



## Measure to Manage

Learn about the 3 Golden Metrics in a guest article from Jörg Münzing

In today's competitive business environment, we need capable metrics to (a) recognize success so we can learn from it and (b) recognize failure so we can correct it. In reverse this means that, without capable metrics, we can't manage or improve anything – or as H. James Harington said: "Measurement is the first step that leads to control and eventually to improvement. If you can't measure something, you can't understand it. If you can't understand it, you can't control it. If you can't control it, you can't improve it."

### ABOUT MEASURES, METRICS, AND INDICATORS

As a first step, let's clarify the difference between measures, metrics, and key performance indicators (KPIs). A measure is simply neutral information, a reading from an instrument, such as a scale or compass. A metric is a measure that provides vital information to someone who can influence the measure through direct efforts. An indicator can be a measure or a metric, whereas a key performance indicator (KPI) provides information that is mission-critical for an individual, a team, or a business. For example, revenue is a key indicator for the sales team, but just a measure for the finance team. For a runner, lap-time is a key performance indicator, heart rate is a metric, and her shoe size is just a measure.

### LEADING VERSUS LAGGING INDICATORS

There is one more characteristic we need to understand before developing universal or "golden" metrics – the relationship of the measures to time. We classify indicators as leading and lagging. Leading indicators anticipate future events, while lagging indicators only change after events. Leading indicators are typically input-oriented, hard to measure but easy to improve or influence, whereas lagging indicators are typically output-oriented, easy to measure but hard to improve or influence. Weight loss is a good example; it is clearly a lagging indicator that is easy to measure by stepping on the scale, but not as easy to influence. For weight loss there are two leading indicators, the calories consumed and the calories burned. Calories are easy to influence by the amount we eat and the way we exercise, but much harder to measure than their output, our weight. Let's translate this to business. Most financial indicators such as revenue, costs, and profit are lagging indicators that track the results of the activities of the company. To effectively manage teams, however, we need to track leading indicators (inputs) that have a strong impact on business performance (outputs).

## THE 3 GOLDEN METRICS

If you are like most managers, you have certainly asked yourself which metrics matter most. To improve your team's performance, there are a thousand things you could potentially measure but only a handful that will really help you advance. We can narrow down the field to those metrics that (a) you have direct control over and (b) clearly influence overall business results. Combining those metrics on a single sheet builds the team's scorecard, which is a key component of any performance management system (PMS). There are two relevant questions that we need to ask: What information is essential to effectively manage a team or department on a daily basis? Which metrics are universally applicable to any business? To manage a team's performance, we find three factors that are universally applicable and essential to know: (1) the amount of work accomplished within a given time period, (2) how well the work meets customer needs, and (3) the amount of resources consumed to accomplish that work. In short, that's Quantity, Quality, and Productivity. Those three metrics are universally applicable, no matter if you are running a bakery, bistro, brewery, or bank.

### QUANTITY

The quantity metric tracks the amount of work completed within a given time or the amount delivered by a requested due date. The essential reference points are the production schedule in a make-to-stock (MTS) environment, and the due date per customer order in a make-to-order (MTO) or service business. Common quantity metrics are throughput (units per day) or on-time delivery performance (OTD).

### QUALITY

Quality is a measure of excellence or a state of being free from defects, deficiencies, and significant variations. Quality or "fitness for purpose" can therefore be expressed in positive or negative terms, as success or failure, yield or defect rate. Because most people respond strongly to things that go wrong, most quality metrics track rework, rejects, returns, delays, or backlog, relative to the amount of work completed.

### PRODUCTIVITY

The productivity metric looks at the actual output over the actual input, the amount of work completed over the amount of resources consumed, such as units per labor hour or miles per gallon. Productivity is a useful metric when a product or service is made-to-order (MTO) and directly accepted or consumed by the customer. For make-to-stock (MTS) businesses, however, it is more useful to track efficiency, the actual input over the standard input, because the product is first inventoried and not shipped or consumed right away.

### PUTTING IT ALL TOGETHER

The three golden metrics – Quantity, Quality, Productivity – provide an ideal framework to manage any team in any business. Those metrics are essential to build a team's scorecard and performance management system (PMS). You might ask: are there any other metrics that are necessary or relevant? The short answer is: it depends on what results you want to drive. But in any case, you should start with the golden three and add only those metrics that improve your level of understanding and control. In addition to the golden three, teams in Lean environments also track housekeeping score (5S) as a leading indicator, and customer satisfaction as a lagging indicator – making a "Golden Five" for the Lean team.

### HOW WELL DO YOU MANAGE PERFORMANCE?

Performance metrics are important to any manager in any business, but are only one of many elements of a world-class operating system. If you are interested in evaluating the effectiveness of your current management system, then I recommend that you perform the "Lean Audit", an online survey to assess the 20 keys to world-class operations [here](#). The Lean Audit is essentially a health-check for any factory or office that allows you to gain better insights on what is already working well and what needs to be improved.



As a result you get a maturity score on a 5-point scale, where 5 denotes a world-class level. More information is available in the Lean Audit workbook on [Amazon](#). It includes the research on over 100 companies, checklists for self-assessment, as well as a blueprint to design your journey to world-class status. I look forward to your feedback and further discussions and suggestions on these topics.



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