SEVEN GREATEST M Y T H S OF MEASUREMENT

When measurement isn't ignored or focused on past performance, it can be a bellwether of success.

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Companies that use a balanced set of strategic measures - both financial and nonfinancial - outperform their less disciplined rivals in performance and management. A recent national survey of 203 executives on measurement found that not many companies report being "measurement managed," with clearly defined and updated measures in place for assessing employees, suppliers and customers as well as key attributes such as levels of adaptability and innovativeness. It's not surprising. Until recently, with the exception of financial results, measurement has not exactly been a burning issue in the boardroom.

Why have so few executives paid attention to measuring the range of results that are vital to strategic success? In our research and consulting experience, we have found seven
Myths that impair management’s effective use of measurement.

**Myth I**

You can learn a lot from an organization by paying attention to the goals it sets. In our national survey, two-thirds of the organizations reported setting financial and operational goals, but less than half the organizations set goals for the "soft" issues relating to managing people, suppliers, customers, and innovation. Despite all the windy rhetoric about loving customers, empowerment and learning organizations, not many executives are willing to put measures where their mouths are.

There are, of course, exceptions. Johnson & Johnson, for example, realized years ago that financial results are essentially driven by how well executives managed key stakeholders such as customers, employees, and the communities in which they operate. Johnson & Johnson carefully measures performance related to these stakeholders and educates managers and employees about the connection among delighted customers, satisfied and productive employees, good community relationships, and profit.

It is dangerous for top management to focus on hard results and then empower lower-level managers to take care of the rest. If top management doesn’t provide discipline for the soft areas, why should managers down the line?

Contrary to this myth, financial success is an outcome largely dependent on soft employee attitudes and behaviors. As the measurement-managed companies in our survey have discovered, business success comes from paying attention to the hard and soft areas of performance, knowing how to link both and installing measurement systems in all areas of the organization.

**Myth II**

Back in the salad days when top management could spend time at the corporate retreat opining on strategic matters, measurement was left to the bean counters in finance and the production and quality-control folks on the plant floor. This was a common but big mistake. While leaders at senior levels need...
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not bury themselves in statistical process control charts, they can benefit by paying attention to strategic performance measures. In our work with the Balanced Scorecard -- those top-level measures that reflect the long-and short-term goals of an organization and its key stakeholders -- we have identified key questions in five areas, in addition to financial performance, which should capture the measurement interest of senior executives:

- **Markets**: Are we meeting customer or marketplace expectations?
- **People**: Are we deploying our human resources effectively, including employees, partners and suppliers?
- **Operations**: How efficiently are we running the enterprise?
- **Adaptability**: Are we responsive and innovative in our approach to changing requirements both internally and externally?
- **Environment**: Are we dealing with community, environmental or regulatory forces that define our playing field?

Senior executives need to set these top-line measures of performance and lead the effort to translate these measures into operational criteria.

**MYTH III**

**Measurement Is Too Review-Oriented**

Remember Lot’s wife, who turned into a pillar of salt because she looked backward? It’s a hell of a price to pay for not looking ahead, and it may be one reason that many senior executives avoid the subject of measurement. Too often, measurement is used to record the past, not anticipate the future. This is especially true of most financial measures, and yet, they continue to be used as the primary vehicle for meeting shareholder and regulatory demands.

One way to make measurement more forward-looking is for top managers to review their strategic scorecard and ask: Do we have measures that can serve as early-warning indicators of future problems? Or better yet, and less defensive in thinking, do we have measures that can signal future opportunity?

In one large supplier of medical services to hospitals, senior executives consolidated the company’s two salesforces that serviced large and small hospitals respectively. Measures from surveys of the salesforce indicated mounting customer dissatisfaction. In addition, complaints surfaced from customers about late product delivery and unresponsiveness. Subsequently, we were asked to survey the hospitals to determine levels of satisfaction and loyalty, and we found serious concerns. Within months, customers began switching to competitors. Had senior executives used the right information from its employee measures as a bellwether of trouble with its customers, it could have taken action early-on to stem customer defection.

**MYTH IV**

**Measurement Creates Reality**

This myth usually surfaces when senior executives are in the process of deciding whether to gather information on a problem area. Take employee-attitude surveys as an example. Many executives implicitly ascribe almost magical powers to surveys. They believe that by asking employees how they feel, you risk creating negative feelings. Never mind that these feelings may have been there all along. More than rely, management was simply unaware or unable to deal with them. At one global pharmaceutical company, a prior survey revealed deep-seated morale problems in the workforce. Managers turned skittish and refused another round of surveys one year later. They didn’t want to rock the boat. While ignorance may be bliss, it usually creates trouble. In this case, senior managers’ reluctance only reinforced their image as being aloof and uncaring.

Smart companies know that information is the foundation for understanding and effective
problem solving. A paper manufacturer held its breath as it conducted a company-wide employee survey. Executives were afraid that a potentially divisive pay issue would rear its ugly head. When the survey results were examined, pay issues were ranked fifth or lower in importance by the majority of workers. Safety and long-term job creation took priority. These findings helped management and the union avoid the usual contract gridlock and focus instead on finding common ground for the pressing issues.

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**MYTH V** Measurement Stifles Creativity

For proof of the controlling power of this myth, just check the vision statement of the average company. We worked with a pharmaceutical company on a strategy that was studded with the usual pieties about its humanitarian mission, quality, innovative products, commitment to its customers and the great value placed on its people. (The fact that the company recently downsized by cutting people and slashing its R&D budget is quite another matter.) When we asked one senior executive about what guidance the strategy provided, his answer did not inspire great confidence. "Trying to get a handle on the strategy," he remarked, "was like sculpting fog." Had the top team thought through specific measurement criteria for its product and established a strategic framework for market categories, required capabilities, and revenue and profit expectations, the strategic fog would have cleared, making way for creative planning and implementation.

**MYTH VI** Measurement is Anti-Humanistic

Many managers believe that measurement is just not people-friendly. Measurement often conjures up visions of number crunchers in green-colored glasses who suffer from a kind of "anthrophobia," as they pursue time and motion studies and operating efficiency. Real managers, so this line of reasoning goes, get paid to produce results through people, and people don't tend themselves to the rigors of metrics and quantitative analysis.

Few would argue with the notion that the managerial process is more art than science, but while it may be unpredictable, it should never be imprecise. Take an essential task of every manager, setting goals and providing a context for achieving them. Surely this is a uniquely human endeavor, but it is one in which measurement can play a vital role by helping to specify goals and motivating people to attain them by providing feedback on progress.

Years ago a study of fundraising efforts was conducted in small towns. The study compared those towns that had a visible display of the money collected - we've all seen those poster-board thermometers indicating progress - with those without a visible measure of success. Not surprisingly, those towns that measured progress and shared it with the community exceeded the performance of others. Indeed, measurement enhances -- not stymies -- human activity.

**MYTH VII** The More Measurement The Better

His myth is a polar opposite of the others, and usually leads to measurement running amok. A large financial and brokerage institution developed 150 different performance measures at the corporate level. Few understood them, and no attempt was made to set priorities. Many of the measures were never effectively put in place, and the data collected from many of the others remained in the desk drawers of managers.

In another case, a multibillion-dollar division of a Fortune 100 chemical company initiated a quality-assessment process. Reams of data were collected from an array of internal and external measures, but the data were never integrated, never effectively analyzed for strategic implications and never used to set division priorities.

The number of metrics is less important than the process used to arrive at them. Forget quantity and focus instead on linking measures to strategic capabilities, customer expectations and financial indicators. And remember, involve those closest to the action in defining the measures and setting the targets. MR