

BE CAREFUL WHAT YOU MEASURE

QAS 527

Quality Measurement

California State University Dominguez Hills

James Cochran

Summer 2007

BE CAREFUL WHAT YOU MEASURE

Hypothesis

Collecting and reporting the wrong metrics can have unintended consequences for an organization.

Discussion

Introduction

The business world, and to some extent, society as a whole, has fallen in love with numbers. Everything from top level business financial results to a favorite athlete's batting average are carefully and painstakingly documented, calculated, and published for the world to assimilate, in a myriad of metrics. Techniques and technologies to produce the numbers behind the metrics have also progressed. Data warehouses, Business Intelligence, Enterprise Reporting, Manufacturing Resource Planning, Customer Relationship Management, and other systems have been developed to easily store, access, and analyze veritable mountains of information. But what happens when an organization collects, reports, or focuses on the wrong information?

Businesses can generate misleading performance indicators and actually stimulate wrong behaviors in executives, employees, and most importantly, its customers.

The Importance of Metrics

Improving the bottom line of business performance used to be a straight forward matter. Managers developed and revised strategy in the light of market changes, fixed prices based on highly detailed cost budgets, and waited while the organization carved out increased profits. The rules have changed. Innovation, speed, high quality service, and the rate at which knowledge is

improved and applied are the key weapons in the battle for customer loyalty (Hope and Hope, 1996). Business performance metrics play a key role in this battle. Measurement systems and metrics provide top management with the information they need to make fact based decisions that directly affect the success of the organization. Organizations that want to align their people, processes and systems to support performance management now have to focus on how to move beyond a measurement culture that fails to change behaviors that don't support those goals (Snow, 2006). Manufacturing and service organizations require new capabilities for competitive success. Breakthroughs in performance require major change, and that includes change in the measurement and management systems an organization uses, as well as the metrics they use to report performance. Improvement cannot be accomplished merely by monitoring and controlling financial measurements of past performance (Kaplan and Norton 1996).

Consequences of Using the Wrong Metrics

During the 1970s, Xerox had a veritable monopoly in the plain paper copier business. Xerox leased its machines and earned revenues on every copy made on the machines. Profits from machine leases and supporting items like paper and toner were large. However, customers were becoming upset with extremely high breakdown rates and malfunctions of the expensive equipment. Rather than using the data and customer feedback metrics on machine failures to drive an equipment improvement initiative, Xerox executives saw an opportunity to enhance their financial metrics instead. They modified their basic business plan to allow for direct purchase of the copy machines, and then established an extensive field service organization as a separate profit center, to repair broken machines at customer locations. Given the questionable

reliability of the copier equipment, the field service division soon became a substantial contributor to Xerox's profit growth. Since companies could not use their broken copiers while waiting for the service person, they often bought additional copiers as backups. All financial indicators such as sales and profit growth, and return on investment were signaling a highly successful strategy for Xerox executives (Kaplan and Norton, 1996).

Customer satisfaction metrics would have painted an entirely different picture for Xerox. Customers did not want a superb field service force from Xerox. They wanted cost-efficient machines that did not break down. When competitors from Japan and the United States became able to offer comparable products that were more reliable and lower priced, Xerox's dissatisfied and disloyal customers embraced the change and voted with their checkbooks. Xerox nearly went out of business because they focused on financial measures alone, and ignored the other indicators. Only after a change in top leadership, under a new CEO that had a passion for quality and customer service, did Xerox eventually recover and make a remarkable turnaround in the 1980's (Kaplan and Norton, 1996).

Misleading Metrics

Senior managers seem to have a blind spot for processes. They are more focused on the numbers, and often fail to recognize that processes are what actually drive results. They may not understand or see that that badly designed or badly implemented metrics can easily drive inappropriate behavior in the work force. The way to avoid that outcome is to develop a set of processes that are aligned both down and across the organization, and then to tie the relevant

metrics to those processes. Those, in turn, need to be supported by processes and systems that focus on data rather than system functionality (Snow, 2006).

It is common practice in the call center industry to assess customer service quality by counting the number of calls processed in a given time period. The assumption is that the more calls handled, the better the quality of service. The number of calls handled may reflect customer service quality, or it may reflect the exact opposite. Imagine a call center that provides such poor service that people don't want to deal with them. What results are shorter duration calls, more calls processed in a given time, but for the wrong reasons. Obviously, the number of calls handled is important, but customer satisfaction needs to be measured at the same time. The number of calls handled alone, does not necessarily reflect customer service quality (Bacal, 2004).

Conclusion

The biggest challenge leaders have is to make performance metrics relevant and supportive of strategic business objectives and performance improvement goals. Relevant measures create the right focus so that everyone has the right information to support decision making. It's important to apply metrics correctly and to address the underlying issues rather than a course of action that is primarily concerned with "making the numbers right". This drives behavior that is consistent with organizational objectives and will avoid conflicting behaviors that arise because one person's measures are at odds with others (Snow, 2006).

REFERENCES

Bacal and Associates. (2004). *What Common Mistakes Are Made When Choosing Customer Service Metrics?* Retrieved 17 July, 2007 from <http://customerservicezone.com/faq/mistakemeasure.htm>

Hope and Hope. (1996). *Transforming The Bottom Line: Managing Performance With The Real Numbers*. London, Great Britain. Nicholas Brealy Publishing, LTD.

Kaplan and Norton. (1996). *The Balanced Scorecard*. Boston, MA. Harvard Business School Press.

Snow. (2006). *Wrong Metrics, Wrong Behavior*. Retrieved 20 July, 2007 from <http://www.crmproject.com>