



## PERFORMANCE CHANGE MONITORING

### Why You Should Reconsider a Key Principle of Performance Management

**Summary:**

Owners and managers need to be alerted to changes in performance that are happening in lower levels of their business. Because they don't have the time to sift through so much detail, they need automated systems that can detect such changes.

If you own or manage a business, and you are concerned about being "blind-sided" by changes in lower levels of your organization, you will need to be monitoring a lot of key performance indicators (KPIs).

Most books by experts on performance management say you should limit your KPIs to fewer than 20. Otherwise, they warn that you will be drowning in data, and won't be able to focus.

That's why most "executive dashboards" are set up to show you the handful of KPIs you consider most important. And nearly all of these are summary pieces of information.

But if your business has many "dimensions", you should be wary of following that "performance management" principle. It can cause you to be unaware of dangerous changes that are festering beneath those summary levels.

For example, let's say your dashboard only shows total sales for your whole business. Then, let's say sales in just one part of your business (one division, or one branch, or one product line) has started to slow down. That problem can be hidden by continued growth in the other parts of the business. Similarly, if sales in another part of the business have suddenly started to take off, this fact may not be visible at the summary level for some time.

If you only look at the overall totals, you will not detect problems and opportunities until they have become so overwhelming that they affect those grand totals. At that point, you may be forced to take drastic, painful action to correct problems. And it may be too late to take advantage of the opportunities.

You are probably thinking: "yes, but I don't have the time to pay attention to lower-level details." There is no way you can continuously review the hundreds or even thousands of operating units, product lines, and whatever else make up your business. If you spend your time searching for low-level problems, you will not have time to do the strategic functions that matter most. That is a very valid argument.

So, how can you be alert to looming problems in lower levels of your business, with very limited time?

You need to have a system that can automatically scan all your KPIs, at all levels of



detail. It should alert you when there is an unacceptable change in performance. Using an automated system will allow you to "cover all your bases," without taking up more of your time.

How will this be different from the ordinary alerts that your system already provides? The main difference is that the system will need to be able to recognize changes in performance over time, not just exceptions in single values.

Since a change in performance is defined as a change in the underlying trend of an indicator, this means that the system needs to be able to calculate those trends at all levels of detail in the business. Then, it needs to determine if the trends are changing enough to warrant your attention.

Most systems today do not perform such calculations. How can you tell? Here's one way. Assuming you have dozens of product lines, ask the question:

"Which of our product lines has shown the greatest percentage growth in weekly revenues since 2 months ago, compared to the 2 months prior"?

Your system should be able to bring up a chart with a line that looks most like the trail of an airplane taking off (assuming, of course, that you have at least one product line whose sales performance is improving). It should be able to do this in seconds, without a programmer's help.

If your system can't answer that type of question (and any variations of it) quickly enough, you are not going to be able to spot problems and opportunities early. You may not be "flying blind," but your vision is blurred. You should be asking your I/T department to take steps to correct this shortcoming.

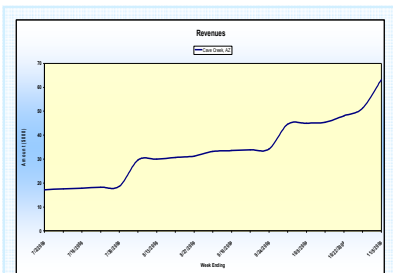


Fig. 1: Sample of chart that the system should automatically find (assuming you have at least one product line whose performance is improving).

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