

Is Everyone Lined Up?

To align an organization, first integrate performance measurement.

by Dr. Lawrence A. Crosby and Sheree L. Johnson



Over the past three years, executives in many industries have been focused on contraction in order to survive. Boardroom conversations have resounded with cost control language — outsourcing, downsizing, consolidation, discretionary spending, hiring freeze, and the like. Today, policy makers, blue chip panels, and world leaders are forecasting a strong global economy. The April 2004 World Economic Outlook report from the International Monetary Fund stated, “The outlook for the world economy is among the rosier we have seen for a decade.”

In this new global growth economy, companies are expanding their strategic priorities. In a recent survey by *The Economist*, senior executives indicated that cost cutting is no longer the sole focus. These executives mentioned improving customer relationships, research/ product development, entering new markets, and brand building as important now to their current strategy. And companies are reflecting this optimism and shift to growth strategies with their hiring plans: IBM is projecting to add 11,000 employees in 2004; Northrop Grumman, 6,000 employees; and Cold Stone Creamery, 11,725.

Companies are shifting their strategic focus from survival to growth. And in this environment of economic growth and lean, streamlined organizations, companies are striving to differentiate themselves on new attributes. Markets are now being



driven more by value than cost, forcing organizations to innovate beyond product and compete on more than price. Today, companies are beginning to re-invigorate their efforts to understand and build loyal customers.

The leadership challenge in this new environment is to get the organization aligned behind the new customer loyalty growth strategies and to do so as quickly as possible. Many organizations are using customer-centric performance measurement and management systems to align their organizations and change employee behavior.

Strategy Through People

This challenge requires getting everyone headed in the same direction with a shared purpose. The business doesn't change if people's behaviors don't change. Everyone needs to know how he or she contributes to the company's business and strategy—how they “fit.” Without this alignment, the strategy will not be executed and the business will not achieve its

market and financial goals. When alignment is reached, employees understand organization-wide goals and their role in achieving them. The ultimate proof of alignment can be seen in employees' actions.

Harrah's Entertainment, Inc., one of the top gaming companies in the United States, changed its strategy and had to get employees onboard and contributing. In 1997, Harrah's began to shape a new operating strategy that moved it from being a product-based company focused on “must-see” new properties (like most of its competitors) to a marketing-focused, customer-obsessed company. The company's strategy, unique for the industry, is based on the belief that Harrah's can win by treating gambling like any other form of retail. That means that, instead of courting high rollers, Harrah's looks for frequent shoppers, such as the teachers, doctors, and accountants who walk through the doors to play the odds again and again.

Harrah's wanted customers to feel as if its properties were a home-away-

from-home. And once they were in the door, customer service was critical to building loyal customers. Harrah's aligned and motivated employees to focus on and improve customer service through a customer-centric performance measurement system. This system established and monitored customer satisfaction performance improvement targets and introduced a gain-sharing program that emphasized the teamwork needed to provide great service.

The results of Harrah's strategy are now well-known in the industry: "Recognized over and over for their innovative, creative, and successful attempts at humanizing an industry that becomes more computerized and mechanized every day, Harrah's is the benchmark for service in the gaming world. The results once again prove it" (*Strictly Slots Magazine*, October 2001).

And it is also appreciated by their customers: "In all my travels and all the hotels, restaurants, and casinos I've been to, I've never found such a consistently high caliber of service across the board. Harrah's rates consistently higher than other hotels. I will always stay at a Harrah's if there's one nearby. I guess you could say that I'm loyal to a fault" (Robert Fulton, Total Rewards Diamond Customer, San Francisco, Calif.).

Integrated Performance Measurement

A performance measurement system can play a key role in achieving organizational alignment to your strategy simply (and most powerfully) because such systems affect people's behavior. Here, we're not talking about a financial performance measurement system. Financial measures are required by legislation and don't necessarily address strategy. In fact, most financial performance measurement systems force managers to sacrifice the long-term health of the business for short-term gains.

Business today requires better information across a wider scope than traditional financial measures can provide. And the measurement

system must be structured to provide a clear view of the causes of the results and the drivers of future performance. This type of integrated performance measurement system is more fully aligned with business strategy.

An integrated performance measurement system can be adapted for any strategic initiative. For example, some companies today are beginning to design and develop an integrated measurement system to communicate, execute, and monitor their customer loyalty initiatives. They are designing and linking four fundamental levels of measurement.

The first and top level of measures (Level A) sets the strategic customer loyalty priorities for an organization by comprehensively measuring and modeling all the experiences that customers have with the company. This strategic customer loyalty research determines how those experiences shape customers' attitudes, activate their feelings about the company, and influence their behaviors.

The second level of measures (Level B) takes direction from the high-priority customer touchpoints determined from level A and provides specific, actionable information for improving the customer experience. Level B can include drill-down research and measures on the brand, product, pricing, communication, and so forth.

The third level in a customer loyalty integrated measurement system (Level C) is event or transaction satisfaction research, which provides continuous customer feedback on touchpoint performance.

Level D, the final level of measures, includes the internal process metrics in an organization that are the leading indicators for touch point performance. Examples here might be help-line wait times in a call center or mortgage approval process lead times.

These levels of measurement feed the management scorecard, and the system ensures that strategy

is cascaded down through the organization into functional and departmental objectives and targets.

Accelerate Change

An integrated performance measurement system plays many critical roles in achieving strategy and accelerating organizational change:


Communicating strategy. Senior management must communicate the organization's strategy and direction across a wide base of employees. One way of doing this is by using appropriate performance measures that reflect the intent of the strategy.

Setting targets for the execution of the strategy. Using the data from a performance measurement system can help establish realistic and achievable targets to progress the strategy on a timely basis.

Monitoring progress against strategy. A main function of performance measurement in a strategic context is to provide the means of control to achieve the objectives required to fulfill the company's strategy.

Identifying priorities. The data from a performance measurement system can help pinpoint problems and the information used to refine strategies and tactics.

Affecting people's behaviors. People do what they get measured on. An integrated performance measurement system helps assure that the actions of the front line are aligned with the strategic objectives of the boardroom.

Companies often fail to turn strategy into effective action due to inadequate or inappropriate measures. An integrated performance measurement system synchronized with the strategic planning process enables maximum alignment. Measurement connects everything together. 

About the Authors

Lawrence A. Crosby, Ph.D., is CEO of Synovate Loyalty. **Sheree L. Johnson** is Synovate Loyalty's Global Director of Strategic Marketing.

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www.synovate.com/loyalty