



You can't measure everything.

By Steve Major

"In mid-18th century London a mathematical prodigy called Jedediah Buxton was taken to see David Garrick perform Shakespeare's Richard III at the Drury Lane theatre. When asked whether he had enjoyed the play, his reply was that it contained 12,445 words. His analysis did seem to miss some significant things."

This is the opening paragraph of speech given in September 2006 at the Annual Conference of the Australian Institute of Judicial Administration by New South Wales Chief Justice James Spigelman.

He then goes on to say "The purpose of my address is not to deny the beauty of numbers. Nor their utility. My purpose is to emphasize, as Jedediah Buxton's reaction manifested, the **inability of numbers to always identify what matters.**"

As the Chief Justice so aptly put **numbers are not everything.** So many businesses measure everything. Many accountants continue this with numerous measures focusing on everything that they can put a measure around. This focus is usually the

traditional accounting focus and particularly orientated towards costs. But often many of these measures just create unnecessarily administration and do nothing to get to what matters.

What should be measured?

The Chief Justice was railing against the use of numbers to find some "quality indicator" of the Justice System. Unfortunately many businesses fall in the trap of measuring everything in the pursuit of a quality indicator.

A significant problem with the measures being using in business is that they are based on the traditional accounting practices. The accounting standards were developed in the industrial age when everything was focused on the efficiency of the factory. The assets were the machines, equipment etc. However we moved from this to the information or knowledge age where the assets are the people and the information that they have in their heads. However in the profit and loss statements the money spent on people is an expense.

Whilst the financial statements are often misunderstood they serve a purpose. The purpose of these statements is **not** to manage the business. The profit and loss statement is best said to be a history statement. Any measures that are based on aspects of the profit and loss statement are looking at history.

There is a place for some measures orientated on the financial statements or costs because it is imperative that costs are kept under control. A business will not achieve true success with only these measures in place. Success is defined by the customer / client. It is necessary to measure that which the customers views as important. We need to find the drivers of the customer behavior and measure those.

But remember not everything can be measured. How can we measure the lawyer / accountants ability (or lack of ability) to communicate. A criticism made of lawyers and accountants is that don't return calls quickly, not speaking in layman's terms. How can the lawyers / accountants professionalism be measured. These are judged not measured.

The lawyers / accountants office measure productivity and other efficiency measures but the clients don't care. They want to feel that they have been understood and cared for. The efficiency measures can be of use but not to understand the drivers of the business.

Thus we need to focus on measuring what matters and have measures that matter.

These are measures aimed at what is important to customers / clients. There is still a lot of work to be done on designing effective measures that are not just focused on various elements of the profit and loss or balance sheet. It is necessary to have a change of mindset from the industrial age to the knowledge age. Nowhere presently on the balance sheet is the huge asset that the loyal committed clients are. Nowhere in the financial statements is any information about customers found eg repurchase rate, referral rate etc

With the right approach it is possible to design a quality indicator that will reflect what is important to customers. There are difficulties and it will take a fresh approach to measures. Some businesses have already devised interesting measures aimed at getting to what customers see as important.

One of these is Fedex with the SQI (service quality index) which came from the hierarchy of horrors (a list of things that upset their customers). From this they assigned importance to each item on horror and from this they then created an index. This index thus showed how often or how little they were upsetting customers. Since implementing this quality index they have taken the taken the ontime delivery from 95% to 99.7%.

Another company is Enterprise Rent a Car (USA) and their ESQi which is similar to Fedex but is from a simple customer survey. There are other successful companies who do not rely solely on the traditional

accounting measures but are focused on the customer.

Be careful though. I am not recommending the plethora of customer satisfaction surveys. These abound and usually are useless. In short these don't work because they ask too many questions, the wrong people respond, are used for marketing purposes and probably the most importantly are not linked directly to what matters.

It is possible to develop a quality indicator but not using traditional accounting measures. A fresh look at the business is necessary. What the customer values in your product or service must be ascertained. Once this is understood then we need to devise a measure around this.

In conclusion what are you measuring? Measure what matters and have measures that matter. Remember not everything can be measured.

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