, F. W. (2008), *The Integrated Enterprise Excellence System*: An Enhanced, Unified Approach to Balanced Scorecards, Strategic Planning, and Business Improvement, Bridgeway Books, Austin, TX.
8. Breyfogle, F. W. 2008. *Integrated Enterprise Excellence Volume I—The Basics*: Golfing Buddies Go Beyond Lean Six Sigma and the Balanced Scorecard, Bridgeway Books, Austin, TX.
9. Breyfogle, F. W. (2008), *Integrated Enterprise Excellence Volume II—Business Deployment*: A Leaders' Guide for Going Beyond Lean Six Sigma and the Balanced Scorecard, Bridgeway Books, Austin, TX.
10. Breyfogle, F. W. (2008), *Integrated Enterprise Excellence Volume III—Improvement Project Execution*: A Management and Black Belt Guide for Going Beyond Lean Six Sigma and the Balanced Scorecard, Bridgeway Books, Austin, TX.
11. Integrated Enterprise Excellence Resource Center containing over 100 articles (http://www.smartersolutions.com/pdfs/online_database/register.php) .
12. Dickman, S. and Breyfogle, F. W. (Winter 2008-2009) "New Methods to Achieve Production and Financial Gains," *M-World*, American Management Association.
13. Video – Integrated Enterprise Excellence (IEE) Case Study: Oracle Packaging (http://www.smartersolutions.com/casestudy/oraclepackaging/orl_asset_orlpck091808.htm).
14. Smarter Solutions' Executive Overview, Achieving Enterprise Excellence, Description: http://www.smartersolutions.com/theeaglesview.htm Dates: http://www.smartersolutions.com/lsstwcalendar.htm#Exec1day.