

## Seeing Red - Does Your Traffic Light have only Three Colors?

### Applies to:

SAP Strategy Management

### Summary

A popular grading system for understanding current status of an organization's operations is the traffic light approach. While using three colors to signify conditions may simplify presentation, it does not provide interpretation or analysis needed for strategic decision-making.

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## Does Your Traffic Light Have Only Three Colors?

Executives want a quick and easy way to understand the current status of their organization's goals, measures, and initiatives. A popular grading system is the traffic light approach, which uses the three colors, (red, yellow, and green), to signify conditions. Most organizations already have systems in place that denote current status using this approach. Three colors, or three thresholds, to identify the status of a category may not adequately represent performance nor provide a clear path of action.

### Differences between Driving a Car and Driving a Business

The colors used with traffic lights effectively let automobile drivers understand what actions they can take at an intersection. Unlike choices in the business environment, the driver has no control over the traffic signals and has a limited number of available options: proceed, stop, or proceed with caution. When applied to an activity, goal, or metric in business, can three thresholds provide enough clarity? Is that red light really bad, or just a little below expectations?

While having just three levels (Good, Okay, or Bad) may provide simplicity in presentation, it does little for interpretation and analysis. There are many goals, initiatives, and metrics that have to be balanced within an organization. The limitations of using only three thresholds can hide the nuances in performance needed to prioritize where to concentrate attention and resources.

### Using Five Thresholds instead of Three

Five thresholds can give a better picture of performance. Following the common letter grade standards (A,B,C,D,and F) as used in schools, it can provide better interpretation of current status. Having something that is easy to grasp and meaningful is why traffic signals are used. To create the best context for understanding and action there has to be a key to what those symbols or colors mean.

#### 5 threshold system

A – Dark Green – Best in Class – Equals or Above 90% of Target

B – Light Green – Exceeds Performance – 80% - 89% of Target

C – Yellow – On Target – 70% - 79% of Target

D – Light Red – Needs Attention – 60%- 69% of Target

F – Dark Red – Unacceptable – Below 60% of Target

How targets are set and how scoring is presented also has important implications concerning motivation. Objectives have to be achievable by people. Using three thresholds may not be very motivating for the staff. Setting goals that are perceived as attainable can motivate a team to give their best, while setting unattainable goals drain the energy and the effort from staff. Scorecards and thresholds are meant to communicate status and encourage collaboration to meet shared goals. Unintended consequences of poorly communicated strategy and performance are creating divisions in an office and encouraging employees to hoard or manipulate data.

### **Adding Trending to Give Better Context to Thresholds**

The true status of a goal, initiative, or metric is always in flux. Very few things stay the same for long. By adding trending to your thresholds provides additional information as to the direction of measurement. Trending provides additional information as to the direction of measurement. Is going Up, Down, or Holding Steady? Adding trends is as easy as providing an arrow next to the threshold. This trending can better help identify even well performing measures that may be in need of attention.

Thresholds and trending are important as indicators. It is important for everyone to have a true idea about the state and status of an organization. No one profits when numbers and results are manipulated to artificially reach a status color or letter grade. With the pressure of Wall Street and investors to offer the least amount of surprise, even hoarding information about how well the company is doing can be bad.

When employees know that accountability doesn't just mean blame, areas in need of attention can be approached as moving it in a positive change. When the goals of the organization concentrate on the *colors* of the indicators, instead of outcomes indicators attempt to measure, the organization is not operating strategically and may be focusing too much on urgent output. People are not going to welcome red indicators, results eventually become apparent no matter what your thresholds and signals may show. Using five thresholds and trending can keep the focus on the issues, not just the colors.

### **Prioritize the Important and the Urgent Will Follow**

How do you articulate clearly what is most important? Traffic signal colors only provide status, not priorities. Priorities flow from the strategic objectives and goals. When priorities are based solely on current status, an organization cannot distinguish between urgent and important.

Most gauges an organization uses to track performance are quantitative, meaning it only shows past performance. The goal of Strategy Management is to focus attention on the areas that will provide the best outcome and largest impact toward reaching present and future goals.

Effectiveness is compromised when an organization can only react to emergencies or critical situations. Many believe they work best under pressure, though it is very difficult to be thorough, clear-thinking, imaginative, effective and efficient when merely reacting to the urgent. This urgency creates poor decisions and shoddy work. Urgent is a sure sign that an organization has ignored important longer-range strategic objectives. Smart organizations focus on important strategic issues and the urgent will take care of itself.

### **Summary**

To effectively monitor objectives, initiatives, and metrics a grading system has to be understandable. Using colors, icons, or letter grades can be an easy way to show status, though not overall importance to a company's goals. A traffic signal only tells a driver whether to stop or go, not where to go or how to get there. Organizations have a number of available options and use their strategy, not their traffic light's colors, to best map their direction.

## **Related Content**

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[Webcast: Bridging the Gap between Strategy and Execution with SAP Strategy Management](#)

[SAP Solutions for Performance Management Discussion Forum](#)

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