

BUSINESS GOAL SETTING

Goal Setting's Conflict Resolution

What to do when business goal setting and process improvement are at odds

by Forrest W. Breyfogle III

Business goal setting is important, but care must be taken when setting and monitoring performance measurements against stated objectives. If this doesn't happen, unhealthy behaviors can occur.

Consider an organization in which corporate managers create monthly goals for a manufacturing facility. The plant manager at this work location becomes responsible for meeting upper management's next-month expectations for generated revenue or number of units shipped.

Accompany this corporate monthly-goal-setting policy, the manufacturing plant leadership also receives periodic financial bonuses when the corporate numbers are met.

But if financial monthly objectives aren't achieved, the resulting consequences to the plant manager and other organizational leadership is unpleasant.

Leaders may be fired or reassigned to a lesser position.

A meet-the-next-month-numbers-or-else corporate policy can have a significant negative impact on how a business is run.

When pressure is high to meet a monthly goal, for example, orders from the future might be drawn into the current month so the short-term stated financial objective can be met (at perhaps great expense to the entire organization). In other words, robbing Peter to pay Paul.

This type of financial-meeting-monthly-numbers corporate policy can lead to an organizational culture in which the implementing process improvement efforts, which can benefit the entire business, is virtually impossible.

An alternative approach to business goal setting, which includes the statistical

tracking of a metric's performance against the objective, is needed.

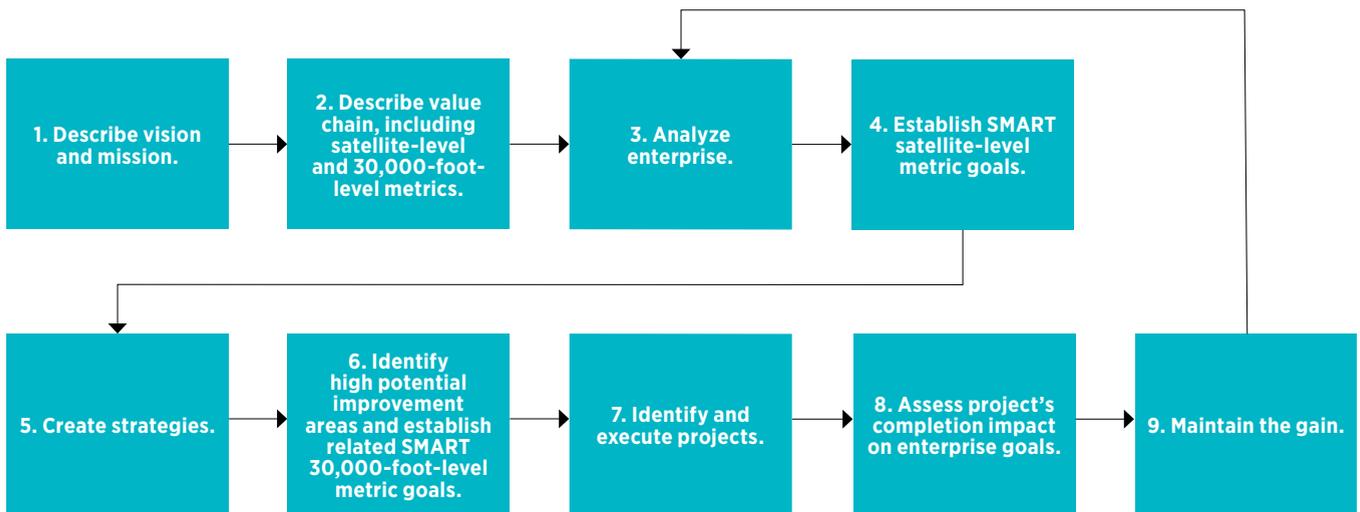
Goal setting that leads to the right behaviors

The output of a process—that is, Y in the relationship $Y = f(X)$ —is a function of its inputs (X 's). In this relationship, Y will have variability. This is also true for the monthly organizational financial measurements, which are affected by many processes.

A mathematical reiteration: When an organization feels compelled to meet a specific Y time value goal (for example, a monthly number), an unnatural X interjection is needed whenever the natural variability for the current time period results in a number that is undesirable relative to the corporate objective (for example, monthly profit is lower than the goal). The unnatural X interjection might be pulling orders from future months to

FIGURE 1

9-step IEE business management system



IEE = Integrated Enterprise Excellence

SMART = specific, measurable, actionable, relevant, timely

the current month so the present month's corporate-end-of-month-number is met.

When setting financial goals (for example, profit margins), it is better to set objectives as a mean or median value. This corporate policy practice encourages making process improvement efforts—for example, the X 's in $Y=f(X)$ —that positively affect the entire business.

From a business point of view, a financial median or mean monthly profitability objective makes more sense than specific month values because the annual monetary performance of an organization depends on the results from 12 months, not just one.

A corporate policy that gives focus to just meeting monthly objectives is management to the Y 's, which, again, can be unhealthy—if not destructive—to the entire enterprise. Organizations

benefit when they transition to the management of the X 's (that is, processes and their improvements) that are important to the entire business.

This management transition can be achieved through using an organizational Enterprise Improvement Plan (EIP) within the nine-step Integrated Enterprise Excellence (IEE) business management system.¹¹ Figure 1 shows IEE's nine steps, while Figure 2 (p. 52) provides an example EIP. Highlights of the IEE's nine steps are:

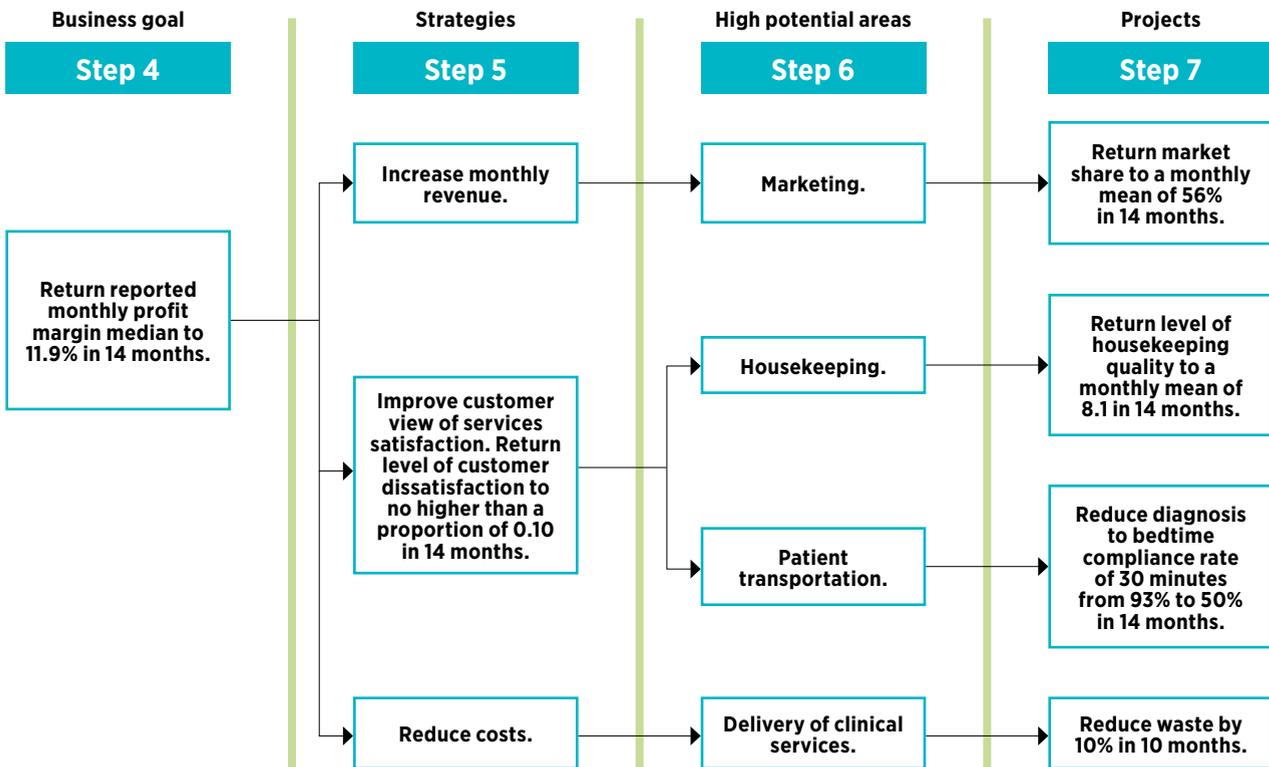
- + **Step one:** Execution of steps two through nine of the IEE system must be aligned with the organization's vision and mission.
- + **Step two:** This describes what an organization does and how it measures what is done. The means for accomplishing this objective is via

an IEE value chain. An IEE value chain structurally integrates predictive 30,000-foot-level¹²⁻²³ metric reporting with the processes that created them.

- + **Step three:** The entire enterprise is analyzed with the intent of determining where improvement efforts should focus so customers and the bottom line of the business benefit.
- + **Step four:** Specific, measurable, actionable, relevant and timely financial goals are reported and tracked from an IEE satellite-level perspective (for example, increase mean or median monthly profit margins by 0.5% in 10 months).²⁴
- + **Step five:** Developed strategies are targeted to improve the financials and better address customer needs.
- + **Step six:** High potential areas and their metric improvement desires

FIGURE 2

EIP within the IEE system



EIP = Enterprise Improvement Plan

IEE = Integrated Enterprise Excellence

are identified, where there is ownership of the measurements that are to be improved. An organizational EIP (Figure 2) shows the alignment of process improvement efforts with overall business measurement improvement needs that benefit the entire enterprise.

+ **Step seven:** Improvement projects are executed to improve important business 30,000-foot-level metrics that benefit the entire business using techniques such as lean Six Sigma and lean *kaizen* events.²⁵⁻²⁸

+ **Step eight:** Process improvement benefits are quantified in which a 30,000-foot-level individual's chart transitions to an enhanced level of performance when a significant enhancement was made to a process.

+ **Step nine:** The gain from process improvement efforts can be maintained through process error proofing and monitoring of the Enterprise Performance Reporting System automatic updates to 30,000-foot-level and satellite-level metrics in the organization's value chain.

In the IEE system, an EIP is created in step six. Figure 2 provides an EIP illustration of the alignment of process improvement efforts (column on the right) so that the big picture can benefit (column on the left). Steps of the IEE system are shown as reference for each EIP column.

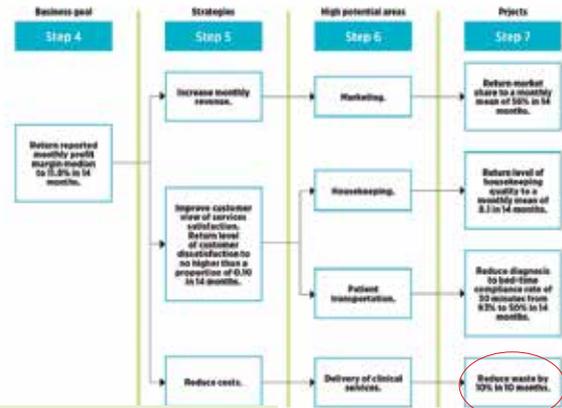
Tracking performance against business goals

IEE satellite-level tracking provides the examination of organizational financial metrics (for example, monthly profit

FIGURE 3

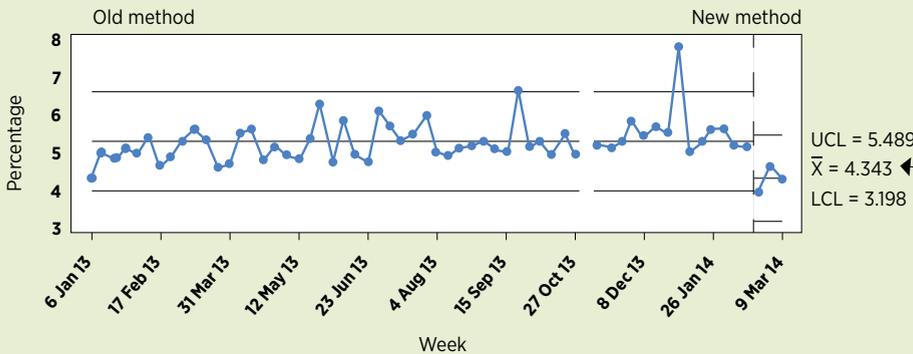
Tracking performance from process improvement project effort

- An improvement was demonstrated from the “new method” as a stage in the “individuals chart”.
- Currently, the last three weeks are performing at this enhanced level of performance.



IEE scorecard for overall waste

I-chart



When the new level of performance of 4.3% of waste is compared to a pre-process-improvement level of 5.3% waste, it is noted that the improvement objective of 10% waste reduction was accomplished through execution of this project.

The process is predictable.
The estimated performance is 4.3% waste.

IEE = Integrated Enterprise Excellence
LCL = lower control unit
UCL = upper control unit
 \bar{X} = mean

margins reporting) from a process-output point of view that is not bound by the calendar year. Operational process output responses can be tracked similarly using an IEE 30,000-foot-level approach.

A tracked performance is concluded to be of statistical importance for improving a process when its time-series measurement transitions to an enhanced level of performance, as illustrated in Figure 3. Remember that the predictive statement at the bottom of this 30,000-foot-level chart is calculated from stable process data for the most recent region of stability—that is, the last three data points for this illustration. **QP**

EDITOR'S NOTE

References listed in this column can be found on the article's webpage at qualityprogress.com.



Forrest W. Breyfogle III (Forrest@SmarterSolutions.com) is CEO of Smarter Solutions Inc. in Austin, TX, and holds a master of science degree in mechanical engineering from the University of Texas in Austin. An ASQ fellow, Breyfogle has authored or coauthored more than a dozen business management and process improvement books.