

in my previous article, we looked at organizational strategies and their impact. This time, we will look at performance measures and how they relate to strategy.

Effective performance measures should drive the behaviours necessary to make changes to continuously improve organizational performance. Performance measures need to support the organizational strategy. They should provide information for analysis on where improvement needs to be made, and should help manage organizational risk.

Effective performance measures communicate what is important to the organization. If the organization is prepared to invest the time and resources — especially those of senior management — to measure specific performance, then the endeavour will likely be viewed as important to the organization (e.g. ‘What interests my boss fascinates me too’). If the performance measures do not drive change, then they may not be worth the time and resources invested.

The performance measures themselves provide an indication of performance and can indicate where further investigation is required to understand the underlying reasons for the current performance. For example, if there is a change in OEE (Overall Equipment Effectiveness), is the problem related to downtime, production rate or quality? If downtime is the culprit, is it reliability (MTBF — Mean Time Between Failures) or maintainability (MTTR — Mean Time To Repair)?

Watching the trend of the performance measures can provide an indication of future performance — when past performance provides an indication of future performance, or the measures used are leading rather than lagging.

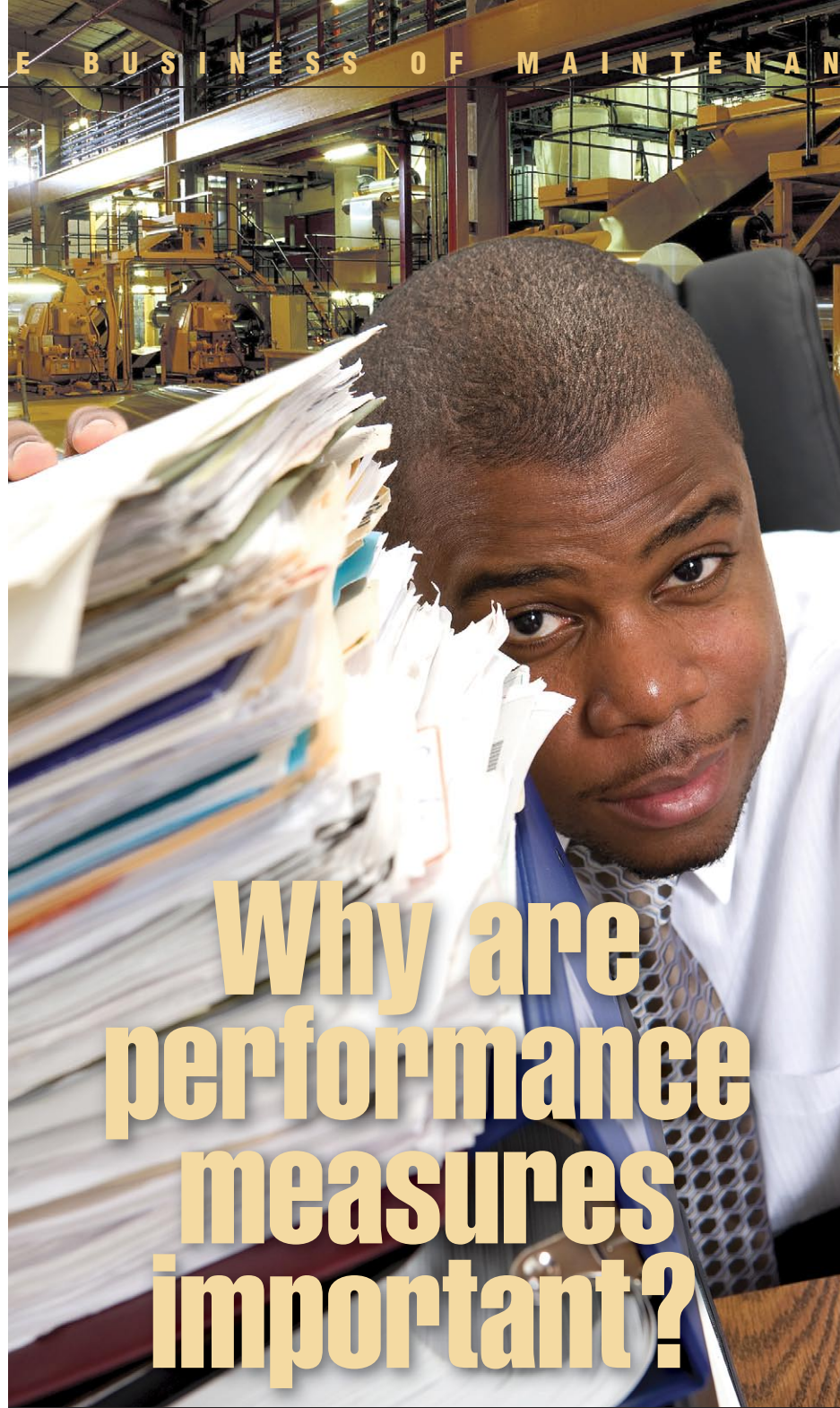
Lagging measures are also referred to as ‘tombstone’ measures, in that they indicate only what has happened in the past. Leading measures provide some indication of future performance, but of course without the certainty that hindsight provides.

An example of a leading measure is employee turnover and absenteeism, which can forecast future problems related to poor employee performance, especially in a service industry where the employee has a large impact on customer satisfaction. With an understanding of potential future performance, risk can be better managed.

Characteristics of effective performance measures

As noted previously, if performance measures do not drive change, then they may not be worth the investment made. To be effective they should: support the organizational objectives; be objective, balanced and forward looking; within the sphere of control; and focus on the critical few.

Performance measures should be



Why are performance measures important?

This is the seventh in a series of articles on projects. In earlier articles, we learned the impact of maintenance projects that are not done right, how to estimate project costs, how to estimate the benefits of projects, how to evaluate projects, and aligning maintenance strategies to the organization.

BY LEN MIDDLETON

derived from the organizational strategy. As noted in my previous article, effective generic strategies are overall cost leadership, differentiation (of product/service offerings), and focus (market segment).

Performance measures for overall cost leadership need to address how to continuously improve the cost leadership position. Both differentiation and

focus are from the customer’s perspective, so the organization needs to understand what it is that its customers value most, then support efforts to provide that value to the customers.

The performance measures should be objective and unambiguous, defined so there can be no potential for alternate interpretation. Otherwise that alter-

nate interpretation can happen, and the discussion may be hijacked by the interpretation.

Achieving balance in performance measures can be a problem. Ideally the performance measures developed from the strategy should cascade down through the organization and all parts of the organization should be working toward the same overall objectives. There should not be a situation where one group that is improving its performance would have a negative outcome on another group, preventing it from improving its performance.

For example, this situation could arise when MRO materials management uses only financial performance measures (inventory value, inventory turns) and ignores service levels. The operational losses resulting from downtime can greatly exceed the value of the MRO material management savings.

To address a situation like this, sometimes a balanced scorecard approach is used. But even a balanced scorecard can be unsuccessful if one measure is given greater weight than all others combined. Unintended outcomes do not necessarily mean unforeseeable results if one spends enough time evaluating what could/would likely happen.

The performance measures should be forward-looking where possible, as mentioned previously about leading measures.

To effectively drive behaviours, performance measures need to be something that can be controlled. Otherwise the measures can only be used to monitor the situation and react to changes. One definition I heard years ago for a “good mine manager” was “a good commodity price and a good ore body.” The implication was that externalities in that case had a much bigger impact than the individual who was managing the situation.

Finally, to communicate what is important to the organization, the performance measures need to focus on the critical few measures, rather than a large number of measures that would result in little focus on what is important.

Impact on maintenance and engineering

It’s important to consider the answers to these questions: What performance measures do you currently use in your maintenance and engineering departments? Is there a direct linkage back to the organizational objectives and strategy? Does everyone in your group understand how their work supports the organization? Are the characteristics of the performance measures appropriate, or are there problems related to the characteristics? How can you resolve some of the problems? **MRO**

Len Middleton of Asset Management Solutions of Toronto can be reached via e-mail at len@asset-management-solutions.com.



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