

## **Ten Rules for Developing Management Metrics**

By Norma S. Simons  
Simons-White & Associates

The use of measurements has long been the basic tenet of quality improvement efforts. With the wide use of the Malcolm Baldrige Quality Award criteria and the requirements in ISO 9000, the use of data as an important part of managing a company has been emphasized. The challenge that companies now face is identifying and developing appropriate metrics that will drive company performance.

Every organization has a reason for its existence and is expected to achieve targeted results.

Management is beginning to ask:

- What measures would ensure the achievement of financial results?
- How can measures be used to communicate the vision and direction of the company?
- How will the measures selected ensure organizational alignment?
- How can we select the appropriate measures that will ensure customer satisfaction?

In the business world, it is not always clear what should be measured. In many cases, organizations have resorted to two main approaches for selecting performance measures.

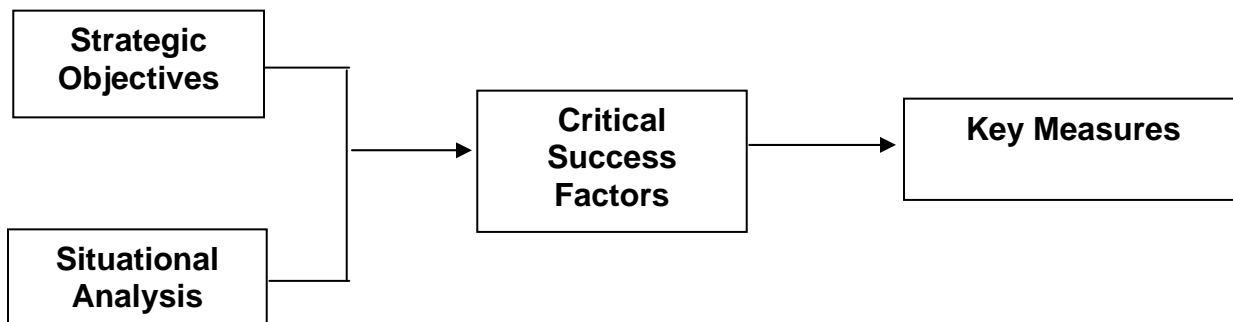
The first approach involves selecting the right measures by brainstorming and then identifying the ones that can be considered as most important for the company. The second approach involves benchmarking the measures used in other companies. Both these methods may result in the selection of performance measures that may not fit with the overall direction of the

company. The result is confusion in the workforce as everyone seeks to respond to the initiative that is the “flavor of the month”. Others such as Kaplan and Norton in their book the *Balanced Scorecard*, have described a process for developing a group of measures which should fall into four categories – financial, customer satisfaction, process, and learning and growth.

This article describes ten rules that if considered and used in any organization will form the framework for developing and using effective performance metrics.

### ***Rule 1: Measures Must Relate to the Overall Strategy***

The development of metrics requires a structured process. The process of deriving the metrics is just as important as the output – the types of metrics chosen. The process of selecting the metrics can become a powerful means of building a team and obtaining agreement on the direction and the methods for assessing the performance of the company. Figure 1 shows an outline of the process for selecting metrics.



*Figure 1 The Process for Selecting Key Measures*

The process begins by evaluating the current situation by doing a Situational Analysis. This is an important step as the management team evaluates company performance along the following lines:

- Who are our customers?
- What are their requirements?
- To what extent does the organization satisfy the needs of the customer?
- What are our major strengths?
- What are our weaknesses?
- Where do we stand relative to our largest competitor?
- What influences could impact our organization?

Answers to the questions above can be performed in a brainstorming exercise carried out by the management team and will form the foundation for the right metrics.

The management team should review the strategic plan and identify the short term and long term objectives. In most companies, there is a strategic plan but it is not clearly communicated to the workforce. Companies where a clear strategy has not been documented can discuss the vision, mission and values for the company. In other cases, the goal of the company may be expressed in terms of financial performance. Either of these cases will help the management team to articulate a framework for the overall direction or future state of the company.

The next step requires the development of Critical Success Factors (CSFs). A Critical Success Factor can be described as events, or circumstances that will differentiate the company from its competitors and will help to close the gap between the current situation and the future state. Once the CSFs have been defined, the management team can brainstorm the measures that relate to the success factors. At this point the measures selected will relate to the current performance and the expected results. Activities or initiatives emanating from these metrics will have an impact on the financial results and performance of the company.

### ***Rule 2: Measures Must be Unique to the Team***

Measures selected should be related to the activities performed by the team. It is important that measures are not imposed on a team from individuals outside of the team, this mechanism breeds resistance and results in collecting data with little meaning. Allowing teams

to identify their measures allows them to manage and improve their processes without depending on management to indicate potential weaknesses. If upper-level management has identified the key drivers for the company based on the overall strategy, then each team can select measures that directly relate to those of the company. Once a team is allowed to select their measures they gain control and ownership of their work.

### ***Rule 3: Measures Must be Simple to Define and Communicate***

The more effective performance measures are those that are simple. There has been a tendency in the past to select several areas of performance and then develop one complex measure. For example, some companies keep track of an overall customer satisfaction index or ratio, which may be developed from several aspects of customer service. The disadvantage of this approach is that the use of ratios can lead to confusion and misunderstanding of how a particular measurement affects the overall result. Having buried a measure deep inside a formula can lead to making poor or incorrect decisions about poor performance. A better approach is to track the individual components such as delivery, quality and response, which have been a part of a complex ratio that was used to determine customer satisfaction. Managing these individual components will result in achieving the goal of improved customer satisfaction.

### ***Rule 4: Performance Indicators Must be Easy to Measure and document***

For many people, the development of a system of performance measures requires a complex computer system. However, if the measures are kept simple, then the use of an elaborate

computer system will not be necessary. The primary purpose of performance measures is to drive action. Therefore, they should be collected manually by the individual who can affect change. In addition, every individual in the company should have access to the data that reflects the output of their process. Without the ability to keep score, employees soon lose interest and become demotivated.

### ***Rule 5: Measures Must be Sensitive enough to Register Small Changes***

A measure that is sensitive is one where a team is able to relate improvement efforts to a change in performance. When complex ratios are used, it is not possible to identify whether or not a particular initiative resulted in improved performance. For example, it is better to track quality defects in terms of parts per million as opposed to a capability index.

### ***Rule 6: Measures Must Provide Fast Feedback***

Many companies are moving towards the concepts of lean manufacturing, with an emphasis on reducing or eliminating waste. To accomplish this objective, information has to be feedback to individuals who work in the process so that appropriate changes can be made. In some companies, there is a tendency to collect the data by hand and then generate the appropriate chart on a computer system that may be in the front office. This is not an ideal situation as the

report often takes time to compile and return to the process that originally generated the information. The result is the inability to effectively correct the process. The ideal situation would be to create graphs where work is done. The people who have the most influence on the results can immediately use the data.

### ***Rule 7: Measures Must be Acted on Quickly***

In general, if measures provide fast feedback, then it is possible for teams to respond quickly to the information and take the appropriate corrective action. Measures pertaining to particular teams should be displayed in the work area. A visual display of measures ensures that problems become more visible resulting in a shorter time for problem resolution. Efforts should be taken to also ensure that the information is displayed in a format that supports easy understanding and response.

### ***Rule 8: Measures Must Relate to Activities Performed Regularly***

In order for a company to achieve necessary results, it needs to ensure that the metrics selected will drive its financial performance. Performance metrics are often considered as leading indicators, while the financial results are regarded as lagging indicators. A focus and regular review of the leading indicators will enable control of process outputs. Regular reviews should take place at all levels of the company. On the shopfloor, reviews can occur daily while those in departments might need a weekly review and others at other levels of management

should perform monthly reviews.

***Rule: 9: Measures Must Drive Improvement Activities***

Performance measures should encourage and facilitate improvement instead of just monitoring people's work. Measures that tend to just monitor activities sometimes appear threatening and build fear rather than foster appropriate action. For each measure selected we need to ask:

- What information is given by this measure?
- What are the reasons for the current performance observed?
- What actions can be taken to ensure improvement

## ***Rule 10: Measures Must Provide Balance***

The measures selected should reflect the overall health of the company and consist of a balanced mix of financial and non-financial metrics. It is important to select and use only the measures that are key for obtaining the required results. As a rule of thumb, no more than fifteen measures should be used at any level of the company. The use of fewer measures provides more focus for activities. Using a large number of measures causes a focus on the data collection mechanism as opposed to the activities needed to respond to the data.

## ***Conclusion***

Selecting the areas of the business which have the most impact on performance and then measuring and focusing on those areas is a powerful way to manage the organization. The process used to select the areas to be measured is important and if done properly builds teams focused on improving performance. The ability to clearly articulate the key drivers of the business provides a mechanism for not only communicating the strategy but also providing a roadmap to achieve strategic objectives. This leads to the development of a framework that promotes common understanding of the important issues and the alignment of activities with the overall direction of the company.