

# Use of lean enterprise value principles in the design of a performance measurement system for a consulting business unit to avoid dysfunctional behaviors

Mercado Díaz, Leopoldo

2015-05-14

---

<http://hdl.handle.net/20.500.11777/936>

<http://repositorio.iberopuebla.mx/licencia.pdf>

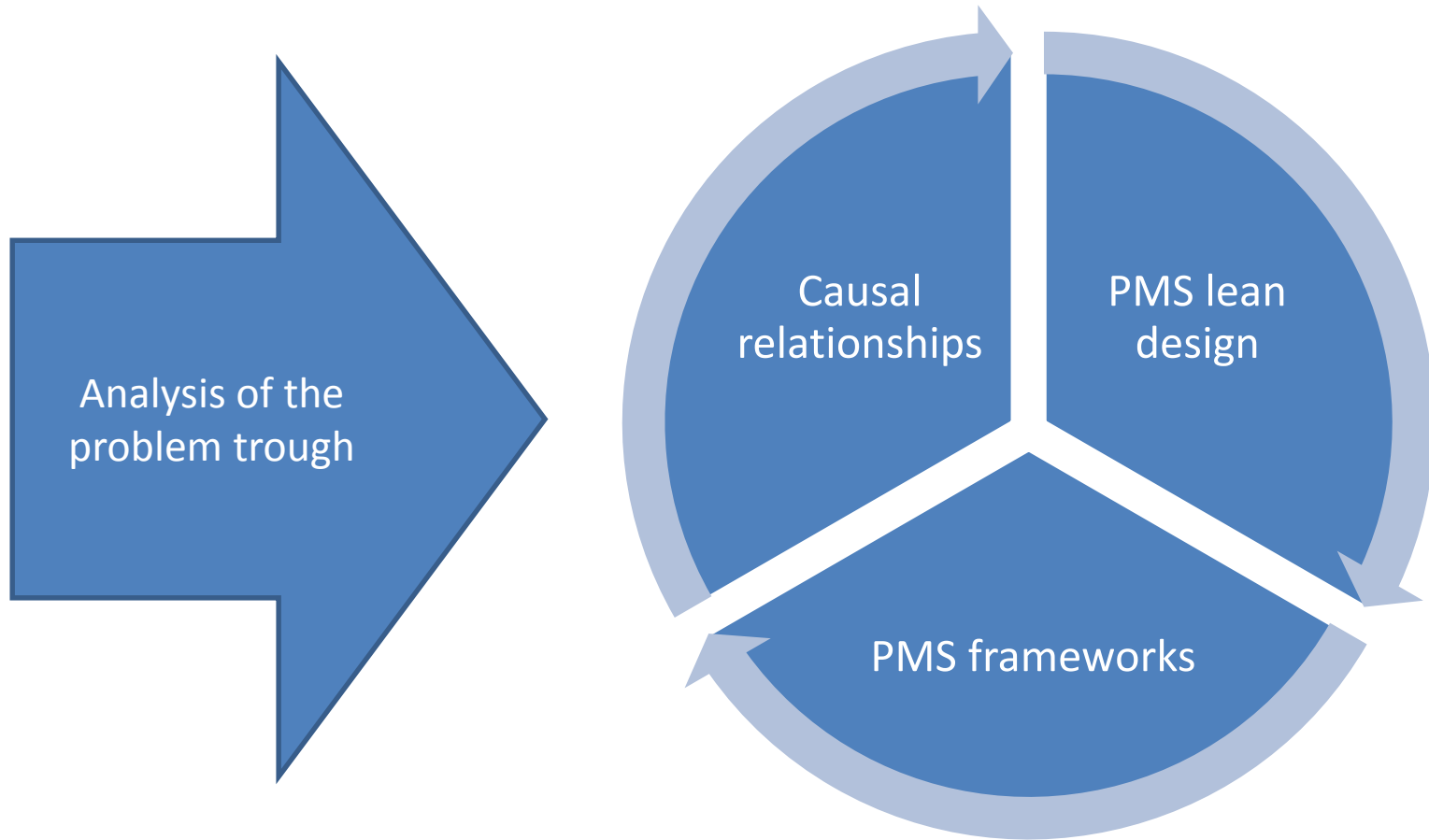
# **Use of Lean Enterprise Value principles in the design of a Performance Measurement System for a Consulting Business Unit to avoid dysfunctional behaviors**

**Leopoldo Mercado-Díaz, M. Eng.  
Universidad Iberoamericana Puebla**

# Abstract

- An unbalanced Performance Measurement System tied to employee compensation, may lead to dysfunctional behaviors, with consequent sub-optimization of business units inside a corporation and an impact to overall business performance.
- We analyze the orders-revenue-profit axis inside a consulting business, with actors who are measured independently, belonging to different business units.
- As a result, each actor optimizes and takes care of his own set of measures, with consequential damage to the enterprise as a whole.
- We compare two success maps, actual and desired, and propose a new set of metrics based on principles of Lean Enterprise Value, more aligned to the overall strategy of a Consulting business unit inside a multinational technology company.

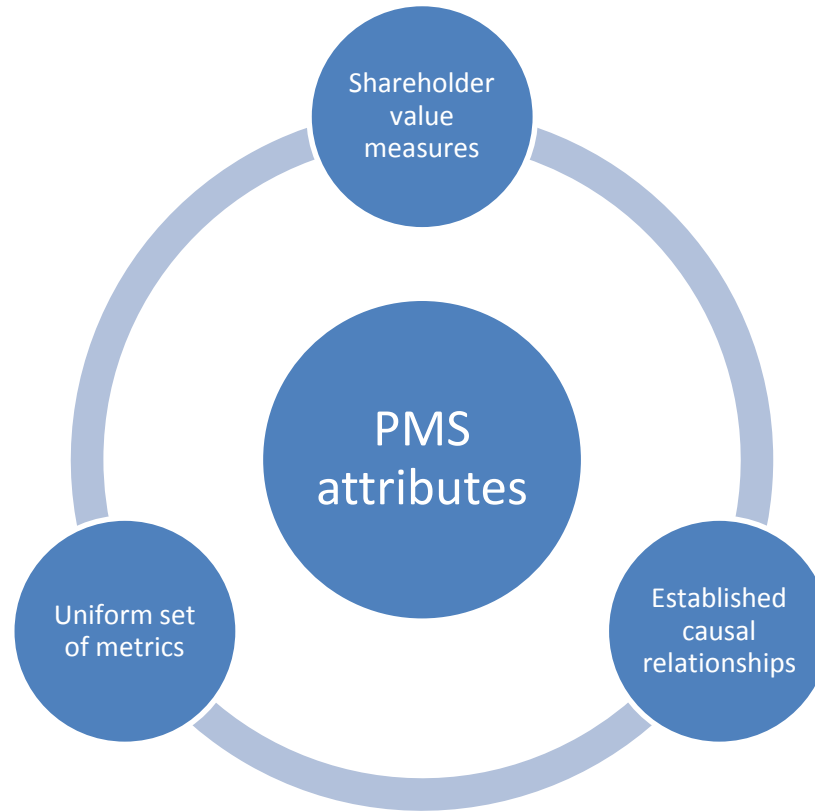
# 3 prone approach analysis



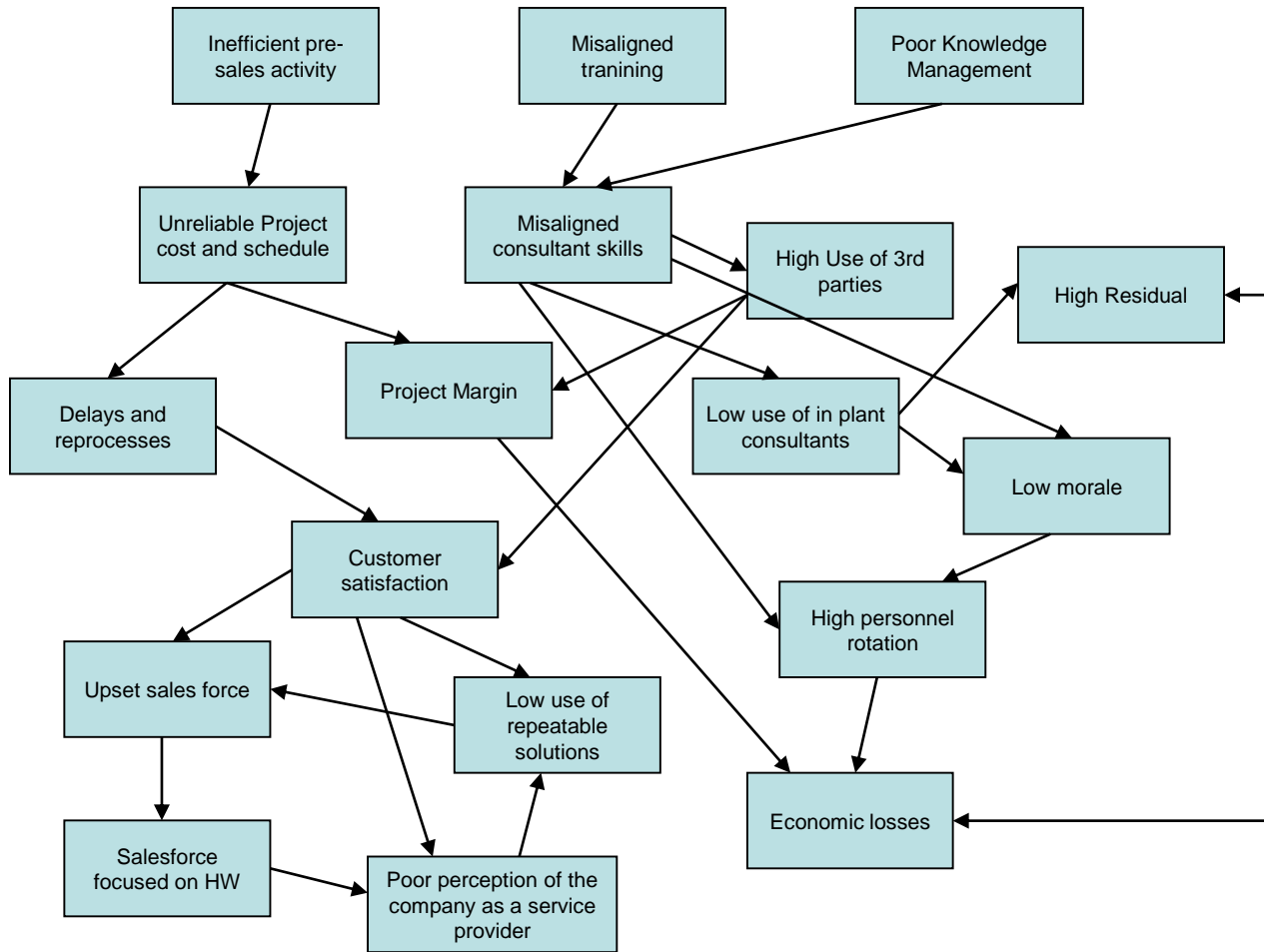
# 4 key stages of a PMS



A lean enterprise performance system should have the following attributes:



# Actual causal relationships



# Comparison towards lean PMS attributes

Attribute	Actual situation
Stakeholder value measures at the strategic level	<ul style="list-style-type: none"><li>• Different approaches, preferences and priorities among business units</li><li>• Calendar used to obtain, consolidate and present information to countries and regional managers has tight and superposed timeframes</li><li>• Metrics not aligned with strategic initiatives, nor with the regional strategic plan</li><li>• No uniformity among organizational roles to attend this requirement</li></ul>
Established causal relationships among measures at all levels	<ul style="list-style-type: none"><li>• Lack of understanding from the management team for metrics interactions</li></ul>
A method to ensure the use of uniform set of metrics	<ul style="list-style-type: none"><li>• Measure interpretation varies in each county and business unit</li><li>• Information gathering procedures are not uniform across regions</li><li>• Rules to compare results are undefined</li><li>• Most metrics are not obtained directly from current information systems, and have to be calculated and/or integrated through manual procedures</li></ul>



# Comparison towards PMS frameworks

Criteria	Literature suggestions	Company situation
PMS design criteria	Use of formal methodologies that include stakeholders requirements, business strategies, success and strategy maps and that takes into account aspects such as business culture	KPI's were defined by high level managers using a consensus approach. No methodological process was used
Impact on Business Performance	Use of this kind of system must have a positive measurable impact in the performance of business	People work for the metric, not for the business. Everybody tries to "look good" instead of "being good"
Use of strategy and success maps	Developed by an experienced and representative team a business diagrams showing causal relationships among elements that form the strategy	Not used
Business Strategy and PMS alignment	Use of the system as one of the key tools to achieve strategic objectives	KPI's do not correspond to strategic initiatives
PMS generations	Use of a 3rd generation system	Company utilized system clearly belongs to 1st generation, as it includes balanced measures, but does not make use of strategy or success maps, nor tries to quantify financial effects from qualitative measures
Software Platform	It is strongly recommended to used tailored software packages, that automatically obtain the required measures, or at least with clear established processes to do this task	Excel is used in each country and consolidated at a regional level. Data come from multiple systems, and have great variation among countries. Most of the time comparisons are not valid as they are not comparing "Apples to apples"
PMS actualization procedures	Include in the system all necessary procedures to guarantee that system stays updated	During the time period analyzed (around 18 months) no update was performed
Reasons why a PMS fails	Explained in theoretical framework	<ul style="list-style-type: none"> <li>• System is used as a punishment tool</li> <li>• No allignment to strategy</li> <li>• No real commitment from upper management</li> <li>• Measures are not used for decision making</li> <li>• System generates a dysfunctional behavior, trying to reach individual objectives instead of business improvement</li> </ul>

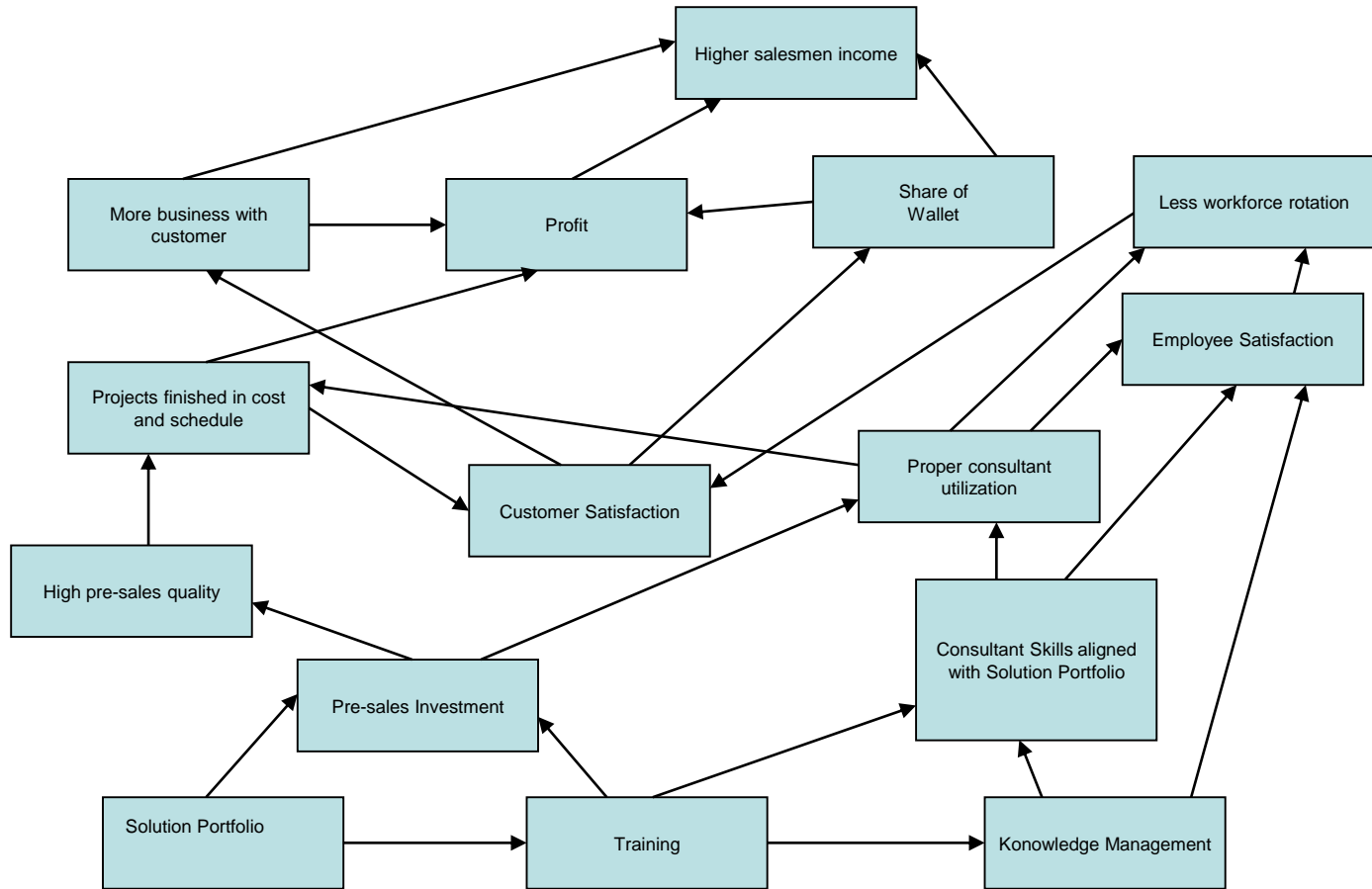
# Dysfunctional behavior analysis in the company

Role	Measured by	Dysfunctional behavior
Salesman	<ul style="list-style-type: none"> <li>• Sales Volume</li> <li>• % of Services sales</li> </ul>	<ul style="list-style-type: none"> <li>• No interest in Project margin</li> <li>• No interest in customer satisfaction related to Project services</li> </ul>
Sales Manager	<ul style="list-style-type: none"> <li>• Aggregate sales volume</li> <li>• Average of % of services sales</li> </ul>	<ul style="list-style-type: none"> <li>• Puts pressure on salesmen to achieve volume and mix targets</li> <li>• No interest in Project margin</li> <li>• Hostil attitude towards Consulting Business Unit</li> </ul>
Project Manager	<ul style="list-style-type: none"> <li>• Project Margin</li> <li>• Project customer satisfaction</li> <li>• Achieve Schedule, scope and cost targets</li> </ul>	<ul style="list-style-type: none"> <li>• Third party hiring even when internal (more expensive) resources are available</li> <li>• Keeps internal consultants out of the Project for cost reasons</li> <li>• Puts pressure on consultants to under-report Project hours used</li> <li>• Negotiates unofficially with customer to cover up services defficiencies affecting the company</li> </ul>
Consultant	<ul style="list-style-type: none"> <li>• Utilization               <ul style="list-style-type: none"> <li>○ Pre-sales</li> <li>○ Project delivery</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>• Tries to charge unused hours to pre-sales and delivery activities, reducing Project margins as well as increasing actual pre-sales costs</li> </ul>
Consulting Practice Manager	<ul style="list-style-type: none"> <li>• Project margin</li> <li>• Number of “red projects”</li> <li>• Consultant utilization</li> <li>• Employee satisfaction</li> </ul>	<ul style="list-style-type: none"> <li>• Negotiates with Sales low margin projects</li> <li>• “Manages” consultant utilization between delivery and pre-sales activities to achieve targets</li> <li>• Negotiates unofficially with customer to cover up services defficiencies affecting the company</li> </ul>
Country Consulting Manager	<ul style="list-style-type: none"> <li>• Business Volume</li> <li>• Utilization of his/her consulting team</li> <li>• Customer satisfaction</li> <li>• Country contribution margin</li> <li>• Employee satisfaction</li> </ul>	<ul style="list-style-type: none"> <li>• Negotiates unofficially with customer to cover up services defficiencies affecting the company</li> <li>• Creates a high rotation effect in consultants</li> </ul>

# Consequences of dysfunctional behaviors

- Sales Unit is not committed with profit and performance of the Consulting Unit.
- These kind of practices seriously affect the company image in the services market.
- Project Managers sub-optimize the Consulting Unit operation. They have profitable projects leaving high residual numbers for practice and country results, particularly for unused hired resources or undercharged services to customers and/or pre-sales activities.
- Consultant skills are misaligned towards the solution portfolio, making an inefficient consulting business unit.
- All these practices have a negative impact in customer satisfaction and employee morale.

# Proposed causal relationships



# Proposed actions to improve PMS design and implementation

Attribute	Actual situation
Stakeholder value measures at the strategic level	<ul style="list-style-type: none"><li>•Use of a methodology to identify stakeholder values and creating weighting metric clusters</li><li>•Master calendar used to obtain, consolidate and present information to countries and regional managers</li><li>•Metrics aligned with strategic initiatives, and with regional strategic plan</li><li>•Uniformity among organizational roles to attend this requirement</li></ul>
Established causal relationships among measures at all levels	<ul style="list-style-type: none"><li>• Use of simulation tools to explain managers and shareholders appropriate causal relationships</li></ul>
A method to ensure the use of uniform set of metrics	<ul style="list-style-type: none"><li>•Use of a PMS record sheet to uniform measures</li><li>• Standard information gathering procedures</li><li>• Precise rules to compare results</li><li>•Use of a PMS MIS</li></ul>

# Conclusions

- PMS was not designed using design criteria for lean enterprises, nor any other PMS framework.
- Design and implementation of PMS requires use of proved methodologies, and a careful review of available literature.
- PMS must be used as a planning and management tool, not as an element to reward and punish.
- Use of PMS tied to management or workforce compensation leads to dysfunctional behaviors, unless it is correctly designed.
- Lack of specialized SW leads to difficulties to obtain, consolidate, present and analyze results. It also leads to lack of homogeneity among countries in the case of global, transnational companies.
- Upper management must be fully committed in the design and implementation efforts. Otherwise, process results will be inefficient.
- Strategy of each Business Unit among different countries must be aligned to regional strategy. PMS must have a central role in the process.
- Tools such as success or strategy maps must be stimulated.
- Cultural and geographical factors have a strong impact in PMS operation.
- PMS results must be the principal element of decision making.

# References

- Assiri, A., Zairi, M. and Eid, R. (2006), *How to profit from the balanced scorecard: An implementation roadmap*, Industrial Management & Data Systems. Vol. 106 No.7 pp. 937-952
- Atkinson, H. (2006), *Strategy Implementation: a role for the balanced scorecard?*. Management Decision, Vol 44 No. 10 pp. 1441-1460
- Bourne, M., Kennerly, M. and Franco-Santos, M. (2005), *Managing through measures: a study of impact on performance*, Journal of Manufacturing Technology Management. Vol 16 No. 4 pp. 373-395
- Bourne, M.; Neely, A.; Platts, K.; Mills, J. (2002), *The success and failure of performance measurement initiatives: Perceptions of participating managers*, International Journal of Operations and Production Management, volume 22 issue 11, p1288-1310
- Bourne, M.; Kennerley, M.; Franco, M. (2005), *Managing through measures: a study of the impact on performance*. Journal of Manufacturing Technology Management, volume 16 issue 4, p373-395
- Bourne, M., Mills, J.; Wilcox, M.; Neely, A.; Platts, K. (2000), *Designing, implementing and updating performance measurement systems*. International Journal of Operations and Production Management, volume 20 issue 7, p754-771
- Franco, M.; Bourne, M. (2003), *Factors that play a role in "managing through measures"*. Management Decision, volume 41 issue 8, p698-710

- Kennerley, M.; Bourne, M. (2003), *Assessing and maximising the impact of measuring business performance*. POMS/EurOMA Conference, Lake Como, June 2003
- Kennerley, M.; Neely, A. (2000), *Performance Measurement Frameworks - A Review*. 2nd International Conference on Performance Measurement, Cambridge, 19-21 July
- Mahidhar, V. (2005), *Designing the Lean Enterprise Performance Measurement System*, M.Sc. Thesis, MIT
- Martinez, V.; Kennerley, M.; Neely, A. (2004), *Impact of performance measurement and management systems: a methodological approach*. British Academy of Management Conference, St Andrews, 30 Aug - 1 Sep 2004
- Neely, A. and Bourne, M. (2000), *Why measurement initiatives fail*, *Measuring Business Excellence* 4.4 2000 pp. 3-6
- Neely, A.; Marr, B.; Roos, G.; Pike, S.; Gupta, O. (2003), *Towards the Third Generation of Performance Measurement*. *Controlling*, volume 15 issue 3/4, p129-135
- Neely, A.; Richards, H.; Mills, J.; Platts, K.; Bourne, M. (1997), *Designing Performance Measures: A Structured Approach*. *International Journal of Operations and Production Management*, volume 17 issue 11-12, p1131-1153
- Neely, A.; Kennerley, M.; Martinez, V. (2004), *Does the balanced scorecard work: an empirical investigation*. EurOMA International Conference, Fontainebleau, 27-29 June 2004
- Sharif, A. (2002), *Benchmarking performance management systems*, *Benchmarking: An International Journal*, Vol. 9 No. 1 pp. 62-85