The Magic of Metrics: What Gets Measured, Gets Managed

Having metrics that keep a company focused on key areas are critical to business improvement.

Recently a group of local financial executives discussed the art of developing effective business performance measures. Participants agreed many key metrics used today are irrelevant in helping guide their business. Poorly chosen metrics waste corporate resources by diverting attention from important issues to less important or, worse yet, irrelevant ones. The group decided businesses should have a process in place to determine what metrics will be most effective. The following 6 step approach will help you create the best metrics for your business.

Steps to Creating your Key Metrics

- **Step 1 - Write down goals**

  Understanding the direction of the company and its goals are critical to developing the best measures for your business. If these objectives are not clear, it is difficult to establish effective metrics. Write down 3-4 of your most important goals.

- **Step 2 - Understand your drivers**

  What are the business drivers that will allow you to meet these goals? For drivers within your control (example: your ability to purchase organic grapes cost effectively) establish a measure to evaluate your performance. Some drivers may be out of your control (example: new regulations for the sale of organic wine). Monitor critical drivers outside your control to prevent pursuit of a faulty strategy.

- **Step 3 - Brainstorm metrics**

  Reflect on your most important goals and their drivers. Develop metrics that will guide you in understanding the progress being made toward your goals or if your business drivers are changing.

- **Step 4 - Verify by being SMART**

  To be effective metrics must allow you to identify important issues. They should be limited to a manageable number and broad enough to explain general business performance. Verify all your metrics are SMART [1](Specific, Measurable, Actionable, Relevant and Timely). If a metric does not meet the SMART criteria, rework it so it does.

- **Step 5 - Review your metrics**

  Make sure your metrics include non-financial measures that are core to your strategic framework. For example, the Balanced Scorecard is a common framework used by organizations to incorporate important non-financial objectives into the organization’s strategy. The Balance Scorecard recognizes long-term business success includes customer-focused components, internal process improvements and training and development objectives in addition to meeting a company’s short-term financial goals.

- **Step 6 - Design the presentation**

  To be most effective your metrics must tell an engaging story. A well thought out design to present your metrics helps the user grasp the issue immediately and move on to solutions. The design is especially important when teams with diverse backgrounds are using the same metrics. Arthur Fletcher, CEO of Filius Bonacci a Portland based consulting firm, helps companies install management reporting systems. In addition to identifying the right metrics, Fletcher says, “efficient graphical interfaces can be deployed to improve theeffectiveness of metrics and key performance indicators”. Dashboards that summarize key measures in informative ways can deliver time sensitive market and operating information that require rapid response times. Getting the most out of your metrics depends on an effective delivery and display network.

Beyond Long-Term Corporate Measures

Key corporate metrics that monitor progress toward meeting long-term objectives are critical to business improvement. Once a process is established these principles may be applied to other important areas of the business, such as, large projects, short-term market or operating statistics and even individual performance. The main challenge developing these measures is to ensure a clear connection with corporate objectives. Project oriented measures will have a finite life. Important market and operating measures are reported at intervals that allow quick identification of trends so swift action can be taken. Fletcher notes that individual measures that allow for self-monitoring are often more effective than command and control measures closely monitored by supervisors. Performance metrics are the tools we use to monitor the health of our business. They drive change and help us direct resources. When developed and maintained with a sound process your business will be on the right track. Follow these steps to unlock your business improvement potential.

[1] 1981 Management Review George T. Doran