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GROUP

## What Gets Measured…

by John Heymann

It's been said that, "What gets measured, gets managed." But how does one determine what should be measured? Should all measurements be objective or is there a place for the subjective as well? Measurements – both subjective and objective – are critical for an organization to maintain alignment between its strategic goals and its day-to-day activities.

Most well-managed organizations set goals and then regularly measure their progress against those goals. Some of the most common metrics focus on areas like financial performance, sales results, and productivity. But the most successful organizations also identify a few key issues that, when executed well, will lead to a high level of effectiveness and success. While there are lots of different ways to track activities, tracking effectiveness can be more challenging, and often requires some serious thought about the connections between the desired results and the processes used to achieve those results.

A prime example of blending objective and subjective measurements is the creation of great wine, where equal parts of art and science are required. Ask a successful winemaker to describe in detail how they determine critical decisions about grape selection, processes, blending, and aging. They may talk about the chemistry of wine, but it's just as likely that the answers you get will be vague and full of comments like "judgment and experience tells me what to do and when to do it."

Businesses can apply the same balance of objective and subjective measures to impact and track the success of their strategies. Despite the conventional wisdom that businesses should focus on objectives that are measurable, those metrics often only provide half the picture.

Don't get me wrong – hard numbers can be useful as a management tool – but most of the metrics businesses commonly use are lagging indicators of performance. Think about the ubiquitous financial statement. A colleague of mine once observed that running your business by having your accountant prepare a year-end balance sheet and P&L statement is like baking cookies using a smoke detector as a timer. Of course we need to know if the business is profitable, whether we're sticking to the budget, or how we're doing when benchmarked against competitors, but ratios, percentages, margins, and other lagging indicators are only measures of activities and effort that tell us what happened in the past. For a business to be successful it also needs leading indicators; those things that help managers anticipate trends and measure results and define success the way the customer does.

Another aspect to consider is the consequence of poorly considered metrics: If your managers and staff are encouraged through performance measurements to do the wrong things – even if their performance is excellent – it can have a direct, negative impact on the results you're trying to achieve. For example, if a salesperson is rewarded simply on the basis of an increase in sales, their success can certainly be measured with great accuracy, but what if the salesperson just resorts to reducing the price until the sale is made? Sales increase, but at what cost to profitability?

So, while there is a place for quantifiable measurements in changing and reinforcing the cultures of our organizations today, subjective metrics are increasingly important. Unfortunately, more subjective measures, those that require some judgment to analyze, are often shied away from because buy-in usually requires a high level of trust within the organization. Measuring things like client satisfaction, marketing skills, teamwork, professional growth, and other "soft" accomplishments may be harder to describe with a high degree of accuracy, but they are often the sort of leading indicators that an organization needs in order to understand if the actions that are being carried out on a day-to-day basis are truly advancing its goals.

Put another way, it's always more useful to have approximate measures of the right things, than to have exact measures of the wrong things. Or, as Albert Einstein once observed, "Not everything that can be counted counts, and not everything that counts can be counted."