

What's Missing from Your Scorecard? Eight Vital—but Often Overlooked—Metrics

By Mark Graham Brown, author and global performance measurement expert

Everyone, even companies with model Balanced Scorecards, struggles with developing performance metrics. Many organizations don't properly account for frequency of variation, identify the right data sources and ensure their reliability, or use enough leading (vs. lagging) measures that can reveal trouble before it's too late. And some unwittingly choose measures that drive the wrong behavior. Consider these ideas for eight important, but often ill-designed or completely absent, metrics.

Each of these key areas should be tracked with an analytic metric—an index. A composite measure provides more information than a single measure, while simplifying analysis. It also provides a more well-rounded picture.

1. Customer Aggravation. Most companies have no idea how much aggravation their customers endure in doing business with them. Counting all the ways you aggravate your customers daily is a more reliable predictive measure of customer loyalty than any survey. Besides, most people are poor predictors of their future behavior; they're loyal until the next "cool" thing comes along. If any vendor aggravates us enough, we won't bother filling out their survey; we'll just leave.

Create a customer aggravation index. Hold customer focus groups and ask them "How have we driven you crazy?" For software companies, the answers will likely include calling the help line and not getting through, or getting through to someone who doesn't understand you—and whom you don't understand, or getting transferred four times. Airlines drive customers crazy with missed flights, lost baggage, and dropped calls. Count daily occurrences. For greater precision, multiply each occurrence by a severity factor. For example, FedEx might rate losing a package

as a "10," but delivering it to the office next door a "1."

2. External Factors. Most organizations track external factors, but they rarely include them in their BSC. Yet external events can have a huge, potentially devastating impact on your business. For a bank, one key external variable is interest rates; for an airline, the price of fuel; for a water district, rainfall. Pilots can't control the weather, but tracking it is vital for determining their route and how they fly the plane. By putting external events on your scorecard, you'll readily account for them along with the other key measures that drive your business.

3. Employee Satisfaction. To measure employee satisfaction ("engagement"), most companies conduct an annual survey. Annual surveys have no place on your BSC. An annual metric moves once a year; morale changes on a daily basis.

Here's an inexpensive but effective solution. Get bags of green, yellow, and red marbles and put them, along with an opaque vase, beside each door where employees depart every night. Have every employee deposit a green marble if they had a great day, a yellow one if a typical day, and a red marble for a terrible day. Every morning, collect all the vases and

log the results in a spreadsheet. The vase will identify the department, allowing you to call the manager to inquire why he or she had so many red marbles the day before—and the manager to address the problem immediately. This system cost one of my clients less than \$1,000 (versus the \$80,000 they'd been spending)—and gives it a daily statistic it can act on.

This basic approach can also be done electronically; when people submit their timesheets, have them rate their week on a 1–10 scale. Include in your index such measures as how many hours people are working, meetings they must attend, and emails they get daily.

4. Brand Image. What are people saying about you? Do they even know who you are? Brand image matters to every organization. Many organizations track awareness only, ignoring reputation.

Besides tracking the number of news stories or website hits your organization garners, a brand image index might also track whether the coverage is positive or negative. What are people saying about you on blogs? A leading measure might track an improvement effort under way, such as the response to a marketing campaign.

5. Customer attractiveness and relationships. Some customers are more important than others. Some are a pain and cost too much to please. Customer relationships should therefore not be measured with a survey. You don't necessarily want a close relationship with every customer.

You can rate customer attractiveness on a 1–10 scale, where "10" represents a profitable, high-volume, stable customer that pays on time and partners with its suppliers. Gauge each customer relationship. How long have you worked together? What percentage of their business do you have?

Is the client willing to be a reference? Track this regularly, as customers can rapidly get better-looking (or uglier). This index can be strategically important, enabling you to decide, for example, to drop certain customers, or even an entire industry segment. It also promotes selectiveness, encouraging the pursuit of attractive customers—as opposed to just any customers. Customer satisfaction doesn't correlate well with improved financial performance. If you build stronger relationships with the right customers, profits and margins tend to improve. Who needs a level 10 (“marriage”) relationship with a level 2 (“fairly ugly”) customer?

6. Communication Effectiveness. Most employees complain about company communications, while executives wonder “What *more* can we do?” Typically, management isn't communicating properly. “Frequency of communication” combined with “variety of methods” is a useful metric. Some companies follow the “5 × 5” rule: anything important should be communicated five times in five different ways.

Did people get the message? (That's a lagging metric.) A government client favored briefing meetings, although anonymous “exit” polls showed that attendees could not remember anything the executives had presented. The client quickly switched to interactive, small-group meetings.

7. Employee Health and Safety. Most safety measures are lagging. How many accidents? How severe? But leading measures such as “How many near-misses did we have yesterday?” and “How are our people performing on their safety training tests?” can help prevent accidents.

Some forward-thinking companies are including employee health on their dashboards. Health increasingly costs businesses,

directly and indirectly—and affects other metrics on your dashboard.

One client gathers data for this metric by requiring every employee to get an annual physical from the company nurse. Employees are ranked “red” (unhealthy), “yellow” (average), and “green” (extremely healthy). “Red” employees do not get company-paid health insurance, while those ranked “green” get maximum coverage. (The company helps employees get healthy, for example, if they need to lose weight.) Realage.com¹ provides a handy physical age “score” without invading the employee's privacy.

8. Ethics. Too few companies have an ethics scorecard metric, yet an ethical breach can quickly put your company out of business. Consider Arthur Andersen, Enron's accounting firm. It had a BSC. Client satisfaction was high (no surprise), the company was profitable, and morale was high. But its BSC revealed nothing about an ethics problem.

An ethics index might track *knowledge of the rules* (do people know right from wrong?); *perception of the rules* (is it OK to bend them?), and *behavior* (documenting unethical—as well as exemplary—behavior). Track outcomes: how many people were fired for stealing, lying, or otherwise violating company policy?²

The Perils of “Chicken Efficiency”

Whatever you measure, carefully consider the kind of behavior your metrics will drive. People can be very crafty about affecting outcomes.

Twenty years ago I was engaged by a fried chicken restaurant chain to study the best practices of its top restaurant managers. A key metric for the company was “chicken efficiency,” a measure of how much scrap food managers discarded each day. One manager

COMING UP IN BSR

Linking Strategy to Operations, Part I: David Norton and Randall Russell (Palladium's director of research) discuss building your organization's integrated model of operational processes

Sustaining Strategic Success: Following up on 2002 BSC Hall of Fame winner SMDC Health System's enduring BSC program and its impact on the institution's continuous achievement

Merck's SMO: Driving Transformational Change through Smarter Strategy Execution

Building a Business Intelligence Competency Center

Building Strong Leaders: A Key to Change Management at Pfizer Australia

I visited had a 100% rating in chicken efficiency. How did he do it? After 6:30 p.m. he would only cook chicken to order—even though his restaurant didn't close until 10:00 p.m.—thus ensuring no waste. But what about the customers? “They got mad,” he said, because of the long wait. “Most of them would turn around and leave, and I'd never see them again.” But, he noted, “the company doesn't measure that; it only measures chicken efficiency.”

Chicken efficiency was certainly an important measure for that fast-food chain, but clearly, the company needed to balance it with the customer relationship. Moral: be careful what you measure, because you will surely get it. ■

1. Realage.com is a doctor-designed website that takes an individual's data on lifestyle, family history, and current health statistics, and arrives at one number that represents the person's physical, versus chronological, age.

2. The Council for Ethical Organizations, a nonprofit, has developed a model for an ethics program, for organizations interested in implementing process measures.

Mark Graham Brown is one of the world's leading experts on performance measurement. His clients range from Pepsi, Wells Fargo, and Bechtel to the U.S. Navy and the City of Los Angeles. He is author of three books on Balanced Scorecards, the latest, *Beyond the Balanced Scorecard: Improving Business Intelligence with Analytics* (Productivity Press, 2007).

Reprint #B0905E