

## Lesson 1 Study Guide for Lesson 1 exam!! 😊 Pulled from LMS pages

Knowing about SMART acronym!

### SMART Metrics

You may have heard of SMART goals. The acronym SMART can also be used for metrics, with minor modifications. SMART (for metrics) stands for:

- **Specific:** If metrics are too broad or too vague, they are practically useless. For example, suppose your product includes an instructions manual. Having a metric of "customer knowledge about our product" is not specific enough. Instead, you could monitor through some means what proportion of customers actually read the instructions manual, which would be more specific.
- **Measurable:** If a goal isn't measurable, you and your company will never know when you have achieved it! For example, hoping that customers "like the product" is not directly measurable. But knowing how many customers return for a second purchase is easily measurable.
- **Actionable:** Someone must be able to take direct action based on the goal. Having something too nebulous to act upon, whether or not it can be measured, won't work. Actionable metrics are those that are tied to specific and repeatable tasks which can be improved, and are tied to the goals of the business.
- **Relevant:** Does this goal matter to company executives, customers, or other important stakeholders?

For example, examine order fulfillment. From a customer point of view, order fulfillment might be a measure of the proportion of orders that arrive on time and defect free. Each individual order is either a pass or a fail.

But from the order processing point of view, that order needs to be:

- Picked off the shelf of a warehouse
- Transported to the loading dock
- Loaded onto a truck
- Shipped to a cross dock

- Unloaded and then reloaded onto a ship
- Transported across the ocean
- Received at another freight dock
- Moved to a second cross dock
- Unloaded and then reloaded onto another truck in another country
- Shipped to the customer

There are as many as 15 to 20 steps in the order fulfillment process, and any one of them can cause a delay or a defect. The order processing guys look at the order as 20 segments (for example), because they want credit for successfully completing each step, and not just one credit for the entire process. So which metric is correct - fails per million orders, or fails per million segments? There is no right answer, but it is important that everyone agrees on what the metric means.

- **Time-Based:** A goal must have set time parameters, especially when measuring the frequency of something. Are you examining things each week? Each month? Each quarter? Each year? Pick a timeline in which you can reasonably expect to see changes over time; daily totals may not make much sense because things fluctuate a lot from day to day and it is easy to obscure a trend.

Further, the business world moves so quickly that if you are not getting feedback from your metrics in a timely manner, many become almost useless. If it takes you months to make a change that customers want, you run the risk of losing customers to a competitor who will make the change more quickly. There is not a lot of brand loyalty in the marketplace today.

## Rules for Developing Metrics

There are some simple rules:

- Keep the metrics simple
- Base your metrics on organizational objectives and key processes
- Focus on the outcome you desire
- Involve all participants
- Challenge employees to act immediately as they see fit

Customer feedback importance:

## Sources of Industry Standard Metrics

This illustrates the risk in making comparisons between your business and another similar business. It is easy to spend a lot of time chasing after false differences. One of the most reliable sources of industry standard metrics is when there is a third party clearing house that monitors the industry. For instance, in healthcare, there is something called the Joint Commission that accredits hospitals and other healthcare facilities. In addition to looking at things like cleanliness, they may also compare industry metrics and can be a reliable source.

Another good source of industry standard metrics is customer feedback. Using the example above, the customer really doesn't care whether a company is taking responsibility for being stocked out. All the customer knows is they can't get the product they want. Customer feedback is usually the great equalizer in the case of moderate-to-severe differences between the metrics that companies publish.

### Financial Metrics:

Here are some common steps that companies use to maximize financial performance:

- The divisions within your organization that are most responsible for success in each metric are identified.
- The start-to-finish process for each of these divisions is examined closely.
- If processes are out of date, they can be redefined.
- If tools have come into existence that can automate or improve the process, they are investigated thoroughly.
- The company must have an idea of where the baseline is in their process.
- The performance measures on these processes are monitored closely, and the connection to how well improvements affect the overall process is usually understood thoroughly.

## Common Financial Metrics

Here are some common financial metrics:

- Return on net assets ratio
- Net operating revenues ratio
- Viability ratio
- Debt burden ratio
- Primary Reserve ratio
- Customer profitability metrics

Process of continuous improvement:

## Performance Life Cycle

Many companies use a performance life cycle to illustrate the process of **continuous improvement**. There are usually some subtle differences, and most companies like to put their trademark on the performance life cycle, but most of them fit this general pattern:



In addition to this life cycle, most executives put a lot of effort into linking all of these things together:

- Corporate goals
- Corporate strategy
- Executive goals
- Managerial goals
- Individual goals

## Vertical and Horizontal Alignment:

# Common Metrics Pitfalls

There is one last item to discuss when talking about performance and metrics: common pitfalls. Watch out for these on a corporate level, as a sign of a dysfunctional company:

- **Inflexibility:** If you hear the phrase "that's not how we do it" a lot, that is a good indication that your organization needs to work on being more flexible. Just because something was done a certain way in the past doesn't mean it's the right way to do it, and doesn't mean a better way hasn't ever been developed. It may even have been the right way two years ago, but isn't now. Businesses must evolve to stay relevant.
- **Insufficient Vertical Alignment:** If there is not agreement up the management chain about the things that are being done and the goals that are being collected, then a company can basically "spin its wheels," and not make a lot of forward progress.
- **Insufficient Horizontal Alignment:** A lot of businesses will talk about becoming siloed. This is a common buzzword indicating that you only care about what's going on in your immediate group and immediate environment, without any concern for how it might affect peer groups. In the big view, this is a silly approach to any business. Why wouldn't everybody be aligned to accomplish the same goals company wide? But it is much more common than you might think. It is complex to always consider how your actions and how your areas goals might negatively impact somebody else.

## Workplace Performance Metrics

A third broad category of corporate measurements has to do with workforce performance. Some of these functions within workforce performance might include things like:

- Recruiting and hiring
- Compensation
- Ongoing skills enhancement
- Competency
- Performance