

# **Key Questions for Outstanding Performance: A New Perspective on Business Metrics**

**By Marsha Shenk and Dan Montgomery**

## ***Executive Summary***

Inventing how your enterprise measures performance is an important act of leadership, and a key to thriving in a marketplace that demands fresh value, innovation, and ever-better return on resources.

As organizations and economies grow in complexity, traditional practices for establishing strategic focus and accountability become increasingly strained. In an effort to better reflect the changing demands on organizations, several new measurement systems have been introduced, one notable example being the Balanced Scorecard. We argue that something more penetrating is called for.

This paper maintains that collaboratively developing success measures – together with the questions they address for all players in a business - is a winning approach to boosting performance, and a profoundly generative leadership practice. As such, it is best driven from the most senior levels, and best seen as an integral part of strategy and execution. The actual work of developing the measures is most effectively undertaken as a truly collaborative process, involving the entire management team, and ultimately cascading through the organization.

This paper does not address how to craft new strategies for differentiation in the marketplace. It is about how to catalyze an enterprise that can both invent incisive strategies and excel at achieving them.

Collaboratively building proprietary measures that clarify the game for everyone is a commanding practice of competitive differentiation, and one that will breed a thriving organization. The paper invites executives to take on new competencies for cultivating inquiry and for becoming more effective internal customers.

## **Questions vs Answers**

Everyone seems to agree that a new way of thinking is demanded of successful business leaders in the 21<sup>st</sup> century, but there the agreement seems to end. Mechanistic, linear approaches to thinking, learning, and knowing are still proffered, though they cannot support the needs of enterprises facing shifting challenges – including rapid change, technological disruption, employee motivation, transparency, and sustainability.

Unfortunately, much traditional business culture still celebrates “having the answers”. We all grew up in a system of education that graded us on our ability to do that. However, modern commerce rewards those who excel at asking questions. In this still-quasi-new business environment, paradox and uncertainty are more accurate reflections of the realities we face than are forecasts and models, and far more productive of breakthrough thinking. Anyone who claims to be right is, more likely than not, headed for a fall – or at best is limiting the ability of the organization to excel. This represents a profound cultural transformation, because it means that to effectively identify what “we don’t know” is a sign of wisdom, not of ignorance: a step forward, not a step backward. An adaptive modern business culture is based on inquiry.

A business culture that can thrive in this fluid environment is likely to stand on a dynamic foundation of trust, transparency, inquiry, and risk-taking. No amount of planning or goal setting can anticipate what will emerge in the next cycle. The practice of acknowledging that we really don’t know begs for replacing strategic planning - as an annual process resulting in a “plan” - with strategic inquiry as an ongoing practice. Short cycle and iterative analysis that focus on learning and adjusting are replacing the now-outdated idea that long-term strategy can provide foundation and direction to operations.

Asking questions is a way to focus peoples’ attention on creating the future. Collaborative inquiry has become a key leadership competence: allowing a group to explore and redefine shared concerns and outcomes.

It’s a very different way to operate, and represents new skills for leaders.

What is it to build an organization that lives in inquiry? Typically, and conventionally, executives have seen their role as declaring and promoting a vision of the future, with specific objectives, around which people in the organization can rally. What if, instead of a declaration – which presumes that the executive already knows the answer – you posed a big question? For example, what if, instead of commissioning a strategic planning study to determine criteria for the next generation widget, you asked a question like, “Where might 300 million new customers come from over the next 5 years?” What if you could ask questions that were compelling enough to serve as a rallying point?

The first approach, declaring a new objective, may work well enough if you are after incremental change in your product offerings. But if you are looking to lead your industry and your enterprise, a transformative question will serve you better.

Leading through collaborative inquiry opens the question of organizational culture. As you will see below, enterprise culture, as maddeningly invisible as it can be, is key to your performance. Culture determines the most important factors in the success of your business:

- The possibilities that people recognize
- The actions they will take
- The way they assess value

It's a powerful medium that modern executives are learning to use for competitive advantage. Building a culture that sustains inquiry when you're not in the room is a domain of mastery unto itself, and beyond the scope of this paper.

### ***Four Questions that Catalyze Performance in Any Business***

When Ruth Otte was CEO of the Discovery Channel, she grew revenues from \$8 to \$365 million. Inheriting an organization in which, typical of media companies, creative, sales, and production people lived in different worlds – and distrusted each other, she was determined to build a very different culture. She set her sights on growing the best collaboration in the industry, and insisted that executives listen deeply to each others' concerns. Ruth suspected that by listening carefully to each others' concerns, executives would more quickly invent and deliver more value for external customers.

She became a fierce customer for that competence, basing a substantial portion of managers' bonuses on measures from peers and subordinates regarding how well their points of view were understood and considered in decision-making. She generated runaway revenues.

Ruth asked an evocative question: What might our business measure internally to drive its success? The standard measures of business success - revenues and shareholder value - are **consequences** of internal activity. Focusing on that internal activity, being able to measure its efficacy quickly - well before year-end results come in - is the job of an executive. The process of creating such measures will enable you to identify and strengthen those aspects of your operation that truly provide advantage, offering enormous opportunity for propelling external success.

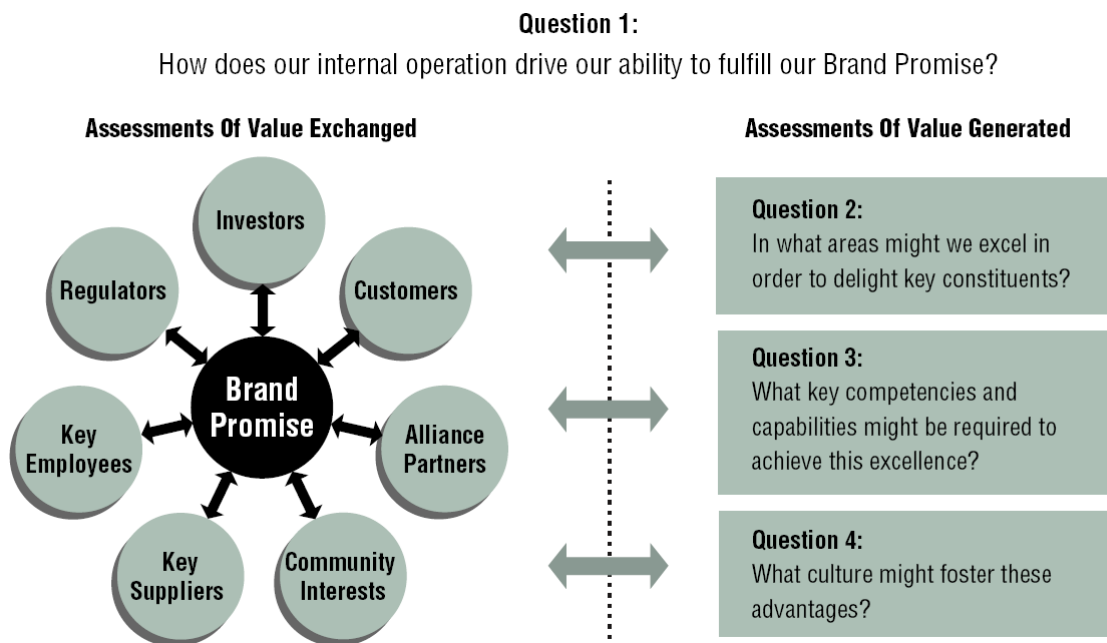
One common barrier is that the task of identifying performance measures is often conceived as a management control function, not an act of leadership. In the worst cases we've seen, responsibility for development of scorecards and other measurement tools is delegated to the Controller, often in response to auditors' demands for greater transparency. Despite the best intentions, these efforts are likely to be doomed to failure,

because they will never be seen as an important part of the company’s competitive strategy. We suggest, instead, that you form one or more thinking circles – made up of the most demanding people in your organization and perhaps a few external customers as well as other constituents - and begin exploring *what would have them say the enterprise was doing great work*. You can further fuel such discussions by exposing employees to systematic qualitative customer research that asks a similar question. You’ll uncover new ways of viewing what might allow your enterprise to excel.

We invite you to begin with an overarching question: “How does our internal operation drive fulfillment of our brand promise?” You can then open three other questions, which together provide a framework for dialog and development of proprietary success measures.

- In what areas might we excel in order to delight key constituents?
- What key competencies and capabilities might be required to achieve this excellence?
- What culture might foster these advantages?

The diagram illustrates the iterative quality of the questions. It also reveals the importance of a clear brand promise.



As you will see, the questions can be viewed as a clever new way to run meetings, or they can be used to generate a more powerful framework for observing your business. The

latter requires letting go of what you think you know, hosting open conversations, and letting the enterprise be transformed as it continually discovers new concerns and desired outcomes of your key constituents – such as employees, customers, shareholders, analysts, community groups, and others.

### **Focusing Question: How does your internal operation drive your ability to fulfill your brand promise?**

Improving organizational performance is a constant pursuit. The best entry point begins with understanding and clarifying your brand promise. Brand promise distinguishes how your organization provides value, not just for customers, but for all your constituents. The modern marketplace demands that you pay attention to not only customers and investors, but your talented employees as well. And depending on your industry, government regulatory bodies, community groups, analysts, suppliers, and ancillary businesses will also play key roles in your efficacy.

As important as Brand Promise is, we believe it is rarely understood, despite much fashionable buzz about consumer power. You can generate advantage by insisting - by being a demanding customer – on the clearest, most compelling brand promise in your industry. While fully exploring the opportunities lurking in excelling at brand promise itself is beyond the scope of this paper, we offer the following questions for bringing rigor to the inquiry of brand promise in your enterprise:

- Who are your key constituents?
- What is their current interpretation of what they need to thrive?
- How do you envision your enterprise addressing that?
- Are constituents enjoying the value you envision from your products/services?
- What is their interpretation of what you promise, and its relevance to their concerns?
- Can you articulate a single brand promise that invites them to enjoy that benefit?

Your enterprise operates in a market – a market for capital, for customers, for suppliers, for employees. Your brand promise is a way of inviting those constituents to the benefit that you can provide.

An executive acting as an effective customer for her people can treat brand promise, and the ability to fulfill it, as an ongoing inquiry: a powerful act of leadership and a rallying point for iterative growth, learning, and innovation

The questions below will help you navigate through the complex web of interaction that constitutes a modern organization.

## **Question Two: In what areas might you excel in order to delight key constituents?**

High performance organizations know what they do well, and they constantly strive to do it better. It's an old saw that no one succeeds by trying to be all things to all people, and truer than ever in a cacophonous marketplace. What matters most to your key constituents? What will most help them thrive? You might focus on rapid and innovative product development, excellent customer service, or ready availability of product at a low price. Our question remains: what internal focus will allow you to do that?

In the early '90s in Knoxville, the leading optometric clinic wanted to conserve their lead, knowing the big discounters were coming. LensCrafters had already leased space in a new shopping mall.

The clinic chose quality of community and customer experience as keys to their ability to retain market share. They invented a new question: "How can we all be 'Doctors'"? This question inspired junior staff (some of whom had not completed high school) to improve their abilities to anticipate and address patients' concerns. They went on to ask, "Who in the community needs eye care and can't get it?" They had a great time devising ways to serve those people - and they made it tough for the discounters to come into a new town and compete with them.

Here's how they established their key measures:

They identified two key aspects of their brand promise that could differentiate them:

- Being part of the community (they knew your Granny...)
- Being sensitive to patients' feelings

They decided to track points in the clinic process where people felt uncomfortable or vulnerable, and to train junior staff to both anticipate and respond to questions. They went on to measure:

- New opportunities to provide information and comfort in the clinic
- New opportunities to help families in the community (eg delivering glasses to the ill or elderly; providing free eye care to student athletes...)
- How quickly they could respond.

These were all internal, proprietary metrics. Competitors had no idea how the clinic was deepening customer relationships. The clinic not only held their own against the discounters – they gained market share and profitability.

Certainly identifying a new way to excel will demand new competences, and impact the culture.

A group of scientists working in the research division of a blue chip pharmaceutical company lived in the brand promise that they were "the best scientists money could buy". When challenged by a new CEO to increase their pipeline of new drugs – already the best in the industry – they had a tough problem. The breakthrough came from identifying a new way to excel: they decided to measure how fast they could *eliminate* potential new drug candidates.

That decision represented a major break from their academic tradition, which was to keep projects funded as long as possible. Once having seen how much could be gained with their new approach, there was no stopping them. They certainly paid off their brand promise. While they were at it, they built a new competence and transformed the culture of the organization. The company went on to put competitors leagues behind.

What doesn't work is to create a laundry list of all business processes and seek out so-called "best practices" for each. In any organization, there are just a few processes that truly give you competitive advantage. Your task is to identify them. The rest might be called "hygiene" factors. For example, paying taxes on time is a hygiene factor. To not do so will get you in trouble. To do so, on the other hand, doesn't create any competitive differentiation.

In a world demanding constant improvement and innovation, defining success measures is most effective as a collective process: refining questions, bringing forth knowledge available within the whole system, and articulating grand strategy into a "line of sight" for every player.

The role of the senior leader is to set the stage, ask catalyzing questions which wake people up and stimulate their thinking, and – most important - be prepared to be transformed by the conversations.

### **Question Three: What key competencies and capabilities might be required to achieve this excellence?**

The attributes that make an individual or a team successful in a startup environment are going to be different than what's required at Xerox, Merck, or Wal-Mart. We suggest that you view the kinds of competencies and capabilities your enterprise needs as an inquiry, involving a number of overlapping and interactive factors, including:

- People – skills, competencies, motivation and deployment of employees
- Organizational culture and structure - policies, procedures, and practices, including how people learn together and separately
- Knowledge – access to information that enables people to do their jobs well, and information-generating practices
- Infrastructure – facilities, equipment and other tools that both enable work and impact mood and well-being

A leading software company, for example, consciously invests in a workforce made up of people who think non-traditionally, and are committed to community. Like other software companies, they hire a combination of young thinkers and people who are well-trained and experienced, create a working atmosphere that minimizes bureaucracy, provide excellent tools, allow for loose working hours, on site recreational activities, and very loose dress codes.

In addition, this firm uses proprietary tests to ensure that prospective employees can work – alone and with others - in the desired fashion. They are testing for both technical competence and certain social skills (not the ones you might guess.) They have developed a brand promise around product leadership that emerges from superior listening for creative answers to their customers’ problems. Customers – from sophisticated firms such as SBC and IBM as well as academic and governmental institutions – report that there is something about the way they feel around these people that is distinctive, that influences their choice to do business with the company. And, for the past five years, despite large changes in technology and the competitive landscape, this company has enjoyed 98% customer retention as measured by customers choosing to purchase ongoing service and support contracts. Employees, consultants, and investors say something similar – they work for below-market pay because they like being part of the community.

The Scientists, operating on the brand promise, “The best scientists money can buy”, challenged themselves to learn a new competence: how to eliminate drug candidates as fast as possible. In one tough day’s inquiry they moved from being angry that their way of doing things was being questioned, to being excited about developing new skills that fit with their commitment to scientific excellence and would also satisfy the CEO’s demand for increased productivity.

The Optometric Clinic targeted new skills for both listening to customers’ concerns and developing junior staff to be able to identify and answer “doctor-type” questions. They learned to address questions that could previously only be answered by someone with a D.O. degree. Exploring the question of capabilities and competencies that pay off your brand promise will help define how you might prioritize investment of your resources – both tangible and intangible. It’s another way that you can generate advantage by being a better customer for your enterprise’s performance.

#### **Question Four: What culture might foster these advantages?**

While some of the questions above have pointed to elements of culture, we are calling it out separately as a domain for reflection and inquiry. Not only can it generate distinction and competitive advantage, it will have enormous impact on your ability to fulfill your brand promise. The skill to use this opportunity is rare; herein lies another window where you can bring value to your enterprise.

The term "culture" has become fashionable in the last decade, and is often tossed around in a shallow way. Don't be fooled: culture is a powerful force. As we said in the beginning of the paper, it determines three of the most important factors in the success of your business:

- The possibilities that people recognize
- The actions they will take
- The way they assess value

Devising ways to track and measure how your culture is driving the fulfillment of your brand promise will serve you well.

Beyond, or beneath, all the skills, business processes, procedures and infrastructure, culture is a deep-seated and systemic glue that holds the company together. It's an often-invisible system of beliefs and assumptions. It's the basis of the questions people ask and the behaviors they exhibit. Before the work we described above with the scientists, it was completely transparent to them that being "the best scientist money can buy" meant keeping projects funded as long as possible. No one in the organization could "see" the practice, much less grasp its business implications. So too, the junior employees in the clinic were just that: low-earning, little inspiration, little opportunity for improvement. No one could see the possibility that they could behave "like Doctors".

Semco is a Brazilian company that has grown revenues from \$4 million to \$212 million - at about 40% a year<sup>1</sup>. They never bothered to go public, because they have plenty of cash from their employee-designed enterprises. Semco excels as a powerful generator of business innovation.

When Ricardo Semler inherited the business from his father (at \$4 million), he asked: what working environment would allow him and all employees to thrive? He used his power as CEO to be a fierce customer for that culture – in which no one, including him, has the right to ever be disrespectful to another employee. One of their practices is to give all employees the opportunity to learn financial analysis skills. Another is to turn them loose on the question, "What more might you like to do that customers might enjoy?" Guess what? Employees generate a steady stream of well-thought-out business plans, many of which the company chooses to fund, and all of which are greeted with curiosity and gratitude.

The company delights employees with a culture of respect, reflection and learning. Semco has a waiting list of 2000 prospective employees, many of whom have advanced degrees, who will take any job that becomes available.

Because of its invisibility, the whole issue of culture has been considered a fluffy topic until quite recently. Many executives completed MBA programs in which even bringing up the topic would have evoked joking about "KumBaYah". The only measures that

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<sup>1</sup> Ricardo Semler, The Seven-Day Weekend: Changing the Way the World Works, New York, 2003

mattered were concrete financial and operational ratios and statistics. Employees worked, according to this story, because they wanted to get paid and get ahead. Period. Executives were taught that “real managers” focus on concrete, objective data to make decisions. The rest is the “soft stuff”.

As it turns out, the soft stuff is the hard stuff. The drivers of those tough-guy statistics are internal and largely invisible. Few executives have gained the skills to work with the invisible soft stuff, and those that do reap well.

Semco’s brand promise is proprietary; we can’t readily articulate it. But we can see how it’s paying off: how they choose to excel at delighting key constituents, how they invest in key competences, and how they cultivate the culture that allows them to continue to excel.

Microsoft, Intel, and Wells Fargo – to name just a few – are now investing steadily in studying culture. It’s a powerful inquiry. What are the beliefs and assumptions that determine what your constituents might do? What they can and cannot observe? What invisible rules are they following that keep them tied to habitual behavior and blind them to new opportunities?

In business or non-profit enterprises, it’s common for the influence of founders to last generations, embodied in culture. (You won’t be surprised to learn that the founder of the Pharmaceutical company was a highly-respected scientist...) At the same time, culture re-establishes itself daily. Positive cultures can be destroyed in a matter of weeks or months as a result of changes in leadership, or post-merger integration blunders. Leadership is the key influencer of culture.

Culture may well be the richest mine you explore, for two reasons. It determines how well you can fulfill your brand promise. And it’s still a relatively new arena for competition: you could become the best in your industry.

## ***Generating Measures from the Four Key Questions***

Most businesses do a decent job of tracking external measures. Revenues, market share, and customer retention are relatively easy to see, and everyone learns them in Business School. Measures for customer loyalty are now part of the mix. Following what others measure in your industry is just that: following. Being one of the flock offers you little platform for extraordinary performance.

In addition, measuring results is analogous to waiting till the end of the game to see who wins. A great coach has ways of assessing early in the game whether her team is winning.

What might you track right from the start to ensure that your enterprise fulfills its brand promise, and excels in your industry? We invite you to insist on addressing all four of

the above questions, and devising 3- 5 *proprietary success measures* that will distinguish your organization. Such an investment will enable your people to literally see something new, and to design action that was *not possible* before the new measures were defined. Your competitors won't be able to do the same. They can't see what you're observing inside your organization. You'll be in the enviable position of playing a game that only you can win, but in which others must compete.

In its glory days as a product innovator, Hewlett-Packard introduced measures that tracked the percentage of sales revenue derived from products that had been introduced within the past 12 months. Use of this metric, particularly tied to such an important top line financial indicator, had the effect of constantly encouraging questions and practices that stimulated innovation.

A company employing a similar approach now, focused on innovation and product development, might use the following key measures:

<b>Question</b>	<b>Example of Key Measures</b>
1. How does our internal operation drive our ability to fulfill our brand promise?	<ul style="list-style-type: none"> <li>• Percentage of revenue derived from products introduced in the last 12 months</li> </ul>
2. In what areas might we excel in order to delight key constituents?	<ul style="list-style-type: none"> <li>• Product Development cycle time</li> <li>• Level of customer co-creation of new products</li> </ul>
3. What key competencies and capabilities might be required to achieve this excellence?	<ul style="list-style-type: none"> <li>• Rapid cycle prototyping process</li> <li>• Ability to host enjoyable and productive collaborative design sessions</li> </ul>
4. What culture might foster these advantages?	<ul style="list-style-type: none"> <li>• Participation in voluntary design sessions</li> <li>• Voluntary employee learning</li> <li>• Extent to which ads are circulated on sites such as MySpace and TagWorld</li> </ul>

Developing effective, actionable measures is challenging. It's not a common skill. Instead, common patterns include:

- Sweeping objectives declared by leaders, are "bought into" by all heads nodding, but when it comes time to operationalize , for example, being a "world class innovator", and how you would know if you were, the discussion breaks down.
- Establishing so many measures that priorities are not clear and people can't really pull together.

Major corporations have operated on as few as five primary measures. Your measurement system is like the dashboard on your car: there are a few really key indicators, such as speed and fuel level that are essential, and a number of others that

really are only “idiot lights”, telling you when something is way off, but not normally needing attention. Developing too many indicators makes it too hard to pay attention to any of them. Advantage will come from a few compass points that uniquely define the benefit your business delivers.

Establishing key measures that work in everyone’s line of sight and drive people to the actions that will pay off your brand promise may be your most important task. Doing it well can actually generate a new reality. It’s not easy. The kind of rigor and honesty required are not common.

In addition, in a world where ongoing improvement and innovation are mission-critical, generating those measures through an inclusive collaborative process will soon become a requirement. It’s messy. The fluidity of mind required is rare.

An expert facilitator can be enormously helpful. Inventing such measures and hosting such processes is an art. Few businesspeople are adept in that kind of design. Taking it on will reward you with exceptional performance.

## **Conclusion – Redefining the Game**

*“The first job of a leader is to create reality. The last is to say ‘Thank You.’ In between the two, a leader is a servant and a debtor.”*

- Max DePree<sup>2</sup>

During Max’s tenure as CEO of Herman Miller, a share of stock valued at \$100 grew to \$4854.60 - an annual growth rate of 41% over 11 years.

Like Ruth Otte at Discovery and Ricardo Semler at Semco, one of Max’s key measures was respect. Another was integrity of design.

In what areas might your company excel? For what might you become a fierce customer? What will you measure that inspires your employees to thrive, and your customers, vendors, and shareholders to enjoy doing business with you, that captures the attention of the press and industry commentators, and some other variable that you may invent?

Too often, smart people apply lessons from the past to challenges of the present. Wanting a particular result, they invest in action that worked before. If that doesn’t work, they try some variation on it, or just try the same thing again. In our modern world, economic and technological challenges that have never arisen before are common. The old model is insufficient. What is required is a shift in the observer: the mind that is asking questions, defining what’s valuable, and setting new goals.

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<sup>2</sup> Max DePree, *Leadership is An Art*, New York, 1989

A process of questioning the “known” is a generative and evolutionary act, which equips a group of people to collectively create a new reality - also known as innovation.

Proprietary measures are cultivated by reflective inquiry, and honed through open collaborative conversations. Asking compelling, open-ended questions about how you might observe company performance is an excellent way to engage interest, and to increase committed participation of the entire enterprise. Rather than becoming a dry update about last quarter’s figures, you can be an executive with whom discussing performance is a vital, forward-looking conversation that sparks collective intelligence.

*“We human beings ask questions, and the answers that we accept determine the nature of the questions that we ask”*

- Humberto Maturana and Ximena Davila, The Matriztic Institute

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