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True North KPIs for Sustainable Business Improvement

*In a series of articles, we discuss key challenges and solutions to making business improvement more effective, efficient, and sustainable. The second article is about **Sustainable Improvement**.*

Unsustainable Business Improvement

A few years ago, a large multinational corporation contracted a top management consultancy to develop and deploy a company-wide operational excellence program. More than 50 people were hired globally to develop operational structures, run communication campaigns, train practitioners, influence mindset, and drive improvement initiatives. Despite many successes, the program was abolished after two years, leaving virtually no legacy behind.

In contrast, another company that we worked with successfully developed, deployed, and drove structured business improvement, although the budget was tight and several reorganizations jeopardized the program. In the end, the new way of working with business improvement could be sustained and became a natural part of how the company conducted daily business.

With a success rate of only 30–50% [1] [2] [3], too many improvement efforts resemble a rollercoaster ride, exciting initially but risky if not managed well and often too short (Figure 1). However, by learning from past successes and failures, the right key performance indicators (KPIs) can be defined and used to actively steer the improvement effort so that it can be sustained over time.

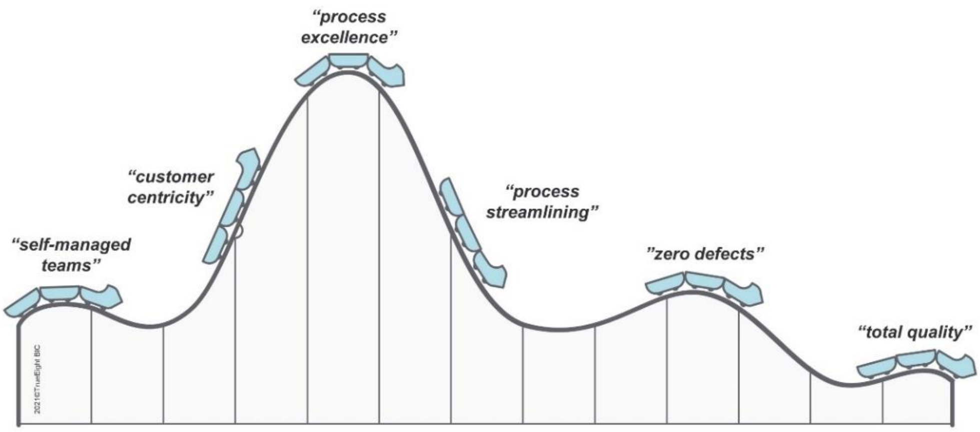

Figure 1. Improvement programs need active steering to avoid becoming a precarious rollercoaster ride.

Low Value Causes Poor Sustainability

The underlying reason why improvement projects and programs cannot be sustained is to be found in human behaviors. People are resourceful, evaluative maximizers that creatively seek new opportunities to obtain what we enjoy and care about, such as money, respect, honor, power, and love. People are always willing to substitute—that is, they are eager to give up a sufficiently small amount of any good for a reasonably large amount of other goods. In reality, it means that we essentially make choices in life as if they were investment decisions, trading "what we want" for "what we are willing to give up to get" [4].

Therefore, improvement projects and programs that do not bring sufficient value to people having invested in them are hard to sustain over time (Figure 2). Executives and managers invest money but also their time and reputation. Likewise, project leaders and team members invest time, effort, energy, and creativity, into different kinds of business improvement initiatives ranging from problem-solving workshops to company-wide transformation programs. In conclusion, people on all levels invest their limited resources into business improvement, and they expect a decent return, of some sort, to keep on investing.

$$Value = \frac{Returns}{Investment} = \frac{Effectiveness}{Efficiency} = \frac{Solution\ Quality * People\ Acceptance * Leader\ Accountability}{Leadtime + Effort + Cost}$$

Figure 2. Value is defined as a ratio of benefits to cost.

KPIs for Sustainable Business Improvement

With value being the main driver for sustainable business improvement, effectiveness and efficiency are the two main metrics to focus on (Figure 2). Improvement effectiveness is the ability to turn opportunities into solutions of high quality that people accept, and leaders are accountable for [5]. To be effective is the same as succeeding by improving one or several aspects of the business.

In the context of business improvement, efficiency is the measure of how much valuable and limited resources like money, time, and effort are spent on business improvement activities. In general, efficiency is second in priority because improvement projects usually do not cost much compared to the benefits of the projected improvement.

Improvement sustainability is third in priority to monitor, not because it is less important but because it is dependent on the outcome of the effectiveness and efficiency. It is a lagging KPI that measures the end result, such as return-of-investment (was it economically worth it?) and people satisfaction (are people ok with it?).

Aligning Individual Improvement Initiatives

The generic KPIs presented in Figure 3 provide people and the organization with a clear purpose and direction for both improvement programs and individual projects. Everyone can quickly understand what the objectives are and the rationale behind them. Generic KPIs enable better coordination, cooperation, decision-making, and planning of the improvement work.

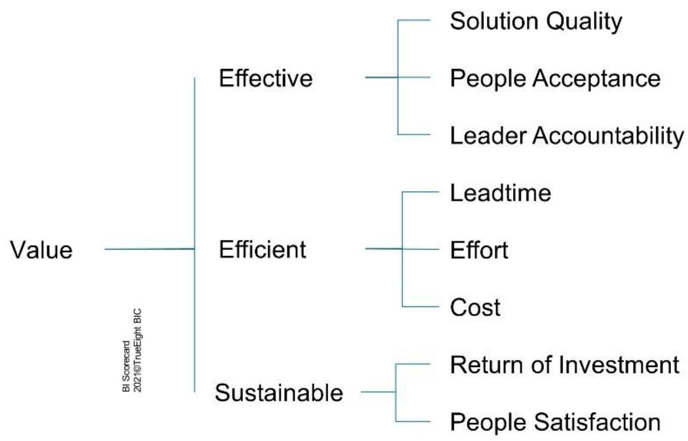

Figure 3. True-north KPIs for improvement programs and projects.

A challenge with high-level and generic KPIs is to use them so that individual improvement initiatives will have sufficient freedom to pursue local opportunities while still ensuring their contribution to the overall value creation and improvement effort.

The Business Improvement Scorecard was created to ensure a good alignment of individual initiatives with program objectives and KPIs (Figure 4). Project managers can use the scorecard as a checklist when evaluating their projects, or it can be used by managers and steering committees in more formal project reviews. Independent how it is applied in practice, the scorecard helps to ensure that sufficient business value is created to keep people investing in the business improvement effort.

2021©TrueEight BIC		Evaluation Criteria	Disagree Strongly	Disagree	Agree	Agree Strongly
Effective	Solution Q	1.The initiatives contribute to accomplish the strategic plan and achieve our ambitions				
		2. The initiatives solve critical business problems and improve key performance indicators like quality, leadtime and cost				
		3. The initiatives develop our capabilities and implement best practice ways of working like Lean and Agile				
		4. The initiatives add value to the business and are good investment of time, money and effort				
	People Ac	5. People buys-into changes and are motivated to use new solutions and ways of working without any noticable resistance				
		6. People ...				
		7. ...				

Figure 4. Business Improvement Scorecard (partial).

References

[1] N. Nohria and M. Beer, “Cracking the Code of Change,” *Harvard Business Review,* 2002.

[2] R. Pay, “Everybody's Jumping on the Lean Bandwagon, But Many Are Being Taken for a Ride,” *IndustryWeek,* 2008.

[3] The Standish Group, “Chaos Report 2015,” The Standish Group International, Inc., 2015.

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[5] L. Jönsson, “The Missing Link to Effective Business Improvement,” February 2021. [Online]. Available: https://trueeightconsulting.com.

