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Client Article

Survey – "Companies that use leading indicators outperform their competitors"

*The concept of leading indicators, to improve management performance is not new, yet very few enterprises use them in cross-functional management processes. Those that do outperform their competitors use leading indicators and **earn almost a 3% higher return on assets and more than a 5% higher return on equity.***

According to PricewaterhouseCoopers, 2009 global CEO survey; CEOs are shifting their focus from lagging to leading indicators. The survey also showed that the inadequate information CEOs received in these areas produced their biggest "information gap." Thoughtful use of leading indicators will help bridge this gap.

The difference about the current recession is the shift in focus from lagging to leading indicators of business performance. *This changes performance management from a tactical to a strategic discipline.* Executives have become more interested in what the enterprise *will do* than in *what it did*.

Leading indicators create opportunities for improved performance. Agility, the ability to sense environmental change and respond more quickly, enables organizations to improve performance during periods of economic volatility more efficiently and effectively than competitors. Agility improves when the organization develops the capability to sense change. A capability based on shared knowledge of leading indicators throughout all levels of the enterprise. Leading indicators provides advance warning of potential impacts. Thus enabling corrective action achieving superior performance for a given quarter is good, but demonstrating the capability to deliver superior performance consistently ***improves corporate value***.

For sustained business performance, the management team's implicit ability to sense and respond must be transformed into explicit enterprise capabilities. Extending existing performance management programs through shared knowledge of leading indicators sustains these capabilities.

An Australian study by UCT, "Management Matters in Australia: Just how productive are we?" showed that that Australia lagged markedly behind USA, Japan, Germany, Canada, France and Sweden in management performance, with the larger multinationals doing better than SME's with ***management being poor at self assessment tending to overestimate their own performance. The top 27% of Indian and Chinese manufacturers are already better managed that many of the companies in the survey***.

Improving productivity is more effective than hiring or new investment.

Robert Eccles, senior lecturer in business administration and former tenured professor at Harvard Business School, describes why strong internal facilitation is needed to close the loop in performance management: "Companies need someone to facilitate the use of leading indicators for internal purposes, because these metrics do need to be defined and coordinated. Many of these metrics require data sources external to the business. This is where professionals can add value." Sourcing, securing, compiling and presenting performance management is what business intelligence is all about."

Eccles adds that professionals can also help the enterprise "understand the lag time between cause and effect, and the valid range over which the relationship exists. This can be complicated and requires great analytical skills, as well as deep knowledge of what you are analyzing and the judgment to interpret the results correctly."

Deshel can help provide the interim support that a company requires in developing Leading Indicators and Superior Performance
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