Moving from a Metrics-Based System to Actionable Performance Management

A White Paper

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Summary

If yours is like most organizations, it probably already has a wealth of metrics that are regularly published as dashboards and reports. Some of these are built using Microsoft Excel and PowerPoint; others are based on business intelligence and reporting technology. However, after spending significant time and money to create separate metrics dashboards for multiple groups and divisions, you may have noticed little effect on your organization's performance. Recently, you've heard about performance management, understand it is focused on helping organizations achieve goals, and are wondering whether your existing metrics dashboards can be salvaged as part of that process. Fortunately, existing metrics dashboards can serve as an important component of an overall performance management system by providing detailed operational or tactical views into the objectives and key performance indicators (KPIs) published on a scorecard.

In this paper, you will learn:

- When and how to use existing metrics dashboards as part of a performance management system
- The difference between metrics and KPIs; how to choose which metrics should be elevated to KPIs and published on a scorecard
- How objectives provide context that gives operational dashboards more meaning and makes metrics more actionable

Why Metrics Alone are Insufficient

Like so many organizations, yours has become enamored with dashboards. In the quest to provide everyone with their own view on organizational metrics, dashboards have proliferated throughout, in about as many configurations as there are metrics. And sure, dashboards provide a neatly packaged view of certain metrics tailored to the user. But can they really provide a window of insight that can effectively help advance organizational performance? The answer is no — and yes. No, dashboards alone cannot effectively help advance performance; but yes, metrics-based dashboards *can* be a part of an effective performance management program.

Your organization's amassing of dashboards may cover the gamut of metrics, from *cost of capital* to *cycle time* to *customer complaints* to *inventory turnover* to *sales per person* to *acquisition cost*; the list goes on and on. Through the dashboards, you

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may understand that customer complaints are going down, while inventory turnover is trending upward, and sales per person are at 12. But do these metrics tell the *real* story, getting to the heart of what your organization aims to achieve? And what does a particular metric's trend or value actually mean for your organization?

Metrics-based dashboards alone cannot tell the story, for two simple reasons: 1.) metrics by themselves lack context and 2.) metrics are not tied to outcomes. Without the context of your organization's overarching goals, metrics cannot tell you whether a particular value is good or bad, or how it compares to other groups or companies. For example, is a value of 12 for *sales per person* good? While *customer complaints* are trending downward, how do you know if the current trend has you on track to meet your organization's ultimate goals? Similarly, how do you know what will happen if you make a concerted effort to improve the *acquisition cost* metric? What impact will it have on the achievement of objectives? And out of the plethora of metrics your organization tracks, which ones do you concentrate on improving?

Without context and a connection to organizational outcomes, metrics-based dashboards alone fail to provide a meaningful gauge of current performance. Furthermore, it's hard to effectively prioritize in order to actively improve performance. The good news is that all of your organization's hard work in developing these metrics-based dashboards is not for naught; the answer is to move from a multiple of metrics that track activities to fewer key performance indicators that monitor outcomes.

From Metrics to Key Performance Indicators

Moving from metrics that track activities to key performance indicators that monitor outcomes involves three basic steps: 1.) providing context for the metric value; 2.) establishing a rating system to monitor progress; and 3.) focusing attention on outcomes rather than activities.

1. Provide context for the metric value

Providing context for metric values answers the critical questions of how the current value compares to past performance, and how it compares to what you wanted it to be. Historical values provide context for the past, showing how the current value stacks up against past performance. For example, you may look at the metric

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number of trouble tickets opened and compare the current period with the previous period, average of the three previous periods, as well as the same period last year. While much current technology handles the trends of actual values reasonably well, one challenge can be comparing unusual time periods that may be important to your business — for example, weekends vs. weekdays, spring vacation this year vs. last year, irregular brewing cycles, etc. (Some technology solutions offer the flexibility to readily compare such non-standard time periods; if this is an important factor to your business, be sure to investigate this aspect in the evaluation process.) Another challenge in this process is that often only "experts" understand the data being presented; organizations must capture discussions to help ensure that the data is meaningful to all its viewers. However, the unstructured data associated with these discussions can be unwieldy to maintain.

While historical values provide context for the past, target values fulfill the other half of the equation by providing context for the future. Targets represent the value you would like a metric to be at a specific moment in time. For example, for the metric *% of trouble tickets closed in five days*, the one-year target might be 80%. Rather than relying on a single value for a target, you'll also want to develop incremental milestone targets along the way. For example, for the metric *% of trouble tickets closed in five days* with a one-year target of 80%, you set first-, second-, and third-quarter targets of 60%, 65%, and 75%. The milestone targets can be used during the year to determine whether your organization is on track to realistically reach its ultimate goal target.

Actually determining appropriate targets for your organization can be a bit of scavenger hunt. Check business plans, budgets, and product plans for ideas. In some cases, you may need to start out with best guesses; using these as a starting point, you can refine the targets over time once you have additional experience. Whatever their source, when establishing target values keep in mind that for motivational purposes, values that are either too easy or too hard are not motivating. Use "stretch" targets where near attainment (85%) is deemed success.

In order to actually gauge performance, you'll need to calculate the gap between the actual and the target values. Calculating this gap, however, may be more complicated than simple subtraction between target and actual. For example, consider the metric *# seminars attended per year* with a target of 6 and an actual of

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7. Since these are simple numeric values, it may be tempting to describe the gap as 1. However, more people will understand the significance of the gap if it is instead calculated as a percentage; i.e., gap = (7 – 6) / 6 = 16.7%. Similarly, for the metric *reduction in cost of service* with a target of 12% and an actual of 9.5%, the calculated gap would be (9.5 – 12) / 12 = -20.8%. The negative sign for this *reduction in cost of service* gap shows that we failed to achieve our target performance.

While gaps expressed as percentages are easier to understand than raw numbers, it can be challenging to compare the gaps for two different metrics. A gap of –20% might be reasonable for one metric but completely unacceptable for another. To deal with this, you should adopt a rating system that converts the size of the gap into a score such as A/B/C/D/F. It then is straightforward to compare two metrics with different scores. Rating systems are described in further detail in the next section.

2. Establish a rating system to monitor progress

While targets transform raw metrics into *performance* metrics, establishing a rating system further transforms them into *performance indicators*. To increase wider understanding of metrics, use a standardized scoring system to rate the importance of the size of the gap between actual and target values. For example, the traditional "letter grade" system can be used where A, B, C, D, or F grades are assigned based on the calculated gap. KPIs achieving 90% or more of target are graded as 'A'; 80 - 89% of target is 'B'; 70 - 79% of target is 'C'; 60 - 69% of target is 'D'; and < 60% of target is 'F.' The letter grade system implies that an A is a "stretch target"; a grade of B would be deemed success.

For some organizations, the idea of assigning letter grades may clash with their culture. In that case, the above system can be adapted to use less rigid score names such as "Exceptional," "Very Good," "Good," "Needs Improvement," and "Unacceptable." Another alternative is the popular "traffic-light" metaphor with "dark green," "light green," "yellow," "light red," and "dark red." Whatever system you choose, consider the fact that a range of five thresholds is more likely to be accepted than three, due to people's natural tendency to avoid extremes. With five thresholds, even after discarding either extreme, you still have three useful values with which to gauge progress.

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What About Zero-based Targets?

A metric that has a target of zero requires some tinkering in calculating its performance gaps and scores. For example, consider the metric *# defects reported within first 90 days of purchase*. While a software or toy manufacturer might assume it's acceptable to have a few such defects, an airplane engine manufacturer or bridge builder might reasonably use a target of zero. In this case, the standard gap calculation doesn't work, as it requires division by zero. Instead, we assume the number of defects represents the gap, essentially the actual minus the target of 0. However, this leads to a second challenge: how do we convert this gap into a score? The gap is now a whole number like 4 rather than a percentage, so using the standardized letter grade scheme no longer works. The only practical solution is to use an expert's domain expertise to assign the appropriate thresholds. In the case of the airplane engine manufacturer, this may also reduce the number of potential grades to just 'A' and 'F' with the realization that *any* defects would be considered failure.

Converting the gap into a score requires slight modifications depending on whether the target is *achievement, reduction,* or *absolute.* The goal with an achievement target is to increase the actual value so that it comes as close as possible to the target*;* anything over the target doesn't necessarily add value. Examples of achievement targets include *staffing levels*, *satisfaction*, and *units produced*. In this case, we have the familiar situation in which 90% is 'A,' 80-89% is 'B,' etc. With a reduction target, the goal is to reduce the actual value so that it exceeds the target by as little as possible; anything less than the target doesn't necessarily add value. Examples of reduction targets include *overtime*, *defects*, and *attrition*. As a result, achieving less than 110% of the target is 'A,' 110-120% is 'B,' etc. Finally, when using an absolute target, as the name suggests, any difference from the target, either over or under, isn't good. Examples of absolute targets include *in-stock percentage* and *on-time delivery*. In this case, 90-110% of the target value is 'A,' 80-120% is 'B,' etc.

While the size of the gap between the actual and target value provides a score for performance at a given moment in time, the trend of the gap size can be a better indicator of whether an organization's performance is improving or not. Beware of looking just at the trend of the actual by itself, as this can be misleading. For example, looking at the *% of tickets closed in 30 minutes*, you might be pleased to see the actual value trending upward from Q1 to Q2. This may actually be good news — if your target for Q1 and Q2 has held steady as in the diagram below.

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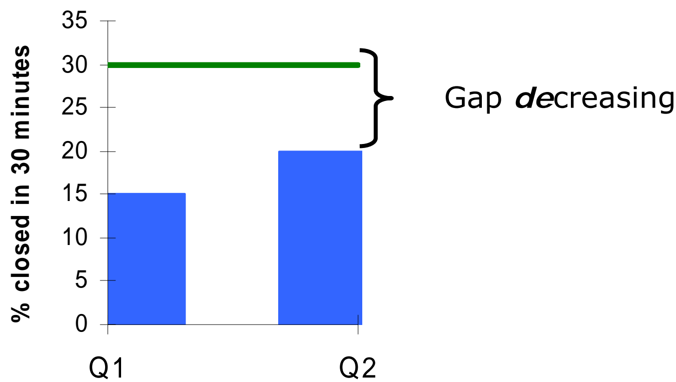
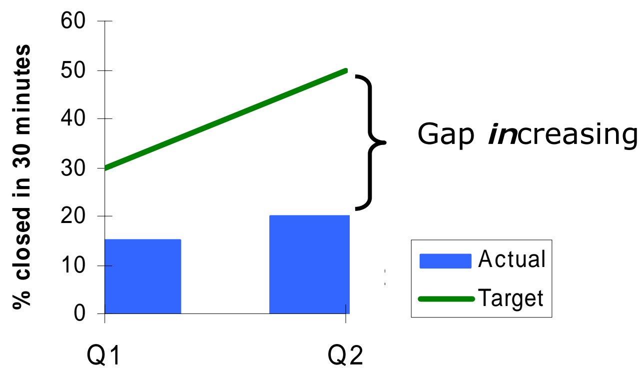


However, if your target has also increased between Q1 and Q2, the upward tick in *% of tickets closed in 30 minutes* might show an increase in output, but not necessarily improvement in outcome. In fact, as the diagram below shows, in this case, despite an upward trend in actual value of *% of tickets closed in 30 minutes*, the gap is actually increasing — meaning that the organization is actually further from their goals in Q2 than they were in Q1.



Therefore, when monitoring progress, performance should be based on the trend of the gap between target and actual, in order to show not just your current score, but whether you are actually making progress toward your ultimate destination.

3. Focus attention on intended outcomes, not activities

Once you have transformed your metrics into performance indicators by establishing targets along with a rating system, the final key to making them *key performance indicators* is tying them to your goals. Starting by looking at your overall goals, choose a balance of measures — both quantitative (measured) and qualitative

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(subjective), lagging (backward-looking) and leading (forward-looking) — on which to focus. For example, to support the goal of *Maximize customer lifetime value*, you might select the lagging measure *total $ purchased per customer* and the leading one *% customers that buy again within six months of initial purchase*. The goal of *Be a one-stop shop for all my interactions* might be monitored via measures such as *% cases closed in first contact* (lagging) and *% of self-help transactions on Web site that are abandoned* (leading). Similarly, the goal of *Elevate employees to valued associates* might be monitored via *employee turnover rate* (quantitative) and the *'employees feel valued'* response from an employee survey (qualitative).

When identifying which metrics or indicators are truly key, be sure to distinguish between input or output metrics and *outcome* metrics. Outcome metrics focus on impacts, not mere activities. Input metrics measure the amount of financial and non-financial resources applied to providing service or producing product. Examples include *# employees*, *# dollars*, and *# switches.* Output metrics measure the quantity of service or products produced; for example, *# calls returned*, *# cases closed*, and *# bills shipped.* In order to make the grade as truly key to organizational goals, the metrics or indicators on which you focus should be outcome metrics that measure *progress toward a defined goal*. Examples of outcome metrics include *% customers that renew* and *first call close rate.*

Outcome metrics that have targets and thresholds become key performance indicators — the key to making metrics-based dashboards valuable in actionable performance management.

Putting it All Together

To put this all together, we'll look at the goal of *Increase share of wallet of target audience.* Input metrics for this goal might include *# of advertising dollars*, while an output metric might be *units sold.* Key performance indicators take the metrics further by adding context to these, setting a target of 12% increase by year-end for *units per customer,* and a 12% increase every year for *revenue per customer.* These key performance indicators provide real insight into progress toward the overall goal of *Increase share of wallet of target audience;* if *units per customer* is going down, then share of wallet is not increasing; similarly, if *revenue per customer* is going down, then share of wallet is not increasing. Using these key performance indicators

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to track progress toward goals enables timely response and course correction, as needed, to help ensure that the organization is on track toward its goals.

Actionable Performance Management

By following a few simple steps, you can harness existing metrics-based dashboards for effective use in a performance management program. In order to lay a strong foundation for your performance management project, try to start with your goals rather than metrics, to focus attention on desired outcomes rather than just activities. Choose a few key performance indicators for each goal, remembering, as described above, that KPIs are outcome metrics with targets and scores. Once you've established your KPIs, publish organizational objectives and associated KPIs to a scorecard — which is then linked to a more detailed metrics dashboard. Using KPIs to get a meaningful gauge of progress, you can then effectively prioritize your efforts by focusing on those objectives with lower performance (e.g., poor current scores and degrading performance). Finally, as you gain experience on what works for *your* organization, capture that learning in the form of best practices and incrementally roll out these successes to other groups.

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