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THOUGHT LEADERSHIP SERIES

THE INHERENT FLAW OF USING AVERAGES

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Most white-collar organizations rely on average processing times to underpin their benchmarks and performance standards. In fact, the use of "averages" in calculating benchmarks is so prevalent and widespread in the white-collar environment that executives frequently fail to grasp the serious consequences of using this approach.

The time has come to revisit organizational benchmarks. By shifting their thinking and by embracing benchmarks based on value-added standards instead of averages, leaders will position their businesses to achieve dramatic performance improvements and activate a new model of operational excellence.

THE CONSEQUENCES OF USING AVERAGES AS BENCHMARKS

It can be very difficult for executives to recognize the pitfalls of using average processing times as the basis for organizational benchmarks. Indeed, using average times is tempting because this data is often readily available within the organization and because it is generally perceived as sufficiently accurate for general purposes.

Interestingly, benchmarks based on average processing times (APT) in processing areas or average handle time (AHT) in contact centers are also seen as satisfactory from an organizational culture perspective, because they are palatable to the staff directly responsible for processing the daily transaction in question. However, using averages to underpin benchmarks is a fundamentally flawed approach for any organization striving for operational excellence and continuous improvement for the following key reasons.

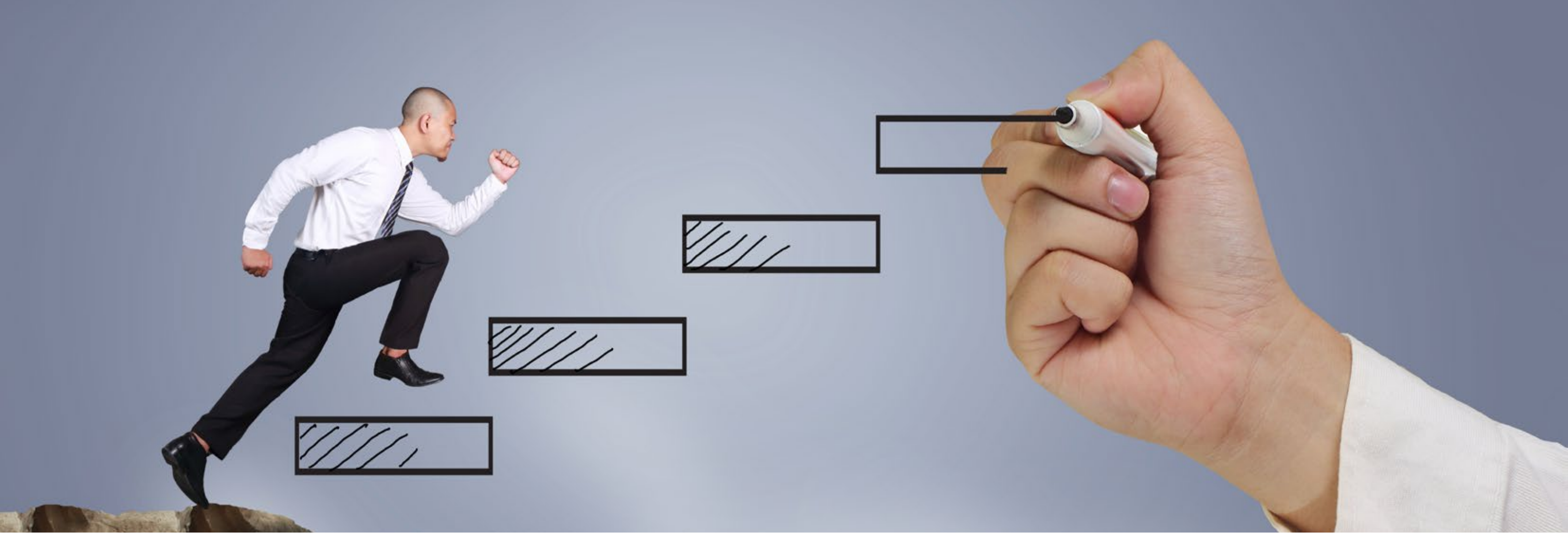
1. Averages fail to surface waste

Averages inevitably include time spent on waste and non-value-add activities, such as errors, rework and slow completion due to training deficiencies. By including this time in their benchmarks, organizations are essentially hiding daily inefficiencies, resulting in thousands of waste activities that are never identified, let alone resolved.

For example, how can front-line managers determine if poor typing skills in processing areas or in the contact center are an issue within their team when this time is included in the benchmarks? The answer is that they cannot. Managers are unable to recognize many of the issues they should actively be addressing because all that waste is built into the standard.

2. Averages conceal true capability

Average benchmarks might provide insight into how long transactions currently take to process, but they fail to surface how long a transaction ideally takes to process. Without knowledge of what optimum performance level looks like, front-line managers cannot truly evaluate current



performance. Averages make it impossible to gain visibility of the true opportunity for improvement and for managers to grasp the full extent of the performance gap.

3. Averages disguise latent capacity

Benchmarks based on averages mask excess capacity because they include time spent on "pacing", which occurs when a team's workload does not keep them busy enough for the entire day and output is slowed to make the workload stretch. Pacing is one of the biggest causes of wasted capacity in white-collar organizations, even in teams that do not have high volume fluctuations. It cannot be identified, let alone leveraged, if average benchmarks are used.

4. Averages hamper target setting

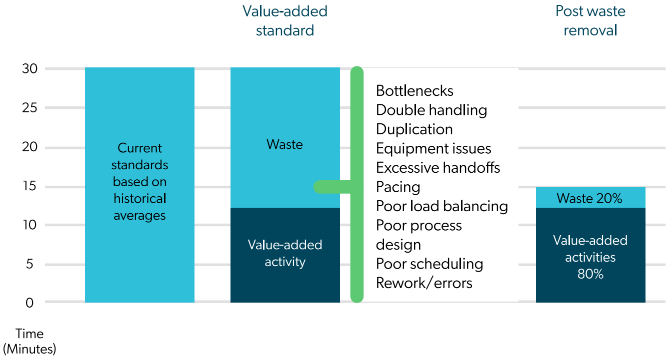
Since executives are unable to identify the magnitude of the gap between current and optimal performance, they have no way of making data-driven decisions about targets. This is why many companies apply a uniform, arbitrary "peanut butter spread" improvement target across the organization, penalizing teams that are already operating near their optimal performance and missing improvement opportunities in other teams where they could have pushed harder.

Let us take a step back and think about the use of averages conceptually. If you are overseeing a white-collar organization, ask yourself the following question: "What is your organization striving for?" Do you want to be the best-run, most efficient organization that serves customers better than anyone else? If the answer is yes and if you are aiming to be among the best (if not THE best!) why would you set your targets by benchmarking the average? Don't benchmark to be average, benchmark to be the ideal.

To further illustrate this concept, it is helpful to take a step back and consider how benchmarks are viewed in other industries. In the sporting industry, for example, top athletes would never even consider setting their goals to the average of past performances. They benchmark against the best and push their limits with the goal of turning in their own best possible performances against the rising standards in the sport. While we can't all be elite athletes, it is important for anyone evaluating performance and setting targets to understand not only the historical and current performance, but also optimal performance.

> *"Don't benchmark to be average, benchmark to be the ideal."*

VALUE-ADDED STANDARDS: PAVING THE WAY TO OPERATIONAL EXCELLENCE



Most organizations use historical averages as benchmarks, which hides waste. Using value-added standards enables an organization to identify waste and accelerate performance.

White-collar organizations striving for true and continuous improvement must base their benchmarks on ideal processing times, i.e. on the number of transactions a competent, well-trained staff member is able to process at a reasonable speed without the occurrence of any waste or errors.

Benchmarking based on ideal processing times:

- Provides managers with visibility on all sources of waste, including previously hidden causes.
- Builds awareness of the gap between current and optimal performance, thereby enabling managers to systematically remove waste and support their teams in reaching true capability.
- Surfaces latent capacity and opportunities for load balancing across teams.
- Revolutionizes the ability of a business to understand differing performance levels between teams and set targets accordingly.
- Provides the basis for moving operations from "Lean" to "advanced Lean" by activating a new model of operational excellence that accelerates the continuous improvement cycle.

The time has come to discard averages as the basis for performance measurement in white-collar environments. To achieve operational excellence, executives must benchmark against true potential, which they can achieve by shifting to value-added standards. Using value-added standards gives visibility to the amount of waste and latent capacity in the business, a key foundation for assessing performance and beginning a journey to operational excellence in the back office.

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To meet our vision of being the partner that business leaders want to work with, we understand that a strong, experienced, effective and visionary team is needed, with the energy, commitment and drive to succeed. We deliver on our promise through our leading propriety methodology that combines business experience, technology and data analytics.

For more information on how to use value-added standards to identify waste and accelerate performance, contact your nearest Enlighten office.

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