RG Perspective

Performance Metrics

A Key to Driving High Performance

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1. Introduction

Organizations have been struggling for a long time to manage performance better. Many systems and approaches have been developed over the years that help organizations address this challenge. These performance improvement methodologies such as Balanced Scorecard, Lean, Six Sigma, and TQM differ in their approach, but they all have one thing in common. They all rely on measurements and metrics. Metrics are important because they quantify objectives and results and provide a common language for communicating about performance. They also 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 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 from terrorism threats. These examples give us a window into the future. However, there is value to be achieved in driving higher performance with metrics today. Achieving a premium from good metrics requires that performance metrics have three key characteristics; that they are aligned to strategy, drivers of higher performance, and credible to the stakeholders.This RG Insight will examine the importance of metrics and the impact they can have in raising the performance of your organization.

2. Aligned to Strategy

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

Metrics aligned to the strategy also leverage the benefit from targeted improvement initiatives such as Lean or Six Sigma. By using metrics aligned to the business strategy to focus these initiatives, the results of performance improvements are delivered in support of the organization's mission for higher delivery to the organization's stakeholders

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 destination of "mission accomplished." In other words, good metrics steer decisions and drive actions toward achieving the desired results.

3. Drivers of Higher Performance

Organizations use metrics for two primary purposes: to drive performance and to communicate results. Organizations must clearly define the purpose of their metrics.

Communication 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. Communication metrics have their place in an organization, but it is important to differentiate them from performance metrics in their use and presentation.

Driver and leading metrics, however, are predictors and creators of future performance and results. Driver metrics force management decisions when they are off 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. Instantaneous miles per gallon will tell you to increase or decrease your foot on the gas pedal. Average miles per gallon will tell you how well you drove during the past period. When an organization selects its performance management metrics, it must be sure that they are truly performance management metrics and not performance reporting metrics. As a manager in one government agency put it, "I produce 100 performance reports a month, but none of them help me run my organization."

4. Credible to Stakeholders

Organizations demonstrating lower levels of performance management maturity have metrics that are gathered from multiple sources, using multiple or loosely defined performance management methodology(ies), 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, managed to 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 must be based on hard data and derived from that data using consistent algorithms. And the path that the data takes from the source to the delivery of the metrics must be secure. Metrics should report using data taken from a source as close as possible from the data creation, often called the "source of record." The further the data collection from the source, the more likely the data will be corrupted or influenced. The source should be fact-based–for example, statistical reports or physical measurements—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. Excel spreadsheets are open to mistyped or intentionally changed entries; far better are custom or commercial applications that extract the data and automate it into metrics without human intervention. And the information should be portrayed in a way that is meaningful to guide 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 higher performance.

5. Conclusion

Good performance management metrics are aligned to strategy, drivers of higher performance, and credible to stakeholders. They enable management to direct changes in behavior, reallocation of resources, or even changes in 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 and results.