Chapter 1
The Information Gap

"It was the best of times, it was the worst of times . . .
it was the spring of hope, it was the winter of despair . . ."
—Charles Dickens, *A Tale of Two Cities*

A Tale of Two Rentals

A few years ago, one of our authors (Schiemann) lost his wallet en route to a small Midwestern airport late one evening. As he headed from the terminal to the rental car agency, he had a queasy feeling, knowing he would have to explain his loss of identity to the service representative. But as a road warrior for many years, he had duplicate photo identification and another credit card tucked away in his suitcase, and besides, he was an "elite" renter.

He approached Cindi and Kim, the reps for the rental car agency, as they packed up for the night, knowing they had just one last reservation to deal with. Then came the dreaded question from Kim, "May I see your license please?" When our intrepid traveler pulled out his emergency backup, which incidentally had recently expired, she proffered the dreaded smirk and said, "You can't expect to rent a car here with an expired license."

After explaining the situation, the elite status, and the fact that he had rented about 25 times from the company that year, the deer-in-the-headlights look appeared as she slowly repeated, "Sir, you can't expect to rent a car here with an expired license."

At this stage, the road warrior moved on to Plan B, offering a few easy solutions. "How about looking me up in the computer?" After all, he had just rented one of their cars a few days ago. No dice. Apparently the computer system—or at least the operator—did not work that way. Now our traveler was in Code Red—with no wallet and no cash, a taxi was not an option. On a last-ditch long shot, he asked to speak to the supervisor. The two quickly exchanged nervous glances, "No, we can't call her at home."

Our desperate traveler, on a tip from an airport manager, then tried a run at another rental car cube. Alex and Anthony gave him a different reception. After the traveler revealed his plight, these two superheroes went into action. They immediately logged in to their computer and identified his prior rental from many months earlier and then woke their manager at home to obtain special permission. Even when his emergency credit card came up "expired," they agreed to speak with the traveler's wife, by phone, who dictated another credit card number. By now, it was nearly 11:30 p.m. All the other cubicles were deserted, but Alex and Anthony had him driving out of the airport, despite all the setbacks.

What caused these two different experiences? Why did one team seem more interested in going home, whereas the other was inspired to extraordinary discretionary effort? If you were the CEO of the first company, how would you feel knowing your team risked the loss of a 30-year, loyal customer, especially when your competitor next door got the job done? Would you have wondered how many of your other employees are truly aligned with your values, brand, and strategy? Or were they indeed aligned with a culture that values no risk taking and has policies intended to avoid individual variation?

We experience these paradoxical service situations every day. And the impact of outcomes such as this are multiplied daily as customers tweet and post on Facebook. We start with this anecdote because it is fundamental to the story of success and failure in the new marketplace. It also raises the role of *measurement*, especially as it relates to human capital and other intangibles. Departing customers and their wallet share are measures that may indicate how good our strategy is and how well it has been implemented. Sadly, by the time these measures are noticed, analyzed, and reported, it is often late in the game. Reclaiming lost loyalties takes many years. Earlier indicators gathered through the eyes of employees or other sources are needed to identify gaps and to serve as early warning predictors of future customer or operational problems.

The rental car example is more than a story of great vs. poor service. It captures many of the key differentiators between successful and unsuccessful businesses today. Cindi and Kim may not have been highly *engaged*, or the *capabilities* simply were not there: training may have been inadequate, policies inflexible, and computer systems antiquated. Or possibly the company would have wanted them to bend the rules, but they did not understand or were not *aligned* with the values.

This book discusses a variety of ways in which measurement can be used more strategically and more decisively to gain competitive advantage—or for not-for-profits or government agencies, it is about reaching goals or achieving objectives more effectively and with less waste and frustration.

CEOs tell us they are urgently searching for answers to several core questions:

- Do we have a winning business strategy, and is it working?
- What do our customers think, want, or need?
- Are we effectively managing our risks?
- Do we have the right talent, and are we utilizing it well to execute the business strategy, to meet customer expectations, and to anticipate future customer needs or desires?

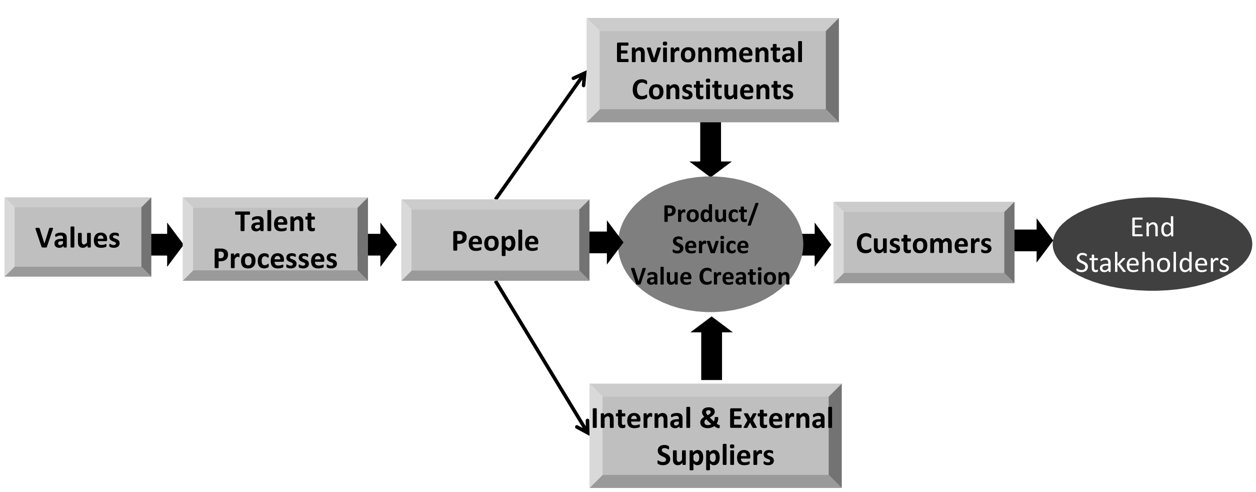
We have found that if we focus on these strategic questions first and deploy the right measurement systems to capture these core issues, other tactical decisions and measures will flow naturally from the answers. For example, focusing on these questions then leads us to important measurement decisions regarding internal functional alignment, supply chain management, labor relations, productivity, retention of top performers, talent acquisition enhancements, and a variety of other meaningful issues.

Is Your Strategy Working?
Strategies fail for usually one of two reasons: the wrong strategy or poor execution. How do we know if our strategy is a good one or that we are executing it well? *Strategy is about providing certain products or services to targeted customers based on a set of core capabilities in the context of a vision and mission*. The trick of course is identifying the right products or services, focusing appropriately on the right customers, and developing and utilizing these capabilities better than our competitors. The right measures will provide feedback on whether the strategy is a good one and how well we are executing it. Throughout this book, we will answer these essential questions, but to determine what we should be measuring, we first need to consider the strategic framework.

Framework for Making Strategic Decisions
Before discussing how you can become more effective in using measurement to reach your objectives, let us take a look at how measurement can play an integrative role in connecting strategy, customers, and the drivers of success for any business, regardless of size, region, or industry.

Figure 1.1 is a useful framework for thinking about how value is typically created in organizations and how the many stakeholders can make or break the success of an organization. Shareholder equity (or owner profit or "mission accomplished" for nonprofits or government agencies) is enhanced primarily by delivering products and services that have perceived value to customers or users in markets you have targeted. The ability to create those products and services is driven by effectively managing people, suppliers, and environmental constituents. We define the latter to include communities in which organizations operate, environmental stakeholders such as green or health and safety groups, and finally regulatory or other groups of influence such as unions.

Figure 1.1 Framework for Value Creation



This model allows for the varying strategic needs of different organizations. Rental car agencies, for example, must have their people—employees, contractors, managers—aligned with end stakeholders. Their suppliers range from tiny local repair operations to behemoths such as GM or Toyota that must support their strategy. And influential groups such as unions, airport authorities, or Consumers Union (the publisher of *Consumer Reports*) may influence their ability to deliver their products and services effectively.

If you work for a small organization, the same factors must be managed, albeit on a different scale. Your local auto repair shop owner, for example, has primary stakeholders, such as the owner's family, his customers, his employees, and the suppliers who get his parts delivered to meet customer promises. And periodically he must also deal with the township regulatory boards related to zoning issues or other community requirements. He must also comply with EPA and other federal regulations.
Consider some key stakeholders.

Customers

Customers can tell us a great deal about how the strategy works for them if we ask the right questions in the right way at the right time. They can tell us if they find our products valuable or competitive, provide ideas for what would enhance our value, or telegraph that our value proposition is fading. They can also tell us about execution. In the rental car example, if our co-author had been sent a follow-up questionnaire from the first agency after his experience at the regional airport, he could have reported on a range of areas, including computer glitches, employee attitude, employee competencies in observable areas, and adherence to hours of operation.

However, an often missed opportunity for firms is information from customers who walked away from a reservation and used a competitor. The renter did not show up in the customer transaction system that evening because he went to a competitor. Customers at a quick-serve restaurant who leave because of some problem before receiving the magic receipt that announces that they have been chosen for a service survey, or the potential customer who gives up during step 16 of a phone tree, are also among what we might call "invisible stakeholders."

Internal and External Suppliers

Internal functions. According to work that the Metrus Institute has done in conjunction with *Quality Progress*, the publication of the American Society for Quality, alignment and coordination of internal functions represent major gaps in many organizations. As any sales professional or customer service representative will tell you, his or her interaction with the customer will only be as successful as the suppliers that support them. Customers do not care about how the product or service reaches them—just that it does at the right time and at the right price.

Functional excellence and internal value delivery are two of the most under-measured areas. Some firms talk about a spirit of cooperation across all units—others about accountability for deliverables—but neither guarantees that high value is being created. Firms live or die in short order by whether the end customer sees high value, but they often miss the opportunity to deliver that value at lower cost.

Our research shows that firms and their functions vary widely in creating value, which we will discuss in more depth in Chapter 3. Those that excel at internal value creation have a competitive advantage in terms of employee retention, quality, customer loyalty, and financial performance. An organization's ability to deliver the value proposition to the customer and to fulfill the brand promise is only as strong as the weakest link in the value chain, including the many internal service functions that add or subtract value. By the time low value has been "felt" by the C-suite or other top managers, the function is often on the way to being outsourced.

Internal service metrics can be invaluable in helping to pinpoint the extent to which various functions within the organization are streamlined and synchronized. Are we producing great services, but perhaps at much higher costs than needed? Do functions cooperate with each other in effective ways to achieve end results, or is the organization riddled with silos that impede overall performance?

External suppliers. Measurement of supplier performance, either directly or through the eyes of employees, is often neglected. When a large pharmaceutical organization outsourced many of its clinical studies and large chunks of its clerical staff, it experienced a measurable shift in performance compared to when on-staff employees delivered those services. Many former on-staff employees became newly minted "supplier employees." They continued to work in the same location as before but received their paycheck from a different employer.

Now here is the interesting part. This pharmaceutical company suddenly stopped measuring the alignment, competency growth, and engagement of the employees who were no longer on payroll. The "burden" of the employees shifted to the supplier, and the process of measurement was shifted along with it. However, when clerical turnover started to increase, and employees no longer seemed to put in the extra effort, the pharmaceutical company was disappointed. Clearly, it had made these outsourcing decisions based on cost and perhaps risk mitigation, but the company lost its ability to predict and manage talent outcomes such as turnover or discretionary effort that was central to delivering quality results. The lesson here is that outsourced labor also need to be aligned, capable, and engaged.

Another missed opportunity is to ask employees about supplier issues. One pharmaceutical company we work with asked its employees questions about suppliers on its employee survey. For example, do employees think that the company allows suppliers an opportunity to make a fair profit? Obtaining the supplier's opinion would also be beneficial, but this is one more step to corroborate whether the firm's policies and actions support its values. We will address *internal function and supplier* issues, and their relationship to *customers*, in Section II.

Environmental Constituents
A variety of other stakeholders we call environmental constituents often play a role in organizational success. Among these may be the city council or mayor's office, safety regulators, green environmental groups, unions, consumers groups, and regulatory groups such as drug approval boards. Here, too, employees can tell us much about community relations, labor relations, regulatory risk, environmental challenges or successes, volunteerism, and much more. We will address some of the interesting challenges in managing and measuring areas such as sustainability and labor-management relations in Section VI.

People
People are the channel that connects operational systems, suppliers, and the broad environment stakeholders. We use the term "people" here rather than "employees" because most large organizations now use a variety of sources of labor in addition to employees alone: contractors, part-timers, consultants, outsourced or off-shored labor suppliers, and other variations. What is common across all these groups is talent.*The organization needs a pool of people who contribute a certain talent package that can be applied—with technology, materials, or processes—to provide products and services that customers want*.

Optimizing talent is the central challenge and key differentiator for most organizations. In this increasingly global marketplace, most organizations can access capital, materials, technology, or even world-class processes, but the people and their talent are what make two seemingly similar organizations perform differently. Talent determines whether the organization is innovative, efficient, productive, stable, ethical—ultimately, whether the organization will remain healthy and viable in today's and tomorrow's marketplace.

People also have a tremendous window on your customers. For example, sales and service employees have firsthand information about customers that can provide invaluable knowledge about market risks, customer expectations and levels of satisfaction, buying behaviors, areas of frustration, gaps in the product/service value offering, and numerous other issues.

Sales and service employees are not the only ones in an organization with a window on customers. Financial people often see other patterns, such as payment schedules (including risky late payers), credit worthiness, and the adequacy of financial information for customers. The IT department sees Web patterns. Manufacturing may understand back-order and delivery needs. And so forth. Put together, the data provide the organization with a fuller understanding of the customer, but each function within the organization must share and coordinate the information. In total, the data provide deeper insights; in fragments, they may send decisions down the wrong path.

Employees too can report on both the strategy and strategy execution. For example, the employees in our regional airport example have viewpoints about the company strategy, the alignment of their work with the group or company goals, the sufficiency of information or resources to do their job, the effectiveness of customer policies, and the clarity of communications.

The important part of employee feedback is that employees see what often lies below the surface and what is really going on. By asking the right questions and reviewing related measures, organizations may discern how well the strategy is being executed and what barriers lie in the way of improvement. Does the company have leading indicators that could have identified a risky situation *before* it happened? Was customer loyalty being assessed across locations, rather than in the aggregate? Was the rental car agency in our story identified as having low employee engagement or alignment by a strategic measurement tool? And if low morale was as an issue, did managers know the business drivers (not customers!) that caused it? Do they have a gauge of employee competencies relevant to customers? Though the answers are unclear, these are the types of informational issues that can make a huge difference to business success. We will explore many of these issues throughout the book. In Section III, we will address how strategic employee survey processes can provide far more strategic and decision-making information if they are designed, analyzed, and executed well.

Talent Processes and Values

Shown in the two boxes to the left of *People* in Figure 1.1 are *Talent Processes* and *Values*, both crucial to optimizing the performance of people and organizational success. Do employees believe their managers support the company direction, or are they just building their careers? Does the training work, and if not, why? Is the company selecting good talent who can serve the needs of customers? Are IT systems providing needed information for people to perform successfully? Are people willing to go the extra mile? Does the onboarding process tell them what they need to do to quickly become competent and successful in their jobs? In other words, do the *talent processes* work effectively—hiring the right people, acculturating them, optimizing their performance, developing great leaders, and retaining the best talent? We will explore these talent issues and how measurement can provide valuable insights in Section IV.

And finally, does the organization have the right set of *values*, and are they lived daily? In our rental car example, what are the values that the company wants to see exhibited, and what do employees see as reality? Do people buy in to the company values? Employees, and other stakeholders, provide a window into the organization’s culture and reveal which values and behaviors are important day to day. Why were the employees of one rental car group willing to call their manager at a late hour whereas the other group was reluctant to do so? We will explore values such as ethics, diversity, inclusion, and innovation in Section V.

Once the groups that influence strategy and execution have been identified, the question is how each group will be monitored and measured so that it can be “managed” to the ends desired. For the small business owner, perhaps monitoring and measuring include tracking customer satisfaction, employee turnover and certifications, and zoning board changes. In the next chapter, we will discuss how we move from the more generic model in Figure 1.1 to a more specific strategy map that will point to the types of measures most valuable.

The Structure of the Book
The remainder of the book can be read sequentially, or you can jump to topics of special interest. In the next chapter, we address strategy and the role of measurement in capturing the major drivers of success. We will also challenge readers to compare what their organizations are doing today with a high-performance checklist.

In Section II, we look at performance through the eyes of internal customers as part of the overall supply chain serving our external customers. This section offers some of the greatest opportunities for even the most sophisticated information users today.

Section III recognizes the centrality of human capital in organizational success and the profound role of people in supplier and customer success. The section will begin with a look at the role of employees in the value chain and the role of people equity in capturing that value. The section will address a more traditional area that you may feel you know—the employee survey.

However, we encourage you to browse this section carefully for new ideas because today's survey goes far beyond what management could have imagined in the days of traditional employee surveys. Today's survey is about using the eyes and ears of employees to optimize organizational performance and its use of talent. In this section, we will present several examples of companies that have reinvented the way they use employee information. The four chapters cover the following topics:

- Creating a *framework* or model for measuring your people
- Identifying *decision-rich data* needed in the context of your unique strategy and culture and gathering the data in ways that increase their validity and value; data today are ubiquitous, but there is a paucity of the right data and at the right time
- Extracting *information* from data that can be used for strategic business decisions, including analyses and interpretations that help prioritize resources
- Moving from information to *knowledge and impact*, overcoming a perennial problem that a vast majority of organizations face in driving new behaviors and making decisions more effectively; knowledge and decisions are information that has been put to work

In Section IV we discuss using survey results and other information to manage the talent lifecycle. Most organizations invest the lion's share of their resources in managing the entire talent lifecycle. And yet, the measures often used to manage talent acquisition, onboarding, development, and retention are archaic and highly tactical. We introduce and explore the ACE framework in Section IV and use it to take a fresh look at how we can gain far better information and make more powerful decisions.

In the first chapter of Section IV, we take a look at *talent acquisition*—how can measures be more effectively used in managing your company and employer brand? How can we attract and select better talent who will be aligned with our organization, have the right competencies, and be highly engaged?

In the next chapter, we examine the other end of the talent life cycle—how can measures be more effectively used to *understand and predict turnover* and to strategically retain top performers? In the last chapter, we turn to leadership and performance optimization. How can measurement help us identify, develop, and retain stronger leaders—leaders who can optimize talent in their respective organizations?

Section V deals with a critical area for business today—values. Organizations are stumbling every day under ethical failures, diversity challenges, health issues, innovation flops, and other problems. Many winning organizations today utilize a values-driven approach to guiding decisions and behaviors—an approach that conserves resources and creates more effective decisions. We will look specifically at ethics, diversity and inclusion, safety, innovation, and other values that are crucial in most organizations.

Section VI looks into the Environmental Constituents box in Figure 1.1. In Chapter 15, we address the subject of labor relations and working with unions or other third-party groups that represent people. In Chapter 16 we discuss an issue gaining more relevance and visibility in organizational life: sustainability. This issue often involves many external constituencies such as environmental groups, government regulatory agencies, shareholders, nongovernmental organizations (NGOs), and formal and informal social groups. We will talk about economic, environmental, and social sustainability issues and ways in which employee measurement can provide valuable information in managing to sustainability.

Section VII peers into the future. How will we obtain information in a real-time, connected world? How can we better use employee and other information windows to make timely decisions? What would a strategic intelligence scorecard look like, and how might we obtain such information in cost-effective ways? In addition, we hope to challenge even the most sophisticated information users in our penultimate chapter on segmentation of the workforce. This chapter will introduce thinking from a variety of disciplines, discuss generational challenges and information, and provide recommendations on how you might mass-customize your workforce—the ultimate in matching people and organizational objectives!

Finally, Section VIII will close with a challenge, including an audit you can use in your own organization to test how well you are prepared for today's information challenges and where you might focus to better equip your organization for success. We will also aggregate the most salient *Action Tips* discussed throughout the entire book.