Designing and Revising Metrics for Your Organization

Having worked with numerous clients in the design and updating of the metrics they use to assess and evaluate their organization, (we refer to the tool as an Instrument Panel), there are some lessons learned that I want to share with you.

First, what do I mean by “Metrics”? A metric is any measure that is taken to show the condition of the organization. Metrics are typically turned into a graph so that the information is easily distilled and understood. Common metrics: customer satisfaction data, various financial reports, turnover, rework, etc.

Why Metrics?

Metrics are a vital tool for both board and management. They provide trend data on the vital statistics of the organization.

Think about driving your car without a dashboard. You wouldn’t know if you were violating the speed laws, running out of fuel or oil, driving with potentially failing system, etc. You also wouldn’t know whether you were going to get to your destination on time. In short, you would be largely driving blind.

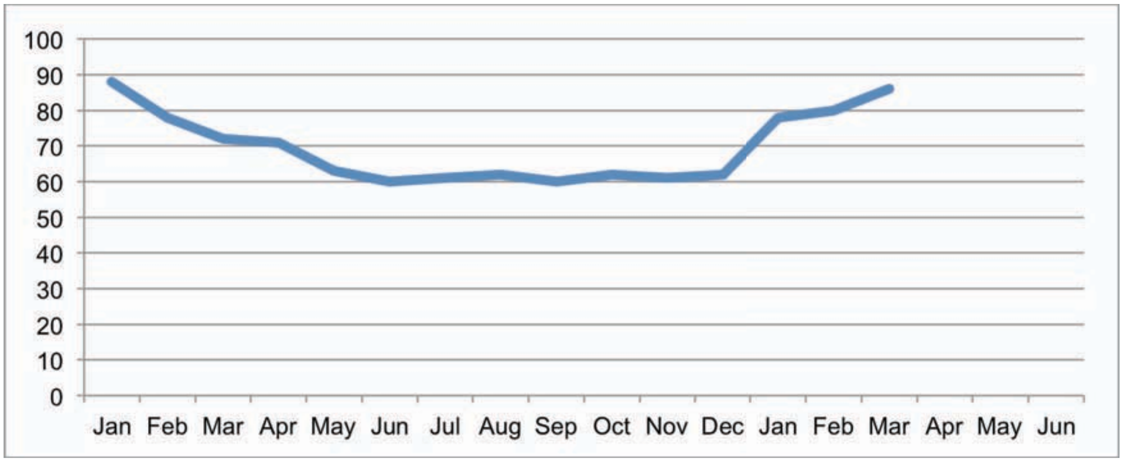
Driving an organization without metrics is quite the same. But just having measures is not enough. You need the right mix of measures to give you a complete picture of the health of your core internal systems, progress toward the vision, financial soundness, etc.. Just evaluating month-end financials won’t do it. End result measures are tough to use to predict the future.

When W. Edwards Deming talked about management by results, he quoted Myron Tribus, “driving your company by looking at the results is like driving your car looking at the rear view mirror”. Same applies to only results-oriented data, like your month end financial statements. You only know where you have *been*, you have no idea where you are *going*. Results data is point in time information, it does not portray trends that enable you to predict what will come. Results data also gives you no information on what is causing shifts in your various accounts or ratios. A full spectrum of metrics does.

Deming also said there are two types of mistakes you can make as managers; not acting when you should and acting when you shouldn’t. By “acting” he is talking about making changes in your systems or work processes. Valuable metrics alleviate this problem by requiring a look at data over time rather than a single data point. Single data points won’t tell you whether a shift is a one-time only event never to be repeated, or part of a continuing change or shift that warrants action to counteract or take advantage of it. Metrics enable you to spot if the data is part of a trend that warrants action.

In the graph below, we note that complaints had been going down for several months, then plateaued and now have increased for three straight months. Clearly something has shifted. The data tells you to begin an investigation to find out the cause and then determine whether a course of action is needed to correct.

Complaints per 20,000 units



Initial Design

At Professional Growth Systems, we have slightly modified the Balanced Scorecard[1] approach to develop the tool we refer to as the Instrument Panel (IP). The 3 basic categories of measures components on the IP are:

1. **Organizational Success Measures**
   These are indicators of whether you are moving toward your vision, growing market share, satisfying customer/users, meeting financial goals, etc. Examples might be revenue growth, sales growth, number of customers, customer complaints, turnover.

2. **Core Process Measures**
   To discover your core processes, ask why your customers select you over competitors. Then probe deeper to identify the key processes that drive the result your customer is looking for. For example, let's say your excellent customer support is a major reason why customer's choose you, then a good core process metric would be a measure of response time to support calls or emails. If customers choose your medical clinic because of the ability to get an appointment on the same day that they call, your measure might be volume of same day appointments and/or number of callers being turned away. An example from our own IP, we polled our clients long ago on why they chose PGS and were told that speed of production was a one of the major factors, i.e. clients were able to

go to work with the new plan or process within a few days of having designed it. So, for some time we tracked our product turnaround time. More on why we stopped monitoring this later in the article.

3. **Strategic Measures**
   Strategic measures are those that indicate whether the strategies you chose to grow your organization are working. What key projects are on your strategic plan? What are the goals of each? Measure whether or not your projects are moving the organization in the intended direction. These measures give you the opportunity to modify or even halt a project earlier than you would likely know to do so without a measure in place.

After creating an initial list of a variety of potential IP metrics, you need to consider some additional factors on what makes a good measure before putting together your final set of metrics. These factors include the availability of data, frequency of data (we prefer at least monthly data) and cost to collect data. For example, an annual survey of customers may provide valuable information, but it does not provide active monthly trend data, and therefore shouldn't be part of your Instrument Panel. It doesn't constitute a metric in our view.

Getting it right

Both our own experience and that of our clients is that a) you will rarely get the combination of metrics exactly right the first time and b) even if you did, the customer shifts and your processes shift, hence the need to make revisions in your metrics over time.

How do you know you have it right? First by examining whether you regularly are using the metrics data for decision making purposes. We sit down with our IP once a month to review the data and ask if there are any changes to our internal systems or any concerns to our organization's health that we should consider. If the data isn't relevant to making decisions, you won't use it.

You also know if you have the right measures if you are making the *right* decisions as a result. Look at whether the decisions you have made based on the metrics data are moving the business in the right direction. Did the modification to your customer order system bring down complaints? Did the new computer program save time in the hiring process? Your metrics should be able to answer these key questions. If they are not, you may not have the right metrics.

Finally, look at the "big picture". If positively trending metrics on your Instrument Panel are correlated with the company prospering, then you likely have the design right. If, on the other hand, metrics are trending positive and the financials are telling you that the company is not prospering, then you may not have the right metrics, i.e. you haven't identified the true drivers of the condition of your business.

Using the IP

Armed with monthly data, the management team or board should be reviewing the Instrument Panel on a monthly basis. You may have one Instrument Panel for the board and one for management as their priorities and roles are slightly different, i.e., the key metrics they should consider are different. Look at the trends, ask “why” where appropriate, problem solve and make needed decisions/changes to shift the metrics positively over time.

Let’s look at an example. Suppose you are tracking new customers. You look at the data and see that number of new customers has risen by 10% in each of the last 3 months. Next step? Ask yourself and determine why is this happening. Let’s suppose you discover that at the point the numbers started to increase, you had instituted a new policy to give a bonus to salesmen that brought in new customers. So, based on that, you decide to double the bonus. The number of new customers continues to go up, but you also find that revenue flattened out and is starting to decline. Now, you ask yourself, what causal relationship am I not seeing here?

Upon further investigation, you find that formerly loyal repeat customers are deserting you. Why? They are feeling ignored. They used to be called every month or so to be certain they were satisfied, but now are not called. Those relationships made through follow-up calls were the real reason for their loyalty, but you didn’t know. Now, that you do, you make two worthwhile decisions: a) potentially change your metrics to track both new and repeat customer and b) change your incentive system so as to get more balanced attention of sales personnel to new as well as repeat customers.

Over time, your competitors will make moves to try to capture market share (also applies to non-profits). This may shift whether and/or why customers choose you. If that is the case, then you may need to change product/service design and delivery to develop a new value proposition or reason for customers choose you. Along with that product change, you may likely need to shift your core process measures to focus on the new characteristic of your product/service that is now the reason you are preferred.

Revisions Over Time

If over time, you find yourself not using a particular measure for decision-making, then consider dropping that metric and defining something else that you believe may be a driver of success. As an example, we tracked our document production time for years. We discovered that regardless of volume, we were able to maintain our delivery standard, i.e. our system for production was stable. We ended up never making a decision on the data that we saw. Each month, we simply looked at the data, congratulated production staff yet again and moved on. After a few years of this, we dropped this measure from our Instrument Panel. If a metric is not adding value in how you run your organization and the decisions you make, replace it with one that does.

How to Move Forward

I know this will come across as a shameless plug, but utilize an outside facilitator to assist you with designing your Instrument Panel. It has been our experience that the whole exercise is a bit threatening to members of a management team. Reactions range from "Is my department not important or a driver of the business?" to "So, you think I am the problem?". You get the idea.

Also, it has been our experience that management teams are not very rigorous in their thinking on this. If you aren't willing to ask yourself tough questions, challenge one another's points of view, hold yourself to a high standard in terms of quality of data, you won't end up with a tool that has the power to transform your decision making and therefore your business.

Going back to the analogy of your car, suppose the dashboard measured what was frivolous, i.e. windshield washer fluid level, strength of radio signal, outside air temperature, but gave you no vital statistics on the performance of the vehicle. It would not be very helpful in assuring you get where you want to go. Same applies to the Instrument Panel for your organization.

With experienced, capable facilitation the exercise to design an Instrument Panel can be one of the most enlightening and rewarding experiences your team could have.

For more information, contact us at info@professionalgrowthsystems.com or toll free at (877) 276-4414.