Smart metrics mean smart decisions: essential for speed, agility and resilience

How a mix of the right leading indicators, to match the business model, accelerates progress

Timely, relevant metrics and feedback are essential for ensuring pace and delivery. This becomes even more important when you are less certain of what will happen next in your market. There is plenty of published material on measurement - mostly focused on a specialist area. We found interesting research into the overall need for metrics in running a business - beyond the statutory. These are the key themes.

Metrics are not good enough in most organizations. Indeed, 78% of CEOs say that they need more than standard financial indicators, but that their ability to monitor non-financial metrics is inadequate. Why is this?

> ***Problem 1: metrics remain focused on statutory and retrospective reporting.*** As Michael Hammer said: “If I know that sales are down and costs are up, it’s useful, but it doesn’t tell me what to do about it.”
>
> ***Problem 2: additional metrics are owned by functions.*** Most non-financial metrics are designed to test the performance of a function (and, if you are cynical, help them justify their budgets and roles).

The prize: metrics that help deliver, not a self-protecting vicious circle

Research suggests that organisations have a 63% gap between what they wish to achieve over 3 - 5 years, and what they actually deliver. This leads to a vicious circle where managers learn that strategic plans do not get fulfilled, and metrics become the means to justify performance, instead of a tool to improve it.

The prize for getting this right is clear. The best performing 20% of companies are twice as likely as others to make effective use of indicators beyond ‘sales and profit’, to help manage the business.

Six steps to creating ‘smart metrics’ in your business:

1. ***Understand your business model:*** build metrics around how the company makes money
2. ***Understand the value drivers in the model:*** look at what underpins the business model, with a statistical analysis of leading and lagging indicators
3. ***Identify and design measures to track the key value drivers:*** practical, easy to use, and timely
4. ***Integrate metrics into the leadership of the business:*** the key measures should be owned by the executive team, and routinely used as an input to their decisions
5. ***Ensure focus:*** an effective executive team should have fewer than 20 metrics, based on ‘root cause’ drivers of value. Most should be leading indicators
6. ***Don’t forget experience and instinct:*** metrics will not provide 100% answers. They should be tempered with anecdotal evidence, intuition and instinct.

Proof of success

One study shows that those companies that are using a mixture of financial and non financial measures with 'lead indicators', deliver: 2 x the improvement rate in "time to decision" compared to the industry average (10% vs 5%) and 9% improvement in profitability (compared to 7% industry average).

Various studies show that non-financial indicators explain a significant proportion of share value. Organisations that do not measure and track these cannot fully manage their value. With the right measures, it is also possible to anticipate and respond to inevitable external changes.