

# Culture & Measurements

Culture is defined as a collective manifestation of human intellectual achievement and behaviours exhibited. Does culture have any relationship with measurements, be it formal or informal? I would like to share this by narrating a personal experience.



**Ravi Gilani**  
GOLDRATT INDIA


**In 2003, I was requested to turn around an automotive component manufacturing plant that was in losses for the last 7 consecutive years, by applying Theory of Constraints (TOC).** Its loss in the previous year was INR 12 crores for a turnover of Rs. 38 crores. The situation was quite precarious; a potential customer, who had agreed to take over the unit, developed cold feet after conducting due diligence. The only options that remained for the owner were either turning around or closing down the business.

During my first dialogue with the top management team, I asked how they measured their business performance. Their answer was: tons of gears produced and sold. Since the measurement was tons for all production departments, it was logical for all departments to increase their production as measured in tons. The company was losing money due to inadequate sales. The sale of one of its main products – a differential gear set (crown wheel + pinion) was quite low. Despite these low sales figures, there was a huge inventory of crown wheels. When I asked why they had such a huge inventory, I was informed that they did not have matching pinions. Since pinion weight is just about 20-25 percent of the crown wheel weight, the heat treatment department was focusing

only on processing crown wheels, without accounting for the fact that there were huge stocks of crown wheels and a shortage of pinions. I did recognize that this was done with the genuinely noble intention of increasing the department's performance.

The team readily agreed to change their prime measurement to throughput - a financial measurement (Net sales - truly variable cost) and OTIF (On Time In Full) - a delivery performance measurement. However, when I suggested that all the top management team members must also be measured on throughput and OTIF, there was a near revolt. "What will happen to individual accountability?" I was asked.

I requested members of the top management team to share how many promotions each one of them had received in the last 7 years, when the company was going downhill. The average promotions were two. No one received less than one promotion, some even had three! Every member must have done exceedingly well in their key result areas (KPIs) to deserve on an average of two promotions. So what was the issue? The local/functional KPIs were not aligned with the global/overall good business measurements. OTIF was not being measured at all, even though it was less than



**Measurements drive behavior. If you do not have right measurements, you have no right to expect right behavior!**

5 percent. I informed the management team members that, if they were going to seek my counsel and support this turnaround, all of them must have common performance measurements. Reluctantly, they agreed to try this for 3 months: in the very first month sales increased by 29 percent!

When we look at the KPIs for most departments, we find misaligned measurements wherein often production teams produce not what increases sales but what is convenient for them. The Purchase department procures, not when production requires, but when the cost is low. Similarly, the logistics department did not ship out goods due to cost, even though the delivery had already been quite delayed.

In my experience of TOC consulting for the last 16 years, I have observed that the root cause of most ineffective behaviours is erroneous measurement. Today, most organisations complain about the lack of teamwork among its employees. It is even more pronounced at senior levels. Throughout the year we ask for teamwork from our employees. However, when it comes to reward and recognition, we have KPIs only for individual achievements.

Once again let me illustrate this from another personal experience. An organisation

had 5 business units (BUs). Most of the times, these business units were self-sufficient. They did not require support from other BUs. However, sometimes they did require help for one or the other facility from each other. What was the experience? Support to any activity outside the BU was the last priority. Why? Each BU was measured by its profit and all the BU heads were competing for the post of President. Hence, if one BU helps any other BU it stood to lose. First, the profit of the receiving BU would go up, and thereby, the performance of the delivering BU would go down in comparison!

The perception that profit is the correct performance measurement is wrong. The assumption, that if every BU increases its profits, the profit of the whole organisation will increase, is correct. However, the assumption that it is the best way to increase profit of the whole organisation is wrong.

No matter how the sales, throughput and cost is divided between two BUs, the overall sales, throughput, cost and profit of the whole organisation would still remain the same. We modified the performance measurement of the BUs. Now, whenever more than one BU was involved in delivering an order, all the participating BUs would get complete throughput of the complete order. We were no longer looking at the profit of each BU, rather the new measurement was increasing throughput of each BU, period after period. We now observed a totally new desirable phenomenon. Every morning, the BU head was asking the other if he/she required any help! Within 8 months, the OTIF increased from 8 percent to over 68 percent! Sales and profit also increased correspondingly. In fact, one worker suggested that TOC should be known as **Theory of Collaboration** instead of Theory of Constraints.

Dr. Eli Goldratt used to say, "Measurements drive behaviour. If you do not have the right measurements, you have no right to expect the right behaviour!" I believe that most of the cost accounting local measures like freight cost as percent of sales, product cost, profit, stage wise inventory valuation, profit for part of the organisation (profit centre/SBU/division) etc. are not aligned with the best global financial parameters i.e. Net Profit, ROCE & Free Cash Flow. This, inadvertently, encourages local optimization that leads to wrong and harmful behaviour among employees. Instead, a few (3-5) global measurements, which every employee can relate to, will promote the right behaviour and culture.