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Choose the Right Measures, Drive the Right Strategy

By Dennis Campbell

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Choose the Right Measures, Drive the Right Strategy

By Dennis Campbell, Assistant Professor, Harvard Business School

Metrics overload is a common problem that can have serious consequences: specifically, it can make it difficult for employees to see what actions they should take to execute strategic objectives. Having too many metrics dilutes the focus and invariably means many are irrelevant. Here, accounting and performance measurement expert Dennis Campbell traces a major Canadian bank's experience in overhauling its customer satisfaction metrics to make them meaningful—and actionable—to frontline employees. The results say it all.

Could someone who has never heard of your company pick up your Balanced Scorecard and articulate your strategy? How about someone within your company who is actually responsible for implementing your strategy at an operational level? A hallmark of a good Balanced Scorecard is that it translates strategy into understandable operational terms. Scorecards can fail to achieve this objective if they include too many or potentially irrelevant metrics. Too many metrics can dilute the focus on your strategic objectives, making it difficult to communicate a coherent implementation plan to the employees responsible for achieving those objectives. Moreover, an abundance of metrics that do not have clear linkages to your overall strategic objectives may be symptomatic of a larger problem: the lack of strategic focus at the top of the organization.

Measures selected for inclusion in your scorecard should have clear and demonstrable links to your overall customer and financial performance objectives. Understanding the relative importance of different metrics in driving these objectives is a necessary condition for providing good, actionable information at the operational level, where strategy is actually implemented.

Consider the case of Toronto-Dominion Bank (TD Bank). In a banking market where consumers and regulators were typically hostile to mergers and acquisitions, TD Bank, one of the largest banks in Canada, undertook a merger with a relatively small trust company, Canada Trust (CT), which was known for exceptional customer service. To assuage the concerns of regulators, consumer groups, and the customers newly acquired through the acquisition of CT, the bank made several public pronouncements promising to maintain its high customer service standards and deliver a "comfortable" and convenient banking experience.

Executives at the bank took this promise seriously, but were now faced with the task of translating their service strategy of "comfortable banking" into operational terms. To appreciate their challenge, consider the customer

Figure 1. The Bank's Original Customer Satisfaction Tracking Report

	Measurement At ... Level								
	Branch							*Regional*	*National*
	Year End 2002	Nov'02 to Jan'03	Feb'03 to Apr'03	May '03 to Jul '03	Aug '03 to Oct '03	Year Ending Oct '03	Net ** Change	Year End 2003	Year End 2003
Base: Total # Interviews	200	50	50	50	50	***200***		26934	194514
	%	%	%	%	%	%	%	%	%
***Customer Satisfaction*:** Percent who give a rating of 6 or 7 on a 7-point numeric scale where 7=Excellent and 1=Poor									
Overall In-Branch	75.7	69.6	79.7	69.3	89.9	***77.1***	+1.4	81.5	85.6
At Teller*	76.9	72.3	77.5	70.0	92.9	***78.2***	+1.3	81.9	85.9
At Side-Counter+	70.8	58.3	88.9	66.7	77.8	***72.9***	+2.1	80.2	84.3
Customer Commitment: † Percent giving 4 or 5 rating based on 5 point scale									
Recommend TD/CT To Friend or Colleague†	68.6	78.0	75.1	65.0	81.6	***74.9***	+6.3	76.2	79.3
Continue using TD/CT Over Next 12 Months†	86.0	89.9	86.0	81.5	88.1	***86.4***	+0.4	88.4	90.6
Did The Teller/Representative (Side-Counter)...?									
Appreciate your business	86.6	90.2	91.8	85.6	95.6	***90.8***	+4.2	91.9	93.3
Process your transaction quickly*	95.0	92.7	95.1	97.4	100.0	***96.3***	+1.3	96.0	97.3
Have the ability to handle your request		96.0	98.1	95.7	95.7	***96.4***		95.8	96.7
Wait time acceptable	91.0	87.7	87.7	86.2	94.1	***88.9***	-2.1	84.8	89.9
Give you his/her individed attention	93.4	91.8	87.7	98.1	97.8	***93.8***	+0.4	91.6	95.1
Make you feel like a person not number*		92.5	94.9	94.9	100.0	***95.6***		92.9	95.1
Smile	89.1	96.0	92.3	90.0	96.0	***93.6***	+4.5	91.8	93.6
Handle accts & transactions accurately+		88.9	88.9	88.9	100.0	***91.7***		95.0	95.8
Process your transaction accurately*		97.4	95.1	95.1	97.4	***96.2***		96.6	97.6
Appear knowledgeable about services		90.0	89.7	89.9	94.0	***90.9***		91.6	93.5
Show interest in you as a person+	88.2	77.8	91.7	88.9	88.9	***86.8***	-1.4	89.2	92.1
Promptly acknowledge your presence+	85.4	88.9	69.4	100.0	100.0	***89.6***	+4.2	84.2	86.7
Greet you pleasantly	96.6	98.1	100.0	97.9	100.0	***99.0***	+2.4	96.7	97.8
Encourage you to ask questions+	86.1	77.8	72.2	77.8	58.3	***71.5***	-14.6	73.7	75.7
Explain services ...easy to understand+	84.0	88.9	88.9	88.9	100.0	***91.7***	+7.7	92.2	93.4
Treat you in a respectful manner	98.0	97.8	97.8	97.8	100.0	***98.4***	+0.4	97.8	98.6
Address you by name	70.9	62.4	63.8	65.6	82.2	***68.5***	-2.4	71.9	73.2
Thank you for your business	84.9	90.0	87.5	85.9	90.0	***88.4***	+3.5	87.6	86.8
Give advice or...based on your needs+	86.1	77.8	61.1	69.4	69.4	***69.4***	-16.7	77.6	79.6
Conduct banking privately	93.6	93.7	91.6	93.8	96.0	***93.8***	+0.2	92.4	94.6
Recommend additional services+	72.9	61.1	55.6	77.8	50.0	***61.1***	-11.8	54.8	53.3

With an abundance of data but little information on the relative importance of these 25-plus metrics, this report was not very helpful to branch-level employees.

Figure 2. Post-Analysis Customer Satisfaction Tracking Report

Teller CSI	YTD	Performance levels 1	2	3
1. CSI score	86.9			
2. Satisfied (bottom 3 box)	1.9			
3. Likely to recommend	79.8			
4. Likely to continue	90.7			
5. Make you feel like they appreciate your business	91.6	✓		
6. Process your transaction quickly	96.3	✓		
7. Have the ability to handle your request	96.3		✓	
8. Wait time acceptable	91.6		✓	
9. Greet you pleasantly	97.2		✓	
10. Address you by your name	77.6		✓	
11. Give you his or her undivided attention	96.3		✓	
12. Thank you for your business	86.9	✓		
13. Process your transactions accurately	97.2			✓
14. Treat you in a respectful manner	98.1			✓
15. Conduct your banking privately	93.5		✓	

1= Need to improve; 2 = Room to improve; 3 = Maintain

By streamlining metrics, presenting them in order of relative importance, and coding performance, this new report helped employees be more effective in their customer satisfaction efforts. The bank also gained customers and boosted customer satisfaction—a rare achievement following a merger.

satisfaction tracking report in *Figure 1*. This periodic report was meant to provide information to tellers and branch management about their performance against various service attributes that are regarded as drivers of the overall branchwide objectives of high customer satisfaction and loyalty.[1] But were there too many measures? And were they the right measures to include in the branch scorecard? Without the answer to these questions, how would operational-level employees know which service attributes to focus their efforts on to achieve higher customer satisfaction? The scorecard in Figure 1 contains a lot of data, but very little information that would help branch-level employees implement the bank's customer service strategy. There are more than 25 performance metrics included in this scorecard and no information on their relative importance in driving customer satisfaction.

Overhauling Customer Satisfaction Metrics

The EVP of marketing, Chris Armstrong, and his team undertook a rigorous and systematic approach to analyzing which dimensions of service warranted further investment and which should be de-emphasized. Their approach began with ensuring high-quality data and metrics. Surveys of customers' experiences with each dimension of service were taken shortly after a customer's actual service interaction at a branch. Individual customer surveys were aggregated up to the branch level to form average branch satisfaction scores with each dimension of service only after a sufficient number of customers had been surveyed for each branch.

Statistical analysis was then used to estimate the impact of measures of each service attribute on customer satisfaction and branch profitability.[2] For example, the analysis revealed, among other things, that:

- Each increase of 1% in measures related to "comfortable banking" (e.g., the percentage of customers who were satisfied that the teller made them feel their business was appreciated) led to a 1.7% increase in customer satisfaction, which in turn led to a 0.4% increase in branch profitability.
- Similarly, a 1% increase in measures related to "speed of service" (e.g., the percentage of customers satisfied that their transaction was processed quickly) led to only a 0.8% increase in customer satisfaction, which in turn led to a 0.2% increase in branch profitability.
- Many service attributes tracked in the branch scorecard showed only a marginal or even no relationship to overall customer satisfaction and branch profitability.

Armstrong and his team were now able to understand precisely how much it was worth to increase performance in each dimension of service; they knew which aspects of service were most important and which ones could be de-emphasized. Moreover, they found that most service measures showed a highly nonlinear "S"-shaped relationship to customer satisfaction. Improvements in service did not yield incremental increases in customer satisfaction until measured service levels were above minimum thresholds, after which they yielded dramatic increases in customer satisfaction. However, once service levels climbed above upper thresholds, further improvements in service yielded smaller and smaller increases in customer satisfaction.

Armed with these insights, executives at the bank were now in a position to provide high-quality information and feedback to operating units in the form of the customer satisfaction tracking report shown in *Figure 2.* Several features distinguish this new report from that shown in Figure 1:

- *The number of metrics tracked was reduced from 26 to 15.* Eleven performance metrics that showed either a marginal or no relationship to the objectives of customer satisfaction and branch profitability were dropped. The remaining metrics were identified as strong drivers of these objectives.
- *Measures of service performance are listed on the scorecard in order of their relative importance in driving customer satisfaction and branch profitability,* starting with the attribute "appreciate your business," which was found to be the strongest driver.
- *Current performance against each of these metrics is now coded as red, yellow, or green* corresponding to whether that metric is in immediate need of improvement, has room to improve, or is at an acceptable level. Targets indicating red, yellow, and green levels of performance (in Figure 2, indicated in numbered columns) were established for each individual metric based on the thresholds identified in the "S"-curve analysis. Performance below the lower threshold, which needed to be crossed before service improvements could yield incremental benefits, was coded red; performance above the upper threshold, where service improvements began yielding diminishing returns, was coded green; and performance between these thresholds was coded yellow.

This new reporting tool and the measurement and analysis it was built on served as the linchpin for translating the bank's service strategy into operations. Branch-level employees, whose compensation was linked to customer satisfaction, now had high-quality information about where to focus their efforts to achieve the largest gains in customer satisfaction and, ultimately, branch profitability. Fewer measures kept the focus on those that mattered most in driving the bank's strategic objectives of increasing satisfaction and profitability in its branch network. Targets that indicated where service improvements would have the largest impact on satisfaction and profitability allowed branch-level employees to allocate their effort more effectively among the remaining metrics included in the scorecard. The net result? The bank was able to deliver on its promise of high customer service. Better yet, in its post-merger climate, where many banks experience customer attrition rates of 5% to 10%, the bank increased its net customer acquisitions. Its customer satisfaction index rose from 81.5% to 84.5%.

The type of statistical analysis described here requires data on performance measures across comparable operating units, across time, or both. Banks are particularly amenable to this type of analysis because they are decentralized and have multiple comparable branches. But other options exist. You can wait until you have amassed enough performance measurement data over time, although you may need 20 to 30 periods' worth to ensure valid results. A second option: be creative about how you define your unit of analysis. Many important performance measures are defined at the individual customer or employee level. The key to focusing on measures that matter, and avoiding metric overload, is to take a systematic approach to selecting measures that have clear and demonstrable links to your overall customer and financial performance objectives. If the data is just not available to make these links "demonstrable," then managers across organizational units and at different organizational levels should have extensive discussions and come to some consensus on which of these links are at least most "defensible." Putting this kind of effort into the design of your scorecard can provide strategic clarity at the top of the organization and allow you to provide good, actionable information at the operational level where strategy is actually implemented. ■

1. Customer satisfaction was measured as the percentage of customers rating themselves as "satisfied" or "highly satisfied." Similarly, performance on each service attribute was measured as the percentage of customers rating themselves as "satisfied" or "highly satisfied" with that particular aspect of service. For example, the measure corresponding to the service attribute "appreciate your business" captured the percentage of customers rating themselves as "satisfied" or "highly satisfied" with the tellers' making them feel appreciated.

2. A combination of factor analysis and multiple regressions were used to estimate the relationships between measures of service attributes, customer satisfaction, and branch profitability.

TO LEARN MORE

Dennis Campbell is author of "Putting Strategy Hypotheses to the Test with Cause-and-Effect Analysis," BSR *September–October 2002 (Reprint #B0209E).*