Laggers versus Leaders

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TABLE OF CONTENTS

Introduction

Using past event metrics is like driving while looking through the rear window: it is not easy to see an opportunity or threat on the road ahead.

Are your managers operating as company doctors or coroners? A bizarre question, maybe, but are your executives, managers, and supervisors using business information to take the pulse of the organization or to conduct a post-mortem of last month's performance? Are the key performance indicators (KPIs) that they are using to make their decisions leading indicators or lagging indicators?

Figure 1 shows some examples of lagging and leading indicators. Things can go wrong well before performance measures turn the scorecard traffic light red. Using past event metrics is like driving while looking through the rear window: it is not easy to see an opportunity or threat on the road ahead until you are upon it.

Figure 1: Examples of Lagging and Leading Indicators

Lagging	Leading
Last quarter's revenue	Contracts in negotiation for next quarter
Call center calls completed within two minutes	Customer cases currently open
Product returns last month	Customer complaints three-month trend

So, if leading indicators are more valuable than lagging indicators, why do many projects deliver reports and scorecards full of lagging indicators? There are three likely reasons: (1) lagging numbers are easier to find in corporate databases and monthly reports; (2) they are easier to identify, especially if you do not have the intimate insights into the operations of the business; and (3) when IT is under pressure to deliver scorecards for the top team, they are the quickest way to satisfy the demand.

So Does It Really Matter? Well – Yes.

Firstly, delivering lagging indicators means that the business has a good idea of how well it has done, but little visibility of whether its strategy is working. It is not only a waste of management's time in reviewing reports that only show historical positions but it is also squandering the opportunity to gain competitive advantage. Remember that if it is difficult for you, it is probably equally difficult for your competitors.

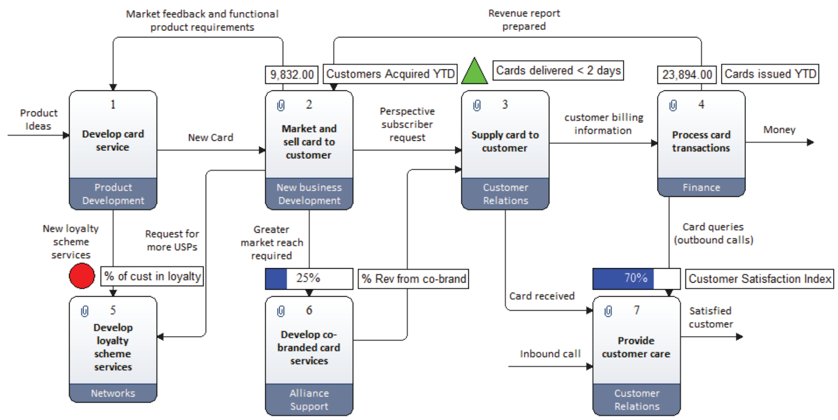
Secondly, the promise of Return on Investment (ROI) from scorecarding projects is not being realized. They should not be the latest fad for senior management but a valuable tool to aid decision-making.

Not a New Problem

It is not a new problem although the terminology has changed, the technology is a little cheaper to implement, and the metrics are easier to capture. A few years ago, I was an IT director at the DSS, the U.K. Government Social Security organization. I had a staff of 500 in eight locations, and on a PC in my office, an Executive Information System (EIS) with lots of traffic lights reported on the organization's performance. I had no choice in setting the traffic lights nor any influence on how the data was compiled by a complex application powered by mainframes. This system crunched numbers for weeks to produce a set of numbers that only the senior directors saw. But those traffic lights were not connected to any of the project processes or defined activities. I had no way of knowing what to do to change the traffic light from red to green. So I simply accepted the green lights and used the amber and red lights as early warnings to prepare excuses for the next management meeting. Having a system that creates performance data that is not connected to an organization's activities is like trying to play a video game with a disconnected joystick. The game is still in play but the player cannot influence the action.

Today's technology ensures that data is produced more quickly and comes from more sources, but that does not make it any more useful at delivering a better result. If an improvement is needed to catch up or hit a milestone, the question is, what are we going to do differently? Working harder is invariably not the right answer.

Figure 2: Top level processes and related metrics for a credit card company



Changing the Paradigm

To understand why scorecarding projects are failing, we need to understand what is meant by failure. First, projects are stalling and not being rolled out across the organization, and two, the information on the scorecards is not supporting decision-making.

So how do we change the way we deliver scorecarding projects? We need to ensure that they help corporate decision-making at all levels of the organization, rather than allowing them to become senior executives' toy, played with for a few weeks until the next new thing comes along. Unless the scorecard adds real long-term value, it will be quickly discarded and never adopted at lower levels in the organization where it can do most good.

We need to change the idea that a scorecard is a collection of interesting numbers that people need to see and think about it in a more structured way. There are two key principles to be applied: (1) 'top-down'; and (2) 'driven from the process.'

Top-Down and Process-Driven

Metrics are hierarchical, and therefore the metrics which drive the behaviors of junior supervisors, managers, and executives should all be in alignment. This means that the overall KPIs of the business must be identified first, which they normally are. You can often spot some of them in the company's annual reports.

The difficulty is then breaking these goals down to lower levels, which is where the second principle comes in: driven from the process. Unless you have a clear understanding of what the end-to-end process is at every level of the organization, it becomes very difficult to identify the correct metrics to drive the business.

Since you get what you measure, if you measure the wrong things, you get the wrong behaviors. You may be able to identify the metrics at the highest level or even the second or third level, but at the lowest levels, it becomes impossible to identify metrics that are leading and aligned with the goals of the organization. To achieve both of these objectives, you will need to develop the process and metrics hierarchy in parallel – each feeding the other.

Putting it into Practice

At the highest level, there are five or six key activities, each of which has a metric. Each activity can be broken down into increasing levels of detail, each with the same simple diagramming structure of 'input, activity, output.' From this, the leading and lagging indicators at each level will pop out fairly quickly.

This approach combines the principles behind Balanced Scorecard and process improvement techniques such as Lean or Six Sigma. The benefits of this dual approach include the alignment of the end-to-end processes and metrics from senior management down to the shop floor, with leading indicators identified at each level.

TIBCO Nimbus® makes it easier to combine the performance management and business process improvement techniques described above. That's because it uses a simple process notation that all stakeholders can understand and supports a flexible and pragmatic approach to performance metrics and scorecards, enabling you to integrate performance data from almost any corporate data source and visualize performance in the context of the process. It is an approach that has been proven by more than 700 clients in more than 40 countries, including BAE Systems, Chevron, Sony, and ThyssenKrupp.

The Final Word – Agility

Imagine that you were driving alongside a pavement crowded with Christmas shoppers. As a pedestrian steps out, you swerve and manage to avoid hitting him, thanks to your lightning-fast reactions and your car's anti-braking system.

Agility is all about whether you are able to respond if something jumps out in front of you. The measure is 'did you hit them?' You could have been just as "agile," but would have reacted far less violently had you been alert to the possibility with earlier warning of the pedestrian's actions. There is a strong parallel in the corporate world.

Many organizations are striving to be so nimble that they can change direction in an instant, but are failing because a "nimble" 10,000-person organization is an oxymoron. While it may be practically impossible for a large organization to be agile – especially when you consider the increasing demands of regulatory compliance – it is possible to be prepared and alert for change with the combination of high-quality and transparent business processes and early warning via leading metrics.

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