

METRICS THAT MATTER

Kay Kendall, Principal, BaldrigeCoach

Every organization I have worked for or worked with has had metrics—usually a lot of metrics. The question is whether they are the *right* metrics. The right metrics inform leaders about the “health” of the business. They help employees understand their contribution, and they reflect a balance across customer and stakeholder needs. The right metrics drive the right behaviors in the organization.

Most organizations have a strong bias toward financial metrics, which is understandable. Without sufficient financial resources, the organization is at risk of going out of business. However, financial measures are seldom leading indicators of success. They are the result (lagging indicators) of doing the important work in a way that satisfies customers and builds loyalty. They reflect an engaged workforce. They gauge the efficiency of the key work and support processes. In other words, financial measures are not predictive in nature. They are necessary but not sufficient.

On the other hand, some organizations have a multitude of metrics, many of which are not necessary. However, these metrics consume resources in the form of data collection and report generation, even if the data are not used to make critical business decisions. They also are a source of distraction from the metrics that matter.

Identifying Optimal Focus Areas

How do you identify the metrics that matter for your organization? Begin with your vision and mission. What are you in business to do? What differentiates you from your competition? What are your strategic objectives around market share growth, new products and services, and technology innovations? Who are your customers? What are their requirements for satisfaction and engagement? Similarly, what are the factors that build employee satisfaction and engagement? How important are suppliers and partners to your organization? What are your requirements of them? Do you have other stakeholders who are key to your success?

When you have answered these questions, it is relatively easy to identify the related outcome measures. For example, the outcome measure for the objective of market share growth is simply your market share. But what are the necessary actions that result in growing market share, and how do we measure those? These might be the number of new leads or potential customers contacted each month and the number of those potential customers converted to actual customers. Market share growth might result from the number of new products or services successfully

introduced per year. Understanding the drivers of your strategic objectives enables you to identify the underlying leading indicators.

Some other principles associated with metrics that matter include:

- They have a clear operational definition
- They are collected by someone close to the source of the data
- They have a defined process for reviewing them
- They are understood with respect to the behavior(s) they will drive (both intended and unintended)
- They have a clearly defined owner who reviews them and identifies appropriate corrective action if it isn't trending in the right direction
- They offer greater benefit than the cost to generate them

The Execution—Start Simple

While there are many sophisticated dashboard systems and business intelligence software available, most organizations are better served by starting out with a simple system supported by Excel spreadsheets and graphs posted in an area where senior leaders regularly meet. Dr. Bruce Kintz, president and CEO of Concordia Publishing House, a 2011 Baldrige Award recipient, describes their progression from a strictly paper-based system, updated manually, and available only in the corporate office to an automated system, updated real-time, and accessible to anyone in the organization. Bruce says, “The Baldrige Criteria helped us standardize many of our processes and identify areas of efficiency through the collection and management of data. Measures such as these are imperative during tough economic times.” Bruce has also shared that the benefit of starting with a simple system allowed them to decide which measures were important and to eliminate those that added clutter but little information prior to automating the system.

Fact-based decision making is a hallmark of effective leaders and a critical foundation for successful organizations. But you need the right measures that not only tell you how your business did but also predict future performance in time for you to correct emerging adverse trends and take advantage of strategic opportunities. Do you have metrics that matter?

Kay Kendall is a principal for BaldrigeCoach, a firm that has worked with sixteen organizations that have received the Baldrige Award, thirty-six organizations that have received State-Level Awards, and recipients of the 2011 and 2012 AHCA National Quality Gold Award. She currently works with clients on achieving organizational transformation. Visit www.baldrigecoach.com for more information.