

Measures Matter

By Rebecca A. Morgan
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Numbers are an important part of running a business. Whether you “run it by the numbers” or just need a few to look at so you can stay on top of things, it is imperative that you define your business metrics carefully.

Isn't it ironic? As children, some of us suffered from math phobia; more simply didn't like the subject. Students complained “but we'll never use this math junk anyway.” And now, years later, here we sit. We pour over the numbers, looking for the answer. How are we doing? Which of our problems must be addressed first? Are we heading in the right direction? If we're doing all the right things, why isn't it showing up in the numbers?

Numbers are an important part of running a business. Whether you “run it by the numbers” or just need a few to look at so you can stay on top of things, it is imperative that you define your business metrics carefully. The wrong ones can be dangerous. Let's look at a few good rules to consider as you identify the numbers right for your company.

Rule Number 1: The IRS has a convoluted germymandered complex tortuous set of ever-changing regulations. While that legislative discharge serves as an excellent Exhibit A as to why one should never just bandage something that really needs major surgery, it serves no purpose in helping you evaluate your business' performance. By all means, give unto Caesar what is Caesar's. Just don't use his numbers to make business decisions. Create the numbers you need.

Rule Number 2: Data is not free. As you consider alternative metrics, make sure that the benefit of having the information outweighs the cost of getting it. Some numbers are interesting, but irrelevant. Will your decisions be sufficiently improved to make getting the data worthwhile?

Rule Number 3: Don't just use a number because everyone else does. A lot of people toss around the acronym EBITDA as if that number answers every question, but that particular metric may be all show and no tell for your business. If you believe something is a key metric, then work hard to understand it clearly. It's not enough to quote the formula or the one paragraph summary. Data only morphs from costly into valuable when it tells you something you need to know in a way that you can understand.

Rule Number 4: You should be able to see a clear cause and effect relationship between identified business processes and the metric value. If you don't know which company actions impact it, or what you're likely to do differently when its value changes, what good is it?

Rule Number 5: A valuable metric correlates with your goals. If the metric value “gets better” then you should be able to say that that aspect of your business “is better.” If the metric value gets worse, then that part of your business must be worse. If a metric has an “it depends” interpretation and you cannot correlate its changing value to your goals, then, again, what good is it?

Once you think you've identified the metrics that are important to your business, what next? Begin to integrate the use of those metrics into decision-making. Some simple but powerful steps to take:

Step 1: Educate employees so they understand the metrics that they influence, or that impact them.

Step 2: Help employees relate the metrics to their individual realms of power and authority. Walk through a couple of common situations with them to make sure the metric will drive the behavior you expect. If it doesn't, you may need to change the metric.

Step 3: Work with employees to develop a consistent sense of priorities for the measures that they impact. For example, if I impact cost, quality, and on-time delivery, which one has precedence? I know you want all three, but when I have to choose, how do I make that decision?

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Contact Rebecca A. Morgan at:
Fulcrum ConsultingWorks, Inc.
voice: 216-486-9570
fax: 216-486-9922
cell: 216-210-9109
morgan@fulcrumcwi.com
www.fulcrumcwi.com
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Step 4: Ensure that employees have the information they need when they need it. You can't make good decisions running blind. Neither can they.

Step 5: Watch out for unintended consequences. The saying "tell me how I am measured and I will tell you how I will act" is true for most people. Even if you

have carefully thought through the metrics you chose, behavior may not be what you expected. Go back to Step 2 as many times as you need to.

Yes, those math classes are beginning to come in handy. Measures do matter.



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morgan@fulcrumcwi.com

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