

MEASURING UP...CONSISTENTLY



Exploring new approaches to focusing on the things that really matter to organizational success.

As Warren Buffet famously said, there is no more powerful force in nature than the power of compounding returns. For example, a three-point differential, going from 7% to 10% return -- will almost double the proverbial \$10,000 investment over 15 years. Similarly, small performance differences by employees will multiply over time to yield spectacularly different outcomes.

But how can managers predict which small points will provide big leverage? In other words, how do we know where to focus?

Consider the experience of the executive vice president of HR for one of the mega retailers (more than 900 stores). He was sitting in a leadership team meeting when the CEO smacked the table and expounded, "I just don't get why we have a handful of stores that consistently outperform the others! What are they doing? Frustrates the hell out of me, if we could only bottle the magic we would be well on our way to beating our 5% margin goal!" Good question!

No doubt, the truism, "fortune favors the prepared mind" speaks accurately. But as the CEO of this retailer understood, luck is not a reliable partner, at least not something to be counted on long-term. Sustained results are possible only when the collective energy of people is flowing, working towards an inspiring goal. That's the "magic in the bottle." Taking seriously the CEO's challenge to find the link to store performance, the EVP created an elegant framework for assessing performance. He started with a simple, but easily taken for granted, premise: that customers were more likely to continue to shop where they had a good experience. So he gathered data that allowed him to correlate store profitability with customer satisfaction. His results proved that every five points of measured customer satisfaction resulted in a one percent increase in store profitability.

But he did not stop there. He asked, "What factors caused high customer satisfaction?" Not surprisingly, the data showed a correlation with high levels of employee satisfaction. Again, proving the obvious; but the research had a big impact on the leaders of this American institution, as it proved what they had long suspected.

"What factors resulted in high employee satisfaction?" was the next question to be researched. The correlation was with store manager effectiveness.

Finally! The EVP had an answer that hung together. He expressed it in this formula: Profits = customer satisfaction x employee satisfaction x leader effectiveness

Leader effectiveness was determined by just 12 simple questions:

- Does your manager ask your opinion on how a task should be accomplished?
- Does your manager treat the employees with respect?
- Do you enjoy your work?
- Does your manager help you when you need it?
- Does your manager understand your job?
- Are issues/problems dealt with promptly and fairly?
- Does your manager say what he/she means, and does what he/she says?
- Can you have a conversation with your boss that will be kept confidential?
- Does your manager enjoy his/her job?
- Does your manager resolve conflicts well?
- Do you feel part of the manager's team?
- Do you believe your manager has your best interests at heart?

Nothing complicated, just the basic questions about behaviors that good store managers exhibit, as defined by the employees. But notice that they point to respect, acknowledgement of the fundamental precept that each of us is doing the best we can, based on our current thinking. The CEO and his team spent the next three years focusing actions on this information, and the company's performance steadily improved. Return on Sales increased from 2.1% to 5.8%, and the stock price improved by nearly 100%.

Measuring the Power of Focus

Focus, itself, became the crux of measurement by a mega bank in the U.S. One of its key management processes is based on the Hoshin planning system, a methodology used by such Japanese companies as Toyota as part of on-going quality efforts. First, the CEO articulates his top goals and describes the broad actions to achieve them. Then, each business unit and functional manager uses the framework to nest her own objectives and actions so that the link between the focus of every department and that of the company is crystal clear. Goals, objectives, and actions cascade right from the top.

Adding teeth to the process, each action has a metric, sometimes quantitative, other times qualitative, so progress can be tracked. Quarterly, managers take the Hoshin framework and describe the actions taken and progress made for each principal objective. They describe their own initiatives and deeds during the period, categorizing them into four buckets, essential, beneficial, neutral, or negligible. Once each manager has produced a draft based on his own perceptions, he shares this with his staff. Some people feel more comfortable doing this in a face-to-face setting; others ask for feedback in an email; still others facilitate communication with greater anonymity.

Whatever procedure is used, the managers usually end up with a table that looks something like the one following. It clearly depicts the manager's effectiveness based on her actions during the quarter, and it expresses the adjustments she can make that may have a positive result in the next period.

ACTIONS	ADJUSTMENTS
Essential Coached sales teams in 65% of the opportunities won	Account managers should become accountable for coaching sales teams, not just me
Beneficial Worked with account managers to proactively think through risk mitigation tactics & opportunity action plans	Account managers need to learn from each other by working thru risks and opportunities on shared basis, not solo
Necessary Asked account managers to develop incentive scenarios based on recognition policies	Need to share scenarios with sales staffs and explore implications
Negligible Required sales teams to develop target account lists	Seems like we do this a couple of times a year and never use the results, process should be left to discretion of account managers

As seems obvious from reading the results from the manager depicted here, the true power comes from the process used to identify and categorize fruitful actions and then explore the adjustments going forward. Essentially, the process allows the manager to see where she is having impact, and where she needs to concentrate her efforts in the near future.

For this company, the effect of focus has been galvanizing, like opening the doors during spring cleaning and allowing fresh air to blow in. Managers are learning what actions actually make a difference, as seen by people throughout the organization.

One key lesson is that by keeping the attention on results and allowing employees to assess actions using an effectiveness scale, managers have specific information necessary to see where their actions correlate to constructive outcome, and where they are having virtually no impact. When focus is approached from deep feelings, the results are particularly sweet. Southwest Airlines' logo, for example, celebrates "The Luv Connection." Sentimental, even corny? Perhaps. But Southwest has achieved 31 years of unbroken profitability, in an industry that consistently bleeds red jet fuel.

"Southwest was included in Global Finance magazine's January 2004 'Expert's List of the World's Most Socially Responsible Companies' and recently recognized as the 'Best Domestic Airline of the Year' by Travel Weekly magazine," the company noted in a Jan. 22, 2004, press release. "We commend our *caring and altruistic Employees* (emphasis ours) for these honors."

Southwest's results show what can happen when leaders focus on liberating people's passion to engage fully in the enterprise's mission, to unreservedly give it their best effort. Unfettered energy and enthusiasm provide an edge for superior accomplishment; they facilitate clear decisions in a "tough-minded but soft-hearted" framework.

Such results are achieved not by the doing, but by the being of leadership: focusing on the things that really matter.

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