

## Performance Management and Growth Metrics

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In today's competitive environment, it's not enough to have strong profitability. Wall Street constantly expects continued and predictable growth, whether from start-ups, mid-sized corporations or huge, established companies like Wal-Mart and across all industries, regardless of business cycles or macro-economic effects. To continually grow, it is not enough to rely on a naturally expanding base of customers, whether domestically or globally. For decades, McDonalds has relied on domestic saturation and then global expansion to fuel its growth. Today, faced with stagnating growth, McDonalds has experienced turmoil in the executive ranks as they attempt to develop sources to recapture their growth rate. Occasionally there have been forays into product innovation (which are most notable for their failures) such as the McDLT, the McLean, and the Arch Deluxe. But by defining itself as the quintessential provider of particular hamburgers in a fast food environment for so many years, McDonalds has locked itself into an image that then becomes difficult to change, even as they now seek growth by expanding the concept of who they are. After 50 years of Big Macs and Quarter Pounders, how open can the public be to the idea of them serving spaghetti or becoming a quasi-retail location?

From a performance management perspective, this means strategically measuring growth is more than creating a list that tracks increases in numbers of customers, products sold, or even "share of wallet" as compared to competitors. These are the *results* of growth. Instead, strategic growth metrics must be designed to focus efforts on initiatives that will *drive* growth.

### Performance Management Frameworks

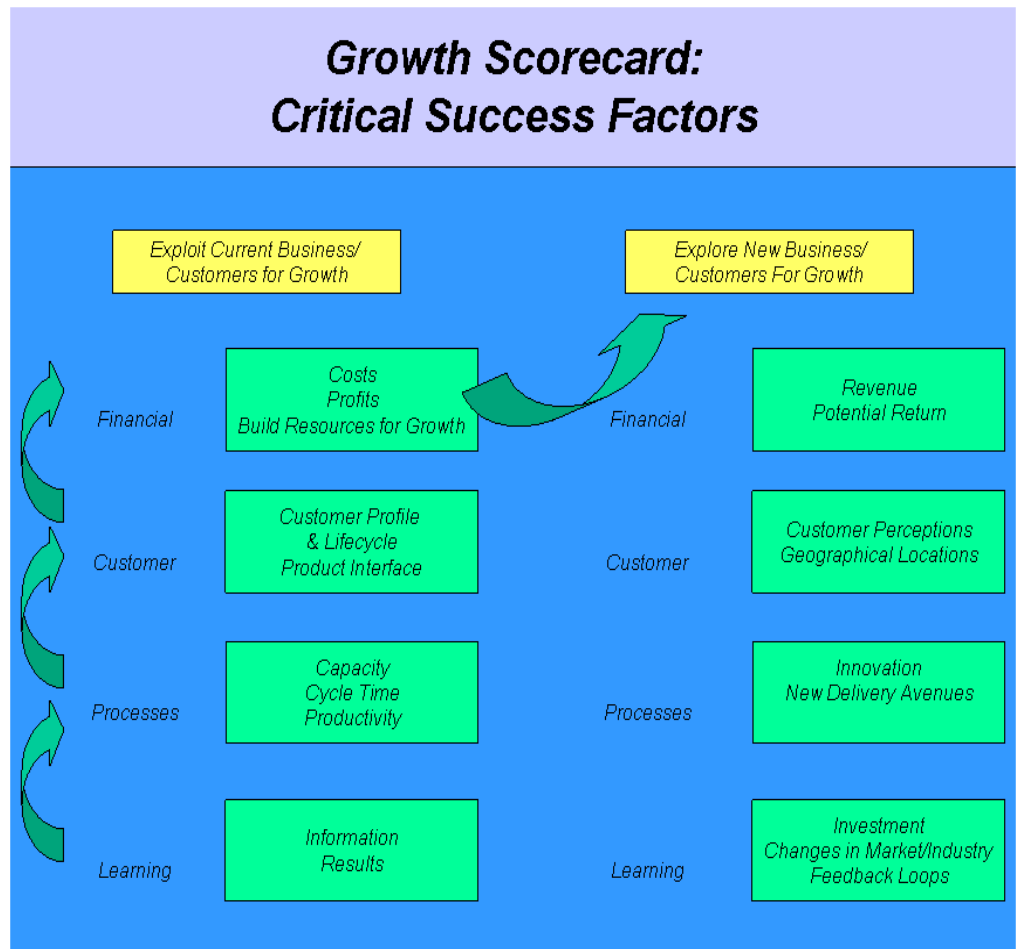
The metrics framework provided by balanced performance measurement systems, such as the Balanced Scorecard, is highly useful for driving strategy into action. The Balanced Scorecard looks beyond the traditional financial metrics, adding three additional inter-related perspectives. It (1) reflects how financial results are affected by customer satisfaction, which (2) is determined by the execution of processes, and which (3) relies on the organization's learning capabilities. It is this cause and effect link between the four perspectives that make the metrics coherent, instead of just a list. The Balanced Scorecard relates strategic initiatives (cause) to how the firm does business (effect).

However, like many strategic implementation tools, the traditional Balanced Scorecard and measurement reporting looks at strategy as an iterative loop: create strategy, implement, gather feedback, and adjust strategy. With this linear view, when organizations suddenly find their growth stagnating, they react by revising, improving or changing their strategy by casting around for acquisition targets to create new customer bases, justified by operational synergies.

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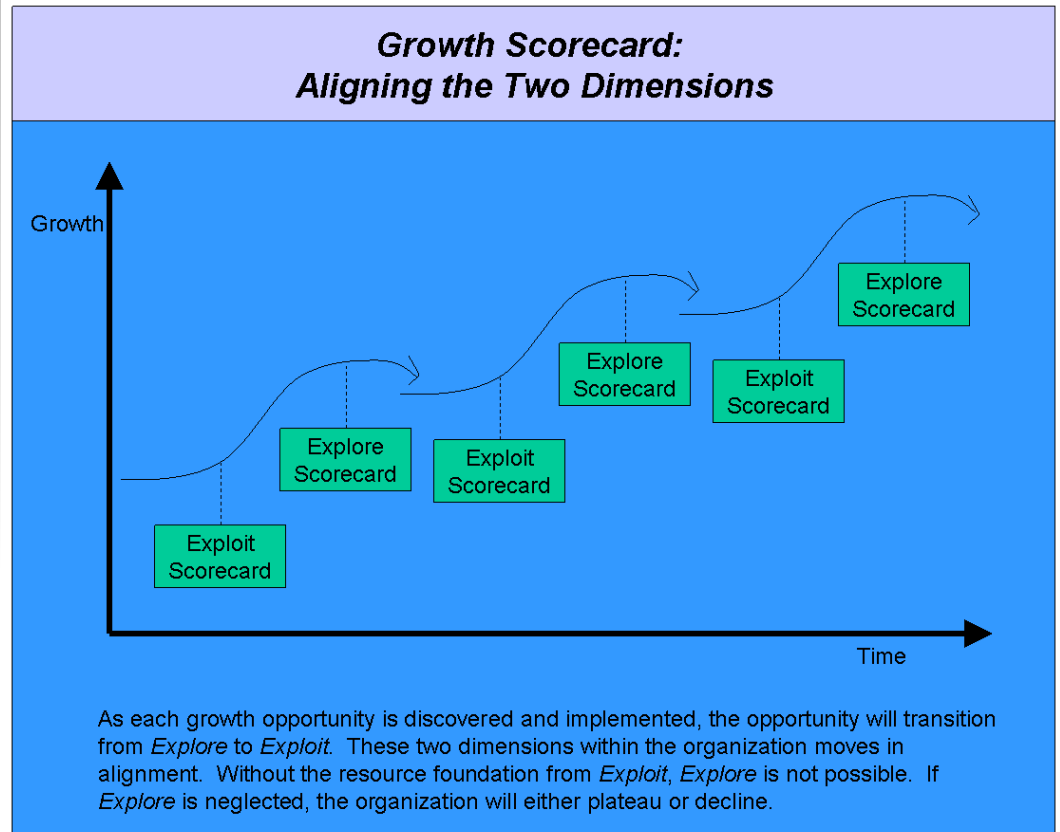
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What's needed is a model that shows where your current business is, and continually evaluating potential growth initiatives and how they organically fit, rather than ending up with a hodgepodge of efforts episodically tacked on as solutions to growth problems. Growth strategy and metrics should be continually developed and aligned parallel to the current business. To provide for the parallel strategy of growth, a second dimension can be added to the Balanced Scorecard.



This second dimension acknowledges that the demands (and measurements) of running a current business are quite different and separate than those of developing new products/ services, customers, and evaluating new businesses to enter, whether as a green field, a merger, or an acquisition. In addition, it eliminates the arguments over which strategy and businesses an organization should focus on- the current versus new dilemma. The

answer is both. As new initiatives become established products and businesses, their strategic focus shifts from the second dimension to the first.



#### Planting the Seeds for Growth

To prepare for sustainable growth, organizations must first develop the foundation. Inefficient internal processes, inaccurate understanding of their customers, and lack of resources creates an organization that has difficulty meeting current market demands, let alone able to grow and leverage areas of opportunity. At this stage the organization needs to focus on the fundamentals of their current business in order to understand their current environment, and consequently build the resources that will fund future growth. This exercise can be made more effective by the use of the traditional Balanced Scorecard, Performance Excellence Management or other operational improvement plans.

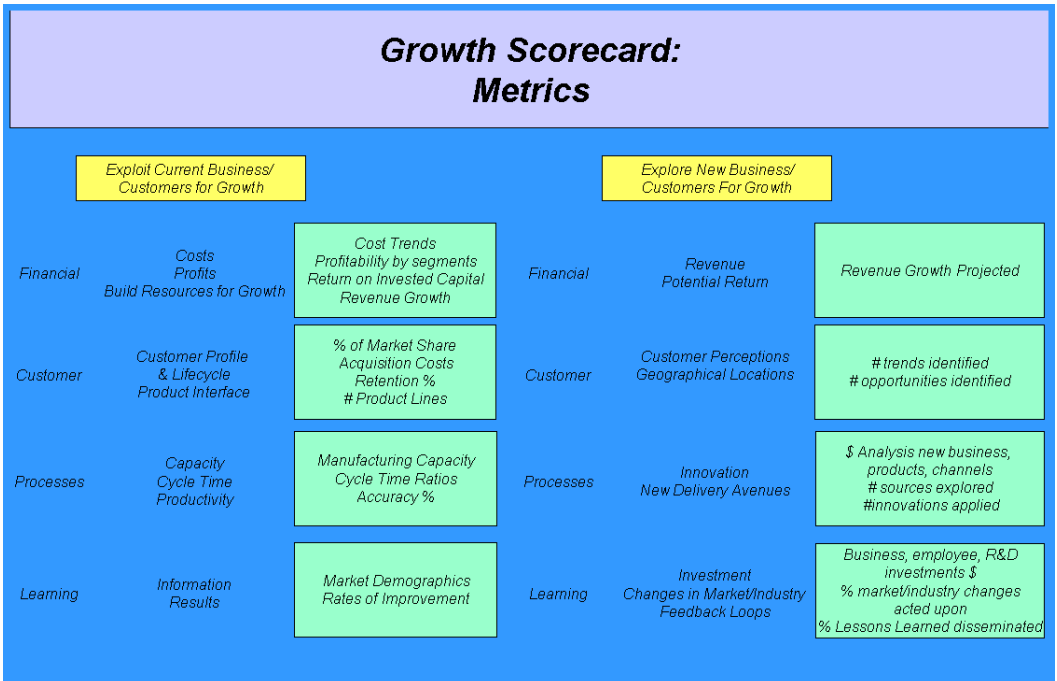
#### The Two Dimensions of Growth

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There are two dimensions to growth. The first dimension, *Exploit*, is to increase business based on the existing parameters. That could be either from increasing your customers for current products, or increasing the products purchased (whether by unit quantity or frequency) by each customer. Business process re-engineering and customer relationship management are some of the techniques that have been leveraged to maximize gains on the first dimension. But advancements in technology, changes in consumer interests, and other factors, have shortened product lifecycles from years down to months. Consequently, growth along this dimension can become a series of sprints, particularly in industries like fashion or high tech consumer products, where the two market forces combine to dizzying effect.

The second dimension, *Explore*, is to add or develop new bases, whether at the product/service level on up to complete businesses, upon which increases in customers and/or product purchase frequency and quantity can then be built. *Explore* opportunities come from two sources: internally and externally. Internal opportunities arise from innovation, whereas external opportunities also arise from innovation or mergers and acquisitions. 3M built their whole business, literally and figuratively, around developing and leveraging product and process innovations internally. On the other hand, Wal-Mart has leveraged external technology innovations in customer database mining capabilities and supply chain information to drive business growth through stocking the right products and ensuring availability. On the mergers and acquisition



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front, automotive companies have been jockeying for position in various countries through the purchases of car brands (Ford with Volvo and Jaguar, Nissan with Fiat) to gain access to new bases of customers.

The performance metrics on the *Exploit* dimension tend to be fairly standard measurements, familiar to executives and managers. They measure results, and are lagging indicators. The performance metrics on the *Explore* dimension are leading indicators. They track the process of growth initiatives, how much action is being taken on the opportunities and changes identified, rather than waiting to see if those actions were successful.

For example, Cisco has experienced tremendous growth for several years by working both dimensions. On the *Exploit* side, they sold network routers to everyone and everywhere. But on the *Explore* side, they were constantly evaluating and then acquiring new technology. So some of the *Explore* metrics might have been: How many different technologies are we looking at? How many analysts (technical and business) are assessing those potentials? What percentage of our resources (man-hours and funding) are we devoting to the effort? How long would it take before we start seeing returns if we select these initiatives for acquisition or implementation? Once an initiative is approved for implementation, then the *Exploit* dimension metrics start to apply. Care must be taken that the *targets* for those metrics are not at the same level as for an established product or business.

### Growth and Innovation

The dimensions of *Exploit* and *Explore* in developing growth metrics are very similar to the dimensions of innovation metrics; in fact they can be regarded as the same, just at different levels of granularity. (See *The Metrics of Innovation*, Virtual Strategist, Issue 1/Fall 2001). Innovation is a source of growth because it changes or creates new value for the customer. While innovation initiatives focus on identifying change and opportunity to leverage, growth initiatives focus on selecting which change/opportunity aligns with the current business or aligns new businesses with the organization.

### Summary

The metrics of growth strategies measure the effectiveness of ongoing growth initiatives, not merely whether growth has occurred. When designing growth metrics, the organization needs

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to take into account that these metrics are separate and different from those metrics used to evaluate the current business performance. And as growth initiatives become established products and businesses, their metrics will evolve. Aligning and coordinating the *Exploit* and *Explore* metrics insures that organizations have a cohesive approach to growth.

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