

Chapter XIV

Performance Management

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ABSTRACT

The purpose of this chapter is to help you design a performance management framework that will result in choosing, successfully implementing, and getting significant benefits from e-supply chain technologies. The framework is designed to stimulate action by pinpointing where the gaps are, and leveraging technology to bridge those gaps. This is done using a balanced scorecard revolving around five critical variables: value, variety, velocity, variability, and visibility. The maturity level of each of these critical variables is classified using a six-level capability maturity continuum: ignorance, awareness, understanding, approach, action, and culture. This integrated approach of combining critical variables, balanced scorecard, and capability maturity helps leverage technology for the right purposes, and significantly improves the performance and productivity of the supply chain.

LITERATURE REVIEW

Supply chain literature tends to either focus on a process view or a functional view. In the process view, the focus is on processes, such as source, make, and deliver (Bolstorff & Rosenbaum, 2003; Hugos, 2003). In the functional view, the focus is on functions such as manufacturing, distribution, warehousing, and transportation (Robeson &

Copacino, 1994; Tompkins & Harmelink, 2004). While this is good to understand and communicate the state of an organization, it is not conducive to understanding what the critical variables are, what the high impact set of changes that can be made are, and leveraging technology to the right set of activities. Keeping the primary focus on critical variables provides a way of looking at the relative impact of leveraging technology across the different processes and functions.

In addition, it is critical to learn from change management literature to ensure technology implementations result in successful change and performance improvements. Current change management literature focuses on people and organizational aspects of change (Cameron & Green, 2004; Hiatt, 2003).

Tracking progress against a change program needs to be done with a carefully selected balanced scorecard (Kaplan & Norton, 1996).

INTRODUCTION

This chapter takes an action-oriented view of the supply chain (as opposed to a process or functional view) and combines that with a capability view of change management (as opposed to a people or organizational view) to provide a performance management framework (with a supply chain balanced scorecard, as opposed to an organizational balanced scorecard) that will result in choosing, successfully implementing, and getting significant benefits from e-supply chain technologies.

The key theme of the chapter is: “E-Supply chain technologies create superior value by making focused changes to critical variables” (see Srinivas [2003, 2005] for another perspective on the theme). I start by first defining what a critical variable is, and then defining and identifying the critical variables that can be improved by e-supply chain technologies.

What gets measured gets done. To get the right things done, we need to take the trouble to measure the right things. It is important to build a performance management framework around the critical variables. The measures associated with each of the critical variables are defined and discussed. For example, for cash flow velocity, measures like cash-to-cash cycle are discussed. For shareholder value, measures like economic surplus are discussed. As each of the framework elements are discussed, the relevant e-supply chain technologies that create a large impact on that measure are discussed.

I end by describing supply chain quotient (SQ) as a way to use the performance management framework to assess the SQ or supply chain performance quotient of an organization—to understand the current state (baseline) on a maturity level continuum and where the key gaps are (assessment), and put in a structured implementation plan to leverage e-supply chain technologies to bridge those gaps systematically and gain competitive advantage.

CRITICAL VARIABLES

A *variable* is something that *can* be changed, as opposed to a constant that cannot be changed. A *critical* variable is one where small, focused changes can make a big impact on the results that matter to an organization.

In every company I visit, I find a large number of employees spending much of their time and energy on “If only”, “I wish”, “Why can’t they”—things that they cannot change. It is therefore worth highlighting explicitly that it is important to focus on variables—things *within your control* and that *can* be changed, and more importantly, to focus on *critical* variables—those that are *worth changing*, because they make a big impact on the results that matter.

For example, by better serving the 20% of customers that give you 80% of margins, you can improve the penetration in the account and thereby increase your profitability even further.

My focus will be on providing a framework for performance management. The specific measures to be used for each of the critical variables will vary from organization to organization, and therefore what is described here will only be indicative of what can be used within the unique context of a specific organization. However, the overall framework described here applies to every organization.

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