



PERFORMANCE CHANGE MONITORING

How to Avoid Unpleasant Business Surprises

Summary:

Owners and managers need to discover changes in trends of their key performance indicators as early as possible, in order to avoid having problems grow to unmanageable size. This article discusses the problem. It provides tips on how to avoid being surprised by problems that grow unnoticed in lower levels of a business.

If you are the owner or manager of a business, one of your worst fears is that you wake up one day and find that your business has gone into a steep decline. You find out too late that there was a brewing problem in one of your products, departments or units. The problem has grown so big you can't fix it without a major, painful, and expensive correction.

Take the subprime mortgage crisis, for example. Some of the largest financial institutions were caught with huge portfolios of the wrong type of loans. The problem was in just one area of their operations, but it eventually grew big enough to threaten the whole company.

Overlooking that "detail" until it generated huge losses caused the CEOs of Citigroup and Merrill Lynch their jobs. Had they monitored the performance of those "small parts" of their business more thoroughly, both the CEOs and the companies would have been far healthier.

Failure to detect a problem early on is not limited to the largest organizations. Monitoring performance of all parts of a business to detect changes as early as possible can be difficult or impossible, without the right systems and processes in place.

For very small businesses with a handful of employees and just one business location, you can have a very good feel for the performance of all aspects of the business, even without a system. You can "drive" such small businesses using just "gut feel" because you can observe nearly every transaction.

But once a business has grown to have multiple locations, multiple products, or multiple departments, the owners and managers can lose sight of the operations of the more remote parts of the organization. Problems in those areas can grow unnoticed.

Here are key actions you can take to reduce the risk of overlooking such problems:

- Identify "key performance indicators" (sales, profits, late payments, absenteeism, etc.) down to the smallest organizational level that you can isolate. Don't limit your view to the level of the entire company.



- Make the responsible staff aware that you are monitoring those indicators. Make the data available to them as well. Make sure you don't punish them for bringing a brewing problem to your attention early. If you "kill the messenger" who brings you bad news, they will hide the facts from you as long as they can.

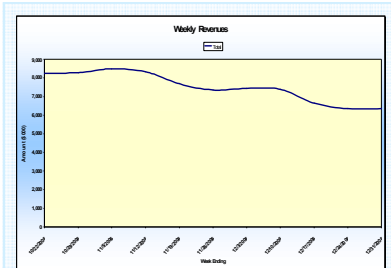


Fig. 1: Simple charts clearly show trends and changes in those trends. An equivalent report showing a table of numbers would convey much less information.

- Set up a system that shows you TRENDS of your indicators at both the overall and the detail levels. Single measurements at a single point in time don't reveal a real or "growing" problem. After all, you can't see "growth" from a single measurement (you need at least 2, more likely 5 data points to see a trend). Changes in the underlying trends are the warning signs that a problem may be growing.
- Make sure you have a system that provides a "dashboard" where you and your staff can quickly see how you are doing. But don't get hung up on "real-time" data. "Real-time" systems show a lot of random variance, because business transactions have some inherent randomness. If you take drastic action for every zig and zag in your indicators, your business will be paralyzed by the overload of instructions.

You should be more concerned with the underlying trends of your key performance indicators over time, than with rapidly changing real-time data.

- Demand a system that allows you to drill-down. You should be able to see the overall performance, then quickly identify the problem areas. You need to see both the whole and the parts.

Failing to pay attention to changes in performance can suddenly and permanently damage your career and your company. Set up the systems and processes you need to identify the changes as early as possible.

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