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Customer satisfaction guaranteed?



Facilitated electronic meetings

Performance measurement

Improving customer service

By John A. Miller

The new activity performance measures

With the high organizational mortality rate today, there is a critical need to ensure that the information used in business decisions is not the root cause of the problem.

Organizations that are producing products or services to historical standards for cost and performance go out of business every day. As financial and accounting people, we have the opportunity to support our organizations' efforts towards continuous improvement by creating performance measurement systems that provide relevant, factual information on core business processes and key activities.

Future columns will examine some of these performance measurement systems and deal with specific examples of productivity and quality initiatives. To prepare for this, we will finalize our introduction to this new column by reviewing the four elements of activity performance: productivity, quality, cycle time, and customer satisfaction.

For some companies, a fifth performance measure of an activity — flexibility — may be useful as well.

It is important to note that each of these elements of activity performance has limited value when viewed independently. In isolation, none of them can fully measure performance or fully describe how well the organization is doing. For example, high levels of productivity would not be meaningful if cycle times were increasing or customer service levels were dropping. Each of the primary performance measurements must be considered in tandem when judging total activity performance.

Productivity

Estimating and monitoring productivity are among the most critical information outputs that management can use to judge performance. Productivity can be defined as the physical output of an activity divid-

ed by the cost of resources consumed, thus expressed as a cost per unit of output. Therefore, productivity improves when the cost per unit of output declines. This productivity calculation links the physical output of an activity to its cost.

Performance measures derived from historical cost-based standards, methods and procedures do not encourage continuous improvement.

Quality

Quality has many meanings for many people. In judging quality performance of an activity, it simply means conformance to specification. For example, errors per thousand units or percentage of material scrapped.

Quality is perhaps the clearest example of why the four elements of activity performance must be analyzed in tandem. Poor conformance to specifications directly affects productivity. The same non-conformance also lengthens cycle time. And, quality as a performance measurement is one of the most useful information outputs for management to achieve its goal of providing the lowest product/service cost while at the same time meeting customer needs.

Cycle time

Cycle time is a measurement of how long it takes to complete an activity or a busi-

ness process. The total cycle time to make a product or service and deliver it to the customer is the summation of the "non-overlapped" cycle time for each of the activities necessary to produce and deliver a product or service to customers. Cycle time may be expressed in hours, days, weeks, months, or years. Like the other performance measurements, reduced cycle time is predicated on improved productivity, increased quality, and customer satisfaction.

Customer satisfaction

Improved productivity, increased quality, and reduced cycle time are meaningless if customers are dissatisfied. As a key performance measurement, customer satisfaction should be quantified and expressed at its source — by the customer. For example, overall customer satisfaction for a given activity might be expressed on a scale of 1 to 10, where a 1 rating is poor and a 10 rating is excellent.

While, as noted, the foregoing performance measurements are interdependent, their relative ranking in importance is dependent upon a number of considerations such as: the specific activity; the type of product or service; the kind of organization; the industry; and the customer.

If you believe the old axiom, you get what you measure, many of us who may still be providing performance measurements derived from historical cost-based standards, methods and procedures, will certainly not drive a change in mind set towards continuous improvement. The key mix of measurements for success today must be derived from productivity, quality, cycle time, and customer satisfaction. **CMA**

John A. Miller is a consultant adjunct and master instructor at the American Productivity and Quality Center where he teaches the principles, methods and procedures of Activity-based Cost Management. He is also president and founder of Houston-based M•N Consulting, Inc.