How to Increase Production, Profit and Morale: Extend your use of Business Performance Measurements

by Tom Grimshaw

Executive Summary

The best way to get an objective, accurate measure of the performance of a person, unit, department, division, company, organisation or government is to work out what they are or are supposed to be producing, what validly measures that production and plotting that measurement on a weekly graph. The trend of the line on the graph will cut straight through the chaff and tell you how well the individual, manager, CEO or president of the country is, or is not doing, his job.

Their validated production record is also the safest way to determine whether or not to hire or promote a person.

The use of Business Performance Measurements needs to be extended throughout the organisation all the way down to the level of the individual staff member and increased in frequency to weekly, daily, sometimes hourly.

Doing so will result in increased transparency, accountability, production and morale.

Business Performance Measurement

Business Performance Measurement is a gauge or measure of one aspect of business performance. You use them now. You probably don’t call them that. You refer to weekly sales, gross income, gross profit, net profit and such. Those and expenses are valid financial performance measures that relate to the performance of the business as a whole.

What about measurements that gauge the performance of a business unit or an individual that is not a trading entity? Such cannot be measured in standard profit and loss terms.

Number of widgets manufactured is a production measure. Number of widgets shipped and percentage of shipments correctly received on time and undamaged are distribution measurements of quantity and quality. Number of sales calls made, number and value of sales are measures of sales staff activity and results.

Key Performance Indicators

Key Performance Indicator or KPI, to which it is commonly abbreviated, is a synonym for business performance measurement. It is perhaps a more appropriate term to be using when referring to the production of individuals and sub-sections of a business.

Statistics

In this article, whenever I use the term statistic I am referring to its use as a Key Performance Indicator or Business Performance Measurement.

Rationale

Any progress, by definition, needs to be measurable. If you can't measure your progress, how do you know if you are making any?

The way you can tell if you are making progress towards your business objectives is with objective measurements. Any objective measurement that gives you insight into how your business is performing over time is a valid target to staticise. If you are not regularly measuring your progress then you are not being well enough informed.

When you were at school you sat exams at the end of the year to see if you had retained the data the teachers gave you during the year. But some people failed! Similarly many businesses do a tax return once a year to see if they made any money. Sadly, 90% of business fail. Are we detecting a trend here?

Once a year is far too seldom to measure your progress, in school or in business. Once a month is still too seldom. By observation, **testing progress once a year does not provide early enough detection of a departure from the ideal to permit remedial action to accomplish the objective!** That last sentence is such an important point and it is so different from so much of your experience that I'd like you to go back and reread it.

Gold nugget: Checking needs to be done at a frequency appropriate to the rate and relative importance of the changes.

Example: Driving the car at 120 kph requires more frequent verification that you are still on course and nothing new has entered the equation than driving at 5 kph. At 5 kph you could take your eyes off the road, talk to your passenger for 5 seconds and chances are nothing would have changed by the time you again looked at the road. After all, you've travelled merely 7 metres. Now something may have changed, which is why you don't take your eyes off the road, even at 5 kph. At 120 kph the distance travelled in the five seconds (166 metres), the extra time and distance it takes to stop in an emergency and the potentially fatal consequences of an error, all dictate that you pay more attention to more frequent checking that the driving conditions have not changed.

You should be measuring your organisational and divisional KPIs once a week and your personal ones daily! If you are doing substantial internet marketing of your business, you should be checking some marketing metrics even hourly! After all, the sooner you notice something is different, the easier it is to spot the reason for the difference. Also, the faster you take appropriate action, the better the outcome.

Important Data

One very important thing to bear in mind is that a key performance indicator is most valid when used as a comparison, sometimes against its own past (500 last week and 550 this week) and other times against another, (bills = $45,000 when cash in bank = $100,000 is good whereas bills = $45,000 when cash in bank = $10,000 is bad).

Often the date completely changes the perception of the indicator. For instance if I proudly said to you I made $20 for the week you would think the pride misplaced. If I gave you further data that the year I earned it was 1969 and I was 17 years of age at the time, it would alter your perspective completely.

My Personal Experiences

During my 5 years at Woolworths we monitored the store sales on a daily and weekly basis. We set weekly and quarterly budgets for sales and profitability. We never called them by fancy names like Business Performance Measurements or KPIs, we were just interested in the figures as a gauge of how well we were doing in keeping the stock on the shelves and meeting competition.

When sales were up, we rejoiced. When sales were down we worked harder to correct what we perceived was the reason they were down.

Day one at AMP they taught me: “It’s a numbers game - you make ten calls, you get three appointments and one sale. The reason sales people don’t succeed is that they don’t do enough "tens”.”

So in the Looking Ahead Plans Book AMP provided I kept those statistics religiously for 12 years. Sure enough, whenever I was not making enough money I would look back at the stats in the book and prior to the lean times I had not been doing enough calls. I’d increase the calls and the income would also rise.

That’s how I learned the value of keeping weekly tabs on my personal production.

I started The Money Professionals in 1989. Pretty quickly I had 16 salespeople working with me that I needed to manage. Recalling what AMP taught me I created a spreadsheet to track the calls, appointments gained and sales. Now that I had a spreadsheet to do the number crunching I saw that I could easily add other statistics to track that would help manage the sales people. After I added a few more I was able to print reports the likes of which I was told nobody in the insurance industry was doing.

Then came the disaster. I added another straw (week's data) that broke the camel's back (spreadsheet) and overwhelmed the computer. The spreadsheet was now officially too big to load. RIP one spreadsheet. Long live the database!

I took the formulae from the spreadsheet and put them into the database language. I was then able to get even more insights from the additional figures I could get the database to compute based on all the data in there. A couple of people looked over my shoulder and said what I was doing was so good I should be doing it full time.

Circumstances conspired to grant me that opportunity. A print broker needed a custom database program so I took what I had created for myself, added some functionality and delivered what he needed. I was now officially a commercial application developer.

I added number and value of paid hours programming to the list of weekly statistics I graphed. I started to market myself as a programmer.

In 1996 I heard that Mr Lever from Lever and Kitchen, the soap people, had said in 1906, "We know 50% of our advertising works, we just don't know which 50%!"

Determined to not let that happen to me I added a Promotions table to my database. I linked each person who responded to the promotion that elicited the response. I was able to produce reports that told me to the penny what worked and what didn't work. I was able to do short run test promotions to find what worked and quickly discard the failures.

Since then I have added various types of statistics for various clients and observed the benefits that resulted from keeping them.

So I have kept and used statistics for most of the time over the last 32 years. Why not all the time? Good question! And I hope you learn from my mistake here.

Sometimes I thought I was too busy to add up the figures at the end of the week. I was programming software on a tight deadline and I just kept working. Bad mistake! Why? Whether you are a multi-national corporation or a one-man band it is very beneficial to draw a line in the sand at the end of the week, count the numbers and take stock. How is it beneficial?

Firstly, it gives you an end-point for the week, a fresh beginning. Some weeks are winners, some aren't. When the week is a winner, you need to take stock and truly identify what caused the win so you can take appropriate measures to keep the roll going. When it is not a winner, when it is a real bummer of a week, you also need to take stock and identify what you need to alter to make sure it does not happen again.

Not having a definite end-point for the business week, such as midnight Thursday or midday Friday, causes the weeks to roll into one long blur. From personal experience, not having a set time each week to do a formal analysis on the "state of the nation" with regard to your business creates a mental condition of "not knowing" about the true state of the business. This contrasts markedly with the certainty you obtain from knowing the exact figures for each area of your business. Try it for a while and you will see for yourself soon enough the difference between the two states of mind.

Financial Rewards

Coming from a sales background as I do it is almost unthinkable to me not to financially reward high production. Most people do not come from a sales background. In most activities, financially rewarding production is a foreign concept. In areas where performance is easily measured, like number of widgets sold, company share price, net profit etc. it is very easy to reward production. In others, it is more difficult but with some thought and effort it is doable.

BPM (Business Performance Management) Software

Most organisations use an accounting package. Some also use a contact manager. Bigger businesses often use a CRM (Client Relationship Management) program. Manufacturers and farmers will use dedicated manufacturing or farming software. Each of these will have an element of performance measurement but it is usually restricted to their area of specialty. Their orientation and focus is usually on solving one aspect of the data management problem, at which they do a good job.

Larger organisations will sometimes have dedicated BPM software. In it you can enter statistic names and formulae. Business performance measurement software enables the personnel of an organisation to quickly and easily gather and collate the data then present it in a fashion that highlights relative importances. This is a considerable advance over basic business software that does merely the accounting functions.

Business performance management software goes beyond historical record keeping, tax preparation and call reminders. It is all about providing ALL the relevant data on how your business is tracking so you can better manage your business. It is also about giving you the data in the best format to help you make better managerial decisions. By the right format, I mean that you can see trends better in a graphical presentation. A key benefit of good business performance management software is the ability to see a weekly line graph for each key performance indicator.

Do you get more than the basic reporting from your business software? If not, it is not doing enough for you. When you set up your program, you should be able to enter the KPI calculation formulae for your all levels of your business down to the individual staff member. Every week thereafter, your business software should produce a graph for each KPI.

Imagine how much more productive each staff member would be if they had their own statistic that measured their production and it was graphed each week for all to see.

Key performance indicators for individual staff members raise their accountability and responsibility. This enables them to focus on those actions that will raise their own production and therefore morale. They highlight the results achieved by your top performers and set those as examples for others to follow. It also enables you to accurately identify and reward production.

The organisation wide use of key performance indicators shines a bright spotlight on those who need more training to do their job or who are resting on their oars while the rest of the team struggle to carry their weight. There is a chalk and cheese difference between organisations that use staff KPIs and those that don't.

In summary, once every staff member gets into the habit of drawing a line in the sand at the end of each week and reviewing their KPIs, you will find that your business takes on a totally different complexion. Seeing a graph each week of each KPI will yield a huge increase in each staff member's certainty of where they need to put effort for the growth and expansion of your business.

Real Time Data Analysis and Business Intelligence

I made reference earlier in this article to the desirability of measuring progress daily for an individual and even hourly in some cases. Today there are software tools that can display real-time changes in KPIs as the data is acquired. This takes the ability of management to respond to changes to a completely new level.

Imagine being able to launch two new TV ads and see, in real time, the responses of those ads. If one was out-performing the other you could pull the poor performer and gain an immediate boost to your revenue.

Cautionary Notes

The introduction of KPIs in your organisation is not an easy, simple panacea that will solve all your organisational ills. It is not easy to figure out an encompassing statistic for every position in an organisation. It is even more difficult for the creative jobs. For instance in a software development company, such as mine, there are standard metrics for programmers, like number of lines of code, function points or features. Each has its liabilities. Measuring only lines of code can lead to voluminous, inefficient code. The code could easily be one tenth as long and ten times easier to maintain had the developer spent the same amount of time figuring a more concise way to accomplish it.

I recall several heated discussions I had with a team who were repetitively churning out screen forms that required a day and a half to create the code to save and retrieve the data from the database. Only one developer saw the desirability of creating a data plumbing framework that reduced the time to ten minutes for simple screen forms created after that.

It took quite some time to create that framework and even more to add to it as additional requirements were discovered. Computing her productivity on number of lines of code or features delivered would have made her production look abysmal yet it was a brilliant solution with fantastic long-term benefits. The framework set us up to be able to deliver far more functionality for far les cost than would otherwise have been the case.

Two quotes from Peter Drucker.

"Management is doing things right; leadership is doing the right things."

"Management by objectives works if you think through your objectives.
Ninety percent of the time you haven't."

Staticising the wrong things will cause problems. Don't rush into an implementation of business performance measurement without considering the focus that your staff will have as a result of the definitions of your KPIs.

If you have a large, well running organisation, consider a staggered implementation so you can closely monitor each area as KPIs are introduced. Have someone keen on the success of the program look for and handle any negativity in the staff affected.

Be especially alert to check for actions being dropped because "they don't contribute to the stats". It may be that the staff member does not see the relationship. It may be that the definition of the KPI does not explicitly state or even imply a relationship. In this case the definition may need to be reworded.

There are potential down sides to the introduction of staff KPIs in an organisation. You may get some protest at this from the people who would not want their lack of production to be exposed. I will leave you to wonder how much better off your whole team would be without the non-producers keeping their foot on the brake of organisational productivity!

There may be some resistance to the idea of financially rewarding higher production. Some people do not subscribe to the concept that more output should be rewarded. The actions you take to address that viewpoint are outside the scope of this article.

There needs to be some element of checking in the system you establish to detect fudged, padded or downright falsified statistics. One way is to have a comparison of two or more statistics to highlight anomalies. Another is to do spot checks.

Hard results and products (number of widgets made) are easy to see and quantify. A slightly more difficult one is the soft results that are not easily measured without surveys. Client satisfaction is one. In areas that have a short sales cycle, repeat business may be an indicator. Percentage of clients who repurchase may be an appropriate metric. If the sales cycle is a long one, a lot of damage can be done to your company's reputation by the time that shows up in the figures. In this case an after service survey can be worth more than its weight in gold to you.

Remember that Rome wasn't built in a day. Despite your best efforts at cross checking that the measurement accurately reflects genuine and balanced progress towards your current strategic objectives, what seems to be a valid set of metrics at day one may very well need to have their definitions adjusted to suit the situations that crop up. New statistics may need to be added to measure progress towards new strategic directions of an organisation. Be prepared to tweak the wording as experience with them exposes any weakness or omission in their definitions. Always be alert for misdirection in the efforts of those striving purely to attain the numbers without delivering the full product.

If you are implementing business performance measurements from scratch, just remember to be humble. Just because we think we've got it right it doesn't mean it is right. Just ask any software programmer or tester!

About the Author:

Tom Grimshaw is the CEO of Just For You Software
He can be contacted at www.just4usoftware.com.au
See how your business stacks up. Take the tests at www.testyourbiz.com