

# Measure What Really Matters

---

By Robin Young, AT Kearney Ltd.

"Make it your number one goal to identify your number one goal" -*Rick Dobbins*

---

"When I finally get myself together I'm going to get down in that sunny Southern weather and find a place inside life, Separate the wheat from the chaff." - *Crosby, Stills, Nash and Young, Almost cut my hair.*

---

"There are four main Board directors of FTSE 100 companies on the committee at my gold club. last weekend we spent one hour arguing about the texture of the carrots at lunch and about getting quotes for 18 waste bins." - *Hugh Roberts*

---

"Fifteen old men, all doctors, Ph.Ds and millionaires, were seated around a huge rectangular table discussing plumbing expansion, salary scales, medication charts and rights of way, while the patients in the square mile around us settled every more comfortably into their various defined stupors." - *Luke Rhinehart, The Diceman*

## Measuring the right things

The ideal performance management system is one that energizes the people in an organization to focus effort on improving things that really matter - one that gives people the information and freedom that they need to realize their potential within their own roles and that aligns their contribution with the success of the enterprise.

Many systems fail to achieve this ideal. One of the root causes of failure is over-complexity - it is the death knell of a performance management system. Detail can swamp useful information, paralyzing decision making. The effort of collecting the data can outweigh the benefit of having the information. This scenario guarantees disenchantment for staff and a system that atrophies from underuse.

Systems fall prey to over-complexity because organizations themselves are complex. Except in the most streamlined, most tightly engineered organizations, many levels of management interact across functions in the pursuit of "what has to be done" (WHTBD). Responsibility for WHTBD is too often diffuse and a typical reaction to this is a system which measures minutiae and further obscures the underlying reasons for good or bad performance.

The good news is that you don't have to re-engineer your organization before you can operate an effective performance measurement system. All you need to do is stick to two guiding principles:

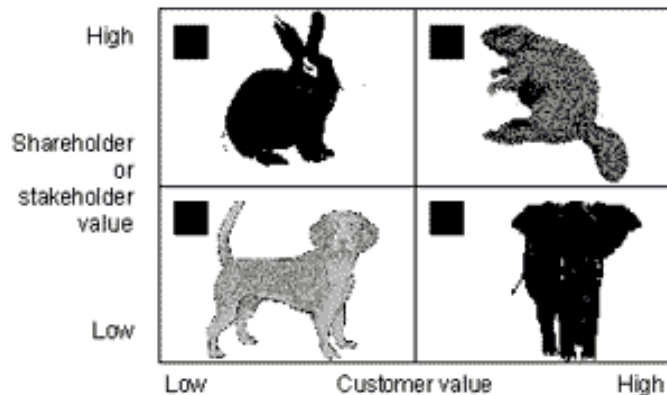
- Measure what matters
- Keep it simple

## Measure what matters

This is easy to say but difficult to do. One way to check for yourself where to focus your measurement effort is to plot what you, your team or your organization actually do on a value matrix similar to the one in figure 1. The activities in the top right box - highly valued both by customers and stakeholders or shareholders - are the ones to measure, to focus on, to (with apologies to North American readers) beaver away at.

If your analysis shows much of your current effort to be focused in the dog box, - no value to anyone - you're not alone. Experience shows some senior managers spend up to an amazing 80% of their energy on "corporate hygiene" - the activities that keep an organization ticking but don't contribute to its prime functions. Identifying this is the first step in doing something about it.

Figure 1. Concentrate on what really matters



This matrix also tells you what sort of measures to apply:

- Focus on measures which will help you work hard to improve value from both the customer's perspective and the shareholder's perspective, e.g. process: new product development, measure: time to market.
- Concentrate on generating more value for the shareholder, don't let the process become a white elephant, gobbling your resources but not contributing value to you. e.g. process: customer service, measure: customer retention.
- Keep these processes lean, don't let them proliferate. e.g. process: treasury management, measure: cost of service vs. value created.
- Make sure that you don't waste any effort, outsource, let someone else walk the dog for you. e.g. process: pensions administration, measure: who cares as long as it gets done?

## Keep it simple

The second guiding principle has three elements. The measuring system should be:

- simple to operate
- simple to understand
- simple to action

For a system to be simple to operate, data collection must be easy, distribution must be timely, and the information should be easy to manipulate.

Make sure that information demands are matched by ability to deliver. Simple needs can be easily met by low technology, manual systems. Complex needs have to be supported by systems investment: don't get stuck in a situation where you force your front line staff to spend significant time gathering and manipulating data - this takes minds of WHTBD: if salesmen spend too much time on call reporting, they have less time for making calls.

For a system to be simple to understand, information must be clearly presented and there must be as little of it as possible.

Clear presentation can take many forms. Perhaps the most elegant is to compare your actual performance against what you were expecting - your forecast - indexed as 100. Good performance will always give you a

number greater than 100, and bad performance less than 100. What could be simpler?

Volume of information can be kept under control by having cascades of measures at different levels in an enterprise. This balances the need for actionable information at all levels with the absolute imperative never to overload anyone. The check question is "will the person receiving this information do anything with it themselves?". If the answer is yes, make sure they get it. Without it, they will never be able to take action.

In practice, guarantees that a measurement system will be simple to action go beyond the gifts of the measurement system alone. This is determined by an organization's modus operandi, management style, appraisal and reward system, etc. For example, two health service managers are told to cut costs by 5/5. One works hard and achieves the goal. The other decides that the target is too difficult and overspends. The achiever is told to work even harder to save more next year; the budget buster is given more money. Message, forget the targets, chaos equals cash.

However, the measurement system itself must observe two key principles to help make it actionable.

The first is give people the information they need, don't expect people to meet or exceed your expectations if they don't know what is important and how they're doing.

The second is make sure the information sends the right message. For example, a manager of a tissue paper factory who has a production target expressed in tons will make you the heaviest tissue paper you ever blew your nose with. This is great for his bonus and bad for your business. He needs quality targets too or he will continue to work to perverse incentives and produce perverse results.

These simple guidelines explain the principles of measuring the right things. It is difficult to do, but it is absolutely vital if you are to achieve the holy grail of performance managers - a performance management system that energizes people to focus effort on improving what really matters. Wouldn't that be great?

For more information, please contact us at [info@pbviews.com](mailto:info@pbviews.com)