Magic Metrics: Top Ten Innovative and Useful Performance Measures

by Mark Graham Brown

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It's rare that a singular metric like turnover or a customer survey score is by itself a good measure of an organization's performance. Most of the more meaningful measures that are on the dashboards of executives today are indices, made up of 3-5 sub-measures. In this article I'll review the 10 most useful and creative performance measures I have seen in government and business organizations over the last few years of my consulting experience.

1. Communication Effectiveness

Communication is probably the number one problem employees identify when asked what is wrong with their employer. Many organizations really do try to openly and honestly communicate with employees, yet they often don't seem to get the message. An important metric for most organizations is one that measures how well they communicate to employees, suppliers, shareholders, and others. Some of the better communication metrics I've seen weigh the frequency and media used to communicate important messages as worth 30-40%, and the effectiveness of the communication as being worth 60-70% of the index. One client measures communication effectiveness by handing out brief anonymous short answer quizzes after a meeting or presentation to see if the audience heard and understood the main points of the message. They often find many members of the audience did not hear or understand the main points of a presentation. The same client sends our email quizzes regarding print communication (e.g., newsletters, annual reports, etc.) to see if the readers got the main points of the communication. Performance on the Communication Effectiveness Index helps these organizations improve the clarity of thier communications.

2. Customer Relationships

Customer surveys are rarely effective in measuring the level of relationship an organization has with its clients or customers. Further, customers often vary in their relative importance or attractiveness to an organization. Airlines, for example, make about 80% of their profit from frequent business travelers, so loyalty from these customers is much more important than from infrequent leisure travelers who shop around for the cheapest flights. A number of clients have developed a Customer Relationship Index that includes two major components: Customer Attractiveness on 1-10 scale and Customer Relationship on a 1-10 scale. Attractiveness scores are determined based on factors such as profit margin, volume of business, fast payment of invoices, history or partnering with suppliers, and ease of working with. The relationship level is determined based on number of years working together, # of products purchased, personal relationships between representatives of the two firms, exit barriers, and knowledge of the customer's business and needs. The purpose of this index is to encourage

development of loyal relationships with the most important and attractive customers. Clients who have used the customer relationship index have found that it directly links to gross margin and other bottom line measures. When an important customer takes her business elsewhere, the gauge moves to the left, and when the level of relationship with a customer improves, or you gain an attractive new account, it moves to the right.

3. Employee Satisfaction

As with financial or customer results, it is unlikely that a single measure will provide meaningful data on overall employee satisfaction. Most clients in government and business have developed an Employee Satisfaction Index that is made up of a variety of sub-measures such as: casual absenteeism, complaints/grievances, voluntary turnover along with the level of employees leaving, employee focus groups, overtime, and employee survey data. One client, The Los Angeles Bureau of Sanitation, measures the stress level of employees each day by counting the number of green, yellow, or red marbles in a jar at the end of each day. Employees are given a number of three colors of marbles, and drop one in the jar at the end of the day to indicate how stressful the day was. Periodic focus groups are used when there are many yellow or red marbles to see what is causing the stress. An annual morale survey by itself, is unlikely to provide meaningful data on overall employee morale. One client paid a large research firm $250,000 to conduct an annual employee survey and got a 17% return rate, even though the survey was only 12 questions and very simple for employees to answer. Even if they had gotten back most of the surveys, it still only provides one data point per year on employee morale. Morale can change dramatically in a few months, and an annual measure is unlikely to be very useful.

4. Brand Image

An important leading indicator of business success is brand image and recognition. Companies like Mercedes, or Coca Cola have a brand that is recognized all over the world. Even government organizations need to be concerned with brand image. The FBI in the U.S. is currently experiencing a very negative brand image, and the new Director is working hard to try to improve the image. Many clients have developed a brand index, that includes the number of people that recognize their company name, and what they associate with the brand. Everyone knows the name Enron today, so their brand recognition is very high, but the image is mostly negative, so what people think of your company is usually weighted more heavily than how many can recognize the name.

Brand recognition or image do not put money in your bank account, but are leading indicators of the likelihood that people will purchase your service or product. Forbes Magazine is so confident in their advertising power, that they now offer a money back guarantee on their ads. If a customers spends at least $100,000 on print advertising over a 60 day period, Forbes guarantees a statistically significant improvement in one of four measures of brand recognition or they will refund your $100,000!. That's a pretty impressive guarantee. Linking brand recognition to new business is also important, but there are plenty of studies done by the advertising industry that demonstrate that.

5. Distraction Index

This one is everyone's favorite. A large financial services firm I worked with years ago

came up with this index, and many business and government clients have adopted it for their scorecards. The index measures how much time employees at all levels spend doing what they were hired to do. Employees record hours worked each week and sort their time into three categories:

- **Job** – tasks that are directly part of doing ones job or mission
- **Administration** – activities that all employees need to spend time on. Examples include preparing budgets, attending staff meetings, learning about the new health insurance program, attending sexual harassment training, learning about a new software program, reading administrative emails, etc.
- Programs – Various management programs that tend to come and go and eat up employees' time. Examples might include activity-based costing, six sigma, lean, balanced scorecard, strategic planning, enterprise resource planning, etc.

Employees in several firms I've worked with found that they spent less than a third of their time doing their jobs, which was felt to be completely inappropriate. Data on the distraction index helped to provide senior management with hard data on why employees were stressed out and seemed to be having a hard time getting work done. Data on this measure is used to help eliminate administrative requirements, and minimize time spent on management programs.

6. Trust Index

Hardly anyone seems to trust executives these days. It seems like each week we hear about another major corporation where they executives are being arrested or at least investigated for fraud and various other crimes. Shareholders and the public as well as an organization's own employees don't seem to trust leaders. Some forward-thinking companies have put together a trust index. Included in this metric are factors such as implementation of approaches to ensure honesty and integrity such as an outside board that reviews major decisions and performance, audits by objective outside organizations, communication of clear rules to employees, and related practices. Other parts of the index look at the effectiveness of these approaches. Effectiveness measures might be a survey of public trust, or surveys of employee trust. Another client measures disciplinary actions related to trust issues. Measuring trust is similar to brand image, but it is more focused on whether people believe your organization and its leaders. It is also similar to the communication index, but there are organizations that have low levels of trust, but do a good job communicating.

7. Aggravation Index

A number of leading organizations such as FedEx have daily measures that track how much they aggravate their customers or how hard it is to do business with their firm. An airline I worked with has such an index that includes things like:

- How long you wait on hold when calling the airline
- How long it takes to find the needed information on the web site
- How many screens one has to get through to get the needed information
- Number of calls that are accidently disconnected
- Number of blocked calls/busy signal

- Number of errors on itineraries
- Time spent waiting in line at airport to get boarding pass
- Lost luggage
- Delayed flights
- Unable to get requested seat assignment
- Having to check carry-ons because bins are full

A daily operational metric like this measures how much aggravation customers must endure to do business with your firm. When the aggravation level gets too high, customers leave and often never return. Such an index is even appropriate in a government organization that may have a captive audience of customers. The Department of Motor Vehicles used to be a major cause of aggravation for many of us. California and a number of other states have instituted massive changes to make interacting with the DMV an almost painless experience. Hospitals, clinics, and doctors offices would benefit from an aggravation index as well, and could learn some lessons from their local DMV office.

8. Supplier/Partner Index

Many business and government organizations do much of their work using outside suppliers or contractors. Most Department of Energy facilities, for example, are run by contractors and supervised by DOE employees. A number of organizations I've worked with in recent years have developed an index that tells them how their suppliers or partners are performing. Factors included in this index are criticality of supplier to the mission, ease of working with, supplier knowledge of your organization and its products/services, responsiveness, timeliness, and quality of goods/services. This index is often similar to the customer relationship index I discussed earlier in that it includes a rating of the importance of the supplier and their level of performance.

9. Project Management Index

Measuring recurring work like processing transactions or manufacturing parts is different than measuring projects where each one is somewhat unique. Sometimes, everything an organization does would be classified as a project. R&D firms, engineering companies, consultants, accountants, and many other types of organizations do project work. Because each project is slightly different, some of these organizations have developed a Project Management Index that includes the following sub-measures:

- Budget/Cost performance
- Schedule/Milestones met
- Quality/Performance
- Innovation.

At the start of each project the four factors are given a percentage weight, depending on the relative importance of each. On one project, schedule might be the driver, and be weighted as 40% of the index. On another project, aesthetics and creativity are most important, and innovation might be weighted as 40%. On yet another project, there is no need for innovation or creativity, and each of the other three factors are equally weighted at 33 1/3 %. At the end of the project, or as each phase is completed, performance on the four factors is rated on a 0-100 scale, and multiplied by the percentage weight, to get an overall grade for project performance. Individual projects are also given a weight depending on the dollar size, labor hours, or criticality. For example, The Norfolk Naval Shipyard, a Pbviews customer, weighs projects

based on total days of labor, and criticality. This way the shipyard commander can look at one chart that summarizes performance on all shipyard projects. If the performance shows yellow or red, he can drill down into the data to see which project is in trouble, and whether it is a quality, budget, schedule, or innovation problem. A project management index like this is very useful for leaders who oversee organizations working on many large and complex projects. By combining all of them into one index, it prevents the bosses from having to look at individual project performance each month.

10. Intellectual Capital – All large organizations need a metric that tells them if they have the right people with the right mix of knowledge and skills for today and tomorrow's work. Everyone agrees that intellectual capital or competencies are important to measure, but I have rarely seen good metrics in this area. Some organizations track hours of training and whether an individual development plan (IDP) has been completed for each employee. Attending training is not a measure of skill or competence, and everyone can have an IDP and still not have the skills needed for the organization to be successful. One client has a better approach. Each job description includes a list of the technical and non-technical knowledge skill requirements, as well as the level of competency required. In this company competency levels range from a 1, meaning you have a good basic understanding of a topic to 7, meaning that you are a leading expert and master performer in the subject area (e.g., welding, electrical engineering, negotiating, etc.).

Each employee is then given a score on the degree to which he or she possesses the right level of knowledge and skills in each area required of the job. In this particular company, employees rate their own skill levels, supervisors rate them, and ratings are averaged. Intellectual capital can improve with training, development, and by hiring people who already have needed skills. An organization can watch their intellectual capital decline as talented people quit, or existing employees are not given the resources to improve their knowledge and skills. Some organizations I've worked with have even more sophisticated measures of intellectual capital. Whatever you do, don't count training hours as a measure of intellectual capital. It seems as if those employees who attend the most training are often the least competent. They have lots of time on their hands because managers give the important work to the competent employees who are too busy to attend training.

Many of you have heard me speak or read about some of the dumb measures I've seen organizations put on their scorecards. I thought that it might be time to present some positive examples. There are some best practices out there, and the ten performance indices I've outlined here are some of the best 'magic' metrics I've seen.