

# Maximizing the Yield and Minimizing the Damage from Performance Metrics

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## Summary

Although metrics are a necessary component for managing organizational performance, they often elicit behaviors at odds with actual needs. In order to optimize the use of metrics an organization should use a structured process to select them, considering both psychological and business perspectives. There must also be a focus on deploying metrics that add business value rather than simply track performance.

## Keywords

Indicators, measures, metrics, performance.

## Problem #1 – How to Select Performance Metrics

You have been given the task of helping your organization develop better metrics for tracking and improving your organization. Which of the following would be useful?

- Find out what your best competitor uses to monitor business performance
- Do a search of literature on performance management and find what the experts recommend measuring for each part of the business (e.g., HR, IT, operations, ...)
- Study global benchmark companies and what they measure

Any of the above might be useful, but even together they are hardly sufficient. High performing companies are those who identify a specific niche, find a strategy that effectively serves it, and create processes that efficiently use available resources in doing so. Copying what others do does not take into account the unique characteristics or blend of those resources.

## Problem #2 – How Many Metrics to Have

Some experts recommend a certain number of metrics, but these numbers are arbitrary at best. An organization should have whatever number it takes to effectively monitor, control and improve performance of the entire organization. This means the number will vary based on issues such as:

- *The amount of emphasis on measuring outcomes versus drivers* - Since responses to outcome data will necessarily be delayed, the more the organization focuses on these the more they will need. Focusing on driver, however, can reduce the number of outcomes needing to be measured, since drivers are the core factors that impact outcomes, and allow more proactive responses.
- *How well the metrics are aligned and integrated* - Well aligned metrics keep everyone focused on what is most important, and reduce the need to monitor everything.
- *How visible metrics are and how empowered people are to use them* – If metrics are not available for identifying and responding to opportunities for improvement, why have any at all? Alternatively, some organizations have a lot, but not well communicated, which management uses to micromanage.

It's also important to understand the difference between diagnostic versus monitoring/control metrics. While the former may be useful when trying to identify problems with a process, they are not necessarily needed as permanent measures.

### **Problem #3 – Playing Games with the Numbers**

Since some people interpret performance measures as a reflection on their personal ability, their behaviors may be altered in not-so-good ways by metrics. Following are some examples:

- They set targets they know they can meet, rather than setting goals that will force the system to improve fundamental capability.
- They accelerate or delay activities to force the numbers within a particular time frame where it will be perceived positively by others (while it has no real impact in the long run other than causing disruption of the process).
- They emphasize what is going well and ignore what isn't, which results in slow deterioration which may eventually cause a collapse.

Systems thinking is absolutely necessary for any organization that plans to remain in business. The system is also very complex, involving the external environment (society, competitors, partners, regulators) as well as internal processes and resources.

### **Problem #4 – Stale Metrics**

By definition, if an organization has significantly increased its fundamental capability through development of technology, processes and people, the particular metrics that will be useful in the future are also likely to be impacted. Changes in product maturity or society will also have a similar impact.

Reviews of metrics should then not only include what improvements to processes are warranted, but also improvements to the metrics being used to manage those processes. Not only should strategy reviews include such considerations, but also performance problems or positive surprises with any process which may indicate something important has not been considered.

## Conclusion

Selecting and deploying appropriate that enable effective management and integration of processes is not a simple task. After all, organizations are complex systems operating within even larger complex systems. Some of what can impact performance is often unknown, or, according to Dr. Deming, may even be unknowable. But given all we know about process management we must still face the challenge with commitment to doing what we know to be correct, and learn along the way.

## References

Following is a list of recommended reading on the topic of performance metrics:

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