



# MANAGEMENT by MEASUREMENT

**When was the last time you evaluated your managers' contributions to the bottom line?**

**E**very time a recession rolls around, the cuts start at the bottom. There is a good reason for this; the lowest-paid workers are presumably the least experienced and most easily replaced when things get better. But once the front-line staff has been trimmed and managers have less managing to do, owners often fail to take the same hard look at how their supervisors and department heads are adding value to the organization. Manage-

ment contributions, managers may say, are less tangible and therefore harder to quantify. But experts say harder does not mean impossible, and a tighter focus on management performance can generate success in good times and bad.

**D**ouglas Hubbard, author of *How to Measure Anything*, says most companies have a blind spot about management performance. "Even in organizations that have lots

of very quantitative performance metrics, the one area that does not have performance metrics is decision analysis of managers," he says. "Even in environments that have gotten into Six Sigma in a big way, if you ask them what are the performance metrics for forecasting skills and decision-making skills, they never have any. That never shows up."

This failure to track management performance is part of a larger phenomenon he calls "measurement in-

version,” where companies have a tendency to collect information when it is easy to do so without regard for the information’s importance or relevance. “It is not just that they are measuring the wrong stuff. They are measuring almost *exactly* the wrong stuff,” Hubbard says. He determines this by analyzing the value of information to an organization. “The value of information comes down to the risk reduction you would get in a particular decision if you had less uncertainty about a given variable,” he explains. “So you have a decision model with all these different variables and you compute the value of having more information about any of the variables. Some will have high information value and some will have low. If you made a list of your top 10 categories of measurement in an organization, ranked them by which ones get the most attention, then do the calculations where you compute the information value and sort them that way, what you find is the list is almost exactly inverted. It is not just different from the first list, it is inverted. It is upside down.”

**W**hen it comes to management decisions, Hubbard says, “It is the highest information variable in the entire organization, and it is almost completely unmeasured. People measure it in certain indirect ways. They say if this unit is doing well, we are going to give you a bonus. Let’s say a hedge-fund manager makes a lot of money, but he made it by betting the whole hedge fund on something like a coin flip. Should that

manager necessarily get the same bonus as a manager that got a similar effect with safer approaches? Or what about a hedge-fund manager that increased income this quarter but increased the long-term risk and exposure of the organization?”

Hubbard thinks companies could start to improve their understanding of their managers’ contributions by looking at management in terms of forecasts and decisions. “You have to start collecting the data that is already there,” Hubbard says. “Managers are making decisions all day, every day, but no one is writing down what they said in the first place or what the outcomes are.” He suggests more frequent reporting of specific decisions with confidence estimates attached, and recommends careful smoothing of the data to remove the effects of chance.

**P**atrick Latour, a vice president with the Business Development Bank of Canada, says businesses should create a regularly updated “dashboard” of key performance indicators and link management’s compensation to its readings. “Managers need to bring cost savings to the equation because we are competing with labour costs elsewhere that are cheaper,” Latour says. “You really have to understand your costs and go down the Lean thinking process. The objective is to increase productivity, increase detection of errors, lower obsolescence and reduce plant size. All those incremental changes should reduce inventory, reduce cost, reduce processing times and reduce setup

## Inverted priorities?

Here’s a fun exercise. Choose 10 kinds of information you collect in your company and rank them one to 10 in order of the amount of time and effort dedicated to gathering that information. Your list could look something like this:

1. Quality deviations per shift
2. Setup time per unit
3. Lost time per shift
4. Units per shift
5. Cost of inputs
6. Inventory value
7. Lead time
8. Return on investments
9. Accuracy of forecasts
10. Effectiveness of management decisions

Now take that same list of information categories and rank it in terms of its importance to your company’s long-term success. That list might look something like this:

1. Effectiveness of management decisions
2. Accuracy of forecasts
3. Return on investments
4. Inventory value
5. Lead time
6. Quality deviations per shift
7. Cost of inputs
8. Units per shift
9. Setup time per shift
10. Lost time per shift

Hubbard says most companies will find their two lists are almost upside down relative to one another, reflecting a poor allocation of information-gathering resources.

times. All those things are measurable. Your dashboard should be set up for those specific improvements.”

A lot of smaller businesses tend to be good on the day-to-day, but they



don't plan as much," Latour says. "It relies on having very good information about your processes. A lot of people are good at doing things, the question is, are we recording it? If it is not metric-based, it becomes a grey zone and a feeling." For him, getting managers to add value is about really integrating them into your overall business plan. An honest assessment

of your position in the competitive landscape lays the foundation for a system that links tracked outcomes to carefully chosen management in-

## Coaching

Coaching is a relatively new approach in human resources development that seems to be gaining popularity. The International Coaching Federation, an association and self-regulating body for professional coaches, was formed in 1995 and has 18,000 members in 90 countries.

Simply put, coaching is a conversation between an employee and a person with some psychological training. The goal, according to Anita Teslak, c.e.o. of a coaching school called Adler International Learning, is to help the person bridge the gap between what he wants to achieve and what he is achieving. Coaches are specialists in listening to an employees and helping them to identify and work through any barriers to success they have.

According to Teslak, managers can benefit from coaching and learn to coach employees themselves. A manager with coaching skills may be better at addressing problem areas with employees and motivating them to perform better. Managers who get coaching can find new perspectives on problems they see with employees, their bosses, or their own performance and create fresh strategies to deal with those problems. Teslak says workplaces that get professional coaching for their employees have higher levels of employee satisfaction, retention and productivity.

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centives. Everything must relate to profitability.

Jason Chiu teaches wood-processing management at the University of British Columbia's Centre for Advanced Wood Processing. He says preparing managers to wear several hats in the organization can give them the broad perspective to think creatively about solutions to production

problems. "Cross-training employees is a good way to educate senior employees to join the management track," he says. "You get more out of everybody, and it is good for morale." He knows of companies that send production managers out on installation jobs when things get slow in the plant. "When production people learn how the product is used, they learn a lot about how their role impacts the company's end results," he says. "If I know why a particular gable I'm manufacturing needs edgebanding, I am more likely to take care with that process."

Chiu has also seen companies shift managers from production to sales and marketing roles when business slows, effectively giving them a chance to create jobs for themselves and their co-workers. "Obviously, you need the right kind of person to be able to do that," Chiu admits. "People in production do not tend to be as comfortable in customer-facing roles." Overcoming resistance to change can be the biggest barrier to getting managers to develop new skill sets in the organization. Chiu says managers and employees often have to be "sold" on it because cross-training may take them out of their normal areas of comfort and expertise. Shops that do cross-train, however, give employees and managers the feeling they are valued and engaged in a cooperative enterprise rather than a one-dimensional job.

**W**hen each manager has a broad view of the organization, he has the flexibility and understanding to properly integrate his area of responsibility into the whole. When companies track the outcomes of decisions and forecasts, rewarding the good and removing the bad, they build analytical and leadership skills in their management teams. A company that does both will improve its ability to react to shifting conditions in its markets, in the overall economy and within its own walls. 



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