



“Performance measurement and targets: ‘Dr Deming’s Five Deadly Diseases’”

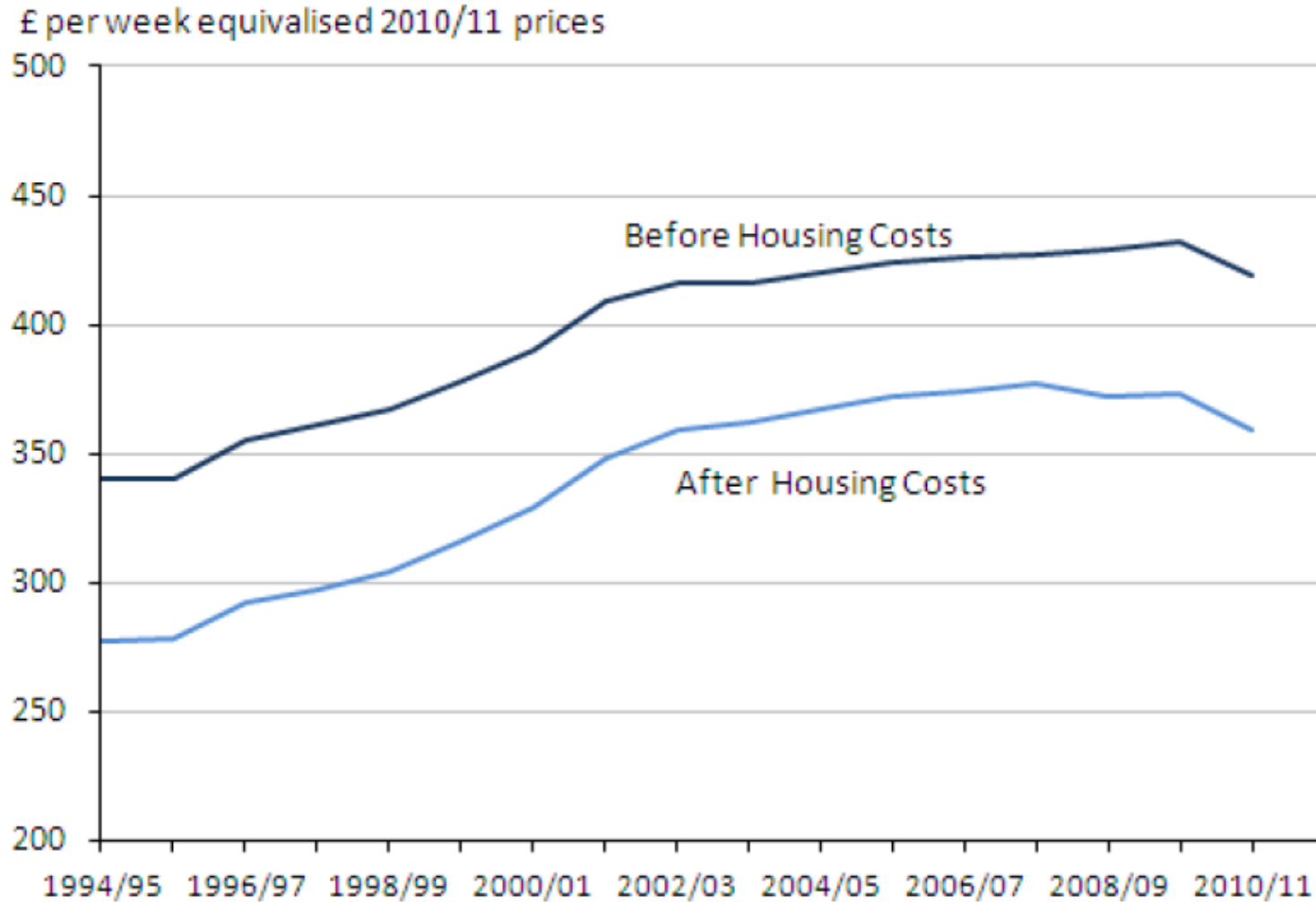
“People with targets and jobs dependent upon them will probably reach the targets, but destroy the enterprise in doing so.” *Deming, 1982*



IN THE UK TODAY
1.6 MILLION
CHILDREN ARE
GROWING UP IN
SEVERE POVERTY

Figure 1: Household Median Income (1), 1994/95 - 2010/11

United Kingdom (2)



Source: Family Resource Survey, Department for Work and Pensions

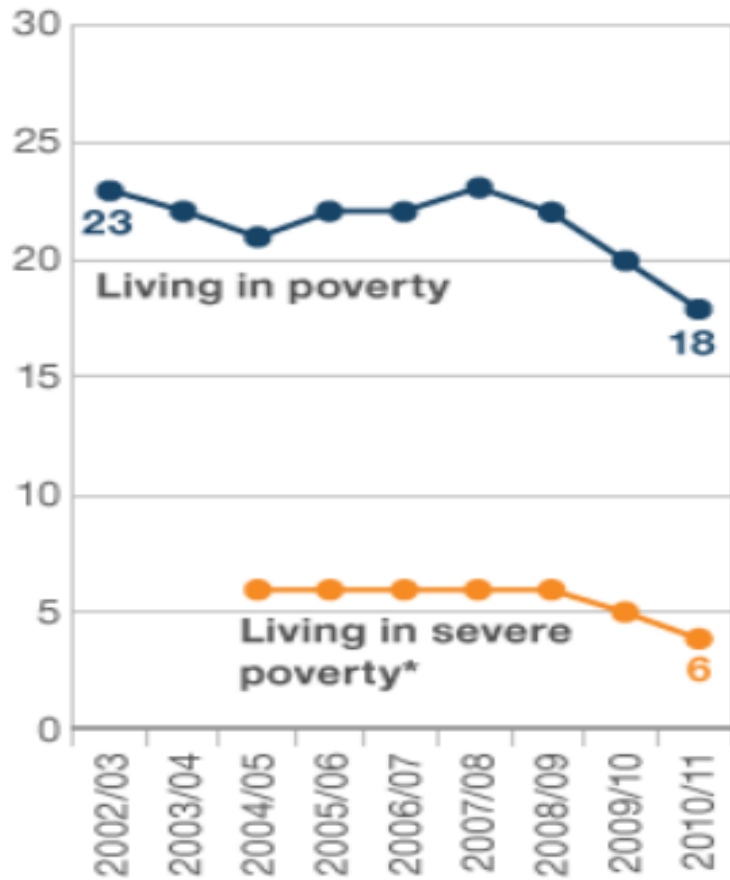
This shows that the 'poverty line' was approximately £204, rising to around £261, before falling to around £252.

A mere £9 fall in household median income terms.

Salaries were suppressed by preventing pay increases being awarded to the middle earners (in particular the public sector, as well as bonuses for top-earners, therefore driving down the median.

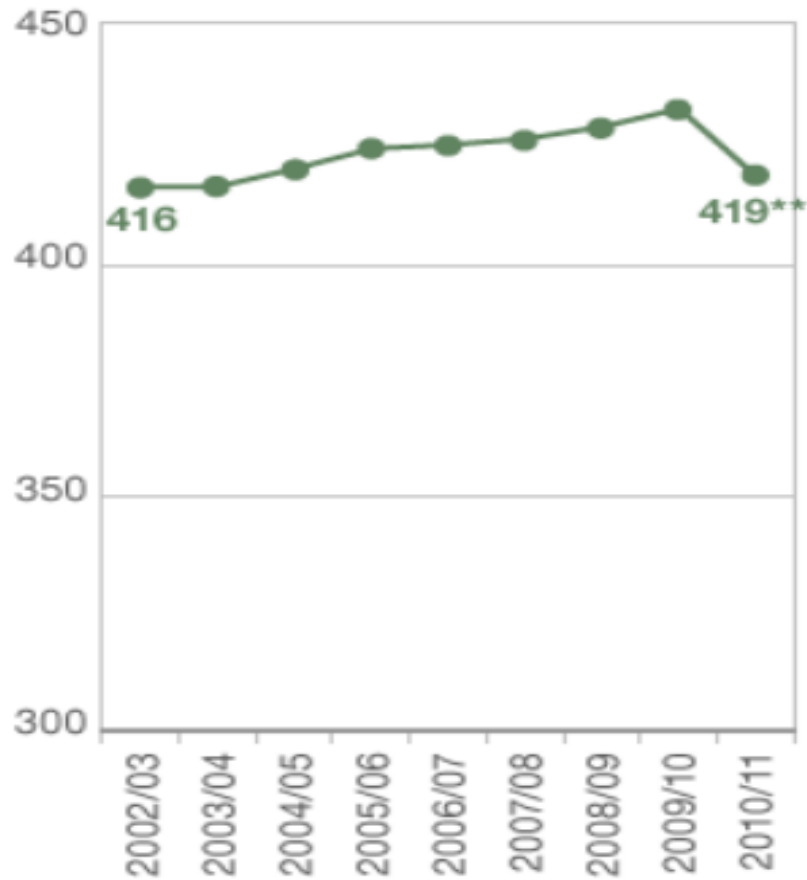
Children in poverty

Children, %



Median UK weekly income

£



*Severe poverty defined as children living in homes with less than 50% of median income and other issues

**Poverty defined as children living in homes with less than 60% of median income

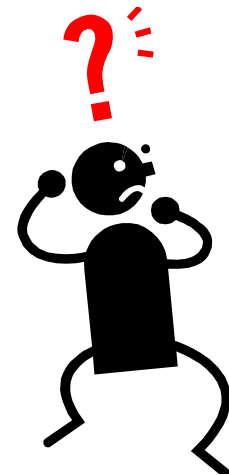
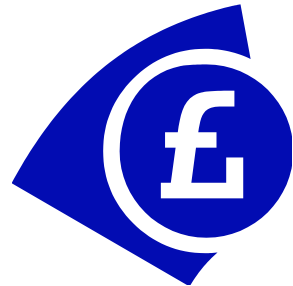
Source: ONS/DWP

What is performance measurement?

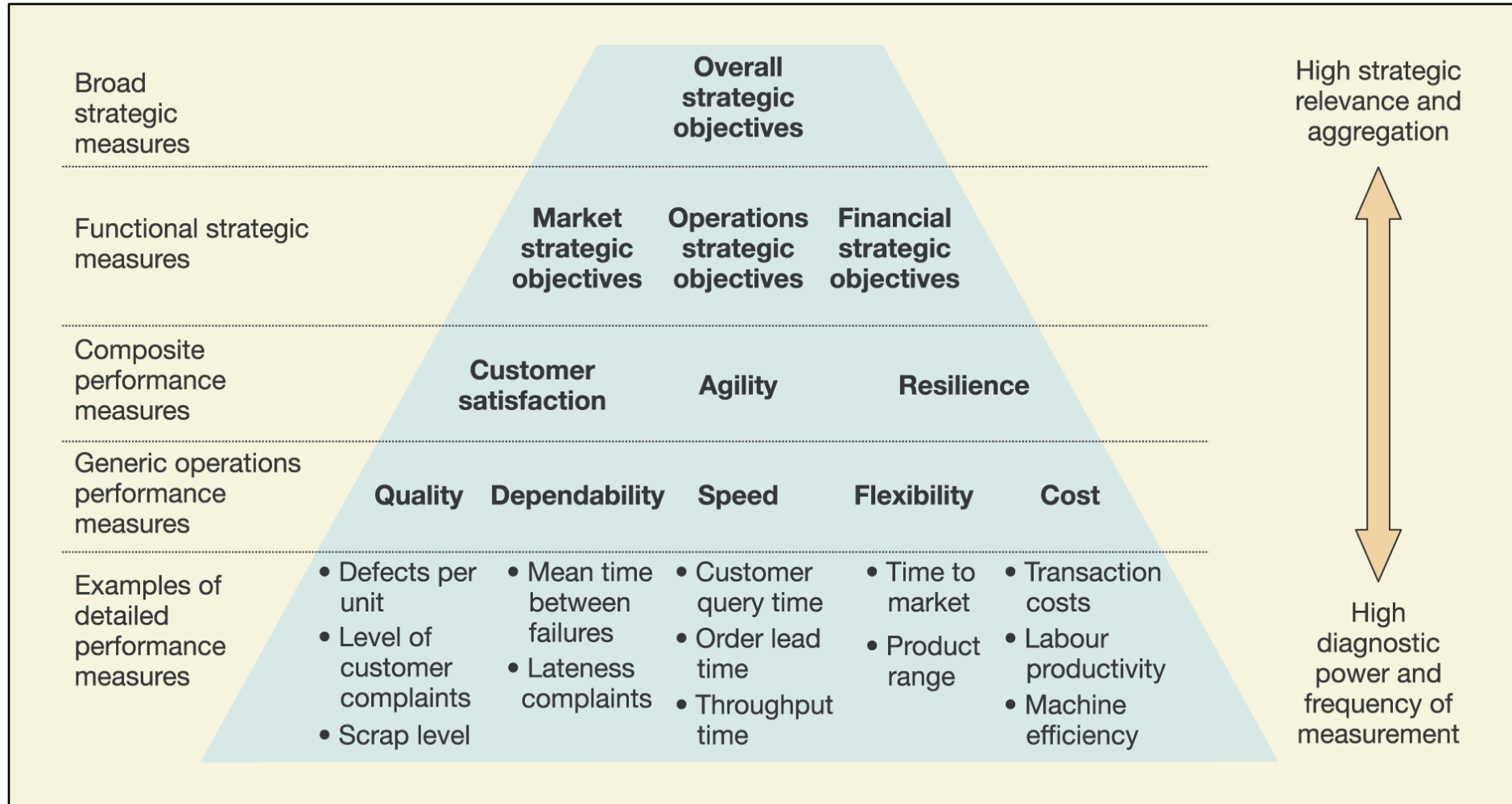
- A process of ***quantifying action***
 - Measurement: process of quantification
 - Performance: actions taken by management
- Performance measurement is a ***prerequisite for judging the state of a condition***
- Performance is broadly based on the ***5 performance objectives (competitive priorities)*** at any point in time, to satisfy customers

I just add up the numbers, right?

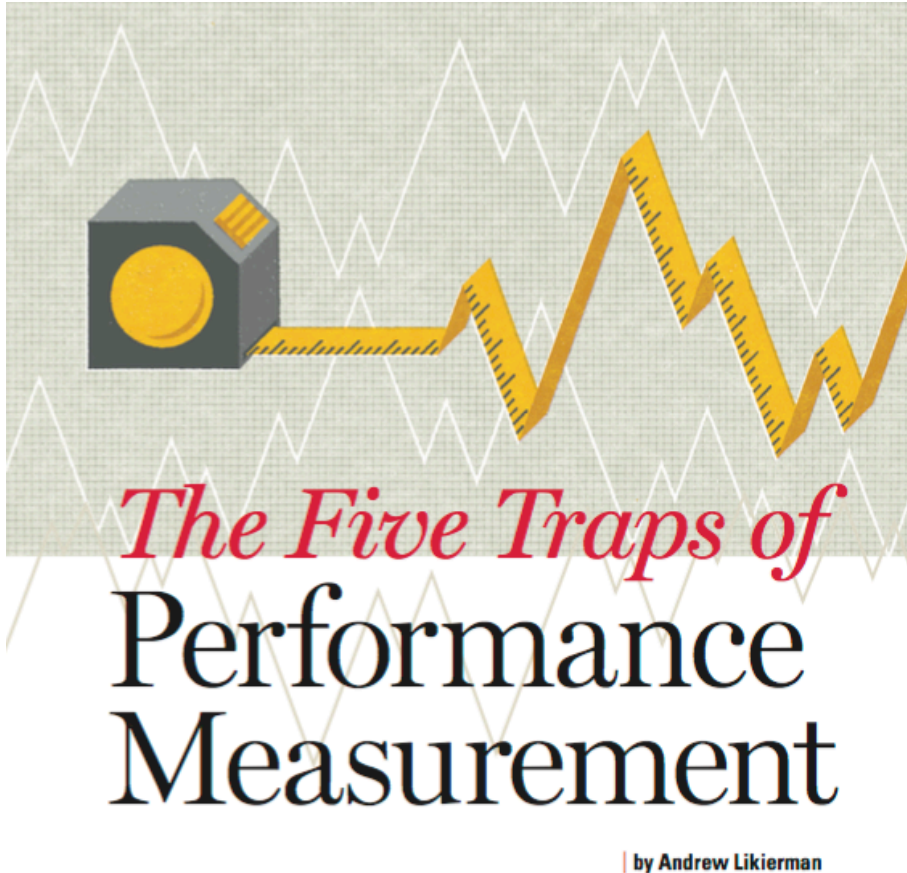
- We need to be aware of **three generic issues**:
 1. What factors to include as performance measures?
 2. Which are the most important performance measures?
 3. What detailed measures to use?



What factors to include?

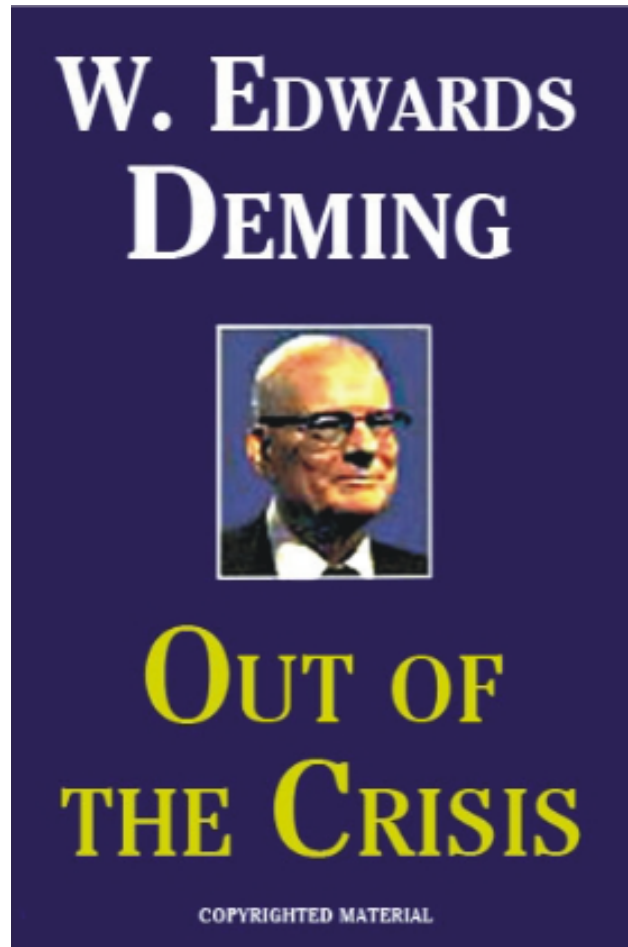


Likierman, A., (1997) The Five Traps of Performance Measurement. *Harvard Business Review*. (Oct) 96-101



- The 5 traps of performance measurement:
 1. Measure against self
 2. Focus on backward looking
 3. Putting faith in the numbers
 4. Gaming the metrics
 5. Sticking to the numbers for too long

Deming, W.E. (1982) *Out of the crisis*. Cambridge, MA: MIT Press



Deming believed American companies were in need of a transformation of management style and relations with industry.

He proposed a theory of management based around '*14 Points for Management*' which sought to halt the destructive behaviour of management (e.g., a failure to plan adequately for the future which brings about a loss of market and jobs; short-term thinking; and yearly appraisals).

Deming cites '*5 Deadly Diseases*' inherent in American companies stemming from complacency and a failure to recognise and acknowledge problems

Deming (1900-1993) was an engineer, academic and international consultant in quality and productivity management

14 Points for management

The 14 Points are intended as a bedrock philosophy of management which promote consistency when supported with statistical methods

Deming believed in a '**constancy of purpose**' and an adaptation of '**new working philosophies**' to be able to '**cease dependence of mass-inspection**' of products.

Business should not be conducted on the '**basis of a price tag alone**', and managers should '**continually seek to improve the system**' rather than allow it to '**evolve**' haphazardly. Leaders should not '**tell**' or '**punish**' but '**help and encourage**', thus '**driving out fear**' through inclusion and '**breaking down barriers (including competition) between staff areas**'.

Managers should remove '**slogans and targets**' and '**eliminate numerical quotas**' which create '**barriers to pride in workmanship**'.

The new methods must be embedded through '**training and retraining**' and '**take necessary action to accomplish the transformation**'.

5 Deadly diseases

- Almost opposite to main themes in the 14 Points for management, Deming proposed the 'diseases' of management:
 1. A lack of constancy or purpose
 2. Emphasis on short-term profits
 3. Evaluation by performance, merit-rating or annual review of performance
 4. Mobility of management
 5. Running a company on visible figures alone

#1 – Lack of constancy of purpose

- The polar opposite of the first of Deming's '14 Points for management'
- If no constancy then no long term thinking as management thinks only of next period dividend
- Not sufficient to broadcast intentions to improve; employees have been exposed to successive improvement plans and cycles of initiatives with no mechanism to sustain them
- *Be clear about the mission and values of the organisation. Ensure the strategic priorities are understood and a mechanism to meet them is apparent (i.e, operations capability)*

#2 – Emphasis on short-term profits

- Management is subservient to shareholders and as such are incentivised by short-term actions to maximise shareholder wealth at the expense of production and quality
- It is common for companies to ship products late in the month, at the expense of quality, merely to inflate output metrics
- Deming's work supported by Reich (1983) who called this 'paper entrepreneurialism a cause and consequence of America's faltering economy'
- Deming stated, "paper profits do not make bigger the pie"
- *America , the world's most successful economy (1950-1968)*

#3 – Evaluation of performance, merit rating or annual review

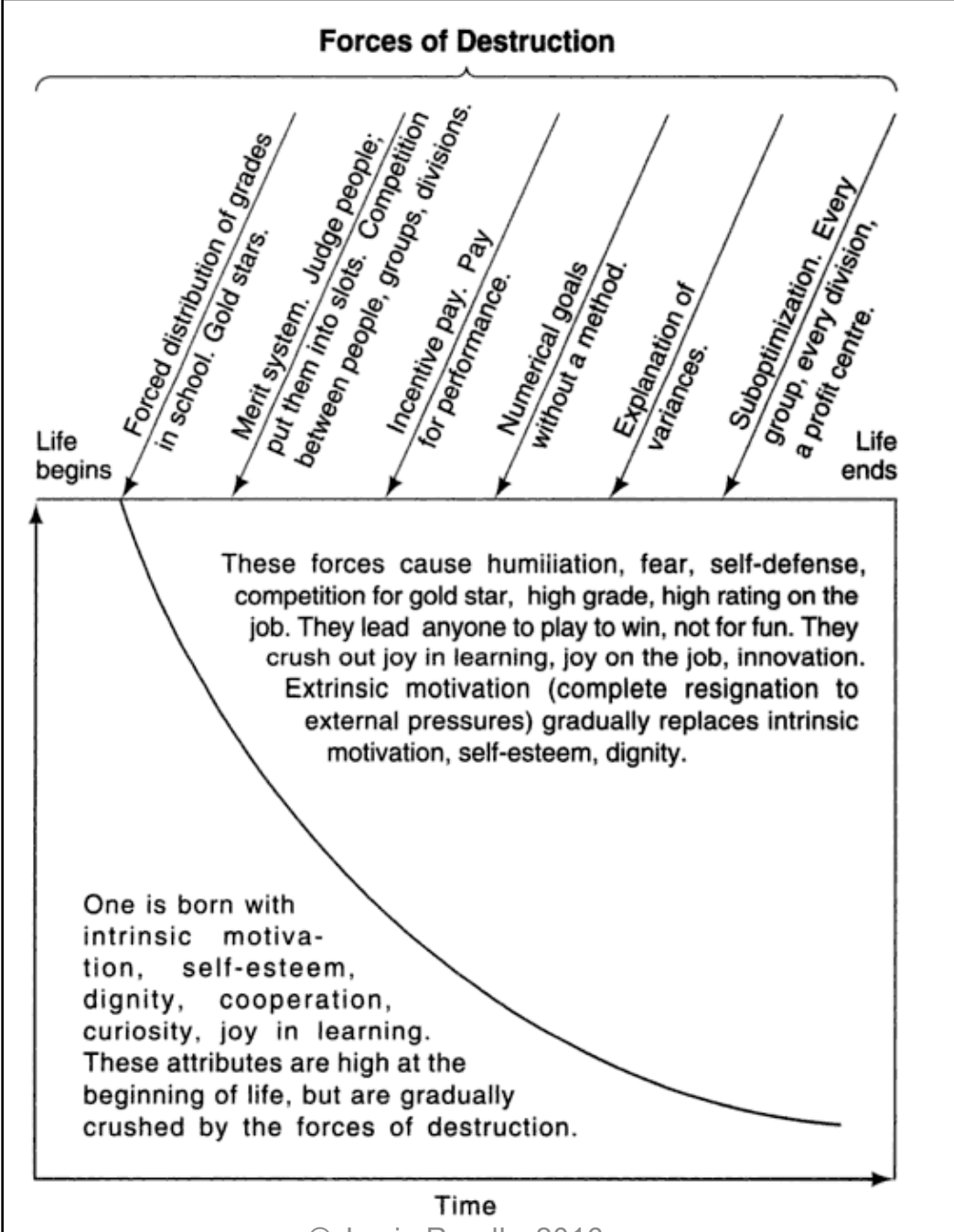
- ‘Management by objectives’ and ‘management by the numbers’, with devastating effects
- First, performance evaluations encourage short-termism at the expense of long-term planning.
- Performance evaluations discourage risk-taking, build fear, undermine teamwork, pit people against each other, while encouraging prima-donnas, fiefdoms and selfishness
- Increase reliance on numbers (as tendency is to measure only factors that can be counted) and rarely anything done to establish causes and basis of problems

#4 – Mobility of top management

- Business schools dedicated to the idea that you can train a manager to be good in universally-applicable techniques
- Can a manager be committed to long-term change if constantly building up his or her CV?
- Can a manager really know a company if there only for 2-3 years?
- Japanese long been critical of the West's culture of mobility, stating you cannot learn to work together, citing dissatisfaction as a causal factor among managers

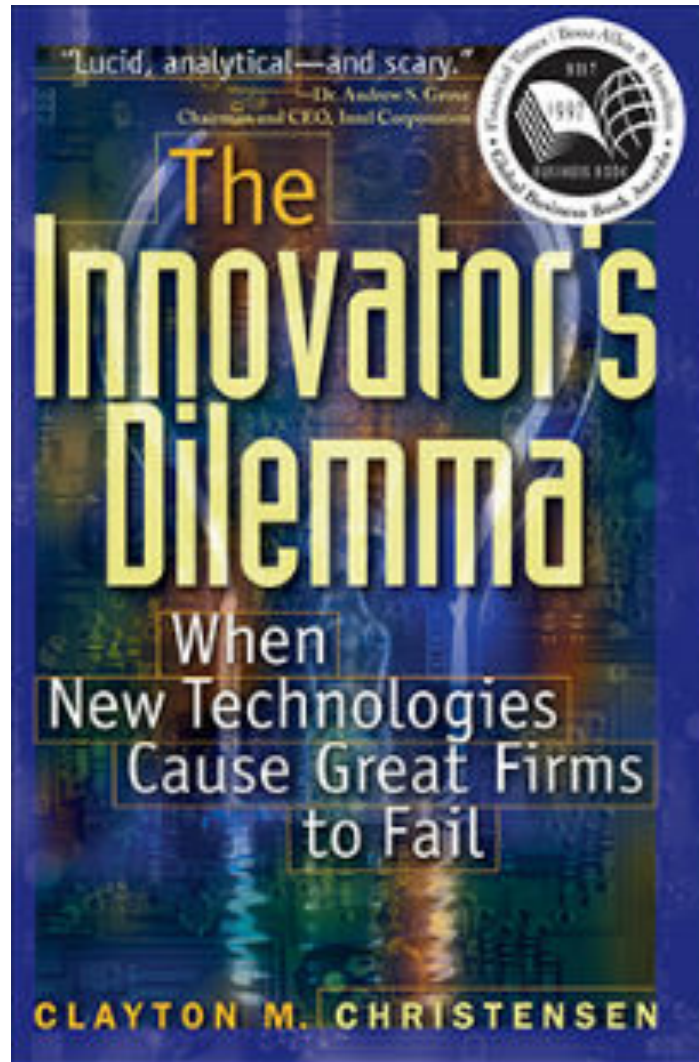
#5 – Running a company on visible figures alone

- Notwithstanding the importance of visible figures (i.e., sales, ROCE etc.) Deming argued there are figures which are ‘unknown’ and ‘unknowable’, but which are even more important
 - E.g., it is impossible to measure the effect on sales of a happy customer or, conversely, an unhappy customer
- Deming proposed the balancing of visible figures with wider, ambiguous and soft factors



Summary: problem with targets

- Short term thinking: where is a manager's incentive to 'fix the root cause of the problem', which takes time and where time equals output and output equals reward?
- Extrinsic motivation leading to a temporary compliance with no long lasting change in attitude and behaviours
 - Kohn, 1993



"There aren't enough symptoms to go around all the diseases that exist." Professor Clayton M. Christensen on the topic of intuitive medicine, The King's Fund, London, 2013, #kfthink