How to Implement Effective and Balanced Business Metrics

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We see that companies or organizations seeking external help often have improperly- focused, unbalanced, or poorly implemented metrics. Metrics can be a powerful tool for informing and guiding decision making at all levels of an organization, however, they can be detrimental if not designed and implemented properly. In order for metrics to deliver value rather than distraction, they must be clearly defined, well designed and implemented, completely understood and broadly communicated, as well as focused on the areas that are most important to the success of an organization. This paper provides insight into key activities essential for the development, implementation, and management of effective and balanced metrics.

Effective Metrics

There is a perception that it's easy to come up with a set of metrics for a company or an organization simply by adopting common industrial metrics guidelines. For instance, a teaching medical college's clinic group used a metric called "Gross Charges." This healthcare industry term defines how many claim charges are submitted to insurance companies for reimbursement. This college clinic group chose to use "Gross Charges" as their main metric to push for performance solely because it is used commonly in the industry. Later, they learned that their board of directors was not satisfied with the clinic group's financial performance. It turns out that the board wanted to know the total cash collected by the clinic group, which was not aligned with metrics the group selected.

Why are these types of prepackaged metrics ineffective? No two organizations are the same. Their unique visions, missions, and goals often mean that the measurements they seek will not be covered by prepackaged metrics. The more directly you can align your metrics to the unique aspects of your organization, the more effective they will be.

Bob Lewis [1] described effective metrics by a Six C's process - Connected, Consistent, Calibrated, Complete, Communicated, and Current. Based on Tactegra's work experience with our clients, we have found that the Six C's need to expend to Eight C's by adding both Clear and Concise.

- *Connected*: Good metrics are directly linked to business strategy and connected to overall business goals. In fact, metrics start with business goals as organizations define what to measure to monitor the progress towards these goals.

- *Consistent*: Consistent metrics always go in one direction when the situation improves and the opposite direction when it deteriorates. If good doesn't always point in one direction and bad in the other, your metric will drive organizational dysfunction. This is related to whether the metrics are balanced, a topic discussed later in this article.

- *Calibrated*: Calibration means that accurate data is collected from the business operations. In other words, the same value is collected in the same situation no matter who records it. It also means the data are free from sample bias and other quality problems. When metrics are calibrated, the numbers can be counted on.

Figure 1. Tactegra's 8Cs process for effective metrics

- *Complete*: Organizations need to understand the cause-and-effect relationship between the metrics and drivers and make efforts to quantify drivers that contribute to the business outcome in each organization on every level. Remember, anything not measured is not collected, so any useful system of measures must include all factors that are important to achieving the goal.

- *Communicated*: The purpose of metrics is to drive behavior. If a metric's purpose is not communicated, they won't drive behavior.

- *Current*: Goals change. If the goals are updated, the metrics need to be updated as well. The metrics need to be reviewed at least annually to see if they are still relevant to the goals.

- *Clear*: Metrics must be extremely clear. A broad goal like “provide better supplier quality this quarter” can leave everyone, at the end of the quarter, with very different ideas on whether or not that goal was met due to lack of specific metrics tied to the goal. In other words, metrics should be so clear that someone from outside the organization could come in at the end of the quarter and check whether the objectives have been met.

- *Concise*: Metrics need to be concise and easy to understand. They should not complicate operations and create confusion.

Balanced Metrics

Equally important to developing effective metrics is developing a set of balanced metrics. Doing so will help an organization strive for business excellence. For example, an R/D organization at a US Fiber Glass manufacturing company was in the process of commercializing an automotive composite reinforcement product. Due to the market competitiveness, the timing to the market was extremely important. The organization chose to use the time-to-market metrci as the most dominate metric to drive the development process.

The product was delivered on time to meet business goal. However, the product quality had numerous issues for customers and caused the business tremendous amounts of money and resources in the following two years. The product was eventually pulled out of the market due to high customer complaints, high cost, and endless drain of resources. This was due to the lack of balance in the metrics. Although the company did look at timing, they failed to consider the quality of the delivered product from the customer's perspective.

There is a model developed by Robert S. Kaplan and David P. Norton [2], Figure 2, to describe the balanced metrics or scorecards.

First are the places from which to derive balanced scorecard metrics for each of the four perspectives:

- Financial perspective – shareholders
- Customer perspective – customers
- Internal perspective - operations and management
- Growth perspective – innovation and learning

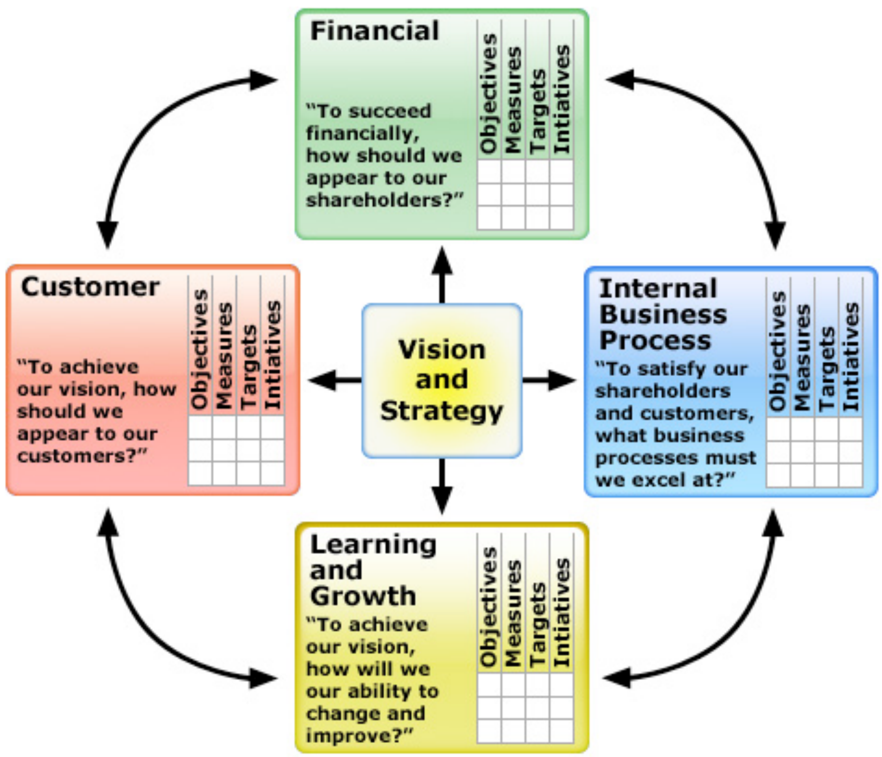

Figure 2. Balanced scorecards by Robert S. Kaplan and David P. Norton[2].

Next, an organization can use balanced scorecard development principles by relating measurements to its strategy for meeting key business goals. Consider the following three questions regarding each of the four perspectives:

1. If the strategy is successful, how will results differ from each perspective?
2. What are the critical success factors that must be prioritized immediately?
3. What are the critical measurements needed to be put into place to support the critical success factors and monitor progress with the strategy?

These measurements will form the foundation for balanced metrics and set the priority of ongoing process improvement efforts.

Next, an organization will need to consider the metrics for each of the perspectives suggested by Bryan Carey and Richard Simpson[3].

Scorecard Metrics for Financial Perspective

- Project expense: Actual spending compared to budgeted target, actual spending compared to forecasted spending
- Operating expense: Actual spending compared to budget target, actual spending compared to forecasted spending, fixed cost versus variable cost, customer facing cost versus non-customer facing cost
- Supply chain expense: Cost per supply transaction for major good delivery channels
- Initiatives: Initiative support cost versus base business support cost
- Capital deployment: Current system upgrades, capacity expansion, new technology, investment required by business initiatives, return on capital invested

Scorecard Metrics for Customer Perspective

- Customer satisfaction ratings
- Customer-driven volumes: Number of accounts, requests, complaints, transactions (online and to call centers)
- Market share by product and by market
- Revenue achieved against revenue goals, by customer segment
- Failed customer interactions (FCI) by channel: Each occurrence when a customer is unable to successfully use a company-provided product or service
- Channel revenue loss per FCI: Calculation of losses created (based on number and type of transactions customers could not complete)

Scorecard Metrics for Internal Perspective

- Operations and Manufacturing: Downtime, manufacturing cycle time
- Quality and availability of service: Service availability, defect capture rates, defect resolve times, any unscheduled production line outages
- Support services: Help desk speed of response and problem resolution, turnaround time on customer request
- Problem management: Time to restore services on customer-impacting problems, problem resolution time for all high-severity incidents
- Risk controls: Single source raw material rate, readiness for unexpected supply chain disruptions, reaction time to government environment regulation changes

Scorecard Metrics for Growth Perspective

- Product and service innovation: Lead time to develop prototypes, time to deploy for commercial use, research and development initiatives under way
- Continuous improvement: Process improvement projects under way, training projects certified and quantified as successful
- Technology leadership: Training statistics, externally sanctioned certifications, regional and national leadership in standards groups
- Employee attitudes: Satisfaction survey results, voluntary turnover percentages, loss of key technology personnel, key technology positions unfilled, statistics on recognition for good results

Implementation of Metrics

The most critical phase of introducing metrics to a company or an organization is in the implementation step. Whether or not an implementation is successful can prove to be the success or failure of the business itself. Quite often, companies do a great job of creating a set of effective and balanced metrics, but the outcome is still disappointing or below the senior management expectation. The gap often is caused by a deficiency in the implementation process.

For example, an industrial printer company developed a set of comprehensive metrics and monitored them very closely each month. Nonetheless, they were not seeing the desired month-to-month improvements they had planned to see. This led to the blame game and the pushing away of responsibilities. Tactegra conducted several hundred interviews and concluded that the developed metrics did not penetrate broadly enough and deeply enough. Therefore, the effort from department to department and from bottom to top was disconnected.

Based on best practices discovered through Tactegra's study and experience, an organization will see successful outcomes by following the five tips below:

1. *Penetrate Implementation Horizontally and Vertically in the Organization*

The corporate business metrics needs to cascade down to each department. Each department then needs to disseminate the metrics to construct an individual's performance goal. When translating corporate metrics to department metrics, the department leaders need to understand their audience and department goals before they select their critical success indicators for tracking. Linking the individual's performance goal to the metrics will make individual clearly understand how the metrics measure the performance of the processes they execute and correlate to and support the overall company's results and objectives.

2. *Make It a Data Driving Process*

It is impossible to achieve the overall business goal without tracking each department and individual's progress against very specific, measurable goals and objectives. Every element of a business should be data driven and measured. This includes marketing, support, operations, sales, finance, engineering, employee performance, and so on. To make metrics really effective, realtime feedback is needed. Whenever possible, invest in measurement tools that put metrics at the fingertips of those needing the data. Today's data technology applications make it easier than ever to quickly and frequently pull data that provides measurement against objectives. Whatever measurement tools are used, an organization needs to be sure to connect and automate them as much as possible so they won't spend all their time on number gathering. Using these dashboards, management is able to quickly view the status of every group in the organizational weekly meetings.

3. *Focus on Performance Behavior*

One of the most important and often missed reasons to track metrics has to do with the culture of the organization. The goals selected need to be stretched in order to force behavioral change. Celebrating big wins leads to a culture of success, where everyone is on the same page and motivated toward unified goals. One the other hand, missing goals needs to have consequences reflected in an individual's performance review.

4. *Lead by Example*

Business leaders don't always recognize how closely employees will follow their example. But if an organization's leaders want team members to take metrics seriously, they should be prepared to share their own goals – as well as their success or failure at the end of the committed period. Such transparency shows the team that leaders are in the trenches with them, making every effort to achieve the goals.

5. *Make Continuous Improvement of Metric Implementation Process*

The metrics implementation should never stop. It will need continuous improvements and updates due to changing business priorities. Every week, month, and quarter is a new opportunity to test and refine the ability to set and track metrics that will drive improvement and growth. When time and energy is invested into setting, monitoring, sharing, and refining metrics, organizations are amazed at how much more in tune they are to the state of their business, and how much more easily they can make the critical decisions that can drive their business to success.

Conclusions

Developing and implementing business metrics is a process. A set of effective metrics needs to meet 8C criteria - Connected, Consistent, Calibrated, Complete, Communicated, Current, Clear, and Concise. The metrics also need to be balanced to consider different perspectives from Shareholders, Customers, Internal Operations, and Learning and Growth opportunities.

To make metric implementation a success, business leaders need to make sure that the business goals are linked to every department and every employee's performance goals. All the goals need to be measured, tracked, and reviewed with an accurate data management system to reflect the current status of the business. With such a system, all the leaders and employees can make data-based sound decisions.

References:

1. Bob Lewis, The six C's of Effective Metrics, *InWorld* (http://www.infoworld.com), Dec. 28, 2011.
2. Robert S. Kaplan and David P. Norton, The Balanced Scorecard – Measures that Drive Performance, *Harvard Business Review*, January – February, 1992.
3. Bryan Carey and Richard Simpson, Scorecard Can Balance Different Measures of Success, iSixSigma