

“Good” Performance Metric Identification

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When an organization decides to implement a business process performance-reporting system, the first question is: “What metrics should be reported?” There are many options available to answer this question; reporting all currently-used metrics, reporting all metrics that have existing data, brainstorming for potential metrics, and a top-down performance-based selection method. All of these methods are used by successful companies, but only the last method will rapidly result in a small and viable set of performance metrics that are all related to financial performance. The first three selection methods will capture a majority of the key performance metrics but will generally also include a high number of non-important metrics, which will undermine the performance-reporting success in the organization.

The Smarter Solutions Integrated Enterprise Excellence (IEE) system¹ provides a simple top-down method to identify all the key business performance metrics that ensures a tie to financial performance. This identification method is part of the IEE Enterprise-DMAIC process, documented in Forrest Breyfogle’s five-volume Integrated Enterprise Excellence series. In the IEE system, you start with the top four to five financial performance metrics, such as revenue, profit margin, and others. Then the entire business is divided into functions that are in the revenue production value chain and the business support functions, which are outside of the value chain.

Each business revenue production function will identify two to five high-level performance metrics that represent the proper performance of the function. These identified high-level performance metrics should focus on the success of the function, focusing generally on the cost to operate the function, the quality of the function, and/or the duration of time to complete the function. This combination of cost, quality, and time metrics should clearly define the performance of each and every function.

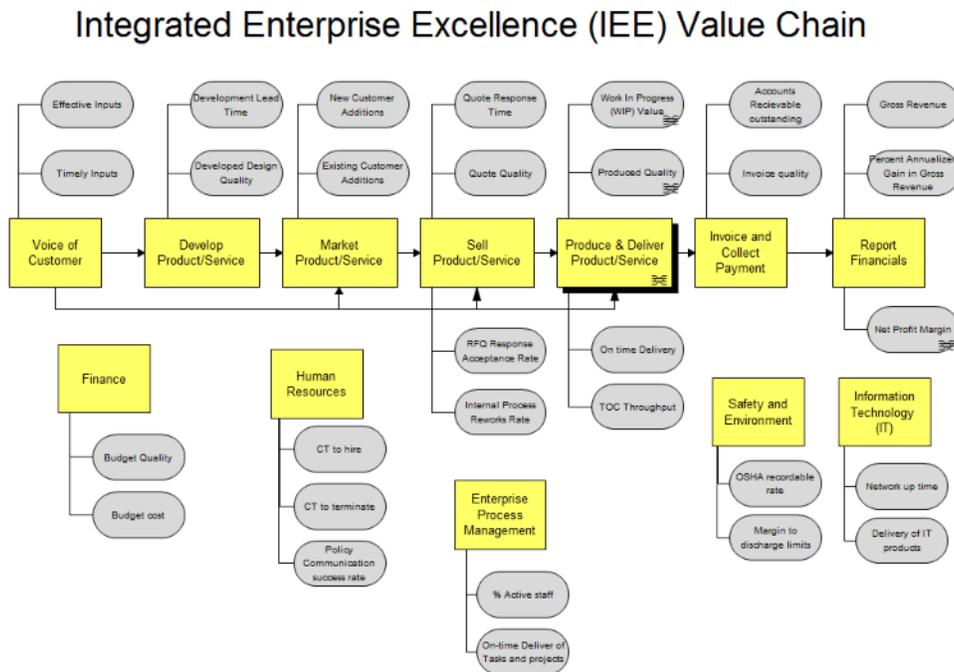
Each department does not select its own set of metrics because the metrics are tied to the business function. All areas of the business that perform the same function are to be measured in the same way. A similar method is used to identify the two to five support function performance metrics. These high-level metrics are considered as the 30,000-foot-level metrics.

Each business function will also create more detailed performance metrics that represent the within- function performance, but these should be reported to the functional business leadership, not to the business leadership. If the 30,000-foot-level functional performance metrics are demonstrating an adequate performance, there is no need for the business leadership to examine any of the within- function performance metrics. These within-function performance metrics are left to the functional management to monitor and act upon changes. These within-function metrics can be considered as lower-altitude metrics, such as a 20,000-foot-level metric.

Any time that a performance metric is found to be performing at a non-acceptable level, an improvement effort is initiated. It may be a Lean Six Sigma DMAIC project, a cause and corrective action, or a continuous improvement effort. The use of the 30,000-foot-level performance reporting methods provides clear guidance into the best course of action for each performance gap.

This performance metric concept is difficult for some organizations to accept because it does not tie the metrics to the organization chart. When metrics are derived from the organizational chart, rather than from the functions, each manager is able to choose his own metrics that will represent the performance of his process in the most favorable light. Metrics determined by individual managers will make it difficult to perform peer-to-peer comparisons of performance across the organization because there is no requirement for common metric definitions.

Following the IEE enterprise-DMAIC¹ methods to define business performance metrics will lead to a smaller number of performance metrics than all other listed methods, because only functional metrics related to financial success are included. The hierarchy of functional metrics in the IEE system, 30,000-foot-level to 20,000-foot-level and lower, allows for a drill-down structure from the top down into the organization, which can be easily be modeled with a value chain format flow chart diagram shown below.



The Enterprise Performance Reporting System (EPRS) allows the use of standard flow-charting software to generate graphics that can be used to link to performance metric reports, or to use as a scorecard. In the prior diagram, the rectangle icons are considered as business functions, while the ovals are the metric icons. Each function icon links to a drill-down diagram for a more detailed examination of the function. Each metric icon links to the high-level performance metric along with more detailed breakdown of that metric based on the organizational structure and product lines.

The big advantage of this performance reporting format is that it does not change with every organizational re-organization. Since the business purpose and functions do not change during a re-organization, a focus on business function based metric reporting makes good sense. A re-organization changes only the person assigned responsibility for each function, not the metrics needed to monitor the function.

Characteristics of a good metric

Well-chosen metrics can help mitigate these risks if the measurements contain both good tracking and a reporting methodology that lead to the most appropriate action or non-action. Eight good-metric characteristics for achieving these objectives are: ¹

- **Business alignment:** Metrics consume resources for both data collection and analyses. Measurements need to provide insight to business performance, its issues, and its needs. For an enterprise, organizational charts will typically change over time but its basic high-level functional activities do not. Metrics need to provide a quantification of business operational performance at both its high and drill-down levels. **M**
- **Honest assessment:** Creating metrics so that the performance of someone or of an organization will appear good has no value and can be detrimental to the organization. Metrics need to provide an honest assessment, whether good, bad, or ugly. **M D**
- **Consistency:** Identified components in any metric need to be defined at the outset and remain constant. Criteria and calculations need to be consistent with respect to time. **M D**
- **Repeatability and reproducibility:** Measurements should have little or no subjectivity. We would like a recorded measurement response to have little or no dependence on who recorded the response or when it was done. **M**
- **Actionability:** Often measures are created for the sake of measuring, without any thought as to what would be done if the metric were lower or higher. Include only those metrics that will be acted upon; that is, either to remove a degradation problem or to hold the gain. When the metrics response is unsatisfactory, organizations need to be prepared to conduct root-cause analysis and corrective or preventive actions. **M D**
- **Time-series tracking:** Metrics should be captured in time-series format, not as a snapshot of a point-in-time activity. Time-series tracking can describe trends and separate special-cause from common-cause variability in predictable processes. **D**
- **Predictability:** A predictability statement should be made when time-series tracking indicates that a process is predictable. **D**
- **Peer comparability:** In addition to internal performance measurements, benefits are achieved when comparisons can be made between peer groups in another business or company. A good peer comparison provides additional analysis opportunities, which can identify improvement possibilities. **M D**

Each metric characteristic is related to the way that the metric is defined (marked with an M) or the method that it is reported/displayed (marked with a D).

It is easy to identify metrics to use for a scorecard or performance report, but it difficult to select the right metrics for an organization that are all meaningful and valuable to the decision makers. When they initiate performance scorecards, nearly every organization includes too many metrics. The inclusion of non-critical metrics may lead to the assignment of key resources to evaluate metrics that have little value, while the truly important metrics end up being treated just like any other metric. A performance scorecard will provide the most benefit to the leadership when more preparation and thought that goes into the selection of metrics.

References

1. *Integrated Enterprise Excellence Volume II – Business Deployment: A Leaders’ Guide for Going Beyond Lean Six Sigma and the Balanced Scorecard*, Forrest W. Breyfogle III, Citius Publishing, Inc., 2008 ([Link to \[http://www.smartersolutions.com/store/product.php?productid=12&cat=2&page=1 \]](http://www.smartersolutions.com/store/product.php?productid=12&cat=2&page=1))

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