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Are Your Business Metrics Measuring the Right Thing?

Don't base your metrics on your organizational chart

Forrest Breyfogle III | 10/06/2009

Why did the current financial crisis occur? Among other things, we could point to greed, ethics, and policy creation. However, could we also consider commonplace business management systems and their metric-creation practices as a source for encouraging and amplifying these and other unhealthy behaviors?

Before answering this question, consider another aspect of the issue: Do you think that the cliché "Tell me how you measure me and I will tell you how I will behave" describes a stimulus that could have contributed to the destructive behaviors that led to our economic problems of the day? I believe that many current business system metrics and resulting actions to achieve measurement goals did contribute to our current economic problems.

In business, organizations should strive to create metrics that encourage behaviors that benefit the enterprise as a whole. These metrics and their reporting should provide a guiding light toward achieving the "3 Rs" of business—everyone doing the right things, and doing them right, at the right time.

Issues with current metric creation and presentations

Business scorecard metrics are often created around an organizational chart and corporate strategies. These approaches for measurement creation can initially seem appropriate; however, can these techniques be problematic and lead to unhealthy behaviors? It seems to me that they can.

Consider, for example, how organizational-chart-created metrics can result in silo metrics that are not orchestrated relative to big picture corporate needs. Also, these metrics can change when there is a reorganization. In addition, these metrics are often tied to goals, which can be arbitrarily set and unrealistic.

Consider the following:

• Traditional metric reporting often consists of a table of numbers, pie charts, or stacked bar charts. These presentations are not predictive and provide only a snapshot of the past with no assessment of what is expected in the future.
• Variance to metric goals can lead to playing games with the numbers, which can be destructive to the business as a whole.
• Red-yellow-green scorecards can lead to firefighting, which drains resources. Resolutions are typically short term at best (see article "Predictive Performance Measurements: Going beyond red-yellow-green scorecards").
• The balanced scorecard approach for choosing metrics after strategy selection can lead to subjective metrics and measurements that are not long lasting and are a function of economic and leadership changes.

Business management system issues and resolution

From a big picture point of view, an organization's business might consist of developing, marketing, producing, selling, and collecting payment for the products and services it offers. This high-level relationship typically does not change over time. If organizations were to align their scorecards to these functions, they could create long-lasting metrics that remain consistent even with strategy changes and reorganizations. This system would integrate functions while avoiding silo thinking, which can lead to suboptimizations that do not benefit the enterprise as a whole.

It seems as if everyone agrees that the complexity of business is growing; however, organizations often try to incorporate a business management system with accompanying metrics that are at the level of *Who Moved My Cheese*, by Spencer Johnson, M.D. (Penguin Group, 1998). Although this is a good book, it is a relatively simple model. Shouldn't we be considering what should be done to enhance current business systems so that the ever-changing business climate and complexity are addressed?

What organizations need is a business management system that can address these issues when compiling their measurement and improvement needs so that the enterprise moves toward achievement of the 3Rs of business. A nine-step integrated enterprise excellence system for achieving these objectives is described in figure 1. This nine-step business system roadmap addresses in step

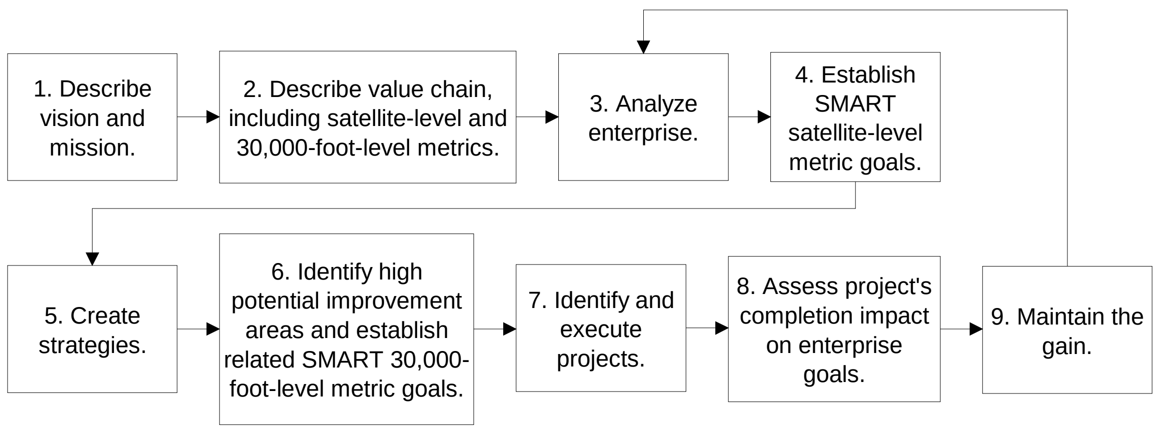

Figure 1: The Integrated Enterprise Excellence System.

From Figure 4.7 *Integrated Enterprise Excellence, Volume II – Business Deployment: A Leader's Guide for Going Beyond Lean Six Sigma and the Balanced Scorecard,* Forrest W. Breyfogle III, Bridgeway Books, 2008.

two the previously described scorecard metric issues, which is the focus of this paper.

In step two, organizations document their functional steps and how each function will be measured relative to quality, cost, and time considerations. The terms satellite-level and 30,000-foot-level metrics are statistical business performance charting (SBPC) techniques that describe how metrics will be tracked over time without calendar boundaries. Satellite-level metrics are financial metrics such as the monthly tracking of profit margins and total revenue growth year after year. The 30,000-foot-level metrics designation is used to describe high-level operational metrics such as on-time delivery, defective rates, and lead time.

Organizations often create strategies—such as step one's "describe vision and mission"—in their business system where organizational work should align with these strategies. Performance operational goals are then assigned to functions throughout the organization where a tracking system assesses how well these goals are being met. This common practice can sound quite attractive but this system can lead to unhealthy organizational behaviors.

To illustrate this point, consider how an organization can spend much time creating a strategic plan, perhaps at an executive retreat. But afterward, people throughout the organization have difficulty interpreting what should be done to specifically address strategically-aligned measurement goals as they are passed down through the organization chart.

In his book *Good to Great* (HarperCollins, 2001), author Jim Collins describes a level-five leader as someone who is not only great when he or she is leading the organization, but one whose leadership is so strong that the organization maintains its greatness even after the leader leaves. I describe this level-five-leader-created legacy as being a “Level-Five System.”

Do you think organizational strategies would change if there were different leadership? A vast majority would respond “yes” to this question. Because of this, it seems to me that it would be very difficult for an organization to create a Level-Five System when the primary guiding light for the organization is its strategy, which can change with new leadership.

To create a Level-Five System, organizations need to have stability at the front end of their business system, even through leadership changes. The integrated enterprise excellence nine-step system provides this front-end foundation in steps one and two. Strategies are important and need to be created through a wise blending of analytics with innovation. In this nine-step system, strategy creation occurs in step five.

Step two of this corporate performance management system states “describe the value chain, including satellite-level and 30,000-foot-level metrics.” This value chain refers to an organization’s business functional process map with its appropriate cost, quality, and time metrics, where these high-level metrics have no calendar constraints and are predictive when appropriate.

Creating organizational metrics through the enterprise value chain

In businesses today, the enterprise value chain is not typically viewed as a system of nonsiloed processes with performance measurements. Instead business reported metrics often focus on business areas relative to how things are going every week, month, or quarter relative to goals. This form of goal setting reporting can lead to much firefighting and, in extreme cases, a fatal meet-the-numbers-or-else culture (e.g., Enron).

The value chain shown in figure 2 describes what the enterprise does (rectangles in the figure) and its performance measures of success (ovals in the figure), from a customer and business point of view. In describing what the organization does, the center portion of the value chain can have procedural drill downs with attached documents. Metrics for each of the functional steps are described within the connected ovals.

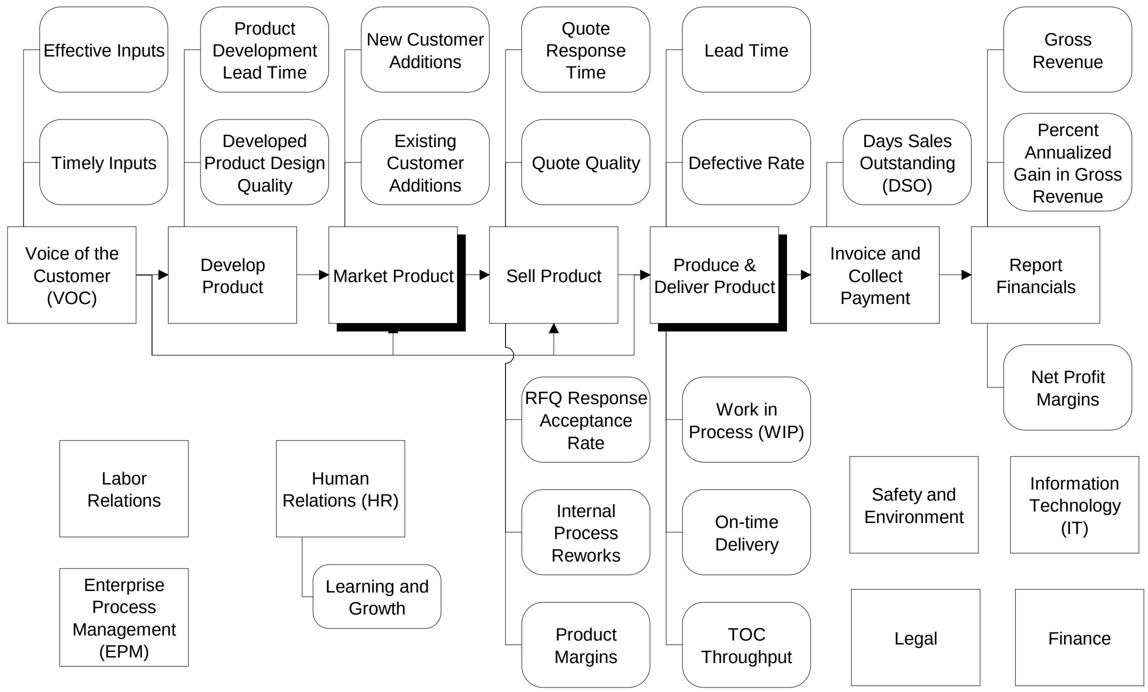

Figure 2: Value chain with scorecard/dashboard metrics. Shaded areas designate processes that have subprocess drill downs.

From Figure 7.1 *Integrated Enterprise Excellence, Volume II – Business Deployment: A Leader's Guide for Going Beyond Lean Six Sigma and the Balanced Scorecard*, Forrest W. Breyfogle III, Bridgeway Books, 2008.

With this corporate performance management system, I want to reemphasize that the organization chart is subordinate to the value chain. Also, the enterprise value chain is long lasting even through organization changes, where ownership of process functions and metrics would change, when appropriate.

Let's now consider the metric portion of the value chain. In this corporate performance management system, metrics align with how the business is conducted. This is in contrast to creating metrics around the organization chart, which can significantly change over time. It is important not only to determine what should be measured but also to have a reporting methodology that is most beneficial to the enterprise as a whole.

Traditional scorecards describe what has occurred in the past for some time interval but do not make predictive statements. For the value chain, we want to create no-nonsense metrics that can be the foundation for moving toward achievement of the 3Rs of business.

For achievement of these objectives, process performance tracking should have the following measurement characteristics:

- Business alignment
- Honest assessment
- Consistency
- Repeatability and reproducibility
- Action ability
- Time-series tracking
- Predictability
- Peer comparability

However, as described in the article "Predictive Performance Measurements: Going Beyond Red-Yellow-Green Scorecards" there are issues with commonplace scorecards, including red-yellow-green scorecards, which can lead to resource draining firefighting. The described SBPC metric system has all of the above good metric characteristics, including the assessment of whether a process is predictable, along with providing, when appropriate, a prediction statement. With this corporate performance management system, all metrics have SBPC reporting.

As part of this overall business management system, organizations can analyze their predictive value-chain metrics collectively with other considerations, such as the current business-economic environment, to develop strategies (step five in figure 1). When examining the enterprise as a whole, functions that have a predicted performance level, which have opportunities for improvement, stimulate the creation of improvement projects (step seven). The objective of one or more projects is to transform key targeted enterprise metrics to a new, improved level of SBPC performance. I call this a metric-performance-improvement-need pull for process improvement project creation. One should note that with this system all scorecard metrics do not need to improve (e.g., metrics which are performing satisfactorily from an overall business point of view and are not a constraint/bottle-neck to the enterprise as a whole).

This approach is in contrast to leadership brainstorming for projects, for example, during a future lean Six Sigma training session. I call this traditional lean Six Sigma deployment approach a push for project creation.

Conclusions

With the described system, value-chain functions and metrics maintain basic continuity through acquisitions and leadership change. An organizational value chain with its 30,000-foot-level metric reporting can become the long-lasting front end of a Level-Five System and a metric baseline from which strategies can be created, improvements made, and system-change benefits assessed.

The value chain as part of the described business system helps organizations address current business systems issues and can become a foundation to addresses the challenges and complexities of the day.

About The Author

CEO and president of Smarter Solutions Inc., Forrest W. Breyfogle III is the creator of the integrated enterprise excellence (IEE) management system, which takes lean Six Sigma and the balanced scorecard to the next level. A professional engineer, he's an ASQ fellow who serves on the board of advisors for the University of Texas Center for Performing Excellence. He received the 2004 Crosby Medal for his book, Implementing Six Sigma.

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Additional Smarter Solutions Resources

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2. Breyfogle, F.W. (2009) "Creation of Effective Organizational Predictive Metrics that Lead to the 3 Rs of Business" Smarter Solutions, Inc.
3. Breyfogle, F. W. (2008), *The Integrated Enterprise Excellence System*: An Enhanced, Unified Approach to Balanced Scorecards, Strategic Planning, and Business Improvement, Bridgeway Books, Austin, TX.
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7. Integrated Enterprise Excellence Resource Center containing over 100 articles (http://www.smartersolutions.com/pdfs/online_database/register.php) .
8. Dickman, S. and Breyfogle, F. W. (Winter 2008-2009) "New Methods to Achieve Production and Financial Gains," *M-World*, American Management Association.
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10. Smarter Solutions' Executive Overview, Achieving Enterprise Excellence,
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