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Improve the Value of Your Business

A Deeper Dive Into the Drivers that Affect Business Value

Consistent Application of Accountability and Feedback Metrics

By Michael Podolny, President, The Podolny Group, Inc.

This is the last of four newsletters that deal with the specific things you can do to increase profitability and improve the value and marketability of your business. The four are:

- Sustainable business systems
- Scientific marketing and sales
- Repeatable human capital development and management
- Consistent application of accountability and feedback metrics

The 'Magic' of Measuring

There's an axiom that says 'what we measure we achieve'. During my years as a girl's soccer coach, I remember studying the principles of the most successful woman's soccer coach ever, Anson Dorrance. One of his keys to success he famously stated was everything his teams did in practice was measured and turned into a competition. I'm not sure in a business environment that turning everything into a competition is a good thing, but I can state that there is a direct correlation between the correct use of metrics and improved business performance. And as I've stated again and again*, business performance is the single most important factor in driving business value*.

In this edition of the newsletter, I'd like to focus on how to set up and use basic metric systems for driving accountability and performance.

Correct Application of Metrics

What do I mean when I talk about 'correct use of metrics'? Not all measurements are equal. We can measure a lot of activities. We can do these measurements over a wide range of time periods and frequencies. And there are many things we can do with the measurements we get. For the smaller business it is important to realize, we can have both too little and too much of a good thing. In order to winnow the use metrics down, there are four variables one must understand. These are:

- What
- How much
- How often
- How used

What Should You Measure?

You should seek to measure the things that are critical to the performance of your organization. I like the term *key performance indicator*. It captures two very important characteristics related to correct use of metrics. The term *key* means that whatever we are measuring has to be important. The term *performance* means whatever we are measuring needs to relate to activities that drive the results we are trying to attain. So before we measure anything, we need to understand enough about our business process to determine what is key to performance. If you went through the *sustainable business systems* process described in newsletter Volume 14 Issue 3, you most likely have a good idea of what the key operations are for you business.

The next step is to determine what can be measured. It needs to represent what is actually being accomplished within those key operations. If you're not doing any kind of measuring, this can be a challenge. You will need to figure out what data to collect, how to collect it, and how to present it. As I mentioned in the *sustainable business systems* article if this is brand new to your organization, it is better to go slow and steady rather than set unrealistic expectations that lead to everyone giving up the change project.

How Much Information and Measurements Do You Need?

What if you already collecting data and maybe even have a lot of information? It is equally important to recognize that too much data can be as bad as no data. The term is information overload. You want to be sure you understand what is *key*. Your people can only focus on so much. You want them to be tracking and making use of the information that is most useful for getting the performance desired. A good rule of thumb is *less is more*. By that I mean that a smaller number of metrics that are accurate and effectively used is far better than masses of information that are ignored or not understood.

How Often Should You Be Using Metrics?

The frequency that we collect and use metrics is a function of how they are used. Some are looked at with great frequently while others are used more infrequently. For example, sales pipeline data typically is looked at on a week-by-week basis. This is because sales management requires constant course corrections and adjustments to account for how various sales prospects are evolving. Certain types of production and quality control information might be measured daily because of the cost if there is an error in production. On the other hand, financial statements are typically produced and looked at monthly because looking at this information more frequently would not give us a clear picture. And we look at our overall business performance metrics like return on investment and return on assets on an annual basis. Metrics like this don't have much meaning when measured any more frequently.

How Do You Use Your Metrics and Achieve Greater Business Value?

A metric that comes from the accurate collection and processing of data that is not used for performance improvement is a complete waste of time, energy and money.

Metrics are only of value if they are part of our *sustainable business systems*. Our staffs should understand how the metric represents their activities and in turn how that activity affects the performance of the business as a whole. Feedback mechanisms are required whereby your teams look at the metrics, determine what's happening within the business that the metric reflects, what should be done differently (if anything) to get better results, implement changes, look at the metrics again, make additional changes, and so on. The review of metrics in the light of what is actually being done is a critical component of any continuous improvement process. Commitment to continuous improvement is the foundation to business performance improvement, which in turn creates business value improvement.

Conclusion – The Road to a Higher Business Value is Attainable

Over the last four newsletters, I've given you specific pathways for increasing the value of your business. So I'm curious. How important is it to you that the value of your business increases? Will increasing its value lead to a better retirement when you exit? Will you feel better about all the time and effort you have put into your business if its value increase?
If anything like this is true, do you have these pathways working for you? And if you don't, what's keeping you from getting on them?

I have been working with owners for over 20 years, getting them on the business value improvement pathway and helping them get the fruits of higher business values. If you want to increase your value but have had problems getting on the pathway to continuous improvement and business value increase, call me, **Michael Podolny,** at **(505) 856-2646** or email me at michael@podolny.com for a free initial consultation.

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