Lumen, Inc.

Transforming 21st Century Businesses

Performance Measurements

A Key to Driving High Performance

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This Lumen Insight examines the importance of metrics and the impact that good metrics can have in raising the performance of your organization.

Organizations have struggled for a long time to manage performance better. Over the years, they have developed many systems and approaches that help organizations address this challenge. While performance improvement methodologies such as balanced scorecard, Lean, Six Sigma, and total quality management (TQM) differ in their approach, they all have one thing in common: they all rely on metrics. Metrics are important because they make objectives tangible, quantify results and provide a common language for communicating about performance. They provide a basis upon which management analysis can be performed to give insights into the organization's behavior—past, present, and future. Recently we have seen how Big Data (extremely large data sets)and predictive analytics can help in escalating the ability to manage performance in all areas of the organization with examples in industries such as healthcare for improved quality of life, energy for increased profitability, and in government for improved safety. These examples give us a window into the future. However, there is value to be achieved in driving optimized performance with metrics today. Achieving premium performance requires good performance metrics that have three key characteristics: they are aligned to strategy, are drivers of optimized performance, and are credible to the stakeholders.

> *"I produce 100 performance reports a month, but none of them help me run my organization." – A senior manager in one federal government agency*

Aligned to Strategy

Organizations are established to achieve the purpose encapsulated in their vision and mission statements. The true value of achieving that vision and mission is realized by developing and effectively executing a strategy that leverages organizations' strengths and opportunities in the greater environment, while also mitigating risk. Metrics aligned to the mission are the strategic signposts and milestones, giving guidance to those executing the strategic plan. Metrics aligned to the strategy inform employees on direction for behavior at the individual and organizational level.

> **Measurements and metrics - What is the difference?**
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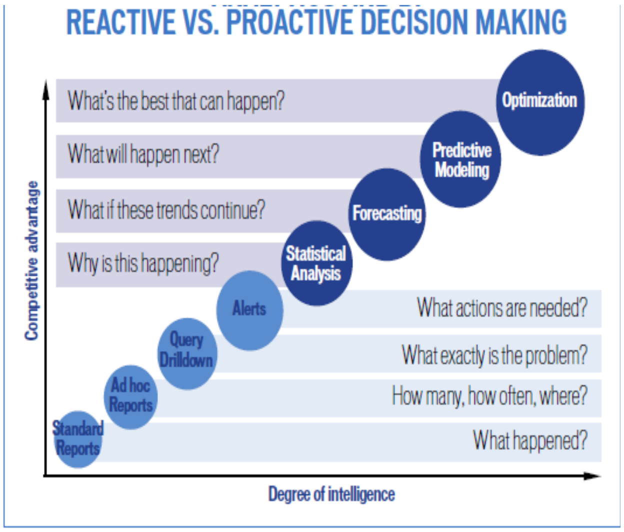
> *A measurement is an absolute measure such as an inch, or $1 million. A metric is a measurement of business performance, relative to goal or target. 30% of the budget, one mile from the finish line.*

Strategically aligned mertics also optimize focus on the benefit from targeted improvement initiatives such as Lean, Six Sigma, or other business process management efforts. Using metrics aligned to the business strategy to focus these initiatives, ensure that the results of performance improvements are delivered in support of the organization's mission. The result is optimized value delivery to the organization's stakeholders. Such metrics also provide an organization the ability to keep oversight stakeholders or groups informed of their progress in achieving their strategic objectives.

Good metrics also provide awareness of the internal and external environment. They indicate when the organization is deviating from achieving its goals and enable management to direct changes in behavior, reallocate resources, or even change the strategy to keep the organization on the path to high performance and to the destination of "mission accomplished." In other words, good metrics steer decisions and drive actions toward achieving the desired results.

Drivers of Optimized Performance

Organizations use metrics for two primary purposes: to drive performance and to communicate results.



Metrics that drive performance are called driver metrics or leading metrics, and they are predictors and creators of future performance and results. Driver metrics enable timely management decisions when they are off or drifting away from the expected target. These metrics, such as trend metrics and metrics derived from predictive analytics, guide management and enable employees to take actions to increase performance and deliver higher results. When an organization selects its performance management metrics, it must be sure that they are truly performance management metrics and not only performance reporting metrics.

Reporting or lagging metrics are important for conveying the results of organizational performance to internal and external stakeholders. They provide benchmarks against expected performance and report on achieved effectiveness or efficiency. While past performance may be an indicator of expected future performance, communication metrics are relatively ineffective in creating improvements in organizational performance. Lagging metrics have their place in an organization, but it is important to differentiate them from performance metrics in their use and presentation.

Leading and lagging indicators - What is the difference?

Leading indicators or metrics give an indication of behavior or performance to come. In a sense they're like smoke that is visible over the horizon indicating that a ship will soon appear. Lagging indicators or metrics describe how the organization performed or delivered on its objectives, for example, the ship arrived on schedule 95% of the time. A good set of performance metrics which comprise the organization scorecard, should contain a mix of leading and lagging metrics.

Credible to Stake-holders

Organizations demonstrating lower levels of performance management maturity often have metrics gathered from indirect sources, use multiple or loosely defined performance management methodologies, and consider metrics "suspect" as indicators of business performance. Organizations at higher levels of performance management maturity are more likely to have metrics derived from original source databases, compiled with a single consistent methodology, and used as tools to manage performance.

For metrics to have an impact in raising the performance of an organization, they must be credible. The metrics should be based on hard data, and derived a secure data source using consistent algorithms. The path that the data takes from the source to the delivery of the metrics must be secure. Metrics should formulated using data taken from a source as close as possible to the actual data creation, often called the "system of record." The further away the data collection from the source, the more likely the data will be corrupted or influenced. The source should be fact-based—for example, derived from statistical reports or physical measurements and not subjective or qualitative reports. As the data is collected and processed through the performance management system to provide metrics to management or employees, there should be no, or at least minimal, chance for corruption. Manually entered spreadsheets are subject to a great number of mistakes; far better are applications that extract the data and convert it into metricswith minimal human intervention . The information should be portrayed in a way that is meaningful to guide and support decisions or actions by the user. The presentation and context of the metrics are key factors in achieving credibility, and thus in managing and driving optimized performance. The executive dashboard with ”Stoplights” or colors is more effective than a table of worker in bringing about change.

Conclusion

Good performance management metrics align to strategy, driveoptimal performance, and offer credible data to the stakeholders. They enable management to direct changes in behavior, reallocate resources, or even change the strategy to drive and keep the organization on the path to high performance and the destination of "mission accomplished." They are the key to delivering and sustaining high organizational performance. Developing, deploying, and maintaining performance metrics requires expertise and a robust methodology. Organizations that follow this aproach have proven to be the higher performers in their peer group.

Mitchell Weisberg *is the Managing Director of Lumen, Inc. Mr. Weisberg is a published author with over 30 years of experience consulting to organizations on strategy execution, performance management and measurement, process optimization, IT/business alignment, and technology-driven business performance improvement. He was a member of the team that developed the Balanced Scorecard concept. Mr. Weisberg is on the Advisory Board of the IBM Innovation Center for Performance Management. He is a Fellow of the Suffolk University Center for Innovation and Change Leadership. He has broad cross-industry and international experience and has led global practices in performance management at KPMG, Arthur D. Little and HP.*

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