The Do's and Don'ts of Enterprise Metrics

The Wisdom + Numbers = Right Direction

Tom DeCotiis, PhD
Jennifer Yugo, PhD

corvirtus™

The do's and don'ts of enterprise metrics

What gets measured gets treasured; especially, when it is linked to things people care about such as compensation, promotions, recognition, and survival. It's also the case that "garbage in, garbage out" is truer than ever, abetted by a combination of glitzy ready-to-use software and leaders whose deep knowledge of enterprise metrics is limited. As a result, too many leadership teams shift their focus away from measuring what is critical to what is easily quantifiable and rewarded. This certainly is the case in the restaurant industry and the critical determinant of a consistent guest experience; namely, employee turnover

The restaurant industry, for example

One of the authors has been in and around the restaurant industry for more than forty years. In that time, he has seen very little progress made in terms of appreciating, measuring, and managing the effects of employee turnover on restaurant success. One reason for this omission is pretty straight forward: employee retention is a complex phenomenon with many nuances. For example, there is controllable and uncontrollable turnover, the psychology and economics of turnover, and the challenge of accurately measuring it. A more telling reason, however, is that high employee turnover has historically been accepted within the industry as a cost of doing business that has to be endured rather than solved. In short, why manage something that is largely unmanageable and appears nowhere on a restaurant's Profit and Loss Statement? In our view, acceptance is the cause of ignorance.

Current industry trade publications and associations are reporting hourly turnover rates of 75%, with some industry segments being higher and other segments being lower. Judging simply from the numbers, you might be inclined to conclude that high employee turnover is a characteristic of the restaurant industry. When employee turnover is measured as one employee discontinuing employment at a restaurant, that number makes sense. However, if you look at the number from a leadership perspective, it grossly understates the "stickiness" or retention of employees within the industry: Management and hourly employees tend to quit one restaurant, only to immediately go to work for another. That is, while they may leave a single restaurant in large numbers, they do not leave the industry itself. In consequence, the industry turnover rate is much lower than you might think; perhaps on the order of 20- 30 percent. That number makes the restaurant industry comparable to many other industries. The industry is a reasonably stable employment platform characterized by lots of employee churn or movement for one restaurant employer to another and, thereby, creating an opportunity for the savvy leader.

The opportunity boils down to making your restaurant(s) a compelling or legendary place to work. For many restaurants and restaurant companies, doing so may be the single largest opportunity to improve profitability. The numbers speak for themselves: studies by the National Restaurant Association, People Report, and the Center for American Progress cite similar numbers for the cost of turnover, with one single hourly turnover event (i.e., one employee quitting) costing approximately $5,900! Suppose you have a restaurant with 40 hourly employees and an annual turnover rate of 75%. That's 30 lost employees per year at $5,900 per employee for a total profit opportunity of $177,000! However you look at it, but especially in an industry as fiercely competitive as the restaurant industry that's not chump change. How is it that the average restaurant operator lets $177,000 walk out the door year in and year out? Good question, and one that can be answered only by turning the two reasons cited above into solutions.

Using our heads

The restaurant industry is populated by some smart people; suggesting that money is left on the table simply because they haven't thought much about employee turnover in terms of opportunity to improve the consistency of the guest's experience and the bottom line. There is also a tendency among restaurant leaders to look skeptically at "academic stuff" such as theories of turnover and to muscle through operating problems. Until these tendencies are overcome, the industry will continue to be characterized by high restaurant to restaurant employee turnover coupled with one of its hidden social costs: the inability to make the restaurant a source of a "living wage."

It may well be related to this tendency on the part of restaurant leaders, but there is not a whole lot of actionable guidance on how to reduce management and hourly turnover by building retention. It's no wonder then that a recent survey of hiring managers reported that their biggest headache is employee recruiting and hiring. The fact that they focused on the frontend of the equation (recruiting + hiring) rather than seeing the problem in terms of the whole enchilada of staffing (recruit + hire + retain) makes the point.

Good measurement grounded in a solid understanding of how to earn the active loyalty of employees can contribute big-time to the peace of mind of hiring managers, as well as dramatically improve the consistency of their guests' experience and, thereby, the bottom line. While using measures of the critical causes and effects of management and hourly turnover are core to these outcomes, it starts with a deep understanding of why it is that people (e.g., employees, guests, vendors) choose to commit to an enterprise. (We like to think of these critical stakeholders as volunteers in a restaurant's success.) Unfortunately, topics such as good measurement and active stakeholder loyalty typically engender the same reaction from restaurant leaders: Their eyes glaze over, they fidget and scratch, check their phones, and very soon tell us they have to be somewhere – anywhere – else. There's a reason that I (Tom) was once told that I could effortlessly make a one-half hour talk feel like a full sixty minutes. I thought it was a pretty funny comment (and, perhaps, true), but that does not mean that these topics are not worth the attention of the audience.

Please, stifle the yawns

There is no mystery to building and sustaining a restaurant known for great food, service, people, and being a place people want to gather with friends and family. They are the qualities of a great restaurant, and always have been. What it takes to build a great restaurant is Stable Quality Management and being Fully Staffed with Fully Trained Employees. The first step to building these keys into the operations of a restaurant is to understand the nature and sources of employee attitudes and behavior. That's the most important input to your being able to build on the keys that is discussed in detail elsewhere.

One of the premises that we work from is that financial health and brand strength are possible only when they incorporate a stakeholder perspective and focus on earning the active loyalty of the stakeholder, whether it is an employee, customer, investor, etc. That's because of the power of "volunteers in success" such as employees who go out of their way to recruit, prescreen, and refer their friends and family to your restaurant, do the work that needs to be done – and then some, get to know your guests and want to take care of them, and are the kinds of people you want to have on your staff. In addition to these valued attributes, there is one more that seals the deal on greatness: guests like and want to be around them. Building these kinds of connections begins with knowing how to do it, supported by what we call good measurement.

When nice to have is a must have

The objective for this article is to add to what you know about business success. Hopefully, it will help you to convert this knowledge into hard and sensible numbers in ways that are helpful to you and your team. The primary vehicle for this addition is a thorough introduction to the idea and tactics of earning the active loyalty (e.g., retention, low employee turnover, etc.) of employees and other stakeholders. The principles of good measurement are the vehicle we have chosen for this introduction. What follows is predicated on a strong and unshakeable belief that the primary responsibility of a leader is to build a culture that people (stakeholders) want to be part of and that ensure that the enterprise thrives for the long term. Thus, there is an equally strong bias against the common practice of acting on this responsibility in tiny bites of three months each, as it's rarely true that something critical to the prosperity of an enterprise originates and is completed within a single quarter. Culture building demands a much longer time horizon and a clear understanding of what to pay attention to and what to ignore. This is the skill of distinguishing between what is critical to success versus that which is merely important.

> “CULTURE EATS STRATEGY FOR BREAKFAST”
>
> **Peter Drucker**

The disruptive force of culture

The great management guru Peter Drucker made a great observation on the relationship between strategy and culture: “Culture eats strategy for breakfast!” His observation is spot-on because of what a company's culture is: the shared beliefs, values, and mindsets about success that determine the thinking and action of its leaders and employees. There are lots of supporting examples that verify this definition and conclusion. Unfortunately, they are most often examples of enterprises that have struggled or failed such as the US Post Office, Sears, Sports Authority, and the Cleveland Browns. As far as we can determine, none of these enterprises suffered from lack of a strategy or highly motivated leadership team, or a culture that put the kybosh on success by saying “No way!” You've heard this attitude before in the guise of “It's the way we do things around here” and “keep your head down as this too shall pass.”

Louis Gerstner describes a “No” culture’s power to shut down change in his fascinating book about his adventure as the turnaround CEO of IBM. He describes how he ran head-on into “no” that put his “logical and needed” change strategy in serious jeopardy. He summarized his experience with IBM’s culture this way: “Culture isn‘t just one aspect of the game – it is the game. In the end, a company is nothing more that the collective capacity of its people to create value” – or failure. The emphasis in the definition on shared and in the Gerstner quote on collective points to the challenge posed by an entrenched culture and to the value of measurement as a means for identifying and resolving gridlock. In facing the challenge of revitalizing IBM, Gerstner realized that it would happen only if he was able to reshape IBM‘s culture from one based on beliefs of invulnerability, omniscience, the assumption that customers should be seen and not heard, and contempt for competitors to one where innovation, speed to market, and customer-centricity dominated were valued – and measured. As will become clear, good measurement is an indispensable tool of the culture builder at all times, but particularly in the early phases of cementing it in place.

Falling rocks ahead!

A fast growth company (or one in some other form of turmoil) has a lot in common with Wile E. Coyote and his 68- year futile pursuit of Road Runner. Lots of sparks and noise, spinning wheels and restarts, rocks on the head, and clouds of dust, but there’s a big difference too: Wile is not only never successful, he never even improves despite his best intentions and clever strategy! That’s because he – like the leaders of many failed fast-growth companies – doesn’t answer the most fundamental questions of success: What works? How do we know it’s working? Why is it working? When ignorance is bliss, the consequence is a rock on the head and a cloud of dust.

Success is achieved by moving forward, but best understood by looking backward. As you look backward, the spinning wheels, clouds of dust, rocks-to-the-head, and homeruns that are part of fast-growth need to be understood for what they are: the residue of attempts at leadership. Over the years, a company's leaders try stuff because they believe it will make the company successful, and:

- Keep the stuff that seems to work – and give it credit for success.
- Trash the stuff that seems not to work – and blame it for setbacks.

This is not usually a thoughtful process as there is always some throwing out the baby with the bathwater. Nonetheless, what is retained becomes the company's core beliefs about success. These beliefs are solidified as the heart of the company's culture to determine "The way we do things around here." United Parcel's ethos of success has been expressed by taglines such as "The tightest ship in the shipping business" and "New Logistics." That's because UPS defines winning as moving packages better and cheaper than anyone else. This expression of an ethos is very close to what we call an uber goal and see as the core objective of all decisions. When it's the right one, it provides a laser focus that moves the company from the apparent softness of culture to the direction-setting power of clear goals and results. The transition from stuff to focus is most painless and useful to a leadership team when it includes good measurement of cause, effect, and progress toward its uber goal.

Back to the restaurant industry example

Imagine a fast growing restaurant company that sets its uber-goal as being best-in-class. That's a lofty goal that is easily subverted into hyperbole unless the company's leaders transform their goal into a call to action – and measurement. In order to walk its talk, the leadership team should create a detailed, measureable, and inspiring story that lays out the journey to "best-in-class" that is taught, integrated into all policies and procedures, and proven – and improved – through good measurement. It is good measurement that enables a company's leaders to accurately look backward to understand what must be done moving forward.

What is good measurement?

The defining quality of good measurement is its ability to shine a bright light on a company's success and focus action on what needs to be done in order to improve. There are a lot of smart people selling stuff that is purported to serve this purpose. A few do it well, but most don't. Rather than providing a review of these efforts, this paper provides you with the knowledge needed in order to be an informed buyer and/or develop your own.

Understanding what good measurement can do as well as what it can't do is indispensable to preventing "numbers bloat" and the bad habit of measuring something just because you can. For any leadership team, the challenge is to:

- Define and quantify your uber goal
- Link metrics to the measure of your uber goal
- Identify actionable measures of critical inputs and outputs to the goal

In the best of all words, a company's metrics would be like a lamp post: there to lean on when you need support or there to light the way when you can't see the forest for the trees. "Dashboards" are hot and a good idea for presenting every metric in one place. However, the dials might cue the user to the accuracy and relevance of the information presented, but they are misleading in that more progress has been made with respect to the clever presentation of information than to the quality of the information presented. By that we mean: few innovations have been made that affect the accuracy, timeliness, and relevance of the data gathered or in presenting it in the fewest possible number of numbers.

One reason why leaders live in something less than an ideal world analytics-wise is that the measures they use are rarely intentionally linked to the company's uber goal or theories of success. This missing link can result in numbers that are grossly misleading (see: most failing companies) or irrelevant to success. As nineteenth century humorist Artemus Ward observed: "It isn't so much the things that we don't know that get us into trouble. It's the things we know that aren't so (emphasis added)." Truth is the hallmark of good measurement and an important tool in any leader's toolbox.

Times are changing - and so should enterprise metrics

Times are changing. The practice of measuring company performance has rapidly grown from its initial emphasis on financial results to include their source in the quality of the customer and other stakeholder experiences. This expanded emphasis has the potential to enhance a leadership team's understanding of how each stakeholder contributes to the company's financial results. Over time, the team can come to understand how its decisions influence the quality of a stakeholder's experience and behavior and, thereby, systematically alter the experience to drive financial and other outcomes. This is the notion of looking backward in order to move forward with the highest possible degree of precision. Hence, today's call for "data-based" decision making is more than a call for more robust financial models; it's a call for the development of more robust stakeholder models intentionally linked to specific financial results.

The objective is to create detailed "theories" of company success. Whether you call them business models or theories as we do, the process boils down to consciously creating mental models of the relationships among:

- Human needs (e.g. "I feel as though I belong and am significant.")
- Attitudes (e.g., "I am very satisfied.") and behavior (e.g., "I just bought my third car from this dealer.")
- Social constructs such as brand and culture
- Financial outcomes

Where to start

In my (Tom) many years of experience, I have yet to meet a CEO who could readily draw a picture of his company's success that hourly employees could easily understand. The same goes for the idea of "creating value." In a similar vein, I've never met one who could explain its details in a sensible and measurable way. This is not a small thing as good measurement is always preceded by clear thinking about company success and how it's achieved. One reason for this shortcoming is that many leaders appear to be skeptical about non-financial measurement, including employee turnover and its costs.

A lack of in-depth understanding of human behavior as well as the principles of good measurement and the errors that routinely detract from its usefulness is part of the problem. The latest example of this shortcoming does not come from business, but from politics: few people "in the know" predicted that Donald Trump would be elected president of the United States. The exception were the few people who understood the regional nature and intensity of citizen (stakeholder) emotions, sense that they had been left behind, and how these factors would play out at the polls.

Bad decisions are a natural consequence of knowledge deficiency and comfort with measuring soft concepts such (voter and stakeholder) attitudes and behavior. In the absence of knowledge, leaders default to the tradition of measuring revenue, expenses, and returns of various kinds. Confusion with respect to what causes what is the most common outcome of defaulting to what we know versus pursuing what we need to know. For example, a strong and healthy brand is an effect caused by many factors, including leader beliefs, goals, policies, procedures, and behaviors that produce a customer's experience and – from that experience – meaning and stakeholder brand. Lack of a robust way to understand the complex relationships among the cause and effect of such factors leaves leaders in the position of having to guess about the right thing to do, regardless of whether they recognize that they are guessing.

Measuring the power of active loyalty

Here's some useful – and actionable – information derived from measures collected across several industries:

- Increasing customer retention by five percentage points can increase profit by 25 to 95 percent
- It cost five times more to earn a new customer than to keep an existing one and ten times more to get a dissatisfied one back
- The twelve percent of customers that are most loyal account for sixty-nine percent of purchases
- Only best-in-class companies produce consistently positive financial results regardless of industry

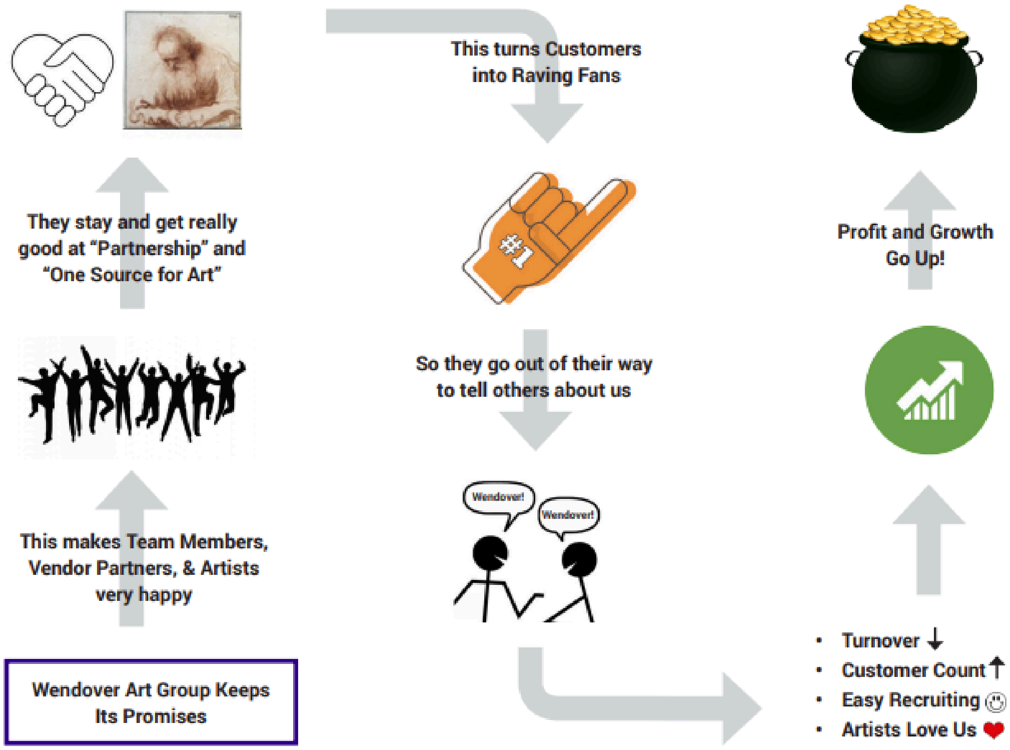
Each of these findings presents an often overlooked fact: the importance of earning (as opposed to buying) the loyalty of customers and other stakeholders. That's why we start every measurement project by sharing one of our core beliefs: Active Stakeholder Loyalty is the mother of all bottom lines. An actively loyal customer is one who goes out of their way to buy a company's products and services, and refer them to their friends and family without an inducement from the company outside of the content and consistency of its customer's experience. Such a definition sets a company's leaders up to answer three important questions:

1. How do we earn the active loyalty of our customers?

2. How do we measure active loyalty?

3. How do we measure its sources and consequences?

Answering these kinds of questions is tantamount to sharpening your focus, as well as money in the bank when answered in compelling ways. We lighten the discussion by sharing a model of enterprise success such as the one shown in Figure 1 for Wendover Art Group, Inc.



While it's a cartoonish take on success, it's also one that makes sense to employees. When they dig into the model, one of the first things that a leadership team discovers is that there is no agreement on the content of each of the parts of the model. For example, a team will often bring up clichés such as "exceed customer expectations," only to discover that they do not agree on how to do it or whether it is currently being done on a regular basis. Second, they realize that in order to deliver a great customer experience, they first have to deliver a great management and hourly employee experience. Finally, they understand that they have not been measuring many of the things that are critical to the company's success such as employee turnover, customer referrals, etc. As will be discussed, they also begin to understand that there is a big difference between the content of a compelling stakeholder experience and identifying the factors critical to delivering it. We call these factors "strategic imperatives" in that they must always be present in order for a company to achieve its uber-goal.

There's loyal and then there's loyal

During a meeting with the leadership team of a restaurant company, the topics of "core" and "most valuable customer" (MVC) came up. The team wanted to discuss the characteristics of the company's MVC and its contribution to the company's success. There was lots of discussion, but little consensus so the team decided to do some research. They came up with an initial definition based on frequency and decided to check the numbers the company routinely gathered. What they discovered surprised them: its MVC shopped only when the company offered some form of discount. After this discovery, and following the insight presented in Figure 1, they took a look at the employee numbers they had; namely, turnover. It was not good news. The data revealed that employee turnover shot up by 20 points every time the company ran a promotion to attract its MVC. A little digging and a focus group with employees told them that the MVC was a notoriously bad tipper and that employees dreaded the promotions and having to wait on the "Cheapos." What was thought to be the company's most valued customer turned out to be a drag on profitability and employee retention. Without tools such as the simple but thought-provoking "theory" shown in Figure 1, this discovery may never have happened and at a great cost to the company

As the previous example illustrates, the usefulness of measurement does not start with a leap to numbers, but with clear thinking about what is to be measured and why. The place to start the development of optimally useful enterprise metrics is with the leadership team's business model or theory of success. That is the Big Red A in Figure 2. Skipping this part of the process of creating enterprise excellence inevitably compromises the alignment of enterprise metrics, leader decisions, results, and the leadership team itself. But that is what lots of leadership teams do, abetted by jazzy software that creates a false sense of clarity. Having said that, when the metrics in question are financial, there is some justification for omitting the Big Red A. Even here, however, leaving this step out is a big mistake if one of the objectives of creating metrics is to get the team on the same page. One way to ensure clear thinking is to support the process structure such as that provided by the model shown in Figure 2.

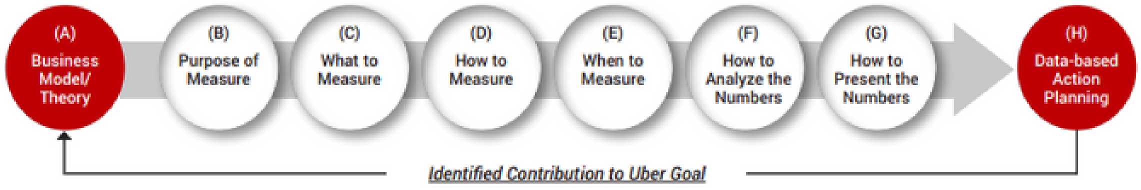


Figure 2. The Corvirtus Model of Enterprise Measurement

This is the basic Corvirtus Model of Enterprise Measurement. Its purpose is ensure that a company's metrics are sourced directly from its business model or theory of success and directly linked to its uber-goal. In our experience, precise thinking is the source of precise and useful metrics. Wendover Art Group, Inc. uses this model. The company's President and CEO, Richard Forsyth, led his team through a process that articulated its theory of success, starting with a core concept that the team had been using for years called Superior Value. The team had been together for some time and naturally used a shorthand form of communication, so it was a bit surprising when we ask the team to define superior value. Turned out that there several definitions – all related – but different definitions.

As a result of their discussions and enhanced clarity, the team defined the company's mission as: ". . . delivering superior value to our customers . . ." Most important, the team came to a consensus on what it meant by superior value and spelled it out in terms of twelve separate sources of value creation. As the team noted, "Superior Value is the filter for all decisions. It is how we ensure that the "t's" are crossed and that the "i's" are dotted." While the elements of Wendover's value equation are proprietary, what's important about this example is effort to define it as a source of precise enterprise metrics. The team's complete theory of success was summarized in a document of several pages and great detail, and named One Wendover to serve as the company's guiding light.

As shown in the previous model, the bottom line is whether a company's chosen metrics advance its uber-goal. Speaking generally, what the model shows is how a leadership team can ensure that the metrics it relies on are aligned with how they think about and pursue success. It's this critical aspect of effective company leadership that dictates the importance of a leadership team mastering the principles of good measurement. At a minimum, mastery ensures that a member of the team can comfortably challenge the numbers that don't make sense. Rounding out the skills of a leadership team with education is a positive step toward reaching the objective of good measurement: a clear and accurate barometer of success that enables continuous improvement.

This knowledge includes understanding a particular measure's purpose. Typically, its purpose falls into one of two buckets:

1. Evaluative measurement ("How are we doing?"), or
2. Diagnostic measurement ("How do we get better?").

"How's our new customer (or employee) referral program doing?" is an evaluative question about an outcome – how good, how bad, how big, how small, how we compare, etc. In contrast, "Why isn't our program working?" is a diagnostic question that seeks an explanation for the nature of an outcome – "What do we need to stop doing, start doing, or continue doing in order to be successful – and how are we defining success?" Diagnostics serve to explain and pinpoint the strengths and weaknesses of particular inputs to success; e.g., a customer care program, an employee training program. Together, evaluative and diagnostic metrics form the core of a fact-based approach to constant improvement in that it combines important stuff such as "How good are we?" with "How do we get better?" It's a good idea to keep the two categories of metrics separate as a measure designed for one purpose tends to have limited usefulness for the other purpose. Moreover, lumping the two together can lead to extraordinary efforts to tease information out of a study that just isn't there.

Evaluative Metrics "How high did we jump?" is a metaphor for a broad range of outcomes from attitudes and mindsets (e.g., "This is great!"), to parameters (e.g., employee turnover, sales per customer), to actual behavior (number of customers acquired as a result of direct referral from other customers), to financial variables such as sales, controllable costs, and profit. Evaluative metrics can be further classified as leading or lagging indicators of success. For example, "intent to refer" by an existing customer to potential customers is a leading indicator of new customer acquisition through referral. Similarly, a Team Member has to intend to quit before he or she actually quits and to become part of a company's employee turnover rate. As will become clear, in some instances a lagging indicator of one outcome is a leading indicator of another outcome. The primary beauty of a good leading indicator is that it can provide a call to action before something bad happens; e.g., decline in customer count, spike in employee turnover.

Diagnostic Metrics "So, how do we jump higher next time?" is a metaphor for a broad range of solutions to challenged outcomes. It is where insights to disappointing outcomes are identified and acted upon. The beauty of having a clearly stated business model or theory of success is that it provides the detail necessary for targeted action that will improve an outcome. Thus, instead of saying "We need to improve our customer experience", the diagnostics allow the following statement: "Here are the four things we need to do and the order in which we need to do them to improve our customers' experience."

Lead or lag: the relationship between evaluative and diagnostic metrics

The relationship between evaluative and diagnostic metrics is summarized in Figure 3 and illustrated using Wendover's three promises to its customers (in the red egg).

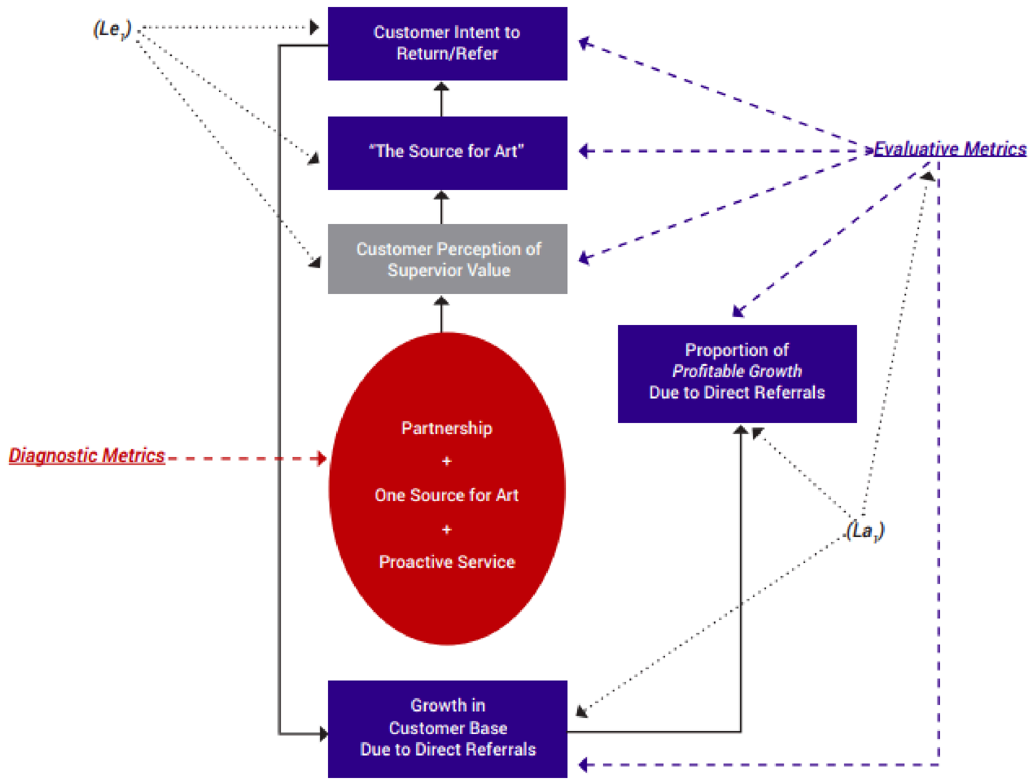


Figure 3. The Customer Experience and Its Leading and Lagging Indicators

The previous model shows Wendover Art Group's Customer Map which includes four evaluative metrics (blue) and one diagnostics metric (red). The company's vision or theory of success makes it clear that there is a map for each stakeholder and an order to how they are used for purposes of continuous improvement. For example, One Wendover states the belief that the performance of Team Members, Team Leaders, Vendor Partners, and Artists (i.e., Team Wendover) drives the nature of the customer's experience (red egg in Figure 3) by doing their part to keep Wendover's three promises to its customers. While the separate maps are excluded from the current discussion for the sake of simplicity, each of these stakeholders has its own map and set of metrics.

As pictured in Figure 3, Wendover's leadership team theorized that three promises kept to customers would drive its mission of delivering Superior Value. The mindset of the team is that these promises tap into the customer's reason for repeat purchases, beginning with the customer's perception of Superior Value. In this light, measurement of this perception (and its trend) provides an early clue to the quality of the customer experience and, therefore, is instrumental to ensuring that the customer experience is on track. "On track" means one thing: Superior Value is positively related to the team's expressed customer goal of being "The Source for Art". Since there are twelve separate elements of the team's definition of Superior Value, it's unlikely that all of them will be relevant to each customer. To the extent that this is true, it is possible (over time) for the team to develop sub-categories of Superior Value that result in a taxonomy of customer types. It is this kind of precision that enables a company to offer focused solutions to what a customer wants, thereby, enhancing the customer's perception of Superior Value.

Customer goal achievement is shown in Figure 3 as a leading indicator of Customer Intent to Return/Refer – the third measure of a constellation of customer leading indicators (Le1) and a direct input to Growth in Customer Base Due to Direct Referral (the first measure in a constellation of four lagging indicators such as sales per customer). Notice the common sense nature of the flow from the first leading indicator to the first lagging indicator: "I have an experience and react in terms of how well the experience has met my need(s) and makes me feel. I form an intention to act based on the match between my experience and need fulfilment, and, finally, I act on my intention: I tell my friend Jenn about my experience and how it made me feel, and tell her to call Wendover Art Group."

Positive mission accomplishment and positive customer intentions are leading indicators of financial results. In Wendover's case, one of the financial results is Proportion of Profitable Growth Due to Direct Referrals. Notice the narrow casting of cause and effect in this example. Just as success does not happen in general, neither do its causes. Going back to Figure 1, mission accomplishment (delivering superior value) and customer intent to return/ refer are leading indicators of WAG's success in that they occur on the Path to Success before sales and profit (Profitable Growth in WAG's definition of success). In a real sense, leading indicators of success are like a weather forecast: there will be sunny or rainy days ahead.

Lagging indicators of success are always forewarned by the aligned leading indicators; for example, a customer has to intend to buy again before he or she actually buys again. As has always been true, results lag behind customer behavior. Thus, in order to predict results, you have to know how the customer is behaving. A useful consequence of this lag effect is that results can be predicted from trends in stakeholder behavior. Another point to be made is that there is only one way to improve a disappointing leading or lagging indicator: change the quality of the customer's experience.

Wendover Art Group makes three promises to its customers: Partnership, One Source for Art, and Proactive Service. It is the customer's experience of how well these promises are kept that determine his or her perceptions, intentions, and behavior and, ultimately, WAG's success – Profitable Growth. As it is with any company, Wendover Art Group's future depends upon the quality and clarity of its leadership team's thinking about success and how to achieve it. The only way to determine whether the quality and clarity of the team's thinking is up to snuff is to measure it in terms of how good we are (an evaluative metric) and to act on it using diagnostics as a guide.

Activity maps

An initial step in creating metrics this useful is to create yet another map; namely, an Activity Map (AM) that recast the details of each promise as we plan for it to be met. A simplified AM is shown for Wendover's promise of Partnership to its customers.

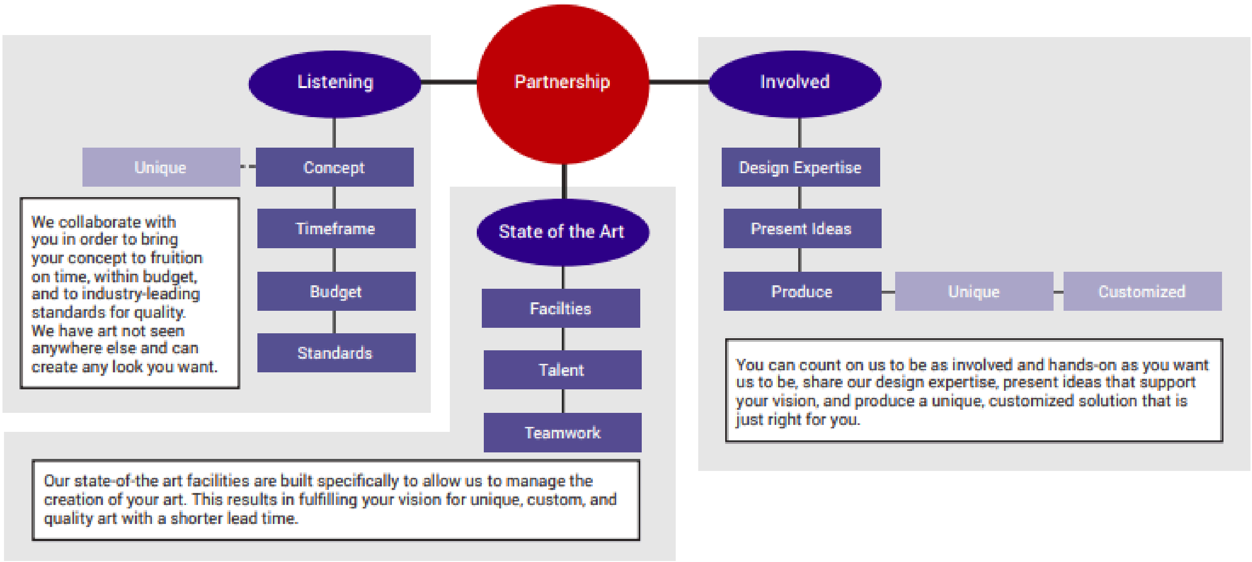


Figure 4. Activity Map for the Customer Promise of Partnership

An Activity Map is a tool for ensuring the metrics developed are comprehensive and created with a watchmaker's eye for detail, in the optimal format (e.g., an interview vs. an online survey), and focused on specific aspects of each promise. Ideally, this is done with an eye toward creating measures that are as simple as possible and not redundant with other measures. Activity Maps are also useful for identifying holes or omissions in the processes designed to keep a promise and the basic tool for disaggregating a leadership team's business model/theory into stakeholder promises and other measurable inputs to success such as values, mission, goals, and so forth.

Final thoughts

We have introduced two primary responsibilities of an enterprise's leadership team with respect to the "must haves" of success:

1. Creating a culture that the enterprise's people want to have as part of their lives, and

2. Develop a comprehensive set of enterprise measures of the key inputs and outputs of company success.

Given the truth of the old saying that "What gets measured gets treasured," a company's future depends on the quality and clarity of its leadership team's thinking about success and how to ~~achieve it, and how~~ the metrics that tap into their thinking. Ultimately, it is this thinking or beliefs about success that get measured and treasured. Hopefully, this introduction to how measurement can support your vision of success has prepared you to participate in the development and use of your company's metrics. We have done our job if it results in you having a rational approach to the creation and use of good measurement in the service of your company. In a world of faster is better and new is old, good measurement is an indispensable tool to getting things right, and by doing so, to building a flourishing company.

About Corvirtus

Corvirtus provides a range of innovative, science-based measurements and services that tie a company's culture and core values to talent processes. Corvirtus solutions have enabled hundreds of companies to strengthen and scale their corporate cultures, and to identify, develop and retain those employees with the characteristics and capabilities essential for business success and customer satisfaction. For more information, visit www.corvirtus.com or schedule a demo by using this link:

Schedule time for us to connect.