TenStep, Inc.

TenStep Supplemental Paper

---

21 June 2010

The Lighthouses of Success

It is not enough if a sailor merely knows his destination. He must know the right direction to reach the intended place. Managers in high-risk, high-growth companies are no different. They too must be aware of the strategies essential for success and implement them at the appropriate time. They must also be flexible and adaptable to varied circumstances that the competitive environment poses. Certain leading indicators or metrics help managers make the right decision and help the company achieve its goals. All this comes as a package: right strategy, adaptability and awareness of leading indicators.

Goal role

Leading indicators signal company performance and efficiency that can be measured to give useful information and enable decision-making. Most often, leaders of high-growth companies mistake company goals for performance indicators. Goals are milestones. Goal achievement determines success or failure for companies but does not define the process to attain them.

Maintaining harmony

The time lag between setting a goal and attaining it is known as the goal horizon. Top management of companies defines goals, keeping in mind the accomplished or unaccomplished past goals, with a dash of new thinking and strategy. However, companies face a problem here. While goal setting is an annual process, decision-making and communication are much more frequent. Goal horizon is therefore a longer time period compared to the time taken for management decision-making. This lack of harmony proposes the need to review progress and make necessary changes.

Leading the way

To set goals and maximize the chances of attaining them, managements need a feedback mechanism that determines if the goal could be achieved in a given time period. Such feedback or leading indicators help managers guide their companies in the right direction. Leading indicators are quantifiable metrics. The following example illustrates this. Company X set a goal to achieve Y number of accounts in 2010. Managers kept track of the number of product demonstrations that their sales personnel handled. This is a leading indicator because product demos influence customer decision-making process. It is also a future indicator because by charting the number of monthly demos, Company X can predict the deals that might come in its favor.

Challenges ahead!

Managers face various challenges in attaining goals. Apart from possessing imagination and creativity, they must:

- Identify the right indicators to track progress towards defined objectives

Copyright© 2000-2010 Ten Step, Inc. and C & K Management Limited

- Design the right indicators to capture relevant information
- Modify the indicators when required to face competition

Categories of leading indicators

A study of senior executives at 56 successful, high-growth companies revealed about 90 leading indicators. Of these, 10 were found to be the most widely used. Such leading indicators could be categorized under five topics: customer-based, strategy based, finance based, employee-based and technology-based.

Customer-based indicators. About 40 percent of the 56 companies studied revealed that they measure customer-based indicators more than the others. According to one CEO, *"If I could measure one indicator more accurately, it would be the external view – from our end-to-end customers, competitors, and advertising clients – of how we are viewed in the marketplace against the competition."*

Strategy-based indicators. While making strategic decisions, managers resort to readily available data on market trends and certain hard-to-measure indicators such as the company image.

Finance-based indicators. High-growth companies draw vital information from across various departments and determine their strength. While small firms focus on cash needs, medium to large companies rely on profitability indicators. The largest companies consider these indicators along with financial efficiency indicators.

Strategy-based and finance-based indicators together account for about 35 percent of the leading indicators.

Employee-based indicators. This type of indicator accounts for about 14 percent of the leading indicators in use. Employee retention and training costs per employee are examples of employee-based leading indicators.

Technology-based indicators. Companies use this type of indicator to measure the ROI on software and equipment. They account for about 11 percent of the leading indicators in use.

To each his own!

Leading indicators differ from one company to another. They must be customized to suit individual company growth needs. Companies could draw a specific list of their leading indicators and help allocate resources efficiently, drive smooth decisions and achieve goals. Moreover, they must be willing to adapt to changes and redesign leading indicators as they move through growth stages. This is possible only when formalized leading indicators in use are open to change.

The best of all!

High-growth companies use the following best practices in their road to progress:

- Capture relevant data about customers, strategy, finance, employees and technology to enable efficient decision-making

Copyright© 2000-2010 Ten Step, Inc. and C & K Management Limited

- Formalize the process of using leading indicators
- Customize leading indicators as per the company, industry and environment
- Identify and accept the right indicators and implement them appropriately
- Maintain a balance between productivity and growth of the company

The destination

Organizations must identify the right leading indicators and use them to enhance their growth. However, willingness to adapt to change is an essential factor too. While not changing course is a negative signal, changing course too often could be debilitating. Companies must therefore use leading indicators to be able to successfully accomplish goals!

Copyright© 2000-2010 Ten Step, Inc. and C & K Management Limited