

The Proper Use of Comparatives . . . “How do you know how you are doing?”

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The effectiveness of performance management processes depends on many technical and semi-technical issues in measurement. One of the most significant of these issues is the proper selection and use of comparatives.

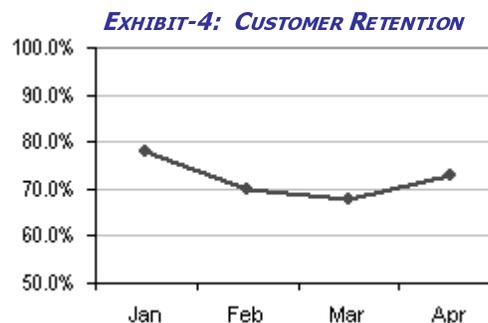
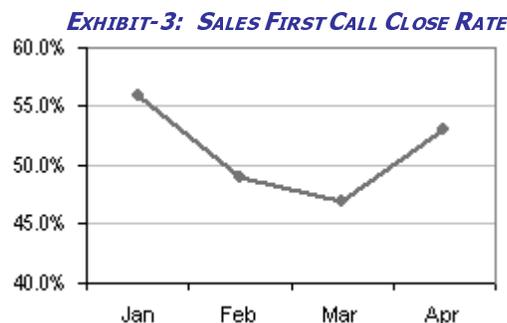
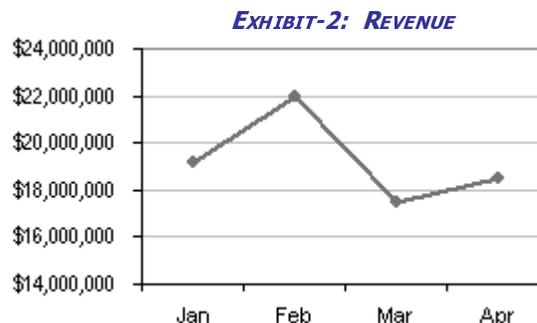
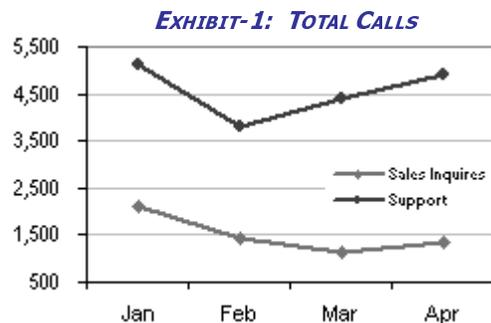
You might think that defining your performance indicators and getting the data would be the primary activities involved with measuring performance—in a word, all there is to it. But it’s not so. You still have to figure out how you’re doing—what to conclude from the measures you track. Everyone loves data but, as it turns out, data, by itself, doesn’t tell you much.

Key Questions Answered

- *How important are comparatives in measuring performance?*
- *What are the types and sources of comparatives?*
- *What should you consider in choosing comparatives?*

A Little Scenario

Unfortunately, most organizations give comparatives too little attention during the planning and implementation phases of their performance management programs. This can become evident after the system is fully in place, reports are being produced, and a senior executive asks “So, how do all these new measures say we’re doing?” The manager in charge shows a series of charts and graphs:



In showing the charts, the manager says . . .

“As you can see, we handled 6257 calls last month; 1351 were sales inquiries and 4906 were support related . . .

Total revenue is \$18.5M, up 5.7%, our sales-first-call-close-rate is up 6 points to 53%, and customer retention also improved by 5 points over the previous month to 73% . . .”

The executive responds, “Very nice. Is that good or bad?”

At this point, everyone realizes that there’s more to measuring performance, and gauging the need for further actions, than getting current data on the key performance indicators (KPI’s).

Comparatives

Providing a proper, satisfying answer to the question “How are you doing?” requires having two fundamental kinds of data in hand at the same time:

- 1) Current performance on the right key performance indicators and, equally important,
- 2) Anchors, comparatives, or benchmarks to help you gauge the “goodness” of the performance represented by the numbers.

You need comparatives (i.e. benchmarks or anchors), as standards by which to judge what your indicators show. Countless studies on judgment and decision making confirm what we know from everyday experience—we are poor at evaluating things in the abstract. And we are far better at comparing things. Is \$179,900 high or low for a certain house? The realtor searches for what realtors call “comparables.” Is a Sales-first-call-close-rate of 53% good or bad? We need the right “comparables,” usually called “comparatives” when measuring performance. Because they have so much impact on the conclusions you reach, your comparatives are actually as important as your performance indicators. This is particularly true when you realize that the comparative used in assessing performance actually *determines* whether the gap, the difference between the comparative and the indicator value, is positive, negative or requires action.

Two Types of Comparatives

What are the right comparatives? Finding them begins with understanding your options. Basically, there are two types of comparatives: internal and external. You’ll find examples of each type in Exhibit-5:

EXHIBIT-5: PERFORMANCE MEASUREMENT COMPARATIVES

Internal Examples	External Examples
<ul style="list-style-type: none">▶ Performance in the recent past▶ Performance during comparable periods in other years▶ Performance of other groups or individuals in the organization doing similar work▶ Goals or improvement targets set for the KPI▶ Work standards	<ul style="list-style-type: none">▶ External vendor performance (especially cost and quality)▶ Industry benchmark data and published standards▶ Peer companies performance data

- 1) Internal comparatives, those most commonly used, contrast your present performance to other standards inside your organization. They might include your past performance, goals you’ve set, targets you are trying to reach, etc.

- 2) External comparatives, though they suffer from being collected under somewhat different circumstances, are of great value in a business sense. They might include the performance of competitors or of vendors who perform similar services, industry benchmarks, peer group data, etc.

Choosing the Right Comparatives

What's the right comparative for your situation? As with so many other things, the only valid and correct answer begins with "It depends." What does it depend on? Well, the right comparative depends on:

- ✓ Your purpose for measuring
- ✓ Your circumstances
- ✓ The strategic situation.

A "thought exercise" may help make this point more clear. Consider some of the various purposes, circumstances, and strategic situations you might have in mind as you seek to measure performance. For each one, consider the types of comparatives that would be most appropriate and helpful and why each one has something to offer. Here's a starting list of purposes, circumstances, and strategic situations that can be used as input for this "thought exercise":

Purpose:

- Manage individual performance
- Manage department performance
- Reduce costs
- Improve overall productivity
- Increase sales
- Improve customer service
- Implement new corporate strategy

Circumstances:

- Just beginning a new department
- Long established department with its own culture
- Pressure from top management
- Considerable variance in employee performance and attitude

Strategic Situation:

- Outsourcing is a real possibility
- You are merging with another organization with a comparable department
- Sales is relying on you for stronger support of selling effort
- Costs must be reduced or company faces extinction
- Optimize performance to protect department and stay ahead of competitive threats

Where to From Here?

As you can see from this "thought exercise," several quite different comparatives might be appropriate given the various situations in which you could be operating and the various pressures and forces at play. If you come to the logical conclusion that there's no "one size fits all" comparative that you can adopt without taking the above factors into account and thinking quite carefully about them, you'd be exactly right.

Having said all this and given the appropriate cautions, there are some higher-level principles and findings from practical experience that apply and may be useful rules of thumb:

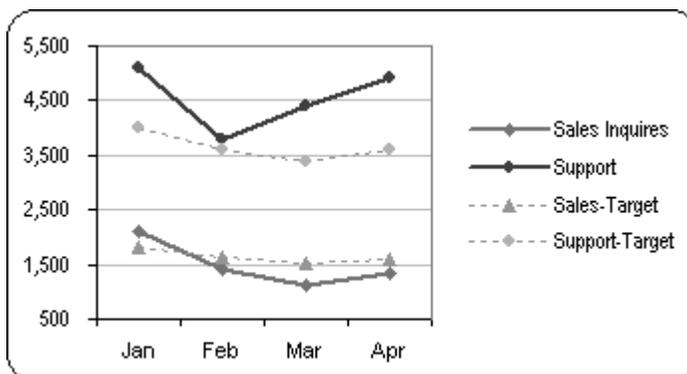
- 1) Trend lines are almost always useful. Using them implies that you regard past performance as one useful comparative for present performance. And it usually is, though we commonly need to add to it a benchmark (or comparative) that gives an external point of reference. What's the special value of a trend line? It usually provides the most "comparable" performance statistic we will be able to find—our calls, our staff, our work situation are more like our past than they are like anyone else's. So comparability is usually a strength of the trend line, unless something significant has changed.
- 2) Though trend lines are very useful and, other things being the same, should generally be included, they are seldom the end of the story. After all, you can be doing better according to your past history and still be behind the curve set by others and, in fact, falling farther behind them all the time. So, you may need to keep in mind some kind of a benchmark or comparative from outside your immediate department. This "combining of comparatives" is a particularly powerful way to paint a picture of performance. Imagine, for example, that you have a productivity chart showing call volume per agent per week, charted over the past 2 years. Then you add a few special data points to show industry averages and your primary competitors. . . The picture becomes far more powerful.
- 3) It's always important to think about stakeholders as you set comparatives. Who cares about your performance and why do they care? What is important to them? You want to be presenting measures, and comparatives, relevant to their interests and to the strategic direction of your organization. And what factors are really important to the decisions you make?
- 4) The test of logic is crucial in defining measures and comparatives. Above all, KPI's and comparatives must make sense. If we want to show something about system capacity, physical space or infrastructure, we might find call volume an appropriate measure to examine over time. But if we are interested in productivity, we would want to "normalize" these data into a variable like calls per agent. The variations are endless, but you get the point.

Adding Comparatives to "A Little Scenario"

We have added "Comparatives to the charts from our "A Little Scenario" example presented earlier in this paper. Both internally developed and externally referenced comparatives are used.

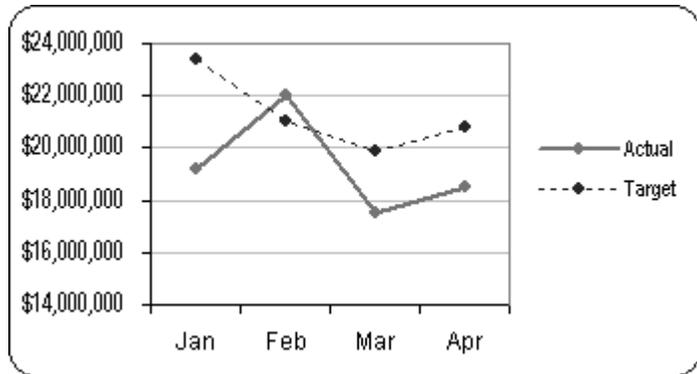
Call volume metrics use internally developed comparatives to measure the performance of call trends. A historical analysis of seasonality trends provided the basis for these comparatives.

EXHIBIT-6: TOTAL CALLS



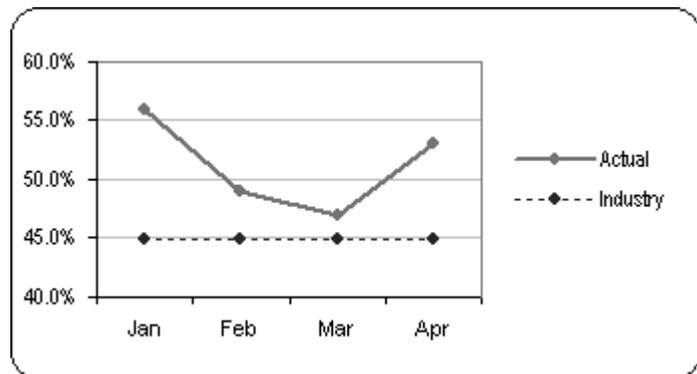
The revenue metric also used an internally developed comparative to measure the performance of revenue trends. A historical analysis of seasonality trends and revenue per customer provided the basis for this comparative, labeled as “Target” in Exhibit-7 Revenue.

EXHIBIT-7: REVENUE



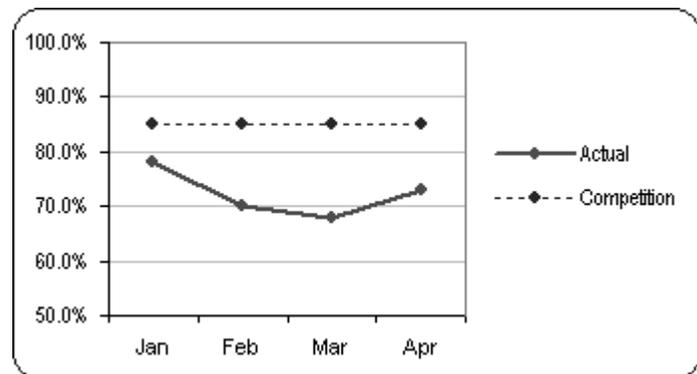
The Sales-first-call-close-rate metric uses an industry standard labeled as “Industry” in Exhibit-8. There are many companies offering performance standards and benchmarks that are specific to particular vertical markets.

EXHIBIT-8: SALES FIRST CALL CLOSE RATE



The Customer Retention metric uses an external industry comparative, labeled as “Competition” in Exhibit-9. This comparative was developed by analyzing industry data provided by a company providing customer satisfaction data on competitive companies. There are many companies offering performance standards and benchmarks that are specific to particular vertical markets.

EXHIBIT-9: CUSTOMER RETENTION



Conclusion

In closing, let’s summarize three ABC’s about comparatives:

- A) Comparatives have an immense impact on the accuracy and fairness of your judgments about performance.
- B) You need to consider the full range of comparatives and whether better comparatives might lead to better understandings of performance.
- C) Combining comparatives allows you to paint richer pictures of performance. You might, for example, display a performance trend line and also show goals for each time period and external benchmarks—allowing current performance to be immediately, visually compared to past performance, a goal, and an external benchmark.

Further Reading

- ¹ Enterprise Performance Management . . . the Basics, Dr. Bob Frost, Measurement International, Ken Forbes, CTO, Blue Pumpkin Software, © 2002
- ² Measuring Performance: Using the new metrics to deploy strategy and improve performance, Dr. Bob Frost, Measurement International, © 2002

Bob Frost is an author and consultant who regularly advises leading organizations on strategy implementation, operational effectiveness, and performance management issues. For more on his books and papers, see www.MeasurementInternational.com.

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