

USING LEADING INDICATORS AS PREVENTATIVE CARE FOR BUSINESS HEALTH

By Kevin McCarty

Fill that chip in your windshield today, and your auto insurance policy very well may cover the cost to do so. But if you wait until the chip spreads into a full-fledged crack and you have to replace the windshield, then you likely will pay much more out of your own pocket. The same is true of health insurance. Many health plans pay 100-percent of the cost for a routine annual health check or a dental cleaning, but once symptoms and the need for treatment arise, then you face large deductible or co-payments—not to mention a potentially serious health problem. These are classic examples of the advantages of prevention versus treatment.

The same principle applies to managing business health. Typically, organizations rely on “lagging indicators” to measure and monitor performance. These metrics may present a picture of past performance, but they tend to expose problems after the fact, when the problems are more complicated and expensive to fix—if they can be fixed at all! Think of it like measuring cause and effect; if you just measure effect, then you miss the root cause, and that often leads to bigger and more costly problems down the road.

THE BUSINESS EQUIVALENT OF PREVENTATIVE CARE

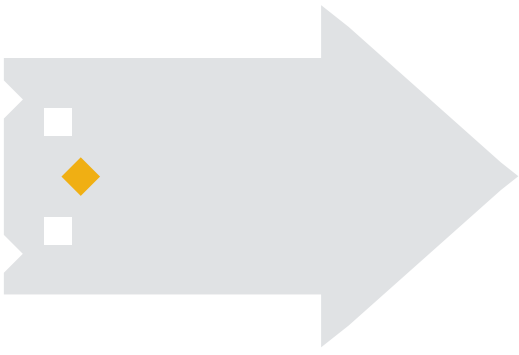
“Leading indicators” are predictive metrics that can help identify potential future problems and enable you to correct the course before they become real problems.

Adding leading indicators to traditional lagging indicators creates a balanced view of past, present, and future business health. But the metrics aren’t always easy to establish, which is why many companies fall back on a more accessible historical view. So how do you identify the right leading and lagging indicators? And how do you get the business to use and manage by them?

COMMON LEADING AND LAGGING INDICATORS

Each key function of a business should have an appropriate set of lagging and leading indicators that reflect the organization’s overall strategy and annual goals. In our business—the professional services industry—for example, key functions include practice and business development, and of course client service. West Monroe uses the following leading and lagging indicators to measure each key function of our business:

	Leading indicators	Lagging indicators
Business development	<ul style="list-style-type: none"> ◆ Percent of integrated marketing plan execution ◆ Client satisfaction score - future work indicator ◆ Brand awareness score ◆ Prospect impressions 	<ul style="list-style-type: none"> ◆ New client logo acquisitions ◆ Additional work for existing clients ◆ Average project size and duration ◆ Win ratio
Client service	<ul style="list-style-type: none"> ◆ Satisfaction surveys sent ◆ Staffing model ◆ Project ramp-up activities completed ◆ Client relationship development budget 	<ul style="list-style-type: none"> ◆ Client satisfaction score - for project quality ◆ Utilization ◆ Write-offs ◆ Net Promoter Score™
Practice development	<ul style="list-style-type: none"> ◆ CPE training hours obtained ◆ Annual 360 degree people reviews ◆ Stay interviews & employee satisfaction 	<ul style="list-style-type: none"> ◆ Retention rates ◆ Exit interview data ◆ Market awards and recognition



Having this combination of indicators has helped us not only prevent problems but also grow—even in a tough market—by ensuring that our new business pipeline is full, that our people are familiar with and equipped to manage service quality, and that they have acquired the appropriate training.

Progressive companies across industries are using both leading and lagging indicators to manage business health. Here are several examples of leading and lagging indicators used in a subset of the industries we serve:

Industry	Leading indicators	Lagging indicators
Healthcare Providers	<ul style="list-style-type: none"> ◆ Percent of surgery cases where antibiotics were given within minutes before surgery ◆ Percent of diabetes patients with well controlled diabetes ◆ Percent of patients who receive pre-service financial counseling 	<ul style="list-style-type: none"> ◆ Percent of surgery cases leading to surgical site infection ◆ Percent of diabetes patients who require digit amputation ◆ Percent revenues written-off (bad-debt)
Insurance	<ul style="list-style-type: none"> ◆ Number and classification of change requests from existing clients ◆ Unique web site page views ◆ Time spent to serve customer requests ◆ Days to market for new product concepts 	<ul style="list-style-type: none"> ◆ Combined loss Ratio: + / - in the overall ratio ◆ Market Share (Percent of Market Share change over the year) ◆ Cancelled or non-renewed policy count year to year ◆ Quote to Bind rates
Banking	<ul style="list-style-type: none"> ◆ Percent of non-performing assets ◆ Loan to deposit ratio capital ◆ Loan portfolio mix (commercial vs. residential) 	<ul style="list-style-type: none"> ◆ Amount of loan write offs ◆ Compressed/Lower margins on loans ◆ Regulatory ratings ◆ FDIC Action (Seizures, Troubled Banks List, Cease & Desist Orders)

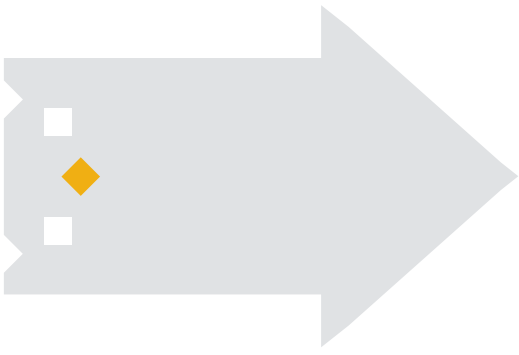
DETERMINING THE LEADING INDICATORS RELEVANT TO YOUR BUSINESS AND STRATEGY

A good starting point for defining appropriate leading indicators is to review the reports and metrics you use today and justify why you're measuring what you're measuring. If you think you're already using leading indicators, challenge them. Do the metrics provide a view into potential future problems?

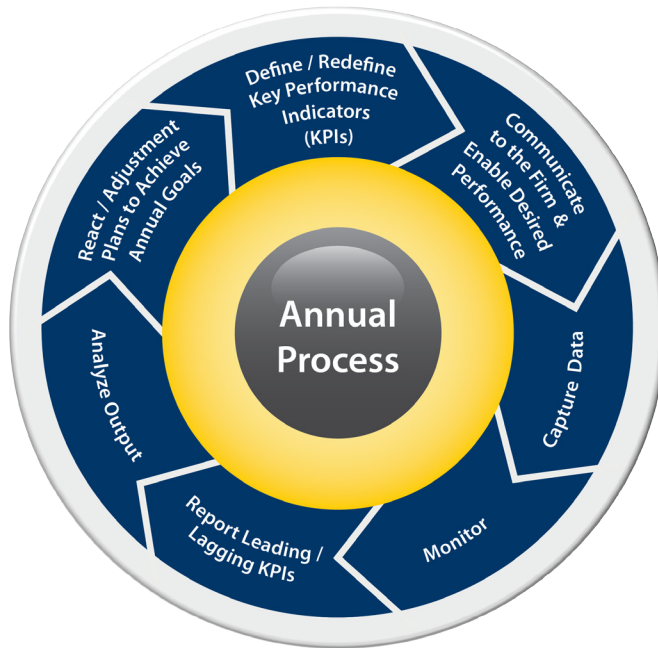
For example, West Monroe worked with one insurance company interested in managing the quality of its customer experience. The company determined that key factors influencing customer experience included hold times, so it began measuring and reporting the average time it took for its call center to answer incoming calls. The issue was, this approach assumed that customers' preferred method of communication was telephone. In working with the client, we discovered that the real issue was whether the call center was still the preferred channel for customer service. We recommended that instead of simply measuring time on hold (a lagging indicator), the client should evaluate call volumes as a leading indicator. By observing a decrease in call volumes, the company recognized that its customers preferred service through the web site, and it has refocused its efforts on ensuring a richer customer experience through online channels.

It also is important to look at both your organization's annual strategy and its longer-term three- to five-year strategy and modify metrics based on current needs. In fact, as your strategy shifts, it is not unusual to need to measure different things than you did the previous year.

For example, we all know the theory that it is 100-percent easier to keep an existing customer happy than it is to win a new customer. But most companies continue to measure and reward new customer acquisition to the detriment of growing existing accounts through relationship building, quality service, and cross-selling. In recent recessionary times, the market saw a dynamic shift as companies started to focus more on customer retention and satisfaction as opposed to growth by new customer acquisition. As such, the metrics to support this temporary strategy needed to change.



Finally, as you are budgeting for the coming year, consider using the method outlined below to help you define and measure progress toward not only long-term, but also short-term or annual goals. Having the right leading indicators in place from the beginning of the year can make a significant difference at year's end.



DON'T UNDERESTIMATE THE NEED FOR CHANGE

In any scenario, putting new metrics into practice can be challenging. Not only does this involve new processes for reporting the metrics to the right people in a timely manner; but more importantly, it involves the significant effort of ensuring that people use this new information in a “preventative” manner—and that requires careful thought to change management, including awareness and incentives.

Making sure you expose metrics and the scorecard of indicators to all levels, not just C-level executives, and that the metrics are presented in a way that is relevant to all levels. As you communicate this information, look for ways to translate leading indicators into terms that correspond with firm strategy, division strategy, and team strategy, and cascade these down to individual goals. Then, establish the individual dashboards and reporting mechanisms that enable individuals at various levels to see and use the data to manage business health proactively—and contribute to an environment of preventative care.

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