Success; How Far Away Is It When There Are No Yardsticks?

Would you ride on an airplane with a pilot who didn't know how much fuel was on board and how much fuel was needed to get to the destination? Would you drive on a highway that had a 98% fatality rate? …Of course not.

In daily life, metrics (meaning measurements of critical events and activities), are essential to safety and success. This is also true in the business world. Nearly every business uses the financial metrics required for regulatory and tax purposes. And, businesses known for their exceptional performance typically use metrics even more extensively as a key ingredient in achieving success.

Metrics are an effective way to manage a business because they set clear expectations that synchronize people, resources, and activities to work directly on things that will contribute to the goals and outcomes desired by the business. By some estimates, less than half of all efforts are truly expended in a synchronized way in companies that don't use metrics. This allows some efforts to consume resources without contributing to a central outcome, or that even negate gains made by more productive efforts. In contrast, synchronization of efforts reduces costs, and often frees resources that can be used to increase revenue.

The paradox is that small and mid-size businesses have the greatest need to control costs and grow revenues, yet a large percentage rarely uses metrics adequately. The most frequently given reason for not using metrics is "it seems too complex to implement". However, managing a business using metrics does not have to be complex or bureaucratic. The purpose of this article is to describe the key elements that allow metrics to be implemented in an easy-to-use, simple, effective manner.

The key to <u>creating</u> metrics is to keep them **Few**, **Relevant**, **Simple**, and **Balanced**.

Businesses generally need only a few metrics. Three to ten metrics at any level of management seems to work best. Too many metrics can cause confusion about priorities, and can cause a workload of extra activities that exceeds the time or resources available to employees. This usually results in many things done minimally instead of achieving a few important things well enough to make significant improvements to the business.

Metrics should be relevant. They should measure what the business must do well. This requires thoughtful examination of the business, dialogue, and research. The key is to ask business focused questions such as; "why do customers come to me?", "where does most of my business come from?", "what is it that I should do better than my competitors?", or "am I using my people resources effectively?". The answers to such questions are the activities or events that that are worthwhile to measure and use as metrics.

Metrics should be simple. For example, a metric like "Sales per month" is acceptable whereas "Sales less commissions, costs, and adjusted for currency calculations, etc." is unnecessarily

complex. A simple metric sets a clear expectation. Undue complexity is often a warning sign that data is being “adjusted” to hide actual (usually poor) performance.

Metrics should be balanced. Businesses that manage all aspects of their business out-perform those who manage only with financial metrics. As a minimum, a business should have financial, customer, and employee metrics.

The key to <u>using</u> metrics successfully is to have proper **Emphasis**, **Consistency**, and **Willingness to Change**.

Management using metrics will only work when the emphasis is about adjusting resources or activities to achieve specific results, not about blaming people.

Metrics works best in a work culture that is consistent. Metrics must apply to everyone from top management to individual employee. Reward and promotion must be the fair result of performing to the standard. And, expectations must be clear, consistent, and achievable.

It is particularly important to have a willingness to accept change. Business situations and markets change. Sophistication in the use of metrics often increases over time. Temporary problems arise from time to time that need extra management. Metrics can and should be changed, discarded, or added to keep pace with change and stay relevant to the business and it’s situation. Also, there are many types of metrics and it is normal for a business to try different types of metrics over time. For instance; metrics can be leading or lagging. A lagging metric describes what has already happened (e.g. “sales per month). In contrast, a leading metric describes what is likely to occur based on past history (e.g. “average cost per transaction”). The difference is that leading metrics can be used with sales or other projections to predict changes in costs or revenues and make adaptations so the business can be even more competitive. Most businesses use lagging metrics when they first start using metrics, then evolve toward using more leading metrics. Metrics can also be targets or trends. Targets are “numbers” such as sales quotas. Trends are the up or down movement of metrics measured over longer periods of time. It is usually appropriate for business leaders to manage business “trends”, and individual employees to strive to meet “targets”.

Metrics can be simple, effective, and affordable for any business. And, when you use metrics, you know “where you are”, “where you want to be”, and you have the “yardstick” that shows you what it will take to get to your desired end state of success.

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