There is great commotion across the corporate landscape these days as executives attempt to master the three Rs of the current management wisdom: reengineering, restructuring and renewal. With all the hubbub, how do executives know that their change efforts are producing results?

A number of companies are answering the question by rediscovering the criticality of measurement as an important management tool. “You simply can't manage anything you can't measure,” says Richard Quinn, vice president of quality at the Sears Merchandising Group.

The key questions, then, for managers on the firing line are: What are companies actually doing to measure results? Does measuring strategic performance make a difference? And is measurement being used to manage change?

To answer these questions, Wm. Schiemann & Associates Inc. conducted a national survey of a cross section of executives. The most significant conclusion from the research is that organizations which are tops in their industry, stellar financial performers and adept change leaders, distinguish themselves by the following characteristics: having agreed-upon measures that managers understand; balancing financial and nonfinancial measurement; linking strategic measures to operational ones; updating their strategic “scorecard” regularly; and clearly communicating measures and progress to all employees.

For those executives who have gone beyond the green eyeshades and stopwatches to assess the pivot points of their company's strategy - from how well customer expectations are met to the ability to manage relevant environmental and regulatory forces, to how adaptable the organization is - the measurement effort will yield ongoing results to the bottom line.

Measuring What, When?

In the dog-eat-dog world of real estate development, a misstep can be a deadly stumble, which makes information quality and performance measurement especially important. "Not all things are worth measuring all the time .... You have to determine what you want to measure and measure it properly," observes Ara Hovnanian, president of Hovnanian Enterprises Inc., the nation’s 10th largest homebuilder.
Hovnanian’s point is on target. In our research, we examined how executives measure six strategic performance areas that are crucial to long-term success: financial performance, operating efficiency, customer satisfaction, employee performance, innovation/change, and community/environmental issues. We asked our research sample these two questions: How highly do you value information in each strategic performance area? Would you bet your job on the quality of information in each of the areas?

Interestingly, information about customer satisfaction is highly valued by the largest percentage of executives, even more than the traditional management gauges of financial performance and operating efficiency. In a tough, competitive marketplace, knowledge about customers is power — and a competitive advantage. Two-thirds place a significant level of importance on employee performance, and nearly half of all managers place importance on innovation and change and community/environment.

Just how confident are executives about the quality of information upon which to base decisions in each strategic area? Not many would stake their jobs on the information that is available to them (as summarized in Figure 1). Even in the area of financial performance, only six-in-ten executives place confidence in the data that is available to them. There exists a wide gap between what is valued and what is treated as accurate. This trust gap cuts across internal and external environments. To the extent that an organization, like an individual, must "know thyself" to be effective, then executives face an urgent task of reexamining their measurement system to gain greater self-knowledge and self-confidence.

Why do executives feel so uncertain about the quality of information concerning customers, employees, innovation/change and other external stakeholders such as community groups or regulatory agencies? Our findings point to two factors that contribute to executive uncertainty: the clarity of measures in each strategic area of the business, and the frequency with which measurement is undertaken.

The responses in Figure 2 reflect a pattern similar to the confidence ratings in Figure 1. Apart from financial and operating efficiency, relatively few executives report that success measures in other areas are either clearly defined or updated at least semi-annually.

Most striking in these figures is how few managers feel that their organizations have been able to define in clear, unambiguous terms what the organization hopes to accomplish in the areas of employee performance, innovation/change and community/environment. Even in the area of customer satisfaction, the data indicate there is disagreement in many companies on what should be measured.

We probed deeper in our research to learn what measures were reviewed on a regular ba-
sis, which were linked to compensation and the extent to which different measures were used to drive organizational change (see Figure 3). Not surprisingly, what executives review and depend on to manage their organization parallels what they consider to be reliable.

While a substantial number of organizations have begun to examine performance measures beyond financial and operating efficiency at regular performance reviews, few have linked such measures to compensation or rely on them to drive organizational change. Without executives putting their money where their measures are, or without using measures to drive and evaluate strategic change, it is unlikely that these measures will become integral to how a business is directed and run.

If better measurement does not result in better performance, then why bother? Put differently, are "measurement-managed" companies more successful than those that downplay measurement? And, if so, how does measurement contribute to success?

**Measure By Measure**

To answer these questions, we first identified those organizations characterized by respondents as being measurement-managed and compared them to a subset of organizations that did not appear to place much reliance on measurement. Measurement-managed organizations were those in which senior management was reported to be in agreement on measurable criteria for determining strategic success, and management updated and reviewed semiannual performance measures in three or more of the six primary performance areas. Fifty-eight organizations met both criteria for being measurement-managed.

We then identified as non-measurement-managed organizations those in which senior management reportedly did not agree on measurable criteria for determining strategic success, and performance measures in only one or two primary performance areas were reviewed on a semiannual basis. Sixty-four organizations met these criteria.

Once we had identified the two groups of contrasting organizations, we compared them on three success measures (see Figure 4). Measurement-managed companies fared better on each of the three measures.

A higher percentage of measurement-managed companies were identified as industry leaders, as being financially in the top third of their industry and as successfully managing their change effort. This last statistic implies that measurement-managed companies tend to anticipate the future and are likely to remain in a leadership position in a rapidly changing environment. "Don't spend your energy measuring what you can't change," advises J. Walter Kisling, chairman and CEO of Multiplex Co., a $27 million manufacturer of beverage-dispensing equipment. "Spend your energy keeping up with-and staying ahead of-change."

Given the number of change efforts that are buried in the graveyards of so many competitors, it is notable that 97 percent of our measurement-managed companies reported success with a major change effort. Even if we excuse this figure as overly self-congratulatory and lower the response value by 25 percent, the remaining figure would continue to be impressive.

One hypothesis for these findings is that successful industry and change leaders simply do a better job than nonleaders in measuring their workforce, which is where real change is won or lost. In fact, the survey findings reveal that employee measurement is the biggest single measurement area that separates successful
from less successful firms, where success is defined as the three criteria in Figure 4. Knowing workforce values, morale, productivity and competencies appears to be a significant advantage for these successful firms.

In addition to employee measurement, another key distinction separating industry leaders from nonleaders is that industry leaders report reviewing on a more frequent basis a broader range of measures than do nonleaders, especially those related to customer satisfaction, employee performance, and community and environmental issues. These organizations keep performance measures continually in front of key executives and managers, knowing that if measures are out of sight, they’re out of management.

This study supports the conclusion that good measurement is essential to good management. Forget magic. Industry leaders we surveyed simply have a greater handle on the world around them. While they carefully track financial performance and operating efficiency, they also apply rigor to the "soft side," such as customer satisfaction, human resources and innovativeness. These companies realize that their organizations are complex environments that require greater alignment and a balanced set of performance gauges.

Success Builders

Beyond balance, why is it that measurement-managed companies outperform those that are less disciplined? Our data point to four mechanisms that contribute to the success of measurement-managed organizations:

- Agreement on strategy. Only 7 percent of our measurement-managed companies reported a lack of agreement among top management on the business strategy of the organization. This compared to 63 percent of the non-measurement-managed organizations. The act of translating vision or strategy into measurable objectives forces specificity. It helps to surface and resolve those hidden disagreements that often get buried when the strategy remains abstract, only to return at some later date to haunt an organization.

- Clarity of communication. We asked managers how well their business strategy was communicated and understood from top to bottom at their organizations.

Sixty percent of managers in measurement-managed organizations rated favorably how well the strategy was communicated throughout the organization, while only 8 percent of managers from non-measurement-managed organizations reported that their organizations strategy was well-communicated and understood.

Good communication demands a clear message. If the strategy itself is unclear, insisting on measures for strategic goals can force clarity, as it has at Sears. "There was a real gap between the strategy and what it meant on a day-to-day, operational basis," explains Sears' Quinn. This left employees uncertain about how they could contribute. So Quinn and other senior executives added a number of "wrap-around elements" to the strategy and then tied the key strategic goals to performance measures. "This helped to clarify our strategic thinking and bring to life what we want to become and how to get there" concludes Quinn.

Measurement also provides a common language for communication. "People talk about how they're being measured," says Quinn. "It is almost the language in which communication occurs in an organization." Consistent with the notion of a common language, 71 percent of managers from measurement-managed organizations reported that information within their organization was shared openly and candidly, compared with only 30 percent in non-measurement-managed companies.

- Focus and alignment efforts. Effective organizations are organic, integrated entities in which different units, functions and levels support the company strategy-and one another. Not surprisingly, our measurement-managed organizations reported more frequently that unit performance measures were linked to strategic company measures (74 percent versus
agreed-upon standards. Forty-two percent of the measurement-managed companies reported excelling in this regard compared with only 16 percent of their non-measurement-managed counterparts.

Finally, increased willingness to take risks appears as an additional feature for building success in measurement-managed organizations. Fifty-two percent of managers from measurement-managed companies said employees in their organization generally were unafraid to take risks to accomplish their objectives, compared with only 22 percent of the non-measurement-managed companies.

While culture can be difficult to quantify and change-measurement can play an important role in specifying values, thereby providing everyone in an organization with clear goals for focusing a culture change effort. At Gilbarco, a $350 million manufacturer of gasoline-dispensing equipment, a "hierarchy of measures" is in place that cascades down from corporate. "Measurement provides clear, visible targets throughout the organization," says Thomas Rosetta, Gilbarco's manager of US. operations. It also gives the team-based environment at Gilbarco a rallying point for galvanizing group effort.

Measurement-managed companies were also more likely to link multiple measures to compensation. Forty-seven percent of measurement-managed companies had measurements in at least three performance areas linked to compensation, while only 9 percent of the non-measurement-managed companies had measures in as many as three areas linked to compensation.

- Organizational culture. Call it culture, tone or style, but a number of mechanisms are at play in every organization that help provide a set of collective attitudes and behaviors that either sustain or impair competitiveness. Take teamwork. When compared to non-measurement-managed counterparts, managers of measurement-managed companies more frequently reported strong teamwork and cooperation among the management team (85 percent favorable ratings on teamwork versus 38 percent for non-measurement-managed companies).

We also asked respondents the extent to which employees in their organization self-monitored their own performance against agreed-upon standards. Forty-two percent of the measurement-managed companies reported excelling in this regard compared with only 16 percent of their non-measurement-managed counterparts.

Measurement Blockers

Few executives would disagree with the proposition that a good measurement system is an important management tool. Why, then, aren't more companies managing by deploying and reviewing a balanced set of measures, especially in the areas of customer satisfaction, employee performance, organization innovativeness and environmental/community influences?

Based on survey results, related telephone interviews and our consulting experience, here are the four most frequent barriers to effective measurement that we encountered:

- Fuzzy objectives. "If you wish to debate with me, define your terms." Aristotle's advice is equally valid for managing organizations. It's tough to run a business without clearly defined objectives. The development of measures requires that goals and objectives be defined with sufficient precision to be measurable. Typically, this precision exists in the financial and operational areas. Many companies do not invest the time needed to define with equal precision other areas of performance, such as customer satisfaction, employee performance and rate of change.

A first step in achieving precision in hard-to-quantify areas is to translate "soft" objectives into clear statements of results and then ask "How can this result be measured?"
For example, Ara Hovnanian converted his company’s guiding principles into specific “pledges” to customers, employees and stakeholders and then attached measurement criteria to each pledge.

Second, try specifying the behaviors that are implied by inherently imprecise terms such as “values,” “culture” and the like. This allows managers to then measure where they hit or miss the mark. For example, at Sears a good deal of attention recently has been paid to defining the company’s values. “The real issue is what behaviors look like every day, job by job, and whether they reflect the values we are espousing,” Quinn says. “With this done, you can then set up a measurement system to determine where we’re making progress and where we’re not.”

- **Unjustified trust in informal feedback systems.** There are many informal mechanisms by which companies receive feedback about their performance, such as complaints and criticisms from the salesforce about products and services. Companies can place unwarranted trust in these informal information channels as mechanisms for measuring performance.

While informal information channels can provide an idea of the range of issues an organization faces, they do not provide accurate information on the extent to which a problem exists across a larger customer or employee population. Non-measurement-managed companies often learn too late that an apparent problem which has absorbed resources is the concern of only a few squeaky wheels, while a more critical problem has gone unattended.

- **Entrenched measurement systems.** Most organizations have in place some type of measurement system by which they manage already. Employees can strongly resist new ways of defining success that are unfamiliar to them. They want to see the measures “work” for a while before they are willing to tie their financial future to them. Such resistance has defeated more than one attempt to increase management through measurement. Organizations often underestimate what is required not only to develop a sound system of measurement, but also to implement it in a way that results in active acceptance by the workforce.

Measurement-managed companies tend to involve the workforce in developing measures. For example, at Gilbarco, teams not only help determine specific performance measures, but determine how results will be tracked and reported. This ensures broad commitment to the measurement process.

- **The activity trap.** Measurement mania can be debilitating. Too many measures trivialize the effort. This occurs when results. "if you're measuring for measurement sake and do not use the data for fine-tuning the organization, or for spurring it on to achieve significant results, then you are going through wasted efforts" says Steven Fisher, CEO of Brown & Caldwell, a $25 million company specializing in environmental engineering.

With all the changes taking place, organizations are becoming more like molecules operating under Heisenberg’s uncertainty principle than like the sure-footed leviathans that once stalked the marketplace just a decade ago. Establishing an effective measurement approach will not retard the rate of change or reduce the need for continuous improvement. But it should help organizations anticipate change and provide a balanced set of coordinates to monitor progress and manage through the chaos.

As Fisher puts it, "If you don't measure and track results, you won't know where you are and whether or not your strategies are working. Ultimately, that's the best justification for becoming a measurement-managed organization. MR


**EDITOR'S NOTE**

Wm. Schiemann & Associates Inc. conducted a national survey of a cross section of executives. Of the 203 executives who answered an extensive questionnaire about their measurement practices, 72 percent were top or senior executives. Half the respondents were employed by companies with more than 500 employees.

A majority (65 percent) represented manufacturing organizations. In addition, in-depth interviews were conducted with senior executives in almost a dozen companies who have been actively involved in looking for new ways to measure performance. These companies range in size from Sears ($50 billion in sales) to Multiplex Co. ($27 million in sales), and represent a variety of industries.

WORKBOOK

The research proves it: Measurement-managed companies outperform those organizations that are less disciplined. The successful companies not only track financial performance and operating efficiency, but also pay close attention to customer satisfaction and human resources. Other key mechanisms employed by successful measurement companies are:

- Agreement on strategy;
- Clarity of communication;
- Focus and alignment efforts; and
- Organizational culture.