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How To Implement Practical Metrics For Breakthrough Results

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Introduction

This article describes how to effectively implement metrics and governance processes for professional and consulting services operators within technology companies. Much has been written about killer KPIs, various ways to measure utilization and gross margin, benchmarks, and more regarding metrics related to the needs of a Professional Services Operator (PSO). Receiving scant attention from the industry in the area of metrics and governance is the question of:

> *"How to actually implement the metrics and make them work as intended?"*

This article is devoted to the 'how' of effectively implementing metrics and governance systems. The applicability and design of cross-functional metrics will also be addressed since this is a critical aspect of designing metrics that can work effectively.

Questions which will be addressed include:

- When I design metrics, what operational considerations should I make in the design of our metrics?
    - What's lacking in our approach today to KPI's and other metrics?
- Who should be involved in the metric setting and implementation process?
- How do I design the right kind of supporting incentives and compensation in support of my target metrics?
- How do I define metrics of each cross-functional organization to create incentives for collaboration?
- What does effective governance really mean and how do I operationalize governance as part of a process?
- Can I measure what I want in an automated fashion with a good tool or will I have to measure everything manually?
- How do I know if the metrics I have selected will work? This one I will answer now as my points will be reinforced by the remainder of this paper. You will know if you have the right metrics by asking:
    - Do our metrics create real incentives for cross-functional collaboration (or are our organizations doomed to needless contention as a result of conflicting goals)?
    - Are the metrics practical (or will it cost more money and take more time to measure than the data is worth)?
    - Will the metrics produce valuable information (or am I tracking something for the sake of tracking it)? How will I use the data?

- Are the metrics producing the intended result? If not, why not?

How to Recognize Failing Metrics

My intention is not to create a new dictionary of terms for the PSO. In describing how to use practical metrics to produce breakthrough results, I am hoping to start by cutting through the confusion of terms and definitions that cloud our simple intent to develop a metrics mechanism to drive real and substantial progress. Metrics, KPI's, measures, stats, and other terms are used either synonymously or independently. In this article I will use the terms:

- 'Metric' to describe something I want to measure.
- "Goal" to describe the result I am looking for.

What you call these things is certainly less important than what you are measuring and the result you are looking for.

Too many companies start the metrics development process with <u>only</u> a financial result in mind. While I certainly agree that the financial result is, in the end the metric that matters to companies most; however, a singular focus on financials does not allow for proper consideration being given to the various tradeoffs of managing the entire PS ecosystem. In other words, there are other aspects of the operation that must be considered that may negatively impact financials, while simultaneously increasing the odds for success.

Below are real life examples of ineffective metrics in play:

1) "Our finance team insists on the following primary measures. For PS higher gross margins, while simultaneously asking the sales team to dramatically grow revenues, while cutting back on related services marketing expenses. The results have been consistent. The sales team defaults to giving away or selling services below market value to make more sales, and our lack of investment in services marketing means we have insufficient investment to differentiate our services, train sales people and consultants, and position our services properly in the market. Each year our gross margins suffer, and in each succeeding year the cycle repeats itself until someone is fired."

2) "We spent millions getting a new time keeping system in place to track where everyone's time is going. We monitor the employees to get their timecards in on time, and we are proud of the fact that we can account for every hour of time

spent at the end of each month. Unfortunately we still have low utilization. And sales people still think we don't support them enough. What are we doing wrong?"

3) "We measure our defect density for code development and we are very proud to report that less than .01% of our code has defects upon delivery to a customer. Unfortunately we have low customer satisfaction and our average new customer has more than two dozen severity 1 outages over the first 30-60 days that keeps them from effectively getting any value from our system. We really need to look into our field support quality."

Do any of these sound familiar? Each example demonstrates where metrics have been developed for cross-functional organizations without consideration for a cross-functional result. In each case the particular company in question continued to produce the same inadequate result each year, expecting for some reason that next year more pressure, focus, or both would produce a different result. I have many more examples I could share, but these should set the stage well for support of this article. The issue in each case is simply poor metrics design, lack of practical application of the metrics, and failure to take the right corrective action to produce a different and more desirable result.

A New Paradigm for How to Measure Success

Where do we begin in our efforts to find a better way to measure success? By focusing on the interdependencies of the teams responsible for serving the customer and the most practical means of achieving your desired goals. Elements of the new paradigm for metrics management include:

1) Establishing a clear and agreed view of cross-functional dependencies to produce the desired financial result (achievement of goals).
2) Designing cross-functional metrics to ensure collaborative energies are placed against what is most important.
3) Designing metrics which are practical and measurable (preferably via automation from know sources of the data).
4) Making the metrics visible to everyone in the organization (real transparency of information), again via automated methods e.g. a PSA tool, excel spreadsheet, etc.

5) Having decisive governance procedures to ensure corrective action is being taken while you still have time to affect the outcome.
6) Aligning compensation with achievement of cross-functional goals.

What is new about the new paradigm? While each of the six elements is designed to work in a harmonious fashion, the elements of cross-functional emphasis and practicality really separate what I believe are yesterday's metrics vs. those of successful PSO's of the future.

Using the real life examples I described earlier, let's examine each.

- In the first example, PS set out to keep utilization high and insisting the sales team sells at the highest possible rates. The sales team, under pressure to make an aggressive revenue goal, wants to get lots of deals by selling on price and avoid the extra work and time that goes into selling value. And due to a lack of marketing investment, the market was pre-conditioned to perceive the services as commodities as there was little substantive evidence to assign unique value to the services.

  To meet its overall objectives, the company should have linked the PS, sales, and marketing goals using common metrics that encourage the same result. Sales and PS each should have had primary metrics for revenue <u>and</u> gross margins. A better common view of necessary services marketing investment should have been established; that investment should then be built into the gross margin or profit goals. The services marketing function should have the gross margin and revenue metric as well, to ensure their approach to differentiation of the service is validated by real market acceptance. This approach also encourages the cross-functional teams to consider overall utilization which impacts gross margin, and therefore provides incentive to the team to <u>optimize</u> utilization as well (<u>as opposed</u> to simply trying to <u>maximize</u> utilization).

- In the second example, the company did the right thing to get effective governance over time recording and reporting. What they failed to do was put at least as much focus on what the data was telling them. Monitoring and analyzing the non-billable time buckets is essential to high utilization. The data told them too much time was being spent on innocuous activities like 'staff time' or 'business development' without a real understanding of what value, if any, those activities were contributing to the desired result. The governance processes of the company related to managing non-billable time was nearly non-existent, yet non-billable time accounted for more than 40% of their total labor cost.

- In the third example, defect density was used as a primary indicator of quality. While measuring the number of code defects may be a good starting indicator of quality, it is of little value if even a small number of defects cause customer outages, particularly long outages. A primary metric of quality might be customer experienced defects (with severity levels) in the first 90 days, and the time the company takes to eliminate the defects. I am not suggesting that quality metrics are not important early in the development process; however the customer experience must be at the top of the priority list for the development team and all other functions involved with designing and delivering a solution to the customer.

The Goal Setting and Metrics Development Process

Building your metrics and process to achieve consistently high performance requires senior management commitment to the need for cross-functional goal setting and metrics development. Without such a commitment, even the best of intentions will produce sub-optimized results and frustration on behalf of all involved.

Here are the recommended steps for developing your metrics and governance process.

1) A good place to start is with the end goal(s) in mind. Goal setting processes certainly vary by company, so whatever your process is, the key to success is strong collaboration. Set goals that recognize the interdependencies of the cross-functional teams responsible for the result. Figure A illustrates some of the interdependencies to consider.

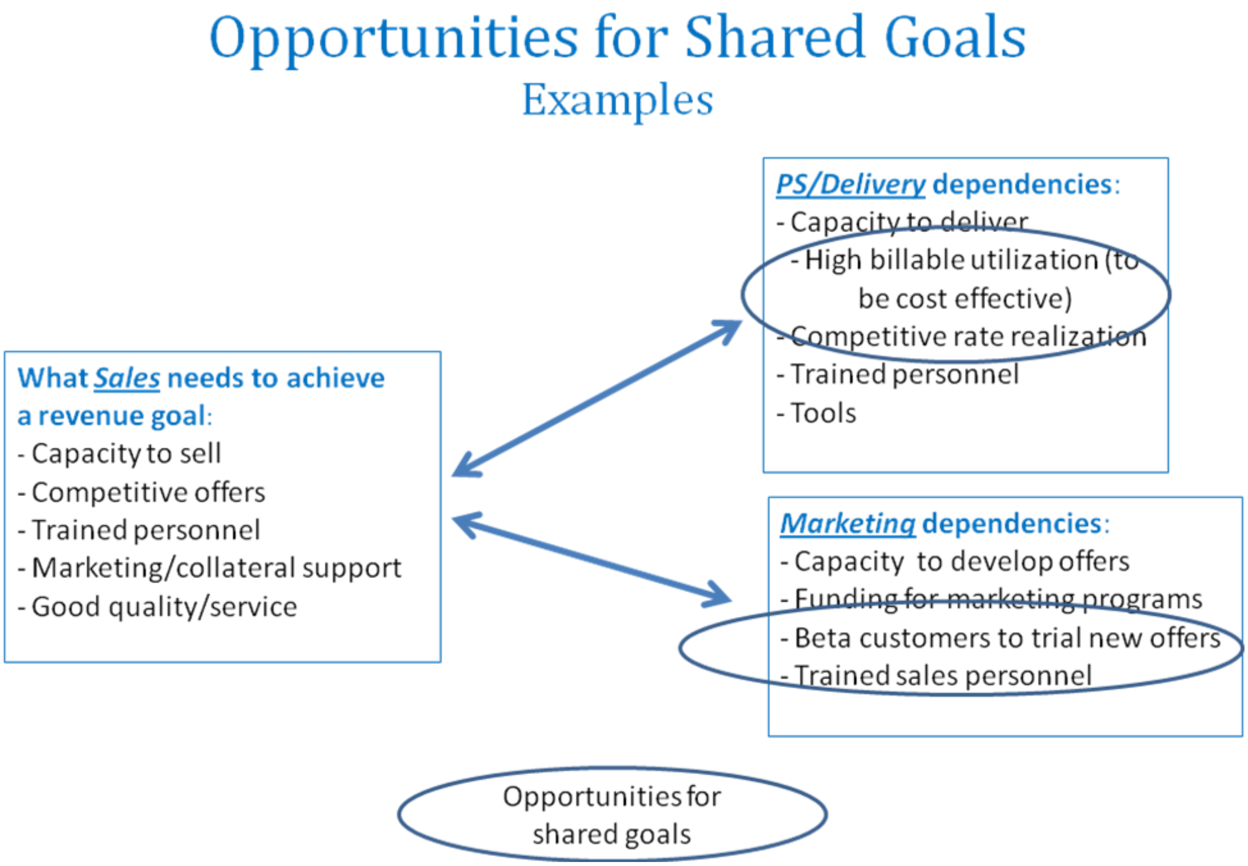

Figure A

In the typically annual goal setting process, these cross-functional organizations should consider these types of interdependencies to set goals that are mutually supportive, realistic, and practical. For example, setting a revenue goal must consider pricing to the customer, size of the deal, capacity to deliver, maturity of the services (do I have beta or production customers yet?), competition, and so on. The revenue goal would then be based on some forecast by marketing and/or sales of opportunity, expected yield, and balanced with delivery capabilities.

2) Next develop your cross-functional metrics. Of primary concern here is to develop metrics that provide sufficient incentive for each departmental team to contribute to the broader organizational goals. Also important is to measure those things which can be measured by practical means, and preferably automated to minimize human error and time delays for critical management

information. Figure B illustrates some cross-functional metrics. For clarity, these are metrics (what I am measuring), not goals (the result I am expecting).

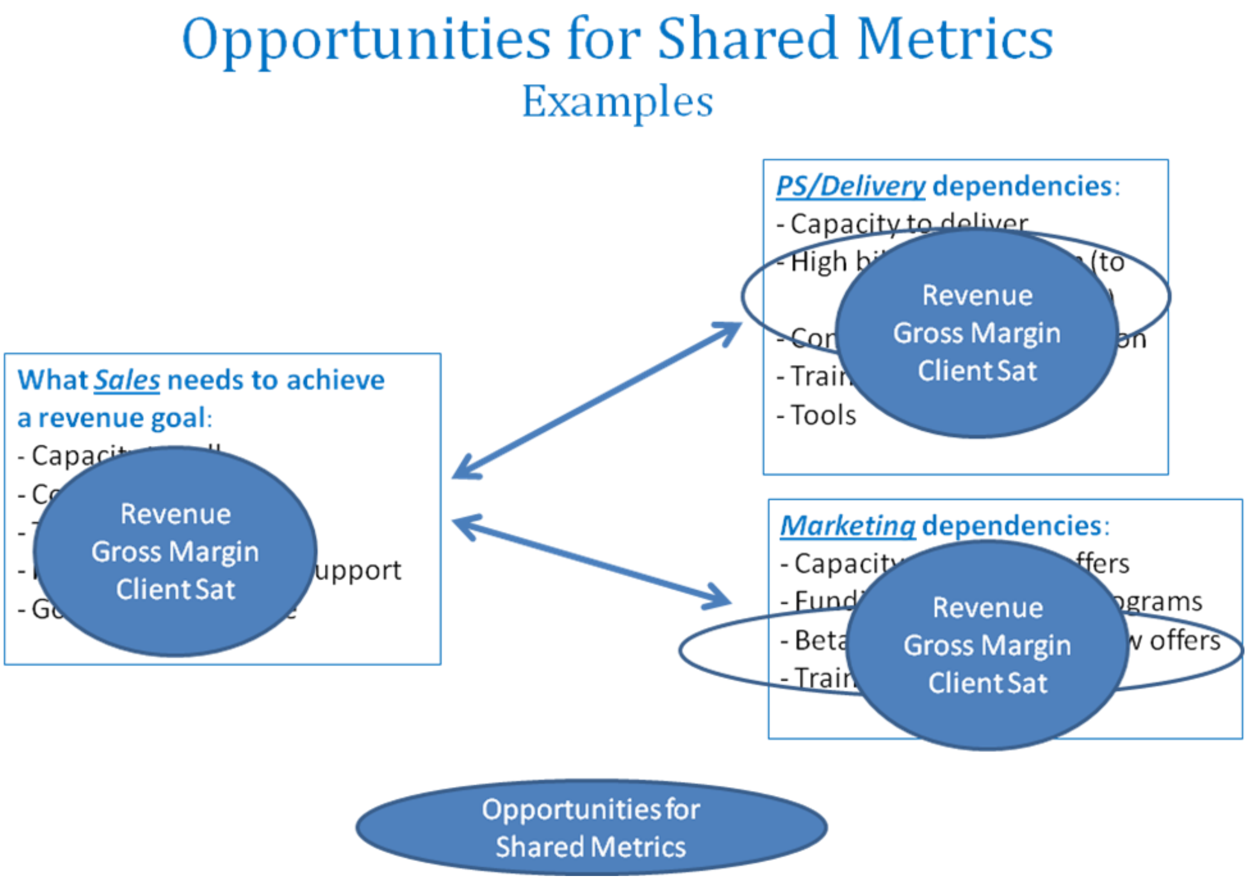

Figure B

In the above figure, these are just examples. They may not be necessarily the right ones for your situation, and as simple as it may seem, many organizations do not have nor are they committed to achieving this level of organizational alignment on metrics. Certainly each organization may have some metrics and goals that are dissimilar, provided they are not conflicting, e.g. asking the organizations to accomplish things that create undesirable behavior. Too many organizations rely on the 'good teamwork' theme to overcome poorly designed goals and metrics. While good teamwork is essential in any multi-person/function operation, aligning incentives is a sound structural way of encouraging good teamwork in a disciplined fashion.

In the Figure B example, the synergies are clear:

Sales need to sell lots of deals	*PS needs to deliver the revenue*
Sales needs to help drive utilization & $ rates	*PS needs to manage resources and costs*
Sales needs to sell deals that are realistic	*PS needs to deliver as promised with quality*

Similar contrasts could be drawn between marketing and sales, or other combinations of the three functions mentioned.

3) Develop effective governance methods. Important aspects of your governance process are determining how information will be disseminated, evaluated, and acted upon as needed. One common inhibitor I see in many companies is the failure to make ALL information transparent to the cross-functional teams. Organizational protectionism is alive and well in the corporate world, and unfortunately keeps many companies from achieving high levels of performance due to inaction where corrective action is needed. Some simple guidelines that can help with this process:

- Gain senior level commitment to the principle of 'transparent information dissemination'.
- Set up a corporate dashboard to display cross-functional metrics to the cross-functional teams
- Establish an oversight entity made up of cross-functional management to review progress, discuss issues, and prioritize corrective actions.

Another key element of governance is the process of tying appropriate compensation elements to the achievement of specific cross-functional goals. This is a very important, and underutilized tool in ensuring proper incentives are in place to support overall organizational needs and expectations.

Making Governance Processes Work

Perhaps the most difficult aspect of making governance work is achieving a true team based approach to change and performance management. If you have done the right job of setting collaborative goals, establishing meaningful metrics, and tying in appropriate compensation incentives will go a long way in bridging departmental walls by creating natural incentives to break down these barriers.

Data based management is also a very effective tool since data is hard to argue with. Using industry best practices for root cause analysis then focuses on the issues, and not people or personalities, although some of the data may point exactly in that direction in some cases. Make sure that any evaluation and analysis is conducted by cross-functional teams with the interdependencies established in the goal setting process used as a baseline (reminder) of important tradeoffs.

Summary

Implementing practical metrics for breakthrough results like most other business activities comes down to innovation, creativity, process and discipline, good team work, and effective execution. Perhaps the most powerful aspect of the methods I have described in this article is that if the process if followed, you will gain the benefit of aligning motivations and expectations of people in a highly competitive world. I believe such an approach is always a formula for success!

About the Author

Randy Mysliviec leads RTM Consulting, providing high impact advisory services for technology companies' professional and consulting service businesses. RTM Consulting provides strategic and operational advice helping technology companies increase revenues, grow profits, and deliver best-in-class solutions by leveraging professional and consulting services more effectively. Acknowledged by industry sources as an expert in Global Resource Management (GRM), Randy helps multi-national companies with the complex challenge of operating professional services teams serving the global market. RTM Consulting is a Certified Partner of TPSA and contributing member of PSVillage.