Leading by the Right Numbers

– from HR cockpit to bottom-line understanding

By **Mads Cronquist** · Cronquist Consult ApS

Many leadership teams measure a lot but steer by little. The reports grow, the dashboards get prettier – but the numbers that really drive results drown in the volume.

At the same time, many middle managers are skilled professionals who have never learned to read a set of accounts. They do their best, but cannot see how their daily decisions affect the bottom line.

This article is about how to find the right numbers, build a cockpit leaders can actually steer by – and teach them to understand the profit engine in the engine room.

A cockpit with a blacked-out windscreen

Imagine you are boarding a plane for a holiday in the sun and glance into the cockpit. To your great surprise, the windscreen is completely black, and there is only a rear-view mirror and a single instrument showing the speed. “Welcome aboard. The flight time is somewhere between two and four hours, we think, and we hope to clear all the mountain ridges along the way. We’ll find out in the rear-view mirror once we have flown over them!” Would you still come along?

That is how many companies are run. Budgets and accounts are rear-view mirrors – they tell you how things went. That is necessary, but it is not enough. Companies need instruments that show where they are heading and whether they are on the right course. And because goals drive behaviour, the instruments must point to what actually creates the results.

> *Budgets are rear-view mirrors. A cockpit must also show the way ahead.*

KRI, PI and KPI – know the difference

David Parmenter draws a sharp distinction between three kinds of measures. Key Result Indicators (KRI) are the outer layer that tells us how we have done – for example customer satisfaction or profit. Performance Indicators (PI) say something about what we need to do – for example sales to key customers. And Key Performance Indicators (KPI) are at the core: The few, often non-financial factors that determine whether the organisation increases its performance significantly. They have top management's attention every day.

Most companies call everything KPIs. But revenue and EBITDA are results, not drivers. If you want to increase sales, you must measure what creates sales: The number of customer meetings, bids, hit rate and lead time. When I built up a sales organisation in a service company, each salesperson had crystal-clear, individual KPIs for every month – linked directly to the budget, the job description and an incentive model. The trick was to break the big plan down into "what does it mean for me" and "what exactly do I need to do".

That is Kaplan and Norton's Balanced Scorecard in practice: Translating the vision, linking individual goals to overall goals, breaking them down into milestones and creating feedback and learning. The LeaderShop model builds on the same logic.

HR figures that can be turned into money

At Christiansen & Essenbæk, we created an HR indicator chart with key figures such as seniority, competence development, sickness absence, well-being and staff turnover. It gave a status picture that could pinpoint where action was needed – and which initiatives were working.

Three of the indicators were particularly valuable because they could be capitalised: Sickness absence, BMI and risk factors. Sickness absence was cut by 69%, which in wage costs alone saved the company close to half a million kroner. On top of that came the value of avoided production losses, temps, possible delay penalties and wear and tear on those who were not ill. Risk factors fell by 30%, and the well-being index reached a score of 4.09 on a scale of 1–5 – equivalent to positive growth of 7 percentage points. The survey covered 15 key questions, three of them specifically on leadership quality: All three became the survey's absolute high-flyers and can be attributed to the intensive leadership training delivered by Cronquist Consult ApS.

The point is that soft figures can become hard ones. When HR indicators are converted into money, they earn a seat at the executive table – on a par with liquidity and contribution margin.

Every leader their own cockpit

As an operations manager at ISS, we worked with a personal scorecard for each middle manager. It was based on an annual customer and employee survey combined with financial data such as revenue and contribution margin. Each manager had clear goals and knew exactly what to tackle out in the field: When am I successful?

We also tested the hypothesis of a link between employee satisfaction, customer satisfaction and profitability. There was a clear connection. That correlation is basically what makes it interesting: When you measure the right things among employees, you can see it among customers – and later on the bottom line.

The prerequisite is a clear strategy. Without it, you do not know what to measure, when and how. And the goals must match the job description, so measurement, goals and responsibility fit together.

Teach leaders to read the bottom line

You cannot run a business without understanding the profit engine in the engine room. Business economics is a hard competence that all leaders should master – including those hired for their professional expertise. That is why at C&E we gathered 16 operational managers and two managers from the sister company for a two-day course in business economics for non-economists.

The concept was extremely educational: Using coloured poker chips, a board game and computer simulation of the DuPont pyramid, the managers learned concepts such as gross margin, current ratio and solvency ratio. On day two, the CFO and the head of department had built in a business case from an actual bridge renovation at C&E.

Through internal interest calculations on better payment terms at both ends and shifting invoicing in relation to VAT settlement, it showed that simply by "minding our leadership work" we could have scored around DKK 100,000 extra on the bottom line out of revenue of around DKK 14 million. Not by working more, but by following the now clear internal business processes. It was a huge eye-opener – frightening and uplifting at the same time.

Afterwards, the CFO – who was no longer "that guy down in the basement" – and the heads of department continued breaking the instruments down to site manager level, so each manager got their own cockpit.

When numbers have to become action

Measurements are only worth something if they lead to action. After our well-being survey with 15 questions, every manager with at least five direct reports received a follow-up form with three prioritised focus areas. The task was to go out and ask the hourly-paid workers what lay behind the figures.

It was quite a challenge. The forms came back slowly and incompletely – some bordering on self-congratulatory. The solution was to pair two members of the working environment committee as a task force that visited construction sites they did not know. One of the managers came back the same afternoon, jubilant and "on a high" from all the insights. His report led, among other things, to a new induction day and a competence search function on the intranet that was under development two weeks later.

The lesson is that numbers alone change nothing. They must be turned into dialogue, curiosity and concrete improvements – preferably by those closest to reality.

Examples of key figures in a contractor's cockpit

In addition to sickness absence, well-being and risk factors:

- Number of tenders won and their total value (hit rate).
- Extra work as a percentage of the original tender sum.
- Hours spent on each construction project compared with the calculation.
- Number of training days relative to the contribution margin.
- Number of customer meetings relative to revenue – and supplier satisfaction.

Three questions for the leadership team

Ask yourselves:

- Which of our "KPIs" are really results – and what are the actual drivers?
- Can each of our leaders answer the question "When am I successful?"
- Do our middle managers understand how their daily decisions affect the bottom line?

Conclusion – measure what drives the results

Leading by the right numbers is not about more measurements, but the right ones. Distinguish between results and drivers, convert the soft figures into money, give every leader their own cockpit – and teach leaders to read the bottom line.

Then the windscreen can become clear again. And both the pilot and the passengers know where the plane is heading.

The article builds on, among others, my book "Lederens inspirationsguide" (The Leader's Inspiration Guide, 2012, in Danish) and my CBA thesis "LeaderShop – nøglen til succesfuld strategi" (LeaderShop – the Key to Successful Strategy, 2012), inspired by David Parmenter and Kaplan & Norton.

Are you steering by the right numbers?

Cronquist Consult ApS helps leadership teams link strategy, key figures and leadership – so measurements turn into action and better business results. Read more here:
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