PINNACLECHANGE, INC
Accelerating Transformation

Performance Metrics
Manage What You Measure

In order to make sure your organization is really on track to achieve its business goals, you have to be able to define what "on track" means in specific actionable terms.

You have to be able to determine where in the organization problems manifest, and when they began, and how severe they are now and will become in the future.

And you have to be able to identify steps that can be taken to improve business performance, and to track their actual effectiveness in bringing the improvements you want.

Good performance metrics, in other words, are central to your ability to manage your organization and make the right decisions at the right time to get the right results.

If, on the other hand, you rely on the wrong performance metrics, you may be besieged with data, but starved of useful information. The result: unwelcome surprises at every turn, and management left groping in the dark for solutions that may or may not address the real issues.

You can't afford that problem!

Link goals to results

One of the key functions of a good set of performance metrics is to measure how effective and efficient the organization is at translating strategy into business results.

This means tracking performance at every level:

Strategy
⌧Objectives
⌧Business unit goals & performance
⌧Resource allocations
⌧Key business processes
⌧Individual performance

Placing metrics in the context of high-level objectives and strategy helps establish a proper business context for assessing and improving business operations. Without this context you run the risk of making decisions in a vacuum, e.g. applying cost-cutting measures to an operational situation without taking into account the organization's customers and growth strategies.

How well do your existing metrics document this linkage? Consider:

- Does the organization's Vision & Strategy translate into actionable terms?
- Are there practical ties between the V&S and functional or team processes?
- Do Managers drive department performance based on traditional financial budgets emanating from a traditional management control process?
- Are performance and incentive plans linked to the V&S well? Or, do they reward more short-term tactical actions?
- Is there any room for allowing the building of capabilities to meet market place direction, shifts and demands?
- What processes exist for effective resource allocations? Do they take into account strategic objectives or mostly short-term/annual budgeting processes? Are they in alignment with changes in customer needs, product mixes and/or methods of providing customer support?
- What is the process for determining IT allocations? E.g. is it done by taking last year's budget and examining it relative to "should it be increased or decreased?"
- Are the core business processes supported in a fashion consistent with the above points? Are the resource allocations consistent with the direction of the business? Are unit costs in alignment with revenue streams and where the business can leverage its intellectual

assets best?

- What does your Performance Management System look like? Are the strategic objectives appropriately boiled down into actionable items that the individuals can influence and actually achieve? Are stretch goals really stretch goals or impractical objectives that demoralize the staff?

Follow Your Impact Chain

Business strategies and tactics are intended to produce a result. Metrics are intended to help gauge, track, sometimes forewarn and measure the result. The metrics should make the relationship between objectives and the perspective being measured as explicit as possible.

If they are explicit, they can be managed and validated.

More importantly, this allows employees to understand what they can do to influence the result.

The chain of cause and effect relationships is vital to implementing meaningful and usable metrics. It helps to think in terms of impact: can you link the measure to activities that can be influenced or impact the result?

To be really useful, the Impact Chain has to be taken down to a level where you can measure the activity in close enough detail.

Example: Measuring Sales Performance

Many sales managers reward sales reps when they reach sales targets, and they often track a sales rep's results against a standard, e.g. New Business Generated.

This measure shows whether the rep is meeting or missing targets. To provide information the rep can use to actually improve the result, you need to go deeper. What would cause the rep to miss a target? Analyzing the sales rep's process can provide a clue:

Cold Calls➦Appointments ➦ Presentations ➦New Business Generation

Useful metrics here would include the number of new calls made each week and/or the number of appointments.

These allow reps to focus on activities they have control over, managers can coach more specific behaviors, and the measures establish cause-and-effect relationships that impact actual results.

Metric Gotchas

Every organization needs to gauge their business using measures that go beyond or underneath he classic financial measures. But avoid the temptation of using boilerplate versions—one size does *not* fit all. The measures your organization needs must reflect the unique requirements of your business, not something generic and not-quite-right.

Other common gotchas include:

- *Which Measures Matter* - Not identifying which measures matter the most and wasting valuable resources and decision-making on peripheral or irrelevant measures.
- *No Causal Model* – Not showing what specific areas or processes are expected to improve as a result of commitments to particular courses of action. If you can't prove causality, you can't determine the relative importance of the measures you select. And not being able to weigh these measures makes it hard to allocate resources optimally between alternative choices.
- *Assumptions* – Managers often rely on preconceptions about what customers, stakeholders or employees want rather than verifying their basis.
- *Erroneous Performance Targets* – Targets may be set without anyone having determined an actual correlation between the goal and the actual business results. Does 100% customer satisfaction generate significantly more revenue and profits than 80% satisfied?
- *Measure Incorrectly* – Does the measure have statistical validity (does it capture what it was suppose to capture) and reliability (the degree to which measurement techniques reveal actual performance changes)? Be particularly wary when using survey instruments that assign a small number of scale points.